COFACE
ECONOMIC PUBLICATIONS

JULY 2019

PAYMENT SURVEY

By Carlos Casanova, Coface Economist for the Asia-Pacific region, based in Hong Kong

Asia-Pacific Corporate Payment Survey 2019: deteriorating payment trends amid trade war woes

Trade wars, volatile global capital flows, slowing growth in the United States (U.S.) and Europe, Brexit — businesses in the Asia-Pacific (APAC) region had to navigate a number of political, economic, and financial pitfalls last year. To better understand the impact that such events have on companies, Coface conducts annual corporate payment surveys across the world. The 2019 Asia-Pacific Corporate Payment Survey covers nine economies in the APAC region. For the survey, data was collected from over 3,000 companies during the fourth quarter of 2018.

The data gathered from the survey shows that APAC companies were under pressure last year to extend longer payment terms. Average payment terms increased to 69 days in 2018, up from 64 days in 2017. This is in line with trends observed in the APAC region since 2015. Corresponding with the increase in payment terms, average payment delays also increased to 88 days in 2018, compared to 84 days in 2017. The proportion of companies that experienced payment delays exceeding 120 days increased from 16% in 2017 to 20% in 2018. The length of payment delays was highest in China, Malaysia, and Singapore, while the length was lowest in Hong Kong and Japan.

The survey's data also highlights changes across different industries. Average payment delays were highest in the energy, construction, and ICT sectors, with over 20% of companies from those sectors offering payment terms of 120 days or longer. Longer payment delays in 2018 can be largely attributed to customers' financial difficulties. These difficulties are a result of fierce competition impacting margins, as well as a lack of financial resources.

In terms of cash flow risks, Coface's survey considers the ratio of ultra-long payment delays (exceeding 180 days). According to Coface's findings, 80% of ultra-long payment delays (ULPDs) are never paid. When these unpaid ULPDs constitute more than 2% of annual turnover, a company's cash flow may be at risk. The proportion of companies experiencing ULDPs exceeding 2% of annual turnover increased from 26% in 2016 to 33% in 2017, and then to 38% in 2018. Furthermore, the survey's results found a surge in the number of companies stating that they had ULDPs exceeding 10% of annual turnover.

Economic expectations deteriorated quite significantly in a number of cases last year, according to the survey. Over 50% of companies in Hong Kong, China, Japan, Singapore and Taiwan stated that they do not expect growth to improve in 2019. These economies are directly and indirectly impacted by U.S. tariffs on Chinese exports. The deterioration in domestic economies notwithstanding, 53% of companies that took part in the survey said that they do not use credit management tools to mitigate credit risks. Surprisingly, markets with a majority of risk managers who predict the economy will not improve also feature a large percentage of companies that admitted using no credit management tools.

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1 PAYMENT TERMS:
COMPANIES UNDER PRESSURE TO EXTEND LONGER PAYMENT TERMS

Chart 1:
Payment terms in Asia-Pacific

30 days | 60 days | 90 days | 120 days or above
Average payment terms

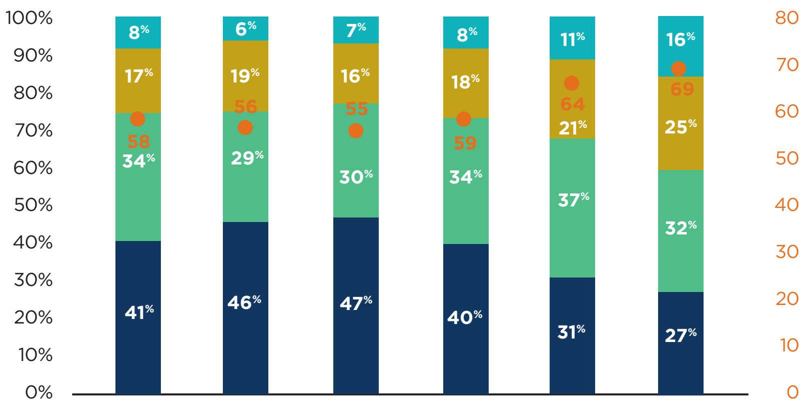
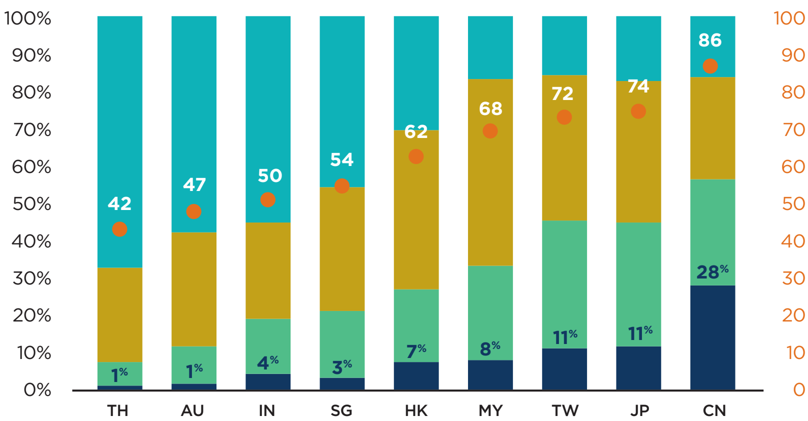


Chart 2:
Payment terms by region

120 days or more | 90 days | 60 days | 30 days
Average payment terms

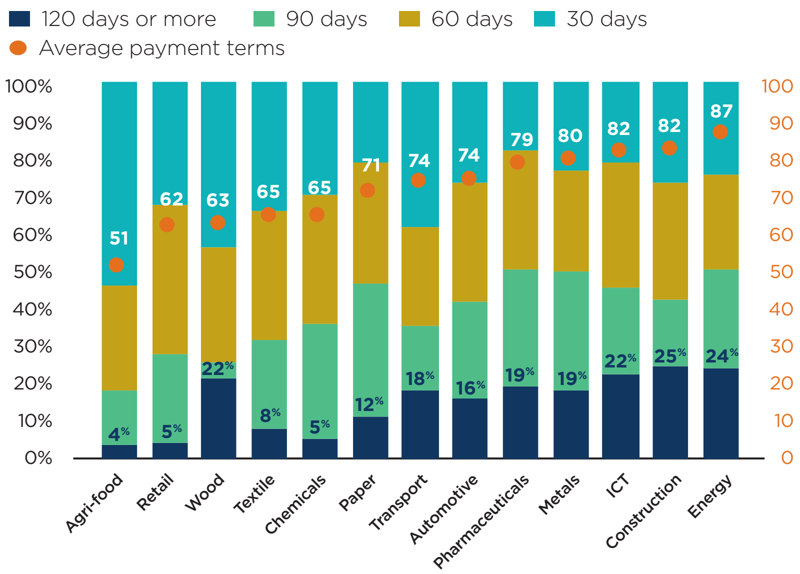


- Coface's annual Asia-Pacific Payment Survey covers nine economies in the APAC region (see Appendix). Data was collected from over 3,000 companies in the region during the fourth quarter of 2018.
- APAC companies continue to be pressured to offer longer payment terms in order to secure business. Average payment terms in APAC increased to 69 days in 2018, up from 64 days in 2017. This is in line with trends observed since 2015. Longer payment terms can be traced back to an increase in longer maturities, resulting from an upturn in the number of companies offering payment terms of 90 days, and 120 days or more.
- The survey results show how payment terms vary across different economies. The length of payment terms was longest in China (86 days), with 28% of Chinese companies offering payment terms of 120 days or more. Japan, which topped the rankings last year, trailed closely at 74 days, with 11% of Japanese companies offering payment terms of 120 days or more. The length of payment terms was shortest in Thailand (42 days), with over 70% of Thai companies offering payment terms of 30 days.

69
DAYS:
average APAC payment terms increased in 2018, up from 64 days in 2017

- Generally speaking, markets where trade credit insurance is more commonplace featured higher payment terms, and vice versa. However, last year Coface also observed a divergence in countries that are most directly impacted by U.S. tariffs on China. Specifically, the length of payment terms increased in China (10 days), Hong Kong (20 days), Malaysia (20 days) and Taiwan (2 days), while decreasing or remaining stable in other markets.

Chart 3:
Payment terms by sector

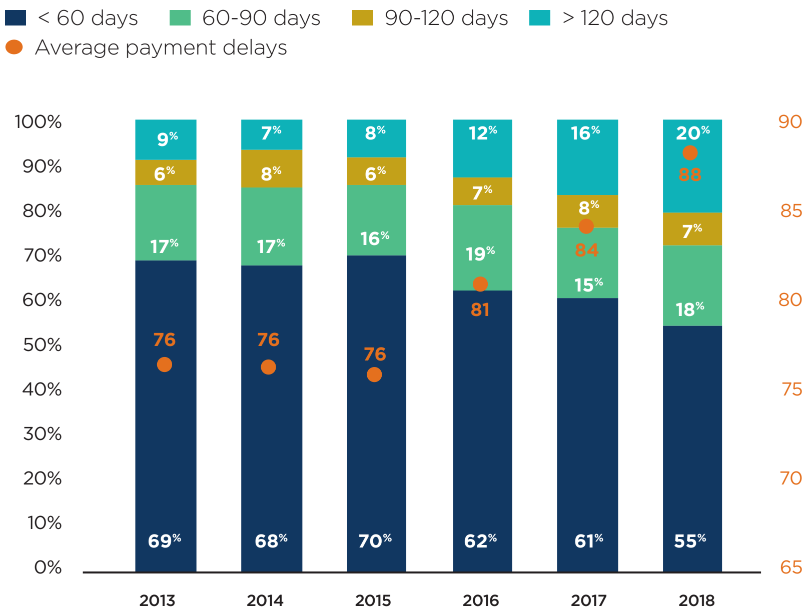


- The survey's data also highlights changes across different industries. The average length of payment terms was highest in the energy, construction and ICT sectors, with over 20% of companies within those industries offering payment terms of 120 days or more. The length of payment terms was lowest in the agri-food and retail sectors, with fewer than 5% of companies offering payment terms of 120 days or more.

- Payment terms naturally vary from sector-to-sector based on different product and industrial lifecycles. The length of payment terms increased the most in the energy (23 days) and construction (21 days) sectors, both of which are typically associated with high levels of corporate debt. The length of payment terms also increased in the automotive (16 days), transportation (16 days) and ICT (10 days) sectors, as these industries were subject to pressures surrounding U.S. tariffs. The length of payment terms only decreased in the chemical (7 days) and agri-food (8 days) sectors, while increasing in all other sectors.

2 TIGHTER FINANCIAL CONDITIONS LEAD TO LONGER PAYMENT DELAYS

Chart 4:
Payment delays in Asia-Pacific



- 63% of those companies surveyed stated that they experienced payment delays in 2018. Corresponding with the increase in payment terms, the length of payment delays also increased to 88 days on average in 2018, compared to 84 days in 2017. The length of payment delays was highest in China, Malaysia and Singapore. The proportion of companies reporting delays of 90 days or more was 39%, 26% and 17% respectively. Payment delays were lowest in Hong Kong, Japan and Taiwan, with a majority of companies surveyed stating that their delays were less than 60 days.

- Divergences were also apparent across different industries. The ICT and construction sectors experienced the highest payment delays, with 36% and 32% of companies in the respective sectors reporting delays of 90 days or longer, while the retail and paper sectors experienced the lowest payment delays.

- Payment delays suggest deteriorating cash flow risks. According to Coface's experience, 80% of ULDPs never get paid. When these constitute more than 2% of annual turnover, a company's cash flow may be at risk. The higher this ratio, the higher the risk.

- The proportion of companies experiencing ULDPs exceeding 2% of annual turnover increased to 38% in 2018, compared to 33% in 2017. This increase in cash flow risks was a result of a surge in the number of companies stating that they had ULDPs exceeding 10% of annual turnover (13% in 2018 compared to 10% in 2017). This could result in significant tail risks in some markets.

- The increase in companies reporting ULPDs exceeding 2% of their annual turnover was highest in China, Australia, and Malaysia. This proportion increased by 7, 10, and 32 percentage points respectively. China, in particular, featured a large proportion of companies with ULDPS exceeding 10% of annual turnover. On the other hand, Japan and Taiwan continued to register the lowest proportion of companies reporting ULDPs exceeding 2% of annual turnover. India has experienced an improvement in cash flow risks, with a decline of 16 percentage points in this ratio.

- Disparities were also apparent on a sector-by-sector basis. The proportion of companies reporting ULDPs exceeding 2% of their turnover was highest for the construction, energy and transport sectors, and lowest for the chemical, pharmaceutical and agri-food sectors. The chemical, pharmaceutical, agri-food and transportation sectors experienced a decline in the proportion of companies stating they had more than 2% of annual turnovers tied up in these ULDPs. All other sectors experienced deterioration, in line with trends observed across the region.

63%
OF RESPONDENTS
experienced
payment delays

Chart 5:
Payment delays by region

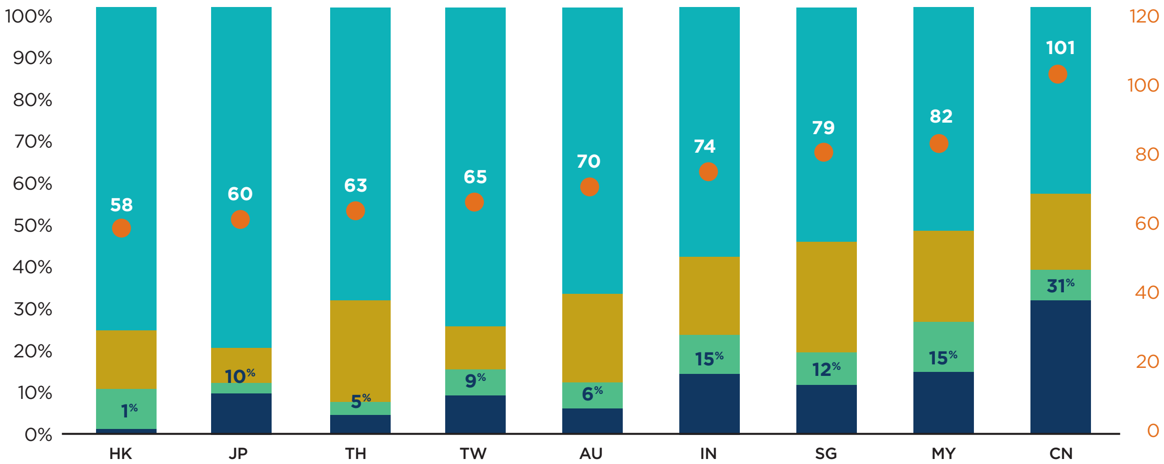


Chart 6:
Payment delays by sector

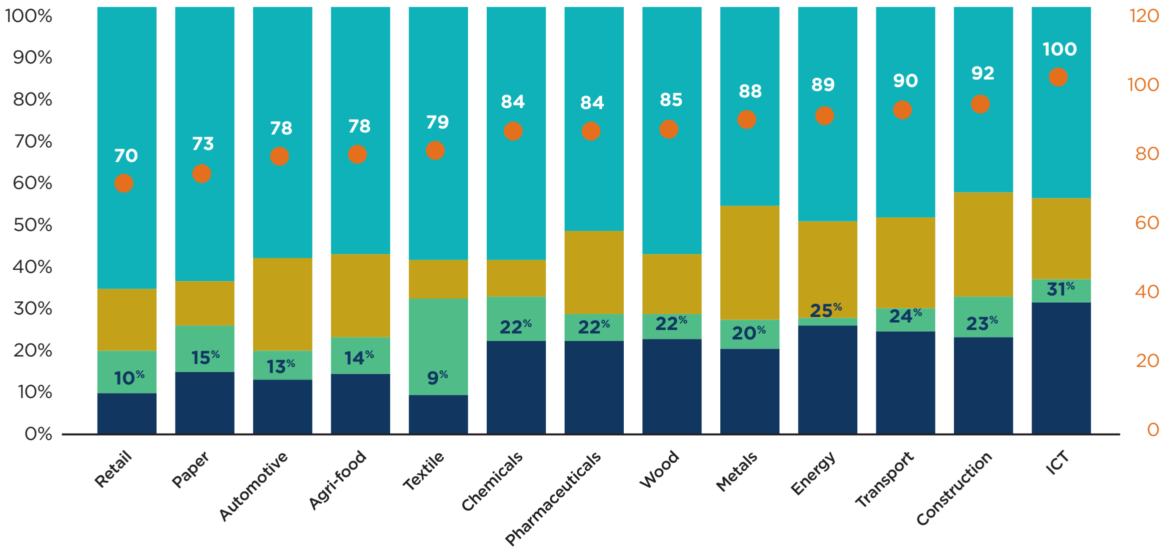


Chart 7:
ULDPs and annual turnover in the Asia-Pacific region

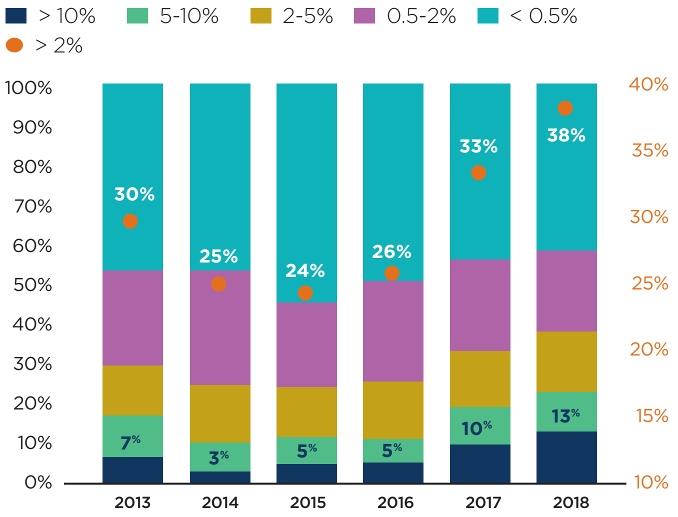


Chart 8:
ULDPs and annual turnover by region

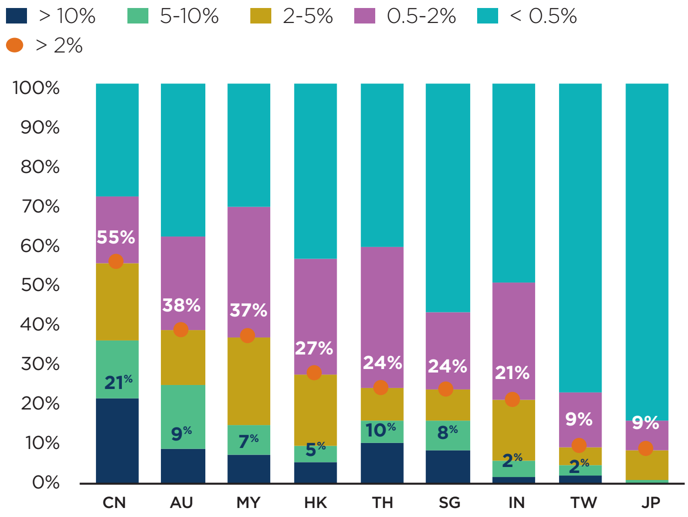


Chart 9:
ULDPs and annual turnover by sector

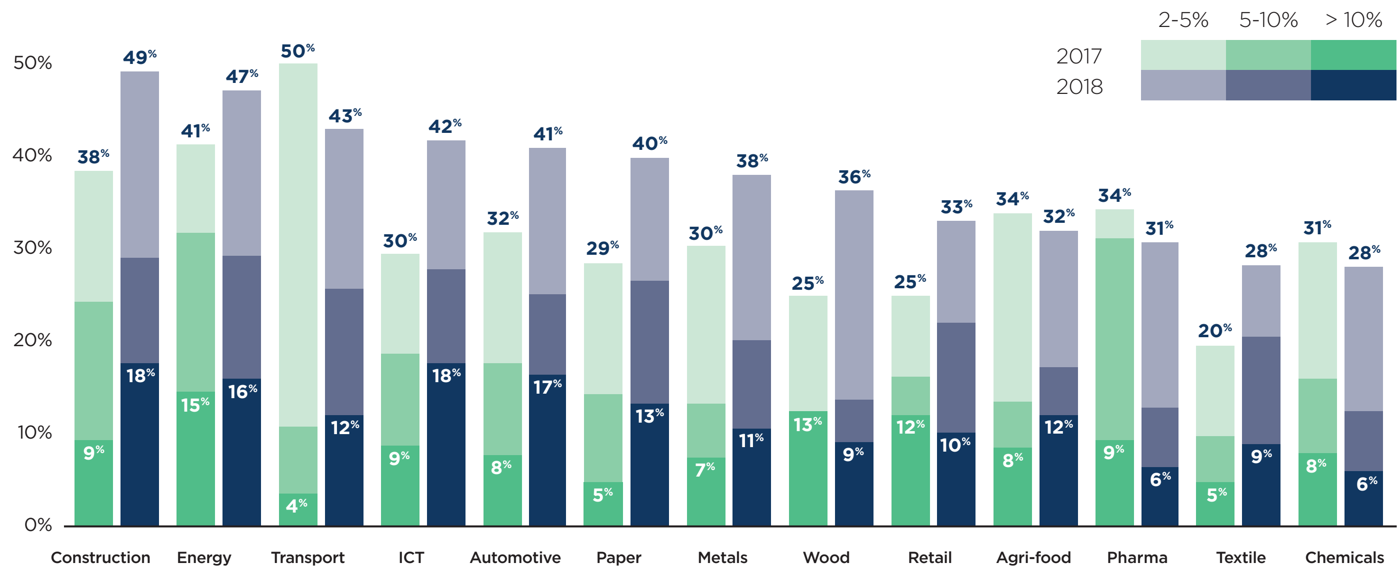


Chart 10:
Main reason for payment delays?

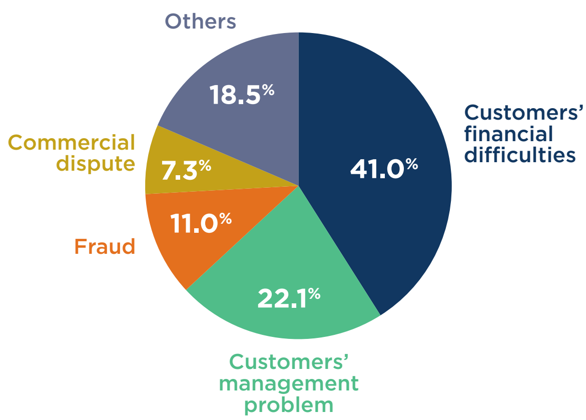
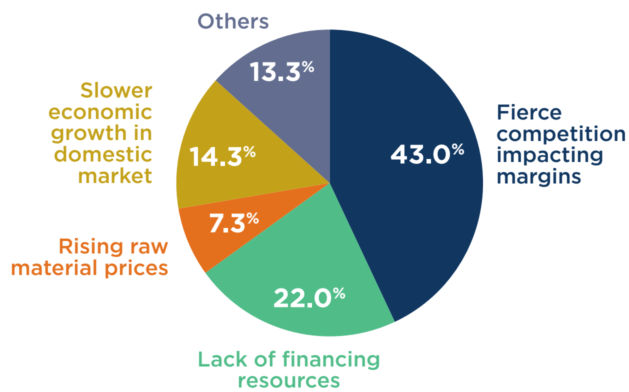


Chart 11:
Main reason for financial difficulties?



3 ECONOMIC EXPECTATIONS: WEAKER CONFIDENCE, BUT NO IMPROVEMENT IN CREDIT MANAGEMENT STANDARDS

- 2018 proved to be a more challenging year for many economies in the region. In addition to slower growth in key markets, such as China and Japan, a number of the region's economies also had to contend with the implications of an escalation in trade tensions between the U.S. and China, as well as tighter liquidity following a series of rate hikes by the U.S. Federal Reserve.
- Unsurprisingly, an overwhelming majority of companies surveyed (41%) stated that the increase in payment delays was caused by Customers' financial difficulties. These difficulties were, in turn, brought about by fierce competition impacting margins (42%) and a lack of financial resources (22%). In the context of weaker growth momentum in 2019, this does not bode well for payment conditions going forwards.

Chart 12:
Economic growth will improve in 2019 (% respondents)

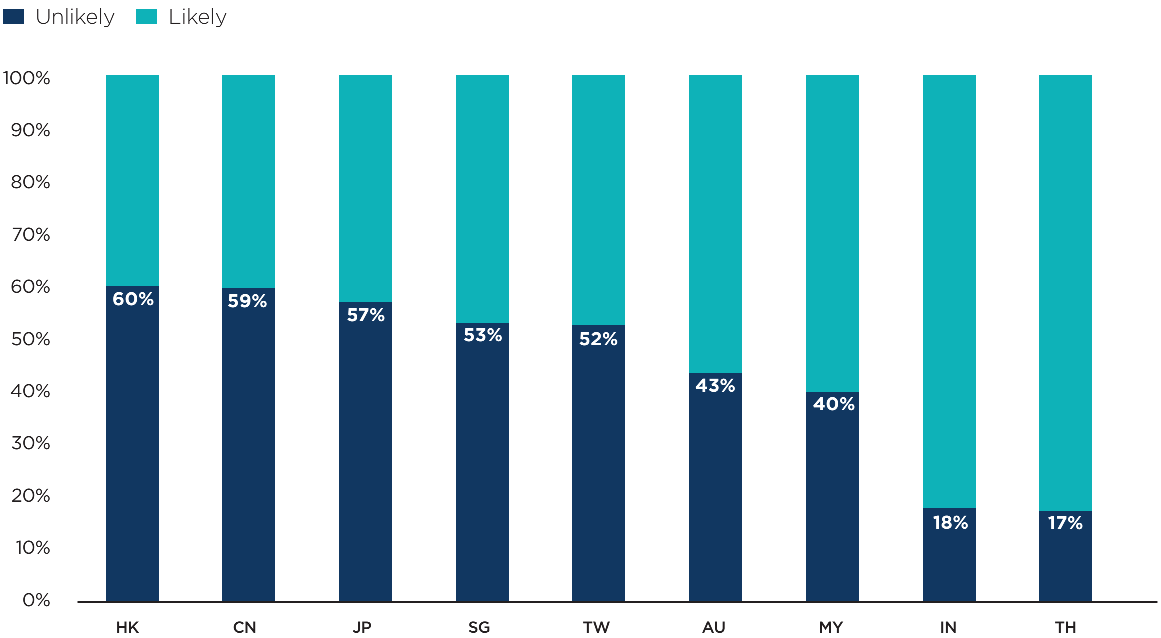
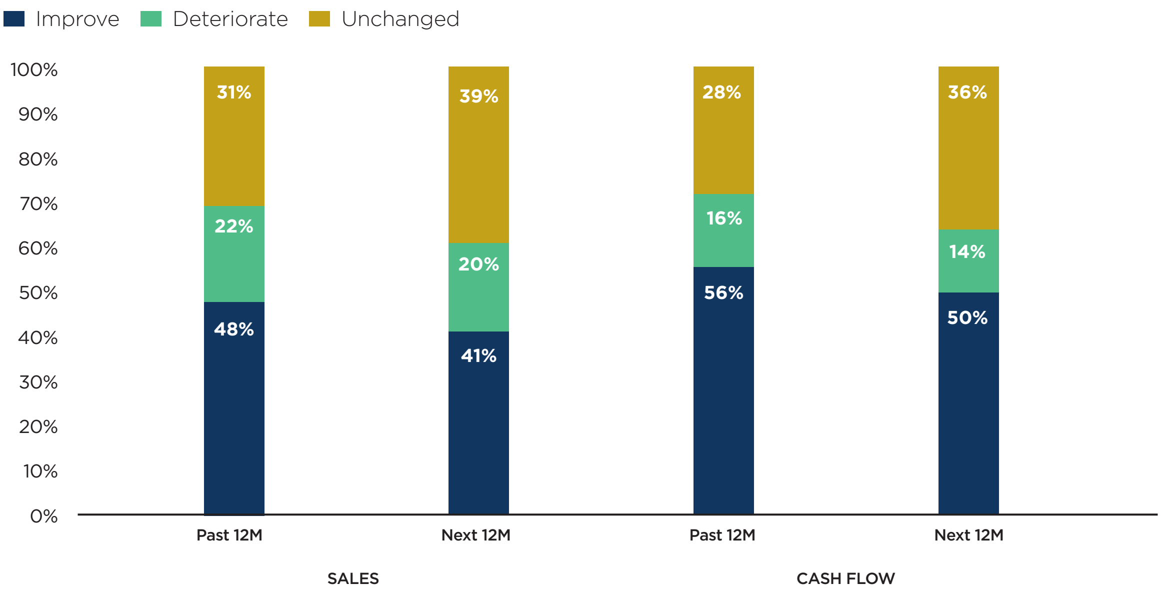


Chart 13:
Business expectations (% respondents)



- Economic expectations deteriorated quite significantly in a number of cases, suggesting weaker domestic sentiment. Over 50% of companies in Hong Kong, China, Japan, Singapore and Taiwan stated that they do not expect growth to improve in 2019, compared to 2018. These economies are also directly and indirectly impacted by U.S. tariffs on Chinese exports. The proportion of companies surveyed stating that they expect growth to improve in 2019 compared to 2018 was highest in Thailand and India. This reflects an improvement in domestic sentiment, as both countries faced uncertainties surrounding general elections in early 2019.

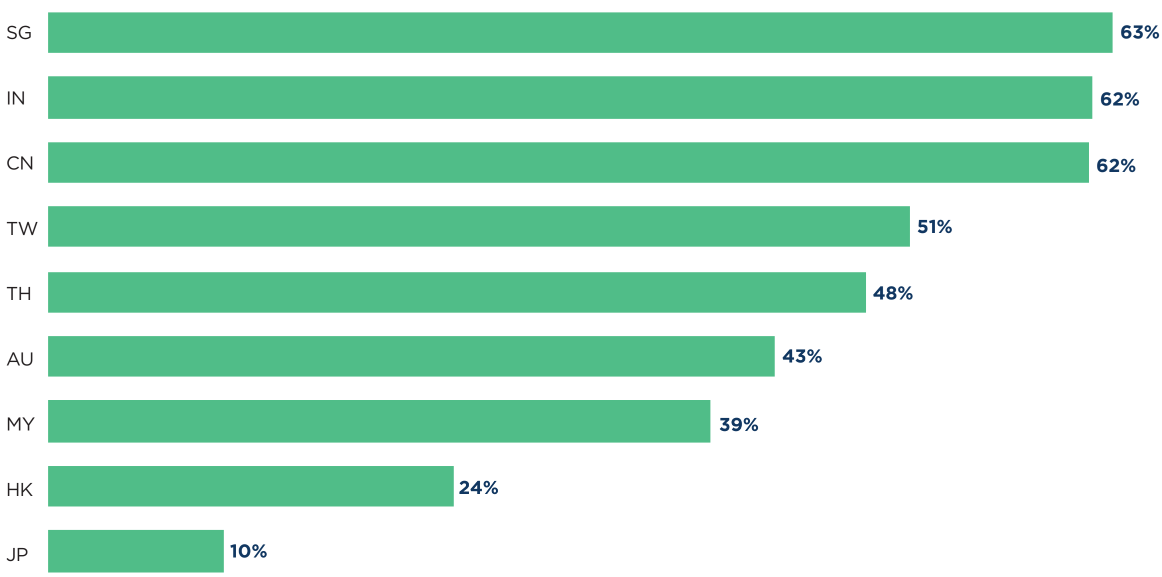
- Notwithstanding the deterioration in domestic economies, risk managers' prospects in terms of sales and cash flows remained buoyant in most countries. According to the survey, 41% of companies expect sales to improve in 2019, while only 20% stated that they expect sales to deteriorate. Meanwhile, expectations for cash flows were even more optimistic. 50% of companies expect these to improve in 2019, with only 14% factoring in a deterioration. This suggests there are asymmetries in risk managers' views of the external environment vis-à-vis their ability to navigate these risks successfully.

- These asymmetries are ever more worrying in the context of weak credit management practices – 53% of companies surveyed said that they do not use credit management tools to mitigate credit risks. For those that do use these tools, credit agency reports and recommendations continue to be the most commonly used credit management tool (24%), followed by credit insurance (21%) and debt collection (11%). Factoring remains niche in the APAC region, with only 9% of companies reporting that they make use of this tool.

- Surprisingly, markets with a majority of risk managers who predict that the economy will not improve also feature a large percentage of companies that admitted using no credit management tools (especially companies from China and Singapore). More established markets showed a lower proportion of companies that admitted to not using credit management tools, led by Japan (10%) and Hong Kong (24%).

53%
OF RESPONDENTS
stated they do not use credit management tools

Chart 14:
Percentage of respondents that stated they use no credit management tools



PAYMENT SURVEY RESULTS BY ECONOMY

Australia

COFACE ASSESSMENT: A2

	2016	2017	2018	2018 vs. 2017	vs. APAC
Payment terms					
% of respondents offering payment terms	86.5%	85.0%	79.3%	↘	Above
Average payment terms (days)	39	40	47	↗	Below
Payment delays					
Experienced payment delays	59.5%	87.1%	73.0%	↘	Above
Payment delays increased	9.1%	32.4%	29.6%	↘	Below
Average overdue times of more than 90 days	6.8%	9.5%	12.3%	↗	Below
Ultra long overdue amounts > 2% of turnover	13.6%	28.4%	38.3%	↗	Above
Overall				↗	**Below**

China

COFACE ASSESSMENT: B

	2016	2017	2018	2018 vs. 2017	vs. APAC
Payment terms					
% of respondents offering payment terms	78.0%	73.6%	67.3%	↘	Below
Average payment terms (days)	66	76	86	↗	Above
Payment delays					
Experienced payment delays	67.9%	63.8%	62.9%	↘	Above
Payment delays increased	45.6%	28.6%	40.0%	↗	Above
Average overdue times of more than 90 days	26.3%	34.4%	38.8%	↗	Above
Ultra long overdue amounts > 2% of turnover	35.7%	48.1%	55.3%	↗	Above
Overall				↗	**Above**

Hong Kong

COFACE ASSESSMENT: A2

	2016	2017	2018	2018 vs. 2017	vs. APAC
Payment terms					
% of respondents offering payment terms	69.4%	75.4%	91.5%	↗	Above
Average payment terms (days)	49	56	62	↗	Below
Payment delays					
Experienced payment delays	53.6%	58.2%	68.9%	↗	Above
Payment delays increased	20.6%	17.7%	23.3%	↗	Below
Average overdue times of more than 90 days	15.8%	15.9%	11.0%	↘	Below
Ultra long overdue amounts > 2% of turnover	23.9%	26.2%	27.4%	↗	Below
Overall				↗	**Below**

India

COFACE ASSESSMENT: B

	2016	2017	2018	2018 vs. 2017	vs. APAC
Payment terms					
% of respondents offering payment terms	93.7%	94.1%	96.0%	↗	Above
Average payment terms (days)	53	59	50	↘	Below
Payment delays					
Experienced payment delays	84.8%	86.8%	82.0%	↘	Above
Payment delays increased	29.2%	35.7%	20.5%	↘	Below
Average overdue times of more than 90 days	22.1%	28.6%	23.4%	↘	Above
Ultra long overdue amounts > 2% of turnover	29.8%	36.8%	21.0%	↘	Below
Overall				↘	**Above**

BUSINESS DEFAULT RISK

- A1 Very Low
- A2 Low
- A3 Satisfactory
- A4 Reasonable
- B Fairly High
- C High
- D Very High
- E Extreme
- ↗ Increase
- ↘ Decrease

Japan

COFACE ASSESSMENT: A2

	2016	2017	2018	2018 vs. 2017	vs. APAC
Payment terms					
% of respondents offering payment terms	90.1%	67.8%	86.4%	↗	Above
Average payment terms (days)	75	98	74	↘	Above
Payment delays					
Experienced payment delays	46.4%	50.0%	41.8%	↘	Below
Payment delays increased	17.1%	16.4%	14.6%	↘	Below
Average overdue times of more than 90 days	8.6%	17.8%	12.2%	↘	Below
Ultra long overdue amounts > 2% of turnover	8.7%	6.8%	8.5%	↗	Below
Overall				↘	**Below**

Malaysia

COFACE ASSESSMENT: A3

	2016	2017	2018	2018 vs. 2017	vs. APAC
Payment terms					
% of respondents offering payment terms	--	80.6%	88.9%	↗	Above
Average payment terms (days)	--	48	68	↗	Below
Payment delays					
Experienced payment delays	--	20.6%	65.7%	↗	Above
Payment delays increased	--	21.2%	26.5%	↗	Below
Average overdue times of more than 90 days	--	6.1%	26.5%	↗	Above
Ultra long overdue amounts > 2% of turnover	--	9.1%	36.8%	↗	Above
Overall				↗	**Above**

Singapore

COFACE ASSESSMENT: A2

	2016	2017	2018	2018 vs. 2017	vs. APAC
Payment terms					
% of respondents offering payment terms	89.6%	90.4%	83.7%	↘	Above
Average payment terms (days)	51	69	54	↘	Below
Payment delays					
Experienced payment delays	79.2%	72.0%	71.1%	↘	Above
Payment delays increased	42.6%	29.2%	16.0%	↘	Below
Average overdue times of more than 90 days	3.3%	22.2%	19.3%	↘	Below
Ultra long overdue amounts > 2% of turnover	25.0%	44.4%	23.5%	↘	Below
Overall				↘	**Below**

Taiwan

COFACE ASSESSMENT: A2

	2016	2017	2018	2018 vs. 2017	vs. APAC
Payment terms					
% of respondents offering payment terms	71.6%	77.8%	88.7%	↗	Above
Average payment terms (days)	65	70	72	↗	Above
Payment delays					
Experienced payment delays	51.6%	60.7%	58.3%	↘	Below
Payment delays increased	17.6%	14.0%	18.0%	↗	Below
Average overdue times of more than 90 days	8.8%	17.5%	15.7%	↘	Below
Ultra long overdue amounts > 2% of turnover	9.3%	10.5%	9.2%	↘	Below
Overall				↗	**Below**

Thailand

COFACE ASSESSMENT: A4

	2016	2017	2018	2018 vs. 2017	vs. APAC
Payment terms					
% of respondents offering payment terms	75.1%	82.2%	84.7%	↗	Above
Average payment terms (days)	44	53	42	↘	Below
Payment delays					
Experienced payment delays	66.7%	51.8%	54.0%	↗	Below
Payment delays increased	31.6%	31.3%	26.1%	↘	Below
Average overdue times of more than 90 days	14.5%	11.5%	8.0%	↘	Below
Ultra long overdue amounts > 2% of turnover	16.6%	22.1%	23.9%	↗	Below
Overall				↗	**Below**

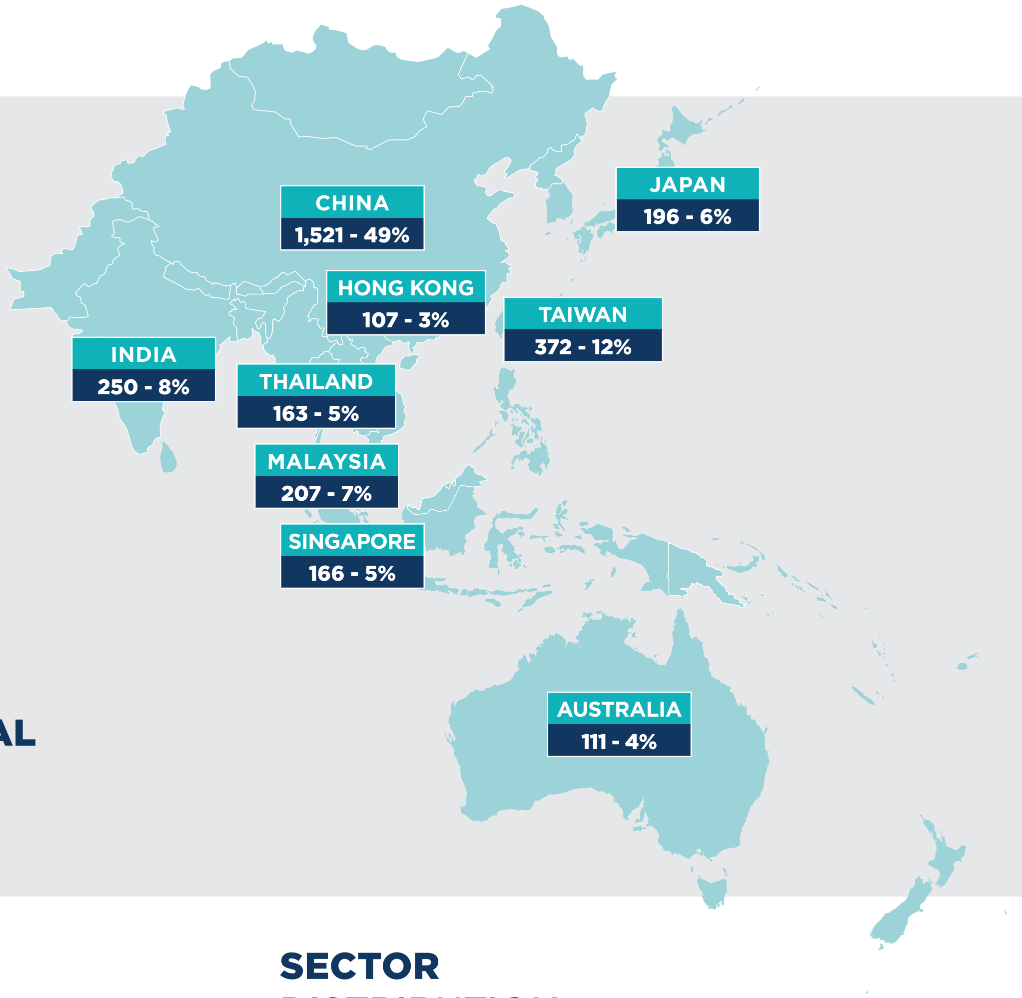
BUSINESS DEFAULT RISK

- A1 Very Low
- A2 Low
- A3 Satisfactory
- A4 Reasonable
- B Fairly High
- C High
- D Very High
- E Extreme
- ↗ Increase
- ↘ Decrease

APPENDIX

3,093
COMPANIES

GEOGRAPHICAL DISTRIBUTION



SIZE BY TURNOVER (euros)

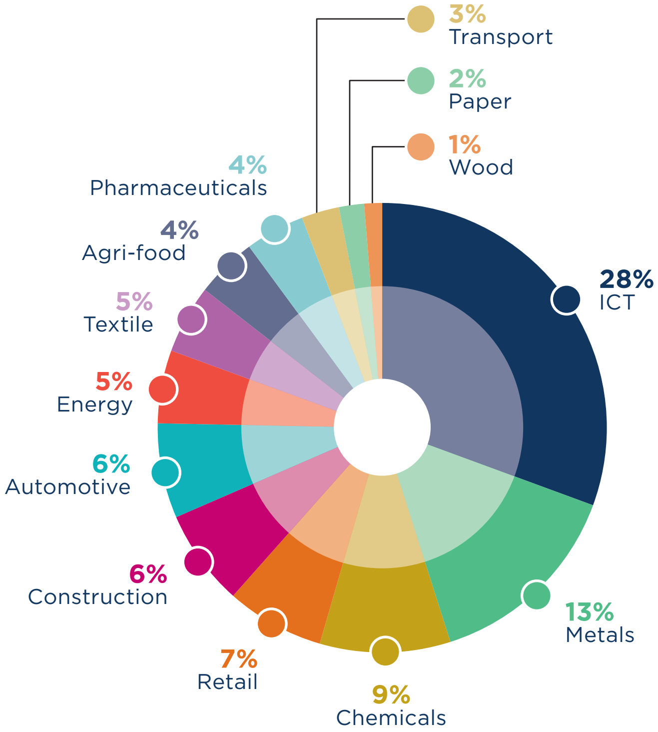
42% < 5 million

21% 5-10 million

25% 10-100 million

12% > 100 million

SECTOR DISTRIBUTION



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.

TAIL RISK
The risk that an investment will change by more than three standard deviations from its mean.

Code	Country
AU	Australia
CH	China
HK	Hong Kong
IN	India
JP	Japan
MY	Malaysia
SG	Singapore
TW	Taiwan
TH	Thailand

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