

## IFS Capital Ltd

### Expect Rebound in 2H 2013

IFS Capital Ltd's (IFS) 2Q FY13 results were affected by provisions due to the business failure of a client. Recovery actions are being taken against the client. Otherwise, 1H FY13 operating income before allowances and claims was largely within expectations at 47% of our full year forecast. Therefore, we expect IFS to more than offset the losses in 2H FY13 and report net profit of about S\$2.9m for FY13F.

**Overall Business Remained Healthy:** 2Q FY13 net interest income was 7.6% higher than that of 1Q FY13 and 15.8% higher compared to 2Q FY12, driven by a mix of higher business volume and net interest margin compared to a year ago. Group operating profit before net claims and allowances was 5.5% higher than that of 1Q FY13 and S\$60k lower compared to 2Q FY12, largely due to lower investment income. The decline in investment income was mainly due to mark to market losses on some listed securities and may not necessarily recur in subsequent quarters.

**Still in Expansionary Mode:** Loan volume is expected to increase in 2H FY13 as the company has managed to secure new business in Malaysia following the end of its elections. Under business development activities, the company is looking at expanding its network in Indonesia and is also considering entering into new geographical markets. Recently, IFS successfully made an opportunistic investment in Korea. Over the next one to two years, the insurance business ECICS Limited will also be launching new products such as workplace insurance, workers' medical insurance and cargo insurance.

**Our View:** We remain optimistic about IFS despite of the loss incurred in this quarter. The group's share of net profit from regional operations actually rose by about 17% compared to 1Q FY13. We also noted that the insurance business has been receiving substantially higher volume as 1H FY13 gross written premium rose by 27.4%. Contribution is likely to be more obvious when provision for unexpired risks stabilize in subsequent quarters.

## Invest

- Intrinsic Value S\$0.570
- Prev Closing S\$0.435

### 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
<b>Net Interest Inc</b>	19.6	21.7	21.3
<b>Net Earned Prem</b>	3.8	2.6	4.4
<b>Fee and Comm</b>	8.8	9.7	11.6
<b>Invt &amp; Other Inc</b>	3.7	2.0	3.5
<b>Net Profit</b>	8.8	2.9	9.5
<b>EPS (S cents)</b>	5.1	1.0	5.5

Source: Voyage Research Estimates

### Key ratios (FY14F)

<b>PER</b>	8.53
<b>P/BV</b>	0.49
<b>Return on Common Equity</b>	5.9%
<b>Return on Assets</b>	1.9%
<b>Gross Debt to Common Equity</b>	243.2%
<b>Current ratio</b>	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\$65.4m

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**Results Overview:** Net interest income for 1H FY13 came in at 49.3% of our full year forecast. On the other hand, net earned premium revenue accounted for only 27.2% of our full year forecast in 1H FY13 as the company set aside higher provision for unexpired risks. Unexpired risks are usually provided for at the onset of a transaction and written back over the lifetime of coverage. As such, there is scope for such provision to decline in subsequent quarters.

Non-interest income came in at 42.1% of our full year estimate due to certain mark to market losses. Some gains previously recognized at the comprehensive income, can be included as investment income on realization. Investment income may also increase as we foresee that the company may make further investments in 2H FY13. The company's investment portfolio shrank to S\$36.8m as at end June 2013 from S\$45.2m at the beginning of the year, while cash remained high at S\$59.6m.

**Figure 1: Comparison of Results vs Forecasts**

	1H FY13	Prior FY13F	% of Prior FY13F
Net interest income	10.7	21.7	49.3%
Net earned premium revenue	1.1	4.2	27.2%
Non-interest income	6.0	14.2	42.1%
Total income	17.8	40.1	44.4%
Operating profit before allowances & claims	7.7	16.4	46.8%
Net profit after tax	-2.7	9.5	NM
PATMI	-3.5	8.2	NM

Source: Company, Voyage Research

**Forecasts & Valuation:** We revised our FY13F forecasts to factor the 2Q results. Total income is now projected to be S\$36.0m for the full year to reflect lower net earned premium and non-interest income. Projected net interest income is held steady at about S\$21.7m. Full year net profit, previously projected to be S\$9.5m, has been revised downwards to S\$2.9m. However, we kept the bulk of FY14F and FY15F forecasts unchanged, as we do not expect such credit events to recur with high frequency. As such, the net impact on valuation is relatively muted. We now value IFS at S\$0.570 per share versus S\$0.590 previously.

**Figure 2: Results Overview**

	2Q 2013	1Q 2013	4Q 2012	3Q 2012	2Q 2012	1Q 2012
Net interest income	5.55	5.15	4.88	5.01	4.79	4.92
Net earned premium revenue	0.55	0.59	0.63	2.18	0.55	0.42
Non-interest income	3.01	2.97	3.32	2.59	4.13	2.43
Total income	9.11	8.71	8.83	9.78	9.46	7.77
Operating expenses	-5.17	-4.98	-5.03	-5.29	-5.47	-5.21
Operating profit before net claims and allowances	3.94	3.73	3.80	4.49	4.00	2.56
Net claims reversal	-1.45	-0.07	0.04	0.34	-0.14	-0.04
Allowances & impairment	-7.61	-1.43	-0.70	-1.33	-0.90	-0.13
Profit before tax	-5.12	2.24	3.15	3.50	2.96	2.40
Tax	0.59	-0.46	-0.78	-0.96	-0.74	-0.69
Profit after tax	-4.53	1.78	2.37	2.54	2.22	1.70
Attributable profit	-4.92	1.40	2.05	2.23	1.93	1.41

Source: Company, Voyage Research

### Figure 2: Results Overview & Key Ratios (Continued)

Non Interest Income	2Q 2013	1Q 2013	4Q 2012	3Q 2012	2Q 2012	1Q 2012
Fee & commission	2.86	2.37	2.07	2.17	2.68	1.85
Investment income	0.08	0.51	1.15	0.35	1.42	0.45
Other income	0.07	0.08	0.10	0.07	0.03	0.13
Selected Balance Sheet Items						
Total Receivables (1)	305.7	312.9	302.2	306.2	303.6	292.1
Other Investments	36.8	35.3	45.2	48.5	55.7	53.3
Cash	59.6	60.1	53.4	37.5	29.7	32.5
Total borrowings	256.9	251.2	249.9	247.6	243.6	232.6
Total Common Equity	133.0	142.8	139.3	134.7	133.6	135.4
<b>Gearing (2)</b>	<b>1.80</b>	<b>1.64</b>	<b>1.68</b>	<b>1.72</b>	<b>1.71</b>	<b>1.61</b>
<b>Ann. Return on Avg. Com. Equity</b>	<b>-14.3%</b>	<b>4.0%</b>	<b>6.0%</b>	<b>6.6%</b>	<b>5.8%</b>	<b>4.2%</b>
	1H 2013	1Q 2013	2012	9M 2012	1H 2012	1Q 2012
<b>Net Interest Margin</b>	6.0%	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, Voyage Research

### Figure 3: 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 4: 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	9.85	10.04	9.17	45.76	8.53	7.60
P/B Ratio	0.53	0.52	0.50	0.51	0.49	0.47

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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