

Industry match-ups



Germany versus Poland

European football championship 2016



Sector playing field: construction industry
Match preview

4:2*

* Comparison of Atradius credit risk situation/business performance outlook for the industry
(Ranking from one ball (very poor) to five balls (very good))



Squad performance for the tournament – check

German construction industry

2015	2016f	2017f
1.7	1.6	1.5
-0.7	5.0	4.1

0.5
high

Polish construction industry

2015	2016f	2017f
3.6	3.6	3.4
1.5	3.1	1.9

-1.8
high

Country
GDP growth

Construction sector value
added growth (%)

Average construction sector growth
over the past 3 years (%)

Level of competition

Sources: IHS, Atradius

A strong rebound after bad performance in the past

Just like the German national football team construction suffered a major crisis in the late 1990s and early 2000s, but has bounced back since then, becoming increasingly successful. According to the German Builders Association, turnover growth will increase 3% in 2016, to EUR 103 billion.

The last European championship was a watershed

Polish construction activity was strong ahead of the last 2012 EURO in Poland and the Ukraine, especially in infrastructure building. But just like the Polish football team failed to reach the Round of 16, the construction industry saw a serious deterioration of production since H2 of 2012, as major projects had been completed and many contracts turned out to be unprofitable as material prices increased. Construction insolvencies increased by more than 50% in 2012 and remained very high in 2013. However the sector rebounded in the course of 2014 and registered a production growth of 2.8% in 2015.





Players to watch

Germany

- Residential construction is expected to increase 5% in 2016, driven by a high employment rate, low interest rates and the need to provide new housing for the high number of refugees and asylum seekers.

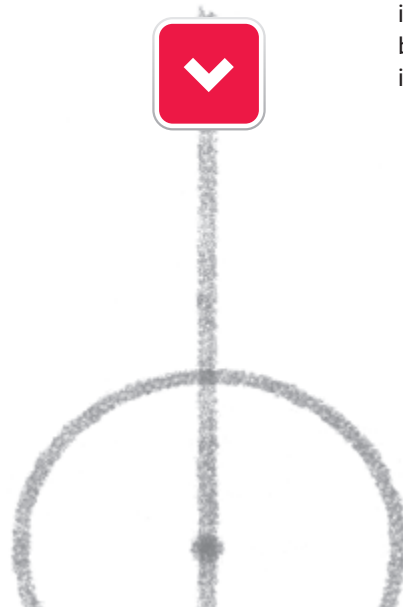


Poland

- Residential construction production value increased 9% in 2015 and is expected to grow further in 2016, driven by the robust economic performance in Poland.



- In the public construction segment demand is expected to increase in 2016 and beyond, but low prices are a serious issue for building businesses.





Major strengths and weaknesses

German construction industry

Increasing demand and stable profit margins expected in 2016

In general, businesses are not highly indebted

Construction businesses' dependence on bank finance is not overly high, given that in advance or instalment payments by investors are a major source of financing

Significant amount of specialization, especially in construction service

Strong in technical innovations especially in the area of energy-efficiency



Polish construction industry

Robust economic performance, low interest rates and positive investor sentiment

EU funds for infrastructure improvement

Decreased steel and oil prices have a positive impact on businesses profits since 2015

Very high number of small companies active in this sector

Limited access to international capital markets

Many construction companies – especially smaller ones – traditionally have weak equity ratios (the proportion of equity used to finance a company's assets) and limited financial scope



Many Polish construction businesses are highly indebted, mainly to suppliers, not banks. Banks sharply decreased their engagement in the construction sector after the 2012 building slowdown

However competition is high, especially for public infrastructure tenders: winning tender prices are usually far below investor budget, with price wars ongoing

Low prices accepted for winning public tenders often mean that general contractors transfer costs to subcontractors



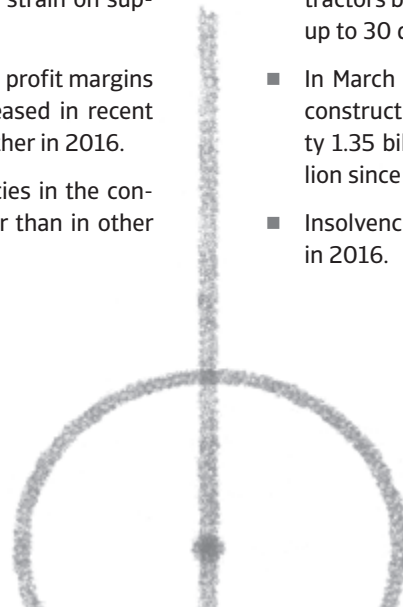
Fair play ranking: payment behaviour and insolvencies

German construction industry

- On average, payments in the German construction sector take around 45-50 days.
- Instances of payment default decreased again in 2015, and this positive trend is expected to continue in 2016.
- However, the poor payment behaviour of public buyers still remains an issue, as it puts a strain on suppliers' liquidity.
- Among increasing demand and stable profit margins construction insolvencies have decreased in recent years and are expected to decline further in 2016.
- However, the proportion of insolvencies in the construction sector is traditionally higher than in other industries.

Polish construction industry

- On average, payments in the Polish construction sector take 75 days.
- Payment behaviour has been bad over the past two years, and the number and amount of protracted payments remains high.
- General contractors often transfer costs to subcontractors by delaying payments. Overdue payments of up to 30 days are quite common.
- In March 2016 the National Debt Register recorded construction companies debts amounted Polish zloty 1.35 billion – an increase of Polish zloty 320 million since September 2015.
- Insolvencies are expected to remain on a high level in 2016.



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