

Comparison and Analysis of the Differences in Real Estate Financing Models Between Vanke and Sunac

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Abstract. In recent years, with the influence of the epidemic, the development of the real estate industry has slowed down, facing a series of problems. Under the new situation, it is crucial to consider the issues for each real estate company in how to choose financing strategies to broaden financing channels and solve the problem of expensive financing difficulties in financing. In this study, Vanke Co., Ltd. and Sunac China Holdings Co., Ltd. are selected in the real estate industry leading enterprises as the object of the case research. Based on the financial data from 2020 to the first half of 2023, the actual situation of the real estate industry under the impact of the epidemic is impacted. Combined with the existing financing model of Vanke and Sunac. The differences in the financing model of the two are compared and analyzed, and the relevant conclusions are obtained the relevant methods are summarized in order to provide a reference for similar real estate companies in China.

Keywords: Real estate financing, Vanke, Sunac.

1. Introduction

As a systemically important industry related to the national economy and mankind's livelihood, the real estate industry is an important part of China's national economy and plays a vital role in improving China's social economy and people's living standards [1, 2]. However, in recent years, the arrival of the epidemic has brought about significant changes in China's real estate market environment, and the development of real estate has taken a huge turn, and the real estate market in China has been experiencing a significant slowdown in development, which has brought a series of real estate problems. The development of the real estate industry requires a large amount of financial support, and under the conditions of an effective market economy, the financing structure formed by the allocation of various funds has a governance effect on the enterprise. Enterprises can improve the overall level of control over financing by implementing the right financing means, using appropriate financing structures, and improving asset management methods [3]. Therefore, this paper takes the difference between the financing models of Vanke real estate enterprises and Sunac real estate enterprises as the research object, compares the differences in the financing models of the two enterprises, draws relevant conclusions, summarizes relevant methods and measures, and provides a relevant reference for similar domestic real estate enterprises.

The existing financing models in China mainly include the following. (1) Bank borrowing, which refers to the bank's economic behavior. According to national policies, it borrows money from those in need at a specific interest rate and repays within the agreed period. Bank loans have always been the pillar of the operation and development of real estate enterprises, and 60% or more of the funding allocated to real estate development comes from bank loans, and banks are a bigger source of funding for real estate development [4]. (2) Bond financing, as an important part of corporate bonds, real estate bonds are one of the best strategies to stimulate the growth of the real estate industry [5]. As a kind of debt certificate, bonds can be collected in all idle funds for housing construction, and carried out real estate bonds, helping stimulate the Chinese corporate bond market and relieve banks' pressure on actual development. (3) Real estate stock financing, which is a way for real estate enterprises to obtain funds through the issuance of shares or backdoor listing, and then to issue additional shares or allotment of shares to obtain funds [6, 7].

As far as the current research results are concerned, China's real estate regulation and control continue to become stricter, and policies such as "housing for living, not speculation", "three red

lines" and "housing loan concentration" have not only limited the rapid increase in housing prices but also restricted the financing of real estate enterprises. the current situation of real estate financing in China is that the debt of real estate enterprises is large, which has become an important factor affecting economic and financial stability. Meanwhile, with the expansion of interest-bearing liabilities, the narrowing of financing channels, and the continuous decline in the prosperity of the housing market, the credit risk of real estate enterprises is constantly rising, and the debt repayment ability, capital turnover capacity, and financing ability have weakened in an all-round way, but the debt repayment pressure remains at a high level. In addition, through the analysis of the comprehensive financial risk of real estate enterprises, it is found that the number of listed real estate enterprises with greater financial risks is increasing, and some real estate companies have the possibility of financial crisis [8].

In order to provide certain reference value for the adjustment and improvement of the future financing structure of real estate companies, this study will take Vanke Co., Ltd. and Sunac China Holdings Co., Ltd., which are among the leading real estate companies, as the research object, and compares and analyzes the differences between the financing models of Vanke and Sunac through the actual situation of the real estate industry under the impact of the epidemic, combined with the existing financing models of Vanke and Sunac, and draws relevant conclusions. The subsequent sections will be organized as follows. Sec. 2 will briefly understand the two companies, analyze the financing models of the two companies respectively, and then comprehensively compare them, and finally draw conclusions and give suggestions.

2. Analysis of the Current Situation of the Two Companies

2.1. Company Profile

Vanke Co., Ltd. (hereinafter referred to as Vanke or Vanke Group, stock abbreviation: Vanke A, stock code: 000002, securities used abbreviation: Shenzhen Vanke A, G Vanke A), established in May 1984, the company has a total share capital of 10,995,210,200 shares and its headquarters is in Shenzhen, Guangdong Province, China. After nearly 40 years of development, it has become a leading urban and rural construction and life service provider in China. In 2016, the company ranked 356th on the Fortune Global 500 list for the first time, and 178th in 2022. It is one of the leading enterprises in China's real estate market.

Sunac China Holdings Co., Ltd. (hereinafter referred to as Sunac, stock code: 01918) is a company listed on the Hong Kong Stock Exchange, specializing in the comprehensive development of residential and commercial real estate. Sunac China Holdings Co., Ltd. has many projects in Beijing, Tianjin, Shanghai, Chongqing, and Hangzhou at different stages of development, covering high-end residential, villa, commercial, office, and other property types. In July 2020, Sunac China Holdings Co., Ltd. ranked 66th in the 2020 Fortune China 500. In August 2021, it ranked 364th in the complete list of the 2021 Fortune Global 500. It also has a wide range of influence and strong competitiveness in the Chinese market.

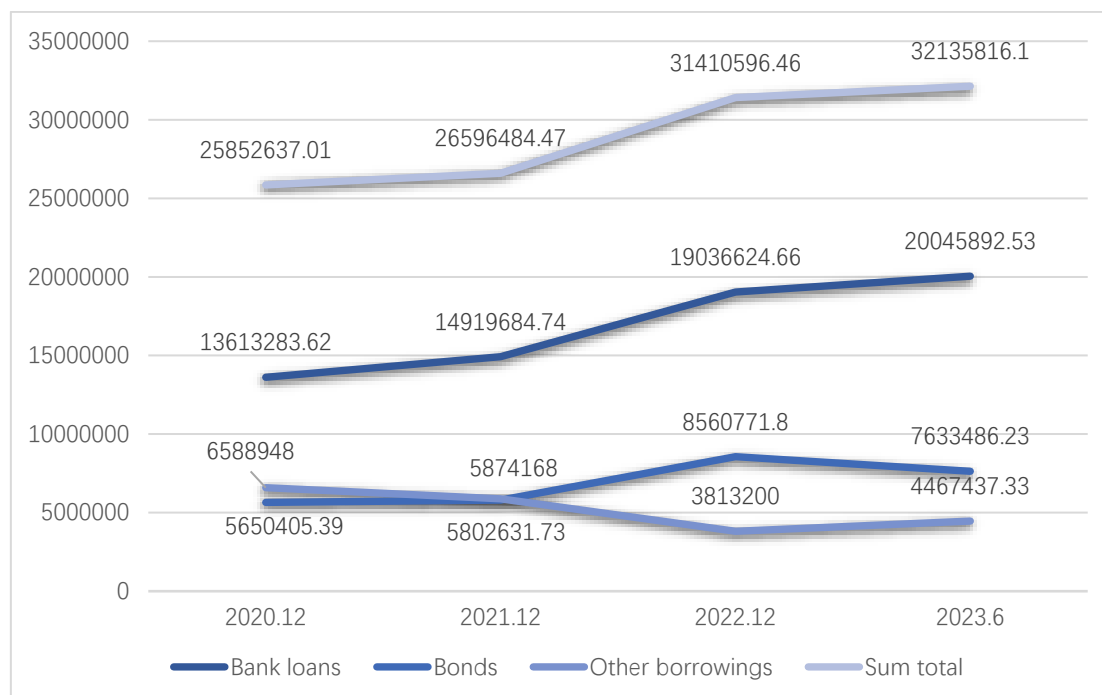


Figure 1. Vanke's Financing Statement

2.2. Vanke Real Estate Financing Structure

The financing method determines the financing structure of a company. From the annual report disclosed by Vanke Real Estate, it can be analyzed that Vanke's main financing methods are bank loans, bond financing, equity financing, debt restructuring, and strategic investment. As shown in Fig. 1, according to the data of Vanke Real Estate's annual reports in recent years, Vanke's financing methods account for about 60% of the total, 25% of bonds payable, and about 15% of other loans, and the proportion of bank loans is increasing year by year, making it one of the main financing channels of Vanke Real Estate [9]. Since its establishment, Vanke has maintained a harmonious relationship with the bank and shares a common destiny. According to Vanke's 2022 annual report, credit loans account for most bank loans. The bank's loan support to Vanke Real Estate has enabled Vanke to alleviate the urgent pressure of capital shortage and the high capital turnover rate has largely brought sufficient working capital while raising various other funds in various ways.

In addition to bank loans, Vanke also finances through bond issuance. A bond is a fixed-income security that provides bondholders with a certain amount of interest income. The bonds issued by Vanke in recent years have been mainly used to repay early-stage debt and finance new real estate projects. Vanke Enterprises continues to optimize debt structures through various financing instruments, reduce financing costs, and reduce financial risks. Moreover, Vanke has increased capital operations and reduced land costs as much as possible through mergers acquisitions, and partnerships. Vanke can choose to cooperate with small and medium-sized enterprises to gain strong room for action and market flexibility. Through mergers and acquisitions and cooperation, Vanke's dependence on bank loans will be reduced, and more importantly, it will be able to obtain huge amounts of capital [10].

In summary, Vanke Real Estate has focused on optimizing debt structures, reducing the proportion of liabilities to reduce financing costs, and reducing financial risks in recent years. In the process of financing, the company gradually adjusted its debt structure, reduced the proportion of debt, and enhanced the corporate anti-risk ability. Vanke Real Estate's asset-liability ratio flow ratio and speed ratio are maintained within the normal value range of the corresponding indicators. Vanke's good management level has kept liability risk at low levels, controlled financial risks, and a highly flexible financing structure, which will not affect the development of the financing scale no matter what policy changes are facing [11].

2.3. Sunac Real Estate Financing Structure

The weighted average cost of capital (WACC%) is a method of calculating a company's cost of capital based on the weighted average of the total capital sources of the total capital by each type of capital, which is usually called the company's capital cost. Generally, the financing of a company's assets is typically done through debt and equity. The average cost of all financing sources, which is weighed according to their specific purpose in a particular situation, is represented by the WACC. With the weighted average, how much interest the company needs to pay for raising funds can be seen. As illustrated in Fig. 2, as of June 2023, Sunac China's WACC % is 2.62% and Sunac China's Return on Capital Employed % is negative. It usually means that the return on investment obtained by Sunac China's value will decrease as the firm expands, its cost of capital is not comparable, and the company is capital inefficient.

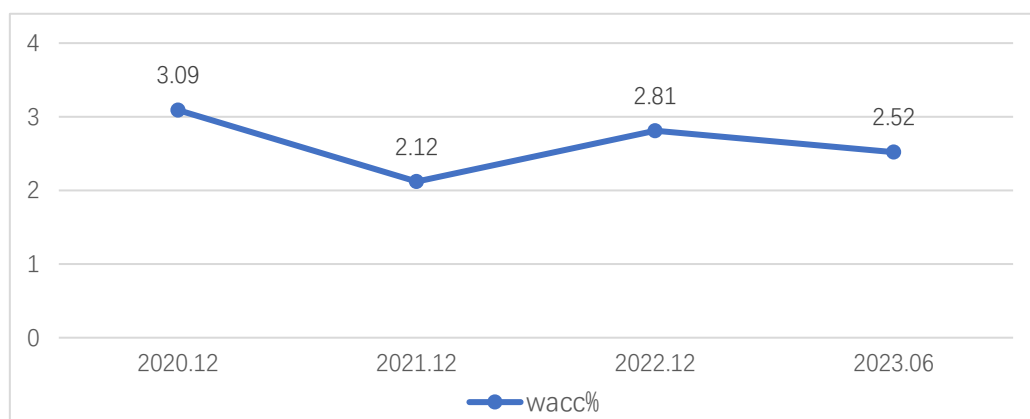


Figure 2. Sunac's Weighted Average Cost of Capital

As a large real estate development company, it is difficult for Sunac China to rely on its own funds to meet the company's business expansion needs. By consulting Sunac China Company's announcement and annual reports, it is found that it can mainly analyze the financing situation before the release of Sunac China from the listing of the new policy from the listing to the new financing supervision policy. Sunac China's internal financing mainly includes its own funds and contract liabilities. External financing can also be subdivided into equity financing and debt financing. Equity financing means that enterprises raise funds from investors through the issuance of shares to meet the needs of enterprise development. Sunac China successfully landed on the Hong Kong Stock Exchange in 2015 and obtained a lot of funds through issuing stocks. Prior to this, Sunac China had made equity financing many times, and the funds obtained were mainly used for real estate development and land reserves. Debt financing means that enterprises raise funds from financial institutions and investors through bonds and other methods. Among them, in external financing, equity financing mainly involves IPOs and allocation shares, while debt financing mainly involves borrowing from banks and other institutions and issuing preferred notes, asset-supported securities, and corporate bonds [12].

However, there are also some problems with Sunac's financing structure. The first is the small amount of endogenous financing. Sunac China is purchasing a large amount of land every year, but the growth rate of its endogenous financing amount is far less than the growth rate of the new land reserve area, and the growth gap between the two is gradually widening, which virtually increases the pressure on the company's external financing. The second is that there are fewer ways to obtain external financing. According to the annual reports of recent years, the only external financing methods used by Sunac China include equity financing, bank and other institutional loans, senior notes, asset-backed securities, and corporate bonds. Among them, the number of times equity financing is used is limited, and the amount of each financing is also very small. In other financing methods, in recent years, Sunac China has abandoned the financing method of asset support securities in order to control financing costs, making the financing model thinner and more difficult to ensure the stable development of Sunac China's own.

3. Comparison Analysis

As shown in Table 1, after analyzing the financial report of Vanke and Sunac 2020 to 2023, it can be known that as of June 30, 2023, Vanke's interest liabilities totaled 321.36 billion yuan, accounting for 19.1% of the total assets, and medium and long-term liabilities are the main liabilities of interest-bearing liabilities. Among the interest liabilities, the interest liabilities that expired within one year were 45.7 billion yuan, accounting for 14.2%; more than a year's interest liabilities were 275.66 billion yuan, accounting for 85.8%.

Table 1. Comparison of asset-liability ratio

Project	2020.12.31	2021.12.31	2022.12.31	2023.6.30
Vanke	81.28%	79.74%	76.92%	76.09%
Sunac	84.02%	90.30%	92.41%	93.61%

According to Vanke's financing statement, in terms of financing targets, bank borrowing accounts for 62.4%, bonds share 23.7%, and other borrowings account for 13.9%. Divided by interest rate categories, fixed interest rate liabilities accounted for 37.6% of the interest and liabilities, and the floating interest rate liabilities accounted for 62.4%. The interest rate calculation liabilities were 10.89 billion yuan, accounting for 3.4% of the total interest liabilities. The proportion of unsecured interest-free liabilities accounted for 93.9%.

As of June 30, 2023, Sunac's interest-bearing liabilities totaled 312.5 billion yuan, accounting for about 30.3% of the total assets. No specific debt details are disclosed. Based on the above data, Vanke's asset-liability ratio of the company from 2020 to 2023 is declining. Cost controls the company's financing risks. Compared with Vanke, Sunac relies on interest-based debt financing that depends on external financial institutions. In comparison, Sunac's interest-bearing liabilities accounted for total assets more than Vanke's.

In general, the most important task of corporate financing management is to formulate strategic plans in the process of enterprise development, and strictly control the company's asset-liability ratio according to the actual situation of the company's development. In this regard, the debt ratio under Vanke's real estate financing model is lower than that under Sunac Real Estate's financing model. Therefore, in comparison, Vanke Real Estate focuses on optimizing the debt structure, reducing the proportion of liabilities to reduce financing costs, and reducing financial risks. The financing model has more reference value for real estate companies. Real estate enterprises should diversify financing to stabilize the source of funds and take multiple measures to enhance the ability of real estate enterprises to use funds.

4. Conclusion

In summary, this study discusses the differences in financing model differences between Vanke and Sunac's real estate companies. According to the analysis, Vanke's dividend liabilities account for less than Sunac's, indicating that its financing capabilities are stronger than Sunac's, with good debt capacity, and can obtain a higher capital turnover rate, thereby bringing sufficient operating capital. In comparison, Sunac's financing structure may have an impact on the future development of the enterprise. It should adjust its financing structure as soon as possible and enrich the financing model in order to sufficient its capital flow.

The real estate industry is one of the important pillars of China's economic development and plays an extremely important role in improving China's social economy. Vanke Real Estate and Sunac Real Estate, as the real estate giant industry, found that their financing problems and optimizing their financing structure are to solve problems for their development. Essence The development of real estate companies should get rid of the single rigidity of financing models, implement diversified financing, and reduce financing costs, to obtain more cash flow development and reduce financing pressure. Nevertheless, the subjective factors are based on personal professional cognition and understanding ability and the single perspective, so the paper has certain limitations. For further study,

one ought to improve, expand the perspective of research, and increase the depth and breadth of analysis. Overall, these results shed light on guiding further exploration of the financing structure and financing model of real estate enterprises after the epidemic. It is expected to provide a reference for the entire real estate industry and lay the foundation for sustainable development.

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