

Identification and response to the financial risks of Sunshine City Group

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Abstract: Rapid cooling of China's real estate market in recent years, in the face of demand impact and tightening the government capital management requirements, lead to the real estate industry gradually exposed unreasonable high leverage model of hidden financial risk, reasonable analysis of financial risk problems to enhance enterprise risk management ability is to realize the sustainable development of the real estate industry important work. Sunshine city group is a typical microcosm of private real estate enterprises, this paper aims to use the financial risk assessment system, qualitative analysis of sunshine city group financing risk, investment risk, operational risk, capital recovery risk and income distribution risk financial risk five aspects, and combined with Z-score model quantitative calculation of the financial risk, from the qualitative and quantitative assessment of the current financial risk and risk management problems in the process, finally put forward targeted countermeasures, provide reference for our real estate enterprise management financial risk.

Key Words: Sunshine City Group; financial risk; risk control

1. Introduction

The real estate industry is one of the most rapidly developing industries since China's reform and opening up, and it is also an important pillar of China's national economy. In the past 30 years, the real estate industry has experienced a stage of rapid development, accumulated huge wealth and huge amount of capital. However, the prevailing "high leverage, high debt and high turnover" mode for many years has led to the continuous rise of leverage of real estate enterprises, and the financial risks are also increasing. In recent years, in order to stabilize the real estate market, the Chinese government firmly sets the general tone of "housing without speculation", and continuously introduced "three lines and four grades" as well as a number of regulation policies such as purchase and sale restrictions, and the management requirements for the capital end of real estate enterprises are increasingly strict.

Due to the impact of COVID-19, the real estate market has cooled rapidly, and residents' investment and consumption desire have continued to decline, resulting in a serious impact on the demand side of the industry and deep in a crisis of tight capital chain. Therefore, for the real estate enterprises characterized by great capital demand and long recovery cycle, it is important to realize the sustainable development of real estate enterprises to

comprehensively analyze them to avoid the financial crisis and enhance the sustainable development of real estate enterprises. The case analysis of typical enterprises plays an important role in the improvement of the financial risk theory. This paper takes Sunshine City Group as a research case, combined with the special business model and financial risk of real estate enterprises, and puts forward countermeasures, which helps Sunshine City Group to effectively and reasonably avoid the financial crisis.

2. Development overview of Sunshine City Group

Enterprise general situation

Sunshine City Group Co., LTD., was formally established in 1995. In 2002, Sunshine City Group was listed in the Shenzhen Stock Exchange. The group is positioned as a "high-growth boutique real estate operator", focusing on real estate development, accelerating the layout of the whole industrial chain, giving full play to the synergistic effect, and carrying out the development of multiple formats. On the basis of the main business operation of the Sunshine City Group, expand the high value map of commercial real estate and industrial real estate, and successfully build the three product lines: "Sunshine Town", "Sunshine World" and "Sunshine Hui"; in the development of industrial operation, uphold the development concept of "industry integration", and build the

development platform of education and Culture Town and Shanghai Sunshine Industry Science and Technology Innovation Center.

After four years of rapid development, Sunshine City Group will become the 13th place among the top 100 real estate enterprises in China in 2021. However, in 2021, the real estate industry will have great turbulence, and the real estate enterprises have fallen into a short-term liquidity crisis. First of all, affected by the epidemic, the real estate market continues to cool down, and real estate enterprises are generally facing pressure on performance. Secondly, "housing not speculation" and "three red lines" and real estate loan concentration and other policies concentrated on the background, real estate enterprise financing presents a continuous tightening of the supply and demand end of the trend. Sunshine City also began to fall into short-term liquidity difficulties. In 2022, "deleveraging" will remain the main theme of the real estate industry, and the general tone of "no speculation on housing" will remain unchanged, and the property market will continue to be depressed. The sales revenue of Sunshine City Group decreased by 6.13% year on year, and the company suffered a serious loss. At the same time, the company's asset-liability ratio reached 91.64%. Facing a number of overdue debts, the company's cash flow is also not optimistic, and the group has fallen into a huge crisis in terms of liquidity and profitability.

Corporate financial analysis

As shown in Figure 1, 2017-2020 is the period of rapid expansion of Sunshine City Group. Under the guidance of the company's high-speed development strategy, the year-on-year growth rate of the assets and liabilities of Sunshine City Group in 2017 reached 79.97% and 77.07% respectively. Since then, although the growth rate of its assets and liabilities has decreased year after year, the company's assets and liabilities have continued to rise from 2017 to 2021. In 2022, the scale of the company's assets and liabilities decreased significantly, with the year-on-year growth rate of -16.35% and -13.13% respectively, achieving negative growth.

Figure 2 reports the change trend of operating income and net profit of the parent company of Sunshine City Group from 2017 to 2022. At the same time of the rapid expansion of assets, Sunshine City Group's operating income and net profit of the parent company in 2017-2020 also continued to rise. In 2020, the total operating revenue of the company reached 82.117 billion yuan, and the net profit attributable to the parent company reached 5.22 billion yuan. However, in 2021, the total operating income of Sunshine City Group and the net profit of Sunshine City Group decreased significantly, with the year-on-year growth rate reaching -48.25% and -233.17% respectively, and the company's net profit turned from positive to negative. In 2022, the operating income and net profit scale of Sunshine City Group will continue to decline.

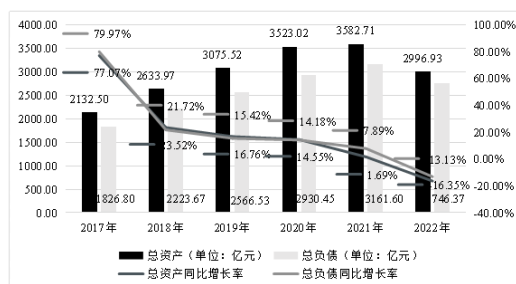


Figure 1 Changes of assets and liabilities of Sunshine City Group from 2017 to 2022

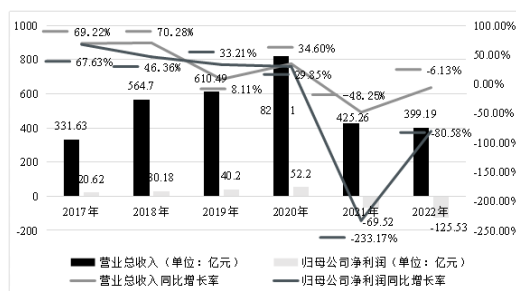


Figure 2 Changes in operating income and net profit of the parent company of Sunshine City Group from 2017 to 2022

2. Financial risk analysis of Sunshine City Group

Financing risk

As can be seen from Table 1, Sunshine City Group has maintained a high asset-liability ratio in the industry from 2017 to 2022, and its asset-liability ratio rose to 91.64% in 2022. At this time, Sunshine City Group has been heavily in

debt. In the future, the current ratio of 0.99 to 0.302, current assets are not enough to cover the current liabilities; In 2021, the high interest burden and cash flow gradually exposed its financial risk, in 2021, the cash flow ratio decreased by 70%, in 2022, its value decreased to -1.82 and -0.012, both negative.

Table 1 Comparison table of financial indicators related to financing risk (%)

年度	2017 年	2018 年	2019 年	2020 年	2021 年	2022 年
流动比率	1.69	1.50	1.54	1.38	1.13	0.99
行业平均	1.53	1.44	1.39	1.39	1.32	1.33
速动比率	0.54	0.56	0.51	0.48	0.36	0.302
行业平均	0.54	0.51	0.47	0.49	0.47	0.46
资产负债率	0.86	0.84	0.83	0.83	0.88	0.92
行业平均	0.79	0.8	0.79	0.79	0.79	0.79
现金流量比率	0.08	0.14	0.09	0.1	0.03	-0.012
行业平均	0.01	0.04	0.04	0.04	0.04	0.03
利息保障倍数	1.49	10.02	7.39	9.93	-5.24	-1.82

Risk in investment

As can be seen from Table 2, the net interest rate of sales and the net interest rate of total assets of Sunshine City Group have been lower than the industry average in the past five years, but it has maintained a good return on equity before 2021. In 2021, the profit index of Sunshine City Group declined off a cliff, and the profit index became negative in 2021 and 2022, and the return on equity in 2022 was as low as -115.43% in 2022. Obviously, when the real estate industry is under the double impact of the demand side and the supply side, Sunshine City Group shows worse profitability compared with the industry as a whole. On the one hand, Sunshine City Group has unfavorable cost control and high cost ratio; on the other hand, Sunshine City Group has excessive investment problems and low investment return, resulting in waste of capital. In short, there are serious problems in the production and operation of Sunshine City Group, especially in the cost control and asset management.

Table 2 Comparison Table of Financial Index Related to Investment Risk (%)

年份	2017 年	2018 年	2019 年	2020 年	2021 年	2022 年
销售净利率	6.72	6.92	7.08	6.68%	-17.62%	-31.67%
行业平均	12.32	12.44	11.85	9.36	2.51	-1.91
净资产收益率	14.33	16.38	18.92	20.76	-33.19	-115.43
行业平均	8.93	12.7	11.94	9.22	2.61	-1.94
总资产净利率	1.34	1.64	1.51	1.66	-2.11	-3.84
行业平均	2.54	2.54	2.49	1.92	0.54	-0.4
投入资本回报率	5.61	2.78	2.99	3.60	-4.76	-8.30
行业平均	5.05	4.91	4.86	3.09	1.25	0.01

Operating risk

Turnover rate is used for the reaction turnover velocity. According to Table 3, before 2021, the accounts receivable turnover rate of Sunshine City Group was much higher than the industry average, reaching 65.23% in 2020, 3.2% higher than the industry average. The efficient accounts receivable management is consistent with the group's business model of high turnover, which is also an important reason for its high return on assets. However, the inventory management ability of Sunshine City Group is relatively lacking, the inventory turnover rate has been below the average level of the industry, and the return on total assets has basically maintained at the average level of the industry. In 2021 and 2022, the indicators of sunshine City turnover rate showed a greater decline compared with the industry average.

年份	2017 年	2018 年	2019 年	2020 年	2021 年	2022 年
应收账款周转率	49.9	63.65	50.49	65.23	22.89	20.39
行业均值	16.94	14.61	13.32	12.21	11.92	10.98
存货周转率	0.25	0.31	0.28	0.36	0.2	0.2
行业均值	0.42	0.42	0.42	0.41	0.42	0.39
总资产周转率	0.2	0.34	0.21	0.25	0.12	0.12
行业均值	0.23	0.22	0.23	0.22	0.22	0.2

Risk of capital recovery

The operating activities of the Sunshine City Group, its investment activities and the cash flow of its financing activities as shown in Table 4 can reflect its capital recovery ability. Before being influenced by the macro-level environment, Sunshine City Group's operating activities have created significant cash flow, This reflects the success of the Sunshine City Group's "three whole" strategy, However, business activities deteriorated in 2021, Net cash flow has decreased significantly, In 2022, its business activities have turned positive and negative, A net outflow of -3.093 billion yuan; Sunshine City Group has invested a lot of money in land development, residential construction and other investment activities and the early investment return is low, Net cash flow from investment activities has always been negative, However, in 2021, Sunshine City Group still invested 11.205 billion yuan, In 2022, Sunshine City Group significantly reduced its outbound investment; The cash flow of Sunshine City Group's financing activities reflects the high debt costs of Sunshine City Group while borrowing large-scale debt.

Table 4 Net Cash Flow of the Company
(Unit: RMB 100 million)

项目	2017 年	2018 年	2019 年	2020 年	2021 年	2022 年
经营活动现金流入	649.91	978.78	1185.84	1318.73	978.08	246.37
经营活动现金流出	561.72	760.47	1031.88	1105.19	886.44	277.30
经营活动现金流量净额	88.19	218.31	153.96	213.54	91.64	-30.93
投资活动现金流入	11.63	25.24	31.27	16.59	101.82	1.13
投资活动现金流出	331.81	183.95	95.46	193.80	112.05	5.50
投资活动现金流量净额	-320.18	-158.71	-64.19	-177.21	-10.23	-4.37
筹资活动现金流入	949.44	826.92	870.08	1038.93	582.60	44.39
筹资活动现金流出	552.31	889.83	918.69	1032.70	934.19	89.62
筹资活动现金流量净额	397.13	-62.91	-48.61	6.23	-351.59	-45.23

Risk of income distribution

The dividend policy of Sunshine City Group in 2019 and 2020 is particularly aggressive, with a year-on-year increase of 257.82% in 2019, and the total dividend reaching 811,539,200 yuan and 1566,756,200 yuan respectively. Although the operating income of Sunshine City Group reaches the highest level in 2020, the growth of dividend distribution is still too aggressive compared with the operating income, increasing the financial risk. In 2021 and 2022, due to the sharp decline in the operating income of Sunshine City Group, the enterprise did not carry out dividend distribution, which reduced the burden of the company's cash flow.

Financial risk analysis based on the Z-score model

1. Model selection

To improve the applicability of the Z-value model, Altman made several improvements to the Z-score model.

The initial model is:
 $Z = 1.2X_1 + 1.4X_2 + 3.3X_3 + 0.6X_4 + 0.999X_5$

The model is mainly applicable to manufacturing listed companies, in July 2000, Altman through a lot of actual case study, finally formed the Z2 model and suitable for the manufacturing listed company financial risk forecast Z3 model, excluding the industry sensitivity higher X5-total assets turnover, the results prove that its applicability is higher than the original Z value model. For the financial risk forecast of Sunshine City Group, Z3 model is selected in this paper, which is as follows:

$$Z3 = 6.65X_1 + 3.26X_2 + 6.72X_3 + 1.05X_4$$

if:

$Z3 < 1.23$, indicating that the enterprise is in the bankruptcy area, and the financial risk is great

1.23 Z32.9

indicates that the enterprise is in the gray area and needs to be alert to financial risks

$Z3 > 2.9$, indicating that the enterprise is in good financial condition and the financial risk is small

3. The Z-value calculation of Sunshine City Group

Table 6. Z-value calculation table of Sunshine City Group

项目 (单位: 亿元)	2018 年	2019 年	2020 年	2021 年	2022 年
流动资产	2354	2725	3015	3054	2504
流动负债	1568	1768	2180	2699	2530
营运资本	786	957	835	355	-26
总资产	2634	3076	3523	3583	2997
$X_1 = \text{营运资本} / \text{总资产}$	0.298	0.311	0.237	0.099	-0.009
Z-score	1.982	2.068	1.576	0.658	-0.060
盈余公积	4.295	5.716	7.605	10.52	10.52
未分配利润	91.47	125.9	167.3	78.17	-47.36
留存收益	95.765	131.616	174.905	88.69	-36.84
总资产	2634	3076	3523	3583	2997
$X_2 = \text{留存收益} / \text{总资产}$	0.036	0.043	0.050	0.025	-0.012
Z-score	0.117	0.140	0.163	0.082	-0.039
税前利润	63.89	67.71	88.20	-71.71	-120.2
财务费用	6.140	9.058	8.404	12.92	51.76
息税前利润	70.03	76.768	96.604	-58.79	-68.44
总资产	2634	3076	3523	3583	2997
$X_3 = \text{息税前利润} / \text{总资产}$	0.027	0.025	0.027	-0.016	-0.023
Z-score	0.181	0.168	0.181	-0.108	-0.155
股票市值(元)	5.15	8.5	6.52	3.02	1.88
股票总数	40.501	40.501	41.382	41.404	41.404
总市值	208.579	344.256	269.807	125.040	77.840
总负债	2224	2567	2930	3162	2746
$X_4 = \text{总市值} / \text{总负债}$	0.094	0.134	0.092	0.040	0.028
Z-score	0.099	0.141	0.097	0.042	0.029
Z3	2.379	2.517	2.017	0.674	-0.225

As can be seen from Table 6, the financial situation of Sunshine City Group was in the "gray area" in 2018, 2019 and 2020, so it should be alert to financial risks and take risk control measures. By 2021, Sunshine City Group will enter the bankruptcy zone, and the situation in 2022 is even more optimistic, and there are huge financial risks. Combined with the analysis of financial indicators, the financial risk of Sunshine City Group is mainly extremely high due to the repayment of high liabilities and interest rates and the decline of sales ability.

Sunshine City Group financial risk countermeasures

Enhance financial risk awareness, improve the internal control system of financial management

The establishment of enterprise financial risk awareness is the first step of financial risk management. Only by identifying with the importance of financial risk management, can we make scientific and reasonable financial risk

response measures. The managers of Sunshine City Group must first realize the importance of financial risk management, and should carry out regular training for employees to strengthen risk awareness. They can establish reward and punishment measures to improve the importance of the financial risk of the enterprise, so that the enterprise can form a good fashion of safety in view of financial risks. In addition, Sunshine City Group should actively cultivate professional risk prevention talents and form a professional talent training mechanism. At the same time, Sunshine City Group should formulate a perfect internal control system in accordance with the regulations, clarify the responsibilities and obligations, and implement them at the same time. From enterprise managers to ordinary employees should act strictly in accordance with the rules and regulations, reduce decision-making mistakes and operational risks, and reduce the occurrence of non-compliance incidents of external guarantee disclosure.

Financing risk response measures

We will reduce the debt scale, expand financing channels, strengthen financing management, and improve the capital structure.

Sunshine city group face heavy debt pressure, should introduce cash flow repayment debt to reduce financial risk, and real estate enterprises compared to other industry inventory turnover is low, in the short term quickly to obtain income into cash flow, in order to quickly solve the problem of short-term debt, sunshine city group can negotiate with short-term debt creditors to apply for debt rollover or repay debt, encourage creditors, debt to reduce the asset-liability ratio, etc. From the perspective of long-term development, Sunshine City Group should continue to achieve real deleveraging, control financial risks within a reasonable range, maintain a reasonable capital structure, keep the scale of equity capital and debt capital unified, and control the asset-liability ratio at about 70%, no more than 80%. In the future development, Sunshine City Group should reasonably control the speed of enterprise capital expansion, formulate scientific development strategy, comprehensively consider the capital

demand of enterprises from multiple perspectives, and ensure that the risk is controllable.

In the formulation of the financing plan, Sunshine City should conduct a scientific evaluation of the financing plan, choose the most reasonable financing plan, avoid a single mode of financing mode, adopt multi-subject diversified financing, open the commercial loan mode, private financing mode and inventory financing mode. Sunshine City Group can adopt the issuance of perpetual bonds, proprietary funds, actively promote debt-to-equity conversion, equity incentive for internal employees, additional new shares and other issuance methods, and pay attention to the use of accounts payable, other payables and other financing channels. Sunshine City Group should also always pay attention to the changes of market interest rate, timely adjust the borrowing structure, and avoid the fluctuation of market interest rate to increase the financial burden of enterprises. Sunshine City Group should also pay attention to the efficient implementation of financing plans, and pay close attention to the accidents in the financing process. Finally, Sunshine City Group should evaluate the actual effect of financing, summarize and analyze the problems in the financing process, and suggest setting up a performance evaluation system and a reward and punishment system.

Investment risk response measures

The return rate of sunshine City Group is low and the efficiency of capital utilization is not high. When making external investment, Sunshine City Group shall establish an internal and external risk and return assessment of the investment project and select the investment

Operational risk response measures

1. Improve the core competitiveness of the products, improve the marketing strategies, and solve the inventory backlog

Real estate enterprises have a high level of product homogenization risk. Real estate enterprises have experienced a stage of rapid expansion, and the competition in the real estate industry is becoming increasingly fierce. Real estate enterprises are capital-intensive

enterprises, and accelerating the return of capital is the top priority of the strategic management of real estate enterprises. Therefore, Sunshine City Group must improve the competitiveness of products when developing the project, focus on market demand, determine target groups, start from quality, product diversification, price and other aspects, establish its own brand image, form brand effect, highlight product characteristics, and build best-selling products according to the target group. Sunshine City Group should also expand sales channels, build a strong sales team, multi-channel and multi-platform publicity, not only to emphasize the diversification of marketing but also pay attention to the pertinence of marketing means.

The consumption power and consumption desire of Chinese consumers have not been fully recovered, and the frequent occurrence of "unfinished buildings" has reduced consumers' confidence in real estate enterprises. Sunshine City Group is facing the problem of inventory backlog. The key to solving the debt crisis is that there must be timely cash inflow. The urgent priority is to improve sales capacity, vigorously promote products and increase sales revenue. At this stage, Sunshine City Group can reduce the sales price, provide a variety of preferential purchase programs, attract consumers, reduce inventory, increase sales revenue, and inject cash flow into the enterprise from operating activities. In the future, Sunshine City Group should give up the "all-round" development plan, regardless of the cost and market supply and demand for land development, but should comprehensively consider the market supply and demand, customer consumption ability and preference, the enterprise's capital situation and other strategic development, expand according to demand, to avoid excessive inventory backlog. At the same time, Sunshine City Group should pay attention to improving the inventory structure, and target the development according to customer needs. Different real estate enterprises need different pricing strategies and pricing methods, so as to improve the inventory turnover rate and accelerate the return of capital.

2. Control the cost and improve the cost management level

Real estate enterprises have a long project development cycle and involve a variety of industries. Cost control is very critical, which directly affects the profitability of enterprises and affects the capital recovery of enterprises. Sunshine City Group's sales net interest rate is low, should increase the cost control and management efforts.

Sunshine city group should develop effective cost management system, in the process of project development, should also be combined with the actual situation of construction, dynamic tracking of the cost and strict control, combined with the actual situation of continuous improvement and management, effectively avoid abnormal cost changes, abnormal cost to find the reason and take measures. Sunshine City Group should also actively control the cost during the period. Under the condition of ensuring the product quality, Sunshine City Group can appropriately accelerate the project completion time, shorten the construction period, improve the construction efficiency, save the cost and accelerate the return of funds. Facing greater financial risks, Sunshine City Group should save money in both production and management, and reduce expenditure while increasing revenue.

Formulate a reasonable income distribution policy

Sunshine City Group should formulate a stable income distribution policy. In the process of policy making, the Sunshine City Group should not only consider the enterprise

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