



Comparison of the Financing Methods of Real Estate Enterprises in China: Vanke and China Overseas

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Abstract. Real estate drives China's economic growth and is a pillar industry in China. In the past 20 years, real estate has made a high direct contribution to China's economic development. Its chain is long and drives the development of many industries. However, real estate requires a large amount of capital, long capital turnover time, and greater financing needs. The continuous fermentation of the Evergrande incident in 2022, the tightening of the national policy on real estate loans, and the introduction of the "three red lines" have increased the difficulty of financing loans for real estate enterprises, so the financing of real estate enterprises needs to be diversified. Both Vanke and China Overseas are among the top 10 real estate enterprises, but their financing methods are different. The study compared the financing methods between Vanke and China overseas and got the conclusion. According to the analysis, China Overseas has made steady progress in its development, while Vanke's development has certain risks. Both enterprises need to innovate financing methods. These results provide suggestions for the long-term development of China Overseas and Vanke real estate enterprises, and offer guideline for other small and medium-sized real estate financing methods.

Keywords: Financing methods, Vanke, China Overseas.

1 Introduction

Real estate plays an important role in the national economy and drives the national economic development. Before the epidemic, the development trend of real estate in China was positive. Xu and Zhuang analyzed the financing method mainly based on bank loans and put forward suggestions on various financing methods [1]. Guo analyzed the problems of real estate financing and put forward solutions to expand self-owned funds and encourage the development of private financial institutions [2]. Sun through the analysis of the characteristics of the financing of real estate enterprises, proposed the way to optimize the financing mode by optimizing the capital structure of real estate enterprises and improving the management level of real estate enterprises [3]. Zhang introduced a new listing method in the past. Guided by modern financing theory, this paper takes the backdoor ST Keyuan of Zhonghua Real Estate, the last real estate enterprise to be successfully listed in the asset market, as an example, and focuses

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on the problems encountered through the combination of theory and practical cases and analyzes them [4].

In this paper, the main real estate has been greatly affected by the epidemic. From “three red lines” issued to developers to “two red lines” issued to banks, the Chinese government has continuously carried out macro-control to control the lending of real estate enterprises and promote healthy lending. Chen studied and analyzed the dilemma faced by the real estate industry under the background of tight new loans, and proposed three solutions: appropriately participating in the construction of rigid housing to obtain new growth points, broadening financing channels and improving the budget management system [5]. In the context of complex changes, innovative financing methods are particularly important. Mi put forward innovative financing methods for supply chain financing of real estate enterprises, and elaborated on their detailed practice methods [6].

Vanke and China Overseas are among the top ten leading real estate enterprises in China, and their financing methods are worth studying. Tan conducted a case study of Vanke Real Estate, analyzed the data in its financial statements, calculated and evaluated its financing results by using trend analysis and ratio analysis, and finally obtained the results of diversified financing of Vanke [7]. Shi put forward the problem that the financing method of China Overseas Real Estate is mainly bank loans, and the financing method is single. She also made a comprehensive prediction of the financing demand of China Overseas Real Estate, and concluded that the financing difficulty will be further highlighted, and finally put forward the solution and improvement plan [8]. Qin proposed that real estate enterprises need a new development model, and the financing mode should be changed from high debt to diversified stock and bond [9].

In this paper, the qualitative analysis method is used to study the differences in the financing methods of Vanke and China Overseas real estate enterprises. Besides, this study investigates the relationship between their cash flow statement and balance sheet and financing methods, so as to provide method guidance for other small real estate enterprises in need of financing, and reduce the problems in capital. The reason for choosing Vanke and China Overseas is that both of them are real estate enterprises and their industries are relatively single compared with China Resources, which is more conducive to studying the financing methods related to real estate. The two companies are also different in the way they operate, so the financing methods of the two companies will also be different.

This research first introduces the real estate of China in recent years financing difficulties background and focus on the research of Vanke and China Overseas real estate enterprise development background. Then, the financial data of the two companies is used for drawing, and the strong comparison of the charts is used to show the different financing methods of the two companies, and the notes shown in the financial reports are used to understand the appropriate financing methods of the two companies under which circumstances. Finally, the paper puts forward some suggestions for the two real estate enterprises and provides guidance on financing methods for small and medium-sized real estate enterprises.

2 General Introduction

Vanke was founded in 1984. After 30 years of hard work, Vanke has finally ranked among the top 10 real estate companies in China. Vanke adheres to the responsibility of people's better life, takes the lead in high-quality development, and becomes a leading service provider for urban and rural construction and living in China. China Overseas was founded in Hong Kong in 1997, listed in 1992, the company has the industry-leading design, development, construction, operation, property services and other whole industry chain integration and linkage ability, making it a leading brand of Chinese real estate enterprises. Under the background of the bankruptcy of "Evergrande" and the real estate economic bubble, in order to make loans healthier, the state has issued the "three red lines" policy for developers and the "two red lines" policy for banks to improve the difficulty of loans and make it more difficult for the financing of enterprises that need large funds, such as real estate. Therefore, it is necessary to choose the financing method to better adapt to the development of enterprises. Vanke and China Overseas have maintained stable development and remain among the top 10 domestic real estate companies in China. By analyzing the financial statements of Vanke and China Overseas, making comparison charts, analyzing the relationship between their financing methods and their operating conditions. Qualitative analysis is used to analyze the similarities and differences between the two companies when they choose the same financing method, and to analyze the circumstances under which the two companies choose the best financing method.

Table 1. China Overseas in the past three years overall situation comparison

Overall Situation			
Content of comparison	2021	2020	2019
Weighted average cost of capital	3.55%	3.80%	4.20%
Net borrowing ratio	32.20%	32.60%	33.70%

3 Analysis of China Overseas

As shown in Table 1 and Figure 1, the weighted average cost of capital is declining, indicating that the cost of financing is low and the enterprise tends to mature. The net borrowing ratio has also been declining in the past three years, which shows that China Overseas has enhanced its solvency, reduced its risks and achieved good operating conditions. Especially in 2021, it raised 88.5 billion yuan, issued a total of 19.5 billion yuan of domestic bonds, including corporate bonds and medium-term notes, and invented the first single green carbon neutral bond product for financing of domestic real estate enterprises. Yang adopted the event study method to analyze that the issuance of green bonds has a significant positive stock price effect on the stock price in the short term [10], so the issuance of green bonds by China Overseas is a good financing method.

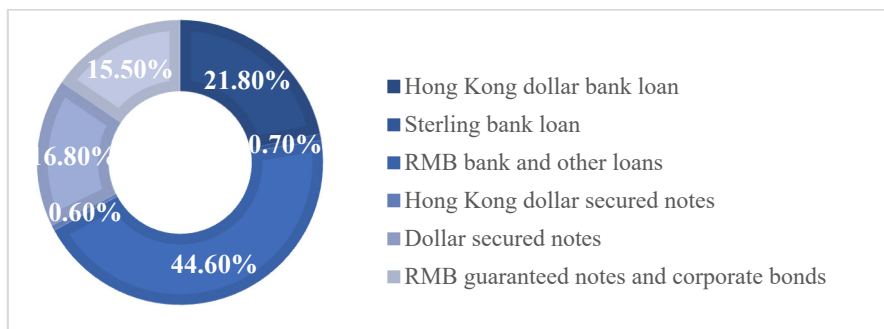


Fig. 1. The distribution of interest-bearing liabilities in currency of China Overseas in 2021

Table 2. China Overseas financing method and financing amount table in the past three years

Financing method and Financing Amount (100 million YUAN)			
Financing method	2021	2020	2019
Bank and other loans	1623.1	1368.1	1222.6
Secured notes and corporate bonds	796.1	761.7	677.0

Table 3. China Overseas listed bonds and issuance scale in 2021

Listed bond financing	
Name of listed bond	Issue Size (million yuan)
2021 medium-term notes	1500
2022 medium-term notes	4000
2021 Corporate Bonds	13000

Table 4. Consolidated cash flow statement of China Overseas for the past three years

Consolidated statement of cash flows (thousand yuan)			
Type of cash flow	2021	2020	2019
Net cash flows from operating activities	22,564,735	11,200,592	9,909,537
Net cash flows from investing activities	-14,465,394	-4,043,530	-2,598,995
Net cash flow from financing operations	14,425,614	8,035,193	1,480,705
sum	22,524,955	15,192,255	8,791,247

As presented in Table 2 and Table 3, one can get the conclusion that the financing amount of China Overseas in 2021 is much higher than that in 2020, and its bank loan accounts for a large proportion, and its borrowing method is relatively single, relying too much on bank loan. In Table 4 and Figure 2, the cash flow of China Overseas in the past three years is on the rise in operating business and financing business. At the same time, China Overseas' total cash flow in the past three years are increasing and increasing rapidly in 2021.

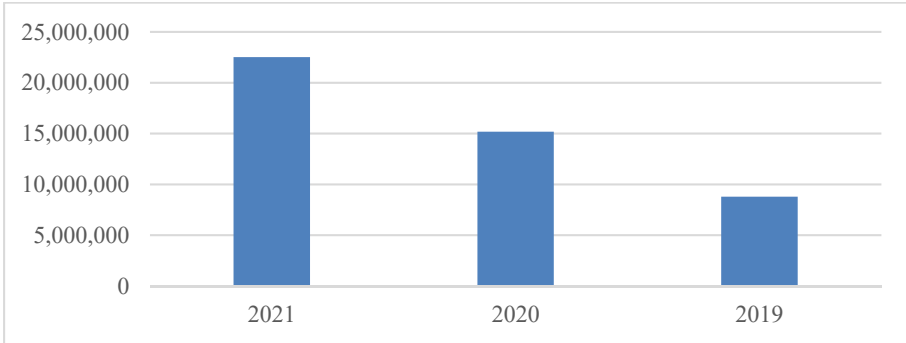


Fig. 2. Total cash flow of China Overseas Real Estate in the past three years.

4 Analysis of Vanke

As shown in Table 5, it can refer that the asset-liability ratio decreased, and the net debt ratio changed greatly. Both data show that Vanke's investment risk is not high, there are a lot of long-term loans, and there are sufficient pledged assets, and the operation is normal. This article got the weighted average cost of capital of Vanke which is 4.53% from other website.

Table 5. Overall situation of Vanke in the past four years

The Overall Situation of Vanke				
Content of comparison	2021	2020	2019	2018
Asset-liability ratio	79.74%	81.28%	84.36%	84.59%
Net borrowing ratio	29.69%	18.09%	33.87%	30.89%

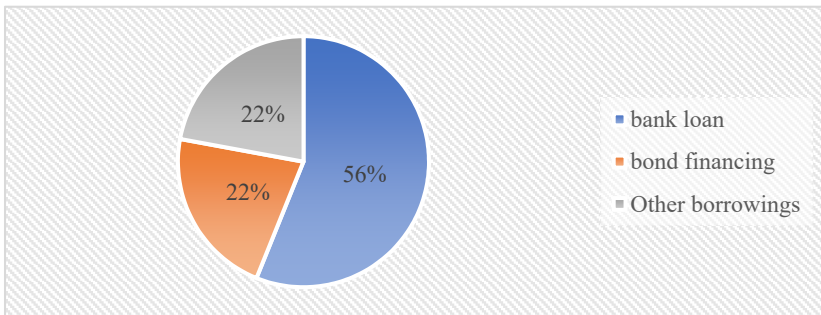


Fig. 3. the proportion of financing methods of Vanke

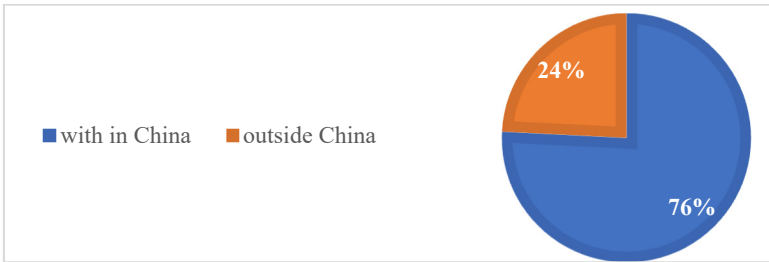


Fig. 4. Proportion of Vanke financing regions

Table 6. Financing method and amount of Vanke

Financing situation	
Types	Amount (100 million yuan)
Corporation bonds	75.66
Medium Term Note	60
Overseas RMB bonds	14.45

Table 7. Consolidated cash flow statement of Vanke for the past four years

Consolidated statement of cash flows (thousand yuan)				
Type of cash flow	2021	2020	variation	s2019
Net cash flows from operating activities	4,113,160,948.20	53,188,022,243.81	-92.27%	45,686,809,515.08
Net cash flows from investing activities	-	5,797,067,128.05	-553.35%	-
Net cash flows from financing operations	23,103,767,491.08	32,504,259,938.83	-28.92%	33,338,210,446.40

The Figure 3 depicts that Vanke mainly uses bank loan financing, and other financing methods as auxiliary. The Figure 4 shows that the financing area of Vanke is mainly domestic financing, which accounts for a much larger proportion than overseas financing. As shown in Table 6, Vanke also had these methods to finance. Table 7 shows that the cash flow in 2021 shows a downward trend compared with that in 2020 and more cash flowing out of the enterprise. It can be referred that the decrease in cash flow from operating activities may be the purchase of more goods or services and increased investment in fixed assets. Financing activities did not result in a significant increase in net cash flow.

Table 8. The overall situation comparison between Vanke and China Overseas

Overall situation comparison		
Comparison of items	Vanke	China Overseas
Weighted average cost of capital	4.53%	3.55%
Net borrowing ratio	29.69%	32.30%

5 Comparison

As shown in Table 8, the weighted average borrowing cost of China Overseas is lower than that of Vanke, and the financing cost of China Overseas is lower, both within a reasonable range, and the operations of the two companies are gradually approaching a mature stage. The net debt ratio of China Overseas is higher than that of Vanke, and enterprises with high net debt ratio may have little risk because there will be a large number of long-term loans in the debt structure, and the pledged assets are relatively sufficient. The net debt ratio of the two enterprises is normal.

Table 9. China Overseas and Vanke financing comparison

Financing methods comparison		
Comparison of contents	Vanke	China Overseas
Bank loan	56%	67.10%
Corporate bonds (100 million yuan)	75.66	120
Medium-term notes (100 million yuan)	60	15
Overseas financing	24%	39.30%
Domestic financing	76%	60.70%

The Table 9 shows that the financing methods of the two enterprises are mainly bank loans, with China Overseas relying too much on bank loans and Vanke comprehensively using other financing methods for financing. China Overseas raised more through corporate bonds than Vanke, while Vanke equally used corporate bonds and medium-term notes for the amount of financing. Both enterprises are mainly domestic financing, and overseas financing of China Overseas accounts for a larger proportion than that of Vanke. The reason may be that China Overseas is a subsidiary of Hong Kong China Overseas Holdings Co., LTD., while Vanke is inland. Table 10 shows that the cash flow of China Overseas is higher than that of Vanke in these three aspects. China Overseas' development is steadier, with strong payment ability and creative ability. Abundant cash flow means strong financing ability. Vanke's cash flow may face greater market risk. Due to the significant decline of Vanke's cash flow in 2021, its financing amount in corporate bonds is less than that of China Overseas, but the financing amount of Vanke's medium-term notes is basically equal to that of corporate bonds, and the financing amount of medium-term notes is even more than that of China Overseas, which solves the tricky financing problem. China Overseas is financially sound and less likely to face market risks, but its use of medium-term notes for financing is relatively small and it relies too much on bank loans.

Table 10. Cash flow comparison between China Overseas and Vanke

Cash flow comparison		
Comparison of contents	Vanke	China Overseas
Net cash flows from operating activities	411,316.10	22,564,735
Net cash flows from investing activities	-2,628,078.62	14,465,394
Net cash flows from financing operations	-2,310,376.75	14,425,614

6 Conclusion

Through the detailed analysis of the financing of China Overseas and Vanke, this paper obtains the differences in the financing methods of the two real estate enterprises, and provides a reference path for the financing of other small and medium-sized real estate enterprises through the relevant data of the two real estate. Through the analysis of Vanke and China Overseas, this paper finds that China Overseas has a more stable development, but it needs to enrich the financing methods. According to the data of Vanke's cash flow statement, the development of Vanke faces greater risks and challenges in the later stage, and it needs more funds. Both real estate enterprises need to innovate financing methods, which can no longer be limited to common financing methods such as bonds and stocks. Supply chain financing can be referred to, and green bond issuance can be similar financing methods. For other small and medium-sized enterprises, they should first carry out steady development, and then enrich financing methods, not just rely on bank loans for financing.

Overall, the number of years of the two companies studied is small, resulting in less financial data and research errors. The number of selected research objects is too small, there will be a partial conclusion. In this paper, the analysis and research method of the data of the two companies is single. In the subsequent research process, increasing the research period of enterprises and increasing the number of enterprises to enrich the data and improve the accuracy of the research. Enrich the research methods to make the research more scientific and theoretical. The follow-up research aims to provide suggestions to more real estate enterprises, so that the real estate enterprises develop healthily and steadily.

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