

## IFS Capital Ltd

### Half Time Report Shows Promise

**Update:** IFS Capital Ltd ("Company") announced its financial year 2010 first quarter results on 13<sup>th</sup> August 2010. We maintain our **Invest** rating, based on an adjusted intrinsic value of S\$0.720 - representing an upside of 51.6% over its last traded price.

#### Key Developments:

- IFS commendably grew income before operating expenses by 19.9% YoY from S\$7.5m to S\$9.1m, with pre-tax profit up 7% YoY to S\$2.8m. On a half-year level, IFS expanded profit for the period by 18.5% from S\$2.9m in 1H2009 to S\$3.5m in 2H2010.
- IFS's regional operations in Indonesia, Malaysia and Thailand put in mixed half year financial performances. Collectively, IFS's regional operations recorded profit after tax of S\$1.2m for 1H2010 – a YoY decrease of 13.1%. That said, their results were in line with our prior estimates. IFS's ECICS operations also reported a lower YoY profit number of S\$1.8m (-27.4%) for 1H2010.
- Going forward, management expects the insurance business to benefit from increased trade volume as well as private sector projects for its credit insurance and bond activities. The listing of IFS Capital (Thailand) is also expected to enhance the Company's profile in Thailand and strengthen IFS's financial position to take advantage of growth in the Thai economy.

#### Outlook:

We expect Singapore's revised economic growth of 13% to 15% to bode particularly well for IFS, as financial plays are inextricably linked to the performance of the general economy and their respective country's GDP. With no major re-rating downwards in economic growth forecasts for emerging Asia, we foresee more upside than downside to current industry valuations and view IFS as a solid mid-to-long term investment.

## Invest

- Intrinsic Value **S\$0.720**
- Prev Closing **S\$0.475**

#### 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

IFS (White)  
Straits Times Index (Orange)  
FTSE ST Financials Index (Yellow)



Source: Bloomberg

52wks High-Low **S\$0.58/S\$0.43**  
Shares Outstanding **150.388 m**  
Market Capitalization **S\$71.43 m**

#### Analyst:

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### First Half Results Show Operational Growth

**1H2010 Results Promising:** SGX Mainboard listed IFS Capital Ltd ("Company") announced their second quarter 2010 financial results on 13<sup>th</sup> August 2010.

The Company commendably grew 2Q2010 income before operating expenses by 19.9% YoY from S\$7.5m to S\$9.1m, with pre-tax profit up 7% YoY to S\$2.8m. Notably, excluding 2Q2009's negative goodwill amount of S\$850,000, 2Q2010's pre-tax profit had actually surged a very respectable 58% YoY. IFS also recorded higher net interest income of S\$5.0m (+51.5%) as well as fee and commission income of S\$2.5m (+32.9%), compared to 2Q2009. On a half-year level, IFS expanded profit for the period by 18.5% from S\$2.9m in 1H2009 to S\$3.5m in 2H2010. Again, excluding 2Q2009's negative goodwill amount, the Company's 2010's half year operational bottom line was actually up a significant 67% YoY. IFS also posted a higher annualized net interest margin of 6.3% for 1H2010 relative to 5.1% in 1H2009.

Net interest income continued showing improvement over the half year passed on the back of recoveries of interest previously suspended; recognition of current and prior years' interest repayments of a significant property loan upon completion of its development project and the consolidation effects of Thailand's income. Fee and commission income also performed well due to higher insurance profit commission earned from reinsurance Quota Share Treaty as well as factoring fees from the Company's Thai operations. There were also reduced allowances for loan losses and impairment of investments over 1H2010 due to there being zero investment impairments recorded. This was partly offset by higher specific allowances for loan losses of S\$2.6m.

We noted that the robust 1H2010 financial performance by IFS was nonetheless affected by lower net earned premium revenue due to a lower net write back of change in provision for unexpired risks. Aside, investment income was also lower as a result of: 1) fair value losses on a derivative hedging for an available for sale quoted investment; 2) 28% increase in half year operating expenses.

**Figure 1: IFS 2Q2010 YoY financial performance**

S\$m	2Q10	2Q09
Net Int Income	5.0	3.3
Net Earned Prem	1.1	1.8
Fee and Comm	2.5	1.9
Inv & Other Income	0.4	0.6
<b>Income Bef Op Exp</b>	<b>9.1</b>	<b>7.6</b>
Operating Exp	(4.8)	(4.3)
Net Claims Incurred	(0.2)	(0.001)
Allowances & Impair	(1.1)	(1.5)
<b>Profit Before Tax</b>	<b>2.8</b>	<b>2.6</b>
<b>Profit After Tax</b>	<b>2.0</b>	<b>2.1</b>

Source: Company, SIAS Research

**Figure 1: IFS 1H2010 YoY financial performance**

S\$m	2H10	2H09
Net Int Income	10.6	5.8
Net Earned Prem	1.9	3.3
Fee and Comm	4.1	3.1
Inv & Other Income	0.4	1.4
<b>Income Bef Op Exp</b>	<b>17.0</b>	<b>13.6</b>
Operating Exp	(9.0)	(7.0)
Net Claims Incurred	(0.3)	(0.6)
Allowances & Impair	(2.6)	(3.5)
<b>Profit Before Tax</b>	<b>5.1</b>	<b>3.7</b>
<b>Profit After Tax</b>	<b>3.5</b>	<b>2.9</b>

Source: Company, SIAS Research

### Regional And Other Ops Performance Expected

**Regional And Other Operations:** IFS's regional operations in Indonesia, Malaysia and Thailand put in mixed half year financial performances. That said, their results were in line with our prior estimates. The Company's Indonesian business posted a lower 1H2010 net profit YoY on the back of higher allowances on loans and factoring receivables. IFS's Malaysia business recorded a lower net loss for the first half of 2010 due primarily to higher factoring income that was partly offset by higher impairment of loans and factoring receivables. For the Company's Thai operations, which was listed on the Stock Exchange of Thailand on 10<sup>th</sup> August 2010, while 1H2010 operating revenue was higher as a result of increased factoring volume and favorable interest margins; first half 2010 results were marginally lower YoY.

This can be attributed to higher operating expenses and allowances for loan losses compared to a reversal of allowances for loan losses in the first half of 2009. Collectively, IFS's regional operations recorded profit after tax of S\$1.2m for 1H2010 – a YoY decrease of 13.1%. IFS's ECICS operations also reported a lower YoY profit number of S\$1.8m (-27.4%) for 1H2010 on the back of a decline in net earned premium revenue from the lower write back of a change in provision for unexpired risk to income as well as higher operating expenses. This was offset by increased commission and investment income as well as lower net claims incurred.

### IFS Value Proposition

**The Bottom Line:** We are encouraged by management's frank and candid responses to questions during our attendance at the Company's results brief. Going forward, we understand that IFS will continue to expand its overall operations. Management expects the insurance business to benefit from increased trade volume as well as private sector projects for its credit insurance and bond activities. The listing of IFS Capital (Thailand) is also expected to enhance the Company's profile in Thailand and strengthen IFS's financial position to take advantage of growth in the Thai economy.

**Figure 3: IFS 1H2010 key financial ratios**

	HY 2010	HY 2009	+/(-) %
Return on Ave Equity - After Tax (%)	2.7	2.4	12.5
Return on Total Assets (%)	1.0	0.7	42.9
Earnings per Share (cts) *	2.3	1.9	21.1
Net Asset Value per Share (cts) *	86.6	82.1	5.5
Leverage (times)	1.6	2.2	(27.3)
Gearing (times)	1.4	1.9	(26.3)

\* Adjusted for Bonus Issue 1 for 10 on 5 May 2010

Source: Company

**Figure 4: IFS regional operations 1H2010 YoY financial performance**

(S\$'000)	HY 2010	HY 2009	+/(-) %
Net Interest Income	4,024	2,079	93.6
Non-Interest Income	1,731	832	108.1
Operating Expenses	(2,979)	(1,594)	86.9
Operating Profit before Allowances	2,776	1,317	110.8
Allowances for Loan Losses	(672)	(8)	NM
Profit before Tax	2,104	1,309	60.7
Share of Results of Associates	-	474	(100.0)
Tax	(908)	(407)	123.1
Profit after Tax (@100%)	1,196	1,376	(13.1)
Group's Share	1,167	1,361	(14.3)

Source: Company

Despite a forecasted global economic slowdown, IFS expects the region's resilience to hold strong with economic activity moderating as opposed to plunging.

Based on revised estimates released by the Ministry of Trade and Industry, Singapore's economy is expected to expand by a substantial 13% to 15% in 2010. This statistic bodes particularly well for IFS as financial plays are inextricably linked to the performance of the general economy and their respective country's GDP. In addition, with no major re-rating downwards in economic growth forecasts for emerging Asia, we foresee more upside than downside to current industry valuations moving ahead. IFS's NAV as at end-1H2010 stands at S\$0.866. IFS's non-bank financial comparables trade at an average Price-To-Book value of 0.83x. This values IFS at \$0.719. Therefore, we maintain our call on the Company and adjust our valuation to S\$0.720. Recommendation: **Invest**

Figure 5: IFS one year stock price-volume movement



Source: Bloomberg

Industry Comparatives					
S/N	Company	Ticker	Price (\$\$)	Price Book (x)	Price Earnings (x)
1	Sing Investments & Finance	SIF SP	1.470	0.77	2.96
2	Singapura Finance	SBD SP	1.570	0.79	20.34
3	Hong Leong Finance	HLF SP	3.090	0.93	5.59
4	Singapore Reinsurance Corp	SRE SP	0.265	0.81	10.97
			<b>Average</b>	<b>0.83</b>	<b>9.97</b>

Source: Bloomberg

### Summary Financial Table

Dec YE	FY07A	FY08A	FY09A
<b>Profit &amp; Loss (\$m)</b>			
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
<b>Balance Sheet (\$m)</b>			
	<b>FY07A</b>	<b>FY08A</b>	<b>FY09A</b>
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
<b>Cash Flow (\$m)</b>			
	<b>FY07A</b>	<b>FY08A</b>	<b>FY09A</b>
Operating Cash Flow	14	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 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.

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**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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