

Case Analysis of Mergers and Acquisitions Failure of CDL Acquired of Sincere Property Group

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Abstract. In order to create value and increase profits, improve market share and improve competitiveness to achieve strategic goals. Many enterprises choose to carry out business merger to achieve corporate profit expansion and enhance corporate competitiveness and profitability. However, there are also many failed mergers and acquisitions due to various reasons. This paper takes the failure of CDL's M&A of Sincere property Group as the research object, and deeply investigates the reasons for its failure, which has certain practical significance and research value. In the early stage of the case analysis, we introduced the basic situation of the two companies and the background of the merger. In the core part of the case study, we analyze the challenges in M&A. Then we analyze the reasons for the failure of merger and acquisition and summarized the case. Finally, this paper gives some suggestions for the reasons of failure. In the case of enterprise merger and acquisition, merger failure is not rare, and the case of CDL Sincere property Group failure is a very well-known negative case. A study of this case can provide a reference for other merger and acquisition cases, strengthen the vigilance of the purchaser, pay attention to all stages and links of the merger and acquisition, to avoid such a huge loss.

Keywords: CDL;M&A Failure;reason analysis.

1. Introduction

Mergers and acquisitions are strategic actions taken by enterprises to acquire property rights of other firms in order to optimize resource allocation, integrate advantages, expand market share, and enhance competitiveness. While M&A can lead to significant growth and value creation, many mergers have failed due to different internal and external factors. In the case of AOL - Time Warner Merger, in the interviews the managements of both companies thought that the factors of merger failure were the cultural differences and the concept flawed [1]. In the case of the Kraft Heinz - Unilever merger failure, Polman believed that the corporate culture was “fundamentally at odds with the long-term focus cherished” by Unilever’s shareholders and the deal was also “hampered by the actions of the United Kingdom government” [2]. In the Microsoft - Nokia merger case, management changes, brand confusion and inconsistent strategies were considered as the main factors of failure [3]. In the case of Google - Motorola Mobility merger, Mundra and Kumar believed that lack of innovation and management problems led to the failure [4]. In Alcatel - Lucent merger, Nordick thought that the personality clashes between CEO Patricia Russo and board member Serge Tchuruk and cross-cultural issues at all levels finally caused the failure of this merger [5]. Cultural differences and lacks management cohesion were considered by Tungekar as the main factors of eBay - Skype merger failure [6]. In the Sprint-Nextel merger case, Celiktas analyzed that the reasons of failure were integrating cultural differences, mismanaged talent, and poor leadership and communications [7]. Snapple - Quaker Oats merger was attributed to mismanagement and poor integration of Snapple by Sekar [8]. goal leadership that was different from the firm’s individual model of leadership was considered as one of the major elements causing Siemens AG - Dresser-Rand merger failure [9]. In the case of Mercedes - Chrysler merger, researchers thought that power imbalance and cultural differences were the main factors of failure [10].

Classic theories such as Synergy Theory, Agency Theory, and Transaction Cost Theory provide foundational insights into the potential benefits and challenges of M&A. The failed cases showed that cultural integration issues, financial and strategic mismatches, and changes in market and policy environment are some of the common causes of M&A failures. For instance, Alibaba's acquisition of Yahoo China failed due to differences in business strategies and cultural differences, highlighting the importance of aligning strategic objectives and managing cultural differences in M&A. The failure of CDL's acquisition of Sincere Property Group exemplifies these challenges.

2. Analysis on the Case: CDL Acquired of Sincere Property Group

2.1. Background Information

Founded in 1963, CDL is a Singapore-listed real estate company whose parent company is Hong Leong Group, one of Singapore's largest conglomerates. CDL is recognized as a Singapore benchmark and one of the largest landowners in Singapore, with more than 4 million square feet of office, industrial, retail and residential space and more than 40 commercial developments.

Since the 21st century, the Chinese market has entered a stage of vigorous development, CDL has seen the fertile soil of China, in order to expand business and enterprise development, as early as 2010 entered the Chinese market, but it is almost unknown to the mainstream market.

In 2019, CDL saw sales of 22 billion yuan, ranking among the top 100 housing enterprises in the country, with 64 projects in 18 first-tier and second-tier cities across the country, and a land reserve area of 9.2 million square meters, and at this time, the founder Wu Xu is running around in order to solve the financial problems of Xiexin Yuan. CDL's CEO and Wu Xu hit it off, and both felt this was a great opportunity.

2.2. Challenges after M&A

In May 2019, CDL announced to acquire 24% stake in Sincere by investing RMB 5.5billion, including an equity investment and the extension of interest-bearing loans [11, 12]. However, in 2020, due to the iSincere Property for an initial investment of RMB 4.39 billion” [12]. CDL believed the acquisition would bring obvious advantages to the development of CDL in the Chinese market, however, after confirm the acquirement in Sincere Property, the company faced series of problems and challenges, and CDL suffered its worst year in 58 years. CDL faced its first full-year loss of net profit loss of 1.917 billion Singapore dollars in 2020, versus a S\$565 million profit for the second half of last year 2019[18]. CDL stated that, having recognized the substantial impairment in full year 2020, the group's remaining exposure amounts to only S\$126 million as at Dec 31, 2020.

Table 1. The Real Estate Structure Of Sincere Property Group

NumbleYear For the Financial Year (\$'million)	2018	2019	2020
Revenue	4223	3429	2108
Profit before Tax	876	754	(1791)
Profit for the Year Attributable to Owners of the Company	557	565	(1917)

Before CDL came into power, Sincere had already faced crisis. In March 2020, four of Sincere's bonds were claimed to have technical default. Sincere Property's semi-annual report showed that the company's interest-bearing debt balance was 35.6 billion, including 12.4 billion due only in the second half of the year, and there were also more than 800 million interest owed, while the available funds in the account were only 1.9billion. The data reflected that the cash flow problem was significant in Sincere Property. After acquisition, Sincere was in trouble dealing with lawsuits, bonds, and rating, and its sell revenue reduced significantly. Acquisition could not help Sincere improve the situation, and by July 2021, Sincere was filed for bankruptcy.

2.3. M&A Factors of Failure

2.3.1 Internal Factors

The objection of bod. In the same year of acquisition, Kwek Leng Peck, who owned the Hong Leong group, and two other board members left over their opposition to the deal. resigned from CDL. In his resignation letter, he explained the disagreement in the management on continuing investing in Sincere Property Group and providing financial support to Sincere. He thought that measures and policies in China would affect CDL's investment, and the liquidity position at Sincere is challenging. The resignation and changes of impact of COVID-19, CDL renegotiated the deal with Sincere to acquire a "51.01% joint controlling interest in he management would affect the stability of the company's operation and create negative impact on acquisition.

The change on Internal control. Moreover, according to the agreement made between shareholders of the two companies, Sincere Property Group implemented "the general manager responsibility system under the leadership of the board of directors"[12]. The two companies defined the overall strategy, management model and the goal. However, Sincere Property Group claimed in the statement that their structure of corporate governance and approval procedures had undergone significant changes after CDL took control. CDL still remained to submit relevant matters to Singapore headquarters for approvals instead of allowing Sincere Property Group to organize and manage the operation by their own board of directors, which greatly reduced the efficiency of decision-making. Sincere Property even could not implement their daily operation without the approval form CDL Singapore headquarters. Due to this situation, the inefficiency of decision-making affected seriously "the timely implementation of financing and the disposal of assets"[12], and further influenced other improvements to the company's operations and cash flow, which led to the cash flow crisis of the acquisition target of Sincere Property.

2.3.2 External Factors

Pandemic Influence. At the same time, the timing of the acquisition was also usual, since the COVID-19 pandemic had had a negative impact on the development of industries and companies.

The Strict Regulations and Policies. Due to the situation of the pandemic, the Chinese government had implemented a new policy called the "Three Red Lines" in order to limit borrowings for real estate developments. The policy asked developers to be assessed on three conditions, which included liabilities to assets cannot exceed 70%, net debt to equity should be less than 100%, and cash to short-term borrowings ratio needs to be at least one, in order to control the prices of housing and prevent a housing bubble from bursting. Since Sincere could not meet any of these three criteria as of 31 December 2020, they faced significant liquidity problems and needed the help of CDL to inject rescue financing. The situation reflected that CDL did not make sufficient pre-acquisition investigation, and did not have a comprehensive understanding of Sincere's business condition, which led to the serious failure of the acquisition.

2.4. Impact

2.4.1 Impact on the acquiring companies

From the aspect of CDL, although it suffered significant financial and shareholder changes and losses, CDL used the asset swap to mitigate some of the damage and found a way to minimize its own losses without being drawn into the abyss of Sincere Property Group.

Financial impact. From the financial impact, in the process of this cross-border merger and acquisition, CDL has invested, including the initial equity purchase of 4.39 billion yuan and the rest of the bond investment, loans and financial support. As a result, a substantial loss was reported in CDL's 2020 financial results. CDL's full-year loss reaching its worst performance in its 58-year history.

Company's Governance Impact. The cross-border merger also caused internal turmoil and divisions within CDL, affecting the internal corporate governance of CDL. CDL's CEO Guo Yizhi,

who was a leading figure in the acquisition of Sincere Property Group, was opposed by some board members, leading to the departure of three board members one after the other.

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Internal Structure Impact. It is worth mentioning that in terms of CDL's shareholding structure and changes in assets, CDL is considered to be "losing money in name but gaining money in reality", as CDL had acquired an 84.6% stake in Shenzhen Qidi Xiexin for 174 million in 2021. CDL will use about \$100 million to "swap" part of the equity in order to acquire the Shenzhen Science and Technology Park. Professionals have valued the park at S\$1.805 billion. This also means that CDL has taken a valuation of S\$1.173 billion for less than \$300 million for the Shenzhen Technology Park.

2.4.2 Impact on the acquired company

For the impact of Sincere Property Group, Beijing Changyuan will become the largest shareholder, and the takeover of this shareholder will make the situation of Sincere Property Group's internal shareholders more complicated, and CDL's departure will further aggravate the pressure on Sincere Property Group's own financial level. Recently, in April 2024, the bankruptcy and reorganization of Sincere Property Group entered a critical stage. The case involves more than 5,000 creditors and the amount of declared claims is as high as 92.9 billion yuan, which shows the huge debt problem of Sincere Property Group.

3. Suggestions

This case brings some relevant insights for cross-border mergers and acquisitions. In-depth analysis and assessment of the overseas market on the target company's financial position, market environment, local political regulation, as well as the internal governance and risk response of the M&A company are crucial. Following are the details.

3.1. Assessment of Financial Condition-Judgment of Overall Valuation

In fact, prior to the M&A, CDL did not have a proper understanding of the overall valuation of Sincere Property Group. According to the disclosure of Sincere Property Group's 2020 annual report, of total assets of \$79.1 billion, the book value of investment properties held for rent alone amounted to \$26.8 billion, accounting for 34% of the total assets. The trick is that these investment properties are not valued at cost, and can be recorded at fair value, and these investment properties 2020 generated a mere 286 million in rental income, with a return on investment of only about 1%, which can be seen as a serious overestimation of the value of the assets. If calculated according to the expected rate of return of 5%, the value of these assets may be about 6 billion, less than the book value of 20 billion, if calculated according to this, Sincere Property Group is not only not worth 8 billion, but has long been a negative asset.

3.2. Analysis of macroeconomic and market environment

The company should also consider the impact of the macro environment. Macroeconomic factors such as global economic conditions, market liquidity and interest rate levels. In this case, when analyzing the asset structure of Sincere Property Group. From figure 1, it shows that the rental assets such as hotels, commercial, office buildings accounted for nearly 60% of the assets. During the epidemic, commercial activities and the tourism industry were severely affected due to the restriction of pedestrian flow and anti-epidemic measures, which led to a sharp drop in the leasing demand for Sincere Property Group's commercial properties and the rental income.

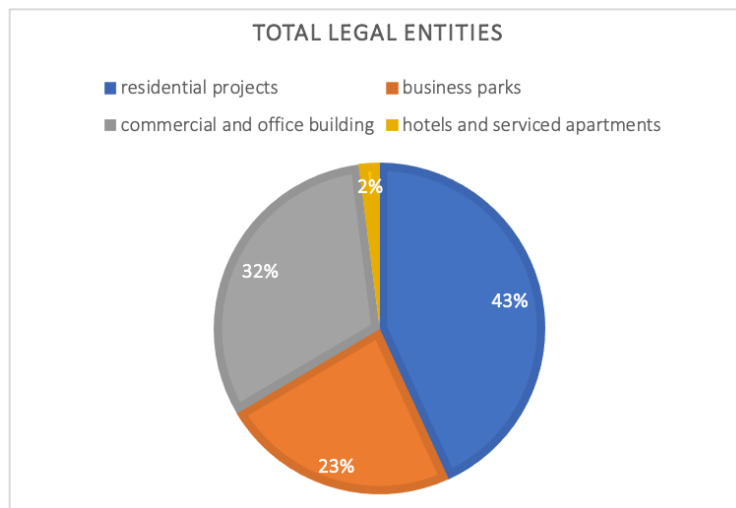


Figure 1: The Real Estate Structure of Sincere Property Group

3.3. Political and Regulatory Environment of the Country

Cross-border M&A involves the political and regulatory environments of different countries, and companies need to assess the political and regulatory regulations and emerging systems in the countries where the target companies are located and fully consider their impact. In the second half of 2020, the Chinese regulatory authorities introduced the “Three Red Lines” to control interest-bearing liabilities, which significantly limited Sincere Property Group’s ability to refinance its debt.

3.4. Management structure and internal decision-making processes

This includes corporate governance, business and operational synergies. A good management structure ensures consistency and efficiency in the operation of the business after the M&A. In this case, the board of directors had eight seats, with CDL occupying four, which was perceived to be under the joint control of both Sincere Property Group and CDL. Theoretically, there should have been better convergence and agreement on corporate governance between the target company and the merged company. However, Sincere Property Group had publicly accused CDL's holding of seriously affecting the efficiency of the company's internal decision-making and being detrimental to corporate governance.

3.5. Risk Management and Making Responses

Identify and assess the risks that may be encountered during the M&A process and formulate corresponding risk management strategies are crucial. In this case, CDL considered the M&A challenging and a good opportunity to develop the market in China, but did not think of the risks and challenges encountered to intervene and prevent them in advance, and even after the M&A had already taken place, CDL did not respond to and support Xixin Sincere Property Group’s crisis and cash flow problems.

4. Conclusion

CDL's acquisition of Sincere property Group is one of the best-known examples of what not to do in the real estate world and a wake-up call for companies considering cross-border mergers and acquisitions. With the development of the global economy, M&A among companies around the world have become one of the important means for the development of companies.

This case tells us that when making acquisitions, we should fully investigate the situation of the acquired companies, consider countermeasures, control risks, and formulate reasonable M&A plans. Make a comprehensive analysis based on our own environment, macro market and country, so as to smoothly promote the acquisition. However, there are still many shortcomings in this paper. For

example, when analyzing the internal reasons, it can be combined with other acquisition failure cases to analyze, so as to be more detailed and perfect; Although the analysis of external reasons is based on the "three red lines" policy, due to the limitation of knowledge reserve, it is inevitable that we do not have a deep understanding of the impact caused by the policy, which affects the diversified discussion on the reasons for the failure of the acquisition.

These shortcomings provide the direction for future research to improve and perfect. In the future, we will continue to conduct research on the direction of corporate mergers and acquisitions. We will conduct research and improvement based on the problems found in this paper, and make continuous progress based on the development trend and dynamics of current research, so as to provide new insights and solutions for corporate mergers and acquisitions. Finally, we hope that the research results of this paper can provide useful reference and inspiration for the research in the field of corporate mergers and acquisitions.

Authors Contribution

All the authors contributed equally and their names were listed in alphabetical order.

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