

IFS Capital Ltd

Significantly Higher Pipeline Raises Outlook

IFS Capital Ltd's (IFS) 1Q FY13 net profit came in at S\$1.8m (1Q FY12: S\$1.7m), which could have been higher, if not for loan impairment of S\$1.4m (S\$0.1m in 1Q FY12) due to a specific secured loan that the company is in the process of recovering. We are excited about loan growth, as loan assets grew by S\$17m during 1Q FY13, exceeding the average of S\$7.25m for the four quarters of 2012. 1Q net interest margin remained at about 5.95%, comparable to that of 2012.

Higher Pipeline Reported: IFS added experienced front office staff in 1Q FY13 to compete for business from new clients. Total staff strength is now about 240. At the same time, the company reported significantly higher pipeline (e.g. newly set up loan transactions awaiting draw down), particularly in Singapore and Malaysia. There is also optimism that business volume from Malaysia will accelerate on resumed infrastructure spending following the elections.

ECICS Maintains Expansionary Strategy: In the prospect statement, IFS remarked that ECICS is "actively looking for opportunities" to widen its range of products. Unfortunately, we are unable to gain further insight into the specific products of interest. ECICS has previously added new products such as maid insurance, foreign worker bonds, etc. To drive business growth, ECICS is also balancing its mix of direct and broker-led income. Directly sold products do not incur commission cost, typically in the range of 20% of gross premium.

Our View: Expected business volume growth should be supportive of the company's results in the coming quarters. IFS's trailing 12mth net profit was about S\$8.9m, implying that it will meet our forecasts with only 8%-9% growth over Apr – Dec 2013. However, we also realized that operating expenses should be S\$0.3m to S\$0.5m higher per quarter as 1Q staff costs were reduced by the write back of bonus previously provided for. We reckon that 2Q results will add certainty towards our view. Therefore, we leave our forecasts and valuation unchanged as we track future loan growth.

Invest

- Intrinsic Value S\$0.590
- Prev Close S\$0.500

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	FY11	FY12	FY13F
Net Interest Inc	16.9	19.6	21.7
Net Earned Prem	2.8	3.8	4.2
Fee and Comm	9.6	8.8	10.1
Invnt & Other Inc	2.2	3.7	4.1
Net Profit	7.7	8.8	9.5
EPS (S cents)	4.6	5.1	5.5

Source: Company, SIAS Research

Key ratios (FY13F)

PER	9.18
P/BV	0.52
Return on Common Equity	5.8%
Return on Assets	2.1%
Gross Debt to Common Equity	199.3%
Current ratio	1.3

Source: SIAS Research

Indexed Price Chart

Green (FSSTI)
White (FC)



Source: Bloomberg

52wks High-Low S\$0.575 /S\$0.350
 Number of Shares 150.39m
 Market Capitalization S\$75.2m

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Business Developments and Outlook

Substantial Scope for Higher Loan Assets: IFS's loan assets (gross factoring receivables and gross "loans and advances") were as high as S\$473.6m, against common equity of S\$107.6m, back in 2005. In contrast, loan assets currently amount to S\$376m on common equity of S\$142.8m. Thus, there is scope for the company to be more aggressive in lending activities, which is matched by the company's assertions of higher pipeline in Singapore and Malaysia and headcount additions. We would expect IFS's loan assets to exceed S\$400m by 2014. Higher business volume should also boost fee and commission income, which grew by 27.7% year-on-year in 1Q FY13.

Singapore Operations Actually Recorded Strong Growth: IFS's Singapore operations including ECICS actually have a profit before allowances and tax of S\$1.4m in 1Q FY13, compared to S\$0.7m in 1Q FY12. As such, 1Q FY13 performance was actually commendable.

IFS typically has a loan loss ratio of 2% of loans and advances per annum, which should be in the range of S\$4m. We do expect some of the S\$1.4m of impairment to be reversed as it is secured against certain assets that the company is currently trying to recover and that loan allowances should normalize in 2Q or 3Q.

Upside for Investment Income: IFS recognized as comprehensive income S\$3.0m of fair value gains from available for sale securities in 2012. Part of these gains was from a convertible loan for financing a residential condominium project. This convertible loan continued to generate fair value gains at the comprehensive income level in 1Q FY13. As this is a multi-year loan, we reckon that IFS may realize its gains from this convertible loan in 2014 and 2015. Upon recognition, investment income may receive a substantial boost of around S\$2m to S\$3m.

Gains from Appreciation of Thai Baht: Total comprehensive income in 1Q FY13 was S\$4.6m, while net profit after tax was S\$1.8m. Recognized as comprehensive income was a further S\$2.5m of foreign currency translation gains from foreign operations. The company suffered a S\$3.0m loss on foreign currency translation in 2012. Compared to FY12, growth in comprehensive income was very impressive. Full year comprehensive income was only S\$8.3m in 2012.

We expect the company to expect further foreign currency translation gains as the Malaysian Ringgit appreciated substantially following the elections. A small portion of these gains will be reflected in net profit after tax as foreign currency denominated income will be higher in Singapore dollar terms. The larger impact for IFS will be growth in its equity base (book value).

Our View: We like this positive set of results, which show that IFS is sustaining business momentum. In particular, net interest income stands at a record S\$5.15m, compared to S\$3.18m 2 years ago (1Q FY11). Moreover, the number of upside drivers, e.g. investment income and lower loan allowances, suggest limited downside risk.

However, growth will depend on how fast IFS ramps up its loan assets. We leave our forecasts and valuation unchanged, as we are of the view that it will be more appropriate to adjust our projections after we obtain further visibility from the 2Q results.

Figure 1: Results Overview & Key Ratios

	1Q 2013	4Q 2012	3Q 2012	2Q 2012	1Q 2012
Net interest income	5.15	4.88	5.01	4.79	4.92
Net earned premium revenue	0.59	0.63	2.18	0.55	0.42
Non-interest income	2.97	3.32	2.59	4.13	2.43
Total income	8.71	8.83	9.78	9.46	7.77
Operating expenses	-4.98	-5.03	-5.29	-5.47	-5.21
Operating profit before net claims and allowances	3.73	3.80	4.49	4.00	2.56
Net claims (incurred)/reversal	-0.07	0.04	0.34	-0.14	-0.04
Allowances & impairment	-1.43	-0.70	-1.33	-0.90	-0.13
Profit before tax	2.24	3.15	3.50	2.96	2.40
Tax	-0.46	-0.78	-0.96	-0.74	-0.69
Profit after tax	1.78	2.37	2.54	2.22	1.70
Attributable profit	1.40	2.05	2.23	1.93	1.41
Non Interest Income					
Fee & commission	2.37	2.07	2.17	2.68	1.85
Investment income	0.51	1.15	0.35	1.42	0.45
Other income	0.08	0.10	0.07	0.03	0.13
Selected Balance Sheet Items					
Total Receivables (1)	312.9	302.2	306.2	303.6	292.1
Other Investments	35.3	45.2	48.5	55.7	53.3
Cash	60.1	53.4	37.5	29.7	32.5
Total borrowings	251.2	249.9	247.6	243.6	232.6
Total Common Equity	142.8	139.3	134.7	133.6	135.4
Gearing (2)	1.64	1.68	1.72	1.71	1.61
Ann. Return on Avg. Com. Equity	4.0%	6.0%	6.6%	5.8%	4.2%
Net Interest Margin	6.0%	5.9%	5.9%	5.9%	5.9%

(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, SIAS Research

Figure 2: PATMI, By Geography

	1Q FY13	1Q FY12	Chg	FY12	FY11	Chg
Group PATMI	1.4	1.4	0%	7.6	7.0	10%
Regional Operations	1.2	1.0	19%	4.0	2.6	52%
Thailand	0.8	0.6	33%	2.5	1.3	92%
Malaysia & Indonesia	0.4	0.4	-1%	1.5	1.3	15%
Singapore	0.2	0.4	-49%	3.6	4.3	-17%
ECICS	0.3	0.2	53%	2.7	2.9	-6%
Singapore (non-ECICS)	-0.1	0.2	-132%	0.9	1.4	-38%
Singapore Profit before Allowances	1.4	0.7	114%	1.0	0.0	NM
Foreign currency translation differences	2.5	-1.0		-3.0	-1.5	
Group Total Comprehensive Income	4.6	1.1	321%	8.3	4.5	85%

Source: Company, SIAS Research

Figure 3: Valuation

S\$m	FY13F	FY14F	FY15F
Profit Before Tax and Interest Expense	21.0	22.6	25.4
Tax on EBIT	-5.5	-6.0	-6.7
NOPLAT	15.4	16.6	18.7
Invested Capital	398.8	442.1	491.3
% of Debt	62.7%	65.0%	67.2%
% of Equity	37.3%	35.0%	32.8%
WACC (%)	4.3%	4.1%	4.0%
Capital Charge	17.0	18.3	19.7
Economic Profit	-1.6	-1.7	-1.0
Terminal Value			-52.5
Discount Factor	0.96	0.92	0.89
Present Value	-1.6	-1.6	-0.9
Book Value	139.3	Risk Free Rate	2.50%
Explicit Value	-4.1	Beta	0.70
Terminal Value	-46.6	Market RP	7.50%
Value of Equity	88.6	Cost of Equity	7.77%
Number of Shares (m)	150.4	Cost of Debt	3.0%
Value per share (S\$)	0.590	LT Growth	2%

Source: SIAS Research

Figure 4: Financial Forecasts and Estimates

	FY10	FY11	FY12	FY13F	FY14F	FY15F
Net Interest Income	19.1	16.9	19.6	21.7	22.5	25.5
Net Earned Premium Revenue	3.5	2.8	3.8	4.2	4.6	5.0
Fee & Commission Income	7.5	9.6	8.8	10.1	11.6	13.3
Investment & Other Income	1.8	2.2	3.7	4.1	4.7	4.7
Net Profit After Tax	7.9	7.7	8.8	9.5	9.8	11.0
PATMI	7.1	7.0	7.6	8.2	8.5	9.5
Total Current Assets	230.0	272.0	306.8	353.4	388.1	427.1
Total Non-Current Assets	95.7	121.5	125.8	124.1	140.1	149.7
Total Current Liabilities	166.1	214.8	239.1	277.9	316.1	351.5
Total Non-Current Liabilities	17.7	35.1	44.7	44.6	51.1	57.0
Total Equity	141.9	143.7	148.8	154.9	161.0	168.2
Cash from Operating Activities	44.8	-71.3	-20.8	-33.5	-40.7	-35.2
Cash from Investing Activities	-5.2	-1.7	11.6	-15.9	-11.1	-1.1
Cash from Financing Activities	-32.6	69.2	33.3	33.9	39.3	35.9
Net Change in Cash	6.9	-3.8	24.0	-15.5	-12.4	-0.5
Return on Common Equity	5.5%	5.2%	5.6%	5.8%	5.8%	6.2%
Return on Assets	2.3%	2.1%	2.1%	2.1%	1.9%	2.0%
Gross Debt / Common Equity	110.0%	160.1%	179.5%	199.3%	222.0%	239.5%
Current Ratio	1.4	1.3	1.3	1.3	1.2	1.2
EPS (S cents)	4.72	4.63	5.07	5.45	5.62	6.30
BV / Share (S cents)	88.2	89.5	92.6	95.8	98.9	102.7
P/E Ratio	10.59	10.80	9.87	9.18	8.89	7.94
P/B Ratio	0.57	0.56	0.54	0.52	0.51	0.49

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.

IMPORTANT DISCLOSURE

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