

Singapore Company Update

iFAST Corporation

Bloomberg: IFAST SP | Reuters: IFAS.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

15 Feb 2022

BUY

Last Traded Price (14 Feb 2022): S\$6.18 (STI : 3,421.20)
Price Target 12-mth: S\$10.85 (76% upside) (Prev S\$11.37)

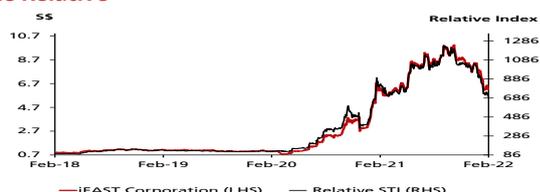
Analyst

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What's New

- FY21 earnings 5.7% below our estimates, partly due to weak bond, equity & ETF market in HK
- AUA growing at robust pace to hit a record high of S\$19bn, +31.5% y-o-y as at end Dec 2021
- Focusing on its Four-Year Plan, including pursuing bond licence; UK Bank targets to achieve profitability starting 2024; eMPF remains the key earnings driver
- BUY, revised TP to S\$10.85 to factor share placement

Price Relative



Forecasts and Valuation

FY Dec (\$m)	2020A	2021A	2022F	2023F
Revenue	170	216	287	371
EBITDA	41.2	54.1	58.8	80.2
Pre-tax Profit	25.4	35.8	39.5	57.2
Net Profit	21.2	30.6	33.5	48.6
Net Pft (Pre Ex.)	21.2	30.6	33.5	48.6
Net Pft Gth (Pre-ex) (%)	122.3	44.8	9.3	45.0
EPS (S cts)	7.77	11.1	11.5	16.7
EPS Pre Ex. (S cts)	7.77	11.1	11.5	16.7
EPS Gth Pre Ex (%)	119	42	4	45
Diluted EPS (S cts)	7.77	11.1	11.5	16.7
Net DPS (S cts)	3.30	4.80	4.99	7.24
BV Per Share (S cts)	38.2	46.5	86.8	96.3
PE (X)	79.6	55.9	53.7	37.0
PE Pre Ex. (X)	79.6	55.9	53.7	37.0
P/Cash Flow (X)	43.5	41.8	35.8	26.6
EV/EBITDA (X)	40.0	30.8	28.6	21.0
Net Div Yield (%)	0.5	0.8	0.8	1.2
P/Book Value (X)	16.2	13.3	7.1	6.4
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	21.8	26.3	17.6	18.2
Earnings Rev (%):			0	0
Consensus EPS (S cts):			13.6	16.6
Other Broker Recs:		B: 4	S: 1	H: 1

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

Initiatives in place for longer term growth

Investment Thesis:

AUA hits another record high; initiatives in place to build a seamless Fintech ecosystem. iFAST reported a record high Assets Under Administration (AUA) of S\$19bn, +31.5% y-o-y as at end December 2021. The group has set a Four-Year Plan to enhance its current platform. With the group's ongoing effort to build a seamless global fintech ecosystem, including adding a digital bank and exploring other Fintech capabilities like pursuing a bond licence, we can expect further growth from its overall wealth management platform.

Longer term earnings momentum remains strong; Hong Kong to propel growth from 2024. Though some initial start-up losses are expected from the new initiatives, we maintain our positive view on iFAST on the back of the strong growth momentum ahead, propelled by the Hong Kong business from 2024 onwards. There is room for AUA to grow further. iFAST is well poised to capture more market share in its key market Singapore, where its share is just 10% of the c.S\$128bn in Assets Under Management of the collective investment schemes.

Valuation:

Maintain BUY with a lower TP of S\$10.85, after accounting for dilution from the recent share placement. Our TP is based on the Discounted Cashflow (DCF) valuation method to capture its steadily growing cashflows.

Where we differ:

We are more optimistic on iFAST given its scalable business model and drive towards digitalisation to propel the group to greater heights

Key Risks to Our View:

Its operations are vulnerable to changes in laws and regulations as well as market sentiment.

At A Glance

Issued Capital (m shrs)	277
Mkt. Cap (S\$m/US\$m)	1,711 / 1,270
Major Shareholders (%)	
Lim Chung Chun	21.0
NEO LAY KIEN	19.6
Singapore Press Holdings Ltd	13.4
Free Float (%)	39.22
3m Avg. Daily Val (US\$m)	4.6

GIC Industry : Financial / Diversified Financials



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WHAT'S NEW

FY21 results slightly below; AUA continued to charge higher

Key highlights

FY21 results 5.7% below our estimates. The group's total revenue for FY21 grew 27.2% y-o-y to S\$216.2m while net profit surged 44.8% to S\$30.6m, but this was 5.7% below our estimates. 4Q21 revenue and net profit slipped 1.8% and 5.2% respectively to S\$54.6m and S\$7.2m, partly due to the weak market sentiment for Bonds, Stocks & ETFs, especially in the Hong Kong market.

Stable recurring revenue. Recurring net revenue accounted for 69.9% of FY21 revenue, vs 70.3% in FY20, partly due to the higher non-recurring contribution from the Stocks & ETF segment, which increased to 17.7% of total AUA, from 16.8% in FY20.

Reaping operational leverage from scalable business model. Reflecting the positive operating leverage of the group's business model, its profit before tax (PBT) margin (based on net revenue) increased to 31.6% for FY21, compared to 29.6% for FY20. Operating expenses as a ratio of average AUA decreased to 0.456% in FY21, from 0.576% in FY20 while operating profit vs average AUA improved to 0.209% in FY21 from 0.181% in FY20.

Higher DPS; 43% payout ratio, comparable to 42% in FY20. A higher 1.4Scts DPS was declared in 4Q21, an increase from 1ct last year, bringing total DPS for FY21 to 4.8Scts (3.3Scts in FY20). This works out to a dividend payout ratio of 43%, comparable to 42% in FY20.

AUA growing at robust pace. The group's AUA registered growth of 31.5% y-o-y to reach a record high S\$19.0bn as at 31 December 2021.

AUA Breakdown

AUA	4Q20	2Q21	3Q21	4Q21
By Market				
Singapore	69.2%	69.5%	70.8%	71.5%
Hong Kong	18.4%	17.5%	16.0%	15.1%
Malaysia	9.2%	9.3%	9.2%	9.6%
Others	3.2%	3.7%	4.0%	3.8%
By Product				
Unit Trusts	75.4%	73.3%	73.1%	73.1%
Stocks & ETFs	12.9%	16.5%	16.8%	17.7%
Bonds	6.1%	5.3%	4.7%	4.4%
Cash				
Account	5.6%	4.9%	5.4%	4.8%

Source: DBS Bank; Company

China offers ample room for growth but losses still

growing. Pretax loss from China deepened to S\$5.8m from S\$4.9m in FY20 though AUA crossed RM2bn for the first time. iFAST believes that its China operation is well positioned to capitalise on the future growth of the public mutual fund industry in China. The group will continue to seek possible opportunities to further expand the range of services and products in China via additional licences through direct applications or acquisitions.

Geographical breakdown

Net Revenue (\$m)	FY21	Y-o-Y (%)
Singapore	73.2	+30.0
Hong Kong	24.4	+27.0
Malaysia	13.2	+54.0
China	2.4	+37.3
Total	113.2	+31.9

Source: DBS Bank; Company

Outlook

Focusing on its Four-Year Plan. Moving forward, the group will focus on executing its Four-Year Plan which includes getting bigger and better, accelerating growth in Hong Kong, adding digital banking and other capabilities to the iFAST Fintech Ecosystem, and building a truly global business model.

Pursuing more financial licences, including bonds. As part of the Four-Year Plan to add Fintech capabilities, iFAST is in the midst of applying for a licence to be a 'Recognised Market Operator' to participate in the bonds marketplace.

UK Bank targets to achieve profitability starting 2024. The proposed acquisition of the UK bank is expected to contribute some initial start-up losses. Based on the group's 85% stake in the UK Bank, its estimated loss to the group for FY22 is approximately S\$4.0m, excluding some transaction and other charges. iFAST targets to achieve profitability for the UK Bank starting 2024.

eMPF remains the key earnings driver. We have assumed the HK business to contribute 30% and 35% of total revenue in FY24F and FY25F respectively. Out of this, the ePension division to account for the bulk of 70% of the total contribution from HK. There is a possibility that the ePension division can start to contribute earlier instead of from FY24F. For FY21, the Hong Kong business accounts for about 21.6% (S\$24.4m) of the group's total net revenue, and 23.3% (S\$8.4m) of total pretax profit, with a PBT margin of 34.4%.

iFAST Corporation

Earnings & Recommendation

Maintain forecast but TP reduced to S\$10.85 to account for dilution from recent share placement. No change in our earnings estimate but our DCF-based target price is reduced to S\$10.85 (previously S\$11.37), after accounting for the dilution of 14m new shares from the recent share placement.

Near-term growth is still expected to come from Asia, while the Hong Kong business is expected to leapfrog from 2024. Overall, iFAST is expected to see robust earnings growth of 9%/45% in FY22F/23F, helped by contributions from the ePension division in Hong Kong. Maintain BUY.

Company Background

iFAST is an Internet-based investment product distribution platform. As at end-June 2021, the group offered over 8,600 funds from over 270 fund houses, over 1,400 direct bonds, stocks and ETFs (Singapore, Hong Kong, and US stockbroking capabilities), as well as discretionary portfolio management services. More than 520 financial institutions and other corporations and over 10,000 wealth advisers are using iFAST's B2B platforms. More than 620,000 customer accounts have been opened across the five markets in which the group operates.

Quarterly / Interim Income Statement (\$m)

FY Dec	4Q2020	3Q2021	4Q2021	% chg yoy	% chg qoq
Revenue	47.9	55.5	54.6	13.9	(1.8)
Cost of Goods Sold	(23.6)	(25.2)	(26.3)	11.7	4.4
Gross Profit	24.3	30.3	28.2	16.0	(6.9)
Other Oper. (Exp)/Inc	(16.1)	(21.2)	(20.0)	24.8	(5.6)
Operating Profit	8.28	9.10	8.19	(1.1)	(10.0)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	nm	nm
Associates & JV Inc	(0.3)	(0.1)	(0.2)	21.2	324.0
Net Interest (Exp)/Inc	(0.1)	0.03	0.05	nm	58.8
Exceptional Gain/(Loss)	0.0	0.0	0.0	-	-
Pre-tax Profit	7.96	9.09	8.04	1.0	(11.6)
Tax	(1.2)	(1.5)	(0.9)	(23.8)	(41.6)
Minority Interest	0.05	0.06	0.07	25.0	18.2
Net Profit	6.83	7.60	7.20	5.5	(5.2)
Net profit bef Except.	6.83	7.60	7.20	5.5	(5.2)
EBITDA	12.3	13.7	13.0	5.5	(5.0)
Margins (%)					
Gross Margins	50.8	54.6	51.7		
Opg Profit Margins	17.3	16.4	15.0		
Net Profit Margins	14.3	13.7	13.2		

Source of all data: Company, DBS Bank

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Discounted Cash Flow (DCF) Valuation table

Risk Free Rate (Rf)	2.0%
Market Return (Rm)	9.4%
Equity risk premium	7.4%
Beta	1.0
Cost of Equity (Ke)	9.0%
Proportion of debt financing	0.0%
After-tax cost of debt (Kd)	1.7%
Weighted Avg Cost of Capital (WACC)	9.0%

FYE Dec (\$m)	FY22F	FY23F	Terminal Value
Operating profit	39.6	55.9	414.8
Add Depreciation and Amortisation	19.5	24.6	155.4
Less Tax Provision	(6.0)	(8.6)	(68.8)
Less Capex	(23.0)	(25.0)	(117.6)
Total FCF to the Firm	30.1	46.9	383.9

Terminal Growth (assumed)	5%
Sum of PV of FCF	275.0
PV of Terminal Value	2,842.8
Enterprise Value	3,117.9
Add : Net Cash (Debt)	38.3
Equity Value (\$m)	3,156.2
No of shares (diluted)	290.9

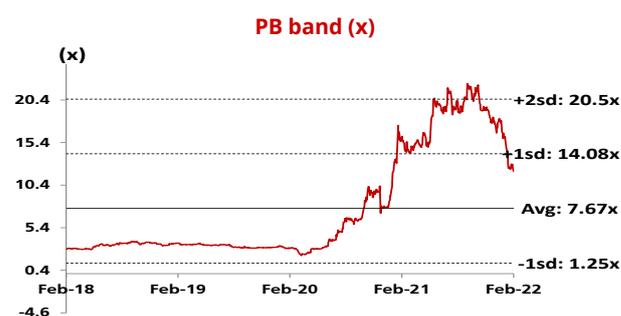
Equity Value Per Share (\$)

10.85

Historical PE and PB band



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



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

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Key Assumptions

FY Dec	2019A	2020A	2021A	2022F	2023F
Average AUA (\$bn)	10.0	14.5	19.0	22.8	27.4
Opex / average AUA (%)	0.6%	0.5%	0.4%	0.4%	0.4%

Segmental Breakdown

FY Dec	2019A	2020A	2021A	2022F	2023F
Net Revenues (\$m)					
B2B business	44.3	53.2	72.2	84.8	106.7
B2C business	20.9	32.6	41.1	56.5	71.1
Total	65.2	85.9	113.2	141.4	177.8
Net Revenue (\$m)					
Recurring revenue	52.9	60.4	78.7	99.0	124.5
Non-recurring revenue	12.3	25.5	34.5	42.4	53.4
Total	65.2	85.9	113.2	141.4	177.8
Net Revenue (\$m)					
Singapore	42.0	56.3	73.2	91.4	115.0
Hong Kong	16.7	19.2	24.4	30.5	38.3
Malaysia	6.0	8.6	13.2	16.4	20.7
China	0.6	1.8	2.4	3.0	3.8
Total	65.2	85.9	113.2	141.4	177.8

Income Statement (\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	125	170	216	287	371
Cost of Goods Sold	(60.2)	(84.1)	(103)	(136)	(171)
Gross Profit	65.2	85.9	113	151	200
Other Opng (Exp)/Inc	(54.0)	(60.1)	(77.2)	(112)	(144)
Operating Profit	11.2	25.8	36.0	39.6	55.9
Other Non Opng (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	(0.1)	(0.4)	(0.4)	(0.4)	(0.4)
Net Interest (Exp)/Inc	(0.1)	0.02	0.13	0.20	1.64
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	11.1	25.4	35.8	39.5	57.2
Tax	(1.8)	(4.4)	(5.4)	(6.0)	(8.7)
Minority Interest	0.21	0.19	0.23	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	9.52	21.2	30.6	33.5	48.6
Net Profit before Except.	9.52	21.2	30.6	33.5	48.6
EBITDA	24.3	41.2	54.1	58.8	80.2
Growth					
Revenue Gth (%)	3.4	35.5	27.2	32.8	29.1
EBITDA Gth (%)	42.2	69.3	31.3	8.6	36.5
Opg Profit Gth (%)	1.6	130.6	39.8	9.9	41.3
Net Profit Gth (Pre-ex) (%)	(11.0)	122.3	44.8	9.3	45.0
Margins & Ratio					
Gross Margins (%)	52.0	50.5	52.4	52.7	53.9
Opg Profit Margin (%)	8.9	15.2	16.7	13.8	15.1
Net Profit Margin (%)	7.6	12.4	14.2	11.7	13.1
ROAE (%)	10.8	21.8	26.3	17.6	18.2
ROA (%)	6.0	10.3	12.8	10.6	10.9
ROCE (%)	8.2	18.9	24.0	16.8	18.2
Div Payout Ratio (%)	89.0	42.5	43.4	43.4	43.4
Net Interest Cover (x)	174.7	NM	NM	NM	NM

Source: Company, DBS Bank

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Quarterly Income Statement (\$\$m)

FY Dec	4Q2020	1Q2021	2Q2021	3Q2021	4Q2021
Revenue	47.9	55.3	50.8	55.5	54.6
Cost of Goods Sold	(23.6)	(26.8)	(24.6)	(25.2)	(26.3)
Gross Profit	24.3	28.5	26.2	30.3	28.2
Other Oper. (Exp)/Inc	(16.1)	(18.2)	(17.8)	(21.2)	(20.0)
Operating Profit	8.28	10.3	8.42	9.10	8.19
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	(0.3)	0.0	0.0	(0.1)	(0.2)
Net Interest (Exp)/Inc	(0.1)	0.03	0.02	0.03	0.05
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	7.96	10.3	8.40	9.09	8.04
Tax	(1.2)	(1.5)	(1.4)	(1.5)	(0.9)
Minority Interest	0.05	0.06	0.05	0.06	0.07
Net Profit	6.83	8.82	7.02	7.60	7.20
Net profit bef Except.	6.83	8.82	7.02	7.60	7.20
EBITDA	12.3	14.7	12.8	13.7	13.0

Growth

Revenue Gth (%)	6.5	15.5	(8.2)	9.3	(1.8)
EBITDA Gth (%)	8.2	19.6	(12.8)	6.5	(5.0)
Opg Profit Gth (%)	11.4	24.6	(18.4)	8.1	(10.0)
Net Profit Gth (Pre-ex) (%)	10.7	29.1	(20.4)	8.2	(5.2)

Margins

Gross Margins (%)	50.8	51.5	51.6	54.6	51.7
Opg Profit Margins (%)	17.3	18.6	16.6	16.4	15.0
Net Profit Margins (%)	14.3	15.9	13.8	13.7	13.2

Balance Sheet (\$\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Net Fixed Assets	3.69	4.28	7.55	21.3	34.6
Invts in Associates & JVs	5.37	5.98	6.55	52.2	79.9
Other LT Assets	43.4	49.4	56.1	47.6	37.3
Cash & ST Invts	24.8	36.4	44.1	116	109
Inventory	19.1	16.8	15.2	15.2	15.2
Debtors	59.0	139	92.0	154	198
Other Current Assets	1.79	2.02	3.33	3.33	3.33
Total Assets	157	254	225	409	478
ST Debt	3.81	0.0	0.0	0.0	0.0
Creditor	45.2	126	74.8	133	172
Other Current Liab	5.90	10.3	11.9	13.6	16.3
LT Debt	0.0	0.0	0.0	0.0	0.0
Other LT Liabilities	12.7	14.6	10.6	10.6	10.6
Shareholder's Equity	90.1	104	129	253	280
Minority Interests	(0.4)	(0.7)	(1.0)	(1.0)	(1.0)
Total Cap. & Liab.	157	254	225	409	478
Non-Cash Wkg. Capital	28.9	21.9	23.9	25.2	28.5
Net Cash/(Debt)	21.0	36.4	44.1	116	109
Debtors Turn (avg days)	145.4	212.9	195.3	156.1	173.3
Creditors Turn (avg days)	299.5	457.7	433.1	326.5	381.1
Inventory Turn (avg days)	167.9	96.2	69.1	47.7	37.9
Asset Turnover (x)	0.8	0.8	0.9	0.9	0.8
Current Ratio (x)	1.9	1.4	1.8	2.0	1.7
Quick Ratio (x)	1.5	1.3	1.6	1.8	1.6
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	318.2	N/A	N/A	N/A	N/A

Source: Company, DBS Bank

iFAST Corporation

Cash Flow Statement (\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Pre-Tax Profit	11.1	25.4	35.8	39.5	57.2
Dep. & Amort.	13.2	15.8	18.4	19.5	24.6
Tax Paid	(1.5)	(3.1)	(4.2)	(6.0)	(8.7)
Assoc. & JV Inc/(loss)	0.05	0.41	0.35	0.35	0.35
Chg in Wkg.Cap.	(4.8)	0.11	(9.4)	(3.1)	(5.9)
Other Operating CF	0.0	0.0	0.0	0.0	0.0
Net Operating CF	17.9	38.7	41.0	50.3	67.6
Capital Exp.(net)	(12.1)	(12.2)	(19.6)	(23.0)	(25.0)
Other Invs.(net)	0.0	0.0	0.0	0.0	0.0
Invs in Assoc. & JV	(2.5)	(1.1)	(0.9)	(46.0)	(28.0)
Div from Assoc & JV	0.04	0.04	0.04	0.0	0.0
Other Investing CF	6.23	2.82	0.22	0.0	0.0
Net Investing CF	(8.3)	(10.5)	(20.2)	(69.0)	(53.0)
Div Paid	(8.5)	(8.7)	(12.2)	(14.5)	(21.1)
Chg in Gross Debt	(33.3)	(3.8)	0.0	0.0	0.0
Capital Issues	0.0	0.0	0.0	105	0.0
Other Financing CF	(5.7)	(6.7)	(6.7)	0.0	0.0
Net Financing CF	(47.4)	(19.2)	(18.9)	90.5	(21.1)
Currency Adjustments	(0.1)	(0.3)	0.24	0.0	0.0
Chg in Cash	(37.9)	8.74	2.12	71.7	(6.4)
Opg CFPS (S cts)	8.48	14.2	18.2	18.3	25.3
Free CFPS (S cts)	2.17	9.71	7.74	9.37	14.7

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	28 May 21	8.49	10.55	BUY
2:	26 Jul 21	8.84	12.10	BUY
3:	26 Oct 21	9.03	12.93	BUY
4:	10 Jan 22	7.85	11.37	BUY

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

Source: DBS Bank

Analyst: Lee Keng LING

DBS Bank recommendations are based on an 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 share price catalysts within this time frame)

*Share price appreciation + dividends

Completed Date: 15 Feb 2022 07:09:27 (SGT)

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Sources for all charts and tables are DBS Bank unless otherwise specified.

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