

IFS Capital Ltd

Green Lights for All Segments

IFS Capital Ltd ("IFS") announced its 1HFY11 results on 11 August 2011. NPAT for the period was up 24% YoY on the back of higher fee, commission and investment income as well as lower provision levels. Regional and local operations both showed positive YoY profit growth for this quarter. We maintain our **Invest** rating with an intrinsic value of S\$0.620, reflecting a 61.04% value-price gap.

Key Developments:

Larger scope of operations: IFS had recently secured the money lender licence in Malaysia which permits them to engage in consumer and business loans. This will give IFS more options for further expansion on top of their existing factoring and leasing operations in Malaysia.

Overall business volume increasing: Business volume for this quarter increased on the back of heightened regional activities. IFS also have a small property mortgage loans portfolio which implies lesser impact from the government cooling measures. Higher credit facilities in its Thailand subsidiary and its relatively low leverage will allow them to finance operations easier if business were to pick up.

IFS steadily engaging in ongoing expansions: IFS is continually establishing its foothold overseas through expanding its staff base which is one of its primary cost drivers. However, this is expected to gradually increase its top line growth with expanding business operations supported by the increased headcounts.

Second half expected to see further profit growth: IFS is expected to show higher profit growth coming from business volume and recognition of pipeline profits. Moving forward, we see higher profits coming in as a result of its expanding business operations.

Invest

- Intrinsic Value \$0.620
- Prev Closing \$0.385

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	22.8	23.4
Net Earned Prem	3.5	4.0	4.1
Fee and Comm	7.5	9.8	10.1
Invnt & Other Inc	1.8	2.1	2.2
Net Profit	7.9	10.6	10.9

Source: SIAS Research estimate

Key ratios (FY12F)

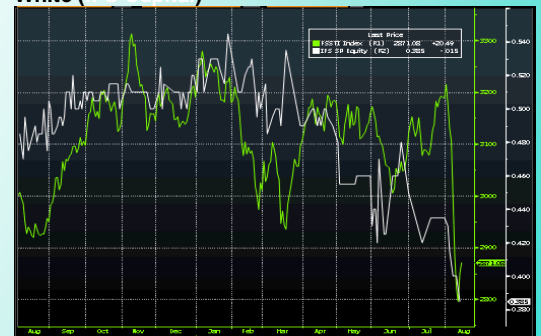
Return on Equity	6.5%
Return on Asset	2.5%
Debt/Equity	1.7
Price/Earnings	5.3
Price/Book	0.35

Source: SIAS Research Estimate

Indexed Price Chart

Green (FSSTI)

White (IFS Capital)



Source: Bloomberg

52wks High-Low S\$0.545-0.385
 Number of Shares 150.388m
 Market Capitalization S\$57.90m

Analyst:

SIAS Research

admin@siasresearch.com

Tel: 6227 2107

Growth still on track

IFS had better YoY results for this half year coming from regional and local operations, mainly attributed to higher fee and commission income and lower net claims incurred. Revision to lower internal provision levels for counterparty default also contributed to higher revenue.

As of this quarter, profits were up by 146% to S\$3.1 million from S\$1.2 million helped by a tax credit received from one of its venture company. In particular, the top two markets for the quarter, Singapore and Malaysia, had seen more volume coming from business loans and factoring volume respectively. With little exposure to mortgage loans, interest income was not dramatically affected by the series of property cooling measures the Singapore government had introduced since the past year.

Staff expansion and prior year's higher recoveries of suspended interest had partially dampened current profit results. Moving forward, revenue will increase to match rising expenses coming from business expansion.

Figure 1: Group Income Statement Ended June 2011

S\$m	6 months results		Change (%)	Yearly results ended June		Change (%)
	2010	2011		2010	2011	
Net interest Income	10.6	7.3	-30.7%	18.0	15.9	-11.6%
Net Earned Premium Revenue	1.9	1.2	-38.4%	4.4	2.8	-37.3%
Non-Interest Income	4.4	6.8	53.4%	10.0	11.6	15.9%
Total Income	16.9	15.3	-9.5%	32.4	30.3	-6.6%
Operating Expenses	-9.0	-9.5	6.0%	-17.6	-18.7	6.2%
Claim Reversals and Allowances	-2.8	-1.4	-50.1%	-5.5	-6.0	9.7%
Profit before tax	5.1	4.4	-14.3%	9.4	5.8	-38.0%
Income tax expenses	-1.7	-0.1	-94.5%	-2.3	2.9	-228.5%
Profit after tax	3.5	4.3	24.1%	7.1	8.7	22.4%

Source: SIAS Research Estimates

^Yearly results were derived through restating IFS statements to reflect yearly results from June to June. We caution that this is strictly a SIAS Research Estimate.

Figure 2: Modified Dupont Analysis - Group

	2010	2011
Tax burden	0.8	1.5
EBT Margin	28.9%	19.2%
Asset Turnover	8.5%	8.6%
Leverage Ratio	3.0	2.6
Return on Equity	5.6%	6.4%

Source: SIAS Research

Thailand business well equipped to expand

Results overview: IFS Thailand has continued to maintain its YoY NPAT with growth coming from operations. Dupont Analysis indicates that the decline in net profit is mainly contributed by lower utilization of debt along with higher taxes. We still see consistency in profit ratios such as in the operating profit margin and the asset turnover. Higher taxes are largely attributed to lower deferred tax recognized in 2010. We note that the IFS Thailand had completed its IPO on 10th August 2010 which may explain its healthier leverage ratio.

Room for expansion: Recent 1HFY11 release IFS Thailand had reflected an increase in short-term loan coming from the financial institutions by approximately 300 million Bahts which was reflected according with higher receivables. This reflects higher business volume garnered in its Thailand subsidiary. We note that the company could easily increase its order book through unused credit facilities with banks totaling Baht 1,219 million on 30 June 2011 or increase its leverage to prior levels with a drop of leverage ratio from 4.1 to 3.0.

Figure 3: Thailand Income Statements

Thai Baht (m)	6 months results		Change	Yearly results ended June		Change
	2010	2011		2HFY10	2HFY11	
Factoring income	86.1	86.5	0.5%	161.4	166.7	3.3%
Hire Purchase income	1.5	0.9	-43.5%	3.7	1.9	-48.1%
Finance lease income	6.5	8.5	30.6%	14.9	13.9	-6.2%
Factoring commission and service fees	28.1	29.5	5.2%	53.5	59.7	11.6%
Other income	5.4	7.4	36.0%	9.9	10.8	9.8%
Total Revenue	127.7	132.9	4.1%	243.3	253.0	4.0%
Operating Expenses	-48.5	-53.7	10.7%	-95.2	-99.8	4.9%
Finance Cost	-21.7	-23.9	10.1%	-41.3	-42.4	2.8%
Income Before Tax	57.5	55.3	-3.9%	106.8	110.8	3.7%
Income After Tax	42.9	38.4	-10.5%	80.1	80.3	0.3%

Source: SIAS Research

[^]Yearly results were derived through restating IFS statements to reflect yearly results from June to June. We caution that this is strictly a SIAS Research Estimate.

Figure 4: Modified Dupont Analysis - Thailand

	2010	2011
Tax burden	75.0%	72.5%
Interest burden	72.1%	72.3%
Operating Profit Margin	60.9%	60.6%
Asset Turnover	11.6%	11.0%
Leverage Ratio	4.1	3.0
Return on Equity	15.8%	10.7%

Source: SIAS Research

Unique Position Secured in Malaysia

IFS recently announced that its Malaysian subsidiary had secured a moneylender licence, thus allowing it to expand its operations to be able to lend out to all individuals and businesses by way of consumable and mortgage loans.

Relatively Safe Clientele: As of date, IFS Malaysia's clientele target mainly government linked companies (GLC) and MNC which have relatively lower counterparty credit risk than retail dealings. We view IFS's close dealings with the government as a unique advantage over its competitors.

More scope of operations: The recently secured moneylender licence will allow IFS to expand its scope of operations in Malaysia by allowing it to lend out to consumers and businesses. We await to see the level of company's commitment to money lending operations in Malaysia.

Looking forward to expanding size: The company is currently focusing on increasing headcount in Malaysia to support its operations as reflected by higher operating costs over the period. This would translate to higher top line figures in the near future. We also note that management had commented that they would not require any immediate capital outlay in expanding their overseas business after participating in the fund raising by both the Malaysian and Indonesian subsidiaries during March.

Movie Making Year!

IFS has been actively financing movies which have recently produced positive results. IFS had co-financed with Arclight Films before for the movie "33 Postcards". The movie had been awarded the CRC Award at Sydney Film Award with the lead actress winning the Asian New Talent Award at the Shanghai International Film Festival. IFS is also co-financing with Arclight Films for another movie production, "Mental", which commenced filming in July. This will gradually add on to further top line growth upon recognition of profits.

Value Prospects

The increased scope of operations through securing the recent money lending licence in Malaysia and expanded overseas operations will provide IFS further opportunities for grow. Looking back at past IFS results, we note that IFS employs relatively low gearing compared to other specialized finance and factoring companies. As such, we expect moderate and consistent growth coming from this company in the next few quarters.

Valuation: We readjust our risk premium upwards, reflecting recent market volatility coming from increased global risk premium. Future profit margins are forecasted higher than current margins, reflecting future revenue inflows from business expansion. **Maintain: Invest**

Figure 5: Economic Profit Model			
(\$ m)	FY11F	FY12F	FY13F
EBIT	12.8	13.4	13.9
Tax on EBIT	-2.2	-2.3	-2.4
NOPLAT	10.6	11.1	11.6
Invested Capital	435.5	442.3	454.1
% of Debt	63.5%	59.7%	58.0%
% of Equity	36.5%	40.3%	42.0%
WACC	4.84%	5.04%	5.13%
Capital Charge	21.1	22.3	23.3
Economic Profit	-10.4	-11.2	-11.7
Discount Rate	95.4%	90.8%	86.4%
PV of Economic Profit	-10.0	-10.2	-10.1
Book value	141.9	Risk Free	3.00%
Explicit Value	-30.2	Beta	0.7
Terminal Value	-18.8	Market RP	7.50%
Value of Firm	92.9	Cost of Equity	8.20%
Number of Shares (m)	150.4	Cost of Debt	3.50%
Value per share (\$ cents)	62.0	LT Growth	1.50%

Source: SIAS Research Estimates

Figure 6: Financial Forecasts and Estimates						
S\$ m	FY08	FY09	FY10	FY11F	FY12F	FY13F
Net Interest Income	11.1	13.1	19.1	22.8	23.4	24.0
Net Earned Premium Revenue	3.8	5.8	3.5	4.0	4.1	4.2
Fee & Commission income	6.4	6.4	7.5	9.8	10.1	10.4
Investment & Other Income	4.9	3.7	1.8	2.1	2.2	2.2
Net Profit	8	6.6	7.9	10.6	10.9	11.2
Total Current Assets	262.4	248	230	343.3	348.2	358.8
Total Non-Current Assets	131	109	95.7	92.2	94.1	95.3
Total Current Liabilities	211.1	180.5	166.1	248.2	258.1	268.1
Total Non-Current Liabilities	61.4	49.1	17.7	18.2	18.8	19.3
Total Equity	121	127.5	141.9	169.1	165.4	166.7
Cash from Operating Activities	14	95.2	44.8	102.3	106.4	107.5
Cash from Investing Activities	-6.6	-12.2	-5.2	-0.4	-0.4	-0.4
Cash from Financing Activities	4.6	-81.4	-32.6	-86.9	-90	-92.4
Net change in cash	12	1.6	6.9	15.0	16.0	14.7
Return on Common Equity (%)	11.3%	5.3%	5.8%	6.8%	6.5%	6.8%
Return on Assets (%)	1.8%	1.8%	2.3%	2.8%	2.5%	2.5%
Debt/Equity	2.3	1.8	1.3	1.6	1.7	1.7
Current Ratio	1.2	1.4	1.4	1.4	1.3	1.3
EPS (S cents)	5.9	4.3	4.7	7.1	7.3	7.5
BV/Share (S cents)	80.4	84.8	94.3	112.4	110.0	110.8

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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