

# Analysis of the Financing Risk of Real Estate Enterprises

Renxuan Niu

Institute of Business Administration, University of Petroleum-Beijing at Karamay, China

2022016827@st.cupk.edu.cn

**Abstract.** As a matter of fact, the real estate industry is the pillar industry of the Chinese national economy. As a capital-intensive enterprise, real estate companies need a lot of capital support. Therefore, financing is an indispensable and important part of. Based on the theory of global financing risks related to the theory of financing risks, this study will take Sunac China Holdings Limited as an example to analyze financial indicators and analyze its financing risk. The trend of decline, the worse efficiency of asset utilization, weakening market competitiveness, and increasing financing risks, and then proposed measures and suggestions for financing risk prevention and control based on the analysis results. These results provide some help for China's real estate enterprises to manage financing risk to help companies improve the level of financing risk management, provide some references for the common problems of the entire real estate industry, and help the sustainable development of China's real estate market.

**Keywords:** Sunac China Holdings Limited, financing risk, real estate industry.

## 1. Introduction

The real estate industry is a special industry that occupies an important proportion of the national economy. Its development is not only related to the industry itself but also to the stability of national fiscal and economic order [1]. Real estate enterprises are funded densely enterprises. In the process of project development and operation, they need to have plenty of funds as guarantees. The demand for funds is huge. Therefore, financing is an important link that real estate companies cannot avoid [2]. However, due to the influence of various factors such as market environment, policy changes, and business operations, real estate companies also face various risks during financing. In recent years, the economy has developed rapidly, and the state has introduced a series of regulatory policies to control the real estate market. In 2020, the "Three Red Line" policy was introduced. The central bank, the Banking Insurance Regulatory Commission, and other institutions made the financial indicators proposed by real estate companies. According to the indicators, the enterprises were divided into different gears and set up corresponding restrictions on the growth rate of interest liabilities. Policy introductions to control corporate financing behaviors, reduce leverage levels and prevent financial risks. Enterprise financing channels have been restricted, financial supervision has increased, the external financing environment is becoming increasingly complicated, and the difficulty and cost of financing real estate enterprises have increased, increasing the financing risks of enterprises [3]. Therefore, how to broaden financing channels, reduce financing costs, and optimize financing structures are issues that real estate companies need to consider carefully [4].

American economists Meyers and Donna are representative of real estate financing theory. They focus on products that maximize corporate value, by in-depth analysis of the process of various types of real estate financing and formulating scientific and effective financing plans. The use of actual cases to verify the best real estate financing model further strengthens the effectiveness of financing strategies [5]. Archambault conducted an in-depth analysis of various financing methods in the real estate industry. Compared with bank loans, it is found that trust financing can not only effectively reduce the investment in the financing cost of real estate enterprises, but also be conducive to the continuity of real estate funds. Therefore, the financing method of trust financing can be selected by enterprises [6]. Mwathi collected 5 years of financing data from dozens of real estate companies in Nairobi, using SPSS data analysis software to analyze and research them. He found that the highest proportion was mortgage financing, which was loved by the Nairobi real estate industry. The lowest frequency of use was equity financing and risk capital financing [7].

Zhang proposed in the journal in 2020 that China already has the basic conditions for the development of real estate investment trust funds REITs. At this time, reasonable introduction of REITs can solve the problem of financing difficulties for pension real estate financing. Through the analysis and research of the Guangdong Yuexiu Real Estate Trust Investment Fund listed as the first domestic property in Hong Kong, combined with China's financial environment and existing conditions, the operating model of China's pension real estate should be used. Conclusion of the model of type+ public funds+ external management [8]. Zhu pointed out that in the context of the rapid development of China's market economy, the real estate financing structure should be optimized, and the multiplier real estate financing system should be established to achieve the securitization, standardization, and publicization of financing products [9]. Bi believes that real estate companies can increase fixed assets by increasing long-term liabilities, thereby expanding the scale of operations. However, it is necessary to adjust the ratio of debt-equity and internal liabilities to keep the financing structure stable [10].

The real estate industry is one of the important industries of China's economic development. Its investment and development have a leading role in the development of related industrial chains. At the same time, the development of the real estate market will directly affect the speed and quality of national economic growth. Therefore, Prosperity also has a positive effect on the development of the financial market. At present, the research on the financing risks of real estate companies is relatively small, and a complete theoretical system has not yet been formed. Through in-depth research, it can further enrich and improve the theoretical framework of corporate financing risks and provide new ideas and methods for future interest rate water research. Through in-depth research on the financing risk of real estate enterprises, the effective tools and square age association methods that provide risk recognition, assessment, and control can be provided in the process of financing, helping enterprises formulate scientific and reasonable financing strategies, reduce financing risks, and improve financing efficiency. At the same time, the research results can also provide a reference for policy formulation and supervision for government and regulatory agencies to promote the healthy development of the real estate market.

## **2. Related Concepts and Theoretical Foundation**

### **2.1. Definition of Financing Risk**

Financing risks, also known as financial risks, belong to the category of non-system risks. When raising funds, stock issuance companies have a variety of ways to choose from, such as issuing stocks or operating through debt. In the case of debt management, the company must pay a fixed amount of interest at the agreed time. Therefore, when the company's operating conditions are in good condition, the capital return rate of operation is significantly higher than the debt interest rate. The debt-raising operation can bring higher returns to the company, thereby bringing considerable returns to the holders of the stockholder. However, once the operating conditions are not good or even losses, the company still needs to pay interest on schedule, which may cause the company's income to further decline, which will affect the interests of the stockholders. Due to the different financing methods, the company's capital structure will also be different, which will cause financing risks. This risk is not encountered by all companies but is closely related to the business strategies of each company. Therefore, financing risks are a non-systemic risk and can be avoided.

### **2.2. Pecking Order Theory**

The Pecking Order Theory was proposed by US financial scholars Myers and Chile in 1984. Based on the premise of information asymmetry and transaction costs, it is emphasized that enterprises should follow a certain priority order when financing. The core point of this theory is that when companies make financing decisions, they will choose the source of funds by priority. First of all, enterprises will give priority to internal financing and use internal resources and reserves to meet capital needs. This method can avoid costs such as external financing such as interest and bond

issuance costs, so the risk is the lowest. Secondly, if internal financing is not enough to meet demand, enterprises will consider debt financing. Reasonable control of debt costs helps reduce the risk of debt financing. Primarily, only when internal financing and debt financing cannot meet the demand for funding can enterprises choose equity financing. The equity financing method is relatively complicated, and it is necessary to pay attention to the stability of the equity structure and prevent risks caused by problems such as scattered equity and loss of control. The theory of excellent order financing advocates that enterprises should follow this order in the process of financing, take the optimization of the capital structure as the core goal, ensure the sufficientness of corporate capital flow, and minimize financing costs and financing risks. This financing preference sort is mainly due to information asymmetry and managers' pursuit of corporate control. By following this theory, enterprises can make more wise and stable financing decisions in a complex financial environment, laying a solid foundation for the company's long-term development.

### **2.3. Risk Management Theory**

Risk management refers to the process of recognizing, quantifying, evaluating, and controlling in an uncertain environment that may hurt the achievement of organizational goals, and the process of using opportunities to increase organizational value. The basic theories of risk management include four aspects: risk recognition, risk assessment, risk control, and risk monitoring. Risk recognition is the first step in risk management. It refers to the risk that finds and identifies a negative impact on the organization's goals. Risk recognition can be performed through multiple methods, including but not limited to brainstorming, questionnaire surveys, and expert interviews. In the process of risk recognition, the risk needs to be classified and evaluated according to probability and influence. This can provide a basis for subsequent risk assessment and risk control. Risk assessment refers to quantifying and evaluating risks recognized. The purpose of risk assessment is to determine the possibility and impact of risks and provide a basis for subsequent control. Risk assessment can be divided into two methods: qualitative and quantitative. The qualitative evaluation is based on expert judgment and experience, mainly based on the characteristics and probability of risks. Quantitative evaluation is based on data and models. Usually use mathematics and statistical methods to calculate the probability and impact of risk. Risk control refers to the possibility and influence that takes measures to reduce or eliminate risks. Risk control can be divided into two types: prevention control and emergency control. Prevention control refers to the possibility of taking measures before risk to reduce risks, including formulating risk management plans, establishing internal control systems, and strengthening employee training. Emergency control refers to the impact of taking measures after a risk occurs, including formulating emergency plans, establishing a response mechanism, and implementing business recovery plans. Risk control needs to choose appropriate control measures according to the characteristics and probability of risk, and conduct risk effect assessment and control effect monitoring. Risk monitoring refers to tracking and monitoring of the controlled wind inspection to ensure the effectiveness and risk control of the control measures. The purpose of risk monitoring is to identify and evaluate the effect of control measures, and timely adjust and improve the control strategy. Risk monitoring can be performed through multiple methods, including but not limited to regular review, regular inspection, and regular evaluation. In the process of risk monitoring, you need to choose the appropriate monitoring method according to the characteristics and probability of risk and perform risk effect assessment and control effect monitoring.

## **3. Analysis of Sunac China Holdings Limited's financing risk**

### **3.1. Overview of Sunac China Holdings Limited**

Sunac China Holdings Limited was established in 2003. It is committed to excellent products and services, integrates various high-quality resources, and creates an ideal environment and life experience for Chinese families. Our business field is wide, including but not limited to multiple business segments such as real estate development, property management, ice and snow operation

management, cultural tourism, and culture. This diversified business layout allows us to better meet the needs of customers and provide a one-stop life solution to make a good life touch.

Sunac China follows the strategy of national layout, focusing on deep development in specific areas, and through the implementation of high-end boutique strategies, focusing on the eight major areas and front lines of Beijing, North China, Shanghai, Southwest, Southeast, Central China, and Hainan, and the front lines, and the front lines. Ring first line and core cities. The company's product line covers a wide range of properties, including ending houses, villas, businesses, and office buildings to meet the needs of different customers. This diversified layout and rich product line enable Sunac China to better adapt to the local market and provide products and services that are more in line with customers. In July 2020, 2020, Fortune 500, Sunac China Holdings Limited ranked 66th. In August 2021, in the 2021 Fortune World Fortune 500 full list, it ranked 364th.

### 3.2. Risk Identification of Sunac China Holdings Limited

The current ratio is the ratio of mobile assets to liabilities. It is used to measure the ability of corporate mobile assets to become cash to repay liabilities before the short-term debt expires. The higher the ratio, the stronger the realization of corporate assets, and the stronger the short-term debt repayment capacity; vice versa. Quick ratio is an indicator for measuring the short-term debt repayment capacity of the enterprise. It indicates that the proportion of cash, cash equivalents, and accounts receivables in the company's mobile assets can quickly realize the proportion of cash and the company's liabilities. The higher the quick ratio, the stronger the company's ability to repay debt in the short term. The current ratio and quick ratio are important financial indicators to measure corporate debt capacity. The higher these two indicators, the stronger the debt capacity of the enterprise, and the greater the degree of guarantee of the liability liabilities. Seen from Table 1, it can be seen that the general decline in the current ratio and quick ratio of Sunac China in 2018-2022 showed a decline. The current ratio dropped from 1.17 in 2018 to 0.90 in 2022, and the quick ratio dropped from 0.45 in 2018 to 0.21 in 2022. According to data, Sunac China's debt repayment capacity has decreased year by year, and the risk of debt repayment has increased year by year. The company's capital pressure is large and the capital liquidity is poor.

The asset-liability ratio rose from 89.80% in 2018 to 92.07% in 2022, and the overall increase was rising. Under normal circumstances, the higher the corporate asset-liability rate, the greater the risk of fundraising, and the value of the same industry benchmarking enterprises in the same industry is also high, so its value is also high, so Sunac China is facing a more severe trend.

**Table 1.** Sunac China 2018-2022 Debt Repayment Capacity financial indicators

| Financial indicator       | 2018  | 2019  | 2020  | 2021  | 2022  |
|---------------------------|-------|-------|-------|-------|-------|
| Current ratio             | 1.17  | 1.17  | 1.22  | 0.97  | 0.90  |
| Quick ratio               | 0.45  | 0.39  | 0.39  | 0.25  | 0.21  |
| Asset-liability ratio (%) | 89.80 | 88.12 | 83.96 | 89.40 | 92.07 |

**Table 2.** Sunac China 2018-2022 Profitability financial indicators

| Financial indicator                           | 2018  | 2019  | 2020  | 2021  | 2022   |
|-----------------------------------------------|-------|-------|-------|-------|--------|
| Gross profit margin                           | 24.96 | 24.46 | 20.99 | -0.90 | -0.85  |
| Rate of Return on Common Stockholders' Equity | 29.15 | 31.33 | 28.37 | -46.4 | -47.32 |
| circulating rate of total assets (times)      | 0.17  | 0.18  | 0.21  | 0.17  | 0.09   |

As seen from Table 2, Sunac China's sales gross profit margin in 2022 was -0.85%, a decrease of 25.81 percentage points from 24.96% in 2018. This shows that the proportion of operating costs in net operating income has increased. Since 2021, the sales of the sales of the gross sales have been negative, indicating that Sunac China's form is more severe, and it is necessary to be alert to financing risks. The Rate of Return on Common Stockholders' Equity is used to measure the ability of enterprises 'own capital to obtain net income, reflecting the level of shareholders' rights and interests. The higher the indicator, the higher the investment income. From 2018 to 2020, Sunac China, the net asset yield index has not changed much, but since 2021, it has begun to show negative numbers,

indicating that the profit of the enterprise is not enough to cover its debt costs, or the enterprise's operating conditions are not good. It is impossible to achieve profitability. If this situation continues, it may lead to the risk of bankruptcy.

The circulating rate of total assets is an indicator to measure the efficiency of enterprise operations. It indicates the number of corporate funds or turnover cycles, that is, the corporate funds have been transferred several times, and how long the funds are transferred. Sunac China showed a decline in the circulating rate of total assets from 2018 to 2023, indicating that the use of asset utilization of the enterprise is not good, the profitability of the entire enterprise has decreased, and the level of operation and management has declined. It is necessary to conduct an in-depth analysis of the use of corporate assets in combination with cost-effective indicators to improve management, improve the efficiency of asset utilization and the level of business management, and enhance profitability.

**Table 3.** Sunac China 2018-2022 operating capacity and financial indicators

| Financial indicator              | 2018   | 2019   | 2020   | 2021   | 2022   |
|----------------------------------|--------|--------|--------|--------|--------|
| Inventory Turnover Ratio         | 0.28   | 0.27   | 0.32   | 0.29   | 0.15   |
| Days sales outstanding           | 4.00   | 3.00   | 4.00   | 6.00   | 14.00  |
| Days payable outstanding         | 106.00 | 128.00 | 163.00 | 238.00 | 486.00 |
| circulating rate of total assets | 0.17   | 0.18   | 0.21   | 0.17   | 0.09   |

It can be seen from Table 3 that in 2022, Sunac China's inventory turnover rate has declined significantly, indicating that the company's inventory goods are slow-selling, and the corporate funds may have difficulty; The speed of monetization becomes slow, the age of accounts is long, the capital liquidity is weak, the short-term debt capacity is weak, and the loss of bad debt is increased; the overall asset turnover rate decreases significantly, indicating that the company's sales capacity becomes weakened, the asset investment is not good, the assets of assets are not good, the assets of assets Utilization efficiency becomes lower. The transition cycle of accounts receivable has increased year by year, indicating that the management efficiency of the company's corresponding account receivables is weakened, the capital recovery is slow, and the financial risks have increased. Sunac China's operating capacity is gradually weakening, and the efficiency of corporate asset utilization is poor. It affects the company's profitability. It requires optimization of asset allocation, improving sales revenue, and strengthening related management.

**Table 4.** Sunac China 2018-2022 Development Capabilities financial indicators

| Financial indicator                                                   | 2018   | 2019   | 2020   | 2021    | 2022   |
|-----------------------------------------------------------------------|--------|--------|--------|---------|--------|
| Gross trading income (billion)                                        | 124.75 | 169.32 | 230.59 | 198.39  | 96.75  |
| Gross profit (billion)                                                | 31.14  | 41.41  | 48.40  | -1.79   | -0.82  |
| Net income attributed to shareholders (billion)                       | 16.57  | 26.03  | 35.64  | -38.27  | -27.67 |
| The year-on-year growth rate of total operating income                | 89.37  | 35.73  | 36.19  | -13.96  | -51.23 |
| The year-on-year growth rate of the gross profit                      | 128.48 | 32.99  | 16.90  | -103.70 | -54.31 |
| The year-on-year growth rate of net income attributed to shareholders | 50.55  | 57.11  | 36.95  | -207.35 | -27.69 |

It can be seen from Table 4 that since 2021, Sunac China's gross profit, net profit of mother-in-law, total operating income year-on-year growth rate, gross profit growth rate, and net profit growth rate of returning mothers show negative numbers. The gross profit margin is the net income obtained by developers from sales of real estate in the real estate development and sales process. The gross profit margin is negative, indicating that the sales cost of the product is greater than the sales revenue, that is, the product loss sales. The net profit of the home is not enough to pay the company's operating costs and expenses, and there is a loss. The total operating income showed a decline after rising. The year-on-year growth rate of operating income can reflect the profitability and development speed of the enterprise. The year-on-year growth rate of operating income is negative, indicating that the

operating income of the enterprise has decreased compared with the same period of the previous year, which requires the attention of enterprise management or investors to take measures. The year-on-year growth rate of operating income also reflects the investment value and growth potential of the enterprise. Enterprises are facing the risk of market competition or operational difficulties. Sunac China's development capabilities have been affected by macro policies, industry changes, and enterprises themselves. The market competitiveness of the enterprise has weakened and the growth potential is reduced.

### 3.3. Risk Assessment of Sunac China Holdings Limited

The specific calculation formula of the variable rate is as follows:  $\text{variable rate} = \frac{\text{long-term financing net/operating capital demand}}{\text{operating capital demand}} = \frac{(\text{long-term financing-net operating long-term assets})/\text{operating capital demand}}{(\text{shareholders' equity}+\text{long-term liabilities}+\text{operating current liabilities}-\text{long-term assets})/\text{Operating current assets}}$ . The variable rate refers to the fundraising structure of liquid assets, and long-term fundraising sources account for the proportion of operating mobile assets. The variable rate represents the proportion of operating flow assets for medium- and long-term fundraising sources. If the variable rate of the enterprise is less than 1, this indicates that the financing strategy of the enterprise is too radical, making it unable to effectively support its long-term liabilities to support its operating flow assets. If the variable rate is more than 1, it means that the company's long-term liabilities are sufficient to support its operating flow assets, which indicates that the company has adopted a conservative financing strategy. If the variable rate is equal to 1, it can indicate that the company is more conservative in financing strategies. Therefore, to ensure that the short-term debt capacity of the enterprise is above the security line, its variable rate should be greater than or equal to 1. It can be seen from the data that the variable rate of Vanke and Sunac is greater than one from 2018 to 2022, indicating that the long-term liabilities of these two companies are enough to support their operating flow assets. The debt pressure is small and it is easier to manage, which indicates that the company has adopted a conservative financing strategy, and the short-term debt repayment capacity is above the security line. Although Sunac's variable rate has always been greater than one, compared with the industry benchmark Vanke, it has always been at a disadvantage.

**Table 5.** Vanke's variable rate

|                                         | 2018    | 2019    | 2020    | 2021    | 2022    |
|-----------------------------------------|---------|---------|---------|---------|---------|
| Shareholders' equity (billion)          | 235.62  | 270.58  | 349.84  | 392.77  | 404.99  |
| long-term liability (billion)           | 171.04  | 186.74  | 201.84  | 234.42  | 274.33  |
| Operating current liabilities (billion) | 891.69  | 1272.61 | 1317.16 | 1310.53 | 1077.42 |
| Long-term assets (billion)              | 233.51  | 290.94  | 321.79  | 338.37  | 341.77  |
| Operating current assets (billion)      | 1030.85 | 1183.76 | 1285.21 | 1322.90 | 1131.67 |
| Variable rate                           | 1.0300  | 1.2156  | 1.2037  | 1.2090  | 1.2503  |

**Table 6.** Sunac's variable rate

|                                         | 2018   | 2019   | 2020   | 2021   | 2022   |
|-----------------------------------------|--------|--------|--------|--------|--------|
| Shareholders' equity (billion)          | 73.11  | 114.09 | 177.83 | 124.67 | 86.40  |
| long-term liabilities (billion)         | 172.30 | 225.67 | 246.66 | 113.97 | 68.49  |
| Operating current liabilities (billion) | 471.24 | 620.88 | 683.89 | 937.88 | 935.28 |
| Long-term assets (billion)              | 163.42 | 235.97 | 273.47 | 263.23 | 250.96 |
| Operating current assets (billion)      | 552.95 | 720.08 | 831.48 | 912.31 | 838.10 |
| Variable rate                           | 1.0005 | 1.0064 | 1.0041 | 1.0011 | 1.0013 |

### 3.4. Risk Prevention and Control of Sunac China Holdings Limited

As a matter of fact, the company needs to pay attention to changes in national real estate policies and adjust its strategies promptly. In recent years, the state's regulation of macro policies in the real estate industry has continued to increase, which directly affects the financing of enterprises. Therefore, enterprises must understand and grasp the laws and regulations promulgated by the state promptly,

pay close attention to changes in macro policies, analyze the impact of policies, and make strategic adjustments promptly, which will help enterprises to enhance their awareness of the prevention of policies. Sensitivity. Enterprise managers need to strengthen research on market research, training and management of personnel, and continuously enhance the competitiveness of enterprises in the industry, expand the company's scale, and enhance their strength. Only by continuously improving innovation and aggressively can enterprises achieve sustainable development in continuous development and changing environments.

One also needs to improve product quality and increase sales. In the context of fierce competition in the real estate market, improving its product quality can enhance the competitiveness of the enterprise, win the favor and trust of customers, create a good reputation, establish a brand image, and further expand the user base. At the same time, it can accelerate the return of funds, shorten the sales cycle, reduce sales risks, reduce capital occupation, and reduce costs, thereby maintaining the stability of the capital chain, enhancing the company's operating capacity and profitability, and promoting the sustainable development of the enterprise.

#### 4. Conclusion

To sum up, this study takes Sunac China Holdings Limited as an example to analyze the financing risks of real estate companies. In terms of financing risk identification, from the four aspects of debt repayment capacity, profitability, business capacity, and development capabilities, it is found that Sunac China's debt scale, weak debt repayment capacity, weakened profitability, capital turnover efficiency, and weekly rotation efficiency Equipment. It also adopted the method of variable rate to compare with the industry benchmark Vanke and concluded that its funding sources were strong and the pressure on debt repayment was small. Sunac China can reduce the control and use of internal financing while reducing external financing dependence, accelerate the turnover and recovery of funds, comply with policy changes, optimize the financing structure, and control financing costs and development costs. Although the financing risk of the company is identified, the research data mainly comes from the company's financial statements, etc., and the company's internal data analysis is not deep enough. It is hoped that the comprehensiveness and integrity of research will be improved in subsequent research.

#### References

- [1] Liu L. 1 Real Estate Company Financing Risk Management Research. Chongqing University of Technology, 2023.
- [2] Xu J. H Real Estate Enterprise financing risk analysis and optimization suggestions. Northern University of Technology, 2022.
- [3] Peng W. Research on financing risk management of real estate enterprises. Jiangxi University of Finance and Economics, 2023.
- [4] Yang Y. HD Real Estate Development Company Optimized Research. Changan University, 2022.
- [5] Okafor B N. Investigating the Problem of Real Estate Financing in Nigeria: A Study of United Bank of Africa, Awka. *Journal of Economics and Sustainable Development*, 2016.
- [6] Louis A. Foreign Investors: An Unexpected Financing Sourceina Contracting Real Estate Marketplace, *Real Estate Finance*, 2014, 3: 6-8
- [7] Mwathi J, Karanja J M. The effect of financing sources on real estate development in Kenya. *International Journal of Finance and Accounting*, 2017, 2 (2): 43-62.
- [8] Zhang X. China Pension Real Estate REITs Research. *Shanghai Business*, 2020, 9: 16-19.
- [9] Zhu Y. Research on financing structure innovation in large real estate listed companies in China. *Cooperation economy and technology*, 2018, 7: 22-23
- [10] Bi J. Real Estate Group Co., Ltd. financing decision analysis. *Shangxun*, 2019 (35): 79-80.