

Case Analysis of M&A of Real Estate Enterprises in China

-- Take the Case of Sunac and Wanda

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Abstract

Under the dual background of China's real estate macro-control policies tend to be strict and market competition is intensifying, mergers and acquisitions have become an important means for real estate enterprises to expand their scale, enhance their strength, improve efficiency, and enhance market competitiveness. At present, the number of mergers and acquisitions in China's real estate industry continues to increase, and real estate mergers and acquisitions have already occupied the first place in various industries. This paper takes Sunac to acquire Wanda as an example, analyzes the case of M&A of real estate enterprises in China, and discusses the M&A motives of mergers and acquisitions and the M&A risks that may exist in the M&A process, mainly from financial risks, management risks and Three aspects of policy risk were studied, and the corresponding recommendations were given.

Keywords

M&A, real estate enterprises, M&A risk.

1. INTRODUCTION

With the rapid development of the market economy, the M&A activities of Chinese enterprises have become more and more active. In 2013, the number of domestic M&A and the transaction amount reached the highest point in history, which is called China M&A New Year. In recent years, the continuous maturity of the market and the intensification of competition have led to the emergence of the fifth wave of mergers and acquisitions, and it has shown that the world's top companies seek to jointly control resources and divide the market on a global scale, characterized by "strong alliances, Inter-bank mergers and acquisitions." On the morning of July 10, 2017, Wanda Commercial and Sunac China jointly announced a major announcement: Wanda transferred 13 cultural tourism city projects such as Xishuangbanna and 76 hotels including Beijing Wanda Jiahua and Wuhan Wanda Ruihua to Sunac. The amount is 63.75 billion yuan. The largest M&A case in the real estate industry in the mainland, which is known as the "Century M&A", has caused the industry to be in turmoil, but its thinking on the issue of real estate mergers and acquisitions has not stopped. Therefore, it is of great significance to study the impact of real estate M&A activities on the development of the enterprise itself and the entire industry.

2. LITERATURE REVIEW

There are many researches on M&A process at home and abroad. Huang Guiping (2010) pointed out that domestic scholars mainly focus on the impact of M&A on internal economic benefits and financial integration, personnel integration and cultural integration among

enterprises after mergers and acquisitions; Yanyao (2005) and Ren Xiaofeng (2011) proposed that the brand complementarity is close to the concept of "capacity complementary brand association" to a certain extent; Qi Luhang (2013) analyzed the acquisition of Yashili by Mengniu based on the perspective of enterprise growth theory. Motivation, believe that Mengniu's acquisition of Yashili is a win-win acquisition, and put forward the following suggestions: Mengniu should accelerate the integration and complementation of resources after the merger and reorganization of Yashili, implement a diversified business strategy, truly cultivate its own brand and accelerate the overall domestic milk powder industry. The speed of the upgrade; Bai Yuru (2014) on the basis of the research on the existing enterprise mergers and acquisitions theory, innovatively analyzes the merger and acquisition case of P&G company Gillette from the perspective of brand economics. Based on the principle of brand complementarity, this paper analyzes the motivation of M&A, discusses the M&A process based on the perspective of brand integration, proposes a new perspective to observe and evaluate M&A, and provides a new case analysis perspective for M&A theory. Niu Yulin (2017) passed Wanda Assets M&A to analyze the basic operating mechanism of M&A in China, and find that rational asset M&A is an important way to enhance the value of the enterprise and an important channel for realizing the strategic transformation of the enterprise; Xu Zhaohong (2012) analyzes the externalities of M&A in China's real estate enterprises. Pressure and intrinsic motivation, and discussed the risks associated with mergers and acquisitions in the process of mergers and acquisitions, and gave corresponding recommendations. Li Sisi (2017) conducted an economic performance study on the merger and acquisition of Internet companies in China by taking the 58-city merger and acquisition network as an example. It was found that the merger of 58 cities and the market was a successful case and could be used as a reference for later generations.

3. CASE BACKGROUND

3.1. Brief Introduction to M&A Enterprises

Founded in the 1980s, Wanda Group is committed to building a number of industrial groups such as commercial real estate and cultural tourism. In 2017, Wanda Group ranked 380th among Fortune Global 500 companies. In Wanda's industrial layout, business, culture, network, and finance constitute the four major industrial groups. As the financial business is still in the stage of layout, Wanda Plaza, Wanda Wanda City, Wanda Hotel, Wanda Cinema, etc. Wanda's core assets. Wanda Commercial Real Estate Co., Ltd. is a well-known enterprise in the real estate industry. It has a global planning and research institute, a global professional construction team, a global management company industrial chain, and Wanda Plaza built throughout the country. Has become its landmark.

Sunac China Holdings Co., Ltd. is a specialized enterprise mainly engaged in commercial housing. The scope of construction also includes various forms of business such as high-rise buildings and commercial houses. High positioning, strict standards, advanced design novelty and efficient execution system bring good market development potential and loyal customer trust, and are committed to establishing and expanding the brand awareness of its real estate, which is the core business operation. field. In recent years, Sunac has begun to take a radical M&A road and is gradually approaching the three major real estate giants of Vanke, Evergrande and Country Garden. As of June 30, 2017, Sunac's contracted sales were 111.84 billion yuan, an increase of 89% year-on-year, second only to Country Garden, Vanke, Evergrande, Poly, and Greenland.

3.2. Introduction to the M&A Process

On July 10, 2017, Sunac China and Wanda Commercial jointly issued a major announcement, and Sunac will acquire 91% equity and 76 hotel projects of Wanda's 13 corporate travel projects

at a total consideration of RMB 63.17 billion. The two parties agreed that after the completion of the transaction, the planning and development of the Wenlv project will still be managed by Wanda, and the Wanda name will still be used. The hotel project will be executed according to the original contract until the contract expires, and the two parties will cooperate further in various fields. The two sides agreed to sign a detailed agreement by July 31 to complete the collection and payment and related delivery work as soon as possible.

On July 19, 2017, R&F Properties joined and the three parties officially signed a strategic cooperation agreement in Beijing. Wanda added Yantai Wanda Hotel to the 77th hotel project, and transferred 77 hotel projects to R&F Properties for a price of RMB 19.096 billion. 91% of the 13 CB projects were transferred to Sunac Real Estate Group for RMB 43.844 billion. The total amount is 63.75 billion yuan. Compared with the agreement signed on July 10, R&F Property was added as the trading party, but the total amount of the transaction and the transaction amount did not change much. So far, the largest M&A case of real estate in the mainland, known as "Century M&A", has come to an end.

4. CASE ANALYSIS

4.1. Analysis of the Causes of Mergers and Acquisitions in Real Estate Enterprises

4.1.1 Analysis of Motivation of M&A Party——Taking Rongchuang as an Example

4.1.1.1 Obtaining land resources at low prices

As a real estate enterprise, land resources are the premise of its survival and the basis for its development. With the strengthening of the national IPO restrictions on real estate enterprises and the implementation of the restricted auction policy, enterprises are facing difficulties in both the preparation of funds and the acquisition of land resources. As a means of obtaining control, mergers and acquisitions not only avoid the fierce competition from the primary market, but also save development costs to a certain extent. In this case, if the transaction consideration is only calculated according to the total transaction price of 29.75 billion, the acquisition cost of Sunac shows that the average floor price is only 594.71 yuan / square meter, and Wanda is a star enterprise with great status in China.

4.1.1.2 Eliminate some of the competition in the same industry

With the introduction of a series of regulatory policies such as China's purchase restriction and restricted loans, the real estate market has entered a state of continuous downturn, and the competition in the real estate industry has increased. The unit price is no longer determined in the profitability level. Instead, it is replaced by more aspects. competition. In addition, operational management capabilities, brand effects, and industrial models are increasingly becoming the mainstream of real estate competition. M&A activities between real estate companies can happen to achieve industry concentration and short-term complementarity. Mergers and acquisitions companies are also more likely to occupy a favorable position in the new competition model, which solves this problem while forming the scale of the enterprise.

4.1.1.3 Entrepreneurship

In addition to the pursuit of substantial development of enterprises, entrepreneurs' personal satisfaction with the expansion of ambition is also one of the motivations for corporate mergers and acquisitions. Sun Hongbin, chairman of Sunachuang, has a distinct personality and a strong sense of professionalism. Judging from Sunac's M&A path and expansion strategy, Sun Hongbin is not willing to succumb to Vanke, Evergrande and Country Garden. The radical mergers and acquisitions are making Sunac close to the three giants in real estate enterprises. As of June 30, 2017, Sunac's contracted sales were 111.84 billion yuan, an increase of 89% year-on-year, second only to Country Garden, Vanke, Evergrande, Poly, and Greenland. In the eyes of Sun Hongbin's friends, since 2003, Sunac has been the first high-end project in Tianjin. In just over

a decade, it has become a first-line housing company, and its capabilities and ambitions are extraordinary.

4.1.2 Analysis of the Motivation of the Merged Party——Taking Wanda as an Example

4.1.2.1 Replenish cash liquidity and return to A shares

Wanda understands that the most fundamental thing is to supplement cash liquidity. Since the delisting of Hong Kong on August 15 last year, Wanda Commercial has always lacked a financing channel similar to Sunac. Although the plan back to A has been on the Wanda Group's calendar, in fact, as early as the second half of last year, Wanda Commercial submitted a prospectus to the China Securities Regulatory Commission. At present, Wanda Commercial ranked 65th, and the status shows "has feedback". To solve the liquidity problem, Wanda's primary problem is to get listed as soon as possible. According to the "Wanda Commercial Privatization Investment Fund Promotion Manual", if Wanda does not complete the A-share listing after two years of privatization, Wanda or a designated third party will provide 10% annual repurchase, and the investor will receive the highest rate after deducting various taxes and fees. More than 5.5% of revenue.

4.1.2.2 Transition to "light assets"

The heavy asset characteristics of the real estate industry that have a large demand for funds make the real estate company's asset-liability ratio generally higher, while the excessive debt ratio is not conducive to corporate IPO and post-listing circulation. Wanda's liabilities continued to rise on the eve of the merger, which accelerated the transformation of Wanda Wanda's slimming assets and "light assets". In this transaction, Wanda transferred the assets and liabilities of the travel and hotel projects involved in the transaction to Sunac, and Wanda was only responsible for brand and operation management. Therefore, Wanda's balance sheet is more glamorous and its debt ratio will drop significantly.

4.1.2.3 still has management and control

The transaction terms of Sunac and Wanda stipulated "four unchanged", namely: the project holding property still uses the "Wanda Cultural Tourism City" brand; the planning content remains unchanged, and the project is still developing and constructing according to the government approved plan and content. The project construction remains unchanged. The design, construction and quality of the project-owned property are still controlled and controlled by Wanda; the operation and management remains unchanged, and the project operation management is still handled by Wanda. For Wanda, on the one hand, its brand influence will not change, on the other hand, after the merger, it still grasps the initiative of project operation.

4.2. M&A Risk Analysis

4.2.1 Financial risk

The financial risks of real estate mergers and acquisitions mainly include pricing risks, financing risks and payment risks. The valuation of the target company is the core content of the M&A transaction. The key to successful M&A is to determine the reasonable transaction price. The financing risk mainly refers to the source of funds risk related to the M&A guarantee and capital structure, such as whether the financing method is suitable for M&A motives; Risk refers to the risk of using M&A funds related to liquidity and equity dilution. In the process of mergers and acquisitions of real estate enterprises, due to various factors, the company may face financial crisis. These factors are permeated throughout the M&A process. Once there is not enough attention, the company will face enormous financial pressure and even bankruptcy.

4.2.2 Management risk

The management risk of real estate mergers and acquisitions mainly comes from the integration risk. The merger and acquisition of real estate enterprises involves assets, finance, organization, management, human resources and corporate culture. It is a very complicated process. M&A integration is the key to the success of real estate M&A. Only by integrating from strategic, tangible resources and intangible resources can we truly achieve the M&A strategic objectives of real estate enterprises. Only by effectively integrating the resources from the merger with the original resources of the enterprise can the synergy effect be realized, the cost of the enterprise can be reduced, the efficiency of the enterprise can be improved, and the merger and acquisition party can achieve a competitive advantage over the peers, thereby promoting the growth of the enterprise.

4.2.3 Policy risk

The policy risks of real estate mergers and acquisitions include uncertainties such as national credit policies and land policies. The real estate industry has a major impact on the national economy. The state's macro-control of the real estate industry is more strict and more powerful than other industries. Credit policies, land policies, etc. often change due to changes in the national economy, and bring extremes to real estate enterprises. Great impact. The "M&A M&A" of Sunac Wanda is large in scale and involves a large amount. Once the future industrial structure regulation is not conducive to the real estate industry, it will bring a large loss to the M&A party. Therefore, real estate enterprises should carefully analyze the country's macro policy background and the status quo of China's financial system, and judge the life cycle of the enterprise on this basis, and adopt the M&A strategy that adapts to it.

5. CONCLUSION

The "century mergers and acquisitions" of Wanda Commercial and Sunac China have come to an end. Whether the mergers and acquisitions of Sunac and Wanda are a win-win situation remains to be tested. However, it can be seen that overall, the horizontal mergers and acquisitions of the real estate industry will continue to be staged in the future. The strategic alliances between star-based enterprises such as Wanda and Sunac will continue to deepen, while the trend of the strong and strong will not be in a certain period of time. Will change. In addition, real estate mergers and acquisitions help real estate companies to explore economies of scale, enhance industry concentration, and improve the overall quality of the real estate industry. According to their respective strategic development goals and realities, enterprises scientifically analyze the motivations and risks of M&A, which contribute to the success and goals of M&A.

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