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No improvement in Asia Pacific corporate payments in 2015

Coface's annual survey on Asia-Pacific economies questioned 2,793 companies in 8 markets: Australia, China, Hong Kong, India, Japan, Singapore, Taiwan and Thailand. The survey traced the evolution of corporate payments in 11 sectors of activity. 85% of companies offered sales on credit terms to their customers, as a solution to tackling their problems of liquidity.

- **70% of the companies experienced overdues, reporting no improvement on 2014**
- **56% believe the global economy is unlikely to pick up in 2016**
- **Deterioration was noted in India, China and Singapore, while other countries were stable in terms of payment experience**
- **The riskiest sectors are construction, industrial machinery & electronics, automotive & transportation and metals**

India, China and Singapore: 3 countries with the strongest deterioration

Approximately 7 out of 10 companies experienced overdue payments in 2015. The main reasons were "customer financial difficulties" (52%), "fierce competition impacting margins" (35.6%) and "lack of financing resources" (26.4%).

In India, 84% of respondents faced overdue issues. There was a marked percentage increase in respondents (32%, vs. 24% in 2014) with more than 2% of their annual turnover involved in ultra-long overdue issues.¹ The problem of non-performing assets is likely to reduce the lending capacity and profitability of banks – which means that some companies could suffer from tightening bank credit controls. The slower than expected implementation of reforms is clouding the medium term outlook.

China's overall corporate payment experience remained weak, with 80% of respondents reporting overdues in 2015. 21% noted average overdue times of more than 90 days - the highest percentage among the regional countries surveyed. In addition to the unsolved issues of high leveraging and overcapacity in many sectors, downwards pressure on the RMB and stock market volatility are further concerns for the Chinese market in 2016.

Singapore saw a sharp increase in respondents (35%, vs. 23% in 2014) with more than 2% of their annual turnover involved in ultra-long overdue issues. In addition, more companies (14%, vs. 10% in 2014) reported average overdue times of more than 90 days and increases in overdue amounts (49%, vs. 35% in 2014). Singapore, as the Asian base for the world's leading players in the commodities market, is now also faced with a backdrop of low commodity prices and mounting global uncertainties.

¹ According to Coface's experience, approximately 80% of ultra-long overdue amounts (i.e. 180 days or more) are not paid back at all. When over 2% of a company's total annual turnover is involved in ultra-long overdues, the company's liquidity can become an issue, putting its ability to repay suppliers into question.

“Asian companies have been facing significant financial stress from overdue issues, compounded by the squeeze on profit margins owing to industrial overcapacity, subdued demand and keener business competition in recent years. It is not expected that non-payments will improve in 2016,” said Jackit Wong, Asia Pacific Economist of Coface.

Japan, Hong-Kong and Taiwan: corporate payments stabilised but slower growth expected

Overall company payment experience remained fairly stable in Japan. Abenomics appear to be losing steam. This is evidenced by the weaker cyclical indicators from retail sales, industrially produced exports in the first quarter and the 0.3% year-on-year decline in the core consumer price index. Coface remains cautious and expects the Japanese economy to grow by 0.5% in 2016 - the same as in 2015.

Companies in Hong Kong adopted a more prudent approach to credit in 2015, with fewer respondents offering sales on credits (69.4%, vs. 76.8% in 2014) and a slight decrease in average credit terms. As a result, overall company payment experience in Hong Kong stabilised. With the continued growth of economic integration between Hong Kong and China, it is widely perceived that any economic ‘shock’ from China has a level of impact on Hong Kong’s economic growth. Hong Kong’s externally-oriented economic growth is expected to slow to 1.5% in 2016, down from 2.4% in 2015.

Taiwan’s overall company payment experience improved. Fewer respondents (11.8%, vs. 21.2% in 2014) reported average overdue times of more than 90 days and there was a clear fall in the percentage of companies (10.2% vs. 15.1% in 2014) with over 2% of their annual turnover involved in ultra-long overdue issues. Economic recovery in the US and the Eurozone will probably mitigate the adverse impacts from China on Taiwan’s highly export-dependent economy. Coface expects a modest improvement in economic growth in 2016, at 1.2%, compared to 0.8% in 2015.

Overdue issues intensifying in ¼ of analysed sectors

Construction was the most at risk sector in the Asia Pacific region in 2015. This segment reported the most companies with turnovers impacted by ultra-long overdues. Construction companies also saw an increase in average overdues of more than 90 days and in overdue amounts. The outlook for the construction sector in 2016 is likely to remain weak. Headwinds originating from the economic slowdown in China (the region’s largest economy), combined with structural reforms and uncertainties around the timetable of the US rate hike, are likely to weigh on the region’s economic outlook - dampening sentiments for both private investment and consumer home purchasing. However, the continuing environment of low (if not lower) interest rates in the region could somewhat bolster purchasing intentions. Ongoing public infrastructure projects could also provide a cushion to the construction sector.

Industrial machinery & electronics had the highest percentage of respondents (78%, vs. 70% in 2014) experiencing overdue issues in 2015. 2016 is likely to be another difficult year for

the sector. The industrial machinery segment is pro-cyclical and demand will probably remain dormant, due to (i) sluggish trade growth, (ii) China's economic rebalancing towards services and (iii) weak capital spending against the backdrop of the Japanisation² of the global economy. At the same time, slowing inflation (if not deflation) will probably cause stress on prices, squeezing profit margins. As a result, it would not be surprising to see some companies within this segment resorting to the defensive strategy of mergers and acquisitions (M&As) to strength their market power.

The **automotive and transportation** sector saw a worrying deterioration in overdue issues during 2015 compared to 2014. More companies reported an increase in overdue amounts (35%, vs. 31% in 2014) and suffered from ultra-long overdue issues (23%, vs. 14% in 2014). Nevertheless, demand will probably benefit from the rise in the middle income class and the regional environment of low interest rates. Furthermore, a boost in Chinese demand (emanating from tax cuts on vehicles with engines of 1.6 litres or less, effective from Oct 1, 2015 to the end of 2016) will probably add some colour to the sector this year.

There were no improvements for the **metals** sector in 2015 and it will probably continue to face challenges. The outlook for 2016 is negative, stemming from (i) subdued Chinese and global demand, (ii) significant overcapacities and (iii) low prices amid market disequilibrium. Restructuring in this sector is likely to kick start in 2016, commencing with the closure of zombie steel companies in China and the rise of M&A activities.

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² Sluggish growth, absence of inflationary pressure, ever more expansionary monetary policies and increased volatility in financial markets. For more details, please refer to [Country Risk Barometer Q1 2016](#).

APPENDIX

Key figures by country and sector

Economy	Overdue issues in 2015 vs. 2014 (% of respondents)						Coface assessment	
	Overdue issues over the past 12 months		Increase in overdue amounts over the last year		More than 2% of their total annual turnover in ultra-long overdue issue*		Country	Business Climate
	2015	2014	2015	2014	2015	2014		
Australia	66.8%	73.5%	15.2%	23.4%	9.7%	16.6%	A2	A1
China	80.6%	79.8%	58.1%	56.4%	33.4%	29.8%	A4	B
Hong Kong	53.6%	55.4%	20.6%	18.4%	23.9%	32.9%	A1 (Negative watch list)	A2
India	84.0%	85.7%	10.0%	24.6%	32.0%	24.1%	A4	B
Japan	45.4%	43.4%	21.7%	17.4%	2.9%	7.0%	A2	A1
Singapore	80.7%	85.1%	49.3%	34.9%	35.2%	23.3%	A1	A1
Taiwan	48.6%	47.9%	18.3%	18.5%	10.2%	15.1%	A1 (Negative watch list)	A2
Thailand	96.6%	88.8%	34.3%	41.8%	7.0%	19.2%	A4	A3
APAC B**	69.8%	69.9%	36.9%	36.8%	24.2%	24.9%		

CORPORATE DEFAULT PROBABILITY

- A1: VERY LOW
- A2: LOW
- A3: ACCEPTABLE
- A4: QUITE ACCEPTABLE
- B: SIGNIFICANT
- C: HIGH
- D: VERY HIGH

*Ultra-long overdue issues refer to those last 90 days or more.

**APAC B refers to the overall results for the 8 selected economies in the Asia Pacific region.

Sectors	Overdue issues over the past 12 months		Increase in overdue amounts over the last year		Ultra-long overdue issues*		Coface barometer**
					Rank		
	2015	2014	2015	2014	2015	2014	
Automotive and transportation	70.8%	69.2%	35.1%	31.2%	6	11	Deteriorated
Chemicals	75.0%	75.2%	41.0%	39.7%	10	7	Improved
Construction	72.5%	76.8%	49.1%	38.8%	1	8	Deteriorated
Household electronics***	69.0%	69.6%	32.8%	36.2%	5	2	Improved
Industrial machinery & electronics***	77.7%	69.6%	44.3%	43.6%	2	3	Deteriorated
IT-Telecom***	74.3%	78.1%	29.8%	36.4%	7	5	Improved
Metals	68.5%	64.7%	40.3%	34.6%	8	10	Stabilised
Paper-wood	73.9%	73.0%	41.5%	29.4%	9	4	Improved
Pharmaceuticals	62.5%	70.4%	23.3%	38.3%	4	6	Improved
Retail	64.3%	62.2%	28.0%	29.5%	11	9	Improved
Textile-clothing	60.0%	63.9%	37.2%	32.1%	3	1	Improved
Total	69.8%	69.9%	36.9%	36.8%			Deteriorated

***For Coface barometer, these three sectors are categorised as the Information and Communication Technologies (ICT), according to Coface.

Source: Coface Survey 2015

Low risk	Medium risk	High risk	Very high risk
The risk has improved	The risk has deteriorated		