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PAYMENT SURVEY

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China Payment Survey 2021:
Shorter credit terms for most sectors except construction, food and automotive

The onset of the COVID-19 pandemic in 2020 increased the level of uncertainty regarding the business outlook, pushing Chinese companies to tighten their credit management tools as part of the efforts to improve cash-flow positions and remain viable in a difficult economic environment. Coface's 2021 China Corporate Payment Survey shows that payment terms shortened by 11 days on average in 2020, falling to 75 days, while the distribution of credit terms leaned towards a shorter rather than longer period. The proportion of respondents offering average credit terms between 31 and 60 days increased from 20% to 30% in 2020, coinciding with the decline of those offering above 120 days to only 13%.

The survey also highlighted that fewer companies experienced payment delays in 2020, partly because of tighter credit terms, but possibly also due to government policy support, including tax relief, loan guarantees and loan interest waivers. Despite the difficult context, firms in 11 out of 13 sectors reported a decline in payment delays. There was no change in retail, while construction saw an increase in overdue payments. In terms of average payment delays (days), construction and energy were well above the average in 2020. More concerning, however, was a significant increase in the proportion of firms in these two sectors that reported Ultra-Long Payment Delays (ULPDs, over 180 days) exceeding 10% of their annual turnover, hinting at serious cash-flow risks and matching recent data on Chinese bond defaults.

With the economic recovery extending into early 2021, companies are more optimistic about the outlook for sales and cash-flows for the year ahead. However, the recovery has not been sufficiently broad-based and remains uneven across sectors. Firms also benefited from greater fiscal and monetary support measures last year, which are expected to be further tapered this year. Coface expects an increase in bond defaults and insolvencies in 2021, especially among sectors that accumulated higher cash-flow risks in 2020 amid a slowdown in credit growth. The 2021 China Corporate Payment Survey was conducted between February and April this year, and surveyed over 600 companies across 13 broad sectors located in mainland China.

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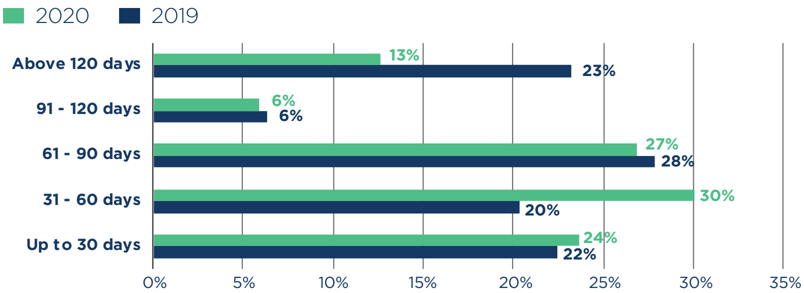
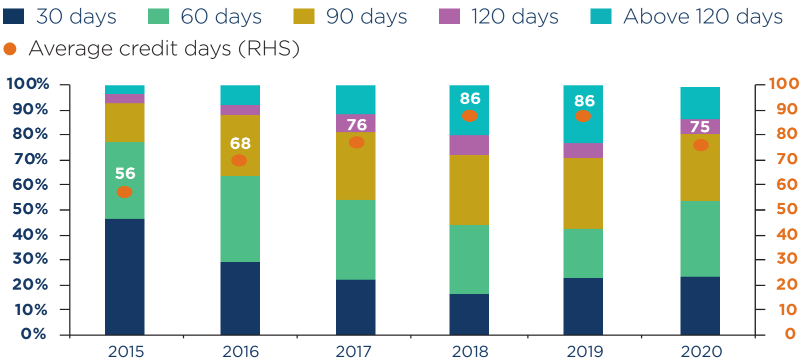
1 PAYMENT TERMS[1]: TIGHTER CREDIT TERMS AS BUSINESSES WERE HIT HARD BY THE PANDEMIC

Chart 1:
Payment terms offered



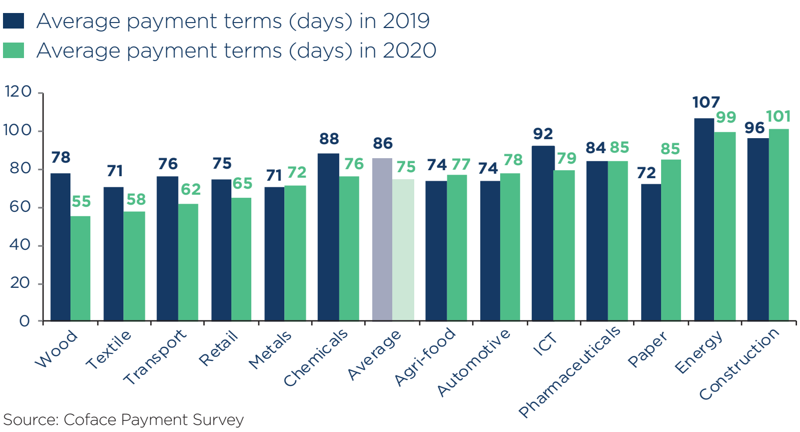
Source: Coface Payment Survey

Chart 2:
Average payment terms



Source: Coface Payment Survey

Chart 3:
Average payment terms by sectors



Source: Coface Payment Survey

- Around two-thirds of respondents offered credit terms in 2020, a proportion mostly unchanged in recent years. However, unlike in 2019, more surveyed participants highlighted that market competition was the main reason for offering credit terms (45% vs 37% in 2019). This was followed by confidence in the customer's ability to pay (31%) and tighter liquidity (18%).

- As the onset of the pandemic in 2020 adversely impacted economic activity and businesses faced greater uncertainty, payment terms were tightened despite more intense competition to secure business. The average payment term fell from 86 to 75 days, with the distribution skewing towards shorter maturities, contrasting with the opposite trend observed in 2019 amid an easing of U.S.-China trade tensions. The proportion of respondents that offered average credit terms above 120 days shrank from 23% in 2019 to 13% in 2020. Concomitantly, those offering average credit terms between 31 and 60 days increased from 20% to 30% in the same period (**Chart 1**).

- Data breakdown showed that sectors hardest hit by the pandemic, such as textile, transport, and retail, shortened their average credit terms in 2020. They were also providing the lowest payment terms across 13 industries, well below the average, reflecting the efforts to improve their cash-flows. Meanwhile, chemicals, ICT and energy also shortened their payment terms.

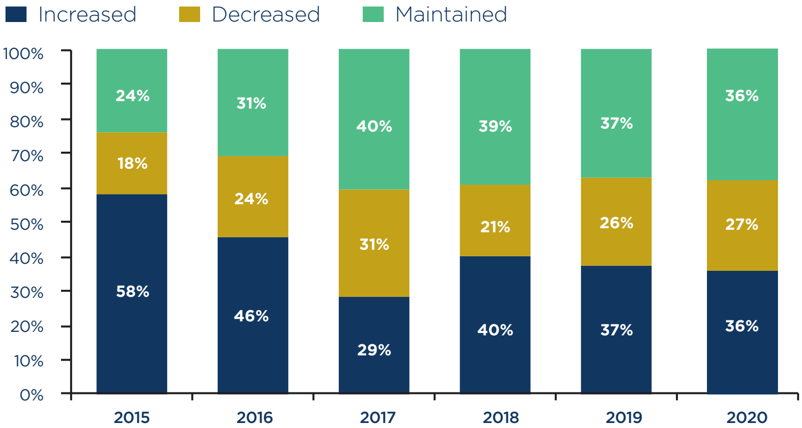
- Average credit terms were the longest in construction and energy (**Chart 3**). However, payment terms decreased by 8 days for the energy sector, while increasing by 5 days for the construction sector. The paper sector reported the largest increase in credit terms, increasing from 72 days in 2019 to 85 days in 2020.

The average payment term decreased by 11 days, from 86 days in 2019 to 75 days in 2020.

1 Payment term – the time-frame between when a customer purchase a product or service, and when the payment is due.

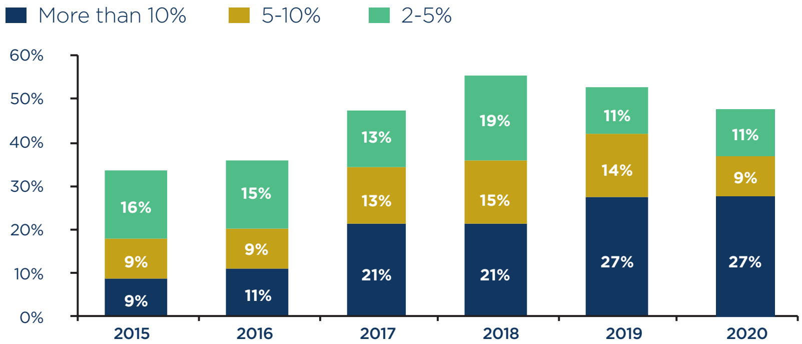
2 PAYMENT DELAYS[2]: MOST SECTORS EXPERIENCED SHORTER DELAYS, EXCEPT CONSTRUCTION

Chart 4:
Evolution of payment delays



Source: Coface Payment Survey

Chart 5:
Ratio of ultra-long payment delays as a percentage of turnover

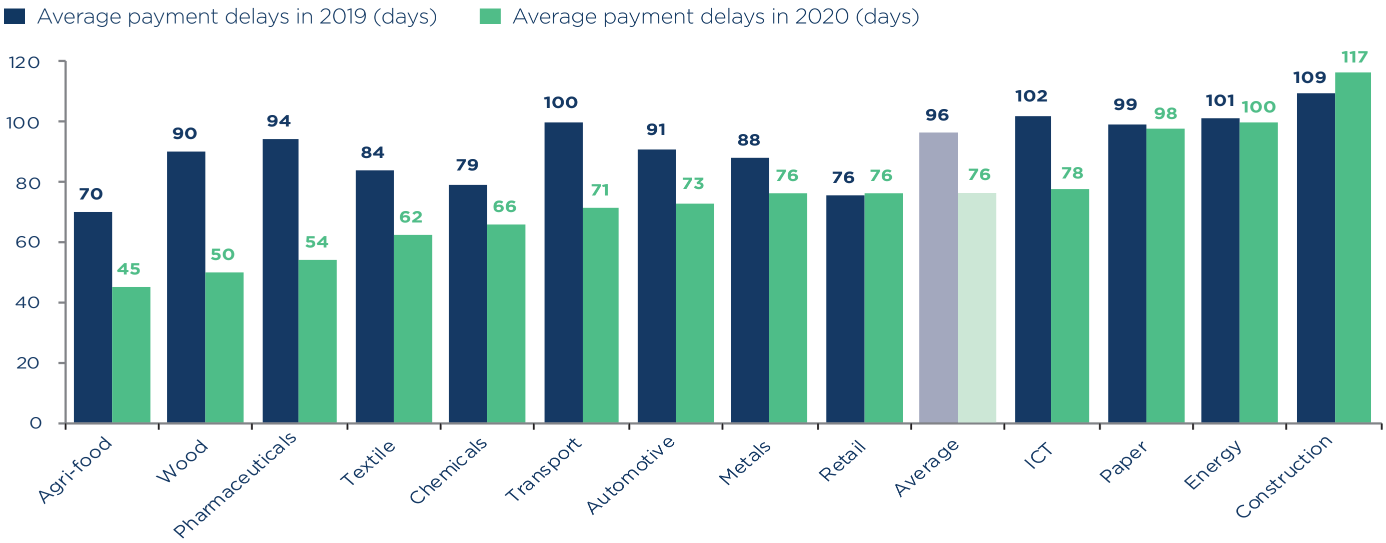


Source: Coface Payment Survey

- Fewer companies experienced payment delays in 2020, with 57% of respondents reporting overdue payments, down from 66% in 2019. The drop in payment delays reflected a strong government policy response to soften the impact of the pandemic on business activity, which included tax relief, loan guarantees and loan interest waivers. Among respondents that reported payment delays, the share that saw an increase in overdue was broadly similar to 2019 (36% vs 37% in 2020, see **Chart 4**).

- The lower proportion of respondents experiencing payment delays was accompanied by a decrease in those that reported Ultra-Long Payment Delays (ULPDs, over 180 days) exceeding 2% of their annual turnover, from 52% in 2019 to 47% in 2020 (**Chart 5**). According to our experience, 80% of ULPDs do not get paid at all, and when ULPDs constitute over 2% of annual turnover, a company's cash-flow may be at risk. The lower proportion of firms reporting payment delays and ULPDs contributed to an improved cash-flow position, with 37% of firms that experienced payment delays reporting an improvement in cash-flows, up from 35% in 2019.

Chart 6:
Average payment delays (days) by sector



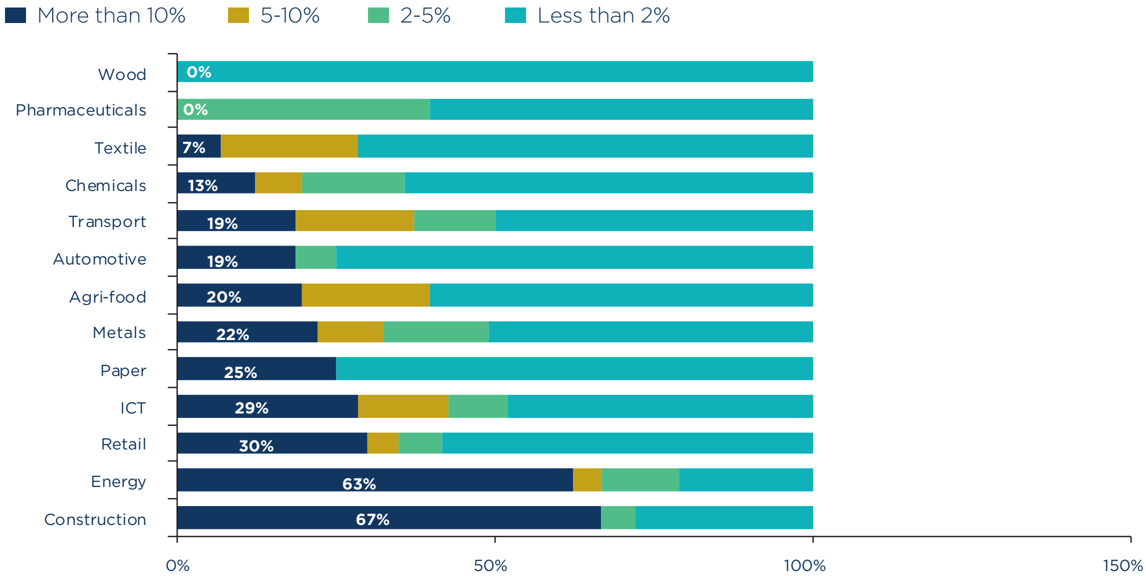
Source: Coface Payment Survey

2 Payment delay – the period between the payment due date and the date the payment is made.

- Most of the 13 sectors (except construction and retail) observed a decrease in average payment delays in 2020 despite the difficult situation, with respondents in wood, pharmaceuticals, transport and ICT reporting the largest drops. Payment delays in energy and construction were well above the average in 2020. A majority (over 60%) of respondents in these two sectors reported ULPDs exceeding 10% of their annual turnover, hinting at serious cash-flow risks (**Chart 7**). Retail also recorded a significant increase in the proportion of respondents with ULPDs over 10% of annual turnover, surging from 8% in 2019 to 30% in 2020, as public health measures severely curtailed retail sales. Conversely, automotive recorded a lower proportion of respondents with ULPDs over 10% of annual turnover (19% vs. 28% in 2019).

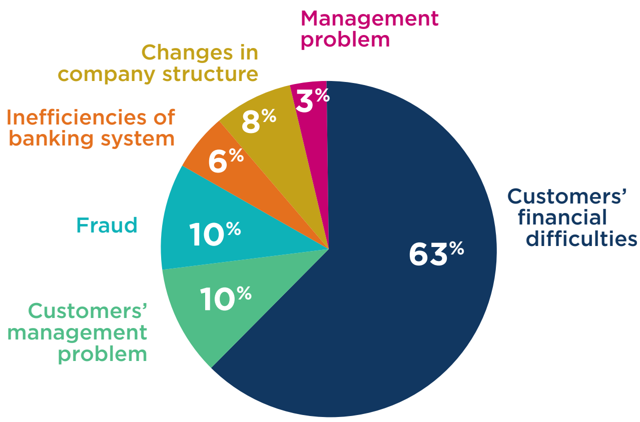
- Customers' financial difficulties were the top reason for payment delays (**Chart 8**). According to respondents, these financial difficulties were linked to a lack of financing resources, margin pressure due to fierce competition, rising material costs and slower economic growth, all of which suggest that pockets of the economy may not have had adequate access to government support.

Chart 7:
The ratio of overdue exceeding 6 months (ultra-long payment delays)



Source: Coface Payment Survey

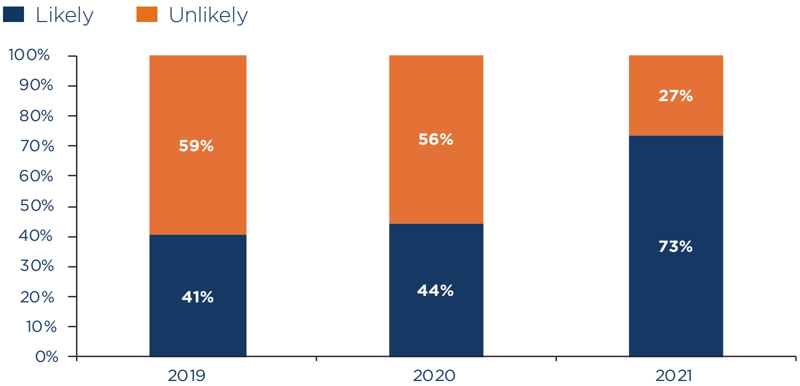
Chart 8:
Main reason for payment delays



Source: Coface Payment Survey

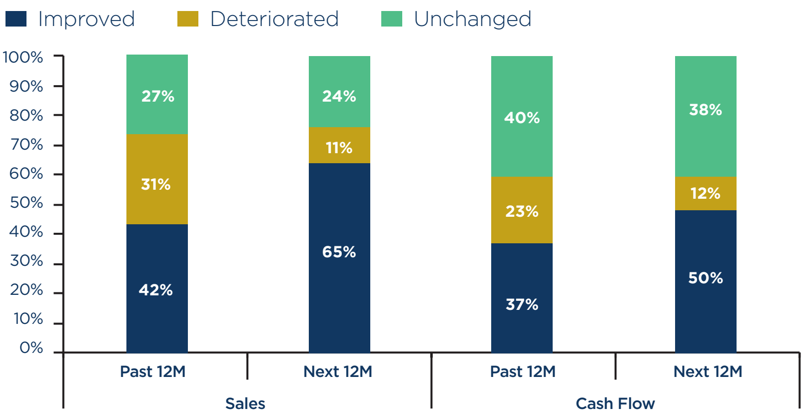
3 ECONOMIC EXPECTATIONS: UPTURN BOOSTS OPTIMISM, BUT HIGHER PRICES REMAIN KEY CONCERNS

Chart 9:
Growth will improve relative to last year



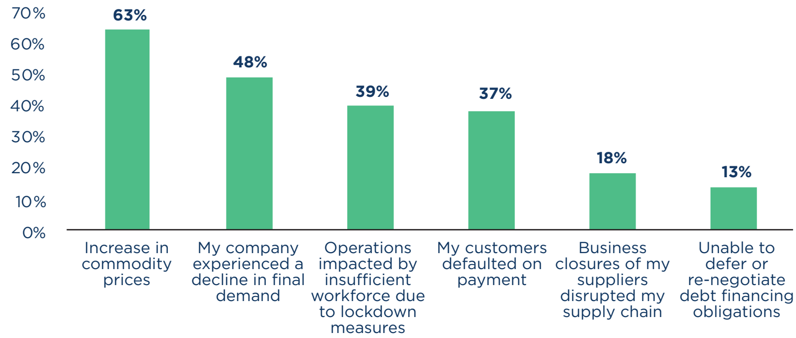
Source: Coface Payment Survey

Chart 10:
Economic expectations (% respondents)



Source: Coface Payment Survey

Chart 11:
Economic expectations (% respondents)



Source: Coface Payment Survey

- With China being the only major economy to see GDP growth in 2020, and recent economic data pointing to a steady expansion in the first quarter of 2021, firms are overall optimistic about economic conditions, according to the survey. Coface expects China's economic growth to increase by 7.5% in 2021, following an expansion of 2.3% in 2020

- Over 70% of respondents expect growth to improve in 2021, up considerably from 44% in 2020 (**Chart 9**). This optimism was accompanied by a greater proportion of firms anticipating higher sales and cash-flows over the next 12 months. The percentage of respondents expecting better sales performance in the coming year rose from 55% in 2019 to 65% in 2020, while those projecting improved cash-flow increased more modestly, from 47% in 2019 to 50% in 2020 (**Chart 10**). Consequently, a majority (62%) of respondents expect their business to return to pre-COVID-19 levels in less than a year, while nearly a quarter estimate the period at between one and two years. Only 3% said that their business would not return to pre-COVID-19 levels.

- We added a new multiple-answer question in this survey in order to assess the impact of the COVID-19 outbreak on companies' sales and cash-flows. Higher prices was the most common impact mentioned by respondents, where almost two-thirds stated that the pandemic led to an increase in commodity prices, as governments' public health measures disrupted global supply chains (**Chart 11**). Nearly half of respondents reported a drop in demand due to the pandemic. A significant proportion also mentioned that social distancing measures and other COVID-19 related responses contributed to insufficient workforce numbers, as well as customers' payment defaults.

- Despite the pandemic, 47% of respondents admitted not using any credit management tool to mitigate cash-flow risks in 2020, up from 40% in 2019. Concomitantly, a greater proportion deployed more than one credit management tool. The percentage of firms using credit insurance increased from 17% in 2019 to 27% in 2020, while those using credit reports were at 31% in 2020, up significantly from 19%. Both factoring and debt collection also saw an increase compared to the previous year, reaching 10% and 13%, respectively.

BOX:

Bond defaults and insolvencies set to rise in 2021

Coface surveyed over 600 companies across 13 broad sectors to understand their payment behaviour. Data were collected between February and April 2021, and therefore reflect the impact of the COVID-19 pandemic for 2020 overall. The results provided insights into companies' response to credit risks brought about by the impact of the pandemic, particularly the sharp economic slowdown in early 2020, and challenges facing specific industries due to public health measures and consumer behaviour.

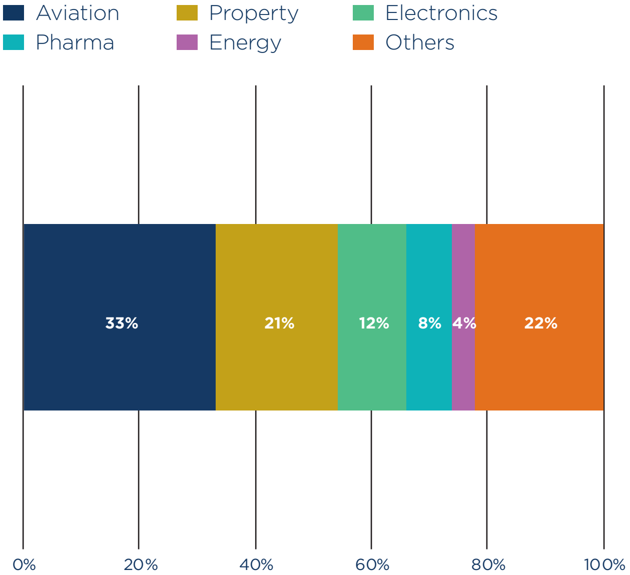
China's GDP contracted by 1.6% in the first half of 2020, before rebounding by 5.7% in the second half, as more segments of the economy returned to normality. Overall, the Chinese economy expanded by 2.3% in 2020, the only major country to record growth, but the increase was the weakest since 1976. Recent activity indicators signalled that the recovery had been sustained into 2021. Coface expects the economy to accelerate to 7.5% GDP growth in 2021, the fastest pace since 2013, and comfortably above the minimum of 6% set by the authorities.

In normal circumstances, higher economic growth should translate into fewer incidents of payment delays, but the recovery has not been broad-based and was uneven across sectors. Moreover, businesses were supported by policy responses, which have mitigated the impact of the pandemic on cash-flows, as reflected by a fall in payment delays instead of previously widespread expectations of a sharp increase. Furthermore, the slowdown in credit growth, driven by policymakers' concerns over financial risks due to a surge in borrowing in the economy, will also dampen the extent of GDP growth. Sectors such as construction and energy, which have accumulated cash-flow risks in recent years, will be more vulnerable to credit tightening, as well as a fall in demand amid China's focus on deleveraging and a shift towards green development.

At first glance, our survey's findings may not seem to illustrate the connection between cash-flow risks and corporate bond defaults, but a sectoral breakdown of the data actually shows a strengthening of the link. The trend in China's corporate bond defaults has been on the rise since the first case in 2014, surging from less than USD 1 billion in 2015 to a record USD 27 billion in 2020, according to data compiled by Bloomberg. More than half of the defaults were concentrated in a few sectors, including real estate/construction, automotive, electronics and ICT. In the first four months of 2021, bond defaults surged by over 70% to USD 18 billion, mostly related to companies in real estate, aviation and electronics (**Chart 12 and 13**). A significant proportion of the defaults (37%) was linked to HNA Group, a Chinese conglomerate involved in various industries including aviation, real estate, financial services, tourism and others. Our survey suggested that many of these sectors also had high cash-flow risks, with 67% of respondents in construction reporting that they had over 10% of annual turnover tied up in Ultra-Long Payment Delays (ULPDs), alongside 29% in ICT and 19% in transport.

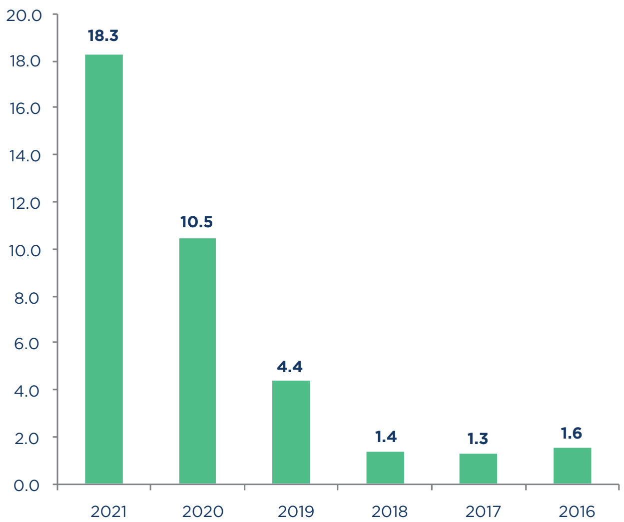
Looking ahead, Coface expects corporate bond defaults and insolvencies to increase in 2021, especially in sectors that accumulated higher cash-flow risks in 2020 because of the pandemic, as indicated in our 2021 China Corporate Payment Survey. These are the sectors with the highest proportion of ULPDs amounting to over 10% of annual turnover, including construction (67%), energy (62%) and retail (30%).

Chart 12:
Corporate bond defaults by sectors (January-April 2021)



Source: Bloomberg and Coface

Chart 13:
Corporate bond defaults (January-April, 2016-2021)
(outstanding amount in billions of USD)



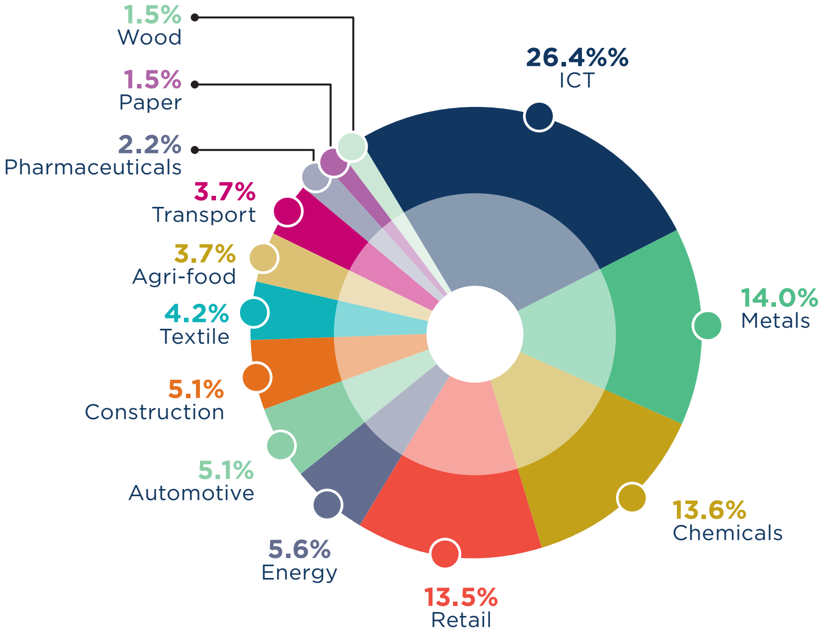
Source: Bloomberg and Coface

APPENDIX

602
COMPANIES

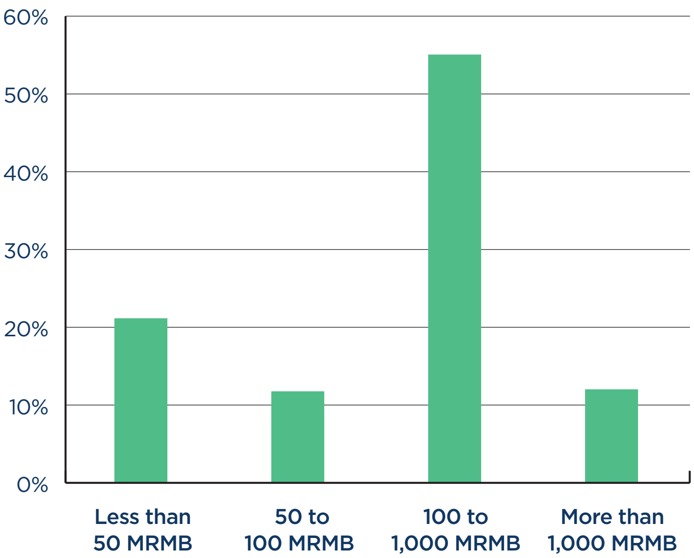
PARTICIPATED
IN THE PAYMENT SURVEY

Which of the following best describes your company's industry?



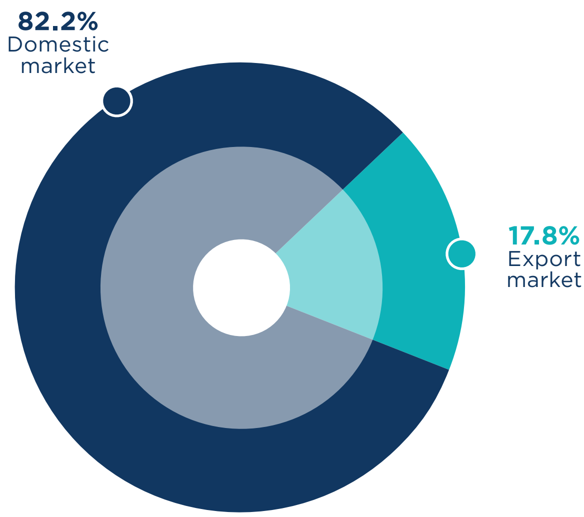
Source: Coface Payment Survey

For 2020, the total estimated sales revenue of your company will be (MRMB):



Source: Coface Payment Survey

Where is your major destination of sales?



Source: Coface Payment Survey

GLOSSARY

PAYMENT TERM
The time frame between when a customer purchases a product or service and when the payment is due.

PAYMENT DELAY
The period between the payment due date and the date the payment is made.

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