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Analyze The Financial Position of a Business Based on its Profitability. Empirical Evaluation at Baoviet Life Corporation

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ABSTRACT: The article evaluates the financial position and profitability of the business through the profit ratio. Using the research method of collecting and analyzing data, the research team presented an overview of the research contents such as the theoretical basis of corporate financial analysis, profitability assessment, and calculation method calculation of the rate of profit. To illustrate how to calculate and apply the profit margin method in practice, the research team has conducted an empirical assessment of the profitability ratios at Baoviet Life Corporation. The research results show that the business results, the rate of return on invested capital, total assets, and equity of the insurance enterprise are not good, the profit rate has decreased continuously for five years. At the same time, through the analysis method, which is the exclusion method and the Dupont method, the research team also points out the factors that need to be considered and changed to help the profitability of the business better. The research results confirm the importance of profitability ratios when evaluating the business results of enterprises because, in the financial statements of Baoviet Life Revenue Corporation, Profits increased continuously but profitability decreased.

KEYWORDS: Corporate finance, Profitability, Profit rate, Insurance business

1. INTRODUCTION

Using tools in financial analysis is increasingly interesting for business managers and investors. Assessing the profitability of the business helps interested parties to know the business situation of the enterprise in the past and present and have business and investment orientations in the future. With the research content Analyze the financial situation of enterprises based on profitability. Empirical evaluation at Baoviet life corporation, the authors want to clarify which criteria support the assessment of corporate profitability, methods to increase these indicators, and profitability for the business life insurance industry. In addition, the research team also provides several supporting indicators to compare with the profit ratio targets, creating a stronger basis for the correct assessment of the actual situation of business and investment activities of enterprises.

2. LITERATURE REVIEW

2.1. Analysis of the financial situation of the business

Concept financial analysis of business

According to Binh, N.T. (2010), the Analysis of corporate financial activities is the overall application of scientific analytical methods to accurately assess the financial position of enterprises, helping interested parties to understand the current financial status of enterprises' financial security and integrity of the enterprise, accurately predicting future financial indicators as well as financial risks that the enterprise may face; thereby, making decisions in accordance with their interests [2].

Objectives of analyzing the financial situation of a business

Provide information for managers to make financial decisions.

Orient the decisions of business managers in the direction appropriate to the actual situation of the business.

Become the basis for financial forecasts, helping analysts predict the financial potential of the business in the future.

As a tool to control business activities of enterprises based on checking and evaluating the achieved results compared to the targets of plans, and estimates.

Content analysis of the corporate financial situation

Analysis of assets and capital of the enterprise.

Analysis of the cash flow and solvency of the business.

Analyze the efficiency of capital use of the enterprise.
Analysis of business results and profitability of the business.

2.2. Analyze business profitability.

The profitability of a business is assessed based on Return on Sales (ROS) which is the ratio between the profit earned and the total amount of fixed and working capital used in the same period. Businesses are often interested in the ROS index because it can determine the actual profitability of the company and know the net profit of the shareholders in that business.

Based on the criteria to evaluate profitability, we have many different types of profit ratios: Profit-to-sales ratio; Return on Investment Capital (ROIC); Return on Asset (ROA); Return on Equity (ROE). In assessing the profitability of an enterprise, a positive profit margin means that its business is profitable, occupies a large share of the market, affirms its position, and attracts investment capital. On the contrary, if the profit margin is negative, the manager needs to re-evaluate business performance, determine which projects or periods are profitable or lost, and adjust future business plans.

Return on Investment Capital

ROIC is a measure of an enterprise's ability to generate profits on its total investment capital (including equity and net debt). This data helps managers, investors, and other interested parties know the operating profit per 1 VND invested capital of the business. In addition, ROIC also tells investors whether the business is using capital efficiently or not. Higher ROIC means higher profits, higher margins, and a business with a sustainable competitive advantage. If ROIC is reduced or negative, businesses need to adjust business activities and capital management.

ROIC = NOPAT / [Equity + (Debt-Cash and cash equivalents)]
In there:
NOPAT: Net Operating Profit After Tax
NOPAT = EBIT (1-t)
EBIT: Earnings before interest and taxes
t: Profit tax [3]

Return on Asset

ROA is an indicator that measures the efficiency of an enterprise in using its assets in generating profit after tax, regardless of whether assets are formed from loans or equity. ROA also shows the efficiency in investment activities of enterprises and this indicator is influenced by corporate income tax rates, asset turnover, and net sales.

ROA = NOPAT / Average total assets
NOPAT = EBIT (1-t)
Average total assets = (total assets for current year) + (total assets for previous year) / 2 [3]

Return on Equity

ROE is an indicator that reflects the efficiency of an enterprise in generating profits for its investors. ROE helps investors know how much profit for every 1 VND of equity that a business spends, after deducting all interest expenses and Profit tax. ROE is also used to estimate the growth rate of a business. When comparing between ROA and ROE of enterprises, investors can also see the effect in increasing (decreasing) profits that businesses have due to the impact of financial leverage. ROE is calculated as follows:

ROE = EAT / Average Equity
EAT: Net profit
Average Equity = Beginning Equity + Ending Equity/2 [3]

3. METHODS

3.1. The method of data collection

The research team through documents on corporate financial analysis, and financial analysis of insurance companies to complete the research overview for the article. The information is presented in turn to clarify the meaning and role of the enterprise's profitability assessment and the formula for calculating the profit ratio indicators and the significance of these indicators. Next, in order to have empirical analysis data at Baoviet life corporation, the research team collected financial statements, annual reports, and some accounting documents such as balance sheets. accounting, business results report, and cash flow statement, ... at the same time, it also evaluates general information about the epidemic and economic situation to serve the assessment and evaluation of profit ratio analysis results from profit in this company.

3.2. Methods of Analysis and Synthesis

From the collected data, the research team analyzed the data and calculated the necessary criteria to calculate the profit margin. From the profit margin results achieved by Baoviet Life Corporation in the five years from 2018 to 2022, the research team evaluated the profitability of this insurance business.

3.3. Methods of data analysis

The study uses three data analysis methods in the financial analysis of enterprises, namely the comparative method, the exclusion method, and the Dupont method. These analyzes are used as follows:

Comparative method

To evaluate the profitability of Baoviet Life Corporation in the five years, the research team calculated the profit margin for each year from 2018 to 2022. From the calculated data, the research team study compares the profit ratio between years, between the first year of the period and the last year of the period, and between the years of increase and decrease, thereby assessing the profitability of the enterprise in the whole period.

Exclusion method

In the analysis and evaluation of financial instruments that Baoviet Life Corporation needs to use in order to increase profit margin, the exclusion method has been used. In the evaluation of the rate of return on equity, the research team used the elimination method and confirmed that the enterprise has used economic leverage to increase the rate of return on equity but failed to achieve the desired return on equity get the desired results.

Dupont's method

Based on this method, the research team has separated the profit ratio formula into components that serve as a basis for orienting businesses to focus on increasing or decreasing which indicators will increase profit margin profits for businesses.

4. RESEARCH RESULTS

4.1. Business results at Baoviet Life Corporation

The period from 2019 to 2022 is a difficult and challenging year for the Vietnamese economy amid the outbreak of the COVID-19 pandemic. The government's tightening fiscal policy and curbing inflation in order to stabilize the macro-economy has had a strong impact on the production and business activities of enterprises in general and Baoviet Life Corporation in particular. However, with the determination and best efforts of all staff, employees, and consultants, Baoviet Life Corporation still achieved remarkable results and successes in business activities.

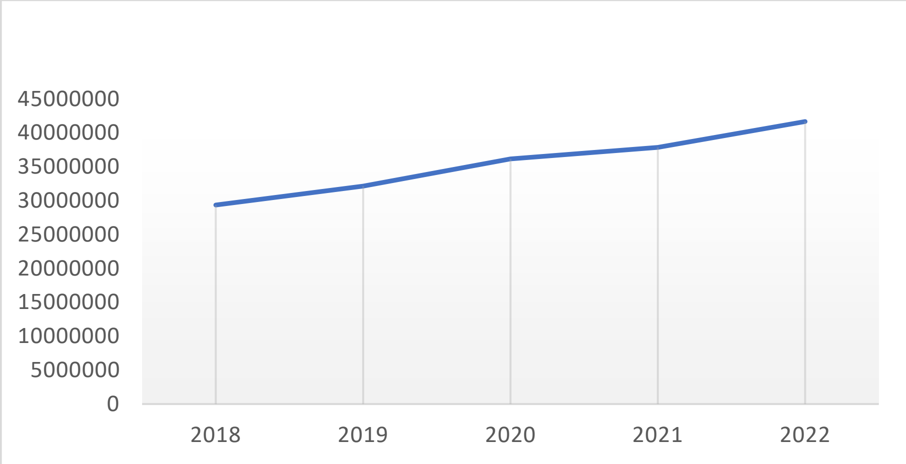
Table 1: Excerpt from business results of Baoviet Life Corporation

Unit: million VND

Targets	**2018**	**2019**	**2020**	**2021**	**2022**
Total Revenue	29,359,650	32,149,614	36,169,047	37,875,751	41,676,655
Net revenue from the insurance business	21,507,292	25,452,692	28,046,303	30,561,996	33,206,894
Financial income	7,818,255	6,669,577	8,095,776	7,252,009	8,438,213
Other income	34,104	27,345	26,968	43,746	31,548
Total profit before tax	956,380	1,104,418	1,077,842	1,102,518	1,204,104
Profit after tax	781,303	894,232	875,299	886,732	975,152

Source: Compiled data from 2018 - 2022 financial statements [1]

From several business performance indicators of Baoviet Life Corporation, we can see that total revenue has increased continuously for five years. In the two years of 2020 and 2021, due to the heavy impact of the covid-19 epidemic, the revenue growth rate has slowed down from only VND 36169047 million in 2020 to VND 37875751 million in 2021[1] but in the meantime, thousands of businesses of Vietnam suffered negative growth or went bankrupt. To achieve this result, Baoviet Life Corporation, in addition to making efforts to successfully deploy universal life insurance products into operation in the market, also promoted insurance distribution channels through banks. After stabilizing the epidemic situation, the growth rate of the total revenue of the business returned to a high level in 2021 with VND 41676655 million [1]. Profit indicators also show that Profit after tax has mostly increased over the years except in 2020 due to the increase in financial expenses and a decrease in other revenues.



Source: Compiled data from 2018 - 2022 financial statements [1]

Unit: %

Figure 1: Revenue of Baoviet Life Corporation

4.2. Assess the profitability of the business.

If you look at Table 1, you can see that revenue has grown continuously over the years. But to serve the evaluation of business results, investment, decision-making of enterprises, or investment decisions of investors, it is not enough to rely on indicators such as revenue or profit. As mentioned, the assessment of the profitability of an enterprise is an in-depth assessment of the profit rate generated when using 1 dong of capital for investment or the increase or decrease in the return on equity over the years. Therefore, to assess the financial situation by analyzing the profitability of the business, the research team has determined the data of the necessary criteria to serve the analysis of the profit rate of the Baoviet Life Corporation.

Table 2. Criteria for evaluating profit margin.

Unit: million VND

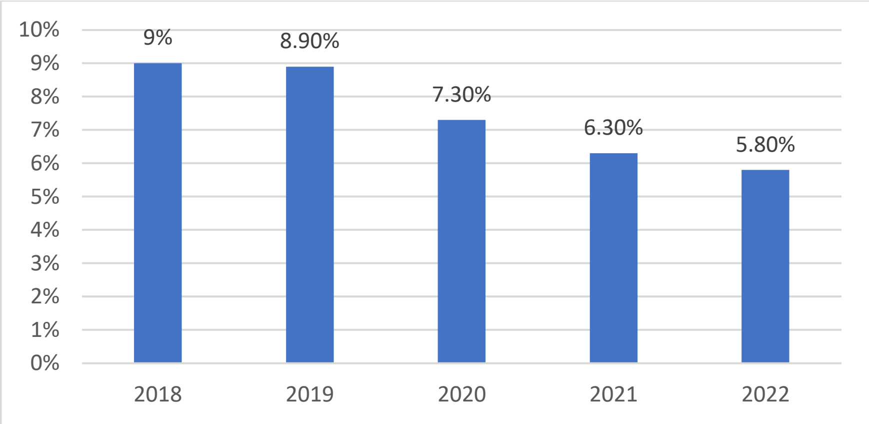
Targets	2018	2019	2020	2021	2022
NOPAT	781,303	894,232	875,299	886,732	975,152
EBIT	956,380	1,104,418	1,077,842	1,085,200	41,676,655
Profit tax	175,077	210,186	202,544	215,786	228,952
Equity	4,261,253	5,219,257	6,243,982	7,555,114	825,340
Debt	83,675,862	95,944,810	113,929,500	133,866,892	167,946,982
Cash and cash equivalents	846,650	982,444	384,396	438,524	454,468
Average total assets	474,298,064	490,267,591	110,668,775	130,797,744	158,827,164
Net profit	781,303	894,232	875,299	886,732	975,152
Average Equity	3,914,410	4,740,255	5,731,620	6,899,548	7,920,227

Source: Compiled data from 2018 - 2022 financial statements [1]

Based on the data on the financial statements for the years 2018 to 2022, the research team based the formula to calculate the necessary criteria for the purpose. The results of the calculation and analysis of profitability ratios are presented below.

Return on Investment Capital

Investing in the economy is one of the key operations in an insurance business. Investment funds are formed mainly based on insurance premiums; good investment results will show the reputation of the business to customers. ROIC calculation data is shown in the following chart:



Source: Compiled data from 2018 - 2022 financial statements [1]

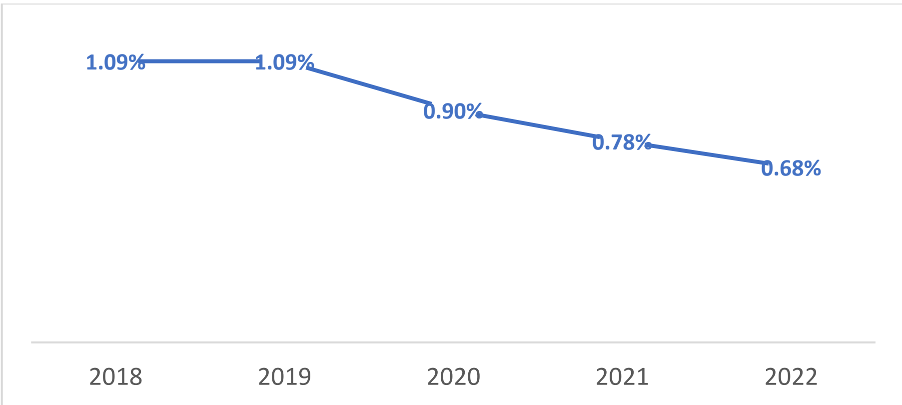
Unit: %

Figure 2: Return on Investment Capital

Through the graph, business leaders, investors, and people who are interested in Baoviet Life Corporation can realize that the business has experienced a not-good business period, low ROIC, and continuous decline for five years of study. Although ROIC has not been negative, the increase of 5.8% in 2022 is one of the lowest results of this indicator in recent years. The fluctuation of ROIC has many causes such as business cycle characteristics, epidemics, and economic recession, but the continuous decrease over the years is a bad sign for businesses. The way to increase the index is to reduce loans thereby reducing financing costs and increasing earnings before interest and taxes. However, according to the research team's assessment, the ROIC of Baoviet Life Corporation has decreased continuously over the years, mainly due to the impact of the epidemic. Therefore, corrective measures are impossible and unnecessary at this stage.

Return on total assets.

Normally, this indicator is only important for enterprises with production activities because the investment rate for production activities is often very large, and production activities also determine business results. However, for service enterprises like Baoviet Life Corporation, this criterion is also very important because Long-term assets are mainly investment real estate and long-term financial investments. Therefore, if this indicator is high, it will bring many benefits to investors and insurance customers. Based on the collected data, the research team analyzed the ROA of Baoviet Life Corporation.



Source: Compiled data from 2018 - 2022 financial statements [1]

Unit: %

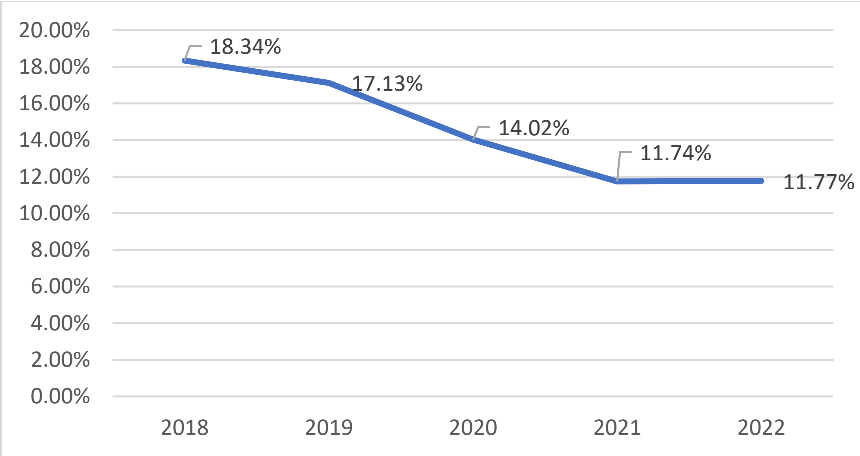
Figure 3. Return on total assets.

From the chart, ROA in 2019 did not increase and remained the same compared to the same period last year at 1.09%. However, starting in 2020, the economy was heavily affected by the covid 19 epidemic, and ROA continuously decreased for three years from 2020 to 2022. ROA has shown the effectiveness in investment activities of the Corporation. Baoviet Life company has not achieved good results in recent years. To increase this target, insurers need to increase the profitability of net revenue or increase asset turnover. To increase this target, insurers need to increase the profitability of net revenue or increase asset turnover. To increase the profitability of net revenue, insurers need to minimize costs to maximize profits. To increase the Total Asset Turnover

Ratio, insurers need to calculate reasonable business and investment decisions to attract and attract investors, business partners, and customers to participate in insurance such as insurance products investment-linked insurance.

Return on equity.

ROE is the most common indicator used to evaluate the performance of managers and investors. Similar to the above two ratios, Baoviet Life Corporation's ROE also decreased continuously for four years from 2018 with 18.34% to 11.74% in 2021. In 2022, this indicator has stopped. decreased and increased slightly to 11.77%. This shows that in 2022 the profitability indicators of net sales or asset turnover or financial leverage will improve. Based on the analysis of ROA above, it can be confirmed that in 2022, Baoviet Life Corporation has used financial leverage and the results are not good due to the lower profit/total assets of the business. Loan interest rates should not be effective for Baoviet Life Corporation to borrow money for investment.



Source: Compiled data from 2018 - 2022 financial statements [1]

Unit: %

Figure 4: Return on equity.

5. CONCLUSION

Through the analysis of a few indicators to evaluate the profitability of the enterprise, these indicators provide an in-depth assessment and overview of the business performance of the enterprise. However, these indicators also have certain limitations. ROA and ROE ratios do not consider the risks faced by the company and cannot be an accurate basis for forecasting the future profitability of the business. Similarly, to know if the ROIC is good or not, investors often compare it with the Weighted Average Cost of Capital (WACC) of the business. Thus, the flexible use of analytical methods in analyzing indicators reflecting ROS has great significance for investors and corporate administrators. However, these indicators also have certain limitations, and analysts and users of analysis results must pay close attention to avoid affecting the efficiency of investment and business activities.

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