

## SURVEY



## China corporate payment survey: the devil is in the detail

**2**  
CHINA corporate payment survey results

**5**  
SECTORIAL ANALYSIS

**11**  
APPENDIX: payment survey background

1/ The higher the percentage of respondents with ultra-long overdue amounts that exceed 2% of annual turnover, the higher the rank - and thus the greater the vulnerability. The percentage of respondents in 2016 with ultra-long overdues was compared to 2015, to give a 3 level assessment: Deteriorated, Stabilised or Improved.

In 2016, credit extension practices in China differed from those seen in previous years. Fewer Chinese companies offered credit sales - but those that did, offered better average credit terms. This trend indicates a selective relaxation of credit controls in China.

Overdue payment risks appear to be markedly improved, with only 68% of the respondent companies experiencing overdue payments in 2016 (compared to the previous 5-year average of 80%) and fewer respondents reporting an increase in overdue amounts. Nevertheless, the situation surrounding ultra-long overdues gives cause for alarm, as 35.7% of those companies concerned had ultra-long overdue amounts (over 180 days) which exceeded 2% of their annual turnover.

Against the backdrop of the deterioration in ultra-long overdue issues and ever-evolving market conditions, only around 4 out of 10 respondent companies used credit management tools to mitigate their non-payment risks. This indicates that greater risk management efforts need to be made in China.

Among the 11 sectors analysed in the survey, ultra-long overdue issues deteriorated<sup>1</sup> in the six sectors of chemicals, industrial machinery & electronics, IT-telecoms, metals, pharmaceuticals and retail. Among these, the situation of the chemicals and industrial machinery & electronics sectors (the former champions of the Chinese economy) give the greatest causes for concern. Metals, a very high risk sector over the past few years, showed some signs of improvement, as it was boosted by restructuring and a rebound in metal prices. Many of the companies in this sector are continuing to

struggle with ultra-long overdue issues - although fewer were faced with ultra-long overdues that accounted for over 10% of their turnover.

Although the long term outlook for the pharmaceutical sector is positive and supported by structural growth drivers (such as the country's ageing population and improving per-capita income), the survey results clearly demonstrate a puzzling deterioration in overdue issues during 2016 compared to 2015. This is partially due to the rapidly evolving regulatory and policy framework, which has included the implementation of a two-invoice system, which has been tested in 11 provinces.

Risks of non-payment remained steady in the household electric & electronic appliances sector, while the four sectors of automotives & transportation, construction, paper-wood and textile-clothing, saw improvements in ultra-long overdue issues.

Despite some amelioration, construction remained China's most at-risk sector in 2016, with 45.9% of companies (the highest percentage of respondents across all sectors) reporting 2% or more of their turnover in ultra-long overdues. 2017 will be another challenging year for highly indebted construction corporates, against a backdrop of tighter monetary and credit conditions. The improvements in the automotive & transportation sector that were seen last year, thanks to the government's tax incentives to boost car sales, are probably temporary. There is likely to be a bumpy road ahead, stemming from keener market competition, lower demand for cars and the rising costs of raw materials.