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**The wholesale of wood material and constructions materials: the trend of the insolvency ratio in the sector is downward over the past three years, similar to the trend at the level of the entire economy, but it is maintained above the latter**

**In 2015, the wholesale of wood material and constructions materials and equipment sector ranked 8 in the Top 10 sectors (NACE 4 digits) based on the number of insolvent companies (as in 2014), considering that the number of insolvent companies related to the number of active companies (turnover > 0) was above the national average (2.2% in 2015 and 4.5 in 2014, respectively).**

The trend of the insolvency ratio in the sector is downward over the past three years, similar to the trend at the level of the entire economy, but it is maintained above the latter. This aspect is also confirmed by the development of insolvencies in 2016, which places the sector in 9th place in Top 10 sectors considering the number of insolvent companies.

The analysis conducted by Coface Romania targeted companies with the main field of activity 4673 (Wholesale of wood material and construction materials and equipment) that operated during 2015 and accordingly reported the financial statements to the Ministry of Finance.

Based on this grouping, a total universe of 7,229 companies who submitted their financial statements on the activity carried out during 2015 resulted. According to the financial statements published by the Ministry of Finance, these companies generated a total turnover of RON 16.56 B, up 4% year-on-year. The number of companies operating in this sector has grown in 2015 compared to 2014, falling slightly in previous years. The turnover advance reported for 2015 is below the national average of 7%, and the increase in turnover (4%) is lower than the increase in the number of players in the sector (7%).

In order to have an overall picture of the wholesale of wood material and construction materials and equipment sector it is necessary to look at the construction sector in Romania as a whole.

The consolidated financial situation of all companies in the construction sector reflects the following conclusions:

- **Decrease of long-term investments**, as the share of fixed assets in total assets declined from 65% (2008) to less than 50% (2016);
- **Increase of the average receivable collection term**, from 115 days (2008) to 195 days (2016), against a background of increased state arrears in this sector;
- **Increase of indebtedness**, from 73% (2008) to 88% (2016). The problematic aspect is not due to the increase of indebtedness itself, but to the fact that the additional financing is not long-term oriented (for investments), but to cover the temporary short-term needs (increase of working capital due to the extension of the receivable collec-

tion term) and the financing of losses for the period 2010-2014 (which have not been covered by supplementing the capital);

- **The fragile increase of overall profitability**, to only 2.5% in 2016, compared to the period of losses registered in the period 2010-2014, but well below the level registered before the impact of the financial crisis, i.e. 8% in 2008.

*"The situation of companies in the wholesale of wood material and construction materials and equipment sector seems to be undergoing a slight improvement in terms of consolidated results and payment behaviour in recent years. However, the financial structure of the companies operating in this field (mainly short-term oriented, almost two thirds of companies, 63% having 100% short-term debts), lack of investments (the share of capital expenditures being only 9% in total assets) and the dependence on other construction sectors that are underperforming, represent threats for their current activity. According to a Stress Test Scenario simulation, companies in this sector are exposed to shocks of non-collection of receivables and / or declining turnover, the two cumulated leading to the impossibility of covering the expenses that reach maturity through the revenue collected starting even from fluctuations of 5% (increase in receivables, decrease in turnover)" stated Nicoleta Maruntelu, Economic Analyst, Coface Romania.*

*From the perspective of bank incidents, state budget debts and court files, the situation registered by July 2017 in the wholesale of wood material and construction materials and equipment sector shows a considerable improvement in relation to the maximum points registered in the years 2015 and 2009, respectively. This positive development was anticipated already since 2015 when an improvement in payment terms to suppliers and a slight decrease in the money conversion cycle were noted in this sector, fact which denotes a disciplining of companies and an improvement in balance sheet indicators. However, the analysed sector remains highly polarized (more than one third of companies have a value share in total turnover of only 2%, while 9% of the total companies generate about 80% of the total revenue registered at the level of the entire sector). Although the net result was rising in 2015 compared to previous years, but modest compared to the national average, one should be reminded that 40% of companies registered declining revenues", declared Alexandru Fotia, Economic Analyst, Coface.*

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