RESULTS UPDATE

Financials ▪ Singapore

IFS Capital

(IFS SP/I49.SI)

Healthy growth in SME lending business

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- 3Q19 PATMI rose to S$3.0mn, an increase from S$1.3mn reported in the prior year period.
- Operations continued to improve for its lending business, with net interest income growing 21.6% YoY and 2.4% QoQ to S$6.4mn. Meanwhile, non-interest income jumped 62% YoY to S$6.7mn mainly due an S$2.9mn contribution from the disposal of an investment.
- Its gross lending assets - which include factoring receivables and asset-based loans - remained stable at around S$386mn as at end-3Q19.
- We maintain our OUTPERFORM recommendation on IFS. Our fair value of S$0.30 is based on 0.6x 2020F BVPS.

Financials & Key Operating Statistics

YE Dec SGD mn	2017	2018	2019F	2020F	2021F
Net Interest Income	19.0	20.5	24.2	26.9	28.4
PATMI	2.0	18.0	8.3	8.5	9.3
Net Profit Growth		820%	-54%	3%	9%
EPS (SGD cents)	0.5	4.8	2.2	2.3	2.5
Return on Average Equity	1.5%	11.9%	5.2%	4.9%	5.1%
Return on Average Assets	0.8%	7.8%	3.1%	2.8%	3.0%
NAV (SGD Cents)	40.5	45.0	47.2	49.5	51.9
P/B(x)	0.6	0.5	0.5	0.5	0.4
P/E(x)	44.2	4.8	10.4	10.2	9.3
Wgt. Avg. shares, diluted	376	376	376	376	376
DPS (SGD Cents)	0.3	0.6	0.4	0.5	0.5
Div Yield (%)	1.3	2.4	1.9	2.0	2.2

Source: Company Data, KGI Research

Good momentum in SME lending business. Net interest income in 3Q19 rose 21.6% YoY to S$6.4mn, contributed mainly by the higher business volume in its asset-based lending business. IFS grew its asset-based loan book to S$231mn as at end-3Q19, an increase from S$193mn as at end-3Q18. Net interest margin (NIM) improved slightly from 6.48% in 3Q18 to 6.85% in 3Q19.

Figure 1: Net interest income (YoY and QoQ)

Net interest income (S$'000)	3Q19	3Q18	YoY %	2Q19	QoQ %
Factoring	3,803	3,676	3.5%	3,677	3.4%
Loans, advances, hire purchase	4,558	3,690	23.5%	4,596	(0.8%)
Interest income	**8,361**	**7,366**	**13.5%**	**8,273**	**1.1%**
Interest expense	(1,972)	(2,110)	(6.5%)	(2,035)	(3.1%)
Net interest income	**6,389**	**5,256**	**21.6%**	**6,238**	**2.4%**

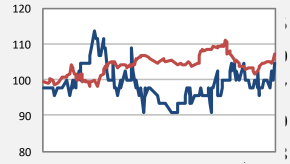
Source: Company data, KGI Research

Non-interest income. Non-interest income in 3Q19 increased 62% YoY to S$6.7mn, mainly due to fair value gain of unquoted equity securities. IFS recorded a S$2.9mn gain from the disposal of an investment in the quarter. Excluding the one-off gain, IFS would have reported a S$0.7mn profit instead, lower YoY on the back of higher net claims incurred under the insurance segment.

Economic slowdown; pick up in later part of 2020. Growth in Southeast Asia – especially in Thailand and Singapore - is expected to slow sharply going into 1H20 as exports and investments are impacted by the trade tensions between the US and China. On a positive note, central banks in the region have shifted to monetary easing in order to support growth; this should eventually lead to a pickup in 2H20 for most countries. Singapore's GDP growth is expected to pick up to 1.2% in 2020 from 0.6% in 2019, while Thailand should see growth closer to around 3.0% in 2019 and 2020, according to forecasts by the OECD Development Centre.

Outperform - Maintained

Price as of 13 Nov 19 (SGD)	0.23	**Performance (Absolute)**	
12M TP ($)	0.30	1 Month (%)	4.5
Previous TP ($)	0.30	3 Month (%)	7.0
Upside (%)	29.0	12 Month (%)	9.7
Trading data		**Perf. vs STI Index (Red)**	
Mkt Cap ($mn)	87		
Issued Shares (mn)	376		
Vol - 3M Daily avg (mn)	0.0		
Val - 3M Daily avg ($mn)	0.0		
Free Float (%)	39.7%		
Major Shareholders		**Previous Recommendations**	
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



Even with the slowdown, Asia is still the world's fastest growing region, contributing more than two-thirds to global 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	2018 Gross operating Income (% of total)
Singapore	Lending and Insurance	31.3% (Lending) 16.2% (Insurance)
Thailand	Lending and Insurance	41.5%
Malaysia	Lending	5.8%
Indonesia	Lending	5.2%

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.

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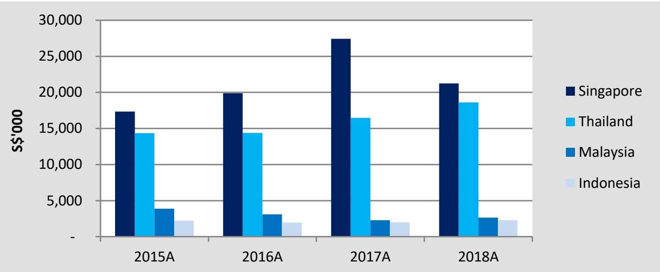
Regional growth

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)	2015	2016	2017	2018
Singapore	235,210	231,208	215,420	277,590
Thailand	140,251	154,659	175,177	186,621
Malaysia	12,099	10,620	9,747	22,794
Indonesia	5,146	8,317	10,041	18,916

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 4: 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

Slowing down in ASEAN but still healthy growth. Growth is expected to slow down in Southeast Asia, due to the trade tensions between the US and China. Forecasts by the OECD Development Centre shows ASEAN's growth to slow down to 4.6% in 2019 but recover slightly to 4.7% in 2020 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.

Figure 5: Selected ASEAN real GDP growth

Annual percentage change	2018	2019	2020	Changes from previous forecast (July 2019)		2020-24	2013-17
ASEAN-5 countries				2019	2020		
Indonesia	5.2	5.0	5.0	↓	↓	5.1	5.1
Malaysia	4.7	4.4	4.4	–	↓	4.4	5.2
Philippines	6.2	5.6	6.0	↓	↓	6.2	6.6
Thailand	4.1	2.7	3.0	↓	↓	3.2	2.8
Viet Nam	7.1	6.8	6.6	↑	–	6.5	6.2
Brunei Darussalam and Singapore							
Brunei Darussalam	0.1	2.0	1.7	↑	↓	1.9	-1.2
Singapore	3.1	0.6	1.2	↓	↓	2.3	3.7

Source: OECD (2019), Economic Outlook for Southeast Asia, China and India 2019 - Update

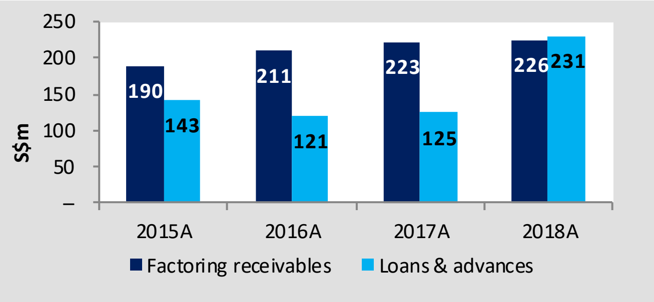
Singapore's GDP growth is expected to slow down to between 0.5-0.6% in 2019 due to weakness in manufacturing and trade-related services. On a positive note, growth may stabilise in 2020 on social and infrastructure spending, which may boost domestic demand.

Thailand's growth is forecasted to drop to around 2.7% and 3.0% in 2019 and 2020, down from 4.1% in 2018, but still an improvement from the 2.8% average between 2013 and 2017. In the short-term, a recovery in the tourism sector and easing fiscal policy should give a boost to demand, and a case can be made that the worst is over for the economy. Exporters have been feeling pressure given the negative impact from the strong baht, which has rallied 6% against the US dollar this year. The Bank of Thailand (BoT) cut its key policy rate to 1.25% this week and we expect another cut again to help ease concerns on the poor outlook of the economy.

Indonesia is among the fastest – together with the Philippines and Vietnam - growing nations in ASEAN. GDP is expected to expand 5.0% in 2019 and 2020 as the country benefits from improvements in investment climate, better fiscal footing and resilient private consumption. Private consumption has been growing at an average of 5.1% in the past 10 years.

Malaysia's medium term economic growth is expected to stabilise at 4.4% from 2019 to 2024, as per estimates by the OECD. The government is pushing ahead with mega infrastructure projects such as the East Coast Rail Link (ECRL), Klang Valley MRT2 and LRT 3, which could lend support to growth in the medium to long term.

Figure 6: 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 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 7: Peer comparison of credit financing firms

Company	Last Price	Market Cap (S$mn)	Return on Equity (%) FY-1	Last FY	P / B (x) Last FY	FY+1	FY+2	Div Yield (%) Last FY	FY+1	Gearing (x) Current
Ifs Capital Ltd	**SGD 0.23**	**87**	**1.3**	**11.2**	**0.6**	**0.5**	**0.5**	**2.4**	**1.9**	**1.7**
Local Credit Financing Firms										
Hong Leong Finance Ltd	SGD 2.67	1,198	5.0	6.5	0.6	-	-	5.9	-	1.2
Sing Investments & Finance	SGD 1.43	225	6.9	6.9	0.6	-	-	4.8	-	1.1
Singapura Finance Ltd	SGD 0.89	141	1.9	3.0	0.6	-	-	4.4	-	1.3
Average			4.6	5.5	0.6	-	-	5.1	-	1.2

Source: Bloomberg, Company Data, KGI Research

Financials

YE December

INCOME STATEMENT (SGD mn)	2017A	2018A	2019F	2020F	2021F
Interest Income	24.6	28.1	32.6	35.9	38.4
Interest Expense	(5.6)	(7.6)	(8.4)	(9.0)	(10.0)
Net Interest Income	**19.0**	**20.5**	**24.2**	**26.9**	**28.4**
Non Interest Income	24.0	33.4	18.4	16.5	17.8
Total Other Income	0.5	16.8	0.0	0.0	0.0
Gross Operating Income	48.2	44.8	51.1	52.4	56.2
Operating Expenses	**(23.0)**	**(23.0)**	**(21.5)**	**(21.7)**	**(23.2)**
Depreciation and amortisation	1.58	1.44	1.88	1.96	2.15
Profit/(Loss) after Tax	3.6	19.9	10.4	10.6	11.6
Profit/(Loss) attributable to Owners of the Company	**2.0**	**18.0**	**8.3**	**8.5**	**9.3**
BALANCE SHEET (SGD mn)	**2017A**	**2018A**	**2019F**	**2020F**	**2021F**
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	152.3	169.2	177.5	186.0	195.2
Total Assets	**411.0**	**506.5**	**530.1**	**549.6**	**568.4**
Total Liabilities	244.7	321.9	325.5	332.8	348.2
Cash & Equivalents	35.1	48.7	65.6	77.2	81.4
CASH FLOW STATEMENT (SGD mn)	**2017A**	**2018A**	**2019F**	**2020F**	**2021F**
Cash from operations	**(17.1)**	**(97.5)**	**5.8**	**0.3**	**(6.9)**
Cash from investing	**11.4**	**41.3**	**11.8**	**12.0**	**11.9**
Cash from financing	**6.9**	**69.6**	**(0.7)**	**(0.7)**	**(0.8)**
Net increase in cash	**1.2**	**13.4**	**16.9**	**11.6**	**4.2**
Beginning cash	33.7	35.1	48.7	65.6	77.2
Ending Cash	35.1	48.7	65.6	77.2	81.4
KEY RATIOS	**2017A**	**2018A**	**2019F**	**2020F**	**2021F**
NAV per share (SGD Cents)	40.5	45.0	47.2	49.5	51.9
Price/NAV (x)	0.52	0.47	0.44	0.42	0.40
Profitability (%)					
Return on Average Equity	1.55%	11.86%	5.15%	4.91%	5.12%
Return on Average Asset	0.81%	7.80%	3.07%	2.76%	2.97%
Financial Structure					
Leverage Ratio (x)	1.6	1.9	1.8	1.8	1.8
Liquidity Ratio (x)	1.2	1.2	1.3	1.3	1.3
Total Liabilities/Total Assets (%)	59.54%	63.56%	61.40%	60.55%	61.25%

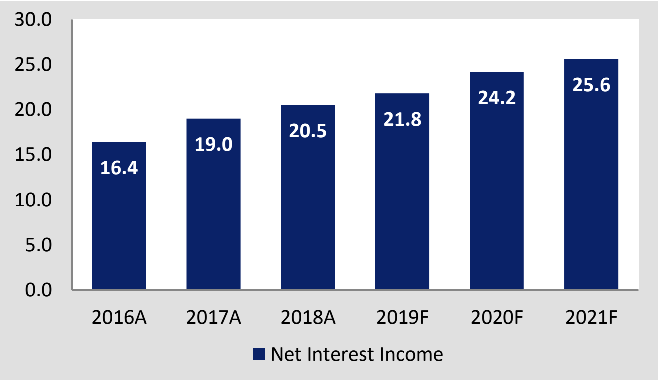
Source: Company data, KGI Research

Figure 8: 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.

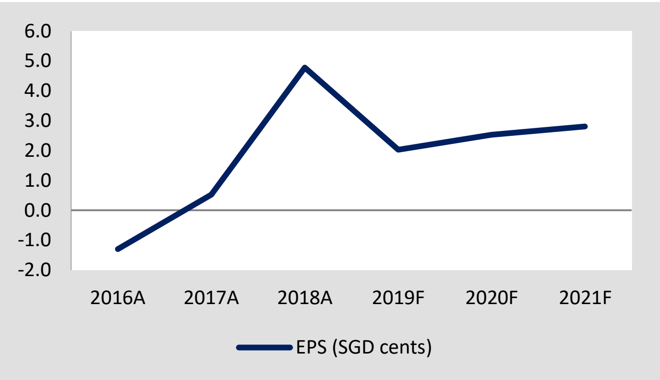
Source: Company data, KGI Research

Figure 9: Net interest income (S$'000)



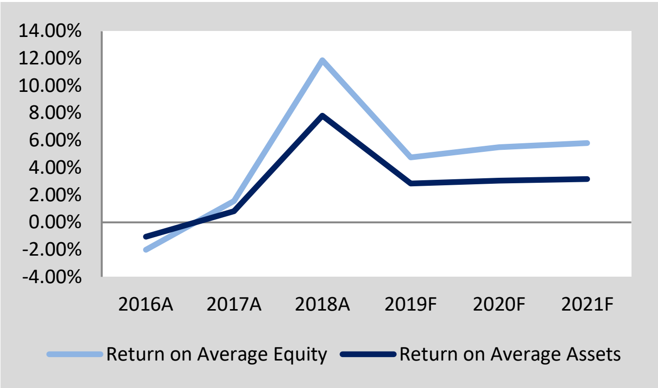
Source: Company data, KGI Research

Figure 10: EPS projections



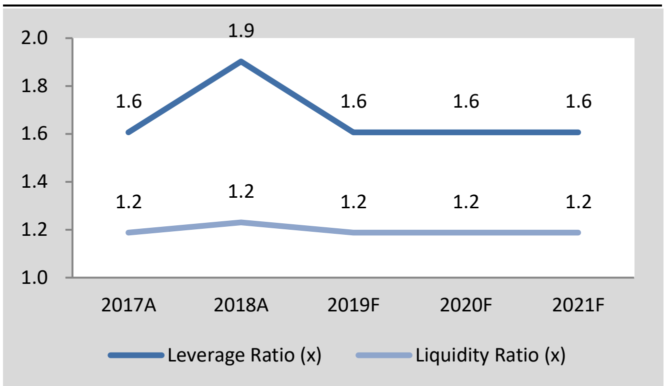
Source: Company data, KGI Research

Figure 11: ROE vs ROA



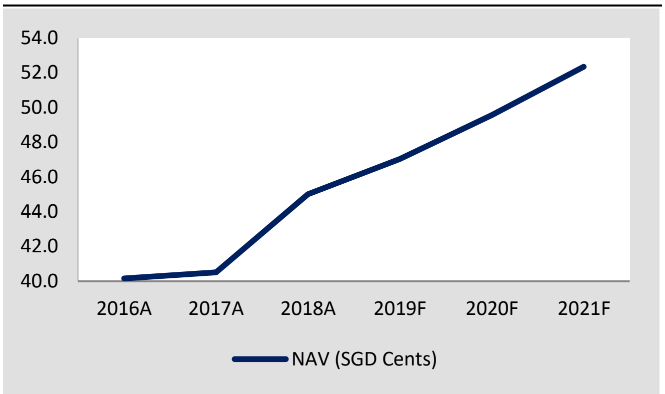
Source: Company data, KGI Research

Figure 12: Financial ratios



Source: Company data, KGI Research

Figure 13: Book value projections



Source: Company data, KGI Research

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