

IFS Capital Ltd

3Q Results Showed Sustained Growth

IFS Capital Ltd's (IFS) 3Q net attributable profit rose by 15.3% quarter-on-quarter and 109.5% year-on-year. Growth was driven by higher net interest income and net premium income compared to that of 2Q. Net interest margin remained steady at around 5.9% for 9M 2012 amidst higher factoring and loan assets. With 9M 2012 PATMI coming in 12.9% higher year-on-year, we still see some residual upside risks to our updated forecasts as the company's 4Q 2011 results were affected by floods in Thailand last year.

Key Developments:

Loan Base Held Up: We are encouraged by the growth in net interest income and factoring & loan assets. On a quarterly and annual basis, 3Q net interest income grew by 4.6% and 5.9% respectively. Factoring receivables and loan assets grew by 10% over that as of 31 Dec 2011 to S\$364.5m as at 30 Sep 2012. IFS had previously cautioned that some large/high yielding loans are being replaced. The results reassure us that sales momentum remains positive and loan book renewal is not a materialized risk at the moment.

Positive on Insurance Business: Net premium income was also supported by higher write-backs of provisions due to lower expected loss ratio following an actuarial review of insurance liabilities as at end September 2012. We do not expect this write-back to recur in 4Q. However, lower expected loss ratios suggest that new premiums will be subjected to less provisioning going forward; and give the company more flexibility in the price/margin matrix.

Share Price Lagging Thai Subsidiary: IFS owns 73.13% of Bangkok-listed IFS Capital (Thailand) PCL, whose share price appreciated by 96.9% year-to-date up to 14 Nov 2012. In contrast, IFS (parent co) share price rose by 12.86% over the same period. IFS's stake in the Thai entity has a market value of S\$34.6m or 58% of its own market capitalization of S\$59.4m as of 14 Nov 2012. Comparatively, IFS Capital (Thailand) contributed only about 43% of the Group's nine-month net attributable profit.

Invest

- Intrinsic Value S\$0.585
- Prev Close S\$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	FY11	FY12F	FY13F
Net Interest Inc	16.9	19.8	21.0
Net Earned Prem	2.8	4.1	4.5
Fee and Comm	9.6	9.6	11.0
Invnt & Other Inc	2.2	3.2	3.8
Net Profit	7.7	8.5	9.2
EPS (S cents)	4.6	5.16	5.54

Source: Company, SIAS Research

Key ratios (FY12F)

PER	7.56
P/BV	0.42
Return on Common Equity	5.7%
Return on Assets	2.1%
Gross Debt to Common Equity	179.9%
Current ratio	1.3

Source: SIAS Research

Indexed Price Chart

Green (FSSTI)
White (IFS)



Source: Bloomberg

52wks High-Low S\$0.445 /S\$0.295
 Number of Shares 150.39m
 Market Capitalization S\$58.6m

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Business Developments and Outlook

Gross Written Premium Up 26.6% YoY: While the insurance business's results were boosted by higher than usual write-back of gross provisions, we also note that 3Q 2012 gross written premiums actually rose by 26.6% year-on-year. The management also remarked that they continue to expect volume to be supported by robust infrastructure spending, which will drive demand for business insurance and loans. We reckon that higher HDB construction is also beneficial to the company in a similar manner.

Lower Loss Ratio Increases Competitive Position: More importantly, the decline in expected loss ratios reduces the amount of provisioning that will be required for each dollar of premium collected. Essentially, recurring premiums will add more profit to IFS's financials, while the company now can compete more intensively for new business that is yet not onerous. In view of the circumstances, we raised our forecast gross premium growth to 10% for FY13F and FY14F versus 3.5% previously.

Still Has Room To Lever Up: Group net gearing (page 15 of IFS presentation slides) is still below the high of 2.5x to 3.0x seen in 2005. For 9M 2012, IFS has a net gearing of 1.7x. IFS actually has a total liabilities-to-equity ceiling of 5.5x. The amount of financial headroom IFS enjoys confirms that it is in a liquid position with ample space to grow its asset base.

Expanding in Indonesia: To better service its customers, IFS has also opened a service office in Kalimantan, Indonesia. We see this as a positive move to build its presence in an emerging market.

Management Has Been Buying: Since the release of the 3Q results on 9 November and up to 14 November 2012, Group CEO Mr. Lee Soon Kie has bought some 15,000 shares between S\$0.390 and S\$0.394 per share. Year-to-date, Mr. Lee has raised his stake in the company by purchasing some 188,000 shares from the market and has accumulated a shareholding of 0.905% of the company versus 0.78% at the start of the year.

Our View: We think that IFS will continue to gain market share as some European lenders continue to return to their domestic markets and that the company seems to have turned more aggressive in the insurance segment. The decline in net interest margin seemed to have slowed, which led us to raise projected net interest margins for FY13F and FY14F.

In all, we are forecasting FY12F PATMI of S\$7.8m versus S\$7.6m previously. FY13F PATMI has been raised from S\$8.1m to S\$8.3m. These adjustments led to a higher intrinsic value of S\$0.585 per share versus S\$0.560 previously. IFS has a net asset value of S\$0.896 per share.

However, we see costs as a risk against our view. Operating expenses rose by 12% to S\$5.3m in 3Q 2012 due to higher staff costs and general expenses. Nonetheless, IFS managed to lower its cost-to-income ratio to 56.3% for 9M 2012 versus 61.0% for 9M 2011. We expect revenue growth to continue to offset higher costs.

Figure 1: Results Analysis - Two Consecutive Quarters of Growth

	3Q 2012	2Q 2012	1Q 2012	4Q 2011	3Q 2011	QoQ	YoY
Net interest income	5.01	4.79	4.92	4.85	4.73	4.6%	5.9%
Net earned premium revenue	2.18	0.55	0.42	0.94	0.74	300.2%	193.9%
Non-interest income	2.59	4.13	2.43	2.98	2.00	-37.2%	29.9%
Total income	9.78	9.46	7.77	8.77	7.47	3.4%	31.0%
Operating expenses	-5.29	-5.47	-5.21	-5.19	-4.73	-3.2%	11.8%
Operating profit before net claims and allowances	4.49	4.00	2.56	3.58	2.74	12.4%	64.1%
Net claims reversal	0.34	-0.14	-0.04	1.35	-0.07	-346.3%	-592.6%
Allowances & impairment	-1.33	-0.90	-0.13	-2.30	-0.85	47.6%	56.5%
Profit before tax	3.50	2.96	2.40	2.63	1.82	18.1%	92.3%
Tax	-0.96	-0.74	-0.69	-0.50	-0.54	29.9%	77.3%
Profit after tax	2.54	2.22	1.70	2.14	1.28	14.2%	98.7%
Attributable profit	2.23	1.93	1.41	2.03	1.06	15.3%	109.5%
Non Interest Income							
Fee & commission	2.17	2.68	1.85	2.25	1.73	-18.9%	25.9%
Investment income	0.35	1.42	0.45	0.35	0.26	-75.1%	37.5%
Other income	0.07	0.03	0.13	0.39	0.01	106.1%	385.7%
Selected Balance Sheet Items							
Total Receivables (1)	306.2	303.6	292.1	277.2	252.2	0.9%	21.4%
Other Investments	48.5	55.7	53.3	52.7	42.2	-12.9%	14.9%
Cash	37.5	29.7	32.5	29.7	44.5	26.2%	-15.7%
Total borrowings	247.6	243.6	232.6	215.4	194.9	1.7%	27.0%
Total Common Equity	134.7	133.6	135.4	134.6	134.1	0.8%	0.4%
Gearing (2)	1.72	1.71	1.61	1.50	1.36		
Ann. Return on Avg. Com. Equity	6.6%	5.8%	4.2%	6.0%	6.4%		
	9M 2012	1H 2012	1Q 2012	2011			
Net Interest Margin	5.9%	5.9%	5.9%	6.5%			

(1) Total receivables refer to loans, advances, hire purchase and leasing receivables (non-current assets) and trade and other receivables (current assets). (2) Net Gearing = Total Borrowings / Total Equity Source: Company, SIAS Research

Figure 2: Valuation

S\$m	FY12F	FY13F	FY14F
Profit Before Tax and Interest Expense	16.8	18.6	21.1
Tax on EBIT	-2.1	-2.4	-2.7
NOPLAT	14.6	16.2	18.4
Invested Capital	359.0	399.7	443.1
% of Debt	60.0%	62.7%	65.0%
% of Equity	40.0%	37.3%	35.0%
WACC (%)	4.7%	4.5%	4.4%
Capital Charge	16.7	18.1	19.5
Economic Profit	-2.1	-1.9	-1.1
Terminal Value			-46.3
Discount Factor	0.99	0.95	0.91
Present Value	-2.1	-1.8	-1.0
Book Value	134.6	Risk Free Rate	2.50%
Explicit Value	-4.9	Beta	0.70
Terminal Value	-42.0	Market RP	7.50%
Value of Equity	87.7	Cost of Equity	7.77%
Number of Shares (m)	150.4	Cost of Debt	3.0%
Value per share (S\$)	0.585	LT Growth	2%

Source: SIAS Research

Figure 3: Financial Forecasts and Estimates

	FY09	FY10	FY11	FY12F	FY13F	FY14F
Net Interest Income	13.1	19.1	16.9	19.8	21.0	23.2
Net Earned Premium Revenue	5.8	3.5	2.8	4.1	4.5	4.9
Fee & Commission Income	6.4	7.5	9.6	9.6	11.0	12.7
Investment & Other Income	3.7	1.8	2.2	3.2	3.8	4.4
Net Profit After Tax	6.6	7.9	7.7	8.5	9.2	10.3
PATMI	6.5	7.1	7.0	7.8	8.3	9.3
Total Current Assets	248.0	230.0	272.0	313.1	346.2	386.8
Total Non-Current Assets	109.0	95.7	121.5	122.8	134.8	150.1
Total Current Liabilities	180.5	166.1	214.8	248.4	282.0	324.3
Total Non-Current Liabilities	49.1	17.7	35.1	38.4	44.0	51.1
Total Equity	127.5	141.9	143.7	149.2	155.0	161.5
Cash from Operating Activities	95.2	44.8	-71.3	-35.9	-36.8	-32.7
Cash from Investing Activities	-12.2	-5.2	-1.7	-3.4	-6.1	-11.1
Cash from Financing Activities	-81.4	-32.6	69.2	32.2	34.2	43.7
Net Change in Cash	1.6	6.9	-3.8	-7.1	-8.7	0.0
Return on Common Equity	5.3%	5.5%	5.2%	5.7%	5.9%	6.4%
Return on Assets	1.8%	2.3%	2.1%	2.1%	2.0%	2.0%
Gross Debt / Common Equity	143.1%	110.0%	160.1%	179.9%	199.7%	224.0%
Current Ratio	1.4	1.4	1.3	1.3	1.2	1.2
EPS (S cents)	4.34	4.72	4.63	5.16	5.54	6.21
BV / Share (S cents)	93.0	88.2	89.5	92.6	95.9	99.6
P/E Ratio	8.99	8.26	8.42	7.56	7.04	6.28
P/B Ratio	0.42	0.44	0.44	0.42	0.41	0.39

Casting errors may occur due to the effects of rounding.

Source: Company, SIAS Research

Rating Definition:

Increase Exposure – The current price of the stock is significantly lower than the underlying fundamental value. Readers can consider increasing their exposure in their portfolio to a 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

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