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A Comparative Study on the Performance of Enterprises Before and After Mergers and Acquisitions: COFCO Property's Acquisition of Joy City Property Limited as an Example

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Abstract: As the real estate boom has faded in recent years, many real estate companies are encountering significant challenges, such as limited business scope and insufficient financing capabilities. To address these difficulties, numerous enterprises are pursuing mergers and acquisitions (M&A) as a strategic pathway for transformation and upgrading. This paper examines the motivations behind COFCO Property's M&A activities, focusing on its acquisition of Joy City Property Limited as a case study. The study evaluates market performance and financial performance before and after the acquisition, providing a comparative analysis to assess the outcomes. Furthermore, it incorporates ESG theory to examine the environmental, social, and governance implications of the M&A, offering a multidimensional assessment of its success. The findings highlight both the strengths and weaknesses of this acquisition, revealing critical insights into the challenges and opportunities faced by Chinese real estate enterprises undertaking similar initiatives. This research aims to provide valuable recommendations for enhancing the effectiveness of future M&A activities, contributing to the sustainable development of China's real estate industry amidst evolving market dynamics.

Keywords: Mergers and Acquisitions, Real Estate Industry, COFCO Property, ESG Performance.

1. Introduction

Corporate mergers and acquisitions (M&A), as one of the main ways for companies to adjust their resource allocation and expand their development, have experienced roughly six waves in the past two hundred years. From the end of the 19th century to the 1980s, the first four waves of corporate mergers and acquisitions experienced two industrial revolutions, two world wars, and the oil crisis [1]. The first four waves of M&A were characterized by horizontal, vertical, hybrid and financially leveraged mergers and acquisitions, respectively. The fifth wave of M&A, however, was characterized by global M&A, creating huge deal sizes and economic volumes that surpassed those of the past [2]. For example, in 1995-1997, a total of 27,600 enterprises in the United States were involved in M&A activities, surpassing the sum of the number of M&As in the 1980s, as well as in 2000, when the United States Internet newcomer America Online (AOL) announced its acquisition of Time Warner for $181 billion. Under the development background of economic globalization, as one of the ways of outward investment, cross-border M&A of enterprises gradually replaces cross-border creation as the main way of cross-border investment. As a result, the number of economic activities of cross-border M&A has increased significantly in the fifth wave of M&A. Subsequently, due to the slowdown and decline of economic growth in Europe and the United States and the “9/11” incident, the fifth wave of mergers and acquisitions has slowed down, but M&A as an economic activity will remain a popular development in the global economy in the future.

In the first five waves of M&A, Chinese companies had a low level of participation and most of them were in the position of being acquired. At the beginning of the 21st century, China joined the WTO and its economy has been vigorously developed, becoming the world's second-largest economy in 2010, and occupying a more and more important economic position in the international arena. In the long run, China will become the main center of gravity of the sixth wave of mergers and acquisitions. The real estate industry, as a pillar industry of China's economic development, is a better entry point to study corporate M&A activities. Observing the development history of China's real estate industry, since 1998, China's real estate industry has been developing rapidly, the housing system has changed dramatically, and the real estate industry has been gradually marketized for almost 24 years [3]. However, by 2021 China's real estate market began to turn the corner and show a declining trend. In this context, in order to better help major real estate companies to improve their market competitiveness and corporate performance through M&A activities, and to reduce financial risks, this paper chooses China's real estate industry as a representative of M&A analysis. The scale of COFCO Property's acquisition of Joy City Property Limited reached 14.447 billion yuan, which is representative of the largest central enterprise major asset reorganization project in the real estate industry in recent years. Based on this, This paper takes the case of COFCO Property's merger and acquisition of Joy City Property Limited as the main research object, analyzes the motivation of the merger and acquisition in this case, compares the performance of the two enterprises before and after the merger and acquisition, summarizes the successful experience of the merger and acquisition and puts forward the suggestions on how to reduce and avoid the financial risks that may be generated in the process of merger and acquisition.

2. Case Introduction

2.1. Company Background

First of all, COFCO Property, COFCO Property is an A-share listed company, the main business of commercial property development and sales and property leasing, with residential real estate development as the main business. The controlling shareholder of COFCO Property, COFCO Corporation, is one of the 16 centralized enterprises approved by the State Council to focus on real estate. The company was founded in 1993 as Shenzhen Baoheng (Group) Limited Company. and in October of the same year, it issued 50 million domestic shares (A shares) by way of fund-raising and was officially listed on October 8, 2006, the company changed its name to COFCO Property (Group) Company. In March 2019, the Company's name was changed from COFCO Property (Group) Company to Grandjoy Holding Group Limited Company.

Next is Joy City Property Limited, as a H-share listed company, in 2013, Joy City Property Limited's predecessor “COFCO Land Holding Limited” was listed in Hong Kong under the name of “Qiaofu Construction”, and was renamed “Joy City Property Limited” in 2015. The Company's main business is commercial real estate. The company's main business is commercial real estate development, such as the operation of its well-known brands Joy City. In addition, Joy City Property Limited is located in Beijing, Shanghai, Shenzhen, Hangzhou, and other first- and second-tier core cities, with business covering commercial, residential, industrial real estate, hotels, office buildings, long term rental apartments, property services and other areas. Figure 1 shows the shareholding structure of COFCO Property and Joy City Property Limited before the M&A.

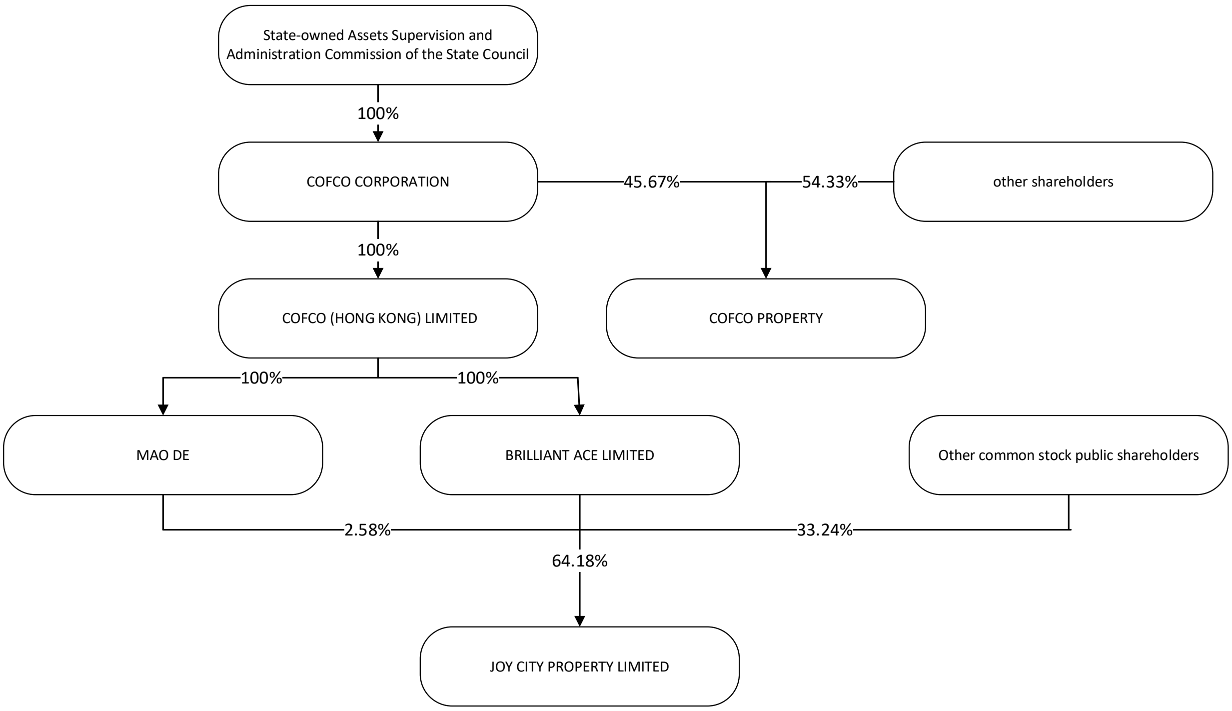

Figure 1: Shareholding structure of COFCO Property and Joy City Property Limited before M&A.

2.2. Acquisition Process

In July 2017, COFCO Property first revealed its intention regarding the merger and acquisition of Joy City Property Limited in the Announcement on the Suspension of Trading in Planning Major Merger and Acquisition Matters. In 2018, COFCO Property announced the proposed acquisition of 64.18% of the shares of the pre-proposed acquisition as well as the preliminary total consideration for the acquisition of 14.756 billion yuan. Due to the large premium in this transaction, it received an inquiry letter from the Shenzhen Stock Exchange. Despite replying to the 18 questions within the inquiry letter and approved by the State-owned Assets Supervision and Administration Commission (SASAC) for major restructuring matters, the restructuring plan failed again at the meeting in October of the same year. Subsequently, COFCO Property revised the proposal again, reduced the total consideration to 14.447 billion yuan, and successfully passed the second review of the Securities and Futures Commission to acquire Joy City Property Limited in December 2018. 2019, COFCO Property officially changed its name to “Grandjoy Holding Group Limited Company”. Figure 2 shows the shareholding structure of COFCO Property and Joy City Property Limited after the merger and acquisition.

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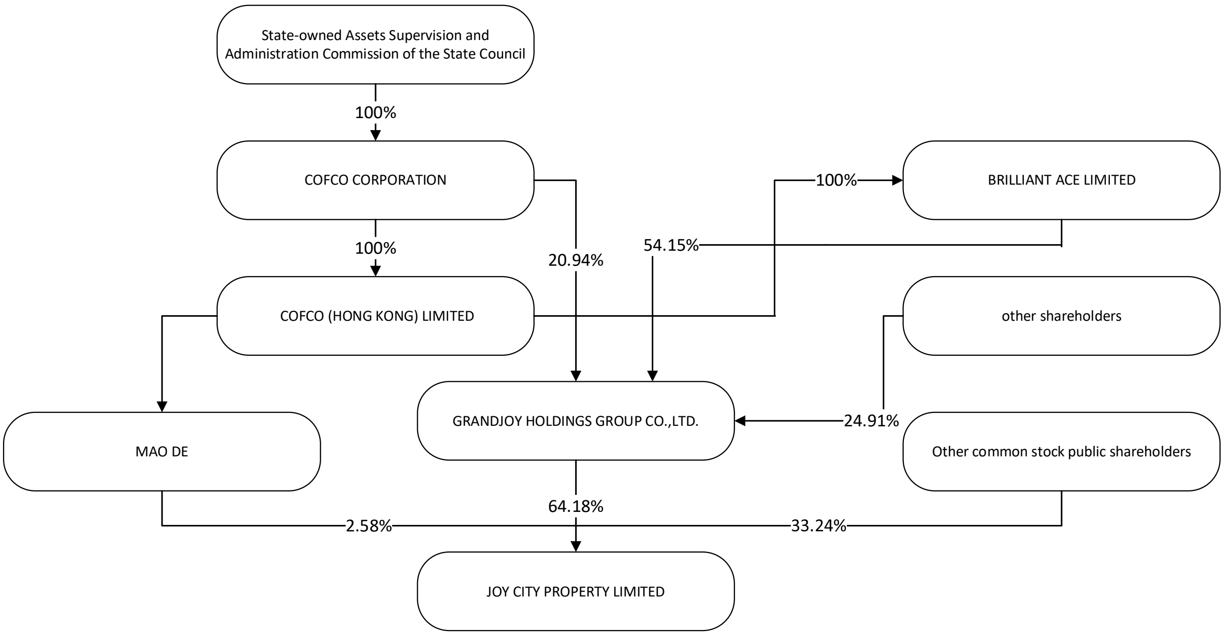

Figure 2: Shareholding structure of COFCO Property and Joy City Property Limited after M&A.

3. Case Analysis

3.1. Motivation Analysis

3.1.1. External Reasons

In terms of policy, as early as 2016, the land transfer method of “limiting housing prices and controlling land prices” was proposed on behalf of Beijing, and the control idea of “dual control of housing and land” was followed, which made the real estate market in Beijing remain stable. Subsequently, the notice on housing and land management and regulation issued in 2017 implied that the overall direction of China's real estate industry would tend to stabilize in the future. As a state-owned enterprise, COFCO Property actively responded to the national policy guidelines. In addition, in 2014, COFCO Corporation was also selected by the State-owned Assets Supervision and Administration Commission of the State Council as one of the first batch of pilot central enterprises for the reform of state-owned capital investment companies, and therefore, the national policy is also an important external factor influencing COFCO Corporation's M&A strategy.

The acquisition is also affected by the industry development trend, according to Figure 3 can be seen, in 2017, China's National Bureau of Statistics published data can be seen, the annual growth rate in 2017 was a downward trend, and 2016 than the growth rate of the difference is smaller, the real estate industry investment growth rate is gradually remained stable and Figure 4 shows that in 2017, the cumulative growth of the country's real estate investment and cumulative growth of real estate investment in residential property throughout the year was a downward Figure 5 shows that the growth rate of China's commercial real estate sales and sales area is rapidly declining in 2017, which shows that the development of China's real estate industry gradually stabilized in 2017, in which the heat of the commercial real estate development market declined. In addition, Figure 6 shows that in recent years China's real estate operating profit is declining year by year. And COFCO Property as the main commercial housing development and sales of real estate enterprises, mergers and acquisitions of Joy City Property Limited is combined with the industry development trend to make decisions, mergers and acquisitions of Joy City Property Limited to promote the diversity of real estate development business, increase the enterprise's ability to resist risk.

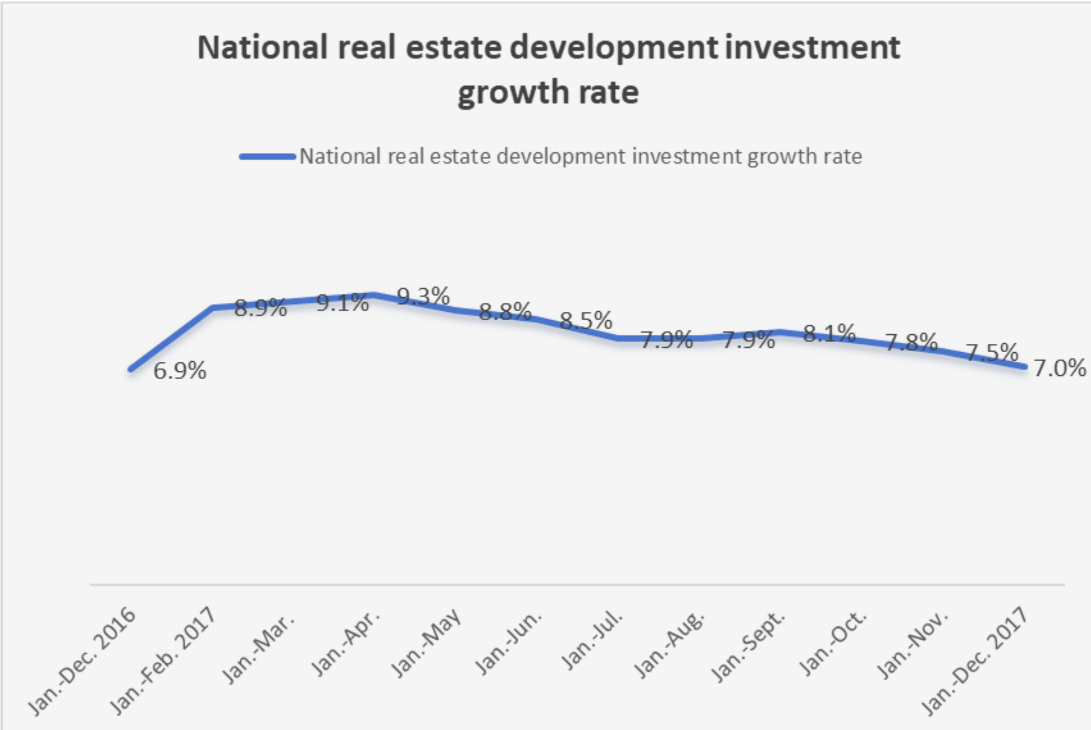

Figure 3: National Real Estate Development Investment Growth Rate, 2016-2017, National Bureau of Statistics.

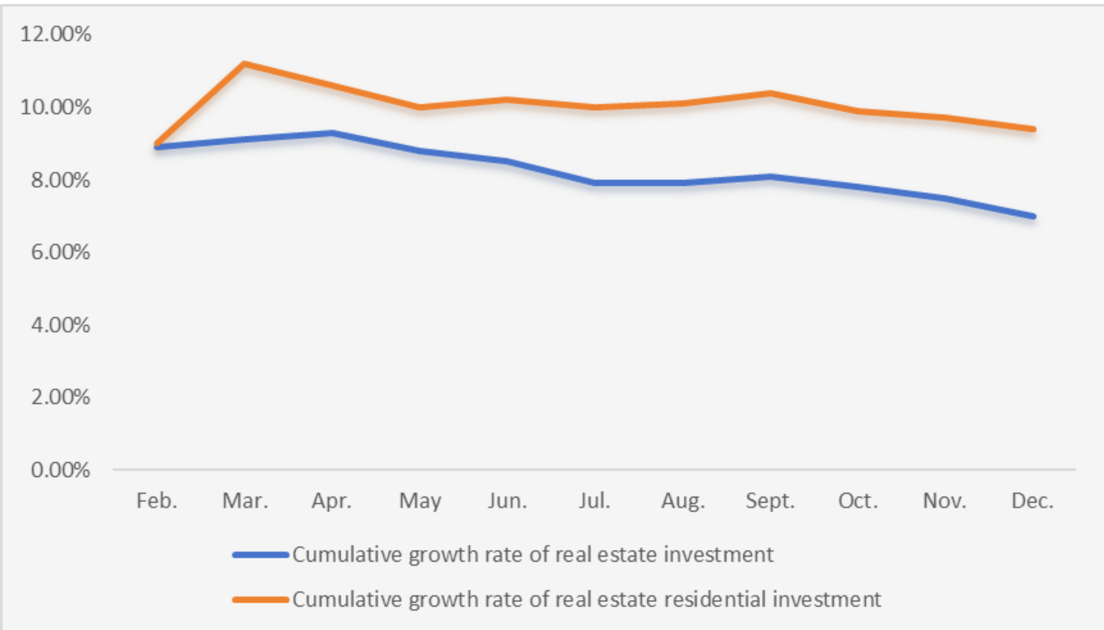

Figure 4: Cumulative Growth of National Real Estate Investment and Real Estate Residential Investment, 2017, NBS.

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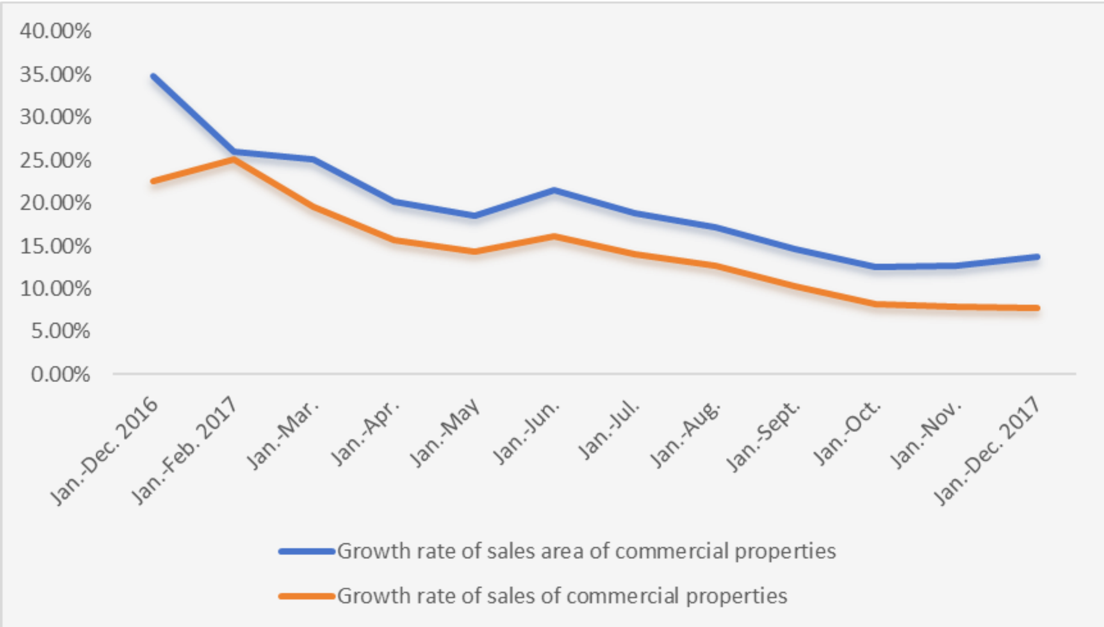

Figure 5: National Bureau of Statistics 2016-2017 National Commercial Real Estate Sales Area and Sales Growth Rate.

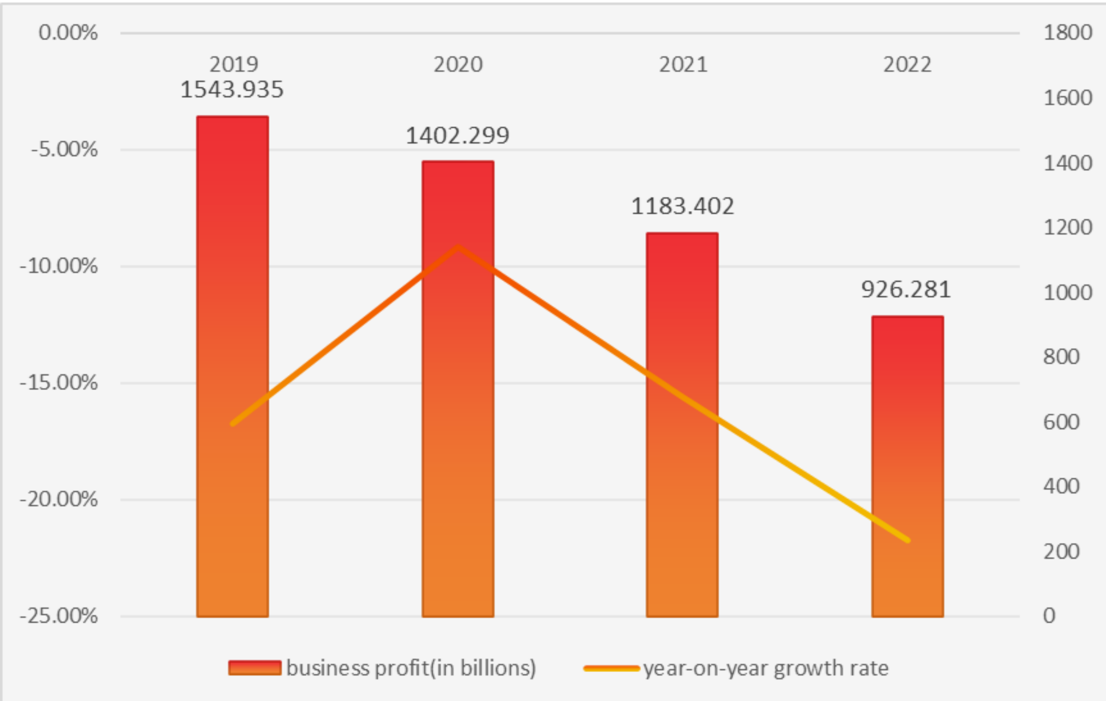

Figure 6: National Bureau of Statistics China's Real Estate Development Operations.

3.1.2. Internal Reasons

This M&A activity has internal dynamics in addition to external factors. As early as 2008, Bahadir, S. Cem et al. found that the target's marketing capabilities and acquirer's brand portfolio diversity positively affect the target's brand value, whereas the type of deal inhibits the effect of acquirer's portfolio diversity on the target's brand value [4]. Meanwhile, Bommaraju et al. examined and proved the causal effect of mergers and acquisitions involving mismatched external images on salespeople,

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and that mismatched mergers and acquisitions can even reduce employee performance [5]. As a result COFCO Property acquired Joy City Property Limited, which had an external image to match. And the positive moderating effect of the post-merger company's joint agreement cross-border transaction on the long-term value performance of the acquiring company [6]. This corporate M&A behavior will help COFCO Property's future overseas activities [7]. The merger and acquisition has exerted a synergistic effect, which can not only improve the strategic layout of the enterprise's future development and expand the map of corporate planning, but also increase economic revenue. Before the merger and acquisition, COFCO Property had a total operating revenue of 14.04 billion yuan in 2017, a year-on-year decrease of 22.10% compared with the previous year, with a significant decline in corporate revenue (see Figure 7). In order to enhance corporate revenue, the overlapping positioning strategy of COFCO Property and Joy City Property Limited both targeting first- and second-tier cities can help COFCO Property to form an independent and complete real estate development chain by borrowing the brand of Joy City to meet the diversified consumption needs of consumers, to expand the scale of the enterprise and the brand awareness in order to enhance its own real estate value, and to exert synergistic effects to increase the corporate profit and income.

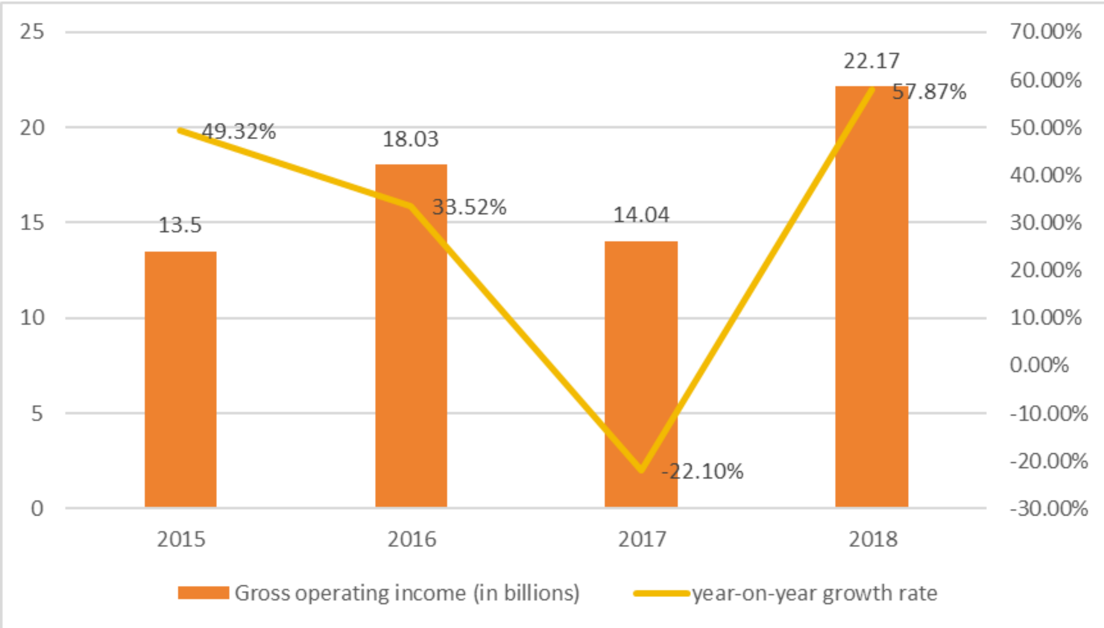

Figure 7: Total Operating Revenue and Year-on-Year Growth Rate, 2015-2018.

At the same time, M&A activities can enhance operational efficiency. After the merger and acquisition, the operation and management departments of the original two enterprises will be reorganized, and the redundant overlapping parts can be eliminated, which not only saves the enterprise management costs, at the same time, builds a more large-scale and refined operation management system and improves the efficiency of the enterprise's operation and management. In addition, most companies will consider the ability to resist risk, from the above can be seen, COFCO Property to maintain the original development strategy in the future by the “real estate double control” and other policy factors and the real estate industry, such as the decline in the degree of heat of the commodity housing industry factors. Before the merger and acquisition of COFCO Property and Joy City Property Limited industrial structure is relatively single, the main business is a single type, affected by market changes, anti-risk ability is weak, through mergers and acquisitions can expand the two enterprises business categories, enhance the anti-risk ability to cope with market changes.

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3.2. Performance Evaluation

3.2.1. Market Performance

Since commercial property sales account for the largest share of the main business income of Joy City Holdings, accounting for approximately 79.29% of the overall (see Figure 8). Commercial property sales are the main business of COFCO Real Estate and Joy City Real Estate. Therefore, this section compares COFCO Real Estate with the overall commercial property sales data of real estate, and finds that not only has COFCO Real Estate's sales of commercial properties declined since 2016-2018, but its share of commercial property sales in the overall real estate market has also declined, especially during 2016-2017, with the largest decline.

Since COFCO Property initially began to merge and acquire Joy City Property Limited in 2018, COFCO Property's commercial property sales began to grow rapidly, and its market share increased greatly. In 2020, COFCO Property's market share more than doubled compared with that of the trough period in 2018 (see Figure 9).

It can be seen that in terms of market performance, COFCO Property has conducted a successful merger and acquisition event this time, which has alleviated the current development problems of the enterprise and helped the enterprise to upgrade its business scope.

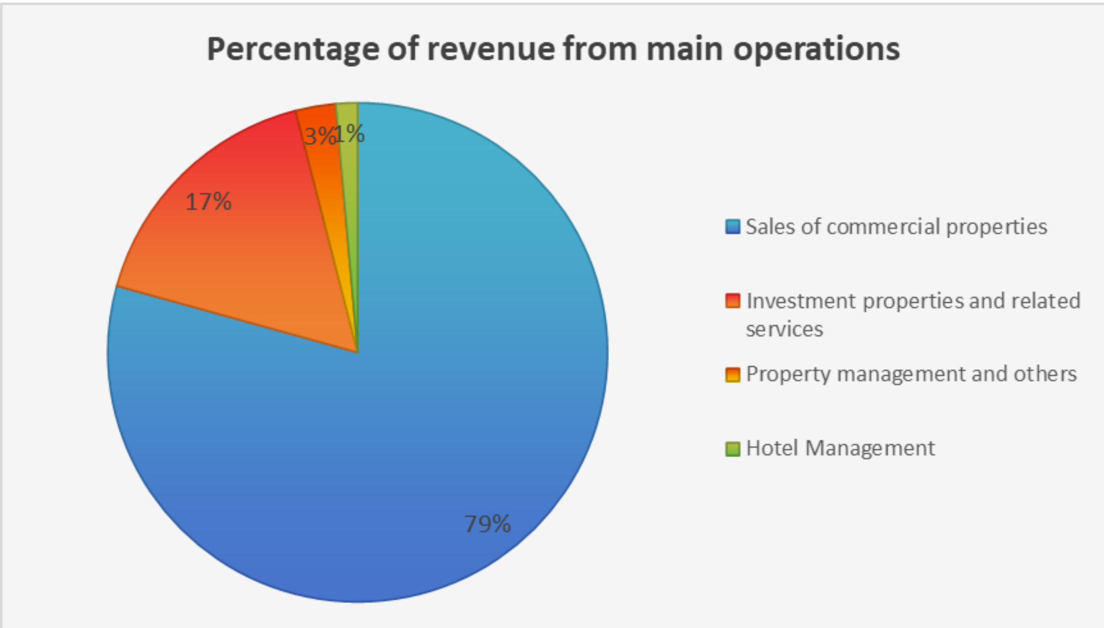

Figure 8: Revenue Share of COFCO Properties' Main Businesses.

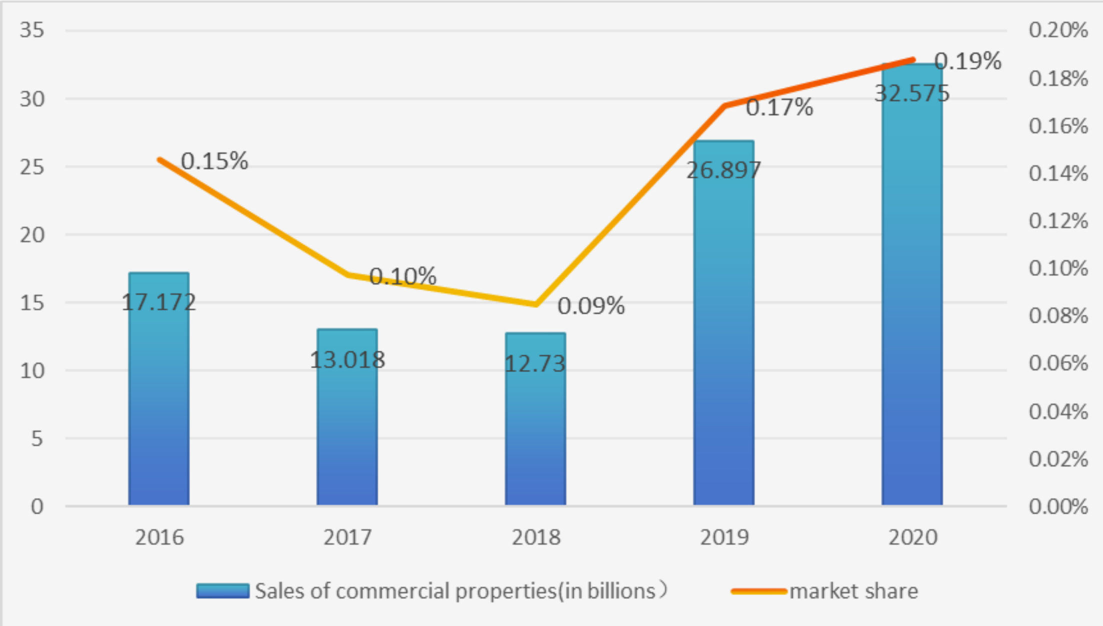

Figure 9: COFCO Properties Market Share of Commercial Real Estate Sales, 2016-2020.

3.2.2. Financial Performance

Comparing the financial performance of COFCO Property before and after the M&A, although the overall profitability index of the enterprise decreased, that is, COFCO Property was unable to convert its operating income into net profit because the year-on-year increase in operating costs far exceeded its operating income. However, in general, the financial performance of COFCO Property's M&A activities is better than worse. Overall, COFCO Property (Grandjoy Holdings Group Limited Company) after the M&A achieved significant growth in total operating revenue, net profit attributable to shareholders of the listed company, net cash flow from operating activities and total corporate assets in 2018 and 2019 compared to 2017 before the M&A. Total operating revenue increased from $14.04 billion in 2017 to $33.79 billion in 2019 (see Figure 10). Net profit attributable to shareholders of listed companies increased from $945 million in 2017 to $2.378 billion in 2019. Net cash flow from operating activities increased from $1.718 billion in 2017 to $4.065 billion in 2019; and total corporate assets increased from 75,751 million to $183,183 million in 2019 (see Figure 11). As a result, the merger and acquisition activity overall realized an increase in financial performance.

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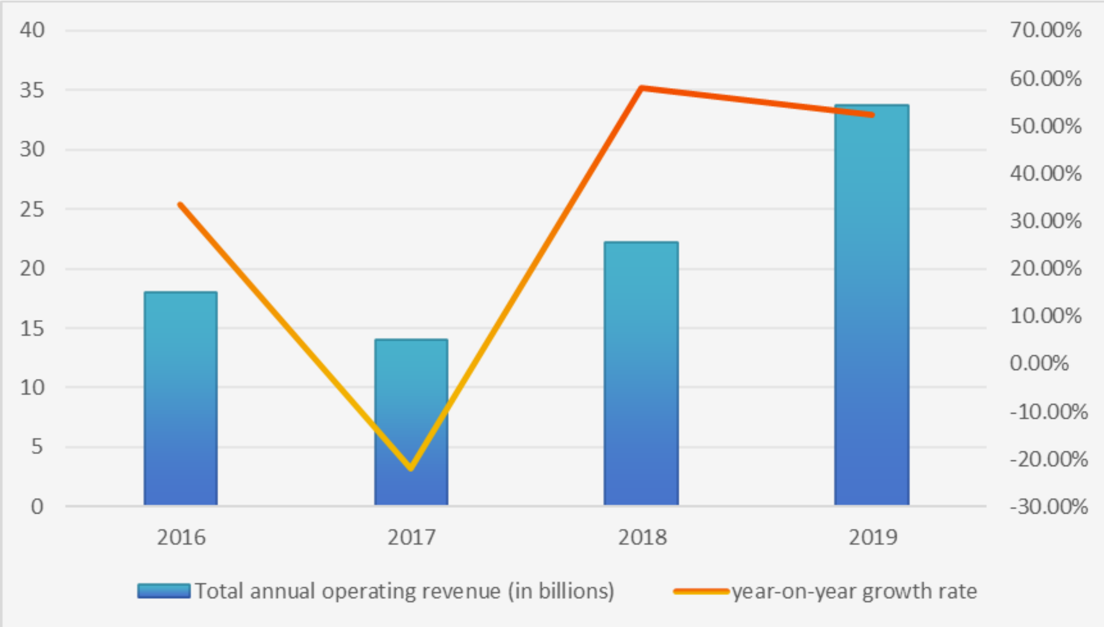

Figure 10: Total Annual Operating Income and its Simultaneous Growth Rate of COFCO Properties, 2016-2019.

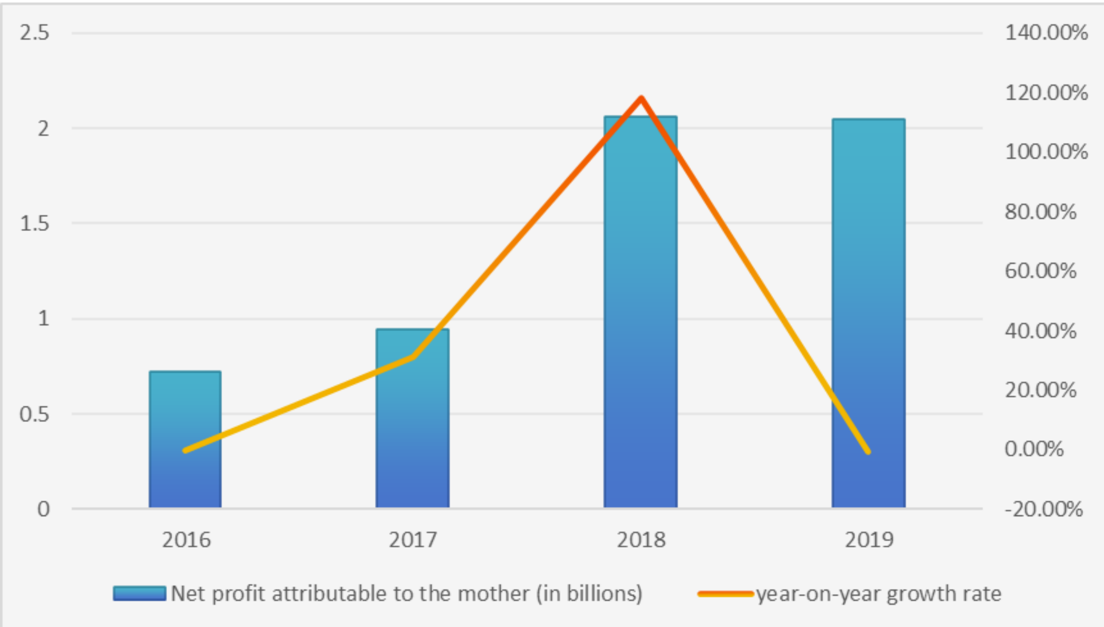

Figure 11: COFCO Real Estate's Annual Net Income from Normalization and Its Year-on-Year Growth Rate, 2016-2019.

3.2.3. Assessing Corporate M&A Behavior Based on ESG Concepts

In recent years, ESG has become widely accepted as a performance indicator for measuring corporate sustainability. In addition, some scholars have pointed out that companies that pay more attention to ESG performance tend to have higher stock market returns than companies that pay less attention to ESG performance [8]. Companies with poor financial performance and high ESG controversy will tend to seek to achieve higher ESG performance [9]. Therefore, ESG indicators are used as an

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important indicator to measure corporate performance to evaluate this M&A behavior of COFCO Property.

In terms of the environment, the post-merger Joy City Holdings continues to adhere to green building concepts, implement green development strategies and promote the application of green building technologies and systems to realize energy conservation and emission reduction, and follow the path of sustainable development. At the same time, the enterprise has implemented intelligent properties as a way to improve energy efficiency, and its projects have obtained green certifications from national and international authorities, such as Beijing COFCO Plaza, which was certified by the U.S. Green Building Council.

In the social aspect, Joy City Holdings, as a centralized enterprise, takes up the corresponding social responsibility, not only provides the society with high-quality products and high-quality services, but also focuses on precise poverty alleviation, helps the social public welfare, and cooperates with social public welfare organizations and units to give back to the society. In addition, it pays attention to the welfare and health of employees, protects the rights and interests of employees, enriches the cultural life of employees, and interprets humanistic care.

In terms of governance, the enterprise complies with environmental laws and regulations and local policies, implements a two-way strategy of energy conservation and environmental protection, and implements green building standards in project design and operation and management, continuously improves democratic management, and upgrades the level of corporate governance.

In addition, according to the latest ESG ratings published by 2024, the ESG ratings of Grandjoy Holdings Group Limited Company are top 28.2% and 51.8% for CCS and Chichi-Ding, respectively, with an average ranking in the upper-middle level. Among them, Zhongxin's ESG rating is BBB+, and Zhiding's ESG score is 69.25 rated A. Overall, Grandjoy Holdings Group Limited Company has a better ESG rating.

3.3. Risk Analysis

For the risk problems after merger and acquisition, it is mainly divided into three categories, which are financing risk, operation risk and financial risk. First of all, the financing risk, after the merger and acquisition of Grandjoy City Holdings Group Limited Company financing methods, mainly for equity financing, and a variety of financing methods can be realized at the lowest cost of financing, and a single financing method will not only lead to the enterprise can not flexibly cope with the different financial needs of the high financing costs will also make the possibility of financing failure to increase. As for the operation risk, the scale of the enterprise after merger and acquisition is too large compared with that before merger and acquisition, and the types of business increase, and a systematic real estate industry chain operation system has not been formed, which will result in the operation risk [10]. The different corporate culture and management concepts of the two enterprises will collide after the merger, and it is a big problem whether they can be well integrated to form a unified management and operation mode. For the financial risk, because the financial risk of real estate enterprises is not only closely related to their own safety, but also involves many related upstream and downstream companies and industries, involving a wide range, affecting a large number of surfaces. Therefore, we need to establish a sound financial risk identification system, financial risk prevention system, as well as the late emergency disposal system, in order to reduce the likelihood of risk occurrence and reduce losses. The financial analysis of Grandjoy Holdings Limited Company in 2019 and 2020 after merger and acquisition shows that in 2020, compared with 2019, the operating capacity and growth capacity of Grandjoy Holdings Group Limited Company is significantly weakened, the year-on-year growth rate of net profit has decreased by 69.74%, and the debt-servicing capacity is weakened, and the asset-liability ratio has increased by 78.53%. It is that the financial risk after merger and acquisition still exists, and there is a rising trend in the above aspects.

4. Recommendations

In view of the above risk problems, the following suggestions are given: Firstly, for the problem of single financing channel, financing channels should be broadened, financing structure should be optimized, and diversified financing channels should be established, combining debt financing with equity financing and direct financing with indirect financing. At the same time, innovative financing methods, such as Internet finance as well as asset securitization. Secondly, in the face of the problem of business risk, a complete enterprise business system should be constructed, and more standardized and refined enterprise business guidelines should be formulated. At the same time, the enterprise can shape the concept of inclusive corporate culture to increase the sense of belonging of employees, and encourage employees to work together, strengthen the welfare mechanism, enhance the sense of well-being of employees to improve the efficiency of the work and management efficiency and learn from the experience of other successful mergers and acquisitions, to learn from their strengths and make up for their weaknesses. In addition, the business level of employees should be more stringent requirements, and strengthen the introduction of professional talents to help the development of the enterprise. Finally, in dealing with financial risks, on the one hand, enterprises can strengthen cooperation with financial institutions, with the help of professional risk management, reduce financial risks; on the other hand, the establishment of enterprise risk management system, strengthen the enterprise's financial analysis ability and decision-making ability, to establish and improve the financial risk identification system, financial risk prevention system, as well as the late emergency disposal system, in advance prediction and control of financial risks in order to reduce the likelihood of risk and reduce losses. The possibility of the occurrence of financial risks and reduce losses.

5. Conclusion

Overall, COFCO Property's acquisition of Joy City Real Estate is a relatively successful merger and acquisition case. It not only responded to the national policy and conformed to the industry trend, but also enhanced its own industry competitiveness and improved its corporate performance level.

By evaluating the M&A performance in three aspects: market performance, financial performance and ESG performance, the following findings were made:

First, the market sales share of the M&A firms has been substantially increased, and the M&A activities have combined the strengths of the two firms, expanded the business scope of the firms, and improved their financing capabilities.

Second, the financial performance has been substantially increased, and the operating income, shareholders' net profit, net advanced flow and total assets of the enterprises have realized substantial growth compared with the pre-merger period.

Third, based on the ESG concept to assess the M&A performance, it is found that the enterprise after the M&A in the environment (E), society (S) and governance (G) to achieve a greater improvement, ESG rating is also in the upper-middle level of enterprises.

Of course, this M&A activity also has certain risk problems, after the study found that there are financing risk, operational risk and financial risk problems after M&A, in order to deal with the above risk problems this paper also puts forward the corresponding preventive and control measures.

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