STANDARD &POOR'S

IFS Capital

Bloomberg: **IFS SP** | Reuters: **IFAC.SI** | Price: **SGD0.51** | Fair value: **SGD0.59 - SGD0.66** | Date: **February 28, 2013**

GICS: Financials/Specialized Finance

Business Summary: IFS Capital is a financial institution whose core activities evolve around the provision of financial services such as commercial and structured finance, private equity investments as well as credit insurance, bonds and guarantees.

Country of Incorporation: Singapore

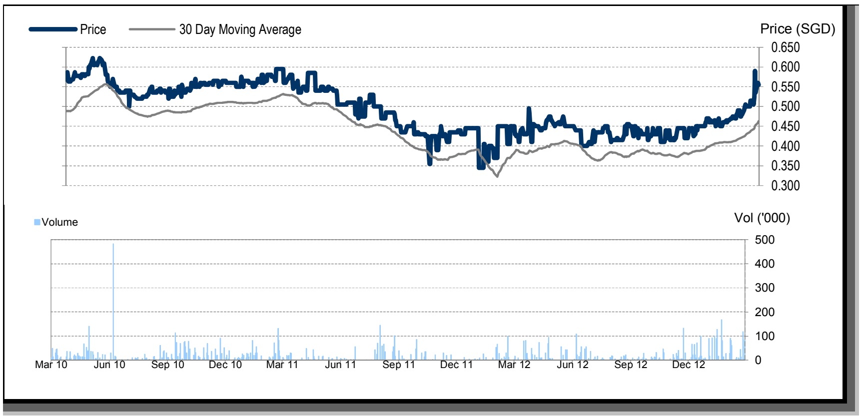
Head Office Location: 7 Temasek Boulevard, #10-01 Suntec Tower One, Singapore 038987

Place of Operations: Singapore

Website: www.ifscapital.com.sg

IR Contact: Ms Lim Mui Ling (Group CFO) | muiling.lim@ifscapital.com.sg | +65-6270 7711

Analyst: Pallavi Deshpande



Key Stock Statistics

52-week Share Price Range (SGD)		**0.35 - 0.54**
Avg Vol - 12 months ('000 shares)		**15.2**
Price Performance (%)	- 1 month	**14.8**
	- 3 month	**26.3**
	- 12 month	**32.9**
No. of Outstanding Shares (mln)		**150.4**
Free Float (%)		**50.8**
Market Cap (SGD mln)		**75.9**
Enterprise Value (SGD mln)		**261.7**
Major Shareholders (%)		
Phillip Assets Pte Ltd		**41.0**
SMRT Road Holdings		**6.9**

Per Share Data

FY Dec.	2012	2013E	2014E
Book Value (SG cents)	92.61	95.16	98.67
Cash Flow (SG cents)	5.8	6.0	6.5
Reported Earnings (SG cents)	5.1	5.3	5.8
Dividend (SG cents)	2.0	2.1	2.3
Payout Ratio (%)	39.5	39.5	39.5
PER (x)	9.9	9.5	8.7
P/Cash Flow (x)	8.8	8.4	7.8
P/Book Value (x)	0.5	0.5	0.5
Dividend Yield (%)	4.0	4.2	4.5
ROE (%)	5.6	5.7	6.0
Net Gearing (%)	141.1	185.0	203.9

Investment gains and lower credit costs drive performance

- **IFS's 2012 net profit of SGD7.6 mln (6.5% above our estimate)** was driven by its international business, higher investment income of SGD3.4 mln (+109.1% YoY) and lower credit costs at 1.7% (3.3% for 2011). Credit costs declined as allowances for collective impairments fell.
- **Fair value is raised to SGD0.59 to SGD0.66** following upward revision to our 2013-2014 earnings and roll over of our valuation parameters. We lift our dividend payout assumptions to 39.5% from 37.0%. IFS indicates the rise is sustained by improving outlook clarity.
- **Volumes drive performance.** The 15.9% YoY growth in net interest income in 2012 was supported by strong volumes, offsetting weak NIMs. Factoring volume grew 16.0% YoY while loans grew a more benign 6.0% YoY. NIMs declined 50 bps YoY to 6% as some high yield loans matured in 2012. Fee income (excluding one-off fee income of SGD1.4 mln for 2011) grew 7.4% YoY. IFS increased its exposure to equities with private equity, VC segment assets rising 63.2% YoY to SGD18.1 mln..
- **International business sees lower credit costs.** Net interest income for the international business grew 32.9% YoY, while improved recoveries kept a lid on provisioning for loan losses, which grew 16.5% YoY. IFS saw a write back of provisions for 4Q12.
- **Insurance business premiums grew 4.3% YoY** for 2012, while net earned premium revenue growth of 33.0% YoY was boosted by writeback of provisions given revisions to actuarial assumptions.
- **Operating costs under control.** Cost to income declined to 55.9% for 2012 (from 59.1%) as rising staff costs (+13.5% YoY) were more than offset by the control on business and general expenses.
- **Book value boosted by unrealized gains.** IFS's currency translation losses were offset by unrealized (MTM) gains of SGD3 mln on a convertible bond in a Singapore property project. With the project 95% sold, IFS recognized gains on the investment.
- **The main risks include**: (i) Slowing economic growth in Indonesia and Thailand, and (ii) Potential currency translation losses due to the SGD's strength vs. regional currencies which may negatively impact book value and offset the rise in profits.

The McGraw·Hill Companies

IFS Capital

Bloomberg: **IFS SP** Reuters: **IFAC.SI** Price: **SGD0.51** Fair value: **SGD0.59 - SGD0.66** Date: **February 28, 2013**

Earnings Outlook

Revenue Drivers:

- IFS's growth will be driven by its international business as it sees increased competition in Singapore (slower retail loan growth to drive increased competition for SME business). Thailand's banking sector is seeing strong loan growth with stable NIMs while system NPLs were benign at 1%. In Malaysia, infrastructure projects roll out slowed in 4Q12 given impending elections. We expect spending on large infrastructure projects to gather pace after the elections (expected in 2Q13) under the government's economic transformation plan. IFS's presence across sub-contractors in Malaysia means business is assured irrespective of which contractor gets the tenders. We see Indonesia's business getting a boost after its second office opened in 2012, as IFS sets up closer to its SME clients. We see the contribution from international business continuing to rise driven by an improving global economy.
- The Insurance business has secured a credit rating of A- (none previously) from A.M. Best in 4Q12. We believe the rating improves its business prospects, as IFS can now meet the demands of policy holders looking for rated insurers. We expect premium growth to gather pace and grow 7% for 2013 and 2014, given rising infrastructure spend in Singapore, which drives IFS's bond and guarantee business.
- Investment income is expected to be stable as the insurance portfolio growth remains strong with IFS increasing its exposure to equities in 2012.

Margin Outlook:

- We believe NIMs at 6.0% remain healthy and IFS's focus on SMEs supports the higher-than-peers margins. We forecast a 13-17 bps decline in NIMs over 2013-2014 as we see increased competition in Singapore to pressure margins.
- Operating costs are expected to rise due to the expansion of its international business and rising hedging expenses (general and administration expense). IFS plans to add to employees and give increments to existing staff. However, we expect other business expenses to be well controlled and benefit from rising business volumes. We forecast a 20 bps decline in operating margins to 34.6% and 34.4% for 2013 and 2014.

Bottomline:

Our forecasts for 2013 are raised by 3.9% and we introduce 2014 forecasts. We project net profit CAGR of 7.0% over the next two years driven by net interest income growth of 6.5% and lower credit cost. We factor in lower credit costs of 2.0% (from 3.3%) for 2013-2014 while raising our tax rate assumption's to 22% (from 17%).

Earnings Performance

FY Dec. / SGD mln	4Q12	4Q11	% Change
Reported Revenue	10.6	10.0	6.0
Reported Operating Profit	3.8	4.9	-22.1
Depreciation & Amortization	-0.6	-0.7	-21.3
Net Interest Income / (Expense)	NA	NA	NA
Reported Pre-tax Profit	3.1	2.6	19.5
Reported Net Profit	2.1	2.0	1.4
Reported Operating Margin (%)	36.3	49.3	-
Reported Pre-tax Margin (%)	29.7	26.3	-
Reported Net Margin (%)	19.4	20.3	-

Source: Company data

Profit & Loss

FY Dec. / SGD mln	2011	2012	2013E	2014E
Reported Revenue	36.0	42.7	46.6	51.1
Reported Operating Profit	13.4	15.1	16.1	17.5
Depreciation & Amortization	-2.2	-2.1	-2.1	-2.1
Net Interest Income / (Expense)	NA	NA	NA	NA
Reported Pre-tax Profit	8.8	12.0	11.9	12.9
Effective Tax Rate (%)	12.8	26.4	22.0	22.0
Reported Net Profit	7.0	7.6	8.0	8.7
Reported Operating Margin (%)	37.4	35.3	34.5	34.2
Reported Pre-tax Margin (%)	24.6	28.1	25.5	25.2
Reported Net Margin (%)	19.3	17.9	17.2	17.1

Source: Company data, S&P Equity Research

Key Financial Performance

FY Dec.	2011	2012	2013E	2014E
Revenue Growth(%)	1.3	18.7	9.1	9.8
Operating Profit Growth(%)	-4.0	11.9	6.6	9.0
Net Profit Growth(%)	-2.1	9.6	4.9	9.2
EPS Growth(%)	-2.1	10.9	4.3	9.2
EPS 3-Year CAGR(%)	-10.4	2.0	4.2	8.1

Source: Company data, S&P Equity Research

Key Fundamentals

FY Dec.	2009	2010	2011	2012
ROE (%)	5.3	5.5	5.2	5.6
ROA (%)	1.9	2.4	2.0	1.9
Payout(%)	32.8	31.8	37.8	39.5

Source: Company data, S&P Equity Research

Valuation

We raise our fair value range to SGD0.59 to SGD0.66 (from SGD0.52 to SGD0.59) following upward revision to our 2013-2014 forecasts and roll over of our valuation parameters. Our valuation is based on a weighted blend of DDM and PBV (0.7x 2013, rolled over from 0.7x 2012). We have raised our assumptions for medium term loan growth to 11% (previously 10%) and dividend payout to 39.5% (previously 37%) to reflect the improving visibilty for its international business.

Required Disclosures

S&P Capital IQ Equity Research - S&P Capital IQ Equity Research U.S. includes Standard & Poor's Investment Advisory Services LLC; Standard & Poor's Equity Research Services Europe includes McGraw-Hill Financial Research Europe Limited trading as Standard & Poor's; Standard & Poor's Equity Research Services Asia includes McGraw-Hill Financial Singapore Pte. Limited's offices in Singapore, Standard & Poor's Investment Advisory Services (HK) Limited in Hong Kong, Standard & Poor's Malaysia Sdn Bhd, and Standard & Poor's Information Services (Australia) Pty Ltd.

Required Disclosures

All of the views expressed in this research report accurately reflect the research analyst's personal views regarding any and all of the subject securities or issuers. No part of analyst compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

Additional information is available upon request.

This company is not a customer of S&P Capital IQ or its affiliates.

Other Disclosures

This report has been prepared and issued by S&P Capital IQ and/or one of its affiliates. In the United States, research reports are prepared by Standard & Poor's Investment Advisory Services LLC ("SPIAS"). In the United States, research reports are issued by Standard & Poor's ("S&P"); in the United Kingdom by McGraw-Hill Financial Research Europe Limited, which is authorized and regulated by the Financial Services Authority and trades as Standard & Poor's; in Hong Kong by Standard & Poor's Investment Advisory Services (HK) Limited, which is regulated by the Hong Kong Securities Futures Commission; in Singapore by McGraw-Hill Financial Singapore Pte. Limited (MHFSPL), which is regulated by the Monetary Authority of Singapore; in Malaysia by Standard & Poor's Malaysia Sdn Bhd ("S&PM"), which is regulated by the Securities Commission; in Australia by Standard & Poor's Information Services (Australia) Pty Ltd ("SPIS"), which is regulated by the Australian Securities & Investments Commission; and in Korea by SPIAS, which is also registered in Korea as a cross-border investment advisory company.

The research and analytical services performed by SPIAS, McGraw-Hill Financial Research Europe Limited, MHFSPL, S&PM, and SPIS are each conducted separately from any other analytical activity of S&P Capital IQ.

S&P Capital IQ or an affiliate may license certain intellectual property or provide pricing or other services to, or otherwise have a financial interest in, certain issuers of securities, including exchange-traded investments whose investment objective is to substantially replicate the returns of a proprietary Standard & Poor's index, such as the S&P 500. In cases where S&P Capital IQ or an affiliate is paid fees that are tied to the amount of assets that are invested in the fund or the volume of trading activity in the fund, investment in the fund will generally result in S&P Capital IQ or an affiliate earning compensation in addition to the subscription fees or other compensation for services rendered by S&P Capital IQ. A reference to a particular investment or security by S&P Capital IQ and/or one of its affiliates is not a recommendation to buy, sell, or hold such investment or security, nor is it considered to be investment advice.

Indexes are unmanaged, statistical composites and their returns do not include payment of any sales charges or fees an investor would pay to purchase the securities they represent. Such costs would lower performance. It is not possible to invest directly in an index.

S&P Capital IQ and its affiliates provide a wide range of services to, or relating to, many organizations, including issuers of securities, investment advisers, broker-dealers, investment banks, other financial institutions and financial intermediaries, and accordingly may receive fees or other economic benefits from those organizations, including organizations whose securities or services they may recommend, rate, include in model portfolios, evaluate or otherwise address.

SGX Equity Research Insights Plus ("SERI Plus")

This report has been prepared by S&P LLC for purposes of SERI Plus administered by Singapore Exchange ("SGX"). S&P will receive total compensation of SGD6,000 – SGD25,000 each year for providing research coverage on each participating listed company under SERI Plus.

Disclaimers

With respect to reports issued to clients in a language other than English and in the case of inconsistencies between the English and translated versions of a report, the English version prevails. Neither S&P Capital IQ nor its affiliates guarantee the accuracy of the translation. Assumptions, opinions and estimates constitute our judgment as of the date of this material and are subject to change without notice. Past performance is not necessarily indicative of future results.

S&P Capital IQ, its affiliates, and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness or adequacy of this material, and S&P Parties shall have no liability for any errors, omissions, or interruptions therein, regardless of the cause, or for the results obtained from the use of the information provided by the S&P Parties. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY, SUITABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the information contained in this document even if advised of the possibility of such damages. Capital IQ is a business of S&P Capital IQ.

Ratings from Standard & Poor's Ratings Services are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions. Standard & Poor's assumes no obligation to update its opinions following publication in any form or format. Standard & Poor's ratings should not be relied on and are not substitutes for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. Standard & Poor's rating opinions do not address the suitability of any security. Standard & Poor's does not act as a fiduciary. While Standard & Poor's has obtained information from sources it believes to be reliable, Standard & Poor's does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

S&P Capital IQ keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P Capital IQ may have information that is not available to other S&P Capital IQ business units. S&P Capital IQ has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

Standard & Poor's Ratings Services did not participate in the development of this report. Standard & Poor's may receive compensation for its ratings and certain credit-related analyses, normally from issuers or underwriters of securities or from obligors. Standard & Poor's reserves the right to disseminate its opinions and analyses. Standard & Poor's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via Standard & Poor's publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

This material is not intended as an offer or solicitation for the purchase or sale of any security or other financial instrument. Securities, financial instruments or strategies mentioned herein may not be suitable for all investors. Any opinions expressed herein are given in good faith, are subject to change without notice, and are only current as of the stated date of their issue. Prices, values, or income from any securities or investments mentioned in this report may fall against the interests of the investor and the investor may get back less than the amount invested. Where an investment is described as being likely to yield income, please note that the amount of income that the investor will receive from such an investment may fluctuate. Where an investment or security is denominated in a different currency to the investor's currency of reference, changes in rates of exchange may have an adverse effect on the value, price or income of or from that investment to the investor. The information contained in this report does not constitute advice on the tax consequences of making any particular investment decision. This material is not intended for any specific investor and does not take into account your particular investment objectives, financial situations or needs and is not intended as a recommendation of particular securities, financial instruments or strategies to you.

Required Disclosures

Before acting on any recommendation in this material, you should consider whether it is suitable for your particular circumstances and, if necessary, seek professional advice.

This document does not constitute an offer of services in jurisdictions where S&P Capital IQ or its affiliates do not have the necessary licenses.

For residents of the U.K. - This report is only directed at and should only be relied on by persons outside of the United Kingdom or persons who are inside the United Kingdom and who have professional experience in matters relating to investments or who are high net worth persons, as defined in Article 19(5) or Article 49(2) (a) to (d) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, respectively.

For residents of Singapore - Anything herein that may be construed as a recommendation is intended for general circulation and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. Advice should be sought from a financial adviser regarding the suitability of an investment, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

For residents of Malaysia - All queries in relation to this report should be referred to Ching Wah Tam and Ahmad Halim.

For residents of Indonesia - This research report does not constitute an offering document and it should not be construed as an offer of securities in Indonesia, and that any such securities will only be offered or sold through a financial institution.

For residents of the Philippines - The securities being offered or sold have not been registered with the Securities and Exchange Commission under the Securities Regulation Code of the Philippines. Any future offer or sale thereof is subject to registration requirements under the Code unless such offer or sale qualifies as an exempt transaction.

Canadian investors should be aware that any specific securities discussed in this research report can only be purchased in Canada through a Canadian registered dealer and, if such securities are not available in the secondary market, they can only be purchased by eligible private placement purchasers on a basis that is exempt from the prospectus requirements of Canadian securities law and will be subject to resale restrictions.

STANDARD & POOR'S, S&P, S&P 500, S&P Europe 350 and STARS are registered trademarks of Standard & Poor's Financial Services LLC.