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First results for non-financial corporations in the Central Balance-Sheet Database for 2013

Banco de Portugal's Statistical Bulletin of April 2014 discloses the first annual results for non-financial corporations in the Central Balance-Sheet Database for 2013. These results aim to anticipate the final results, which will be available when Simplified Corporate Information (IES) is incorporated into the database, scheduled for October. This information is presented in a set of ratios that show the economic and financial behaviour of Portuguese non-financial corporations, including funding, profitability, days accounts payable and days accounts receivable.

This statistical press release summarises the first results for the non-financial corporations in 2013, focusing on a year-on-year analysis.

The Central Balance-Sheet Database statistics use an underlying compilation methodology that aims to reflect the results for all the non-financial corporations in Portugal, based on a sample. Thus the annual data include an assumption for those not responding to IES and the quarterly data comprise an extrapolated component, based on the annual data and the answers obtained through the Quarterly Survey of Non-Financial Corporations (ITENF).[1]

Funding structure

The main sources of funding for non-financial corporations in Portugal have been *equity* and paid-for funding (termed *obtained funding*). In 2013, these two components represented around 75% of *total assets* (Chart 1).

Equity of “Public corporations”[2] accounted for less than 10% of *total assets* in 2013,[3] while equity of “Private corporations” accounted for almost 40%.

The analysis of “Private corporations” by economic activity shows that “Non-financial holdings” had the highest capital ratio, remaining over 50%. In contrast, the “Construction” and “Transportation and storage” economic activities had the lowest capital ratio (around 20%). By size class, the structure is not very different between the “Small and medium-sized corporations” and the “Large corporations” classes.

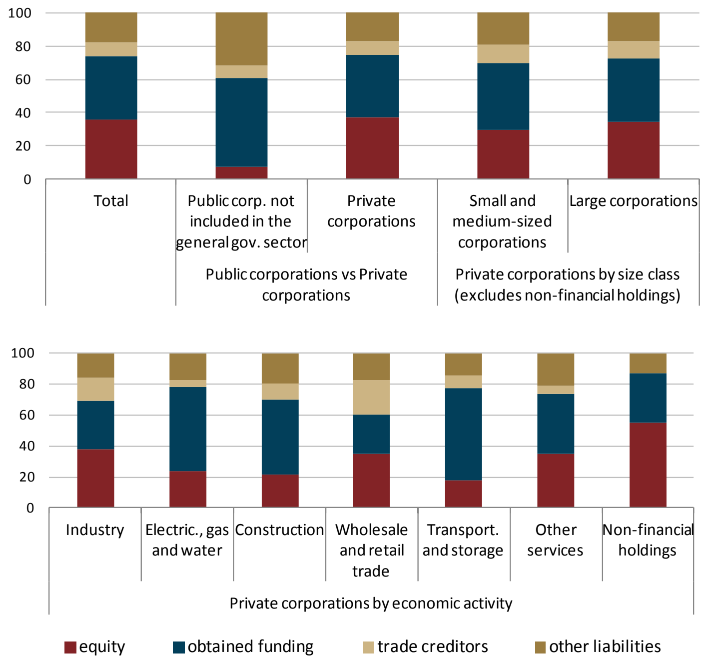
[1] For further information on the compilation methodology used for this information, see Supplement 2/2013 of the Statistical Bulletin of October 2013, available at
http://www.bportugal.pt/pt-PT/Estatisticas/PublicacoesEstatisticas/Biblioteca%20de%20Tumbnails/Suplemento-2-2013.pdf

[2] For the purposes of these statistics, only non-financial Public Corporations not included in the general government sector were analysed.

[3] *Equity*' share of *total assets* is commonly known as the capital ratio.

Chart 1

Funding structure (as a percentage of *total assets*) in 2013



Gross return on investment

Gross return on investment, defined as the ratio of *EBITDA*[4] over *capital invested*,[5] gauges non-financial corporations' performance.

In 2013, gross return on investment improved year-on-year, moving from 5.4% to 6.7% (Chart 2).

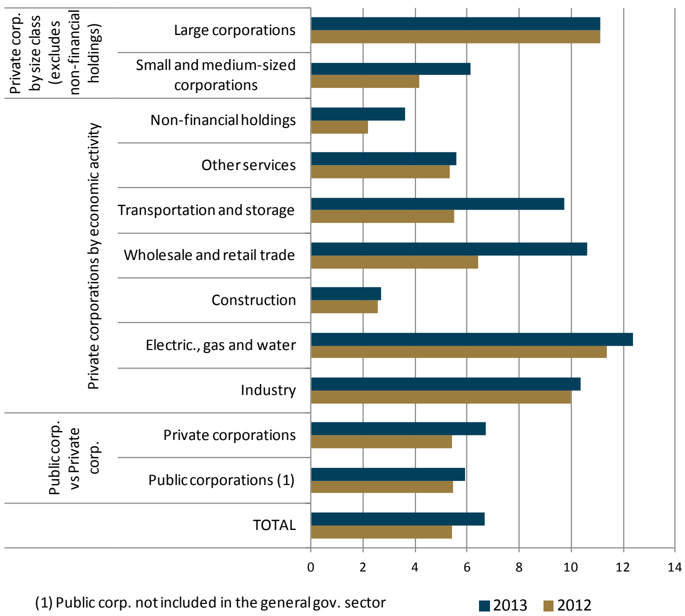
The classification by equity holder shows that "Private corporations" were more profitable than "Public corporations". The highest year-on-year profitability growth was among "Private corporations".

The breakdown of "Private corporations" by economic activity shows that profitability in the "Industry" and "Electricity, gas and water" economic activities improved year-on-year. These economic activities continued to generate profits above those of the "Private corporations" and "Total corporations". There was also notable growth in the "Wholesale and retail trade" and "Transportation and storage" economic activities, due to corporations' increased efficiency, which sharply reduced *costs* (in particular *costs of goods sold and material consumed*, *supplies and external services*, *staff costs* and *other expenses*). The "Construction" sector continues to show lower profitability than the others.

By size class, "Large corporations" continue to have profitability of around 11%. The profitability of "Small and medium-sized corporations" improved in comparison to 2012 (4%). As "Large corporations" had a profitability similar to the year before, 2013 saw a narrowing of the differential between the two classes.

Chart 2

EBITDA / (Equity + Obtained Funding) - as a percentage



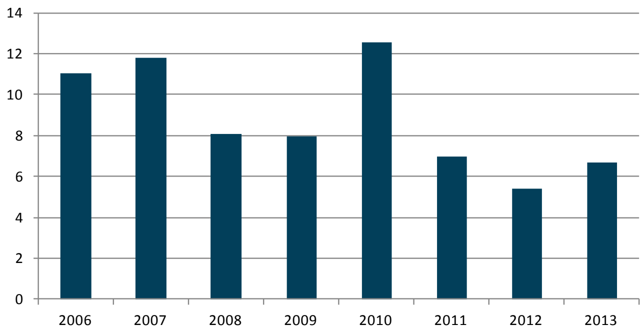
Despite recent positive trends, profitability among "Total corporations" in 2013 was still slightly below that of 2011 (7%) and was much lower than results for previous years in the 2006-2013 series (Chart 3).

[4] *EBITDA* stands for *earnings before interest, tax, depreciation and amortisation*.

[5] *Capital Invested* is the sum of *Equity* and *Obtained Funding*.

Chart 3

EBITDA / (equity + obtained funding) between 2006 and 2013 for Total corporations - as a percentage



Cost of obtained funding and financial pressure

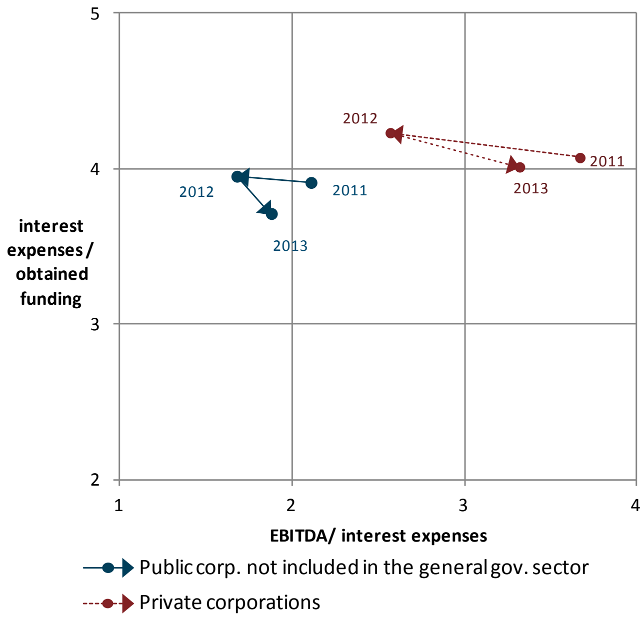
In 2013, the *cost of obtained funding* (*interest expenses / obtained funding*) for "Total corporations" fell in relation to 2012 (4.0% versus 4.2% in 2012). This fall affected both "Public corporations" and "Private corporations". By size class, the *cost of obtained funding* fell only in the case of "Small and medium-sized corporations". "Large corporations" had a similar *cost of obtained funding* to the year before. In 2012, this indicator increased, both in terms of size class and equity holder sector.

In 2012, financial pressure[6] increased. *EBITDA* moved from 3.6 times *interest expenses* in 2011 to 2.5 times *interest expenses* in 2012. This increase in financial pressure was essentially due to the reduction in *EBITDA* caused by corporations' activity, but also due to the increase in *interest expenses*.

In 2013, financial pressure fell (increase in the ratio *EBITDA / interest expenses*), meaning that *interest expenses* applied lower financial pressure on *EBITDA* generated (Chart 4). A key factor behind the relieving of financial pressure was increasing *EBITDA*, essentially achieved by containing *costs* (in particular in the items *costs of goods sold and material consumed*, *supplies and external services*, *staff costs* and *other expenses*, focusing on the economic activities "Wholesale and retail trade", "Transportation and storage" and "Non-financial holdings"), complemented by the reduction in the *cost of obtained funding*.

Chart 4

Interest expenses / obtained funding (as a percentage) and EBITDA / interest expenses ratio



In 2013, despite continuing to have a lower *cost of obtained funding* than "Private corporations", "Public corporations" were subject to greater financial pressure, as in previous years. "Small and medium-sized corporations" also continued to show higher financial pressure than "Large corporations", though with a smaller differential in 2013.

Days accounts receivable and *days accounts payable*

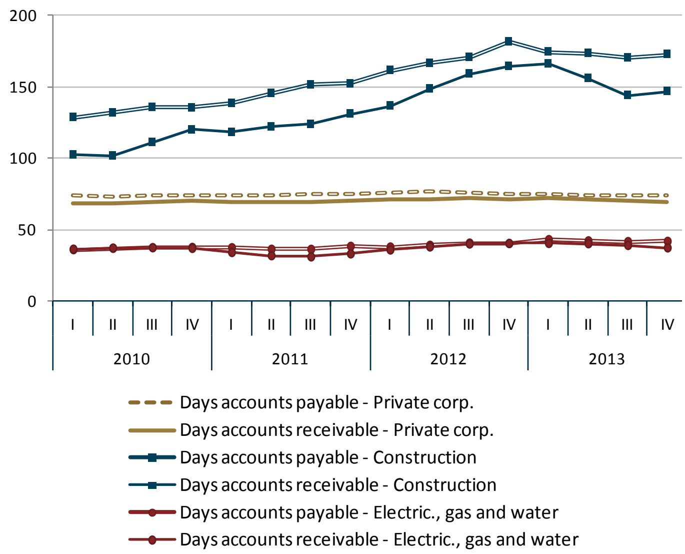
Days accounts receivable and *days accounts payable* for all "Private corporations" had a low, stable differential.

[6] Percentage of *EBITDA* absorbed by *Interest Expenses*, the reverse of the *EBITDA / Interest Expenses* ratio.

For "Electricity, gas and water", *days accounts receivable* and *days accounts payable* were the lowest in the context of "Private corporations". In this economic activity, the differential between the two was low. In contrast, the "Construction" sector showed the highest *days accounts receivable* and *days accounts payable*, recording in the most recent quarters an increase in the differential between the two, driven in part by the increase in net financing by trade creditors.[7]

Chart 5

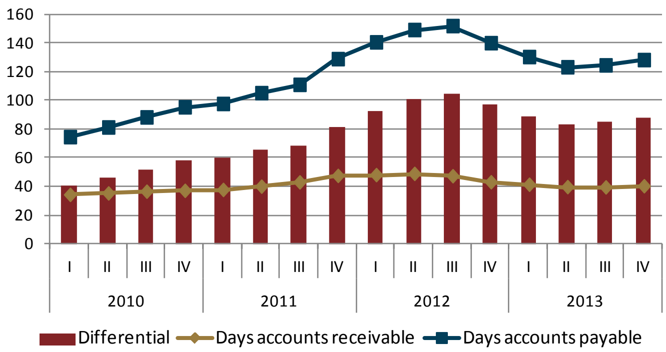
Days accounts payable and *days accounts receivable* for "Private corporations" (number of days)



In "Public corporations", *days accounts payable* was considerably higher than *days accounts receivable*. In 2010, the differential was less than 60 days, growing progressively until 2012, when it reached 97 days. At the end of 2013, the information available suggested a year-on-year reduction in the differential between the two.

Chart 6

Days accounts payable and *days accounts receivable* for "Public corporations" not included in the general government sector (days)



[7] This corresponds to the differential between the *Trade Creditors* balance and the *Trade Debtors* balance.