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Central Balance Sheet Study | 29 – Profitability of Portuguese and European enterprises 2006-2015

27 September 2017

Banco de Portugal has published today the *Central Balance Sheet Study | 29 – Profitability of Portuguese and European enterprises 2006-2015,* which features information on non-financial corporations in Portugal and seven other European countries – Austria, Belgium, France, Germany, Italy, Poland and Spain.

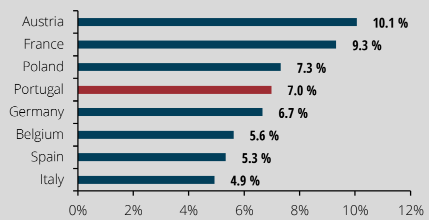
The results were compiled from the BACH database – *Bank for the Accounts of Companies Harmonized*, which is managed by the European Committee of Central Balance-Sheet Data Offices (ECCBSO).

Profitability analysis

Return on equity of Portuguese enterprises has increased since 2012, in contrast to the trend followed in the other European countries

In 2015 return on equity of European enterprises ranged from 4.9 per cent for Italian enterprises to 10.1 per cent for Austrian enterprises. The profitability of Portuguese enterprises stood at 7 per cent (Chart 1).

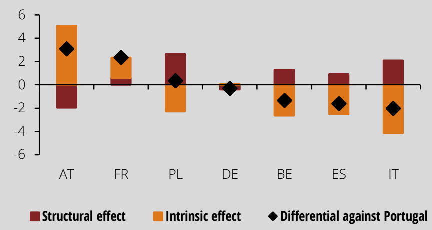
Chart 1 • Return on equity (2015)



Note: Return on equity = net income for the year / equity.

In 2015 profitability differences between Portugal and the other European countries were largely due to corporate features ('intrinsic effect'), rather than to the sample composition from the various countries in terms of size and economic activity sector ('structural effect') (Chart 2).

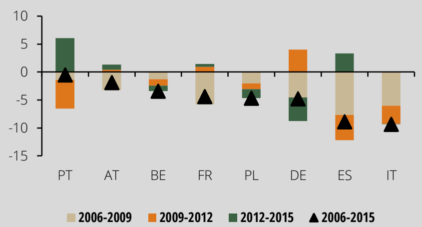
Chart 2 • Return on equity | Breakdown of the differential against Portugal (2015, in percentage points)



Notes: Return on equity = net income for the year / equity. AT – Austria; BE – Belgium; DE – Germany; ES – Spain; FR – France; IT – Italy; PL – Poland; PT – Portugal.

Return on equity declined across all countries between 2006 and 2015. In this period, Portuguese enterprises recurrently posted the lowest profitability levels of the group of eight countries. However, from 2012 onwards, the profitability of Portuguese enterprises increased, thus improving its standing among the countries under review (Chart 3).

Chart 3 • Return on equity | Breakdown of changes (p.p., 2006-15)



Notes: Return on equity = net income for the year / equity. AT – Austria; BE – Belgium; DE – Germany; ES – Spain; FR – France; IT – Italy; PL – Poland; PT – Portugal.

Factors underlying profitability

Between 2006 and 2015 Portuguese enterprises posted low profitability levels in terms of return on sales and asset turnover, which contributed to systematically lower return on equity levels compared with enterprises in other European countries.

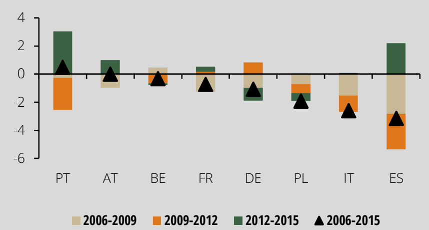
However, the profitability of Portuguese enterprises has increased since 2012, comparing more favourably with enterprises in the other countries. This was attributable to the increase in Portuguese enterprises' margins and efficiency.

Return on sales by Portuguese enterprises has been on the rise since 2012

Return on sales by Portuguese enterprises stood at 3.4 per cent in 2015. This indicator, which reflects the enterprises' profit margin as a percentage of turnover, was the highest for Austrian enterprises (4.6 per cent) and the lowest for Italian enterprises (1.8 per cent).

Return on sales declined over the 2006-15 period across most countries, thus making a negative contribution to return on equity developments. Portugal was the sole exception to this reduction, with its return on sales increasing by 0.5 percentage points (p.p.) between 2006 and 2015 (Chart 4).

Chart 4 • Return on sales | Breakdown of changes (p.p., 2006-15)



Notes: Return on sales = net income for the year / turnover. AT – Austria; BE – Belgium; DE – Germany; ES – Spain; FR – France; IT – Italy; PL – Poland; PT – Portugal.

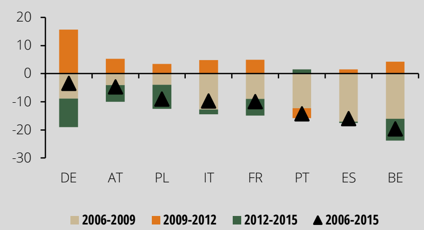
Between 2006 and 2009, return on sales developments were negative across nearly all countries, similarly to most countries during the following periods. In Portugal the downward trend followed by this indicator was reversed in the 2012-15 period (3 p.p. cumulative increase), favouring return on equity over that period. Likewise, Spanish, French and Austrian enterprises have recovered since 2012, although to a smaller extent.

Generally, employee expenses and financial expenses made a negative contribution to return on sales developments in the countries under review. In Portuguese enterprises, this effect was offset by the positive contribution of variable costs (which includes the cost of goods sold and materials consumed (CoGs) and supplies and external services (SES)) and other net expenses.

Portugal had the lowest asset turnover in 2015

Return on equity developments also resulted from the overall reduction in asset turnover, which led to a less efficient generation of corporate income (Chart 5). The fall in this ratio was more substantial in the 2006-09 period, due to the contribution made by the international crisis to the reduction in enterprises' turnover.

Chart 5 • Asset turnover | Breakdown of changes (p.p., 2006-15)



Notes: Asset turnover = turnover / assets. AT – Austria; BE – Belgium; DE – Germany; ES – Spain; FR – France; IT – Italy; PL – Poland; PT – Portugal.

Asset turnover of Portuguese enterprises was, in general, the lowest in the eight countries over the period under review. In 2015 it stood at 65 per cent, 14 p.p. below its level in 2006. Despite negative developments in Portuguese enterprises' asset turnover, this ratio increased slightly between 2012 and 2015, thus favouring return on equity.

The intrinsic effect played the main role in the asset turnover differential in four of the countries under review compared to Portugal (Germany, Poland, France and Austria), showing that Portuguese enterprises, compared to enterprises in the same economic activity sector and of the same size established in these countries, were, indeed, less efficient.

Portuguese enterprises were the most leveraged in 2015

In 2015 Portuguese corporate assets were 3.2 times higher than equity. This proportion was more sizeable than in other countries, which points to the high share of debt in the financing structure of Portuguese enterprises. France and Italy were slightly less leveraged (3.1), while Polish enterprises were the least leveraged (2.0).

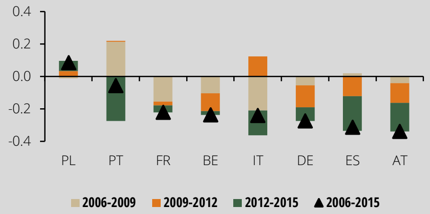
The greater leverage of Portuguese enterprises was due to intrinsic factors. Portuguese enterprises took on more debt than enterprises in the other countries of similar economic activity sectors and sizes.

Between 2006 and 2015 enterprises in most countries deleveraged. In Portugal, the asset-to-equity ratio of enterprises declined marginally, from

3.3 to 3.2 (Chart 6). Given the positive contribution made by financial leverage to return on equity, these developments were more favourable to Portuguese enterprises' profitability than in most other countries.

However, Portuguese enterprises started this deleveraging process at a later stage than their European counterparties. However, between 2012 and 2015 the reduction in financial leverage of Portuguese enterprises was the most substantial of all countries under review.

Chart 6 • Financial leverage | Breakdown of changes (p.p., 2006-2015)



Notes: Financial leverage = assets / equity. AT – Austria; BE – Belgium; DE – Germany; ES – Spain; FR – France; IT – Italy; PL – Poland; PT – Portugal.

Additional information available at:

BACH database

Statistical domain of Central Balance Sheet Database statistics in BP*stat* | 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 29 on the profitability of Portuguese and European enterprises (in Portuguese only)

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