Impact of capital structure on financial performance of real estate firms listed ...

Finance

Impact of capital structure on financial performance of listed real e firms in China Introduction

The real industry in China is considered an important part of the countries national economy and represents about 78. 8% of the industry revenue in Asia-pacific region. The operations the firms within this industry are, therefore, immensely influential on the activities of banks and real estate agencies. The industry has made significant contribution to the economic development as it has become a preferred choice for foreign investors. Many firms within the industry are owned by the government and the capital structure of listed firms is operated by listed organisations, which utilise a culture of collectivism in making capital structure decision. The study analyses the listed firms based on the following objectives

To critically analyze the capital structure adopted by 20 firms listed on Chinese Stock Exchange.

To critically determine the relationship between capital structure and different variables of firms listed on the Chinese Stock Exchange such as profitability and gearing, etc.

To critically investigate the factors influencing capital structure of firm listed on Chinese Stock Exchange.

Methodology

The study is a descriptive research design that explores the capital structure of companies listed in the Chinese stock exchange in seeking to describe their impact on the financial performance of the same companies.

Information about 20 companies was collected from the official website of the Shanghai Stock Exchange (SSE). The companies were selected in accordance to the composite index of the SSE, to ensure the findings can be generalised to other firms. Quantitative data analysis methods have been utilised in analysing the data gathered form the research with regression analysis being utilised to enhance the quality of the research findings. .

Results

Different financial ratios of companies have been calculated and an industry average determined. The ownership of the listed firms is mainly by the government and legal institutions who own 28% and 24% respectively. The total debt and long term debt of the listed companies is 50. 49% and 10. 15% respectively. The equity over fixed asset ratio for the companies is at 92. 77%. There has been a significant drop in the return on assets value which is currently at 9. 74%. Chinese firms have an average liability of about 45% while the average liability of the G-7 countries in 54%.

Conclusion

Most of the Chinese companies listed on the SSE utilise a short term financing options and this has been the man characteristic of their capital structure. The capital structure adopted by these firms has the greatest impact on their performance. The companies listed in the SSE have been posting high profits and have financial debts which are lower than the average industry level. These firms are mainly financed through equity capital which is not a debt. Low debts have had a significant effect in resulting to the high profits since there is a reduced level of interests paid, ensuring the companies have reduced financial obligations on their working capital. The privatization effect within the industry has caused firms to shift to the Chinese capital market for capital funding of the previously, state owned firms.