Analysis of Financing Difficulties and Countermeasures of Chinese Enterprises’ Overseas Mergers and Acquisitions

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Keywords: Overseas Mergers and Acquisitions, Financing Difficulties, Financing Channel.

Abstract. The sustainable development of Chinese enterprises is inseparable from the world market. The use of various resources of the world is a shortcut to the development and expansion of Chinese enterprises. In the process of Chinese enterprises going abroad, success or failure is more or less associated with the financing and financing path, and the funds for each enterprise are scarce resources. How to effectively finance has become an extremely important basic for the enterprise. We need to seriously study and analysis. This article intends to put forward some personal views on the choice of financing path for your reference and criticism.

1. Analysis of the Financing Difficulties Faced by Overseas Mergers and Acquisitions

1.1 Chinese enterprises’ overseas mergers and acquisitions lack of market-oriented operation space

China’s reform and opening up three decades, the development of capital markets is obvious to people. However, due to the lack of national policies and laws, China’s capital market is still in the initial stage of continuous improvement. There are many obstacles to overcome in providing financing support for Chinese enterprises overseas mergers and acquisitions. Article 43 of the Provisional Regulations on the Administration of Stock Issuance and Trading in China states that no financial institution may provide loans for stock transactions; Article 133 of the Securities Law also stipulates that bank funds are prohibited from flowing into the stock market. Due to corporate reputation, corporate self-restraint mechanism, corporate solvency, enterprise management level and corporate bond liquidity and many other reasons in the issuance of corporate bonds, those make the public lack of confidence in the corporate bond market. These subjective and objective reasons lead to international access - through the stock or bond market to raise funds for mergers and acquisitions - financing method is difficult to pass in China. From the international experience, the participation of domestic enterprises in international mergers and acquisitions is inseparable from the prosperity of the local capital market support.

1.2 The commercial bank of China supports overseas mergers and acquisitions financing ineffective

The listing of Agricultural Bank of China has completed the shareholding reform of all commercial banks in China, This is line with international practice. However, in the daily operation, the purpose of the loan is limited by the relevant laws and regulations; such as Article 21 (3) of the People’s Bank of China, Lending General Provisions that no equity investment in equity may be used. Commercial Bank Law in China is also not clear whether it can provide loans for corporate mergers and acquisitions or not. In addition, due to the implementation of the life-long liability system, seen from the current comprehensive capacity of commercial banks of China, degree of specialization is unequal to the effective participation of enterprise mergers and acquisitions, supervision and control, even the mortgage mechanism is difficult to effectively control the credit risk, which makes it difficult to raise funds for mergers and acquisitions.
1.3 Chinese enterprises overseas mergers and acquisitions financing channel is unknown, funding in doubt

In the process of building and developing our market economy system, private enterprises have gained leapfrog development and become the most dynamic economy in our country. But a careful examination of the development process of private economy, it is not difficult to find that most of them are growing through the endogenous development, and did not get market resources which contribute to the national economy equally. It gets the rare support in the process of private enterprises out of the country. In China’s capital market and loan market, private enterprises are difficult to obtain funds. These difficulties increase the difficulty of enterprises overseas mergers and acquisitions, at the same time, they brought the question of private enterprise financing source. For example, Sichuan Tengzhong Heavy Industrial Machinery Company proposed the acquisition of the United States Hummer brand under General Motors in 2009, of people did not ask whether it can be acquired or not, but if they have the ability to buy, or where the funds come from.

1.4 Policy funds occupy a large proportion in the Chinese enterprises’ overseas mergers and acquisitions

Different from the private enterprises, Chinese state-owned enterprises (especially central enterprises) as the main body of overseas mergers and acquisitions access to a wide range of funds, there are sufficient funds to cope with the huge amount of the subject of mergers and acquisitions. However, the road of these companies’ overseas mergers and acquisitions of is not smooth, the reason is the unknown source of funding. For example, China Aluminum in the case of operating losses during 2009 year, still spent more than 19 billion US dollars of funds on the acquisition of the Australian mining firm Rio Tinto, Policy loans caused concern among each other, trading abortion is naturally reasonable.

2. The Feasible Path for Enterprises Overseas Mergers and Acquisitions Financing Difficulties’ Solution

2.1 Revise and perfect the existing laws and regulations, and make the financial market consistent

Financial capital market is the main market for Mergers and Acquisitions. How to provide convenient financing and payment instruments to transnational mergers and acquisition through local financing capital market? That depends the internationalization of financing capital market and the environment of local financing capital market. So, it is imperative. Firstly, Revise inappropriate chapter and provisions in the current implementation laws and regulations such as Securities Law; Provisional Regulations on the Administration of Stock Issuance and Trading; People's Bank of China, Lending General Provisions, create a relaxed space for enterprises’ multi-channel financing; Second, encourage enterprises and commercial bank to use a variety of financing instruments to obtain mergers and acquisitions funds in the condition of not violating the existing laws and regulation. Third, pay more attentions on the use of existing laws and regulations to manage and control the behavior of enterprise and commercial bank loans, minimize other means of enterprises financing limit except laws and regulations, make our financing capital markets to do a managed and free operation, provide real support and help for the enterprises overseas mergers and acquisitions.

2.2 Establish and improve various financing instruments to play a role in the credit system

Sound, perfect and true credit system is the cornerstone of financing capital market. In the initial stage of the development of financing capital markets in China, governments, enterprises and society should play a role in the construction of credit from different perspectives. Firstly, Company should actively improve the corporate governance institutions, implement scientific and rational decision-making mechanisms and establish open and transparent information disclosure system. Those make enterprises to become the true meaning of public companies. Second, Governments or
banks establish an honest credit system, supervise and manage the credit construction of the whole society, promote the market credit information open sharing; thirdly, adhere to the market demand-oriented, actively cultivate the credit of the service market, encourage the full range, complementary functions, the market credibility of the credit service institutions, provide professional, diversified and multilevel market credit services for the whole society. Lastly, vigorously carry out the credit of publicity and education, severely punish the market leader. Franklin once said that “credit is also money”. In today’s increasingly fierce competitive on the world market, credit competition is the main form of market competition in the future, only good enterprises credit can bring financing convenient for the enterprises [1].

2.3 Fair and equitable treatment of various economic entities ensure their basic market rights

In the Chinese enterprises out of the country, the proportion of private enterprises is increasing (Although there is no authoritative date to prove accurately), but the path or channel which private enterprises use to obtain mergers and acquisitions of funds has not been widened. Now this issue has finally attracted high-level attention. Enacted in 2008, the CBRC Commercial Bank Loans Risk Management Guide strengthens the status of state-owned enterprises, at the same time it also referred to local enterprises and private enterprises. Several Opinions of the State Council on Encouraging, Supporting and Guiding the Development of Individual and Private Economy and Other Non-Public Sectors of the Economy published by State Council in 2010 years was labeled as “non-public economy 36”. It especially pointed out that we should increase the fiscal and taxation financial support to non-public economy and solve the problem of their narrow financing channels. Although this is just the beginning, but it is believed that non-public economy or private economy in the future, will enjoy the same or similar basic market profits as state-owned enterprises with a series of modifications and amendments to related laws and regulations.

3. Financial Innovation Is the Solution to Overseas Merger and Acquisition Financing

3.1 Leverage Buy-Out is an option for mergers and acquisitions financing

Leverage Buy-Out (shortened form LBO) is a special form of enterprise capital operation mode, its essence lies in leveraged acquisitions, That is, enterprise with a small amount (about 10% - 15%) of its own funds put acquired assets and future profitability in pledge to raise part of funds for acquisition. Therefore, leveraged buy-out is characteristic of asymmetric, high risk, high income, and high skills. Leveraged buy-out financing for companies which lack of a large number of mergers and acquisitions funds, can be financed by external financing, achieve “win-win” to help enterprise facilitate mergers and acquisitions.

At present, China’s enterprises need to take advantage of leveraged buy-out to solve the following problems: Firstly, resolve the conflict issue related to the provisions of existing laws and regulations. According to the regulations of the company law, when the company invests in other companies, in addition to the investment companies and holding companies, the accumulated investment shall not exceed 50% of the net assets of the company. But leveraged buy-out may invest all registered capital in the target enterprise, this is obviously inconsistent with the provisions of the company law; secondly, solve the problem of enterprise debt ratio. The basic requirement for leveraged buy-out is low debt, in the most of industries which proceed leveraged buy-out in China, a lot of enterprises debt ratio has exceeded 100%, longer has the ability to refinance; Thirdly, we will improve the developed capital markets, no longer has ability to refinance [2].

3.2 Cooperation with foreign mature investment funds can improve the success rate of mergers and acquisitions

State-owned enterprises in overseas mergers and acquisitions operations, should actively cooperate with the international well-known PE (Private Equity funds, Private Equity for short), especially focus on the buy - out/buy - in PE (i.e., mergers and acquisitions fund), taking advantage of features like the identity of the institutional investors and managers experienced, strong ability of
risk bearing and managing, dilute the Chinese state-owned enterprises in state color and political color and reduce the possibility that acquisition-related parties refused to be bought and policy approval would be delayed to increase the success of the transaction [3].

3.3 Joint local enterprises or international famous companies’ acquisitions

Chinese enterprises’ mergers and acquisitions to enterprises in European and American developed country, deliberately create such problems due to political reasons, Beijing long trade consulting general manager Huang Teng believed that the key to solve this problem is to use of joint venture in the form of acquisitions, to eliminate some of concerns; At the same time, keep a low profile, but not too much emphasis on control, highlight the interest of invested enterprises and countries. Such as Petro China and Shell consortium in the name of Shell Energy Holdings Australia to participate in the bid for the Australia coalbed methane company Arrow, this should be a kind of new try. On the basis of funds and market providing, meet the demands of all kinds of shareholders, eventually get each others’ identity [4].

3.4 Actively cultivate investment banking overseas business, a variety of mergers and acquisitions financing channels simultaneously

Analysis of international well-known investment banks such as Goldman Sachs, Merrill Lynch’s operating context, we can see that the early business models such as underwriting, trading and brokerage have been replaced by mergers acquisitions and reorganization, financial advisers, structured finance, asset securitization, asset management, derivatives trading, shares direct investment and other business, although the underwriting business is a high-end and brand investment banking business and play a leading role in other business, but its income accounted for 10% of total revenue [5]. China’s investment banks should learn from the successful experience of international investment Banks, overseas investment bank should focus on the main line such as consulting, mergers acquisitions and reorganization, asset transfer and asset securitization and direct financing, help China’s enterprises open more financing channel, for example, contact the trust company to arrange the seller financing, ask trust companies and various investment funds to apply for equity mortgage, bring in institutional investors, organize bridge loans for high quality enterprises to assist and support enterprises to raise the necessary funds of mergers and acquisitions.

4. Conclusion

Chinese enterprises’ overseas mergers and acquisitions is a positive phenomena, it shows that China’s economy is more widely and more integrated into the world economic system. The analysis of Chinese enterprises overseas mergers and acquisitions financing is beneficial to all kinds of enterprises to better develop the international market in our country, it effectively guarantee resource supply, quickly access to key technology, it makes Chinese enterprises to become a strong international competitiveness of multinational companies.

Reference