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Research on Financing Risk Control of Vanke Group Under the Background of New Real Estate Model

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Abstract: With the continuous development of new urbanization in our country, the relationship between housing demand and supply of our people is also changing, and the country is also introducing corresponding new policies. In April 2024, the state issued a comprehensive study of the policy measures to digest the stock of real estate and optimize the incremental housing, a time the property market ushered in a big wave of good, which undoubtedly shows that the implementation of the policy will promote the people's livelihood in our country -- "live" to high-quality development. However, in the development of the market, there are still problems such as imperfect market order and insufficient theoretical research. The characteristics of real estate enterprises require huge funds, and their characteristics of high leverage also reveal many financing risks. This paper takes China's leading real estate enterprise -- Vanke Group as a case, analyzes the risks arising in its financing, and finally puts forward corresponding suggestions on its risks.

Keywords: Real estate; Financing risk; Control risk

Introduction

Housing, as one of the tasks of people's livelihood in our country, is inseparable from the development of our national economy. However, with the changes in the market supply and demand relationship, the unpredictability of the real estate industry makes many enterprises feel pressure. Compared with other industries, the high leverage model of real estate enterprises is destined to have higher risks, and it has brought many challenges to real estate enterprises in the changing market. In the case of real estate enterprises facing financial difficulties, their financing channels and models need to be further analyzed in order to find countermeasures to reduce their risks, help the real estate industry out of the dilemma and welcome new development opportunities.

1. Related concepts and theories of enterprise financing risk

1.1 Meaning of financing risk

Financing risk refers to the various uncertainties and potential losses that may be faced when conducting financing activities. These risks may include market changes, interest rate fluctuations, economic instability, policy changes and other factors, which will affect the expected returns or capital security in the process of raising and utilizing funds.

1.2 Financing risk management and control methods

Financing risk management and control methods usually include the following aspects: risk assessment and analysis; Diversification of financing sources; Rational use of financial instruments; Strict financial management and monitoring; Maintaining a good credit history and relationships; And flexible ability to recapitalize.

2. Financing status of Vanke Group

2.1 Introduction of Vanke Group

Founded in 1984 and headquartered in Shenzhen, China Vanke Group is a leading real estate development enterprise in China. With real estate development as its main business, it covers residential, commercial real estate, property management and other fields. As one of the largest real estate enterprises in China, the residential projects developed by Vanke have a high reputation and influence in the market.

2.2 Development status of Vanke

As shown in Figure 1, combined with DuPont analysis method. Vanke's net profit rate on sales in 2023 is 4.39%, indicating that the company's net profit rate on sales is very low, the company's profitability is very weak, and it belongs to the company with low net profit rate on sales. The total asset turnover rate in 2023 is 0.31, indicating that its management efficiency is very low, the efficiency of capital operation is also very low, and it belongs to the company with low total asset turnover. Vanke's equity multiplier in 2023 is 3.73, indicating that the company has higher financial leverage, higher liabilities and higher financial risks, and belongs to a highly leveraged company. In short, Vanke belongs to a highly leveraged company with low net profit rate on sales and low asset turnover.

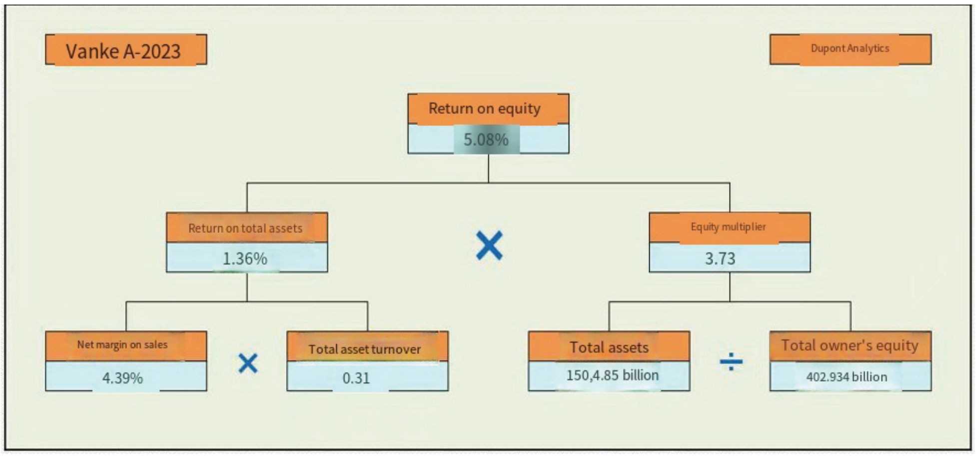

Figure 1 DuPont Analysis Table of Vanke's financial report in the past five years (2019-2023)

2.3 Vanke’s financing situation

As shown in Table 1, as of December 31, 2023, the main financing source of Vanke Group is bank loans, with the financing and balance of 19, 734.2812 million yuan, followed by bonds and other loans, with a total financing amount of 3, 200, 515.46 million yuan.

Table 1 Vanke's financing situation (as of December 31, 2023) Unit: ten thousand yuan

Financing Channels	Financing balance	Financing cost range	Term structure
Bank loans	19734728.12	2.5%~Hibor floats up at the agreed rate	Short-term borrowing, non-current liabilities maturing within one year, long-term borrowing
Bonds	7923055.65	2.9% ~ 5.35%	Non-current liabilities and bonds payable that mature within one year
Other loans	4347367.69	2.75% ~ 4.60%	Short-term borrowings, non-current liabilities due within one year, long-term borrowings
Total	32005151.46		

2.3.1 Vanke financing strategy analysis

(1) The support of national policies

Vanke actively responds to national policies and promotes affordable rental housing projects. As of the end of March 2024, 108, 200 rental houses under its management have been included in the affordable rental housing, which reflects its social responsibility. While responding to the national policies, Vanke is facing the uncertainty of market regulation policies and the rise of financing costs. Vanke has begun to diversify its business layout to diversify risks, enhance its market adaptability and competitiveness, and aim to present a sound financial position in order to obtain the required financing.

(2) Confidence within the company

In July 2024, Vanke announced that the backbone personnel of the company would increase their holdings of the company's A-shares through the trust plan, and the number of increased holdings eventually reached 1, 862, with the amount of increased holdings reaching 200 million. The lock-up period of the increased holdings was as long as two years, which undoubtedly indicates that the management is A firm holder of long-term optimism. Such results showed that Vanke broke through the difficulties with full confidence, enhanced its positive public opinion to a certain extent, and provided positive support for its financing.

2.3.2 Analysis of Vanke's financing model

(1) Bank loan

Vanke maintains close cooperation with a number of banks and supports its project development by obtaining bank loans. For example, Vanke received loan support from banks such as Bank of China in May 2024, including syndicated loans and single loans, which are used to boost the company’s liquidity and support business operations.

(2) Equity financing

Equity financing is an important part of Vanke's financing structure. Vanke raises funds by issuing shares and convertible bonds. Although the cost of equity financing is higher, it can enhance the company's capital strength, improve its credit value and reputation, and provide support for the company's subsequent debt financing.

(3) Asset Securitization (ABS)

Vanke often uses ABS for financing, especially through reverse factoring ABS to extend the account payable period of its project subsidiaries to the upstream supply chain, reduce financing costs and improve the company's cash flow. For example, Vanke issued 1.435 billion yuan of ABS products in April 2024, with the underlying assets being receivables from its subordinate commercial projects.

2.3.3 Analysis of Vanke's financing capacity

(1) Profitability

In recent years, Vanke's gross profit margin has been gradually decreasing. The gross profit margin in 2023 is 15.23%, which has dropped by nearly half compared with 29.25% in 2020. The decrease in gross profit margin is mainly due to the increase in operating costs before 2023, and the decrease in operating income in 2023. Although profitability is declining, it has not yet reached the point of dynamic imbalance between earnings and liabilities.

(2) Capacity to borrow

From the annual report of 2023 and the quarterly report of 2024, the company's existing interest-bearing liabilities are about 300 billion. However, from the perspective of debt structure, the arrears to be paid in the next two years are about 200 billion, accounting for about 60%, and the payments to be paid in the third to fifth years are about 100 billion, with an average annual payment of about 30-40 billion, which is a relatively small pressure. What is worse is that Vanke is now facing a situation of short-term poor sales and debt pressure. In order to solve this problem, in addition to optimizing the sales end, another aspect is to optimize the debt structure. By borrowing from banks for longer periods of time to replace the 200 billion or so that will mature in the next two years. So the most critical leverage pressure will come in the next two years.

3. Vanke financing problems

3.1 Over-reliance on external financing

Vanke has maintained a very high asset-liability ratio over the years, which to some extent reflects its excessive reliance on external financing. The high debt-to-asset ratio means Vanke needs to take on greater financial risks, especially the pressure of debt repayment. Once the high-debt operation model encounters market fluctuations or sales declines, it may lead to a tight capital chain and even a financial crisis.

3.2 High financing costs

Vanke's main source of funding is bank loans, and this single financing method not only increases financing risks, but also limits the company's development space. Over-reliance on bank loans may also lead to higher financing costs for companies, as banks usually demand higher interest and fees when providing loans.

3.3 Poor ability to develop

Long-term over-reliance on external financing may also cause enterprises to focus too much on short-term interests and neglect long-term strategic development. In order to pay off debts and maintain daily operations, companies may pursue short-term gains too much and neglect long-term investment and value creation, which is detrimental to their long-term development.

4. Vanke financing risk advice

4.1 Diversified financing channels

To expand the diversified financing channels of real estate enterprises, it is necessary to start from many aspects, such as the optimization of traditional financing channels, the expansion of equity financing, the application of innovative financing tools, international cooperation and cross-border financing. Therefore, Vanke should optimize the allocation of financing, avoid the financial risks, and ensure the stability of its cash flow and the improvement of its financial position.

4.2 Optimize the financing structure

To improve cash flow and reduce financial risks, Vanke should step up asset disposal and debt restructuring. It should recover funds by disposing of some non-core assets and actively promote debt restructuring to optimize its debt structure. Although these measures will cause some pressure on financial statements in the short term, in the long run, they will help the company get out of financial difficulties and return to the track of healthy development.

4.3 Keep up with the market

As the market is constantly changing, Vanke should keep up with changes in national policies, improve its responsiveness to market changes and policy adjustments, and timely adjust its response strategies to cope with market changes, including its strategic layout in diversified business and innovation.

5. Conclusion

This paper takes Vanke as an example to study the financing risk control of Chinese real estate enterprises. It is found that Vanke, as the head of real estate enterprises, still faces many financial risks, and the risk of high leverage is obvious in its financing mode. Therefore, its over-dependence on external financing needs to be adjusted and it should fully comply with relevant national policies. In addition, the state still needs to strengthen supervision in the real estate industry, so that real estate enterprises will no longer carry a heavy load but light load, so as to achieve stability and long-term development.

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