Enterprise Financial Risk Evaluation
-- Take Real Estate Enterprises as an Example

Weizheng Ji¹, a, Yifan Liu², Jia He¹, Yan Sun¹

¹School of Business Administration, Anhui University of Finance and Economics, Bengbu, China
²School of Finance, Anhui University of Finance and Economics, China

a76938849@qq.com

Abstract

Financial management is an economic management work that organizes the financial activities of enterprises to raise funds, invest and operate, and deal with the financial relationship between enterprises and various related units and departments. It aims to achieve the goal of maximizing profits and maximizing shareholder wealth. However, since ancient times, risks and benefits have always co-existed. To obtain greater benefits, they often have to pay more. Greater risk must be taken. Therefore, enterprise risk management is an indispensable part of the company’s financial management. Especially in recent years, the development of enterprises has changed from a single business model to a diversified model. This trend is bound to generate corresponding financial risks. Therefore, a reasonable analysis of financial risks is urgent. The core of enterprise risk management is the management of financial risks, and the focus of financial risk management is to control and manage the major financial risks and financial crises that may appear in advance, so as to avoid the transformation of financial risks into financial crises and survival crises. To enable enterprises to obtain sustainable survival and sustainable development. Therefore, this paper takes the financial risk analysis of real estate enterprises as an example, focuses on the research and analysis of the relationship between the financial management status of enterprises and operating risks, and makes a preliminary discussion on how to implement effective risk management.

Keywords

Corporate Financial Risk; Real Estate.

1. The Existence of Corporate Financial Risks

The American scholar Haynes was the first to put forward the concept of risk. In his mouth, risk is defined as "risk is the possibility of loss". Risk means possible loss, if it cannot be avoided in time, it will inevitably lead to appropriate loss and increase of expenses. The financial risk of an enterprise refers to the financial benefits obtained by the enterprise within a certain period and within a certain range due to the internal and external environment and various unforeseen or uncontrollable factors in various financial activities. The possible factors that cause the enterprise to suffer economic losses due to deviation mainly include financing risk, investment risk, capital recovery risk and income distribution risk. Among them, some come from inside the enterprise, and some come from outside the enterprise. For example, the internal laxity of the organization caused by poor management, product quality accidents, delivery delays, etc. are the internal business risks of the enterprise. Another example is the decline in market demand, the improvement of market competitiveness and the increase in procurement costs,
which are all social risks outside the enterprise. The real estate enterprises that need to be analyzed in this paper are of the nature of capital-intensive industries, which also determines their unique characteristics of large financing needs, long capital recovery periods, and extremely high project investment, all of which are in line with the major forms of risk. Therefore, real estate enterprises There must be high risk and high return. Recently, many "unfinished buildings" have appeared in many cities. The so-called unfinished buildings refer to the real estate that has gone through the land use and planning procedures, and has been suspended for more than one year after the project starts because the developer cannot continue to invest in construction or is caught in a debt dispute. Project, isn't this a potential financial risk that real estate companies did not consider at the beginning of their development? Such real estate, the original developer is unable to continue, and the new developer has no intention to take over, so it can only be half-completely located in the city, there are several such "buildings" in the city, this is not only a waste of resources, It also destroys the urban landscape. Since 1990, every step of the development of real estate enterprises has actually affected people's lives and subtly changed the pattern of economic development. Compared with other enterprises, real estate enterprises take on more types of risks and have wider sources. In theory, real estate enterprises have long-term financial risks. This distinctive feature is officially determined by their own industry characteristics. The construction period is large and the capital demand is large. In addition to the background of the socialist market economy, it is necessary to make an in-depth analysis of its risks.

2. Sources of Corporate Financial Risks

As one of the important pillar industries of my country’s economic development, the development trend of real estate has always been positive on the whole, and it plays an important role in promoting my country's GDP growth and accelerating my country's urbanization process. pressure and burden, but still generally improve people's living standards. However, with the rise of real estate companies, the intensification of interests has driven more and more people to enter the real estate industry, and the soaring housing prices have indirectly aggravated the problems of people's livelihood. The expansion of real estate has also reduced the development speed of the entire real estate industry, and even the overall weakening of real estate companies in some regions. This is not only a financial risk that real estate companies are eager to analyze, but will rise to the national economic level over time. Comprehensive analysis, the main sources of financial risk of real estate enterprises are as follows: First, it is the inherent characteristics of real estate enterprises. 1. Real estate enterprises can also be called real estate. The reason why it is called real estate is because its location is fixed, which is also the most different point from other industries. The location has been determined from the beginning of construction, including the orientation and structure of the house. During the construction process, the surrounding environment will inevitably change. At this time, the house price will passively change with the surrounding environment, and the income will be uncertain. Not only that, but geographical location is also a decisive factor in housing prices. Once a commercial area is established around the property, the cost will increase accordingly. Of course, while ensuring that the future importance remains unchanged, the housing price will also increase accordingly. 2. The necessary attributes and labor consumption of real estate determine that it requires a very high investment amount. It is not a model of one-handed delivery and one-handed delivery like other commodities. In the early stage of housing development companies, it is necessary to select land, input costs for land purchase and construction, which requires a large amount of up-front capital to maintain its own continuity. The vast majority of these funds come from bank loans, which are inherently risky. Whether it is a real estate company as a borrower or a bank institution as a lender, the financial risks are self-evident.
The second is the transaction market problem of the real estate industry. My country's real estate industry emerged relatively late. It was not until the late period of reform and opening up that it gradually emerged under the influence of open thinking. Therefore, the development time is relatively short and the development level is not high. The primary problem, whether it is the development process or the management norms are not very mature, resulting in insufficient focus, the future is relatively blind, and it is in the stage of exploration. However, when our country is still immature, the gap between domestic and foreign competition levels will be enlarged, and housing price control policies and non-standard operating procedures are particularly evident in the market, which may lead to financial risks for real estate companies. The last factor is the company itself. When it comes to enterprises, it is inevitable that the management level of the enterprise is a problem. Real estate development is a macro-level undertaking, which is long and complicated. Managers must be able to distinguish opportunities and challenges in numerous events and time points, which requires a great level of financial management. A real estate company is a huge investment, and every move will have a wide range of implications, and even a small decision can directly determine the fate of a company. In general, there are many sources of corporate financial risks and angles, which are unpredictable. What we can do is to try our best to prevent them.

3. General Methods of Enterprise Financial Risk Analysis

Univariate decision model. This method is to use a single financial ratio to evaluate the financial risk of enterprises. The basis is: when a company is in financial distress, its financial ratio is significantly different from that of a normal company. It is generally believed that the more important financial ratios are: cash flow/total liabilities, return on assets, and asset-liability ratio. The use of financial indicators for risk evaluation in a univariate model is a great improvement, with a single indicator, which is simple and easy to implement. However, one-sidedness of the evaluation is inevitable. This method was adopted when people began to recognize financial risks, but with the increasingly complex and diverse business environment, it can no longer fully reflect the comprehensive financial status of enterprises.

Operational capability analysis, operational capability reflects the enterprise's ability to use and manage assets, and the production and operation process of an enterprise is the process of using assets to obtain benefits. Assets are the economic resources of an enterprise's production and operation activities. The utilization and management of assets directly affect the income of the enterprise. Through analysis, we can understand the preservation and appreciation of enterprise assets, so as to effectively evaluate financial risks.

In the analysis of development capability, whether it is an enterprise's managers, investors, or creditors, they are very concerned about the development capability of an enterprise, because it is related to their immediate interests. By analyzing the development capability of the enterprise, the development potential of the enterprise can be judged, and the business prospects of the enterprise can be predicted, thus providing an important basis for enterprise managers and investors to make decisions, and greatly reducing the financial risk. Real estate companies can make decisions that are more suitable for them, including the scale of construction and the location of construction within their capabilities, through appropriate investment and production of their own development capabilities.

The last is the solvency analysis, which is very important to the financial risk analysis of real estate enterprises. Solvency refers to the ability of an enterprise to repay its debts due. By analyzing the financial reports and other accounting data of the enterprise, it is possible to understand the liquidity of the enterprise's assets, the level of liabilities and the ability to repay debts, so as to evaluate the financial status and financial risks of the enterprise. Provide managers, investors and creditors with financial information on the solvency of a business. For
a real estate enterprise whose startup capital mostly comes from bank loans, only if the solvency analysis is passed, there will be a steady stream of capital input, thereby reducing financial risks to a greater extent and making it bigger and stronger.

In general, just like different real estate development companies, each company has a certain uniqueness, and the financial risks it faces are also complex and diverse, so it is imperative to correctly identify financial risks. Also just like this article, in the case of understanding the possible sources of financial risks, analyzing the financial risks of real estate enterprises from the aspects of solvency, operating ability, profitability and development ability can help enterprises to understand themselves as much as possible, avoid risks or It can be said that it is better to use risks to create opportunities and seize opportunities.

References


