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

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COFACE QUARTERLY 'PANORAMA SECTORS'

COFACE DOWNGRADES ITS CREDIT RISK ASSESSMENT IN THREE BUSINESS SECTORS: CHEMICALS, PHARMACEUTICALS AND AUTOMOTIVE

Chemicals, pharmaceuticals and automotive: increased credit risks in Europe

The unique indicator [1], developed by Coface economists and based on the payment experience of companies recorded by its underwriters, sends an alarm signal to three of the fourteen business sectors analysed.

The risk increase, noted since last April, concerns:

- **Chemicals:** the risk moves from 'medium' to 'high' in Europe and in Emerging Asia.
  In Europe, the profitability of chemical companyies fell by 19% in one year, due to sluggish demand and competition from US exporters. In Emerging Asia, and more particularly in China, SMEs have become the first victims of the drying up of credit supply.

- **Pharmaceuticals** in Europe: the risk is 'high'.
  In Emerging Asia and in North America we note a relative stabilization (risk considered moderate and medium respectively). In Europe, dispensaries (whose sales and margins are falling) and distributors are affected by measures to reduce the growth in health spending.

- **European automotive**, the most affected sector: the risk is downgraded to 'very high'.
  The 2009 crisis drastically changed the stakes for the global automotive industry. The European automotive industry was particularly affected and has continued to decline, faced with structurally high production costs and a lack of domestic outlets. The new wave of bankruptcies in the French automotive sector illustrates the European problem: between August 2012 and July 2013, their number increased by 11%. Worse still, the financial cost of these bankruptcies for suppliers is up 35%, following a greater number of larger companies going bankrupt, particularly among traders (58% of the total) and sub-contractors (24% of the total). The situation is even more worrying since at the national level, all sectors included, the number of bankruptcies only increased 6% and the cost fell by 5.8%.

[1] Coface's credit risk indicator is based on changes in financial data published by over 6,000 listed companies from Emerging Asia, North America and the European Union of 15 countries: the change in turnover, profitability, net indebtedness ratio, cash flow and claims observed by Coface analysts. It is broken down into four risk categories: moderate, medium, high and very high.

Automotive industry in Turkey and in Russia: is it worth the risk?

In this context, international groups from the sector are turning to emerging markets, particularly Turkey, highly export-oriented with its competitive costs, and Russia, buoyed by a large and dynamic domestic market. Betting on these two very attractive markets is bold, but their potential exceeds the risks.

What are the risks?
Besides the volatility of growth, these countries suffer from several drawbacks.
The Turkish automotive sector is in a fragile position because it is very dependent on the economic conditions of the European Union (the destination of 40% of the country's exports) and is penalized by heavy taxation. Another difficulty is that R&D efforts are insufficient to meet the competition of the CEEC. In Russia, international sub-contractors face an ever-present protectionism, despite the recent accession of the country to the WTO.

What is the potential?
Despite these drawbacks, the two countries offer good opportunities for industrialists and investors. The fast-growing middle class remains an important driver because households are eager to catch up on automotive equipment. Indeed, the number of vehicles is underdeveloped: 151 vehicles per 1,000 inhabitants in Turkey, and 260 in Russia compared to 613 in the countries of Western Europe. The attractiveness of these markets is reinforced by the strong support of governments, whose aim is to ensure a major step-change.

"*Differentiating by costs can no longer be an industrial policy over the long term. To continue to attract foreign investors, emerging countries, including Russia and Turkey, must now focus on innovation. As for European prospects, distributors, greatly weakened by the crisis, need to reinvent the whole model, with flexibility and customization as essential elements.*", explains Nicolas de Buttet, Director of Underwriting for the Western Europe Region at Coface.

In Romania:

- **Chemicals industry**: trends confirm that the companies are grouping into two categories - usual winners and usual losers - both in terms of turnover (52% of the companies have managed to increase their turnover in 2012 generating no less than 83% of the total turnover of the sector) and profitability (the share of profitable companies experienced minor oscillations, decreasing by 2% the number of companies and increasing by 1% their share in total turnover).
- **Pharmaceuticals**: although the number of profitable firms in the sector declined by 5% in 2012 compared to 2011, their size increased, with a share in the total turnover of 8%, which is higher than the previous year. 63% of pharma companies experienced a positive trend in turnover in 2012, actually having the largest contribution in the total turnover (84%).
    - Sector indebtedness rate remains at a satisfactory level (64%), but the high value of working capital related to turnover (15%), specifically within sectors

with very extended payment terms, may indicate that too much capital is blocked in current assets and their liquidity rate becomes uncertain.

- **Automotive**: although 54% of the companies with relevant economic activities in the last 2 (financial) years experienced increases in turnover in 2012 compared to 2011, the sector registered a decrease within the share of profitable companies (-5%, per number of active companies and -10 % related to their share in the total turnover).
    - Indebtedness rate at sectoral level (71%) exceeded the threshold considered optimal; reaching the level that may affect the future funding capacity of the sector.
    - Working capital is kept low (only 2% of turnover), indicating damages within the capacity of covering short-term debts by contingent current assets.

Indicators Romania 2012	AUTO	CHEMICALS	PHAMRA
Profitable companies share in 2012	59%	53%	62%
Profitable companies evolution 2012/ 2011	-5%	-2%	-5%
Share - companies with an increasing TO in 2012	54%	52%	63%
Working capital / TO	2%	3%	15%
Indebtedness rate	71%	70%	64%
Short term debts / Total debts	69%	75%	72%
Working capital / Fixed assets	2%	4%	5%

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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 2012, the Group posted a consolidated turnover of 1.6 BEUR. 4,400 staff in 66 countries provides a local service worldwide. Each quarter, Coface publishes its assessments of country risk for 158 countries, based on its unique knowledge of companies' payment behavior and on the expertise of its 350 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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