

IFS Capital Ltd

2 Dec 09

Results Review

Gaining Momentum To End The Year

Operationally Robust Third Quarter: For 3Q09, IFS Capital ("Company") posted a robust net interest income of S\$3.5m and a sturdy S\$1.7m (S\$1.6m net minority interests) bottom line. From a sequential QoQ perspective, the past financial quarter saw net interest top line improve by 9.1%, whilst net profit after tax ("NPAT") attributable to shareholders decreased by approximately 18.0% - due in part to weaker gross earned premium revenues.

We observed that 2Q09's NPAT was boosted by a one-off negative goodwill of S\$850,000 on the Company's acquisition of its Thailand operations. As such, excluding this extraordinary gain from 2Q09's bottom line, we find that IFS had actually improved its 3Q09 net profits by over 38% against the second quarter of this year.

On a YoY basis, the Company's third quarter showing was operationally impressive (Net interest income: +25.3%, Operating profit: +9.0%). For the nine months ended September 2009, net interest margin had also improved from 3.9% in 2008 to 5.1%. Nonetheless, IFS's final NPAT figure was dragged down by an increase in their allowances made for loan losses and impairment of investments. This expanded by a significant 426.1% to S\$605,000 in 3Q09 over 3Q08.

Figure 1: 3Q09 Results Overview

S\$m	1Q09	2Q09	3Q09
Net interest income	2.4	3.3	3.6
Net earned premium revenue	1.5	1.7	0.9
Fee and commission income	1.2	1.8	1.6
Investment income	0.4	0.4	0.4
Other income	0.3	0.1	0.3
Net profit for the period	0.8	2.0	1.7
Total assets	404.4	411.1	366.3
Total liabilities	282.4	287.2	240.4
Cash flows from operations	36.6	20.1	30.5
Cash flows from investing	-8.0	-3.9	-4.7
Cash flows from financing	11.2	-32.8	-41.2

Source: Company, SIAS Research

Invest

Intrinsic Value **S\$0.780**
Prev Closing Price **S\$0.530**

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
Invnt and Other Inc	7.9	4.9	1.3
Net Profit	12.9	8.0	4.3
EPS (cts)	10.80	6.40	3.2

Source: Company, SIAS Research

Key ratios (FY09F)

PER (x)	14.8
PB (x)	0.52
ROE (%)	3.5
Net gearing (x)	1.6

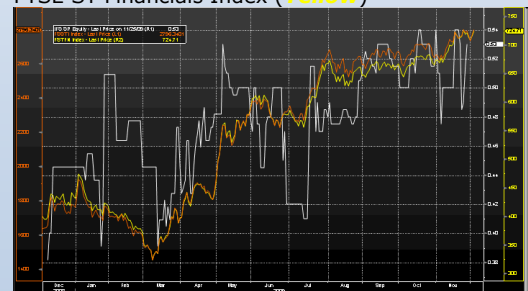
Source: SIAS Research

Price Chart

IFS (*White*)

STI (*Orange*)

FTSE ST Financials Index (*Yellow*)



Source: Bloomberg

52wks High-Low S\$0.540/S\$0.363
Number of Shares Out 136.7m
Market Capitalization S\$72.46m

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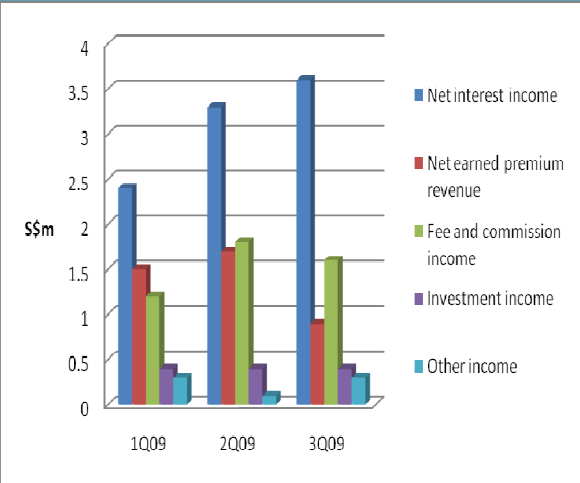
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Costs Contained Well: IFS implemented cost cutting measures in 1Q09 including wage freezes; performance bonus cuts and other discretionary cost reductions. Consequently, we have continued to see an improvement in the Company's control over its expenses. For the nine months ended September 2009, total operating expenses of the Company decreased by 8.0% to S\$11m as compared to S\$11.9m for the same period in 2008. Excluding its Thailand subsidiary, IFS's operating expenses had actually declined by a substantial 20.0% to S\$9.6m. Additionally, we noted that leverage and gearing for 2009, as at 30th September, stood at 1.8x and 1.5x respectively. These figures were significant upgrades over 2008's nine month numerals of 2.4x (leverage) and 2.1x (gearing).

The Bottom Line: The Company's third quarter performance has come in line with our expectations. We had previously stated that we reserve some doubts on IFS's 3Q09 performance due to the recognition of a substantial chunk of negative goodwill taken into its second quarter books (IFS Capital Ltd – Factoring In Thai Boost, 24 August 2009). Nonetheless, IFS's NAV as at 30th September 09 had improved from 2Q09's S\$0.903 and now stands at \$0.918. IFS's non-bank financial comparables trade at an average Price-To-Book value of 0.85x. This values IFS at \$0.780.

We stress again that we like financials for their correlation to the economy and GDP. With the "green shoots" of recovery well planted globally, on the back of fiscal stimulus packages implemented by governments around the world, we foresee upside to current industry valuations going forward beyond 2009. Growth in Singapore's GDP for the three months to September 30th 2009 rose 14.9%. Also, compared to the year-earlier quarter, the local economy had expanded by 0.8% - GDP had actually fallen 3.2% vis-a-vis a year ago in 2Q09. Therefore, we maintain our opinion that IFS be viewed as a mid-to-long term investment rather than a short term play. Recommendation: **Invest**

Figure 2: Income Breakdown



Source: Company, SIAS Research

Figure 3: 1-Year Price/Volume Movement



Source: Bloomberg

Figure 4: Comparatives

S/N	Company	Ticker	Price (\$)	Price Book (x)	PER Hist (x)	PER Estd (x)
1	Sing Investments & Finance	SIF SP	1.35	0.72	3.07	NA
2	Singapura Finance	SBD SP	1.45	0.73	16.18	NA
3	Hong Leong Finance	HLF SP	2.82	0.91	5.34	11.46
4	Singapore Reinsurance Corp	SRE SP	0.30	1.06	49.58	NA
Average				0.85	18.54	12.75

Source: Bloomberg, SIAS Research

Figure 5: Financials

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	6.5	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

Increase Exposure – The current price of the stock is significantly lower than the underlying fundamental value of the firm. Readers can consider increasing their exposure in their portfolio to a higher level.

Invest – The current price of the stock is sufficiently lower than the underlying fundamental value of the firm. Readers can consider adding this stock to their portfolio.

Fairly Valued – The current price of the stock is reflective of the underlying fundamental value of the firm. Readers may not need to take actions at current price.

Take Profit – The current price of the stock is sufficiently higher than the underlying fundamental value of the firm. Readers can consider rebalancing their portfolio to take advantage of the profits.

Reduce Exposure - The current price of the stock is significantly higher than the underlying fundamental value of the firm. Readers can consider reducing their holdings in their portfolio.

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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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