

IFS Capital Ltd

Rising on Solid Margin and Volume

IFS Capital Ltd (“IFS”) announced its 3QFY11 results on 11 November 2011. IFS showed strong results with a 108% YoY increase in its quarterly pretax profits on the back of higher net interest income and lower allowance for loan losses and impairment of investments. Growth was also contributed by increase in business volume growth across all business units and stronger net interest margin. On the comprehensive income level, we see an 8.3% YoY increase over 3QFY10 results due to translation gain on its regional businesses. We maintain our **Invest** rating with an intrinsic value of S\$0.600

Key Developments:

Positive quarterly results on strong NII margins and business volume: Current results reflect strong growth over all business segments on overall stable NII margins for year mainly due to its regional expansion over the year. In particular, the Malaysian region had shown strong volume growth whose trend is expected to continue moving forward. Furthermore, IFS had indicated that it had recently been able to gain increased market share in Singapore segment due to big players cutting back on business dealings.

No direct impact expected on Thailand flooding: Impact on Thailand flooding has directly or indirectly affected some of IFS Thailand’s customers. However, IFS expects no material losses as major customers from their direct leasing arm have their assets insured and their customers from factoring business are mostly MNCs. Moving forward, Thailand business volumes are uncertain. They may drop on the impact of flooding or increase due to the restocking of inventory.

Expected to end the year strong: IFS is expected to end the year strong indicated by strong pipeline revenue of new transactions in 3QFY11. While we do not expect IFS to reflect past year’s results due to strong loan recoveries and repayment of various loans, we expect stronger core business growth from IFS, in particular its Malaysia segments.

Invest

- Intrinsic Value \$0.600
- Prev Closing \$0.390

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	FY10	FY11F	FY12F
Net Interest Inc	19.1	17.0	17.8
Net Earned Prem	3.5	2.9	2.9
Fee and Comm	7.5	9.1	9.4
Invnt & Other Inc	1.8	2.0	3.5
Net Profit	7.9	8.5	10.1

Source: SIAS Research estimate

Key ratios (FY12F)

Return on Equity	6.2%
Return on Asset	2.5%
Debt/Equity	1.5
Price/Earnings	5.8
Price/Book	0.35

Source: SIAS Research Estimate

Indexed Price Chart

Green (FSSTI)

White (IFS Capital)



Source: Bloomberg

52wks High-Low S\$0.545-0.305
 Number of Shares 150.388m
 Market Capitalization S\$58.65m

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Stronger Business Growth over all Segments

IFS had achieved strong business volume growth across all business units over this quarter, which contributed in the company maintaining its 3QFY11 ROE versus 3QFY10 results. This result is positive if we were to take into consideration significant recoveries of interest from non-performing loans and from repayments of various loans. Excluding recoveries, net interest income for 3QFY11 is up by 6%.

3QFY11 profit from non-interest income segments – fee and commission and investment income is also up 26.0% and 142.0% respectively. Increase in fees and commission income for 9 months ended 3QFY11 was caused mainly to higher factoring service fees and the receipt of a significant fee income upon repayment of a property loan. Investment income in 9 months is up due to prior year reflecting a loss on a hedged derivative.

Net earned premium for 9 months ended reflected a decrease due to lower credit insurance business volume and lower bonds and guarantees premium rate from ECICS, IFS's credit insurance subsidiary.

Figure 1: Group Result Summary – 9 months ended

(\$ m)	For 9 months		Change (%)
	2010	2011	
Net interest Income	15.2	12.1	-20.7%
Net Earned Premium Revenue	2.9	1.9	-34.3%
Non-Interest Income	7.1	8.8	24.6%
Total Income	25.2	22.8	-9.5%
Operating Expenses	-13.7	-14.3	4.0%
Operating Profit before Net Claims & Allowances	11.5	8.5	-25.7%
Net Claim Incurred	-0.4	0.0	-98.3%
Allowances	-5.1	-2.3	-54.4%
Profit Before Tax	6.0	6.2	3.6%
Income tax expenses	-0.7	-0.6	-5.5%
Profit after tax	5.3	5.6	4.7%
Attributable Profit after NCI	5.1	4.9	-4.0%

Source: Company

Figure 2: Modified Dupont Analysis

	9 months results	
	2010	2011
Tax burden	0.88	0.90
EBT Margin	23.8%	27.2%
Asset Turnover	7.1%	6.5%
Financial Leverage Ratio	2.64	2.46
Return on Equity	4.0%	3.9%

Source: SIAS Research

Current ratios indicate that IFS is able to keep up with past year's ROE with EBT margin increase over the prior year (2010: 23.8% vs 2011: 27.2%). This reflects effective spending with respect to its expansion in the course of the year.

Regional Segments Reflecting Strong Growth

Profits from regional operations are up 34.4% (Group's share of Profit After Tax are up 10.4%) contributed by strong top line growth from higher fees and commission income and lower allowances but are partially offset by lower NII and higher expenses from regional expansion.

Indonesia and Malaysia gaining market share: IFS's results presentation indicates that both Indonesia and Malaysia are gaining market share. On the Indonesian front, IFS had expanded its loan assets and client base and is maintaining its course. Its Malaysia segment is still one of its most profitable segments benefited from more government financing projects with recent increase in government activities.

IFS had also indicated that its Malaysian subsidiary has full complement of staff and resources which implies moderate staff costs growth moving forward. We look forward in seeing strong results with Malaysia subsidiary at "full production capacity".

Future impact from Thailand flood two-ways: As mentioned above, IFS do not expect material loss on current receivables. Future impact for business volume is unknown at this point due to financing business expecting inventory buildup by businesses; while lower business volume may occur due to down-time caused by the flood.

Figure 3: Regional Operations Result Summary

(S\$ m)	9 months		Change (%)
	2010	2011	
Net interest Income	5.9	5.6	-5.3%
Non-Interest Income	2.7	3.5	30.5%
Operating Expenses	-4.7	-4.9	5.9%
Operating Profit before Allowances	3.9	4.2	6.1%
Allowances	-0.8	-0.4	-47.8%
Profit before tax	3.1	3.7	19.5%
Income tax expenses	-1.3	-1.3	-1.7%
Profit after Tax	1.8	2.5	34.4%
Group's share of PAT based on % of shareholdings	1.7	1.8	10.4%

Source: Company

Value Prospects

Current results reflect growth in business volume on the back of regional segments. As mentioned above, we expect IFS to end 2011 with a slight profit growth over last year due to substantial recoveries in that year.

Beyond 2011, we foresee stable growth for IFS on the back of increased market share largely through ongoing regional awareness of the IFS branding.

Maintain: Invest

Figure 4: Economic Profit Model

S\$ m	FY11F	FY12F	FY13F
EBIT	10.3	12.2	15.8
Tax on EBIT	-1.7	-2.1	-2.7
NOPLAT	8.5	10.1	13.1
Invested Capital	410.1	406.1	422.7
% of Debt	39.6%	40.7%	39.4%
% of Equity	60.4%	59.3%	60.6%
WACC	4.02%	3.97%	4.03%
Capital Charge	16.5	16.1	17.0
Economic Profit	-8.0	-6.0	-3.9
Discount Rate	96.1%	92.5%	88.9%
PV of Economic Profit	-7.7	-5.6	-3.5
Book value	162.5		
Explicit Value	-16.7	Risk Free	2.50%
Terminal Value	-55.4	Beta	0.63
Value of Firm	90.3	Cost of Equity	5.84%
Number of Shares (m)	150.4	Cost of Debt	1.50%
Value per share (S cents)	0.600	LT Growth	0.50%

Source: SIAS Research Estimates

Figure 5: Financial Forecasts and Estimates

S\$ m	FY08	FY09	FY10	FY11F	FY12F	FY13F
Net Interest Income	11.1	13.1	19.1	17.0	17.8	18.7
Net Earned Premium Revenue	3.8	5.8	3.5	2.9	2.9	3.0
Fee & Commission income	6.4	6.4	7.5	9.1	9.4	9.8
Investment & Other Income	4.9	3.7	1.8	2.0	3.5	6.0
Net Profit	8	6.6	7.9	8.5	10.1	13.1
Total Current Assets	262.4	248	230	292.3	312.0	327.4
Total Non-Current Assets	131	109	95.7	117.8	94.1	95.3
Total Current Liabilities	211.1	180.5	166.1	216.5	221.9	236.7
Total Non-Current Liabilities	61.4	49.1	17.7	31.1	18.8	19.3
Total Equity	121	127.5	141.9	162.5	165.4	166.7
Cash from Operating Activities	14	95.2	44.8	-37.8	38.8	47.4
Cash from Investing Activities	-6.6	-12.2	-5.2	12.0	-0.4	-0.4
Cash from Financing Activities	4.6	-81.4	-32.6	43.8	-12.9	-14.3
Net change in cash	12	1.6	6.9	18.0	25.5	32.7
Return on Common Equity (%)	11.3%	5.3%	5.8%	5.6%	6.2%	7.9%
Return on Assets (%)	1.8%	1.8%	2.3%	2.3%	2.5%	3.2%
Debt/Equity	2.3	1.8	1.3	1.5	1.5	1.5
Current Ratio	1.2	1.4	1.4	1.3	1.4	1.4
EPS (S cents)	5.9	4.3	4.7	5.7	6.7	8.7
BV/Share (S cents)	80.4	84.8	94.3	108.0	110.0	110.8
P/B	0.49	0.46	0.41	0.36	0.35	0.35
P/E	6.61	9.07	8.30	6.89	5.81	4.48

Source: SIAS Research estimates

Rating Definition:

Increase Exposure – The current price of the stock is significantly lower than the underlying fundamental value 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:

SIAS Research Pte Ltd received compensation for conducting this valuation research. The estimated fair value of the stock is a statement of opinion, and not statement of fact or recommendation on the stock.

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