


WHOLESALE TRADE OF WOOD, CONSTRUCTION MATERIALS AND SANITARY EQUIPMENT

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COFACE ROMANIA



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For the current analysis, the data of 7,035 companies that submitted their financial data for 2017 and generated a consolidated turnover of RON 19.1 BLN were aggregated. The companies in the analyzed sector (4673 Wholesale of wood, construction materials and sanitary equipment) registered a positive revenue evolution in 2017, as they increased by approx. 17% compared to 2016, as well as a slightly higher profitability compared to the previous year.



STRONG POINTS

1. Increase of the consolidated revenue at the sector level by 17%.
2. The money conversion cycle became positive in 2017 (3 days) from -1 day in 2016.
3. Decrease in the debt collection time from 64 to 60 days.
4. On a consolidated level, the companies in the sector seem to pay quicker their suppliers (DPO decrease from 133 to 126 days).
5. Decrease in the level of indebtedness at a consolidated level from ~ 69% in 2016 to ~ 65% in 2017.
6. Marginal improvement of the CCR indicator from 102% to 106%.
7. Increased investments over the last two analyzed years 2016-2017. (CAPEX: 11.5%, 12.1% vs. Depreciation: 7.4%, 6.6%).
8. Increase in the net earnings indicator in relation to the turnover, given that the revenues had an important advance.
9. Almost half (47%) of the companies in the sector analyzed by Coface in 2017 were classified as low risk.
10. Trend of growth in the construction sector, especially related to the new residential buildings.



VULNERABILITIES



1. More than one third of the companies (43%) reported a decrease in revenues.
2. More than half of the companies (59%) recorded a decrease in the net earnings.
3. Almost one third of the companies operating in the sector do not obtain profits from their core business.
4. The current liquidity of one third of the companies in the sector is below 1.
5. 338% of the companies pay their debts later than their business cycle would allow (the negative money conversion cycle).
6. Mainly short-term focused financing (80% of total liabilities represent current liabilities), 56% of companies having only current liabilities.
7. Coverage of interest expense by the operating result at consolidated level had a negative evolution in 2017, reaching 3.3 from 9.3 in 2016.
8. Among the companies with a turnover > EUR 1 MILLION, 2018 was a maximum in terms of the number of recorded incidents and number of companies for which such incidents were recorded.
9. Higher polarization in terms of the turnover achieved by the top 10% players.
10. The high amount of debt to the state budget continues to be maintained, despite the smaller number of companies.



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LIQUIDITY AND ACTIVITY INDICATORS

The current liquidity recorded in the entire sector during 2017 rose to 1.18, with a still low working capital being exposed to negative shocks and in a volatile context (lower income or non-payment of receivables). The level of coverage of the short-term liability by the net treasury has fluctuated over the last 5 years, the level recorded in 2013 being 9%, with the peak of 16% in 2015, and reaching 13% in 2017 (2 percentage points lower than in 2016). This dynamics was recorded against the background of a decrease in the operating cycle (cumulative duration of stocks and receivables rotation) from 135 days (2013) to 128 days (2017). The marginal increase of the immediate liquidity indicator, as well as the evolution of the current liquidity indicator in the same way, is recorded against the background of the increase in the collection of receivables, but the stagnation of the balances on the suppliers and banks, the average duration of the short-term debt payment recorded in 2017 being of 126 days, decreasing from the level recorded last year, respectively of 133 days. The money conversion cycle becomes positive, recording a 3-day level during 2017. Its positive value is due to a more pronounced fall in debt payout days than that of the operating cycle, indicating a reduction in the resorting to the commercial credit received from suppliers.

The companies in the analyzed sector record a certain autonomy in force majeure situations of 86 days (below the recommended value), as all current debts are collected, a plausible aspect given the DSO's decrease in the last 3 years, up to 60 days in 2017. 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 analyzed sector, the CCR remained above the threshold of 1 also in 2017, recording a level of 106%, continuing the increase from the level registered in the previous year, i.e. 102%. Its dynamics is coupled with a two percentage point fall in the sector-wide cash ratio of up to 13%, the cash recorded at the sectorial level being intrinsically generated, given that the profit margin increases and the operational cycle decreases.

Taking into consideration the high degree of exposure of the companies in the analyzed sector to the non-collection of receivables, it is very important to analyze the evolution of the average receivable collection time (DSO) recorded over time. We note that companies that are active in the wholesale of wood, construction materials and sanitary equipment have reported an average collection time for receivables which has been declining for the past five years, below the level reported in the entire country. Thus, the average collection time of the receivables registered in the analyzed sector decreased from 69 days, the level registered in 2013, to 60, in 2017, while the national average registered in the same analyzed period decreased from 102 days to 93 days.

Liquidity indicators	2017	2016	2015	2014	2013
Current liquidity	1.18	1.14	1.14	1.09	1.10
Immediate liquidity (QR)	0.64	0.63	0.68	0.61	0.62
Cash liquidity (Cash R)	0.13	0.15	0.16	0.11	0.09
Defensive Interval Ratio (DIR)	86	85	89	85	81.46
Cash Coverage Ratio (C.C.R.)	106%	102%	101%	99%	100%

Source: MF, data processed by Coface

Activity indicators	2017	2016	2015	2014	2013
DSO (Durata Incasare Creante)	60	64	66	70	69
DIH (Durata Rotatie Stocuri)	68	67	60	67	66
DPO (DTS Rotation Period)	126	133	129	141	136
Operational Cycles (Stocks + Receivables)	128	131	126	137	135
CCC (Cash Conversion Cycle)	3	-1	-3	-4	-1

Source: MF, data processed by Coface

3 PROFITABILITY AND SOLVABILITY INDICATORS

The consolidated net result at sectorial level for 2017 was 3.5%, recording a slight increase from the level of 2016 (3.2%). However, 29% of the companies recorded a net loss at the end of 2017, with 14% of them registering a loss of -20% and only 12% of the companies registering a profit of over 20%.

The degree of indebtedness in the sector, which is of almost 65% is slightly lower than in 2016. However, the high degree of indebtedness coupled with a short-term debt ratio trend of almost 80% indicates a financing of long-term assets from short-term sources, a situation that is not sustainable on a long term (with 56% of the companies having 100% short-term oriented debts). It is worth mentioning that 36% of companies have a negative capitalization rate (equivalent to a debt greater than 100%) and for 16% of them the debt ratio exceeds 80%.

Noteworthy is the ROE (Return on Equity) ratio, which decreased in 2017 from 16.5% to 15.8%, against high sectorial capitalization (~ 35%).

From the profit capitalization perspective, no dividends were paid in 2017, which also contributed to the decrease of the debt to ~ 65%, although in the previous year their value was of about 0.82 BLN RO.

The coverage rate of interest expenses by the operational result (EBIT / interest expenses) was rising in the first four years of the period under review, reaching a value of 9.3 in 2016. In contrast, in 2017 there was a rather large decrease to 3.3, probably due to the rising interest expenses.

Profitability indicators	2017	2016	2015	2014	2013
ROA (Randamentul Activelor)	5.3%	4.8%	2.5%	1.7%	1.2%
OROA (Operational Rating of Assets)	7.8%	4.8%	4.6%	3.6%	3.1%
ROE (Rating of Equity)	15.8%	16.5%	8.2%	6.1%	4.1%
Net Result: Turnover	3.5%	3.2%	1.7%	1.2%	0.9%
EBIT : Turnover	4.8%	3.0%	2.9%	2.4%	2.1%

Source: MF, data processed by Coface

Solvability Indicators	2017	2016	2015	2014	2013
Degree of indebtedness (Debts : Assets)	64.9%	68.9%	67.7%	70.6%	70.3%
Financing horizons (DTS: Debts)	79.6%	78.8%	78.2%	79.1%	75.3%
Tangible assets: Assets	37.9%	37.6%	38.4%	38.5%	36.0%
EBIT / Interest Expenses	3.3	9.3	4.4	3.0	2.1

Source: MF, data processed by Coface

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INVESTMENTS AND TRENDS AT THE
SECTORIAL LEVEL

During 2017, the companies in the analyzed sector allocated higher investments for the expansion of fixed assets compared to the previous year. Thus, eliminating the impact of the sale of tangible assets or depreciation adjustments, the CAPEX share in total assets was 12.1% for 2017, up from the previous year, when the CAPEX share in total assets was of 11.5%. The average amortization recorded at the sectorial level decreased by almost 1 percentage point in 2017 as compared to 2016, reaching the value of 6.6%. The ratio between Capital Expenditure (CAPEX) and depreciation was 181.6% in 2017, which means that investments in Fixed Assets covered the amortized fixed assets. Only between 2015 and 2017 can we talk about an investment process, given that in 2013-2014 this report was sub-unit (disinvestment). In this context, 39% of the companies made investments in 2017, registering a Capex / Surplus Amortization ratio, a smaller share than the one during the previous year.

Using the Herfindahl-Hirschman index in order to assess the level of concentration, we note that the sector under review 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 22%. However, the share of the top 10% of companies in the sector has fluctuated slightly over the last 5 years, but has remained very high (83.33% in 2013, reaching 81.93% in 2017).

Indicators Regarding Investments	2017	2016	2015	2014	2013
CAPEX Rate (Capex1: Tangible Assets)	12.1%	11.5%	9.5%	6.3%	3.1%
Amortization Rate (Lag 1 year)	6.6%	7.4%	6.3%	6.5%	6.7%
CAPEX /Amortization	181.6%	155.4%	149.8%	96.8%	46.3%

Source: MF, data processed by Coface

Evolutions of the companies in the sector	2017	2016	2015	2014	2013
Number of registered companies	5.3%	5.8%	7.3%	6.5%	6.1%
Number of exit companies	16.1%	14.6%	24.4%	20.7%	19.8%
OUT Report: IN	3.1	2.5	3.3	3.2	3.3
Number of the Top 10% companies	704	723	675	724	739
Weight in total CA of TOP 10% companies	81.93%	81.30%	82.04%	81.44%	83.33%

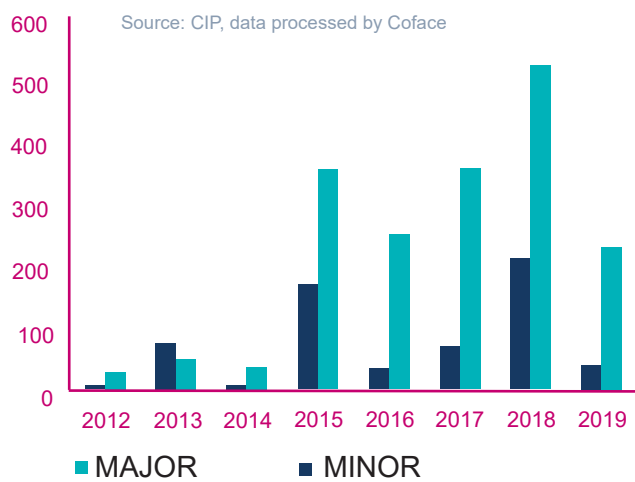
Source: MF, data processed by Coface

5 PAYMENT BEHAVIOR

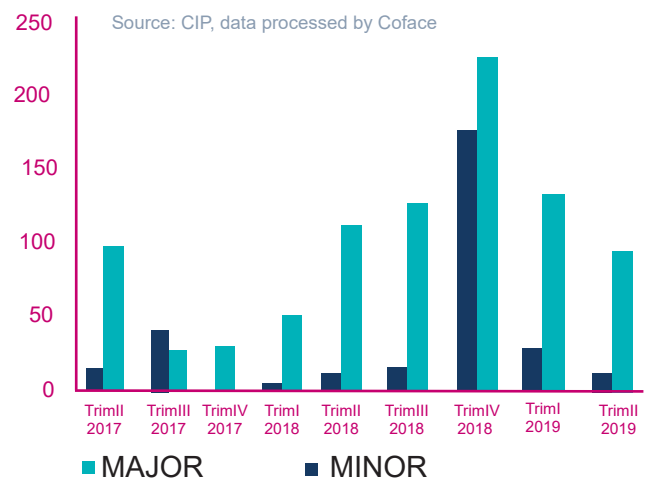
Payment Incidents

From the perspective of bank incidents, we analyzed their evolution for the companies with a turnover > 1 MILL EUR in the sector at the level of May 2019 (696 companies). Thus, in 2018 there is a high frequency of banking incidents, especially of major importance. At the same time, in 2018, the number of companies that recorded incidents was the highest in the last 7 years (24), with the number of incidents reaching also the maximum. Concurrently, this phenomenon is amplified by the fact that more than half of the total number of incidents was registered by two companies. In the first 5 months of 2019, the number of companies with CA > 1 million EUR that recorded incidents was close to the number of companies that registered incidents in 2017. Also, if we look at the quarterly of 2018 and 2019 we can see that most of the incidents were recorded in the last quarter of 2018 and the first quarter of 2019.

Evolution of payment incidents for the companies in the analyzed sector during the last 8 years



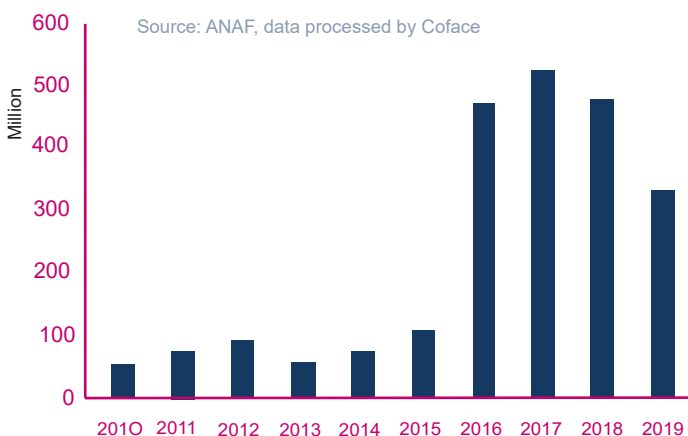
Evolution of payment incidents for companies in the analyzed sector during the last 9 quarters



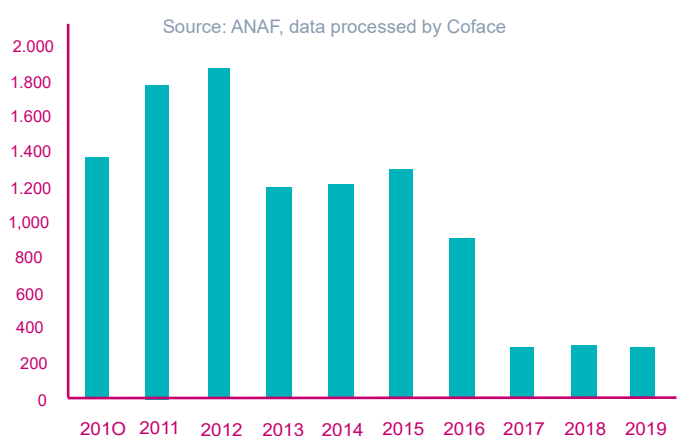
Debts to the State Budget

Regarding the debts to the State Budget, the data published by NAFA for all the companies in this sector shows the following: although the number of companies having registered debts decreased (mainly due to the thresholds set by NAFA, starting with the outstanding obligations at 31.12.2016, based on which only the list of companies that record debt above a certain threshold is published), the value of debt increased during the same period, being significantly higher than in the previous years. It can be noticed that in 2018 the value of the debts to the State Budget decreased slightly, although the number of companies that recorded debts increased significantly. The year 2012 represented a maximum in terms of the number of companies that registered debts to the State Budget, while 2017 seems to be the maximum of the period in what concerns the amount of debts.

State Budget Debt Evolution for the Analyzed Companies Over the Past 8 Years



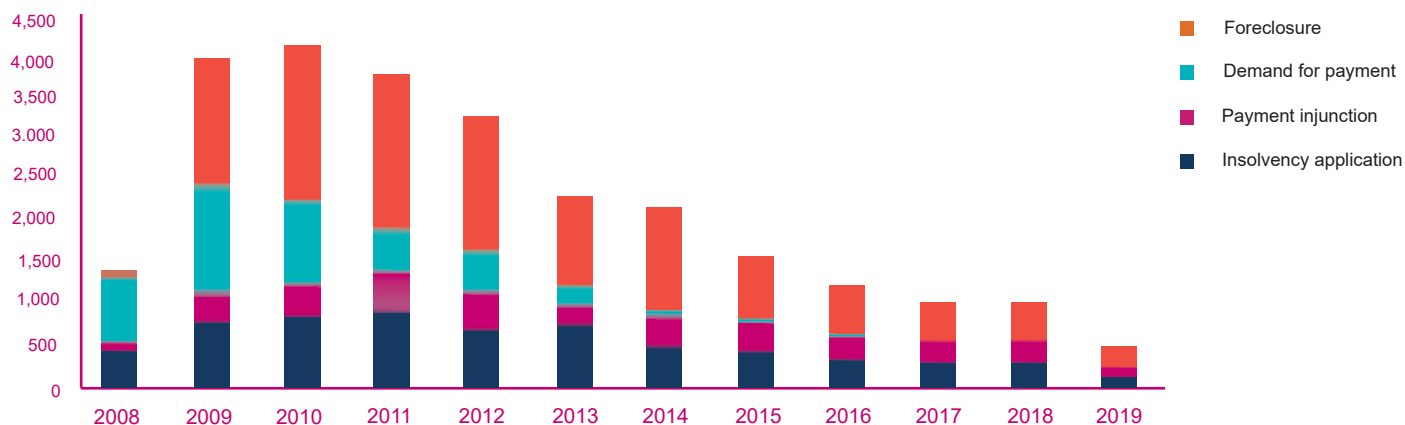
State Budget Debt Evolution for the Analyzed Companies Over the Past 8 Years



Court cases

With regard to court cases, there is a decreasing trend in the number of actions against the companies in this sector to 940 cases per year in 2017 (from 4,132 in 2010). The lowest number of cases was recorded in 2017 (fewer than before the crisis). One important point to make is that the number of payment formal notices tends to decrease as of 2009, and the number of foreclosures has a strong upward trend until 2010, then fluctuating and falling over the last four years. In 2018, the number of cases grew slightly, a trend that seems to continue in 2019.

Evolution of the court cases over the past 11 years



Source: PortalJust, data processed by Coface

Distribution of the court cases over the past 12 years and the file type

Procedure	2008	2009	2010	2011	2012	2013	2014
Insolvency Application	432	789	765	876	728	678	433
Payment Injunction	98	366	488	477	449	328	355
Demand for payment	755	1,271	847	506	475	130	31
Foreclosure	151	1,534	2,032	1,897	1,624	1,096	1,271
TOTAL	1,436	3,960	4,132	3,756	3,276	2,232	2,090

Source: PortalJust, data processed by Coface

Procedure	2015	2016	2017	2018	2019
Insolvency Application	362	245	223	212	73
Payment Injunction	325	277	266	253	128
Demand for payment	29	15	12	11	5
Foreclosure	796	613	439	479	219
TOTAL	1,512	1,150	940	955	425

Source: PortalJust, data processed by Coface

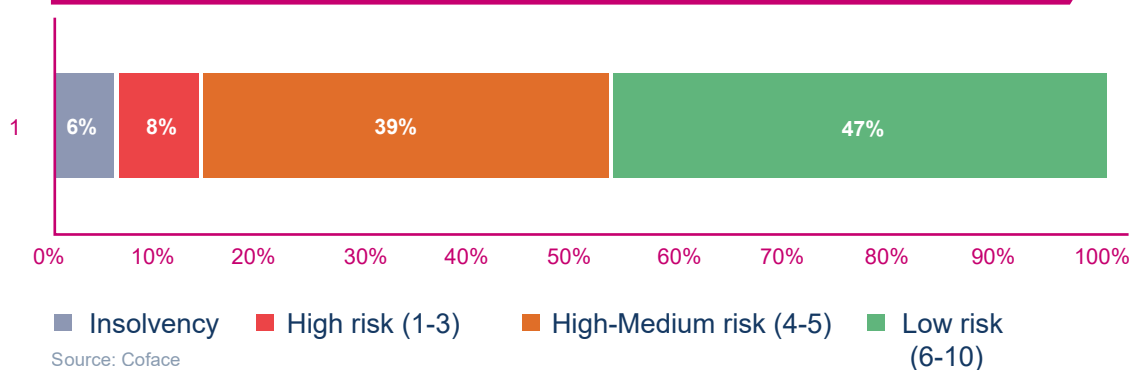
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@RATING COFACE DISTRIBUTION AND TRENDS IN THE SECTOR

Distribution @rating Coface

Of the total of 7,035 companies active in 2017, Coface analyzed 770 companies ~ 11%, but which have a 64% turnover in the consolidated sectorial turnover. In this context, most companies (47%) are ranked by Coface as low-risk companies with ratings ranging from 6 to 10. Shortly behind there are, with a percentage of 39%, the companies with a medium-high risk (ratings 4-5), respectively 8% - companies with high-risk (ratings 1-3).

@rating Coface – distribution of the analyzed companies 2017



Trends in the Sector

The data published by INSSE regarding the evolution of turnover value indices for the specialized wholesale trade of other products of which the analyzed sector is a part, shows a positive trend for the period 2018-2019, with a peak in August 2018. As of the beginning of 2019, the provisional data for April of this year shows a slight decrease compared to the same month of the previous year. The analyzed sector is strongly dependent on the evolution of the construction sector. Thus, according to the data published by INSSE, the new constructions had over-unit and higher indexes in 7 of the 13 months illustrated in the table below, in terms of type of works. In terms of type of construction, residential buildings had a positive evolution throughout the whole period (April 2018 - April 2019), with a peak in December, just like in the previous year.

Turnover value indices in wholesale trade, adjusted series by the number of working days - base year 2015 (%)													
Wholesale trade, except of motor vehicles and motorcycles	apr.18	may.18	jun.18	jul.18	aug.18	sept.18	oct.18	nov.18	dec.18	jan.19	feb.19	mar.19	apr.19
Specialized wholesale trade of other products	135.5	144.4	137.3	138.3	143.7	139.6	139.7	118.2	<u>102.8</u>	87.4	112.2	152.5	<u>133.1</u>

Indices of construction works, adjusted series by the number of working days - base year 2015 (%)													
Types of construction works and types of constructions	apr.18	may.18	jun.18	jul.18	aug.18	sept.18	oct.18	nov.18	dec.18	jan.19	feb.19	mar.19	apr.19
New constructions	81.3	98.8	108.8	92.1	98.2	106.4	110.4	121.8	<u>139.2</u>	56.5	77.9	105.5	<u>111.6</u>
Overhauls	47.5	62.5	68.5	68.8	66.5	77.6	79	83.6	<u>123.7</u>	26.3	36.8	40.4	<u>51.6</u>
Current repairs	58.8	73	91.7	75.2	83.7	93.6	100.4	103.5	<u>130.8</u>	30.1	43.1	63.5	<u>68</u>
Residential buildings	130.8	122.9	147.8	130.5	149.6	172.6	161.1	182.5	<u>246.8</u>	108	139.5	167.4	<u>163.3</u>
Non-residential buildings	74.4	84.2	92.9	88.3	78	95.4	95.1	93.5	<u>113.6</u>	47.3	77.4	106.1	<u>97.8</u>
Engineering constructions	57.3	82.2	91	73.9	84.2	85.2	94.4	107	<u>123.1</u>	32	39.7	58	<u>76.6</u>
Buildings	91.8	96.1	109.7	101.1	99.8	119	115	120.6	<u>154.4</u>	65.9	96.7	124.8	<u>117.8</u>
Total	70.8	87.5	98	84.9	90.6	98.4	103.2	112.4	<u>134.2</u>	45.6	63.5	85	<u>92.9</u>

Source: INSSE (provisional data)

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