

IFS Capital Ltd

Getting Aggressive on Business Development

IFS Capital Ltd's (IFS) FY12 net profit beat our expectations coming in at S\$8.8m versus our estimate of S\$8.5m. The 14.6% higher net profit was the result of broad based growth in net interest income, net earned premium revenue and non-interest income. Going forward, we expect IFS to build on its momentum. Thus, we estimate net profit for FY13F to be S\$9.5m. Maintain **Invest**.

Key Developments:

Upbeat on Outlook: Comparing the company's prospect statement in the FY12 results announcement versus that of FY11, we noted that the tone remained positive, with less mention of risk factors, suggesting a more benevolent business environment. Accordingly, the company is looking at adding new products to supplement its core offerings and has adopted a more focused marketing strategy in the trade credit insurance business to grow volume.

Opportunities Are There: Given the tight labour supply in Singapore and government incentives to encourage business automation, we concur with the management's comment that there could be more demand for commercial automation machines going forward, which translates to leasing opportunities for the company.

The management further remarked that it is looking at providing more comprehensive financing solutions to customers to increase the overall loan quantum per customer. While such a strategy raises concentration risk, it raises productivity and concentration risk can still be diversified by maintaining a large portfolio of clients.

Our View: We are encouraged by the more aggressive approach of IFS, which raises the growth potential of the company. Outstanding loan assets of S\$359m remained largely stable as at 31 Dec 2012 compared to S\$364.5m as at 30 Sep 2012 (S\$330m as at 31 Dec 2011). Given the healthy pipeline of transactions under consideration as remarked in the prospect statement, we expect loan assets to continue to grow in 2013. We included FY15F estimates in our forecast horizon and arrived at a revised valuation of S\$0.590 per share (previously S\$0.585).

Invest

- Intrinsic Value S\$0.590
- Prev Close S\$0.505

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	FY12	FY13F
Net Interest Inc	16.9	19.6	21.7
Net Earned Prem	2.8	3.8	4.2
Fee and Comm	9.6	8.8	10.1
Invnt & Other Inc	2.2	3.7	4.1
Net Profit	7.7	8.8	9.5
EPS (S cents)	4.6	5.1	5.5

Source: Company, SIAS Research

Key ratios (FY13F)

PER	9.27
P/BV	0.53
Return on Common Equity	5.8%
Return on Assets	2.1%
Gross Debt to Common Equity	199.3%
Current ratio	1.3

Source: SIAS Research

Indexed Price Chart

Green (FSSTI)
White (FC)



Source: Bloomberg

52wks High-Low	S\$0.575 /S\$0.350
Number of Shares	150.39m
Market Capitalization	S\$75.95m

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Business Developments and Outlook

Thailand Subsidiary the Star Performer: IFS Capital (Thailand) Public Company Limited contributed PATMI of S\$3.2m in FY12 versus S\$2.0m in FY11. Other regional operations contributed PATMI of S\$0.8m versus S\$0.6m last year (+28%), based on reported regional PATMI of S\$4.0m and S\$2.6m in FY12 and FY11 respectively. Deducting regional PATMI from the overall group balance, Singapore operations with ECICS made S\$3.6m of net attributable profit in FY12 versus S\$4.3m in FY11. The lower balance was mainly due to higher tax expenses as Singapore (ex-ECICS) pre-tax profit was actually close to S\$1m higher year-on-year, pointing to healthy operating performance.

Moreover, PATMI from Singapore (ex-ECICS) had excluded S\$3.0m of fair value gain on a loan classified as other comprehensive income. Had this gain been included, profitability in Singapore would have exceeded that of Thailand. The same line item incurred a loss of S\$1.8m in 2011.

To Ride on Regional Growth: The Thailand GDP grew by 6.4% in 2012 and is forecasted by Bank of Thailand to grow by 4.9% in 2013. Latest commentary from the Bank of Thailand governor reported by the media suggests that an upward revision is likely on the prospect of domestic economic growth and improvement in exports. As such, we expect IFS Capital (Thailand) to continue contributing towards overall group growth. As for the Indonesian and Malaysian businesses, these operations delivered income growth of 31.2% in 2012 and have significant potential for growth given their low bases.

ECICS Limited's net earned premium revenue and fee & investment income grew by 22.0% in FY12. Therefore, the year-on-year decline in profitability should reverse in FY13 as we expect revenue to continue growing while costs remain under control. ECICS recently obtained a credit rating of "A-(Excellent)" for its financial strength and an issuer credit rating of "a-" from a specialist insurance rating agency. We understand that the credit rating will allow ECICS to pursue business from certain customers such as statutory boards. As for the Singapore financing operations, we are of the view that efforts to capture more loan volume should bear fruit in 2013.

Our View: We are of the view that IFS is in a positive position to ride on strong regional economic growth and that local volume growth should offset higher operating costs going forward. Following the strong 2012 performance, we raised our forecast net profit for FY13 to S\$9.5m versus S\$9.2m previously.

Figure 1: Results Overview, By Geography

	PATMI			Income			Margin*	
	FY12	FY11	Chg	FY12	FY11	Chg	FY12	FY11
Group	7.6	7.0	9.6%	35.8	31.5	13.7%	21.3%	22.1%
Regional Operations (A)	4.0	2.6	52.2%	15.9	12.7	24.8%	25.3%	20.7%
Thailand (B)	3.2	2.0	60.0%	10.0	8.4	19.0%	32.0%	23.8%
Malaysia & Indonesia (A)-(B)	0.8	0.6	28.0%	5.9	4.3	37.2%	13.9%	14.9%
Singapore	3.6	4.3	-16.5%	19.9	18.8	6.1%	18.1%	23.0%
ECICS (C)	2.7	2.9	-6.3%	7.4	6.1	22.0%	36.6%	47.7%
Singapore (non-ECICS) (D)	0.9	1.4	-37.6%	12.5	12.7	-1.6%	7.1%	11.1%
Singapore (non-ECICS) PBT	1.0	0.0	NM					
Net Change in fair value of AFS financial assets	3.0	-1.8	NM	(Classified as other comprehensive income)				

(A) From slide 13 of company presentation, (B) Income translated from IFS Capital (Thailand) financial statements. (C) From slide 15 of company presentation (D) Group PATMI or Income, less corresponding item in (A) and (C). *Singapore (non-ECICS) margin includes corporate hq overhead.

Source: Company, SIAS Research

Figure 2: Results Overview & Key Ratios

	FY12	FY11
Net interest income	19.60	16.91
Net earned premium revenue	3.78	2.84
Non-interest income	12.46	11.79
Total income	35.85	31.55
Operating expenses	-21.00	-19.44
Operating profit before net claims and allowances	14.85	12.11
Net claims reversal	0.21	1.34
Allowances & impairment	-3.06	-4.62
Profit before tax	12.00	8.83
Tax	-3.17	-1.13
Profit after tax	8.83	7.70
Attributable profit	7.62	6.96
Non Interest Income		
Fee & commission	8.78	9.57
Investment income	3.36	1.61
Other income	0.32	0.61
Selected Balance Sheet Items		
Total Receivables (1)	302.2	277.2
Other Investments	45.2	52.7
Cash	53.4	29.7
Total borrowings	249.9	215.4
Total Common Equity	139.3	134.6
Gearing (2)	1.68	1.50
Ann. Return on Avg. Com. Equity	5.6%	5.2%
Net Interest Margin	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 3: Valuation

S\$m	FY13F	FY14F	FY15F
Profit Before Tax and Interest Expense	21.0	22.6	25.4
Tax on EBIT	-5.5	-6.0	-6.7
NOPLAT	15.4	16.6	18.7
Invested Capital	398.8	442.1	491.3
% of Debt	62.7%	65.0%	67.2%
% of Equity	37.3%	35.0%	32.8%
WACC (%)	4.3%	4.1%	4.0%
Capital Charge	17.0	18.3	19.7
Economic Profit	-1.6	-1.7	-1.0
Terminal Value			-52.5
Discount Factor	0.96	0.92	0.89
Present Value	-1.6	-1.6	-0.9
Book Value	139.3	Risk Free Rate	2.50%
Explicit Value	-4.1	Beta	0.70
Terminal Value	-46.6	Market RP	7.50%
Value of Equity	88.6	Cost of Equity	7.77%
Number of Shares (m)	150.4	Cost of Debt	3.0%
Value per share (S\$)	0.590	LT Growth	2%

Source: SIAS Research

Figure 4: Financial Forecasts and Estimates

	FY10	FY11	FY12	FY13F	FY14F	FY15F
Net Interest Income	19.1	16.9	19.6	21.7	22.5	25.5
Net Earned Premium Revenue	3.5	2.8	3.8	4.2	4.6	5.0
Fee & Commission Income	7.5	9.6	8.8	10.1	11.6	13.3
Investment & Other Income	1.8	2.2	3.7	4.1	4.7	4.7
Net Profit After Tax	7.9	7.7	8.8	9.5	9.8	11.0
PATMI	7.1	7.0	7.6	8.2	8.5	9.5
Total Current Assets	230.0	272.0	306.8	353.4	388.1	427.1
Total Non-Current Assets	95.7	121.5	125.8	124.1	140.1	149.7
Total Current Liabilities	166.1	214.8	239.1	277.9	316.1	351.5
Total Non-Current Liabilities	17.7	35.1	44.7	44.6	51.1	57.0
Total Equity	141.9	143.7	148.8	154.9	161.0	168.2
Cash from Operating Activities	44.8	-71.3	-20.8	-33.5	-40.7	-35.2
Cash from Investing Activities	-5.2	-1.7	11.6	-15.9	-11.1	-1.1
Cash from Financing Activities	-32.6	69.2	33.3	33.9	39.3	35.9
Net Change in Cash	6.9	-3.8	24.0	-15.5	-12.4	-0.5
Return on Common Equity	5.5%	5.2%	5.6%	5.8%	5.8%	6.2%
Return on Assets	2.3%	2.1%	2.1%	2.1%	1.9%	2.0%
Gross Debt / Common Equity	110.0%	160.1%	179.5%	199.3%	222.0%	239.5%
Current Ratio	1.4	1.3	1.3	1.3	1.2	1.2
EPS (S cents)	4.72	4.63	5.07	5.45	5.62	6.30
BV / Share (S cents)	88.2	89.5	92.6	95.8	98.9	102.7
P/E Ratio	10.70	10.91	9.96	9.27	8.98	8.02
P/B Ratio	0.57	0.56	0.55	0.53	0.51	0.49

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

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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