

# 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

26 Apr 2022

**HOLD** (Downgrade from BUY)

Last Traded Price (25 Apr 2022): S\$5.31 (STI : 3,339.59)

Price Target 12-mth: S\$5.42 (2% upside) (Prev S\$8.75)

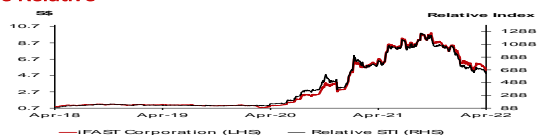
### Analyst

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### What's New

- Downgrade to HOLD; TP lowered to S\$5.42 to account for earnings cut, higher WACC and slower growth
- Lacks near-term catalysts, digital bank bidding in Malaysia likely unsuccessful
- Longer term plans in place but margins heading lower as the group executes on various initiatives
- Valuation is high as business is still not at an optimal level yet; to improve as initiatives bear fruit

### Price Relative



### Forecasts and Valuation

FY Dec (\$m)	2020A	2021A	2022F	2023F
Revenue	170	216	237	327
EBITDA	41.2	54.1	49.1	64.4
Pre-tax Profit	25.4	35.8	28.7	42.7
Net Profit	21.2	30.6	24.4	36.3
Net Pft (Pre Ex.)	21.2	30.6	24.4	36.3
Net Pft Gth (Pre-ex) (%)	122.3	44.8	(20.4)	48.9
EPS (S cts)	7.77	11.1	8.32	12.4
EPS Pre Ex. (S cts)	7.77	11.1	8.32	12.4
EPS Gth Pre Ex (%)	119	42	(25)	49
Diluted EPS (S cts)	7.77	11.1	8.32	12.4
Net DPS (S cts)	3.30	4.80	3.61	5.38
BV Per Share (S cts)	38.2	46.5	84.5	91.5
PE (X)	68.4	48.0	63.8	42.9
PE Pre Ex. (X)	68.4	48.0	63.8	42.9
P/Cash Flow (X)	37.4	35.9	34.0	29.1
EV/EBITDA (X)	34.2	26.4	29.3	22.6
Net Div Yield (%)	0.6	0.9	0.7	1.0
P/Book Value (X)	13.9	11.4	6.3	5.8
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	21.8	26.3	13.0	14.1
Earnings Rev (%)			(12)	(6)
Consensus EPS (S cts):			10.1	14.2
Other Broker Recs:		B: 3	S: 1	H: 2

## Higher costs from new initiatives

### Investment Thesis:

Downgrade to HOLD, TP cut to S\$5.42. Post the 1Q22 results briefing, the group reiterated its Four-Year Plan but near-term catalysts are lacking. Furthermore, operating costs are expected to be high in the coming quarters with the new initiatives in place, including the UK bank acquisition and ePension project. Hence, we downgrade iFAST to HOLD.

### Lacking near-term catalysts, digital bank in Malaysia likely off.

There was no update on the bidding on the digital bank licence in Malaysia, and the management stated that it is fair to assume that it was not successful.

Longer term earnings momentum remains strong; Hong Kong to propel growth from 2024. We maintain our positive view on iFAST in the longer term on the back of the strong growth momentum from 2023, propelled by the Hong Kong business.

### Valuation:

Cut to HOLD with a lower TP of S\$5.42, to account for cut in earnings, higher WACC and slower growth. Our TP is based on the Discounted Cashflow (DCF) valuation method to capture its steadily growing cashflows.

### Where we differ:

We have factored in higher costs, hence lower margins as the group executes on the various initiatives in place.

### 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)	293
Mkt. Cap (S\$m/US\$m)	1,555 / 1,134
Major Shareholders (%)	
Lim Chung Chun	20.3
NEO LAY KIEN	19.5
Singapore Press Holdings Ltd	13.3
Free Float (%)	40.2
3m Avg. Daily Val (US\$m)	3.6

GIC Industry : Financial / Diversified Financials

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



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## WHAT'S NEW

### Lacks near term catalysts and higher costs; downgrade to HOLD

**Downgrade to HOLD.** Post the 1Q22 results briefing, the group reiterated its Four-Year Plan but near-term catalysts are lacking. Furthermore, operating costs are expected to be high in the coming quarters. Hence, we downgrade iFAST to HOLD. We remain positive in the longer term, with the Hong Kong business to propel earnings growth from 2023.

**Operating costs higher than expected and for a longer period.** iFAST has guided for a moderate growth in net revenue in 2022 and decline in profitability. The increase in costs due to the various initiatives in place including the UK bank acquisition and the ePension project is higher than expected, leading to a lower net margin of 14% in 1Q22. This trend is likely to stay as these initiatives are part of the overall planning. As such, we have further trimmed our pretax margin assumption to 12.1%/13.1%, from our recently revised margin of 13.8%/14% for FY22F/23F, vs 16.6% in FY21.

**Lacks near-term catalysts, digital bank in Malaysia is likely off the table.** There has been no update on the bidding on the digital bank licence in Malaysia and the management stated that it is fair to assume that it is not successful in the bidding process.

**Longer term plans still in place.** The group expects a robust ramp up in profitability between 2023 to 2025 as maiden contributions from its new ePension division in Hong Kong come onstream. Longer term plans are still intact. These include 1) growing its AUA to S\$100bn by 2028 ; 2) to accelerate Hong Kong growth, propelled by the ePension project; 3) add Digital Banking and other capabilities; and 4) building a global business model.

**TP revised down to S\$5.42 to account for the cut in earnings, higher WACC and slower growth.** We have revised down our earnings estimates by another 12%/6% as operating costs are higher than expected for a longer

period. (Please refer to report in Insights Direct: [Growth initiatives intact despite near term hiccups](#)). Our DCF-based TP is reduced to S\$5.42, from our recently revised TP of S\$8.75, to account for the cut in earnings, higher WACC on the back of the rising interest rate environment, and slower growth.

**Valuation remains high vs peers as the group is still not at an optimal level yet.** The stock is trading at a relatively high PE of 63.8x/42.9x for FY22F/FY23F. This is despite the c.30% drop in share price YTD, mainly due to negative sentiment for financial technology stocks and acquisition of the UK bank. Its current PE valuation is still above the 4-year average PE of 40x and higher than global peers like Charles Schwab and Hargreaves, which trade at an average forward PE of 18.7x for FY22F and 15.9x for FY23F. The high valuation is partly due to the current scale of the business, which is not at an optimal level yet. We expect valuation to improve as various initiatives start to bear fruit. The group has set a target to reach S\$100bn in AUA in 2028, vs the current AUA of S\$18.6bn as at end March 2022.

Cut to Hold with a lower TP of S\$5.42 (previously S\$8.75).

### 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 (S\$m)**

FY Dec	1Q2021	4Q2021	1Q2022	% chg yoy	% chg qoq
Revenue	55.3	54.6	52.5	(5.1)	(3.7)
Cost of Goods Sold	(26.8)	(26.3)	(24.4)	(9.2)	(7.4)
<b>Gross Profit</b>	<b>28.5</b>	<b>28.2</b>	<b>28.2</b>	<b>(1.2)</b>	<b>(0.3)</b>
Other Oper. (Exp)/Inc	(18.2)	(20.0)	(20.8)	14.6	4.0
<b>Operating Profit</b>	<b>10.3</b>	<b>8.19</b>	<b>7.33</b>	<b>(29.0)</b>	<b>(10.6)</b>
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	-	-
Associates & JV Inc	0.0	(0.2)	(0.3)	(518.6)	25.5
Net Interest (Exp)/Inc	0.03	0.05	0.27	984.0	401.9
Exceptional Gain/(Loss)	0.0	0.0	0.0	-	-
<b>Pre-tax Profit</b>	<b>10.3</b>	<b>8.04</b>	<b>7.33</b>	<b>(28.8)</b>	<b>(8.7)</b>
Tax	(1.5)	(0.9)	(1.7)	7.6	84.2
Minority Interest	0.06	0.07	0.06	12.7	(4.6)
<b>Net Profit</b>	<b>8.82</b>	<b>7.20</b>	<b>5.74</b>	<b>(34.9)</b>	<b>(20.3)</b>
Net profit bef Except.	8.82	7.20	5.74	(34.9)	(20.3)
EBITDA	14.7	13.0	12.0	(18.2)	(7.3)
<b>Margins (%)</b>					
Gross Margins	51.5	51.7	53.6		
Opg Profit Margins	18.6	15.0	13.9		
Net Profit Margins	15.9	13.2	10.9		

Source of all data: Company, DBS Bank

**Peer comparison table**

Company	PE (x)			PEG (x)			EPS Gth (%)		
	FYA	FY1	FY2	FYA	FY1	FY2	FYA	FY1	FY2
iFAST	48	63.8	42.9	4.3	-ve	0.9	11.1	-20.4	48.9
Charles Schwab	29.8	18.0	13.8	0.9	0.7	0.6	33.5	23.3	33.5
Hargreaves	25.2	19.3	17.9	-ve	-ve	2.4	-5.2	-24.9	7.4
<b>Average (ex iFAST)</b>	<b>27.5</b>	<b>18.7</b>	<b>15.9</b>	<b>0.9</b>	<b>0.7</b>	<b>1.5</b>	<b>14.2</b>	<b>-0.8</b>	<b>20.5</b>

Source: DBS Bank, Refinitiv

### Discounted Cash Flow (DCF) Valuation table

Risk Free Rate (Rf)	3.0%
Market Return (Rm)	10.0%
Equity risk premium	7.0%
Beta	1.0
Cost of Equity (Ke)	10.3%
Proportion of debt financing	0.0%
After-tax cost of debt (Kd)	1.7%
Weighted Avg Cost of Capital (WACC)	10.3%

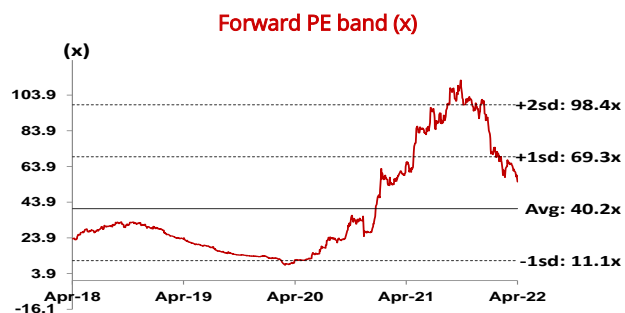
FYE Dec (S\$m)	FY22F	FY23F	Terminal Value
Operating profit	28.9	41.5	345.2
Add Depreciation and Amortisation	20.6	23.3	202.7
Less Tax Provision	(4.3)	(6.5)	(59.7)
Less Capex	(23.0)	(25.0)	(123.0)
<b>Total FCF to the Firm</b>	<b>22.1</b>	<b>33.2</b>	<b>365.2</b>

Terminal Growth (assumed)	4.0%
Sum of PV of FCF	254.0
PV of Terminal Value	1,294.8
Enterprise Value	1,548.8
Add : Net Cash (Debt)	38.3
Equity Value (S\$m)	1,587.1
No of shares (diluted)	292.9

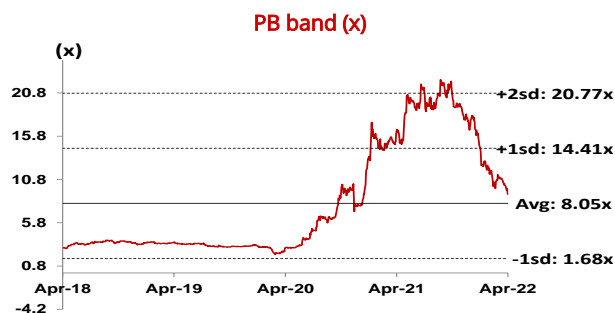
Equity Value Per Share (S\$) 5.42

Source: DBS Bank

### Historical PE and PB band



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



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

**Key Assumptions**

FY Dec	2019A	2020A	2021A	2022F	2023F
Average AUA (\$bn)	10.0	14.5	19.0	21.9	26.2
Opex / average AUA (%)	0.6%	0.5%	0.4%	0.4%	0.4%

**Segmental Breakdown**

FY Dec	2019A	2020A	2021A	2022F	2023F
<b>Net Revenues (\$m)</b>					
B2B business	44.3	53.2	72.2	69.5	91.2
B2C business	20.9	32.6	41.1	46.3	60.8
<b>Total</b>	<b>65.2</b>	<b>85.9</b>	<b>113.2</b>	<b>115.8</b>	<b>152.1</b>
<b>Net Revenue (\$m)</b>					
Recurring revenue	52.9	60.4	78.7	81.1	106.5
Non-recurring revenue	12.3	25.5	34.5	34.7	45.6
<b>Total</b>	<b>65.2</b>	<b>85.9</b>	<b>113.2</b>	<b>115.8</b>	<b>152.1</b>
<b>Net Revenue (\$m)</b>					
Singapore	42.0	56.3	73.2	74.9	98.4
Hong Kong	16.7	19.2	24.4	25.0	32.8
Malaysia	6.0	8.6	13.2	13.5	17.7
China	0.6	1.8	2.4	2.5	3.2
<b>Total</b>	<b>65.2</b>	<b>85.9</b>	<b>113.2</b>	<b>115.8</b>	<b>152.1</b>

**Income Statement (\$m)**

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	125	170	216	237	327
Cost of Goods Sold	(60.2)	(84.1)	(103)	(111)	(148)
<b>Gross Profit</b>	<b>65.2</b>	<b>85.9</b>	<b>113</b>	<b>126</b>	<b>179</b>
Other Opng (Exp)/Inc	(54.0)	(60.1)	(77.2)	(97.0)	(137)
<b>Operating Profit</b>	<b>11.2</b>	<b>25.8</b>	<b>36.0</b>	<b>28.9</b>	<b>41.5</b>
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	1.63
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>11.1</b>	<b>25.4</b>	<b>35.8</b>	<b>28.7</b>	<b>42.7</b>
Tax	(1.8)	(4.4)	(5.4)	(4.3)	(6.5)
Minority Interest	0.21	0.19	0.23	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>9.52</b>	<b>21.2</b>	<b>30.6</b>	<b>24.4</b>	<b>36.3</b>
Net Profit before Except.	9.52	21.2	30.6	24.4	36.3
EBITDA	24.3	41.2	54.1	49.1	64.4
<b>Growth</b>					
Revenue Gth (%)	3.4	35.5	27.2	9.7	38.0
EBITDA Gth (%)	42.2	69.3	31.3	(9.3)	31.1
Opg Profit Gth (%)	1.6	130.6	39.8	(19.9)	43.7
Net Profit Gth (Pre-ex) (%)	(11.0)	122.3	44.8	(20.4)	48.9
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	52.0	50.5	52.4	53.1	54.7
Opg Profit Margin (%)	8.9	15.2	16.7	12.2	12.7
Net Profit Margin (%)	7.6	12.4	14.2	10.3	11.1
ROAE (%)	10.8	21.8	26.3	13.0	14.1
ROA (%)	6.0	10.3	12.8	8.1	8.8
ROCE (%)	8.2	18.9	24.0	12.4	14.2
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

### Quarterly Income Statement (\$m)

FY Dec	1Q2021	2Q2021	3Q2021	4Q2021	1Q2022
Revenue	55.3	50.8	55.5	54.6	52.5
Cost of Goods Sold	(26.8)	(24.6)	(25.2)	(26.3)	(24.4)
<b>Gross Profit</b>	<b>28.5</b>	<b>26.2</b>	<b>30.3</b>	<b>28.2</b>	<b>28.2</b>
Other Oper. (Exp)/Inc	(18.2)	(17.8)	(21.2)	(20.0)	(20.8)
<b>Operating Profit</b>	<b>10.3</b>	<b>8.42</b>	<b>9.10</b>	<b>8.19</b>	<b>7.33</b>
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	(0.1)	(0.2)	(0.3)
Net Interest (Exp)/Inc	0.03	0.02	0.03	0.05	0.27
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>10.3</b>	<b>8.40</b>	<b>9.09</b>	<b>8.04</b>	<b>7.33</b>
Tax	(1.5)	(1.4)	(1.5)	(0.9)	(1.7)
Minority Interest	0.06	0.05	0.06	0.07	0.06
<b>Net Profit</b>	<b>8.82</b>	<b>7.02</b>	<b>7.60</b>	<b>7.20</b>	<b>5.74</b>
Net profit bef Except.	8.82	7.02	7.60	7.20	5.74
EBITDA	14.7	12.8	13.7	13.0	12.0

### Growth

Revenue Gth (%)	15.5	(8.2)	9.3	(1.8)	(3.7)
EBITDA Gth (%)	19.6	(12.8)	6.5	(5.0)	(7.3)
Opg Profit Gth (%)	24.6	(18.4)	8.1	(10.0)	(10.6)
Net Profit Gth (Pre-ex) (%)	29.1	(20.4)	8.2	(5.2)	(20.3)

### Margins

Gross Margins (%)	51.5	51.6	54.6	51.7	53.6
Opg Profit Margins (%)	18.6	16.6	16.4	15.0	13.9
Net Profit Margins (%)	15.9	13.8	13.7	13.2	10.9

### Balance Sheet (\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Net Fixed Assets	3.69	4.28	7.55	20.8	34.8
Invt in Associates & JVs	5.37	5.98	6.55	52.2	79.9
Other LT Assets	43.4	49.4	56.1	45.4	35.3
Cash & ST Invt	24.8	36.4	44.1	115	100
Inventory	19.1	16.8	15.2	15.2	15.2
Debtors	59.0	139	92.0	127	175
Other Current Assets	1.79	2.02	3.33	3.33	3.33
<b>Total Assets</b>	<b>157</b>	<b>254</b>	<b>225</b>	<b>379</b>	<b>444</b>
ST Debt	3.81	0.0	0.0	0.0	0.0
Creditor	45.2	126	74.8	110	152
Other Current Liab	5.90	10.3	11.9	12.0	14.1
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	247	268
Minority Interests	(0.4)	(0.7)	(1.0)	(1.0)	(1.0)
<b>Total Cap. &amp; Liab.</b>	<b>157</b>	<b>254</b>	<b>225</b>	<b>379</b>	<b>444</b>
Non-Cash Wkg. Capital	28.9	21.9	23.9	23.3	27.6
Net Cash/(Debt)	21.0	36.4	44.1	115	100
Debtors Turn (avg days)	145.4	212.9	195.3	168.5	168.4
Creditors Turn (avg days)	299.5	457.7	433.1	371.9	382.6
Inventory Turn (avg days)	167.9	96.2	69.1	61.2	44.4
Asset Turnover (x)	0.8	0.8	0.9	0.8	0.8
Current Ratio (x)	1.9	1.4	1.8	2.1	1.8
Quick Ratio (x)	1.5	1.3	1.6	2.0	1.7
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	28.7	42.7
Dep. & Amort.	13.2	15.8	18.4	20.6	23.3
Tax Paid	(1.5)	(3.1)	(4.2)	(4.3)	(6.5)
Assoc. & JV Inc/(loss)	0.05	0.41	0.35	0.35	0.35
Chg in Wkg.Cap.	(4.8)	0.11	(9.4)	0.49	(6.4)
Other Operating CF	0.0	0.0	0.0	0.0	0.0
<b>Net Operating CF</b>	<b>17.9</b>	<b>38.7</b>	<b>41.0</b>	<b>45.8</b>	<b>53.5</b>
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
<b>Net Investing CF</b>	<b>(8.3)</b>	<b>(10.5)</b>	<b>(20.2)</b>	<b>(69.0)</b>	<b>(53.0)</b>
Div Paid	(8.5)	(8.7)	(12.2)	(10.6)	(15.8)
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
<b>Net Financing CF</b>	<b>(47.4)</b>	<b>(19.2)</b>	<b>(18.9)</b>	<b>94.4</b>	<b>(15.8)</b>
Currency Adjustments	(0.1)	(0.3)	0.24	0.0	0.0
Chg in Cash	(37.9)	8.74	2.12	71.2	(15.2)
Opg CFPS (S cts)	8.48	14.2	18.2	15.5	20.4
Free CFPS (S cts)	2.17	9.71	7.74	7.78	9.73

Source: Company, DBS Bank

## Target Price &amp; Ratings History



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

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
5:	15 Feb 22	6.09	10.85	BUY
6:	25 Apr 22	5.31	8.75	BUY

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: 26 Apr 2022 07:40:22 (SGT)

Dissemination Date: 26 Apr 2022 08:51:04 (SGT)

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

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