

Outlook of Credit Risks of Chinese Companies

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Risk level of Chinese companies remained low in the past years.
Major factors are:

- National economic growth has been very high in the past years and almost all companies have benefited. The growth will continue in the coming years.
- Profitability of all industries has been very good, having created a lot of net cash from operating activities. Particularly, state-owned companies, whose profitability used to be low a few years ago, have sharply improved in recent years.
- Until recently, it has been easy for large and medium-sized companies to get bank loans, which were almost out-of-control in the past years.

However, the following negative factors should be watched closely:

- Central government is firmly taking measures, including austere credit policy, to cool down the hot economy.
- Quick increase of raw material price is eating up profits of manufacturers. The trend is being extended to other sectors.
- As a result of severe credit policy, many large and medium-sized companies have found themselves in tight cash flow.
- Availability of commercial credit information, particularly timely public records, remains limited, resulting in blinded credit decisions.
- Risk protection mechanism of the market has yet to be fully established. Legal environment remains poor for creditors.

Many suppliers have suffered no loss after they extended rather aggressive credit to their Chinese buyers, making them dangerously aggressive now.

We suggest that credit managers can still keep optimistic, but with prudence, about credit status of Chinese companies during the coming two years. Access to timely commercial credit information is very necessary.

Buyers from the following sectors should be watched with more prudence:

- Real estate development companies
- Building materials suppliers
- Metallurgical companies
- Construction equipment producers
- Manufacturers with big percentage of export
- Small & medium-sized manufacturers

It will be good practice to make use of third-party credit protection services, such as trade credit insurance.