The Financing Model Difference Between Poly Development and Country Garden

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Abstract. As a matter of fact, real estate is one of the pillar industries of economic development. As an asset-intensive industry, the development of real estate needs a large amount of effective capital investment, and how to obtain and rationally use funds has become the top priority. The case analyzed in this paper is the financing mode difference between two listed real estate enterprises, Poly Development and Country Garden. Through the analysis of some specific financial indicators, the different financing modes of these two companies are studied, so as to provide reference significance for the financing of future real estate enterprises. Finally, an important conclusion is drawn: real estate companies should pay great attention to whether the debt ratio is matched with their own repayment ability, otherwise the liquidity problem may lead to the company's capital turnover difficulties and be unable to operate, and the corresponding economic system support can improve the status quo. This research helps to provide lessons and solutions for real estate financing.

Keywords: Poly development, country garden, financing model.

1. Introduction

Since the end of the 19th century, real estate has been a first-class investment in many developed economies [1], and also a key contributor to the global economy, with huge investment potential and attractive for global real estate investors [2]. Real estate has also become a key driving force of space production [3]. Over the past few decades, the real estate industry seems to provide an attractive return on investment to [4]. In recent years, the overall improvement of China's economic development level has greatly promoted the development of related industries. In the process of changing the development direction of the market, the competitive pressure in the real estate industry is also increasing in [5]. Since 2016, China's regulatory authorities have continued to promulgate tightening policies in the real estate industry, and real estate enterprises have experienced an era of strong supervision. The financing channels, sales collection and profit space of real estate enterprises are all negatively affected to varying degrees. Combined with the global epidemic and the macroeconomic downturn, Chinese real estate enterprises are facing major challenges. However, since November 2022, the state has reopened its policies, and a number of financing policies supporting real estate enterprises have been implemented in [6].

Real estate is one of the pillar industries of China's economic development. As an asset-intensive industry, the development of real estate needs a lot of effective capital investment. How to obtain and rationally use funds has become a top priority. According to certain research, the value of real estate assets has a positive correlation with enterprise investment through the loan channel's mortgage function, whereas real estate risk has a negative correlation with long-term enterprise investment, equity, and debt [7]. Businesses rely on both external financing, which includes long-term leasing, joint ventures, property mortgages, and sale and leaseback agreements, as well as internal financing, also known as operating cash flow. Operating cash flow, property mortgage, leasing, and sale and leaseback are the top-ranked financing options. Mortgage debt, mortgage-backed securities, and real estate investment trusts are the least preferred forms of funding. Instead of considering theoretical corporate financial issues like bankruptcy costs, administrators typically focus on the availability of cash flow and the tax benefit of the debt to use [8]. Several noteworthy discoveries include the integration of the public REIT debt market with the wider debt market and the issuance of longer-maturity bonds by corporations with superior credit quality [9].

Most real estate companies choose bank loans and bond issuance as an important source of financing. Poly Development is the largest state-owned listed real estate company, and Country Garden is the largest private listed real estate company, which are different in nature. The financing funds of state-owned listed real estate companies and private listed real estate companies are also very different. Studying the difference between the two can provide reference significance for real estate companies how to adjust their financing structure in the future. The rest of the paper is presented as follows. The second section is the description and analysis of the specific cases the author chose to study, namely, Poly Development and Country Garden, including the difference between surface and internal financing. The corresponding suggestions are discussed in Section 3. Section 4 will be the summary of the whole study.

2. Case description and Analysis

2.1. Company Profile

Poly Development Real Estate Co., Ltd. is a prominent central organization and one of China's best-known real estate corporations. It was founded in 2006 and has since become one of China's top real estate enterprises. Poly Development Holdings Group Co., Ltd. was founded on September 14, 1992. Liu Ping is a lawyer. Poly Real Estate (stock code: 600048), the first listed real estate company in the inaugural group of enterprises after the IPO was revived, debuted on the Shanghai Stock Exchange in 2006. In 2018, Poly Real Estate changed its name to Poly Development Holding Group Co., Ltd.The People's Daily was ranked 44th in the 100th "China Brand Development Index" on December 18, 2019. Poly Development ranked 172nd on the 2020 Forbes Global Enterprise 2000 list as on May 13, 2020. In July 27, 2020, Poly Development Holding Group Co., Ltd. was ranked 44th on the 2020 Fortune China 500 list. Poly Development met its 2020 goals of 502.848 billion yuan for contract fulfillment, 245.3 billion yuan for operational income, and 1.23 trillion yuan for total assets. In the year 2023, Poly Development's total operating revenue was approximately 347.147 billion yuan, an rise of 23.49%; operating profit was roughly 24.322 billion yuan, a drop of 29.89%; total profit was approximately 24.671 billion yuan, an increase of 30.11%; net profit attributable to shareholders of listed businesses was approximately 12.036 billion yuan, a fall of 34.42%; net profit attributable to shareholders excluding non-recurring profit and lo Between January and December 2023, Poly Development finalized contracts for a total of 23.8612 million square meters, a 13.17% decline from the previous year, as well as contracts worth 422.237 billion yuan, a 7.67% decrease from the previous year [10].

Country Garden Group, commonly known as Country Garden Holdings Co., LTD. (stock code: 02007.HK), has its headquarters in Shunde District, Foshan City, Guangdong Province, and is predicted to produce 430.371 billion yuan in sales by 2022. Country Garden provides a diverse range of goods to meet the needs of many markets, including residences, parking spaces, and shops. It also develops and maintains hotels in multiple projects to boost the value of real estate.New urbanization home developers use centralized and standardized activities such as property development, construction and installation, decoration, property management, investment, hotel development and management, modern agriculture, and robots. With yearly sales of 771.5 billion yuan, it is China's largest property corporation. It also operates hotels separately from real estate development. The Country Garden Group debuted on the Hong Kong Stock Exchange on April 20, 2007. In 2017, it was ranked 467th on the Fortune Global 500 for the first time, and it will be 147th by 2020. Country Garden founded two new firms in 2019, with a focus on robotics and modern agriculture. In August 2019, it was placed 11th in the "Belt and Road" Top 100 Chinese Enterprises list and one of China's top 50 best boards. Country Garden Group was named one of the 2019 China Brand Power Festival's Model 100 brands in December of that year. Country Garden ranked fifteenth on People's Daily's 100 list of the China Brand Development Index, which was published on December 18, 2019. Country

Garden will create a high-tech industrial map in 2020 that includes Bozhilin Robot, Modern Agriculture, Bi, and robot restaurants, with a focus on the real estate sector. The Country Garden Group has aided 14 counties in nine provinces, including Chaozhou, Shantou, Jieyang, Meizhou, and Heyuan, in meeting the Party's and the nation's urgent need to alleviate poverty and regenerate rural areas. This has assisted 337,000 registered poor households in 3,747 poor communities, allowing 318,000 impoverished people to get beyond the local poverty level [11]. Poly Development's overall credit rating is AAA, which indicates stability and a good credit rating. Country Garden's total credit rating has been reduced from AAA to AAA, suggesting that it is at risk of default.

2.2. Analysis of Solvency

As shown in Table.1, The current ratio and quick ratio of Poly Development are higher than that of Country Garden, indicating that Poly Development has stronger asset liquidity and stronger short-term solvency. At the same time, the asset-liability ratio of Poly Development is lower than that of Country Garden, indicating that Poly Development's long-term solvency is stronger. At the same time, the following indicators of the two companies in the past two years are relatively stable, indicating that the solvency has not changed much and is relatively stable. In the context of market fluctuations, changes in financial policies, and a decline in business scale, tight capital turnover and increased financing risks may lead to a decrease in solvency. But the two companies have not yet encountered widespread debt repayment issues.

Table 1. Contrast of solvency

	Current ratio 2022	Current ratio 2023.6	Quick ratio 2022	Quick ration 2023.6	Asset-liability ratio 2022	Asset-liability ratio 2023.6
Country Garden	1.25	1.2	0.48	0.46	0.82	0.84
Poly development	1.54	1.57	0.50	0.50	0.78	0.77

2.3. Comparison of Operational Capabilities

In Table.2, In comparison to Poly Development, Country Garden has a higher inventory turnover rate and total asset turnover rate. This suggests that the company recovers accounts receivable quickly, has highly efficient enterprise management, uses assets efficiently, and has a strong operational ability. This helps businesses recover loans on time, lowers or eliminates the chance of bad debt losses, increases asset liquidity, and strengthens the ability of businesses to repay short-term debt. At the same time, Country Garden has a large amount of sales costs, the number of products sold, and the sales capacity of the enterprise is strong. However, from 2022 to June 2023, both indicators decreased, with a significant decrease in the indicator of Poly Development. Due to the COVID-19 and housing oversupply, inventory sales are slow and turnover is slow, resulting in a sharp decline in operating capacity. Even with a lot of effort in sales, but still cannot avoid the decline in purchasing power.

Table 2. Comparison of operational capabilities

	Turnover ratio of inventory 2022	Turnover ratio of inventory 2023.6	Turnover of total capital 2022	Turnover of total capital 2023.6
Country Garden	0.38	0.27	0.22	0.13
Poly development	0.26	0.09	0.20	0.07

Table 3. Profitability comparison

	Operating profit margin 2022	Operating profit margin 2023	Return on equity 2022	Return on equity 2023	Return on assets 2022	Return on assets 2023.6
Country Garden	2.75	-15.31	-2.87	-53.74	0.31	-5.74
Poly development	12.62	14.59	9.37	19.13	1.28	2.64

2.4. Analysis of Profitability

The operating profit margin, return on equity, and return on assets of Poly Development are higher than those of Country Garden, indicating that Poly Development has more profits, strong profitability, good asset profitability, and high efficiency in using shareholder investment funds. However, as of June 2023, all three indicators of Country Garden were negative and significantly decreased, indicating that Country Garden's net profit is rapidly declining and investment is experience losses (listed in Table 3). If Country Garden's profit is positive, it means that it uses excessive leverage in exchange for a higher return on equity, sacrificing the stability of its operation.

2.5. Weighted Average Cost of Capital

From the perspective of WACC (presented in Table 4), in 2022, Country Garden's WACC was higher than Poly's development, but by June 2023, Poly's development had a higher WACC. Although both indicators have decreased, Country Garden has experienced a significant decline. This indicate that Poly Development has low financing costs, which has less pressure to create profits for shareholders and is more conducive to absorbing investment funds. Meanwhile, this also indicates that the two companies are striving to reduce debt costs, improve financial stability, raise stock prices, and increase leverage ratios in the context of industry downturn.

Table 4. WACC distinguish

	Weighted average cost of capital 2022	Weighted average cost of capital 2023.6
Country Garden	4.61	3.25
Poly development	3.89	3.55

In general, Poly has a better development compared with Country Garden, but Country Garden has a weak solvency, slow capital recovery speed, low profit and high financing cost. The company's cash flow management level is outstanding, maintaining positive cash flow of operating activities for many years, high sales return rate. The practical and steady management style and the brand credit of the central enterprises, on the one hand, the company guarantees the financing; on the other hand, the financing cost advantage is continuously demonstrated, and all kinds of financing costs are always low, which effectively guarantees the capital safety and profitability of the company. From the cash flow statement, Country Garden has invested more, and Poly Development is recently recovering loans. All cash flow is positive, but Poly Development has more capital reserves and more repayment ability in terms of loans. Moreover, under the current situation that the real estate industry capital is relatively tight, Poly Development can rely more on its own funds for development and operation. As a state-owned real estate company, Poly Development is more stable and easier to absorb funds. Poly Development has repeatedly issued bonds lower than the peer interest rate of the same period, with low direct financing costs. From the perspective of WACC, Poly Development has low financing costs, which has less pressure to create profits for shareholders and is more conducive to absorbing investment funds. Some audit institutions also provide risk tips to Country Garden. Country Garden's unrestricted monetary funds can cover the company's interest-bearing debts due within one year. If the scale of short-term debt is increased, it may face short-term debt repayment pressure and increase the risk. Long-term interest-bearing obligations like long-term bank loans and bonds payable are the primary source of Country Garden's interest rate risks. The Group bears the risk of cash flow interest rates due to its financial liabilities associated with floating interest rates, and fair value interest rates are associated with fixed interest rate financial liabilities. In August 2023, due to liquidity problems, Country Garden's two offshore foreign debts were deferred. In fact, there are four main reasons. The first is influenced by the overall development trend of the real estate market. In fact, housing is now in oversupply, and the urbanization rate is 65%. The former deputy director of the National Bureau of Statistics has made it clear that China's current commercial housing has been a serious surplus, 1.4 billion people can not live in, suggested that the housing enterprises as soon as possible transformation. The second is the wrong strategic layout. Country Garden focuses on the development of non-metropolitan real estate, but due to the uneven regional development, the siphon effect of big cities will lead to the loss of population in small cities, which restricts the subsequent property sales. The third is its own operational problems. Country Garden's high turnover makes the high leverage to be infinitely magnified. But when the real estate market is depressed, it will increase the debt. At the same time, high-speed turnover requires high-speed construction, resulting to a series of quality problems. The last one is the issue of senior dividend management. Country Garden executives took a lot of annual salary, but their management ability did not improve their accordingly [12].

3. Suggestions and Implications

Under the condition of declining industry sales, limited capital return, real estate enterprises relying more on their own funds for development and operation, reduce the financing cost, mainly to communicate with the existing investors, convert the past high interest to low interest, or adjust the repayment method to transfer the repayment pressure; to ensure the delivery and credit work, streamline the organizational structure; actively resolve the periodic flow pressure, ensure the orderly operation; reduce cost and increase efficiency, take the lead in reducing salary, ensure the safety of the company's cash flow. The first priority is still to actively repair the balance sheet based on cash flow [13].

There are several methods to adjust WACC. One is to optimize the capital structure by adjusting the debt to equity ratio appropriately, so that the cost of debt is lower than the cost of equity. The second is to improve the company's credit rating, which can reduce debt costs. This can be achieved through improving financial conditions, increasing profitability, and strengthening the debt paying ability of the balance sheet. The third is to reduce the cost of equity, which can be achieved by increasing the value of the company and increasing the expected returns of investors. This can be achieved by improving the company's profitability, expanding market size, and enhancing competitiveness. The last one is to lower the tax rate, reduce the company's tax burden through reasonable tax planning, and thus lower the WACC. This requires collaboration with finance and tax professionals for tax planning and optimization.

To solve the problem of capital turnover, the first step is to ensure clear accounts, plan expenses reasonably according to regulations, and ensure standardized cash flow in and out. A third-party financial statistics platform can also be introduced to accelerate the speed of fund settlement, minimize cash deposition, and shorten the cash flow cycle. Another option is to offer discounts through quick payment, where customers usually make cash payments in a short period of time to reduce expenses, which is beneficial for increasing cash flow. Finally, it is important to ensure the quality of the goods. Real estate companies should create houses that satisfy customers, which is more conducive to sales and payment collection. The key point is that the top management of a company needs to lead by example, manage the company with diligence and responsibility, rather than just trying to profit from trade.

4. Conclusion

To sum up, this paper studies the different financing methods of Poly Development and Country Garden, two listed real estate companies. It can be seen in the second chapter that under the current economic situation, the performance of private real estate enterprises is generally not very good, and the difference with the competitiveness of state-owned enterprises is mainly in financing, and the financing ability and solvency ability of state-owned enterprises are strong. Private housing enterprises are more likely to have capital liquidity problems. To be honest, state-owned enterprises are under strict national supervision, with high credibility and low risk ratings. On the contrary, private enterprises lack strict rules and regulations, making it difficult to strictly regulate their behavior, which may lead to potential risks while increasing profits. Nevertheless, the reason may be in the relevant economic system, the need to establish a strict information disclosure supervision system, strict system to reward and punish the bad, so that the society to establish universal integrity, the overall transaction cost will be lower. These results provide lessons and solutions for real estate financing. For further study, the measure to solve the problem through the improvement of policy and system is very worth thinking about.

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