

IFS Capital Ltd

Third Quarter Sees Further Improvement

Update: IFS Capital Ltd ("Company") announced its financial year 2010 third quarter results on 8th November 2010. We maintain our **Invest** rating, based on an adjusted intrinsic value of S\$0.730 (43.1% price-value discount).

Key Developments:

- On a third quarter YoY basis, IFS posted increases in all three of its revenue generators - net interest income was up 28.8%, net earned premium revenue grew 18.9% and non-interest income rose 14.6%. 3Q10 bottom line after tax and non-controlling interests stood at S\$1.7m (+0.8% YoY).
- On a nine month (year to 30th September) basis, IFS recorded strong YoY growth in both net interest income (+62.8%) and non-interest income (+4.6%). 9M10 profit after tax and non-controlling interests growing was S\$5.1m (+11.7% YoY).
- IFS's regional operations were profitable, in totality, as 9M share of profit after tax stood at S\$1.7m (-27% YoY) from 9M09's figure of S\$2.3m. ECICS reported higher profit for the first nine months helped by a write-back of tax provision of S\$1.3m (+25.4% YoY).

Outlook:

Singapore's revised economic growth forecast of 13% to 15% bodes particularly well for financial plays such as IFS. With no major re-rating downwards in economic growth forecasts for emerging Asia, we foresee more upside to current industry as well as IFS's own valuation.

Invest

- Intrinsic Value S\$0.730
- Prev Close S\$0.510

Main Activities

IFS Capital Limited is an established financial institution involved in commercial and structured finance, private equity investments as well as credit insurance and guarantees. Besides Singapore, IFS also has operations in Malaysia, Indonesia and Thailand.

Financial Highlights

Dec YE (\$m)	FY07A	FY08A	FY09A
Net Interest Inc	13.2	11.1	13.1
Net Earned Prem	6.4	3.8	5.8
Fee and Comm	7.7	6.4	6.4
Invt & Other Inc	7.9	4.9	3.7
Net Profit	12.9	8.0	6.6

Source: Company, Bloomberg, SIAS Research

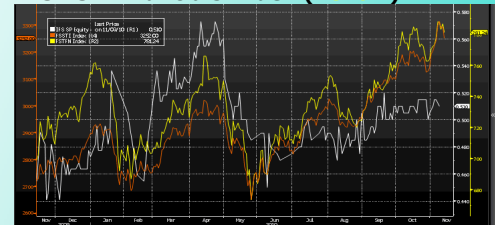
Key Ratios (FY09A)

Net Interest Margin	5.4%
ROA	1.9%
Gearing	1.4x
EPS	4.8cts
NAV/Share	93cts

Source: Company, Bloomberg, SIAS Research

Indexed Price Chart

Roxy Pacific (White)
Straits Times Index (Orange)
FTSE ST Financials Index (Yellow)



Source: Bloomberg

52wks High-Low S\$0.400 /S\$0.255
Number of Shares 636.56m
Market Capitalization S\$245.08m

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3Q10 sees continued improvement in financial performance

Continually Improving Performance Over 2010: SGX Mainboard listed IFS Capital Ltd (“Company”) announced their third quarter 2010 financial results on 8th November 2010. We have been impressed thus far by IFS’s performance in 2010 as the Company continues on a strong recovery track from 2009 and records another robust performance in 3Q10 after 2Q10’s admirable showing. On a third quarter YoY basis, IFS posted increases in all three of its revenue generators - net interest income was up 28.8% (3Q10: S\$4.6m, 3Q09: S\$3.6m), net earned premium revenue grew 18.9% (3Q10: S\$1.0m, 3Q09: S\$0.9m) and non-interest income rose 14.6% (3Q10: S\$2.6m, 3Q09: S\$2.3m). 3Q10 income before operating expenses was recorded at S\$8.3m, a respectable 22.7% growth against 3Q09’s figure. IFS’s third quarter performance was affected by a S\$2.5m hit from allowances for loan losses and impairment of investments – due to higher impairment of investments related to loan granted to a borrower for which settlement was made through shares allotment under a Scheme of Arrangement. Despite this, the Company’s 3Q10 bottom line after tax and non-controlling interests stood at S\$1.7m, an increase of 0.8% against 2009’s third quarter amount.

Figure 1: IFS third quarter YoY performance

	3Q2010	3Q2009
Net Int Inc (S\$m)	4.6	3.6
Net Ear Pre Rev (S\$m)	1.0	0.9
Non-int inc (S\$m)	2.6	2.3
Profit After Tax (S\$m)	1.71	1.70

Source: Company, SIAS Research

Figure 2: IFS Year-To-30 September YoY performance

	2010	2009
Net Int Inc (S\$m)	15.2	9.3
Net Ear Pre Rev (S\$m)	2.9	4.1
Non-int inc (S\$m)	7.1	6.8
Profit After Tax (S\$m)	5.14	4.60

Source: Company, SIAS Research

On a nine month (year to 30th September) basis, IFS recorded strong YoY growth in both net interest income (+62.8%, 9M10: S\$15.2m, 9M09: S\$9.3m) and non-interest income (+4.6%, 9M10: S\$7.1m, 9M09: S\$6.8m). Management has explained that the improved 9M10 net interest income performance is attributable to higher net interest margins, higher recoveries of interest previously suspended, recognition of current and prior years’ interest repayments as well as full consolidation of Thailand incomes. In addition, increased fee and commission income, as a result of higher insurance commission and higher factoring fees from the Company’s Thailand operations, bolstered IFS’S 9M10 non-interest income figure.

Net earned premium revenue, however, declined 30.1% (9M10: S\$2.9m, 9M09: S\$4.1m) due mainly to a charge on change in provision for unexpired risks. In 2009, IFS recorded a write back due to a reduction in expected future losses on bonds and guarantees business. In 2007 and 2008, the actuary increased loss expectation in view of the global financial crisis. Despite this, the Company expanded nine month income before operating expenses by a sturdy 24.4% YoY (9M10: S\$25.2m, 9M09: S\$20.2m) with 9M10 profit after tax and non-controlling interests growing 11.7% YoY (9M10: S\$5.1m, 9M09: S\$4.6m).

Figure 3: IFS operating expense 9M YoY change

(S\$'000)	9 months 2010		9 months 2009		+ / (-) %
		%		%	
Commission	548	4.0	251	2.3	118.3
Business Development	622	4.5	503	4.6	23.7
Staff Costs	7,444	54.3	6,336	57.8	17.5
General Administration	5,096	37.2	3,871	35.3	31.6
Total	13,710	100.0	10,961	100.0	25.1
Cost-to-Income Ratio	52.9%		52.9%		-

Source: Company

Figure 4: Key financial ratios

	9 months 2010	9 months 2009	+ / (-) %
Return on Ave Equity – After Tax (%)	4.0	3.7	8.1
Return on Total Assets (%)	1.5	1.3	15.4
Earnings per Share (cts) *	3.4	3.1	9.7
Net Asset Value per Share (cts) *	87.1	83.4	4.4
Leverage (times)	1.5	1.8	(16.7)
Gearing (times)	1.3	1.5	(13.3)

* Adjusted for Bonus Issue 1 for 10 on 5 May 2010 for 9 months of 2010 and 2009

Source: Company

Key ratios healthy with outstanding net interest margins

Ratios Depict Robust Fundamentals: Our review of IFS's key financial ratios further supports our view that the Company is fully in a recovery uptick. For the nine months passed, IFS's return on average equity increased 8.1% YoY (9M10: 4.0%, 9M09: 3.7%), earnings per share rose 9.7% YoY (9M10: 3.4 Scts, 9M09: 3.1 Scts), net asset value per share was up 4.4% (9M10: 87.1 Scts, 9M09: 83.4S Scts) and return on total assets improved 15.4% YoY (9M10: 1.5%, 9M09: 1.3%). The Company's debt levels also posted positive nine month YoY movements as leverage fell 16.7% (9M10: 1.5x, 9M09: 1.8x) and gearing dropped 13.3% (9M10: 1.3x, 9M09: 1.5x). IFS's cost to income ratio remained at a healthy 52.9% year to 30th September 2010. We were most impressed by the Company's high annualized net interest margin of 6.4%, which is substantially above the Singapore banks' 12 months trailing average margin of less than 3%. We understand from management that IFS is able to achieve such margins despite the current low interest environment as the Company's target market is centered on small, medium enterprises as opposed to only large corporates, which the banks primarily service.

Strong top line growth from regional businesses

Regional Operations Continue Profitability: IFS's regional operations were profitable, in totality, as year to 30th September share of profit after tax stood at S\$1.7m – down 27% from 9M09's figure of S\$2.3m. Net interest income (+54.9%, 9M10: S\$5.9m, 9M09: S\$3.8m) and non-interest income (+66.8%, 9M10: S\$2.7m, 9M09: S\$1.6m) both improved over 9M09. That said, higher 9M10 operating expenses of S\$4.6m, as opposed to S\$2.7m for 9M09, detrimentally affected the performance of IFS's overseas businesses. The Company's Indonesian operations reported higher operating revenues for 9M10 as a result of higher business volumes and better margins. However, lower net profits were recorded due mainly to higher allowances for loans and factoring receivables.

IFS's Malaysian business also reported improved operating revenues for the nine months passed on the back of higher business volumes. A lower net loss was posted for 9M10 as opposed to the same period last year due to lower allowances for loans and factoring receivables as well as a tax credit this year compared to a tax expense in 2009. The Company's Thai operations achieved stronger YoY 9M10 operating income due to stronger factoring volume and higher interest margins, with bottom line results comparable to 9M09 - as a result of larger operating expenses and allowances for loan losses recorded as compared to a reversal of allowances in 2009. Management has expressed that they expect their Thailand business to continue to perform.

Figure 5: YoY segmental revenue growth (S\$m)

(S\$'000)	9 months 2010	9 months 2009	+/(%)
Net Interest Income	5,871	3,790	54.9
Non-Interest Income	2,697	1,617	66.8
Operating Expenses	(4,644)	(2,768)	67.8
Operating Profit before Allowances	3,924	2,639	48.7
Allowances for Loan Losses	(784)	56	NM
Profit before Tax	3,140	2,695	16.5
Share of Results of Associates	-	474	(100.0)
Tax	(1,290)	(843)	53.0
Profit after Tax (PAT)	1,850	2,326	(20.5)
Group's Share of PAT based on Shareholdings %	1,673	2,291	(27.0)

Source: Company, SIAS Research

Figure 6: YoY segment pre-tax profit growth (S\$m)

(S\$'000)	9 months 2010	9 months 2009	+/(%)
Net Earned Premium Revenue	3,005	4,272	(29.7)
Fee and Investment Income	3,224	2,431	32.6
Claims Incurred	(402)	(810)	(50.4)
Operating Expenses	(3,130)	(2,552)	22.7
Operating Profit before Allowances	2,697	3,341	(19.3)
Allowances for Ins. Receivables	(133)	11	NM
Profit before Tax	2,564	3,352	(23.5)
Tax Credit/(Expense)	966	(538)	NM
Profit after Tax	3,530	2,814	25.4

(Before intragroup transactions elimination)

Source: Company, SIAS Research

ECICS grows 9M bottom line YoY, CAR sturdy

ECICS Increases YoY 9M Profitability: IFS’s ECICS operations reported strong bottom line YoY growth over the first nine months of 2010 (+25.4%, 9M10: S\$3.5m, 9M09: S\$2.8m). Management has attributed this robust performance to higher commission and investment income (+32.6%, 9M10: S\$3.2m, 9M09: S\$2.4m); a tax credit resulting from tax refund (9M10: S\$0.96m, 9M09: S\$-0.54m) as well as lower net claims incurred (-50.4%, 9M10: S\$0.40m, 9M09: S\$0.81m). These positives were partly offset by lower net earned premium due to a charge on the change in provision for unexpired risks and higher total operating expenses. ECICS remains well capitalized with capital adequacy above the regulatory requirement of 120%.

IFS value proposition

The Bottom Line: During our attendance at IFS’s 3Q10 results briefing, management explained that after a strong recovery in worldwide fundamentals, the global economy has entered a phase of greater uncertainties and risks. IFS predicts that growth will slow in the Company’s major markets while the prospects of huge capital inflows could precipitate policy and other risks. Bearing this in mind, the Company is mindful of the challenges ahead and will continue to prudently manage IFS’s resources and risks as well as search for new business opportunities in both local and regional markets. In addition, management has guided that the credit insurance business will continue to benefit from increased trade volume while the bond business will look to take advantage of increased infrastructure and construction works. And with the listing of the Company’s Thai subsidiary, IFS will also further be able to tap into Thai capital markets to expand operations.

Figure 7: IFS one year price volume movement



Source: Bloomberg

Singapore's Ministry of Trade and Industry had guided that the country's economy is expected to expand by a robust 13% to 15% in 2010. The well-being of financial plays is inextricably linked to the performance of the general economy and their respective country's GDP. Positive economic forecasts and figures will substantially bolster the outlook for financial counters – IFS included. We maintain that with no major re-rating downwards in economic growth forecasts for emerging Asia, we foresee more upside to current industry valuations moving ahead. IFS's NAV as at end-1H2010 stands at S\$0.871. IFS's non-bank financial comparables trade at an average Price-To-Book value of 0.84x. This values IFS at \$0.731. Therefore, we maintain our call on the Company and adjust our valuation to S\$0.730. Recommendation: **Invest**

Figure 8: Industry comparatives

S/N	Company	Ticker	Price (\$)	Price Book (x)	Price Earnings (x)
1	Sing Investments & Finance	SIF SP	1.610	0.83	2.68
2	Singapura Finance	SBD SP	1.610	0.76	10.69
3	Hong Leong Finance	HLF SP	2.980	0.90	4.23
4	Singapore Reinsurance Corp	SRE SP	0.275	0.85	12.44
			Average	0.84	7.51

Source: Bloomberg, SIAS Research

Summary Financial Table

Dec YE	FY07A	FY08A	FY09A
Profit & Loss (\$m)			
Net Interest Income	13.2	11.1	13.1
Net Earned Premium Revenue	6.4	3.8	5.8
Fee & Commission income	7.7	6.4	6.4
Investment & Other Income	7.9	4.9	3.7
Net Profit	12.9	8.0	6.6
Balance Sheet (\$m)			
	FY07A	FY08A	FY09A
Non Current Assets	144	131	109
Current Assets	337	262.4	248
Current Liabilities	276.3	211.1	180.5
Non Current Liabilities	80.8	61.4	49.1
Total Equity	123.9	120.9	127.1
Cash Flow (\$m)			
	FY07A	FY08A	FY09A
Operating Cash Flow	14.0	39.8	95.2
Investing Cash Flow	-6.6	17.5	-12.2
Financing Cash Flow	4.6	-69.1	-81.4

Source: Company, Bloomberg, 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 statement of opinion, and not statement of fact or recommendation on the stock.

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