

**GICS:** Financials/Specialized Finance

**Business Summary:** IFS Capital is a financial institution whose core activities evolve around the provision of financial services such as commercial and structured finance, private equity investments as well as credit insurance, bonds and guarantees.

**Country of Incorporation:** Singapore

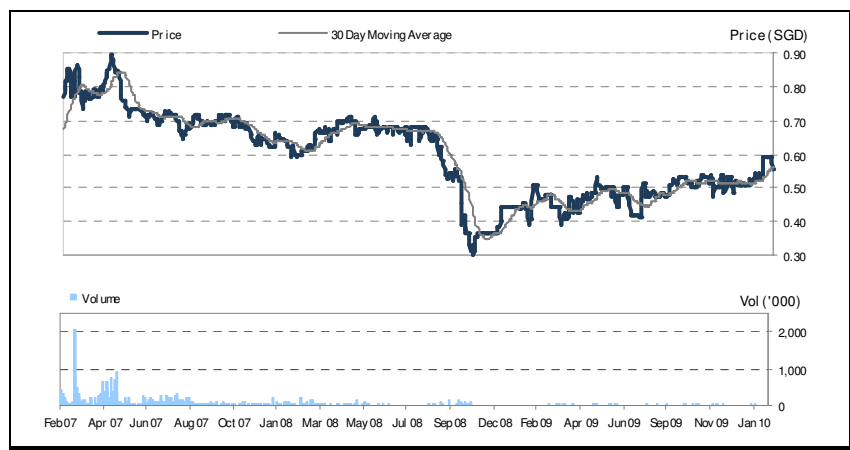
**Head Office Location:** 7 Temasek Boulevard, #10-01 Suntec Tower One, Singapore 038987

**Place of Operations:** Singapore

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**Analyst:** Samuel Seah



## Investment Highlights

- With over 20 years of history, IFS Capital has accumulated a veritable wealth of experience, especially in factoring and credit insurance. The group has essentially carved itself a niche among the SMEs in Singapore, differentiating itself from its peers through innovative product offerings as well as faster response times.
- The group's financials are strong, reflective of prudent management. Leverage of 1.8x end-September 2009 compares well against medium-term note (MTN) covenants of up to 5.5x.
- S&P Economists forecast 2010 to be a year of recovery for the regional economies to which IFS Capital is exposed. Singapore itself should see GDP grow at 3.8%-4.3% on improving consumer confidence and higher economic momentum for the services and manufacturing sectors. IFS Capital is a beneficiary of such growth and we anticipate a pick-up in lending activity.
- We project YoY net profit growth of 27% in 2010 (+45% excluding a one-off negative goodwill write-off in 2009). We project a further 16% recurring net profit growth in 2011 and a 3-year net profit CAGR (2009-2012) of 18%. ROAE, meanwhile, is expected to rise to 6.5% and 7.2% in 2010 and 2011 respectively.

## Key Investment Risks

- The economic environment.** IFS Capital's profitability is dependent primarily on the state of the Singapore economy, especially the health of the local SMEs. The profitability of the group is also dependent on the economies and political situation of the various regional countries to which it is exposed namely Thailand, Malaysia and Indonesia.
- Interest rate fluctuations.** IFS Capital's interest margins are very much susceptible to interest rate movements and also its ability to price these changes into its products.
- Funding availability.** As a non-deposit taking enterprise, not only is funding cost higher than that of its peers, but the group is dependent on the availability of funding from both the capital markets and through borrowings from other financial institutions.

### Key Stock Statistics

52-week Share Price Range (SGD)	0.39 - 0.59
Avg Vol - 12 months ('000 shares)	19.6
Price Performance (%)	
- 1 month	6.7
- 3 month	16.8
- 12 month	9.0
No. of Outstanding Shares (mln)	136.7
Free Float (%)	52.7
Market Cap (SGD mln)	75.9
Enterprise Value (SGD mln)	231.8
Major Shareholders (%)	
Phillip Assets Pte Ltd	40.4
SMRT Road Holdings	6.9

### Per Share Data

FY Dec.	2007	2008	2009E	2010E
Book Value (SG cents)	90.64	88.48	92.90	97.24
Cash Flow (SG cents)	10.5	6.5	5.5	6.9
Reported Earnings (SG cents)	9.8	5.9	4.9	6.2
Dividend (SG cents)	5.7	1.8	1.5	1.9
Payout Ratio (%)	55.2	31.0	35.5	30.0
PER (x)	5.7	9.5	11.4	9.0
P/Cash Flow (x)	5.3	8.5	10.0	8.1
P/Book Value (x)	0.6	0.6	0.6	0.6
Dividend Yield (%)	10.2	3.3	2.7	3.3
ROE (%)	10.7	6.5	4.7	6.5
Net Gearing (%)	183.3	144.9	123.2	136.4

All required disclosures and analyst certification appear on the last two pages of this report. Additional information is available upon request.

**Background**

With over 20 years of experience, Singapore-based IFS Capital is an established financial institution whose core activities evolve around the provision of financial services such as commercial and structured finance, private equity investments as well as credit insurance, bonds and guarantees.

Over the years, the group has carved its niche among the small- to medium-sized enterprises (SMEs) which form the bulk of its clientele base.

IFS Capital's history dates back to 1987 when it was incorporated as International Factors (Singapore) Pte Ltd to undertake factoring and other financing services. Back then, it was a wholly-owned subsidiary of Export Credit Insurance Corporation of Singapore Ltd (ECICS).

On April 28, 2003, it acquired the credit insurance and guarantee business of ECICS Credit Insurance Ltd and ECICS Credit and Guarantee Company (Singapore) Ltd. IFS Capital was listed on the Mainboard of the Singapore Exchange on July 22, 1993.

2005 and 2006 were years of regional expansion for the group. In 2005, IFS acquired a 10% stake in Advance Finance, a Thai-based finance company, while increasing its stake in its Indonesian associate PT Niaga International Factors (later renamed PT IFS Capital Indonesia) to 85%.

In 2006, it incorporated IFS Capital (Malaysia) to provide factoring, leasing and hire purchase services, as well as an associate company in Thailand - IFS Capital Holdings (Thailand).

ECICS aside, IFS Capital's operations in Singapore do not come under the purview of the Monetary Authority of Singapore (MAS) and it is a non-deposit taking entity. ECICS, meanwhile, is regulated by the MAS and it is governed by the Insurance Act Chapter 142 and the Insurance Regulations.

IFS Capital's largest shareholder is Phillip Assets Pte Ltd with a 40.4% stake. SMRT Road Holdings (which in turn is owned by Temasek Holdings) is the group's second largest shareholder with a 6.86% stake.

**Board of Directors**

Name	Title	Date of Appointment as Director
Lim Hua Min	Chairman	May 2003
Lee Soon Kie	Group CEO	March 2003
Gabriel Teo Chen Thye	Director	November 1999
Lim How Teck	Director	June 2000
Manu Bhaskaran	Director	February 2004
Kwah Thiam Hock	Director	May 1987

Source: Company data

IFS Capital's Chairman Mr Lim Hua Min is also the group's single largest shareholder, by virtue of his interest in Phillip Assets Pte Ltd, which is privately owned. Mr Lim is also founder, Executive Chairman and major shareholder of the PhillipCapital Group of Companies.

Daily operations at IFS Capital are the purview of Mr Lee Soon Kie, Group Chief Executive Officer. Prior to joining IFS Capital, Mr Lee was a senior executive at the PhillipCapital Group, in charge of M&As and debt capital market operations. He held various senior positions at Schroders before moving to PhillipCapital. Mr Lee holds a BA degree from the National University of Singapore and a Master of Science degree in Computer Science from the University of Wales, Aberystwyth.

**Board Independence**

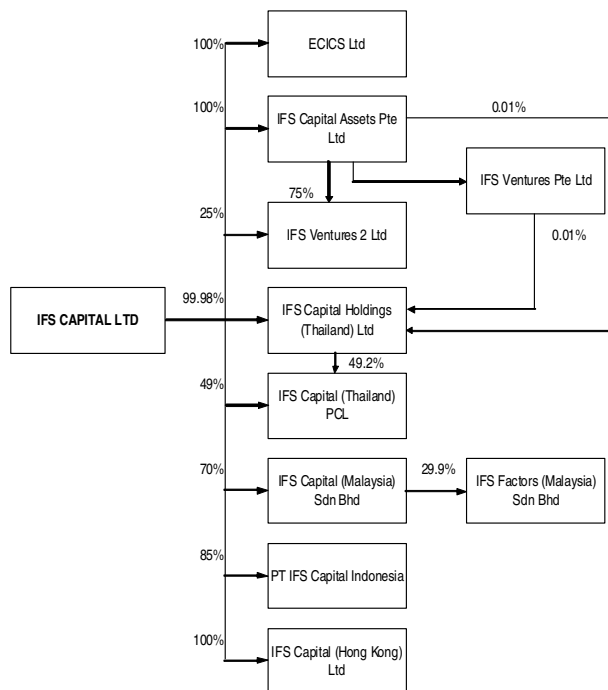
We believe IFS Capital's Board of Directors to be sufficiently independent. There is a clear separation between the Chairman (who is non-executive, non-independent) and CEO roles, while of the other four directors, three are independent (Kwah Thiam Hock is non-executive, non-independent). The Audit Committee comprises three independent directors, as does the Executive Resource and Compensation Committee.

**Key Management**

Name	Title	Date of Appointment
Lim Mui Ling	Group CFO	January 2007
Chionh Yi Chian	GM, Risk Management/Legal, Secretariat & Compliance	June 2004
Teoh Chun Mooi	GM, Operations	August 2005
Chua Chye Seng	GM, Business Development	January 2009
Serene Lim Gek Luang	Assistant GM, Business Development	March 2005
Phyllis Chiu Yin Wah	Assistant GM, Credit Risk Mgt	January 2008
Lua Too Swee	CEO, ECICS	February 2009
Jean Phoon Yook Seen	GM, Operations, ECICS	July 2008
Tan Ley Yan	CEO, IFS Capital (Thailand)	February 2007
Dani Firmansjah	CEO, PT IFS Capital Indonesia	August 2006
Katrina bt Ab Rahman	GM, IFS Capital (Malaysia)	August 2006

Source: Company data

**Corporate Structure**

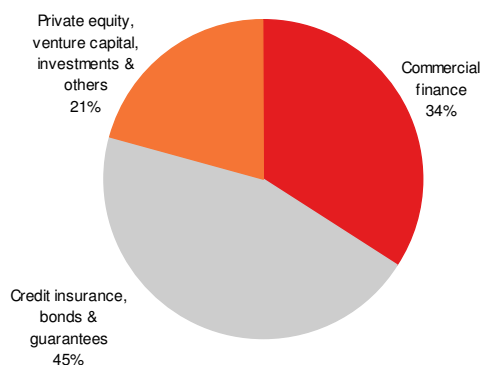


Source: Company data

## Business Segments / Key Revenue Streams

IFS Capital's principal activities are the provision of: (i) commercial finance services; (ii) credit insurance, bonds & guarantees and (iii) other financial solutions.

### Segmental Breakdown – 2008 Operating Income (SGD34.27 mln)



Source: Company data

Commercial finance services broadly encapsulate trade and asset-based financing activities as well as financing under government assisted schemes.

**Trade financing services** comprise the likes of:

- Factoring services, whereby a company sells its receivables for cash advances equivalent to a specified percentage on the net invoice value of the receivables. IFS offers a full range of factoring services which include: (i) domestic factoring, with cash advances of up to 90% against domestic receivables; (ii) export factoring, with cash advances of up to 90% against overseas invoices; (iii) non-recourse factoring; (iv) with recourse factoring and cross-border factoring for overseas clients.
- Accounts receivable financing. While similar to factoring, this is a legal assignment of the company's receivables with a floating charge on the company's stocks. Moreover, it is on a non-notification basis in that the company's clients are typically not aware of this financing arrangement.
- Working capital loans. These are short-term loans for meeting the working capital requirements of clients. They may be revolving or repaid progressively.
- Letters of credit. These are letters from a bank guaranteeing the timely delivery of a buyer's payment to a seller and for the correct amount. In the event that the buyer is unable to make payment on the purchase, the bank will be required to cover the full or remaining amount of the purchase.
- Trust receipt facilities. A trust receipt is usually an agreement between the buyer/importer of goods and a financier whereby the financier retains title over the goods until the financing is repaid.

**Asset-based financing services** provided include:

- Hire purchase/leasing/machinery loans for the acquisition of capital assets, with financing of up to 80% of asset value.
- Mortgage loans for industrial and commercial properties whereby IFS Capital provides working capital loans secured by property mortgages.
- Shipping loans for vessel construction and ownership and ship management.

IFS Capital participates in **Government Assisted Schemes** such as:

- The Local Enterprise Finance Scheme, which offers factoring facilities, asset-based loans and working capital financing on competitive terms to eligible companies. A portion of the loans is insured against default risks and the insurance premiums are co-shared between the government through the Standards, Productivity and Innovation Board (SPRING), International Enterprise Singapore (IE Singapore) and the related companies.
- The Regionalisation Finance Scheme, which is a fixed interest rate financing arrangement to assist Singapore-based companies to set up operations overseas.

Through wholly-owned ECICS, IFS Capital offers **credit insurance facilities** as well as **bonds & guarantees**.

- Credit insurance. This provides risk protection for the seller, manufacturer, trader who sells on credit terms to buyers against non-payment by his buyers. ECICS offers credit insurance products that cover the payment risk arising from the delivery of goods and services. These include comprehensive short-term policies against exports and domestic transactions and guarantees for supplier and buyer credit finance.
- Bonds & guarantees, which guarantee against the failure of a party to meet obligations specified under a contract. ECICS provides various bond support, such as performance bonds, advance payment bonds, contract tender bonds, retention money bonds, customs bonds and maintenance bonds.

Other financial solutions offered by IFS Capital include:

- The provision of development capital in the form of mezzanine finance, convertible debt instruments and direct equity investments.
- Structured finance solutions such as syndicated loans, mezzanine capital, acquisition finance and private equity finance.
- Alternative or non-mainstream financing products and services such as project financing, intellectual property financing, commodity financing structured lending, debtor in possession and profit sharing transactions.
- Contract financing for all stages of production from the purchase of raw materials to manufacturing to the shipment of goods.
- Mortgage loans secured by shares, with financing in both local and/or foreign currency
- Financing for overseas operations such as the financing of equipment used overseas and funding of equipment loans denominated in foreign currencies.

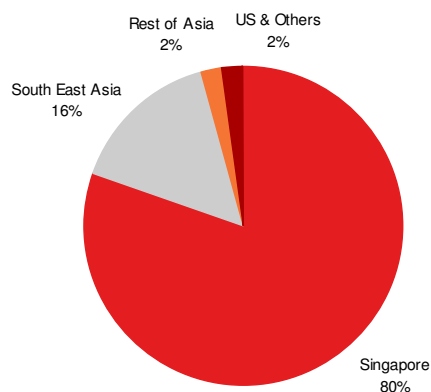
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## Business Segments by Region

On a geographical basis, Singapore accounts for the lion's share of group business. Regional contributions nevertheless have steadily grown from just about 2% of operating income in 2003 to 20% in 2008.

In Singapore, IFS Capital is primarily engaged in the provision of: (i) structured and alternative finance solutions as well as (ii) credit insurance and bonds & guarantee products. Its operations in Thailand, Indonesia and Malaysia, meanwhile, focus mainly on the provision of factoring and asset-based financing facilities. Thailand is by far the largest contributor to regional earnings and the operations there are slated to be listed this year.

## Geographical Segmentation – 2008 Operating Income



Source: Company data

Note: Contributions from Rest of Asia arise primarily from syndicated loans, while contributions from US & Others are from the group's investment portfolio as well as from ECICS' s overseas clients.

## Singapore

Wholly owned IFS Capital Assets Pte Ltd (IFS CAPL) provides capital solutions such as mezzanine financing, bridge financing, structured debt and structured working capital solutions to mid-sized companies in Asia. It can also provide financing for expansion, acquisitions, corporate finance restructuring, special projects and special situations.

ECICS provides a range of credit insurance, bonds and guarantee products. The company has international alliances with the likes of the International Union of Credit and Investment Insurers (Berne Union), International Credit Insurance & Surety Association (ICISA) and International Factors Group. It also has cooperation agreements with other international credit insurers and reinsurers to improve its underwriting capacity.

## Thailand

In April 2009, IFS Capital raised its stake in IFS Capital Holdings (Thailand) to 100% from 45%. IFS Capital Holdings (Thailand) in turn holds a 98.2% stake in IFS Capital (Thailand) PCL.

Incorporated in 1991, IFS Capital (Thailand) PCL provides factoring services to SMEs in Thailand for both domestic and export sales, equipment financing and other services such as inventory financing, contract financing and block discounting services.

## Malaysia

70%-owned IFS Capital (Malaysia)'s principal activity is the provision of financial services such as factoring, leasing and HP business.

## Indonesia

85%-owned PT IFS Capital Indonesia is a multi-finance company that specializes in factoring and leasing services for SMEs in Indonesia. Its factoring services include domestic and export factoring as well as recourse and non-recourse factoring.

## Industry Landscape/Outlook

### Credit Insurance in Singapore

In the credit insurance sphere, ECICS shares space with the likes of Atradius Credit Insurance, Euler Hermes Credit Insurance Agency (S) and Coface Singapore, all of which are units of international companies. Based in France, Euler Hermes is the largest credit insurance underwriter in the world, with a presence in over 51 countries. France-based Coface, which is also based in France, has a history that dates back to 1946 and has a presence in over 67 countries. Atradius is a Netherlands company with over 160 offices in 42 countries.

### Other Financial Services in Singapore

In terms of its other financial services in Singapore, IFS Capital competes in the SME lending space alongside, among others, commercial banks (of which there are 119 – six local, 113 foreign) as well as other non-bank financial institutions such as finance companies.

Among the non-bank financial institutions, the three finance companies in Singapore are listed and provide for some form of comparison. A point to note, nevertheless, is that there are two pertinent differences between these finance companies and IFS Capital in that the former (i) are deposit-taking institutions while IFS Capital is not licensed to do so and (ii) cater to both consumers and corporate clients, while IFS Capital operates predominantly in the corporate sphere.

The three listed finance companies are (i) Hong Leong Finance (HLF) (HLF SP, SGD2.95, Not Ranked), (ii) Singapura Finance (SingFin) (SBD SP, SGD1.38, Not Ranked) and (iii) Sing Investment & Finance (SingInv) (SIF SP, SGD1.40, Not Ranked).

### Peer Comparison with Finance Companies

(SGD mln)	IFS Cap	HL Fin	SingFin	SingInv
Year end:	Dec 08	Dec 08	Jun 09	Dec 08
Net interest income	11	206	22	34
Non-interest income	15	18	3	4
Total income	26	223	25	39
Operating expense	(15)	(75)	(14)	(17)
Operating profit	12	148	11	22
Pretax profit	8	95	7	8
Net profit	8	78	6	6
Loans (gross)	202	7,522	504	1,414
Total assets	393	9,689	738	1,782
Net assets	121	1,365	158	197
<b>Ratios (%)</b>				
Net interest margin	3.5	2.1	3.2	2.1
Non-int. income ratio	57.7	7.9	12.2	10.8
Cost/income ratio	56.1	33.7	57.3	44.0
NPL ratio	7.7	2.9	6.4	3.1
ROAE	6.5	5.8	3.9	2.9
ROAA	1.8	0.8	0.9	0.3

Source: Company data

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Page 4 of 9

Asset wise, IFS Capital is much smaller than the finance companies. Nevertheless, to its credit, asset utilization is more efficient, and as a result, its returns on equity and assets have consistently been higher than that of its peers. IFS Capital's high proportion of non-interest income mix stems mainly from ECICS's insurance contributions.

**Funding Structure**

As a non-deposit taking institution, IFS Capital funds its operations mainly through borrowings as opposed to customer deposits. Competing on price therefore is not a feasible option for the company, given its average funding cost of 3%-5% vs. less than 2% for customer deposits.

In this competitive environment, IFS Capital has essentially carved its niche among the smaller-sized second-tier SMEs who may find it more difficult to source funding from the financial institutions. Given its smaller size and flatter organizational structure, IFS Capital's strength also lies in its offering of a faster turnaround time for loan processing (In Singapore, IFS Capital (including ECICS) has a staff strength of just about 100).

To compensate for its higher funding cost as well as the higher risk profile of its clients, IFS Capital attaches higher premiums to its lending rates (its effective lending rate on loans and advances ranged from 7.8%-8.4% in 2008 vs. 3.97%-5.14% for its peers) which in turn, has allowed the company to maintain above-industry average net interest margins (NIMs). The trade-off, to some extent, lies in the fact that the quality of IFS Capital's assets has been poorer than that of the finance companies.

**Effective Interest Rates & Funding Structure**

Year end:	IFS Cap Dec 08	HL Fin Dec 08	SingFin Jun 09	SingInv Dec 08
<b>Lending rates (%)</b>				
Loans & advances	7.8-8.4	3.97	5.14	4.41
Factoring receivables	5.8-8.2			
<b>Funding structure (%)</b>				
Customer deposits	-	84	75	82
Int. bearing loans	30	-	-	1
SPRING loans	10	0	-	1
Medium-term notes	11	-	-	3
Others	18	2	4	2
Equity	31	14	21	11
<b>Total liabs &amp; equity</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Funding cost (%)</b>				
Deposits	-	1.54	1.19	1.75
Int. bearing loans	3.0-4.8	-	-	2.33
SPRING loans	3.9	3.98	-	2.86
Medium-term notes	1.9-4.4	-	-	4.36

Source: Company data

**Prospects Dependent on Economic Activity**

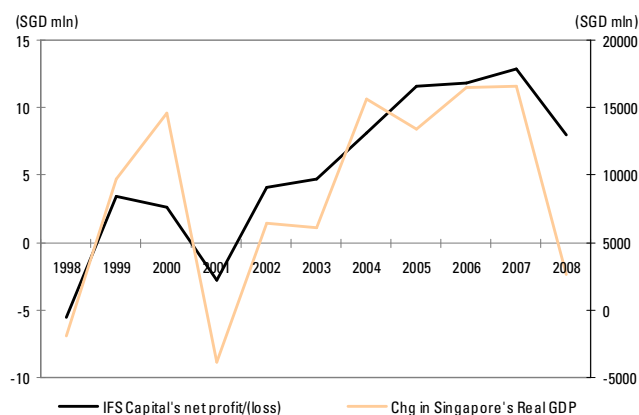
According to the Singapore Department of Statistics, SMEs in the manufacturing sector are defined as enterprises with net fixed assets investment of less than SGD15 mln. For non-manufacturing sectors, SMEs are enterprises with employment size of less than 200 workers.

There were 160,000 enterprises in 2007, of which 99% were SMEs. These companies accounted for nearly six out of every 10 workers and generated 49% of the value-added contribution of all enterprises.

On a segmental basis, the manufacturing sector accounted for 17% of total SME value-added contributions in 2007, while the wholesale/retail and real estate & business services segments accounted for 25% and 19% respectively. Financial services followed with a 12% contribution.

Given the significance of SMEs to Singapore's economy, it would be fair to surmise that IFS Capital's prospects are largely dependent on the economic state of the country. This relationship is largely borne out by the chart below that shows a relatively strong correlation between IFS Capital's earnings and the yearly change in Singapore's real GDP.

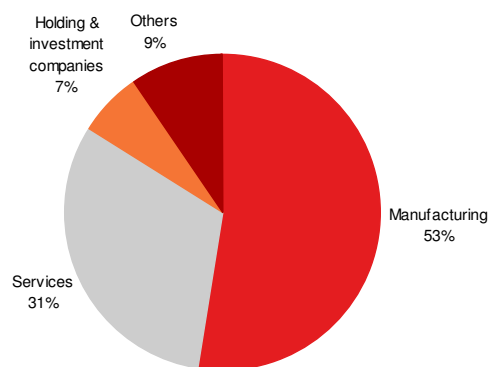
**IFS Capital's Earnings vs. Singapore's Real GDP**



Source: Company data, Bloomberg

Given the nature of IFS Capital's financial products offerings of which trade and asset-based financing account for the bulk, it comes as no surprise that lending to the manufacturing sector constitutes the bulk (>50%) of its loan portfolio.

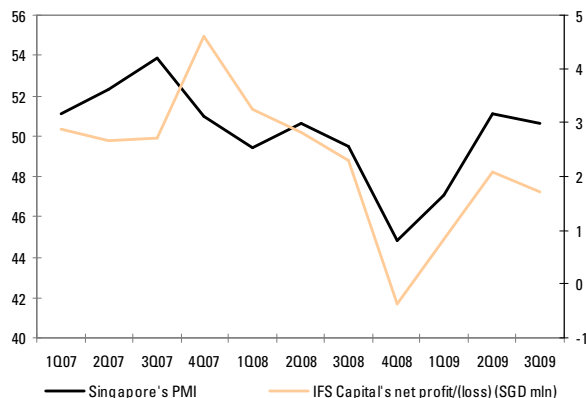
**Loans & Factoring Receivables (2008)**



Source: Company data

This co-dependence on the manufacturing sector may be illustrated by the close correlation that we see between IFS Capital's quarterly earnings and Singapore's manufacturing PMI (Purchasing Managers' Index).

#### IFS Capital's Quarterly Earnings vs. Singapore's PMI



Source: Company data, Bloomberg

#### An Improved Economic Outlook in 2010

The global financial crisis has not spared Asian countries but S&P Economists anticipate 2010 to be a year of recovery, with most countries technically out of recession. Hence, Asian GDP growth should return to more "normal" levels in 2010, albeit not back to the 2007 growth rate, due to likely sluggish growth in the U.S.

#### GDP Growth Estimates (YoY chg)

	2006	2007	2008	2009E	2010E
Singapore	8.2	7.8	1.1	(2.1)	3.8-4.3
Malaysia	5.8	6.2	4.6	(3.2)-(2.7)	3.3-3.8
Thailand	5.1	4.9	2.5	(3.5)-(3.0)	2.7-3.2
Indonesia	5.5	6.3	6.1	4.1-4.6	5.2-5.7

Source: S&P Equity Research

S&P Economists expect the U.S. economy to grow by 1.9% in 2010, with high unemployment rates and pension-hit aging baby boomers likely to hinder consumer spending growth. We do not expect the U.S. unemployment rate to peak until 2Q10, at which it may hit 10.6%.

We expect Singapore to register 2010 GDP growth of 3.8%-4.3% on improving consumer confidence and a pick-up in services and manufacturing activity. 2H10 GDP growth may be tempered by slowing construction activity that may not be fully offset by the opening of the integrated resorts boost to services contribution.

#### Growth Strategy

The present economic downturn has presented financially sound companies such as IFS Capital with opportunities that it hopes to capitalize on.

For its factoring business, the company hopes to expand its portfolio in 2010 as economic conditions improve.

Moreover, given that some of its competitors have since folded on the back of the downturn, this is an opportunity for IFS Capital to expand its market share as well. Another consequence of this downturn is that some SMEs are still finding it difficult to obtain financing from the commercial banks and this is a void that the company hopes to fill.

In Singapore, IFS Capital is the only company to provide media financing and it sees this business growing on the back of further referrals from the Media Authority of Singapore.

In Thailand, management sees a niche in the manufacturing and semiconductor industries, as well as the financing of hypermarkets. It sees positive growth in the manufacturing business in Thailand, driven primarily by the automobile sector. In the pipeline is the planned listing of the Thai operations on the Stock Exchange of Thailand in 2010.

In Malaysia, operations are currently small but the group is looking to expand. Management is looking to grow its contract financing and factoring businesses while venturing into structured and equity financing.

In Indonesia, management plans to target the mining and plantation industries for growth. It also sees a niche in USD lending, as Indonesian banks are not allowed to lend in USD.

Bond insurance currently accounts for about 70% of ECICS's portfolio, with credit insurance accounting for the balance. The aim is to balance this portfolio with an increase in contributions from the latter. In the meantime, management sees growth potential in maid bond insurance and foreign worker bond insurance, which also happen to be highly profitable segments of the business.

#### SWOT Analysis

##### Strengths

- With a history that dates back over 20 years, IFS Capital has accumulated a veritable wealth of experience, especially in both factoring and credit insurance.
- As a non-regulated financial institution, the group has greater flexibility in terms of its product offerings, with the ability to provide structured finance and alternative financing solutions as well.
- IFS Capital has, over the years, carved a niche for itself among the smaller second tier SMEs in Singapore, a move which has allowed it to differentiate itself in a highly competitive environment.
- With a flat organizational structure, the group is better able to provide its customers with faster loan processing turnaround times.
- The group's financials are strong, reflective of prudent management. Leverage of 1.8x end-September 2009 compares well against medium-term note (MTN) covenants of up to 5.5x.
- As a member of the International Factors Group which has affiliates in more than 50 countries, IFS Capital is able to offer factoring as an international service, while ECICS's membership in other international organizations provides for global connections as well.

**Weaknesses**

- As a non-deposit taking entity, IFS Capital's funding costs are higher than that of other deposit-taking financial institutions.
- By virtue of the group's exposure to second-tier SMEs, associated credit risks are higher as well and thus extra vigilance and surveillance are required with regard to this aspect.
- Loan loss coverage (excluding collateral) of about 61% is low when compared against the average of about 95% for the domestic commercial banks.
- The group's Thai operations possess a foreign business license and therefore cannot, as yet, engage in hire purchase activities.

**Opportunities**

- IFS Capital is in a position to expand market share in the current economic environment given its strong balance sheet, more so since the banks have become more reluctant to lend while its weaker competitors have dropped out.
- The impending listing of the group's Thailand operations will provide the necessary funds for further business expansion as well as improved profiling for the group.
- There is still much room for growth of its Malaysian and Indonesian operations which are still in their infancy phase.

**Threats**

- The largest threat at this stage lies in the ability of the Asian region to sustain economic recovery amid sluggish private consumption momentum in the more developed countries.
- Encroachment into IFS Capital's second-tier SME niche market by both commercial banks and finance companies is a high possibility as competition heats up.

**Recent Key Developments**

In September 2009, IFS Capital announced its collaboration with SAPO Media Finance to provide Australian filmmakers with access to financing against the producer offset scheme administered by Screen Australia. Its initial commitment is up to AUD10 mln for the first tranche.

In July 2009, IFS Capital announced the full redemption of its SGD15 mln Fixed Rate Notes Series 006.

In May 2009, IFS Capital announced the full redemption of its SGD30 mln Floating Rate Notes Series 005.

In April 2009, IFS Capital raised its stake in IFS Capital Holdings (Thailand) to 100% from 45% through the purchase of the remaining stake for THB137,500. It also announced a 1-for-10 bonus issue.

**Management Guidance**

Group lending slowed in 2009, as management took the decision to scale back on lending activities in view of the poor economic environment. Expectations are that loans would have contracted further in 4Q09 due to loan repayments.

Providing a buffer nevertheless is the fact that NIMs have improved substantially due to loan re-pricing efforts. Such margins are likely to be sustainable in the near term so long as interest rates remain low.

On the cost front, management believes that much of the cost-cutting initiatives have already been implemented and that there is less of a scope for lowering expenses at this point in time.

As for asset quality, while NPL ratios have continued to rise, this has largely been due to the contraction in the denominator. Absolute NPLs, meanwhile, have declined in value.

**Earnings Outlook**

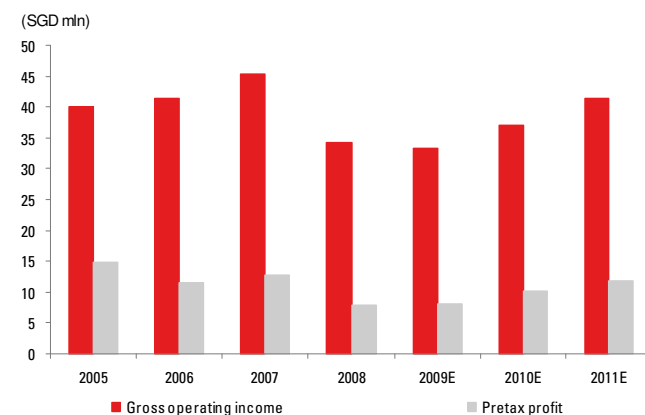
In the first nine months of 2009, group operating profit declined 14% YoY due mainly to: (i) a contraction in lending activity (-23% YTD) and (ii) reduced contributions from ECICS, which saw gross written premiums (GWP) fall 39% YoY.

Positively though, earnings were supported mainly by:

- An upward repricing of loans, which resulted in an expansion in NIMs to about 5.1% in 9M09 from an average of 3.5% in 2008;
- Sustained factoring activities, with receivables up 11% YTD as at end-September 2009; and
- Conscientious cost-saving efforts, which contributed to an 8% YoY decline in 9M09 expenses;

9M09 net profit, however, contracted by a larger 45% YoY on the back of higher loan loss provisions and a higher tax rate.

We expect lending to have remained fairly muted in the final months of 2009. Overall, we estimate a net profit of SGD6.7 mln for FY09, vs. SGD8.0 mln in FY08.

**Gross Operating Income & Pretax Profit (2005-2011E)**

Source: Company data, S&P Equity Research

Looking forward, we project a YoY net profit growth of 27% in 2010 to SGD8.5 mln (+45% excluding a one-off negative goodwill write-off of SGD0.9 mln in 2009). We have imputed a 22 bps decline in average 2010 NIM with expectation of higher funding costs in 2H10. Nevertheless, we expect overall earnings to be bolstered by:

- Resumption in loan growth alongside economic recovery. We project loan growth of 12.3% in 2010 (vs. an estimated 24.8% contraction in 2009);
- Lower loan loss provisions amid stable asset quality. We have assumed a 20 bp decline in average charge-off rates;
- Ongoing stable operating expenses and a projected dip in the group's cost-to-income ratio to 52.1% from 53.8% in 2009;
- Higher contributions for ECICS for which we project GWP growth of 24% in 2010 along with an improvement in its retention ratio; and
- A full-year's contribution from the consolidated earnings of its Thailand operations.

We expect gross gearing to tick upwards in 2010, but for it to remain very manageable at 1.6x vs. 1.5x in 2009.

We project a further 16% recurring net profit growth in 2011 and a 3-year net profit CAGR (2009-2012) of 18%. ROAE, meanwhile, is expected to rise to 6.5% and 7.2% in 2010 and 2011 respectively (2009E: 4.7% on recurring earnings) on the back of the growth in earnings and better asset utilization.

#### Peer Comparison

Year end:	IFS Cap Dec 08	HL Fin Dec 08	SingFin Jun 09	SingInv Dec 08
Share price @ Feb. 4	0.56	2.95	1.38	1.40
Mkt. Cap (SGD mln)	76	1,299	109	147
Historical PER (x)	9.5	16.7	17.9	26.4
Y1 PER (x)	11.4	12.1	na	na
Y2 PER (x)	9.0	11.7	na	na
Historical P/NTA (x)	0.6	1.0	0.7	0.7

Source: Company data, Bloomberg

#### Profit & Loss

FY Dec. / SGD mln	2007	2008	2009E	2010E
Reported Revenue	45.5	34.3	33.4	37.0
Reported Operating Profit	19.5	11.0	13.1	15.0
Depreciation & Amortization	-1.1	-1.1	-1.3	-1.4
Net Interest Income / (Expense)	NA	NA	NA	NA
Reported Pre-tax Profit	12.7	7.9	8.1	10.2
Effective Tax Rate (%)	NM	NM	17.9	17.2
Reported Net Profit	12.9	8.0	6.7	8.5
Reported Operating Margin (%)	42.9	32.2	39.3	40.6
Reported Pre-tax Margin (%)	27.9	22.9	24.3	27.6
Reported Net Margin (%)	28.3	23.4	19.9	22.9

Source: Company data, S&P Equity Research

Reported Revenue = Gross Operating Income

Reported Operating Profit = Operating Profit Before Net Claims & Allowances

#### Balance Sheet

FY Dec. / SGD mln	2007	2008
Total Assets	481.0	393.4
Fixed Assets	19.5	19.1
Current Assets	337.1	262.4
Other LT Assets	124.5	111.9
Current Liabilities	276.3	211.1
LT Liabilities	80.8	61.4
Share Capital	88.0	88.0
Shareholders' Funds	123.9	121.0

Source: Company data, S&P Equity Research

#### Cash Flow

FY Dec. / SGD mln	2007	2008	2009E	2010E
Operating Cash Flow	14.0	39.8	10.7	-18.6
Investing Cash Flow	-6.6	17.5	5.6	-6.3
Financing Cash Flow	4.6	-69.1	-6.1	24.2
Net Cash Flow	12.0	-11.9	10.2	-0.7
Ending Cash	37.5	25.6	35.8	35.1
Capex	0.3	0.5	0.5	0.5

Source: Company data, S&P Equity Research

#### Material Disclosures Including Interested Party Transactions

Nil

#### New Issues & Placements

IFS Capital announced a 1-for-10 bonus issue in April 2009.

#### Dividend Policy

The group's strategy is to maintain a dividend distribution of at least 30% of earnings each year.

#### Auditors' History

KPMG LLP, CPA. Gerald Low Gin Cheng has been the Partner-In-Charge since 2005. The Partner-In-Charge from 2001-2004 was Philip Lee Jee Cheng.

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