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Few companies in China spared from overdue payments in 2015: 80% of corporates affected

A new Coface survey on corporate credit risk management, to which 1,000 companies based in China responded, reveals that corporate payments continued to deteriorate in 2015, with 8 out of 10 corporates experiencing overdue payments. Coface forecasts that GDP growth will slow down to 6.5% in 2016 (vs 6.9% in 2015). In addition to the unsolved issues of high leverage and overcapacity in many sectors, downwards pressure on the RMB and stock market volatility are concerns for the Chinese market in 2016. It is not expected that non-payments will improve in the short term.

Corporate overdues continue, despite a more prudent credit approach

In 2015, the average credit terms offered by China-based firms decreased again, reflecting a more prudent approach to granting credit facilities to customers. This is most probably the combined result of weak payment experience in recent years, deterioration of confidence and slower growth expectations.

Nevertheless risks have increased, with 80.6% of respondent companies experiencing overdues in 2015 (vs 79.8% in 2014). 58.1% of these firms also reported an increase in the amount of overdues. A higher percentage of respondents (+4 percentage points, i.e. 10% of total) said that average overdue periods have been longer than 150 days. 17.9% of surveyed companies have had to deal with ultra-long (of more than 180 days) overdue amounts exceeding 5% of their annual turnover. The rise of ultra-long payments is putting increasing pressure on company financials.

This is in-line with the non-performing loan (NPL) figures released by the China Banking Regulatory Commission. The NPL ratio reached 1.59% as of the end of 2015, its highest level since 2009 (compared to 1% in 2013)¹. NPLs rose by more than 50% in the first three quarters of 2015. In this context, the risk of a rise in non-payments should not be underestimated.

Gloomy economy clouded with multiple challenges in 2016

Chinese firms that are suffering from overcapacity and low profits now have a higher probability of default, since the government has decided to tackle overcapacity and 'zombie' companies. Even though credit growth is slowing, private debt is continuing to grow faster than GDP. China has not yet entered a deleveraging process and the risks are increasing. Outstanding debt held by the private non-financial sector reached 201% of GDP in June 2015, compared to 114% in June 2008 and 176% in June 2013.

¹ Source : China Banking Regulatory Commission

China's 6.9% GDP growth in 2015 was the lowest in 25 years, while Coface's forecast of 6.5% in 2016 would be another record. Momentum is on a downwards trend, due to the process of rebalancing and low global demand. The authorities are implementing reforms needed to rebalance growth in favour of consumption and services. Despite the positive effect in the medium term, this rebalancing has had some short-term negative effects and generated tough challenges for companies, by hitting profits and exacerbating credit risk.

Stock markets in China have been experiencing a new episode of falls (-16% during the first week of January) and volatility. The heavy use of margin finance (investors borrowing money to buy shares) has increased credit risks and could intensify the downwards spiral. At the same time, the yuan has recorded an unprecedented drop, to reach a 5-year low against the US dollar during the first week of January. The yuan's valuation is also suffering from capital outflows, worsened by worries about the Chinese economic slowdown.

On the monetary side, the People's Bank of China (PBoC) initiated an easing cycle in November 2014 and has since cut the prime lending rate 6 times (165 bp), lowered banks' required reserve ratio (RRR) 5 times (-300bp) and injected liquidity into the economy (1.5 trillion RMB in January 2016, via different tools). Nevertheless, monetary easing measures have not been very effective thus far.

"The government's strategy is ambiguous and the authorities are caught between two objectives. They need to find a balance between, on one side, supporting GDP growth to prevent a 'hard landing' and to protect jobs, while on the other side managing the debt bubble risk. At the same time, businesses in China are facing increasing challenges, such as high leverage with steep costs of financing (despite monetary easing), low profitability (driven by large overcapacities in certain sectors) and volatility on the foreign exchange and stock markets. Monetary easing measures have not been very effective in 2015 and Coface expects more stimulus packages in 2016, as the Chinese authorities endeavour to avoid a hard landing", said Charlie Carré, economist at Coface.

High risk sectors: construction, metals and IT

According to Coface's survey, the construction sector appears to be the most at risk and the situation is deteriorating rapidly. 28.3% of the sector's credit sales in overdue are over by more than 150 days and 57% of the sector's respondents have more than 2% of their turnover impacted by overdues of more than 6 months.² Metals and IT report, respectively, 13% and 15.2% of overdue credit sales of more than 150 days – while telecoms are also under pressure. Some sectors are in better shape but even household spending related sectors, such as the retail and automotive industries, are seeing a deterioration in their payment experiences.

² Coface considers collection of overdues that are '6-months and beyond' doubtful. Coface's experience shows that roughly 80% of these overdues are not repaid at all, if they are not paid after being overdue for 6 months. When the amount of these lengthy overdues exceeds 2% of a company's total annual turnover, the liquidity of these companies can be an issue and their ability to repay suppliers could be questioned.

Coface has been conducting the corporate credit management survey in China since 2003. The 2015 survey is the 13th edition. 1,000 companies from different sectors participated in it between October and November 2015. The survey provides a better understanding of China-based companies' payment experiences and their credit management practices.

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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 2015, the Group, supported by its ~4,500 staff, posted a consolidated turnover of €1.490 billion. Present directly or indirectly in 100 countries, it secures transactions of 40,000 companies in more than 200 countries. Each quarter, Coface publishes its assessments of country risk for 160 countries, based on its unique knowledge of companies' payment behaviour and on the expertise of its 340 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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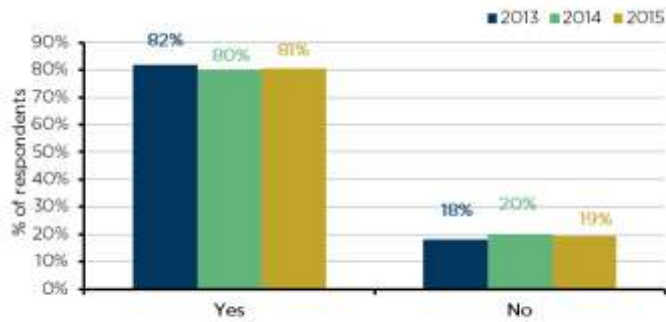
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Appendix 1

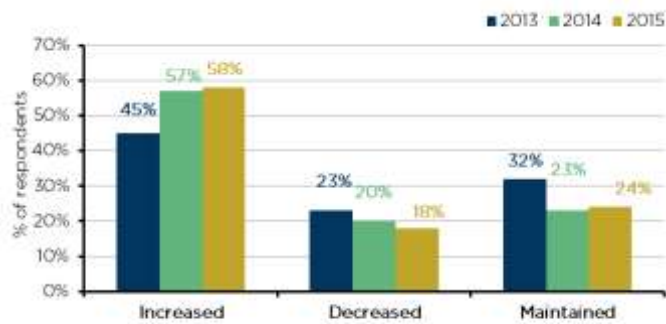
Overdue in domestic/export sales



Source: Coface Survey 2015

Appendix 2

Trend in overdue amounts



Source: Coface Survey 2015












Appendix 3

Debt to Chinese private non-financial sector (% GDP)









Source: BIS

Appendix 4

Sector	Overdue experience* vs. 2014	Coface barometer**
Automotive and transportation	Stabilised	
Chemicals	Deteriorated	na
Construction	Deteriorated	
Household electronics	Deteriorated	
Industrial electronics	Deteriorated	
IT-telecoms	Deteriorated	
Metals	Deteriorated	
Paper-wood	Improved	
Pharmaceuticals	Improved	
Retails	Deteriorated	
Textile clothing	Deteriorated	 
Total	Deteriorated	

*Length of overdue of more than 150 days (in % of total credit sales)

**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. This barometer refers to Emerging Asia but China is overrepresented in the indicator

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