



Analysis of the construction sector 2011-16

5 December 2016

Banco de Portugal updates today the [Central Balance Sheet Study | 15 – Analysis of the construction sector](#), with information on the economic and financial situation of enterprises in the construction sector¹ between 2011 and 2016.

This study was first published in 2014, with information for the 2008-13 period.

Results are broken down by size class – microenterprises, small and medium-sized enterprises (SMEs) and large enterprises – and economic activity segment ('construction of buildings', 'civil engineering' and 'specialised activities') and compared with results for total enterprises.

Structure and dynamics

Number of enterprises continued to decline in 2015. SMEs posted the highest turnover and number of employees

In 2015 the construction sector accounted for 11 per cent of enterprises in Portugal (44,000 enterprises), representing 9 per cent of the number of employees and 6 per cent of turnover. Compared with 2011, the importance of the construction sector in total enterprises decreased, as a result of consecutive declines in the number of enterprises in the sector. The weight of the sector decreased by 1.9 percentage points (p.p.) in terms of the number of enterprises, 3.2 p.p. in turnover and 2.9 p.p. in the number of employees.

Compared with 2014, the number of active enterprises in the construction sector declined by 1.9 per cent, which contrasts with a 1.2 per cent increase in total enterprises (Chart 1). For each enterprise in the sector ceasing activity, 0.8 enterprises were created, i.e. 0.4 p.p. below the birth/death ratio of total enterprises.

'Construction of buildings' was the largest segment in the sector, accounting for 59 per cent of enterprises, 44 per cent of employees and 42 per cent of turnover in the sector. The distribution of the number of employees and turnover by economic activity segments was more homogeneous. Nevertheless, 'civil engineering' stood out: 31 per cent of turnover and 23 per cent of the sector's number of employees, although accounting for only 6 per cent of enterprises (Chart 2).

The breakdown by size class was similar to that of total enterprises: 88 per cent of enterprises were microenterprises, 12 per cent were SMEs and only 0.1 per cent were large enterprises. SMEs, however, accounted for 51 per cent of turnover and 50 per cent of the number of employees in the sector (43 and 45 per cent, respectively, in total enterprises). Large enterprises were less relevant in the construction sector than in total enterprises (Chart 3).

The Lisbon and Porto districts concentrated 32 per cent and 22 per cent of the sector's turnover, respectively.

Chart 1 • Demographic indicators

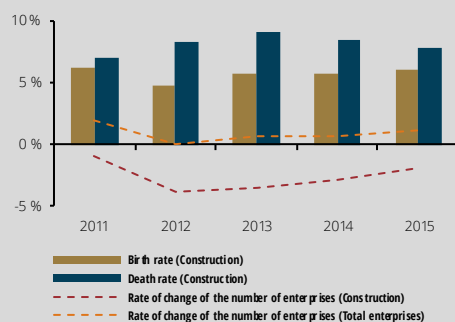
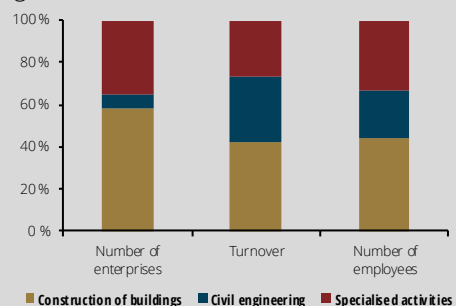


Chart 2 • Structure | By economic activity segment (2015)



Activity and profitability

Turnover decreased, although less than in previous years

Turnover in the construction sector declined by 0.4 per cent in 2015, due to the negative contribution of ‘civil engineering’ (5 per cent decrease, compared with 2 per cent increases in ‘construction of buildings’ and ‘specialised activities’). By size class, while turnover in large enterprises declined by 11 per cent, SMEs and microenterprises grew by 5 per cent and 2 per cent, respectively.

The decrease in turnover was less marked (5 p.p.) than in 2014, while the increase in turnover in total enterprises was identical in both years (2 per cent).

Developments in the sector’s turnover have been determined by the internal market (Chart 4). However, in 2015, although the internal market, for the first time in the period under review, made a positive contribution to developments in the sector’s turnover (1.3 p.p.), the negative contribution from the external market (1.7 p.p.) determined the reduction in this indicator. Exports accounted for 23 per cent of the sector’s turnover, 10 p.p. more than in 2011. In 2015, 5 per cent of enterprises in the construction sector were part of the export sector,² which corresponded to 32 per cent of turnover and 27 per cent of the number of employees (6 per cent, 37 per cent and 24 per cent, respectively, in total enterprises).

EBITDA declined by 11 per cent, after increasing by approximately 40 per cent in each of the two previous years. Nevertheless, 54 per cent of enterprises posted positive changes in this indicator (1 p.p. more than in 2014) (Chart 5). This share was similar to that of total enterprises, whose aggregate EBITDA, however, increased by 25 per cent in 2015. That year, 35 per cent of large enterprises in the sector posted positive changes in EBITDA, 13 p.p. less than in 2014.

Return on equity recovered, but remained negative

The sector’s return on equity increased marginally in 2015, standing at -1 per cent, i.e. 8 p.p. lower than in total enterprises (7 per cent) (Chart 6). ‘Construction of buildings’ was the only segment with negative aggregate profitability (3 per cent). In ‘civil engineering’ and ‘specialised activities’, profitability totalled 1 per cent and 4 per cent, respectively, in 2015.

The sector’s operating margin (EBITDA/Revenue) was of 7 per cent in 2015, 3 p.p. less than in total enterprises. The net margin (Net income/Revenue) stood at -1 per cent, also 3 per cent less than for enterprises as a whole (Chart 7). ‘Civil engineering’ had the best performance in the sector in terms of the operating margin (8 per cent). However, this segment’s net margin stood at 0.4 per cent in 2015, 1 p.p. lower than that of ‘specialised activities’. In turn, ‘construction of buildings’ posted a negative net margin of 3 per cent.

Chart 3 • Structure | By size class (2015)

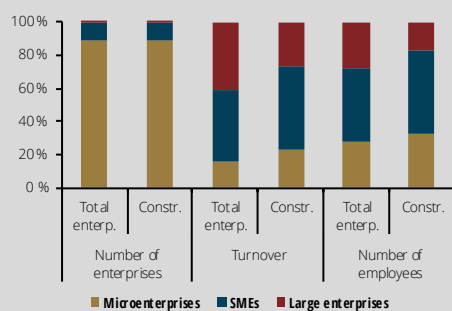


Chart 4 • Turnover | Contributions from the external and internal markets (p.p.) to the annual growth rate (per cent)

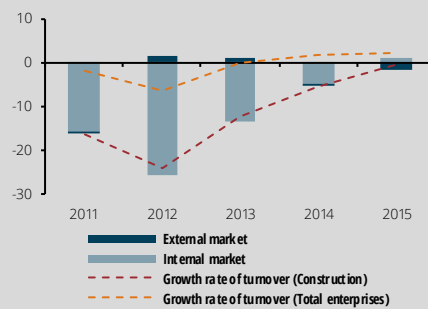


Chart 5 • Share of enterprises with EBITDA growth

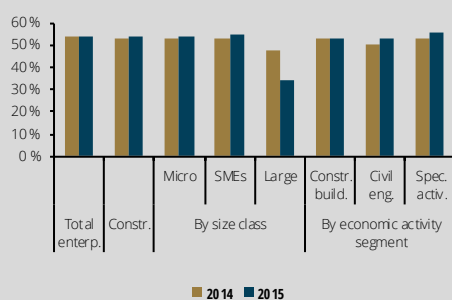
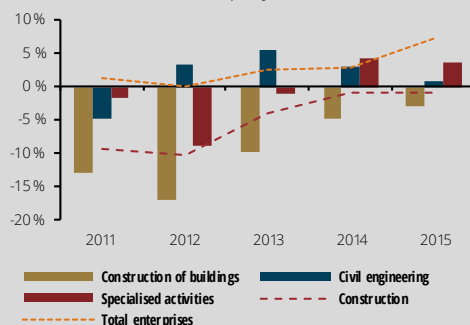


Chart 6 • Return on equity



Financial situation

All liabilities components decreased

In 2015 the construction sector's capital ratio stood at 25 per cent (32 per cent in total enterprises). This ratio increased by 4 p.p. in the 2011-15 period, more than in total enterprises over the same period (2 p.p.) (Chart 8).

Compared with total enterprises, the average capital ratio in the construction sector was closer to the respective distribution median (3 p.p. differential in the sector and -5 p.p. in total enterprises, compared with a 27 per cent median in both cases). However, this difference was greater in 'civil engineering': half of the enterprises in this segment had a capital ratio of more than 33 per cent, although the average stood at 25 per cent. The sector's microenterprises posted the lowest capital ratio values (on average, 19 per cent), while 'specialised activities' posted the highest values (31 per cent, on average). The share of enterprises with negative equity (24 per cent) was lower than in total enterprises (29 per cent).

The sector's liabilities declined by 9 per cent in 2015 (compared with a 3 per cent decrease in total enterprises), following the trend seen in the 2011-15 period (average declines of 7 per cent). The decrease seen in 2015 was due to all liabilities components, in particular due to the negative contributions from bank

loans (4 p.p.) and intra-group financing (3 p.p.) (Chart 9).

Interest-bearing debt accounted for 56 per cent of construction sector's liabilities (60 per cent in 2011), similarly to total enterprises (58 per cent). Bank loans concentrated 30 per cent of the sector's liabilities (25 per cent in total enterprises).

Reduction in interest expenses led to a decline in financial pressure

Interest expenses borne by the construction sector decreased, on average, by 20 per cent in 2015. This change was more substantial than in total enterprises (12 per cent decrease). The reduction in interest expenses was broadly based across the sector's various activity segments. Half of the enterprises posted declines of more than 27 per cent. In microenterprises and 'construction of buildings', half of the enterprises posted a decline in interest expenses of more than 34 and 32 per cent, respectively (Chart 10).

The substantial fall in interests paid by the sector's enterprises led to a 6 p.p. decrease in financial pressure compared with 2014, although the sector's EBITDA declined. In 2015, interest expenses consumed 59 per cent of the sector's EBITDA, more than in total enterprises (20 per cent) (Chart 11). 'Construction of buildings' and microenterprises made

Chart 7 • Profitability by segment | Operating margin and net margin (2015)

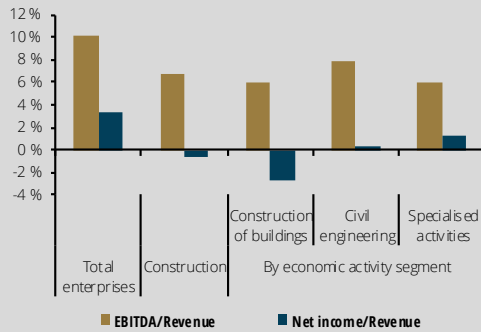


Chart 8 • Capital ratio | Weighted average and distribution median

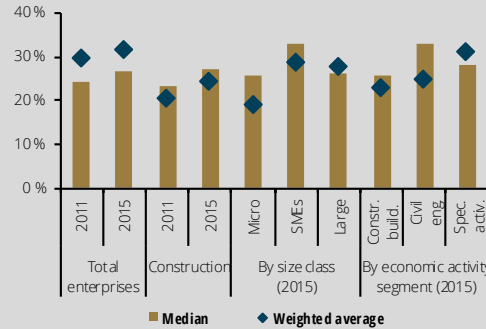
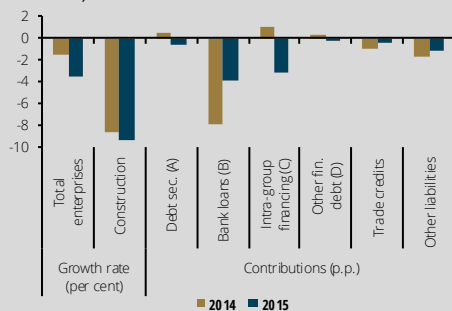
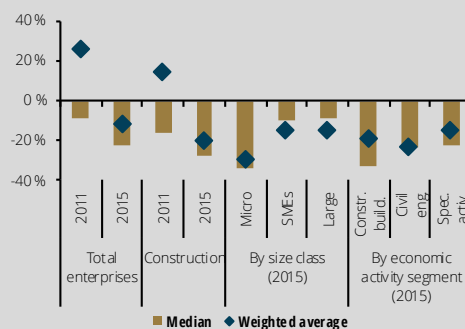


Chart 9 • Liabilities | Contributions from components (p.p.) to the annual growth rate (per cent)



Interest-bearing debt = A + B + C + D

Chart 10 • Interest expenses | Weighted average and median of the annual growth rate



a decisive contribution to the decrease in the sector's financial pressure (23 p.p. reduction to 88 per cent, in the first case; microenterprises posted positive aggregate EBITDA, unlike 2014). In the remaining activity segments, changes in financial pressure were smaller. In the sector's SMEs and large enterprises, financial pressure actually increased.

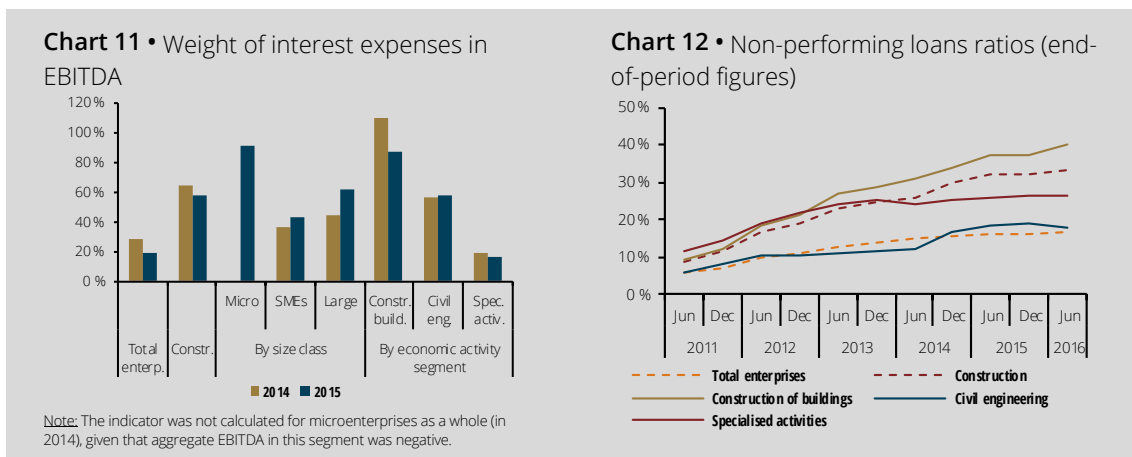
According to information from Banco de Portugal's Central Credit Register, loans granted to the construction sector by the resident financial sector decreased by 4.6 per cent between the end of 2015 and the end of the first half of 2016 (2.1 per cent decline in total enterprises).

In June 2016, the share of non-performing loans granted to the sector amounted to 33.3 per cent (11.6 per cent at the end of 2011), a value greater than the one of total enterprises (16.7 per cent, compared with 7.2 per cent at the end of 2011) (Chart 12). Over the period under review, the construction sector's non-performing loans ratio increased more substantially than in total enterprises, due to the

performance of 'construction of buildings' (non-performing loans ratios of 40.1 per cent at the end of the first half of 2016 and 12.3 per cent at the end of 2011).

In the construction sector, the share of trade credits in 2015 was similar to that of total enterprises (15 per cent, compared with 16 per cent in total enterprises). This type of financing was more important to 'specialised activities' (32 per cent of liabilities, compared with 10 per cent in 'construction of buildings').

Similarly to most economic activity segments, the construction sector was unable to obtain net trade credit financing, as a result of the negative differential between accounts payable and accounts receivable (corresponding to 12 per cent of turnover in 2015). Compared with total enterprises, the construction sector posted particularly high average days payable and days sales outstanding (173 days payable, compared with 75 days in total enterprises; 163 days sales, compared with 70 days in total enterprises).



¹ For the purposes of this analysis, the construction sector includes CAE-Rev.3 Divisions 41 (construction of buildings), 42 (civil engineering) and 43 (specialised activities), economic activities that are part of Section F – Construction.

² The definition of export sector is detailed in *Central Balance Sheet Study | 22 – Analysis of enterprises in the export sector in Portugal*, June 2015.

For more information, see:

[Statistical domain of Central Balance Sheet Database statistics in BPstat | Statistics online](#)

[Supplement to the Statistical Bulletin 2/2013 on statistics on non-financial corporations of the Central Balance Sheet Database](#)

[Central Balance Sheet Study No 26 on non-financial corporations \(in Portuguese only\)](#)

[Central Balance Sheet Study No 15 on enterprises in the construction sector](#)

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Annex – Main indicators of the construction sector

Chart	Series	2011	2012	2013	2014	2015	2016
1 Demographic indicators	Construction						
	Birth rate	6.2	4.8	5.8	5.7	6.1	
	Death rate	7.0	8.4	9.1	8.4	7.9	
	Rate of change of the number of enterprises	-0.9	-3.7	-3.6	-2.9	-1.9	
	Rate of change of the number of enterprises / Total enterprises	1.9	0.0	0.7	0.7	1.2	
2 Structure By economic activity segment	Construction of buildings						
	Number of enterprises	60.8	60.1	59.4	59.0	58.6	
	Turnover	42.3	40.2	41.5	41.6	42.1	
	Number of employees	47.2	45.1	43.8	44.0	44.0	
	Civil engineering						
	Number of enterprises	6.1	6.1	6.3	6.3	6.3	
	Turnover	37.0	37.8	34.8	32.3	31.1	
	Number of employees	22.0	23.3	23.8	22.7	22.8	
	Specialised activities						
	Number of enterprises	33.1	33.8	34.3	34.7	35.1	
	Turnover	20.7	22.0	23.7	26.0	26.7	
	Number of employees	30.8	31.6	32.4	33.3	33.2	
3 Structure By size class	Share of microenterprises in the number of enterprises in the aggregate						
	Total enterprises	88.0	88.9	89.4	89.4	89.1	
	Construction	85.3	87.5	88.8	88.9	88.3	
	Share of microenterprises in the aggregate's turnover						
	Total enterprises	15.4	15.5	15.6	15.7	15.8	
	Construction	17.7	19.1	21.0	21.7	22.6	
	Share of microenterprises in the number of employees in the aggregate						
	Total enterprises	27.5	28.1	28.1	27.8	27.2	
	Construction	31.1	32.7	33.4	33.8	32.8	
	Share of SMEs in the number of enterprises in the aggregate						
	Total enterprises	11.7	10.9	10.4	10.3	10.6	
	Construction	14.5	12.3	11.1	11.0	11.5	
	Share of SMEs in the aggregate's turnover						
	Total enterprises	42.6	42.1	42.0	42.1	42.7	
	Construction	46.2	45.7	47.0	49.0	51.0	
	Share of SMEs in the number of employees in the aggregate						
	Total enterprises	46.6	46.1	45.6	45.4	45.4	
	Construction	52.2	50.1	48.7	49.8	50.3	
	Share of large enterprises in the number of enterprises in the aggregate						
	Total enterprises	0.3	0.2	0.2	0.2	0.3	
	Construction	0.2	0.1	0.1	0.1	0.1	
	Share of large enterprises in the aggregate's turnover						
	Total enterprises	42.0	42.4	42.3	42.2	41.5	
	Construction	36.1	35.2	32.0	29.4	26.4	
	Share of large enterprises in the number of employees in the aggregate						
	Total enterprises	25.8	25.8	26.3	26.8	27.5	
	Construction	16.8	17.2	18.0	16.3	16.9	
	4 Turnover Contributions from the external and internal markets (p.p.) to the annual growth rate (per cent)	Growth rate of turnover / Construction	-16.4	-24.1	-12.1	-5.4	-0.4
Contribution from the external market		-0.5	1.7	1.2	-0.8	-1.7	
Contribution from the internal market		-15.9	-25.8	-13.4	-4.6	1.3	
Growth rate of turnover / Total enterprises		-1.8	-6.2	-0.2	1.9	2.4	
5 Share of enterprises with EBITDA growth	Total enterprises	45.4	44.6	53.7	54.2	54.4	
	Construction	43.5	43.7	52.5	52.9	53.9	
	Microenterprises	44.0	44.6	52.9	52.8	53.8	
	Small and medium-sized enterprises	40.8	37.1	49.7	53.2	54.7	
	Large enterprises	51.1	48.3	42.1	48.0	34.6	
	Construction of buildings	44.6	44.6	52.2	52.8	53.0	
	Civil engineering	44.2	42.6	52.3	50.3	53.2	
Specialised activities	41.4	42.2	52.9	53.4	55.5		
6 Return on equity	Total enterprises	1.2	0.0	2.7	2.7	7.2	
	Construction	-9.5	-10.4	-4.0	-1.1	-0.9	
	Construction of buildings	-12.8	-17.1	-9.8	-4.8	-3.0	
	Civil engineering	-4.8	3.2	5.4	3.1	0.7	
	Specialised activities	-1.8	-8.8	-1.0	4.1	3.7	

Chart	Series	2011	2012	2013	2014	2015	2016	
7 Profitability by segment Operating margin and net margin	EBITDA / Revenue							
	Total enterprises	7.9	7.6	8.4	8.3	10.1		
	Construction	3.1	3.4	5.3	7.5	6.7		
	Construction of buildings	1.0	-2.3	0.7	5.7	5.9		
	Civil engineering	4.2	8.3	9.4	9.9	7.9		
	Specialised activities	5.3	3.2	5.1	6.3	6.1		
	Net income / Revenue							
	Total enterprises	0.5	0.0	1.2	1.2	3.3		
	Construction	-4.5	-5.7	-2.4	-0.7	-0.6		
	Construction of buildings	-9.5	-15.3	-9.2	-4.5	-2.7		
	Civil engineering	-1.4	1.2	2.5	1.7	0.4		
	Specialised activities	-0.5	-2.8	-0.3	1.4	1.3		
	8 Capital ratio Weighted average and distribution median	Capital ratio (weighted average)						
Total enterprises		29.7	29.3	29.8	29.6	31.5		
Construction		20.5	20.1	21.2	23.3	24.5		
Microenterprises		20.2	18.4	18.6	18.0	19.3		
Small and medium-sized enterprises		20.5	21.1	25.7	29.3	28.8		
Large enterprises		20.8	22.2	20.0	24.3	27.7		
Construction of buildings		20.2	19.4	20.4	22.2	23.2		
Civil engineering		19.2	19.4	20.6	23.1	24.8		
Specialised activities		25.8	26.5	28.2	29.6	31.0		
Capital ratio (median)								
Total enterprises		24.1	23.3	23.6	25.0	26.6		
Construction		23.2	22.9	23.6	25.4	27.2		
Microenterprises		22.3	21.4	22.4	24.1	25.8		
Small and medium-sized enterprises		26.8	28.5	29.7	31.6	32.7		
Large enterprises		23.0	25.0	25.9	26.9	26.2		
Construction of buildings		22.3	21.7	22.7	24.3	25.8		
Civil engineering		26.7	28.0	28.7	30.7	32.8		
Specialised activities		23.9	23.6	24.2	26.1	28.1		
9 Liabilities Contributions from components (p.p.) to the annual growth rate (per cent)		Growth rate of liabilities / Total enterprises	1.4	-1.9	-1.8	-1.4	-3.4	
		Growth rate of liabilities / Construction	-2.8	-7.5	-6.9	-8.5	-9.3	
	Contribution from debt securities	0.0	-0.4	0.0	0.5	-0.6		
	Contribution from bank loans	-2.2	-5.1	-4.8	-7.8	-3.9		
	Contribution from intra-group financing	2.1	1.3	1.1	1.1	-3.1		
	Contribution from other financial debt	-0.3	0.2	-0.9	0.4	-0.1		
	Contribution from trade credits	-1.9	-3.0	-2.3	-0.9	-0.4		
	Contribution from other liabilities	-0.5	-0.6	0.1	-1.7	-1.2		
10 Interest expenses Weighted average and median of the annual growth rate	Growth rate of interest expenses (weighted average)							
	Total enterprises	26.2	4.7	-6.4	-6.3	-11.8		
	Construction	14.3	1.9	-15.0	-16.4	-20.1		
	Microenterprises	10.1	16.2	-19.0	-10.8	-29.5		
	Small and medium-sized enterprises	14.1	-12.5	-25.7	-8.1	-15.0		
	Large enterprises	20.9	10.2	6.8	-31.1	-14.1		
	Construction of buildings	8.4	-9.0	-24.7	-21.1	-18.3		
	Civil engineering	34.6	30.5	2.4	-11.4	-22.9		
	Specialised activities	5.5	-7.8	-22.7	-10.3	-14.2		
	Growth rate of interest expenses (median)							
	Total enterprises	-9.3	-22.4	-31.5	-20.2	-22.5		
	Construction	-16.0	-28.3	-40.1	-31.1	-27.4		
	Microenterprises	-25.2	-34.9	-46.8	-38.1	-33.9		
	Small and medium-sized enterprises	10.9	-5.6	-19.4	-11.8	-9.4		
Large enterprises	35.7	13.4	-11.4	-1.1	-8.5			
Construction of buildings	-19.3	-30.2	-44.9	-37.9	-32.4			
Civil engineering	-2.1	-20.5	-34.0	-23.6	-23.7			
Specialised activities	-12.5	-26.5	-34.6	-23.8	-22.0			
11 Weight of interest expenses in EBITDA	Total enterprises	30.5	35.5	30.0	27.9	19.7		
	Construction	145.0	177.6	107.1	64.9	58.5		
	Microenterprises	1,249.7	N.A.	N.A.	N.A.	91.9		
	Small and medium-sized enterprises	138.8	171.6	68.7	36.9	43.7		
	Large enterprises	68.6	48.8	57.8	44.7	61.7		
	Construction of buildings	768.7	N.A.	1,163.0	110.4	87.5		
	Civil engineering	73.4	59.9	61.4	57.1	57.5		
	Specialised activities	29.6	53.5	28.1	19.4	16.9		
12 Non-performing loans ratios (end-of-period figures)	Total enterprises	7.2	10.8	13.8	15.4	16.2	16.7	
	Construction	11.6	18.9	24.6	29.7	32.1	33.3	
	Construction of buildings	12.3	21.4	28.7	34.1	37.3	40.1	
	Civil engineering	7.8	10.2	11.7	16.5	19.0	17.7	
	Specialised activities	14.2	21.9	25.6	25.3	26.2	26.4	

NOTES:

The aggregates 'Microenterprises', 'Small and medium-sized enterprises', 'Large enterprises', 'Construction of buildings', 'Civil engineering' and 'Specialised activities' refer to components of the construction sector, except where indicated. Similarly, contributions shown always refer to contributions to the total of the sector under review. All figures are shown as a percentage, except where the indicator refers to contributions (p.p.). Shaded cells are not represented in the charts. Non-calculated indicators are signalled with 'N.A.'. Figures for Chart 12 refer to December of each period, except for the last figure shown, which refers to June.