

IFS Capital Ltd

Staging Strong Rebound in 3Q

IFS Capital Ltd (IFS) reported a strong rebound in 3Q FY13, reporting a very impressive set of results, achieving total income of S\$11.1m – the highest over the past eight quarters. Annualized return on average common equity reached 8.6%, pointing to substantially higher profitability. The results were solidly above our forecasts as we had only expected S\$2.9m of full year net profit versus 3Q net profit of S\$3.3m.

Better Than Expected Results: 9M FY13 total income and operating expenses came in at 80.4% and 74.0% of our previous forecasts. 9M net profit was only S\$0.5m due to losses in 2Q arising from the default of a customer. Nonetheless, 3Q FY13 net profit amounted to S\$3.3m, which was substantially higher than our 4Q FY13 forecast of S\$2.4m, suggesting scope for the company to exceed our expectations for the full year.

Insurance – A Star Performer: Gross written premiums rose by 100.2% year-on-year to S\$4.2m in 3Q FY13 (9M FY13: S\$9.7m, up 51.3% year-on-year), reflecting accelerating volume growth. 1H FY13 gross premium grew by 27.4% YoY. Growth was driven by strong demand for existing products, as well as the addition of new products, e.g. Contractors' All Risks and Workmen Injury Compensation Insurance. These two new products allow the company to offer a full suite of products to construction companies, in addition to its existing bonds and guarantees products, which saw volume grow by about 130% on a 9M basis. In contrast, spa and credit insurance saw volume grow by about 40% and 19% respectively.

To Ride on Expanded Scope of ECICS: IFS has been adding new insurance products since the MAS removed all product restrictions on ECICS earlier in 2013. Cargo insurance is a promising upcoming product as a substantial portion of the company's lending business stems from import/export financing and synergies can be extracted by requiring clients to purchase cargo insurance from ECICS.

Invest

- Intrinsic Value S\$0.570
- Prev Closing S\$0.460

Main Activities

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

Financial Highlights

(Y/E Dec) S\$ m	FY12	FY13F	FY14F
Net Interest Inc	19.6	21.7	21.3
Net Earned Prem	3.8	2.6	4.4
Fee and Comm	8.8	9.7	11.6
Invt & Other Inc	3.7	2.0	3.5
Net Profit	8.8	2.9	9.5
EPS (S cents)	5.1	1.0	5.5

Source: Voyage Research Estimates

Key ratios (FY14F)

PER	8.3
P/BV	0.49
Return on Common Equity	5.9%
Return on Assets	1.9%
Gross Debt to Common Equity	243.2%
Current ratio	1.3

Source: Voyage Research Estimates

Indexed Price Chart

Green (FSSTI)
White (IFS)



Source: Bloomberg

52wks High-Low S\$0.575 / S\$0.360
 Number of Shares 150.39m
 Market Capitalization S\$69.2m

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Lending Business Probably Added New Clients: The management explained that during 3Q FY13 it received about S\$23m in repayments and lent out S\$19m to S\$20m to new clients. We recalled that the company had previously mentioned that certain large sized loans will mature in 2013, and reckon that the new loans actually reflected the addition of new clients. As a result of the net repayment, loan assets including factoring receivables were S\$355.4m, down 1% from the beginning of the year. Nonetheless, net interest income during 3Q FY13 grew by 4.9% compared to 3Q FY12. Net interest margin for 9M FY13 remained steady at 5.95%.

That said, we are of the view that government spending in infrastructure and public housing projects are likely to provide IFS with steady volume over the next few years. As such, we do remain optimistic about IFS's lending business.

Fee & Commission Income Confirms Volume Growth: We are encouraged by fee and commission income of S\$2.7m, up 23.5% from a year ago (9M FY12: S\$7.9m up 17.9%), which reaffirms our view of the company enjoying high volume growth. The company also earns fee and commission income from the sale of other in-house products such as loans and insurance.

Investment and other income was boosted by higher gain on the disposal of quoted equity securities and higher bad debt recoveries from factoring accounts previously written off.

Costs Remain Well Contained: Operating expenses for 3Q FY13 was S\$5.6m, up only 5.4% from a year ago, lagging total income growth of 13.9%. Cost-to-income ratio fell to 52.5% for 9M FY13, compared to 55.3% in 1H FY13 and 56.3% for 9M FY12.

Figure 1: Comparison of Results vs Forecasts

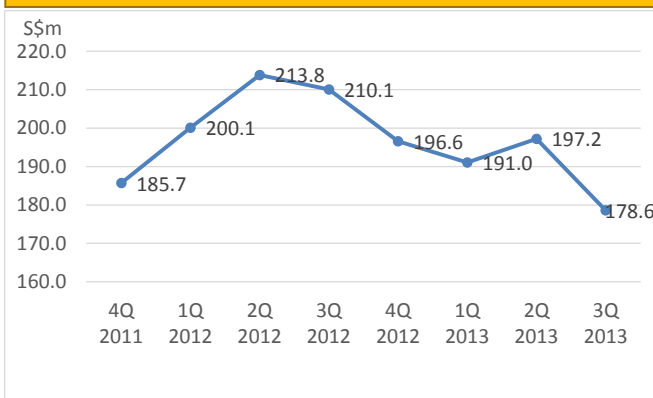
	9M FY13	FY13F	4Q FY13F	% of Forecasts	3Q FY13
Net interest income	16.0	21.7	5.7	73.5%	5.3
Net earned premium revenue	2.2	2.6	0.4	84.2%	1.0
Non-interest income	10.8	11.7	0.9	92.4%	4.8
Total income	29.0	36.0	7.0	80.4%	11.1
Operating Expenses	-15.7	-21.2	-5.5	74.0%	-5.6
Net profit after tax	0.5	2.9	2.4	17.3%	3.3
PATMI	-0.7	1.5	2.2	-45.0%	2.8

Source: Company, Voyage Research

We note that our forecast 4Q FY13 total income is lower than that of 3Q FY13. This is to factor in the possibility that a portion of the S\$1.7m investment income in 3Q FY13 may be one-off in nature. We did not adjust forecast net earned premium revenue, in spite of the positive developments that we have cited. As such, there is some room for IFS to outperform in this area.

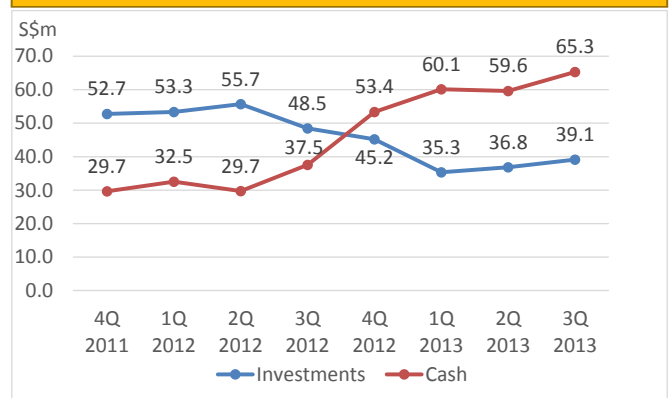
High Cash Balance for Investments or Lending: In page 1 of this update, we mentioned that the insurance business is a potential driver of organic growth. Other than that, we noted that IFS ended 3Q FY13 with a very high cash balance of S\$65.3m, while net debt has fallen to S\$178.6m, lower than levels as early as 4Q FY11. We are excited about IFS's cash pile as it represents firepower that the company can use to finance major projects or businesses, either as a lender or as an investor. We look forward to further developments by the company on this front.

Figure 2: Declining Net Borrowings



Source: Company, Voyage Research

Figure 3: Rising Cash Balance



Source: Company, Voyage Research

Valuation and Forecasts: In spite of the strong 3Q performance, we refrained from adjusting our forecasts and valuation in this update as we would like to also further monitor the company's allowances and impairment costs for at least one more quarter. This is to obtain higher visibility and comfort following allowances and impairment in 2Q which dragged 9M results down. We currently expect IFS to make net profit of S\$2.4m for 4Q FY13F, translating to full year net profit of S\$2.9m.

Figure 4: Results Overview – Break Out ROE

	3Q 2013	2Q 2013	1Q 2013	4Q 2012	3Q 2012	2Q 2012	1Q 2012	4Q 2011
Net interest income	5.25	5.55	5.15	4.88	5.01	4.79	4.92	4.85
Net earned premium revenue	1.05	0.55	0.59	0.63	2.18	0.55	0.42	0.94
Non-interest income	4.84	3.01	2.97	3.32	2.59	4.13	2.43	2.98
Total income	11.14	9.11	8.71	8.83	9.78	9.46	7.77	8.77
Operating expenses	-5.58	-5.17	-4.98	-5.03	-5.29	-5.47	-5.21	-5.19
Operating profit before net claims and allowances	5.56	3.94	3.73	3.80	4.49	4.00	2.56	3.58
Net claims reversal/(incurred)	-0.12	-1.45	-0.07	0.04	0.34	-0.14	-0.04	1.35
Allowances & impairment	-1.64	-7.61	-1.43	-0.70	-1.33	-0.90	-0.13	-2.30
Profit before tax	3.80	-5.12	2.24	3.15	3.50	2.96	2.40	2.63
Tax	-0.55	0.59	-0.46	-0.78	-0.96	-0.74	-0.69	-0.50
Profit after tax	3.25	-4.53	1.78	2.37	2.54	2.22	1.70	2.14
Attributable profit	2.84	-4.92	1.40	2.05	2.23	1.93	1.41	2.03
Non Interest Income								
Fee & commission	2.68	2.86	2.37	2.07	2.17	2.68	1.85	2.25
Investment income	1.67	0.08	0.51	1.15	0.35	1.42	0.45	0.35
Other income	0.49	0.07	0.08	0.10	0.07	0.03	0.13	0.39
Selected Balance Sheet Items								
Total Receivables (1)	285.1	305.7	312.9	302.2	306.2	303.6	292.1	277.2
Other Investments	39.1	36.8	35.3	45.2	48.5	55.7	53.3	52.7
Cash	65.3	59.6	60.1	53.4	37.5	29.7	32.5	29.7
Total borrowings	244.0	256.9	251.2	249.9	247.6	243.6	232.6	215.4
Total Common Equity	131.6	133.0	142.8	139.3	134.7	133.6	135.4	134.6
Gearing (2)	1.72	1.80	1.64	1.68	1.72	1.71	1.61	1.50
Ann. Return on Avg. Com. Equity	8.6%	14.3%	4.0%	6.0%	6.6%	5.8%	4.2%	6.0%
	9M 2013	1H 2013	1Q 2013	2012	9M 2012	1H 2012	1Q 2012	2011
Net Interest Margin	6.0%	6.0%	6.0%	5.9%	5.9%	5.9%	5.9%	6.5%

(1) Total receivables refer to loans, advances, hire purchase and leasing receivables (non-current assets) and trade and other receivables (current assets). (2) Gearing = Total Borrowings / Total Equity

Source: Company, Voyage Research

Figure 5: Valuation

S\$m	FY13F	FY14F	FY15F
Profit Before Tax and Interest Expense	11.7	22.4	25.4
Tax on EBIT	-3.1	-4.5	-6.7
NOPLAT	8.6	17.9	18.7
Invested Capital	398.8	433.5	499.1
% of Debt	62.7%	65.8%	69.1%
% of Equity	37.3%	34.2%	30.9%
WACC (%)	4.3%	4.2%	3.9%
Capital Charge	17.1	18.3	19.6
Economic Profit	-8.5	-0.5	-0.9
Terminal Value			-48.1
Discount Factor	0.98	0.94	0.91
Present Value	-8.3	-0.4	-0.8
Book Value	139.3	Risk Free Rate	2.50%
Explicit Value	-9.5	Beta	0.70
Terminal Value	-43.7	Market RP	7.50%
Value of Equity	86.0	Cost of Equity	7.75%
Number of Shares (m)	150.4	Cost of Debt	3.0%
Value per share (S\$)	0.570	LT Growth	2%

Source: Voyage Research

Figure 6: Financial Forecast and Estimate

	FY10	FY11	FY12	FY13F	FY14F	FY15F
Net Interest Income	19.1	16.9	19.6	21.7	21.3	23.8
Net Earned Premium Revenue	3.5	2.8	3.8	2.6	4.4	4.8
Fee & Commission Income	7.5	9.6	8.8	9.7	11.6	13.3
Investment & Other Income	1.8	2.2	3.7	2.0	3.5	4.1
Net Profit After Tax	7.9	7.7	8.8	2.9	9.5	10.7
PATMI	7.1	7.0	7.6	1.5	8.2	9.2
Total Current Assets	230.0	272.0	306.8	355.6	410.3	436.4
Total Non-Current Assets	95.7	121.5	125.8	112.4	124.9	141.9
Total Current Liabilities	166.1	214.8	239.1	275.4	327.8	358.8
Total Non-Current Liabilities	17.7	35.1	44.7	44.3	53.3	58.4
Total Equity	141.9	143.7	148.8	148.4	154.1	161.0
Cash from Operating Activities	44.8	-71.3	-20.8	-39.8	-21.3	-44.6
Cash from Investing Activities	-5.2	-1.7	11.6	4.1	-11.1	-11.1
Cash from Financing Activities	-32.6	69.2	33.3	31.8	56.1	30.7
Net Change in Cash	6.9	-3.8	24.0	-3.9	23.7	-24.9
Return on Common Equity	5.5%	5.2%	5.6%	1.1%	5.9%	6.4%
Return on Assets	2.3%	2.1%	2.1%	0.7%	1.9%	1.9%
Gross Debt / Common Equity	110.0%	160.1%	179.5%	207.5%	243.2%	257.7%
Current Ratio	1.4	1.3	1.3	1.3	1.3	1.2
EPS (S cents)	4.72	4.63	5.07	1.02	5.45	6.12
BV / Share (S cents)	88.2	89.5	92.6	91.4	94.3	97.9
P/E Ratio	9.53	9.72	8.88	44.12	8.26	7.35
P/B Ratio	0.51	0.50	0.49	0.49	0.48	0.46

Casting errors may occur due to the effects of rounding.

Source: Company, SIAS Research

Rating Definition:

Increase Exposure – The current price of the stock is significantly lower than the underlying fundamental value. 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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