



NOVATERA CAPITAL

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# Looking for Pressure Points: Financing for Asian SMEs During the GFC

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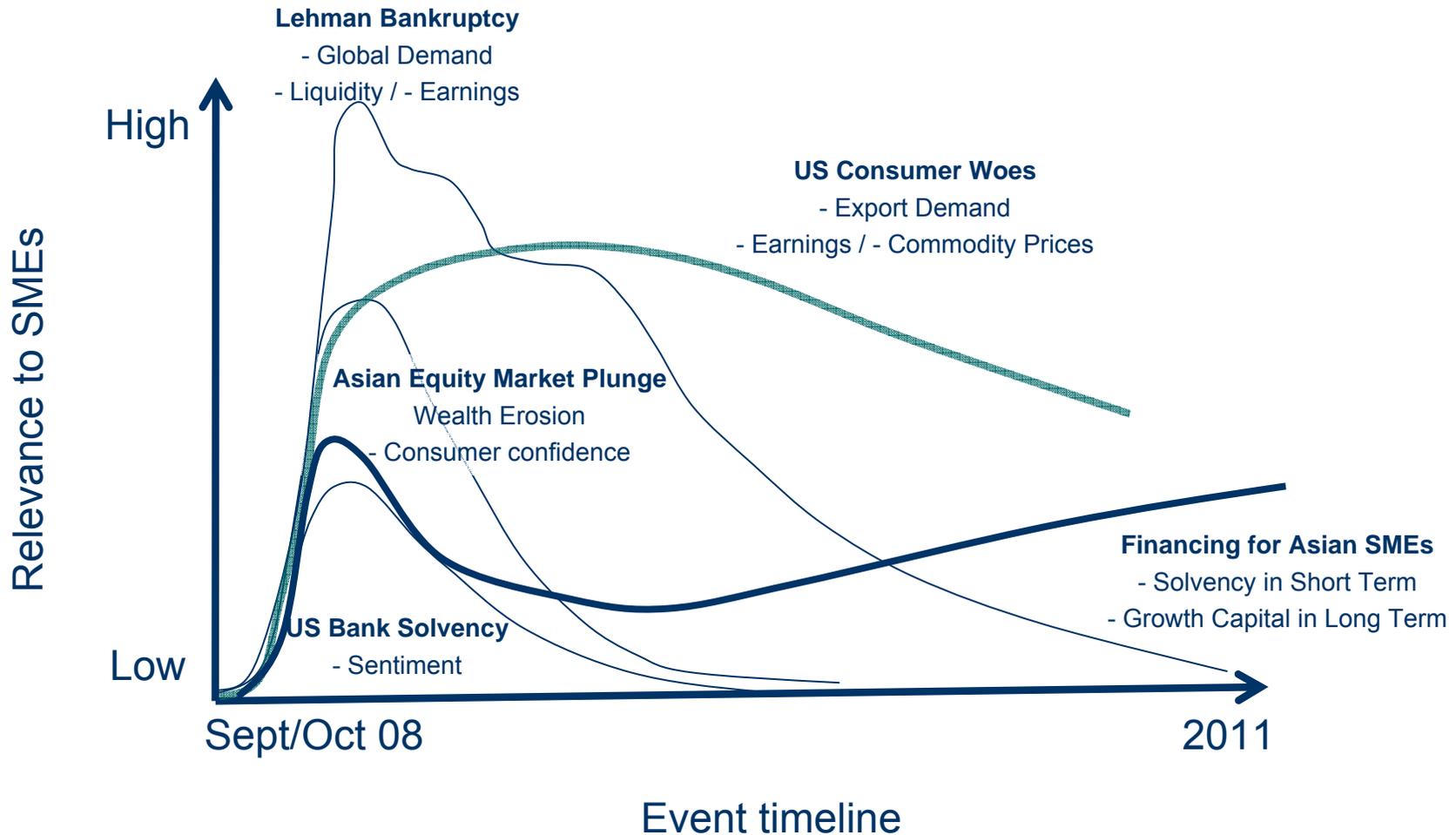
# Hidden Jewels: A Bottom-Up Perspective

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- We invest in listed SMEs Across Asia
- We employ a fundamental research process
- We focus on balance sheet movements

*We are very sensitive to changes in financing*

# SME's Faced Many Challenges



# Parties Helping SMEs Avoid Insolvency

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SMEs: Remembered lessons from AFC.

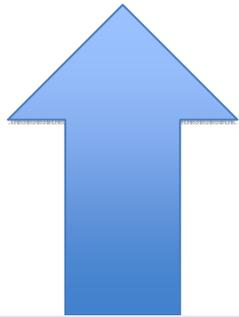
Banks: Stayed in the lending business.

Governments: Guaranteed trade finance.

Markets: Recovered to provide capital.

## Funding Issues Showed Up Later

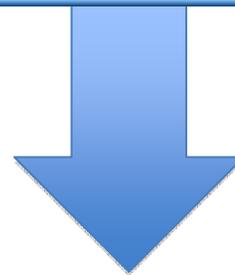
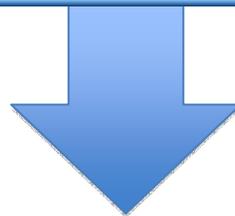
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$$\text{Cash Flow}_{\text{Ops}} - \text{Div} + \Delta \text{WC} + \text{CAPEX} = \Delta \text{Net Cash}$$

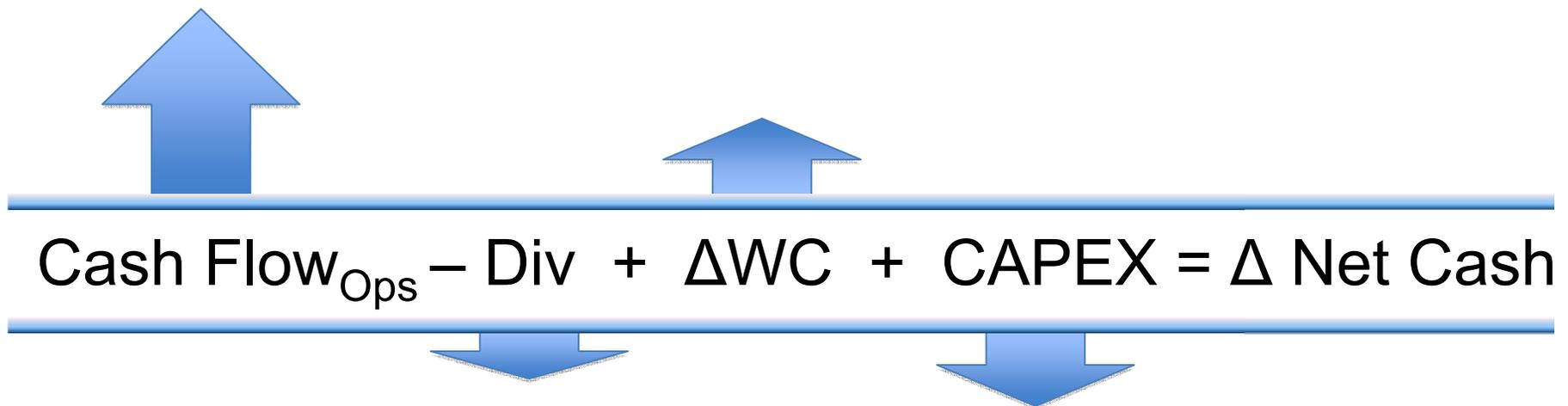
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*Growing SMEs Need to Fund Working Capital and Capex*

## Funding Issues Showed Up Later

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The diagram illustrates the cash flow equation:  $\text{Cash Flow}_{\text{Ops}} - \text{Div} + \Delta \text{WC} + \text{CAPEX} = \Delta \text{Net Cash}$ . The equation is centered between two horizontal blue lines. Above the top line, there are three upward-pointing blue arrows: one under  $\text{Cash Flow}_{\text{Ops}}$ , one under  $+$ , and one under  $\Delta \text{WC}$ . Below the bottom line, there are two downward-pointing blue arrows: one under  $-\text{Div}$  and one under  $+\text{CAPEX}$ .

$$\text{Cash Flow}_{\text{Ops}} - \text{Div} + \Delta \text{WC} + \text{CAPEX} = \Delta \text{Net Cash}$$

*Falling Sales Can Increase Short Term Cash Flows*



# How Will Asian SMEs Fund Growth?

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SMEs: Capex shy. Looking to lengthen funding base.

Banks: Cautious. Pricey. Leverage shifts to lenders.

Governments: Rate increases? Program renewals?

Markets: Placements/IPOs/rights issues post-rally?



## Steps to Finding “Hidden Jewels”

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Take advantage of diversity to find pockets of growth

Pay attention to changes in balance sheet behavior

Figure out how the company will fund their growth