Credit Brief on Singapore SMEs
Q3 2020

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.nuscri.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. In this report, the PDs for each quarter were computed using model parameters that were calibrated on October 8, 2020, using all available data up to September 30, 2020.

A. Key Highlights on Credit Risk

The NUS-CRI 1-year PD for Singapore SMEs decreased to 30.63bps at the end of Q3 2020 despite a yearly GDP contraction of 7% based on advance estimates for this quarter. The SBF-DP SME Index[1], a forward looking measure of SME sentiment worsened to 46.3, suggesting a less optimistic outlook for Singapore SMEs between October 2020 and March 2021.

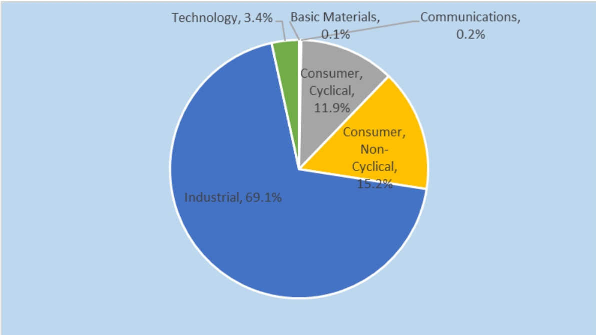
- CRI 1-year PDs for Singapore SMEs decreased in Q3 2020.
- Continuing from Q2 2020, the Energy and Utilities sectors had the highest credit risk in Q3 2020, while Consumer (non-cyclical) and Financials sectors had the lowest credit risk among all industries.
- While all industries witnessed a general improvement in credit quality, Basic Materials saw the biggest decrease in default risk.
- The aggregate credit quality of Medium-sized, Small and Micro firms improved during the quarter. The aggregate default risk for Micro Consumer (cyclical) firms increased the most by 12.41bps while the Medium Basic Materials sector witnessed the greatest improvement of 9.69bps across any size and industry group.
- The overall multiple of medium term PD (1-year) to short term PD (1-month) increased to 11.28x from 10.78x in 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, Consumer Non-Cyclical, Industrial, Technology, Basic Materials and Communications.
- 81% of loans originated from Validus platform are to companies within the Industrial and Consumer Cyclical sectors. The loans are mostly short term in nature for all the industries. NUS-CRI insights do not indicate any adverse risk on these two industry sectors.
- Profile of loans originated through Validus platform are displayed in the charts below:

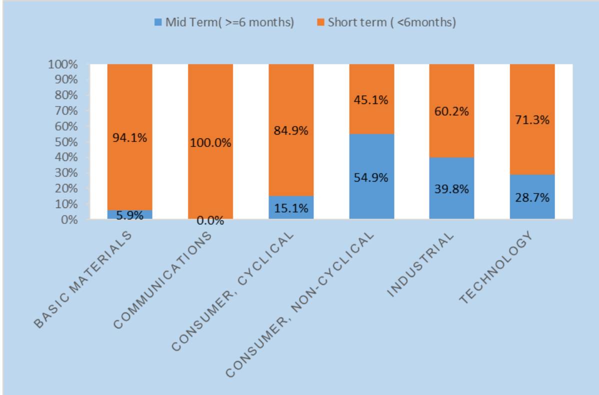
[1] SBF-DP SME Index is a six-month forward-looking business sentiment index by Singapore Business Federation and DP Information Group
[2] This report contains all loans funded through Validus

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



Source: Validus Capital, all figures are updated as of Sep 30, 2020

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

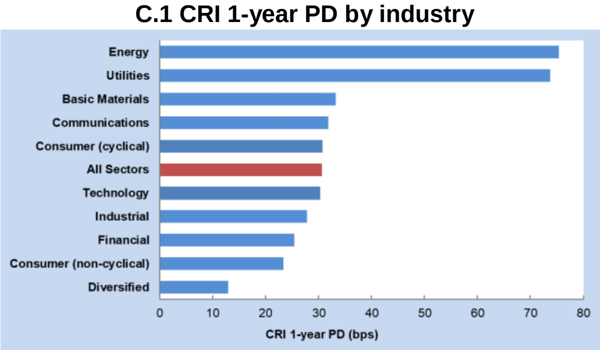


Source: Validus Capital, all figures are updated as of Sep 30, 2020

C. Credit Risk for Singapore Industries

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

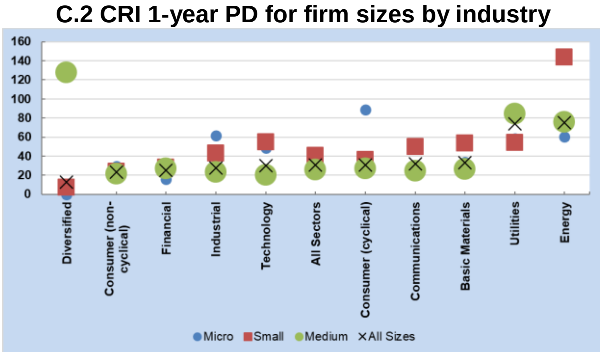


Source: CRI, all figures are updated as of September 30, 2020

The Energy industry had the highest CRI 1-year PD among all Singapore SMEs, followed by the Utilities and Basic Materials sector in Q3 2020. In contrast, the Industrial, Financial and Consumer (non-cyclical) sectors delivered robust performances.

- The Aggregate CRI 1-year PD of all sectors decreased in Q3 2020 by 4.79bps from the last quarter. The credit performance of all sectors generally improved in Q3 2020.
- The Energy sector remains the most risky sector in Q3 2020.
- The Consumer (non-cyclical) sector remains the least risky sector in Q3 2020.

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



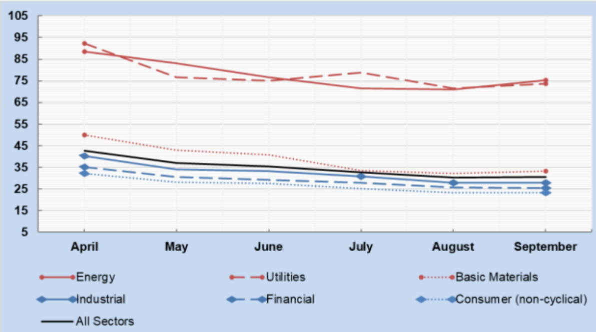
Source: CRI, all figures are updated as of June 30, 2020

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 Energy, Consumer (cyclical) and Industrial sectors.

- Micro firms in the Financial sector performed better than All Sizes in the same sector. Micro Financial firms had a CRI 1-year PD of 15.57bps, lower than every other firm of any size or sector.
- The Energy sector displayed the highest variance of the CRI 1-year PDs among all sectors. In contrast, the sector that displayed the lowest variance is the Consumer (non-cyclical) sector.
- Small Energy firms carried the highest credit risk among every other firm of any size or sector. The CRI 1-year PD for Small Energy firms is 143.74bps.

[3] Defined by Validus Capital Pte. Ltd.

C.3 CRI 1-year PD trend by industry

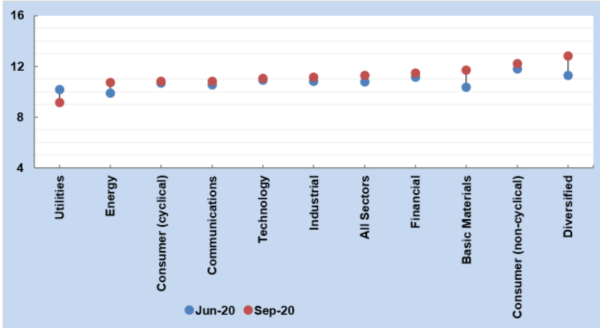


Source: CRI, all figures are updated as of September 30, 2020

The credit performances for all Singapore SMEs improved in Q3 2020.

- Among the three most risky sectors, the Energy sector's CRI 1-year PD decreased by 1.35bps during Q3 2020. PDs for the Utilities and Basic Materials sectors decreased by 1.37bps and 7.61bps, respectively.
- Comparing the trends with the three least risky sectors, the CRI 1-year PDs for the Industrial and Financial sectors decreased by 5.52bps and 3.92bps, respectively. The Consumer (non-cyclical) sector was the best credit performer in this quarter. Its CRI 1-year PD decreased by 4.22bps during Q3 2020.

C.4 CRI PD multiple by industry



Source: CRI, all figures are updated as of September 30, 2020

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

- The PD multiplier has generally increased for all sectors. An increase in the multiplier indicates that credit risk has improved in the short term faster than the medium term.
- The Basic Materials sector recorded the largest increase in PD multiple. The CRI PD multiple for the sector increased from 10.38X in June 2020 to 11.73X in September 2020.

D. Conclusion

Overall, the NUS-CRI 1-year PD decreased during Q3 2020, from 35.41bps in June to 30.63bps in September. The credit profile of Singapore SMEs improved despite the yearly GDP contraction of 7% in Q3 2020 based on advance estimates from the Ministry of Trade and Industry (MTI). According to the survey conducted by the Singapore Business Federation and DP Information Group, the business optimism of Singapore's SMEs has declined due to uncertainties arising from the COVID-19 outbreak and restrictions to slow the virus' spread. The Retail/ F&B sector has the most pessimistic outlook compared to the other sectors as their business operations have been severely disrupted and restrictions are set to continue for the foreseeable future. To mitigate the impact of the pandemic-induced economic downturn, the Singapore government has set aside approximately SGD 100bn to tide Singapore through the COVID-19 crisis. Despite the support measures, SMEs across most sectors remain cautious as the COVID-19 continues to adversely impact the global economy. Companies are therefore urged to reinvent themselves and strategically position their business for the eventual post-COVID-19 recovery.