STANDARD &POOR'S

IFS Capital

Bloomberg: **IFS SP** Reuters: **IFAC.SI** Price: **SGD0.35** Fair value: **SGD0.52** - **SGD0.59** Date: **June 8, 2012**

GICS: Financials/Specialized Finance

Business Summary: IFS Capital is a financial institution whose core activities evolve around the provision of financial services such as commercial and structured finance, private equity investments as well as credit insurance, bonds and guarantees.

Country of Incorporation: Singapore

Head Office Location: 7 Temasek Boulevard, #10-01 Suntec Tower One, Singapore 038987

Place of Operations: Singapore

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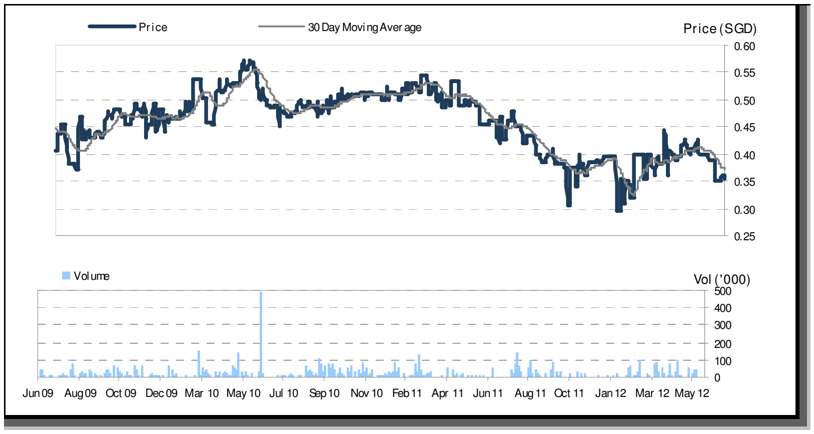
Analyst: Lorraine Tan, CFA / Pallavi Deshpande



Key Stock Statistics

52-week Share Price Range (SGD)		**0.30 - 0.48**
Avg Vol - 12 months ('000 shares)		**10.1**
Price Performance (%)	- 1 month	**-11.3**
	- 3 month	**-12.3**
	- 12 month	**-24.5**
No. of Outstanding Shares (mln)		**150.4**
Free Float (%)		**50.8**
Market Cap (SGD mln)		**53.4**
Enterprise Value (SGD mln)		**239.1**
Major Shareholders (%)		
Phillip Assets Pte Ltd		**40.4**
SMRT Road Holdings		**6.9**

Per Share Data

FY Dec.	**2011**	**2012E**	**2013E**
Book Value (SG cents)	89.47	92.36	95.60
Cash Flow (SG cents)	5.4	5.3	5.9
Reported Earnings (SG cents)	4.6	4.6	5.1
Dividend (SG cents)	1.8	1.7	1.9
Payout Ratio (%)	37.8	37.0	37.0
PER (x)	7.7	7.7	6.9
P/Cash Flow (x)	6.6	6.6	6.0
P/Book Value (x)	0.4	0.4	0.4
Dividend Yield (%)	4.9	4.8	5.4
ROE (%)	5.2	5.1	5.5
Net Gearing (%)	138.0	152.3	168.4

ASEAN Focus

- **Fair value of SGD0.52 to SGD0.59:** We expect IFS's business model to be relatively stable and valuations to reflect the increasing share of overseas business. Our fair value of SGD0.52 to SGD0.59 is based on a blend of dividend discount and relative PBV valuations.
- **Revenue mix improving:** The business model is evolving towards more recurring sources of revenue and away from volatile sources like private equity investments.
- **International business to drive growth:** We expect growth to be driven by its operations in Thailand, Indonesia and Malaysia. Thailand will see rebuilding efforts drive growth. Malaysia is seeing a pre election burst in spending and IFS is one of the few players here doing direct government business. Indonesia, a domestic consumption economy is a high interest margin business. IFS plans to open its second office in the country in 2012.
- **Strong balance sheet**: We believe the low leverage at 1.8x gives it significant room to grow the balance sheet. The group was prudent around the last financial crisis as it de-levered and is now well placed now to take on the opportunities that unfold from Europe's crisis IFS Capital's sustainable return on assets at 1.8% is the highest amongst its peers.
- **Key risks:** IFS business has moved towards majority revenues contribution coming from international business, a stronger SGD would see translation losses hurting book value. The focus on small and medium enterprises could lead to volatility in earnings as credit costs at 3.3% are a significant cost item.

Valuation

We see IFS value in the range of SGD0.52 to SGD0.59 based on a blend of DDM and PBV. The Singapore financial sector has stable dividends and fair visibility. While IFS share of revenue from overseas is increasing, earnings are moving to more stable sources and the visibility is improving. The lower dependence on investment gains gives increased stability to earnings.

The lower valuation of SGD0.52 is our low case valuation which looks at loans growing a slower 5.4% to 6% after our forecast period as competition increases. The higher valuation of SGD0.59 is our base case valuation which assumes than loans growth maintains the current pace for the medium term and moderates to 7.5% as competition is tepid.

Our fair value is based on weighted blend of our DDM and PBV valuations, with a higher weighting attached to our DDM valuation given that PBV does not reflect the increasing shift towards overseas earnings.

Dividend Discount Model

IFS has seen earnings being volatile with the change in its business segments, it has however maintained payout at above 30% since 2004. We expect earnings to be driven by loan growth and our base case looks for loans to grow 10%

The following are our key assumptions:

- IFS's net interest margins are stable, this assumes that the competitive environment does not change significantly.
- IFS prices risk appropriately so that earnings track loan growth with loan loss charges not hurting earnings. Thus return on assets is maintained at current levels.
- We have assumed there is no cash call and acquisitions. We look for loan growth within levels that do not require a cash call. We look for leverage to come down to being inline with peers
- .Our cost of equity is determined assuming a risk free rate of 3.5% and market risk premium of 7.5%. Beta used is 0.7 based on its share price performance. Its peers in Singapore have betas in the range of 0.5 to 0.6 with the overseas peers betas being in the 0.7 to 1.2 range. Given the changing geographic mix of revenues we see the higher beta to its Singapore peers as being fair.

Relative Valuations

We believe relative valuations are limited by the lack of direct comparables in terms of funding profile. We believe that PBV is more reliable as PERs can be distorted for small finance companies. Earnings can see significant volatility driven by credit cost charges, given credit costs account for 2% to 3% of loan assets for small finance companies against 0.5% to 1% for banks. Credit cost charges tend to be lumpy, rising in periods of slowing economic growth and declining in stable periods.

For PBV valuation we look to value IFS according to its geographic spread of business. Given the business mix of 44% from Singapore and balance overseas, we look for a blend of valuations of companies in Singapore and overseas.

The finance companies in Singapore trade in PBV ranges of 0.4x to 0.69x 2011 book (median:0.63x) with similar single digit ROEs with the exception of Sing Investments and Finance at 10.3%. The median market capitalization for the Singapore finance companies is USD106 mln.

The finance companies in Thailand and Indonesia trade at a premium to the Singapore companies with PBV ranges of 0.6x to 1.6x 2011 book (median: 1.2x) with ROEs in mid-teens. We have not included the Malaysian finance companies given their business mix, which includes investment banking and asset management, differs significantly from IFS. The median market capitalization for the overseas companies is USD160 mln.

Generally, financial services firms have similar leverage due to regulations on capital, however as IFS is not bound by these regulations, we have seen its leverage differ significantly from its peers. This drives IFS's ROE below that of its peers. Hence, we look at ROA and IFS ranks well on this measure in Singapore, while for the overseas business where it is still to build up scale IFS is lower than peers.

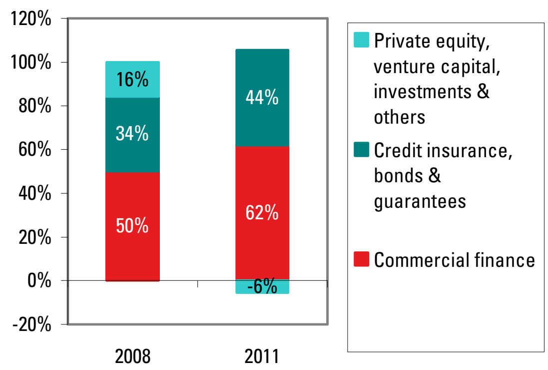
We have attached a target 2012 PBV of 0.7x, based on a 30% discount to the median PBV of a select basket of overseas finance companies and 10% discount to the Singapore companies median PBV to arrive at our low- and base- case PBV valuations. The higher discount to the overseas companies reflects IFS's relative position in these markets that are relatively new for it and where it needs to build up of scale to achieve returns similar to its peers overseas. The discount for Singapore reflects IFS's smaller market capitalization.

Company Background

Core Business: IFS Capital (IFS), a financial services group in Singapore is focused on providing short term funding for SMEs in Singapore, Thailand, Malaysia and Indonesia. The main lines of business are commercial finance, credit insurance and bond guarantees and private equity investments.

The provision of commercial finance products makes up the bulk of IFS's operating profit followed by credit insurance, bonds & guarantees. The company's private equity and venture capital activities have been scaled back over the past few years.

2011 Business Operating Profit Breakdown (SGD8.83 mln)



Source: Company data

Main Service and Product Description: Commercial finance services comprise mainly of trade financing and include providing factoring, accounts receivable financing, working capital loans, letters of credit and trust receipt facilities. Its factoring business covers both recourse and non-recourse business with IFS financing up to 90% of the receivables. The company also offers asset backed financing, which have included industrial and commercial mortgages and hire-purchase of machinery.

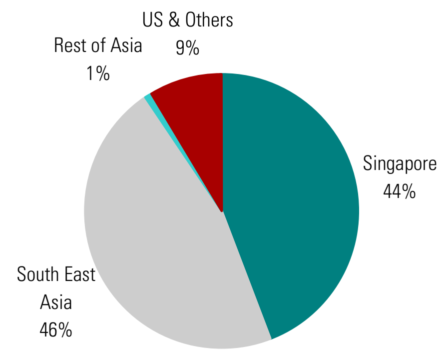
Besides the above, in Singapore, wholly-owned subsidiary ECICS offers credit insurance and bond & guarantees products. Credit insurance provides risk protection for sellers against payment and delivery risk. It also gives short-term guarantees for supplier and buyer credit finance.

Bonds & guarantees are, as the name implies, financial instruments that guard against the failure of a party to meet obligations under a specified contract. The most common bond guarantee is the performance bond that guarantees the performance of any contract. Others are maintenance bonds, qualifying certificate bond, account payment bond and tenancy/rental bond.

Overseas Exposure: In terms of geographical concentration, operating income is derived almost equally between Singapore and the rest of Southeast Asia. This marks the fast growth that IFS has experienced in Thailand, Malaysia and Indonesia in the past five years juxtaposed against the greater competition in Singapore. Hence, Southeast Asia's contribution to operating income has increased to 46% in 2011 from 16% in 2008.

Of this, Thailand is the largest contributor to the overseas business. IFS provides factoring services to SMEs in Thailand for both domestic and export sales. Its operations are self funded given it status as a listed entity in Thailand.

2011 Geographical Operating Profit Breakdown



Source: Company data

Malaysian operations are focussed on providing factoring, leasing and Hire Purchase. IFS has created a niche for itself in financing sub contractors in Malaysia and in 2011, received a full money lending license.

In Indonesia, it focuses on factoring and leasing services for SMEs. Its factoring services include domestic and export factoring as well as recourse and non-recourse factoring.

Listing History: IFS Capital was incorporated in 1987 and listed on the main board of the Singapore stock exchange in July 1993.

Key Management & Shareholders: The management team is lead by group CEO, Lee Soon Kie. Mr. Lee brings with him decades of knowledge in the industry. He was previously with Phillip Capital Group of companies and prior to that, with Schroders. Phillip Assets Pte Ltd. is the major shareholder with 40.4% ownership, followed by Singapore government linked company SMRT with a 6.9% stake. The Phillip group is a regional financial services firm in the securities business with retail and institutional clients.

Main Modes of Revenue Generation: In 2011, interest income, which is largely derived from commercial finance services, made up 61.0% of revenue (gross operating income) and is expected to continue to drive revenue generation. Net earned premium revenue contributed 7.9% and fee & commission income 26.6%. The balance was from investment income.

Revenue from private equity investments, which have been volatile, has diminished since 2007. As a result of this and given management's more cautious outlook during the financial crisis, IFS's revenue base has recovered slowly but steadily since 2008, driven by its core lending activities.

With recovery on hand, the loan book grew 35% in 2011 with a corresponding fee income growth of 28%. Higher net interest margins (NIM) have also buffered earnings from commercial finance. NIM increased to 5.3% (excluding one time recoveries of suspended interest) in 2010 from 3.2% in 2007 driven by the rising contribution from overseas business where higher lending margins are the industry norm. Margins were stable at 5.3% for 2011.

Currently, the bond guarantee business is driven by the Singapore construction sector.

Main Costs: IFS's main costs are borrowing cost, staff costs and credit costs. Funding is dependent on borrowings (due to the absence of customer deposits), which means that this expense runs higher than deposit-taking peers and is in the range of 3% to 5%. Borrowings are in SGD, USD and AUD. IFS does not hedge its foreign currency exposures and looks for a natural hedge in the course of business to manage its currency exposures. As such, an appreciating SGD vs. the Baht, Ringgit and Rupiah may eat into profits.

Staff costs make up 58% of operating expenses and the cost to income was 61% for 2011. IFS has a flat organizational structure with total number of employees at 220. Credit costs have increased steadily since 2007 to 3.3% for 2011, after averaging 0.9% for 2004 to 2006, in tandem with the increase in margins.

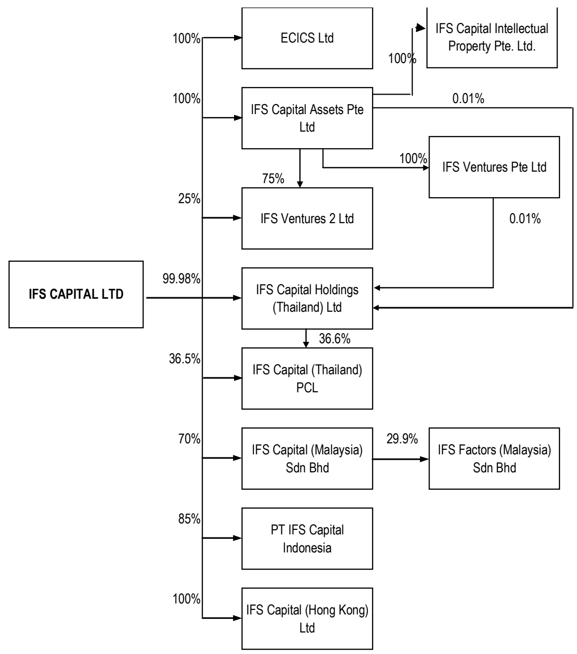
Corporate Governance: IFS's board of directors has six directors of which three are independent. The Chairman, Lim Hua Min is a non executive director. The Executive Resource and Compensation Committee comprises three members and is majority independent. The audit committee is made up entirely by independent Non-executive directors.

Board of Directors

Name	Title	Date Last Re-elected
Lim Hua Min	Non Executive, Non-Independent, Chairman	April 27, 2010
Gabriel Teo Chen Thye	Independent	April 27, 2011
Law Song Keng	Independent	April 27, 2011
Manu Bhaskaran	Independent	April 28, 2009
Lee Soon Kie	Executive, Group Chief Executive Officer	April 28, 2009
Kwah Thiam Hock	Non-Executive, Non-Independent	April 27, 2010

Source: Company data

Corporate Structure



Source: Company data

Earnings Outlook

Revenue Drivers:

Revenue growth will continue to be driven by the international business and the needs/growth plans of SMEs.

In Singapore, SME activity is likely to remain challenged by an uncertain global demand outlook and rising cost pressures. A pullback of funding by European banks and MNCs to local suppliers/manufacturers may see greater demand for short term financing from IFS. However, we believe IFS may temper their lending activity if risk of a potential rise in non-performing loans appears high.

The picture is probably brighter in Thailand, Malaysia and Indonesia with the former expected to post a rebound in GDP growth to around 5% as activity recovers from the Q4 floods. Domestic rebuilding of facilities should also help boost growth and partly offset slow external demand.

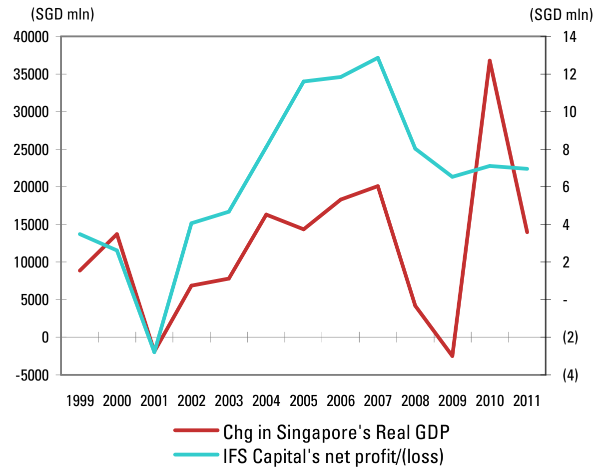
Malaysian lending should benefit from impending general elections and the increased fiscal spending that usually occurs around poll time. More infrastructure and related projects are expected to be awarded which should lead to continued demand by sub-contractors.

Indonesia's domestic economy remains healthy growing at around 6.0%. Some slowdown in consumption, as seen in slowing car sales recently, may indicate moderating lending activity but growth figures on the whole should remain decent.

As a result, we look for loan volumes to grow 10% for 2012 to 2013. For ECICS, we expect gross written premiums to grow at 2% for 2012-2014. We expect fee income to grow inline with loans and gross operating income to grow 16% for 2012, and between 8%-11% for 2013-2014.

To note, we have seen the relationship between IFS's earnings and the state of the Singapore economy weaken as the company grew its international operations. The next chart shows a relatively strong correlation between IFS Capital's earnings and the yearly change in Singapore's real GDP up until 2008 and some delinking thereafter.

IFS Capital's Earnings vs. Singapore's Real GDP



Source: Singapore dept. of Statistics, S&P CIQ Research

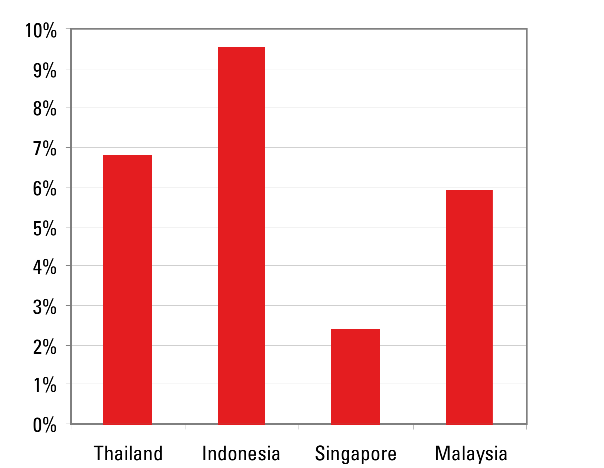
Margin Outlook:

We look for NIM to hold above 5.1% through 2014, similar to 2011's 5.3%, mainly due to our view that slow global growth should keep IFS's cost of borrowing relatively low with interest rates staying stable.

We expect margins to remain higher than the pre-financial crisis average of 3+% given increased contribution from the international business, where lending margins are higher than in Singapore.

We expect cost to income to improve by 260 bps to 58.8% for 2012 and settle at 57% for 2014.

2011 Loan Yields Higher Outside Singapore



Source: Siam Commercial, Bank Indonesia, DBS and CIMB company data

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Bottomline:

We expect earnings to decline 0.7% for 2012 and gain momentum into 2014, growing 11.9% to 10.1% for 2013-2014 driven by loan volumes. We have a cautious view on 2012 earnings due to rising asset quality risks given the ongoing Eurozone uncertainty and moderating Asian economic activity.

So while we expect operating profits to grow faster at 8.8% in 2012, we see increasing provisions for loan losses capping earnings. Provisions for loan losses are expected to grow 25% for 2012 and at 10% for 2013 and 2014.

Profit & Loss

FY Dec. / SGD mln	2010	2011	2012E	2013E
Reported Revenue	35.5	36.0	41.8	45.9
Reported Operating Profit	14.0	13.4	14.6	16.2
Depreciation & Amortization	-2.1	-2.2	-2.2	-2.2
Net Interest Income / (Expense)	NA	NA	NA	NA
Reported Pre-tax Profit	6.5	8.8	8.8	9.8
Effective Tax Rate (%)	NM	12.8	13.0	13.0
Reported Net Profit	7.1	7.0	6.9	7.7
Reported Operating Margin (%)	39.4	37.4	35.0	35.3
Reported Pre-tax Margin (%)	18.4	24.6	21.2	21.4
Reported Net Margin (%)	20.0	19.3	16.5	16.8

Source: Company data, S&P Capital IQ Research

Balance Sheet

FY Dec. / SGD mln	2010	2011
Total Assets	325.7	393.5
Fixed Assets	20.2	19.2
Current Assets	230.0	272.0
Other LT Assets	75.5	102.2
Current Liabilities	166.1	214.8
LT Liabilities	17.7	35.1
Share Capital	88.0	88.0
Shareholders' Funds	132.7	134.6

Source: Company data, S&P Capital IQ Research

Cash Flow

FY Dec. / SGD mln	2010	2011	2012E	2013E
Operating Cash Flow	42.3	-72.0	-20.0	-30.5
Investing Cash Flow	-1.6	-2.7	-0.6	0.0
Financing Cash Flow	-33.7	65.3	23.6	29.1
Net Cash Flow	7.0	-9.4	3.1	-1.4
Ending Cash	33.7	24.3	27.4	26.0
Capex	0.8	0.3	0.3	0.3

Source: Company data, S&P Capital IQ Research

Key Financial Performance

FY Dec.	2010	2011	2012E	2013E
Revenue Growth (%)	2.6	1.3	16.2	9.9
Operating Profit Growth (%)	4.8	-4.0	8.8	10.7
Net Profit Growth (%)	8.8	-2.1	-0.7	11.9
EPS Growth (%)	-2.1	-2.1	-0.2	11.9
EPS 3-Year CAGR (%)	-24.2	-10.4	-1.5	3.0

Source: Company data, S&P Capital IQ Research

Key Fundamentals

	2008	2009	2010	2011
ROE (%)	6.5	5.3	5.5	5.2
ROA (%)	2.2	1.9	2.4	2.0
Payout (%)	31.0	31.4	31.8	37.8

Source: Company data, S&P Capital IQ Research

Industry Outlook

Overview

The demand for financial services and funding is largely a reflection of the economic climate. This is juxtaposed against the financial institution's appetite for risk and its strategy of balancing risk and returns on its capital.

On the whole, the banking and finance industry is competitive with a variety of full service banks, investment banks and finance houses such as IFS occupying the lending space. The more liquidity there is in the banking system, the greater the competition tends to be as banks seek returns on their capital. With larger and foreign banks tending to focus on established names, finance houses such as IFS establish niches catering to the needs, particularly of SMEs, who tend to have more difficulty accessing capital.

Economic Outlook

For 2012-2014, our base case view is for the U.S. economy to avoid a recession but global growth is expected to stay sluggish in view of ongoing weakness in the Eurozone. In addition, emerging countries such as China, whose fiscal stimulus helped support the global recovery from the financial crisis, are expected to be more cautious in spending as they seek to avoid asset bubbles.

On this note, we see financial system loans growth moderating in Asia after the strong growth in 2011. However, underlying positive domestic consumption in ASEAN should enable GDP growth to continue to expand. And a relatively liquid banking system should continue to support loans growth although this does add competition to IFS.

GDP Growth Estimates (YoY chg)

%	2009	2010	2011	2012E
Singapore	-1.9	14.5	4.9	2.0-2.5
Malaysia	-0.5	7.4	5.1	4.5-4.9
Thailand	0.5	7.8	0.1	3.5-4.0
Indonesia	4.6	6.3	6.5	6.0-6.5

Source: S&P CIQ Research

We see ASEAN growth led by Indonesia and possibly Thailand. The former has benefitted from ongoing domestic wealth creation and reinvestment, which has sustained GDP growth at around the 6.5% level. The latter is recovering from last year's floods and the Thai government has recently forecast growth to be 5.5%-6.5%, significantly stronger than our estimate. Both Malaysia and Singapore should see more moderate GDP growth in 2012 but we would expect respective average GDP growths of around 5% for Malaysia and 3% for Singapore through 2014. The resumption of a Eurozone recovery and a pick up in U.S. growth will be key to underpinning the economic outlooks in Singapore and Malaysia.

Pullback by European Banks

The recent pullback in trade financing by European banks to shore up capital at home has enabled Asian institutions, including IFS, to fill in some of the gap. With the ongoing Eurozone debt problems, we see continued opportunities for IFS to step into potential lending activities previously provided by the European institutions.

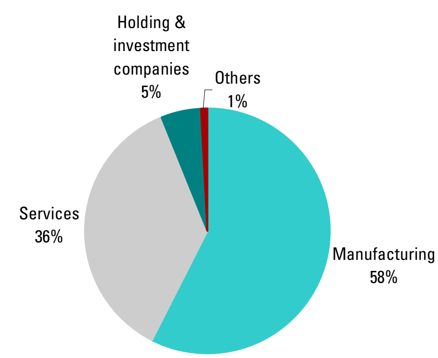
However, the challenging global outlook also spells risks of rising bad debt and stretched working capital needs by European clients that may add to SME's cash flow needs. Hence, while we see the potential for regional financial institutions to grow loans, we also anticipate more capital to be set aside as provisions. Also, signs of moderating activity recently have led, we suspect, to some banks switching strategy to bolster lending margins instead of growing their loan book.

For IFS, Domestic Niches will Provide Support

In Singapore, the bond guarantee business is currently being driven by the Singapore construction sector. We expect the real estate sector to see demand for mass market units near MRT stations and shopping malls to remain robust. The low real interest rate environment with low unemployment rate of 2% will be supportive of real estate demand.

The loans and factoring business is dependent on the manufacturing sector and the thrust on infrastructure projects in SE Asia will further aid the loans business.

Loans & Factoring Receivables (2011)



Source: Company data

Thailand remains attractive for the factoring business. The country has 2.9 mln SMEs and the segment contributed 37% of GDP and 29% of total exports for 2010. The industry loans growth is currently tracking 14% YoY, inline with the 2011 growth rate of 15%. Thailand is expected to be relatively insulated from the slowing global growth as it rebounds from the worst floods in fifty years that impacted the economy in 4Q11. The World Bank estimates the damage at USD45 bln. We will see rebuilding of damaged factories and buildings. Thailand, the world's largest manufacturer of hard disk drives will benefit from the recent stability we have seen in PC demand. IDC looks for global PC demand to grow 5% YoY in 2012 (2011:1.8%) driven by the Windows 8 launch in 2H12, that will enable the industry better ward off the threat from tablets.

In Malaysia, IFS is registered with the Ministry of Finance for providing factoring facilities to government contractors, with only two other independent companies apart from the banks registered to do the same. The Malaysian construction industry will continue to be buoyed by the implementation of various government sponsored initiatives over the next two years, particularly projects under the Economic Transformation Program and the 10th Malaysia Plan. Preparatory work on the high profile Sg Buloh – Kajang line (SBK) of the Klang Valley Mass Rapid Transit (KVMRT) is gaining traction following the award of several work packages valued at about MYR13.5 bln over the past few months. The SBK line's most crucial package - the MYR8.2 bln tunneling job, is expected to commence in 2H12 and work should escalate from early 2013 onward when the tunnel boring work is in full swing. IFS is looking to fund the sub-contractors for this project.

Meanwhile, the remaining packages of the KVMRT project with an estimated value of MYR4.5 bln-5 bln, is likely to be awarded over the next 18 months. Ongoing projects, such as the Second Penang Bridge, Light Rail Transit extension and the KLIA 2 are also accelerating, while several other high profile projects like the Kuala Lumpur International Financial District, the West Coast Expressway and the extension of the New Pantai Expressway is expected to be finalized in 2013 that will further strengthen the Malaysian construction sector outlook for the next few years. Given the increasing level of civil engineering work, the Central Bank is projecting the construction sector to grow 6.6% YoY in 2012, up from the estimated 3.5% YoY growth in 2011.

Indonesia saw the highest growth in the last fifteen years to 6.5% in 2011. The economy while dependent on commodity exports will benefit from a decline in oil prices. This will provide the government leeway to use the savings on fuel subsidies for infrastructure spend. The land reform bill passed in 2011 is expected to speed up infrastructure projects. Loan growth is expected to remain strong at 20% (according to Standard & Poor's Ratings Services) inline with the past few years. NPLs have been benign at below 3% levels, despite the fast paced loan growth driving the highest return on assets for the banking sector at 2.5%.

Indonesian non-bank multi-finance companies (MFCs) which are involved in consumer financing, leasing, factoring and credit card financing – have been able to ride on the robust consumer spending to rapidly grow their assets. Total financing assets grew at a CAGR of 18.9% over 2006-2010 periods to IDR186.4 tln with consumer financing expanding 22.5% to IDR130.0 tln. The industry's growth prospect remains bright, in our view, fuelled by rising per capita income, increased urbanization and low interest rate environment.

Risks

- **Prolonged Global economic turmoil:** The uncertain global economic outlook is a key risk for the industry. The debt challenges in the Eurozone are a major concern. The SME sector is dependent on the export opportunities for the region and slowing global demand will weaken their credit demand.
- **Rising Inflation:** The economies of S.E. Asia have seen inflation as a consistent risk given rising prices of food and oil. Higher inflation drives higher interest rates and this impairs asset quality.
- **Interest rate fluctuations.** IFC is not allowed to take deposits and depends heavily on bank financing, thus higher interest rates will increase funding costs and reduce interest spread for the loans business.
- **Increased Competition:** Increased competition from the banking sector is the respective economies would squeeze margins, given banks lower cost of funding. As overall credit demand slows banks could look to the hitherto ignored SME sector for loan growth.
- **Regulatory risks:** The S.E Asian markets have been gradually opening up their financial sector. An increased nationalistic approach could see a reversal of the same. Recently, we saw Indonesia which allows foreign companies to own 99% of joint-venture companies in the financial services industry looking to cap this to 40% foreign ownership.

Growth Strategy

With Singapore's competitive and mature financial services space, IFS is looking towards the overseas business to drive growth.

Indonesia is a high margin market and IFS is looking into the possibility of opening a second branch office in Jakarta. It sees a niche for itself in providing USD funds to corporates as banks are not allowed to do the same. It expects the mining and plantation sector to be the drivers of credit demand.

Malaysia is an attractive market given its less nationalistic stance towards the financial sector. IFS received a full money lending license in 2011. IFS is registered to do direct government business and hence well positioned to gain from the infrastructure spending in the country.

Thailand remains a restrictive market and when it opens up IFS will look to get into the mortgage financing market.

The IFS board will also look to expand into other countries in Asia as these countries open up their financial sector.

Strengths

- With a history that dates back over 20 years, IFS Capital has accumulated a veritable wealth of experience, especially in both factoring and credit insurance.
- As a non-regulated financial institution, the group has greater flexibility in terms of its product offerings, with the ability to provide structured finance and alternative financing solutions as well.
- The group's financials are strong, reflective of prudent management. Leverage of 1.8x end-December 2011 and return on assets at 2% compares well with peers
- With a flat organizational structure, the group is better able to provide its customers with faster loan processing turnaround times.
- As a member of the International Factors Group which has affiliates in more than 50 countries, IFS Capital is able to offer factoring as an international service, while ECICS's membership in other international organizations provides for global connections as well.

Weaknesses

- As a non-deposit taking entity, IFS Capital's funding costs are higher than that of other deposit-taking financial institutions.
- The financial sector in Asia has been unable to charge an appropriate risk premium from the SME sector. The higher credit risks require extra vigilance and surveillance and translate into a lower than industry return on assets.

Management Guidance

Management expects growth to be driven by the overseas subsidiaries. It expects to expand its operations in Indonesia to more cities, currently IFS has only one office in Jakarta. Management believes it can improve the cost to income as efficiencies start to accrue from rising business volumes.

IFS guides for net interest margins to be stable or decline slightly from 2011 levels of 6.5%. To note, IFS's reported margins differ from our calculated 5.3%, with the difference arising on two accounts: i) adjustments to the loans figure as IFS excludes some suspended accounts that are not accruing interest and ii) monthly averages of loans against our year end average.

Dividend Policy

IFS looks to maintain payout above 30% of earnings.

Auditors' History

2005 to current: KPMG LLP, Singapore. CPA. Jeya Poh Wan has been the Partner-In-Charge since 2011.Lau Kam Yuen was the PIC in 2010 and Jeya Poh Wan in 2009. Gerald Low Gin Cheng was the Partner-In-Charge from 2005-2008

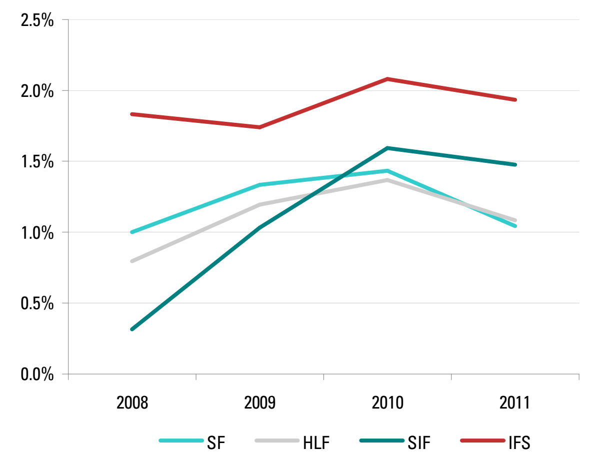
Peer Comparison

We are comparing IFS to other financial services companies in Singapore. However, there are two pertinent differences between these finance companies and IFS Capital in that the former: (i) are deposit-taking institutions while IFS Capital is not licensed to do so and (ii) cater to both consumers and corporate clients, while IFS Capital operates predominantly in the corporate sphere.

The three listed finance companies are: (i) Hong Leong Finance (HLF), (ii) Singapura Finance (SF), and (iii) Sing Investment & Finance (SIF).

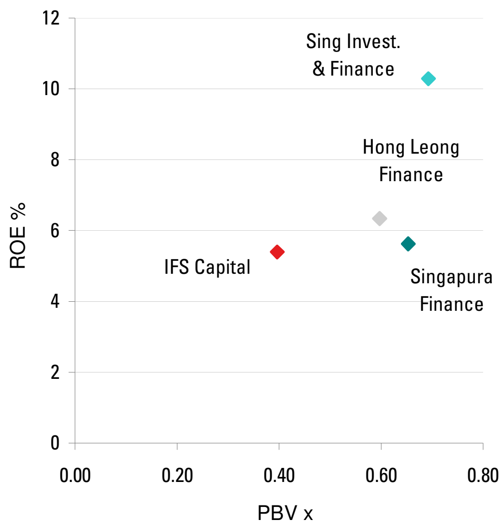
IFS's lower PBV, we believe, comes from the higher risk associated with its overseas expansion strategy as well as the perception of funding risk as it does not take deposits. We suspect that market is also factoring in asset quality risk as the market believes IFS's higher margins should be accompanied by higher NPLs.

Return on Assets



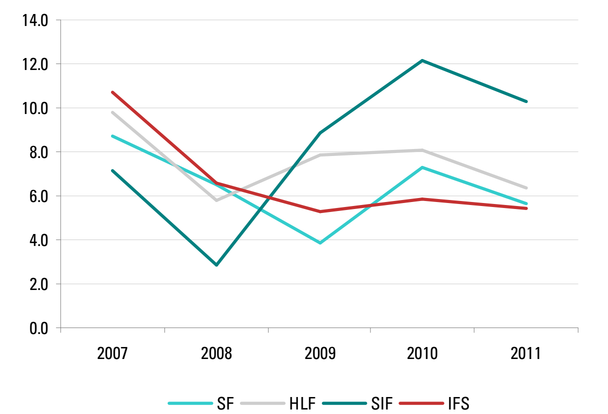
Source: S&P Capital IQ Equity Research

2011 Price Book Value (PBV) vs. Return on Equity (ROE)



Source: S&P Capital IQ Equity Research

Return on Equity (%)

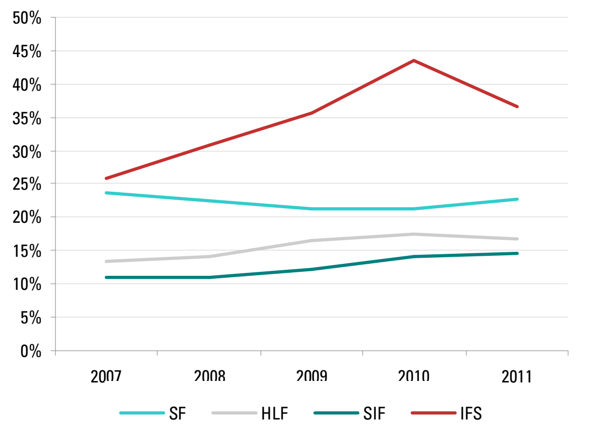


Source: S&P Capital IQ Equity Research

IFS Capital ranks well on ROA, given its higher interest margins and strong non interest income generation. Its ROA has also been relatively more stable than its peers driven by its ASEAN expansion to support its Singapore returns.

Its lower ROE comes from the lower leverage as the company took a more conservative approach to growth post the financial crisis. It also has the lowest gearing amongst its peers.

Shareholder funds to total assets (%)



Source: S&P Capital IQ Equity Research

Recent News & Developments

May 2012: Announced 1Q12 results, net profit of S$1.4 mln (+40% YoY) was driven by strong loan volumes and lower charges for investment impairments and loan losses. The contribution of overseas business was in excess of 50%.

May 2012: IFS Thailand announced 1Q12 results, net profit of Baht 27 mln.

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