COMPANY UPDATE

Financials ▪ Singapore

IFS Capital

(IFS SP/I49.SI)

New moneylending business model driven by the digital economy

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- IFS Capital will be one of six companies in Singapore piloting a new business model for moneylending that will mainly serve the own-account workers, entrepreneurs and freelancers as they account for a growing part of the workforce.
- The new model will grant borrowers better terms based on a more comprehensive use of data to asses creditworthiness, as well as digitalised processes to help lower expenses.
- We maintain our BUY recommendation on IFS Capital. Our fair value of S$0.29 is based on 0.7x 2018F BVPS.

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

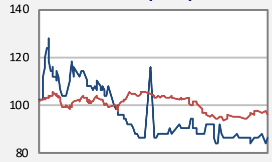
Source: Company Data, KGI Research

BUY - Maintain

Price as of 2 Jan 19 (SGD)	0.22	**Performance (Absolute)**	
12M TP ($)	0.29	1 Month (%)	0.0
Previous TP ($)	0.29	3 Month (%)	-8.7
Upside (%)	35.8	12 Month (%)	-13.0

Trading data	
Mkt Cap ($mn)	81
Issued Shares (mn)	376
Vol - 3M Daily avg (mn)	0.0
Val - 3M Daily avg ($mn)	0.0
Free Float (%)	39.7%

Perf. vs STI Index (Red)



Major Shareholders		**Previous Recommendations**	
Lim Hua Min	60.1%	17-Oct-18	BUY S$0.29
Dymon Asia Private Equity	6.9%		

New business model for moneylending. In an announcement on 11 December 2018, the Ministry of Law (MinLaw) announced that six firms had been selected to pilot new business models for moneylending, as part of an initiative to protect borrowers through business-led improvements. The new models would include a more comprehensive use of data to assess creditworthiness, using digitalised processes to lower cost and providing better terms to those who repay their loans early or on time.

6 out of 38 firms chosen. IFS Capital is one of the six selected amongst 38 firms, meeting the stringent mandatory criteria, such as soundness and completeness of the business model, and effective cost of credit and credit policies. These firms have a paid-up capital of >$1mn and have a demonstrated track record in providing consumer credit, whether in licensed moneylending or in other sectors of consumer credit. The licenses will be for two years beginning in 2019, following which MinLaw will evaluate and refine the moneylending regulatory regime.

Opportunities for consumers. IFS Capital is well-positioned to grow in the consumer moneylending business given its track record of providing financial services to Small and Medium Enterprises (SMEs) for more than 30 years. In particular, IFS Capital could reach out to own-account worker segment, entrepreneurs and freelancers, by offering them better and faster lending decisions through the use of technology and personalised services.

Funding for the gig economy. The number of Singapore residents engaged in own-account work rose from 200k in 2016 to 224k in 2017. Own-account workers, which include freelance workers, made up 8.4% of Singapore's employed residents in 2017, according to the Ministry of Manpower. This is well below the 20-30% of the working-age populations in Europe and the US that are engaged in some form of independent work, according to McKinsey Global Institute. Trends from other developed countries show a shift towards the gig economy as new technologies - such as Uber, Grab, Airbnb and TaskRabbit - have created platforms that allow people to earn an income by renting their assets or selling their labour on a contract basis.

Valuation & Action: We maintain our BUY on IFS, 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.

Completion of Suntec office sale. Furthermore, IFS Capital had completed the sale of its Suntec office on 23 November 2018. The transaction 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, as well as its new expansion into the consumer lending space.

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.

Industry data

Moneylending in Singapore

The six firms mentioned above will be issued moneylending licenses to operate outlets in Singapore. Since a moratorium was imposed in 2012, the number of moneylending outlets declined from 215 outlets to 162 outlets currently. The six firms will be allowed to apply for licenses for up to 15 new outlets in total.

Figure 1: Six firms allowed to open new moneylending outlets

Firm	No. of outlets
Credit 21 Private Limited	4
Dey Private Limited	4
IFS Capital Limited	1
Minterest Holdings Private Limited	1
Quick Credit Private Limited	4
Xingang Investment Private Limited	1

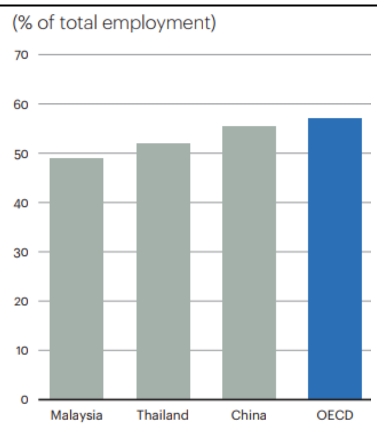
Source: Ministry of Law

Structural changes in the global economy and workforce

Two key trends that are driving structural changes in the global economy and in the labour force is the rise of technology firms and automation. Technology firms including Facebook, Alphabet (parent company of Google), Apple and Microsoft are the world's largest companies in terms of market capitalisation but have not generated the same level of direct employment as their industrial predecessors. Meanwhile, new technologies such as Uber, Grab and Airbnb, have created platforms to allow people to earn income from the sale of their services or renting of their assets.

Automation is also expected to disrupt traditional jobs not only in manufacturing, but jobs in retail, services and well as many back-office functions. A study by the World Bank estimates that two-thirds of all jobs are susceptible to automation.

Figure 2: Employment susceptible to automation in Asian countries



Source: World Bank World Development Report, AT Kearney Analysis

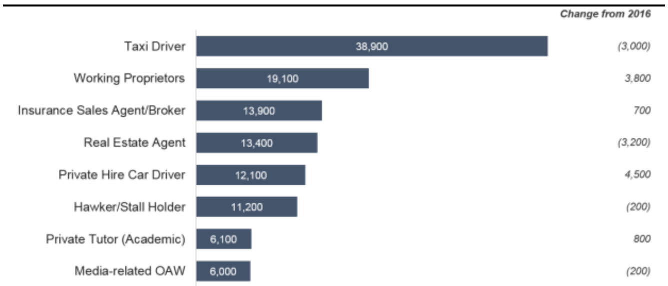
Our initial assessment IFS Capital's potential market in the consumer segment thus looks promising given that it is riding on long-term structural trends in the workforce, as well as its 30 years of experience in financing SMEs. In Singapore, IFS Capital has indicated that it will be specifically targeting own-account workers, entrepreneurs and freelancers.

Potential market in Singapore

Own-account workers are self-employed persons who are engaged in a business without employing any paid workers.

In Singapore, the top occupations among primary own-account workers in 2017 were similar to 2016 and were in traditional jobs such as taxi drivers, working proprietors, insurance sales agents, real estate agents and newer work such as private hire car drivers.

Figure 3: Top occupations among primary own-account workers in 2017

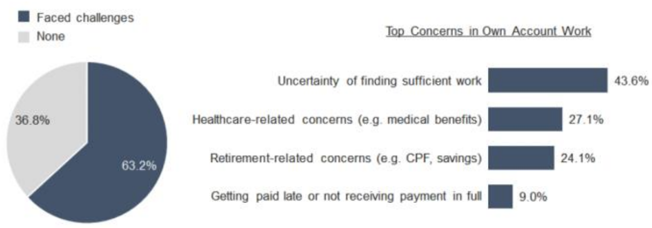


Source: Supplementary Survey on Own-Account Workers, Manpower Research & Statistics Department, MOM

Helping to finance these new workers

A majority of own-account workers indicated they faced difficulties, including uncertainty of finding sufficient work, according to a survey done by the Ministry of Manpower. With 9% of the respondents highlighting finance-related concerns, finance companies, especially under the new moneylending business model, is in a favorable position to better serve this growing segment of the economy.

Figure 4: Challenges faced by own-account workers in 2017, Singapore

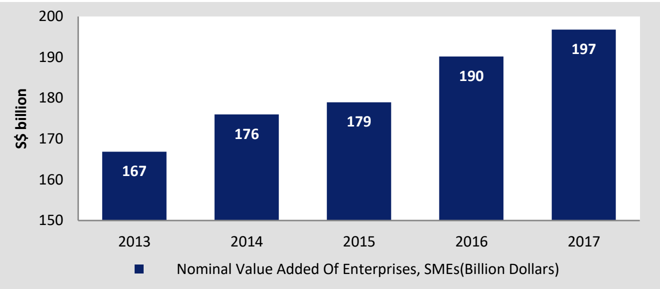


Source: Supplementary Survey on Own-Account Workers, Manpower Research & Statistics Department, MOM

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 5: 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 6: 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 7: Leveraging on Technology

IFS has 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.

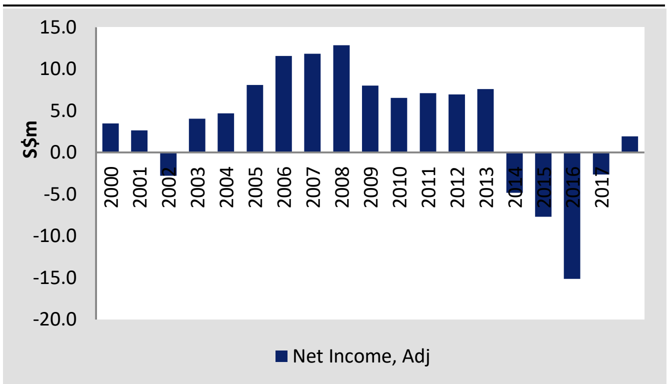
Figure 8: Factoring volumes

	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

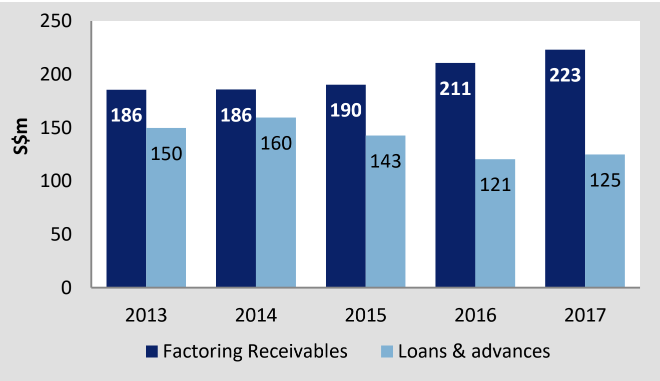
Good prospects in Asia. According to Factors Chain International (FCI), a global network of leading commercial finance companies, Asia will see a new growth in the coming years due to China's "One Belt One Road" strategy and expected improvements in law and financial infrastructure for receivable financing.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

Figure 9: Profitability has improved as IFS focuses on its lending business



Source: IFS Capital, KGI Research

Figure 10: 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

Valuation

We maintain our BUY recommendation on IFS 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 11: Peer comparison of credit financing firms

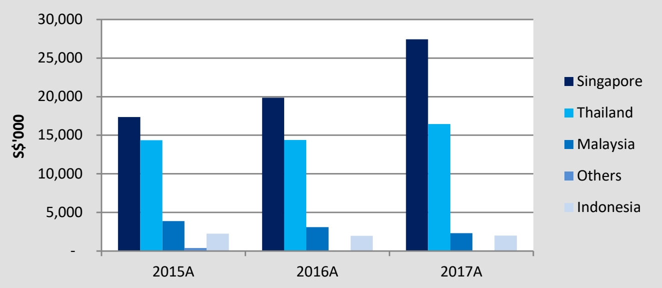
Company	Last Price	Market Cap	Return on Equity (%)		P / B (x)			Div Yield (%)		Gearing (x)
		(S$mn)	FY-1	Last FY	Last FY	FY+1	FY+2	Last FY	FY+1	Current
IFS Capital Ltd	**SGD 0.22**	**81**	**-2.0**	**2.6**	**0.5**	**0.5**	**0.5**	**1.4**	**1.7**	**1.7**
Local Credit Financing Firms										
Hong Leong Finance Ltd	SGD 2.56	1,143	3.1	6.6	0.7	0.6	0.6	4.8	6.6	1.2
Sing Investments & Finance	SGD 1.49	235	4.4	6.9	0.7	-	-	4.5	-	1.2
Singapura Finance Ltd	SGD 0.89	141	0.8	2.1	0.6	-	-	2.9	-	1.3
Average			2.8	5.2	0.7	-	-	4.1	-	1.2

Source: Bloomberg, Company Data, KGI Research

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

Enterprises	Indonesia		Malaysia[1]		Philippines		Singapore		Thailand[2]	
	Turnover (USD[3] '000)	Net Assets (USD[3] '000)	Turnover (USD[3] '000)	Employee (No.)	Turnover (USD[3] '000)	Employee (No.)	Turnover (USD[3] '000)	Employee (No.)	Turnover (USD[3] '000)	Employee (No.)
Medium	200-4,000	40-800	800-6,000	30-75	340-2,300	100-199			900-6,000	16-200
Small	20-200	4-40	80-800	5-30	68-340	10-99	<74,000	<200	<900	<15
Micro	<20	<4	<80	<5	<68	<10				

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.

Financials

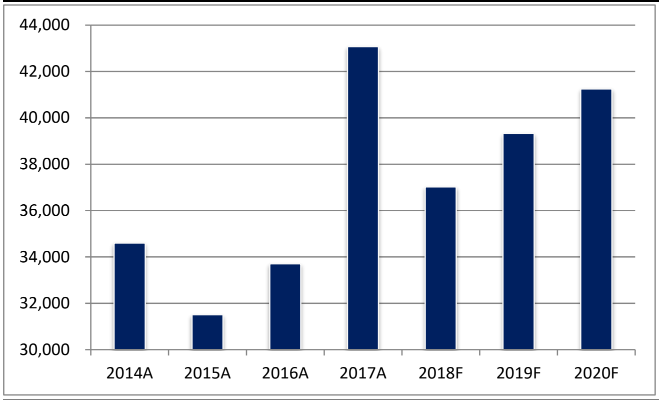
YE December

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

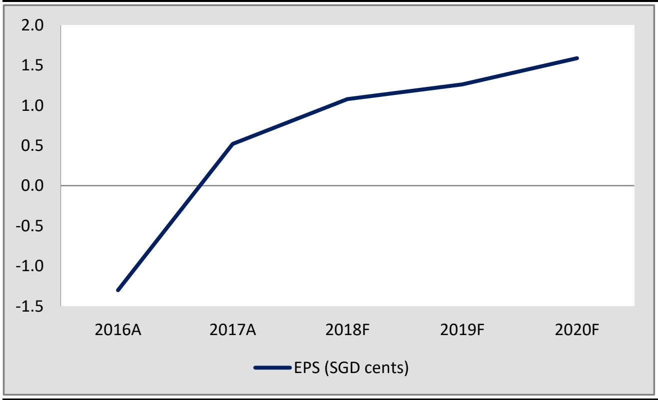
IFS Capital Limited (IFS), as a regional Group provides commercial finance services like factoring, hire-purchase/leasing, loans, government-assisted schemes and trade/export finance, to small and medium sized enterprises (SMEs). The group also provides bonds and guarantees, credit insurance and general 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 16: Projected revenue (S$'000)



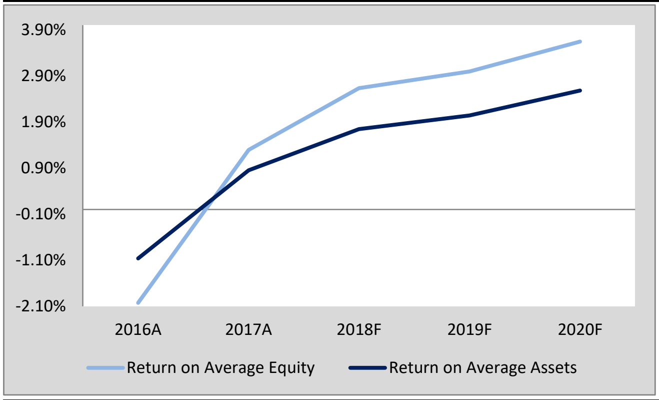
Source: Company data, KGI Research

Figure 17: EPS projections



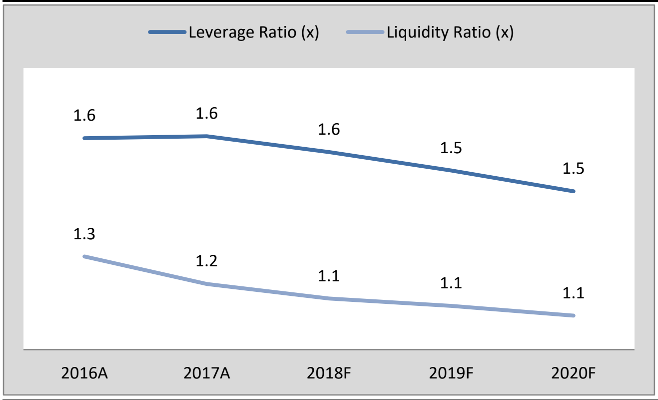
Source: Company data, KGI Research

Figure 18: ROE vs ROA



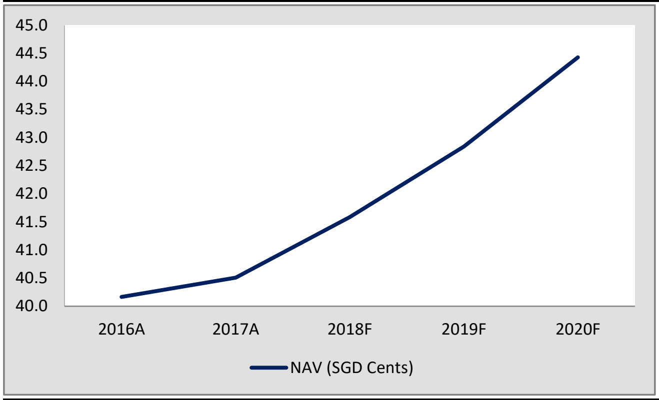
Source: Company data, KGI Research

Figure 19: Financial ratios



Source: Company data, KGI Research

Figure 20: Book value projections



Source: Company data, 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

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