

Comparison of Financing Models of Chinese Real Estate Enterprises: Vanke and Poly Development as Examples

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Abstract. In recent years, with the booming of China's economy, the real estate market is heating up and the real estate industry has become a national pillar industry for the whole country. Therefore, it is important to study as well as investigate the financing models of real estate enterprises in order to understand the business flow. To be specific, this study uses literature, case studies and surveys to analyze as well as evaluate the features based on the financial statements of Vanke and Poly, such as capital structure, solvency, profitability, operational capacity and growth capacity, which are two giant and typical corporation of China real estate industry. On this basis, this research then explores the implications for other real estate companies' financing models based on the analysis results. Accordingly, suggestions are given following the analysis. Overall, these results shed light on guiding further exploration of contemporary real estate financing and development.

Keywords: Real estate industry; financing model; financing.

1. Introduction

As a capital-intensive industry, the enterprises in the industry possess a strong willing for capital, whether in the early market research, planning and marketing, or in the middle and later stages of the project scale and construction cycle. To complete the project construction in a stable manner, enterprises need to carry out a large amount of financing to maintain a stable cash flow to meet the project and development of the enterprise. Nowadays, with the rapid development of the financial market and the increasing abundance of financial products and financial services, the financing mode of real estate is gradually diversified. For the analysis of the financing mode of a single enterprise, many scholars have made profound and comprehensive analysis, but there is not much comparative research on the comparison of financing modes.

Referring to the research literature of many scholars, Li mentioned that good business performance is the basis for stable development of enterprises, as well as diversified financing models are conducive to risk avoidance in the study of financing models of real estate enterprises from a life-cycle perspective [1]. Wang's study found that innovation in financing models should be increased, through such means as REIT financing, so that they no longer rely on a single commercial bank financing [2]. Shan discussed the internal and external financing capacity of the case company [3], and Shi studied the financing model of the case company [4]. Li analyzed the optimal model ratio of multiple financing models [5], and Cui showed the listed real estate financing model and the current situation and suggested that the financing structure should be actively improved, the proportion of direct financing should be appropriately increased, and the measures that can be implemented by the central bank government [6].

This study aims to compare two leading companies in the real estate industry, Vanke, and Poly Development, to analyze their capital structure, debt servicing capacity, profitability, operating capacity, and growth capacity, and to study the implications for the financing models of other SMEs.

2. Company Profile

Vanke Enterprise Company Limited is a residential development company with core businesses including residential development, property services and rental housing, and general operations including the establishment of industries, domestic commerce, material supply and distribution, and

import and export business. Poly Development Holdings Group Limited, or Poly Development Holdings for short, which offers comprehensive services in real estate investment and development, asset management and capital management, and the industry ecosystem. Its operations are spread across more than 100 cities worldwide [7].

3. Capital Structure Analysis

As can be seen from Fig. 1, Vanke's current assets account for 83% of its total assets, a high figure which indicates that Vanke has good asset liquidity, strong asset realization and good financial flexibility, in line with the high liquidity ratio of real estate companies. Fig. 2 shows that Vanke's gearing ratio is as high as 80% and the pressure of debt is high, but contractual liabilities account for 41%, which represents that nearly half of the liabilities are customer advances, which do not have to be repaid. This shows that Vanke's debt is low, which means that Vanke is doing well in terms of debt servicing and does not have a big debt crisis. However, low debt in a certain sense means that the company is less likely to be financed by external debt, and when the company's financial outlook is good, it can increase its debt appropriately [8].

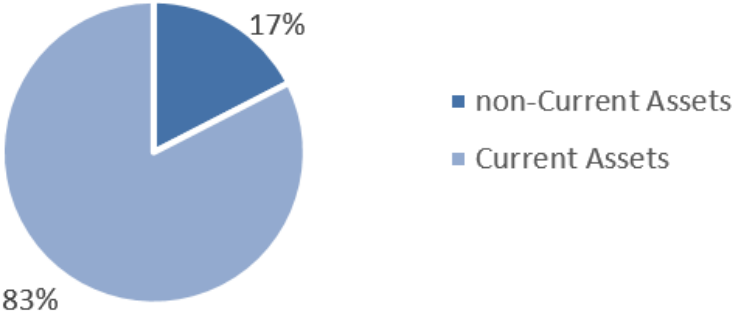


Fig 1. 2021 Vanke Asset Structure.

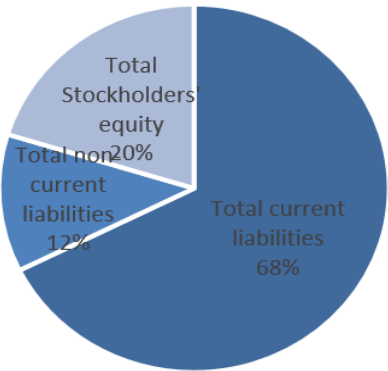


Fig 2. Structure of Vanke's debt shareholders' equity in 2021.



Fig 3. 2021 Poly Development Asset Structure.

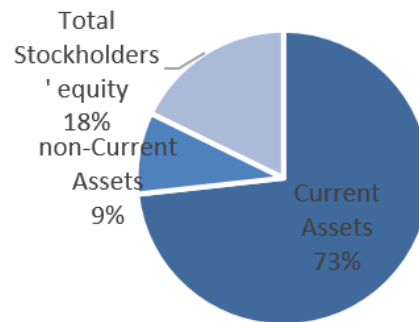


Fig 4. 2021 Poly Development Debt Shareholders' Equity Structure.

Fig. 3 and Fig. 4 depict that Poly Development has a higher proportion of debt and has a larger proportion of liabilities to settle. Although a higher gearing ratio can help the company to obtain higher profits, it will enhance the financial risk. According to the data, Poly Development also has a higher gearing ratio, but its overall asset structure is more stable than Vanke's, and its shareholders' equity is larger than Vanke's, so it is able to cope with risks.

4. Solvency Analysis

The equity ratio reflects the extent to which the enterprise borrows to operate. According to Fig. 5, Vanke's higher equity ratio compared to Poly Development from 2019 to 2021 indicates that Vanke has a weaker ability to repay its long-term debt than Poly Development, with a lower degree of creditor equity protection and a higher degree of risk assumed [9]. However, in terms of the overall trend, Vanke's equity ratio is on a declining trend and by 2021, Vanke's ratio is comparable to Poly Development's, indicating the gradual improvement in Vanke's ability to repay its debts and the increase in the security of the enterprise's debt operations. As can be seen from the result, both indicators are higher for Poly Development than Vanke, indicating that Poly Development has stronger solvency and is less risky and safer.

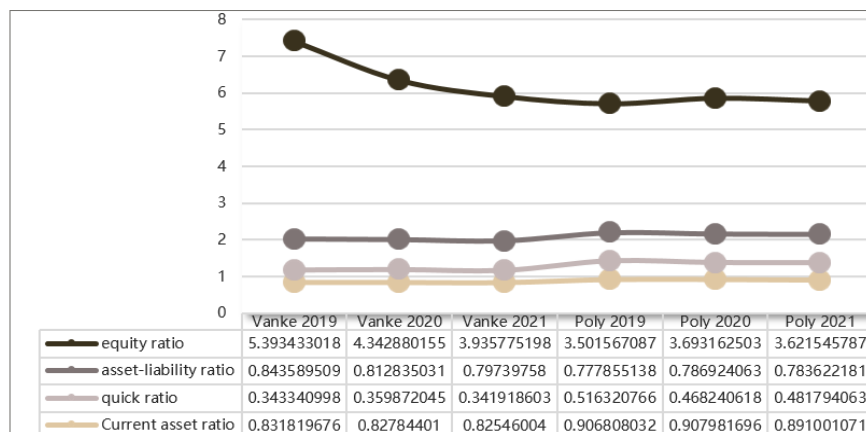


Fig 5. Short-term solvency analysis chart.

5. Operating Capacity Analysis

As both companies are capital intensive, the value of this indicator is low. As can be seen from the graph, Vanke's total asset turnover ratio is generally greater than 0.2 and has been on an upward trend in the past three years, indicating that Vanke's total asset turnover speed is accelerating year on year, its sales capacity is becoming stronger, and the efficiency of asset utilization is improving year on year, resulting in a better development. Poly Development's total asset turnover ratio is on a declining trend year on year and remains around 0.2 overall, which may be a warning signal that the company should pay attention to its operating conditions and take measures to improve the efficiency of the utilization of various assets and increase sales revenue, thereby improving its total asset turnover ratio.

Inventory turnover is the ratio of cost of goods sold to the average amount of capital held in inventory over a certain period of time. It is a comprehensive indicator to measure and evaluate the efficiency of the management of the various aspects of an enterprise, such as purchasing inventory, putting it into production and collecting it from sales. Accounts Receivable Turnover Ratio is the average number of times accounts receivable are converted into cash within a certain period of time. It reflects how many rounds of business accounts receivable helped the company to do during the year.

As can be seen from Fig. 6, Vanke's inventory turnover ratio is on a year-on-year upward trend, reflecting the year-on-year improvement in the efficiency of the company's inventory management, which is more stable compared to Poly Development in the context of China's unstable real estate development. The declining trend of accounts receivable turnover ratio, the inventory turnover ratio of Poly Development was higher in 2019, but the indicator fell in 2020 and gradually rose again in 2021, the accounts receivable turnover ratio declined year by year which shows that the company should pay more attention to the speed of capital return in its operation in recent years to ensure the safety of capital.

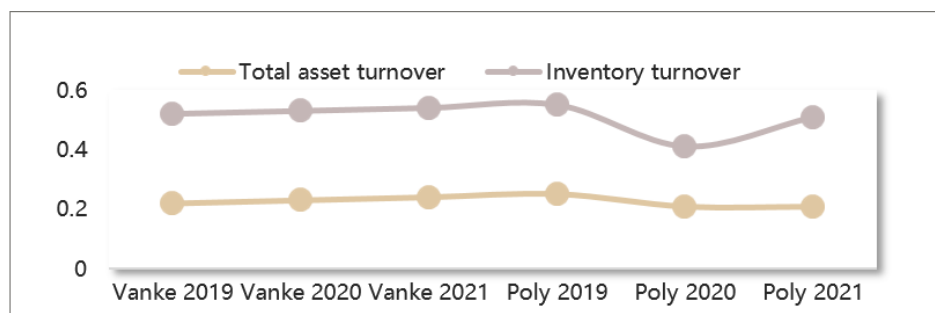


Fig 6. Operating Capacity Analysis Chart.

6. Profitability Analysis

Vanke and Poly Development's return on capital and return on assets basically show synchronous changes (as depicted in Fig. 7), with Vanke's three indicators basically stable from 2019-2021, with a significant decline and reduced profitability in 2020-2021, and Poly Development's profitability basically remaining stable and increasing in 2021. As can be seen in Fig. 8, Vanke's profitability level drops significantly in 2021, due to the headwinds in the real estate industry, limited growth in sales scale, as well as a faster decline in gross margin due to the year-on-year increase in the ratio of land price to selling price, the use of historical cost measurement methods for transforming businesses, and greater depreciation and amortization, resulting in a decline in net profit as well as a decline in profitability. Poly Development, Net Equity Margin, ROIC Return on Capital, ROA Return on Assets, declined year on year, but remained high and profitable despite the continuing downward trend in the industry.

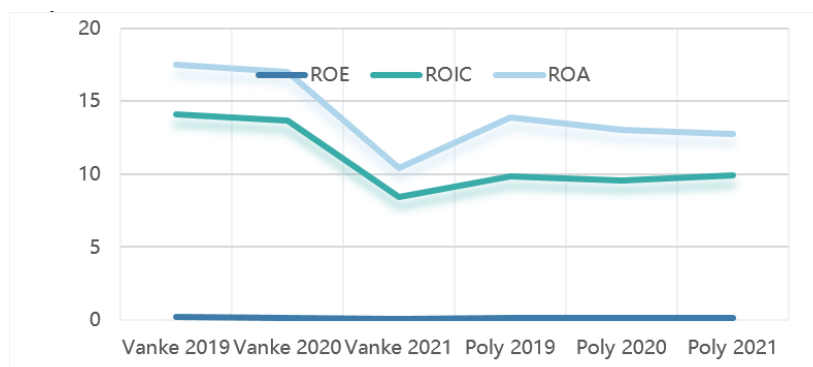


Fig 7. Profitability Analysis Chart.

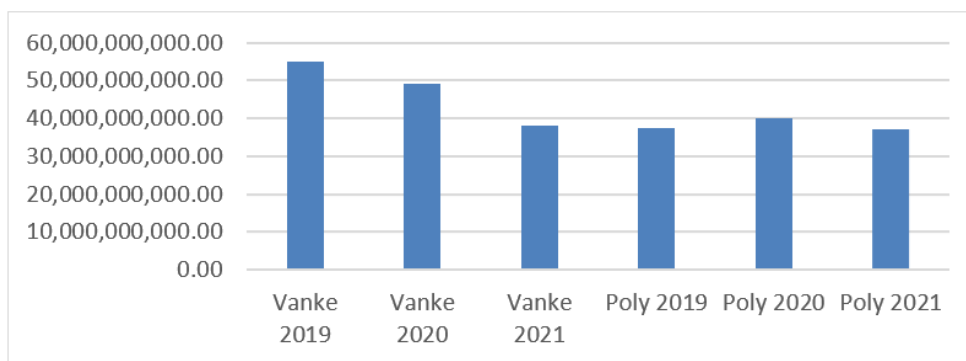


Fig 8. Net profit.

7. Growth Capacity Analysis

As can be seen from Fig. 9, Vanke's revenue growth rate has been declining year on year, indicating that Vanke's net profit has increased, but the growth rate has gradually slowed down and is affected by the market environment. The negative operating profit growth rate in 2021 indicates that Vanke's growth capacity has developed to a limited extent. Poly Development maintains positive growth overall and has better growth capacity [10]. Vanke's operating revenue growth rate has been declining year on year, but its main business revenue is still increasing year on year, indicating weak growth in Vanke's main business revenue (as presented in Fig. 10). Although Poly Development's overall group business revenue is lower than Vanke's, the difference in profit is small, indicating that Vanke's profit margin is not as good as Poly Development's, which has better growth prospects.

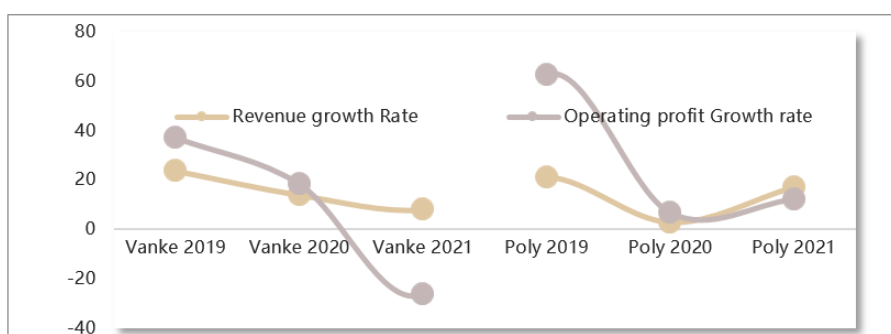


Fig 9. Growth Capacity Analysis Chart.

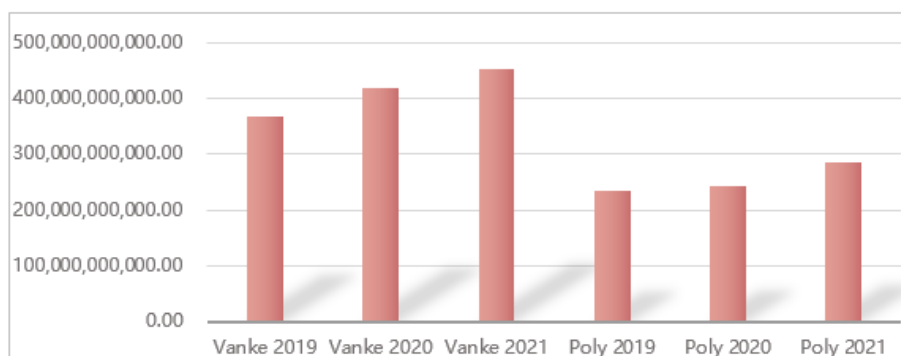


Fig 10. Revenue from main operations.

8. Conclusion

In general, Vanke's capital structure is reasonable and its operating capacity is good, but its debt servicing capacity and growth capacity are lower than Poly Development's. Poly Development's total

capital is small, but its profitability is more stable, its growth prospects are good and its future development potential is huge. Therefore, in the financing process of real estate enterprises, attention should be paid to replenishing their own capital to cope with the decline in profits, increase in liabilities and poor operation in the macroeconomic downturn. Secondly, enterprises should maintain asset liquidity to maintain their debt servicing capacity and enhance safety; real estate enterprises should pay more attention to the management of inventory to reduce inventory costs and improve the efficiency of the use of corporate capital to ensure the operational capacity and profitability of the enterprise. Finally, the contribution of this paper is to provide some reference significance to the financing of real estate enterprises. The current research is relatively shallow on the internal financing mode of real estate enterprises, and there is still room for development.

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