



# IFS Capital

(IFS SP/I49.SI)

## Win-Win for IFS and SMEs

Joel Ng / 65 6202 1192 / [joel.ng@kgi.com](mailto:joel.ng@kgi.com)

- **A big turnaround.** 4Q19 PATMI declined to S\$1.1mn from S\$16.2mn in 4Q18. However, this was due to the one-off gains from the S\$16.3mn sale of its Suntec office in the prior year. FY20 PBT excluding one-off items more than doubled to S\$13.4mn from S\$6.3mn in FY19, signalling the ongoing success of its turnaround story.
- **Lending business shines.** Operations continued to improve for its lending business to SMEs, with net interest income rising 15% YoY to S\$6.6mn. Meanwhile, non-interest income declined 78% YoY to S\$4.4mn due to the reduction of its insurance segment and the absence of one-off gains.
- **Bigger asset base.** Its total gross lending assets - which include factoring receivables and asset-based loans - increased 4% YoY to around S\$471mn as at end-4Q19.
- **Maintain OUTPERFORM.** Our fair value of S\$0.30 is based on 0.6x 2020F BVPS. IFS raised FY20 final dividend to 0.78 Sing cents from 0.55 Sing cents in the prior year.

Financials & Key Operating Statistics					
YE Dec SGD mn	2018A	2019A	2020F	2021F	2022F
Net Interest Income	20.5	25.3	27.5	29.2	31.5
PATMI	18.0	9.4	8.5	9.3	10.1
Net Profit Growth	820%	-48%	-9%	9%	9%
EPS (SGD cents)	4.8	2.5	2.3	2.5	2.7
Return on Equity	11.9%	5.8%	4.9%	5.1%	5.3%
Return on Assets	7.8%	3.5%	2.8%	3.1%	3.3%
NAV (SGD Cents)	45.0	47.6	49.9	52.3	55.0
P/B(x)	0.5	0.5	0.5	0.4	0.4
P/E(x)	4.8	9.2	10.2	9.3	8.6
Wgt. Avg. shares, diluted	376	376	376	376	376
DPS (SGD Cents)	0.55	0.78	0.79	0.87	0.94
Div Yield (%)	2.4	3.4	3.4	3.8	4.1

Source: Company Data, KGI Research

**Good momentum in SME lending business.** Net interest income in 4Q19 rose 14.6% YoY to S\$6.46n, contributed mainly by the higher business volume in its asset-based lending business. IFS grew its asset-based loan book to S\$253mn as at end-4Q19, an increase from S\$226mn as at end-4Q18. Net interest margin (NIM) improved to 7.2% in 4Q19, an increase YoY and QoQ from 6.8% in 4Q18 and 6.5% in 3Q18.

Figure 1: Net interest income (YoY and QoQ)

Net interest income (S\$'000)	4Q19	4Q18	YoY %	3Q19	QoQ %
Factoring	3,605	3,548	1.6%	3,803	(5.2%)
Loans, advances, hire purchases	4,743	4,442	6.8%	4,558	4.1%
<b>Interest income</b>	<b>8,348</b>	<b>7,990</b>	<b>4.5%</b>	<b>8,361</b>	<b>(0.2%)</b>
Interest expense	(1,720)	(2,205)	(22.0%)	(1,972)	(12.8%)
<b>Net interest income</b>	<b>6,628</b>	<b>5,785</b>	<b>14.6%</b>	<b>6,389</b>	<b>3.7%</b>

Source: Company data, KGI Research

**Non-interest income.** 4Q19 non-interest income fell 78% YoY to S\$4.4mn mainly due to lower insurance business and the absence of a one-off gain from the sale of its Suntec office in 4Q18. For the full-year, non-interest income rose 21% YoY if we were to exclude the gain from the property sale. Meanwhile, the turnaround of its insurance business is still ongoing but we do note that operating income under this segment improved on a QoQ basis while flat YoQ.

### Outperform - Maintained

Price as of 10 Mar 20 (SGD)	0.20	<b>Performance (Absolute)</b>	
12M TP (\$)	0.30	1 Month (%)	-13.0
Previous TP (\$)	0.30	3 Month (%)	-9.1
Upside (%)	49.6	12 Month (%)	-4.6
<b>Trading data</b>		<b>Perf. vs STI Index (Red)</b>	
Mkt Cap (\$mn)	75		
Issued Shares (mn)	376		
Vol - 3M Daily avg (mn)	0.1		
Val - 3M Daily avg (\$mn)	0.0		
Free Float (%)	39.7%		
<b>Major Shareholders</b>		<b>Previous Recommendations</b>	
Lim Hua Min	60.1%	26-Aug-19	OP S\$0.30
Dymon Asia Private Equity	6.9%	2-Jan-19	OP S\$0.29
		17-Oct-18	OP S\$0.29

**Economic slowdown; pick up in later part of 2020.** Growth in Southeast Asia - especially in Thailand and Singapore - is expected to slow sharply in 1H20 as trade, tourism and investments are impacted by the coronavirus outbreak. On a positive note, central banks globally have shifted to a mixture of monetary and fiscal stimulus in order to support growth, eventually leading to a pickup in the later part of 2020 for most countries.

Against the backdrop of uncertainty, Asia is still the world's fastest growing region, contributing more than two-thirds to global economic growth. The Regional Comprehensive Economic Partnership (RCEP) - which aims to link between 2-3 billion people - will progressively lower tariffs and promote trade among participating countries when it is expected to be concluded next year. This is positive for IFS in the medium-long term as the company is well-positioned to support SME's business expansion plans in the region.

Table 1: IFS operates in 4 out of the 10 RCEP ASEAN members

Countries in RCEP	IFS business	2019 Gross operating Income (% of total)
Singapore	Lending and Insurance	51%
Thailand	Lending and Insurance	37%
Malaysia	Lending	6%
Indonesia	Lending	6%

Source: Company data, KGI Research

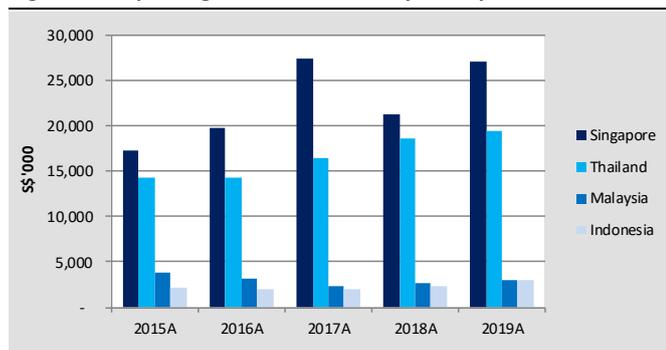
**Valuation & Action:** We maintain our OUTPERFORM recommendation on IFS, driven by strong, stable growth in its lending business. We assign a target price of \$0.30 to IFS, based on 0.6x FY20F BVPS.

**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.

## Economic and industry trends

**ASEAN growth story.** IFS derives around half of its operating income from Singapore and the remainder from other countries in Southeast Asia including Thailand (42%), Malaysia (6%) and Indonesia (5%). 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 2: 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 3: IFS's total assets breakdown by country

Assets (S\$'000)	2017	2018	2019
Singapore	215,420	277,590	287,897
Thailand	175,177	186,621	182,393
Malaysia	9,747	22,794	15,212
Indonesia	10,041	18,916	21,160

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 total workforce.

## ASEAN economic outlook in 2020

ASEAN is expected to be one of the most impacted regions from China's slowdown due to the COVID-19 outbreak, mainly from the knock-on impact from the disruption to industrial production and tourism-related activities. Regional economies such as Singapore, Thailand and Malaysia are particularly vulnerable given their significant supply-chain links to China.

**Singapore's** GDP growth is expected to slow down to between -0.50% to 1.5% in 2020 due to weakness in manufacturing, tourism and trade-related services. The Ministry of Trade and Industry (MIT) expects growth to come in at around 0.5%. This is on the back of a slowing economy in 2019 when Singapore's economy expanded by only 0.7%, lower than 3.4% in 2018.

Although sectors such as tourism (hotels, cruise operators), transport (airlines, taxis) and retail (restaurants, shopping malls) have led the decline in business, there are pockets of growth expected in 2020. MTI flags out the construction and information & communications sectors as areas of relative strength in Singapore's economy.

**Thailand.** Our Thailand economist expects a deceleration in the country's 2020 GDP growth to 2.0% as the coronavirus outbreak hits tourism while the draught weighs on private consumption. Furthermore, Thailand's economy is much more vulnerable to a slowdown in China's demand, given that China is Thailand's largest export market, with a near 17% share, compared to just 8% back during the SARS epidemic in 2002.

## Valuation

We maintain our Outperform recommendation on IFS in view of its rapid recovery, driven by growth in its factoring business. We assign a target price of S\$0.30 to IFS Capital, based on a FY20F P/B of 0.6x and a FY20F BVPS of S\$0.50. 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.

**Lack of comparable peers.** There is a lack of direct comparable 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' 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 0.6x P/B against single-digit ROEs.

## Key assumptions for our revenue/earnings model

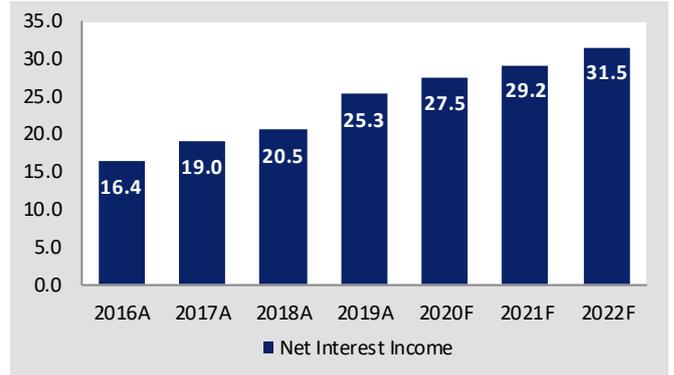
- Factoring and lending business to benefit from broad-based economic growth in Southeast Asia and from a better regulatory environment.
- Growth for factoring and lending business in Singapore to remain strong. Singapore's total factoring volume grew by a CAGR of 32% from 2010 to 2016 and we expect IFS to continue benefitting from this trend.
- Thailand is the largest significant growth driver and the most profitable entity in the IFS group. In 2018, operating income and assets in the country increased by 13% YoY and 7% respectively. 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 2019 but their contributions to the group are expected to remain minimal 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 and 2018. Going forward, credit financing segment will drive revenues while insurance segment to remain flat as the new management for ECICS Limited continues to turn it around.

**Figure 4: Company profile**

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.

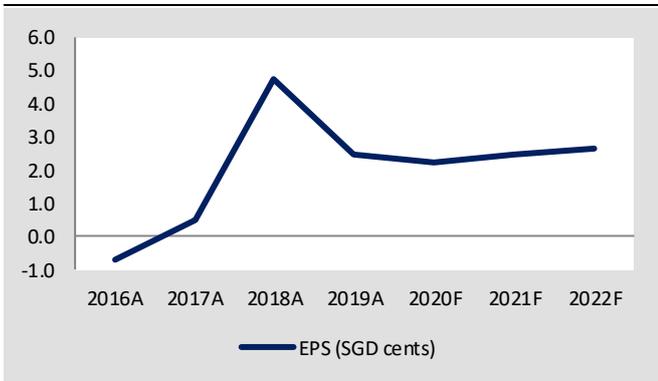
Source: Company data, KGI Research

**Figure 5: Net interest income (\$S'000)**



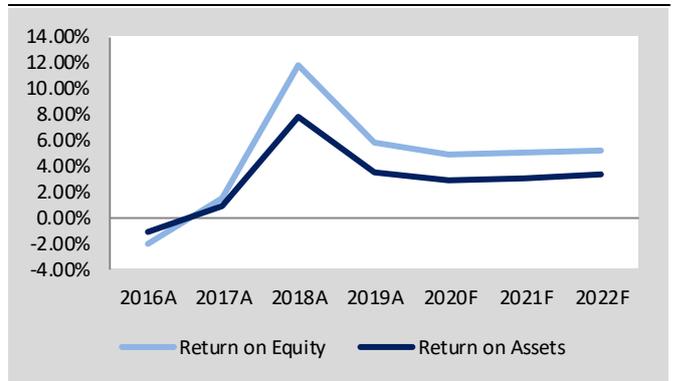
Source: Company data, KGI Research

**Figure 6: EPS projections**



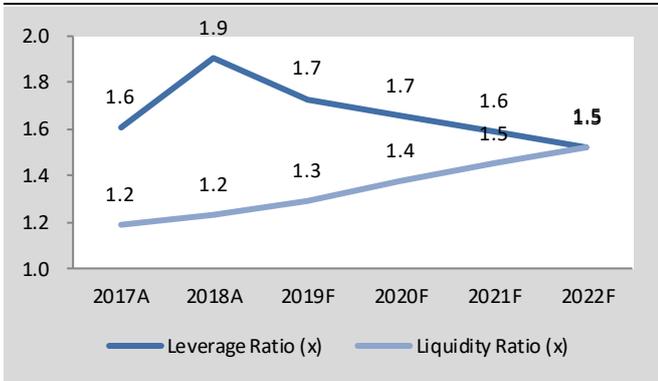
Source: Company data, KGI Research

**Figure 7: ROE vs ROA**



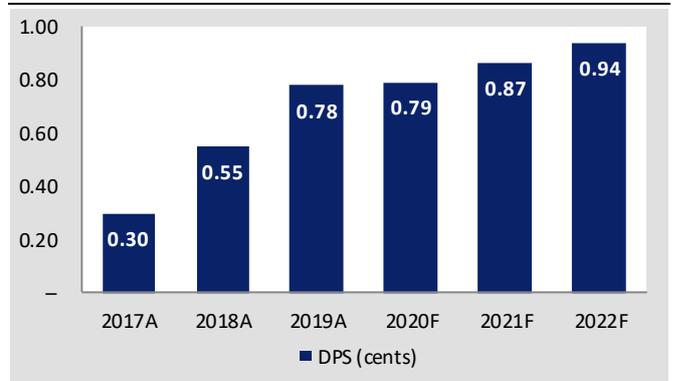
Source: Company data, KGI Research

**Figure 8: Financial ratios**



Source: Company data, KGI Research

**Figure 9: Dividend**



Source: Company data, KGI Research

## Financials

YE December

INCOME STATEMENT (SGD mn)	2017A	2018A	2019F	2020F	2021F	2022F
Interest Income	24.6	28.1	33.0	36.3	38.9	41.6
Interest Expense	(5.6)	(7.6)	(7.7)	(8.9)	(9.7)	(10.1)
<b>Net Interest Income</b>	<b>19.0</b>	<b>20.5</b>	<b>25.3</b>	<b>27.5</b>	<b>29.2</b>	<b>31.5</b>
<b>Non Interest Income</b>	<b>24.0</b>	<b>33.4</b>	<b>21.3</b>	<b>15.8</b>	<b>16.9</b>	<b>17.5</b>
Total Other Income	0.5	16.8	1.5	0.0	0.0	0.0
<b>Gross Operating Income</b>	<b>48.2</b>	<b>44.8</b>	<b>52.8</b>	<b>52.1</b>	<b>55.8</b>	<b>59.1</b>
<b>Operating Expenses</b>	<b>(23.0)</b>	<b>(23.0)</b>	<b>(24.2)</b>	<b>(21.7)</b>	<b>(23.1)</b>	<b>(24.6)</b>
Depreciation and amortisation	1.58	1.44	1.52	1.77	1.84	2.00
Profit/(Loss) after Tax	3.6	19.9	12.1	10.6	11.6	12.6
Profit/(Loss) attributable to Owners of the Company	2.0	18.0	9.4	8.5	9.3	10.1
BALANCE SHEET (SGD mn)	2017A	2018A	2019F	2020F	2021F	2022F
Number of Shares	376.0	376.0	376.0	376.0	376.0	376.0
Issued Share Capital	137.3	137.3	137.3	137.3	137.3	137.3
Shareholders Funds	152.3	169.2	179.0	187.5	196.8	206.8
<b>Total Assets</b>	<b>411.0</b>	<b>506.5</b>	<b>506.7</b>	<b>531.4</b>	<b>556.2</b>	<b>579.2</b>
<b>Total Liabilities</b>	<b>244.7</b>	<b>321.9</b>	<b>309.8</b>	<b>310.5</b>	<b>312.9</b>	<b>315.4</b>
Cash & Equivalents	35.1	48.7	37.2	60.2	83.0	103.3
CASH FLOW STATEMENT (SGD mn)	2017A	2018A	2019F	2020F	2021F	2022F
Cash from operations	(17.1)	(97.5)	(7.0)	10.5	9.5	7.6
Cash from investing	11.4	41.3	15.6	13.9	14.7	14.3
Cash from financing	6.9	69.6	(20.7)	(1.4)	(1.5)	(1.5)
<b>Net increase in cash</b>	<b>1.2</b>	<b>13.4</b>	<b>(12.1)</b>	<b>23.0</b>	<b>22.7</b>	<b>20.4</b>
Beginning cash	33.7	35.1	48.7	37.2	60.2	83.0
Ending Cash	35.1	48.7	37.2	60.2	83.0	103.3
KEY RATIOS	2017A	2018A	2019F	2020F	2021F	2022F
NAV per share (SGD Cents)	40.5	45.0	47.6	49.9	52.3	55.0
Price/NAV (x)	0.56	0.50	0.47	0.45	0.43	0.41
<b>Profitability (%)</b>						
Return on Average Equity	1.55%	11.86%	5.84%	4.89%	5.07%	5.26%
Return on Average Asset	0.81%	7.80%	3.48%	2.81%	3.10%	3.35%
<b>Financial Structure</b>						
Leverage Ratio (x)	1.6	1.9	1.7	1.7	1.6	1.5
Liquidity Ratio (x)	1.2	1.2	1.3	1.4	1.5	1.5
Total Liabilities/Total Assets (%)	59.54%	63.56%	61.13%	58.42%	56.26%	54.46%

Source: Company data, KGI Research

KGI's Ratings	Rating	Definition
	<b>Outperform (OP)</b>	We take a positive view on the stock. The stock is expected to outperform the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
	<b>Neutral (N)</b>	We take a neutral view on the stock. The stock is expected to perform in line with the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
	<b>Underperform (U)</b>	We take a negative view on the stock. The stock is expected to underperform the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
	<b>Not Rated (NR)</b>	The stock is not rated by KGI Securities.
	<b>Restricted (R)</b>	KGI policy and/or applicable law regulations preclude certain types of communications, including an investment recommendation, during the course of KGI's engagement in an investment banking transaction and in certain other circumstances.

**Disclaimer** This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities. This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. You should independently evaluate particular investments and consult an independent financial adviser before dealing in any securities mentioned in this report.

This report is confidential. This report may not be published, circulated, reproduced or distributed and/or redistributed in whole or in part by any recipient of this report to any other person without the prior written consent of KGI Securities. This report is not intended for distribution and/or redistribution, publication to or use by any person in any jurisdiction outside Singapore or any other jurisdiction as KGI Securities may determine in its absolute discretion, where the distribution, publication or use of this report would be contrary to applicable law or would subject KGI Securities and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by KGI Securities to be reliable. However, KGI Securities makes no representation as to the accuracy or completeness of such sources or the Information and KGI Securities accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. KGI Securities and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of KGI Securities and its connected persons are subject to change without notice. KGI Securities reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) KGI Securities, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) KGI Securities, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; and (3) the officers, employees and representatives of KGI Securities may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business".)

However, as of the date of this report, neither KGI Securities nor its representative(s) who produced this report (each a "research analyst"), has any proprietary position or material interest in, and KGI Securities does not make any market in, the securities which are recommended in this report.

Each research analyst of KGI Securities who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of KGI Securities or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including KGI Securities' total revenues, a portion of which are generated from KGI Securities' business of dealing in securities.

Copyright 2020. KGI Securities (Singapore) Pte. Ltd. All rights reserved.