

Industry match-ups



Belgium versus Italy

European football championship 2016



Sector playing field: machines/engineering industry – Match preview



3:3*

* 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

Belgian engineering industry

2015	2016f	2017f
1.4	1.3	1.7
-1.3	-0.3	1.0

-1.4
high

Italian engineering industry

2015	2016f	2017f
0.8	1.1	1.2
0.6	0.5	1.5

-1.5
average

Country
GDP growth

Engineering sector value
added growth (%)

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

Level of competition

Sources: IHS, Atradius

Some issues, but still performing well compared to other teams

Demand for Belgian machines and engineering businesses is still affected by the difficulties some major buyer industries are facing (e.g. construction). The situation is not expected to improve in the short-term.

In general, the profit margins of Belgian machinery/engineering businesses remained stable over the past 12 months as companies were able to reduce their cost base. In the coming months margins are expected to remain stable or to slightly deteriorate, depending on the level of activity (order books). While competition is strong, high quality producers usually enjoy a competitive edge.

A major issue for the industry is that banks are in general still restrictive in granting financing. Businesses that do not have access to financing cannot perform in a sustainable way: gearing has always been high in the machinery sector due to the required investments.

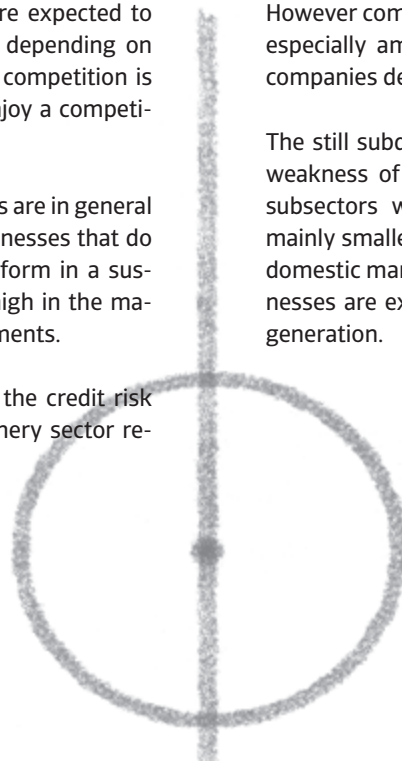
That said, compared to other industries the credit risk and business performance of the machinery sector remains at an acceptable level.

Mainly scoring at away games

The Italian machines/engineering sector has proved to be relatively resilient during the downturn of Italy's economic performance due to its export orientation, high specialization and added value products in precision mechanics. Both specialization and quality help to preserve satisfying profit margins for many (export-oriented) businesses.

However competition is strong in the domestic markets, especially among small and medium-sized machinery companies dependent on construction businesses.

The still subdued domestic investment growth and the weakness of some end-markets suggest that specific subsectors will be impacted by reduced production, mainly smaller machinery businesses dependent on the domestic market. On the contrary, export-oriented businesses are expected to improve performance and cash generation.





Players to watch

Belgium

- Machinery for manufacturing and agriculture is performing quite well.



Italy

- The machinery segment dependent on the manufacturing sector continues to benefit from export growth and from increased demand from the Italian manufacturing sector as the economic rebound continues.

- Machinery for the construction industry faces some trouble caused by subdued demand.



- The construction and road machinery segment performance is still hampered by weak construction performance in Italy.
- The earthmoving machinery segment is highly dependent on public works and therefore exposed to structurally slow payments by public entities.
- Demand for machinery related to the oil and gas sector is deteriorating.





Major strengths and weaknesses

Belgian machinery/ engineering industry

Many businesses are part of large groups

Many companies are flexible and used to managing ups and downs in terms of activity

Suppliers of quality products



Italian machinery/ engineering industry

High specialization and technological know-how

Export orientation and good geographical diversification in end markets

General sound financials of large engineering corporates

Expected to benefit from the economic rebound in Italy

High fixed costs

High competition

Potential decrease of order books in the short-term future



High number of small companies

Low bargaining power

Weakness of certain (domestic) end markets



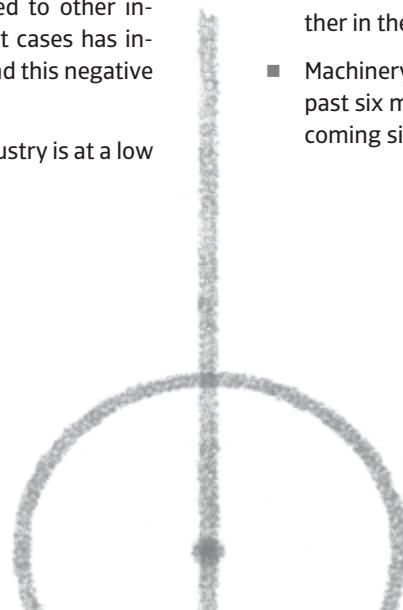
Fair play ranking: payment behaviour and insolvencies

Belgian machines/ engineering industry

- On average, payments in the Belgian machinery/engineering sector take around 60 days.
- Payment experience is average, and the level of protracted payments has been low over the past couple of years.
- Although still relatively low compared to other industries, the number of non-payment cases has increased over the past nine months, and this negative trend is expected to continue.
- The number of insolvencies in the industry is at a low level but is deteriorating slightly.

Italian machines/ engineering industry

- Payment duration in the machines/engineering sector is about 100 days on average.
- Payment experience has been good over the past two years, and the level of protracted payments is low. Non-payment notifications have decreased over the last 12 months, and are expected to decrease further in the coming months.
- Machinery insolvencies have been stable over the past six months, and are expected to decrease in the coming six months.



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