

SURVEY



UAE payments survey : slight payment delays expected, due to slower growth

At a time when businesses are facing a decline in demand and liquidity issues, a sharper look into payment behaviour is a must.

Through the initiative of Coface, a world leader in trade credit management and risk information services, a credit opinion survey across the UAE was rolled out in order to map out major shifts and prevailing trends in company payments.

The method was strategic and the objective was fundamental: to study how businesses make and receive payments, generating a wealth of economic data and market insights that can support stakeholders in making better informed decisions.

The diversified economy of the UAE has weathered the volatility of a difficult year, with experts reporting signs of strong recovery. Today, at a time when businesses are getting back on track, revisiting credit policies and realigning strategies, a knowledge of key payment trends comes in handy.

Coface ran for the first time ever its Credit Opinion Survey. This is a tool dedicated to understand payment behaviors of the companies. Coface has launched this survey for several years in several countries including China, Morocco, China and Germany. The survey in the United Arab Emirates was the first to be launched in this region.

Coface expects growth performance of the region with slight recovery vs 2016, due to

stabilized oil price at 55 USD, slower growth performance in China and struggling trade volumes around the world. Therefore we have slightly revised up our real GDP growth rate expectation for 2017 to 2.5% from 2.3% previous year. This indicates a moderate increase only in economic activity, compared with the period of 2010-2015 when the average growth stood at 4.2%.

In line with this moderate growth in business environment, payment terms lengthen. Lower sale volumes and tighten liquidity from the banking system result in willingness to keep the cash within the companies by delaying payments. Indeed, this survey would allow readers to understand the situation of the companies from different sectors and sizes in the UAE. Some of them are mostly export-driven companies while the rest is mostly focused on domestic sales with less than 20% export earnings. This distinction aims to show if having clients abroad has an impact in terms of collecting receivables and payment delays. For both of the groups, the weighted average payment terms offered to customers remain between 60 to 90 days. Average payment delays seem also be very close between these two types of companies, again remaining within 30 to 60 days which is the mode value of the survey. Only in terms of offering maximum payment terms to clients, domestic sellers expressed slightly shorter periods than those who sell abroad.

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experience for exporters
and domestic sellers

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for unpaid invoices
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economic outlook

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is a common practice

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For exporters, energy seems to be the sector having the longest average payment terms and payment delays above 210 days. This is in line with Coface risk barometer that considers the energy sector at high risk level in all regions since the start of 2016 mainly due to the sharp decline in prices and narrower profit margins.

Our sample indicates that on the domestic front, the construction is the sector that suffers the most from the long payment terms with hypothetical average of 97 days and delays of 93.1 days. A majority of constructors expect late payments in the private sector to rise within the six months. These weak expectations correspond also to Coface risk

barometer that considers construction sector at high risk level in the Middle East region.

On the other hand, nearly 44% of exporters estimate global economic conditions would remain the same in the upcoming period. 44% of them mentioned economic outlook would fall moderately in GCC and MENA regions, their top export markets. This is in line with Coface forecasts that annual growth in the MENA region would set at 2.6% in 2017 from 2.9% in 2016, mainly on lower commodity revenues, fiscal consolidation and spillover from the slowdown in Russia and China. Domestic suppliers were slightly more positive about the economic outlook in the UAE and the GCC region.



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1 ALMOST SAME PAYMENT EXPERIENCE FOR EXPORTERS AND DOMESTIC SELLERS

The main objective of the credit opinion survey was to understand the changes in the usual payment behavior of companies. In an economic context of greater uncertainties and challenging international conditions, a deterioration in the payment periods may result in a chain effect across all the sectors.

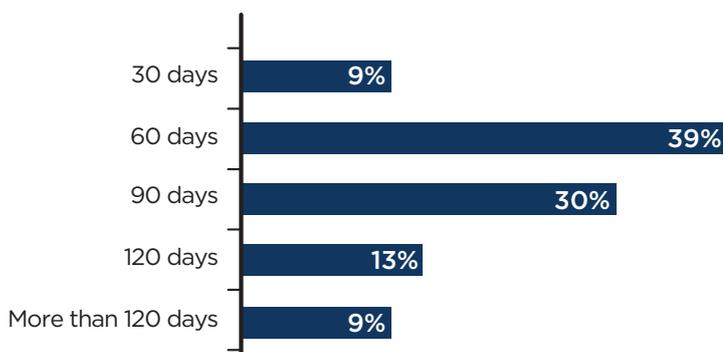
In this regard, we have asked companies several questions related to their payment practices including methods of payments requested by clients. This way, we aimed at understanding latest developments in corporate payment behaviors in the UAE, the best locations to trade with and the reasons behind.

In total 136 companies from 11 different sectors participated to this first edition of Coface payment

survey. 96% of the participants were in business to business type of activities with the rest being involved in business to government activities. Construction, agrofood, retail and metals were highly represented in the survey, followed by ICT, energy, chemicals and automotive. Some of them, export revenues constitute an important financial source. Companies having a share of export revenues more than 40% were considered as exporters while the business for the rest is mainly focused on domestic sales¹.

The diversified structure of the UAE economy among its peers in the Gulf region helped domestic suppliers feel less the negative impacts of the economic slowdown than exporters which have been also affected by the weak recovery in the world trade.

Chart 1:
Average payment period (% of exporter respondents)



Source: Coface payment survey 2016



The diversified structure of the UAE economy helped domestic suppliers feel less the negative impacts of the economic slowdown and tight liquidity conditions than exporters which have been affected by the weak recovery in the world trade as well.



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¹ / In total 23 exporters and 113 domestic companies responded to the survey, so the results need to be interpreted cautiously.

It transpires from the survey that, for exporters, the most frequent payment period during the last 6 months were 60 days (39.1%) and 90 days (30.43%). Almost 35% of the respondents said the maximum payment term during the last 6 months were 120 days; however a total of 26.1% of respondents said the maximum payment term was 180 days and more (ultra-long overdue amounts).

The average payment time varies according to the business activity. Metals sector seems to be characterized by an average payment period of 60 days while for payment terms for the automotive sector are spread between 60 to 120 days. According to Coface's experience, 80% of outstanding receivables will not be fully paid if the payment delay exceeds 6 months. It is important to note that in total 52.2% of respondents said average payment delays for overseas customers was worse than domestic customers, indicating tight financial conditions in foreign markets.

Looking to the next 6 months, nearly 35% of respondents foresee an increase in the payment terms, a relatively small group compared with those who expect the terms to remain the same or to decrease. 52% of respondents expect the terms to lengthen in the private sector. Especially small companies are expected to have longer payment terms as 65% of respondents expect an increase of late payments from this type of companies in the next six months.

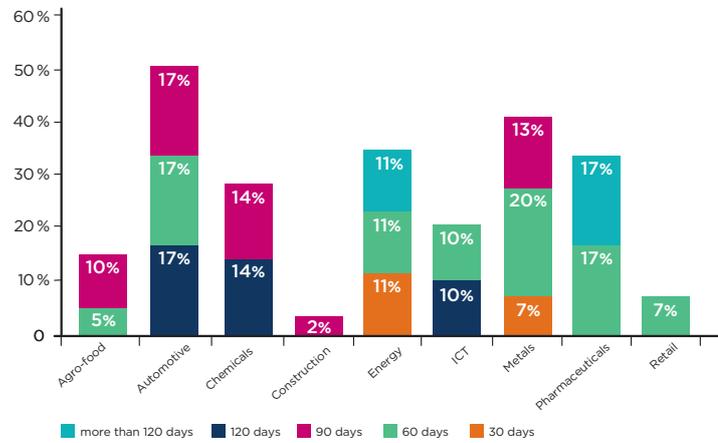
Like exporters, a large part of domestic respondents (61% in total) expressed the average payment terms varied between 60 to 90 days within the last 6 months. On the other hand, the maximum payment term offered by domestic companies to their clients was shorter than exporters as only 27% of respondents said they offered 120 days to clients compared with 35% of exporters.

On a sector basis, the average payment term offered to clients is dominated by 60 days for transportation, energy, construction and agrofood. This situation has contributed to an expansion of payment terms among the constructors. 15% of respondents said the maximum payment term they offered was 180 days while 7% said it was more than 180 days, a quite long period. In pharmaceuticals, payment periods remained also quite long with varying between 60 to more than 120 days. In fact, even though demand for pharmaceutical products remain positive with a slight uptick over the coming years from 0.7% of GDP in 2016, the slowdown in economy weighs on the payment terms. Payment maturities which were traditionally long in this sector due to the strict control of the government, tend to get longer due to the tighter liquidity conditions with the cutback in government and private spending.

Regarding the group of customers, 60% of surveyed companies said they expect payment terms from the public sector to remain the same in the next six months while 46% were expecting an increase in payment terms from the private sector.

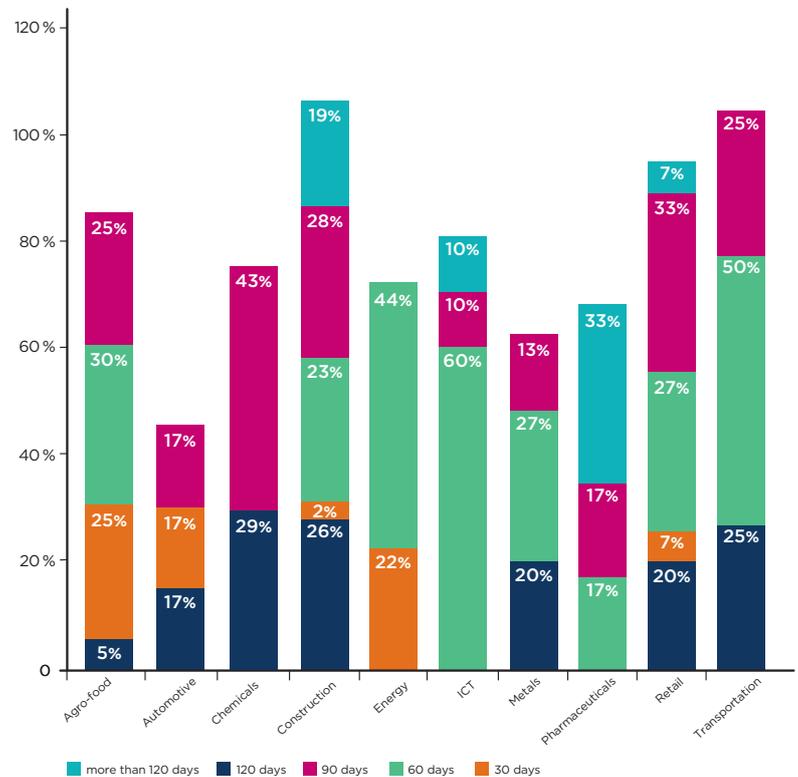
Compared with exporters, average payment delays seem to be shorter for domestic companies. 11% of respondents reported an average payment delay of less than 30 days (9% for exporters) while 29% said between 30 to 60 days (48% for exporters) and 27% said between 60 to 90 days (13% for exporters). An average payment delay above 210 days was expressed by only 4% of surveyed companies (9% for exporters).

Chart 2: Average payment periods by economic activity in 2016, for exporters (% of respondents).



Source: Coface payment survey 2016

Chart 3: Average payment periods by economic activity, in 2016 for domestic suppliers (% of respondents)



Source: Coface payment survey 2016





More than half of respondents mentioned they expect late payments to increase in the public and private sector but to remain the same from the foreign companies within the six months. These factors confirm, indeed, the sector risk assessment of Coface which ranked the construction at the

high risk level in the Middle East since the start of 2016. Decline in oil revenues, the geopolitical situation in the Middle East region, can be cited among factors that weigh on investments in construction sector. Projects already announced are likely to proceed, yet some of them risk to be delayed or rescheduled over an extended period. Additionally, future projects can be curtailed due to lower public spending.

Chart 4: Coface Sector risk assessments for the Middle East and Turkey

SECTOR RISK ASSESMENT

Sectors	Middle East + Turkey	UAE	Saudi Arabia	Turkey
Agrofood	High risk	High risk	High risk	High risk
Automotive	High risk	High risk	High risk	Medium risk
Chemical	High risk	High risk	High risk	Medium risk (deteriorated)
Construction	High risk	High risk	High risk	Very high risk
Energy	High risk	High risk	High risk	Medium risk
ICT*	Medium risk (improved)	Medium risk (improved)	Medium risk (improved)	Medium risk
Metals	Very high risk	Very high risk	Very high risk	Very high risk
Paper-wood	Medium risk	Medium risk	Medium risk	Medium risk
Pharmaceuticals	Low risk	Low risk	Low risk	Low risk
Retail	High risk	High risk	High risk	Medium risk (deteriorated)
Textile-clothing	High risk	High risk	High risk	High risk
Transportation	Medium risk	Medium risk	Medium risk	Medium risk

* Information and communications technologies

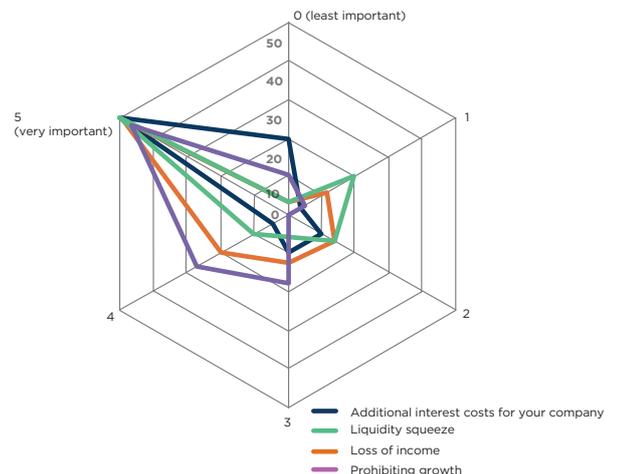
Source : Coface



2 NO MAJOR RISK FOR UNPAID INVOICES

Companies interviewed in our survey also shared their views on the reasons for overdue payments from their clients. A large part of exporters said outstanding receivables and unpaid invoices accounted for 2 to 5% of their total annual turnover (only between one in forty and one in twenty invoices were outstanding.) 39.1% of exporters said the bad debt loss in 2015 as a percentage of their annual revenue for overseas customers was same as domestic customers while 26.1% said it was substantially better than domestic customers. Main reasons of non-payments seem to be, in most of the cases, related to the financial difficulties of clients, followed by administrative inefficiencies such as weakness in the debt collection process. Additionally, nearly 35% of respondents expressed clients' efforts to delay the payments were also a very important reason of non-payments. The most frequent consequences caused by late payments were cited as additional interest costs for the company, loss of income and liquidity squeeze. More than half of exporters said

Chart 5: Most frequent consequences of late payments on exporters (as % of respondents)



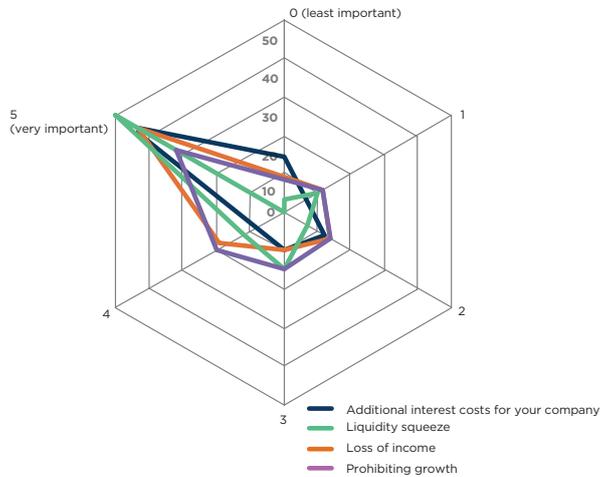
Source: Coface payment survey 2016

the UAE was having the best payment terms while 36.8% of them qualified the whole GCC as offering longest payment terms.

On the domestic suppliers side, 20% of respondents said the level of the outstanding receivables/unpaid invoices owing them between 6 months and 2 years represented 5 to 10% of the total annual turnover while it accounted for 0.5 to 2% for 18% of respondents and over 20% for 16% of respondents. Same for exporters, domestic companies have cited liquidity squeeze (52%), additional interest costs (44%) and loss of income (42%) as the most frequent consequences caused by late payments.

53% of surveyed domestic companies consider customer's financial difficulties resides as the main reason of nonpayment while 42% believe commercial disputes is the least important reason. In case of nonpayment, 79% of respondents said the amicable negotiation is the most effective solution.

Chart 6:
Most frequent consequences of late payments for domestic suppliers (as % of respondents)



Source: Coface payment survey 2016

3 CREDIT TO CONSUMERS IS A COMMON PRACTICE

Companies in the UAE usually grant credit periods to their clients. In order to do this, they use several instruments. Exporters mentioned the most frequently used method of payment requested by their clients was open account (34.8% of respondents), followed by cash in advance (17.4%) and documentary collections (13%). Consignment has been considered as the least frequently used method by nearly 61% of respondents.

The first reason why companies offer credit to their customers seems to be related to the general business traditions and market competition. Then comes the clients' request as they impose companies offer credit as a condition to work together. To a lesser extent, customers' tight liquidity conditions also push companies to offer them credit facilities.

Under these circumstances, companies implement several precautions against the lack of customer payments. Almost a third of companies responding to the question said they carry out due diligence. Other precautions such as credit checks (17.9%), pre-payment (17.9%) and credit insurance (16.1%) have been also cited by companies as protection instruments. Finally, bank guarantees and debt collection are also mentioned as precautionary tools by companies.

In terms of payment tools, they seem to use most frequently open account (44%) as payment instrument. They also use postdated cheques to a lesser extend (26% of respondents). Unlike exporting companies, domestic companies have little preference for consignment, documentary collections and letters of credit as respectively 70%, 62% and 42% of respondents mentioned these were the least frequently used methods for payment.

As companies offer credit to their customers mostly because of this is the way business works, 26% of respondents said they use postdated cheques to protect themselves against non-payment of customers while 21% said they opt to carry out due diligence.

Chart 7.1
The use of open accounts by exporters (1: Least frequent, 5: Most frequent)

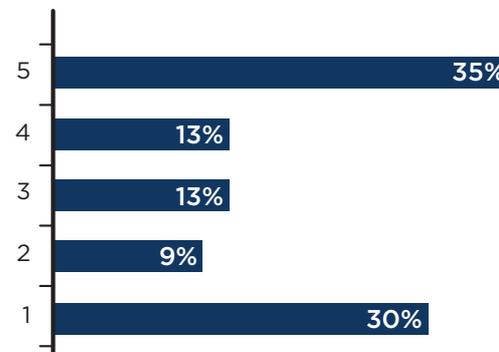
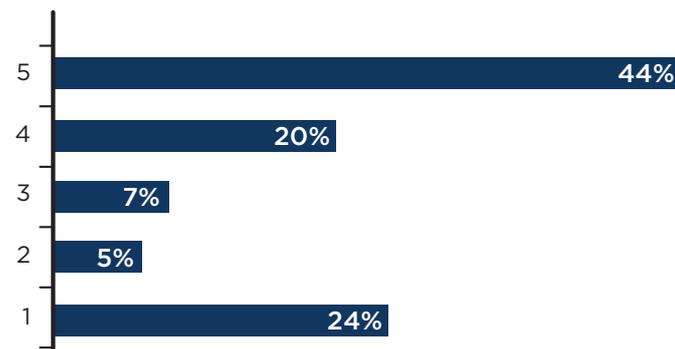


Chart 7.2
The use of open accounts by domestic sellers (1: Least frequent, 5: Most frequent)



Source: Coface payment survey 2016



A key takeaway is that exporters are willing to extend credit terms in order to maintain their market share.



4 MODERATE GROWTH IN 2017 BUT PROMISING FUTURE ECONOMIC OUTLOOK

Although it is the most diversified economy in the Gulf region, the UAE was not totally immune from the fall in energy prices, as two thirds of its fiscal revenues come from hydrocarbons. The government's decision to implement fiscal consolidation and to withdraw some energy subsidies coupled with less accommodative monetary policy on the back of the tighter US Fed policy, the pace of growth of private consumption, the leading force of economic growth in the UAE, has slowed.

The economic prospects for exporters seem to be equally spread with 21.7% of respondents expecting economic conditions in the UAE to stay about the same within the next 6 months while 39% expecting a substantial or moderate improvement and 39% expecting a substantial or moderate fall.

In terms of global growth prospects, nearly 44% of exporters estimate global economic conditions would remain over the next six months. 44% of them mentioned economic outlook would fall moderately in GCC and MENA regions, their top export markets. This is in line with Coface forecasts that annual growth in the MENA region would decline to 2.6% in 2017 from 2.9% in 2016, mainly dragged down by lower commodity revenues, fiscal consolidation and spillover from the slowdown in China.

The GCC region is mentioned to be the top export market with highest current sales, followed by the MENA region. Accordingly, 26% of companies intend to export to the GCC region which is quite understandable as they benefit from proximity, cultural similarities and economic integration.

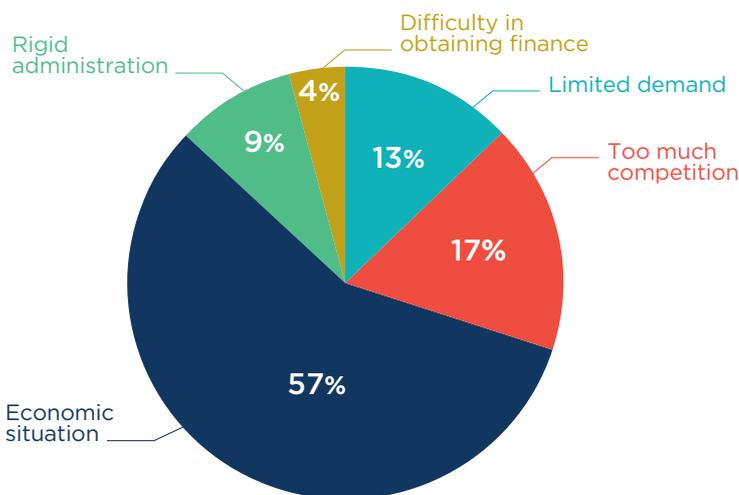
Regarding the barriers to development, 56.5% of exporters mentioned economic conditions, followed by high competition in the markets and limited demand. 30.4% of companies said they will pursue a strategy of cost reduction within the next six months.

Being able to export does not seem to have completely balanced the negative impacts from the economic slowdown for companies as a total of 47.8% said their profitability fell either substantially or moderately while 52.2% expressed their cash flow declined. Future perspectives remain so far cautiously positive with a total of 43.5% of respondents expecting an improvement in profitability, 52.2% an increase in sales and 39% an increase in cash flow. In a sectorial split, an improvement in sales is particularly expected by metals sector and, to a lesser extend, in pharmaceuticals and energy.

On the domestic front, although 65% of domestic suppliers said they have new investment projects in the pipeline, 45% of them cited economic situation being a restrictive factor to the business expansion. In fact, the UAE economy has entered into a slower growth period in line with lower energy prices. Presumably, this situation is the reason why 44% of respondents expressed that late payment is an ongoing problem in the domestic corporate sector. Although 33% of companies expressed a moderate decline in profitability, 31% cited an improvement in sales over the last six months. Yet expectations remain quite positive as 42% of respondents consider their profitability to improve either moderately or substantially within six months while 59%, mostly the construction, agrofood and retail sectors, expect an improvement in sales at that time. New opportunities in the real estate market such as a number of tourist attractions close to be completed such as the Dubai Parks and Resorts, new legislations and reforms are expected to support the construction sector in 2017². After negatively affected by the economic slowdown in China and the weak recovery in Europe, the retail sector may represent some opportunities on the back of the country's strong wealthy consumer base. However there are still downside pressures on the sector due to the tight fiscal conditions.

In line with these cautiously positive perspectives, 43% of companies mentioned they would recruit new staff over the next six months. Respondents seem to be mostly optimistic about the future economic outlook in the UAE and the GCC region.

Chart 8:
Reasons that might limit business' expansion for exporters



Source: Coface payment survey 2016

5 APPENDIX

Who are our principal respondents?

Chart 9:
Sectors of surveyed companies

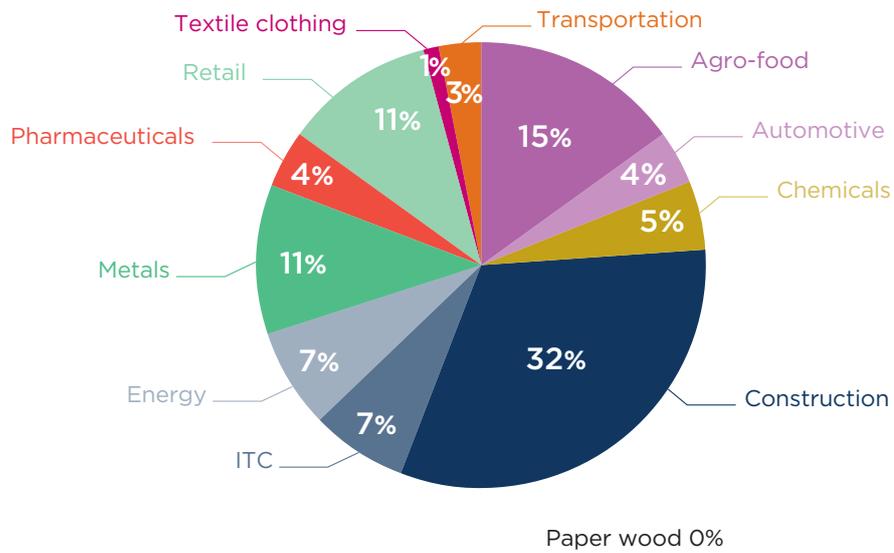
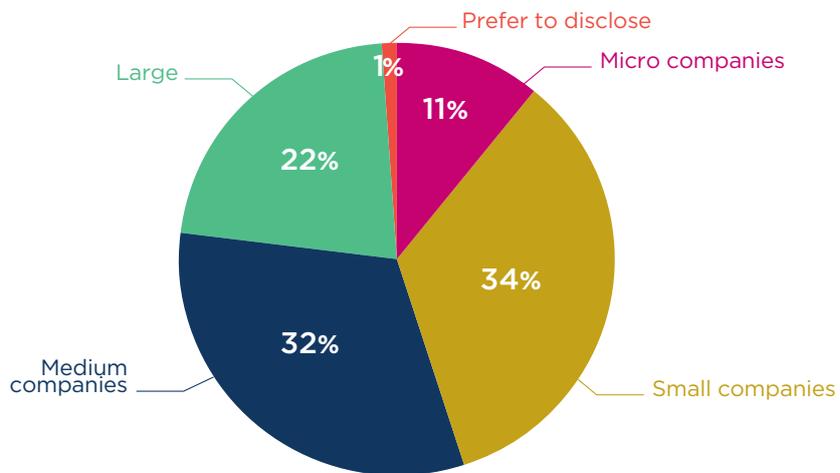


Chart 10:
Companies by turnover

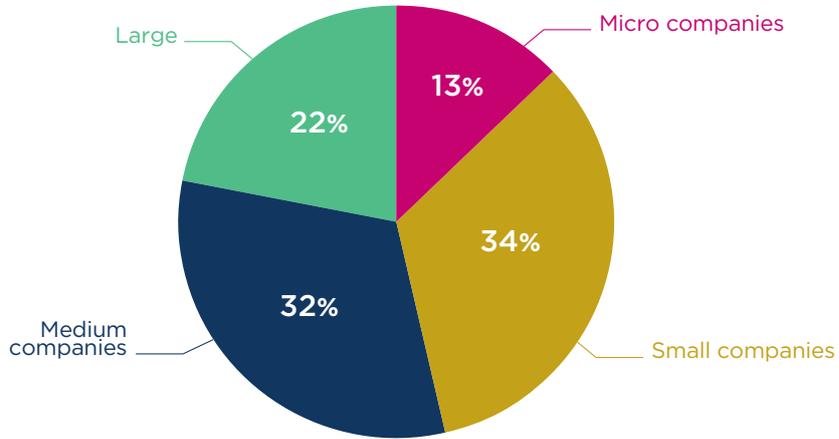


Source: Coface payment survey 2016





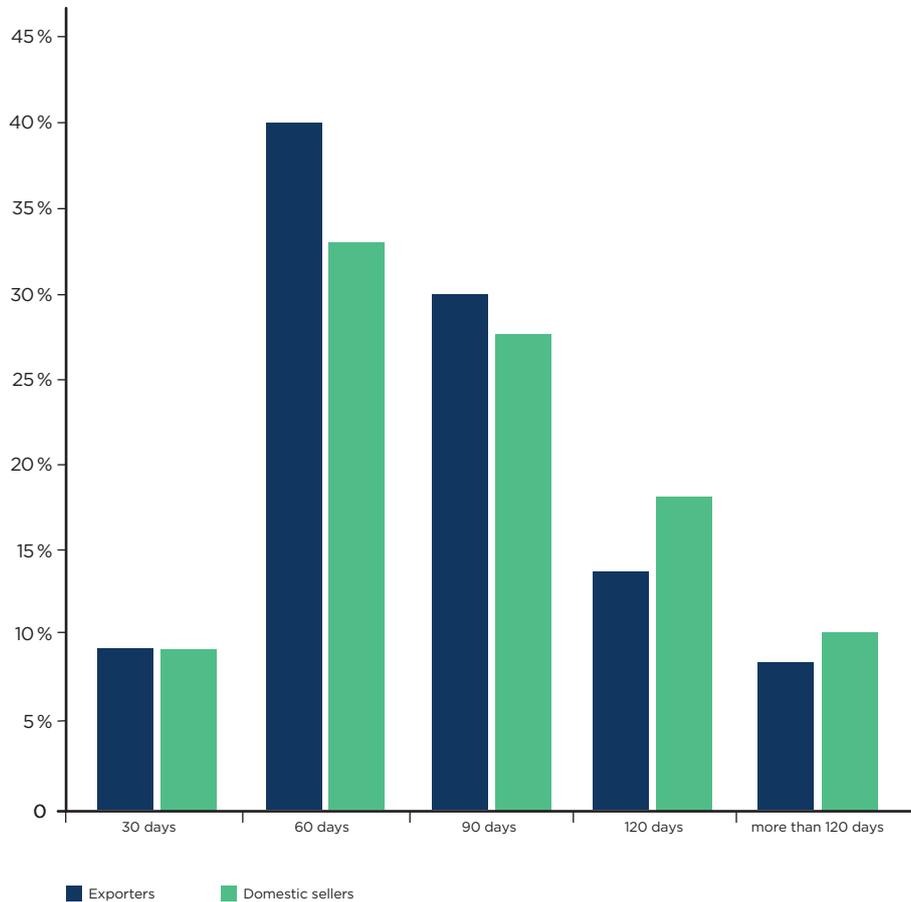
Chart 11:
Number of employees



Source: Coface payment survey 2016

Payment periods

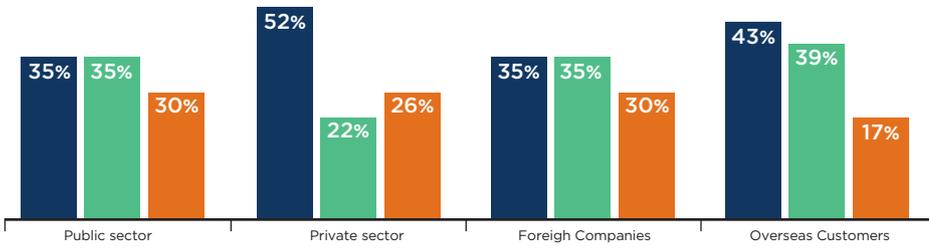
Chart 12:
The average payment terms offered to consumers during the last 6 months (% of respondents)



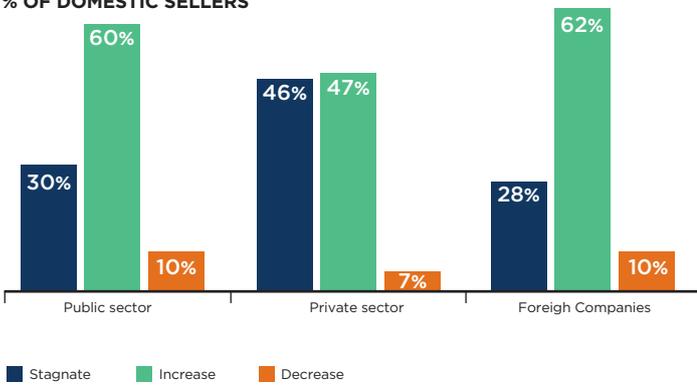
Source: Coface payment survey 2016

Chart 13 :
How do you foresee the payment terms for your company over the next 6 months for the following groups of customers?

% OF EXPORTERS



% OF DOMESTIC SELLERS



Source: Coface payment survey 2016



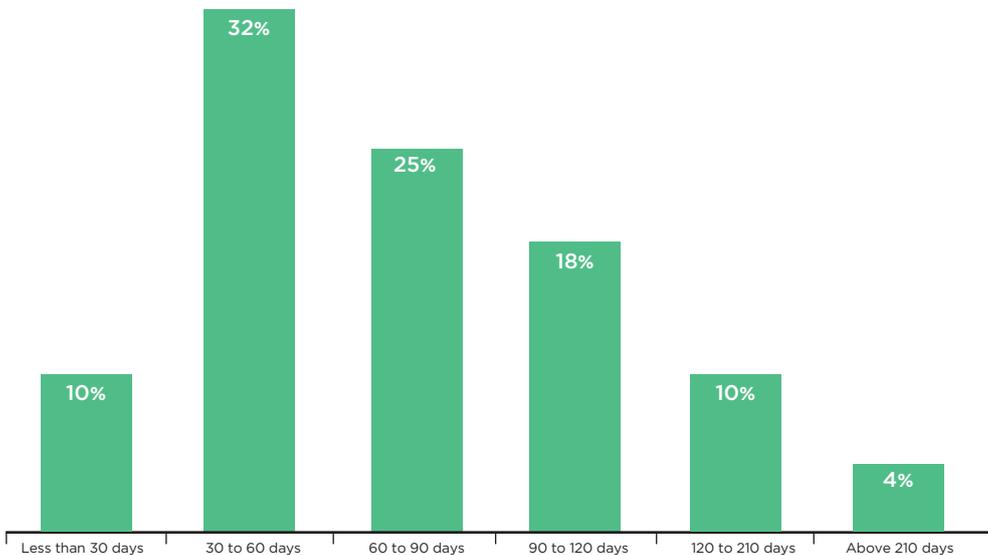
The UAE diversified economy alleviated the intensity of oil price decline. The steady growth expected in 2017 will be mostly driven by non-oil foreign trade, private consumption, tourism and new investments for the Dubai Expo 2020.



Massimo FALCIONI

Payment delays

Chart 14:
Average payment delays during the last 6 months

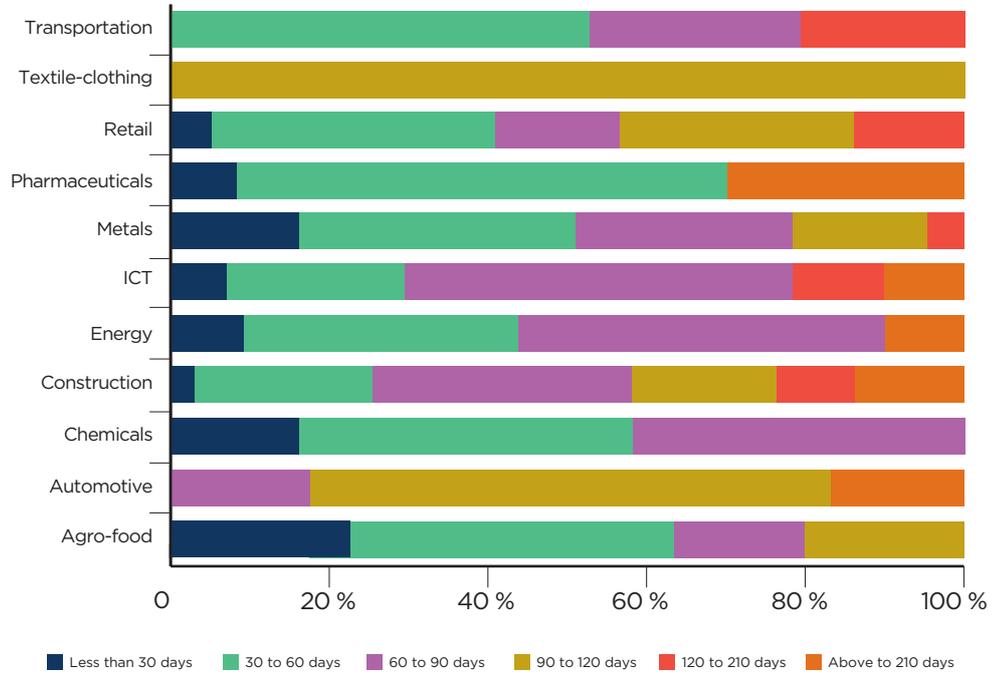


Source: Coface payment survey 2016





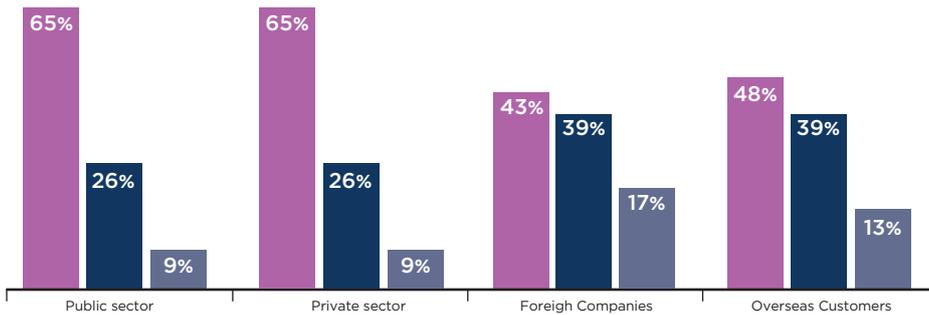
Chart 15:
Late payments by sector



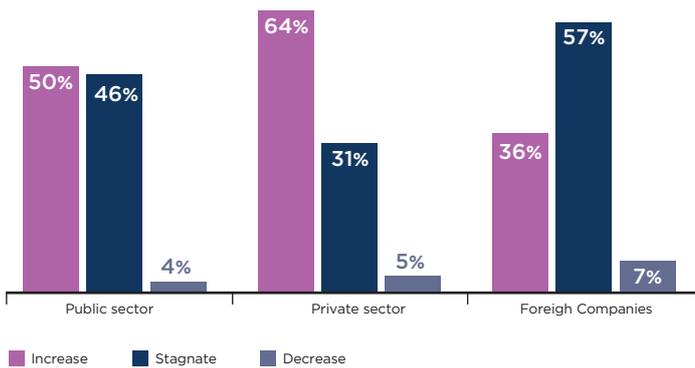
Source: Coface payment survey 2016

Chart 16:
How do you see the late payments evolving during the next 6 months?

% OF EXPORTERS

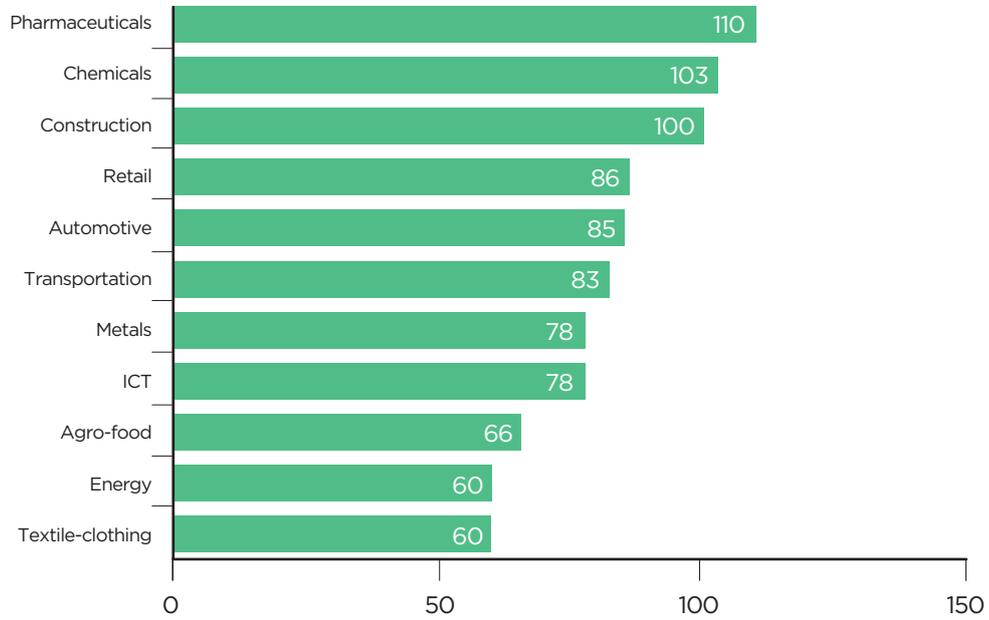


% OF DOMESTIC SELLERS



Source: Coface payment survey 2016

Chart 16:
What was the average payment terms that your company offered its customers during the last 6 months*?



*Payments more than 120 days have been assumed 150 days in the calculations

Source: Coface payment survey 2016

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