

Hong Kong, 27 February 2014

## **Corporate overdue payments in China at the highest level in last 3 years: 80% of corporates affected in 2013**

**- More pressure on financing market / shadow banking in China in spite of stable growth in 2014 -**

A survey of corporate credit risk management in China was conducted in the fourth quarter of 2013 by Coface, a leading global credit insurance group. The survey revealed that 8 out of 10 corporates in China experienced overdue payment in 2013. Sectors of chemicals, industrial machinery and household electric & electronic appliances are at higher risk. As credit facilities will remain tighten in 2014, deterioration in corporate payment could lead to significant ripple effect in the shadow banking market in China.

### **Corporate overdue continues to rise in 2013**

According to the survey, 82% of the interviewed enterprises reported overdue in 2013, a 5 % increase compared to 2012 and at the highest level in 3 years (Appendix 1). Among them, 45% also said the overdue amount had increased as well. Companies also experienced a longer overdue days : 18% reported an average overdue days longer than 90 days, a 5 % increase compared to 2012.

Payments that are over 6-months late are considered as highly risky. From Coface's experience, there is an 80% chance for these overdues not to be repaid at all if they were not paid within 6-months. Moreover, if the amount of such overdue payment exceeds 2% of the total sales, it is believed that these companies could have liquidity problems. This is the case of 33% of interviewed companies (Appendix 2), which is a sign of a severe liquidity problem and a high risk of non-payment to their suppliers or borrowing banks or institutions.

*"Deteriorated payment experience in China is an alert to us. Traditionally speaking, smaller companies in China do not necessarily get enough credit facilities from the regular banking system and such issues are the main driver of the shadow banking system development. While we are expecting cost of fund to point higher in 2014, interest rate in the shadow-banking system is already high. An increasing trend of overdue payment adds weights to liquidity management of different stakeholders in the supply chain, and the vicious cycle could lead to significant ripple effect,"* says Rocky Tung, Economist of the Asia Pacific Region at Coface.

### **High risk sectors : industrial machinery & electronics, household electric/electronic appliances and chemicals**

Most of the industries in the Chinese economy have seen a marked deterioration in their payment experience in 2013. An increasing number of industry participants report their average overdue-period extended to more than 60 days in 2013, showing signs of deterioration compared to 2012. This is especially worrying for 3 sectors: industrial machinery & electronics (+16%), household electric/electronic appliances (+19%) and chemicals (+11%) (Appendix 3).

In addition to payment experience, the survey takes into account financial performances (debt-to-equity ratio and profitability) of industries to assess their healthiness in the Chinese econo-

my. “Taking a look at the debt-to-equity ratio shows us how the leverage conditions of various industries have been changing over time, which sheds light on how changes in financing costs may impact the respective industries and how willing industry participants are to finance their own businesses. At the same time, profitability of industries is important for apparent reasons, but it also implies the ability of businesses to generate cash flow from their operations.” says Rocky Tung.

Industrial machinery & electronics, household electric/electronic appliances and chemicals experienced deterioration in both payment and financial indicators. It could be explained by the slow demand in domestic and export markets in 2013 and high competition of the sectors.

Sector (subsector)	Payment experience (vs. 2012)	Financial performance <sup>1</sup> (vs. 2012)
Automobile	Slightly improved	Similar
Building and construction	Slightly improved	Improved
Chemicals	Deteriorated	Similar
Household electronics - computer machine	Deteriorated	Slightly deteriorated
Household electronics - health and beauty		Similar
Industrial electronics - electronics part	Slightly deteriorated	Slightly improved
Industrial electronics - heavy mining machinery		Slightly improved
Industrial electronics - computer parts		Deteriorated
Paper and printing	Similar	Similar
Steel	Similar	Similar
Textile	Similar	Similar

Source: Coface

### Companies worry about economic growth in China and credit tightening in 2014

While hiking labor cost and RMB appreciation could be the headlined stories in the news, they are by far not the most concerning factors for businesses in China. These difficulties are considered as such by only 26% and 9% of corporates. It’s the potentials of economic slowdown in China that worries the majority (61%) of the respondents. Credit tightening, which would potentially reduce their accessibility to credits, is feared by 50% of companies (Appendix 4).

For 2014, the overall macroeconomic environment in China remains healthy, albeit top-line economic growth is expected to slow during the ongoing normalization process. Reflected in the government’s slowing growth target in the last few years, top-line economic growth has also dropped slightly over the period. The 7.7% real GDP growth in 2013 was the lowest growth rate achieved by the world’s second largest economy in 14 years. This is in-line with the government’s address on focusing on the quality – instead of quantity – of growth going forward. Nonetheless, Coface’s estimate of 7.2% YoY GDP growth in 2014 will continue to make China as one of the fastest growing economies in the world.

<sup>1</sup> Leverage and profitability

Despite the high hope of seeing consumption-led economic growth, investment will remain as the growth engine in the medium term as we expect income growth in Chinese family will carry on the slowing trend from the last few years. Growth rate of average income and consumption expenditure declined from 12.4% and 10% in 2012 to 9.6% and 8.1% in 2013. Domestic consumption is expected to grow in a slower pace in 2014.

### **Increasing awareness of receivables management of Chinese companies**

Today 90% of Chinese companies use credit sales in their domestic trade. It is encouraging to see more than 60% of companies expressed in the survey that they use different credit management tools in their operations.

*“Receivables are as important as other assets and sometimes the largest one of a company. Offering credit sales certainly is an effective way to win business. However, without proper credit control, it will create significant impact to the financial condition of a company. It is also encouraging to see that the usage of credit insurance increased from 18% in 2012 to 24% in 2013.”* said Richard Burton, Regional CEO of Coface for Asia Pacific.

Coface has been conducting the corporate credit management survey in China since 2003 and the 2013 survey is the 11th edition. 956 companies from different sectors participated in the survey between October and December 2013. The survey provides a better understanding of China based companies' payment experience and their credit management practice.

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#### **About Coface**

The Coface Group, a worldwide leader in credit insurance, offers companies around the globe solutions to protect them against the risk of financial default of their clients, both on the domestic market and for export. In 2012, the Group posted a consolidated turnover of €1.6 billion. 4,400 staff in 66 countries provide a local service worldwide. Each quarter, Coface publishes its assessments of country risk for 158 countries, based on its unique knowledge of companies' payment behaviour and on the expertise of its 350 underwriters located close to clients and their debtors.

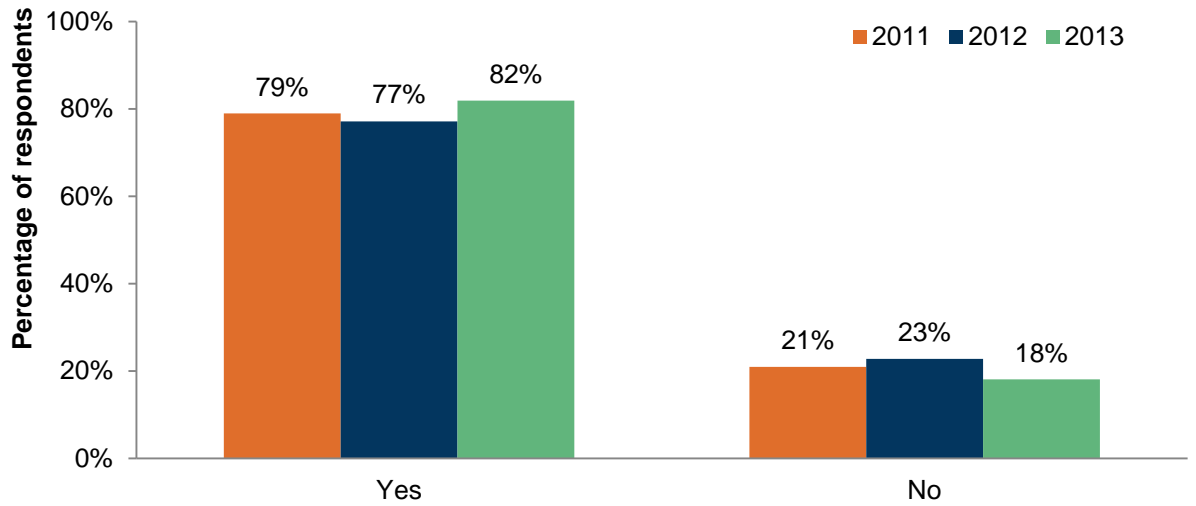
In France, Coface manages export public guarantees on behalf of the French state.

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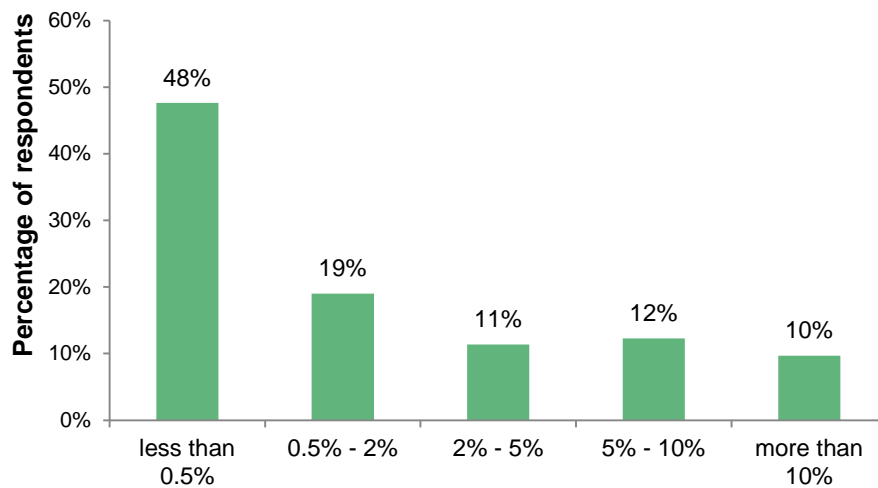
## Appendix 1

### Overdue in domestic sales



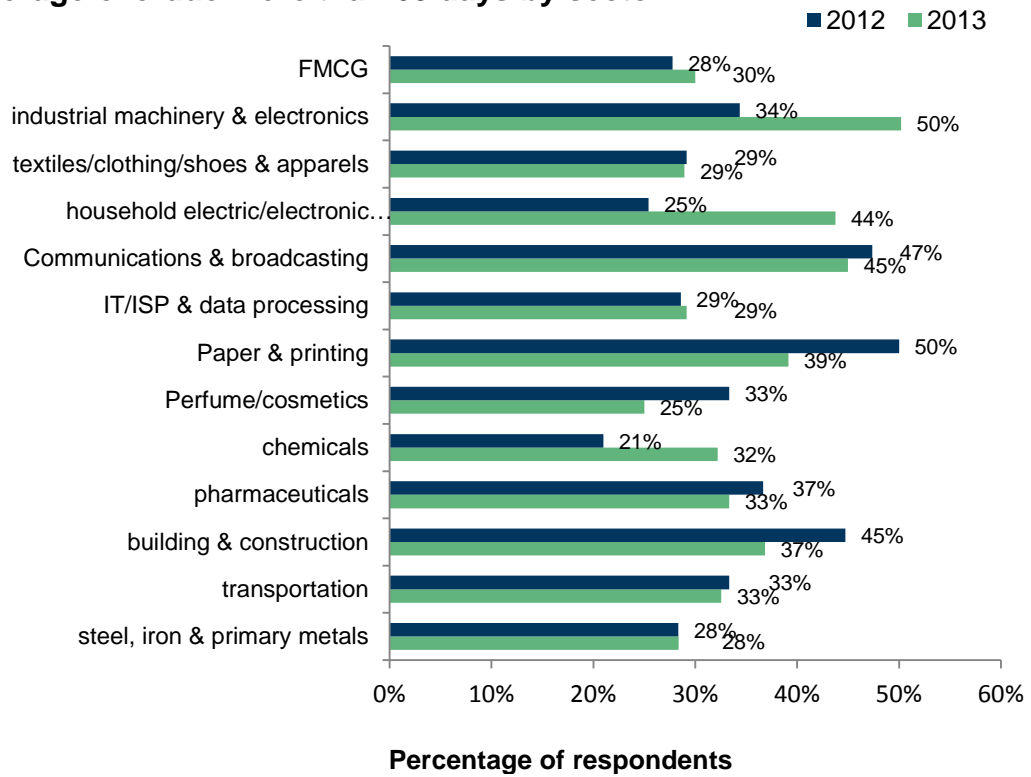
## Appendix 2

### Percentage of long overdue amount (more than 180 days) in domestic annual turnover



## Appendix 3

### Average overdue more than 60 days by sector



## Appendix 4

### Most concerning factors in 2014

