

IFS Capital Ltd

12 Oct 09

Company Update

The Money Behind The Movie

Hollywood Down Under: On 23rd September 2009, IFS Capital ("Company") announced their collaboration with SAPO Media Finance ("SAPO") to provide Australian filmmakers with access to financing against the Producer Offset Scheme ("POS"), administered by the Australian Federal Government through its Screen Australia arm. IFS Capital has committed A\$10m to their collaboration with SAPO and will be financing projects that are certified for the POS.

The Grand Scheme Of Things: The POS is a refundable tax offset/rebate for producers of Australian feature films, television and media projects. Successful filmmakers and production companies for the POS stand to benefit via tax offsets/rebates worth:

- 1) 40% of qualifying Australian production expenditure incurred on a feature film.
- 2) 20% of qualifying Australian production expenditure incurred on programs other than feature films.

Qualifying Australian production expenditure covers expenditure on goods/services provided in Australia or provided overseas by Australian residents.

The POS rebate is paid through the Australian company tax system after a project is completed and Screen Australia has issued the filmmaker and/or production company with a final certification. We understand from Screen Australia that for an applicant to receive final certification, the film and/or program must meet the following criteria:

- 1) It must be completed.
- 2) Screen Australia must be satisfied that it has "significant Australian content" or it must be an official co-production.

Buy

Target Price **S\$0.749**
Prev Closing Price **S\$0.520**

Main Activities

IFS Capital Limited is an established financial institution involved in commercial and structured finance, private equity investments as well as credit insurance and guarantees. Besides Singapore, IFS also has operations in Malaysia, Indonesia and Thailand.

Financial Highlights

Dec YE (S\$)	FY07	FY08	FY09E
Net Interest Income	13.2	11.1	8.6
Net Earned Prem	6.4	3.8	4.9
Fee and Commission	7.7	6.4	4.6
Investment Income	7.9	4.9	1.3
Net Profit	12.9	8.0	4.3
EPS (cts)	10.8	6.4	3.2

Source: Company, SIAS Research

Key ratios (FY09F)

PER (x)	14.8
PB (x)	0.5
ROE (%)	3.5
Net gearing (x)	1.6

Source: SIAS Research

Price Chart

IFS (*White*)
 FTSE ST Financials Index (*Orange*)
 STI (*Yellow*)



Source: Bloomberg

52wks High-Low S\$0.530/S\$0.2955
 Number of Shares Out 136.7m
 Market Capitalization S\$71.09m

Analyst:
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Results Review

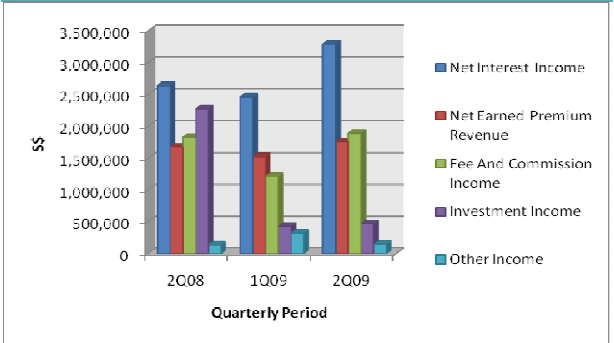
- 3) It must be of an eligible format.
- 4) Its qualifying Australian production expenditure must meet or exceed the relevant threshold.
- 5) The applicant company must be an Australian company, or a foreign company with an Australian permanent residency and an Australian Business Number.
- 6) The applicant company must have either carried out, or made arrangements for carrying out, all the activities necessary for making the film or program.

Feature films require a guaranteed cinema release and qualifying Australian production expenditure in excess of A\$1m. Minimum qualifying Australian production expenditure for various other programs include A\$250,000 per hour for documentaries; A\$500,000 per hour for a television series; A\$800,000 per hour for telemovies and \$250,000 per quarter hour for short form animation. The certification process has solely been conducted by Screen Australia since July 2008.

Who Fills Their Pockets?: Since 1996, over 25% of funding for Australian feature films has come from government sources with the remainder provided for by private investors. For independent Australian films, the proportion of government support is much higher. Australian television dramas have received about half of their financing from the industry itself and about 15% from government sources, while foreign investment accounts for the rest (approximately 35%).

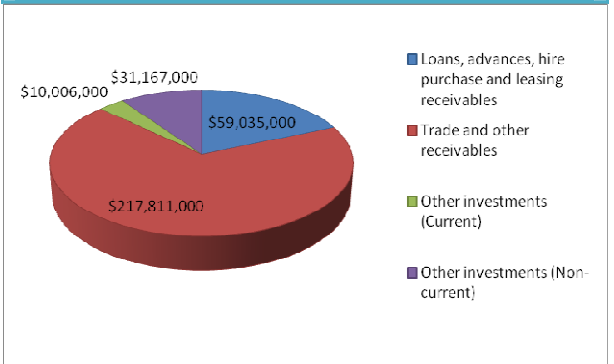
Foreign investors provided the largest proportion (approximately 47%) of finance for 2008's Australian and co-productions - contributing US\$103m to 11 features. Foreign investment can vary significantly from one year to the next, with high-budget, principally foreign funded films causing large fluctuations. Foreign distributors provided the largest proportion of 2009's foreign finance, with foreign-based broadcasters and production companies as well as foreign government sources also contributing.

Figure 1: Income Breakdown



Source: Company, SIAS Research

Figure 2: Recent 2Q09 Earnings Performance



Source: Company, SIAS Research

The Bottom Line: We understand from management that there have been no screen projects confirmed as yet and consequently there have also been no draw-downs thus far on IFS's A\$10m commitments. As such, we maintain our forecasts and apply a discount to the Company's NAV based on IFS's non-bank financial comparables. This values IFS at \$0.749. Going forward, we foresee further room for upside to the Company's valuation as qualified filmmakers utilize the funds available. We continue to assert that IFS be viewed as a mid-to-long term investment rather than a short term play. Recommendation: **Buy**



Figure 4: Financials And Ratios

Year End Dec	FY07A	FY08A	FY09E
Profit & Loss (\$m)			
Net Interest Income	13.2	11.1	8.6
Net Earned Premium Revenue	6.4	3.8	4.9
Fee & Commission income	7.7	6.4	4.6
Investment & Other Income	7.9	4.9	1.3
Net Profit	12.9	8.0	4.3
Earnings Per Share (S cts)	10.8	6.4	3.2
Balance Sheet (\$m)			
Non Current Assets	144.0	131.0	119.0
Current Assets	337.0	262.4	320.3
Current Liabilities	276.3	211.1	249.3
Non Current Liabilities	80.8	61.4	63.7
Total Equity	123.9	120.9	126.3
Cash Flow (\$m)			
Operating Cash Flow	14.0	39.8	(0.3)
Investing Cash Flow	(6.6)	17.5	(3.7)
Financing Cash Flow	4.6	(69.1)	0.6
Financial Ratios			
Op Income Growth (%)	19.0	(25.7)	(55.6)
Net Profit Growth (%)	8.7	(37.7)	(193.8)
Earnings Asset Growth (%)	0.7	(19.8)	(190.4)
Net Interest Margin (%)	3.2	3.5	45.0
Return On Equity (%)	21.6	4.8	-10.2
Return On Assets (%)	4.4	3.8	3.8
Net Gearing (x)	1.8	1.4	11.09
Book Value Per Share (\$)	1.00	0.97	0.92
Valuation Ratios			
PER (x)	5.0	8.4	14.9
Price to book (x)	0.54	0.55	0.52
Dividend Yield (%)	11.68	3.74	0

Source: SIAS Research



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Results Review

SGX Research Incentive Scheme

DISCLAIMER

SIAS Research Pte Ltd received compensation for conducting this valuation research. The estimated fair value of the stock is statement of opinion, and not statement of fact or recommendation on the stock.

As of the date of the report, the analyst and his immediate family do not hold positions in the securities recommended in this report.

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