

COMPANY UPDATE

iFAST Corporation (IFAST SP)

Acquisition Of UK-based BFC Bank To Dampen Near-term Earnings

iFAST has proposed acquiring UK-based BFC Bank for a total investment amount of S\$73.4m. We see the move as being in line with iFAST moving towards its 2028 S\$100b AUA target, and able to provide tangible progress towards its vision of becoming a top fintech wealth management solutions provider with a truly global business model. AUA growth momentum is expected to continue in 4Q21 and into 2022. Maintain BUY with a lowered DCF-based target price of S\$9.75.

WHAT'S NEW

- Adding UK-based digital bank to iFAST ecosystem.** iFAST Corporation (iFAST) has proposed to acquire an 85% stake in UK-based BFC Bank (BFC) for a total investment amount of £40m (S\$73.4m). The amount consists the acquisition price of £22.6m (S\$41.5m), a capital injection of £15m (S\$27.5m) and transaction costs of £2.4m (S\$4.4m). The remaining 15% stake will be held by the BFC's CEO, Mandeep Ahluwalia. BFC is a full licensed bank in the UK. In 9M21, BFC recorded a net loss of £2.2m (S\$4m) and has a NAV of £17.8m (S\$32.7m), implying a deal valuation of 1.5x.
- Why buy a bank?** Management believes adding BFC is one of the central components to the iFAST ecosystem. As assets under administration (AUA) for iFAST grow due to the addition of new financial products and new licences in jurisdictions, etc, cash in AUA will inevitably rise in tandem. This is where the two key aspects for any bank - deposits and lending, will be tapped. During the initial stages, BFC will be able to attract deposits from the iFAST ecosystem, which has close to S\$1b cash in AUA, 650,000 customer accounts, 540 companies and a network of more than 11,000 wealth advisors. Such deposits can be deployed in a capital efficient manner, earning fee income for BFC without burdening their balance sheet. Eventually as BFC aggregates more deposits, this will provide greater bargaining power in negotiating interest rates for deposits, both within the country and internationally, thereby passing on better rates to their customers.

Over the longer term, BFC could provide leverage and product financing for iFAST's customers, which will in turn improve interest income for the ecosystem. Taking a cue from Charles Schwab (SCHW US, Not Rated), which also has a banking licence, net interest revenue for SCHW accounted for 52% of the business in 2020 (2019: 61%, 1H21: 42%). This compares to iFAST which does not even provide the breakdown of net interest income due to its insignificance.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2019	2020	2021F	2022F	2023F
Net turnover	125.4	169.9	231.5	267.7	298.5
EBITDA	22.3	36.4	49.9	56.7	60.2
Operating profit	9.1	20.6	36.5	40.8	41.4
Net profit (rep./act.)	9.5	21.2	33.1	39.5	40.8
Net profit (adj.)	9.5	21.2	33.1	39.5	40.8
EPS (S cent)	3.5	7.5	11.7	13.9	14.4
PE (x)	227.1	105.4	67.2	56.4	54.6
P/B (x)	23.5	20.6	17.0	15.2	13.1
EV/EBITDA (x)	94.2	57.8	42.1	37.1	34.9
Dividend yield (%)	0.4	0.4	0.4	0.5	0.5
Net margin (%)	7.6	12.4	14.3	14.8	13.7
Net debt/(cash) to equity (%)	(23.3)	(35.0)	(22.8)	(48.1)	(49.3)
Interest cover (x)	349.1	n.a.	n.a.	n.a.	n.a.
ROE (%)	10.8	21.8	28.6	28.4	25.0
Consensus net profit	-	-	32.1	40.2	48.8
UOBKH/Consensus (x)	-	-	1.03	0.98	0.84

Source: iFAST, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$7.86
Target Price	S\$9.75
Upside	+24.1%
(Previous TP)	S\$11.50

COMPANY DESCRIPTION

iFAST is a wealth management fintech platform headquartered in Singapore. It provides a comprehensive range of investment products and services to financial advisory firms, financial institutions, banks, Internet companies, multinational companies, as well as retail and high net worth investors in Asia.

STOCK DATA

GICS sector	Financials
Bloomberg ticker:	IFAST SP
Shares issued (m):	276.9
Market cap (S\$m):	2,176.8
Market cap (US\$m):	1,611.1
3-mth avg daily t'over (US\$m):	5.8

Price Performance (%)

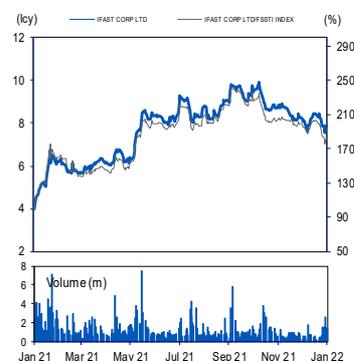
52-week high/low	S\$9.94/S\$3.86			
1mth	3mth	6mth	1yr	YTD
(5.3)	(19.4)	(7.4)	103.6	(6.4)

Major Shareholders

Lim Chung Chun (CEO)	22.1
Singapore Press Holdings	14.0
Lim Wee Kian	7.1

FY22 NAV/Share (S\$)	0.52
FY22 Net Cash/Share (S\$)	0.25

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Equity placement to fully fund acquisition.** Shortly after announcing the BFC acquisition, iFAST successfully completed an oversubscribed equity placement with the issue of 14m new shares at S\$7.50 each, the top end of the S\$7.30-7.50 indicative price range. The new shares represent 5.1% and 4.8% of the existing and enlarged share capital respectively. Gross proceeds of S\$105m have been earmarked to fully fund the BFC acquisition, with the excess for working capital. Mr Lee Thiam Wah, the anchor investor of the placement, is taking up 48.6%, or S\$51m, of the placement and will hold 2.33% of the enlarged share capital post-placement. Lee is the founder and major shareholder of 99 Speed Mart Sdn Bhd, one of iFAST's consortium partners in its application for a digital bank licence in Malaysia.
- **Start-up losses expected in 2022 and 2023.** iFAST expects start-up losses at BFC to continue in the first couple of years post-acquisition before synergies can be reaped. We have assumed that BFC will continue its burn rate and incur additional overheads of S\$1.5m/year in 2022-23, before achieving breakeven in 2025. This translates to an annual loss of S\$6m for 2022-23 and S\$3m loss in 2024. Based on the 85% stake, this constitutes 13.9-17.9% of our 2022-24 net profit estimates for iFAST.
- **Main growth driver, AUA, remains in positive momentum.** Growth in AUA has remained robust, reaching S\$18.38b as at 30 Sep 21 (+46.1% yoy, +4.8% qoq). The Singapore market remains as the main AUA growth driver, constituting S\$13.0b in AUA (+53.5% yoy; +6.8% qoq). This is supported by the higher client base across both the business-to-business (B2B) and business-to-consumer (B2C) divisions, where the former saw: a) resilient business from wealth advisors and institutional partners throughout this pandemic, and b) new business partners added, while the latter's FSMOne.com platform continued to attract more AUA with the launch of new products and low commission rates. Going forward, we expect the strong momentum to sustain, supported by the continued strength in net inflows of S\$2.99b in 9M21 (2020: S\$3.16b; 1H21: S\$2.12b).

EARNINGS REVISION/RISK

- We have tweaked our assumption of recurring net revenue as a percentage of AUA from 0.59% to 0.52% from 2021 onwards, due to lower brokerage fees charged by iFAST.
- After factoring in the additional expenses arising from the BFC acquisition and the lower recurring net revenue as a percentage of AUA, our 2022-24 EBIT has been lowered by 16.5%, 16.2% and 14.7% to S\$37.1m, S\$38.0m and S\$47.0m respectively.
- Accordingly, net profit estimates for 2021-24 have reduced by 12.6-14.6% to S\$33.1m, S\$33.5m, S\$34.7m and S\$43.0m respectively.

VALUATION/RECOMMENDATION

- **Maintain BUY with lower DCF-based target price of S\$9.75 (from S\$11.50).** We have kept our WACC assumption at 7.0%, but reduced our terminal growth rate by 20bps from 3.0% to 2.8% on account of the rising interest rate environment. We note that the 2022-23F implied PE valuation of 54.6-67.2x may appear elevated, but we believe will be supported by the high earnings growth phase that iFAST is undergoing.

SHARE PRICE CATALYST

- Stronger-than-expected AUA growth.
- Award of Malaysia digital banking licence in 1Q22.

PROFIT & LOSS

Year to 31 Dec (\$m)	2020	2021F	2022F	2023F
Net turnover	169.9	231.5	267.7	298.5
EBITDA	36.4	49.9	56.7	60.2
Deprec. & amort.	15.8	13.4	15.8	18.8
EBIT	20.6	36.5	40.8	41.4
Total other non-operating income	1.4	1.9	2.2	2.4
Associate contributions	(0.4)	(0.4)	(0.4)	(0.4)
Net interest income/(expense)	0.0	1.6	3.5	4.2
Pre-tax profit	25.4	39.8	46.2	47.8
Tax	(4.4)	(6.9)	(7.0)	(7.3)
Minorities	0.2	0.3	0.3	0.3
Net profit	21.2	33.1	39.5	40.8
Net profit (adj.)	21.2	33.1	39.5	40.8

CASH FLOW

Year to 31 Dec (\$m)	2020	2021F	2022F	2023F
Operating	41.6	27.5	49.5	50.4
Pre-tax profit	25.4	39.8	40.2	41.7
Tax	(2.3)	(6.9)	(7.0)	(7.3)
Deprec. & amort.	15.8	13.4	15.8	18.8
Associates	0.4	0.4	0.4	0.4
Working capital changes	0.1	(20.7)	(1.1)	(4.3)
Non-cash items	3.3	3.3	3.3	3.3
Other operating cashflows	(1.1)	(1.7)	(2.0)	(2.2)
Investing	(10.5)	(18.2)	(94.5)	(23.5)
Capex (growth)	(12.2)	(18.3)	(21.1)	(23.6)
Investments	1.7	0.0	(73.4)	0.0
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
Financing	(19.2)	(16.6)	88.4	(13.0)
Dividend payments	(8.7)	(9.4)	(10.6)	(10.4)
Issue of shares	0.3	0.0	102.6	0.0
Proceeds from borrowings	0.0	0.0	0.0	0.0
Loan repayment	(3.8)	0.0	0.0	0.0
Others/interest paid	(7.0)	(7.2)	(3.6)	(2.5)
Net cash inflow (outflow)	11.9	(7.3)	43.4	13.9
Beginning cash & cash equivalent	24.8	36.4	29.1	72.5
Changes due to forex impact	(0.3)	0.0	0.0	0.0
Ending cash & cash equivalent	36.4	29.2	72.5	86.4

BALANCE SHEET

Year to 31 Dec (\$m)	2020	2021F	2022F	2023F
Fixed assets	22.8	11.0	11.0	11.3
Other LT assets	36.9	42.0	47.4	51.9
Cash/ST investment	36.4	29.1	72.5	86.3
Other current assets	158.2	221.3	217.0	241.7
Total assets	254.3	303.4	347.9	391.2
ST debt	0.0	0.0	0.0	0.0
Other current liabilities	136.3	165.2	189.4	210.1
LT debt	0.0	0.0	0.0	0.0
Other LT liabilities	14.6	11.0	8.5	6.7
Shareholders' equity	104.1	127.9	150.8	175.1
Minority interest	(0.7)	(0.7)	(0.7)	(0.7)
Total liabilities & equity	254.3	303.4	347.9	391.2

KEY METRICS

Year to 31 Dec (%)	2020	2021F	2022F	2023F
Profitability				
EBITDA margin	21.4	21.6	21.2	20.2
Pre-tax margin	14.9	17.2	17.3	16.0
Net margin	12.4	14.3	14.8	13.7
ROA	10.3	11.9	12.1	11.0
ROE	21.8	28.6	28.4	25.0
Growth				
Turnover	35.5	36.2	15.6	11.5
EBITDA	63.0	37.2	13.4	6.3
Pre-tax profit	129.4	56.7	16.2	3.3
Net profit	122.3	56.7	19.2	3.2
Net profit (adj.)	122.3	56.7	19.2	3.2
EPS	115.5	56.7	19.2	3.2
Leverage				
Debt to total capital	0.0	0.0	0.0	0.0
Debt to equity	0.0	0.0	0.0	0.0
Net debt/(cash) to equity	(35.0)	(22.8)	(48.1)	(49.3)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.

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