

Financial analysis of HNA Holdings

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Abstract: As a representative of the high-tech industry, the aviation industry is playing an increasingly important role in the global economy. It not only promotes the development of many fields such as convenient transportation, logistics and transportation, emergency rescue, etc., but also continuously promotes scientific and technological progress and industrial upgrading. Based on HNA Holdings' annual reports from 2021 to 2023, this article explores the industry challenges faced by the company, the adjustment of business strategies and the changing trend of its financial health through a multi-dimensional analysis of the company's corporate development, four major capabilities, market layout and future development strategy. The study finds that despite the uncertainty of the macroeconomic environment and industry pressure, HNA Holdings has gradually recovered its profitability through a series of strategic adjustments, but it still needs to pay attention to its high debt ratio and volatile operating performance.

Keywords: HNA Holdings, financial analysis, four capabilities.

1. Introduction

As an important pillar of the global economy, the development of the aviation industry is directly related to international trade, tourism, transportation and other fields. Due to the outbreak of the epidemic in 2020, the global aviation industry has seen a significant decline in passenger traffic, with flights plummeting and airlines facing huge losses. Amid the economic recovery and supply constraints, jet fuel prices continue to rise, airlines are struggling to operate, their capital chains are tight, and their revenues are plummeting [1]. Smaller airlines are facing an existential crisis, while large airlines are staying afloat through mergers, cost cuts, pay cuts, and grounding. According to the 2021 annual report published by the International Air Transport Association (IATA), the global air passenger demand index, including international and domestic routes, decreased by 58.4% compared to 2019, before the pandemic. In 2021, China's civil aviation industry suffered a significant loss of 84.2 billion yuan, of which airlines lost 67.1 billion yuan.

As the global pandemic gradually comes under control and travel restrictions are eased, the aviation market is starting to show signs of recovery. The surge in travel demand has been the main driver of the recovery of the aviation market. By 2023, transportation and production will resume in a safe, orderly and steady manner, and new achievements will be made in high-quality development. Airlines around the globe contributed to resilient growth in international passenger traffic, with North American airlines carrying 1.4% more than the 2019 record and Asia-Pacific airlines up 126.1% year-over-year. At the same time, technological advancements, policy adjustments, and increased consumer demand for convenient, safe, and green travel have brought new development opportunities to the aviation industry. Digitalization and intelligence have become the key words of technological innovation in the aviation industry. Although the aviation industry has made remarkable achievements in the global development, the market size continues to expand, transportation production has steadily recovered, the route network has been expanded, and technological innovation and industrial upgrading have accelerated. However, the industry

is still facing challenges such as rapid technological upgrading, fluctuating market demand, intensified market competition and changes in the international trade environment. In the future, the aviation industry needs to continue to strengthen technology research and development and innovation capacity building, and actively explore green solutions such as sustainable aviation fuel to achieve the sustainable development of the industry.

After experiencing an unprecedented pandemic, the aviation industry is gradually showing a dual trend of recovery and change. HNA Holdings, as China's fourth-largest airline, has been attracting market attention for its financial position and operating performance. The financial dimension is an integral part of the overall sustainability of a firm and is a common interest for decision-makers and corporate managers at the macroeconomic level [2]. Financial performance, as an indicator of a company's financial stability and health, can measure the extent to which a company uses its assets to generate revenue [3]. Calculating key financial indicators is important for airlines, reflecting their profitability and balance sheet composition [4]. In the face of multiple complex factors, HNA Holdings gradually got out of the predicament and achieved steady growth in performance through measures such as refined management, optimization of route layout, and improvement of service quality. This article will provide an in-depth analysis of HNA Holdings' financial position from multiple perspectives to provide strong support for relevant decision-making.

2. Basic information of HNA Holdings

2.1. Company Profile

Founded in January 1993 and started in Hainan Province, Hainan Airlines Holdings Co., Ltd. is a multinational private enterprise group with the main business of air transport as the core. In 1997, the company began to raise funds in the market. In 1999, it was listed on the Shanghai Stock Exchange. In 2017, due to market supervision, the company's operation and management were improper. In December 2021, the actual control of operation and management was officially transferred to Liaoning Fangda Group Industrial Co., Ltd., a

strategic investor. As of 2023, the company operates a total of 334 aircraft, including 87 self-owned, 24 under financial lease

and 223 under operating lease, with an average age of 9.08 years, as shown in Table 1 below.

Table 1. Distribution of HNA Holdings' fleet in 2023

type	Subtotal (Rack)	Own (Rack)	Financial leases (Rack)	Operating leases (Rack)	Average age (Year)
Boeing series	263	79	18	166	8.20
B737-700	10	5	2	3	9.71
B737-800	199	55	16	128	9.78
B737-8	16	4	0	12	5.39
B787-8	10	9	0	1	9.93
B787-9	28	6	0	22	6.18
Airbus family	59	6	4	49	9.13
A320	29	0	3	23	6.47
A330-200	9	0	0	9	13.42
A330-300	24	6	1	17	7.5
Bagong series	12	2	2	8	13.45
E190	12	2	2	8	13.45
total	334	87	24	223	9.08

2.2. Shareholding Structure

In 2021, due to the insolvency of the company, it officially declared bankruptcy and reorganization, and Liaoning Fangda Industrial Group took over the aviation business [5]. According to the Company's disclosure in 2022 of the Indicative Announcement on the Adjustment of the Equity Structure of the Company's Controlling Shareholders, HNA Aviation Group, the controlling shareholder of Hanwei Investment, adjusted 100% of the equity of Hanwei Investment to Tianhang Holding Co., Ltd., a wholly-owned subsidiary of HNA Aviation Group. Hainan Hanwei Investment Co., Ltd. was established on May 31, 2022, and its main business is investment, which is used to increase the capital of HNA Holdings, and is the largest shareholder, accounting for 24.41% of the shares. At present, the actual controlling shareholder of HNA Holdings is Hainan Aviation Development Co., Ltd.

2.3 Development Strategy

Hainan Airlines actively responds to the national "One Belt, One Road" initiative and is committed to building an international route network covering Asia, Europe, Africa, North America and Oceania. At the same time, the company actively explores international routes in the free trade port, gives full play to the advantages of the main base airlines, and provides maintenance, ground support and other supporting services for global airlines that transit through the free trade port, so as to expand profit points.

As the first and only SKYTRAX five-star airline in Chinese mainland, Hainan Airlines continues to focus on high-quality services and high-quality products. The company continues to improve its service standards and launch new air travel products to meet the diverse needs of passengers. At the same time, big data and Internet technology are used to optimize the service process and improve service efficiency.

Drawing on the refined management experience of its controlling shareholder, Liaoning Fangda Group, HNA Holdings has enhanced its competitiveness in the industry through refined management, perfect route network layout, improved aircraft utilization and reduced maintenance costs. At the same time, we should strengthen the construction of financial management and internal control systems, and

improve the efficiency of capital use and risk management. With the global emphasis on environmental protection and sustainable development, Hainan Airlines is also actively exploring the development path of green aviation, such as using sustainable aviation fuel, to reduce costs and increase efficiency.

2.2.1. SWOT Analysis

Through the SWOT analysis of HNA Holdings, the company has significant advantages and potential in the field of air transportation, but also faces certain challenges and threats. In order to achieve sustainable and long-term profitability goals, companies need to learn from each other's strengths, respond to challenges and seize market opportunities. At the same time, we will strengthen internal management, optimize the route network and product structure, strengthen risk prevention and control, promote digital transformation and technological innovation, and actively fulfill social responsibilities to achieve sustainable and healthy development.

(1) Advantage

Technological innovation. A series of aircraft and airport operation technologies have been introduced to improve flight punctuality and operational efficiency. In addition, the company is also actively exploring emerging areas such as the Internet and mobile payment to provide passengers with a more convenient ticketing and payment experience.

International network. HNA Group has an extensive international route network covering Asia, Europe, North America and other regions, which enables the company to meet the needs of different countries and regions, while also providing more travel options for business and tourist passengers.

Diversification of business. HNA Group not only has a deep accumulation in the field of aviation business, but also actively expands diversified businesses such as hotel, tourism and finance. This diversification strategy allows the company to maintain stable operations in the face of market volatility and improve overall profitability.

Brand influence. As a leading enterprise in China's civil aviation industry, HNA Group has a strong brand influence. This makes the company enjoy a high reputation in both domestic and foreign markets, which helps to increase customer loyalty and business development.

(2) Inferior position

The debt problem is prominent. The debt crisis faced by HNA Group in recent years has had a significant impact on HNA Holdings. Although the company has taken a series of measures to deal with the debt problem, this issue can still adversely affect the company's long-term growth. High debt led to high interest expense, which affected net operating profit.

High cost structure. The operating costs of the aviation industry are relatively high, including expenses on manpower, jet fuel, maintenance, etc. Companies are under pressure to compete in the market, especially with low-cost airlines.

(3) Opportunity

Aviation market recovery. As one of the world's largest aviation markets, China has great potential for development. With the gradual improvement of the global economy and the recovery and development of the tourism industry, the increasing demand for passenger travel has provided a broad space for the development of HNA Group.

The Belt and Road Initiative. The implementation of the Belt and Road Initiative can strengthen economic cooperation and people-to-people exchanges among countries and regions along the route. The company actively expands international routes and improves international service levels, which will help enhance the international brand influence, increase market share and enhance the competitiveness of the international market.

Digital transformation. With the popularity of the internet and mobile payments, the aviation industry is facing opportunities for digital transformation. HNA Holdings can use technological innovation and data analytics to improve customer service experience, optimize operational processes and reduce costs.

(4) Threat

Intensified competition in the industry. Competition in the domestic and foreign aviation market is becoming increasingly fierce, with not only state-owned airlines participating in the competition, but also many private airlines joining the market, posing a threat to the company's profitability.

Restrictions on policies and regulations. The aviation industry is strictly regulated by government policies and regulations, and changes in policies and regulations may adversely affect the company's operations. For example, the government's regulation of jet fuel prices may increase the company's operating costs, and the policy of opening up foreign routes may affect the company's international competitiveness.

Security risks. The aviation industry faces multiple safety risks that can cause serious damage to a company's reputation and customer trust in the event of a safety incident or emergency.

3. Analysis of the four major capabilities of HNA Holdings

3.1. Profitability

Although the net profit index of HNA Holdings shows an upward trend, it is below the industry average, as shown in Table 2. During the 2021-2022 period, the return on equity fell to -419.44%, indicating that HNA Holdings' ability to obtain net profit from its own funds is weak. Factors such as operation and management problems and huge debt interest have led to worrying about the company's profitability, and it

has cooperated with the government to deal with risks. Thanks to the gradual recovery of the domestic and foreign aviation markets and the completion of the restructuring plan, it has provided strong support for profitability. The company's net profit margin in 2023 has turned losses into profits, but it still needs to seek profit growth points to enhance the competitiveness of the industry.

Table 2. 2021-2023 HNA Holdings profitability indicators

indicators	2021	2022	2023
Return on equity (%)	-47.49	-419.44	17.89
Return on total assets (%)	2.63	-15.22	0.17
Net Profit Margin (%)	11.90	-93.64	0.39
Operating margin (%)	10.34	-124.15	-1.15

3.2. Operational Capacity

HNA Holdings has significantly improved its operating capacity by actively adjusting its business strategy, increasing capacity investment, and optimizing its route network, as shown in Table 3. However, in the face of unpredictable market environment and fierce competition in the industry, HNA Holdings still needs to remain vigilant and flexible to ensure sustainable and steady development. HNA Holdings is committed to strengthening accounts receivable management, optimizing the collection process, and increasing the efficiency of accounts receivable collection, and the accounts receivable turnover rate will increase to 31.26 times in 2023. At the same time, through the refined management of the supply chain and the effective control of inventory costs, the inventory turnover days are reduced to 9.7 days, reducing capital occupation and enhancing the liquidity of assets. In addition, HNA Holdings strengthened the forecasting and analysis of market demand to ensure the timely sales and turnover of inventory. Through reasonable asset allocation and effective asset management, HNA Holdings has improved the utilization efficiency of total assets to 0.431 times, further enhancing the competitiveness of the enterprise.

Table 3. 2021-2023 HNA Holdings operational capacity indicators

indicators	2021	2022	2023
Total asset turnover days (day)	1630	2215	835.4
Inventory turnover days (days)	11.23	14.80	9.702
Accounts receivable turnover days (day)	24.24	25.83	11.52
Total asset turnover (times)	0.221	0.163	0.431
Inventory turnover rate (time)	32.07	24.33	37.10
Accounts receivable turnover ratio (time)	14.85	13.94	31.26

3.3. Solvency

From 2021 to 2022, due to the adjustment of HNA Holdings' operating strategy and changes in the market environment, the current and quick ratios were both less than 1, indicating that the company's solvency was insufficient, as shown in Table 4. The company needs to pay close attention to and take measures to improve its short-term solvency, and prudently manage its current assets and liabilities to ensure the stability and improvement of its short-term solvency. At the same time, the company's high asset-liability ratio is still a noteworthy problem, as high as more than 90%, the capital situation is relatively tight, the debt repayment pressure is high, and the financial risk is high. In 2023, HNA Holdings' interest coverage ratio will be 2.43, and its ability to pay

interest has been enhanced. This is mainly due to market recovery, improved operational efficiency, and cost reduction and efficiency improvement. The enhancement of solvency will help reduce the financial risk of the enterprise and provide a more stable financial foundation for the future development of the enterprise.

Table 4. 2021-2023 HNA Holdings solvency indicators

indicators	2021	2022	2023
liquidity ratio	0.82	0.73	1.30
Quick ratio	0.72	0.64	1.19
Debt-to-asset ratio	98.82	99.67	92.34
Interest protection multiple	0.87	-5.18	2.43

3.4. Develop Competencies

In 2021 and 2022, affected by the epidemic, it will face greater operating pressure and weak development capabilities, as shown in Table 5. In 2023, the aviation industry will recover, and the company will turn losses into profits, with a growth rate of 156.48% in its main business. The net profit attributable to shareholders of listed companies was 311 million yuan, but its non-net profit loss was 407 million yuan, the profitability was insufficient, and the net asset growth rate was 243.76%, which has a certain development ability. The growth rate of total assets reflects the growth of the company's assets in the current period. From 2021 to 2023, although the growth rate of total assets of HNA Holdings increased, it was still negative. The scale of enterprise assets has been shrinking year by year, and the reduction has become smaller. In the future, the company has gradually embarked on the road of recovery and shown strong development potential after a period of difficulties through measures such as route expansion and service quality improvement.

Table 5. 2021-2023 HNA Holdings develop competencies indicators

indicators	2021	2022	2023
Growth rate of main business	15.65	-32.76	156.48
Net asset growth rate	/	-95.81	243.76
Total asset growth rate	-12.96	-3.59	-2.95

4. Conclusion

Through the analysis of HNA Holdings' 2021-2023 financial report, four major capabilities, strategic development, etc., it has entered a new stage of recovery, but its long-term competitiveness depends on debt resolution, profit model innovation and agile response to market trends. The company's profitability fluctuates significantly, although it will achieve revenue of 58.641 billion yuan in 2023, turning

losses into profits, its net profit margin is still far lower than the level of 2019, and the stability of profitability is significantly affected by the cost of jet fuel, exchange rate fluctuations and intensified competition in the industry. Operational efficiency has been significantly optimized, and through refined cost management and route network adjustment, Hainan Airlines' load factor (78.3%) and flight schedule rate (88.45%) are better than the industry average. In terms of debt risk, it is still necessary to be vigilant, with the asset-liability ratio as high as more than 90%, of which financial expenses continue to erode profits, short-term debt repayment ability is weak, and debt structure optimization is still a long-term issue. In terms of development, the company has accelerated the expansion of international routes, and continued to upgrade services (such as SKYTRAX five-star certification) and green aviation (sustainable aviation fuel) investment have become new growth points, but the growth rate of total assets is still negative, and the innovation potential has not yet been fully released. HNA Holdings' recovery path confirms the effectiveness of its strategic adjustment, but sustainable growth still needs to balance scale expansion with financial health. If the company can continue to optimize the cost structure, strengthen the advantages of the international route network, and explore the ecological synergy of "aviation + tourism", it is expected to occupy a more favorable position in the recovery cycle of the industry. However, global economic uncertainty and changes in industry policies are still risk variables that cannot be ignored, and business strategies need to be dynamically adjusted to enhance risk resistance.

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