INITIATION

Financials ▪ Singapore

IFS Capital

(IFS SP/I49.SI)

Turnaround taking shape; Financing SMEs since 1987

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- We initiate coverage on IFS with a BUY recommendation. Our fair value of S$0.29 is based on 0.7x 2018F BVPS.
- IFS has been financing SMEs for more than 30 years and is positioned for growth in its key markets of Singapore, Thailand, Indonesia and Malaysia.
- New management team since 2015 has successfully grown IFS's lending business while reducing risks from its non-core businesses.

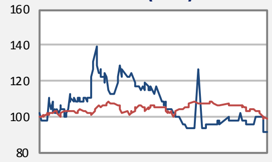
Financials & Key Operating Statistics

YE Dec SGD mn	2016	2017	2018F	2019F	2020F
Net Interest Income	16.4	19.0	20.0	22.2	24.7
PATMI	(2.6)	2.0	4.6	5.3	6.7
Net Profit Growth	-	-	134.1%	16.4%	25.9%
EPS (SGD cents)	(1.3)	0.5	1.2	1.4	1.8
Return on Average Equity	-2.0%	1.3%	3.0%	3.3%	4.1%
Return on Average Assets	-1.1%	0.8%	2.0%	2.3%	2.9%
NAV (SGD Cents)	40.2	40.5	41.7	43.1	44.9
P/B(x)	0.5	0.5	0.5	0.5	0.5
P/E(x)	-	40.4	17.2	14.8	11.8
Wgt. Avg. shares, diluted	197.2	376.0	376.0	376.0	376.0
DPS (SGD Cents)	-	0.3	0.4	0.4	0.5
Div Yield (%)	-	1.4	1.7	2.0	2.5

Source: Company Data, KGI Research

BUY - Initiation

Price as of 15 Oct 18 (SGD)	0.21	**Performance (Absolute)**	
12M TP ($)	0.29	1 Month (%)	-4.5
Previous TP ($)	na	3 Month (%)	-4.5
Upside (%)	39.2	12 Month (%)	-7.7
Trading data		**Perf. vs STI Index (Red)**	
Mkt Cap ($mn)	79		
Issued Shares (mn)	376		
Vol - 3M Daily avg (mn)	0.0		
Val - 3M Daily avg ($mn)	0.0		
Free Float (%)	39.7%		
Major Shareholders		**Previous Recommendations**	
Lim Hua Min	60.1%		
Dymon Asia Private Equity	6.9%		



Turnaround. We believe that the turnaround story for IFS Capital has reached an inflexion point, as the company's profits swing back into the black in 2017 on higher revenue and lower impairment. Since the appointment of new management in 2015, the firm has successfully grown its lending business, reduced NPLs and implemented good risk management processes in preparation for further growth. Going forward, we expect the firm to strengthen its balance sheet further and increase its core business of SME financing.

ASEAN growth. SMEs play an important role in local economies, accounting for 30-60% of ASEAN countries' GDP and employing 60-90% of the workforce. However, these SMEs are underserved by major financial institutions due to the low-risk appetite of banks and the lack of credit information. IFS, which has been financing SMEs for more than 30 years, is well-positioned to grow alongside companies in key ASEAN countries like Singapore, Thailand, Indonesia and Malaysia. As a result of the renewed focus on its SME financing business, both factoring receivables and volumes have grown by around 10% per annum since 2015.

Figure 1: Providing SMEs with financing solutions for 30 years

Source: Company

Better risk management. Management has implemented risk management systems with more stringent criteria that reduced default rates over the past two years. Most notably, clean loans without collaterals were reduced. These systems have had a direct impact on the firm's profitability as loan provisions dropped 56% YoY to $8.4mn in 2016 and another 58% YoY to $3.5mn in 2017. While IFS's provisions dropped dramatically from 2015 to 2017, the firm's bottom line was hit by its insurance business when net claims rose 360% to $10.8mn in 2017, driven by insurance products in the automobiles space. Management has since revamped the business. After the revamp, we expect net claims to gradually decline.

Valuation & Action: We initiate coverage on IFS with a BUY recommendation in view of its rapid recovery driven by strong, stable growth in its lending business. We assign a target price of $0.29 to IFS Capital, based on a FY18F P/NAV of 0.7x.

The completion of the sale of its Suntec office is expected to net IFS a gain of 5 cents, or 20% of its market cap, and would increase IFS's NAV by 10% to 49 cents. These are positive initiatives meant to unlock and allow better use of its capital, mainly to support the growth of its lending business.

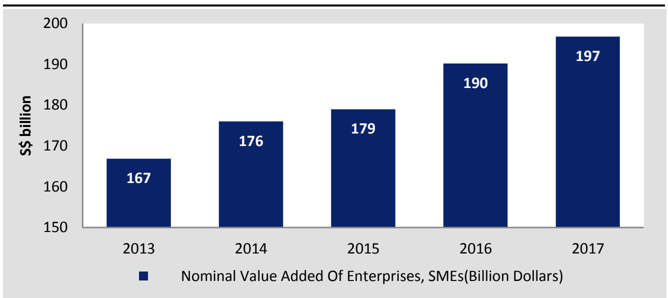
Risks: Increase in net claims from its insurance business and an economic slowdown are key risks. Meanwhile, a faster-than-expected rise in rates would impact IFS's cost of borrowings and net interest margins.

This report is prepared by KGI Securities (Singapore) under the SGX StockFacts Research Programme. See the last page for important disclosures.

Investment Thesis

Focus on the underserved SMEs. Singapore has been placing a significant emphasis on helping SMEs scale up and compete globally. SMEs are the backbone of the local economy. They make up 99% of all local enterprises, employ 65% of workers and contribute half of the gross value added (S$197bn in 2017) to the economy. However, one key challenge facing SMEs is the limited access to finance due to the lack of credit information and lower risk tolerance of banks.

Figure 2: SMEs contributed c.50% of gross value added to Singapore's economy



Source: Singapore Department of Statistics, KGI Research

30 years of experience financing SMEs. IFS has been providing factoring, leasing and lending services to ASEAN SMEs, specifically in Singapore, Thailand, Indonesia and Malaysia for 30 years. Following a business revamp and leadership change in 2015, the group is now primed to grow alongside SMEs. All its lending businesses in the various ASEAN countries are doing much better in 2017, a significant turnaround from the prior four years. Its Thailand subsidiary remains the most profitable within the group while Singapore and Malaysia have made considerable gains in terms of growing the volumes and credit quality of customers.

Figure 3: Operating income geographical breakdown ($'000)

Operating income (S$'000)	2015	2016	2017
Singapore*	12,478	10,932	14,040
Thailand	14,347	14,400	16,455
Malaysia	3,883	3,089	2,301
Indonesia	2,236	1,980	1,988

Source: IFS Capital, KGI Research

**Singapore operating income for lending business and does not include IFS's insurance business under ECICS. ECICS business is highlighted in page 6.*

Leveraging on technology and backing by industry veterans. IFS is leveraging technology with the aim to be an ASEAN SME Business Gateway by providing a one-stop shop for essential SME services and information. It aims to focus on technology to reduce costs and improve customer experience, and recently launched two new online platforms to cater to the new segments.

Figure 4: Leveraging on Technology

IFS recently launched two new online platforms catering to new segments.

www.multiply.com.sg – which provides online spot factoring

www.lendingpot.sg – a business loan marketplace

IFS has also developed and a new data-driven credit scoring model to guide its credit and pricing decisions to serve SMEs across the region better.

Source: IFS Capital, KGI Research

Factoring. Management has repositioned factoring as the main product to take the company forward. As a result, the firm's factoring receivables has been increasing at around 10% per annum since 2015 and reached S$223mn as at end-2017. Factoring volumes have also increased at a similar pace and have grown at 8-13% per annum over the past two years.

In its latest quarterly results, IFS started the first half of 2018 on a positive note as factoring income grew by a faster-than-average 14% YoY in 1Q18 and by 8% YoY in 2Q18. The contribution was mainly by an increase in both its loans and factoring portfolios.

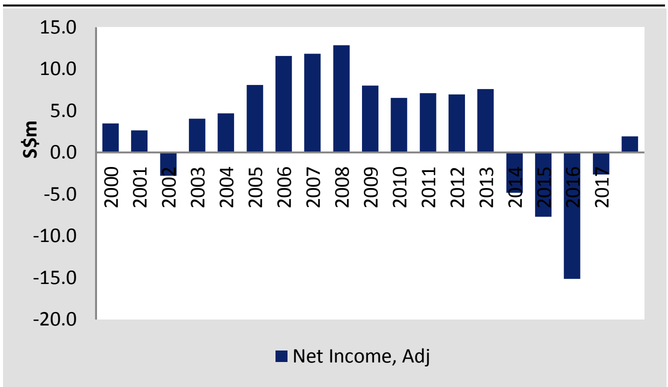
Figure 5: Factoring volumes

	2015	2016	2017
Factoring Volume ($000)	1,250,000	1,350,000	1,522,200
% Growth	-	8%	12.76%
Notional Growth ($000)	-	100,000	172,200

Source: IFS Capital, KGI Research

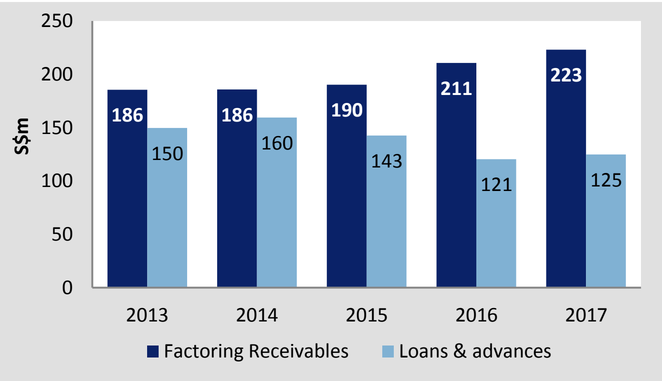
Good prospects in Asia. According to Factors Chain International (FCI), a global network of leading commercial finance companies, Asia will see a new growth in the coming years due to China's "One Belt One Road" strategy and expected improvements in law and financial infrastructure for receivable financing. We expect this to be a tailwind for IFS's factoring business.

Figure 6: Profitability has improved as IFS focuses on its lending business



Source: IFS Capital, KGI Research

Figure 7: IFS has been growing factoring receivables 10% p.a. Loans declined YoY in 2015 and 2016 but has started to grow again.



Source: IFS Capital, KGI Research

Better Risk Management. After a management restructuring in 2015, the firm implemented risk management systems which improved credit quality and profitability. Notably, the firm's portfolio of clean loans has been reduced. The group's loan book now secured mainly by real estate has grown significantly.

In our view, the management has executed their turnaround strategy well. After the firm tightened its credit policies, specific provisions for NPLs (Non-Performing Loans) declined substantially to $1.4mn in 2017. (2016: $4.4mn, 2015: $14.2mn). The improvement in credit quality and continued growth in the factoring business has translated into stronger profits as profits to owners of the company rose to $1.9mn in 2017 (2016: $-2.6mn). We remain confident that this growth in volumes will be sustained and translated into higher interest income in the coming years.

Valuation

We initiate coverage on IFS with a BUY recommendation in view of its rapid recovery, driven by growth in its factoring business. We assign a target price of S$0.29 to IFS Capital, based on a FY18F P/B of 0.7x and a FY18F BVPS of S$0.42. We believe that the worst is over for IFS and expect IFS to trade at a higher P/B, closer to its peer average as it expands its balance sheet. We have not included the sale of its Suntec office space, which would add 5 cents or 12% to its NAV.

Lack of comparable peers. There is a lack of direct comparables in the Singapore market in terms of funding profile. Although there are other financing companies such as Hong Leong Finance and Singapura Finance, we note that they target different segments of the market (e.g., car financing, property loans). The provision of short-term funding for SMEs makes up the majority of IFS's operating profit and growth driver.

P/B valuation more meaningful. In terms of relative valuations, P/B basis would be more meaningful as earnings-based valuations can be volatile for small-mid cap finance companies. Singapore finance companies trade at an average of 0.7x P/B against single-digit ROEs.

Key assumptions for our revenue/earnings model

•Factoring and lending business to benefit from broad-based economic growth in Southeast Asia and from a better regulatory environment.

•Growth for factoring and lending business in Singapore to remain strong. Singapore's total factoring volume grew by a CAGR of 32% from 2010 to 2016 and we expect IFS to continue benefitting from this trend.

•Thailand is the largest significant growth driver and the most profitable entity in the IFS group. In 2017, operating income and assets in the country increased around 14% YoY. IFS owns a 73.1% effective stake in IFS Capital (Thailand), which is listed on the Stock Exchange of Thailand.

•Malaysia and Indonesia are expected to grow in 2018 but their contributions to the group is expected to remain small in the short-term. However, we are positive on their long-term prospects.

•We expect net claims from insurance business to subside after termination of certain policies (mainly auto-related) in 2017. Going forward, credit financing segment will drive revenues while insurance segment to remain flat as management continues to try and turn it around.

Figure 8: Peer comparison of credit financing firms

Company	Last Price	Market Cap	Return on Equity (%)		P / B (x)			Div Yield (%)		Gearing (x)
		(S$mn)	FY-1	Last FY	Last FY	FY+1	FY+2	Last FY	FY+1	Current
Ifs Capital Ltd	**SGD 0.21**	**79**	**-2.0**	**1.5**	**0.5**	**0.5**	**0.5**	**1.4**	**1.7**	**1.7**
Local Credit Financing Firms										
Hong Leong Finance Ltd	SGD 2.53	1,130	3.1	5.9	0.7	-	-	4.8	-	1.2
Sing Investments & Finance	SGD 1.50	236	4.4	6.9	0.7	-	-	4.5	-	1.2
Singapura Finance Ltd	SGD 0.92	145	0.8	1.6	0.6	-	-	2.9	-	1.3
Average			2.8	4.8	0.7	-	-	4.1	-	1.2

Source: Bloomberg, Company Data, KGI Research

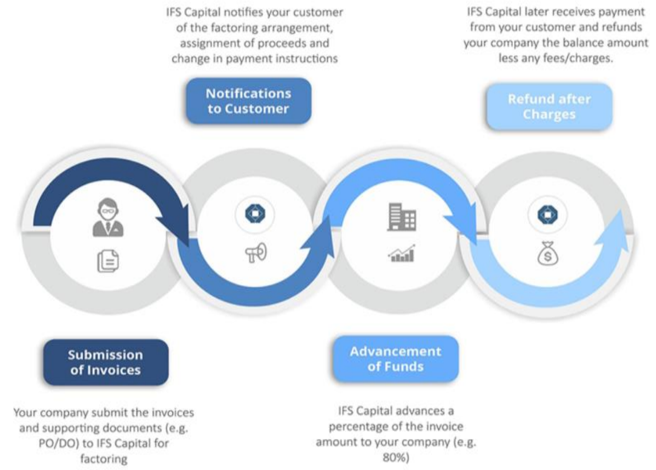
Company overview and outlook

Specialists in SME financing. IFS provides commercial financing like factoring, hire-purchase/leasing, loans, government-assisted schemes and trade/export finance to SMEs. Having been in business for more than 30 years, the firm is now providing more than $1 billion in financing to SMEs. Additionally, the firm also offers bonds and guarantees, credit insurance and general insurance through its wholly-owned subsidiary, ECICS limited. IFS is listed on the Singapore Exchange and has regional offices in Singapore, Thailand, Malaysia and Indonesia.

Invoice financing/factoring. Factoring, allows small businesses to sell its receivables (invoices) to financial institutions like IFS Capital. By selling the invoices or receivables to IFS Capital, funds are more readily available to the SME to meet their workign capital needs.

For example, an SME can be selling kitchen supplies like cooking oil to a company that owns restaurants. For the small business, payment from selling its cooking oil can be received immediately or in the future. The typical time period can vary for different companies and industries but are usually between 1 and 3 months from the invoice date. But when the SME sells the invoices/receivables to IFS, funds are immediately paid to the SME. This gives the SME the liquidity to meet their working capital needs.

Figure 9: IFS invoicing financing / factoring process



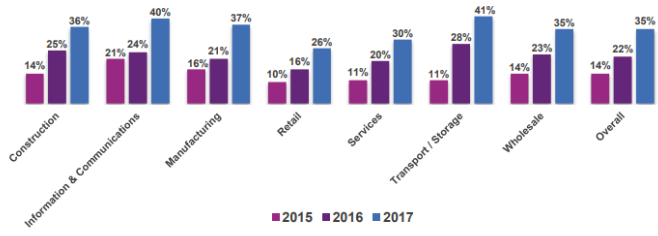
Source: IFS Capital

IFS factoring process. Leveraging on IFS financial platform, the customer submits the invoices for factoring. Thereafter, IFS notifies the customer on the factoring arrangement and advances the percentage of the invoice amount (e.g., 80%). Upon collection of the receivables, any balance amount collected is refunded back to the customer less fees.

Benefits of financing/factoring. Invoice financing or factoring allows small businesses to get funds quickly from their outstanding invoices which may otherwise take 1-3 months or possibly longer from customers. With IFS's account receivables and management and credit control services, SMEs are able to access statements via IFS's online platform, thus reducing time on financial administration paperwork and SMEs can spend more time focusing on growing their businesses. Another key benefit is that it frees SMEs from the administrative hassles of managing late debtors.

SME Financing. The number of SMEs facing finance-related issues has more than doubled to 35% in 2017 from 15% in 2014, according to DP Information Group. The increase was broad-based across all sectors, with a notable jump in Information & Communications (+16%) and Manufacturing (+16%).

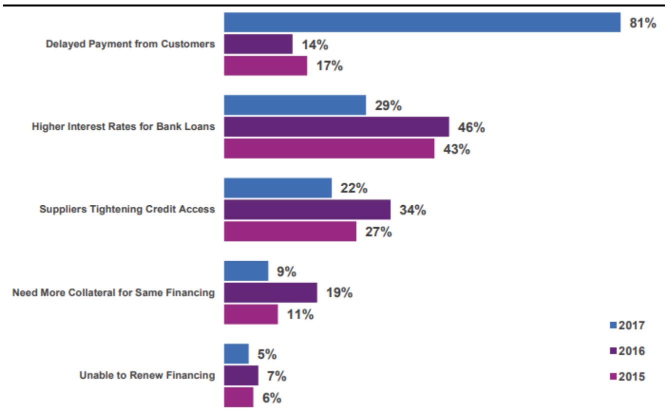
Figure 10: Companies facing finance-related issues by business sector



Source: DP Information Group

Delayed payments the biggest problem. Among the 35% SMEs with financing problem, delayed payments accounted for the biggest jump, increasing to 81% in 2017 from 17% in 2015. Delayed payments have overtaken higher interest rates for bank loans as the leading cause of problems for SMEs facing finance-related issues.

Figure 11: Delayed payment from customers is the biggest problem for SMEs facing finance-related issues



Source: DP Information Group

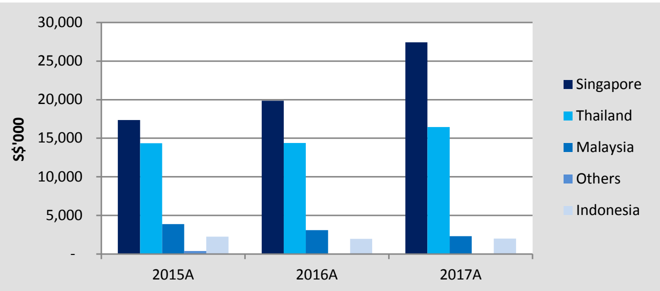
Underserved market. In the study by Visa and Deloitte in 2015, about six in ten SMEs in Singapore rely on bank loans for financing, leaving four out ten unserved by financial institutions. The low-risk appetite of banks and the lack of credit information on SMEs raise the cost of credit-risk assessment and were limiting the amount of lending to SMEs.

IFS solution to SMEs' cash flow problem. Cash flow problems have the potential to hold back SMEs' growth strategies as businesses will not have sufficient resources to hire and invest in new equipment. This is where IFS Capital's financial services can help, via providing funding through invoice financing / factoring, working capital loans and project finance among other services.

Regional growth

ASEAN growth story. IFS derives slightly more than half of its operating income from Singapore and the remainder from other countries in Southeast Asia including Thailand (34%), Malaysia (5%) and Indonesia (4%). IFS mainly provides factoring services in these countries. As such, we expect IFS's top line growth to be driven by the needs and growth plans of SMEs in the region.

Figure 12: IFS operating income breakdown by country



Source: IFS Capital, KGI Research

IFS's factoring/loan portfolios in Malaysia and Indonesia exhibit higher credit risk but the sizes of these portfolios are relatively small, as compared to the portfolios in Thailand and Singapore. The firm's operating income growth in its major markets has been stable in recent years and the company is expecting higher growth from its other markets in the near future.

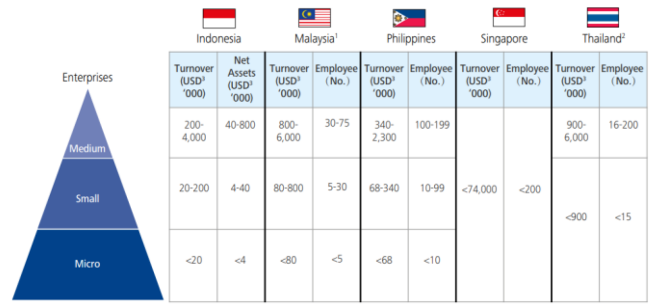
Figure 13: IFS's total assets breakdown by country

Assets (S$'000)	2014	2015	2016	2017
Singapore	231,545	235,210	231,208	215,420
Thailand	134,680	140,251	154,659	175,177
Malaysia	12,411	12,099	10,620	9,747
Indonesia	17,127	5,146	8,317	10,041

Source: IFS Capital, KGI Research

SMEs are an important segment in the economies of Southeast Asia, accounting for between 30% and 60% of the countries' GDP and employing between 60% and 90% of the workforce. SMEs' definitions vary across countries but a study by Deloitte and Visa in 2015 provides a good comprehensive view across five ASEAN countries (table below).

Figure 14: Definition of SME varies among the five ASEAN countries



Source: Deloitte. Notes: 1. Does not apply to manufacturing sector; 2.Specific figures differ across countries; 3. March 8, 2015 exchange range used: 1 USD = 3.6 MYR, 1 USD = 44.31 PHP, 1 USD = 12646 IDR, 1 USD = 33 THB, 1 USD = 1.36 SGD

Robust ASEAN economic growth. Over the medium term, forecasts by the OECD Development Centre shows the region's growth as projected to remain robust, averaging 5.2% per year from 2018 to 2022 on healthy domestic private spending and implementation of infrastructure initiatives. Since 2015, ASEAN has worked towards regional integration in policy areas such as infrastructure and consumer protection. Furthermore, ASEAN's Economic Community (AEC) is working rapidly to reduce tariffs and improve the movements of goods and capital, which we believe would most likely benefit SMEs.

Figure 15: Selected ASEAN real GDP growth

	2016	2017	2018-22 (average)	2011-15 (average)
ASEAN-5 countries				
Indonesia	5.0	5.0	5.4	5.5
Malaysia	4.2	5.5	4.9	5.3
Philippines	6.9	6.6	6.4	5.9
Thailand	3.2	3.8	3.6	2.9
Viet Nam	6.2	6.3	6.2	5.9
Brunei Darussalam and Singapore				
Brunei Darussalam	-2.5	0.0	0.5	-0.1
Singapore	2.0	3.2	2.3	4.1

Source: OECD (2018), Economic Outlook for Southeast Asia, China and India 2018: Fostering Growth Through Digitalisation

Singapore's GDP growth is on the upswing as manufacturing and trade-related services gain momentum. Growth is forecasted to remain steady at 2.3% from 2018 to 2022 as investments in digitalisation, social services and infrastructure provides a good framework for the country's potential output.

Thailand's growth is forecasted to stabilise at 3.6% over the next five years - an improvement from 2.9% average between 2011 and 2015. The recovery in trade activity is an advantage for the economy as exports account for 75% of GDP. Easing regulations and the laying out of the Eastern Economic Corridor project are expected to add momentum.

Indonesia is among the fastest – together with the Philippines and Vietnam - growing nations in ASEAN. GDP is expected to expand 5.4% from 2018 to 2022 as the country benefits from improvements in investment climate, better fiscal footing and resilient private consumption. Private consumption has been growing at an average 5.1% in the past 10 years.

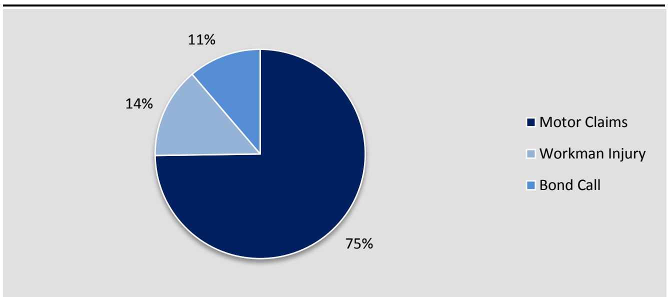
Malaysia is expected to grow at 4.9% from 2018 to 2022 but forecasts have not factored in the post-election policy changes after the surprise election results this year. Among several changes have been efforts to reduce government spending and the cancellation of high-profile infrastructure projects. The uncertainty may impact short-term growth but the country's long-term prospects are bolstered by the ongoing structural reforms.

Regional credit insurance, bonds and general insurance

IFS's insurance subsidiary, ECICS, provides credit insurance facilities to Singapore exporters and the issue of performance bonds and guarantees, domestic maid insurance, property and casualty insurance, marine cargo and motor insurance, political risks, engineering and work injury compensation insurance. This segment includes holding of equity securities and bonds under the regulated insurance fund.

Insurance Business Revamped. In February 2018. A.M Best downgraded IFS's insurance arm, ECICS. The ratings agency downgraded the firm's financial strength rating to B++ (Good) from A- (Excellent) and the Long-Term issuer creditor rating to "bbb+" from "a-". The downgrades were driven by an increased combined ratio which compares unfavourably with the industry average. Additionally, the agency noted that competition had eroded ECICS's profitability since 2015 and negatively affected results in recent years. Outlook however, has been revised to stable from negative.

Figure 16: Net claims breakdown

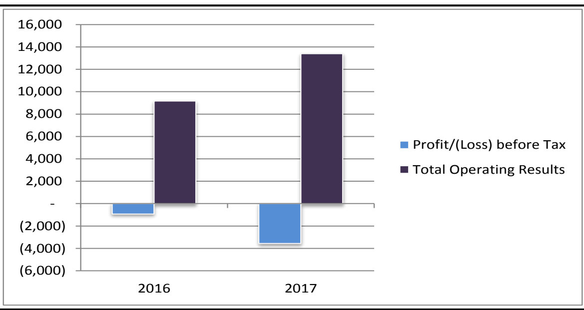


Source: IFS Capital, KGI Research

In our view, the insurance business continues to be a drag on the group's profitability. Net claims fell 35% YoY in 2016 but rose 360% YoY to $10.8 mn in 2017, driven by motor claims. In light of this, management stopped providing new insurance policies to the private-hire car insurance business in 2H16.

We believe that the firm's exit from the private-hire car insurance business will prevent further spikes in net claims, providing support for the firm's bottom line.

Figure 17: Operating results of the insurance segment (S$'000)



Source: IFS Capital, KGI Research

Other business – private equity and property investments

The group also has interests in investments including private equity. Investments are made in the form of mezzanine financing, convertible debt instruments and direct private equity investments.

However, IFS has reduced its investments into private equity/bonds and venture capital activities and has focused on growing its core businesses of lending. As at end 2017, IFS had a total of S$70mn invested in financial assets, a decline from S$79mn as at end 2016.

Office properties – Unlocking value and better usage of capital. IFS announced on 31 August 2018 that was selling its Suntec Tower One office space for S$29.5mn, which would translate to a net gain of around S$16.4mn. NTA per share is estimated to increase by 10% to S$0.49 from S$0.44 after the completion of the sale. The net gain is also equivalent to around 20% of the market capitalisation of IFS, and would be a positive catalyst for the group upon completion as it would allow better use of its capital i.e., mainly growing its lending business.

Overseas properties. IFS also owns 11,492 square feet of office space in Bangkok and a residential apartment in Malacca, Malaysia. We currently have not factored in any earnings or upside potential from the sale of its overseas investment properties.

Figure 18: IFS properties. It is in the midst of selling its Singapore office property.

Location	Title	Description
7 Temasek Boulevard #10-01 Suntec Tower One Singapore 038987	Leasehold (99 years from 1995)	Office Floor area: 14,381 sq ft
#14-06 Seaview Tower, Ocean Palms Klebang Besar, Malacca, Malaysia	Freehold	Residential apartment
1168/55 Lumpini Tower #20-00, Rama IV Road, Tungmahamek, Sathorn, Bangkok, Thailand	Freehold	4 units – Offices Floor area: 11,492 sq ft

Source: IFS Capital, KGI Research

Investments. IFS also has S$3.8mn in two freehold investment properties in Thailand, which could be sold to unlock capital and channel into its lending business.

Figure 19: Investment properties

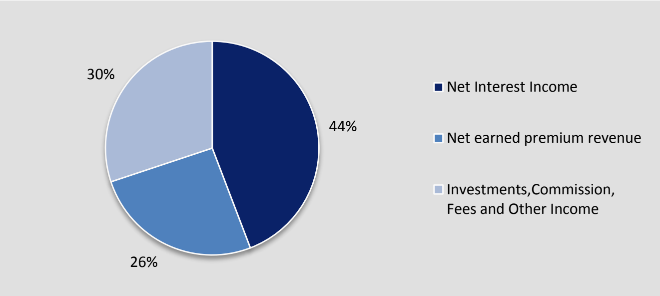
Location	Title	Description
1168/73 Lumpini Tower #25-00 Units C, D, E & F Rama IV Road, Tungmahamek, Sathorn, Bangkok, Thailand	Freehold	4 units - Office Floor area : 11,492 sq ft
1168/53-54 Lumpini Tower #20-00 Units A & B Rama IV Road Tungmahamek, Sathorn, Bangkok, Thailand	Freehold	Freehold 2 units - Office Floor area: 7,454 sq ft

Source: IFS Capital, KGI Research

Financial Review

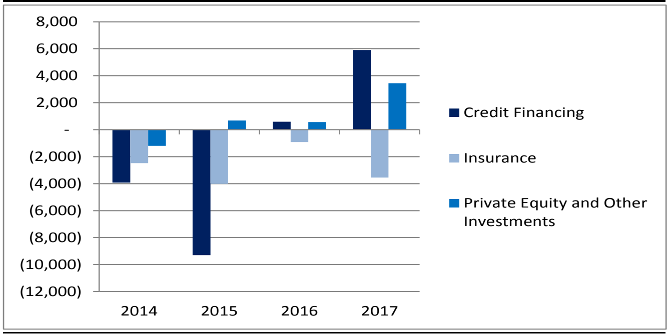
In terms of top line contribution, net interest income from factoring business made up 44% of 2017's total income. Premiums from the insurance business make up 30% of the IFS's revenue while the remaining 26% comes from investments and other fees/commission income.

Figure 20: Revenue segment



Source: Bloomberg, KGI Research

Figure 21: Pre-tax profit income/(loss) by segment (S$'000)



Source: Bloomberg, KGI Research

Turnaround story intact with growth in sight. From 2013 to 2015, IFS delivered losses for three successive years due to worsening economic conditions in Asia, driven by steep declines in commodity prices, weakening of the Real Estate/Construction and Oil & Gas/Marine industry segments. In 2015, the firm made significant changes to reverse the losing trend.

The changes began with the appointment of Eugene Tan, a veteran in commercial banking and risk management as CEO in 2015 and a restructuring of its businesses. The firm returned to its core business, Factoring and Lending, and reduced exposure to non-core businesses like structured finance and real estate. Factoring, was positioned as the main product to expand the company going forward.

The new management strengthened risk management controls, processes and re-defined lending strategies. Credit assessments and approval frameworks were revised and implemented. Notably, clean loans were reduced.

Effects on these changes took place quickly as the group's Malaysia and Singapore operations returned to profit in 2016 and the firm swung to a pretax profit of $232,000 as compared to a pretax loss of $12.6mn in 2015. In 2017, the firm swung to a pre-tax profit of $5.8mn for the year even though the insurance business continues to be a drag on the group's profitability.

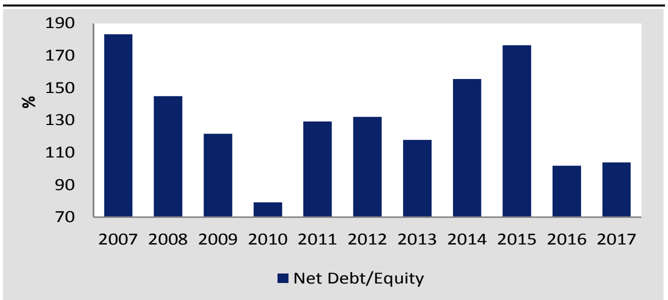
2017 review

IFS's net interest income grew 15.9% YoY to $19mn in 2017 due to higher interest income earned from the factoring business and lower interest expenses, driven by a lower cost of borrowing.

Non-interest income grew 38.7% YoY to $24mn in 2017 due to higher net earned premium and higher investment income. Increase in net earned premiums were mainly due to the release of prior years' unearned premiums while the increase in investment income was driven by redemption of convertible loans, gain on disposal of investments and net change in fair value of investments.

Strong revenue growth and lower provisions helped cushion a spike in net claims mainly from the motor industry. As a result, IFS swung to a net profit $3.6mn in 2017 as compared to a net loss of $1.1mn in 2016.

Figure 22: Leverage ratios allow room for growth



Source: Company data, KGI Research

Healthy balance sheet after 2016 rights issue. IFS has repaid debts with cash from rights issue in 2016 and the firm's financial position continues to make improvements. Total Liabilities/Total Assets declined to 59.5% while liquidity ratio improved to 1.2x as at end Dec-17. We believe its low net debt/equity ratio of 1.2x as at end Dec-17 compared to the 20-year average of 2.0x allows it significant room to grow its balance sheet.

Key risks

Higher Provisions for Insurance Business. The insurance business remains stifled by competition and has continued to be a drag on the group's profitability. While management believes that they have identified the root causes and are in the process of remedying the issues, potential claims from legacy policies could continue to be a drag on IFS's performance in the next few years.

Economic Slowdown. The group's businesses revolve around credit financing, investments and insurance in South East Asian economies (Singapore, Malaysia, Indonesia and Thailand). A slowdown in the global economy, or a steep decline in property prices could result in lower demand for the services of the group and higher defaults among borrowers. In such a scenario, there could be adverse effects on the group's businesses and financial conditions.

Faster-than-expected rise in interest rates. As IFS is a non-deposit taking financial firm, it relies on borrowings from banks and other financial institutions to fund its business. As such, a faster-than-expected rise in interest rates may impact its margins if it is unable to adjust quickly.

Financials

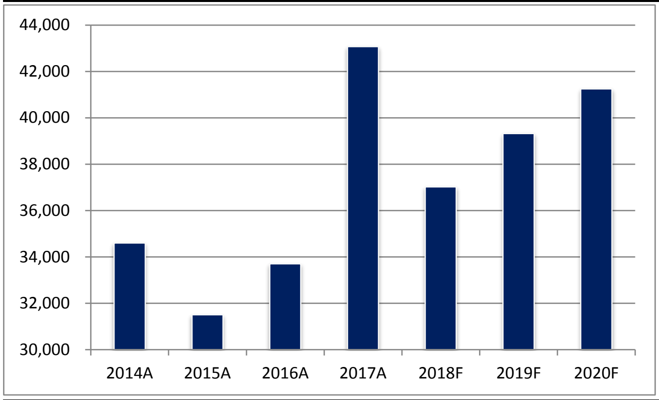
YE December

INCOME STATEMENT (SGD mn)	2016A	2017A	2018F	2019F	2020F
Interest Income	22.7	24.6	27.1	29.8	32.8
Interest Expense	(6.2)	(5.6)	(7.0)	(7.6)	(8.1)
Net Interest Income	**16.4**	**19.0**	**20.0**	**22.2**	**24.7**
Non Interest Income	17.3	24.0	16.5	16.6	16.1
Total Other Income	0.6	0.5	0.0	0.0	0.0
Gross Operating Income	39.3	48.2	43.6	46.4	48.8
Operating Expenses	**(22.7)**	**(23.0)**	**(18.0)**	**(19.2)**	**(19.2)**
Depreciation and amortisation	1.55	1.58	1.79	1.94	2.15
Profit/(Loss) after Tax	(1.1)	3.6	6.2	7.0	8.4
Profit/(Loss) attributable to Owners of the Company	**(2.6)**	**2.0**	**4.6**	**5.3**	**6.7**
BALANCE SHEET (SGD mn)	**2016A**	**2017A**	**2018F**	**2019F**	**2020F**
Number of Shares	376.0	376.0	376.0	376.0	376.0
Issued Share Capital	137.3	137.3	137.3	137.3	137.3
Shareholders Funds	151.0	152.3	156.9	162.2	168.9
Total Assets	**405.4**	**411.0**	**415.1**	**419.4**	**425.2**
Total Liabilities	241.8	244.7	244.2	243.2	242.3
Cash & Equivalents	33.7	35.1	44.2	55.8	64.5
CASH FLOW STATEMENT (SGD mn)	**2016A**	**2017A**	**2018F**	**2019F**	**2020F**
Depreciation	1.0	1.2	0.9	1.0	1.0
Changes in working capital	(10.6)	(18.0)	7.7	3.1	(1.1)
Cash from operations	**(6.7)**	**(17.1)**	**6.3**	**4.8**	**3.8**
Cash from investing	**(6.0)**	**11.4**	**3.5**	**7.5**	**5.5**
Cash from financing	**12.6**	**6.9**	**(0.6)**	**(0.6)**	**(0.6)**
Net increase in cash	**(0.2)**	**1.2**	**9.1**	**11.6**	**8.6**
Beginning cash	33.7	33.7	35.1	44.2	55.8
Ending Cash	33.7	35.1	44.2	55.8	64.5
KEY RATIOS	**2016A**	**2017A**	**2018F**	**2019F**	**2020F**
NAV per share (SGD Cents)	40.2	40.5	41.7	43.1	44.9
Price/NAV (x)	0.52	0.52	0.50	0.49	0.47
Profitability (%)					
Return on Average Equity	-2.03%	1.29%	2.96%	3.34%	4.05%
Return on Average Asset	-1.06%	0.85%	1.96%	2.29%	2.89%
Financial Structure					
Leverage Ratio (x)	1.6	1.6	1.6	1.5	1.4
Liquidity Ratio (x)	1.3	1.2	1.1	1.1	1.1
Total Liabilities/Total Assets (%)	59.64%	59.54%	58.83%	57.99%	56.99%

Source: Company data, KGI Research

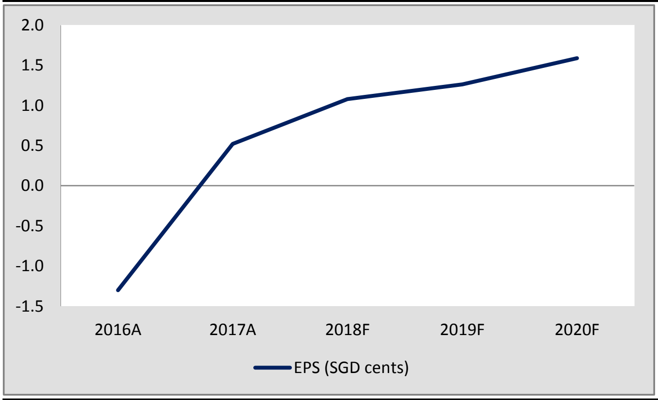
IFS Capital Limited (IFS), as a regional Group provides commercial finance services like factoring, hire-purchase/leasing, loans, government-assisted schemes and trade/export finance, to small and medium sized enterprises (SMEs). The group also provides bonds and guarantees, credit insurance and general insurance through its wholly-owned subsidiary, ECICS Limited. IFS was incorporated in Singapore in 1987 and has been listed on the Mainboard of the Singapore Exchange since July 1993.

Figure 23: Projected revenue (S$'000)



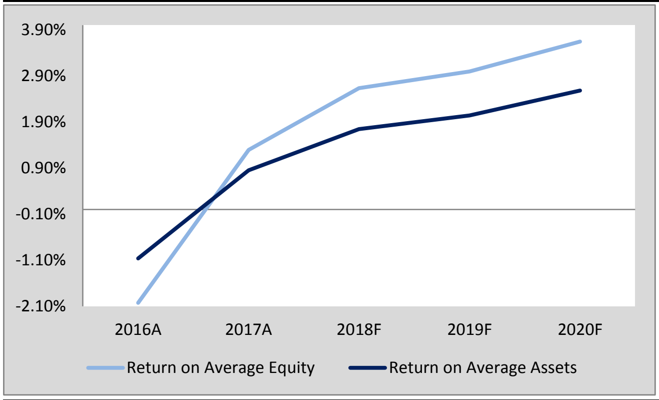
Source: Company data, KGI Research

Figure 24: EPS projections



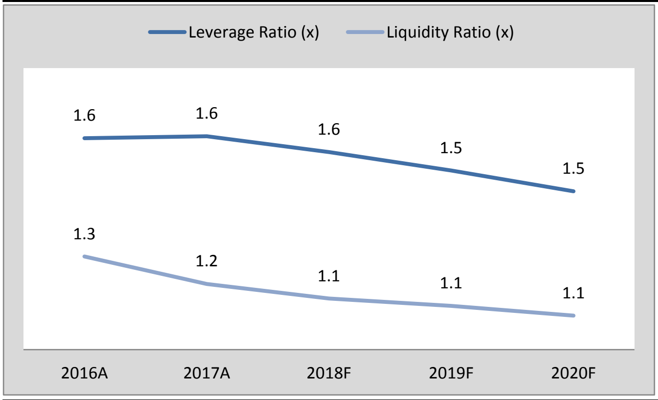
Source: Company data, KGI Research

Figure 25: ROE vs ROA



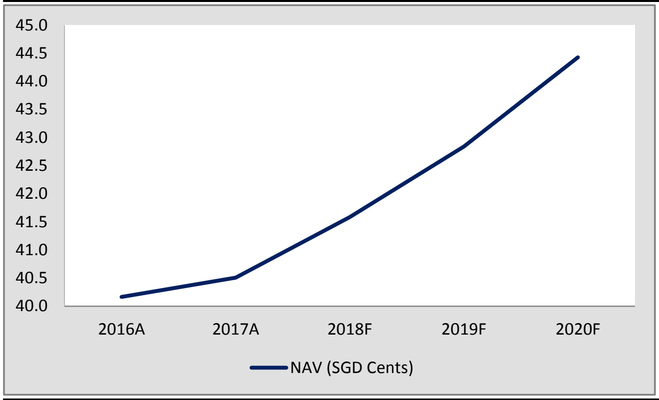
Source: Company data, KGI Research

Figure 26: Financial ratios



Source: Company data, KGI Research

Figure 27: Book value projections



Source: Company data, KGI Research

Appendix (Management Team Profile)

Key Management	
Lim Hua Min Chairman & Non-Executive Director	▪ Executive Chairman of the PhillipCapital Group of Companies. ▪ Appointed Chairman of SES Review Committee in 1997. ▪ warded the Public Service Medal in 1999 by the Singapore Government and served as a Board Member in the Inland Revenue Authority of Singapore from September 2004 to August 2010.
Tan Hai Leng, Eugene Executive Director & Group Chief Executive Officer	▪ Over 30 years of experience in the banking industry and held senior positions in various banks with banking experience that extended across the ASEAN region.
Chionh Yi Chian Group Chief Risk Officer	▪ Appointed as the Group Chief Risk Officer in May 2009 and is responsible for risk management, legal, compliance and secretariat functions. ▪ Previously a Director of ECICS Limited from February 2009 to October 2016. Currently a Director of IFS Thailand Ltd.
Iris Ang Group Chief Financial Officer	▪ Joined IFS Capital Limited as the Group Chief Financial Officer in February 2017. ▪ More than 10 years of experience as CFO in several listed companies in Singapore.
Randy Sim Cheng Leong Chief Executive Officer & Country Head, IFS Capital Limited	▪ Joined IFS Capital Limited in February 2016 as the Chief Executive Officer and Country Head for Singapore Office. Responsible for the overall management of IFS Capital Limited's business in Singapore. ▪ Began career with the Singapore Economic Development Board. ▪ Spent 8 years in Citibank across its consumer and commercial banking businesses prior to joining IFS Capital Limited.
Tan Ley Yen Director and Chief Executive Officer IFS Capital (Thailand) Public Company Limited	▪ Appointed as the Chief Executive Officer in February 2007 of IFS Capital (Thailand) Public Company Limited. ▪ Has been with the Group since August 1985.
AB. Razak Khalil Chief Executive Officer and Country Head IFS Capital (Malaysia) Sdn. Bhd.	▪ Appointed as CEO of IFS Capital (Malaysia) Sdn. Bhd. in January 2015. ▪ Prior to joining the Group, he worked with established organizations including Pembangunan Leasing Corporation (Subsidiary of Development Bank of Malaysia), Philips Malaysia and ISS Facility Services.
Giovanni Florentinus E.J President Director and Country Head PT. IFS Capital Indonesia	▪ Joined in January 2016 and was appointed as the President Director and Country Head of PT. IFS Capital Indonesia in January 2016. ▪ Has more than 25 years of working experience in the leasing and banking industry.

Industry information – Singapore loans

In Singapore, resident loan growth has picked up amid a recovery in lending to the General Commerce and Housing sectors, buoyed by improved tourist arrivals, retail sales and increased activity in the private residential property market.

According to a survey conducted by MAS, the demand for non-bank loans is expected to improve further, supported by better economic prospects as well as increased overseas expansion and investment activities.

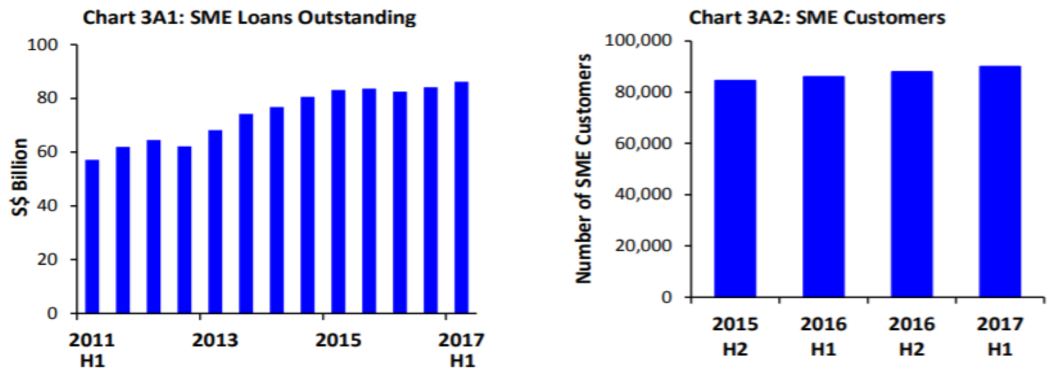
Figure 28: Loan growth continues to pick up in 2018 with increase in overall loan volumes

Source: MAS, Bloomberg, KGI Research

For SMEs, sentiment has improved in 3Q17 as compared to a year ago even though the average time for SMEs to settle their debt increased from 29 days in Q2 2016 to 35 days in Q2 2017.

Despite the deterioration in SME debt repayment behaviour, banks in Singapore remain supportive of SME financing with loans to SMEs continuing to grow in 1H17. The number of SME customers, has remained stable.

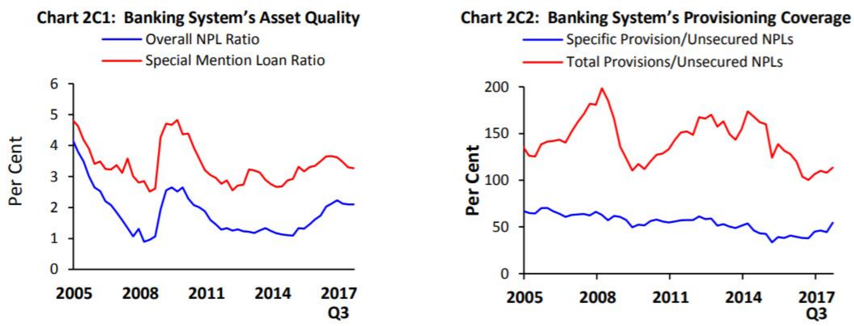
Figure 29: Bank Lending to SMEs has increased steadily over the past year



Source: MAS, KGI Research

In terms of NPLs, overall credit quality has improved alongside better domestic and regional economic prospects. The overall NPL ratio declined to 2.1% in 3Q17 from 2.2% in 4Q16 and the special mention loan ratio declined to 3.3% in 3Q17, suggesting an improvement in asset quality.

Figure 30: Asset Quality Improved; Provisioning Coverage continues to remain healthy



Source: MAS, KGI Research

KGI's Ratings

Rating	Definition
	KGI Securities Research's recommendations are based on an Absolute Return rating system.
BUY	>10% total return over the next 12 months
HOLD	-10% to +10% total return over the next 12 months
SELL	<-10% total return over the next 12 months

SGX StockFacts Research Programme

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