Research on Causes of Financial Risk in Real Estate Enterprises
--Take the Case of DAYUAN Company

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Abstract: In recent years, with the strengthening state regulation of real estate, the development of real estate enterprises is difficult. Real estate enterprises generally face financial risks. In the paper, taking Dayuan Company as an example, the author analyzes the causes of financial risks from the external and internal environment of real estate enterprises. It provides basis for preventing financial risks of real estate enterprises.

Keyword: Real estate enterprises; policy risk; investment risk; financial risk

Real estate enterprises are a very important supporting industry in our country, which directly affected national economic development. China’s real estate market is macro-control market economy, so the development of real estate enterprises can not be separated from the external environment and internal environment. In this paper, Dayuan Company is chosen as an example, based on the identification of financial risk, analyzed Dayuan Company’s risk from the external environment and internal environment.

1 Dayuan Company profile
Dayuan Company was founded in Tianjin Binhai new area on December 28, 1998 with registered capital of 1617.2722 million yuan. Main business item contain industrial real estate, commercial real estate and civil real estate, and it also actively cultivates reserve leading industries. By the end of 2018, the total assets of TB company were 6.901 billion yuan, the annual revenue was 1.819 billion yuan, and the employees were 770. The company’s core values are to ensure customer satisfaction, maximize shareholder equity, state tax and employee value; Enterprise spirit is hard work pragmatic, dedication, innovation, competition and cooperation; The company’s development goal is to build into a “market-oriented, industrialized and internationalized” large enterprise group.

2 Financial risks arising from the external environment
The production and business activities of enterprises are in the open market economy, therefore, the financial activities of an enterprise must be affected by the external environment. The external factors that cause the financial risk of the enterprise include policy risk and the competition risk in the same industry.

2.1 Real estate policy risk
In the process of real estate investment, land supply policy, land price policy, tax policy, housing policy, price policy, financial policy and so on all have a huge impact on the realization of real estate investors’ income objectives, thus bringing risks to investors. If the company cannot adapt to the change of macro-control policies, it may cause adverse impact on the company’s management and future development.

Dayuan Company is real estate development and management company, which is more easily affected by China’s real estate policies. In 2008, the country introduced the “9•27 mortgage New Deal”, so that prices fell significantly throughout the year, shrinking volume. In 2011, the State Council issued “national article 11”, to increase the down payment of the second houses, the purchase restrictions in various regions have been introduced. In 2013, the “five guidelines for the new state” was issued, and the state once again emphasized to adhere to the regulation policies centering on restricting purchase and lending. In 2014, the Real Estate Company in China economic development is facing downward pressure, these policies change frequently caused decrease in sales, leading the company to return the funds slower, and because the Dayuan Company belongs to the high leverage, capital returns slow will make a lot of debt can not timely repayment, resulting in increased financial risk.

2.2 Competitive risks in the same industry
At present, the concentration degree of China’s real estate industry has been further improved. the real estate ten billion Legion expansion to 80, a market share of nearly 40%, but the increase trend in the real estate industry is slowing down, In 2014, the sales growth rate of 20 typical real estate enterprises tested by kerri research center in China, decreased by 7 percentage points compared with the same period of last year, and even there was “price reduction tide” in many places. In such a market environment, the industry competition is increasingly intensified. Profits from the residential
development of Real estate enterprises will continue to be squeezed, the industry competition is increasingly intensified, the pace of enterprises survival of the fittest also continue to accelerate. In the real estate market, the size of the cake is certain. When the development trend of large-scale real estate enterprises is more obvious, Dayuan Company has always been based on industrial real estate. Its product competitiveness, brand competitiveness, marketing competitiveness, capital competitiveness and core competitiveness are not particularly prominent in the market, which is bound to Dayuan Company the real estate market situation is difficult to open a multi-level and multi-angle, and thus directly affect the enterprise’s profitability and sales ability, the impact of the financial risks of Dayuan Company.

3 Financial risks arising from the internal environment

The internal environment relates to all aspects of the enterprise, the author mainly from the four aspects of raising risk, investment risk, operational risk, income risk, analyze the causes of the Dayuan company’s financial risk.

Table 1. The Asset-liability ratio analysis table of A company from 2013 to 2018

<table>
<thead>
<tr>
<th>Year</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets (million)</td>
<td>836,117.37</td>
<td>764,112.57</td>
<td>884,893.66</td>
<td>1,058,815.76</td>
<td>819,288.99</td>
<td>690,130.69</td>
</tr>
<tr>
<td>Liabilities (million)</td>
<td>569,753.10</td>
<td>522,567.16</td>
<td>654,652.78</td>
<td>782,212.70</td>
<td>595,344.52</td>
<td>501,970.61</td>
</tr>
<tr>
<td>Assets-liabilities(%)</td>
<td>68.14</td>
<td>68.39</td>
<td>73.98</td>
<td>73.88</td>
<td>72.67</td>
<td>72.74</td>
</tr>
</tbody>
</table>

Source: Company A’s financial statements for the period 2013-2018

Table 2. The Real estate enterprise benefit evaluation standard table in 2018

<table>
<thead>
<tr>
<th>Project</th>
<th>Excellent value</th>
<th>Good value</th>
<th>Average</th>
<th>Lower value</th>
<th>Poor value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets-liabilities(%)</td>
<td>50.00</td>
<td>60.00</td>
<td>70.00</td>
<td>80.00</td>
<td>90.00</td>
</tr>
</tbody>
</table>

Source: 2018 real estate enterprise performance evaluation standard value

(2) financing is more single, focusing on bank lending

Available for China’s Real Estate Company financing methods are mainly bank loans, bonds, financial leasing, housing pre-sale and so on. The difficulty of different financing methods is different, the capital cost of obtaining the conditions and the degree of the impact on the enterprise income are not the same, improper choice or unreasonable debt structure will lead to the risk of corporate debt financing. Dayuan Company is a listed company of the real estate is still no exception, analysis table table3 listed in the Dayuan Company’s 2013-2018 bank credit loans to total debt ratio, can be seen from the table, close to 50% of the total liabilities of the bank loan, the short-term loan amount is much higher than the long-term loan, excessive reliance on bank loans will lead to the cost of capital to increase profits, reduce the accumulation, Although Dayuan Company usually obtains capital by

Table 3. The proportion of bank credit loan account for the total amount of debt analysis table of A company from 2013 to 2018

<table>
<thead>
<tr>
<th>Year</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short-term loans (million)</td>
<td>142,941.49</td>
<td>237,400.00</td>
<td>257,300.00</td>
<td>265,950.00</td>
<td>137,950.00</td>
<td>185,800.00</td>
</tr>
<tr>
<td>Long-term loans (million)</td>
<td>111,390.92</td>
<td>78,031.92</td>
<td>100,637.42</td>
<td>57,000.00</td>
<td>30,978.00</td>
<td>35,000.00</td>
</tr>
<tr>
<td>Proportion of borrowing (%)</td>
<td>44.64</td>
<td>60.36</td>
<td>54.68</td>
<td>41.29</td>
<td>28.37</td>
<td>43.99</td>
</tr>
</tbody>
</table>

Source: Company A’s financial statements for the period 2013-2018

(3) Funding plans can not be fully aligned with the strategic plan

It can be seen from the above that the financing plan of Dayuan company is relatively short, no matter from the financing plan and financing channel, it is not combined with the strategic depth of the rapid growth and development of enterprises. In recent years, there have been a lot of negative cash flow from financing activities, which makes fund raising more difficult and the financing mode is more single. The development loan control and pre-sale account ratio supervision are very strict. Regulation does not occur from time to time to delay the
construction of individual projects, and even project downtime events. This is very detrimental to the normal operation of the whole company, so in such a big environment to actively broaden the financing channels, financing innovation, in order to effectively alleviate the negative impact of the financing difficulties of the environment.

3.2 Investment risk analysis

(1) real estate investment project analysis is not enough depth
real estate investment projects in a total of the following four stages:

Figure 1. Stage investment real estate projects

The investment project of the real estate development for a long time, many involving industrial and land resources, the original inhabitants, raw materials, investment environment and other issues, the need for detailed pre-project planning and project with the actual adjustment. The real estate investment project of Dayuan Company mainly concentrated in Tianjin, Guangdong, Fujian and other provinces, but the company set up in Tianjin, which limits the accuracy and execution of group of the Department of real estate investment project is a major decision made the decision, there is no way with the deepening of the project and make timely adjustments, resulting in inadequate understanding of their projects, the implementation of low efficiency and other issues.

(2) diversification of investment led to decentralized core profitability
Dayuan company belongs to the real estate development and operation, of which the real estate industry accounted for 66.39% of total revenue, but the company also operates new building materials development and production, sales of high-tech products of rare earth materials, electronic product development, sales, and technical and advisory services. Steel sales revenue accounted for 27.53% of the total revenue, the cost of the total operating costs of the proportion of 36.94%, the high cost of steel sales revenue, reducing the Dayuan company for real estate development and operation of investment. In 2017 the impact of China’s real estate market macro-control policy and the whole industry real estate sales side, Dayuan company operating losses, in the main business and other business landslide and the main business related degree is not high and low profitability situation.

(3) Reduced earnings from residential development business
Dayuan company will be clear to the enterprise development strategy to residential product development as the leading residential development business has become the main source of profit for Dayuan company. But in the overall real estate market is not good now, housing sales have many difficulties, frequently rise in prices, the people purchasing ability weakened; slowing urbanization rate in China, the housing needs of urbanization spawned the decline; housing development market saturation, in the first or second-tier city real estate is large real estate developers to carve up the occupation, the third or fourth tier of the city housing demand continued to decline. To 2018, China’s vacancy rate reached 22.4%, the family homeownership rate has reached 90.8%, of which urban households homeownership rate was 87%, rural households homeownership rate was 95.8%. Such a high rate of not only caused a great waste of social resources, but also caused some pressure on the real estate business. Therefore, the Dayuan Company’ residential development business in the context of such a large competitive pressure to gain profitability is particularly difficult.

3.3 Analysis of operational risk

With the gradual introduction of China’s government regulation policies, the real estate market has become increasingly standardized, but the turnover of real estate enterprises has been in a relatively low. Through the analysis of the financial situation of Dayuan Company and the daily business activities, the capital turnover rate is low, the ability to control costs is weak, it will have a great impact on the profitability of enterprises, increase the financial risks of A Real Estate Company.

After the above analysis of the turnover rate of Dayuan Company, we can see that Dayuan company’s current assets, current liabilities, operating income and current asset turnover rate decreased in 2016-2018. Through the investigation and study of Dayuan Company, the author thinks that the main reason is that the sales volume of Dayuan Company is decreased, and the sales position is not clear, lack of flexibility in sales strategy, poor account receivable recovery, cost management is not reasonable enough. Most of the projects have been completed, the existing land reserve is insufficient, the cost management system is not enough.

(1) housing sales decreased, sales orientation is not clear
Dayuan Company has been set for the development direction of industrial real estate as a benchmark for commercial and civil real estate focus. But on the Dayuan company’s current business, industrial real estate is mainly used for rental, rarely used for sale, the company sold a large number of houses for commercial and civil real estate, commercial housing sales are. According to the July 2017 CRIC grams and Swiss Research Center released the first half of Tianjin housing sales list, the first half of Tianjin in the first half of the turnover of housing prices in the top 2017 companies ranked. But in the real estate market in

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China is gradually close to saturation, high prices, the demographic dividend gradually reduced, the residents of the housing purchase demand decreased today, housing sales are becoming more and more some perfectly logical and reasonable. Coupled with the development of Dayuan Company’s own positioning is not clear, so that since its birth on the need for industrial real estate and commercial real estate at the same time high standards of investment, but in the development of the major shareholders have rarely been supported and assisted. As a state-owned Real Estate Company to help build a lot of industrial real estate and commercial real estate projects, the layout of the product but the lack of active strategic arrangements.

(2) Most of the developed projects are completed, and the existing land reserve is insufficient

The company’s total inventory rose slightly and then fell sharply, the main reason is the development of real estate projects are completed, the shortcomings of the current land reserve companies, resulting in unable to carry out the new real estate projects. In the first or second tier cities land competition is serious, third or fourth tier of urban land price is not high, how to seek good land resources has become a top priority. Dayuan Company is a state-owned holding company, for the construction of government project, the land grab and bidding activities less, at present mainly in the Tianjin area for further development, the overall layout of the Tianjin city center and the Binhai New Area, try to find the development prospects in the region in the country, the next step for the real estate investment project to carry out the preparation.

(3) cost management system is not enough

As A real estate enterprise, Dayuan Company has the shortcoming of not clear cost management due to the large profit space common in the industry. Dayuan Company by 2017, the cost of management is a bit confusing, functional division is not clear and there is no perfect functional system, there is no reasonable cost management methods, cost of the cost of no strict classification criteria, ignoring the cost Management. The company in 2018 introduced the ERP management platform, determined to improve the cost management module to be improved, so as to better strengthen the company’s operating capacity, and truly serve the project. But the company’s existing staff of the ERP management platform for the operation and not a comprehensive grasp of operational errors will occur and that the use of cumbersome situation.

3.4 Analysis of the Causes of Profit Distribution Risk

The main reason for the formation of the risk of income distribution in Dayuan Company is that the company did not conduct profit distribution for five years from 2009 to 2014. Although it does not harm the legitimate rights and interests of small and medium-sized investors, it will still reduce the enthusiasm of shareholders and investors.China’s legal provisions, access to net profit for the first year to make up for the previous year’s losses, according to the company’s financial statements for the year 2013-2018, the cumulative loss of Dayuan Company reached -10096.57 million in 2016. Therefore, if we want to improve the risk of income distribution, the first thing we need to ensure is that the company can make more net profits and distribute the profits to investors after making up the losses.

4 Conclusion

Taking Dayuan Company as an example, this paper analyzes the causes of financial risks from the external and internal environment of financial risks. The analysis results show that, In order to prevent the occurrence of financial risks, the company should not only prepare to cope with the national policies and industry competition, but also do a good job in financing, investment, operation and income risk analysis and response work, so that the company can get sustained and stable development.

References

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