Research on Structural Financing Difference of Shareholders in Real Estate Industry

Shuyu Liu
Department of Finance, Tianjin University of Finance and Economics, Tianjin, China
lsy2021111285@stu.tjufe.edu.cn

Abstract. This paper takes China Merchants Shekou Industrial Zone Holding Co., LTD., Vanke Enterprise Co., LTD., and Country Garden Holdings Co., Ltd. as examples to explore the financing differences between state-owned enterprises, state-owned equity enterprises and private enterprises. By searching the relevant financial data and credit rating from 2020 to 2022, the advantages and disadvantages of the financing of the three enterprises are analyzed from two aspects financing ability and financing cost. It can be concluded that state-owned enterprises, state-owned equity enterprises and private enterprises in the financing conditions are not the same. State-owned enterprises are more likely to be supported by the government. They have good financial credit and stable development; State-owned equity enterprises will also benefit from government backing; Private enterprises need to bear higher financing costs and corresponding risks, but their strong operating capacity and flexibility allow them to occupy a place in the market. With the twists and turns of real estate enterprises in recent years, enterprises need to constantly improve and standardize market behaviors, carry out diversified financing, actively adapt to the national economic environment, improve their own structure, and formulate strategies conducive to the long-term development of enterprises, to achieve stable development in the industry.

Keywords: Financing mode, State-owned enterprises, State-owned equity enterprises, Private enterprises.

1. Introduction

In the early stage of the development of the real estate industry, the main goal of the real estate market is to meet the housing requirements of residents. Without a complete real estate business system, the main source of funds for the real estate industry's development is government investment. With the rapid economic development and the deepening of the urbanization process, the rapid development of the real estate industry has been promoted, and the real estate market has become one of the main economic pillars of our country. However, with the economic downturn caused by irresistible factors in recent years, according to the Financial statistics released by Xinhua Net, the total financing of domestic real estate development enterprises to issue domestic credit bonds in 2022 is 544.326 billion yuan, down 15.72% from 2021, and the development and expansion of real estate enterprises have reached the bottleneck stage [1].

According to the economic development situation in recent years, how to have a good financing ability during the economic downturn has become the key to the development of real estate enterprises. Compared with the previous single source of funds, bank loans, debt financing, and other methods have realized the diversification of financing models, providing more financing channels and opportunities for real estate enterprises. In order to further develop and expand, real estate enterprises need a lot of financial support. Real estate enterprises of different characters adopt different main financing methods and their emphases. Therefore, exploring the differences in financing models of different listed real estate enterprises is of great significance for the future development of real estate enterprises [2].

In order to explore the financing methods and differences of listed real estate companies with different shareholder backgrounds, this paper takes Merchants Shekou, Vanke and Country Garden as the main research objects. Taking a state-owned enterprise with China Merchants Shekou Industrial Zone Holding Co., LTD, a state-owned equity enterprise with Vanke Enterprise Co., LTD, and a private enterprise with Country Garden Holding Co., LTD as examples. Based on the financing theory, to analyze the differences in financing models.

2. Introduction of Enterprises

2.1. CMSK

China Merchants Shekou Industrial Zone Holdings Co., Ltd. (CMSK) is a comprehensive development and operation enterprise, serving as the flagship company of China Merchants Group's real estate sector and the domestic resource integration platform for China Merchants Group. The ultimate controlling entity of CMSK is the State-owned Assets Supervision and Administration Commission of the State Council, holding a 64.83% stake in CMSK, making it a state-owned enterprise.

2.2. Vanke

Vanke Enterprise Co., LTD is one of the largest professional residential development companies in China, its business scope includes real estate development, property management, commercial operations, and hotel management. Vanke does not belong to state-owned enterprises or private enterprises, it is a mixed-ownership enterprise with a background of state-owned assets.

2.3. Country Garden

Country Garden Holding Co., LTD is a comprehensive enterprise group with main businesses in real estate, agriculture, and robotics. The company adopts a centralized and standardized operating model to provide diversified products that meet the needs of different markets. Country Garden is a privately owned enterprise.

3. Analysis of Financing capability

3.1. Amount of Financing

3.1.1 CMSK

In terms of financing sources in 2020, bank loans accounted for 67.3%, payable bonds accounted for 21.0%, and other loans accounted for 11.7%. Looking at the financing sources in 2021, bank loans accounted for 66.1%, payable bonds accounted for 21.9%, and other loans accounted for 12.0%. Examining the financing sources in 2022, bank loans represented a proportion of 59.0%, payable bonds represented a proportion of 27.4%, and other loans represented a proportion of 13.6%. Among them, financing is mainly conducted through non-financial corporate debt tools, corporate bonds, foreign debts, asset securitization products, and other financing tools.

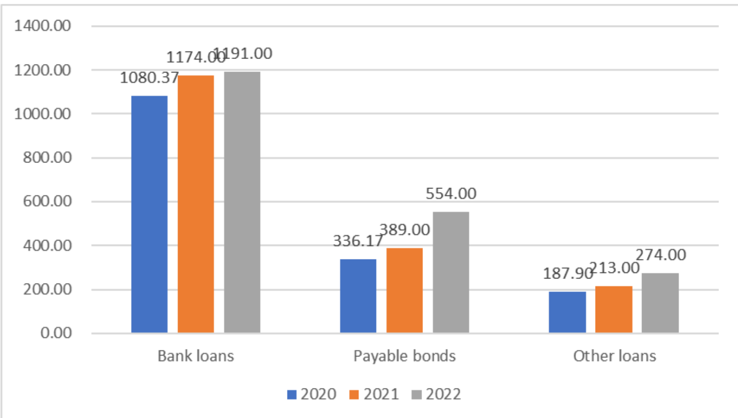

Figure 1. Financing Sources and Year-end Balance of CMSK from 2020 to 2022 (unit: RMB billion)

Fig. 1 illustrates the financing methods and year-end balances of CMSK for the period from 2020 to 2022. Among them, bank loans serve as the main source of financing, with state-owned enterprises having an advantage over private enterprises in applying for bank loans and being able to secure larger loan amounts. This is one of the reasons why bank loans are the primary channel for financing. Additionally, issuing bonds enables cost reduction in financing and effectively obtains financial leverage.

3.1.2 Vanke

In terms of financing sources, in 2020, Vanke's bank loans accounted for 52.7%, payable bonds accounted for 21.9%, and other loans accounted for 25.4%. In 2021, bank loans accounted for 56.1%, payable bonds accounted for 21.8%, and other loans accounted for 22.1%. In 2022, bank loans accounted for 60.6%, payable bonds accounted for 27.3%, and other loans accounted for 12.1%. Vanke continues to optimize its debt structure and reduce financing costs through various financing tools.

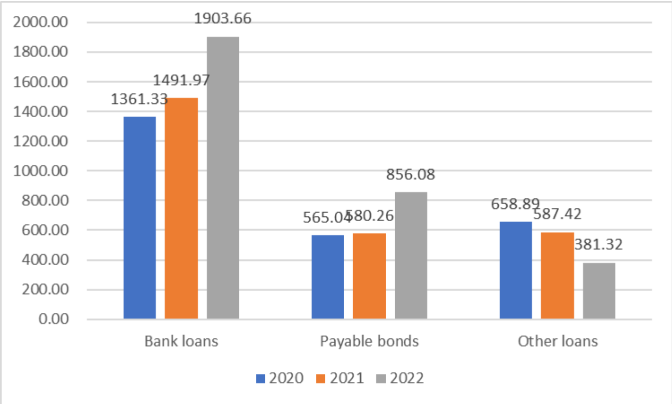

Figure 2. Financing Sources and Year-end Balances of Vanke from 2020 to 2022 (Unit: RMB billion)

Fig. 2 shows the overall financing methods and proportion of Vanke from 2020 to 2022. Among them, bank loans as the main source of financing, accounting for the vast majority of the financing amount. Vanke has established cooperative relationships with several banks to meet short-term and long-term funding needs through borrowing; Second, issuing bonds and other borrowing also play an important role in decision-making [3]. Vanke raises funds from investors by issuing corporate bonds, which allow investors to diversify their investment forms according to different maturities and interest rates.

3.1.3 Country Garden

In terms of financing sources, in 2020, bank loans accounted for 67.7%, bonds payable accounted for 12.4%, and other loans accounted for 19.9%; In 2021, Country Garden's bank loans accounted for 65.0%, bonds payable accounted for 11.4%, and other loans accounted for 23.6%. In 2022, bank loans accounted for 59.9%, bonds payable accounted for 14.0%, and other loans accounted for 26.1%. In addition to bank loans, financing channels are diversified through bond issuance, equity, equity pledges and trust.

Fig. 3 shows the overall financing methods and proportion of County Garden from 2020 to 2022. Among them, the main source of three-year financing is bank loans, other loans occupy the second position, and bonds payable occupy the smallest proportion. From the perspective of the nature of enterprises, the ability of private enterprises to issue bonds is weaker than that of state-owned enterprises, so the overall scale is smaller and the number of issuances is less.

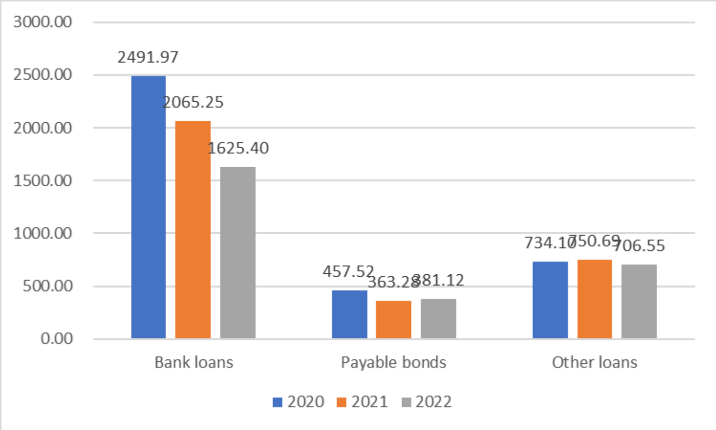

Figure 3. Financing Sources and Year-end Balances of Country Garden from 2020 to 2022 (Unit: RMB billion)

3.2. Profitability

This paper uses ROE as the main index to measure the profitability of enterprises.

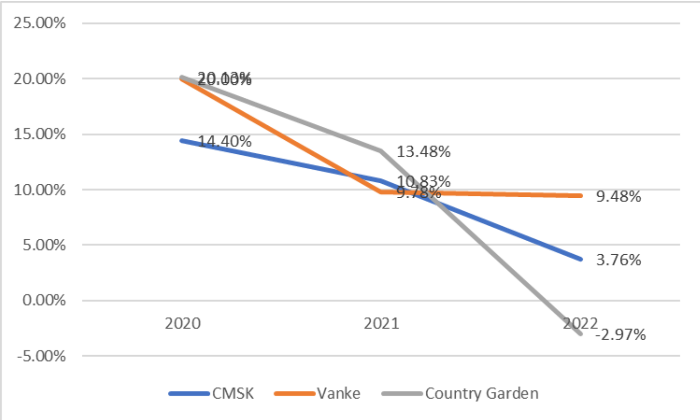

Figure 4. The ROE trend chart of CMSK, Vanke, Country Garden from 2020 to 2022

Fig. 4 reflects the changing trend of ROE of CMSK, Vanke and Country Garden in the last three years. The epidemic affected the real estate industry seriously. Due to economic stagnation, residents' demand for commercial housing has been greatly reduced, resulting in the overall income of the real estate industry is not optimistic [4]. From Figure 4, the three companies were seriously affected by the epidemic, resulting in a rapid decline in ROE.

From the data of three years, all three showed a decreasing trend. However, CMSK than Vanke’s decline is lagging, Country Garden plunged due to its own reasons. According to the different nature of the two enterprises, in the initial stage of the epidemic, in order to support the normal operation of state-owned enterprises to maintain the economy, the government provided funds to state-owned enterprises. Therefore, from 2020 to 2021, CMSK suffered less than Vanke. With time, the government’s funds couldn’t support the operation of state-owned enterprises, it is difficult for state-owned enterprises to only depend on their own funds to maintain, leading to an ROE plunge in 2022. In 2020-2021, Country Garden was less affected by the epidemic, and adjusted quickly. Due to the rising liquidity risks [5], the plunge in 2022 exposed the insolvency of Country Garden, causing deterioration of profitability. From Figure 4, private enterprises are more efficient, while state-owned enterprises receive more government subsidies [6].

3.3. Solvency

3.3.1 Short-term solvency analysis

This paper uses the current ratio to be the index to measure the short-term solvency of enterprises.

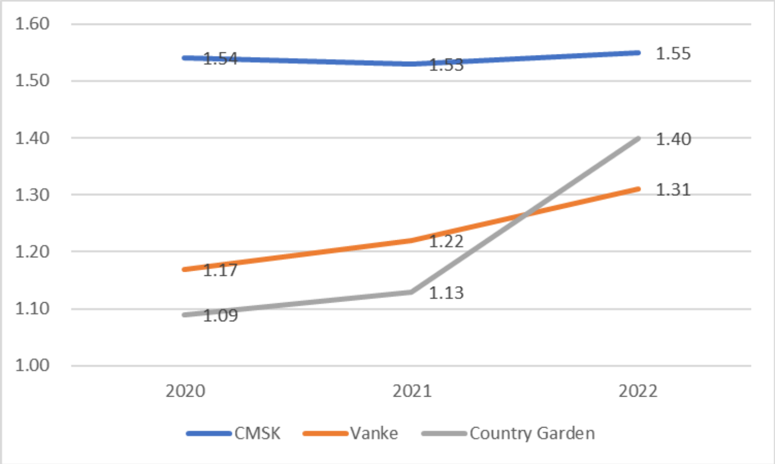

Figure 5. The current ratio trend chart of CMSK, Vanke, Country Garden from 2020 to 2022

Fig. 5 shows that the overall liquidity ratio of CMSK is higher than Vanke and Country Garden, both of which are in an increasing trend, and the increase of Country Garden is greater than that of Vanke and CMSK. Therefore, CMSK's asset realization ability and overall short-term debt repayment ability are stronger than Vanke and Country Garden [7]. Therefore, as a state-owned enterprise, CMSK has more obvious advantages in financing.

3.3.2 Long-term solvency analysis

This paper uses the Asset-Liability Ratio to be the index to measure the long-term solvency of enterprises.

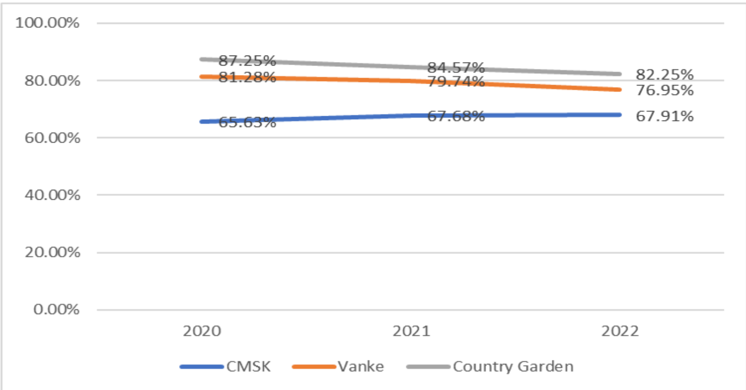

Figure 6. The Asset-Liability Ratio trend chart of CMSK, Vanke, Country Garden from 2020 to 2022

Fig. 6 reflects the asset-liability ratio of Country Garden is higher than Vanke and CMSK during the period from 2020 to 2023. Vanke and Country Garden showed a slight decrease trend, while CMSK showed the opposite trend. During this period, the asset-liability ratios of the three are getting closer and closer. The higher the asset-liability ratio, the higher the degree of dependence on funds in the operation process [8], the greater the operating pressure, the higher the various risks, therefore the long-term solvency is poor. In conclusion, the long-term solvency of Vanke and Country Garden is worse than CMSK. As a state-owned enterprise, CMSK needs to pay lower financing costs, which is beneficial to the financing of enterprises.

3.3.3 The impact of the Three Red Lines policy

The three red lines are that the asset-liability ratio after deducting prepayments does not exceed 70%, the net liability ratio does not exceed 100%, and the cash-short debt ratio is greater than 1.

According to the situation of the three red lines of listed real estate enterprises in 2022, Vanke and CMSK's three indexes are within the scope of the Three Red Lines Policy, while Country Garden steps on one red line, and its asset-liability ratio after deducting prepayments is 71.24%, exceeding the limited 70% (Table 1).

Table 1. Vanke, CMSK, Country Garden's three red line index in 2022

	asset-liability ratio after deducting prepayments	net liability ratio	cash-short debt ratio
CMSK	61.64%	40.47%	2.13
Vanke	67.62%	43.68%	2.13
Country Garden	71.24%	39.98%	1.57
Three red Lines	70.00%	100.00%	1

3.4. Operating Ability

This paper uses the Inventory turnover Ratio to be the index to measure the operating ability of enterprises.

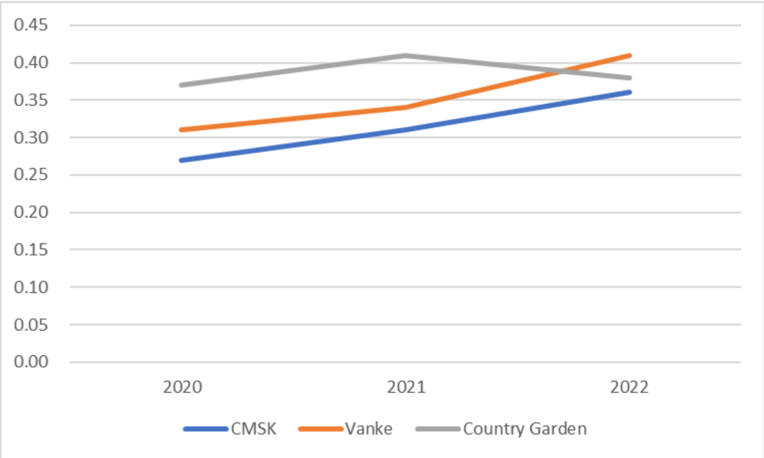

Figure 7. The Inventory turnover Ratio trend chart of CMSK, Vanke, Country Garden from 2020 to 2022

Fig. 7 reflects Vanke and CMSK both showed an increasing trend during the three years, while Country Garden showed a decreasing trend during 2021-2022. But Country Garden's overall inventory turnover is higher than Vanke and CMSK. This indicates that Country Garden, as a private enterprise, has a lower inventory occupancy rate [9], stronger liquidity, strong liquidity, and faster revenue growth. Therefore, it has more financing advantages.

4. Analysis of Financing Cost

4.1. Financing cost rate

WACC refers to the average cost paid by a company to investors in financing activities, which is composed of various costs of the company's financing sources, including equity financing and debt financing.

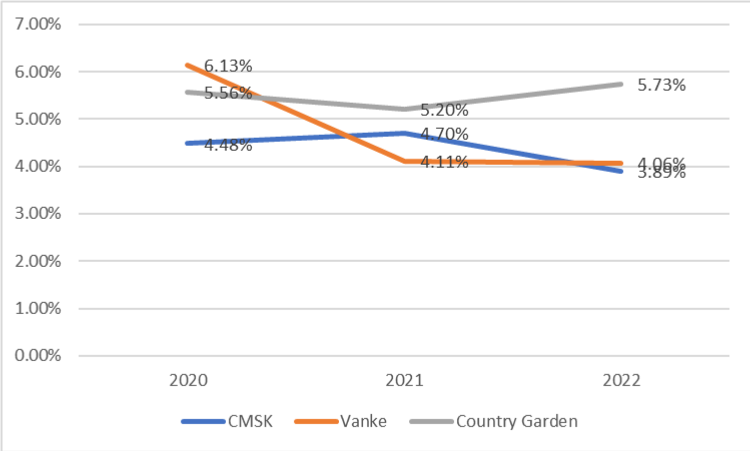

Figure 8. WACC trend chart of CMSK, Vanke, Country Garden from 2020 to 2022

Fig. 8 reflects the WACC of Vanke and CMSK showed a decreasing trend during the three years, while Country Garden showed an increasing trend. The lower the WACC, the lower the financing cost, which can effectively reduce the financing pressure on enterprises. In 2020, the WACC of CMSK was much lower than that of Vanke and Country Garden, indicating that CMSK has more financing advantages; However, in 2021, the opposite situation occurred, and Vanke's WACC fell to 4.11%, lower than CMSK's 4.70%. In 2022, the two companies' financing costs are slightly similar. Generally speaking, the credit of private enterprises is inferior to that of state-owned enterprises. Due to Country Garden’s insolvency, the inflow of financing funds cannot cover the maturing debts, and its net financing cash flows continuously, resulting in greater financing pressure, which leads to the increase of WACC.

Overall, state-owned enterprises are more conducive to improving financing efficiency and speeding up the turnover of funds.

4.2. Credit Rating

4.2.1 Credit rating of real estate enterprises

In the 2020-2022 reporting period, CMSK, Vanke, and Country Garden three enterprises' main credit rating is AAA, the rating outlook is stable.

4.2.2 Bankruptcy of Country Garden

On August 8th, 2023, Country Garden failed to make coupon payments on two US dollar bonds due on August 7th. And on October 18th, Thunderbolt was officially declared. The cash situation of Country Garden in 2022, is completely inconsistent with the inability to repay 1.1 billion yuan of US debt, indicating that the real financial situation of the company has long deteriorated, and it is only through certain technical means to gloss over liquidity, which explains the loopholes in corporate supervision.

5. Suggestion and Enlightenment

5.1. Diversified Financing

Most real estate enterprises mainly rely on bank loans for financing, but too single financing channel will increase financing risks, which is not conducive to effective financing of enterprises [10]. Therefore, financing diversification is an important measure for the sustainable development of an enterprise. According to the financing methods of Vanke and CMSK in recent years, they are relatively mature in issuing short - and medium-term bonds and notes to cope with the repayment of short-term debts, but their ability to repay long-term liabilities is slightly insufficient. Developing new financing channels is needed to achieve diversified financing.

5.2. Optimize Financial Structure

Optimizing financial structure. It includes strengthening the management of cash flow, improving the recovery of accounts receivable, and accelerating the turnover of inventory, to improve the efficiency of the use of funds, reduce financial risks, and thus improve financing advantages [11]. At the same time, enterprises need to formulate reasonable corporate strategies according to their own financial and operating conditions to lay a solid foundation for the long-term development of enterprises in the future.

5.3. Respond to Policy Call

In today's changing environment, enterprises need to have their own ability to adapt and adjust, and actively respond to the call of policies. The change in the social environment generates the company’s strategy to reduce associated risks. Compared with private enterprises, state-owned enterprises will receive more support from the government, but it is necessary to pay attention to the limitations caused by relevant policies. Therefore, state-owned enterprises should actively adjust and improve their financing structure based on the policies for real estate enterprises by the state. However, private enterprises should also actively respond to the national macro-control and should never be separated from the control [12]. Give full play to their flexibility and innovation, and have a free space to rise, so as to obtain a strong market competitiveness.

5.4. Strengthen Supervision of Enterprises

In order to ensure the legitimacy and standardization of enterprise operations and avoid financial loopholes, it is necessary to strengthen enterprise supervision. Timely discover and deal with any illegal activities in business activities, develop and improve the internal system of the enterprise to ensure that all business activities comply with legal standards. Ensure the information’s accuracy and authenticity and maintain market stability.

6. Conclusion

From the analysis of financing methods and proportion, the financing channels of state-owned enterprises are more diversified, mainly through bank loans, and then through bonds to raise funds. As a state-owned enterprise, CMSK receives more support from the state and government, so bank loan accounts for a larger proportion of financing.

From the analysis of financing ability, state-owned banks, as the main financing channel of state-owned enterprises, can provide relatively favorable loan interest rates and financing conditions for state-owned enterprises, so state-owned banks are often more willing to establish long-term cooperative relations with state-owned enterprises. In terms of solvency, CMSK, as a state-owned enterprise, has a stronger solvency, but Vanke and Country Garden, have a more prominent ability to operate capital, and are more flexible and efficient than state-owned enterprises, and develop faster. Therefore, the two sides have different financing advantages.

From the analysis of financing cost, CMSK has a lower financing cost rate and more prominent industry advantages. Therefore, when applying for bank loans, they can have a lower interest rate than private enterprises, and the repayment period is relatively relaxed. Compared with state-owned enterprises, private enterprises are more stringent in applying for bank loans due to higher potential risks such as credit risks.

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