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Webinar: Maintaining Finance for Firms Impacted by COVID-19: Perspectives for East Asia

Maintaining Financing for Firms: Perspectives from Singapore

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Source: Bloomberg

Pandemic's Winners & Losers (Mostly Losers)

SPX Index | Analyze List | Settings | Group Ranked Returns

View: Members / Groups | Period: YTD 12/31/19 - 05/01/20 | Total Return | Currency: LCL

Movers | All

Groups (158)	Return
S&P 500 INDEX	-12.38%
Best Performing	
1) S&P 500 GOLD INDEX	40.37%
2) S&P 500 INTERNET RET IDX	17.13%
3) S&P 500 FOOD RETAIL INDX	10.25%
4) S&P 500 SYSTEMS SFTW IDX	10.06%
5) S&P 500 WIRELESS SER IDX	9.93%
6) S&P 500 Int Svc & Infr	8.29%
7) S&P 500 Inter Home Ent	6.36%
8) S&P 500 BIOTECH INDEX	4.84%
9) S&P 500 HYPR & SUPRCNTRS	3.13%
10) S&P 500 TRUCKING INDEX	2.75%
Worst Performing	
11) S&P 500 AUTOMBL MANF IDX	-44.75%
12) S&P 500 MCYCL MANF INDEX	-45.17%
13) S&P 500 RETAIL REITS IDX	-45.92%
14) S&P 500 MLTILN INS INDEX	-46.50%
15) S&P 500 APRL & ACCES IDX	-47.13%
16) S&P 500 HOTELS INDEX	-53.97%
17) S&P 500 AIRLINES INDEX	-57.72%
18) S&P 500 OIL & GAS EQU IX	-57.98%
19) S&P 500 DEPT STORES IDX	-61.31%
20) S&P 500 OIL&GAS DRIL IDX	-63.00%

Best Performing

1) NEWMONT CORP	40.37%
2) REGENERON PHARMACEUTICALS	39.95%
3) CARRIER GLOBAL CORP	39.75%
4) CITRIX SYSTEMS INC	28.57%
5) NETFLIX INC	28.34%
6) CLOROX COMPANY	25.51%
7) MSCI INC	23.92%
8) AMAZON.COM INC	23.71%
9) GILEAD SCIENCES INC	23.04%
10) DIGITAL REALTY TRUST INC	21.86%

Worst Performing

11) HELMERICH & PAYNE	-63.00%
12) OCCIDENTAL PETROLEUM CORP	-63.02%
13) ONEOK INC	-63.08%
14) CAPRI HOLDINGS LTD	-63.41%
15) NOBLE ENERGY INC	-64.65%
16) KOHLS CORP	-65.38%
17) ROYAL CARIBBEAN CRUISES LTD	-69.46%
18) UNITED AIRLINES HOLDINGS INC	-69.78%
19) CARNIVAL CORP	-72.59%
20) NORWEGIAN CRUISE LINE HOLDIN	-76.31%

MXASJ Index | Analyze List | Settings | Group Ranked Returns

View: Members / Groups | Period: YTD 12/31/19 - 05/01/20 | Total Return | Currency: LCL

Enter universe.

Movers | All

Groups (11)	Return
MSCI AC ASIA x JAPAN	-11.93%
All Groups	
1) MSCI AC AS xJ/HLTH CARE	7.03%
2) MSCI AC ASIAxJP/COMM SVC	0.64%
3) MSCI AC AS xJ/CON STPL	-5.78%
4) MSCI AC AS xJ/INF TECH	-9.92%
5) MSCI AC AS xJ/UTILITY	-10.35%
6) MSCI AC AS xJ/CONS DIS	-12.85%
7) MSCI AC AS xJ/MATERIAL	-14.72%
8) MSCI AC AS xJ/REAL EST	-16.75%
9) MSCI AC AS xJ/INDUSTRL	-17.22%
10) MSCI AC AS xJ/FINANCE	-18.38%
11) MSCI AC AS xJ/ENERGY	-21.83%

Best Performing

1) SHIJIAZHUANG YILING PHARMA-A	133.31%
2) ALIBABA HEALTH INFORMATION T	108.44%
3) PING AN HEALTHCARE AND TECHN	88.92%
4) BEIJING DABEINONG TECHNOLO-A	86.75%
5) WUHAN GUIDE INFRARED CO LT-A	82.10%
6) HEILONGJIANG AGRICULTURE-A	75.36%
7) NEW HOPE LIUHE CO LTD-A	71.68%
8) JIANGSU YUYUE MEDICAL EQU-A	69.78%
9) CHONGQING ZHIFEI BIOLOGICA-A	69.33%
10) WINNING HEALTH TECHNOLOGY-A	67.49%

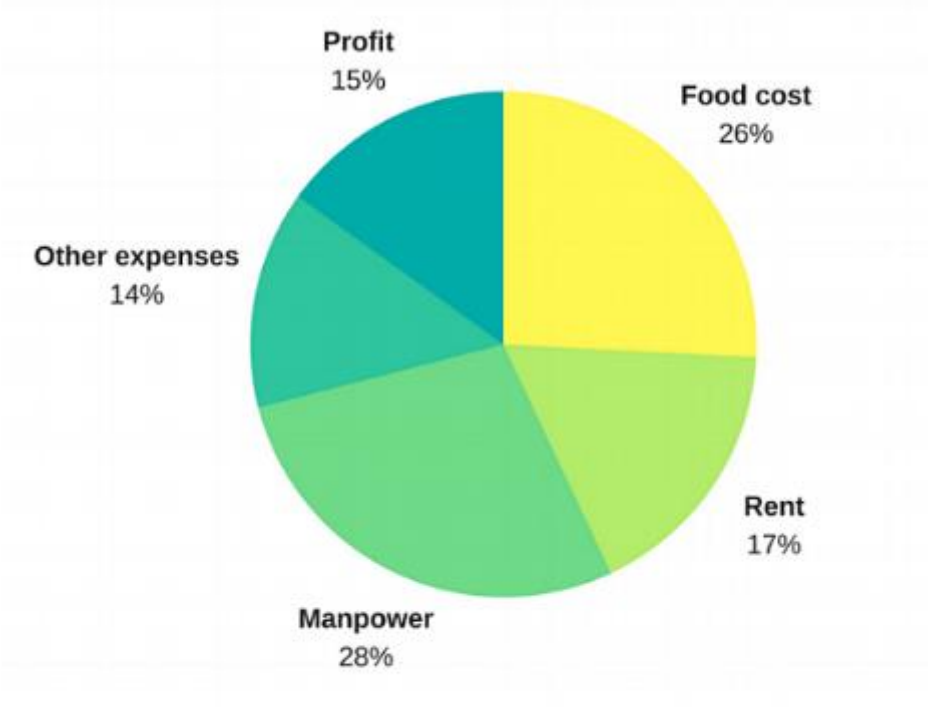
Worst Performing

11) TATA MOTORS LTD	-49.64%
12) CHINA OILFIELD SERVICES-H	-50.74%
13) BANPU PUBLIC CO LTD	-50.84%
14) PABRIK KERTAS TJIWI KIMIA PT	-51.34%
15) AIRASIA GROUP BHD	-52.06%
16) GCL SYSTEM INTEGRATION TEC-A	-57.53%
17) BANK TABUNGAN NEGARA PERSE...	-58.49%
18) PERUSAHAAN GAS NEGARA TBK PT	-60.60%
19) MEDY-TOX INC	-61.58%
20) LUCKIN COFFEE INC - ADR	-88.85%

Here comes the cavalry

- When financial markets & products can't provide safety – a.k.a. market incompleteness – the state undertakes responsibility to insure its members against exogenous systemic negative shocks
- Singapore did just that on multiple fronts: for households, businesses, self-employed, etc.
- On the business front, government:
  - ❖ mitigated job market disruptions to prevent permanent damage to businesses' organizational capital by subsidizing wages; up to 75% for some industries
  - ❖ maintained market-wide financial stability and financial security, mostly via forbearance programs, interest / principal payment deferrals, rental relief (including waiver of government rental charges), contractual obligation temporary relief
  - ❖ offered property and corporate income tax rebates
  - ❖ **introduced ultra-low interest bridge loans via banks to cover short term cash shortfalls at SMEs**

Case study: An average SG restaurant's operating cost structure



An example of a restaurant's operational cost breakdown.

	Normal times	During Pandemic	
Annualized		Subsidized costs	Govt subsidy
Sales	$ 1,000,000	$ 200,000	
Food Costs	$ 305,882	$ 61,176	
Rent	$ 200,000	$ 150,000	$ 50,000
Manpower	$ 329,412	$ 164,706	$ 164,706
Other costs	$ 164,706	$ 98,824	
Profit (Loss)	$ -	**$ (274,705)**	

- Average SG restaurant still in the hole for $275K!
- Restaurants usually only have 30 days of cash on hand**
- Share of food service value in Singapore: S$9.9bn in 2019
- Back of the envelope: S$2.7bn in F&B financing needed!

Source:
iCHEF Club SG https://www.ichefpos.com/en-sg/blog/budgeting-for-your-restaurants-operational-costs
**Didier, Tatiana; Huneeus, Federico; Larrain, Mauricio; Schmukler, Sergio L. 2020. Financing Firms in Hibernation During the COVID-19 Pandemic. Research and Policy Briefs, no. 30;. World Bank, Washington, DC. (Figure 2)

Saving Singapore's SMEs

In 2019 small and medium-scale enterprises (SMEs) in Singapore contributed:

- 45% of value-add to Singapore's 2019 GDP of S$507.6 billion
- Provided around 72% of the 3.5 million in total jobs
- Constituted 99% of all its enterprises, comprising of 273,100 firms
- Most have no link to capital markets; rely almost exclusively on bank finance or the resources of the owners

VIRUS OUTBREAK

Virus-battered smaller businesses flood banks with loan applications

But some still sitting in uncertainty, having been rejected or told they would not meet the banks' conditions

BT EXCLUSIVE

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Singapore

SINGAPORE'S Big Three banks saw a surge in enterprise loan applications in the past two months, with the majority of requests coming from micro and small businesses under siege from the virus pandemic.

Checks by *The Business Times* found that interest rates for these government-assisted SME loans have come down to as low as below 3 per cent for qualifying small- and medium-sized enterprises (SMEs), down from a rough range of 6-9 per cent previously. These are unsecured loans.

That being said, while some SMEs praised their bankers for proactively reaching out to extend loans, others – usually the smaller ones or those without a track record – told *BT* they are still waiting for banks to respond to their requests after more than a week.

In Parliament last week, Senior Minister of State for Trade and Industry Chee Hong Tat had said that the enhanced Enterprise Financing Scheme's SME working capital loan – as announced in Budget 2020 and started on March 2 – saw 662 enterprises take up loans as of March 31, 2020, out of which almost 90 per cent are micro and small enterprises, or those with annual revenue of under S$10 million.

Fresh data from DBS showed that the bank saw a year-on-year doubling of government-assisted SME loans and total loan quantum disbursed in March 2020.

DBS' group head of SME banking Joyce Tee said that the bank received more than 200 SME loan enquiries each day on average in the first week of April – four times higher than the daily average in January, coming largely from micro and small enterprises. Those in the retail, food and beverage and hospitality sectors are especially affected, she said.

As for secured loans, the bank expects to process about 7,000 SME applications for principal moratoriums of up to nine months.

Similarly at UOB, head of group commercial banking Eric Tham said the bank has seen a "significant increase" in SME working capital loan applications in March, with "the majority" approved. Overall, SME working capital loans approved by UOB in March grew close to 60 times from a year ago.

From small businesses in particular, the number of working capital loan applications has doubled over the past month, said Mr Tham. UOB has also seen a rise in applications for loan moratoriums, as well as a jump in temporary bridging loan applications since it was opened up to all industries.

The one-year temporary bridging loan was introduced in Budget 2020 for tourism companies to get loans of up to S$1 million, with the interest rate capped at 5 per cent. It was later expanded to all sectors and the loan amount increased to S$5 million.

'If they stop now, the losses stop there. If they borrow, it adds to their debt. There is no guarantee of recovery when the market is back.'

An electronics services retailers on why some fellow entrepreneurs are still mulling whether to take up loans

Mr Tham said that given the higher risk-sharing by the government, UOB has been able to extend loans to more SMEs, including those that may have previously been ineligible. It will also consider companies in operation for fewer than three years or startups that are not yet profitable on a case-by-case basis, he added.

OCBC declined to give details on its loan statistics, but its head of global commercial banking Linus Goh said the demand for the Enterprise Singapore loans is "significantly higher" than the interest in moratoriums on existing loans at this stage.

Deputy Prime Minister and Finance Minister Heng Swee Keat had said the financing help from the government is for "viable businesses" to have access to credit – not for every ailing business.

This comes even as banks are now given more leeway by the Monetary Authority of Singapore to support lending activities and as the government ups its risk-share for several enterprise loans to 90 per cent.

Still, some businesses are sitting in uncertainty. They have already been rejected or dissuaded from applying as they do not meet the banks' criteria.

Hartman Kwok, founder and CEO of children's entertainment business The Pollywogs, said his applications for SME loans at one bank was turned down. "I have existing lines and we have very good payment record but the banks just don't want to take on more risk," he said. Mr Kwok said his company's financials were deemed "not strong" last year due to internal restructuring while his business has been impacted by Covid-19 since January this year.

The bank did offer loan deferment options, but he noted that interest will still accumulate. Mr Kwok added that he is going to try other banks for help.

SMEs' interactions with the banks have also been varied, with many still waiting on their lenders to move.

Daniel Thong, co-founder of office cleaning company Nimbus Facilities Services, said that from his experience, banks are still asking for traditional metrics such as a positive one-year net asset value or Ebitda (earnings before interest, taxes, depreciation, and amortisation).

"Not many companies can deliver these numbers, especially startups and younger companies," he said.

Nimbus, which has been in operations for three years, started off profitable in early 2020, but as the virus outbreak made its way through Singapore, revenues have since dived 50 per cent due to office closures, said Mr Thong. He has been waiting about a week for his loan to be processed.

Another SME that is waiting on the banks is Alan Lee, co-founder of gift retailer Kloob. According to him, he submitted requests two weeks ago for deferred payments for SME loans, but has yet to hear back from them even after following up.

Ann Goh, managing director of retailer Simply Toys, is also waiting for banks to respond to her request on loan moratoriums since last Monday, but has not gotten a response from most of them. DBS, however, has offered a temporary bridging loan with an interest rate of 2.5 per cent, which she intends to take up.

One retailer in the electronics services space who managed to secure a temporary bridging loan at an interest rate of 3 per cent said: "With the government taking up 90 per cent of the risk share, I think the banks are more relaxed when pushing out the funds." He declined to be named.

Even so, he said the banks still "asked a lot of questions and required a lot of documents". The loan application took about 10 to 12 days for approval, with disbursement in another 10 days, he said. He has another loan application that has been pending for three weeks, due to some back-and-forth. "This is already considered very fast – before the pandemic, it took more than a month," said the retailer, whose business has been operating over a decade.

Some of his fellow entrepreneurs are still mulling over whether to take up loans, he added.

"If they stop now, the losses stop there. If they borrow, it adds to their debt," he said. "There is no guarantee of recovery when the market is back."

← Editorial: Laws passed to save SMEs; now cut the red tape. Execution is key. Page 18

THE BUSINESS TIMES
Weekend
MAGAZINE
A CREATIVE AWAKENING

Source: Business Times (Singapore), 16 April 2020

- **April 14:** Cherian & Subrahmanyam propose state-led "pseudo-equity" financing for Singapore's SMEs (Business Times)
- **April 17:** Judd & Schmedders propose US govt-led preferred equity financing for large listed US companies in trouble (Fortune)
- **April 20:** MAS & Enterprise Singapore (ESG) announce eligible SG banks can borrow at 0.1% over two-years for lending to SMEs (Straits Times)
- **April 23:** MAS-ESG Financing Schemes disburse **S$500m** in loans (Straits Times)
- **April 29:** US poised to unveil bridge loans for ailing oil companies along with financial stakes (Bloomberg News)

How about a hybrid solution for SMEs as well?

MAS-ESG Enhanced Enterprise Financing Scheme - SME Working Capital Loan (Existing Subsidized Term Loans via Banks)

+

Cherian-Subrahmanyam Proposal: Add State-led Pseudo-Equity Financing via a g-SPV (NEW)

- Capped at SGD$1mn
- 0.1% lending rate from MAS to FIs for a 2 year period
- Up to **90% risk-share** by SG govt on the SME loan
- Final interest rate charged to SME by FI is determined per the cost of funds, SME's risk profile, etc.
- Banks claim interest rates between 2% and 3% p.a.
- 1 year deferral of principal repayment allowed, subject to FI's assessment
- Disbursed **S$500m** in SME loans between Mar 2 and Apr 23

- Determine which SMEs qualify via quantitative filters (say, past 3 years PAT)
- Provide arms-length, pseudo-equity term financing via a "g-SPV". Say, 25% of 2017 – 2019 average revenues
- Like preferred equity, has no voting rights but has priority over owners' equity => the SME pays "dividends" in the form of higher corporate taxes (post tax holidays)
- SME can buy equity back from g-SPV at appropriate buy-back / forward price (post a fixed duration)
- Has been done in the US before: In late 2008, the Fed issued a loan to AIG in exchange for 79.9% of the company's equity

State-led equity is like a first-loss protection mechanism

- SME needs S$1 million in financing:
  - ❖ Option 1: SME borrows $1 million at 3% under MAS-ESG Enhanced Enterprise Financing Scheme with 10% risk-share by the FI (=S$100,000) and 90% risk share by the government (=$900,000)
  - ❖ Option 2: SME borrows $750,000 at (3% - xx bps) under MAS-ESG Enhanced Enterprise Financing Scheme with 10% risk-share by the FI (=S$75,000) and 90% risk share by the government (=S$675,000) **+** S$250,000 in state-led pseudo-equity financing
- On the business front, the SME faces a lower interest rate (↓ by xx bps) and lower monthly loan payments
- On the FI front, it frees up $250,000 in balance sheet capital for other lending, plus the perceived risk reduction on its balance sheet given the govt's participation via pseudo-equity , *ceteris paribus*
- On the government front, it benefits from keeping the economy humming, and the potential upside through higher taxes and the forward sell-back price
- Note: In the case of AIG, the U.S. government cut its 79.9% stake to about 21.5% in 3Q2012, making a profit of $12.4 billion!

Appendix: Risk management 101

- There are the standard risk management issues the g-SPV must worry about, like *adverse selection* and *moral hazard*

- Example 1: Due to *adverse selection*, the SME would know more about its true health, condition and commitment than the g-SPV does, *ex ante*
  - ❖ Solution: An appreciation for long-term reputational effects, and if necessary, the g-SPV can apply an adverse selection "haircut" to the financing amount

- Example 2: *Moral hazard*, which arises when the SME recipient of g-SPV financing, *ex post*, siphons off the funds for unauthorized purposes, be it unnecessary risk-taking or consumption of perquisites
  - ❖ Solutions:
    - Governments have punitive authority: any fraud or egregious wrongdoing can be prosecuted
    - The SME could be "blacklisted" by the government

- In a well-managed small country like Singapore, where tax compliance is good and long-term reputation is paramount, these effects would be smaller than in many other jurisdictions

- Apart from the FI's loan credit officers, reputable institutions like the Singapore Business Federation or Enterprise Singapore (ESG) could be roped in to assist the state in risk managing the state-led financing program