

SINGAPORE SMEs

Emerging Signs Of Stress

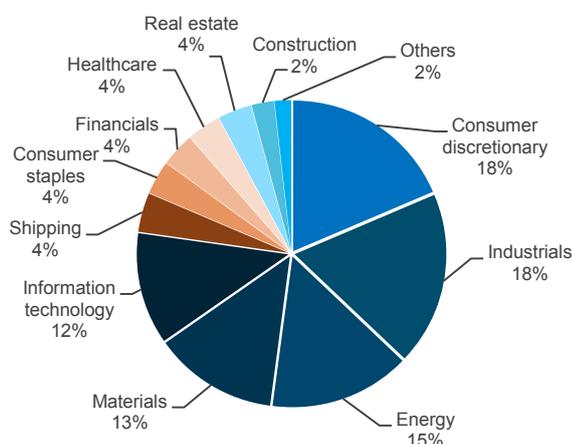
Small and Medium-sized Enterprises or SMEs (generally defined as companies with annual turnover <S\$100m, or employ <200 workers) are a key pillar of Singapore's economy, contributing 48% of its GDP, employing about 65% of its workforce and constituting 99% of all its enterprises. While they play a vital role in sustaining economic growth, these 180,000 SMEs are however more vulnerable during economic downturns vis-a-vis large corporates.

- **SMEs** are more vulnerable to the deterioration in business conditions given limited financial resources and weaker access to financing
- **Business sentiment has plunged to 7-year lows**; sales and profitability likely to stay under pressure as demand softens and business costs remain elevated amid ongoing restructuring
- **Financial stress among SMEs is spreading**, reflected in the spike in firm closures, increasing corporate bankruptcies, deteriorating payment performance and rising NPLs
- Our analysis of SGX-listed SMEs reveals that the **number of companies in the red has overtaken 2008 GFC levels**, with the largest % of losses in the Shipping, O&G, Materials, Construction and Consumer Discretionary sectors
- **Debt servicing ability has seen a marked deterioration**; share of firms with interest cover of >2x has fallen from 42% in 2011 to just 29% in 2015
- While not immune to macro headwinds, the **Real Estate, Healthcare, Financials & Consumer Staples sectors have held up better**
- **Singapore Government has made it a "clear priority" to help SMEs** but most are still not heeding the call to innovate, enhance productivity and internationalise.

Where Are The Losses Concentrated?

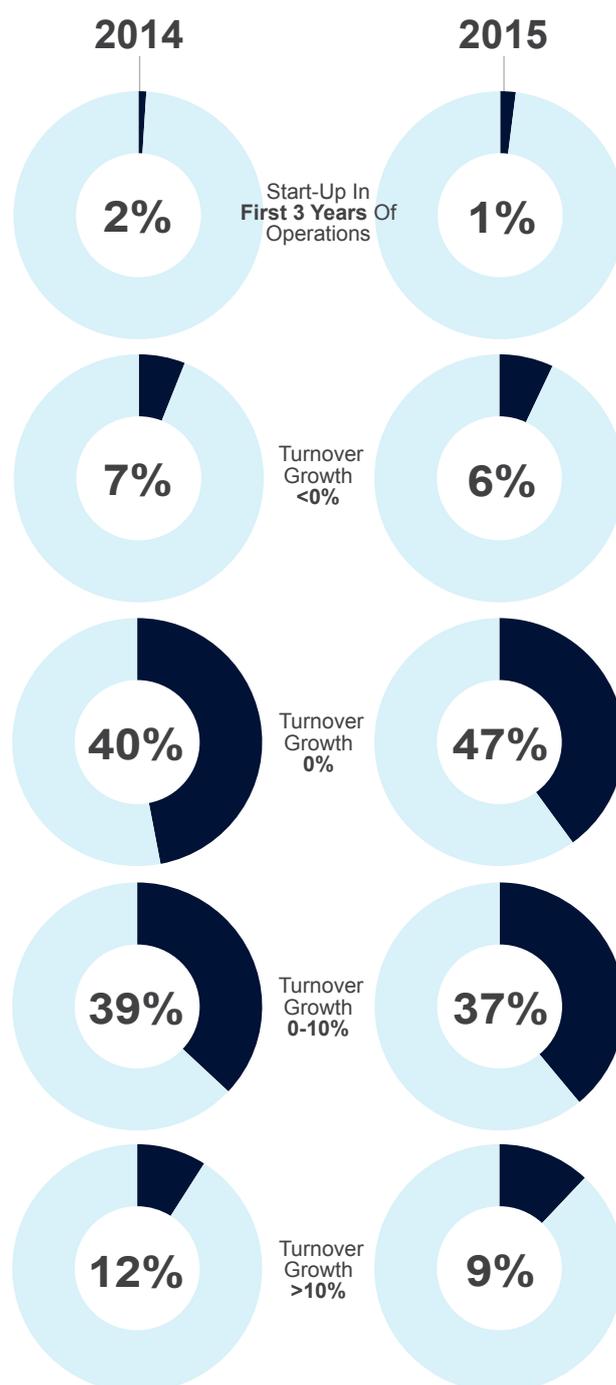
The sales and profit margins of SMEs listed on SGX (based on the sample of 327 companies) have come under pressure for most industries over the past few years.

The breakdown by number of companies show losses are concentrated in the Industrials, Consumer Discretionary, O&G and Materials industries.



SMEs Turnover Growth %

According to DP Information's 2015 SME Development Survey, **47% of SMEs recorded flat revenue growth in 2015**, up from 40% in 2014, while 6% saw a contraction.



This article is contributed by Elaine Khoo & Lloyd Chan from UOB Country and Credit Risk Management. You can read the full article [here](#).