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Profitability Analysis of Real Estate Enterprises —The Case of Company T

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Abstract: *Real estate industry is a pillar industry of national economy and plays an important role in national economy. This paper takes Company T as an example, analyses the financial status and profitability indexes of the enterprise, compares and analyses them horizontally with the indexes of the same industry, finds out the problems of the enterprise's profitability and puts forward the corresponding measures and suggestions.*

Keywords: *Company T; Profitability; Suggestions*

1. Introduction

The real estate industry plays an important role in China's economic development, which constitutes an important part of China's GDP and is one of the important economic pillars of China. The purpose of real estate enterprise operation is to obtain profits, and the profitability of the enterprise is the core used to evaluate an enterprise. The analysis of enterprise profitability lies in analysing the profitability of the enterprise and discovering the problems existing in the enterprise, improving the profitability of the enterprise through the correct corresponding improvement measures, increasing the profit of the enterprise, improving the competitiveness of the enterprise, and promoting the sustainable and stable development of real estate enterprises.

2. Development status of China's real estate industry

The land market has entered the freezing point due to strict control over real estate capital since the completion of real estate development investment in 2021. As a result, private development enterprises are now unable to purchase land. The overall scale of investment in the industry has been affected, as the difficult access to land investment has rendered it insufficient to support the industry's growth. From the commercial property sales and pending sales situation, the first half of 2021 and the second half of the commercial property sales area increased by 28% year-on-year and decreased by 15%, indicating that the first half of the better market performance is the main support for the annual record high. From the point of view of the industry's overall profit growth, the industry's overall profit is into a downward trend. 2011-2020 listed real estate enterprise profit margin from 15.9% to 9.6%, return on net assets from 14.5% to 11.2%, the real estate industry profits in the gradual downward trend[1].

3. T Company Development Status

3.1. Basic overview of the company

Company T is a local state-owned enterprise, the company is mainly engaged in real estate development, property rental, property management and other businesses. The business scope is infrastructure development, construction and operation; investment in real estate with its own funds; sales of commercial properties; real estate agency services; rental of own houses; property management; engineering project management services. Real estate development business is the Company's main business[2]. Among the Company's real estate development projects, the projects under construction and for sale are mainly located in Tianjin Binhai New Area, and most of the commercial projects are located in Tianjin Free Trade Zone. On 6 April 2000, the Company's shares were listed on the Shenzhen Stock Exchange, and the Company officially became a listed company.

3.2. Company T's Operating Characteristics and Profit Model

While Company T excels in its primary business of real estate development, it also utilizes its existing commercial resources to construct a specialized professional industrial park. Moreover, the company has positioned T Zhigu, the municipal incubator, as a platform to leverage the industrial base of the park and expedite the implementation of the "incubator + accelerator" model for industrial operations. It has set up the "China (Binhai New Area) Intellectual Property Protection Centre T Smart Valley Workstation", becoming the only professional intellectual property service institution in the Free Trade Zone, and has won various awards such as the National High and New Technology Enterprise Award. The project of Toucui Road was fully revitalised, and the project was delivered and operated on schedule, and the company joined hands with the leading enterprise Fraser Group to build high-end foreign flats, which won the award of the central government for newly built leased housing. The Company signed a strategic co-operation agreement with China Resources Vanguard, injecting new vitality into enhancing the supporting environment of the region[3].

The profit model of Company T is the industry-city development model, which is a comprehensive real estate business that cuts through primary and secondary development to provide a full chain of services from regional planning, development and construction, industrial introduction to industrial investment and industrial services, and its core competence includes financing capability, comprehensive development capability and industrial integration capability. In terms of profit model, the most important profit source of the enterprise is mainly residential and commercial sales, supplemented by rental income, policy income and government incentives.

3.3. Analysis of Company T's Profitability Status

3.3.1. Financial status of Company T in the past five years

The total assets of Company T grew from 1030227 million yuan in 2017 to 1284955 million yuan in 2021, with the total assets around 10 billion yuan, and the total asset scale is a small and medium-sized enterprise in the real estate industry.In 2021, the total assets of Company T were 1284955 million yuan, and the current assets were 10838.35 million yuan, which accounted for 84.35% of the total assets, and the quality of the current assets decided the Company's overall asset quality, which will also have an impact on the turnover efficiency and profitability.

Total profit in 2021 will be 188.86 million Yuan, which is a big increase compared with -335.44 million Yuan in 2020, and total profit will mainly come from internal operating business, and the profit base of the enterprise is relatively reliable. Operating profit has increased rapidly along with the rapid expansion of operating revenue, and the operating business has been carried out well[4].

The company's net cash flow from operating activities for five consecutive years was negative for four consecutive years from 2017 to 2020, implying that the company's capital pressure and operational risk increased, and the net cash flow from operating activities was at its highest level in 2021 indicating that the net inflow of sales returns was the largest in that year. Net cash flow from investing activities indicates that Company T invested more in 2017 and 2021, and did not reduce its investment in 2021 because of the national policy. The net cash flow from financing activities shows the net increase in the company's financing, and Company T has a large-scale new number of financing loans in 2020, and a negative value in 2018, 2019 and 2021 shows that the company's market is not so good.

3.3.2. Analysis of stability and trend of profitability of Company T

According to the financial report of Company T Jian for the past five years, its main business profit share is more than 90% or more every year, which shows that the company's profit source is very single, and the company's profit source is almost all property sales. This shows that the main business profit is more stable than the non-operating profit, the enterprise almost no other business profit, investment income and non-operating income and expenditure occupies a smaller proportion of the total profit. Because the proportion of profit from main business reflects the stability of the source of corporate profitability, the proportion of profit generated by the main business occupies the number of total business operations, which can clearly judge the stability of corporate profitability or not. From this, it can be concluded that from 2017 to 2021, the profitability of Company T is still relatively stable on the whole.The total profit of the enterprise fluctuates sharply from 2017 to 2021, and the profitability level of Company T is affected by the larger factors of policy and environment.The growth rate of total profit in 2021 is 156.30%, which indicates that the company is under the influence of the policy and the epidemic, and the company is gradually to the good discovery. the overall profitability level of

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Company T is decreasing and the growth rate of profit is decreasing[5].

3.3.3. Comparative analysis with the industry

The analysis comparing and contrasting three real estate listed companies and enterprises, namely Vanke A, Poly Development, and Jindi Group, revealed a declining trend in the cost and expense margin of T company from 2017 to 2020. Particularly, the decline in 2020 was substantial. Despite the input of cost and expense, the enterprise did not generate corresponding profits. This observation indicates that the control of costs and expenses has weakened, necessitating a strengthening of cost and expense management. Moreover, the increase in total operating costs exceeded the total profit, emphasizing the importance of cost and expense control.The cost and expense ratio of Vanke A, Poly Development and Jindi Group is relatively stable, and in 2021, the three comparative companies all showed a downward trend, with a relatively small decline, and the three companies' ability to control costs and expenses is much greater than that of the enterprises.

By comparing and analysing the return on net assets ratio with the three companies, Company T's return on net assets ratio is low, indicating that the company's income from investment and the efficiency of the use of its own capital is low. The other three companies have a return on net assets greater than 16% in 2017-2020, and all three companies have a decreasing trend in return on net assets since 2019, indicating that the policies introduced by the state have a greater impact on corporate investment. The minimum value of return on net assets of the three companies 9.78% is greater than the maximum value of return on net assets of Company T in 2017 8.02%, which is a large gap in comparison with the three companies, indicating that the days of Company T should pay attention to the efficiency of the use of its own capital as well as pay attention to the aspect of corporate investment.

Comparative analysis in terms of return on total assets can be seen that company T has the highest return on total assets in 2017, and there is a downward trend in 2018 and 2020 and the largest decline in 2020, indicating that the company's capital utilisation is very low. total profit in 2020 decreased by 223.21% compared with the previous year, indicating that the company's profitability has declined, and attention should be paid to the adjustment of the capital structure to promote the enterprise's Asset operation.Company T's total return on assets value was close to that of the other three companies in 2017, but since 2018, the gap between the enterprise's total return on assets and Vanke A, Poly Development and Jindi Group has widened, and the enterprise should strengthen the enterprise's overall capital turnover speed, propose targeted measures to strengthen the enterprise's overall operation level, and optimise the enterprise's profitability.

4. T company profitability problems

4.1. Enterprise cost rise

The enterprise's operating cost in 2021 is 123,826,000 yuan, compared with 32,971,000 yuan in 2020, an exponential growth, an increase of 2.75 times. 2021 cost of sales is 95,340,000 yuan, compared with 24,054,000 yuan in 2020, an exponential growth, an increase of 3.96 times, is the result of year-on-year growth in sales and service fees. From the point of view of changes in the proportion of selling expenses to sales revenue, selling expenses increased substantially in 2021 while revenue also increased substantially, and the effect of the enterprise's sales activities was obvious, but in relative terms, the growth of selling expenses was faster than the growth of operating income.Administrative expenses in 2021 were 31.034 million yuan, compared with 35.152 million yuan in 2020, with a relatively large decrease. Overhead expenses were effectively controlled, operating profit rose significantly, and the efficiency of overhead expenses was significantly improved.Financial expenses in 2021 were RMB178,881,000, a large increase of 91.5% compared with RMB93,369,000 in 2020.The financial expenses in 2021 were RMB178,881,000, a large increase of 91.5% compared with RMB93,369,000 in 2020.

Pre-enterprise development expenses include planning management fees, bidding management fees, contract review fees, design fees, sales permit announcement fees, and filing deposits; pre-engineering fees include temporary facilities fees, budget preparation and review fees, quality supervision fees, and engineering supervision fees. In addition to government supervision, government departments also require developers to appoint a construction supervision company to supervise and manage construction costs, construction quality and progress on behalf of the owner in accordance with relevant state regulations. The fees paid by the developer for this purpose are the quality monitoring

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and supervision fees. Construction and safety costs include civil engineering costs and equipment installation costs. For the enterprise cost cost investment is huge, more need to strengthen the cost control.

4.2. Low return on total assets

Company T's total return on assets from 2017 to 2021 are 6.05%, 2.54%, 2.90%, -3.31% and 1.57% respectively, the real estate total return on assets is 5.57% on average, and the enterprise reaches the average level in 2017, but the total return on assets is low for four consecutive years from 2018 to 2021, which is a big gap with the industry average.

3.3 Return on net assets continues to decline
The average return on net assets of the real estate industry in the past five years was 12%, and the return on net assets of the enterprise from 2017 to 2021 were 8.36%, 1.86%, 3.61%, -6.09%, and 0.90%, respectively, and the return on net assets of the enterprise for five consecutive years were far less than the industry average.

5. Suggestions to improve the profitability of Company T

5.1. Improve the control of corporate costs and expenses

5.1.1. Strengthen the management of project planning and construction stage

In the project planning stage, demolition and relocation compensation and land acquisition cost control, you can focus on the location of the development project to consider the geographic location, traffic conditions, the scale of development and construction and consumer groups, which directly determines the land acquisition and demolition and relocation compensation costs. At the same time, we should be familiar with the government's policy on the payment of compensation for demolition and relocation, and try to strive for a variety of preferential conditions, get government support, shorten the time of land development and finishing and the project development cycle, so as to reduce the cost of development. The security deposit paid for the previous project cost should be claimed back in time when it is due. Bidding control, construction units in the acquisition of land at the same time to set up a strong project management team, planning and design, construction, supporting equipment and major materials to take the open bidding to determine the selection of units with the appropriate qualifications and good reputation to participate in the project construction, can reduce the shortening of the construction period and construction costs. Planning and design control, need to set up a special internal engineering design management department, the development of detailed design requirements, and the design unit of the design programme and construction drawings for strict audit, the project's materials and equipment selection, design reasonableness and safety, such as a comprehensive assessment and audit, to avoid the occurrence of irrational design, construction difficulties, loss and waste.

In the construction phase of control, through the bidding way to select the construction unit, in the signing of the construction contract, the total price of the project using "one price" and engineering design changes according to the actual settlement of the final account. For the construction process of the project with a large amount of large price differences, the quality of the project plays a decisive role in the material by the real estate developers unified external bidding procurement, direct supply to the construction unit, so as to reduce costs and improve the quality of the project at the same time.

5.1.2. Strengthen the management of period costs

For the control of financial expenses, enterprises can adopt various measures to manage the project investment funds effectively. One approach is to utilize different financing channels to fulfill the requirements of project development. Furthermore, the sales speed of the project can be enhanced by implementing strategies to expedite the return of funds. Additionally, enterprises can consider providing preferential policies to encourage customers to make one-time payments, thereby increasing the project's cash flow. Moreover, it is essential to handle mortgage loans promptly if they are available for the project. By attaining the necessary conditions for mortgage loans during the project's progress, the borrowing interest expenses can be effectively minimized. Another aspect that needs attention is adhering to the project's payment schedule strictly. To ensure timely completion, the construction unit of the project should strengthen supervision and offer timely rewards and penalties based on the progress made. Ultimately, by shortening the project cycle, the time of capital consumption will also be

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reduced substantially.Control of sales costs, for the project planning costs, according to the market positioning of the project, to develop a reasonable sales strategy to start a timely pre-collection programme, in the control of advertising costs, different advertising methods have different effects and costs also have a greater difference in the full comparison and demonstration after the lowest cost to achieve the best advertising results.

5.2. Measures to improve the return on total assets

If you want to improve the total return on assets of the enterprise, you have to improve the capital turnover rate. First of all, to shorten the development cycle of the enterprise, especially in the pre-construction preparation stage, it is necessary to clarify what products to do in the end when taking the land, not to take the land for the sake of taking the land. Before taking the land with the feasibility analysis of nearby plots of land, the geological situation should have an understanding of the land to be taken with the company's development and project team building to match the best benefits. Land to open, product capability and design capability is to shorten the development cycle of the two main factors, marketing and design of the work front can be beneficial to the early opening, the product product product programme earlier set, you can communicate with the Planning Bureau to carry out, a series of licensing, synchronization can be done to do the construction drawings and design, to be able to largely shorten the business development cycle. Secondly, control sales and payback rhythm, accelerate the speed of capital turnover. In the marketing strategy, from the importance of sales signing to pay attention to "more money back", the payment terms of bad customers would rather not. The sales strategy and preferential policies are linked to the payment terms of the customers, and by setting up special concessions, the buyers are encouraged to make down payment early, increase the proportion of down payment, or even pay in full, and certain discounts can be set up for early repayment in instalments. In terms of internal management, the KPI assessment system was adjusted, reward and punishment measures for repayment were improved, a repayment team was set up for cross-departmental co-ordination and close tracking of the progress of repayment, and an awareness of repayment was fostered among all staff.Ensuring timely repayment to maintain a healthy cash flow has emerged as a viable strategy (4.3) for enhancing the enterprise's return on net assets amidst financial constraints.

5.2.1. Broaden enterprise sales channels

Through the way of resource exchange, you can exchange resources with companies that have large customer resources, such as communications, banks and training companies. You can broaden customers according to the local enterprise information channels, carry out media and self-media publicity channels to broaden customers, or carry out the way of property experience activities.To broaden enterprise sales channels and sell the backlog of inventory, one effective approach is to engage in real estate self-media, such as utilizing social media platforms like Today's Headlines, Jittery, and Fast Hand. Soft marketing techniques can be employed to establish a distinct brand persona and foster strong relationships with customers through various channels. It is crucial to target major customers in close proximity to the project, including large institutions, social groups, office buildings, communities, supermarkets, entertainment services, and department stores. This requires tapping into not only the developer's existing customer resources but also other relationship networks, such as those of agents or the second and third market. By employing resource substitution strategies and leveraging the power of property media, the enterprise can significantly expand its sales channels and successfully sell its inventory.

5.2.2. Reasonable configuration of the enterprise's capital structure

Enterprises should accelerate the return of funds and the reasonable use of endogenous financing to strengthen the company's ability to accumulate capital. Firstly, by accelerating the sale of goods, the use of advance accounts to accelerate the return of funds and ease the pressure on capital. Secondly, the proportion of equity financing should be increased appropriately, because the financing scale of endogenous financing has certain limitations, for large-scale financing, the proportion of equity financing should be increased.

6. Conclusion

To sum up, through the analysis of profitability indicators and comparison with the same industry, the problems of rising costs and expenses, total return on assets lower than the industry average and

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low return on net assets exist in Company T. By strengthening the management of the enterprise project planning, construction phase and the control of the period expenses, improving the capital turnover rate, broadening the enterprise sales channels, rationally configuring the enterprise's capital structure and improving the competitiveness of the enterprise, it can improve the enterprise's profitability, enhance enterprise competitiveness, and promote the sustainable development of real estate enterprises.

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