

Bucharest, 11 May 2017

Revenue from grain growing rose by 5% in 2016 compared to the previous year.

According to the financial statements submitted to the Ministry of Public Finance for 2015, the number of companies working in the grain cropping sector (NACE 0111) is of 8,056, out of which 1,438 (18%) did not carry out any activity, while 2,692 (33%) have registered incomes below 100 K EUR. We notice a trend towards revenue concentration among medium-sized and large companies. Thus, the number of companies recording revenues that exceed 1 M EUR has steadily increased, from 215 in 2008 to 679 in 2015, as the weight of the consolidated market share among these companies went from 60% (2008) to almost 70% (2015).

Increasing concentration degree

The phenomenon of polarization, characteristic of the entire Romanian business environment, has led to an increase by 18% in the number of companies active in this sector since the impact of the financial crisis (in 2008) up to this day, while revenues doubled, from 8.5 B RON in 2008 to almost 16.8 B RON in 2015. Given the figures reported by Eurostat for the 2016 agricultural production, as well as the evolution of the grain price (the so-called nominal effect), we estimate that the income level reported for this sector for 2016 will show a 5% increase, compared to the previous year.

Table 1: The evolution of companies in the grain cropping sector

Indicator	2015	2014	2013	2012	2011	2010	2009	2008
Number of active companies	8,056	6,964	6,510	6,362	5,799	5,596	6,161	6,802
Turnover (M RON)	16,795	19,064	15,393	16,486	14,869	10,134	8,342	8,524
CA Sector Dynamics	-12%	24%	-7%	11%	47%	21%	-2%	
Net Result %	5.69%	4.70%	5.77%	7.29%	8.77%	4.64%	-0.97%	4.29%
Debt degree %	64%	65%	69%	70%	71%	74%	57%	74%
Fixed Assets %	50%	49%	49%	48%	50%	51%	64%	51%
DSO	194	153	154	139	123	136	148	120
Employees total number	43,535	41,363	34,326	33,517	30,810	31,416	32,121	35,039

Source: MFP, ONRC, Coface processed data

Extremely high revenue volatility

The sector displays a modest degree of technology implementation, which means that the revenues earned by these companies are badly affected by weather conditions. According to the figures reported by Eurostat, the 2016 grain crop amounted to 19,928 tons, 3.4% up, compared to the previous year. Analysing the evolution of the grain crops during 2008-2016, we notice an extremely high volatility, as the annual fluctuations are very high. Generally, three consecutive years of continuous growth rarely occur, as the meteorological conditions bring significant (negative or positive) adjustments every two years. The volatility of the grain crops is amplified by an opposite volatility of the price of the cereals, as very low crop outputs periods are generally accompanied by price rises due to supply shortages. In the context of significant fixed costs registered by companies operating in this sector (crop maintenance, rent, equipment leasing), the extremely high revenue volatility is likely to increase their fragility.

Chart 1: Grain crop output (K tons)



Source: Eurostat, Coface processed data

The evolution of financial indicators

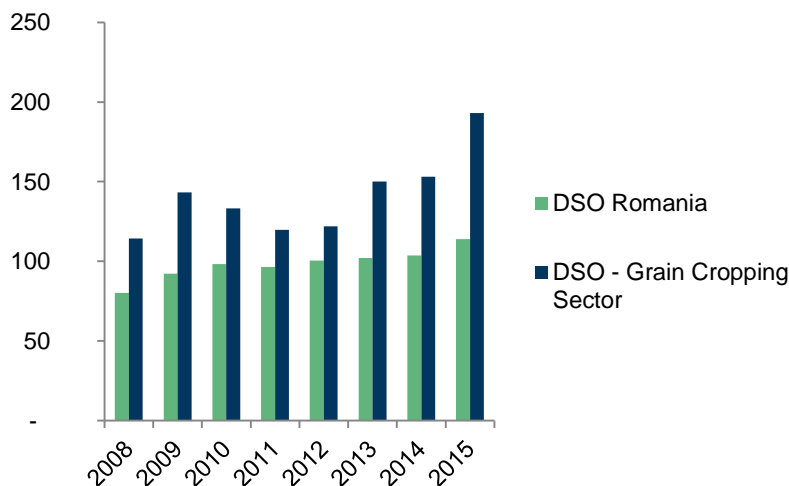
According to the latest financial statements submitted by companies operating in this sector, we notice:

- The liquidity circumstances of companies are constantly deteriorating.** Thus, the working capital (the ratio between current assets and short-term debts) decreased from 1.22 (in 2012) to merely 1.05 (in 2015), while companies' fragility in case of non-payment of receivables or price stocks volatility (both scenarios being very likely to occur in this sector). Against this background, short-term debt coverage by cash funds falls went from 14% (in 2012) to merely 9% (in 2015);
- One of the main causes of liquidity pressures is the constant increase of the Days of Sales Outstanding (DSO),** from 112 days (2008) to almost 193 days (2015), well above the national average registered for the same year (114 days). Thus, agriculture in general, and the grain cropping sector in particular, registered the most ex-

tensive receivables collection term nation-wide. In this context, the companies operating in this sector have requested the extension of supplier payment terms, which went from 215 days (2012) to 335 days (2015). Since the supplier payment terms has been extended much more rapidly than the average receivables collection terms, the duration of the cash conversion cycle went from positive values (21 days in 2012) to negative values (-16 days in 2015). Basically, the companies operating in this sector pay their suppliers 16 days later than they can actually pay them (the average consolidated debt collection and stock rotation period);

- **The profitability indicators' trend went down between 2012 and 2015, displaying a tendency towards stability during the last part of the said period.** Thus, the average consolidated profit for this sector in 2015 was 5.7%, lower than the average registered in 2011-2012 (approximately 8%), yet above the minimum profitability threshold reached in 2009;
- **Most of the profits earned are directed towards:** (i) financing asset investments (as their level doubled, compared to the average speed with which the machines become obsolete); (ii) financial disintermediation, namely the reimbursement of loans to banks (the debt ratio went from 74% in 2008 to 64% in 2015);

Chart 2: The evolution of the receivables collection duration



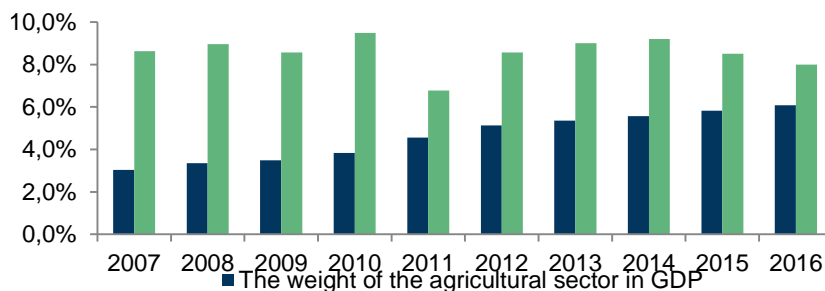
Source: MFP, ONRC, Coface processed data

Credit evolution

The agricultural sector is generally under-funded, compared to the added value generated in GDP formation. Thus, the share of the agricultural sector in GDP formation varied between 8%-10% during 2007-2015, while the balance of credits granted by the banking sector out of the total number of credits went from 3% in 2007 to merely 6.1% in 2016. We believe that the following factors are responsible for this under-funding trend:

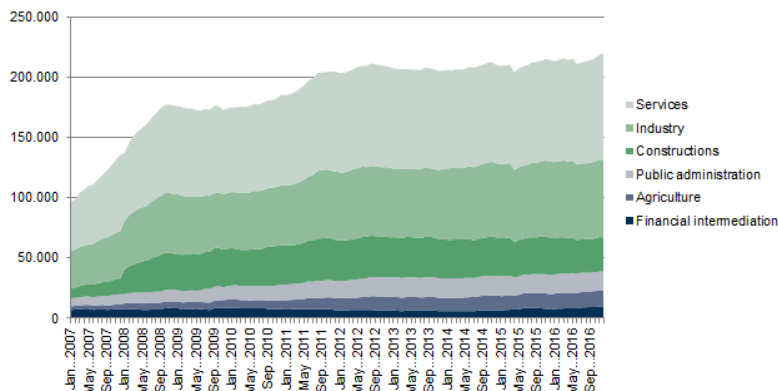
- **the banking sector's** reluctance to finance a sector exposed to unpredictable risks (e.g. volatility of weather conditions) in the absence of securities provided through various schemes supporting the farmers;
- **the farmers' appetite** to use commercial credits (the extension of supplier payment terms) to the prejudice of bank credits, against an easier access and lower costs.

Chart 3: Agriculture: credits vs contribution to GDP



Source: BNR, INSSE, Coface processed data

Chart 4: The structure of credits granted by the banking sector



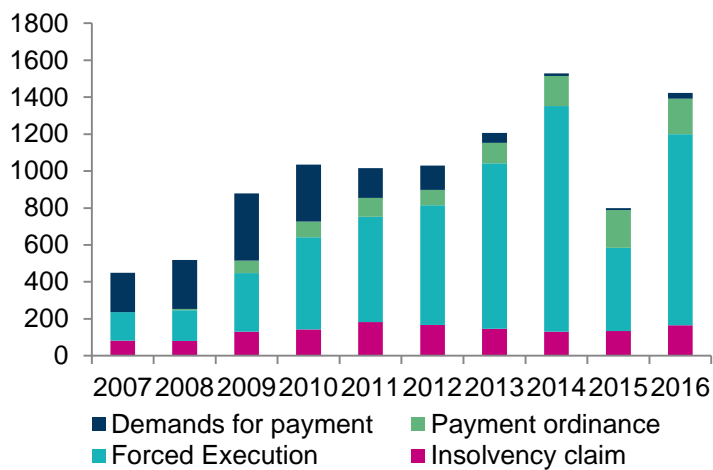
Source: NBR, Coface processed data

The Evolution of Payment Behavior

In the context described above, the payment behavior of companies operating in the grain cropping sector deteriorated over the previous year. Thus, in 2016, 1,423 commercial lawsuits were filed against the companies operating in this sector, 78% up, compared to 2015. The largest increase was registered by forced execution lawsuits, namely 1,034 processes.

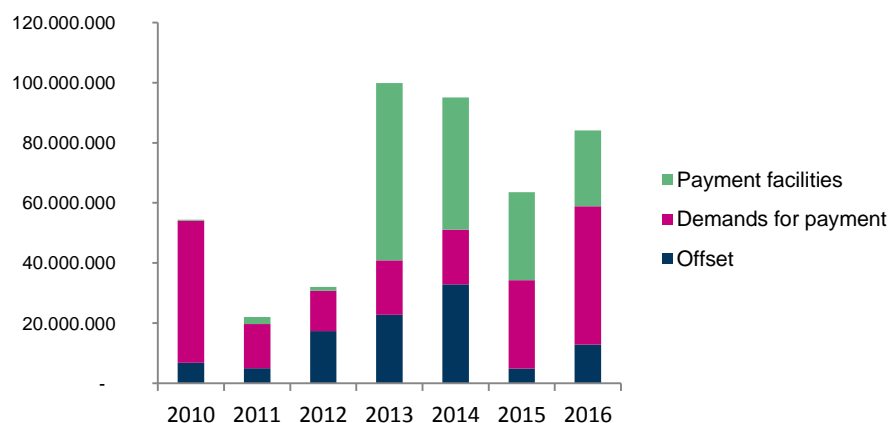
At the same time, the value of outstanding tax debts registered by this sector increased by 32% compared to the previous year, from 63 M RON (in 2015) to almost 84 M RON in 2016.

Chart 5: Commercial lawsuits against the sector



Source: Portal Just, Coface processed data

Chart 6: The evolution of outstanding tax liabilities



Source: ANAF, Coface processed data



P R E S S R E L E A S E

„We notice a series of factors that put pressure on the liquidity of the companies operating in the grain cropping sector: income volatility (due to weather conditions and price fluctuation dependency), declining profitability, APIA (The Payments and Intervention Agency for Agriculture) delayed payments, the extension of the receivables collection terms and the disintermediation trend, coupled with long-term investments sustaining. In this context, the payment behavior of the companies in this sector witnessed a significant deterioration in 2016”, said Iancu Guda, Services Director, Coface Romania.

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