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Corporate payments improve in China in 2016 but ultra-long overdues are up under financial stress

A survey on corporate credit risk management, to which 1,017 Chinese companies responded, reveals that corporate payments improved in 2016, with only 68% of the respondent companies experiencing overdue payments in 2016 (compared to the previous 5-year average of 80%) and fewer respondents reporting an increase in overdue amounts. Nevertheless, the situation surrounding ultra-long overdues gives cause for alarm, as 35.7% of those companies concerned had ultra-long overdue amounts (over 180 days) which exceeded 2% of their annual turnover.

There was also a rise in the number of companies that reported average overdue times of 90 days or more in 2016 (26.3%, vs. 21.0% in 2015). Moreover, there was a particularly sharp increase in respondents (15.9%, vs. 9.9% in 2015) with average overdue times of above 150 days (Graph 1).

Coface's experience has shown that approximately 80% of ultra-long overdue amounts (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 and its ability to repay suppliers is questionable.

A higher percentage of respondents (35.7% vs. 33.4% in 2015) indicated that ultra-long overdue amounts accounted for over 2% of their total annual turnover. Moreover, there was an increase in companies (10.9%, vs. 8.7% in 2015) with ultra-long overdue amounts accounting for more than 10% of their total annual turnover (Graph 2). This significantly reduces cash flow, the lifeblood of a business.

Chinese companies that have suffered from non-payment of these ultra-long overdue amounts have been facing significant financial stress. This is compounded by tighter monetary and credit conditions in 2017 and the squeeze on profit margins owing to industrial overcapacity, subdued demand and keener business competition in recent years.

High risk sectors : Construction, chemicals, industrial machinery & electronics

Among the 11 sectors analysed in the survey, ultra-long overdue issues deteriorated in the six sectors of chemicals, industrial machinery & electronics, IT-telecoms, metals, pharmaceuticals and retail. (Graph 3)

Metals, a very high risk sector over the past few years, showed some signs of improvement, as it was boosted by restructuring and a rebound in metal prices. Many of the companies in this sector are continuing to struggle with ultra-long overdue issues – although fewer were faced with ultra-long overdues that accounted for over 10% of their turnover.

Although the long term outlook for the pharmaceutical sector is positive and supported by structural growth drivers (such as the country's ageing population and improving per-capita income), the survey results clearly demonstrate a puzzling deterioration in overdue issues during 2016 compared to 2015. This is partially due to the rapidly evolving regulatory and policy framework, which has included the implementation of a two-invoice system, which has been tested in 11 provinces.

Risks of non-payment remained steady in the household electric & electronic appliances sector, while the four sectors of automotives & transportation, construction, paper-wood and textile-clothing, saw improvements in ultra-long overdue issues.

Despite some amelioration, construction remained China's most at-risk sector in 2016, with 45.9% of companies (the highest percentage of respondents across all sectors) reporting 2% or more of their turnover in ultra-long overdues. 2017 will be another challenging year for highly indebted construction corporates, against a backdrop of tighter monetary and credit conditions.

The improvements in the automotive & transportation sector that were seen last year, thanks to the government's tax incentives to boost car sales, are probably temporary. There is likely to be a bumpy road ahead, stemming from keener market competition, lower demand for cars and the rising costs of raw materials.

Coface has been conducting the corporate credit management survey in China since 2003. The 2016 survey is the 14th edition. 1,017 companies from different sectors participated in the survey, between October and November 2016. The survey provides a better understanding of China-based companies' payment experiences and their credit management practices.

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About Coface

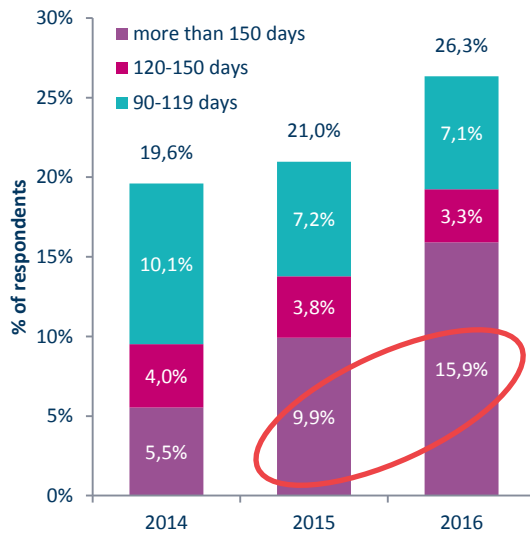
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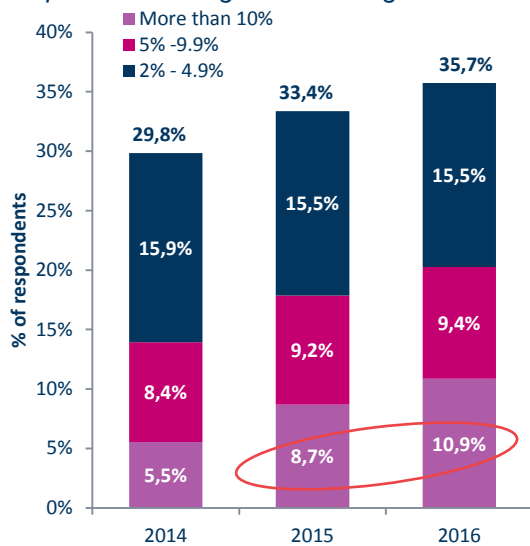


Graph 1: Average overdue days of credit sales



Source: Coface Survey 2016

Graph 2: Percentage of ultra-long overdue amounts (more than 180 days) in annual turnover



Source: Coface Survey 2016

Graph 3 : Ultra-long overdue issues deteriorated in 6 sectors, but improved or stabilised in others .

Sector	Overdue issues in 2016 (% of respondents)		Coface barometer**
	Overdue issues over the past 12 months	More than 2% of their total annual turnover in ultra-long overdue issue*	
Automotives and transportation	71.8%	26.8%	●
Chemicals	90.2%	33.8%	●
Construction	66.1%	45.9%	●
Household electrics / electronic appliances ^[1]	61.5%	33.3%	●
Industrial machinery & electronics ^[1]	73.4%	43.9%	●
IT-telecoms ^[1]	55.7%	40.9%	●
Metals	64.6%	38.7%	● ↗ ●
Paper-Wood	77.8%	14.3%	●
Pharmaceuticals	78.6%	45.5%	●
Retail	63.0%	28.3%	●
Textile-Clothing	63.0%	13.8%	●
Total	67.9%	35.7%	

[1] For coface barometer, these three sectors are categorised as Information and Communication Technologies (ICT).

*Ultra-long overdue issues refer to those last 180 days or more.

**Coface's assessments are based on the financial data published by listed companies. Our statistical credit risk indicator simultaneously summarises changes in 4 financial indicators: turnover, profitability, net indebtedness and cash flow, completed by the claims recorded through our network. (Last update: March 2017).

● Low	● Medium	● High	● Very high	↗ The risk has improved	↘ The risk has deteriorated
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