



ROAD FREIGHT TRANSPORT



EXECUTIVE SUMMARY

For the current analysis, data were aggregated by 34,619 companies that submitted their financial data for 2017 and generated a consolidated turnover of MLD RON 41.65 million. The Companies in the analysed sector (4941 Road freight transport) recorded a positive revenue evolution in 2017, rising by about 14% from 2016 and managing to maintain profitability at the same level as in 2016.



STRONG POINTS

- 1 A 14% increase in consolidated revenue at sector level.
- 2 Improving marginal terms of payment to suppliers.
- 3 Decrease the duration of the money conversion cycle to -13 days (from -16 days).
- 4 Decrease of the level of indebtedness at a consolidated level from 77% to 74%, although approximately 57% of companies have an indebtedness ratio of over 80%.
- 5 Investments above the depreciation rate in all five years analysed: 2017 - 2013. (CAPEX: 29.5%, 39.5%, 39%, 32.2%, 26.2% vs. Depreciation: 22.8% 25.1%, 24.2%, 22.2%, 21.7%).
- 6 Maintaining high levels on the return on equity (from 27.9% in 2016 to 25.6% in 2017), with a 26% consolidation at a consolidated level.
- 7 Extending the period of autonomy for the analysed sector from 110 days in 2016 to 121 days in 2017, under a slightly rising liquidity.
- 8 More than a third of companies (40%) made investments in 2017, recording a Capex/depreciation improper ratio.
- 9 Maintaining the profitability indicators at the level of the previous year.
- 10 Distribution as a dividend in 2017 of a lower value and weight from the consolidated profit of the previous year, allowing it to be capitalized (through investments) and resulting in a lower indebtedness.



VULNERABILITIES

- 1 More than one third of companies (43%) reported a decrease in revenues.
- 2 More than half of the companies (60%) recorded a decrease in the net result.
- 3 40% of companies have a current liquidity below 1, which means pressures on liquidity.
- 4 54% of companies pay their debts later than their business cycle (the negative money conversion cycle).
- 5 The financing horizon focused mainly on the short term on a consolidated level (65% of the total debts are current debts), as 49% of the companies have only current liabilities.
- 6 The coverage of interest expense by operating result at consolidated level declined in 2017 to 3.1 from 8.27 in 2016.
- 7 More than half of the companies in the sector have an insolvency risk above average.
- 8 The number of bank incidents, respectively the number of companies that have recorded bank incidents, has increased over the last 3 years (2017-2019).
- 9 The increase in the frequency of court actions (especially executions) against companies in the sector over the last 3 years (2016-2018).
- 10 Obsolete car park, 75% of vehicles registered in circulation at the end of the year are older than 10 years. Modest evolution in terms of infrastructure.

LIQUIDITY AND ACTIVITY INDICATORS

Current liquidity recorded in the entire sector in 2017 was 1.07, with a very low working capital exposed to negative shocks and a volatile context (decreased income or non-payment of receivables). The short-term debt coverage through the net treasury increased from 13%, the level in 2013 to 15% in 2014 and 20% in 2015, reaching 20% in 2016, which is also maintained in 2017. This dynamics was recorded against the background of the increase in the operating cycle (the cumulative duration of the rotation of inventories and receivables) from 94 days (2016) to 96 days (2017). The marginal increase of the liquidity indicators is registered on the background of a decrease in the receipt of the receivables and on the maintaining of the balances at suppliers and banks, the average duration of the short-term debt payment recorded in 2017 being 109 days, in decrease compared to the previous year, respectively 110 days. The money conversion cycle remains negative, registering a level of -13 days in 2017, in decrease compared to 2016 and 2015 (-16 days), respectively. Its negative value is due to a low inventories turnover duration compared to other sectors and confirms the significant call to the commercial credit received from the suppliers.

The companies in the analysed sector record autonomy in 121-day force majeure situations, as all the receivables on the balance are collected, a plausible aspect given the DSO's slight increase in 2017 to 86 days compared to 2016, 85 days. In other words, the financial autonomy of the companies in this sector is relatively dependent on the collection of receivables.

In the case of the analysed sector, the CCR remained above the 1 threshold and in 2017, registering a level of 110%, increasing from 105% in the previous year, respectively. Its dynamics is coupled with an increase in the immediate and current liquidity level (the cash ratio is maintained at 18%) and the cash recorded at the sectorial level is generated intrinsically, provided that the profit margin is also maintained and the average duration for the payment of the supplier payment decreases.

Given the high exposure of the companies in the analysed sector to non-collection of receivables, it is very important to analyse the evolution of the average receivable collection duration (DSO) over time. We note that companies operating in the road transport sector reported an average duration of receivable collection over the last four years, below the level reported at national level. The average receivable collection duration in the analysed sector decreased from 91 days, the level from 2012 to 86 in 2017, while the national average in the same analysed period decreased from 102 days to 93 days.

| Liquidity indicators | 2017 | 2016 | 2015 | 2014 | 2013 |
|--------------------------------|------|------|------|------|--------|
| Current Liquidity | 1,07 | 1,04 | 1,06 | 1,00 | 0,96 |
| Immediate Liquidity (QR) | 0,98 | 0,95 | 0,98 | 0,91 | 0,88 |
| Cash Liquidity (Cash R) | 0,18 | 0,18 | 0,20 | 0,15 | 0,13 |
| Defensive Interval Ratio (DIR) | 121 | 110 | 122 | 115 | 109,84 |
| Cash Coverage Ratio (C.C.R.) | 110% | 105% | 107% | 102% | 99% |

Source: MF, Coface processed data

| Activity Indicators | 2017 | 2016 | 2015 | 2014 | 2013 |
|--|------|------|------|------|------|
| DSO (Receivable Collection Duration) | 86 | 85 | 88 | 90 | 91 |
| DIH (Inventories Rotation Duration) | 9 | 9 | 9 | 10 | 11 |
| DPO (DTS Rotation Duration) | 109 | 110 | 112 | 122 | 126 |
| Operational cycle (Stocks + Receivables) | 96 | 94 | 97 | 100 | 102 |
| CCC (Cash Conversion Cycle) | -13 | -16 | -16 | -21 | -24 |

Source: MF, Coface processed data

1. PROFITABILITY AND SOLVENCY INDICATORS

The consolidated net result for 2017 was, as in 2016, almost 4%, registering a stagnation after decreasing in 2016 compared to 2015 (4.7%). In this context, 30% of the companies had a net loss at the end of 2017, with 15% of the companies registering a loss of -20% and 19% registering a profit over 20%.

The sector indebtedness ratio of 74.4% decreased from the one in 2016, 76.7%. However, the relatively high indebtedness rate coupled with over 65% current liabilities guidance, indicates a long-term asset financing through short-term sources, a long-term unsustainable situation (with 49% of companies having 100% current liabilities). 42% of companies (a higher percentage than in 2016) show a negative capitalization rate (equivalent to an indebtedness greater than 100%) and for 14% the indebtedness ratio exceeds 80%.

Noteworthy is the ROE (profit rate compared to equity), which declined slightly in 2017 to almost 26%, after in 2016 it was 28%, under a relatively high capitalization and growing at sector level (~ 26% in 2017, from ~ 23% in 2016).

From the profit capitalization perspective, dividends of approximately RON 0.44 MLD RON were paid in 2017, representing 31% of the consolidated profit in 2016 ~ 1.4 MLD RON, which also led to a decrease in the indebtedness to ~ 74.4% in 2017.

The coverage degree of interest expenses through the operating result (EBIT/Ch. with interests) decreased significantly in 2017 compared to the previous year, reaching 3.1. In spite of this evolution, the profit can be used to cover a fairly large part of the financing costs from foreign sources, as long as it is not distributed as a dividend.

| Profitability indicators | 2017 | 2016 | 2015 | 2014 | 2013 |
|-----------------------------|-------|-------|-------|-------|-------|
| Net result: Turnover | 3,9% | 3,9% | 4,7% | 1,8% | 1,2% |
| EBIT: Turnover | 5,3% | 5,4% | 6,2% | 3,5% | 2,9% |
| ROA (Return on Assets) | 6,4% | 6,3% | 7,5% | 2,9% | 1,9% |
| ROE (Return on Capital) | 25,6% | 27,9% | 32,5% | 17,1% | 13,2% |
| OROA (Assets Operational R) | 9,5% | 9,5% | 11,1% | 6,0% | 4,9% |

Source: MF, Coface processed data

| Solvency indicators | 2017 | 2016 | 2015 | 2014 | 2013 |
|-------------------------------------|-------|-------|-------|-------|-------|
| Indebtedness degree (Debts: Assets) | 74,4% | 76,7% | 76,1% | 82,1% | 84,8% |
| Funding horizon (DTS: Debts) | 65,3% | 62,8% | 64,7% | 65,0% | 64,7% |
| Fixed Assets: Assets | 47,0% | 48,5% | 46,3% | 46,2% | 45,0% |
| EBIT/Interests expenses | 3,1 | 8,3 | 9,4 | 4,5 | 3,4 |

Source: MF, Coface processed data

2. INVESTMENTS AND TRENDS AT THE SECTOR LEVEL

In 2017, the companies in the analysed sector allocated significant investments for the expansion of fixed assets. By eliminating the impact of the sale of tangible assets or depreciation adjustments, the CAPEX share in total assets was 30% in 2017, down by 10 percentage points compared to the previous year, when the CAPEX share in total assets was 39.5%. The average depreciation at sectorial level decreased by 2 percentage points in 2017 compared to 2016, reaching 23%. The ratio between capital expenditures (CAPEX) and the depreciation was 129% in 2017, which means that investments in fixed assets covered fixed depreciated means. Since 2013 until now, we can talk about a massive investment process. In this context, 40% of the companies made investments in 2017, recording an improper Capex/depreciation ratio.

Using the Herfindahl-Hirschman index to assess the level of concentration, we note that the analysed sector is marked by a relatively low level of concentration, with the HHI indicator for each of the past five years being below 500. This is also confirmed by the share of the cumulated market share held by the top 10 players, respectively 9%. However, the share in the total turnover of the top 10% of companies in the sector has fluctuated slightly in the last 5 years, but has remained very high (80% in 2013, in 2017 being very close to 79%)

| Investments Indicators | 2017 | 2016 | 2015 | 2014 | 2013 |
|--|-------|-------|-------|-------|-------|
| CAPEX Rhythm (Capex1: tangible assets) | 29,5% | 39,5% | 39,0% | 32,2% | 26,2% |
| Depreciation rhythm (Lag 1 year) | 22,8% | 25,1% | 24,2% | 22,2% | 21,7% |
| CAPEX /Depreciation | 129% | 157% | 161% | 145% | 121% |

Source: MF, Coface processed data

| Evolution companies sector | 2017 | 2016 | 2015 | 2014 | 2013 |
|--|-------|-------|-------|-------|-------|
| Number of registered companies | 7,9% | 8,8% | 11,0% | 9,7% | 8,7% |
| Number of companies exit | 11,7% | 10,6% | 17,7% | 15,0% | 15,8% |
| OUT report: IN | 1,47 | 1,21 | 1,61 | 1,54 | 1,81 |
| Number Top 10% Companies | 3.461 | 3.200 | 2.865 | 2.717 | 2.725 |
| Share in CA total of TOP 10% Companies | 78,8% | 79,0% | 79,0% | 78,5% | 80,2% |

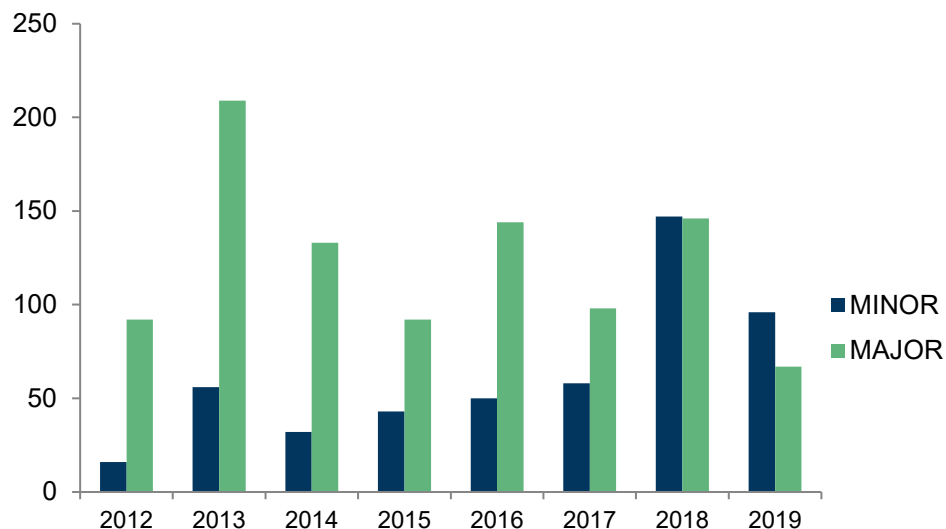
Source: MF, Coface processed data

3. PAYMENT BEHAVIOUR

Payment Incidents

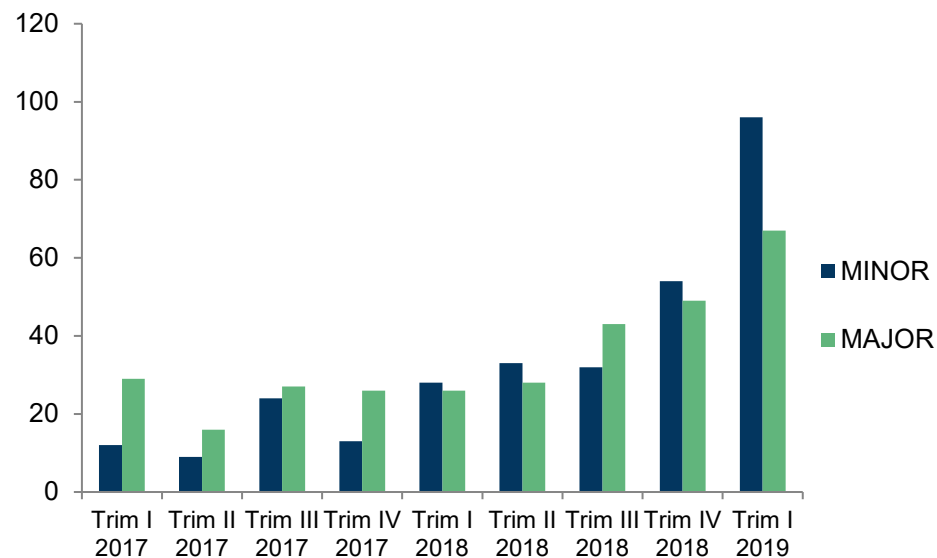
From the perspective of bank incidents, we analysed their evolution for THE companies in the sector with a turnover of > 1 MIL EUR for March 2019. A high frequency of bank incidents is observed in 2013, with a major incidence and a tendency to increase the number of incidents (both major and minor) in the last 2 years (2017-2018), the trend also maintained in 2019. The phenomenon is also supported by the increase in the number of companies with payment incidents, which doubled in 2018 compared to 2017. Also, the number of companies with payment incidents in the first quarter of 2019 is already close to half the number of companies with incidents in 2018. At the same time, if we look from a quarter point of view at 2017, 2018 and 2019, we can see that most of the incidents were recorded at the end of 2018, respectively in the first quarter of 2019.

The evolution of bank incidents for companies in the analysed sector in the last 8 years



Source: CIP, Coface processed data

The evolution of bank incidents for companies in the analysed sector in the last 9 quarters

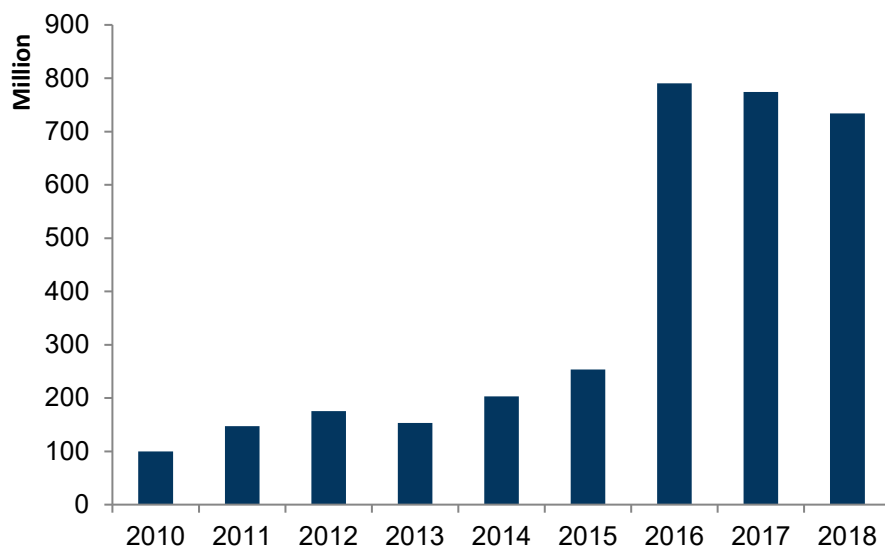


Source: CIP, Coface processed data

Debts to the State Budget

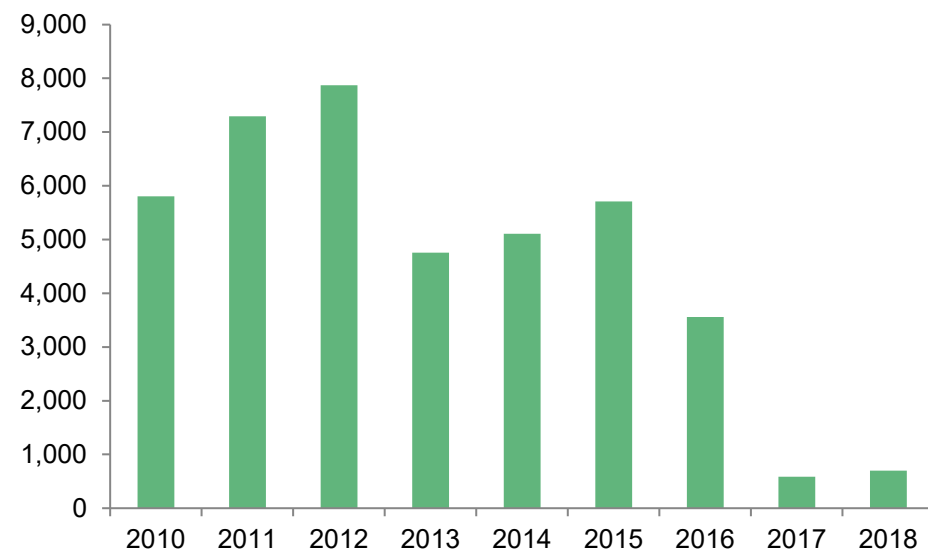
Regarding the debts to the State Budget, from the data published by ANAF for all the companies in this sector, we notice the following: although the number of companies with debts has decreased (especially due to the thresholds set by ANAF, starting with the outstanding obligations on 31.12.2016, based on which only the list of companies recording debts above a certain threshold), the value of debts increased during the same period, being significantly higher than in the previous years. In 2018, a slight decrease in the value of debts to the budgets can be noticed, while the number of debt companies has grown significantly. In 2016 it was recorded the highest amount of debts to the State Budget. Also in 2016, approximately 29% of the companies in the sector recorded debt to the State Budget, a situation that appears to have improved significantly in 2017, even though in 2018 there seemed to be a growing trend.

Evolution of debts to the State Budget for the Companies analysed over the Past 8 Years



Source: ANAF, Coface processed data

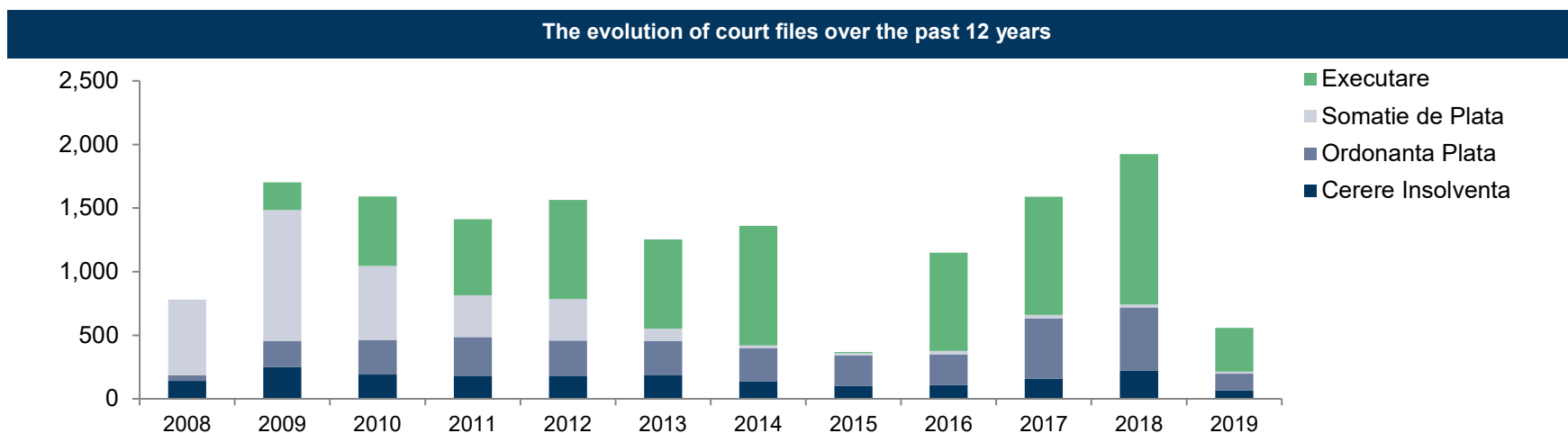
Number of companies that have registered debts to the State Budget for the last 8 years



Source: ANAF, Coface processed data

Court files

With regards to court files, the information available to companies with a turnover > 100EUR have been analysed. There is a tendency of share increase against companies in the sector in the recent years (2017-2018). The lowest number of files was registered in 2015 (lower than in 2008, before the crisis), and one year later their number would increase by more than 3 folds. One important point is that the number of demands for payment tends to decrease as of 2009, but the number of executions has a strong upward trend over the same period (except for 2015).



Source: PortalJust, Coface processed data

| Evolution of court files over the past 12 years | | | | | | | | | | | | |
|---|------------|--------------|--------------|--------------|--------------|--------------|--------------|------------|--------------|--------------|--------------|--------------|
| Procedure | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| Insolvency Application | 141 | 249 | 191 | 182 | 177 | 184 | 139 | 101 | 110 | 159 | 223 | 67 |
| Payment Ordinance | 46 | 208 | 272 | 304 | 281 | 270 | 260 | 239 | 239 | 473 | 497 | 131 |
| Demand for Payment | 592 | 1,027 | 582 | 329 | 327 | 97 | 21 | 19 | 27 | 27 | 22 | 16 |
| Execution | 0 | 219 | 547 | 597 | 779 | 702 | 940 | 8 | 774 | 930 | 1,182 | 345 |
| TOTAL | 779 | 1,703 | 1,592 | 1,412 | 1,564 | 1,253 | 1,360 | 367 | 1,150 | 1,589 | 1,924 | 2,578 |

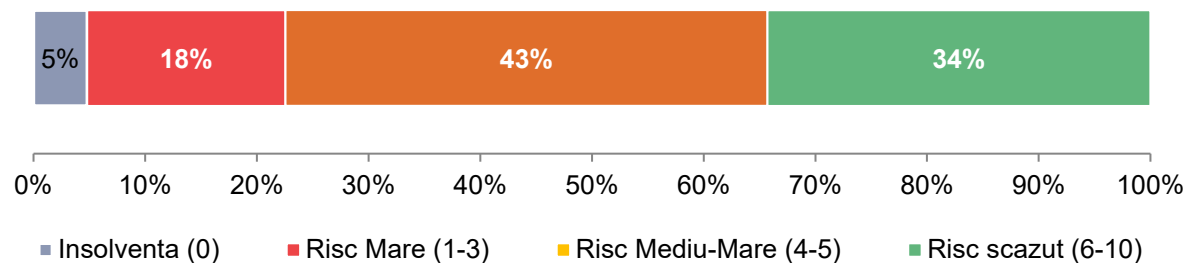
Source: PortalJust, Coface processed data

4. COFACE @RATING DISTRIBUTION AND SECTOR TRENDS

Coface @rating distribution

Of the total of 34,619 active companies in 2017, Coface analysed 3,453 companies ~ 10%, but which have a 51% share of consolidated turnover at sector level. In this context, most companies (43%) are classified by Coface as medium-high-risk companies with ratings of 4 or 5. At extremes, having percentages of 18%, there are the companies with a high risk of insolvency *ratings from 1-3), respectively 34% low-risk companies (with ratings of 6-10).

Coface @rating distribution of analysed companies 2016



Source: Coface

Sector Trends

The data published by the INS regarding the new registrations of road vehicles for the freight transport confirms the conclusions regarding the investment policy of the companies in the road freight transport sector. The CAPEX share of 29% of the total fixed assets is also reflected by the evolution of the number of newly registered vehicles in 2017 as compared to 2016. The “New registration of road vehicles for the transport of goods” Table below shows increases of 12% and 20% for the registrations of new trucks, respectively those occasionally imported. The number of other types of road vehicles decreases (except for the trailers and semi-trailers occasionally imported), but the largest share in terms of types of vehicles is owned by the trucks.

It is important to note that at the end of 2017, in Romania, the number of new car registrations occasionally imported was almost three times higher than the number of new car registrations. For this reason, and probably due to the low rate of replacement of the outdated car fleet, at the end of 2017, three quarters of the cargo vehicles in circulation were more than 10 years old. Both the high proportion of the new vehicle registrations occasionally imported and as well the age of the car fleet can be correlated with the roads quality in Romania.

| New registration of road vehicles for the transport of goods | | | | | |
|--|--|--------|--------|--------|--------|
| Vehicle category | Categories of road vehicles for the transport of goods | 2014 | 2015 | 2016 | 2017 |
| New vehicles | Trucks | 11.106 | 12.274 | 15.546 | 17.414 |
| | Autotractoare si autoremorchere | 3.285 | 5.203 | 6.902 | 5.298 |
| | Trailers and semi-trailers | 9.827 | 11.476 | 14.417 | 14.733 |
| Occasionally imported vehicles | Trucks | 38.496 | 39.899 | 42.682 | 51.094 |
| | Autotractoare si autoremorchere | 8.043 | 8.936 | 8.649 | 8.271 |
| | Trailers and semi-trailers | 12.847 | 13.807 | 14.895 | 13.324 |

Source: INS

| Vehicles registered in circulation at the end of the year by age group | | | | | |
|--|----------------|----------------|----------------|----------------|-------------|
| Age Groups of the Cargo Vehicles | 2014 | 2015 | 2016 | 2017 | % Total |
| <= 2 years | 28.309 | 33.567 | 41.733 | 46.494 | 5% |
| 2 >= 5 years | 42150 | 46867 | 47539 | 52204 | 5% |
| 5 >= 10 years | 229.513 | 202.515 | 183.617 | 149.944 | 15% |
| > 10 years | 506.551 | 573.308 | 639.901 | 726.558 | 75% |
| Total | 806.523 | 856.257 | 912.790 | 975.200 | 100% |

Source: INS

From the point of view of the type of coverage, in the structure of the public road network were registered: 34,900 km (41%) of modernized roads, 21,074 km (24%) roads with light road covering and 30,125 km (35%) paved roads and unpaved roads (The table The Length of public roads, by types of covering). At the end of 2017, in Romania, there were 763 kilometres of highway, about 1% of the total number of kilometres of roads. Compared to 2016, in 2017 16 km highway were built.

| Length of public roads, by types of covering (km) | | | | |
|---|---------------|---------------|---------------|-------------|
| Types of covering | 2015 | 2016 | 2017 | % din total |
| Modernized | 32.648 | 33.928 | 34.900 | 41% |
| of the modernized: highways | 747 | 747 | 763 | 1% |
| With light road covering | 21.200 | 21.068 | 21.074 | 24% |
| Paved | 21.506 | 20.660 | 20.037 | 23% |
| Unpaved | 10.566 | 10.424 | 10.088 | 12% |
| TOTAL | 85.920 | 86.080 | 86.099 | 100% |

Source: INS

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