

**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

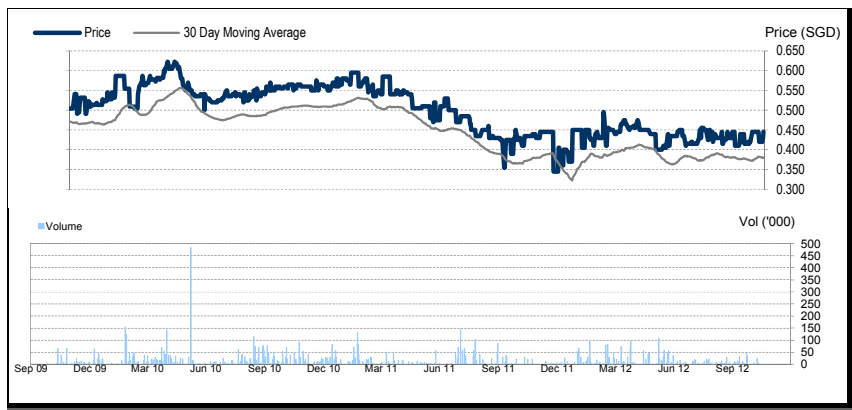
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**Key Stock Statistics**

52-week Share Price Range (SGD)	<b>0.30 - 0.45</b>
Avg Vol - 12 months ('000 shares)	<b>8.8</b>
Price Performance (%)	
- 1 month	<b>1.3</b>
- 3 month	<b>-1.3</b>
- 12 month	<b>2.6</b>
No. of Outstanding Shares (mln)	<b>150.4</b>
Free Float (%)	<b>50.8</b>
Market Cap (SGD mln)	<b>59.4</b>
Enterprise Value (SGD mln)	<b>245.1</b>
Major Shareholders (%)	
Phillip Assets Pte Ltd	<b>40.4</b>
SMRT Road Holdings	<b>6.9</b>

**Per Share Data**

FY Dec.	<b>2011</b>	<b>2012E</b>	<b>2013E</b>
Book Value (SG cents)	89.47	92.47	95.69
Cash Flow (SG cents)	5.4	5.5	5.9
Reported Earnings (SG cents)	4.6	4.8	5.1
Dividend (SG cents)	1.8	1.8	1.9
Payout Ratio (%)	37.8	37.0	37.0
PER (x)	8.6	8.3	7.7
P/Cash Flow (x)	7.3	7.2	6.7
P/Book Value (x)	0.4	0.4	0.4
Dividend Yield (%)	4.4	4.5	4.8
ROE (%)	5.2	5.2	5.4
Net Gearing (%)	138.0	168.0	184.8

**Insurance business outlook improves**

- **Solid performance.** IFS's 3Q12 performance was above our expectations as net profit of SGD2.23 mln jumped 109.5% YoY, making up 92.0% of our previous forecast. Profits were driven by the write back of provision for unexpired risk in the insurance business and strong premium income growth of 26.6% YoY. The insurance business is expected to see a further pick up in 4Q12 as the Singapore government ramps up infrastructure spend towards year end.
- **Fair value range raised to SGD0.52 to SGD0.59** following upward revision of 18.4% and 14.1% to earnings projections for 2012-2013. We lift our assumptions to factor in the write back of provisions and an improved outlook for the insurance business.
- **Insurance business sees market share gains.** Insurance business sees the pull back by the European insurers drive premium income growth. Globally, general insurers have been under pressure from rising claims in the past four years. The write back in provisions is due to a change in actuarial assumptions, which now factors in a lower loss rate.
- **Strong fee income growth.** Loan and Hire Purchase portfolio declined 7.0% QoQ (+37.7% YoY), while the factoring volumes were robust and grew 3.5% QoQ (16.0% YoY). Net interest margins were stable QoQ at 5.9%. Fee income grew 25.9% YoY, the strongest pace for the year, driven by the higher factoring volumes and the rise in insurance business ceded out.
- **Costs remain a concern.** The increase in staff cost of 18.2% YoY (16.4% in 1H12) due to higher provision for performance bonus remains a concern. We see risks that the gains from higher loan growth are being offset by rising costs.
- **Overseas business performance mixed.** Profit before provisions for the overseas business increased 58.9% YoY in 3Q12. However, loan loss provisions increased 97% YoY driven by exposure to rising NPLs from its financing of sub-contractors involved in government construction projects in Malaysia. However, IFS has seen a partial recovery of these NPL's lately.
- **Main Risk.** The main risks include: (i) Slowing economic growth in Indonesia and Thailand, and (ii) Potential currency translation losses due to the SGD's strength vs. regional currencies which may negatively impact book value and offset the rise in profits.

**Earnings Outlook****Revenue Drivers:**

- The focus remains the overseas business, where loan growth is likely to continue to outpace Singapore. Indonesia business was weak during 3Q12, however we expect activity to improve going ahead as IFS began operations of its new office (second in the country) in Kalimantan. Meanwhile, government spending is expected to continue in Malaysia, (election must take place by March 2013) with IFS funding the sub-contractors. In Thailand, activity has moved beyond the boost from flood rebuilding efforts and into a sustainable expansion.
- The Insurance business sees a turnaround as actuarial assumptions on loss rates move lower given the low default risk in Singapore. The bond and guarantee business is driven by the Singapore government's infrastructure spending on housing, polytechnics and MRTs, with performance bonds and Qualifying Certificate bonds seeing increased activity. The insurance business is expected to see a high single digit growth in 2013-2014
- Singapore loan business is expected to be stable as banks pull back from lending to SMEs, presenting lending opportunities for IFS.

**Margin Outlook:**

- We see net interest margins to be under pressure as IFS sees some high yield loans mature in 2012 and its high growth strategy sees a trade off with margins. We forecast margins to decline 30 bps in 2012.
- We see rising staff costs to be offset by higher business volumes and look for staff cost to revenues stabilize at 35% for 2012-2014 (35.9% in 2011)

**Bottomline:**

- We see net profit growing 3.0% and 7.3% for 2012 and 2013, respectively, driven by loan growth at 20% for 2012 and 10% for 2013. Our assumptions on premium income growth are raised to 5% for 2012, 7% for 2013-2014 (2% previously) and factor in the write back of insurance provisions. We lower our credit cost assumptions by 33 bps to 3.0% for 2012-2014.

**Earnings Performance**

FY Dec. / SGD mln	3Q12	3Q11	% Change
Reported Revenue	11.6	8.8	31.6
Reported Operating Profit	4.8	2.7	80.9
Depreciation & Amortization	-0.5	-0.5	-4.2
Net Interest Income / (Expense)	NA	NA	NA
Reported Pre-tax Profit	3.5	1.8	92.3
Reported Net Profit	2.2	1.1	>100
Reported Operating Margin (%)	41.7	30.3	-
Reported Pre-tax Margin (%)	30.2	20.7	-
Reported Net Margin (%)	19.3	12.1	-

Source: Company data

**Profit & Loss**

FY Dec. / SGD mln	2010	2011	2012E	2013E
Reported Revenue	35.5	36.0	42.7	47.0
Reported Operating Profit	14.0	13.4	15.0	16.5
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	9.6	10.3
Effective Tax Rate (%)	NM	12.8	17.0	17.0
Reported Net Profit	7.1	7.0	7.2	7.7
Reported Operating Margin (%)	39.4	37.4	35.2	35.1
Reported Pre-tax Margin (%)	18.4	24.6	22.4	21.8
Reported Net Margin (%)	20.0	19.3	16.8	16.3

Source: Company data, S&amp;P Equity Research

**Key Fundamentals**

FY Dec.	2008	2009	2010	2011
ROE (%)	6.5	5.3	5.5	5.2
ROA (%)	2.2	1.9	2.4	2.0
Pay out (%)	31.0	31.4	31.8	37.8

**Key Financial Performance**

FY Dec.	2010	2011	2012E	2013E
Revenue Growth(%)	2.6	1.3	18.8	10.0
Operating Profit Growth(%)	4.8	-4.0	11.9	9.8
Net Profit Growth(%)	8.8	-2.1	3.0	7.3
EPS Growth(%)	-2.1	-2.1	3.6	7.3
EPS 3-Year CAGR(%)	-24.2	-10.4	-0.3	2.8

Source: Company data, S&amp;P Equity Research

**Valuation**

We value IFS at SGD0.52 to SGD0.59 (previously SGD0.49 to SGD0.55) based on a weighted blend of discounted cash flow (11% cost of equity) and PBV valuations (2012 PBV of 0.7x). Our valuations factor in loans growing at 7.5% in the medium term with stable net interest margins. We see the rising share of overseas business supporting the net interest margins.

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