

# Strategic Prediction on Financial Performance Analysis under Evaluation of Annual Statement for Chinese State-owned Real Estate Enterprises

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**Abstract.** The whole Real Estate market in mainland China shows a fatigued and weak tendency in recent years since 2015 because of macroscopic readjustment and control by Chinese government, which strongly influences the business strategies in state-owned real estate companies' performance. This study aims at analyzing the annual statements from 2015 to 2019 to predict the new business transformation and growth region for real estate enterprises through typical standard examples and comparisons through data in annual reports and financial statements, which indicates the commercialization of real estate and the whole real estate market had been a general rising trend with up-and-downs.

**Keywords:** real estate; financial performance; strategic prediction.

## 1. Introduction

According to the real estate tightening policy in recent years, the first booming in real estate in China starts at the period when the welfare-oriented housing distribution system collapse replaced by the commercialization. In these period (2015-2019), China Resources Land rapidly switches its business strategies from dwelling housing and commercial complex dominated pattern to a major city comprehensive operation investor devoting to business, office and apartment multiple formats as well as technology financial, education and medical. This new type of business is to earn a new-oriented value: The commercial diversification with land investment and urban renewal expansion are carried out with business innovation to reach the purpose of "diversified and compound" investment pattern. The innovative pattern would greatly increase the value of land through commercial exploitation which would attract more investment to value stream referred from scattered investment strategy to achieve the goal of high value with long-term profit as well as sufficient cash flow.

It can be illustrated by financial statement that the business strategies and transformation trend for this typical stated-own company is highly policy-oriented characteristics. The governmental macro-control policy influences the whole real estate market in mainland China deeply to adjust to marketing depression by making a progression. However, the government aims at keeping steady of land price through developing industrial structure to maintain real estate market benign development. Then the rate of new real estate projects approval would be slow down eventually, but other commercial value-added items associated with investment would be increasing rapidly in the future. As a consequence, with the toughest policy control for real estate market, the price of entity would stay within a rational range, which accelerates business transformation from marketing centralization to the diversification.

## 2. Financial Analysis and Business Performance

### 2.1 The Overview of Financial Performance

According to the annual financial statements from 2015 to 2019 in CR Land, which are analyzed and compared in data to evaluate each year's performances. To make it more accurate, each annual analysis is to reflect business performance of the China Resources, and the data could be appropriate with reference value for this industry. In recent 5 years, the revenue of the company is rising rapidly from 83.65 billion to 142.39 billion as we can extract from the reports. With the transformation of this business strategy, the company has experienced a great change for growth structure in total

revenue with high speed rate year by year due to business diversification strategy. It can be explained that the great leap in 2017 was that commercial complex with Mix-city operation projects continued to maintain a stable growth of 39.49%, the main investment item to gain the revenue was changing from residential development business to comprehensive city operation investment, which made a contribution to more than 79.76%, accounting for almost 69% of total revenue. With the operating profit is highly consistent with the total revenue in 2015 and 2016, but when the strategy changed in 2017, the profit margin was changeable. To make a conclusion, the China Resources Land started to experience a rapidly rising phase in 2017 due to the business strategy transformation not only rely on real estate development, the city operation business reflects the value-added projects and the potential market is yet to be developed. On the other hand, the tough policy in 2017 also depressed the pure real estate profit growth. From 2015, the China Resources Land focused on transformation from residential housing business to suit for the high expectation of real estate services which reached at a new peak in 2018. The powerful performance reflects right decision they made in these 5 years, then the total liabilities raised from 192.52 billion to 245.39 billion moderately because of reduction of land procurement. As its largest investment on Mix-city operation with high added value, the CR Land stabilized its level of total liabilities to a normal level, which lower the risk. In 2015, the market was fluctuated by the general economic as well as the investors were lack of confidence. Moreover, the toughest policy made the company change to earn a new promising region on the contrary. The capital employed in 2016 first lowered than the previous year in 2015 because of the general economic was in a watching atmosphere. At last, thanks to the strategy transformation, CR was established to structure a new business pattern which made the capital employed in 2019.

## **2.2 Overall Financial Index of Company**

### **2.2.1 The Gross Profit Index Reference**

The general GP ratio demonstrates a fluctuated curve from 2015 to 2019 because of the tighten policy and business strategies transformation in these five years for the purpose of keeping a stable rate. In addition, the former main housing real estate business development was taking a large proportion of gross profit, which was difficult to reverse this situation in a short period. As a consequence, there is a downturn point in 2015 when 8 commercial city complex operation projects were newly established in several main cities, but it was predicted that maturity for new business strategies required more time, which was hard to collect capital soon enough to gain their profits. With the tough policy in 2015, more money was invested on commercial complex cities operation and other items rather than the residential housing area, which made CR have to shift earning quick money to high value-added service.

### **2.2.2 The Capital Employed Index Reference**

The ROCE ratio shows an unpredictable trend in period (2015-2019), which illustrates overall operation for CR Land. It can be concluded that a moderate changing curve from 2015 to 2019, which products a benignant sign for the company. Due to the right strategies, long-term receivable period for commercial complex cities which decreased to 11.22% in 2017, which shows that company's market and business were turning to be promising with a relatively high point in 2018.

### **2.2.3 The ROE Index Reference**

The ROE ratio shows that more benefits with new business strategies comes to a feasibility. This indicator reflects the ability and performance of CR Land of gaining profit by self-owned capital from 2015 to 2019, there is an industrial restructuring to earn more for shareholders except for 2015 and 2016 for the reason that large amount of investment on new region. It is predictable to see that the the major business started to change and main profit started to return back.

### **3. Overview of Efficiency Ratios**

#### **3.1 Analysis of Net Asset Turnover**

CR Land's ratio is concerning the turnover efficiency of net assets, which shows that in recent 5 years, the CR is keeping a relative high-speed rate in a healthy development trend to achieve its goal. From 2016 to now, the data clearly shows ability of sales is becoming more competitive due to new business operation and investment, which reflects that CR had developed a new industrial structure strategy to suit for the new policy and market, which relocated itself in a new region. It is obvious to judge that to develop a right transition in right time and seize the opportunity is extremely vital for raise its core competitiveness.

#### **3.2 Analysis of Receivables Collection Period**

The period was getting shorter after 2017, and CR's cash flow utilization efficiency was getting better. As we know that this ratio is aiming at measuring the duration how long it takes to recover accounts receivable. According to the data we analyze, the China Resources Land's RCP remains unstable from 2015 to 2017, and then turn point came at 2018, when the RCP reached at the lowest because of most of new city operation projects were completed in 2018 and began to pay back.

#### **3.3 Analysis of Inventory Holding Period**

Speaking of inventory holding period, the data shows that CR Land needs enough time to make its completed products in sales. CR has to reduce its former main business to lower its high level of inventory for commercial residential buildings, which is a wise move to accord with tough policy and fierce marketing competition. With its newly business strategies shifted, the company's performance gave us a high light impression through absorbing investors to open a new start. In the meantime, CR has completed reducing heavy asset and shortening inventory turnover period. At last, the asset-light strategy has already triggered a brand-new business operation focus.

### **4. Analysis of Solvency and Liquidity**

For constant investment on the established new business strategies of city operation, value exploitation, which gives CR Land a down turn ability in last two years. With rapidly development of real estate upgrading services, the market tends to be more rational. And this trend would be objectively existing for a long period. Although CR has developed its own core competition in recent five years faster than other companies, the result has to be verified in a long time by market. In 2017, the ratio increases to form a turning point due to new industrial distribution and to prove that whether it is successful for business strategy of CR or not.

On the other hand, the Current Ratio shows that CR's capital performance is getting better in last two years as well. According to the average ratio in real estate industry is about 2:1, which means that CR is still lower than common. Due to more investment on new business strategies, it is predicted that CR's current ratio would be in a low level in a long run.

Comparing to another state-owned real estate company- China Overseas, CR is experiencing a liquidity and solvency decreasing trend, which is a bit of satisfactory for the reason that China Overseas remains a stable increase. To explain the reason of that mentioned before, the whole marketing environment with the tough policy and consumption downgrading force companies to shift their main business in a short time. Fortunately, CR has realized the important issues of strategies shift. Unlike CO, a strong background is no longer the only factor a to perform well in the financial market.

## **5. Financial Comparison with China Overseas Corporation**

### **5.1 Profitability Performance Comparison**

According to the data financial analysis from both companies, the gross profit in China Overseas Corporation is a bit higher than CR except for 2015. The reason that CR had invested more on dwelling housing apartment than CO before 2015. To conclude, the CO played a wise role on procurement and development in construction management region. And China Overseas was highly supported by high advanced engineering technologies with plenty of construction experience project management. Moreover, the industrial structure transformation was ahead of schedule before 2014, to concentrate all resources on project development. Then, speaking of overall financial performance of China Overseas was obvious better than China Resources from 2015 to 2017. And CO was almost double more than CR especially in 2015. Things had changed in 2017, CR started to pursue CO's profitability last year in 2018. Before 2015, China Overseas Land's revenue is mostly from the residential housing with faster capital circulation than CR due to policy. The investment on real estate was getting less and less. On the contrary, CR's revenue for city commercial operation which would have a long-term payback in the future.

The overall business performance and financial data of China Overseas were better than China Resources all the way from 2015 to 2017, especially the profitability. The optimization industrial structure transmitted to land value exploitation earlier than CR. But CR would also be appreciated in 2015.

### **5.2 Efficiency Ratios Comparison**

As a coincidence, rate of asset turnover has an instant decrease in 2015. The dwelling housing market was getting saturation as well as tough real estate policy in these years, most investors hold wait-and-watch attitude toward other market, which made the whole residential housing market ordinary. China Overseas started to put its core resources on value exploitation instead of dwelling housing area before CR to seize the opportunity to boom in the right time. Unlike China Resources, but CO still expected a new real estate period so that some resources remain to dwelling development. Although the average period is a little better than China Resources Land, the advantage was no longer existing since 2017 that CO's performance is lower than CR's, for the main reason was that the commercial complex cities operation had been established and operated in first-class cities in China. But the CO had a dissatisfactory performance highly influenced by residential housing market environment and the tough policy, which means CR had more resistant power and defensive position to overcome risks and challenges. Even China Overseas was chased by China Resources in recent years, due to technical skills, developed management and strong resources support, with insistence on developing dwelling housing, the CR finally caught up with the pace of CO in 2017.

Compare to China Overseas, CR was still experiencing a liquidity and solvency with a decreasing trend. To explain, it was considered that environment and financial supporting were the main factors to influence the result. In addition, CR had completed its transition instead of traditional business method.

## **6. Conclusion and Prospective for Management Performance Prediction for State-owned Real Estate Companies**

In a conclusion, although the overall performance of CO is better than CR from data comparison, the dividend cover for CO is more than 5.4, which is positive for investors, and they both acquire strong profitability, things changed in 2017 when CR's projects started to run. As both of them are in period of transformation, CR's DC was decreasing to a low point due to the market trend in 2016 but there was a rise to now, it is delightful to see newly structure in CR started to occupy a new real estate market as well as other regions. Then, CR was about to expand its main business to financial area with business strategy. According to the financial statements, CR kept a positive momentum in next

five years as well as their business were widely spread, which performed well enough in the global economic background.

As gearing ratio, even CR was not as stable as CO, and the market and CR's business strategy was more preponderant. In 2015, when the whole real estate market was shrinking, the market was rapidly chilling down but CR made a right choice to abandon dwelling housing projects without any doubts and changed business strategies quickly to establish new layout. More main multi-functional real estate projects started to establish in this period. With good market resources and reputation, CR's management performance was in a health way to suit for transformation. The CR Land was increasing earnings per share in 2018 gained a nearly 0.8 growing, which stayed at a high level. Because of new business strategies, a large amount of investment on newly commercial complex cities operation, financial services and high-tech value-added projects was to cope with CR's future purpose, it could be estimated that long-term borrowings which shows a new higher point from 2015 matching the strategy as well as stock market expectation.

The advantage of mature experience had made CR be one of the leading members of real estate developers. Because of innovative and value-added services to urge property values increasing. Another aspect, the band reputation and high-quality service would be accepted by more investors and customers. Thanks to the tough policy, CR seized a rare opportunity to replace its business structure and become one of the major commercial complex property developers in this area. This new business model would become a great successful. As for potential risks, the main issues for CR would be the ROE performance analyzed before, the higher administrative expenses and cost control of engineering construction, the performance was not that satisfactory according to each year's financial statement. After all, the most dangerous sign was total liabilities were increasing much higher that should be alert. On the other hand, more competitors started to notice the importance of strategic transformation, especially some competitors have already participated in this competition with price advantage, and more uncertainties in other investment regions are at high potential risk. In the end, to raise band reputation is to become to a prior mission for these companies anyway.

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