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Heng Daqing Disk Reason Analysis: Diversified Expansion Perspective

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ABSTRACT
With the historic leap of Chinas economic strength, all industries are in a highly responsible and high-risk state. In order to diversify operational risks and optimize the allocation of surplus resources, most real estate companies begin to enter the diversification and expansion journey after completing the original capital accumulation. On the premise of not accurately positioning the diversified development goals and development paths, some companies carry out blind diversified expansion. The aggressive expansion mode will inevitably lead to a large capital gap, which will also increase the financing pressure of enterprises, and then produce greater financial risks. This paper analyzes the financial data of Evergrande group 2013-2022 and its development process and important events, using the Z-score model from the overall financial risk, and from the repayment ability, profitability and development ability, and analyze the reasons of Evergrande group diversification, in order to provide reference for real estate enterprises to implement the diversification strategy and reference.

KEYWORDS
Diversified expansion; Financial risk; Constant clear inventory

1 Introduction

In recent years, affected by external shocks such as the epidemic, the economic development of the real estate industry has shown a downward trend. Among them, the liquidation of the real estate industry economy is Evergrande Group. Due to the lack of debt restructuring plan, the company is insolvent, and there are also illegal cases of debt fraud issuance and information disclosure. Evergrande seems to be in a major crisis. Using inflated income and profit, we have obtained the public bond issuance qualification and modify the image of the profits. At present, many consumers still buy the houses that have not been delivered, and they need bank loans to repay the housing fees. As a once-leading enterprise, its bankruptcy liquidation process has brought a significant adverse impact to the industry. Exploring the reasons for the issuance of liquidation order, it is found that one of the reasons for the crisis of Evergrande Group caused to the diversification expansion. The pursuit of new growth points and profit space directly affected their financial problems.

In order to seek the need of steady development and more effective use of the existing resources of enterprises, the effective and reasonable means is to maintain or expand their market power. Diversified expansion means that through enterprises entering into different markets, industries or product lines, diversified businesses can not only disperse financial risks, improve the ability to resist risks, but also enter new market fields, expand market share and improve the market position of enterprises. In the early years, Evergrande Group carried out a diversification strategy, which not only provided auxiliary power for Evergrande Real Estate, but also had a negative impact. Lun Shujuan (2018) In addition to the main business Evergrande Real Estate has maintained rapid growth and produced rich operating results, the other six affiliated industries are all operating at a loss. In order to meet the capital needs of diversified operation, continuous borrowing and perpetual debt lead to the formation of financial crisis. Due to the change of Evergrande group status is famous for its large-scale leading enterprises facing bankruptcy liquidation, analyze Evergrande more realistic significance, give other enterprises alert, strengthen the financial risk prevention, help enterprises to choose effective prevention mechanism to improve the blind diversification expansion under the impact of financial risk.

2 Literature review

2.1 Diversification and expansion

Feng Junhua (2006) Diversity strategy refers toEnterprises in order to occupy the market and develop new markets, or avoid the risk of operating a single business and selectively enter the new business field strategy. In essence, diversification means that enterprises provide different products and services in different markets to diversify investment risks and improve investment returns, so as to finally achieve the strategic goals of the enterprise. The utilization of surplus resources that can be shared by enterprises for multiple businesses is the existence essence of scope economy, and also the synergistic effect of diversified expansion 1 + 1> 2, which is related diversified expansion to reduce costs and the utilization of surplus resources. Penrose (1959) Research points out that the utilization of surplus resources and the diversification of risks are the main drivers driving enterprises to implement the diversification strategy.

The impact of diversification and expansion on enterprises mainly has three aspects. First, it will affect enterprise performance. Varouj (2019) Research found that diversification can reduce the harmful impact of unexpected economic disruptions, and make diversified enterprises invest more effectively than similar enterprises, that is to say, the development of diversification promotes corporate performance. Similarly thinking, Aguiar (2019), proposed that financial performance depends on the companys current diversification strategy, and moderate diversification can improve the financial performance of the company. Yang Wei (2019) studied the diversified M & A behaviors during enterprise transformation and found that diversified mergers and acquisitions helped listed companies with poor performance to achieve transformation in a short period of time, and their performance improved significantly after mergers and acquisitions.

Second, we need to enhance the competitiveness of enterprises. Yang Qiang, Wang Bo, Lu Rongsheng (2008) believe through research and analysis that the diversification strategy of enterprises to reduce transaction costs, solve internal resource surplus, pursue synergies and low risk is mainly to enhance the core competitiveness of enterprises in the market. Xu Xuzhong (2014) put forward for weak financial risk control consciousness principal-agent problems, such as capital and other resources to improve the financial risk control consciousness, timely grasp the development of new information and knowledge, focus on the existing core competitiveness and financial situation, establish efficient financial risk early warning mechanism, reasonable allocation of resources to strengthen enterprise resources optimal allocation and pay attention to the overall risk aversion.

Third, it affects the management control of the enterprise. Denis and Sarin (1997) to the market constraint degree of diversification and equity structure, diversification degree changes and the empirical test, found the degree of diversification and management shareholding and external large shareholders shareholding negative correlation, and diversification degree is often accompanied by external company control competition, financial crisis and management changes. Dai Bin and Peng Cheng (2012) show that there is a significant positive relationship between the control rights of senior executives and the investment expansion and diversified expansion behavior of enterprises, and the diversified expansion strategy implemented by senior executives with strong control rights will increase the risk of financial difficulties of enterprises.

2.2 Financial risks

Altman (1968) to observe the American bankruptcy and bankruptcy production enterprises, using multiple linear discrimination created Z-Score model, Z-score model is based on multivariable statistical method, bankrupt enterprises as samples, through a large number of experiments, analyze the enterprise status, bankruptcy or not, discrimination system, the prediction of the model sensitivity 94%, improve the early warning ability of financial risk. Yang min (2023) choose Z-score model analysis to identify the companys financial risk, learned that China Evergrande these years financial risk is very high, then use the level analysis to evaluate the risk, debt repayment risk on China Evergrande, cash flow risk, in the third is the risk of enterprise operating activities. Lun Shujuan (2018) In addition to the main business Evergrande Real Estate has maintained rapid growth and produced rich operating results, the other six affiliated industries are all operating at a loss. In order to meet the capital needs of diversified operation, continuous borrowing and perpetual debt lead to the formation of financial crisis. Due to the change of Evergrande group status is famous for its large-scale leading enterprises facing bankruptcy liquidation, analyze Evergrande more realistic significance, give other enterprises alert, strengthen the financial risk prevention, help enterprises to choose effective prevention mechanism to improve the blind diversification expansion under the impact of financial risk.

3 Case analysis

Evergrande Group was listed in 2009, with Evergrande Real Estate, Hengchi AutoEvergrandee BBB 1 Property, China Nanhai Flower Island and other industries. In more than 280 cities has more than 1300 projects, determined to build high quality, cost-effective community, 2021 has been completed from real estate to "multiple industry + digital technology" transformation, become the peoples livelihood real estate, new energy vehicles, property management services, Internet streaming, digital technology, cultural tourism, health, health food as one of the world top 500 enterprise group. In December of the same year, Evergrande set up the Risk Resolution Committee of China Evergrande Group. On 29 January 2024, the Hong Kong court issued a liquidation order against China Evergrande.

As can be seen from the figure, the operating income and net profit of Evergrande Group have generally shown an upward trend since its listing. 2019-2022 disclosed the inflated data, with a small downward fluctuation in 2019, and showed a declining trend excluding the inflated revenue and profit. In 2021, the operating revenue decreased from 507.248 billion yuan in 2020 to 25.20.213 billion yuan in 2021, and the net profit decreased from 31.4 billion yuan to negative 686.219 billion yuan. Just listed, H group operating income is only 5.7 billion yuan, while net profit is only 1.1 billion yuan, this is also one of the drivers of H group diversified layout, maintain enterprise rapid growth, remain competitive, by 2020 diversification expansion has been effective, and peaked in 2020, net profit in 2018, but it is not hard to see in 2021 and financial crisis, diversified expansion in improper management in the end caused the financial risk of Evergrande group.The above table shows the debt scale and asset-liability ratio of Evergrande Group in the past ten years. It is concluded that the overall debt scale is large and the asset structure is unreasonable. From 2021 to 2022, the Group is controlling the debt scale, and its financing risk is mainly affected by the financing scale and asset-liability ratio. The real estate industry is in high debt, and Evergrande diversified expansion also requires a large amount of funds to make up the capital gap and produce a large amount of debt principal and interest to increase the debt repayment pressure. Evergrandes "three high" mode, namely the mode of high debt, high turnover and high leverage mode, forced Evergrande to break directly. As the real estate industry gradually entered the second half, inventory backlog, abnormal price fluctuations and other factors lead to the imbalance between supply and demand and the sharp decline in investment returns, leaving only many holes.

Table 1 Diversified Development Course

a particular year	Enter the direction
In 2009,	Evergrande Group entered the sports industry and acquired professional sports clubs
In 2010,	Evergrande Group enters the tourism real estate market;
In 2013,	Evergrande Group entered the FMCG industry, launched star mineral water and other products;
In 2014,	Evergrande Group has entered the animal husbandry industry, grain and oil processing industry and dairy products industry;
In 2015,	Evergrande Group began to layout in the insurance industry, and entered into the medical and health industry in the same year;
In 2016,	In the same year, Evergrande Group entered the Internet and banking industry, further deepening its diversified layout;
In 2018,	Evergrande Group layout in the technology industry, such as new energy vehicles.

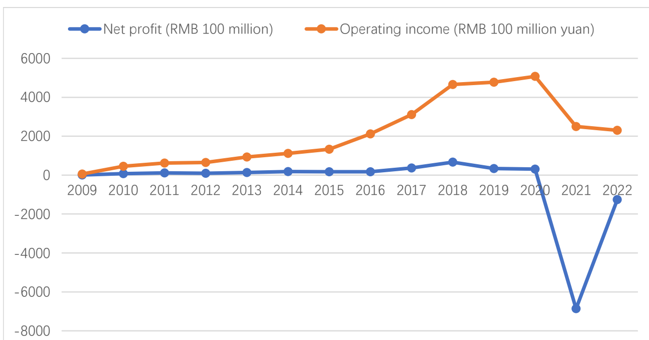

Fig.1 Operating performance of Evergrande Group over the years since its listing

Table 2 Debt Scale and asset-liability ratio in 2013 —— 2022 (Unit: RMB 100 million)

A particular year	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Be in debt	24374.12	25801.5	19507.28	18480.4	15714.02	15195.44	11583.36	6148.93	3620.84	2688.06
Asset-liability ratio/%	132.59	122.45	84.77	83.75	83.58	86.25	85.75	81.22	76.31	77.21

Data source: Evergrande Group annual report collation over the years

Due to the real estate industry where Evergrande Group is located, the capital cycle is long, and there will often be capital fracture in the production process, or the sales link, or unable to recover receivables on time, the capital flow risk is very high. Whether before, or after the diversification strategy, Evergrande Group has been facing greater operational risks.

4 Overall evaluation of the financial risks of Evergrande Group

4.1 Financial risk analysis of the Z-score model

According to the previous analysis of financial risks, it is found that the Z-value score method is simpler to calculate and more suitable for the real estate situation in China. The formula is: Z=1.2X1+ 1.4X2+3.3X3+0.6X4+0.999X5 When the Z value is smaller, the higher the financial risk of enterprise failure, and the Z value is less than 1.8, the risk of enterprise bankruptcy is very high.

Z-score	Z<1.8	1.8≤Z<2.99	Z>2.99
风险程度	破产区（高风险）	灰色区（适中）	安全区（低风险）

Fig.2 Z-score model

The Z-score is calculated through the collection of the financial data of Evergrande Group, and the relevant change trend chart is drawn as follows,

Table 3 Index and Z values in 2013-2022

A particular year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
X1	0.290638	0.24326	0.205548	0.281442	0.248609	0.221436	0.225143	0.172779	-0.29771	-0.3741
X2	0.718553	1.1131	0.100793	0.087127	0.032524	0.035106	0.029956	0.040327	-0.18775	-0.274
X3	0.072947	0.065712	0.04148	0.027315	0.043989	0.067447	0.033626	0.029637	-0.33169	-0.61405
X4	0.412946	0.281966	0.157912	0.086851	0.08358	0.076683	0.085227	0.237607	0.163786	0.173381
X5	0.269098	0.234625	0.000176	0.156488	0.176524	0.247979	0.216442	0.220407	0.118646	0.12517
Z	2.112059	2.470672	0.619573	0.758291	0.715524	0.831187	0.690438	0.724344	-1.49787	-2.6298

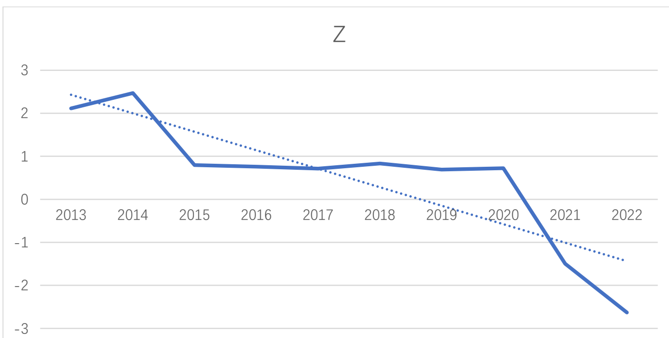

Fig.3 Trend of z-value change of Evergrande Group in 2013-2022

As can be seen from the Z value calculation results and the change trend chart, the Z value of Group H shows a downward trend. From 2013 to 2014, the Z value was greater than 1.8, in the high-risk bankruptcy area, but still in the gray area. After 2022, it was less than 1.8. Its bankruptcy risk became more strong, indicating that Evergrande Group is deepening diversification and its bankruptcy risk is getting higher and higher. In the period of rapid deepening of diversification expansion, Z value also decreased significantly, and the group operation had obvious financial crisis. However, in 2021 and 2022, the Z-value even decreased to a negative number without practical significance, which represents the measured <average value and deepens the degree of diversification. Evergrande Group has great financial risks.

According to the analysis, X1 has always been at a low level, which shows that Evergrande Group has a low level of short-term solvency, and current assets are difficult to cover current liabilities. The appreciation will be less than current liabilities, which directly affects the development of

Evergrande Group. X2 first up down and even fell to negative shows that profits down, the need to solve the problem of financing emergency, X3 numerical decline in 2018 after promotion continued to fall, said the profitability of Evergrande group is falling, may get relatively good development in 2018, but combined with the outbreak in 2019 and the influence of the three red line policy, may affect its profitability. X4 was at a low level of decline before 2019, indicating that the capital investment of creditors of Evergrande Group is less and less guaranteed by capital, and the financial risk is very high. However, in the next two years, it is also called minority shareholders, indicating that the capital guarantee degree of shareholders is adjusted and rising, and guarantees the rights and interests of shareholders. X5 says that its asset utilization fell to the lowest level in 2015, then fell after a small fluctuation, declined after a new profit growth point, and needs to find a new innovative growth point.

4.2 Specific evaluation of the financial risks of Evergrande Group

In order to better evaluate the impact of Evergrande Groups diversification on its financial risks, Greenland Group was selected as a comparison case in the following analysis.

4.2.1 Profitability

Profitability is mainly manifested as follows: operating profit margin, return on equity and net profit margin of total assets. The higher the value of the three indicators, the better the profitability of the enterprise, and vice versa, the worse the ability. The ratio of the net profit margin of total assets to the average amount of total assets is the ratio of the average value of shareholders equity.

Table 4 Profitability indicators of Evergrande Group from 2013 to 2022 %

A particular year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Operating profit margin	27	28	24	17	25	27	16	13	-280	-49
Return on equity	280	228	34	65	46	55	17	16	-1314	-209
Net profit margin of total assets	4	4	3	1	2	4	2	1	-31	-6

Data source: Guo Taian database and annual report collation income

According to the operating profit trend chart, it is found that the stable trend of Evergrande Group before 2020 will only decline to the lowest point in 2021. The debt level of Evergrande Group increases, and the overall downward trend is slightly lower, which is directly related to the decline of net profit caused by the diversified layout. Evergrande Groups return on equity and the net interest rate of total assets showed a downward trend from 2013 to 2015, Fluctuations occurred from 2015 to 2018, This has something to do with the favorable national policies, To a certain extent, it also shows that the constant force of the diversification of Evergrande Group began to appear, However, the huge decline between 2020 and 2022 indicates that the net interest rate of Evergrande Group at this time is low, This is related to the financial risk of Evergrande Groups diversification expansion, Large salary scale, High debt, The company is poorly run, Investment in yields that cannot meet expectations will face liquidity problems, Rising financing costs, Increasing financial risk, etc.

4.2.2 solvency

The indicators for the solvency constituency are the current ratio, the asset-liability ratio, and the quick ratio. The specific indicators are as follows:

According to the table, according to the solvency of index table can be seen the current ratio is declining, current ratio is current assets and current liabilities, it shows that current assets is more and more difficult to cover the current liabilities, current liabilities accounted for more, the amount of current assets accounted for less affect the short-term solvency. Can be found in the asset-liability ratio Evergrande group is ratio is rising steadily, especially in 20 years later, the asset-liability ratio is higher, more than hundred, before the three red line policy is not put forward, asset-liability ratio does not affect Evergrande group financing, and after the policy affects the financing, debt more liabilities, total debt increase the debt ratio also accounted for more in the past two years, debt is higher than assets. Before 2016, the ratio of current assets reduction to current liabilities was greater than 100%, which proved that the solvency at this time was enough to repay debts. Since 2017, the interest dividend brought by diversified expansion, which also increased the impact of high interest debt.

Table 5 solvency indicators of Evergrande Group from 2013 to 2022 %

a particular year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
current ratio	154	143	134	152	140	136	137	126	75	71
asset-liability ratio	77	76	81	86	86	84	84	85	122	133
quick ratio	154	141	131	152	-739	-807	-847	-807	-502	-456

Data source: Guo Taian database and annual report collation income

4.2.3 Development capacity

Total asset turnover and current asset turnover are the key indicators to measure the development ability of enterprises. When the ratio of the two indicators is relatively high, the development ability of the enterprise is relatively good; when these two ratios decrease, the operating capacity has encountered some problems. The specific indicators are as follows:

Table 6 Development Capacity Index of Evergrande Group in 2013-2022 %

a particular year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
turnover of total capital	30	25	21	18	20	28	24	23	11	11
turnover of current assets	36	31	26	22	24	33	28	28	13	13

Data source: Guo Taian database and annual report integral profit income

According to the development capacity index, it can be seen that the total asset turnover rate of Evergrande Group first decreased to a low point of 18%, and then rose in a process of decline. The current asset turnover rate of BBB 1 Group also decreased first and then decreased. In general, the total asset turnover rate and the current asset turnover rate of Evergrande Group are both declining trends, indicating that its own operation capacity has declined since the diversification of operation.

5 Analysis of the causes of Evergrande Group under the diversified expansion

5.1 Internal causes

5.1.1 Financing needs and financing methods

In the past eight years, Evergrande Groups asset-liability ratio of Evergrande Group is more than 80%, and the current ratio is more than 100%. To cope with the large-scale debt, Evergrande adopts a variety of financing methods, including bank loans, trade financing and project loans. Through private financing, especially the P2P financing of Evergrande Wealth, tens of billions of funds have been raised. To support the expansion plan, Evergrande borrowed heavily and issued bonds to financial institutions and investors to raise money. It borrowed 32.595 billion yuan from Shengjing Bank by equity pledge, and the huge debt increased the repayment pressure. In 2022, Evergrande paid back 716.5 billion yuan, with an annual interest rate of 9.49%, increasing the financial risk. At the same time, by issuing shares or introducing strategic investors, Evergrande has obtained a large amount of capital injection and increased the net assets scale. Although diversification has rapidly increased the size of assets, it has also increased liabilities, which may lead to increased financial risks in the face of market volatility or economic depression

5.1.2 Radical expansion deviates from the core main business

In 2022, Evergrande Group has realized the transformation from real estate to "diversified industries + digital technology", and owns the subsidiaries of Evergrande Real Estate, new energy vehicles and property management. However, its diversification expansion involves many industries not related to real estate, such as new energy and FMCG. Due to the high debt and high leverage characteristics of the real estate industry, Evergrandes diversification strategy mostly deviates from the core business and increases the operating risk. For example, Evergrande Ice Spring invested nearly 6 billion yuan and was sold due to poor management, with a loss of 3.3 billion yuan. The initial loss of heavy investment was due to a lack of market control and experience. The losses of unrelated industries occupy capital, drag down the development of the main business.

In addition, Evergrande has entered new industries, including buying football clubs for $100 million and hiring coaches and players for $500 million a year. In the initial stage, the construction of animal husbandry cost nearly 7 billion yuan, and the high cost violated the principle of cost control and had a negative impact on the operation of capital. Industries not related to the core business fail to rationally allocate resources, but increase the cost and capital return cycle. Since 2013, Evergrandes diversified business revenue has grown slowly, its profitability is weak, and it still requires high operation and management costs, long investment cycle and low turnover efficiency, which has affected the overall operating capacity and left huge risks and hidden dangers.

5.2 External causes

5.2.1 Macroeconomic downturn

After the outbreak of the epidemic in 2019, the global economy has entered a period of long-term downward adjustment. The global economy shrank by 3.3 percent in 2020, even worse than in 2008, the IMF data showed. Although the global economy picked up in 2021, the recovery process is different. Chinas GDP will grow by 8.1% in 2021, but in 2022, due to the repeated epidemic situation, the consumption level and demand will continue to decline, which will bring pressure to the economy. When industry funds are tight, rising housing prices will squeeze funds from other industries and have a negative impact on economic growth. At the same time, the growth rate of residents income is lower than inflation, which leads to the increase of living burden and the decline of housing demand. Under this background, the financial risks of Evergrande Group are further prominent, and the economic environment has hit the healthy development of enterprises.

5.2.2 External shocks

In the new century, China has experienced many external shocks, including the East Asian financial crisis in 1997, SARS in 2003, the international financial crisis in 2008 and COVID-19 in 2019, affecting the macro economy and the real estate industry. The 2008 financial crisis led to a large number of enterprises to go bankrupt, and the 2008 Wenchuan earthquake and the snow disaster in southern China also affected the economic and real estate development. In 2019, the epidemic made Chinas economy press the "pause button", and the real estate industry was hit hard. Many provinces and cities restricted offline house viewing and sales, and the overall performance declined. During this period, Evergrande Groups revenue decreased by 49.3% year on year, and its net profit was-686.2 billion yuan. The external impact had a huge impact on it.

5.2.3 Impact of industrial policies

Between 2003 and 2010, in order to regulate real estate development and reduce bubbles, the state implemented tightening macro-control policies. In 2010, the government introduced measures to limit purchases, raise down payments and lending rates to crack down on speculation. Since 2016, the policy of "no speculation on housing housing" has been implemented. Although housing prices have become more stable, local governments are facing financial pressure. In 2020, the three red line policies were introduced, which directly affected the financing of Evergrande and further increased its financing risk. As an industry leader, Evergrande is greatly affected by industrial policies and market regulation. The adjustment of the real estate market may have an impact on its sales and cash flow, and increase its financial risks.

6 Conclusion

This paper takes Evergrande Group as the research object to study the diversification, expansion and financial risk of Evergrande Group. First of all, a brief introduction of Evergrande Group and the diversified expansion process of the enterprise is briefly summarized, and a simple analysis of the diversification drivers of H Group is made. Then, the financial risk composition of H Group under the diversification expansion was identified and evaluated, the impact of the diversification strategy on its financial risk was analyzed, and the overall financial risk status of H Group was also analyzed according to the Z-score model. In the face of the economic downturn of the domestic real estate industry, the diversified development and transformation of real estate enterprises has been the trend of The Times, and no matter which diversified strategic mode the enterprises choose, financing, operation and risk control is always the same topic. Therefore, real estate enterprises should seize the opportunity of diversified development, explore new profit growth points, create new profit models, and achieve high-quality development of enterprises under the main measures of extensive research, reasonable layout, efficient management and scientific control.

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