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China Inc. Sells Unpaid Bills to Banks as Debt Web Spreads

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More and more Chinese factories are selling unpaid customer bills to financial firms, amid record payment delays.

Resorting to a method of raising cash faster known as factoring, Sany Heavy Equipment International Holdings Co., a Chinese machinery maker, said in earnings reports that it began selling receivables at a discount. Rival Zoomlion Heavy Industry Science & Technology Co. said in financial results that it had resumed the practice. Electric equipment maker Boer Power Holdings Ltd. this month announced a receivable leasing agreement with a state-owned asset management company.

“More companies in China have started using factoring and similar arrangements to reduce their receivables because their cashflow is getting tighter,” said Roy Zhang, associate director at Fitch Ratings in Hong Kong. “It is an indication of a company’s liquidity constraints.”

While selling receivables can be a useful tool to smooth out seasonal fluctuations in cash flow, in China’s case it coincides with a prolonged period of payment delays amid the slowest growth in a quarter century. Corporate bankruptcies in China jumped 24 percent last year and will likely rise 20 percent this year, according to estimates from Euler Hermes Group, a Paris-based credit insurance firm.

It now takes a record 92 days for companies to collect cash on completed sales, according to the median figure for 2,920 Shanghai and Shenzhen-listed non-financial firms. Account receivables at those firms have surged 18 percent over the past year to a record high of 3.5 trillion yuan ($525 billion), data compiled by Bloomberg show. That’s pushed up a measure of how much companies must spend from sales to maintain operations to 32.5 percent at industrial firms, the highest since 2001. The measure is 22.5 percent on average globally.

An investor relations officer at Boer Power, who asked not to be identified, said this month’s decision to sell receivables to China Great Wall Asset Management Corp. can provide stable cash flows and enable the company to keep serving high-quality customers who need to take longer to pay their bills.

“This market has great potential because of problems arising from overcapacity in many sectors in China,” said Shen Xiguo, head of China Great Wall’s office in Nanjing, which is in the eastern province of Jiangsu where Boer Power is based.

Zoomlion sold 1 billion yuan of receivables to a bank in the first half amid a slump in private sector fixed asset investment. Its working capital has swelled to 221 percent of revenue as at June 30, up from 121 percent two years ago, Bloomberg-compiled data show. Two calls to Zoomlion’s investor relations department went unanswered and the company didn’t respond to four e-mails seeking comment.

When firms "don’t have bargaining power with upstream firms and are asked to extend the repayment days for downstream companies, they will face pressure on liquidity," said Ivan Chung, head of Greater China credit research at Moody’s Investors Service in Hong Kong. They then "need to sell receivables at a discount to get cash sooner," he said.

Sany in March started factoring its trade receivables to financial institutions without recourse, at a discount of 9 percent, according to its filing. Turnover days for receivables stretched to about 686 days as of June 30, 85 days more than the year-earlier figure. A spokesperson at Sany said the company can’t comment beyond the interim report.

“Stretching out sales days can be a rational business practice,” said Drew Bernstein, co-managing partner of Marcum Bernstein & Pinchuk, one of the top-four auditors of Chinese companies listed in the U.S. “But if the slowdown becomes persistent and people start to default, then there will be financial shock across the system.”