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Central Balance Sheet Study | 24 – Analysis of enterprises in the wood, cork and paper sectors

25th January 2016

Banco de Portugal published today Central Balance Sheet Study | 24, which analyses the economic and financial situation of enterprises in the wood, cork and paper sectors.

The study focuses mainly on the 2010-14 period and is based on data from Banco de Portugal's Central Balance Sheet Database, supplemented by details on bank loans obtained by these enterprises from the Portuguese financial system.

The results are broken down by size class (microenterprises, small and medium-sized enterprises (SMEs) and large enterprises) and economic activity segments ('forestry', 'wood and furniture', 'cork' and 'paper'). It also includes a comparative analysis with the non-financial corporations (NFC) aggregate.

Structure and dynamics

7,000 enterprises, mostly microenterprises. 12 per cent were exporting enterprises.

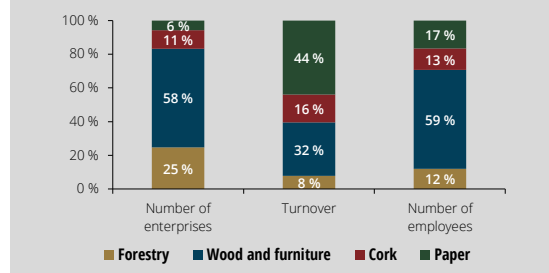
In 2014 the wood, cork and paper sectors comprised around 7,000 enterprises, accounting for 2 per cent of the total number of enterprises in Portugal, as well as 3 per cent of turnover and number of employees. By economic activity segment, 'wood and furniture' had the largest share of enterprises and employment (58 and 59 per cent respectively). 'Paper', on the other hand, concentrated the largest share of turnover (44 per cent) (Chart 1). By size class, more than 80 per cent of enterprises were microenterprises. However, large enterprises were responsible for the largest share of turnover (50 per cent).

In 2014 turnover in the wood, cork and paper sectors was, on average, 1.5 times higher than total NFC's, while the average number of employees was 1.4 times higher.

Turnover growth in these sectors was positive between 2006 and 2014. However, the number of enterprises and the number of employees

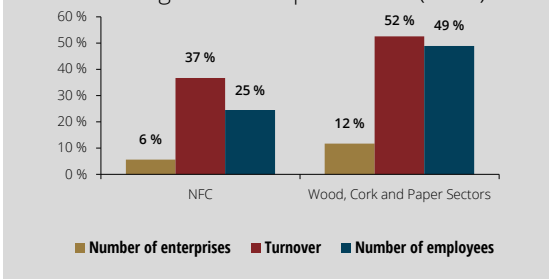
declined. Nonetheless, in 2014 the number of enterprises increased more substantially (3 per cent) than in total NFC (2 per cent).

Chart 1 • Structure | By economic activity segments (2014)



The export sector comprised 12 per cent of the number of enterprises, 49 per cent of the number of employees and 52 per cent of turnover of enterprises in the sectors under review, figures which were higher than in total NFC (6, 25 and 37 per cent respectively) (Chart 2).

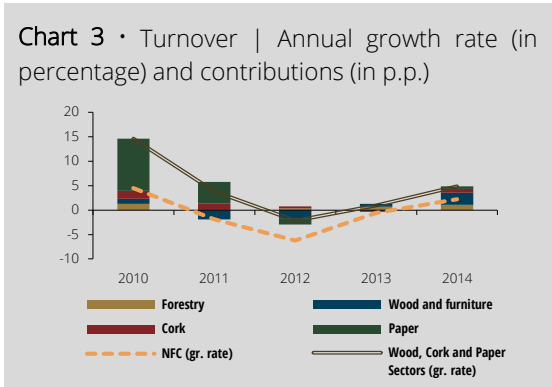
Chart 2 • Weight of the export sector (2014)



Activity and profitability

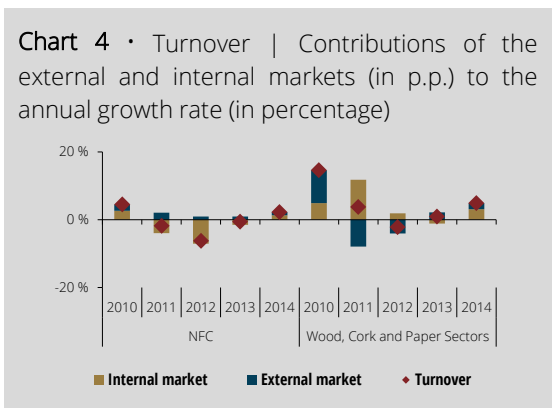
Turnover increased by 5 per cent in 2014. Growth was boosted by all economic activity segments, particularly 'wood and furniture'.

In 2014, turnover in the wood, cork and paper sectors increased by 5 per cent from the previous year, 3 percentage points (p.p.) above that seen for total NFC (Chart 3).



SMEs contributed the most to turnover growth in the sectors under review (2.5 p.p., associated to a 7 per cent growth). All economic activity segments contributed to an increase in turnover, particularly ‘wood and furniture’ (8 per cent growth and 2.5 p.p. contribution to turnover growth in these sectors).

The 5 per cent growth in turnover was largely due to the performance of the domestic market (3 p.p. contribution). However, the external market also made a positive contribution, similarly to what was observed in total NFC (Chart 4).



Operating expenses followed turnover’s growth, increasing by 6 per cent in 2014. The contribution of Cost of Goods Sold and Materials Consumed (4 p.p.) was particularly relevant to these developments.

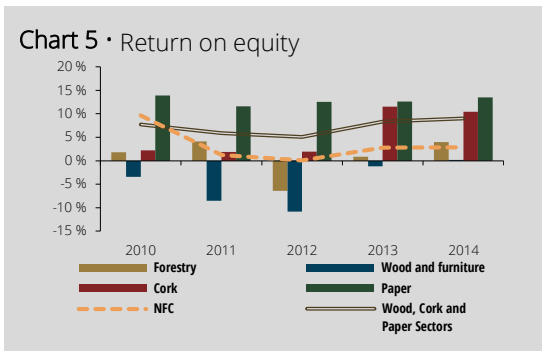
The increase in EBITDA was similar to that in turnover (5 per cent) and more favourable than in total enterprises. The share of enterprises with negative EBITDA was 30 per cent, 5 p.p. below that of total enterprises (Table 1).

The EBITDA margin amounted to 12 per cent and the net margin stood at 5 per cent, compared with 8 and 1 per cent respectively in total enterprises. Return on equity was 9 per cent in 2014, with the performance of ‘paper’ standing out (14 per cent), contrasting with the ‘wood and furniture’ segment (0.2 per cent).

Table 1 • EBITDA | Share of enterprises with EBITDA growth and with negative EBITDA

| | | Enterprises with EBITDA growth | | Enterprises with negative EBITDA | |
|-------------------------------|--------------------|--------------------------------|--------|----------------------------------|--------|
| | | 2013 | 2014 | 2013 | 2014 |
| NFC | | 53,6 % | 53,9 % | 36,2 % | 35,3 % |
| Wood, Cork and Paper Sectors | | 56,6 % | 53,7 % | 30,4 % | 29,6 % |
| By size classes | Microent. | 56,8 % | 54,2 % | 33,6 % | 32,6 % |
| | SMEs | 56,1 % | 52,1 % | 16,9 % | 17,6 % |
| | Large ent. | 52,0 % | 63,0 % | 0,0 % | 0,0 % |
| By economic activity segments | Forestry | 62,5 % | 55,4 % | 23,3 % | 24,1 % |
| | Wood and furniture | 55,4 % | 53,2 % | 35,2 % | 33,3 % |
| | Cork | 52,5 % | 51,3 % | 23,6 % | 25,7 % |
| | Paper | 57,2 % | 57,3 % | 20,6 % | 23,5 % |

Over the entire 2010-14 period, only in 2010 did the profitability stand below the average corporate performance in Portugal (Chart 5).

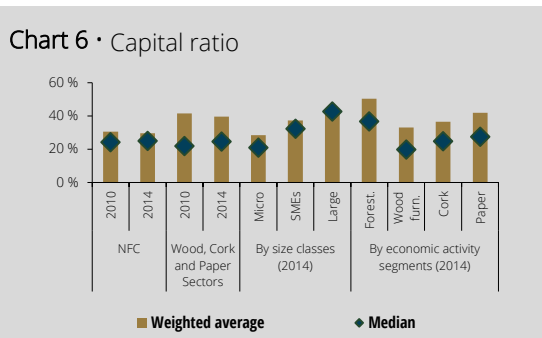


Financial structure

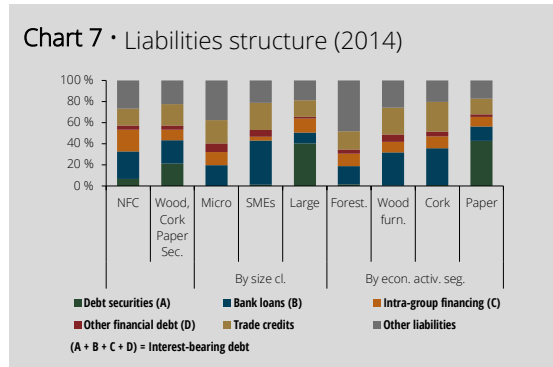
25% of enterprises posted negative equity. Bank loans and debt securities accounted for the largest share of interest-bearing debt.

In 2014 the wood, cork and paper sectors had a capital ratio of 40 per cent. While not representative of the situation in most enterprises (half of them stood below 25 per cent), this average value was higher than that posted by total NFC in Portugal (30 per cent) (Chart 6).

In that year, approximately 25 per cent of enterprises in the sectors under review were critically leveraged, posting negative equity. However, since 2010 this share has been below the average for total NFC (30 per cent).

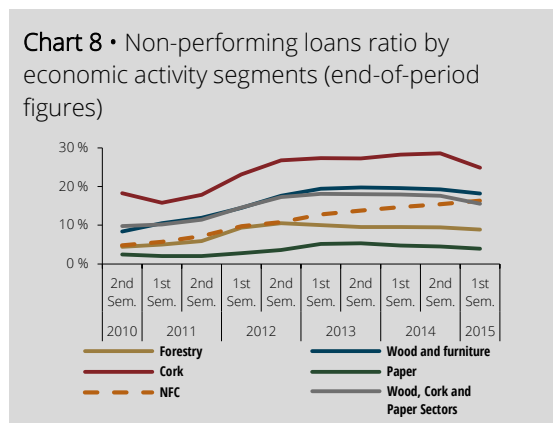


Interest-bearing debt accounted for around 57 per cent of liabilities in these sectors (Chart 7). Bank loans were the most relevant component of this item (22 per cent of liabilities), together with debt securities (21 per cent).



Bank loans were particularly important for SMEs (accounting for 42 per cent of liabilities). In the 'cork', 'wood and furniture' and 'forestry' segments, bank loans corresponded to 35, 31 and 17 per cent of liabilities respectively. In 'paper', the main source of interest-bearing debt was the issuance of debt securities, which accounted for 43 per cent of liabilities in 2014. In fact, among large enterprises, debt securities accounted for the largest share of liabilities (40 per cent).

Data available for the first half of 2015 compiled by Banco de Portugal's Central Credit Register shows that credit granted to the wood, cork and paper sectors by the resident financial system grew by 7 per cent from the same period in 2014, despite declining by 14 per cent overall from 2010. The non-performing loans ratio stood at 15.6 per cent, slightly below that for NFC (16.3 per cent) (Chart 8).



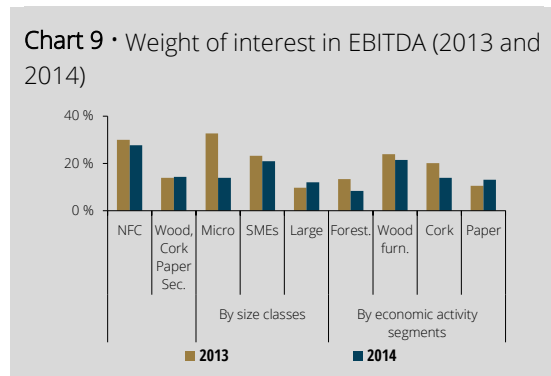
Financial costs and solvency

Financial pressure increased for large enterprises and the 'paper' segment.

In 2014, the average annual growth rate in interest expenses in the wood, cork and paper sectors was 8 per cent, comparing with a 7 per cent decline for

total NFC. However, the median value of the annual growth rate in interest for the sectors under review stood at -13 per cent, which suggests that the increase, on average, was not representative of most enterprises in these sectors.

The financial pressure ratio, i.e., the weight of interest expenses on EBITDA, generated by enterprises in these sectors, increased marginally in 2014 (0.4 p.p., standing at 14 per cent), while for the NFC aggregate it decreased by 2 p.p. (Chart 9). The increase in the financial pressure ratio was only due to large enterprises (2 p.p. rise, to 12 per cent), given that this indicator declined among the remaining size classes. By economic activity segment, financial pressure rose only in the 'paper' segment (2 p.p., to 13 per cent). There was a widespread decrease in financial pressure across the remaining activity segments, with 'cork' standing out with a 6 p.p. decrease (to 14 per cent).



In approximately 66 per cent of enterprises in the wood, cork and paper sectors, interest expenses consumed less than half of EBITDA, compared with 61 per cent for the NFC aggregate. In turn, for 28 per cent of enterprises in the sectors under review, financial pressure was higher than 1, a share below the one for total NFC (34 per cent).

Trade credit financing

Sectors did not obtain net funds through trade credit financing.

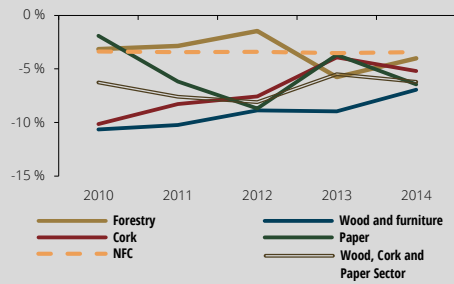
In 2014, trade credit financing accounted for 20 per cent of liabilities in the wood, cork and paper sectors (16 per cent of liabilities in the NFC aggregate).

On average, enterprises took five days longer to receive payments from their customers than to pay their debt to suppliers. Among NFC the situation was more favourable, given that average days sales outstanding were lower than days payable outstanding.

The net indicator of trade credit financing, as a percentage of turnover, stood at -6 per cent in

2014, which indicates that these sectors did not obtain net funding through this means, similarly to what was observed in most NFC (with a negative balance equivalent to 3 per cent of turnover) (Chart 10).

Chart 10 • Net trade credit financing | In percentage of turnover, by economic activity segments



Note: Net trade credit financing was calculated as the difference between accounts payable (net of advances) and accounts receivable (net of advances and adjustments).