

# EUROPEAN CORPORATES: CASH-RICH SECTORS GET RICHER

19 April 2021

## ANA BOATA

Head of Macroeconomic Research  
[ana.boata@eulerhermes.com](mailto:ana.boata@eulerhermes.com)

## MAXIME LEMERLE

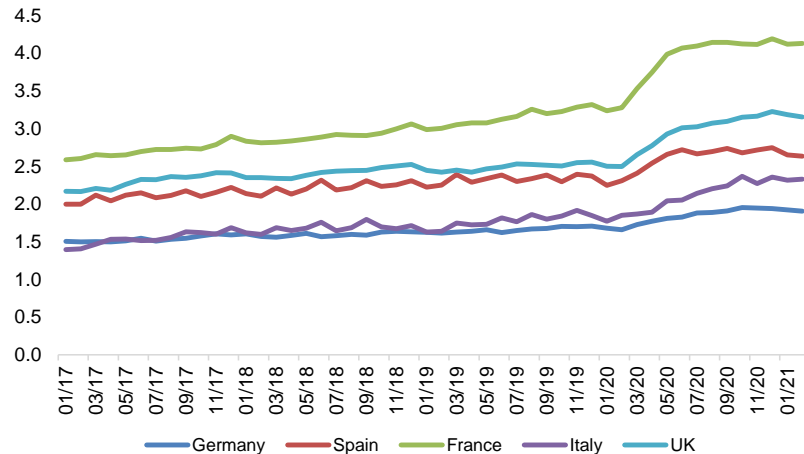
Head of Sector and Insolvency Research  
[maxime.lemerle@eulerhermes.com](mailto:maxime.lemerle@eulerhermes.com)

## LUCAS MOURTADA

Research Assistant

**The Covid-19 crisis has pushed up cash concentration among European non-financial corporates: overall, NFCs now hold cash reserves equivalent to three months of turnover, more than half a month higher than pre-crisis averages, and it is the richest sectors and companies that have become even richer.** After increasing considerably in 2020 in most European countries<sup>1</sup>, non-financial corporates' (NFC) cash has plateaued at high levels over the past few months. In France, total NFC deposits bring a cash-flow relief of more than four months of turnover, close to one month more than pre-crisis levels, while in the UK they are equivalent to close to 3.2 months, around 18 days above pre-crisis levels (see Figure 1). Given the continued light lockdowns across major European countries over the past few months, cash positions have remained quite sticky, raising upside risks for defensive and offensive investments in 2021.

Figure 1 – Total NFC deposits, months of pre-crisis turnover



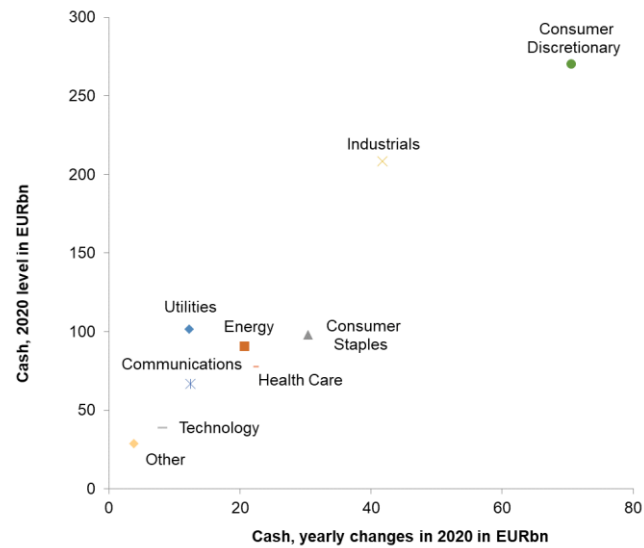
Sources: ECB, BoE, Eurostat, Euler Hermes, Allianz Research

Looking at the evolution of total cash positions in relative terms within countries, sectors such as industrials (mainly in Italy, Spain and to a certain extent the UK) and consumer goods (mainly in France and Germany) account for most of the cash hoarding of listed companies (see Figure 2 and 3). Yet, the increase in cash hoarding has also proved to be uneven within each sector to the benefit of the already richest companies. In the main European countries (see Figure 4), the top 10 cash surges in amount of cash were systematically higher than the average increase in relative

<sup>1</sup> See our previous report [European corporates: cash is king](#).

terms, implying a higher concentration of cash. Looking at the financials available as of early April<sup>2</sup>, the companies reporting the 10 largest increases in cash in 2020 posted a +56% increase (compared to +45% for the EU average) and were hoarding almost half of the total cash of listed firms. In view of this, governments have already started to implement progressive exit strategies from widespread fiscal support measures (see Figure 5).

Figure 2 – Cash-hoarding by sectors in main European countries (\*), listed companies, EURbn



(\*): Selected countries: Germany, France, Italy, Spain, Belgium and the Netherlands  
Sources: Bloomberg, Euler Hermes, Allianz Research

Figure 3 – Increase in cash position for listed companies by sector, bn LCU

	France	Germany	Italy	Spain	Belgium	Netherlands	EU	UK	US
Utilities	8	2	0	2	0	0	12	3	2
Energy	3	0	3	1	0	13	21	12	23
Consumer Staples	2	2	0	0	21	5	30	1	8
Industrials	14	9	7	6	3	2	42	10	29
Communications	-1	10	2	1	0	0	12	5	70
Consumer Discretionary	40	20	2	0	0	9	71	3	7
Materials	5	8	0	0	2	0	17	7	2
Health Care	10	9	0	2	-1	2	22	5	165
Technology	3	0	0	0	0	5	8	0	297
Other	2	1	0	0	0	0	4	1	2
<b>Total</b>	<b>87</b>	<b>62</b>	<b>15</b>	<b>14</b>	<b>26</b>	<b>36</b>	<b>239</b>	<b>47</b>	<b>586</b>

Sources: Bloomberg, Euler Hermes, Allianz Research

<sup>2</sup> We look at all the listed companies of each country/market.

Figure 4 – Concentration of cash hoarding, listed companies, bn LCU

	France	Germany	Italy	Spain	Belgium	Netherlands	EU	UK	US
<b>Companies reporting an increase in cash</b>									
Number of companies, in %	76%	69%	75%	66%	70%	65%	71%	64%	67%
Cash increase, y/y in %	43%	33%	41%	36%	46%	69%	45%	60%	52%
<b>TOP 10 increase in cash</b>									
Cash increase, y/y in %	66%	46%	51%	55%	47%	72%	56%	68%	65%
Share in cash increase	61%	66%	76%	82%	97%	92%	73%	50%	23%
Share in total cash	34%	45%	41%	44%	79%	74%	47%	34%	16%
<b>Companies reporting a decrease in cash</b>									
Number of companies, in %	24%	31%	25%	34%	30%	35%	29%	36%	33%
Cash decrease, y/y in %	-16%	-26%	-17%	-12%	-15%	-22%	-18%	-30%	-26%
<b>TOP 10 decrease in cash</b>									
Cash decrease, y/y in %	-17%	-31%	-18%	-12%	-15%	-25%	-20%	-35%	-27%
Share in cash decrease	91%	78%	94%	94%	99%	87%	88%	78%	56%
Share in total cash	12%	4%	15%	21%	7%	4%	9%	14%	10%

Sources: Bloomberg, Euler Hermes, Allianz Research

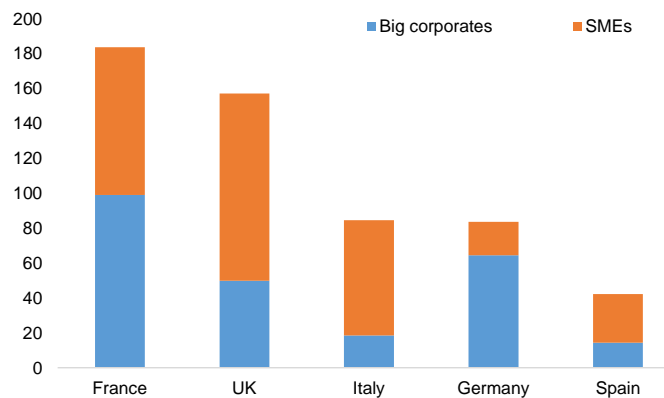
Figure 5 – Direct liquidity support provided to non-financial corporates, EURbn

Liquidity state support to NFC (subsidies, partial unemployment, lower taxes), EURbn	Q1 2020	Q2 2020	Q3 2020	Q4 2020	2020
Germany	45	28	-7	-17	50
France	38	19	-16	9	50
Italy	48	-1	-1	-27	18
Spain	14	16	-12	5	23
Netherlands	-3	13	18	-20	9
UK	-13	87	12	15	100

Sources: Eurostat, Euler Hermes, Allianz Research

In addition, we find that large companies' cash accounted for more than 70% of the total increase in NFC deposits in Germany at end-2020. However, it stood at 54% in France and close to or below 30% in Italy, Spain and the UK (see Figure 6).

Figure 6 – Increase in cash positions in 2020 by size of company, bn LCU



NB: Cash of SMEs is the difference between total cash position of NFCs and cash of listed companies.

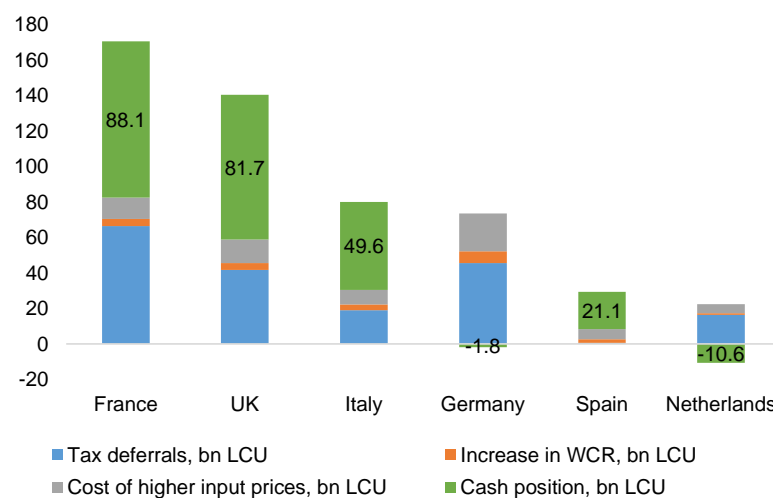
Sources: Bloomberg, ECB, BoE, Euler Hermes, Allianz Research

**Companies are likely to use around 50% of excess cash for financing rising working capital requirements and compensating for the strong rise in input prices against little pricing power. However, we also expect both defensive and offensive investment strategies in 2021.** The increase in input prices due to current supply-chain disruptions are likely to

drag NFC margins down by -4.5pp to -7.0pp in H1 2021<sup>3</sup>. Given the dependency on imports, we calculate that companies in Germany, the UK and France are likely to face the largest loss in gross operating surplus (see Figure 7). To this, rising working capital requirements in line with inventories financing and longer payment delays will also require additional financing in 2021.

Nevertheless, sectors with the highest cash positions are likely to embark on both defensive investment strategies (i.e. increasing productive capacities, modernizing existing production apparatus) and offensive ones, acquiring competitors that might be in weaker financial shape. Since the start of the year, we observe strong average M&A deals by Western European companies, both nationally and cross-border. The ITC sector registered the strongest increase, along with consumer non-cyclical and cyclical and industrials (see Figure 8).

Figure 7 – Forecasted net cash position, bn LCU



NB: We calculate cash position based on total NFC deposits, latest data available is Feb 2021  
Sources: ECB, BoE, Euler Hermes, Allianz Research

Figure 8 – M&A average deals, Western European acquirers, 4Q sum in USDbn

	National average deals, 4Q sum				Cross-border average deals, 4Q sum			
	2008-14	2015-19	2020	2021	2008-14	2015-19	2020	2021
ITC	0.8	0.6	1.8	1.3	1.7	2.0	2.7	7.2
Utilities	1.5	2.4	2.2	0.3	4.5	2.8	1.7	5.1
Consumer non-cyclical	0.5	0.5	0.8	0.9	1.4	2.7	2.6	2.9
Basic materials	0.4	2.5	2.0	0.2	1.6	2.7	2.5	1.3
Consumer cyclical	0.4	0.5	0.8	0.7	0.8	1.4	2.2	1.3
Energy	0.7	0.5	1.3	0.8	1.4	2.2	1.7	0.9
Financials	1.1	0.4	0.7	0.7	1.3	0.9	0.9	0.9
Industrials	0.5	0.5	0.8	1.6	1.0	1.2	2.4	0.6
Technology	0.3	0.6	1.8	0.5	0.6	1.2	1.6	0.6
Diversified	0.6	0.3	0.0	0.1	0.7	0.7	0.3	0.1

Sources: Bloomberg, Euler Hermes, Allianz Research

<sup>3</sup> See our previous reports [Is the Chinese ox reflating the world, one contained at a time?](#) and [The Suez Canal ship is not the only thing clogging global trade](#)

These assessments are, as always, subject to the disclaimer provided below.

#### **FORWARD-LOOKING STATEMENTS**

The statements contained herein may include prospects, statements of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties. Actual results, performance or events may differ materially from those expressed or implied in such forward-looking statements.

Such deviations may arise due to, without limitation, (i) changes of the general economic conditions and competitive situation, particularly in the Allianz Group's core business and core markets, (ii) performance of financial markets (particularly market volatility, liquidity and credit events), (iii) frequency and severity of insured loss events, including from natural catastrophes, and the development of loss expenses, (iv) mortality and morbidity levels and trends, (v) persistency levels, (vi) particularly in the banking business, the extent of credit defaults, (vii) interest rate levels, (viii) currency exchange rates including the EUR/USD exchange rate, (ix) changes in laws and regulations, including tax regulations, (x) the impact of acquisitions, including related integration issues, and reorganization measures, and (xi) general competitive factors, in each case on a local, regional, national and/or global basis. Many of these factors may be more likely to occur, or more pronounced, as a result of terrorist activities and their consequences.

#### **NO DUTY TO UPDATE**

The company assumes no obligation to update any information or forward-looking statement contained herein, save for any information required to be disclosed by law.