

Case Study of Financial Planning and Design in Power Assets Integration

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Received 10 June 2015; accepted 20 July 2015; published 23 July 2015

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Abstract

Financial planning plays an important role in assets integration. On the basis of destination of assets integration, financial planning plays a role in object selecting, integration method, assets segmentation, creditor's right and counter-performance disposal. Among them, the core part is integration methods selecting and assets segmentation, which determine the design and performance of the integration project. The article makes a research about how NYH integrates cases and proclaims the progress of financial planning in power assets integration. The research shows that good financial planning can not only reach the assets integration goal, but also decrease the risk and cost of assets integration.

Keywords

Asset Integration, Financial Plan, Project Design

1. Introduction

In recent years, power generation industry develops constantly through merger and investment, and forms diversified large-scale business groups which regarding the headquarters as leading role, the provincial power generation enterprises as core and the holding subsidiaries as entity. From the structure of stock rights, the headquarters have the whole or absolute stock rights for the branch offices, and then the branch offices have the whole or absolute stock rights for the subordinate branch offices. The true operating entity is the subordinate branch offices and the secondary enterprises. Under such system, the headquarters and the subordinate offices become purely investing companies of stock rights management. All their incomes are originated from the bonuses of holding enterprises. With the development and increase of power generation group, it appears strained cash flow and increasing debt-to-assets ratio, but the benefits doesn't increase at the same time. The enterprise gradually

looses its investment capacity, especially in the bad operating environment, and not gaining the bonus in a long term, which lead to a survival problem. Now that the extensional development encounters difficulties, the connotative development regarding the benefit as core, which has been the mainstream of strategic transformation of state enterprises. In coordination with the transformation, assets recomposition and combination are ongoing constantly. Assets integration of the NYH company practice under such background aims at solving the income source and investment capacity of SC company. Finance as the support in enterprise strategic development and transformation plays a key role in the assets integration, which is the key point in the success of assets integration whether it completes the assets integration.

2. Aim of Assets Integration and Object Selection

There are three reasons of assets integration. The first one is strategy adjustment (Wu Hua-ming 2012) [1]. At the new market situation and development period, the enterprises adjust their original developing orientation in order to grip the developing chance. Power enterprises' change in industrial distribution, investing orientation and field definitely leads to selection in stock assets and investment in new project. The second one is assets quality optimization and increasing competitiveness. From the competitiveness and benefit perspective, the enterprise reestimate the stock assets, strengthen the investment and control of core assets, and dispose the invalid assets, then improve asset value on the whole and then improve the competitiveness. The third one is to solve the inner problem, such as cash flow problem, tax problem, investment and development problem. The selection of recomposition object is determined by two factors (Zhang Qiu-sheng 2009) [2]. One is the aim, while the other is the possibilities. Why NHY company integration is the cash flow shortage of its parent company(SC company) which loses the investment capacity in transforming development and need to seek the cash source. The purpose of assets integration is to realize the constant cash flow through infusing the entity. Only the NYH company can meet this demand. Since NHY company is subordinate of hydropower enterprises of SC company. It gained over 0.2 billion cash flow every year because of the good power benefits so that it can provide considerable cash support for SC company. Meanwhile, it is a win-win situation through integrating with SC company to avoid paying the huge taxation. Another share holder, CDG company is the absolute holding company of SC company. It has feasibility on assets operation because of being the strong stock holder. As long as they have the proper project, they can gain win-win-win situation. Therefore, it is feasible to choose NYH company as the integration object.

3. Financial Planning in Assets Integration

3.1. The Content of Financial Planning

Financial planning is the effective method in the process of assets integration. It mainly contains three factors. The first part is the means of ensuring the integration which is the way to achieve the purpose (Du Guo-yong, Du Guo-gong 2008) [3]. From the assets integration means, it mainly include stock right merge which can make them realize the property exclusion. Through purchasing assets directly to possess the right for target assets, it may involves huge amount of trade cost. Meanwhile, no matter the merger of share right or the purchase of assets, it is possible to lose the control of acquirer to target assets. Through merger and split to share rights' disposal and arrangement, at last to realize the aim to integration. This mean is kind of complex and need long time of operation, involving many laws with low trade cost. The second part is the plan to assets integration. Actually, assets integration is to rearrange target enterprise assets (Fei Zhong-xin 2013) [4] with basic principle—Fair and reasonable, the independent play to benefit, no future. It mainly refers to real assets integration arrangement, share rights arrangement, Creditor's rights debt arrangement, consideration arrangement and disposal and so on. The plan of assets integration needs to combine the target firm's assets state, share rights' structure, consideration disposal, trade means and every kind of lows to consider and decide roundly. Generally, target enterprise is the enterprise that has many investors to invest. And if only to consider one side's benefit in the assets integration, it must leads to the failure in assets integration. Thus, in assets integration, we need to reveal and consider roundly the prospect of relative enterprise, the allocation of benefit and the gains and losses of operating management also reach the win-win side. The third part is the design of integration designment. It mainly includes realizing the designment of integration aim, the certainty of optimal decision, operating pattern and step plan and so on. We strive to get optimal decision, feasible and smooth operation and the lowest cost.

3.2. NYH Company Assets Integration Program

3.2.1. The Basic Information of NYH Company

NYH company was established in 1990s. Its registered capital is 260 million yuan, which includes 166.4 million yuan (64%) from SC company and 93.6 million yuan (36%) from CDG company (also hold controlling interest of SC company). NYH company has purchased to produce two hydroelectric power station called YHB and YL. In 2006, it establishes its joint-stock corporation called LZP company which is responsible of developing, constructing and managing LZP power station. It also planned to completion and commissioning of the power station and the construction of other power station. Till the base day, the total assets of NYH company is 3,363,070 thousand yuan (special audit data), including 93.3 million yuan as current assets, 2,706,710 thousand yuan as fixed assets and 558,290 thousand yuan used for uncompleted constructions. There are altogether 3103.3 million for debt and 259,770 thousand yuan for shareholders' equity.

3.2.2. The Pattern Choice of Integration

What SC company realize the possess of resources of NYH company is to purchase the share rights. That is to say, it should purchase 35% share rights of CDG company share rights, and solely-invest the NHY company, and then merge NYH company to SC company through merger. The biggest advantages of this model are brief and rapid. But the disadvantages are followings. The first one is that SC company need to get out a lot of money while it has fund pressure; the second one is that it reduces the installed share of CDG company and not good at development; the third one is that share rights trading needs auction and listing. And it need huge amount of integration cost in trade, so it is possible to loose control to the assets integration. Secondly, adopting purchasing real assets is purchasing real assets directly from NYH company such as power station to reach the aim of gaining real assets, but it exist problem of trade cost and big risk of trade. In order to overcome the shortage above, at last it comes up with the idea-split merger model. That is to say, we split the assets of NYH company into two complete assets then merge into two shareholders according to proportion of rights. This model divides the process into two period—split and merger, taking operation in the inner of group. It avoids the risk from assets listing and auction. Meanwhile, it can avoid trade cost and taxation from the planning of share rights, credit and debt, trade cost at the vastly. Thus this case adopts split-merger model.

3.2.3. The Plan of NYH Company's Assets Integration

On account of the aim of integration, the main effect of share rights proportion and assets. NYH company's assets can be divided into two parts. One is assets composition (M1) which constitutes by YHB power station and YL power station, and at last becomes core enterprise of SC company. The other one is assets composition (M2) which constitutes by LZP company's assets power station and other power station, and at last possessed by the other shareholder in the company. The advantage is that these two assets can play their own role and the built power station can afford cash flow for SC company; by assessing and calculating the assets benefits, it basically fit in with the proportion of investment share rights. It prones to the segmentation of share rights, lowest the benefit consideration.

4. The Design of Integration Plan

4.1. The Certainty of Split Plan

The split of company is the legal act that the original company divides into two or above two companies. According to the stipulation of <corporation law>, Splitting may take the forms of split-off and split-up. Split-off means a company can be divided into two or more firms, while the company can still exist and establish one or more new firms. Split-up means this company breaks up and be divided into two or more new firms. Considering the simplicity of operation, NYH company adopts split-off. That is to say, the assets composition (M1) leaves in original company and the assets composition (M2) separate into a new firm. The original shareholder—CDG company exits from original company and reduces shares of original company. SC company doesn't invest anymore but CDG company in the new firm. After splitting, the difference of benefit between SC company and CDG company in the original company will be considering compensated. Referring to the change of NYH company share rights, credit and debt, it has many choices.

4.1.1. The Changing Plan in the Rights and Interests of NYH Company

Solution 1: According the provided fund, it changes the proportion of investment.

NYH company now has 260 million for registering fund: SC company invests 166.4 million yuan, taking up 64% of share rights, CDG company invests 93.6 million yuan, taking up 36% of share rights, and SC company invest 274.25 million yuan for project fund (not for real investment). If the registering fund increases in this assets integration, SC company's investment can be up to 440.65 million yuan, taking up 82.48% of share rights and CDG company invests 93.6 million yuan, going down to 17.52% of share rights.

Solution 2: It doesn't change the proportion of share rights, and transform project fund as creditor's rights.

Not changing Shareholders invest proportion, SC company invest project fund 274.25 million yuan as creditor's rights for NYH company. By auditing, the fund that NYH company should pay for SC company takes up 42.44 million yuan.

Solution 3: CDG company increases investment fund, and two shareholders maintaining the proportion of share.

The proportion of shareholders investment not changing, in order to maintain the proportion of share rights, CDG company needs to increase project fund 154.26 million yuan to NYH company, by considering SC company investment amount is under the situation that SC company project fund takes up the fee. After increasing, NYH company's total account is 688.28 million yuan, including 440.5 million yuan of SC company and 247.78 million yuan of CDG company.

4.1.2. The Split Choice of NYH Company

According to the auditing reporter and the evaluating reporter data on base date, meanwhile considering the three rights changing plan above, it forms three split plans (Table 1). According to the principle of economical efficiency, feasibility, and simplification of split process, we decide to adopt the second plan. The benefit of each other is in Table 2.

4.1.3. The Certainty of Consideration

According to the result of evaluating, NYH company's total evaluating benefit amount is 396.78 million yuan. According to the stated share rights proportion, SC company should have the benefit 253.94 million yuan, and CDG company should have the benefit 142.84 million yuan. After SC company and SDG company possessing M1 and M2 separately, SC company should compensate 96.49 million yuan for consideration.

4.2. Absorption Merger Plan

Absorption merger is the extension of NYH company's assets integration, and adopting the merger plan after split. That is to say, SC company adopts merger absorption plan to merge splitting NYH company. CDG company adopts merger absorption plan to merge derived firms. After merger, NYH company's corporation status will be abolished, and all assets debt will be possessed by SC company. The original NYH company becomes

Table 1. The three rights changing plan (U. Ten thousand yuan).

Solution	Item	Audit data	Evaluating data	SC. total equity	CDG. total equity	Capital cost	Difference
1	NYH	57646.13	71347.43	58847.36	12500.07	-	-
	M1	57146.13	66712.33	-	-	-	7864.97
	M2	500.00	4635.10	-	-	-	-
2	NYH	25977.00	39678.30	25394.11	14284.19	4244.13	-
	M1	25477.00	35043.20	-	-	-	9649.09
	M2	500.00	4635.10	-	-	-	-
3	NYH	68828.56	82529.86	52819.11	29710.75	4244.13	-
	M1	68328.56	77894.76	-	-	-	25075.65
	M2	500.00	4635.10	-	-	-	-

Table 2. The determine plans (U. Ten thousand yuan).

Time	SC. total equity		CDG. total equity		Difference
	SC.	M1	CDG.	M2	
After split	25394.11	35043.20	14284.19	4635.10	9649.09

Data sources: the actual transaction data.

the branch of SC company. Because this merger doesn't involve consideration, so it doesn't have assets evaluation according to some stipulations.

4.3. The Process

According to the plan, the operating procedure of NYH company assets integration was as follows:

1) Spin out the M2 from the NYH company and make it as a new company (SY company). SY company was served for dealing with investment. Reduce the long-term investment of SC company's exclusively-invested enterprises (NYH company).

2) SC company should pay for the benefit that CDG company deserves (after deducting M2 estimation) at 96.49 million yuan, which make SC company total investing enterprise (NYH company) transform CDG company's 93.6 million yuan to CDG company so that NYH company can reduce benefit (reduce assets or reduce undertaking relevant debt). At the same time, CDG company transforms investing disposal to SY company. As for the insufficient part for 96.49 million yuan, that is to say, the margin-28.9 million yuan transforms as debt to CDG company.

3) CDG company merges the LZP company and SY company under situation that has the same investor, and becomes an enterprise.

4) After NYH company reducing investment, SC company transforms the debt rights to NYH company, then NYH company increases investment. At last, SC company merges NYH company according to merger plan to reach the aim of assets integration.

5. Conclusion

NYH company's division and merger was started in 2008 and finished in July 2009. Through this integration of assets, SC company has successfully unified the NYH company.. It would deduct the expenses of taxation at approximate 8 million yuan and gain more than 200 million cash flow which can solve the existence and investigation problem. CDG company possesses the whole LZP company because of this. It has about 30 million yuan as interest every year and realizes the effective combination of installed growth and operating management. Therefore, among the assets integration in electric power enterprises, good financial planning and project design can not only achieve the purpose of assets integration and realize a related enterprises' win-win situation, but also avoid the complex trading program and the huge trading cost.

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