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Asia-Pacific Corporate Payment Survey 2020: COVID-19 will overturn last year's incipient recovery

Coface's annual Asia Corporate Payment Survey evaluates the payment behaviour of companies across nine economies in Asia Pacific. Data collection took place during the fourth quarter of 2019, before the COVID-19 pandemic, and valid responses from over 2500 companies in the region were collected. 2019 was dominated by trade tensions between the United States (U.S.) and China. Despite these trade disruptions, the region (excluding China) experienced an incipient recovery, favoured by supply chain shifts and additional liquidity from the U.S. Federal Reserve. The recovery will prove short-lived, as the COVID-19 pandemic severely threatens the growth outlook, with many economies in the region expected to contract the most since the Asian Financial Crisis in 1997-1998. On a GDP-weighted basis, the growth of the nine economies in our sample will decline to 0.3% in 2020, -0.65% excluding China. This is much worse than the 4.6% GDP growth rate registered in 2019 and is also weaker than the 2.9% registered in 1998 (0.76% excluding China). In this context, we expect that companies and sectors that continued to experience pressures in 2019 will be in a worse position to navigate the challenges surrounding the COVID-19 pandemic and the global recession in 2020.

65% of respondents stated that they experienced payment delays in 2019, up from 63% in 2018. Excluding China, payment delays were longest in Malaysia (84 days) and Singapore (71 days). However, payment delays lengthened the most in Thailand (up 6 days to 69 days), Malaysia and Taiwan (both up 2 days to 67 days). Divergences were also apparent among sectors. The construction, ICT and energy sectors featured the longest payment delays, with 24%, 28% and 26% of respondents reporting delays of 120 days or above, respectively. Payment delays and cash flow risks often go hand-in-hand. To assess cash flow risks, Coface looks at the ratio of ultra-long payment delays (ULPDs, over 180 days). When these constitute more than 2% of annual turnover, a company's cash flow may be at risk. The proportion of respondents experiencing ULPDs exceeding 2% of annual turnover decreased to 31% in 2019, down from 38% in 2018. However, this "recovery" is more questionable once we delve deeper into the details. The number of respondents stating that they had ULPDs exceeding 10% of annual turnover remained constant in 2019 (13%). This is a sign that cash flow risks deteriorated in some regions and sectors. Excluding China, the highest proportion of respondents with ULPDs exceeding 10% of annual turnover were in Malaysia (7%), Singapore (7%) and Thailand (6%). Similarly, the proportion of respondents reporting ULPDs exceeding 10% of their annual turnover was highest for the transport, energy and construction sectors. These sectors also experienced a deterioration relative to 2018.

The majority of respondents (48%) stated that the main driver behind the increase in payment delays was customers' financial difficulties. These difficulties were, in turn, brought about by fierce competition impacting margins (41%) and lack of financing resources (22%). In the context of a much weaker growth momentum in 2020, this does not bode well for companies in economies and/or sectors in which risks have been piling up in recent years. This is even more worrying considering weak credit management practices, with 50% of respondents reporting that they use no tools to mitigate credit risks.

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