AN ECONOMIC ANALYSIS OF HUAWEI SIGNIFICANT TO RETURN ON ASSETS

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Title:	**AN ECONOMIC ANALYSIS OF HUAWEI SIGNIFICANT TO RETURN ON ASSETS**
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Abstract	Aim of this study is to analyze internal and external factor that affected in return on assets in Huawei. The analysis required from the annual report from year 2014 to 2018 by our target company. The internal factor consist of ROA, quick ratio, current ratio, debt to income, operational ratio and operational margin while external factor consist of Gross Domestic Product(GDP), inflation, interest rate and exchange rate. The finding show the company performance can be influenced macroeconomic factor in five years. The company needs to apply four efficiency of corporate governance which is accountability, transparency, independent, fairness and sustainability.
Keyword:	Return On Assets, Liquidity Risk, Corporate Governance Index, Macroeconomic

1.0 INTRODUCTION

BACKGROUND OF COMPANY

Founded in 1987, Huawei is a leading global information and communications technology (ICT) and solutions provider. Huawei wish to bringing digital to every person, home and organization to a fully connected, social intelligent world. Huawei have nearly 188,000 employees, and operate in more than 170 countries and regions, serving more than three billion people around the world. With today's highly globalized division of labor, Huawei must rely on a wide variety of third parties (external parties) for logistics, procurement, manufacturing, and global technical services. Therefore, the discontinuity of third-party business could directly or indirectly compromise Huawei's operations and business performance. Huawei has established a Business Continuity Management (BCM) system for procurement, manufacturing, logistics, global technical services, and other domains after through years of ongoing investment. This system covers end-to-end processes, from suppliers to Huawei, and on to our customers. As part of this system, we have developed and established effective measures to manage risks that arise from our day-today work. Specifically, Huawei already built up management organizations, processes, and IT platforms, prepared business continuity plans and emergency response plans, and organized BCM training and drills for employees. (For further information on the BCM system, see page 47 of Annual Report 2018.) While Huawei has adopted stringent information security measures to protect its IPR, it is impossible to completely prevent other companies from improperly using our information and patents. Even when we are able to resort to litigation to protect our IPR, Huawei may still suffer losses from improper usage.

From CURRENT RATIO and QUICK RATIO from 2014 to 2018 of Huawei Company. Through a year, Huawei has an average of 1.466808811 for his CURRENT RATIO which can be interpret as Huawei has average CNY 1.466808811 in current assets for every CNY 1 its owed in short term debt (current liabilities). While QUICK RATIO through the year, Huawei has an average of 1.187275 which this result indicates that the company has CNY 1.187275 in cash and account receivable per CNY 1.187275 in current liabilities.

Huawei has continuously refined its system for cash flow planning, budgeting, and forecasting for a better assess its short-term and medium-to-long-term liquidity needs. The company has implemented a wide potential of prudent financial measures to meets its overall liquidity needs, including centralizing cash management, maintaining a reasonable level of funds, and gaining access to adequate and committed credit facilities. As of December 31, 2014, cash and short-term investments increased by 29.4% year-on-year to CNY106,036 million. An adequate capital reserve and a stable cash flow from operating activities enabled Huawei to manage its liquidity and borrowing risks, thus ensuring financial stability for the company.

Market risk may involve changes to interest rates, exchange rates, geopolitical events or recessions. Through the year, Exchange Rate has been rose to 7 from 6.1701 can be interpret as a devaluation could lead to inflation. In another word, devaluation cause reduce living standards as import become more expensive. Huawei really rely on third parties service to continue its

operation day-to-day, a connection with foreign parties will show significant a surge of sunk costs to company as devaluation happen.

2.0 LITERATURE REVIEW

HUAWEI

Analysis of over 3,000 survey respondents, sampled across mature mobile markets, has revealed six distinct customer groups, differentiated by their main motivation for owning a mobile device (Jonathan Hopkinson Senior Consultant of Managed Services, Huawei). HUAWEI's top competitors is ERICSSON, NOKIA, SAMSUNG, ZTE, APPLE, XIAOMI, AIRSPAN, VMWARE, AFFIRMED, EXTREME NETWORK.

As HUAWEI well aware of his operational, board management taking step to reduce for upcoming risk, such as HUAWEI built up management organizations, processes, and IT platforms, prepared business continuity plans and emergency response plans, and organized BCM training and drills for employees.

From annual report 2014 to 2018, shown that Huawei holding huge number of his CURRENT RATIO and QUICK RATIO. From good perception, this shown that Huawei current assets holds bigger number than his current liabilities which how liquid could be company to pay his current liabilities but a big number of current assets need to sell that will bring an additional revenue to organization.

An upward trend of Exchange Rate cannot be denied it will happen since as long economic keep booming, to eliminate this could happen with making connection with inside countries parties that can erase this panic.

Huawei name have become infamous, Chinese government propaganda has built the impression that it's either Huawei or no way to 5G. The telecommunications firm declares itself the unparalleled leader in 5G as it attempts to secure commercial partnerships around the world, now boasting more than 50 contracts across some 30 countries. In Europe, Huawei has even launched a campaign urging residents to "Vote for 5G," as if its 5G technologies were the only way for Europe to achieve a smarter future.

3.0 METHODOLOGY

This report uses both qualitative and quantitative approaches. Both qualitative and quantitative techniques are applied to explore analysis on the HUAWEI companies from 2014 to 2018.

The collection data from annual report were keyed-in using SPSS. The separate files were opened to keyed-in dependent data and independent internal and external data.

Multiple regression analysis was used in this study to determinant of dependent and independent variable. It will show the impact of that variable. The multiple regressions formula is explained by the regression equation as follow of each model:

$$L.Risk \quad = \alpha i + \alpha \quad , ROA + \alpha \quad , CURRENT\ RATIO + \alpha 3 \qquad \text{Equation 1}$$

$$L.Risk \quad = \alpha i + \alpha \quad , GDP \qquad \text{Equation 2}$$

$$L.Risk \quad = \alpha i + \alpha \quad , internal\ \&\ external + e \qquad \text{Equation 3}$$

After collecting the data, there are three models that create in this study which are:
1. Model 1 – Relationship between liquidity with ROA
2. Model 2 – Relationship between liquidity with macroeconomic factors
3. Model 3 – Relationship between liquidity with internal and external factors

4.0 ANALYSIS AND FINDING

The first perspective that going to use to analysis the data is Mean and Standard Deviation. Mean is one of most common interpret the shape of statistical distribution by sum all the data value and divide with its term. While Standard Deviation commonly used to calculate the risk of the subject.
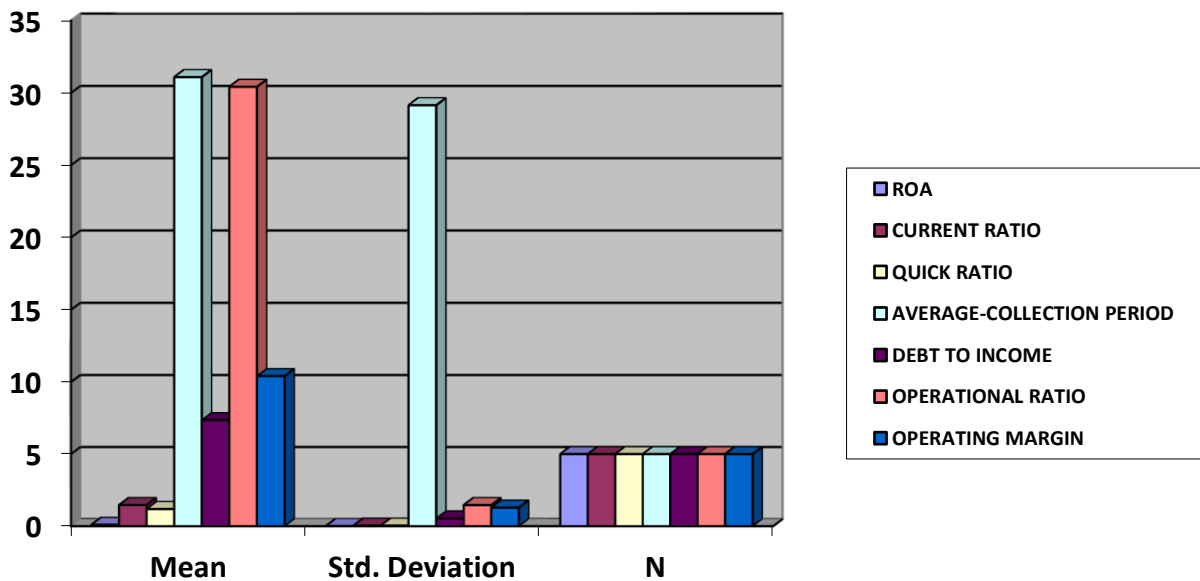

ROA have mean is 0.1002 with standard deviation is 0.006205650427871 which can be interpret that volatility of return is 0.006205650427871. CURRENT RATIO score 1.4668 for his mean and 0.0377 for his standard deviation in another word his volatility of return is 0.0377. From DEBT TO INCOME shown that his mean are 7.3628 and his standard deviation 0.5359 that shown that his volatility of return is 0.5359. While OPERATING MARGIN score 10.42 for his mean and 1.4627 for his standard deviation.

N score 5 to all subject matter.

Pearson Correlation
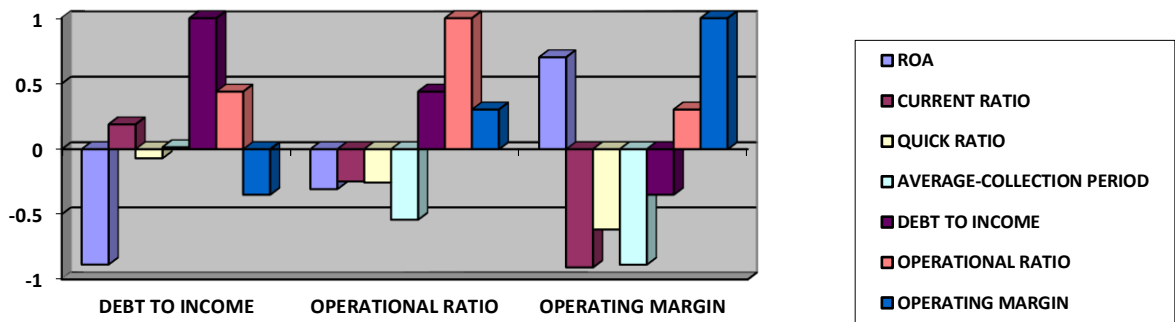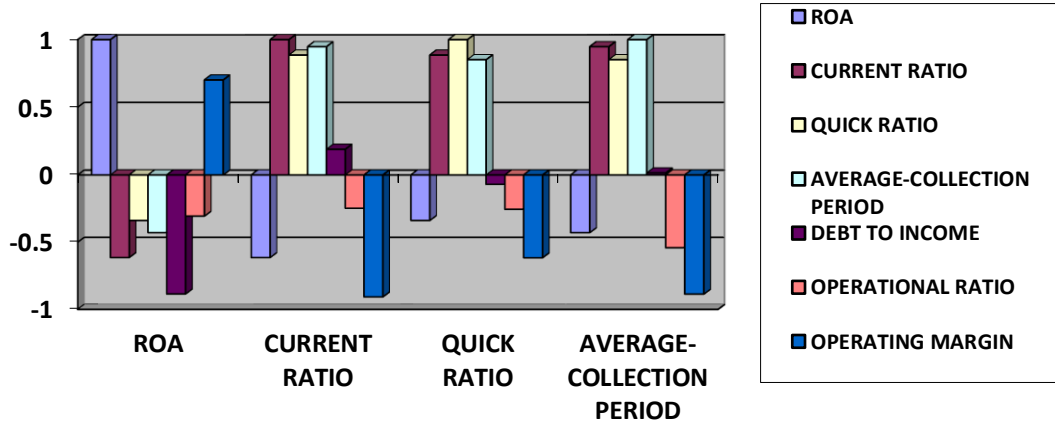
Sig. (1-tailed)
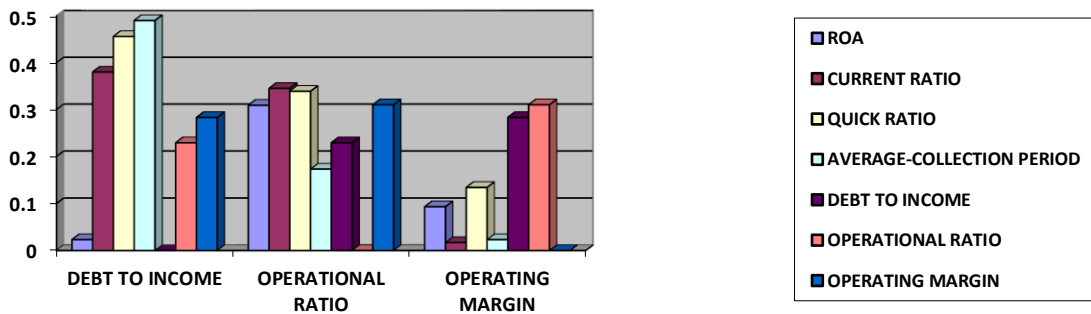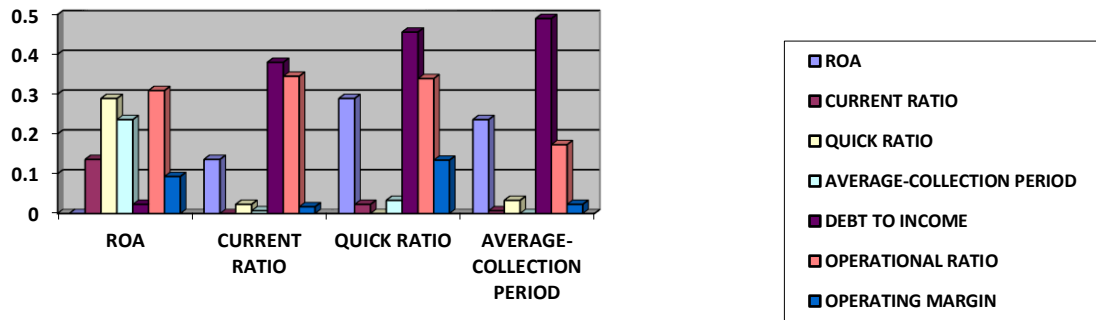
ROA as dependent variables have strong positive connection with OPERATING MARGIN which 0.702 with significant (1-tail) 0.093 that be significant if a change in ROA will significantly change OPERATING MARGIN. In another word, a hike of ROA will surged OPERATING MARGIN value. While connection ROA with another variable such as CURRENT RATIO are negative connection which is -0.614 with significant 0.023 will be significant if ROA change in increase while CURRENT RATIO will decrease and will be same another wise. In other word, the growth of ROA will give reaction to slumped of CURRENT RATIO.

Connection between ROA with QUICK RATIO, AVERAGE-COLLECTION PERIOD, DEBT TO INCOME, OPERATING MARGIN have negative connection but doesn't have significant with the ROA. In another word QUICK RATIO, AVERAGE-COLLECTION PERIOD, DEBT TO INCOME, OPERATING MARGIN doesn't shown connection and reaction with ROA if there is a change of it.

CORPORATE GOVERNANCE INDEX

	2014	2015	2016	2017	2018
accountability(50% attend)	1	1	1	1	1
transparency(audit committee)	1	1	1	1	1
independent(50% non-excutive)	0	0	0	0	0
fairness(30 % gender management)	1	1	1	1	1
sustain(network, experience, knowledge)	1	1	1	1	1
percentage	0.8	0.8	0.8	0.8	0.8

Through the year, Huawei have been score constantly which is 0.8 CGI, Huawei seems to ignore to obligate independent in corporate governance. Even so, to fully obligate the independent will be an additional costing to firm. From accountability, shown that from 2014 to 2018 that board shown responsibility in attend General Annual Meeting as part of his job. Huawei have been putting afford to have an audit committee inside firm which fulfill transparency aspect of corporate governance. While from fairness shown that Huawei doesn't discrimination of gender when offer BOD duty and authority from 2014 to 2018. To continue sustain of the company, Huawei have been putting afford in make a charity and sponsor an experience worker to have an talk with local student to be able to understand more about digital world.

Model Summary^c

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.885^a	.783	.710	.003339471187 957	
2	.994^b	.989	.978	.000927352078 068	1.544

a. Predictors: (Constant), DEBT TO INCOME

b. Predictors: (Constant), DEBT TO INCOME, CURRENT RATIO

c. Dependent Variable: ROA

From the table above shown the strength of relationship between DEBT TO INCOME with ROA, R. From R Square shown that 78.3% of the variation in time is explained by the model. While CURRENT RATIO score 98.8% for is R which can be explained as the strength relationship with ROA.

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.000	1	.000	10.813	.046[b]
	Residual	.000	3	.000		
	Total	.000	4			
2	Regression	.000	2	.000	88.560	.011[c]
	Residual	.000	2	.000		
	Total	.000	4			

a. Dependent Variable: ROA

b. Predictors: (Constant), DEBT TO INCOME

c. Predictors: (Constant), DEBT TO INCOME, CURRENT RATIO

Histogram
Dependent Variable: ROA

Mean = -2.10E-14
Std. Dev. = 0.707
N = 5
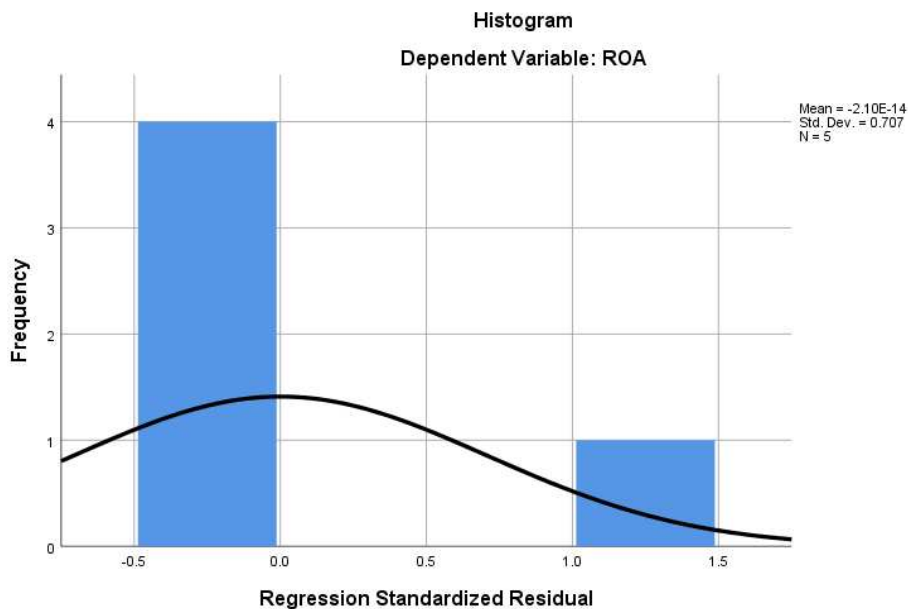
The table above shown an acceptability of DEBT TO INCOME using statistical perspective. If using model 1 with value (1, 3) with F value 10.813, the p value will be $0.050 < $ p value < 0.025.

While if using model 2 with value (2, 2) with F value 88.56, the p value will be 0.025< p value <0.010.

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.176	.023		7.641	.005
	DEBT TO INCOME	-.010	.003	-.885	-3.288	.046
2	(Constant)	.280	.018		15.301	.004
	DEBT TO INCOME	-.009	.001	-.797	-10.473	.009
	CURRENT RATIO	-.076	.013	-.462	-6.075	.026

Coefficients[a]

Model		95.0% Confidence Interval for B	
		Lower Bound	Upper Bound
1	(Constant)	.102	.249
	DEBT TO INCOME	-.020	.000
2	(Constant)	.201	.358
	DEBT TO INCOME	-.013	-.005
	CURRENT RATIO	-.130	-.022

a. Dependent Variable: ROA

Standardized beta coefficient shown individual strength of reaction of independent variable to dependent variable. From the table, it can be conclude that DEBT TO INCOME have more strong effect with ROA rather than CURRENT RATIO with ROA.

5.0 CONCLUSION

In conclusion, from the annual report it can find that DEBT TO INCOME, CURRENT RATIO and OPERATING MARGIN shown a significant to his dependent variable which is ROA. In another word, using ROA can manipulate these independent variable. Huawei score 0.8 for CGI which almost fulfill corporate governance after all. BOD also play his roll and have making proper planning with his CURRENT RATIO and DEBT TO INCOME if crisis ever happen to company which can be interpret that Huawei have ability to sustain from financial crisis.

Citation

Huawei Investment & Holding Co., Ltd. 2018 Annual Report. Retrieved from
https://www.huawei.com/en/download?rid={762E723A-BAF2-48C3-904A-8B0149043200}