

Bucharest, 26 November 2019

## **Coface Study: Dairy and Cheese Manufacturing Sector - negative revenue evolution in 2018, with a 5% decrease compared to previous year**

### **Strengths:**

- Increase of sector profitability from 3,3% in 2017 to 4,3% in 2018
- The average duration of debt collection decreased from 68 days in 2014, to 51 days in 2018
- More than half the companies (57%) registered an increase of the net result

### **Vulnerabilities:**

- Negative evolution of revenues, decrease of approx. 5% compared to 2017
- 41% of the companies have 100% short term debts
- 44% of the companies had a net loss at the end of 2018

**A new study by Coface Romania on the sector of "Dairy products and cheese manufacturing" indicates a negative evolution of revenues in 2018, which decreased with approximately 5% compared to 2017, with a slightly increased profitability. The study aggregated the data of 448 companies that submitted their financial situation for 2018 and generated a consolidated turnover of RON 3.8 billion. The weight of the cumulative market share held by the most important 10 players is 58%, which indicates a high degree of concentration.**

The companies operating in this sector registered a current liquidity of 0.97 during 2018, the working capital being exposed to negative shocks and volatility (lower revenues or non-collection of receivables). The average duration of debt collection in the analyzed sector decreased from 68 days, the level registered in 2014, to 51 days in 2018, while the national average over the same period decreased from 104 days to 90 days.

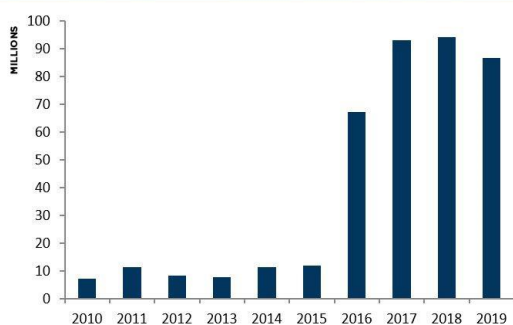
The consolidated net result at sectorial level for 2018 was 4.3%, higher compared to the level of 2017 (3.3%). However, 44% of the companies had a net loss at the end of 2018, 26% of the companies registered losses of more than -20% and 5% of the companies generated more than 20% profit. The 55% level of indebtedness in the sector is decreasing compared to the previous years (62% in 2017, 63% in 2016, 67% in 2015 and 69% in 2014). It is worth mentioning that 39% of companies have a negative capitalization degree (equivalent to a debt level of over 100%), and for 17% of the companies the debt level exceeds 80%.

*"During 2018, the companies in the analyzed sector have allocated significant investments for the expansion of fixed assets. The ratio between capital expenditures (CAPEX) and depreciation ratio was 120% in 2018, which means that investments in fixed assets covered the depreciated fixed assets. Almost half of the companies (46%) made investments in 2018, with a supraunitary Capex/Amortization report. The business environment in the dairy industry tries to compensate for the lack of public investments (70% of the public budget being strongly oriented towards salaries and*

social benefits, the maximum in the history of Romania and the EU), in order to try to cope with the competition. Unfortunately, without public infrastructure this is very difficult, the revenues of companies in this sector decreased by 5% in the last year, while dairy imports increased by almost 20%", stated Nicoleta Marin, Senior Financial Analyst, Coface Romania.

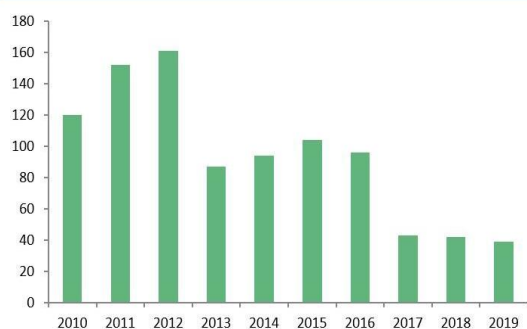
Regarding the payment behavior, respectively, the debts to the State Budget, according to the data published by ANAF, once with the decrease of the number of companies that have registered the debts, the value of the debts has not decreased, reaching the maximum of the period in 2018.

**DEBT EVOLUTION TO THE STATE BUDGET OVER THE LAST 8 YEARS**



SOURCE: ANAF DATA PROCESSED BY COFACE

**NUMBER OF COMPANIES THAT REGISTERED DEBTS TO THE STATE BUDGET OVER THE PAST 8 YEARS**



SOURCE: ANAF DATA PROCESSED BY COFACE

„Only 1 liter out of almost 4 obtained is delivered to milk processors, context in which although Romania is ranked 10<sup>th</sup> in the EU as raw milk production, it is only the 20<sup>th</sup> in terms of milk sent for processing. This aspect is determined by the low purchase price, but also by the competition from cheaper imported products. At the same time, the price of the milk in stores is 5 times higher than the purchase price, which is justified by the processors through transportation costs (fuel costs, excises, vignettes, poor infrastructure, etc.). Thus, we conclude that the Romanian peasant is oriented towards self-management, and when he sells the dairy production, he receives an extremely low price compared to the final price from the shelf. Probably similar situations can be found in other product segments (vegetables, fruits). This shows that Romania urgently needs massive investments in road and logistics infrastructure, in order to reduce the cost of transferring the products on the production - distribution - retail flow. Otherwise, we have no chance in the face of imported goods, obtained through advanced technological processes and low costs”, declared Iancu Guda, Services Director, Coface Romania.

According to Eurostat, in the European Union the first three countries for milk production and processing are Germany, France and the United Kingdom. Poland ranks 5<sup>th</sup> in terms of quantity produced and 6<sup>th</sup> in processing (10 times larger than Romania, although it only produces 3 times more milk).



P R E S S   R E L E A S E

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