Credit Brief on Singapore SMEs
Q4 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 January 9, 2021, using all available data up to December 31, 2020.

A. Key Highlights on Credit Risk

The NUS-CRI 1-year PD for Singapore SMEs decreased to 26.90bps at the end of Q4 2020 despite a yearly GDP contraction of 6% based on advance estimates for this quarter. The SBF-DP SME Index[1], a forward looking measure of SME sentiment improved to 48.2, suggesting a more optimistic outlook for Singapore SMEs between January 2021 and June 2021.

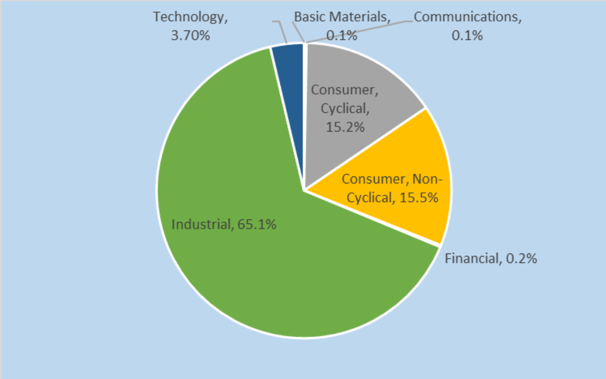
- CRI 1-year PDs for Singapore SMEs decreased in Q4 2020.
- Continuing from Q3 2020, the Utilities and Energy sectors had the highest credit risk in Q4 2020, while Consumer (non-cyclical) and Financials sectors had the lowest credit risk among all industries.
- While all industries witnessed a general 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 Small Energy firms increased the most by 13.54bps while the Micro Consumer (cyclical) firms witnessed the greatest improvement of 17.67bps across any size and industry group.
- The overall multiple of medium term PD (1-year) to short term PD (1-month) increased to 14.08x from 11.55x 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 Cyclical, Industrial, Technology and Utilities.
- 80.3% 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:

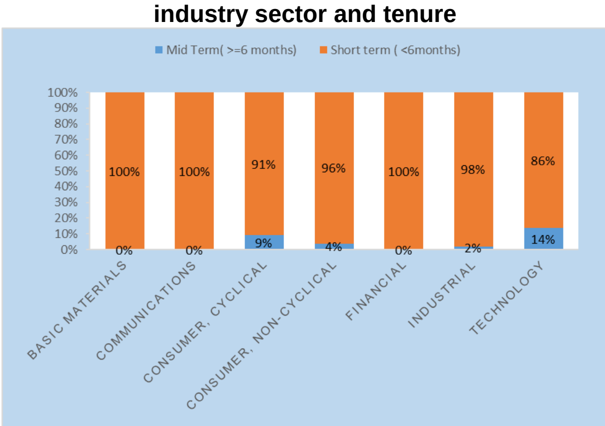
[1] SBF-DP SME Index is a six-month forward-looking business sentiment index by Singapore Business Federation and DP Information Group
[2] This report contains all loans funded through Validus

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



Source: Validus Capital, all figures are updated as of Dec 31, 2020

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

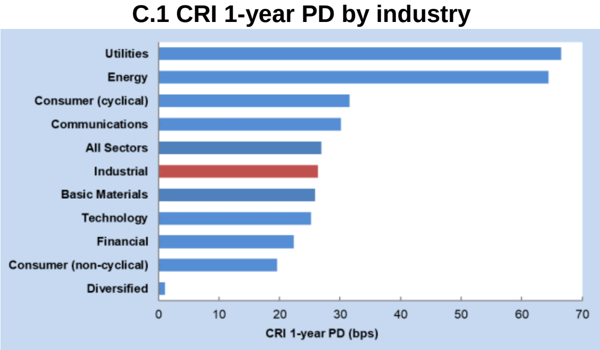


Source: Validus Capital, all figures are updated as of Dec 31, 2020

C. Credit Risk for Singapore Industries

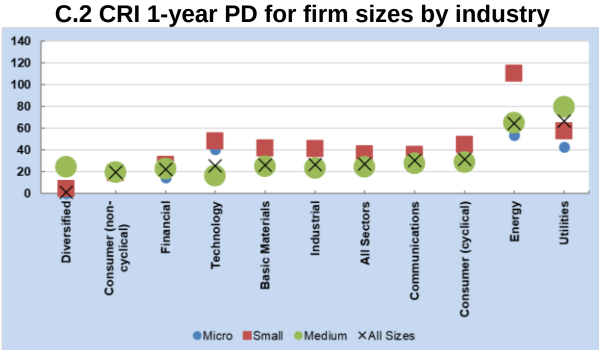
The CRI 1-year PD assesses the credit risk in the future one year. The comparison of PD trends and PD multipliers across industries gives a clear picture of the relative credit performance of each sector. The relative credit performance by firm size within each industry is also provided. By definition[3], 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 December 31, 2020

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



Source: CRI, all figures are updated as of December 31, 2020

The Utilities industry had the highest CRI 1-year PD among all Singapore SMEs, followed by the Energy and Consumer (cyclical) sector in Q4 2020. In contrast, the Technology, Financial and Consumer (non-cyclical) sectors delivered robust performances.

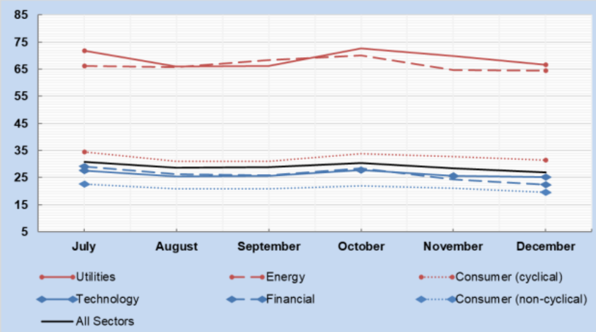
- The Aggregate CRI 1-year PD of Singapore SMEs decreased in Q4 2020 by 1.88bps from the last quarter. The credit performance of all sectors generally improved in Q4 2020.
- The Utilities sector remains the most risky sector in Q4 2020.
- The Consumer (non-cyclical) sector remains the least risky sector in Q4 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, Utilities and Technology 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 14.59bps, 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 110.23bps.

[3] Defined by Validus Capital Pte. Ltd.

C.3 CRI 1-year PD trend by industry

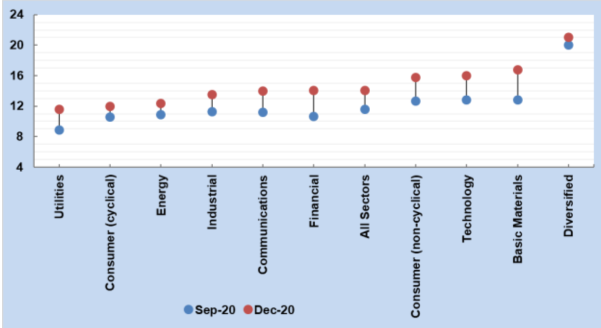


Source: CRI, all figures are updated as of December 31, 2020

The credit performances for all Singapore SMEs improved in Q4 2020, except for Utilities and Consumer (cyclical).

- Among the three most risky sectors, the Utilities sector's CRI 1-year PD increased by 0.48bps during Q4 2020. PD for the Energy sector decreased by 3.92bps while the Consumer (cyclical) sector rose by 0.43bps.
- Comparing the trends with the three least risky sectors, the CRI 1-year PDs for the Technology and Financial sectors decreased by 0.39bps and 3.5bps respectively. The Consumer (non-cyclical) sector had the best credit quality in this quarter. Its CRI 1-year PD decreased by 1.39bps during Q4 2020.

C.4 CRI PD multiple by industry



Source: CRI, all figures are updated as of December 31, 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 12.83X in September 2020 to 16.75X in December 2020.

D. Conclusion

Overall, the NUS-CRI 1-year PD decreased during Q4 2020, from 28.78bps in September to 26.90bps in December. The credit profile of Singapore SMEs improved despite the yearly GDP contraction of 6% in Q4 2020 based on 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 improved due to the easing of restrictions, paving the way for economic recovery. The initiation of the Regional Comprehensive Economic Partnership (RCEP) and the rollout of the COVID-19 vaccine are key factors that should serve as significant tailwinds for the Singapore SME sector in the near future. At the same time, the government, alongside the MAS, have further extended support for SMEs to service their debt, giving them some breathing room to remain operational. These measures are slowly expected to wind down in the first quarter of 2021. Companies are therefore urged to ensure proper fiscal management as revenue growth is likely to remain muted in the near future. At the same time, they should focus on adapting themselves to remain buoyant in a rapidly shifting landscape.