

SURVEY



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Asia Corporate Payment Survey 2016: tail risks are on the rise

Coface conducts an annual survey to examine corporate payment trends and experiences in eight selected economies⁽¹⁾ in the Asia Pacific (APAC) region. Our corporate payment survey for 2016 showed that non-payment risks escalated on the back of financial stress and a looser approach to credit controls.

Across the eight APAC economies in our survey, the number of respondents offering sales on credit show a slight decrease compared to 2015. Those that did significantly ramped up their credit terms from 55 to 59 days. Only half of the respondent companies checked and monitored buyer credit worthiness in 2016, while one third monitored buyer track records. In addition, there was a notable decline in respondents requesting secured forms of payment. This is a reflection of a looser approach to credit risks.

Aggravated tail risks are only to be expected. There was a lengthening in the average overdue days for invoices compared to 2015. Moreover, a considerably larger number of respondents

reported suffering from ultra-long overdue amounts which exceeded 2% of their total annual turnover. According to Coface's experience, roughly 80% of ultra-long overdues will not be paid at all. When over 2% of total annual turnover is tied up in ultra-long overdues, a company may encounter cash-flow shortfalls if non-payment risks materialize, leading to tighter liquidity and financial difficulties.

While the situation deteriorated across the region, some geographical differences were apparent. The most noticeable deterioration of non-payment risks was in China, followed by Thailand and, to a lesser extent, Australia. The situation stabilised in India – albeit from a low base – and Japan. Taiwan, Singapore and Hong Kong all benefitted from overall improvements in non-payment risks.

Construction was the worst performer for the second consecutive year. The main headwinds originate from the economic slowdown in China, combined with uncertainties surrounding monetary and fiscal policies in the US.



2
CORPORATE PAYMENT
SURVEY results
for Asia Pacific

4
SECTORIAL
analysis

9
APPENDIX 1:
country files

13
APPENDIX 2:
payment survey
background

1/ Australia, China, Hong Kong, India, Japan, Singapore, Taiwan, and Thailand.



Industrial machinery and electronics trailed the construction sector closely, as a vast proportion of respondents reported having ultra-long overduees exceeding 10% of their annual turnover. The return of deflationary pressures in APAC's main markets, including China, could further squeeze margins for the principal industrial sectors in 2017.

The pharmaceutical and paper-wood sectors were the main bright spots in 2016. The medium term outlook is positive, as the pharmaceutical sector is likely to benefit from burgeoning demand, despite some pressure on margins. In the case of paper-wood, demand for paper products such as tissues, packaging and wood should continue to grow, due to the expansion of the middle classes. This should offset the negative impacts of digitalisation.



Risks escalated across the board in APAC. In particular, worsening ultra-long overduees relative to turnover offers cause for concern. Respondents may encounter cash-flow shortfalls if non-payment risks materialize, leading to financial difficulties. This highlights the need for improved credit management practices in the region.



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1 CORPORATE PAYMENT SURVEY RESULTS FOR ASIA PACIFIC

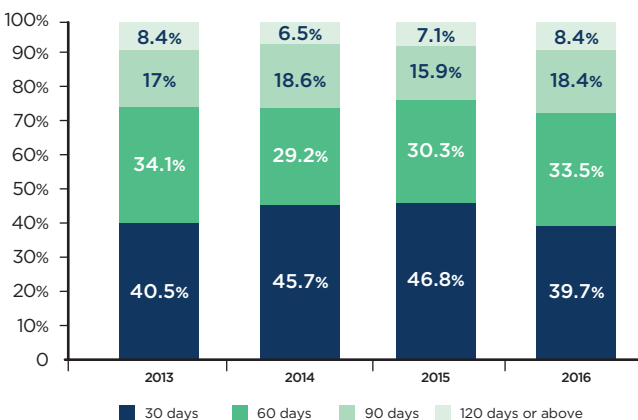
Companies are offering better average credit conditions. Is this relaxation of credit controls a miscalculation of risks?

It could, at first glance, appear that corporates in Asia Pacific (APAC) are increasingly at ease with credit. The number of respondents offering sales on credit, across the eight APAC economies surveyed, decreased slightly compared to 2015. However, those that continued to do so significantly ramped up their credit terms. Average credit terms offered over the past 12 months increased from 55 days in 2015, to 59 days in 2016 (graph n°1). This can be traced back to an increase in respondent companies granting average

credit terms of 120 days or above (8.4% in 2016, vs. 7.1% in 2015), as well as those offering credit terms of more than 90 days (18.4% in 2016, vs. 15.9% in 2015).

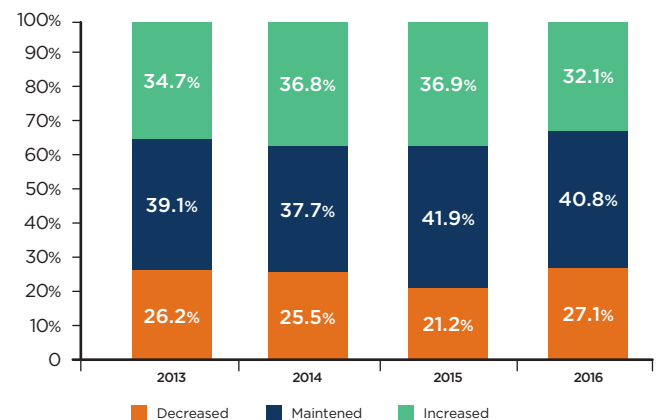
This year, the proportion of respondents that are confident in their customer's ability to pay improved significantly, up from 26% in 2015, to 30% in 2016. Market competition still remains the key factor in driving credit sales, with the majority of respondents answering that this was the main reason for offering credit terms (although this was down from 49% in 2015, to 44% in 2016). The number of respondents offering sales on credit because their customers were suffering from tight liquidity remained constant.

Graph n°1
Average credit terms (from date of invoice)



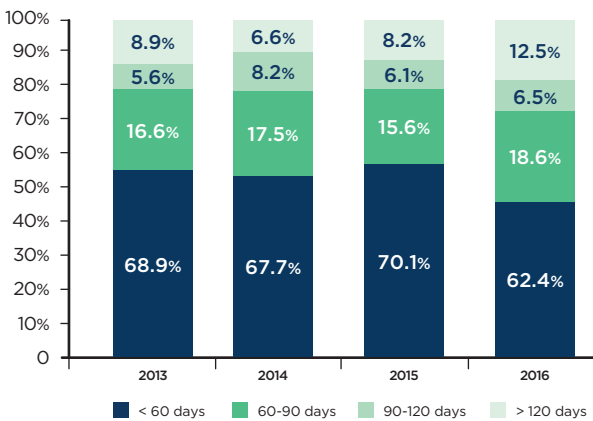
Source: Coface Survey 2016

Graph n°2
Overdue payments vs. the previous year



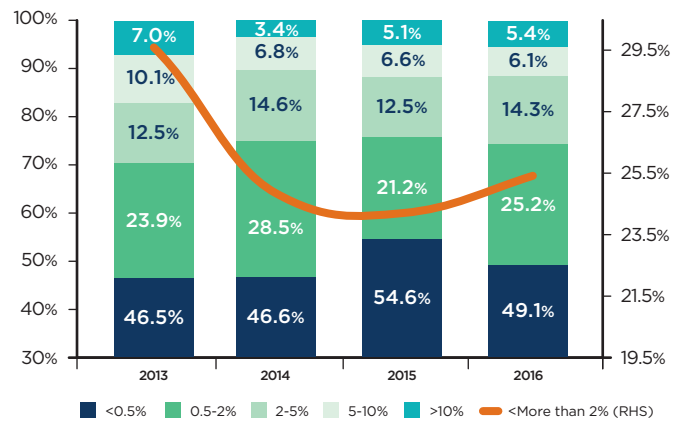
Source: Coface Survey 2016

Graph n°3
Average overdue days of credit sales



Source: Coface Survey 2016

Graph n°4
Ultra-long overdue amounts % annual turnover



Source: Coface Survey 2016

This improved business sentiment correlates with the survey data showing that a higher number of respondents experienced a decrease in overdue payments in 2016 compared to 2015 (graph n°2). Could this relaxation of credit conditions be a reflection of sound credit management practices? On the contrary, only half of the respondent companies checked and monitored buyer credit worthiness in 2016, while one third monitored buyer track records. While these were broadly in line with the survey results from recent years, they were not enough to mitigate tail risks which, as can be seen in the following section, are mounting. In addition, there was a notable decline in respondents (40.8% in 2016, vs. 45.4% in 2015) requesting secured forms of payment. This signals a slightly looser approach to credit control.

The deterioration of ultra-long overdue amounts points to mounting tail risks

Overdue payment risks appear to be continuing to increase across the board. 64% of the companies surveyed experienced overdues and the average number of payment overdue days lengthened in 2016. The proportion of respondents experiencing overdues exceeding 120 days saw a significant increase, from 8.2% in 2015, to 12.5% in 2016 (graph n°3). This was the highest level in four years. To put this into context, according to Coface's experience, approximately 80% of ultra-long overdue amounts (i.e. 180 days or more) are not paid back at all. When over 2% of total annual turnover is tied up in ultra-long overdue amounts, the company may encounter cash-flow shortfalls if non-payment risks materialize, leading to financial difficulties.

Tail risks are on the rise. In 2016, a larger number of respondents (25.8% vs. 24.2% in 2015) experienced ultra-long overdue amounts exceeding 2% of their total annual turnover (graph n°4). On a more granular level, data shows that the situation has been steadily deteriorating for companies with ultra-long overdue amounts equivalent to, or exceeding 10% of their total annual turnover (graph n°4), up from 3.4% in 2014 and 5.1% in 2015, to 5.4% in 2016. This situation is significantly reducing cash flows.

The main reason behind these overdue payments continued to be "customer financial difficulties" (48%), followed by "customer management problems" (20%).

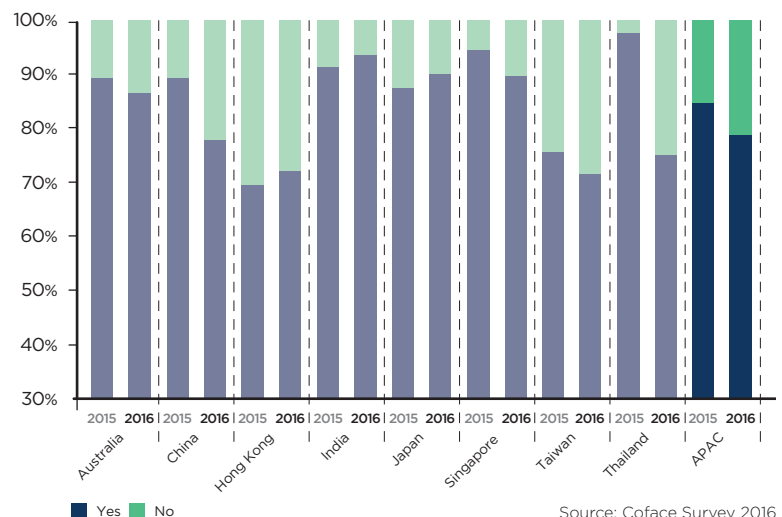
These financial difficulties remained driven by "fierce competition impacting margins" (41%), "slower economic growth in the local market" (17%) and "lack of financial resources" (17%).

Asian companies have been facing significant financial stress and cash flow difficulties when these ultra-long overdue amounts are not repaid. This is compounded by the squeeze on profit margins owing to industrial overcapacity, subdued demand and keener business competition in recent years. The situation is particularly concerning in China, although some analogies can be found in other APAC economies, as will be examined in the following section.

Geographical differences become apparent: Not just China

In addition to the deterioration in ultra-long overdue amounts outlined above, the results of our survey show marked disparities between the eight APAC geographies (graph n°5). The overall results are affected by China. In line with our China Corporate Payment Survey 2016, the number of respondents offering credit sales in China decreased in 2015 (graph n°5).

Graph n°5
Percentage of respondents offering credit sales by country



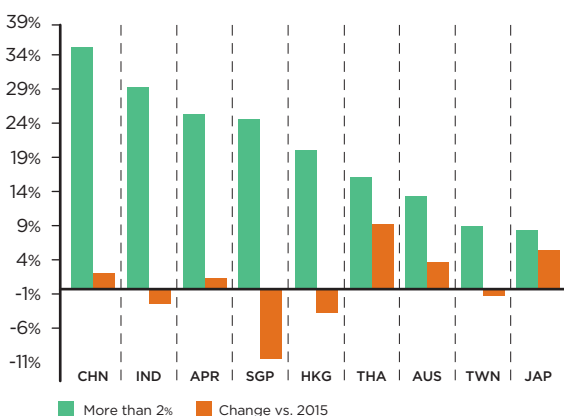
Source: Coface Survey 2016



Paradoxically, China is the country where the largest number of respondents experiencing ultra-long overdue amounts exceeding 2% of annual turnover was reported. The situation also deteriorated in Thailand, which registered the highest increase in respondents with ultra-long overdue amounts exceeding 2% of annual turnover in 2016 (graph n°6). While the proportion of respondents experiencing ultra-long overdue

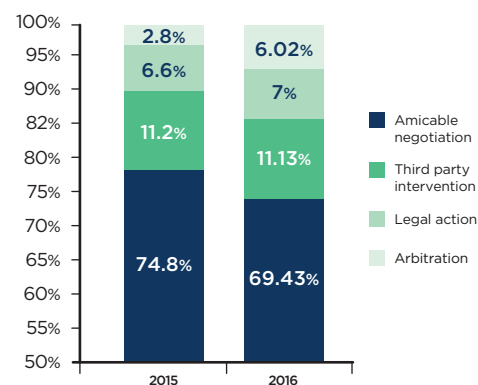
amounts exceeding 2% of annual turnover in India was very high (second only to China and above the average for APAC), our survey reflects an improvement vis-à-vis 2015. Ultra-long overdue amounts as a percentage of annual turnover deteriorated in Australia and Japan, but improved in Singapore and Hong Kong. Taiwan remained stable, although it enjoyed a moderate improvement on the ultra-long overdue front. A more comprehensive overview on a country-by-country basis can be found on Appendix I.

Graph n°6
Ultra-long overdue payments > 2% of turnover



Source: Coface Survey 2016

Graph n°7
The most effective action in case of non-payment



Source: Coface Survey 2016

- 2/1-Automotive and transportation
- 2-Chemicals
- 3-Construction
- 4-Household electronics
- 5-Industrial machinery and equipment
- 6-IT-telecom
- 7-Metals
- 8-Paper-Wood
- 9-Pharmaceuticals
- 10-Retail
- 11-Textile-Clothing

2 SECTORIAL ANALYSIS

Across sectors, offering sales on credit terms continued to be common business practice, while average credit terms increased

Our survey also analysed 11 sectors in the eight economies surveyed⁽²⁾. The chemical sector showed the highest percentage of respondents offering sales on credit (86.8%). This was closely followed by

paper-wood (86.1%) and metals (80.6%). IT-telecoms experienced the largest decline in sales on credit in 2016 vs. 2015, falling from first, to sixth position. The lowest percentage of sales on credit was reported in pharmaceuticals (71.9%), which also declined significantly compared to 2015 (Table n°1). While slightly less prevalent than last year, offering sales on credit terms remains common business practice across the various sectors in the eight APAC economies surveyed.

Table n°1
% of respondents offering sales on credit terms over the past 12 months, by sector

Rank* 2016	Rank* 2015	Sector	% of respondents	Variation**
1	2	Chemicals	86.8%	- 2.0%
2	3	Paper-wood	86.1%	- 2.6%
3	4	Metals	80.6%	- 7.1%
4	8	Household electronics	80.5%	- 2.7%
5	5	Industrial machinery & electronics	79.2%	- 8.2%
6	1	IT-telecom	77.1%	- 13.2%
7	6	Automotive and transportation	76.5%	- 10.4%
8	9	Construction	73.0%	- 9.5%
9	10	Textile-clothing	72.6%	- 5.6%
10	11	Retail	72.3%	- 3.9%
11	7	Pharmaceuticals	71.9%	- 11.5%
		Total	78.7%	-5.9%

*The higher the percentage of respondents offering sales on credit terms, the higher the ranking. **Variation refers to the difference of % of respondents offering sales on credit terms over the past 12 months between our 2016 and 2015 survey.

Source: Coface Survey 2016

Table n°2
Average credit terms (in number of days), by sector

Rank*		Sector	Average credit terms	Variation**
2016	2015			
1	1	Industrial machinery & electronics	67	4
2	7	Pharmaceuticals	64	9
3	9	Chemicals	64	10
4	3	Construction	60	1
5	7	IT-telecom	60	5
6	6	Metals	59	2
7	2	Automotive and transportation	57	- 3
8	10	Textile-clothing	55	2
9	5	Paper-wood	54	- 4
10	3	Household electronics	54	- 5
11	11	Retail	50	1
		Total	59	3

*The longer the average credit terms offered, the higher the rank.

**Variation refers to the difference of average credit terms between 2015 and 2016.

Source: Coface Survey 2016

Although the number of respondents offering sales on credit fell slightly compared to the previous year, average credit terms offered increased across the board, up from 55 days in 2015, to 59 days in 2016. This is in line with the results on a country-by country basis. Average credit terms offered did, however, vary across sectors. On the low end of the spectrum, retail offered 50 days. The industrial machinery & electronics sector topped the ranking in 2016, with 67 days. A comparison of the average credit terms offered shows that the household electronics, paper-wood and automotive sectors provided notably shorter average credit terms in 2016 than in 2015, while the chemical and pharmaceutical sector offered significantly longer ones (Table n°2). This is, in part, a reflection of the changes in credit control and liquidity conditions in 2016.

Overdue issues deteriorated in most sectors

The situation regarding overdue amounts deteriorated for most sectors in 2016 compared to 2015. Once again, this result is in line with the findings outlined in previous sections of this report. There were, however, some bright spots, as well as sectors where the situation remained broadly stable. Coface's analysis is based on four key indicators, as outlined in Table n°3.

These four factors are overdue issues in the past 12 months, the increase in overdue amounts over the last year, ultra-long overdue amounts (>180 days) exceeding 2% of annual turnover and Coface's sector barometer.

BUSINESS DEFAULT RISK

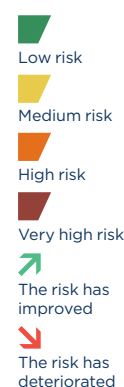


Table n°3
% of respondents offering sales on credit terms over the past 12 months, by sector

Sector	Overdue issues in 2016 vs. 2015 (% of respondents)								Coface barometer**
	Overdue issues over the past 12 months		Increase in overdue amounts over the last year		Ultra-long overdue issues*				
	2016	2015	2016	2015	2016	2015			
Automotive and transportation	64.0%	70.8%	26.8%	35.1%	28.0%	22.7%		Medium risk	
Chemicals	72.4%	75.0%	32.6%	41.0%	27.3%	19.4%		High risk	
Construction	67.0%	72.5%	32.9%	49.1%	33.3%	38.0%		Very high risk	
Household electronics***	61.9%	69.0%	27.4%	32.8%	22.0%	23.1%		High risk	
Industrial machinery & electronics***	68.0%	77.7%	38.0%	44.3%	31.5%	31.5%		High risk	
IT-telecom***	59.0%	74.3%	32.1%	29.8%	30.5%	21.4%		High risk	
Metals	63.2%	68.5%	42.9%	40.3%	22.4%	20.1%		High risk	
Paper-wood	72.2%	73.9%	35.7%	41.5%	15.1%	20.0%		Medium risk	
Pharmaceuticals	64.6%	62.5%	29.0%	23.3%	21.3%	23.3%		Low risk	
Retail	57.3%	64.3%	28.8%	28.0%	24.6%	15.3%		Medium risk	
Textile-clothing	58.6%	60.0%	26.4%	37.2%	15.4%	29.3%		High risk	
Total	63.8%	69.8%	32.1%	36.9%	25.7%	24.2%			

*The higher the percentage of respondents suffering from ultra-long overdue amounts (> 180 days) exceeding 2% of annual turnover, the more vulnerable the sector. This percentage of respondents with ultra-long overdues in 2016 was compared to 2015, to give a 3 level assessment: Deteriorated, Stabilised and Improved. ** Coface's assessments are based on the financial data published by listed companies, including: turnover, profitability, net indebtedness and cash flow; as well as our payment experience. ***For Coface barometer, these three sectors are categorised as the Information and Communication Technologies (ICT), according to Coface.

Source: Coface Survey 2015



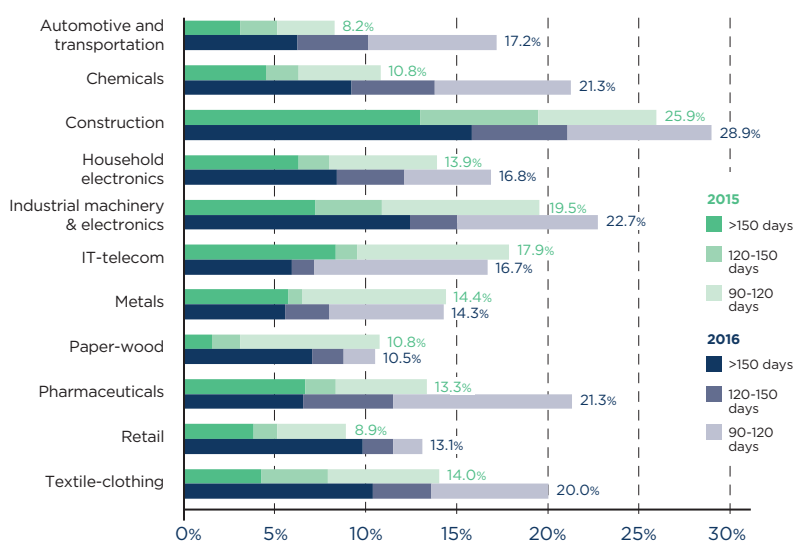
Where are risks most severe?

CONSTRUCTION

Construction remained the riskiest APAC sector in 2016. On the bright side, fewer respondents reported having overdue issues (67%, vs. 72% in 2015) and there were fewer increases in overdue amounts (27%, vs. 35% in 2015). Nevertheless, the percentage of respondents registering ultra-long overdues exceeding 2% of annual revenues, at 33%, was the highest amongst all sectors in our survey. Average overdue times over 90 days were also the highest amongst all the sectors surveyed (graph n°8).

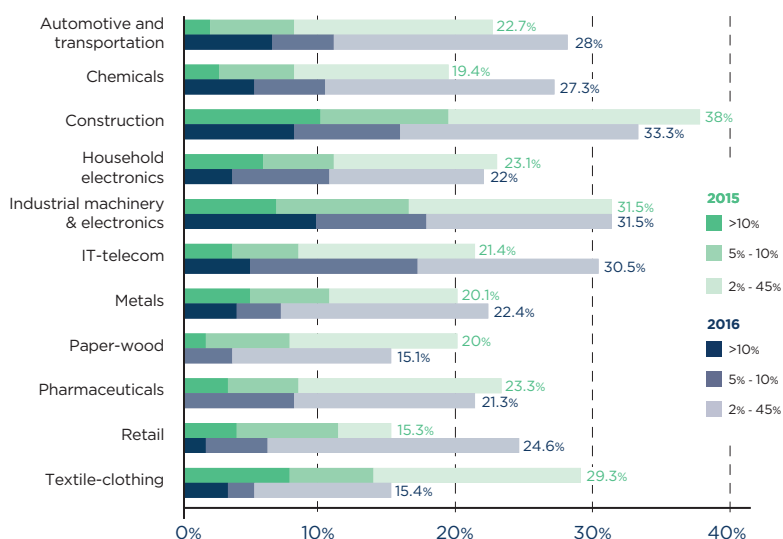
The Coface barometer reflects a delicate situation for the construction sector and the outlook is likely to remain weak in 2017. Headwinds originating from the economic slowdown in China (the region's largest economy), combined with uncertainties surrounding monetary and fiscal policies in the U.S., are likely to weigh on the region's economic outlook. This dampens sentiment both for private investment and consumer home purchases. In addition, household debt remains high in some APAC economies (such as Australia, Thailand, Singapore, Malaysia and South Korea). This could reduce the capacity for home purchases, especially if interest rates increase on par with the U.S. Fed. Public infrastructure investments in some regions will help to cushion the construction sector against a steeper decline in 2017.

Graph n°8
Average overdue times of more than 90 days (% of respondents), by sector



Source: Coface Survey 2016

Graph n°9
Ultra-long overdues as a percentage of annual turnover by sector (% of respondents)



Source: Coface Survey 2016

INDUSTRIAL MACHINERY AND ELECTRONICS

Closely following construction, industrial machinery & electronics was the next most vulnerable sector in 2016. Again, fewer respondents reported having overdue issues (68%, vs. 77% in 2015) or increases in overdue amounts (38%, vs. 44% in 2015). However, the percentage of respondents registering ultra-long overdues exceeding 2% of annual revenues remained high in 2016 (32%). More worryingly, the vast proportion of these respondents reported having ultra-long overdues exceeding 10% of their annual turnover. This points to fat tail risks for industrial machinery and electronics (graph n°9) and 2017 is likely to be another difficult year for the sector. Pro-cyclical factors point towards dormant demand for the remainder of the year, due to a deceleration of activity in China and weaker capital spending in APAC. Signs of saturation in China and significant market fragmentation will increase competition. Furthermore, the return of deflationary pressures in APAC's main markets, including China (where producer price inflation has been slowing since February), could further squeeze margins.

IT-TELECOMS

Non-payment risks appear to have deteriorated for the IT-Telecoms sector, as a higher percentage of respondents (63%, vs. 68% in 2015) experienced an increase in overdues compared to last year. This could spell trouble for the future, especially given that the number of respondents suffering from ultra-long overdues exceeding 2% of annual turnover also increased significantly (32% in 2016, vs. 29% in 2015). Public infrastructure investments in some APAC economies, as well as strategic mega-projects such as China's Belt and Road initiative, will generate additional demand in the years to come. This will provide welcome relief in particular for telecoms. Nevertheless, acute market competition in the IT sector, coupled with deteriorating liquidity conditions, will most likely foster an environment conducive to M&A activities in 2017.

Manageable risks, negative outlook

METALS

While metals remain one of the riskier sectors, its performance in 2016 was boosted by a recovery in commodity prices. It was also strengthened by buoyant activity in China's housing sector, which accounts for a sizeable proportion of global demand for metals such as iron ore and copper. This contributed towards a decline in the number of respondents experiencing overdue issues (32% in 2016, vs. 29% in 2015). Average overdue times were broadly stable, at 14% in 2015 and 2016. Despite this, non-payment risks are lurking on the horizon, as evidenced by the increase in respondents suffering from ultra-long overdues exceeding 2% of annual turnover (up from 20% in 2015, to 22% in 2016). The metals sector will probably continue to face challenges in 2017. China's economy has started to show signs of deceleration and the authorities are implementing measures to cool housing speculation and demand. This could translate into a relapse of lower metal prices, which will almost certainly impact margins. Restructuring in this sector is likely to continue, following on from the merger between Baosteel and Wuhan Iron and Steel in 2016. Closures of China's zombie enterprises in the steel sector and a rise in M&A activities are expected for 2017.

AUTOMOTIVE AND TRANSPORTATION

The automotive and transportation sector experienced a worsening of overdue issues during 2016. On the bright side, fewer participants reported having overdue issues (64%, vs. 70% in 2015) or increases in overdue amounts (27%, vs. 35% in 2015). However, the percentage of respondents registering ultra-long overdues exceeding 2% of annual revenues continued to increase (28% in 2016, vs. 23% in 2015). The majority of these respondents reported ultra-long overdues ranging from 2 to 5% of their annual turnover (as opposed to 10% or more). In the context of the automotive sector's long production cycle, an increase in ultra-long overdue amounts accounting for 2 to 5% of annual turnover appears to be less worrying. We have therefore determined non-payment risks for the automotive sector to be manageable. Having said this, the automotive sector does benefit from APAC's rapidly expanding middle class, led by China, but this tailwind will fade over time. Chinese regulators have stepped in to restrict vehicle sales in big cities, by implementing measures such as the phasing-out of subsidies and tax exemptions for new electric vehicles, or for vehicles with engines less than 1.6 litres.

CHEMICALS

Despite lower input prices (oil prices remained subdued last year), the non-payment risks for the chemical sector actually deteriorated in 2016. Respondents suffering from ultra-long overdue issues exceeding 2% of total turnover climbed markedly, up from 19% in 2015 to 27% in 2016. While the number of respondents experiencing overdue issues over the past 12 months declined (72%, vs. 75% in 2015), this figure remains the highest amongst all the sectors surveyed. Oil prices are expected to remain in the range of \$50-55 per barrel in 2017. This should, in theory, provide a buffer to the chemical sector in 2017.

Manageable risks, positive outlook

HOUSEHOLD ELECTRONICS

The Asia payment survey showed an improvement in the non-payment risks for household electronics. Fewer respondents reported having overdue issues (62% in 2016, vs. 69% in 2015), or increases in overdue amounts (27% in 2016, vs. 33% in 2015). Moreover, the percentage of respondents registering ultra-long overdues exceeding 2% of annual revenues declined to 22%, down from the already relatively low 23% reported in 2015. 2017 could prove challenging in markets such as China, where existing demand is catered for by a more than adequate supply. Nevertheless, the rapidly expanding middle class population and increasing urbanisation processes in other APAC economies should boost demand in the years to come. Some aspects of the manufacturing process are also expected to continue shifting to other countries in the region with lower labour costs (such as Cambodia, Myanmar, the Philippines and Vietnam).

RETAIL

The retail sector was the least vulnerable sector in 2015. Nevertheless the number of respondents with 2% of their total annual turnover in ultra-long overdue issues increased for the second consecutive year (up from 15% in 2015, to 25% in 2016), meaning the sector no longer holds the first spot in our ranking. Despite this increase, most of these risks were concentrated in the 2-5% range, with fewer respondents struggling with ultra-long overdues accounting for more than 10% of their total annual turnover (1.8%, vs. 3.8% in 2015). It is important to highlight that these percentages are amongst the lowest in the region and remain well below the average for all APAC sectors. For this reason, Coface is cautiously optimistic on the outlook for 2017, particularly against the backdrop of the region's burgeoning middle classes. External headwinds include high levels of household debt in some of the region's economies. This could bring additional risks in the context of higher interest rates.

TEXTILE-CLOTHING

The textile-clothing sector stabilised in 2016 and the outlook remains positive. Non-payment risks improved in 2016, on the back of a sharp decline in the respondents suffering from ultra-long overdue issues exceeding 2% of annual turnover (15%, vs. 29% in 2015). This was the lowest level recorded amongst the eight sectors surveyed. Rising wages and fast fashion could weigh on the textile-clothing sector but going forwards, this will be offset by supportive domestic consumption and robust demand in foreign markets. In Japan, the postponement of the next sales tax hike and higher wages will provide some support in 2017.





Where are the bright spots?

PHARMACEUTICALS

The pharmaceuticals sector remained a bright spot, in terms of non-payment risks in 2016. The percentage of respondents reporting overdue issues in 2016 remained broadly constant (65%, vs. 63% in 2015), but those noting an increase in overdue amounts increased (29%, vs. 23% in 2015). More importantly, there was a fall in the percentage of respondents (21%, vs. 23% in 2015) suffering from ultra-long overdue issues. Virtually no respondents reported ultra-long overdues accounting for more than 10% of their annual turnover – an improvement on the 3% reported in 2015, while slightly fewer respondents (6.6%, vs. 6.7% in 2015) suffered from average overdue times of over 150 days. Looking forwards, the pharmaceuticals sector is likely to enjoy a buoyant increase in regional demand, with the continuing expansion of the middle class and ageing populations acting as demand drivers. The Coface barometer also reflects an improving situation and a benign payment experience. Nevertheless, pharmaceuticals could potentially face intensifying price pressures, as some of the region's governments have stepped in to regulate the sector's profit margins.

PAPER-WOOD

Paper-wood was the sector where the fewest respondents experienced ultra-long overdues exceeding 2% of annual turnover (15%, vs. 20% in 2015). No respondents reported ultra-long overdues accounting for more than 10% of their annual turnover – an improvement from the 1.5% in 2015. There was a marked percentage decline in respondents (36%, vs. 42% in 2015) noting an increase in overdue amounts. Going forwards, demand for paper products such as tissues, packaging and wood should continue to grow, due to the expansion of the middle classes. This should help outweigh the adverse impacts of digitalisation on the printing and publishing segments in 2017.

How do APAC economies manage non-payments?

To mitigate the risks of non-payments, over half of the Asian companies surveyed (46.6%, vs. 65.3% in 2015) utilised credit management tools. Of these, credit agency reports (27.7%) continued to be the most popular tool, followed by trade credit insurance (21.1%), debt collection (14.3%) and factoring (12.4%). As concerns solutions for non-payments, the majority of respondent companies (69.4%, vs. 74.8% in 2015) continue to favour amicable negotiations as the most effective tool, followed by third party intervention. Legal action and arbitration increased in 2016 compared to 2015. This is an indication that companies experienced more severe cash flow problems in 2016 (graph n°7).

Looking ahead, 62.3% of respondents consider that the global economy is unlikely to pick up in 2017 (up from 56.0% in 2016). This cautious stance is likely to translate into a more prudent approach when offering sales on credit. 2017 is set to be another challenging year, riddled with increasing global uncertainties linked to China's deceleration. This will be compounded by the fiscal challenges experienced by commodity exporting countries and monetary policy tightening in the U.S. Taking all of these factors into consideration, overall company payment experience in the eight selected regional economies is likely to remain weak.



2017 is set to be another challenging year, riddled with increasing global uncertainties linked to China's deceleration. This will be compounded by the fiscal challenges experienced by commodity exporting countries and monetary policy tightening in the U.S. Taking all of these factors into consideration, overall company payment experience in the eight selected regional economies is likely to remain weak.



3 APPENDIX 1: COUNTRY FILES

AUSTRALIA Deterioration and high debt to weigh on the outlook going forward

Coface assessment

Country risk **A2** Business climate **A1**

Key corporate payment survey results	2014	2015	2016	2016 vs. 2015*	vs. APAC**
Credit sales and terms					
Sales on credit terms (% of respondents)	81.9%	89.4%	86.5%	Declined	Above
Average credit terms (days)	38	35	39	Increased	Below
Overdue issues (% of respondents)					
Overdue experience over the last 12 months	73.5%	66.8%	59.5%	Deteriorated	Better
Increase in overdue amounts over the last year	23.4%	15.2%	9.1%	Improved	Better
Average overdue times of more than 90 days	7.4%	4.8%	6.8%	Deteriorated	Better
Ultra long overdue amounts > 2% of turnover	16.6%	9.7%	13.6%	Deteriorated	Better
Overall***				Deteriorated	Better
Key economic indicators					
	2014	2015	2016	2017 (F)	2018 (F)
Real GDP growth (%)	2.6%	2.5%	2.5%	2.5%	2.8%
Inflation (% average)	2.5%	1.6%	1.3%	2.1%	2.3%

(F): forecast - *We assign a 3-level rating: Improved; Stabilised; Deteriorated. - **We assign a 3-level rating: Better, Neutral, Worse. ***Overall results are assessed based on both survey results and Coface claims experience.

CHINA Deterioration as companies struggle with cash flow in a slowing economy

Coface assessment

Country risk **B** Business climate **B**

Key corporate payment survey results	2014	2015	2016	2016 vs. 2015*	vs. APAC**
Credit sales and terms					
Sales on credit terms (% of respondents)	89.6%	89.2%	78.0%	Declined	In line
Average credit terms (days)	63	66	66	Stable	Higher
Overdue issues (% of respondents)					
Overdue experience over the last 12 months	79.8%	80.6%	67.9%	Improved	Worse
Increase in overdue amounts over the last year	56.4%	58.1%	45.6%	Improved	Worse
Average overdue times of more than 90 days	19.7%	21.0%	26.3%	Deteriorated	Worse
Ultra long overdue amounts > 2% of turnover	29.8%	33.4%	35.7%	Deteriorated	Worse
Overall***				Deteriorated	Worse
Key economic indicators					
	2014	2015	2016	2017 (F)	2018 (F)
Real GDP growth (%)	7.3%	6.9%	6.7%	6.5%	6.2%
Inflation (% average)	2.0%	1.5%	2.0%	1.8%	2.2%

(F): forecast - *We assign a 3-level rating: Improved; Stabilised; Deteriorated. - **We assign a 3-level rating: Better, Neutral, Worse. ***Overall results are assessed based on both survey results and Coface claims experience.

BUSINESS
DEFAULT
RISK

A1
Very low

A2
Low

A3
Satisfactory

A4
Reasonable

B
Fairly high

C
High

D
Very high

E
Extreme

APPENDIX 1: COUNTRY FILES



HONG KONG

Improved as economy proves resilient to China's risks

Coface assessment

Country risk **A3** Business climate **A2**

Key corporate payment survey results	2014	2015	2016	2016 vs. 2015*	vs. APAC**
Credit sales and terms					
Sales on credit terms (% of respondents)	94.0%	91.2%	93.7%	Increased	Above
Average credit terms (days)	49	43	53	Increased	Below
Overdue issues (% of respondents)					
Overdue experience over the last 12 months	55.4%	53.6%	54.9%	Deteriorated	Better
Increase in overdue amounts over the last year	18.4%	20.6%	17.2%	Improved	Better
Average overdue times of more than 90 days	17.7%	15.8%	16.2%	Deteriorated	Better
Ultra long overdue amounts > 2% of turnover	32.9%	23.9%	20.4%	Improved	Better
Overall***				Improved	Better
Key economic indicators	2014	2015	2016	2017 (F)	2018 (F)
Real GDP growth (%)	2.5%	2.4%	2.0%	2.5%	2.4%
Inflation (% average)	4.4%	3.0%	2.4%	1.9%	2.5%

(F): forecast - *We assign a 3-level rating: Improved; Stabilised; Deteriorated. - **We assign a 3-level rating: Better, Neutral, Worse. ***Overall results are assessed based on both survey results and Coface claims experience.



INDIA

Stabilising, but tail risks masked by strong growth prospects

Coface assessment

Country risk **A4** Business climate **B**

Key corporate payment survey results	2014	2015	2016	2016 vs. 2015*	vs. APAC**
Credit sales and terms					
Sales on credit terms (% of respondents)	94.0%	91.2%	93.7%	Increased	Above
Average credit terms (days)	49	43	53	Increased	Below
Overdue issues (% of respondents)					
Overdue experience over the last 12 months	85.7%	84.0%	84.8%	Stable	Worse
Increase in overdue amounts over the last year	24.6%	10.0%	29.2%	Deteriorated	Better
Average overdue times of more than 90 days	9.6%	8.0%	22.1%	Deteriorated	Worse
Ultra long overdue amounts > 2% of turnover	24.1%	32.0%	29.8%	Improved	In line
Overall***				Stabilised	Neutral
Key economic indicators	2014	2015	2016	2017 (F)	2018 (F)
Real GDP growth (%)	7.3%	7.2%	8.0%	7.7%	7.7%
Inflation (% average)	5.9%	5.4%	5.0%	5.0%	5.0%

(F): forecast - *We assign a 3-level rating: Improved; Stabilised; Deteriorated. - **We assign a 3-level rating: Better, Neutral, Worse. ***Overall results are assessed based on both survey results and Coface claims experience.

BUSINESS
DEFAULT
RISK**A1**

Very low

A2

Low

A3

Satisfactory

A4

Reasonable

B

Fairly high

C

High

D

Very high

E

Extreme

APPENDIX 1: COUNTRY FILES

 **JAPAN**

Stabilisation and better outlook

Coface assessment

Country risk **A2** Business climate **A1**

Key corporate payment survey results	2014	2015	2016	2016 vs. 2015*	vs. APAC**
Credit sales and terms					
Sales on credit terms (% of respondents)	87.9%	87.5%	90.1%	Increased	Above
Average credit terms (days)	68	76	75	Stable	Above
Overdue issues (% of respondents)					
Overdue experience over the last 12 months	43.4%	45.4%	46.4%	Deteriorated	Better
Increase in overdue amounts over the last year	17.4%	21.7%	17.1%	Improved	Better
Average overdue times of more than 90 days	10.5%	10.1%	8.6%	Improved	Better
Ultra long overdue amounts > 2% of turnover	7.0%	2.9%	8.7%	Deteriorated	Better
Overall***				Stabilized	Better
Key economic indicators					
	2014	2015	2016	2017 (F)	2018 (F)
Real GDP growth (%)	0.3%	1.1%	1.0%	1.2%	1.0%
Inflation (% average)	2.7%	0.8%	-0.1%	0.6%	0.8%

(F): forecast - *We assign a 3-level rating: Improved; Stabilised; Deteriorated. - **We assign a 3-level rating: Better, Neutral, Worse. ***Overall results are assessed based on both survey results and Coface claims experience.

BUSINESS
DEFAULT
RISK

- A1**
Very low
- A2**
Low
- A3**
Satisfactory
- A4**
Reasonable
- B**
Fairly high
- C**
High
- D**
Very high
- E**
Extreme

 **SINGAPORE**

Improvements, but challenged by headwinds

Coface assessment

Country risk **A3** Business climate **A2**

Key corporate payment survey results	2014	2015	2016	2016 vs. 2015*	vs. APAC**
Credit sales and terms					
Sales on credit terms (% of respondents)	89.1%	94.3%	89.6%	Decreased	Above
Average credit terms (days)	54	55	51	Decreased	Below
Overdue issues (% of respondents)					
Overdue experience over the last 12 months	85.1%	80.7%	79.2%	Improved	Better
Increase in overdue amounts over the last year	34.9%	49.3%	42.6%	Improved	Worse
Average overdue times of more than 90 days	10.5%	14.1%	3.3%	Improved	Better
Ultra long overdue amounts > 2% of turnover	23.3%	35.2%	25.0%	Improved	Neutral
Overall***				Improved	Neutral
Key economic indicators					
	2014	2015	2016	2017 (F)	2018 (F)
Real GDP growth (%)	2.9%	2.0%	2.0%	2.3%	2.3%
Inflation (% average)	1.0%	-0.5%	-0.5%	1.0%	1.5%

(F): forecast - *We assign a 3-level rating: Improved; Stabilised; Deteriorated. - **We assign a 3-level rating: Better, Neutral, Worse. ***Overall results are assessed based on both survey results and Coface claims experience.



APPENDIX 1: COUNTRY FILES



TAIWAN

Rebound on solid fundamentals and better growth prospects

Coface assessment

Country risk **A3** Business climate **A2**

Key corporate payment survey results	2014	2015	2016	2016 vs. 2015*	vs. APAC**
Credit sales and terms					
Sales on credit terms (% of respondents)	94.0%	91.2%	93.7%	Increased	Above
Average credit terms (days)	49	43	53	Increased	Below
Overdue issues (% of respondents)					
Overdue experience over the last 12 months	47.9%	48.6%	51.6%	Deteriorated	Better
Increase in overdue amounts over the last year	18.5%	18.3%	17.6%	Improved	Better
Average overdue times of more than 90 days	21.2%	11.8%	8.8%	Improved	Better
Ultra long overdue amounts > 2% of turnover	15.1%	10.2%	9.3%	Improved	Better
Overall***				Improved	Better
Key economic indicators	2014	2015	2016	2017 (F)	2018 (F)
Real GDP growth (%)	4.0%	0.7%	1.5%	2.2%	2.2%
Inflation (% average)	1.2%	-0.3%	1.4%	1.4%	1.5%

(F): forecast - *We assign a 3-level rating: Improved; Stabilised; Deteriorated. - **We assign a 3-level rating: Better, Neutral, Worse. ***Overall results are assessed based on both survey results and Coface claims experience.



THAILAND

Still facing headwinds

Coface assessment

Country risk **A4** Business climate **A4**

Key corporate payment survey results	2014	2015	2016	2016 vs. 2015*	vs. APAC**
Credit sales and terms					
Sales on credit terms (% of respondents)	88.8%	97.6%	75.1%	Declined	In line
Average credit terms (days)	46	35	44	Increased	Below
Overdue issues (% of respondents)					
Overdue experience over the last 12 months	88.8%	96.6%	66.7%	Improved	Neutral
Increase in overdue amounts over the last year	41.8%	34.3%	31.6%	Improved	Neutral
Average overdue times of more than 90 days	3.8%	2.0%	14.5%	Deteriorated	Better
Ultra long overdue amounts > 2% of turnover	19.2%	7.0%	16.6%	Deteriorated	Better
Overall***				Deteriorated	Better
Key economic indicators	2014	2015	2016	2017 (F)	2018 (F)
Real GDP growth (%)	0.9%	2.9%	3.2%	3.4%	3.5%
Inflation (% average)	1.9%	-0.9%	0.2%	1.4%	1.8%

(F): forecast - *We assign a 3-level rating: Improved; Stabilised; Deteriorated. - **We assign a 3-level rating: Better, Neutral, Worse. ***Overall results are assessed based on both survey results and Coface claims experience.

BUSINESS
DEFAULT
RISK**A1**

Very low

A2

Low

A3

Satisfactory

A4

Reasonable

B

Fairly high

C

High

D

Very high

E

Extreme

APPENDIX 2: PAYMENT SURVEY BACKGROUND

Coface began conducting annual surveys on business payment experience in China in 2003. In 2011, the survey was expanded to include selected economies in the Asia Pacific region (APAC).

In 2016, the survey covered eight APAC economies, namely: Australia, China, Hong Kong, India, Japan, Singapore, Taiwan and Thailand. The aim of this report is to better understand the region's corporate credit management practices and payment experiences. Data collection was conducted during the fourth quarter of 2016 and valid responses were received from 2,795 companies.

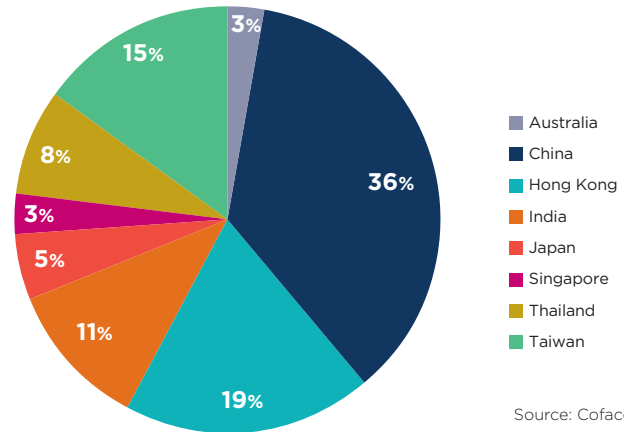
Two-thirds of respondent companies were located in the Greater China region, with China accounting for the largest share (36%), followed by Hong Kong (19%) and Taiwan (8%). The remaining respondent companies were located in Australia, India, Japan, Singapore and Thailand (graph n°10).

The respondent companies are from a variety of industries (graph n°11), with the five most represented sectors being industrial machinery and electronics (20%), household electronics (11%), chemicals (9%), textile clothing (8%) and retail (8%).

The majority of the respondent companies are engaged in manufacturing activities (60%), while those engaged in trading activities account for 32% and other business activities, 7%. 60% of companies focus on their domestic markets, while the remaining 40% target foreign markets.

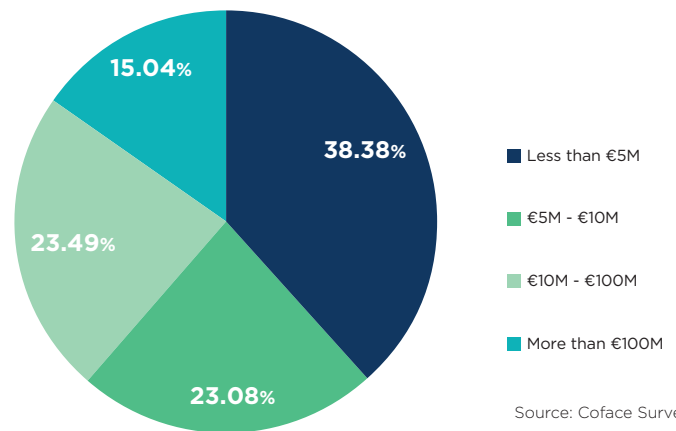
The companies surveyed cover a wide range of business sizes (graph n°12), with 38% having estimated sales revenues of less than €5 million and 15% with revenues of over €100 million.

Graph n°10:
Respondents by country



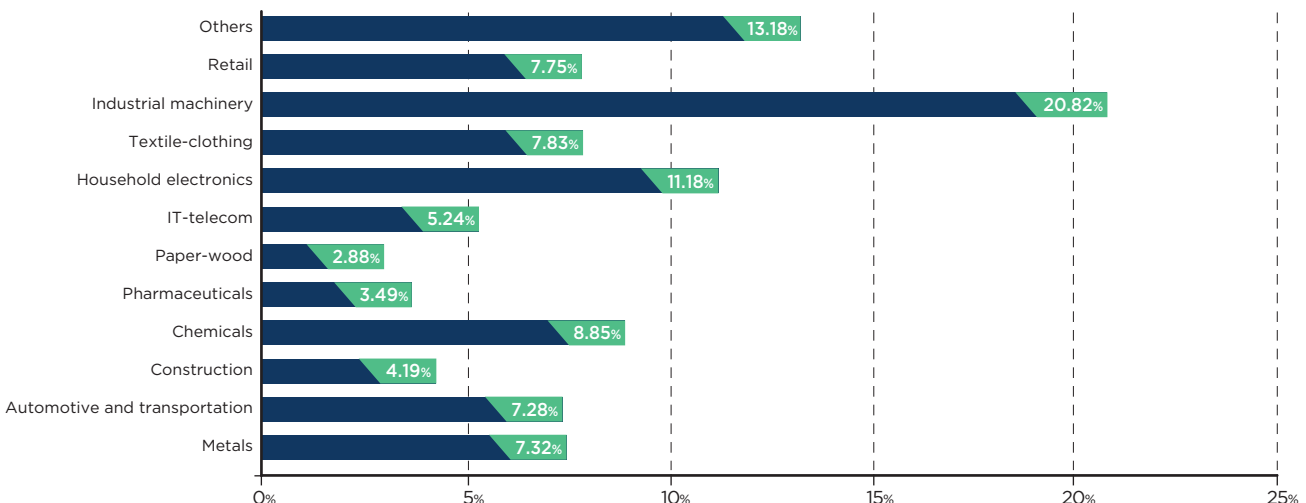
Source: Coface Survey 2016

Graph n°12:
Respondents by estimated sales revenues in 2015



Source: Coface Survey 2015

Graph n°11:
Respondents by sector



Source: Coface Survey 2016

RESERVATION

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