

IFS Capital

20 May 09
Results Release

Dive in Profit

1Q09 Results YoY: As expected, given the challenging economic operating environment as well as management's tightening of loans, net interest income and net profit declined YoY in 1Q09. Net profit plunged 74.5% to \$0.83m while net interest income and net earned premium revenue declined by 10% and 5.2% respectively.

1Q09 Results QoQ: On a QoQ basis, despite a drop in net interest income and net earned premium revenue, 1Q09 was in the black, reversing the \$0.35m loss in 4Q08. At \$2.05m in 1Q09, allowances for losses and impairments were lower than the \$4.28m allowance made in 4Q08. Furthermore, overhead cost decreased from \$3.21m in 4Q08 to \$2.76m in 1Q09.

Decrease in Overheads: Following cost cutting measures, the cost-to-income ratio improved dramatically from 63% in 1Q08 to 45% in 1Q09. As mentioned, operating expenses declined by 31% to \$2.76m due mainly to a 28% drop in staff costs to \$1.69m.

Increase in Net Margin: Net interest margin increased from 3.6% in 1Q08 to 4.9% in 1Q09 following more conservative business management approach and a higher rate charged for loans as well as lower funding costs due to a decrease in SIBOR rate.

Indonesia, Malaysia and Thai Results: The group incurred a small loss in 1Q09 from its Malaysian operations while its Indonesian business suffered a small decline in activities but remained profitable. Both Malaysian and Indonesian operations contributed to \$0.17m net profit in 1Q09 as opposed to \$0.02m in 1Q08. On the other hand, IFS' Thai business recorded a 13% drop in operating profit after tax to \$0.81m due to lower factoring volume.

ECICS Results: Net earned premium revenue declined 5.2% to \$1.53m while net profit plunged 40.4% to \$0.87m. The huge difference in

Hold (Maintain)

Target Price **\$S 0.69**
Current Price **\$S 0.50**

Report Snapshot

IFS Capital 74.5% plunge in net profit was expected given the nature of their businesses and the current macroeconomic environment. Insurance claims as well as higher provision for losses have both resulted in the lower bottom-line. Following the conservative management decision to raise rates, have a tighter risk management and reduced business volumes, IFS Capital managed to register a profit in 1Q09 as opposed to a loss in 4Q08. Maintaining profitability throughout FY09 is the challenge lying ahead.

Financial Highlights

(Y/E Dec/Dec)-\$m	FY07	FY08	FY09F
Net Interest Income	13.2	11.1	9.5
Net Earned Premium	6.4	3.8	3.2
Fee & Comm. Income	7.7	6.4	3.4
Inv. And other Income	7.9	4.9	2.9
Earnings	12.9	8.0	0.9

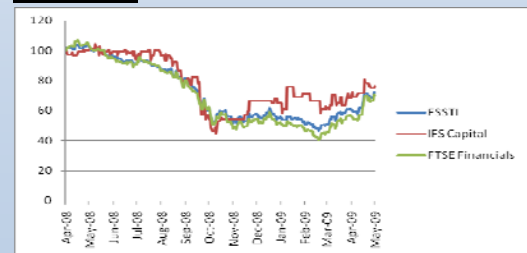
Source: Bloomberg, SIAS Research

Key ratios (FY09F)

P/BV	0.49
ROE (%)	0.8
Net gearing (%)	102.6

Source: Bloomberg, SIAS Research

Price Chart


52wks High-Low **\$S0.71/0.295**
Number of Shares **136.716m**
Market Capitalization **\$S68.36m**

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percentage movement is mostly due to a \$0.57m claims incurred in 1Q09 versus a \$1.33m claim write-back in 1Q08. The loss ratio was pretty much contained to about 37%.

Consolidation of Thai Subsidiary: IFS Capital has been reporting the results of its Thai subsidiary using equity accounting. However, following its increased ownership in the Thai company on 1 Apr 09, the latter's results would be consolidated into IFS Capital financial statements. Management expects, after consolidation, 27% more of the net profit of the Thai subsidiary to be contributed to IFS Capital. However, the current political environment in Thailand may result in lower businesses for IFS Thai subsidiary.

Forecast: At this juncture, despite the \$0.83m net profit in 1Q09 and consolidation of the Thai subsidiary results, we maintain our previous forecast. We reckon the forecast of \$0.9m FY09 profit implies IFS will only make a profit of \$0.1m over the next three quarters. The forecast may be conservative but is needed due to uncertainties over further potential write-downs, defaults on loans or higher insurance claims. We will revise our forecast upon clearer visibility of the loan and insurance performances.

Recommendation: NAV was \$0.981. Applying a PB multiplier of 0.7 times, which is the average valuation at which its peers are trading at, will value IFS Capital at \$0.69. However, due to further possible write-downs and claims and despite the re-rating of the industry, we would prefer to wait another quarter before re-rating IFS Capital. Maintain **Hold**. (Johnny Kwon).

Figure 1: 1Q09 Results Overview

(S\$m)	1Q09	1Q08	% Chg	4Q08
Net Interest Income	2.46	2.74	-10	2.84
Net earned premium revenue	1.53	1.61	-5.2	-0.75
Op. profit before allowances	2.62	3.43	-23.6	2.35
Net profit	0.83	3.23	-74.5	-0.35

Source: Company, SIAS Research

Figure 2: Peer Comparables

Company	Price	PE08	ROE	PB	Div Yld (%)
SING INVESTMENTS & FINANCE	1.18	2.9	3.7	0.6	2.1
SINGAPURA FINANCE LTD	1.16	9.4	4.3	0.6	5.2
HONG LEONG FINANCE LTD	2.69	16.2	5.8	0.9	0.0
SINGAPORE REINSURANCE CORP	0.21	N.A	-2.5	0.7	4.8
Average		9.5	2.8	0.7	3.0

Source: Bloomberg

Financial Table and Ratios

Year End Dec	2005	2006	2007	2008	2009F
Profit & Loss (S\$m)					
Net interest income	12.8	12.3	13.2	11.1	9.5
Net earned premium revenue	5.5	4.8	6.4	3.8	3.2
Fee & commission income	7.8	7.2	7.7	6.4	3.4
Investment and other income	7.5	5.3	7.9	4.9	2.9
Income before operating expenses	33.6	29.6	35.2	26.2	19.0
Net profit	11.6	11.8	12.9	8.0	0.9
EPS (S cts)	11.20	11.4	10.80	6.40	0.73
Balance Sheet (S\$m)					
Long Term Assets	139.2	135.4	144.0	131.0	117.9
Current Assets	415.6	324.0	337.0	262.4	236.2
Long Term Liabilities	48.6	112.7	80.8	61.4	55.3
Current Liabilities	398.6	230.8	276.3	211.1	176.9
Total Equity	107.6	115.9	123.9	120.9	121.9
Cash Flow (S\$m)					
Operating Cash Flow	-26.4	46.9	14.0	39.8	51.0
Investing Cash Flow	-19.7	6.0	-6.6	17.5	-0.7
Financing Cash Flow	50.8	-54.9	4.6	-69.1	-40.2
Financial Ratios					
Op. income growth	9.1	(11.9)	19.0	(25.7)	(27.3)
Net profit growth	42.9	2.1	8.7	(37.7)	(88.8)
Receivables (ex-insurance) growth rate (%)	22.4	(21.6)	(3.2)	(17.2)	(20.0)
Total earnings assets growth rate (%) *	30.1	(19.5)	0.7	(19.8)	(18.4)
ROE (%)	11.4	10.6	10.7	6.5	0.8
ROA (%)	2.4	2.3	2.7	1.8	0.2
ROC (%)	3.1	3.0	3.4	2.3	2.3
Net interest margin estimate (%)	3.3	3.2	3.2	3.5	4.0
Total Liability/Equity (%)	415.6	296.4	288.2	225.4	190.5
Net borrowings/Equity (%)	256.0	195.5	183.3	144.9	102.6
book value per share (\$)	1.04	1.12	1.00	0.97	0.98
Dividends per share (cts)	5.00	17.50	6.25	2.00	0.00
Valuations					
PER	4.8	4.7	5.0	8.4	65.5
P/B	0.51	0.48	0.54	0.55	0.49
Dividend Yield (%)	9.35	32.71	11.68	3.74	0.00

Source: Company, SIAS Research

Company Update

About the Company

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.

Price and Volume Chart



Source: Bloomberg

SGX Research Incentive Scheme

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