

Analysis and Prevention of Financial Risks of Real Estate Enterprises in China

-- Taking Vanke Group as an Example

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Abstract: As an important pillar industry of the national economy, the real estate industry has the characteristics of high investment, high return and high risk. In the process of rapid economic development in China, the real estate industry has developed rapidly and become one of the main driving forces of economic growth. However, while pursuing high profits, real estate enterprises are also facing huge financial risks, which are directly related to the survival and development of enterprises. As a leading real estate enterprise in China, Vanke Group's financial situation and risk management strategy have attracted much attention. In recent years, with the constant changes in the macro-control policies of the national real estate industry, the financial risk problem of Vanke Group has become increasingly prominent. This paper aims to analyze the financial risks of Vanke Group and discuss how real estate enterprises can effectively identify, evaluate and prevent financial risks in the complex and changeable economic environment.

Keywords: Real estate, Financial risk, Risk control.

1. Introduction

With the sustained development of China's economy and the acceleration of urbanization, the real estate market has become increasingly prominent in the national economy. However, this industry is facing a complicated internal and external environment while welcoming its prosperity and development, in which financial risk has become a key factor affecting the stable operation and sustainable development of enterprises. Especially under the background of increasing global economic uncertainty, frequent policy regulation and intensified market competition, it is particularly important for China real estate enterprises to prevent and control financial risks.

As a leading enterprise in the real estate industry in China, Vanke Group's operating conditions and financial health are not only related to its own development, but also have a demonstration effect on the whole industry. In recent years, Vanke has accumulated many financial risks, including market risks, financing risks, operational risks and policy risks, while expanding rapidly. These risks not only threaten the profitability of enterprises, but also may affect their market position and brand image. Therefore, it is of great significance to analyze the financial risks of Vanke Group and explore effective prevention and control strategies for improving the anti-risk ability of enterprises and promoting their sustainable development.

Taking Vanke Group as an example, this paper analyzes the types, causes and manifestations of financial risks it faces in combination with the current macroeconomic environment, policy control direction and market competition situation. At the same time, a series of targeted and operable financial risk prevention and control strategies are put forward to provide reference for real estate enterprises and jointly promote the healthy development of the real estate industry in China.

2. Financial Risk Related Theories

2.1. Definition of Financial Risk

Financial risk refers to the possibility that the actual income deviates from the expected income due to unpredictable or uncontrollable factors in financial activities, thus making the enterprise face economic losses. Financial risks can be divided into narrow sense and broad sense. In the financial field, financial risk in a narrow sense, that is, financing risk, refers to the phenomenon of unbalanced financial structure or excessive debt caused by wrong decision-making in the financing stage of enterprises, which further lays a hidden danger of financial difficulties. The broad concept of financial risk is broader, which covers not only the risks in the process of fund-raising, but also the financial fluctuations caused by investment uncertainty, risk exposure in the process of operation and improper income distribution strategy, covering the potential risk points of various financial activities of enterprises.

In the daily operation and management process, enterprises often encounter diversified financial risk challenges due to the omission of internal financial management mechanism and the non-optimization of financing strategy selection. This kind of risk not only directly erodes the profit potential and solvency of enterprises, but also may endanger the survival foundation of enterprises in extreme cases, leading to bankruptcy crisis. In view of this, strengthening financial risk management and building a sound risk prevention and control system are of inestimable importance for enterprises to maintain stable operation and achieve sustainable development goals.

2.2. Characteristics of Financial Risks

Have objectivity. The objectivity of financial risk refers to its various causes, including market regulation, political background, industry competition, internal management of

enterprises and other factors.

Have coexistence. Financial risk is directly proportional to income, that is, the higher the risk, the greater the potential profit. In the process of pursuing high returns, enterprises must bear corresponding financial risks.

With uncertainty. There are many uncertain factors in enterprise financial activities, such as changes in market demand, policy adjustment, natural disasters, etc. These uncertainties increase the difficulty of enterprise financial risk management.

It is comprehensive. Financial risks may appear in all aspects of enterprises, including financing, investment, operation, distribution and other links.

With loss. Once the financial risk occurs, whether it is quantified or not, the economic losses it brings will affect the normal operation of the enterprise and may even lead to the closure of the enterprise. Therefore, how to control financial risks within an acceptable range is the core goal of enterprise financial management.

2.3. The Theoretical Basis of Financial Risk Management

The theoretical basis of financial risk management includes risk identification, risk assessment, risk control and risk transfer. Risk identification means that enterprises find out the risk factors that may affect their financial health through various means; Risk assessment is a quantitative and qualitative analysis of the identified risks and an assessment of their potential impact on enterprises. Risk control is to reduce the probability of risk occurrence and possible losses by formulating and implementing a series of management measures; Risk transfer is to transfer part or all of the risk to a third party through financial instruments such as insurance and derivatives.

3. Vanke Group Company Profile and Financial Risk Status

3.1. The Establishment and Development of Vanke Group

Vanke Enterprise Co., Ltd. (hereinafter referred to as "Vanke Group") was established in 1984 and headquartered in Shenzhen. It is one of the largest real estate development enterprises in China. Since its establishment, Vanke Group has gradually developed into a leading enterprise in China real estate industry with its excellent management ability and market acumen. In 1991, Vanke was listed on Shenzhen Stock Exchange, becoming the first listed real estate company in China.

Vanke Group's business scope covers residential development, commercial real estate, property management, long-term rental apartments, logistics real estate, pension industry and other fields, forming a diversified business pattern. Nationwide, Vanke's business covers more than 70 cities and gradually expands to overseas markets. Although under the influence of a series of policies, the company's profits have decreased, but diversified business has alleviated the main business income to some extent.

3.2. Financial Risk Status

3.2.1. Analysis of solvency

(1) Analysis of short-term solvency

Current ratio and quick ratio are two important indicators reflecting the short-term solvency of enterprises. The size of

current ratio and quick ratio can represent the quick liquidity of an enterprise. Usually, the higher the amount of these two indicators, the stronger the short-term solvency of the enterprise. In 2023, the average current ratio of the industry was 1.74, and the average quick ratio was 0.76.

Table 1. Short-term solvency of Vanke Group from 2019 to 2023

year	Current ratio	Quick ratio
2019	1.13	0.43
2020	1.17	0.41
2021	1.22	0.40
2022	1.31	0.47
2023	1.40	0.55

In the past five years, the current ratio and quick ratio of Vanke enterprises have shown a continuous upward trend. According to the data analysis in Table 1, during the period from 2019 to 2023, Vanke's two indicators are lower than the industry average, which may imply that Vanke has insufficient liquidity, and it is difficult to respond to the sudden demand for capital allocation or the pressure to repay debts in time, and then it may encounter short-term debt repayment difficulties. In addition, it also reflects that Vanke's debt solvency has weakened in the short term, suggesting that the company should actively adopt strategies, such as enhancing the allocation of current assets or optimizing the structure of current liabilities, in order to effectively alleviate potential financing risks.

(2) Analysis of Long-term Debt-paying Ability

The key factors that affect the financial risk and long-term solvency of enterprises widely cover: the composition of capital structure, the use of financial leverage, the long-term profitability and the cash flow of operating activities. Among them, the asset-liability ratio, as a core indicator, profoundly reveals the ability of enterprise assets to cover liabilities, the health of capital structure and the utilization of financial leverage. Generally speaking, a lower asset-liability ratio means that the debt structure of enterprises is more stable and the financial risks are correspondingly reduced. For enterprises with stable operations, the asset-liability ratio is often maintained in the range of 50% to 60%, which is regarded as a reasonable level to balance financial security and operational efficiency.

In view of the unique high-leverage operation mode of the real estate industry, its asset-liability ratio is generally higher than other industries, and the ideal range is roughly maintained at around 70%. The essential demand of this industry, that is, capital-intensive activities such as land acquisition and project development, urges enterprises to rely on loans to support their operations and form a high debt level. As shown in Table 2, from 2019 to 2023, although the asset-liability ratio of Vanke showed a decreasing trend year by year, it remained at a high level of over 70%, which reflected Vanke's efforts to reduce its financial burden, but the results were not significant. It is particularly noteworthy that from 2019 to 2020, Vanke's asset-liability ratio jumped to over 80%. This high level of debt ratio may aggravate the short-term liquidity risk, potentially threatening the value stability and liquidity of fixed assets of enterprises, and in extreme cases, it may even trigger an insolvency crisis and endanger the survival of enterprises.

Table 2. Short-term solvency of Vanke Group from 2019 to 2023

year	Asset-liability ratio/%	Ratio of property rights/%
2019	84.36	776
2020	81.28	677
2021	79.74	655
2022	76.92	556
2023	73.22	439

Observing Vanke's data from 2019 to 2023, although its property right ratio showed a downward trend year by year, it remained at a high level, indicating that its own capital accounted for a relatively low proportion of the company's total assets, which reflected Vanke's capital structure characteristics of high leverage, high investment, high risk and high return. The high debt burden requires Vanke to achieve more abundant operating income to cover the debt cost, which also reflects its relatively weak long-term solvency.

Table 3. Vanke Group's Profitability from 2019 to 2023

year	Return on net assets/%	Return on total assets/%	Net profit rate of sales/%	Operating profit rate/%
2019	22.47	5.27	14.99	20.82
2020	20.13	4.91	14.15	19.08
2021	9.78	3.16	8.41	11.60
2022	9.48	3.15	7.47	10.33
2023	4.91	2.18	4.39	6.28

3.2.3. Operational risk analysis

The operational efficiency and management efficiency of an enterprise are directly reflected in its operational capacity. At present, the real estate industry is facing the double

3.2.2. Profitability Analysis

The core pursuit of an enterprise is to maximize profits, which is the cornerstone of its debt repayment, dividend distribution and support for internal and external investment activities. With the comprehensive analysis of key performance indicators such as return on net assets, return on total assets, net profit margin of sales and operating profit margin, enterprises can accurately evaluate their profitability, and this process also provides strong support for investors to understand the overall business situation of enterprises and formulate more sensible investment strategies. As shown in Table 3, from 2019 to 2023, Vanke suffered a significant and sustained decline in the above four profit indicators, with a large decline. This phenomenon may be attributed to Vanke's lack of efficiency in asset use, lack of growth momentum and weakening profitability. At the same time, the weak performance of the sales market, the decline in sales and the rising cost further aggravate the fierce market competition, and finally increase the uncertainty and potential risks of the investment environment.

challenges of rising construction costs and sluggish sales market performance, which directly leads to the compression of profit space, thus slowing down the cash flow circulation speed of enterprises and adversely affecting the long-term development of enterprises.

Table 4. Operating Capacity of Vanke Group from 2019 to 2023

year	Total assets turnover rate/%	Inventory turnover rate/time	Account payable turnover rate/time
2019	0.23	0.29	1.54
2020	0.23	0.31	1.43
2021	0.24	0.34	1.37
2022	0.27	0.41	0.76
2023	0.29	0.49	0.74

According to the data analysis in Table 4, Vanke achieved a slight increase in the turnover rate of total assets from 2019 to 2023. This trend may be attributed to the company's successful reduction of capital and operating costs, aiming at improving the efficiency of capital utilization, thus consolidating its stable development trend. On the other hand, Vanke's turnover rate of accounts payable is declining year by year, which is significantly lower than the industry average, revealing that the company is under great financial pressure in repayment. In addition, although Vanke's inventory turnover rate showed an upward trend year by year in the same period, this indicator is still far below the industry average, which not only shows that the company's asset liquidity has been enhanced, but also reveals problems such as insufficient potential product sales motivation and large inventory backlog. These problems may further lead to high capital occupancy rate, affect the smoothness of capital turnover, and further aggravate the operational risks of enterprises.

4. Analysis of the Root Causes of Financial Risks of Vanke Group

4.1. Internal Root Causes

4.1.1. Unreasonable capital structure

The core of Vanke Group's financing structure lies in the diversified combination of bank loans and debt financing. However, in recent years, with the tightening of the bank credit policy and the strengthening supervision of the national financial regulatory agencies on the inflow of funds into the real estate industry, the threshold for Vanke Group to obtain bank loans has been significantly improved, and the difficulty has intensified. This change urges enterprises to readjust their financing strategies and rely more on debt financing channels. The significant increase in the proportion of debt financing has provided enterprises with necessary financial support, but at the same time it also reflects the potential weakening of their ability to resist risks, increasing the possibility of enterprises facing financial difficulties and even bankruptcy

risks.

4.1.2. Poor liquidity of assets

The real estate industry is characterized by its huge capital investment and long capital recovery cycle, and its sensitivity to investment and cash flow is particularly prominent. The liquidity of inventory assets is limited and its liquidity is relatively weak. If the macro-economic environment or market conditions change unfavorably, leading to the failure of real estate enterprises to achieve the established development goals, it is very likely to trigger the tension and even fracture of the capital chain, thus threatening the survival safety of enterprises and even triggering bankruptcy risks. Vanke's low turnover efficiency of accounts receivable in recent years also indicates that the potential bad debt risk is rising, which undoubtedly aggravates the financial risk exposure of the enterprise and requires the management to take more active measures in fund management and risk prevention and control.

4.2. External Root Causes

4.2.1. National policies

In recent years, China has implemented a series of market regulation measures aimed at promoting the steady progress of the national economy and the real estate industry. Taking the principle of "no speculation in housing" reiterated by the Political Bureau of the Communist Party of China (CPC) Central Committee meeting on April 29th as an example, it shows the firm guidance of the policy for the healthy development of the real estate market. In this context, Vanke Group's quick ratio continues to hover at the low point of 0.4, which is significantly lower than the reasonable threshold of 0.65 recognized by the industry, reflecting its relatively weak short-term solvency. It is worth noting that Vanke's current ratio can be maintained at 1.3 under the loose policy environment, but once the national policy is tightened, the ratio will fall to 1.2, which clearly reveals the restrictive effect of the tightening control policy on Vanke's short-term solvency.

Turning to the analysis of long-term solvency, Vanke's asset-liability ratio and average equity ratio all show an upward trend, which is particularly significant in the increasingly strict regulatory policy environment, indicating the weakening of Vanke's long-term solvency and the intensification of financial risks. Therefore, Vanke needs to pay close attention to policy trends and optimize its capital structure in order to enhance its financial stability and effectively meet the challenges brought about by market changes.

4.2.2. Market risk

With the continuous evolution of the times and the general improvement of people's education level, people's thinking concepts have undergone profound changes, which not only shaped the new features of society, but also indirectly affected the balance between market demand and supply, thus constituting an external influence that cannot be ignored. In addition to the direct intra-industry competition, this adjustment of supply and demand driven by the change of ideas has become an important force affecting the development of the real estate industry.

5. Vanke Group's Financial Risk Prevention Strategy

5.1. Reduce the Capital Debt Ratio and Optimize the Capital Structure

One of Vanke's first strategies is to transform its creditor status into a corporate shareholder, which aims to directly and efficiently reduce corporate liabilities, thus effectively alleviating its debt burden and bringing opportunities for existing shareholders to increase their equity. Secondly, according to legal procedures, creditors and debtors can implement the debt restructuring plan through court ruling, so as to reach a mutually acceptable solution.

Furthermore, enterprises can flexibly issue additional shares to shareholders according to their own operating conditions as a means to reduce the debt burden. In addition, in order to further optimize the capital structure and reduce the debt-to-equity ratio, enterprises should actively explore and consult a number of potential lending banks, choose financial institutions offering lower interest rates for financing, make use of cost advantages to broaden financing channels, and realize the optimization of debt management.

In view of the grand blueprint of Vanke's future development and the continuous expansion of its market scale, the increasing demand for funds has become a challenge that cannot be ignored. Therefore, Vanke needs to broaden financing channels at a strategic height and commit itself to the implementation of diversified financing strategies. This includes, but is not limited to, reducing the financing dependence on a single financial institution (such as a bank) through public issuance of bonds and private equity financing; At the same time, we can also consider splitting its property sector and listing it, or introducing investors with strategic value, so as to further increase the proportion of equity financing and lay a solid capital foundation for the long-term development of enterprises.

5.2. Strengthen Fund Management

The real estate industry generally faces the challenge of relatively sluggish liquidity. If the capital occupation cycle is prolonged, it will significantly aggravate the capital precipitation, hinder the effective circulation of funds, and then induce financial risks. Therefore, it is particularly important to implement systematic capital planning strategy and strengthen the supervision mechanism of capital flow and use.

Further, Vanke, as a leading enterprise in the industry, should pay more attention to the management of accounts receivable and tailor scientific and reasonable accounts receivable management policies. Specifically, it is necessary to carefully evaluate the credit status, financial strength and expected payment cycle of credit customers in daily operations, so as to accurately control risk exposure and effectively reduce the occurrence of bad debt losses, thereby further reducing the financial risks faced by enterprises and ensuring financial health and sustainable development.

5.3. Strengthen Internal Control

In order to improve the overall operational efficiency and risk management level, Vanke needs to further improve its internal control system structure, ensure that independent internal audit departments are set up from the group headquarters to all branches, and these departments will refine and strengthen control measures for the core links of

business activities, ensure that internal control responsibilities are accurately assigned to posts and personnel, and realize clear definition and efficient implementation of post responsibilities.

In addition, in order to promote the unimpeded information and rapid response to problems, Vanke should build a more unimpeded and efficient feedback mechanism within the enterprise. This mechanism aims to encourage employees to actively participate in enterprise management and report any problems or improvement suggestions they find in their daily work quickly. By making full use of the first-line insights and valuable opinions of employees, Vanke can continuously optimize business processes and specific operational links, thus ensuring the maximum performance of feedback channels and laying a solid foundation for continuous improvement and excellent operation of enterprises.

6. Conclusion

To sum up, based on some data of Vanke Group from 2019 to 2023; by analyzing its financial index system, this paper systematically identifies and analyzes the hidden risks in financing, investment and operation from the dimensions of solvency, profitability and operation ability. The research reveals that Vanke's current main challenges include high asset-liability ratio, serious inventory backlog, negative cash flow from operation and low turnover efficiency of total assets. In view of the above risk points, this paper puts forward a series of risk control strategies and suggestions, aiming at effectively reducing the probability of financial risks and contributing valuable reference and enlightenment to the steady progress of the real estate industry.

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