

Research on the Financing Problems and Countermeasures of Fujian Jinsen Forestry Co., Ltd

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ABSTRACT

Financing has gradually become the most common and core factor in the development of smes. This paper takes Fujian Jinsen Forestry Co., Ltd as the research object, adopts data statistics, case analysis and other methods to make an analysis of financing methods and channels of smes, studies the impact on capital structure, risks and other problems caused by financing. Through the research, it is found that the target company has a single financing channel, unreasonable capital structure, large debt risk and other problems. This thesis gives some suggestions to help smes improve financing by expanding financing channels, optimizing capital structure, strengthening internal management, and enhancing core competitiveness.

Keywords: *Small and medium-sized enterprises, financing, problems and countermeasures*

1. INTRODUCTION

Every enterprise in the process of development and growth need to face the problem of financing management. Compared to large enterprises, the financing problem of small and medium-sized enterprises is very common. Small and medium-sized enterprises in financing management is obviously in a weak position. For some reasons, there are fewer institutions willing to provide funds for smes, some of which are willing to provide funds but require high funding costs. So how to solve the sme financing is a key and realistic problem. This paper mainly collects and statistics the information related to financing activities in the 2013-2019 statement of Fujian Jinson, by analyzing capital structure, financing cash flow, asset turnover capacity and other indicators, study the problems existing in the financing management of Fujian Jinson, discusses the measures to solve the financing problems of Fujian Jinson, and also provides new ideas for the financing management of other small and medium-sized enterprises.

2. LITERATURE REVIEW

Countries all over the world attach great importance to the exploration of the financing problem of small and medium-sized enterprises. With the development of economy, the research on financing theories is gradually systematized.

Macmillan (1931) of the United Kingdom pioneered the research on sme financing. He believed that the capital suppliers failed to meet the capital needs of smes. This idea is known as the Macmillan Gap. In 1958, American scholars Modigliani, F.Nd Miler and Mertion H. drew the MM theory and created the beginning of modern enterprise financing theory[11]. Mayers (1984) believed that the company's choice of financing method depended on the lowest cost, and then select a method that conforms to the company

according to the high and low cost. Therefore, financing inside is the first choice for enterprises, the second choice is debt financing, and the last choice is equity financing. that is the Pecking Financial Order Theory.

Chinese scholars have also explored financing in detail. Yifu Lin (2001) expressed some views on the government, Banks, private financial institutions, enterprises themselves, etc., indicating that improving the system of small and medium-sized financial institutions may help smes' capital problems from the source [1]. Xiaolin Liu (2010) believes that in terms of the proportion of financing methods, the proportion of self-owned funds of smes is actually not high. it is very difficult to finance through equity or debt [2]. Zongge Liu and Xiaojun Li (2012) believe that information asymmetry is the main factor for financing problems of smes in China [3]. According to the special characteristics of small and medium-sized enterprises, Zhigang Yang (2012) elaborated different financing characteristics of small and medium-sized enterprises in different periods and put forward corresponding financing strategies [4]. Yonghong Pan (2015) proposed that with the development of economy, if small and medium-sized enterprises neglect their risk prevention and control in the operation process, their financial risks will increase and their profitability will be poor, which will lead to more difficulty in financing [5].

3. ANALYSIS ON THE FINANCING PROBLEMS OF FUJIAN JINSEN FORESTRY CO., LTD

3.1. Introduction to Fujian Jinsen Forestry Co., Ltd

Fujian Jinsen Forestry CO.,Ltd (HEREINAFTER referred to as Fujian Jinsen) is headquartered in Fujian province, China. It was founded in November 2007 and listed on the Shenzhen Stock Exchange (stock code:

002679) on June 5, 2012. In 2009, the company obtained international certification. The main business scope of the company involve afforestation, processing and selling forestry products, planting Chinese herbal medicine and so on [6]. The main reason why Fujian Jinsen company is chosen as the case representative of small and medium-sized enterprises is that fujian Jinsen's business development has always been in the middle level of small and medium-sized enterprises in the industry, which is representative of small and medium-sized enterprises.

3.2. Financing status of Fujian Jinsen

At the beginning of its establishment, Fujian Jinsen, similar to other small and medium-sized enterprises, mainly relied on its paid-up capital. As the company grows in size, the company needs more capital to meet its development . The following is the financing status of Fujian Jinsen from 2013 to 2019.

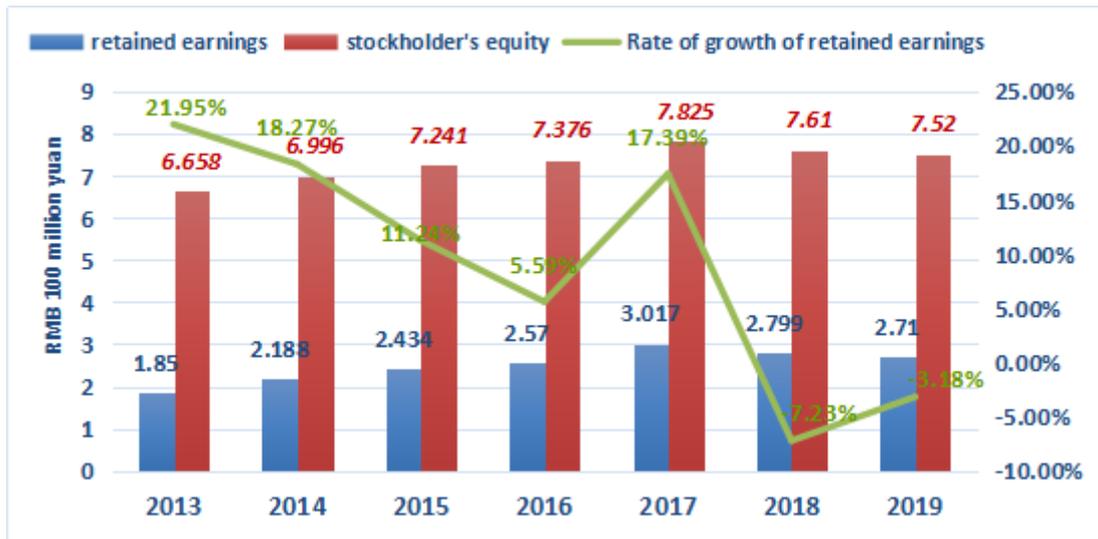


Figure 1 The internal financing of Fujian Jinsen [7]

Since the share capital does not change, and other internal financing methods account for a small proportion from 2013 to 2019, this paper mainly analyzes the retained earnings of

the company for internal financing. According to the data in Figure 1, rate of growth of retained earnings in fujian Jinsen was extremely unstable from 2013 to 2019.

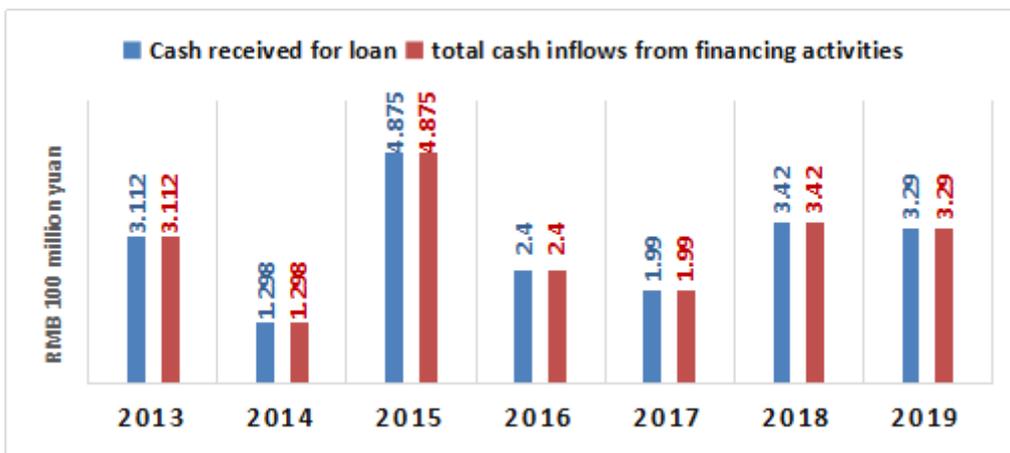


Figure 2 Cash inflows from financing activities of Fujian Jinsen [8]

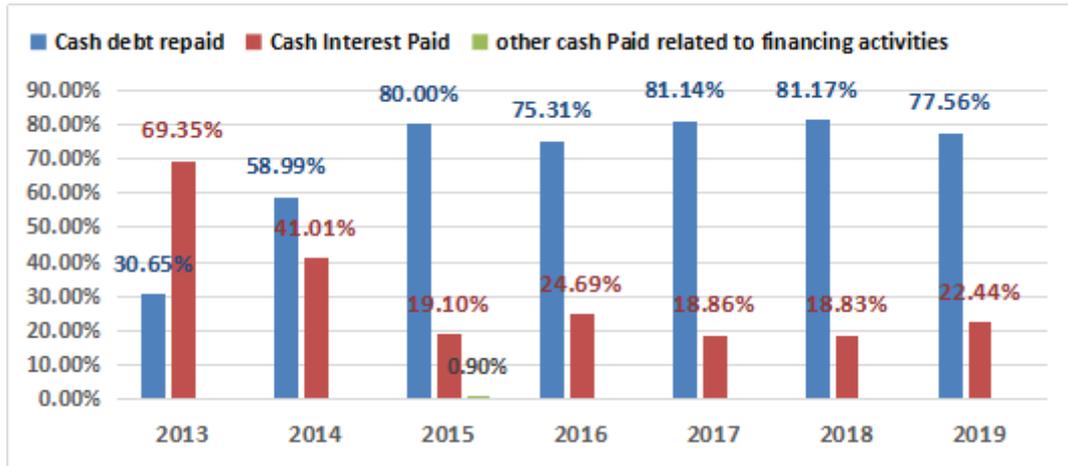


Figure 3 Cash paid related to financing activities of Fujian Jinsen [8]

It can be seen from Figure 2 that the cash inflow generated by the financing activities in Fujian Jinsen is only from the source of Cash Received from Loan. The company did not finance by other means. In addition, due to the repayment of

debt and interest payments, companies have been in great financial pressure every year. Repayments and interest payments account for almost all of the cash paid in financing activities. This can be seen from Figure 3.

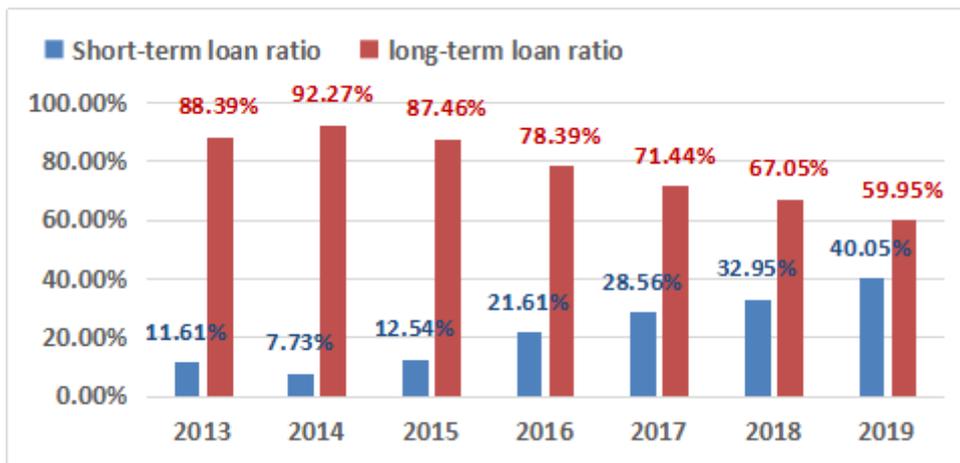


Figure 4 The external financing of Fujian Jinsen [9]

External financing is mainly through debt, and debts come mainly from short-term loan and long-term loan, of which long-term loan accounts for a large proportion. In the recent years, the proportion of short-term loan is increasing year by year. It can be seen from the data in Figure 4.

Besides retained earnings and bank loan, there are many other financing methods for smes. However, according to Fujian Jinsen's annual corporate report from 2013 to 2019, the company did not use any other financing methods.

3.3. Financing problems of Fujian Jinsen Forestry Co., Ltd

According to the financing status, we can find some financing problems in Fujian Jinsen. It has the only channel of retained earnings for internal financing. Internal financing generally depends on the enterprise's profitability. Because of low risk

and low cost, retained earnings are usually regarded as the preferred financing method for enterprises. But the rate of growth of retained earnings in Fujian Jinsen was extremely unstable from 2013 to 2019, which indicated that the company had limited space to obtain large amounts of funds through inside financing, and most of the funds needed for the development must to be obtained through external financing. But it also has the only channel of bank loan for external financing, almost involving no other financing methods. This shows that the company's financing channels are narrow, the method is too single. A single financing channel will have more negative impacts on a company. Compared with the issuance of securities, long-term loan has the advantages of rapid financing and financial leverage. However, due to the effect of financial leverage, when EBIT decreases, after-tax profit decreases by a larger margin. In addition, debts will increase the pressure on enterprises to repay their principal and interest. Moreover, when enterprises are in poor financial

condition, banks are generally unwilling to make huge long-term loans to them, and the interest will be higher. A single financing channel may result in an unreasonable capital structure. Asset-liability ratio is the ratio of total liabilities and total assets of an enterprise. It can be used to describe the proportion of all sources of capital that a

company receives from its creditors. Considering that each industry has its own particularity, in order to ensure the comparability of the data, this paper selects and compares the data from all small and medium-sized companies the same industry as Fujian Jinsen.

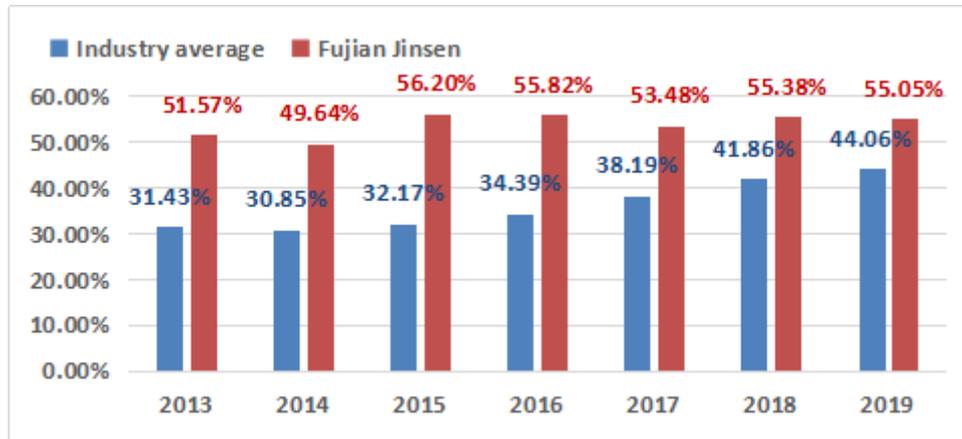


Figure 5 Asset-liability ratio compared with industry average [10]

According to the data in Figure 5, compared with other wood industry companies listed in the small and medium-sized board, although the asset-liability ratio of Fujian Jinsen was relatively flat from 2013 to 2019, it was significantly higher than the industry average level. This shows that capital structure by the debt capital and equity capital in Fujian Jinsen. Equity capital account for a small proportion, while debts account for a large proportion. The risk of the enterprise is mainly borne by the creditors, and the long-term solvency of the enterprise is in great pressure. The excessively high

asset-liability ratio not only indicates that the capital structure may be unreasonable, but also may affect the development of the enterprise's going concern activities, and therefore may reduce the financing capacity of Fujian Jinsen.

The financing decision of Fujian Jinsen may bring some risks and adverse effects to the enterprise. The influence can be analyzed by calculating some financial indicators, such as current ratio, ROE, assets turnover rate, etc.



Figure 6 Current ratio of Fujian Jinsen [10]

As a general rule, the higher the liquidity ratio, the stronger the short-term solvency. But in fact, the ratio is too high, indicating that capital may be sluggish, not be in the most effective use. Figure 6 shows that in recent years, the liquidity ratio of Fujian Jinsen is much higher than the international standard. On the one hand, it indicates that

enterprises may need to use more current assets for the repayment of short-term loan. On the other hand, it may cause management problems on current asset. The excessively high liquidity ratio is a reflection of its weak control over current assets and large financing risk.

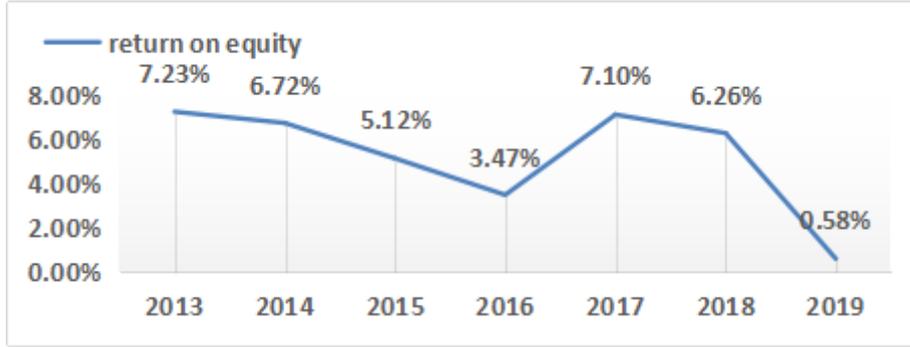


Figure 7 Return on equity of Fujian Jinsen [10]

Weak profitability may increase financing risk too. Financing risk is negatively correlated with the profitability of the company. Return on equity refers to the ratio of net income and average net assets of an enterprise during a certain period. This indicator is one of the profitability indicators. The higher the indicator, the stronger the financial leverage. It reflects the enterprise's operating

ability and profitability. Figure 7 shows that Fujian Jinsen's profitability is low and unstable. When the profitability is insufficient, it is often unable to guarantee enough surplus. When the internal financing is insufficient, the company will rely on external financing, and the financing risk will increase accordingly.

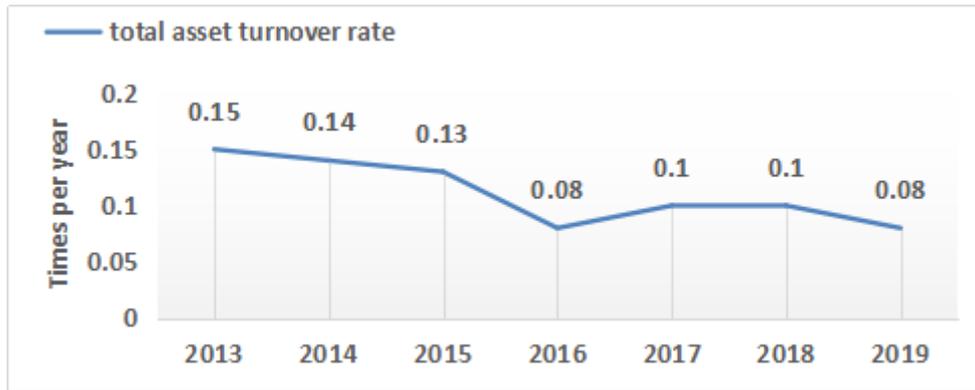


Figure 8 Total asset turnover rate of Fujian Jinsen [10]

The slow turnover of assets exacerbates the business risks. Total asset turnover refers to the ratio of income to total assets. The higher this index is, the more favorable it is for the development of the enterprise. It reflects that all the assets of the enterprise are properly managed and the profitability is strengthened. On the contrary, it indicates that the enterprise has poor operating ability, impaired profitability increased financial risk. It can be seen from Figure 8, the total asset turnover rate of Fujian Jinsen is low. Weak asset turnover ability and poor operation capacity increases the operation risk of the enterprise. Because of the slow turnover of assets, the demand for funds will increase further, and the financing risk will also increase accordingly.

4. PROPOSALS FOR FUJIAN JINSEN FORESTRY CO., LTD

To solve the financing problems of small and medium-sized enterprises, in addition to enterprises, other factors such as governments and financial institutions should also be

considered. For the enterprise, only by constantly optimizing products and services can enterprises become more competitive. Therefore, Fujian Jinsen should improve the company's management and internal control, improve the core competitiveness of the enterprise by cultivating excellent talents, develop good products and services, give play to the maximum benefits of the enterprise, so as to improve the internal financing ability. In addition, enterprise managers can consider adding other financing methods, such as issuing stocks and bonds, to optimize the capital structure by means of financing diversification. Moreover, enterprises can make use of credit-period management to achieve financing results. For example, establishing a good cooperative relationship with suppliers, appropriately extending the credit period of accounts payable, strengthening the management of accounts receivable and shortening the occupation period of accounts receivable can help alleviate the financial pressure of enterprises. From the perspective of financial institutions, they should develop a financial market system that will benefit smes equally. Although there are many financial service

institutions, few of them are willing to lend money to smes in order to reduce risks. As a result, smes run into difficulties in financing. Therefore, lending system of financial institutions must be improved, and modern internet and high technology can be used to standardize and develop private financial institutions, so that small and medium-sized enterprises can have more choices in financing.

On the government side, government departments may open up the financial market, improve financial laws and regulations, and develop a multi-level and multi-functional direct capital market. The government should integrate resources, strengthen judicial supervision, help smes reduce financing risks and solve financing problems.

5. CONCLUSION

As a small and medium-sized enterprises, it is difficult for Fujian Jinsen in financing because of single financing channel, low assets operation ability and profitability. After in-depth analysis, this paper gives some suggestions to help Fujian Jinsen relieve financing pressure by increasing the competitiveness, developing multi-channel financing, making full use of commercial credit, etc. There are many other small and medium-sized enterprises like Fujian Jinsen, and most of them are facing to the difficult in financing. To solve the problem, small and medium-sized enterprises should learn from advanced experience and better optimize the allocation of various resources, strengthen management and improve their operation. In addition to that, government departments should support them with more policy, and financial institutions should also pay more attention to the financing problems of small and medium-sized enterprises, establish scientific and reasonable financing rules, create a good financing environment for smes.

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