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The local real estate residential construction sector - companies in this area have the highest share of high insolvency risk in ECE

According to the financial data available for 2014, companies operating in the sector of construction of residential and non-residential real estates register increased revenues observed in higher profits. This is the conclusion after we have analyzed 15,246 companies that submitted financial statements in 2014 in an extended format; it is a relevant sample taking into consideration that it generates about 95% of the turnover of the entire portfolio of companies. On this occasion, it appeared that investments in retechnologisation are needed, in 2014 having been made investments in fixed assets of only 5%. For the second consecutive year, the pace of retechnologization was under the attrition dynamics, which means a lack of economic performance. Companies in the analyzed sector maintained a high level of credit provider, the average duration of its payment falling to 272 days, while the claims are collected at 168 days.

According to financial statements published by the Romanian Ministry of Finance, the companies with the main activity "Construction of residential and non-residential" generated in 2014 27.95 MLD RON turnover, up with 11% YoY. The growth is 100% due to companies with a turnover of over 1 MIL EUR. However, 47% of companies operating in this sector reported lower revenues in 2014. According to consolidated results, 50% of companies have a high risk of insolvency, 27% have a medium risk of insolvency, and 23% a low risk of insolvency. Although the commercial performance visibly improved in 2014 by increasing revenues, profits and liquidity, the suppliers are paid late. Also, the total debt remained at 77% of the assets, but the level of investments in fixed assets is only 5%, which means companies are delaying investments due to uncertainty or lack of interesting opportunities or cash is preserved for the payment of significant dividends in 2015.

Analyzing the distribution of these companies by the turnover, it can be concluded that:

- About 33% of companies who have filed statements for 2014 have not really developed any activity;
- Nearly half of active companies registered a turnover of less than 100K EUR / year (2014), but the share values of this segment in the total turnover was only 5%;
- 1,725 companies from this sector registered over 1 MIL EUR annual turnover in 2014, almost twice as much compared to the 2013 level, when there were 999 companies. This segment represents approximately 7% of the total active companies, but generates approximately 74% of revenues, registered in the entire sector.

Companies registered rising profits

- The consolidated net result for 2014 in this sector was 2.8%, registering a slightly growing dynamics comparing to the previous year, respectively 1.9% in 2013 and -1,5% in 2012;
- The operating margin increased from 1.2% in 2012 to 4.2% in 2014;
- 48% of companies operating in this sector reported a deterioration in net earnings in 2014 compared with the previous year, 30% of which going from profit to loss;
- This dynamics is amid huge debts contracted by domestic companies, registering a level of indebtedness of 77.

Companies registered a low level of investment in fixed assets and land

- Companies in construction of residential and non-residential field registered a low level of investment in fixed assets and land, their share in total fixed assets is only 5%.

Romania registers the largest share in Central and Eastern Europe of the companies in the analyzed sector which perform late payments

- The financial autonomy of the companies in this sector is strongly dependent on the collection of receivables;
- Despite maintaining the average duration of debt collection at a high level for 168 days (the highest level in CEE), the liquidity situation marginally improved, the coverage of short-term debt net cash increasing at 19%. The preserving source of liquidity is not sustainable on long term, given that suppliers are paid very late. The liquidity excess is not used in classic destinations, as early payment of suppliers, repayment of loans to banks (stable debt of 77%), investment expenses under depreciation (both in 2013 and 2014).
- The average duration of payment of short-term debt decreased in 2014 compared to 2013, to 272 days, but it increased with 4 days from the level registered in 2012. Basically, the extension of short-term debt payment (4 days advance), 6 days less than the advance of inventories and receivables (an advance of 10 days), obstructing companies from the analyzed sector to fund important long-term investment (below depreciation).

“2014 brought us a divergent result in terms of revenues; their level increasing by 11% given that 47% of the companies reported decreasing revenues. This increase is the effect of large companies, with over 1 MIL EUR turnover, that compensate the underperformance of small businesses. Despite this, the income advance may be found in a very low percentage into additional profits, their dynamics is only slightly increasing. The consolidated net result for 2014 at sectorial level was 2.8%, registering a significant increase dynamics YoY, respectively 1.8% in 2013 and -1.5% in 2012. In this context, although financing of long-term investments is not a priority, the companies in the analyzed sector maintained the average payment term of short-term debt at a high level, of 272 days, up with 35 days over the operational cycle. The receivable days, well above the national average, indicates a sector highly sensitive to shocks and largely dependent



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on the recovery of loans. In this context, the local companies operating in this sector shows precarious financial indicators than the average in Central and Eastern Europe, Romania reporting for this sector, compared to the regional average, the highest share of companies with major risk of insolvency as well as companies that perform late payments” stated Nicoleta Maruntelu, Economist Coface Romania.

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