Comparative Analysis of Financing Channels for Property Management Companies: Taking China Merchants Property Operation & Service Co., Ltd as An Example

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Abstract. With the development of market economy and the acceleration of China's urbanization process, the property management industry has ushered in new opportunities. With the increasing number of property management companies and fierce competition in the market, financing has become the key to enhance competitiveness. Different financing channels have different impacts on enterprises, and the choice is crucial. This paper takes China Merchants Property Operation & Service Co., Ltd as an example, deeply analyzes its basic mode and operation mode, compares the background, profile and effect of different financing channels, aims to summarize the advantages and disadvantages, provides suggestions for the future development of property companies, and explores the road of sustainable development of the property management industry in the fierce market competition. By comparing the different financing channels of Merchants Accumulator Company, whether it is debt financing or equity financing can provide great financial support for the enterprise and improve the enterprise's debt repayment and profitability, but the single traditional financing channel is accompanied by relative financing risks. Extending and expanding the single traditional financing channel or integrating debt financing and equity financing to realize the sustainable development of the property management industry.

Keywords: Property Management Industry; Financing Channels; Debt Financing; Sustainable Development.

1. Introduction

Driven by the development of market economy, the level of urbanization in China has greatly increased, which has not only led to the development of real estate but also changed the consumers' housing concept and investment choices to a certain extent. Property management industry as a new derivative of the real estate industry, with the hot real estate market and people's demand for property improvement, also ushered in a better development, the emergence of more property management companies. In the process of continuous development, the number of property management companies continue to give more and more, and the strength of the enterprise is also improving. With the rapid development of social economy, the property management market competition is becoming more and more intense, and the pressure on property management enterprises is increasing. In order to improve the market competitiveness of property management enterprises and occupy a larger market share, financing has become the main way of competition for property management companies [1].

At present, China's property management enterprises are generally small and medium-sized enterprises, the number of staff is small, the size of the enterprise is relatively small, and the development characteristics are more obvious. To professional management mode, housekeeping service mode and platform management mode three business models to provide services to customers [2]. China's property management enterprises mainly through equity financing and debt financing. Different financing channels will bring different economic benefits and impacts for enterprises [3]. Therefore, the choice of financing channels is extremely important. In the analysis of effective financing for property management companies, property management companies should improve their own shortcomings, actively solve operational problems, combined with the company's own development situation, scientific and innovative financing [4].

This paper will take China Merchants Property Operation & Service Co., Ltd as an example, introduce the basic model and business model of the case company, and then analyze the corresponding financing background, financing profile and financing effect of different financing channels chosen by the case company. This paper hopes to summarize the performance of different financing channels in the case company and summarize the advantages and disadvantages of different financing channels through the comparison case analysis of specific company financing channels, provide suggestions for the future development of property companies, and explore the sustainable development of the property management industry in the fierce market competition.

2. Object of Study

2.1. Choice Criterion

(1) The property management industry is close to people's daily lives. It creates a comfortable living environment for property owners and enhances property values. It promotes community harmony and strengthens safety and security. Beautify the urban environment and help urban development. Regulate the real estate market, enhance the level of urban management, is an important link between owners, communities and cities [5].

(2) China Merchants Property Operation & Service Co., Ltd occupies an important position in the property management industry (see Figure 1). As the A-share property management leading industry, up to now, China Merchants Property Operation & Service Co., Ltd cumulative basic property services have entered China more than 150 cities, management area of 385 million square meters. So far, both the total market value and total operating income are the first in the property management industry. With its large scale and strong strength, China Merchants Property Operation & Service Co., Ltd is also relatively strong in terms of financing demand and financing ability [6]. In addition, as an enterprise under China Merchants Group, China Merchants Property Operation & Service Co., Ltd has a strong shareholder background and rich resource support, which makes it may have unique advantages and channels in the financing process, through the analysis of its financing cases, it can better understand the impact of resource advantages on enterprise financing [7].

(3) China Merchants Property Operation & Service Co., Ltd is a listed company, the information disclosure is relatively standardized and transparent, its financial data, operating conditions, financing activities and other information can be easily accessed, which is convenient for in-depth case analysis and comparative study of different financing channels.

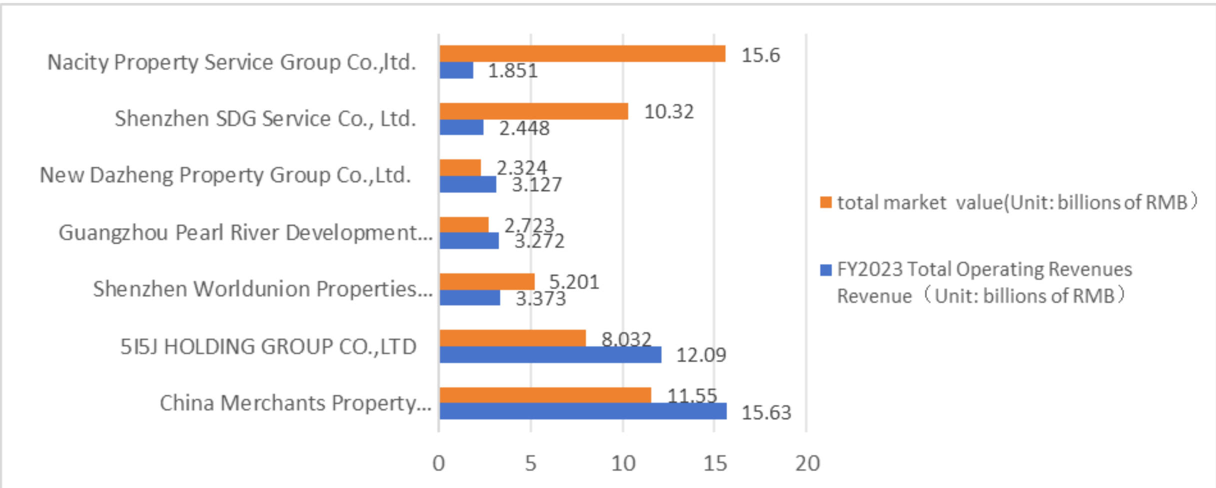

Fig. 1 The top seven rankings of total market capitalization and total revenue in the property management industry in FY2023

This article is mainly through the China Merchants Property Operation & Service Co., Ltd annual report and Juchao information and other types of media to collect relevant information, in addition to some of the data in this article from the National Bureau of Statistics, the Shenzhen Stock Exchange and Eastmoney Information Co., Ltd., by hand to organize to obtain.

2.2. Company Profile

The China Merchants Property Operation & Service Co., Ltd is principally engaged in property asset management and services. The Company's main products or services are property management business, asset management business and real estate development business (see Figure 2). China Merchants Property Operation & Service Co., Ltd is a leading enterprise in the domestic A-share property management industry, occupying a leading position in the field of institutional properties, providing customers with comprehensive solutions for the whole industry, the whole value chain, and the whole scenario. The company's scope of business is property management services (basic property management, platform value-added services, professional value-added services); asset management business (commercial operations, rental and operation of held properties); other businesses (real estate development).

Fig. 2 The revenue share of China Merchants Property Operation & Service Co., Ltd

3. Analysis on Different Financing Channels of China Merchants Property Operation & Service Co., Ltd

From the perspective of long-term trends in the real estate industry, although the real estate market since the end of 2014, the overall steady rebound, the market showed a recovery trend, but by the macroeconomic slowdown, demographic changes and the gradual decline in the rate of urbanization and other factors, the overall development of the industry has slowed down the pace of urban differentiation is serious, and the majority of the city's market demand is still weak, especially some of the third and fourth tier cities, inventory pressure is huge [8]. Inventory pressure is huge in most cities, especially in some third and fourth-tier cities. Therefore, in the context of the overall weak growth of the industry, the industry competition is fierce, the overall profitability declined, and the China Merchants Property Operation & Service Co., Ltd main projects are distributed in the third and fourth tier cities, it is difficult to continue to maintain the rapid growth of the real estate development business in the future [9]. In the second half of 2016, the company planned and completed a major asset sale program related to its real estate development business. In order to meet the company's daily operating capital needs and repay the company to take over the loan, China Merchants Property Operation & Service Co., Ltd through the issuance of bonds to obtain financial support.

3.1. Bond Financing

In 2016, China Merchants Property Operation & Service Co., Ltd publicly issued corporate bonds for qualified investors (see Table 1). 16 Cumulative Balance Bonds were issued on March 1, 2016 on the Shenzhen Stock Exchange. The nominal value of this annual sub-corporate bond is RMB100, and the bond term is 5 years.16 Cumulative surplus bonds were issued from March 1, 2016 to March 3, 2016, and the final actual number of bonds issued under the net was RMB1.5 billion, with a coupon rate of 3.29%. The bonds use simple interest to accrue interest annually, without compounding. Interest is payable annually, with a single repayment at maturity, and the last installment of interest is paid together with the payment of principal. After deducting the issuance costs, the proceeds from this bond will be mainly used to repay the company's borrowings and supplement the working capital. The Company will use not more than RMB1 billion to repay the Company's borrowings. The remaining proceeds will be used to supplement the Company's working capital. The funds will be mainly invested in the Company's projects in Jiujiang and Guiyang.

Table 1. The bond details of China Merchants Property Operation & Service Co., Ltd

bond name	16 Cumulative surplus bonds	bond type	corporate bond	announcement date	2016-02-26
par value of bond (yuan)	100	coupon rate	3.29%	value date	2016-03-01
actual amount raised (million yuan)	150	debt maturity (year)	5	offering date	2016-04-15

According to the 2016 annual report of the China Merchants Property Operation & Service Co., Ltd in the company's use of funds raised excluding underwriting fees raised funds actually in place 1,488,000,000 yuan, it can be speculated that the cost of financing is 12,000,000 yuan.

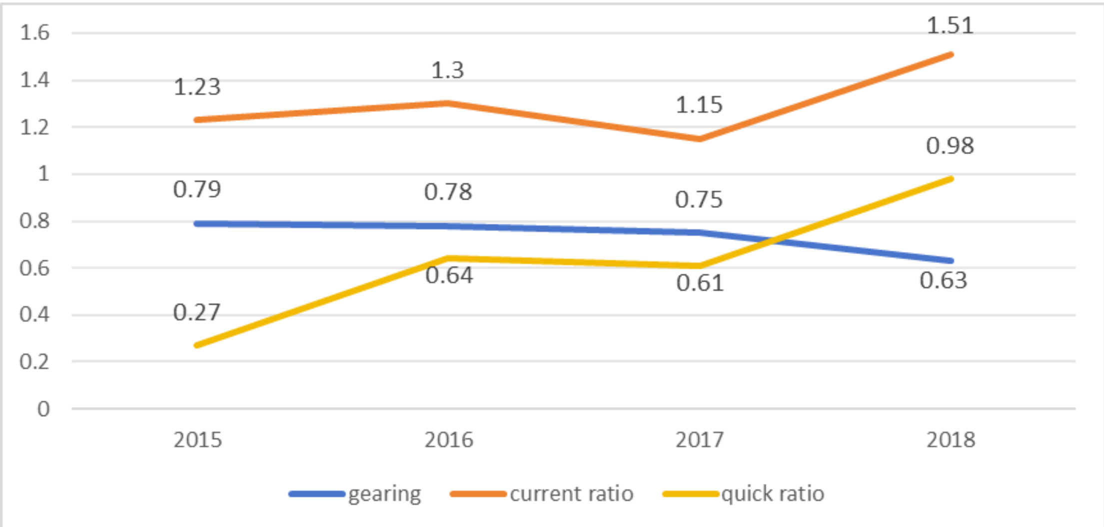

Fig. 3 Solvency indicators of China Merchants Property Operation & Service Co., Ltd from 2015 to 2018

In terms of short-term solvency (see Figure 3), the current ratio of the China Merchants Property Operation & Service Co., Ltd was 1.23, 1.30, 1.15 and 1.51, and the quick ratio was 0.27, 0.64, 0.61, and 0.98 from 2015 to 2018, respectively. Overall, the in general, the company issued bonds to make the company's current ratio and quick ratio rise, so that the enterprise's asset liquidity and short-term solvency is more balanced, improve the short-term solvency.

In terms of long-term solvency, the China Merchants Property Operation & Service Co., Ltd gearing ratio was 0.79, 0.78, 0.75 and 0.63 respectively during 2015 to 2018, which continued to decline. Overall, the company's issuance of bonds has improved the company's long-term debt-servicing capacity.

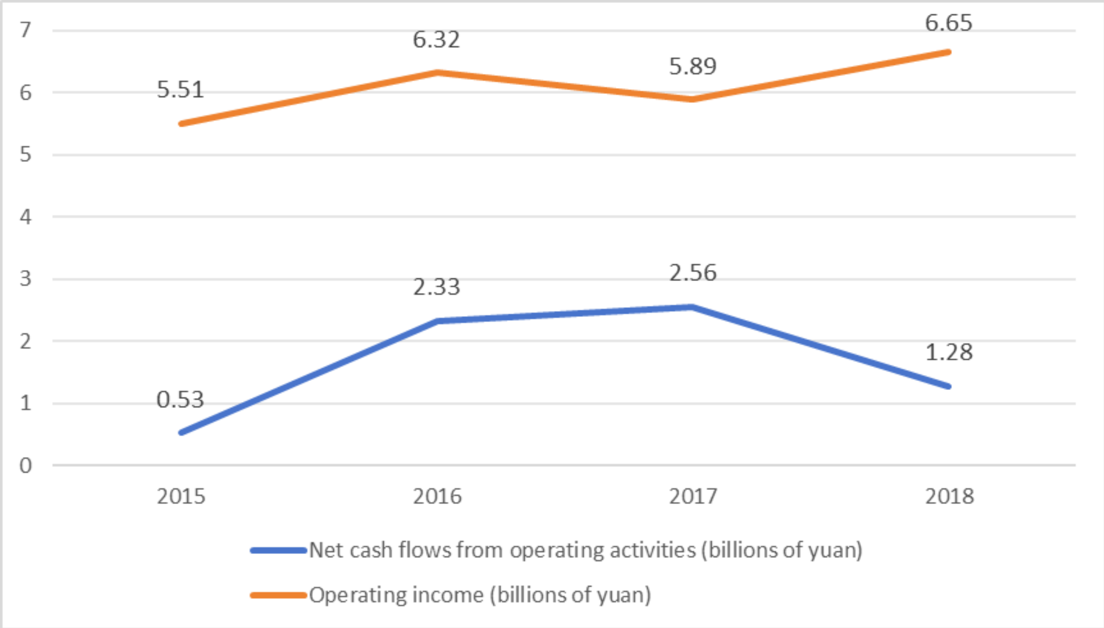

Fig. 4 Operating capacity ratios of China Merchants Property Operation & Service Co., Ltd from 2015 to 2018

From the analysis of operating capacity (see Figure 4), the China Merchants Property Operation & Service Co., Ltd net cash flow from operating activities was 0.53 billion yuan, 0.233 billion yuan, 0.256 billion yuan and 0.128 billion yuan during the period of 2015 to 2018, and the operating income was 0.551 billion yuan, 0.632 billion yuan, 0.589 billion yuan and 0.665 billion yuan, respectively. Operating income showed a fluctuating increase in net cash flows from operating activities, while down in 2018, were generally up compared to 2015. Overall, the company's issuance of the bonds resulted in an increase in the company's operating capacity.

3.2. Equity Financing

China's GDP reached 99.1 trillion yuan in 2019, with a GDP growth of 6.1% year-on-year. China's economic development has gradually shifted into the era of high-quality growth, modern service industry has become the new driving force for growth, and the proportion of tertiary industry in the GDP is 53.9%, the tertiary industry maintains a relatively robust and rapid growth, and the growth and upgrading of consumption is obvious, and it has gradually become the main driving force for economic growth. The concentration of the real estate industry is gradually increasing, and the scale of the stock market is growing, which provides a broad market development space for property management and commercial management. At the same time, with the deepening reform of state-owned enterprises and the transformation of government functions, it also releases new market space for the traditional property management service market, enabling the property management industry to participate in a more diversified way in urban operation services. The new impetus and new demand provided a favorable macro environment for the development of property management and asset management business. The China Merchants Property Operation & Service Co., Ltd through the issuance of additional shares to purchase 100% of the equity of China Merchants Property Management Co. The acquisition of high-quality assets to create a centralized enterprise property management flagship enterprise, comprehensively enhance the competitiveness of the listed company's property management business and enhance the profitability of the listed company.

In 2019, the China Merchants Property Operation & Service Co., Ltd issued an additional 393 million shares at 7.60 per yuan share to raise approximately 3 billion yuan for the purchase of 100% of the equity of China Merchants Property Management Co., Ltd. (see Table 2).

Table 2. The equity details of China Merchants Property Operation & Service Co., Ltd

equity financing details	Actual number of additional shares issued (in millions)	Total amount actually raised (million yuan)	Increase price (yuan/share)	mode of issuance	share registration date	Date of listing of additional issue
2019-12-03	39,338.46	298,972.33	7.60	private offering	2019-12-04	2019-12-05

Due to the fact that the China Merchants Property Operation & Service Co., Ltd did not disclose detailed and accurate information about its specific financing cost data, there is a certain degree of missing data in this study on the financing at the time of the increase.

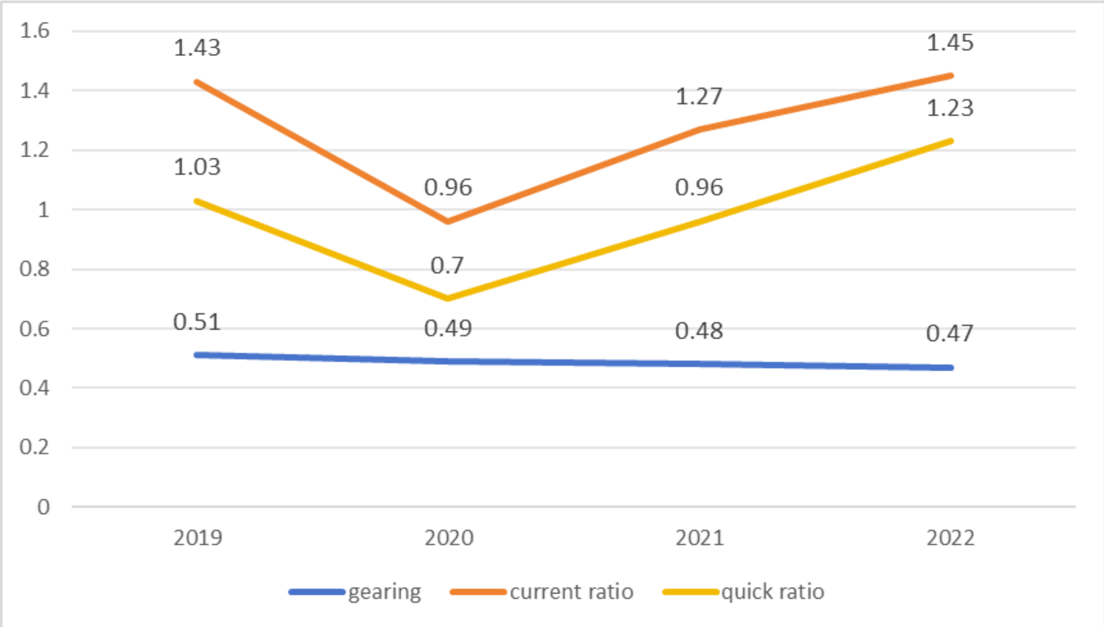

Fig. 5 Solvency indicators of China Merchants Property Operation & Service Co., Ltd from 2019 to 2022

In terms of short-term solvency (see Figure 5), China Merchants Property Operation & Service Co., Ltd from 2015 to 2018 current ratios are 1.43, 0.96, 1.27 and 1.45, and quick ratios are 1.03, 0.7, 0.96 and 1.23 for the period of 2019 to 2022, respectively. Both the current ratio Whether the current ratio or quick ratio are first extremely fast decline and then rise, but the overall or rise and then return to stability, so it can be seen that the issuance will make the company's short-term solvency transient decline.

In terms of long-term solvency, the China Merchants Property Operation & Service Co., Ltd gearing ratio will be 0.51, 0.49, 0.48 and 0.47 respectively from 2019 to 2022, continuing to decline slowly. Overall, the company's long-term solvency capacity is improved by the company's additional issuance

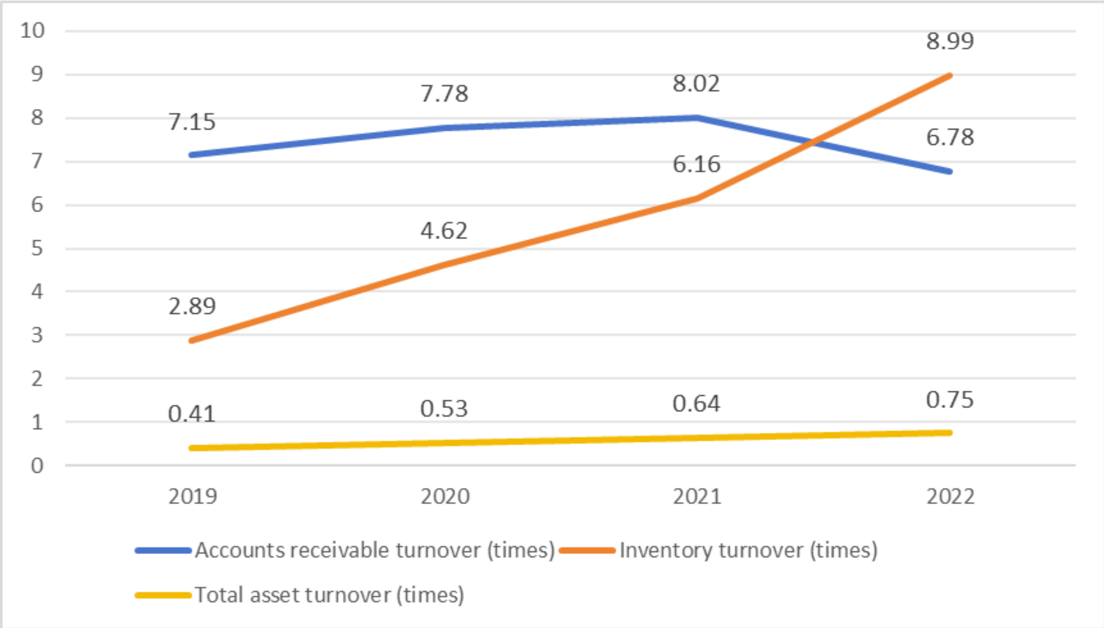

Fig. 6 Operating capacity ratios of China Merchants Property Operation & Service Co., Ltd from 2019 to 2022

From the analysis of operating capacity (see Figure 6), the China Merchants Property Operation & Service Co., Ltd accounts receivable turnover ratio (times) from 2019 to 2022 will be 7.15, 7.78, 8.02 and 6.78 respectively, inventory turnover ratio (times) 2.89, 4.62, 6.16 and 6.78, and the total asset turnover ratio will continue to increase. Overall, the Company's increase in issuance has led to an increase in the Company's operating capacity.

By comparing the different financing channels of the China Merchants Property Operation & Service Co., Ltd as mentioned above, both debt financing and equity financing can provide great financial support for the enterprise and improve the operating ability of the enterprise, but the two kinds of financing also have different risks and advantages and disadvantages. Debt financing improves the solvency of the enterprise but also has great risks. Debt financing may expose the enterprise to financial risks, and if the operation is not good, the high debt principal and interest may lead to capital chain tension or even break. Equity financing may reduce short-term solvency, bring equity dilution, and affect the control and decision-making power of the original shareholders [10]. At the same time, external factors such as market fluctuations and changes in interest rates can also increase financing uncertainty.

For the single financing channel of bond financing and equity financing chosen by the China Merchants Property Operation & Service Co., Ltd, based on the investigation and examination, this paper believes that it is possible to innovate and extend the single financing channel or combine equity financing and debt financing. Innovative extension of single financing channel can be done by issuing green bonds and introducing strategic investors [11]. The combination of equity financing and debt financing can be through mezzanine financing and convertible bonds.

4. Conclusion

Although the financing channels of the China Merchants Property Operation & Service Co., Ltd have their own advantages, they are also accompanied by disadvantages and risks. Based on certain analysis of the China Merchants Property Operation & Service Co., Ltd, financing can bring certain financial support to the company and improve its competitiveness. In the financing decision, enterprises need to weigh carefully. Firstly, they should clarify their own financing needs and development strategies, and reasonably determine the scale of financing. Secondly, it should broaden the financing channels, comprehensively utilize debt financing and equity financing, and reduce the dependence on a single channel. Furthermore, it should improve its own operation and management level and profitability in order to enhance investor confidence. It should also pay close attention to the market dynamics and policy changes, choose the right time for financing, and reduce the cost and risk of financing. Since this paper only analyzes the qualitative analysis of the China Merchants Property Operation & Service Co., Ltd, the data analysis and the object of analysis are not comprehensive enough. In the future, it will expand the financing channel more specific small channel research, try to create a quantitative analysis of the data model can be analyzed on the financing channel selection analysis finer.

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