

Is the tide turning?



Introduction



Overview

The PwC PNG Business Barometer Survey H1 2017 reflects the views of the country's business decision makers on topical issues affecting the country. It aims to provide business executives, policy makers, regulators and other stakeholders with an overview of PNG's business landscape, which could help shape short to medium term strategies as well as policy conversations.

This survey edition focuses on business performance for the first six months of 2017 and the outlook for the rest of 2017. The findings reflect the views of the respondents and not of PwC.

Is the tide turning for PNG business?

It is difficult to draw a single set of consistent conclusions from the results of our survey. More than half of our respondents have maintained or improved financial results in the first half of 2017, particularly when compared with the prior year. For these respondents, sentiment is up, conditions are improving and expectations are that this will continue for the remainder of 2017. This group may include those who are benefiting from taking decisive cost reduction and restructuring plans in the previous 12-18 months, or those in business segments that can take advantage of reduced imports or are unaffected by the challenges associated with the lack of foreign currency.

On the other hand, over a third of our respondents see profits continue to be declining, and although there are less companies taking further actions such as headcount reduction, there is not a widespread uplift in sentiment. It may be that they don't foresee any other viable options. The fact that only a small proportion of respondents report continuing plans to delay or reduce capital expenditure may equally reflect the fact that this is generally a short term measure that may have run its course, rather than a whole hearted commitment to capital investment for growth. The result is that a number of our respondents seem to be just bumping along, waiting and hoping for more market certainty.



If this is the case, then it is relevant to ask whether there is a “circuit breaker”. Is there an event or a set of circumstances that will see a widespread return of business confidence and undisputed expectation of growth for our respondents? The biggest international event for 2018 in PNG is the hosting of APEC. Could this be the “circuit breaker”? Businesses seem to be divided. A third of our respondents see APEC as having a positive impact on their growth opportunities, while 40% cannot yet determine the event’s potential impact on their organisation. Perhaps it is a case of businesses having very high expectations for the well-known potential mega resources projects in the pipeline (Papua LNG, Frieda River, Wafi Golpu). If so, then H2 2017 at least will likely be a continuation of H1 for many of our respondents.

One thing that does seem to have come through loud and clear initially from our previous barometer survey and now from this current data is the type of action that business would like to see from government that are seen as critical to an environment conducive to growth. Unsurprisingly, improving fiscal policy, foreign currency availability, developing better capacity within the public sector and creating business friendly policies come through very strongly as a call for action. With a parliament now in place, business will be hoping that these items are on the agenda.

In our view therefore, the answer to the question “Is the tide turning for PNG business?” is a qualified one. It will take government, business, and some positive external factors working together to encourage the green shoots of growth that are out there and to build and maintain broad business confidence and growth into the future.



Revenue and profitability improved in H1 2017 vs H1 2016

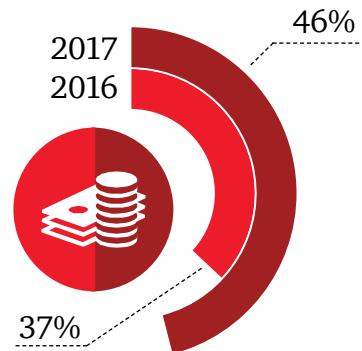
Revenue

Forty-six percent of respondents have experienced revenue growth in the first half of 2017 compared to the same period last year. Of this group, more than half have recorded 1 to 10% growth. On the other hand, 31% have recorded a decrease in revenue.

This is an improvement from the same period last year when 58% of respondents recorded revenue decline, and only 37% experienced revenue growth.

In line with the more positive business climate in the first half of 2017, PNG businesses are also optimistic about revenue prospects in the next half of the year. Forty-four percent believe that revenue will improve in the next six months; while 37% forecast their revenue to stay the same.

Revenue has improved for PNG businesses during the first half of 2017.



Organisations that experienced H1 revenue growth

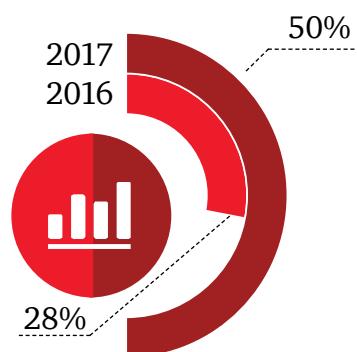
Net profit

Forty-three percent of the respondents have seen an increased net profit in the first six months of 2017 compared to the same period last year, while 38% have recorded a decline.

Figures for this year show an improved business climate compared to 2016 when more than half (53%) of the respondents had seen a decline in net profit.

Business leaders are also optimistic about their net profit forecast for the next six months of 2017. Half are expecting to improve profitability, while only 17% are expecting their net profit to decline. In 2016, only 28% were expecting profitability to improve, while a third forecasted it to decline.

PNG business leaders are expecting profitability to increase for the second half of 2017.



Organisations that expect H2 profitability to increase

Could any of these be the 'circuit breaker'?

Lack of foreign currency still the primary impediment to business growth

Businesses see the lack of availability of foreign currency as a major hurdle to growth, citing that the long process of obtaining sufficient currency has affected expansion plans, incoming investment as well as transactions with overseas business partners.

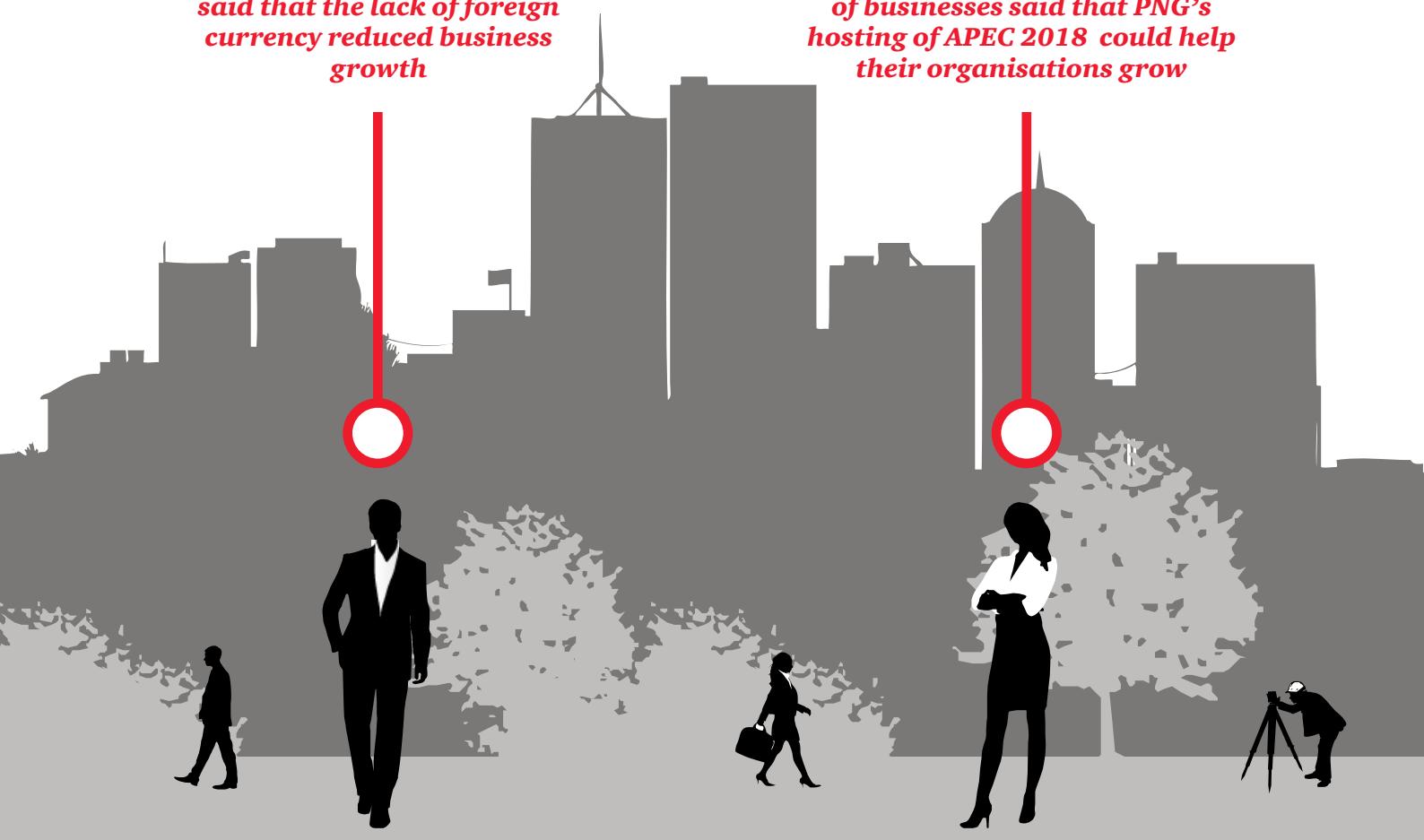
Majority of the respondents (67%) have said that this negatively affected their business growth. On the other hand, 25% of the respondents said that this has not impacted their business, and 8% said that this has helped propel business growth.

67%

said that the lack of foreign currency reduced business growth

33%

of businesses said that PNG's hosting of APEC 2018 could help their organisations grow



Creating an environment conducive to growth and investment

When asked about the changes they want to see to help propel business growth, business leaders' responses this year are largely similar to their sentiments in 2016.

The following needs to be done to create an environment conducive to business growth and investment:

-  *Improve fiscal policy and foreign currency regulations, including increasing access to foreign currency (54%)*
-  *Increase capability and efficiency, and address corruption within the public sector (27%)*
-  *Create business friendly legislation and policies, including review and amendment of existing laws, as well as stakeholder dialogue to encourage investment and meet the business environment's dynamic requirements (17%)*
-  *Develop and improve the quality of infrastructure, especially in the utilities, transportation and telecommunications sectors (15%)*
-  *Reduce the cost of doing business (15%)*
-  *Address issues regarding security, and law and order (6%)*

New this year is the private sector's desire for the government to expand initiatives to remote areas to promote sustainable growth (6%).

Top five changes businesses want to see to promote growth and investment in PNG:

2017	Rank	2016
Improve fiscal policy and foreign currency regulations	1	Improve fiscal policy and address lack of foreign currency
Increase capability and efficiency, and address corruption within the public sector	2	Improve service delivery and procurement, and address corruption within the public sector
Create and implement business friendly legislation and policies	3	Stable political environment
Develop and improve quality of infrastructure	4	Create legislation and policies that will promote business growth
Reduce the cost of doing business	5	Reduce the cost of doing business

Responding to a challenging environment

Despite the generally positive forecast for the rest of the year, organisations are still experiencing a challenging business environment in which to implement initiatives to promote growth.

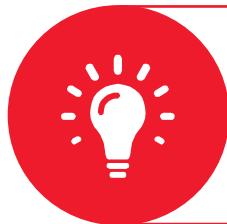
The following are the primary actions businesses are implementing in 2017 to achieve or sustain growth:



Managing costs and reducing expenses **(33%)** – Enterprises are reviewing expenditure areas and implementing aggressive cost reduction programs.



Reviewing business processes and structure to create efficiencies and improve productivity **(31%)** – Businesses are streamlining processes and leveraging technology and automation to enhance efficiency and productivity.



Driving innovation and organic growth opportunities **(29%)** – Businesses are improving product lines, service offerings and customer service to differentiate themselves from competitors and boost sales. They are also strengthening sales, marketing and distribution initiatives to expand their customer base. Innovation has gone higher up the business agenda this year, compared to 2016 when businesses were focused on defensive strategies.



Reducing or delaying investment **(10%)** – Respondents also said they are reducing and/or delaying capital expenditure to manage spending.



Reducing headcount **(8%)** – Some businesses have continued to turn to downsizing in response to the challenging business landscape. To complement the workforce reduction, businesses are driving accountability and developing capabilities among employees. However employee reduction has significantly decreased this year compared to 2016 when 72% of respondents indicated that their headcount had decreased.

Survey methodology and respondents

We surveyed business leaders from 13 June to 7 July 2017 to capture their views on various topical questions. The questions were both open ended, which required a free text response, as well as multiple choice questions. We sent the survey questionnaire to the respondents using an online survey tool, and we analysed and organised the responses into themes. The responses were gathered on a confidential basis and therefore, were not audited or validated. The findings are the sentiments of those that responded, not of PwC.

The respondents are from 15 different sectors of the economy.



Agriculture or primary production



Construction



Diversified corporate



Government



Insurance, stock broking and asset management



Manufacturing



Media and ICT



Mining



Non-bank financial institution



Oil and gas



Other financial services



Professional services



Retail

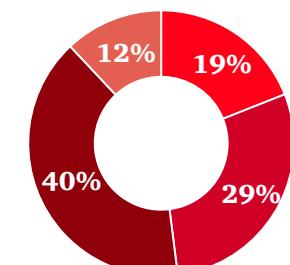


Tourism and hospitality



Transport and logistics

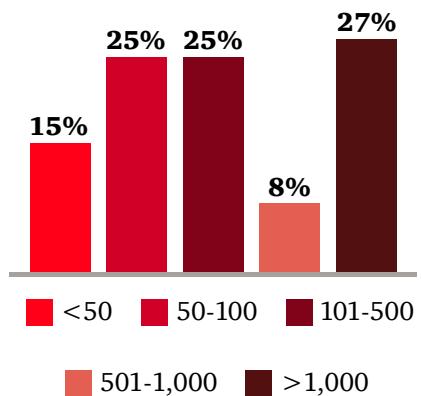
Type of entity



Annual revenue



Employee headcount



For more information, please contact:

Jonathan Seeto
Managing Partner
jonathan.seeto@pg.pwc.com

Stephen Beach
Partner
stephen.beach@pg.pwc.com

Peter Burnie
Partner
peter.r.burnie@pg.pwc.com

David Caradus
Senior Tax Counsel
david.caradus@pg.pwc.com

Jason Ellis
Partner
jason.b.ellis@pg.pwc.com

Jonathan Grasso
Partner
jonathan.a.grasso@pg.pwc.com

Christopher Hansor
Partner
christopher.hansor@pg.pwc.com

Alison Judd
Partner
alison.judd@pg.pwc.com

Rajul Makan
Partner
rajul.makan@pg.pwc.com

Kanthan Rajadurai
Principal
kanthan.rajadurai@pg.pwc.com

Port Moresby office
PwC Haus, Level 6, Harbour City,
Konedobu
PO Box 484, Port Moresby
T: (675) 305 3100 | (675) 321 1500
F: (675) 321 1428

Lae office
ANZ Haus, Aircorps Road
PO Box 451, Lae
T: (675) 472 2644
F: (675) 472 6270

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