

Singapore Company Focus

iFAST Corporation

Bloomberg: IFAST SP | Reuters: IFAS.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

29 Oct 2015

BUY

Last Traded Price: S\$1.46 (STI : 3,040.51)

Price Target : S\$1.61 (10% upside) (Prev S\$1.55)

Reason for Report : Results

Potential Catalyst: Strong growth in AUA; potential M&A

Where we differ: Bullish on the company's ability to scale up

Analyst

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Result Summary

| FY Dec (\$\$ m) | 3Q 2015 | 3Q 2014 | 2Q 2015 | % chg yoy | % chg qoq |
|----------------------|------------|------------|------------|--------------|--------------|
| P&L Items | | | | | |
| Turnover | 20.5 | 22.1 | 23.2 | (6.9) | (11.4) |
| Gross Profit | 10.1 | 10.0 | 11.4 | 1.9 | (10.9) |
| Opg Profit | 2.8 | 2.9 | 3.4 | (1.9) | (16.4) |
| EBITDA | 2.9 | 3.2 | 3.4 | (9.4) | (15.9) |
| Net Profit | 2.9 | 3.0 | 3.3 | (0.5) | (10.3) |

Other Data

| | | | |
|------------------|------|------|------|
| Gross Margin (%) | 49.4 | 45.1 | 49.1 |
| Opg Margin (%) | 13.9 | 13.1 | 14.7 |
| Net Margin (%) | 14.3 | 13.4 | 14.2 |

Financial Summary

| FY Dec (\$\$ m) | 2014A | 2015F | 2016F | 2017F |
|----------------------|-------|-------|-------|-------|
| Turnover | 78 | 87 | 102 | 125 |
| Operating Profit | 9 | 13 | 15 | 19 |
| EBITDA | 10 | 14 | 16 | 21 |
| Net Pft (Pre Ex.) | 9 | 12 | 14 | 18 |
| EPS (S cts) | 3.3 | 4.6 | 5.3 | 7.0 |
| EPS Pre Ex. (S cts) | 3.3 | 4.6 | 5.3 | 7.0 |
| EPS Gth (%) | (17) | 39 | 15 | 30 |
| EPS Gth Pre Ex (%) | (17) | 39 | 15 | 30 |
| Net DPS (S cts) | 2.0 | 2.8 | 3.2 | 4.2 |
| BV Per Share (S cts) | 26.1 | 27.5 | 29.6 | 32.4 |
| PE (X) | 43.9 | 31.6 | 27.4 | 21.0 |
| PE Pre Ex. (X) | 43.9 | 31.6 | 27.4 | 21.0 |
| EV/EBITDA (X) | 34.5 | 23.2 | 20.1 | 15.3 |
| Net Div Yield (%) | 1.4 | 1.9 | 2.2 | 2.9 |
| P/Book Value (X) | 5.6 | 5.3 | 4.9 | 4.5 |
| Net Debt/Equity (X) | CASH | CASH | CASH | CASH |
| ROAE (%) | 18.8 | 17.4 | 18.7 | 22.4 |

At A Glance

| | |
|---------------------------|-----------|
| Issued Capital (m shrs) | 261 |
| Mkt. Cap (\$m/US\$m) | 381 / 272 |
| 3m Avg. Daily Val (US\$m) | 0.2 |

ICB Industry : Financials

ICB Sector: Financial Services

Principal Business: iFAST is an internet-based investment product distribution platform which provides a comprehensive range of services, including investment administration and transaction services, research and training, IT services and backroom functions to banks, financial advisory firms, financial institutions, multinational companies, as well as investors in Asia. The company also has a presence in Hong Kong, Malaysia and China.

Source: Company, DBS Bank, Bloomberg Finance L.P.

China boost to grow AUA

- 3Q15 results in line; net profit eased 0.5% y-o-y as expected due to weak market sentiment
- Launching investment fund platform in China in late 1Q16
- Maintain AUA growth of 15% for FY15F, raised FY16F AUA to 15% (from 10%) to account for China venture
- Maintain BUY, TP raised to S\$1.61

Highlights

3Q15 results in line; net profit eased 0.5% y-o-y. 3Q15 net profit eased 0.5% y-o-y to S\$2.9m on 6.9% drop in revenue to S\$20.5m, in line. Contribution from Singapore and Malaysia continued to grow but Hong Kong was affected by the sharp sell-down in emerging markets, particularly China equity markets. In addition, the suspension of Capital Investment Entrant Scheme (CIES) beginning of this year also led to a slowdown of subscription volume for Hong Kong. On a 9-month basis, revenue and net profit account for 74% and 77% respectively of our FY15 forecasts. A 0.68-Sct EPS has been proposed. YTD, dividend payouts amounted to about 57.6% of net profit.

Growing recurring revenue. For 3Q15, 83.3% of net revenue is derived from recurring net revenue, up from 79% in 3Q14. For 9M15, recurring net revenue portion increased to 82.8% from 79.6% for 9M14.

AUA up 5.5% y-o-y to S\$5.42bn. AUA rose 5.5% y-o-y to S\$5.42bn as at 30-Sep-15, but declined 5% compared to 2Q15 level of S\$5.71bn.

The sell-off in global markets negatively affected the valuation of the Group's investment products. AUA from the B2B and B2C segments grew 6.3% and 3.1% y-o-y respectively as at 30-Sep-15.

Outlook

Launching investment funds platform in China. iFAST's China subsidiary has been awarded a Funds Distributor Qualification in China. This will allow iFAST to run an investment fund platform in China. iFAST is targeting to officially launch its China Business in late 1Q16. iFAST also intends to work with different industry players in China to build an investment platform. It is exploring the possibility of selling a minority stake in its China business in the next 1 to 2 years to strengthen its capability in the China market. Overall, China is expected to start contributing to the Group's revenue in 2016 but it will still incur an operating loss as it is still in the start-up phase.

iFAST Corporation

Offering portfolio management services in Hong Kong

iFAST HK can now provide Discretionary Portfolio Management Services (DPM) in Hong Kong. This would help investors who want convenience in terms of portfolio construction and rebalancing.

Maintain AUA growth of 15% for FY15F, up FY16F to 15%.

With the various new initiatives in place, including the distribution of bonds and ETFs in Singapore, and also the acquisition of the Hong Kong stockbroking firm announced earlier, we believe these would gradually improve iFAST's AUA over time. YTD, AUA grew only 8.6%. However, both the Singapore and Hong Kong markets have already rebounded about 10% from their lows in September. We maintain our AUA growth of 15% for FY15F but raised FY16 growth to 15% from 10%, after taking into account iFAST's China initiatives, and barring any adverse impact on the global economies.

M&A is a wildcard. A wildcard to iFAST's growth would be M&A. In addition, the successful execution of its operations in China would also support growth. Note that iFAST has earmarked about 70% of its IPO proceeds for M&A and expansion into the Chinese market.

Valuation:

We use the Dividend Discount Model (DDM) as the valuation methodology for iFAST, given that it is a cash-led business, supplemented by a relatively high dividend payout. We arrive

at our TP of S\$1.61, up from S\$1.55, after taking into account iFAST's China initiatives and imputing a terminal growth rate of 4% and a 60% dividend payout ratio.

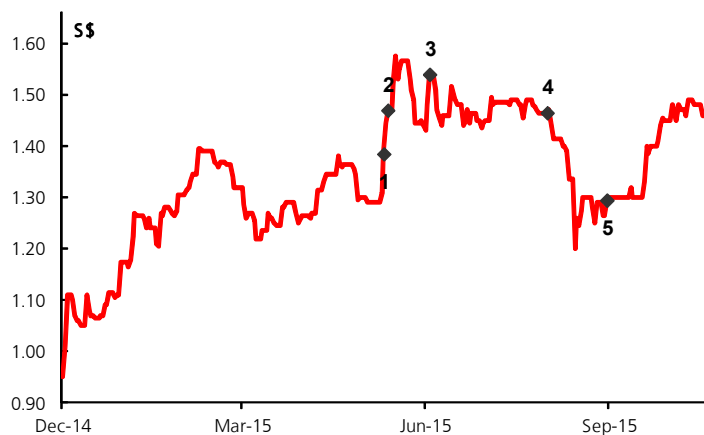
Key Risks:

Highly regulated industry. The securities and financial services industry is highly regulated and iFAST is subject to a variety of laws and regulations across the regions in which it operates. Security breaches are also a risk that could result in adverse publicity and damage to reputation.

Evolving laws and regulations. iFAST is subject to a variety of laws and regulations in Singapore and other jurisdictions in which it operates. The application and interpretation of these laws and regulations may be uncertain. New or revised legislations can also be costly to comply with and can adversely affect operations.

Need to keep up with market dynamics. iFAST's operations in Singapore, Malaysia, Hong Kong and China are subject to local economic, legal and regulatory conditions in these jurisdictions. Any unfavourable factors or changes could have a material adverse effect on its business, financials, results of operations and prospects.

Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

Source: DBS Bank

DBS Bank recommendations are based on Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return i.e. > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

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