STANDARD &POOR'S

IFS Capital

Bloomberg: **IFS SP** Reuters: **IFAC.SI** Price: **SGD0.40** Fair value: **SGD0.49 - SGD0.55** Date: **August 13, 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

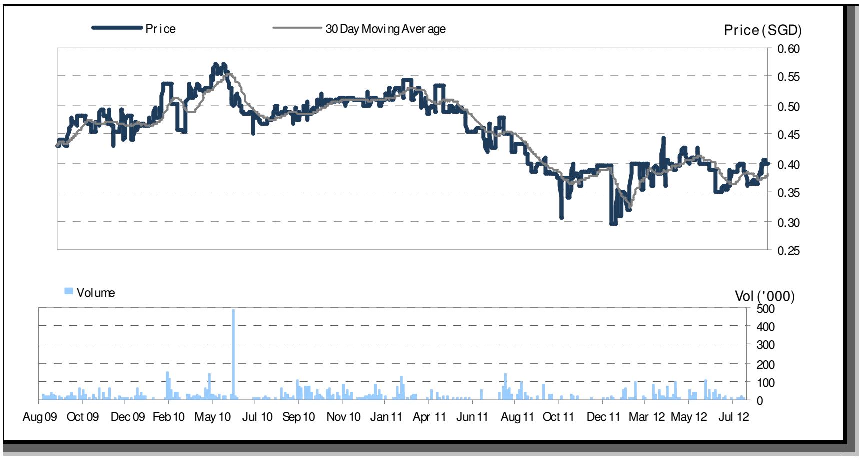
Head Office Location: 7 Temasek Boulevard, #10-01 Suntec Tower One, Singapore 038987

Place of Operations: Singapore

Website: www.ifscapital.com.sg

IR Contact: Ms Lim Mui Ling (Group CFO) | muiling.lim@ifscapital.com.sg | +65-6270 7711

Analyst: Lorraine Tan, CFA / Pallavi Deshpande



Key Stock Statistics

52-week Share Price Range (SGD)		**0.30 - 0.45**
Avg Vol - 12 months ('000 shares)		**9.6**
Price Performance (%)	- 1 month	**9.6**
	- 3 month	**0.0**
	- 12 month	**0.0**
No. of Outstanding Shares (mln)		**150.4**
Free Float (%)		**50.8**
Market Cap (SGD mln)		**60.2**
Enterprise Value (SGD mln)		**245.9**
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	92.01	94.83
Cash Flow (SG cents)	5.4	4.8	5.2
Reported Earnings (SG cents)	4.6	4.0	4.5
Dividend (SG cents)	1.8	1.5	1.7
Payout Ratio (%)	37.8	37.0	37.0
PER (x)	8.7	9.9	8.9
P/Cash Flow (x)	7.4	8.4	7.6
P/Book Value (x)	0.4	0.4	0.4
Dividend Yield (%)	4.4	3.7	4.1
ROE (%)	5.2	4.4	4.8
Net Gearing (%)	138.0	159.8	177.6

2Q earnings fall short but Singapore activity improves

- **2Q12 results below and profit estimate lowered.** IFS' results were below our expectations as net profit declined 32.4% YoY for 2Q12 and 13.6% YoY for 1H12. Profit before taxes and provisions grew 0.6% YoY for 2Q12 and 9.2% YoY for 1H12. However, 1H12 net profit declined YoY, as 1H11 net profit had been boosted by a non-recurring tax refund and write-back of over-provisions. Our earning projections are lowered by 12% and 13% for 2012 and 2013 respectively on lowered margin assumptions.
- **Loan growth at the expense of margins.** Loans grew 32% HoH and 97% YoY driven by increased lending to the Singapore property and shipping sectors. IFS saw competitive pressures ease in Singapore as the banks have pulled back from their growth focus. The factoring business grew a more sedate 9% HoH. Net interest income grew 15.4% YoY and 32.5% YoY for 2Q12 and 1H12, with margins flat QoQ and declining 60 bps over end-2011.
- **Fair value range lowered**. The adjustments to our earnings drive fair value lower, now at SGD0.49 to SGD0.55.
- **Fee income in line**. Fee income declined 28% YoY for 2Q12, however, excluding an one-off fee income of SGD1.4 mln for 2Q11, it actually grew 14.6% YoY for 2Q12.
- **Cost to income declines.** IFS saw its cost-to-income decline to 59%, lower by 150 bps for 1H12, driven by the strong net interest income growth and improved efficiency. We saw staff costs increase 16% YoY as IFS added 10 new employees during 2011 but overall rise in costs was as expected.
- **Provision for loan losses lower**. Loan loss provisions fell 1% YoY for 2Q12 and 29.9% YoY for 1H12. The lower provisions came from write-backs of loan loss provisions in the Singapore business that saw its five year moving average loss rate head lower.
- **Insurance business continues to be weak**. Gross written premium declined 12.3% YoY for 2Q12 and 3.9% for 1H12, with net earned premium revenue declining 17% YoY for 1H12 on higher provisioning for unexpired risk reserve.
- **Main Risks** include: (i) the challenging economic environment impacting loan growth and asset quality, and (ii) an appreciation in SGD would depress book value given translation losses at its international subsidiaries.

The McGraw·Hill Companies

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Earnings Outlook

Revenue Drivers:

- We look for gross operating income to grow 14% for 2012 and 10% for 2013-2014 driven by loan growth of 15% for 2012 and 10% for 2013-2014. We expect loan growth to continue to be driven by its international business. Although Singapore loan growth was better than expected in 2Q12, we do not expect this to be sustained.
- Malaysia is expected to see government spending ramp up in 2H12 and IFS looks to fund the sub-contractors for various projects. In Indonesia, business growth is coming from the power, oil and gas sectors. Thailand is seeing economic activity return to normal levels as the boost from flood rebuilding activity declines.
- We expect fee income growth to be in line with loan growth.
- We expect gross written premium at ECICS to grow at 2% for 2012-2014.

Margin Outlook:

- Net interest margins are expected to decline 30 bps for 2012 as higher loan volumes come at the expense of yields, borrowings costs though, remain benign.
- Cost to income is expected to improve 240 bps to 59.2% for 2012, as increased revenues more than offset rising employee costs.

Bottomline:

- Our earning projections are lowered by 12% and 13% for 2012 and 2013 respectively. We forecast 2-year net profit CAGR (2011-2013) of -1.6% (previous 5.4%), due to net interest margin pressures of 30 bps (previous flat) and a higher effective tax rate of 17% (previous 13%). Our loan growth assumptions increase to 15% for 2012 (previous 10%) earlier and unchanged at 10% thereafter.

Earnings Performance

FY Dec. / SGD mln	2Q12	2Q11	% Change
Reported Revenue	11.2	9.9	12.6
Reported Operating Profit	3.9	3.8	0.6
Depreciation & Amortization	-0.5	-0.5	7.1
Net Interest Income / (Expense)	NA	NA	NA
Reported Pre-tax Profit	3.0	2.9	1.1
Reported Net Profit	1.9	2.9	-32.4
Reported Operating Margin (%)	34.5	38.6	-
Reported Pre-tax Margin (%)	26.4	29.4	-
Reported Net Margin (%)	17.3	28.8	-

Source: Company data

Profit & Loss

FY Dec. / SGD mln	2010	2011	2012E	2013E
Reported Revenue	35.5	36.0	41.1	45.4
Reported Operating Profit	14.0	13.4	14.2	15.8
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	8.2	9.1
Effective Tax Rate (%)	NM	12.8	17.0	17.0
Reported Net Profit	7.1	7.0	6.1	6.7
Reported Operating Margin (%)	39.4	37.4	34.5	34.7
Reported Pre-tax Margin (%)	18.4	24.6	20.0	20.0
Reported Net Margin (%)	20.0	19.3	14.7	14.8

Source: Company data, S&P Equity Research

Key Financial Performance

FY Dec.	2010	2011	2012E	2013E
Revenue Growth(%)	2.6	1.3	14.3	10.5
Operating Profit Growth(%)	4.8	-4.0	5.4	11.3
Net Profit Growth(%)	8.8	-2.1	-13.0	11.3
EPS Growth(%)	-2.1	-2.1	-12.5	11.3
EPS 3-Year CAGR(%)	-24.2	-10.4	-5.7	-1.6

Source: Company data, S&P Equity 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

Valuation

Our valuation for IFS is lowered due to our earnings forecast. Our valuation is based on a weighted blend of our DDM (11% cost of equity) and PBV (2012 PBV of 0.7x) valuations. Our valuations factor in loans growing 7.5% YoY in the medium term driven by the international business, margins remaining stable, and risks from slowing economic growth in Singapore.

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