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Residential and non-residential construction works - almost half of the construction companies have a risk of insolvency higher than the average

- **More than half of the companies had a drop of the net result**
- **Almost one third of the companies operating in this sector do not obtain profit from their basic activity**
- **More than one third of them have a current liquidity below 1**
- **57% of the companies pay their debts later than the operational cycle would allow them to**
- **Financing is mainly focused on the short term: 73% of the total debts are current debts**
- **Almost half of the companies in this sector have a risk of insolvency higher than the average**
- **Increased polarization with regard to the turnover obtained by the Top 10% players**
- **Increase of the number of companies with banking incidents in 2017**

The sector of residential and non-residential construction works had a negative evolution of the returns in 2016, dropping 8% compared to 2015, while the profitability continued to increase.

"In terms of return dynamics, the sector registered a drop of over 11% in 2016 compared to the year before. Although the consolidated profitability of the sector was increasing, 1 of 2 companies had a deterioration of the net result. 73% of the total debts are current debts, which indicates that the financing is still mainly focused on the short term, 70% of the companies having only current debts", Alexandru Fotia, Senior Financial Analyst, Coface Romania, stated.

The current analysis compiled data of 30,835 companies that submitted their financial information for 2016 and generated a consolidated turnover of 29.45 B RON. The companies reported an average time of receivable collection which was fluctuating over the last five years, but exceeding the threshold reported at national level. The average time of receivable collection in the sector being analyzed dropped from 164 days in 2012 to 145 in 2016, while the national average for the same period reduced from 100 days to 93 days.

In addition, it is noticeable that in 2017 there was a high and increasing frequency of banking incidents, especially major ones. Although the number of companies that were confronted with incidents is smaller than in 2016, the number of incidents reached the maximum level of the last three years. This phenomenon occurred as a result of the fact that almost 33% of the total

incidents were registered by three companies.

“The sector of residential and non-residential construction works shows signs indicating that the payments behavior gets worse, although in terms of activity, the data of the National Institute of Statistics and Economic Studies (INSEE) indicates a positive evolution of this sector in 2017 and in the first months of 2018. 2016 was the peak in terms of number of companies with payments incidents (among the companies with turnover higher than 1 M EUR) over the last 7 years, this number being exceeded in 2017. Also, the fact that, although the number of companies registered with debts to the State Budget dropped in 2017, their value increased very much is worrisome since this value is five times higher than in 2015”, Nicoleta Mărunțelu, Senior Financial Analyst, Coface Romania, said.

Housing construction in urban versus rural areas

In 2016 and 2017 most part of the housings build were in urban areas, 53%, respectively 55% of the total, their number continuing to rise. In exchange, in rural areas, the trend is failing, of -1% in 2017 compared to 2016. In terms of financing sources, the majority contribution comes from private funds, with a slight drop in 2017 (97%) compared to 2016 (98%), while the public funds have a slight increase.

By development regions, most of the housings were completed in 2017 in Bucharest-Ilfov region and North-West region (18% of the total), followed by the North-East region (15%) and Center region (14%). Regarding the number of housings, compared with 2016, out of the 8 regions, 5 had increases, the highest being in the Center (18%), North-West (10%) and West (7%). The regions with a drop in the number of completed housings are: North-East (-9%), Bucharest-Ilfov (-5%) and South-West (-1%).

Out of the total 30,835 companies active in 2016, Coface analyzed 2,082 companies representing approximately 7%, but with a weight of the turnover of 71% in the consolidated turnover at sector level. In this context, the majority of companies (41%) are scored by Coface with an average-high risk. At the extremes we see 15% of the companies having a high risk of insolvency, respectively 24% with a low risk.



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