Credit Brief on Singapore SMEs
Q1 2017

Jointly by Credit Research Initiative Team and Validus Capital Pte. Ltd.

This brief is a jointly published quarterly article, between Validus and Credit Research Initiative at National University of Singapore (NUS-CRI), providing insights on industry-level Credit Risk of Singapore SMEs and provides a summary of how loans generated through the Validus' platform incorporates the learnings from the industry-level Credit Analysis. The Credit Risk of the industries is measured via the Probability of Default (PD) model developed by the NUS-CRI team (www.rmicri.org).This analysis is conducted across 10 industries (Bloomberg classification) and the loans funded through Validus. (www.validus.sg)

Data note: Analysis in this report is based on the sample of public SMEs. Due to the small sample size in Singapore and similar credit characteristics of public SMEs across Singapore, Australia, Hong Kong and Korea, all CRI sector PDs are calculated as an average of PDs for the public SMEs in the four economies. This methodology is in agreement with Validus Capital Pte. Ltd. and is expected to reflect the Credit Risk profile of Singapore SMEs.

A. Key Highlights on Credit Risk

The NUS-CRI 1-year PD for Singapore SMEs decreased from 16.71bps to 14.23bps in Q1 2017, coinciding with Singapore's 2.5% Q1 GDP YoY growth. The SBF-DP SME Index[1] increased from 49.8 to 50.4, in tandem with the decline in NUS-CRI PD, suggesting a slight improvement of the credit profile of Singapore SMEs in Q1 2017.

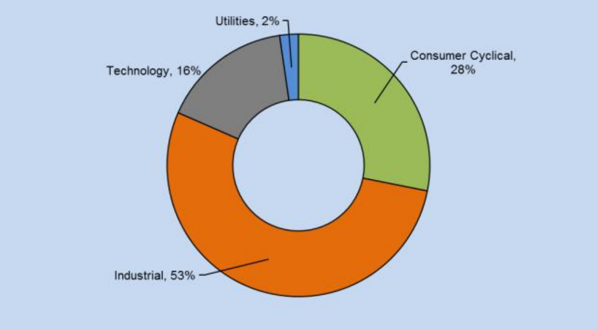
- CRI 1-year PDs for Singapore SMEs slightly improved in both Q4 2016 and Q1 2017.
- Energy and Industrial sectors saw the highest credit risk in Q1, while Consumer (non-cyclical) and Utilities delivered the best credit performance among all industries.
- The Utilities sector maintained the best performer in Q1 2017.
- Small Firms performed much better than All Sizes in the Utilities industry, while reversely for most of the other industries.
- The overall multiple of medium term PD (1-year) to short term PD (1-month) is 10.52x as compared to 10.34x from the previous quarter. This is an indicator denoting the extent of the behaviour of medium term PD compared to the short term PD which is further used as a benchmark for industry-level PD multiple. Any industry level PD multiple that is higher than the overall multiple indicates that medium term loans for those industry sectors are more risky than short term loans and vice versa.

B. Loans originated through Validus Platform

- Loans funded[2] through Validus include firms in Consumer Cyclical, Industrial, Technology and Utilities.
- Loans to companies within the industrial sector (mainly comprises of construction service related companies) are almost all short term.
- For companies in Technology and Utilities, the loan tenure is medium term in nature and in line with the Credit Risk insights.
- Profile of loans originated through Validus platform are displayed in the charts below:

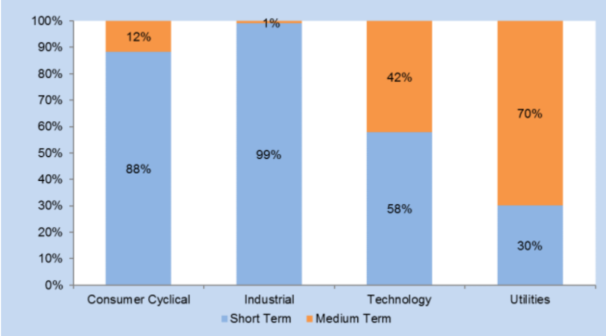
[1] SBF-DP SME Index is a six-month forward looking business sentiment index by Singapore Business Federation and DP Information Group
[2] This report contains all loans funded through Validus

B.1 % of total loans funded through Validus Platform by industry sector



Source: Validus Capital, all figures are updated as of March 31, 2017

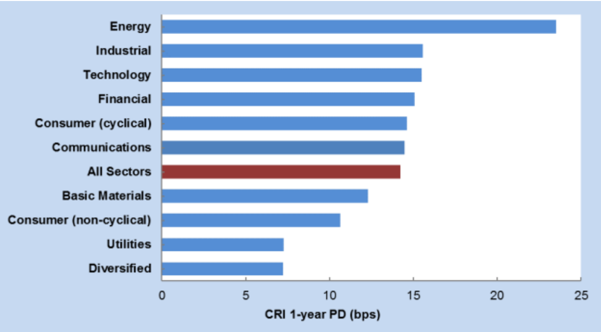
B.2 % of loans funded through Validus Platform by industry sector and tenure



Source: Validus Capital, all figures are updated as of March 31, 2017

The CRI 1-year PD assesses the credit risk in the future one year. The comparison of PD trends and PD multipliers across industries gives a clear picture of the relative credit performance of each sector. The relative credit performance by firm size within each industry is also provided. By definition[3], firms with annual turnover equal to or below USD 2mn are considered Micro Firms, between USD 2-10mn are considered Small Firms, while larger than USD 10mn and equal to or below USD 100mn are considered Medium Firms.

C.1 CRI 1-year PD by industry

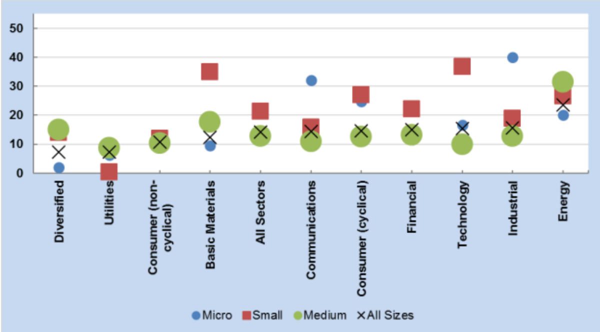


Source: CRI, all figures are updated as of March 31, 2017

Among all Singapore SMEs, the CRI 1-year PD for the Energy sector performed worst, followed by the Industrial and Technology sectors in Q1 2017. In contrast, the Utilities, Consumer Non-Cyclical and Basic Materials sectors delivered robust performances.

- The credit performance of every single sector improved in Q1 2017, while Energy, Financial and Utilities sectors saw the most decline in CRI 1-year PD.
- However, Energy remained to be the most risky sector in Q1 2017.
- The Utilities sector maintained its position of the least risky sector heading from Q4 2016 into Q1 2017.

C.2 CRI 1-year PD for firm sizes by industry



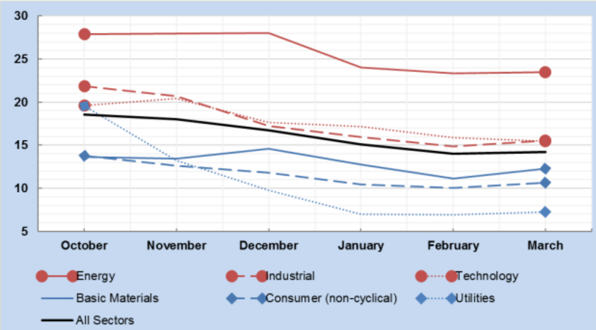
Source: CRI, all figures are updated as of March 31, 2017

SMEs with different firm sizes delivered variable CRI 1-year PD performances within each industry. Industries with the highest PD variance of sizes were the Industrial, Technology and Basic Materials sectors.

- The small firms in the Utilities sector performed better than All Sizes in the same sector. Small Utilities firms also performed much better than small sized firms across the other sectors. Small Utilities firms had a 1-year PD of 0.42bps, lower than every other firm of any size or sector.
- Although the Basic Materials industry is one of the least risky industries, small sized Basic Materials firms carried the second highest credit risk among firms of the same size in all industries.
- Industrial sector companies displayed the highest variance of 1-year PDs among all sectors. Small Technology firms were the second most risky, slightly less risky than micro-sized Industrial companies.

[3] Defined by Validus Capital Pte. Ltd.

C.3 CRI 1-year PD trend by industry

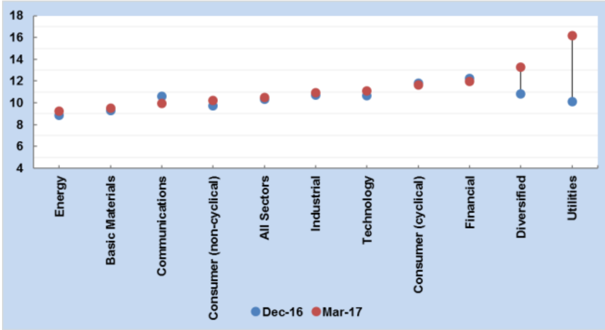


Source: CRI, all figures are updated as of March 31, 2017

The credit performances for all Singapore SMEs had slightly improved in Q1 2017.

- Among the three most risky sectors, the Energy sector's CRI 1-year PD improved by 4.53bps during Q1. The Industrial and Technology sectors improved by 1.66bps and 2.18bps respectively.
- Comparing the trends within the three least risky sectors, the CRI 1-year PDs for the Basic Materials and Consumer (non-cyclical) sectors improved by 2.27bps and 1.12bps respectively. The 1-year PD for the Utilities sector continued to improve, although the magnitude is not as substantial as the previous quarter.

C.4 CRI PD multiple by industry



Source: CRI, all figures are updated as of March 31, 2017

The multiples of medium term PD (1-year) to short term PD (1-month) for all industries are shown above.

- The PD multipliers showed varied changes. The PD multipliers decreased for the Communications, Consumer (cyclical) and Financial sectors, while the multipliers increased for the remaining sectors. A decrease in the multiplier indicates that credit risk has improved in the medium term faster than the short term.
- The Utilities sector recorded the largest increase in PD multiple. The CRI PD multiple for the sector increased to 16.2X in March 2017 from 10.1X in December 2016.

D. Conclusion

Singapore SMEs continued to face headwinds, while it saw a slight turnaround in Q1 2017. The Singapore Business Federation – DP Info SME Index, a measure of business sentiment among SMEs, rebounded from the 7-year index trough, an improvement which resonates with the decline in NUS-CRI 1-year PD. The NUS-CRI PD further suggests that Energy, Financial and Utilities sectors witnessed the strongest recovery among all industries. In addition to strengthening credit profile, Singapore SMEs are expected to benefit from the government's supports. The MAS revealed that it will relax the rules binding finance companies, making it easier for SMEs to get unsecured loans. Also, the government also advocates an umbrella organization, claiming that this measure can financially assist SMEs before and after they become over debt-laden. Despite positive signs, it remains to be seen when and whether the credit profile of Singapore SMEs can be fundamentally improved.