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Analysis of the Financial Capabilities of Muyuan Foods Co., Ltd.

Qingxuan He[1], Yuanchun Yu[2], and Luyao Li[3]

[1] School of Management, Sichuan University of Science & Engineering, Yibin, China

[2] Professor, School of Management, Sichuan University of Science & Engineering, Yibin, China

[3] School of Management, Sichuan University of Science & Engineering, Yibin, China

Abstract

The consumer demand and stable supply of China's major agricultural products show obvious cyclical characteristics, and are very susceptible to fluctuations in pig prices, feed costs, disease risks and policy regulation. As a representative enterprise of China's pig industry, Muyuan Food Co., Ltd. reflects the operating characteristics of large breeding enterprises under the fluctuations of the industry cycle to a certain extent. Taking Muyuan Food as the research object, this article selects the relevant financial data from 2015 to 2024, analyzes the enterprise from the four dimensions of solvency, profitability, operating capacity and growth potential, and discusses its financial performance and existing problems in combination with the development background of the pig industry. The research results show that Muyuan Food has significant advantages in large-scale breeding, industrial chain layout and cost control; the overall operating efficiency is high, and the overall operating income shows a growth trend; however, there are also a number of problems - the short-term solvency is relatively weak, and the current ratio and the fast-moving ratio are low for a long time; profitability The ability is significantly affected by the pig price cycle, and the return on equity and gross margin fluctuate greatly; in terms of growth potential, it is manifested in the coexistence of income expansion and profit fluctuations. Based on these research results, this paper puts forward suggestions such as optimizing the debt term structure, strengthening cost control, improving asset utilization efficiency and controlling the expansion speed, aiming to help Muyuan Food improve financial stability and anti-cyclical ability to achieve more sustainable development.

Keywords

Muyuan Foods; Financial Statement Analysis; Solvency; Profitability; Hog Farming Industry.

1. Introduction

China is a major producer and consumer of pork, and the hog farming industry is closely related to residents' daily consumption and the stable supply of important agricultural products. Because hog farming has a relatively long production cycle, obvious price fluctuations, and high requirements for disease prevention and control, the industry is easily affected by the hog cycle, feed costs, disease risks, and policy regulation. Therefore, the financial condition of hog farming enterprises usually shows strong cyclical characteristics.

In recent years, China has attached great importance to the stable development of the hog industry. The Central No. 1 Document has repeatedly emphasized the need to stabilize basic hog production capacity and improve the mechanism for ensuring the stable production and supply of important agricultural products. The Ministry of Agriculture and Rural Affairs has also monitored and regulated indicators such as the inventory of breeding sows through hog production capacity control policies, so as to guide hog production capacity to remain within a

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reasonable range. Supported by policy measures and industry recovery, China's hog production capacity has gradually rebounded. However, fluctuations in hog prices still have a major impact on the profitability, solvency, and cash flow of breeding enterprises.

As a representative enterprise in China's hog farming industry, Muyuan Foods has long adopted a large-scale and integrated farming model and has strong industry influence. Therefore, analyzing the financial condition of Muyuan Foods, identifying existing problems, and formulating corresponding countermeasures can provide useful reference for the development of the industry[1,2].

2. Analysis of the Hog Farming Industry

2.1. Hog Inventory and Slaughter Situation

2.1.1. Inventory Situation

Since the outbreak of African swine fever in China in 2018, the domestic hog farming industry has suffered a severe shock. Some family farms suffered devastating losses because of insufficient sanitary and epidemic prevention technologies, and some large-scale breeding plants were also greatly affected, resulting in a sharp decrease in the national hog inventory. To stabilize the market order and ensure the pork supply for residents, the central and local governments successively issued relevant policies to support hog farming enterprises. According to monitoring data from agricultural authorities, China's hog inventory showed a fluctuating pattern of remaining relatively stable, then falling, recovering rapidly, and then stabilizing again. As shown in Table 1, affected by African swine fever in 2019, the inventory dropped sharply to 310.41 million head, down 27.5% year on year. This is the lowest level in ten years, reflecting the impact of systemic risks in the industry on China's pig production capacity. From 2020 to 2022, with the improvement of epidemic prevention capacity and the recovery of production capacity, the stock of live pigs will rebound rapidly. In 2022, it reached 452.56 million head, exceeding the level before the outbreak of African swine fever. This indicates that China's hog production capacity gradually recovered with policy support and stronger disease prevention capacity.

2.1.2. Slaughter Situation

China's hog slaughter volume showed a pattern of first declining and then rising. In 2020, affected by the epidemic and the decline in production capacity, slaughter volume fell sharply to 527.04 million head, the lowest level in the past decade. Since 2021, hog slaughter volume has recovered rapidly. In 2023, it reached 726.62 million head, a relatively high level during the decade.

Table 1. Hog Inventory and Slaughter Situation

	Hog inventory (10,000 head)	Hog slaughter (10,000 head)
2015	45113	70825
2016	43504	68502
2017	43325	68861
2018	42817	69382
2019	31041	54419
2020	40650	52704
2021	44922	67128
2022	45256	69995
2023	43422	72662
2024	42743	70256

Data source: National Bureau of Statistics

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2.2. Trend of Pork Price Changes

From 2015 to 2024, pork prices went through a complete cycle from relative stability to sharp fluctuations. From 2015 to 2018, prices generally stayed at a low and stable level. In 2018, under the combined impact of African swine fever and a cyclical trough, hog prices fell to the lowest level in nearly ten years. After 2019, driven by the sharp reduction in production capacity, prices began to rise rapidly and reached the highest level of the decade in 2020. After 2021, as production capacity recovered quickly, prices dropped steeply and touched another cyclical bottom in 2023. In 2024, prices showed a moderate recovery, reflecting the gradual repair of supply and demand in the market.

Overall, pork prices fluctuated sharply during the ten-year period, which fully reflects the strong cyclical nature of the breeding industry.

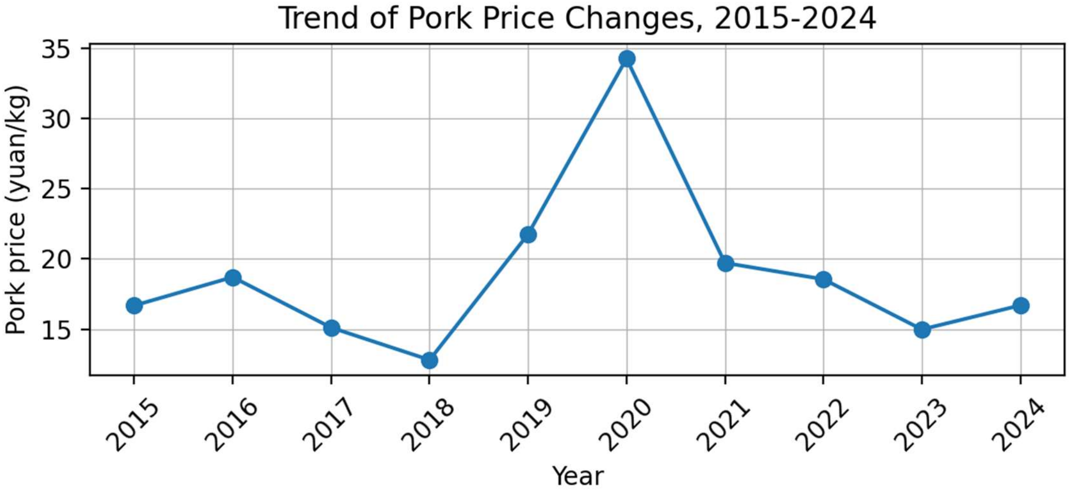

Figure 1. Trend of Pork Price Changes

Data source: Compiled from public data released by the National Bureau of Statistics or the Ministry of Agriculture and Rural Affairs

2.3. Current Situation of Hog Production

In recent years, China has attached great importance to the stable production and supply of animal husbandry products and important agricultural products. The Central No. 1 Document and related policies have repeatedly emphasized stabilizing basic hog production capacity, improving the disease prevention and control system, and promoting the development of large-scale farming. These policies also stress the need to stabilize production from a long-term perspective, promote the implementation of long-term support policies for hog production, and strengthen awareness of disease prevention system construction. Under the influence of natural and external environmental factors, these efforts help ensure the stability of basic production capacity. With the support of relevant national policies, a number of large hog farming enterprises have emerged in China, continuously improved their production capacity, and strongly promoted the development of China's hog farming industry under scientific disease prevention conditions.

With advances in science, technology, and production research, China has made great progress in breeding improved hog varieties and constructing standardized production workshops. This has promoted the emergence of a group of standardized and technology-oriented large hog farming enterprises.Through the breeding of improved varieties and the promotion of practical technologies, varieties suitable for modern industrial production have been cultivated. These varieties can significantly shorten the feeding cycle and effectively improve the lean meat rate and pork quality.With the development of modern hog farming enterprises, dvanced foreign

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industrial breeding workshops and automated slaughtering technologies have also been introduced. At the same time, scientific and environmentally friendly production concepts and modern manure treatment technologies help achieve efficient and environmentally friendly production, ensure pork safety, and continuously improve hog production efficiency.

3. Basic Information of Muyuan Foods

As a benchmark enterprise in China’s hog farming industry, Muyuan Foods Co., Ltd. has gradually formed strong advantages in large-scale farming and established its leading position in the industry since its founding in 1992. This has been achieved by building an integrated operating system that combines feed processing, breeding pig cultivation, commercial hog farming, and slaughtering and meat processing. After being listed on the Shenzhen Stock Exchange in 2014, the company relied on a large-scale and integrated farming model and gradually realized self-breeding, self-propagation, and self-raising, thereby continuously consolidating its technological advantages in intensive farming. After more than 30 years of strategic development, Muyuan Foods has formed a complete industrial chain covering feed processing, breeding pig cultivation, commercial hog farming, and slaughtering and meat processing[6]. By the end of 2023, the company had established a presence in 25 provinces and regions across China and owned 308 wholly owned and controlled subsidiaries. Muyuan Foods had an annual farming capacity of about 80 million hogs, had put 10 slaughterhouses into operation, and had an annual slaughtering capacity of about 29 million hogs.

In terms of corporate governance, while expanding rapidly, the company has always upheld the core value of creating value and serving society. It strictly complies with national and industry laws and regulations, as well as corporate ethics and morality. It actively undertakes corporate social responsibility and requires production activities to be carried out in a safe, efficient, and environmentally friendly manner. The company aims to provide society with safer and higher-quality pork products, build a scientific and environmentally friendly development model, and enhance its sustainable development capacity. At the same time, Muyuan Foods is committed to creating a fair competitive business environment. The company strives to achieve harmony among economic, environmental, and social benefits, promote coordination between its own development and social development, and realize win-win development with stakeholders[10].

4. Analysis of the Financial Capabilities of Muyuan Foods

4.1. Solvency Analysis

4.1.1. Short-Term Solvency

The current ratio refers to the ratio between current assets and current liabilities. A higher current ratio means that an enterprise has stronger short-term solvency. Conversely, a lower ratio indicates weaker short-term solvency. It is generally believed that a current ratio above 2.0 indicates that a company has enough current assets to cover its debts. As shown in Table 2, the current ratio of Muyuan Foods has remained generally low over the past decade. From the trend perspective, the company’s current ratio stayed below 1.1 throughout the ten-year period, far below the commonly used safety level of 2.0. In 2021, the current ratio was only 0.62, reflecting the most prominent short-term debt repayment pressure in that year. Although it recovered slightly from 2022 to 2024, it still remained at a low level of about 0.7.This shows that the company's short-term debt repayment capacity is under long-term pressure and there is a potential risk of capital turnover difficulties.

The quick ratio is a simplified indicator of the current ratio, which only includes cash, cash equivalents and short-term investments, excluding inventory. The change trend of this indicator is basically the same as the current rate. However, due to the small scale of fast-

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moving assets, their reference value is relatively low. Especially when the pig price fell to a low point in the 2021 pig cycle, the rapid ratio dropped sharply to 0.18, the solvency fell rapidly, and the repayment pressure increased significantly. This value is far below the safety threshold of 1.0, indicating that the company relies heavily on inventory turnover to maintain operations. Once sales are blocked or pig prices fall, the company will face a large short-term repayment risk.

In general, the short-term solvency of Muyuan Food is relatively weak, and its current ratio and quick-moving ratio have remained at a low level for a long time.

Table 2. Solvency of Muyuan Foods

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Current ratio	0.87	0.72	1.05	0.72	1.08	0.89	0.62	0.80	0.67	0.72
Quick ratio	0.47	0.21	0.55	0.29	0.68	0.41	0.18	0.31	0.23	0.23
Asset-liability ratio (%)	50.17	56.22	47.03	54.07	40.04	46.09	61.03	54.36	62.11	58.68

4.1.2. Long-Term Solvency

The asset-liability ratio refers to the proportion of total liabilities in total assets, which is also a key indicator for assessing the level and risk level of an enterprise. The higher the ratio, the greater the operating pressure and credit risk of the enterprise; the more likely the enterprise is to rely on external financing to support business activities and relieve debt pressure.

As shown in Table 2, the total asset-liability ratio of Muyuan Foods fluctuated widely and remained relatively high from 2015 to 2024. In 2021, as hog prices fell sharply, the company's profits decreased significantly. At the same time, newly built production capacity from earlier periods was put into operation continuously, and the number of hogs sold increased rapidly. It was already difficult for the company to maintain daily operations under these conditions. To prevent ongoing projects from being suspended or unfinished, the company raised funds through multiple channels, causing debt to grow rapidly and pushing the asset-liability ratio to a high level of 61.03%.

4.2. Profitability Analysis

The profitability of Muyuan Foods is mainly analyzed through indicators such as return on equity, gross profit margin on sales, and net profit margin on total assets10[3-5].

From the perspective of gross profit margin on sales, the ratio reached 60.68% in 2020, the highest level in the ten-year period. This was because hog prices were at a historical high that year, while the company controlled unit costs well through its advantages in large-scale farming, which significantly expanded its profit margin. The gross profit margins in 2018 and 2023 were two obvious troughs. In 2018, the company was affected by the combined impact of African swine fever and low prices. In 2023, overcapacity led to weak hog prices, while feed costs remained high, causing the gross profit margin to shrink to its lowest level in the period.

Return on equity is also a financial indicator used to measure profitability[9]. It refers to the ratio of net profit to shareholders' equity. A higher return on equity usually means that the enterprise is more capable of generating profit from shareholders' invested capital. Its normal range is generally considered to be between 15% and 39%. This range can better reflect the efficiency of using the company's own capital. In general, a low return on equity may indicate insufficient profitability of self-owned capital, but the specific reasons still need to be judged together with the industry cycle, asset structure, and operating environment.If the return on equity is higher than 40%, attention should be paid to whether there are financial violations or business instability.As shown in Table 3, the return on equity of Muyuan Food fluctuated wildly: in 2020, it reached a historical peak of 74.43%; during this period, pork prices soared, the company's production capacity recovered rapidly,and both sales and prices rose, pushing the

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ratio to a new high; after that, it fluctuated sharply again,falling to 12 in 2021. .91%,which turned negative in 2023 (-6.38%), setting a negative record for the first time in ten years; during this period, pig prices continued to be sluggish. Although the company's slaughter volume remains high, the profit margin is severely compressed. The net profit margin of total assets reflects the ability of an enterprise to create profits from all assets, and fully reflects the matching between asset operation efficiency and profitability; the change trend of the company's total asset net profit margin is basically consistent with the return on equity: the peak reached 35.63% in 2020, and turned negative in 2023 (-0.72%), and rebounded to 11.53% in 2024.

Overall, the profitability of Muyuan Foods shows sharp cyclical fluctuations and is highly related to the trend of hog prices, reflecting the strong cyclical nature of the breeding industry.

Table 3. Profitability of Muyuan Foods

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on equity (%)	26.63	50.74	28.12	2.84	35.28	74.43	12.91	21.01	-6.38	25.10
Gross profit margin (%)	24.62	45.69	29.81	9.82	35.95	60.68	16.74	17.50	3.11	19.05
Net profit margin on total assets (%)	12.86	24.90	14.51	4.00	16.63	35.63	6.27	9.39	-0.72	11.53

4.3. Operating Capability Analysis

Operating capability reflects the efficiency with which an enterprise uses various assets to create revenue. It is a core dimension for measuring the level of business management. This paper selects two key indicators, inventory turnover and accounts receivable turnover, to conduct a longitudinal analysis of the operating capability of Muyuan Foods from 2015 to 2024.

Inventory turnover reflects the turnover speed of inventories during a certain period, namely the time required for inventory to move from purchase to sale. Generally speaking, the higher the inventory turnover, the stronger the operating capability of the enterprise and the higher the efficiency of fund utilization. The inventory turnover of Muyuan Foods showed an overall upward trend during the decade. Accounts receivable turnover measures the efficiency with which an enterprise converts accounts receivable into cash or sales revenue during a certain period. A higher accounts receivable turnover usually indicates faster fund recovery. It can be seen that the accounts receivable turnover of Muyuan Foods first increased and then decreased. In absolute terms, the company’s accounts receivable turnover remained above 600 times, far higher than that of ordinary manufacturing enterprises. This mainly benefited from the company’s cash-on-delivery sales model. Since live hog sales are mainly based on cash payment and immediate delivery, credit sales are rarely used and the balance of accounts receivable is very low.

Table 4. Operating Capability of Muyuan Foods

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Inventory turnover	2.07	1.61	2.07	2.41	2.00	1.56	2.36	2.83	2.68	2.66
Accounts receivable turnover					1286	3206	1018	800	644	691

4.4. Growth Capability Analysis

The growth capability of an enterprise is mainly analyzed through indicators such as the growth rate of operating revenue, the growth rate of net profit, and the growth rate of operating cash flow.

From 2015 to 2022, the operating income growth rate of Muyuan Food remained positive for eight consecutive years, showing a strong overall growth momentum. Among them, the growth rates in 2016, 2017 and 2020 reached 86.68%, 79.13% and 178.31% respectively, all of which

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reached historical peaks. It is particularly worth noting that the company's revenue growth rate in 2020 reached the highest level in history, mainly due to the high price of live pigs and the recovery of slaughter in that year. Although the growth rate slowed down in 2021 and 2022, it still remained above 40%, indicating that the continuous release of production capacity provided a strong support for revenue growth. There was a negative growth in operating income for the first time in 2023, mainly due to the decline in pork prices; by 2024, the growth rate will rebound to 24.43%, reflecting the positive impact of the warming of pig prices.

From the ten-year data, the net profit growth rate of Muyuan Foods experienced an extremely volatile complete cycle. This sharp fluctuation resulted from the combined effect of the hog price cycle and the company's production capacity expansion. During the industry upturn, the company's profit showed explosive growth. During the downturn, weak hog prices eroded profit margins and caused profitability to deteriorate sharply. The severe fluctuation in the net profit growth rate fully reflects the high sensitivity of Muyuan Foods' profit to hog prices and the strong cyclical nature of the breeding industry.

The growth rate of operating cash flow remained positive in most years. Even in 2018, when net profit fell sharply, operating cash flow decreased by only 24.00%, showing that Muyuan Foods still had a certain ability to generate cash from operations[7,8]. In 2023, when net profit dropped sharply, operating cash flow decreased by 57.01%. The decline was smaller than that of net profit, indicating that the company could still maintain a certain cash inflow in a loss-making year, although its cash flow condition was also significantly affected.

Table 5. Growth Indicators of Muyuan Foods

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Operating revenue growth rate (%)	15.28	86.68	79.13	33.32	51.04	178.31	40.18	58.23	-11.19	24.43
Net profit growth rate (%)	642.97	289.68	1.88	-78.01	1075.37	348.97	-74.85	92.16	-132.14	519.42

5. Financial Problems of Muyuan Foods and Optimization Suggestions

5.1. Optimize the Debt Maturity Structure and Ease Short-Term Solvency Pressure

The data show that the current ratio and quick ratio of Muyuan Foods have long been below the safety thresholds. The quick ratio was below 0.3 in several years, reflecting the company's heavy dependence on inventory turnover and its continued pressure in short-term debt repayment.

Therefore, Muyuan Foods can take the following measures to optimize its capital structure.

First, the company should adjust its debt maturity structure and appropriately increase the proportion of long-term liabilities. By issuing medium- and long-term bonds, introducing strategic investors, or conducting equity financing, the company can reduce the proportion of short-term debt and ease liquidity pressure.

Second, the company should strengthen risk management of inventories and receivables. During a downward hog price cycle, it should proactively control inventory scale and avoid excessive occupation of funds. At the same time, it should continue the cash-on-delivery sales policy, maintain a very low level of accounts receivable, and ensure the efficiency of cash recovery.

Finally, the company should establish a dynamic liquidity early warning mechanism. By combining hog price trends, feed cost changes, and slaughter plans, it can conduct rolling forecasts of short-term funding gaps, arrange financing in advance, or adjust the pace of production capacity, thereby preventing liquidity crises.

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5.2. Strengthen Cost Control and Improve Profit Stability

The return on equity and gross margin of Muyuan Food fluctuate wildly with the price of live pigs. In 2023, the company even showed negative returns for the first time since its listing, indicating that its profitability is highly dependent on the industry cycle. In order to improve profit stability, the company first needs to accelerate the extension of the downstream industrial chain: by improving the utilization rate of slaughtering capacity, developing high value-added products such as refrigerated pork, prefabricated products and cooked food, reducing the single dependence on the selling price of commercial pigs, so as to obtain more stable income from the downstream industrial chain; secondly, financial derivatives can be used Tool management price risk - establish a hedge position in the live pig futures market, lock in the selling price of some expected slaughter, and alleviate the profit erosion caused by the sharp decline in pig prices; finally, we should continue to implement the cost-leading strategy: by optimizing the feed formula, strengthening disease prevention and control, improving the survival rate and feed conversion rate and other production index Standard, consolidate the unit cost advantage and enhance the risk resistance ability during the downturn of the industry.

5.3. Improve Asset Use Efficiency and Capital Turnover

In terms of operational capacity, first of all, the company should establish a decision-making mechanism that links production capacity expansion with the pig price cycle. When the price of live pigs is in a downward phase, it is necessary to carefully assess the necessity of new projects, and give priority to ensuring that the projects under construction are completed on time and put into operation to avoid tight capital chain caused by overinvestment. Secondly, diversified long-term financing channels should be expanded. For example, we can explore the issuance of green bonds and other ways to activate existing breeding assets, introduce long-term stable funds, and reduce dependence on short-term bank credit.

5.4. Control the Pace of Expansion and Strengthen Anti-Cyclical Capacity

From 2015 to 2022, Muyuan Food's operating income continued to grow, showing strong expansion ability; however, net profit and operating cash flow fluctuated wildly. In 2023, the company's revenue showed negative growth and huge net losses, revealing its high sensitivity to pig price fluctuations.

Therefore, first of all, the company needs to control the speed of expansion and focus on quality growth. When building new production capacity and planning regional layout, factors such as pig price cycle, regional market demand and disease risk should be comprehensively evaluated to avoid blind expansion; secondly, the cash flow early warning mechanism should be strengthened, a monthly cash flow monitoring system should be established, and a safety margin red line should be set to prevent liquidity crises caused by a decline in net profits; Third, in the process of expansion, the company needs to pay more attention to the balance between profit margin and cash flow to avoid an imbalance between scale expansion and financial stability.

6. Conclusion

This article takes Muyuan Food Co., Ltd. as the research object, selects 2015 to 2024 as the analysis period, and systematically analyzes the company's financial statements from the four dimensions of debt repayment capacity, profitability, operating capacity and growth capacity. Based on the industry cycle and the competitive environment, the following conclusions are drawn.

First of all, the short-term solvency of Muyuan Food has been in a weak state for a long time, and the financial risks are particularly prominent. Its current ratio has remained below 1.1 for ten consecutive years, and the rapid ratio is less than 0.3 in most years, which is far below the safety standard. The company relies heavily on inventory turnover to maintain daily operations; once the price of live pigs falls or sales are blocked, it is likely to face a short-term payment crisis. Although the asset-liability ratio has not yet reached an extreme level, it has climbed to more than 60% during the industry downturn, so we must pay attention to the long-term debt repayment pressure brought about by high financial leverage.

Second, profitability shows typical strong cyclical fluctuations and is highly related to the trend of hog prices. In 2020, when hog prices were high, the company's return on equity reached 74.43%, and its gross profit margin reached 60.68%. In 2023, when hog prices were weak, return on equity turned negative and the gross profit margin was compressed to 3.11%. Such sharp profitability fluctuations fully reflect the cyclical characteristics of the breeding industry and also reveal that the company has not yet established an effective counter-cyclical profit adjustment mechanism.

Third, operating capability is generally strong, and inventory turnover efficiency has steadily improved. The inventory turnover of Muyuan Foods increased from 2.07 times in 2015 to 2.66 to 2.83 times during 2022 to 2024, reflecting the continuous improvement of inventory management under the large-scale farming system. At the same time, benefiting from the cash-on-delivery sales model, accounts receivable turnover has long remained above 600 times, and the speed of fund recovery is far higher than that of ordinary manufacturing enterprises.

Fourth, growth capability presents a pattern in which revenue continues to expand while profit fluctuates sharply. Except for 2023, operating revenue maintained positive growth, reflecting the strong momentum brought by the release of production capacity and the expansion of market share. However, the net profit growth rate fluctuated extremely from 642.97% to -132.14% over the ten-year period, and the growth rate of operating cash flow also fluctuated sharply. This shows that although Muyuan Foods has become larger in scale, it has not truly reduced the risks brought by industry cycle fluctuations. Its ability to generate profits remains unstable and is still vulnerable to changes in hog prices.

Overall, as a leading enterprise in the industry, Muyuan Foods has obvious advantages in large-scale farming, industrial chain layout, and cost control. However, its financial performance is greatly affected by the industry cycle, and problems such as high solvency pressure and strong profit fluctuations still exist. In the future, while maintaining its scale advantage, the company should pay more attention to risk control and stable operations.

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