Analysis of China's airline liquidity

guilinXue

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Introduction

Liquidity risk refers to the possibility that an company's debt and cash-out obligations cannot be performed normally due to the inability of the capital supply to meet the capital needs. The balance sheet is a report that reflects the financial status of a company on a specific date, and has an important reference role in the analysis of liquidity risk. Therefore, the composition of assets, liabilities, and owner's equity in assets and liabilities can be used to analyze the liquidity risk of an enterprise. There are three main methods: total analysis, ratio analysis, and leverage analysis.In this article, I will analyze the liquidity situation of seven airlines in China, and explore whether these companies will have a liquidity crisis.

Liquidity

- **Current ratio** : CR = CA/CL (The ratio of current assets to current liabilities)
- **Quick ratio** : QR = (CA-INV)/CL (The ratio of current assets minus inventories to current liabilities)

Current ratio

NAME	Stock code	Current assets	Current liabilities	Inventory	Cash	Current ratio
China Express Airlines Co Ltd	002928	3329414840	2605413198	91514918	1527847454	1.2778836
China Southern Airlines Co Ltd	600029	14875000000	88102000000	2021000000	1839000000	0.1688384
China Eastern Airlines Corp Ltd	600115	24756000000	88267000000	2580000000	7044000000	0.2804672
Spring Airlines Co Ltd	601021	10423545384	9499414091	176782539	8315298456	1.0972830
Air China Ltd	601111	26212520000	81723362000	2797373000	11197453000	0.3207470
JUNEYAO AIRLINES Co Ltd	603885	5002890615	10227758800	203635738	2078418260	0.4891483
Hainan Airlines Holding Co Ltd	600221	48419215000	122733758000	1035475000	18102145000	0.3945061

The Current ratio can evaluate the ability of listed companies to convert liquid assets into cash. A high current ratio indicates that the company's current assets have a strong liquidity and there is little pressure on short-term debt service. Generally speaking, keeping the current ratio around 2 is more appropriate to ensure the normal operation of the enterprise. You can see from Table 1. The current ratio of the seven major listed airlines in my country is much lower than 2. Among them, the current ratio of China Airlines and Spring Airlines is generally higher than that of several other airlines. The worst is China Southern Airlines, with a current ratio as low as 0.17. In addition, the current ratio of the remaining airlines is only between 0.1-0.4. From an overall perspective, the current liquidity ratios of these listed airlines in my country are too low, indicating that their solvency is very weak and there are major hidden dangers.

Quick ratio

NAME	Stock code	Current assets	Current liabilities	Inventory	Cash	Quick ratio
China Express Airlines Co Ltd	002928	3329414840	2605413198	91514918	1527847454	1.2427587
China Southern Airlines Co Ltd	600029	14875000000	88102000000	2021000000	1839000000	0.1458991
China Eastern Airlines Corp Ltd	600115	24756000000	88267000000	2580000000	7044000000	0.2512377
Spring Airlines Co Ltd	601021	10423545384	9499414091	176782539	8315298456	1.0786731
Air China Ltd	601111	26212520000	81723362000	2797373000	11197453000	0.2865172
JUNEYAO AIRLINES Co Ltd	603885	5002890615	10227758800	203635738	2078418260	0.4692382
Hainan Airlines Holding Co Ltd	600221	48419215000	122733758000	1035475000	18102145000	0.3860693

The quick ratio is the ratio of quick assets to current liabilities. The purpose of analyzing this indicator is to evaluate the ability of listed airlines to quickly realize their liquidity (that is, to form quick assets). Compared with the current ratio, analyzing the quick ratio can more directly and deeply determine the ability of listed airlines to repay their debts in time. As can be seen from the table, the current ratio of the seven airlines is consistent with the quick ratio. China Airlines and Spring Airlines have the highest quick ratios, indicating that their liquid assets have a higher ability to quickly repay debts than other companies. In contrast, the quick ratios of the other five airlines are still very low, and the short-term solvency of enterprises is weak.

Conclusion

Through the above analysis, we can see that the short-term debt service risk of these seven airlines may have a liquidity crisis.These companies should Optimize the debt structure and seek the best debt scale.Unpayable debt is still one of the main manifestations of financial risk, and the liabilities assumed by enterprises are divided into short-term debt and long-term debt. The short-term liabilities of listed airlines in my country are mainly composed of short-term borrowings and short-term financing bills payable, etc., which are mainly used to pay for operational payables such as aviation materials and oil materials and to meet increased financing needs. Long-term liabilities are mainly used for the construction of fixed assets and aircraft leasing. Whether a listed airline can successfully repay short-term debt will be constrained by its liquidity, and long-term debt repayment is closely related to its profitability. Therefore, it is necessary to optimize the listed airline's debt structure and reduce the risk of corporate debt operations. In addition, my country's listed airlines have high asset-liability ratios and need to seek the best debt scale, that is, to maintain a balance between asset and liability ratios in the aviation industry, and to determine a reasonable capital structure to effectively prevent the risks caused by high-debt operations.