

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

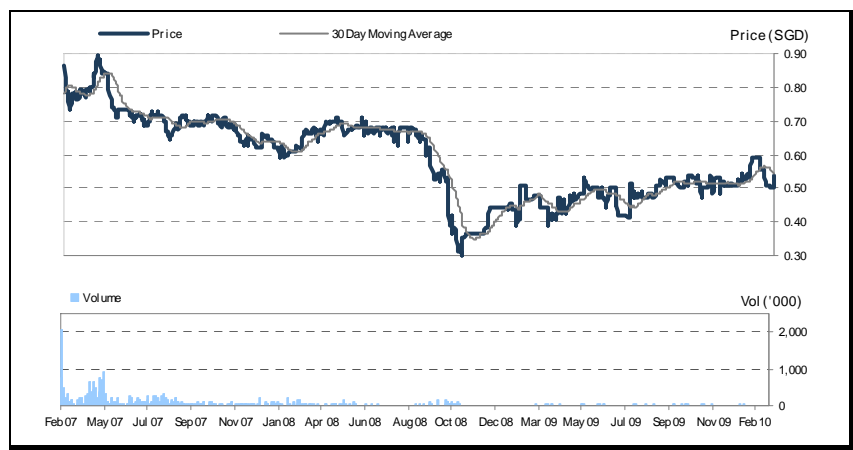
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Results Review

- IFS Capital's 4Q09 results were broadly within expectation. 4Q09 operating profit almost doubled QoQ supported by higher net interest margins (NIM) and investment income as well as improved contributions from ECICS. Net profit, however, rose at a slower pace of 12.9% QoQ to SGD1.9 mln, largely due to higher provisions during the period. Full-year net profit of SGD6.5 mln declined 18.5% YoY.
- Positively, NIM expanded significantly during the year to 5.4% vs 3.5% in 2008, while operating expenses were very much under control, rising just 3.1% YoY.
- ECICS saw much improved earnings due mainly a higher writeback of gross provision for unexpired risks, while regional Indonesian and Thai operations saw higher contributions as well.
- Offsetting the above is that loans contracted as management adopted a more cautious lending stance in 2009. Provision levels, meanwhile, remained elevated due to additional impairments against equity investments.
- Leverage and gearing levels were well contained at 1.7x and 1.4x respectively end-2009 vs. 2.0x and 1.7x end-2008.
- Management has declared a 1-for-10 bonus issue in addition to a first and final DPS of 1.5 cents (2.8% yield).

Earnings Outlook / Estimates Revision

- We maintain our forecasts and project a 31% YoY rebound in 2010 net profit (+50% excluding a one-off negative goodwill write-off in 2009). We project a further 16.7% recurring net profit growth in 2011. ROAE, meanwhile, is expected to rise to 6.5% in 2010 and 7.3% in 2011.
- Our earnings outlook is largely premised on a recovery in regional economies, particularly Singapore (2010E GDP growth: 4%-4.5%). We have imputed lower NIM with expectation of higher funding costs in 2H10, but forecast a resumption in loan growth (estd. 12.3% YoY) and lower loan loss provisions amid stable asset quality.
- We expect higher contributions from 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.

Investment Risks

- The primary investment risk is of slower-than-expected economic recovery for the various regional countries to which IFS Capital is exposed namely Singapore, Thailand, Malaysia and Indonesia. Other risks include the susceptibility of IFS Capital's interest margins to interest rate movements and its dependence 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)	8.6
Price Performance (%)	
- 1 month	-8.5
- 3 month	4.9
- 12 month	13.1
No. of Outstanding Shares (mln)	136.7
Free Float (%)	52.7
Market Cap (SGD mln)	73.8
Enterprise Value (SGD mln)	229.8
Major Shareholders (%)	
Phillip Assets Pte Ltd	40.4
SMRT Road Holdings	6.9

Per Share Data

FY Dec.	2008	2009	2010E	2011E
Book Value (SG cents)	88.48	92.96	97.34	102.52
Cash Flow (SG cents)	6.5	5.5	6.9	8.0
Reported Earnings (SG cents)	5.9	4.8	6.2	7.3
Dividend (SG cents)	1.8	1.5	1.9	2.3
Payout Ratio (%)	31.0	36.1	31.0	31.0
PER (x)	9.2	11.3	8.6	7.4
P/Cash Flow (x)	8.3	9.8	7.8	6.8
P/Book Value (x)	0.6	0.6	0.6	0.5
Dividend Yield (%)	3.4	2.8	3.6	4.2
ROE (%)	6.5	4.6	6.5	7.3
Net Gearing (%)	144.9	121.7	138.3	151.8

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Quarterly Performance

FY Dec. / SGD mln	4Q09	4Q08	% Change
Reported Revenue	9.9	7.3	36.0
Reported Operating Profit	4.1	2.2	91.2
Depreciation & Amortization	-0.3	-0.3	-18.7
Net Interest Income / (Expense)	NA	NA	NA
Reported Pre-tax Profit	2.3	-1.8	NM
Reported Net Profit	1.9	-0.4	NM
Reported Operating Margin (%)	41.7	29.6	-
Reported Pre-tax Margin (%)	23.1	-24.6	-
Reported Net Margin (%)	19.5	-4.8	-

Source: Company data

Profit & Loss

FY Dec. / SGD mln	2008	2009	2010E	2011E
Reported Revenue	34.3	34.6	34.5	41.5
Reported Operating Profit	11.0	13.4	15.1	17.3
Depreciation & Amortization	-1.1	-1.3	-1.4	-1.4
Net Interest Income / (Expense)	NA	NA	NA	NA
Reported Pre-tax Profit	7.9	7.9	10.4	12.1
Effective Tax Rate (%)	NM	17.3	17.3	17.2
Reported Net Profit	8.0	6.5	8.5	10.0
Reported Operating Margin (%)	32.2	38.8	43.7	41.7
Reported Pre-tax Margin (%)	22.9	23.0	30.1	29.1
Reported Net Margin (%)	23.4	18.9	24.7	24.0

Source: Company data, S&P Equity Research

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