

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

22 Feb 2024

HOLD

Last Traded Price (21 Feb 2024): S\$7.93 (STI : 3,217.11)

Price Target 12-mth: S\$8.33 (5% upside) (Prev S\$6.95)

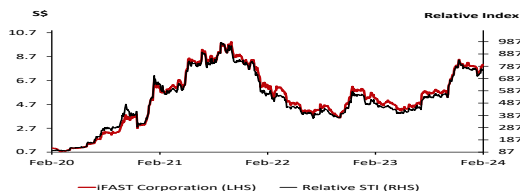
Analysts

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What's New

- Strong surge in 4Q/FY23 earnings, above expectations; AUA up 13.8% y-o-y to reach a record high of S\$19.83bn
- Improvement in margins, but operating expenses ahead could remain high
- No change in 2024 and 2025 earnings guidance for Hong Kong business but revenue targets cut by over 20%
- Raised FY24F/25F earnings by 15%/2% mainly on higher margin assumptions; maintain HOLD with higher S\$8.33 TP

Price Relative



Forecasts and Valuation

FY Dec (S\$m)	2022A	2023A	2024F	2025F
Revenue	209	257	376	454
EBITDA	37.2	60.8	102	139
Pre-tax Profit	10.8	36.6	77.7	108
Net Profit	6.42	28.3	60.6	88.7
Net Pft (Pre Ex.)	11.6	28.3	60.6	88.7
Net Pft Gth (Pre-ex) (%)	(62.1)	143.2	114.4	46.3
EPS (S cts)	2.19	9.56	20.5	30.0
EPS Pre Ex. (S cts)	3.97	9.56	20.5	30.0
EPS Gth Pre Ex (%)	(64)	141	114	46
Diluted EPS (S cts)	2.19	9.56	20.5	30.0
Net DPS (S cts)	4.80	4.80	10.3	15.1
BV Per Share (S cts)	75.9	84.6	94.8	110
PE (X)	361.8	83.0	38.7	26.4
PE Pre Ex. (X)	199.9	83.0	38.7	26.4
P/Cash Flow (X)	65.6	10.0	33.6	12.7
EV/EBITDA (X)	58.9	33.3	19.7	13.6
Net Div Yield (%)	0.6	0.6	1.3	1.9
P/Book Value (X)	10.4	9.4	8.4	7.2
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	3.7	12.0	22.9	29.3
Earnings Rev (%):			15	2
Consensus EPS (S cts):			18.0	31.5
Other Broker Recs:		B: 1	S: 3	H: 1

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

Margins trending higher

Investment Thesis:

No change in 2024 and 2025 earnings guidance for Hong Kong business but revenue targets cut by over 20%. The tough financial market conditions in Hong Kong have reduced business volumes for the wealth management business, and also timing delays for the ePension division. Overall, the Hong Kong revenue targets have been cut by over 20% from the last guidance in April 2022.

On track to benefit from operating leverage. iFAST's scalable platform business model enables the group to scale up without a proportionate increase in cost. However, its ePension projects (eMPF and ORSO) in Hong Kong are still in an infancy stage, with a substantial contribution only expected in 2024 and beyond. Furthermore, the UK digital bank that the group acquired in 2022 is only expected to breakeven in 4Q24. Though the group is presently not able to enjoy much operating leverage, operating metrics are improving. We project the group would benefit from operating leverage in 2024 and beyond.

Group sets high AUA target by 2028, vs. our conservative target of 15% growth per annum. iFAST has set a 10-year target to reach S\$100bn in assets under administration (AUA) by 2028, from S\$19.83bn as of end-December 2023. AUA for iFAST has grown at a CAGR of 15% between FY15-23, as the group continues to add new products and services on its platforms. We have assumed conservative long-term AUA growth of 15%. However, to reach S\$100bn AUA by 2028, growth should come from inorganic activities, including M&As.

Higher TP of S\$8.33 (vs. S\$6.95 previously). Our TP is based on a DCF valuation. We have raised net earnings for FY24F/FY25F by 15%/2% as we have assumed higher margins, with the improving margin trend. There is no change in our projection of 15% y-o-y growth in AUA for FY24F and FY25F, as the ePension project is not included in the AUA computation. Maintain HOLD.

Key Risks

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

At A Glance

Issued Capital (m shrs)	295
Mkt. Cap (S\$m/US\$m)	2,340 / 1,742
Major Shareholders (%)	
Lim Chung Chun	20.1
Cuscaden Peak Investments Pvt Ltd	13.0
Lee Wee Kian	6.7
Free Float (%)	60.2
3m Avg. Daily Val (US\$m)	3.5
GIC Industry : Financial / Diversified Financials	

WHAT'S NEW

FY23 earnings above expectations on strong improvement in margins

Strong surge in 4Q/FY23 earnings, above expectations. iFAST reported 4Q23 net profit of S\$13.2m (+917% y-o-y, +55% q-o-q). Total revenue jumped 63% y-o-y (+24% q-o-q) to S\$77.3m. The increase in profitability was driven by initial contributions from the ePension division, as well as improvements in the group's core wealth management platform business. For FY23, net profit surged 340% to S\$28.3m, on the back of a 23% gain in revenue to S\$256.5m. FY23 earnings were 13% above our estimates.

DPS of 1.4 Scts was proposed for 4Q23, bringing full year DPS to 4.8Scts, reflecting a 50% payout ratio for FY23.

AUA up 13.8% y-o-y to reach a record high of S\$19.83bn as at 31 December 2023, driven by net inflows of S\$2.0bn during the year. This outperformed the MSCI AC Asia ex Japan index, which saw a 6.3% y-o-y increase.

Singapore saw healthy growth, Hong Kong market boosted by eMPF project. In terms of geographical breakdown, Singapore remained the key contributor with a 15.2% growth in net revenue. The strong performance for the Hong Kong market was mainly boosted by the contribution from the eMPF project which started in 3Q23.

FY23 geographical net revenue breakdown

Net revenue (S\$m)	FY23	y-o-y (%)
Singapore	81.2	+15.2
Hong Kong	52.6	+117.7
Malaysia	14.0	+2.5
China	1.5	-14.4
UK	12.4	NM
Total	161.7	+36.7

Source: DBS Bank Ltd, company

AUA breakdown

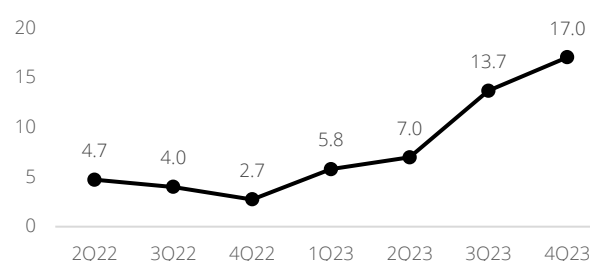
AUA	4Q23	1Q23	2Q23	3Q23
By market				
Singapore	72.9%	72.8%	73.3%	72.8%
Hong Kong	11.8%	13.4%	13.1%	12.3%
Malaysia	11.7%	11.3%	11.0%	11.9%
Others	3.6%	2.5%	2.6%	3.0%
By product				
Unit Trusts	63.0%	66.8%	65.9%	63.5%
Stocks & ETFs	20.0%	20.6%	20.8%	21.4%
Bonds	11.0%	7.2%	7.9%	9.9%
Cash Account	6.0%	5.4%	5.4%	5.2%

Source: DBS Bank Ltd; Company

UK Bank to breakeven in 4Q24; China still loss-making. The group expects iFAST Global Bank to post narrower losses in 2024 compared to S\$8.6m loss in FY23. iFAST Global Bank is targeting to breakeven by 4Q24. China, however, continues to be loss-making, and registered a S\$7.2m loss in FY23.

Improvement in margins, but operating expenses going forward could still remain high. 4Q23 net margin improved to 17.0%, from 13.7% (based on total gross revenue), with increasing contribution from the eMPF project. However, operating expenses could remain high as the group continues to build its ePension projects (eMPF and ORSO) in Hong Kong while the UK bank is only expected to breakeven in 4Q24.

Net margin trend (%)



Source: DBS Bank, company

ePension division in Hong Kong a key growth driver; overall wealth management platform to show healthy progress. With the eMPF project expected to be launched this year and fully operational in 2025, coupled with the newly launched ORSO ePension Service, a one-stop digital pension solution geared for the Hong Kong Occupational Retirement Schemes Ordinance (ORSO), contribution from the Hong Kong ePension division would be the key growth driver ahead. For the overall wealth management business, we can expect healthy progress.

No change in 2024 and 2025 earnings guidance for Hong Kong business but revenue targets cut by over 20%. iFAST has updated its guidance on the group targets for the overall Hong Kong business. The profit before tax targets for 2024 and 2025 have been maintained. However, the revenue targets have been reduced for 2024 and 2025 given that the tough financial market conditions in Hong Kong have reduced business volumes for the wealth management business, and also some timing delays for the ePension division. Overall, the Hong Kong revenue targets have been reduced by over 20% from the last guidance in April 2022.

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Updated guidance on Hong Kong targets

Targets set in April 2022	Updated Targets	% difference
2023		
Gross Revenue >HKD400m	Actual Gross Revenue HKD406m	+1.5%
Net Revenue >HKD280m	Actual Net Revenue HKD306m	+9.3%
PBT >HKD100m	Actual PBT HKD139m	+39.0%
2024		
Gross Revenue >HKD1.1 bn	Gross Revenue >HKD800m	-27.3%
Net Revenue >HKD900m	Net Revenue >HKD650m	-27.8%
PBT >HKD250m	PBT >HKD250m	No change
2025		
Gross Revenue >HKD1.6 bn	Gross Revenue >HKD1.2 bn	-25.0%
Net Revenue >HKD1.3 bn	Net Revenue >HKD1.0 bn	-23.1%
PBT >HKD500m	PBT >HKD500m	No change

Source: DBS Bank Ltd; Company

Raised earnings by 15%/2% for FY24F/25F mainly on higher margin assumptions. Despite the 5%-6% cut in overall total revenue on the back of the lower guidance for the Hong Kong business, net earnings for FY24F/FY25F were raised by 15%/2% as we have assumed higher margins, with the improving margin trend. Net margin assumption is raised to 16.1%/19.5% for FY24F/FY25F, from 13.3%/18.0% previously. There is no change in our projection of 15% y-o-y growth in AUA for FY24F and FY25F, as the ePension project is not included in the AUA computation. Our target price is raised accordingly to S\$8.33 (previously S\$6.95), based on the DCF valuation method. Maintain HOLD, as we could still see higher operating costs ahead, as both the eMPF and ORSO projects are still in the infancy stages.

Company Background

iFAST is an internet-based investment product distribution platform. The group has also acquired a digital bank in the UK. As of end-September 2023, the group offers over 20,500 investment products including funds, bonds, stocks, and ETFs. Over 12,500 wealth advisors use its B2B platforms and more than 825,000 customer accounts have been opened across the five markets – Singapore, Hong Kong, US, Malaysia, and China – the group operates in. The group is in a good spot to ride on Asia wealth management's coattails.

Quarterly / Interim Income Statement (\$m)

FY Dec	4Q2022	3Q2023	4Q2023	% chg yoy	% chg qoq
Revenue	47.4	62.2	77.3	63.0	24.3
Cost of Goods Sold	(18.5)	(22.8)	(21.9)	18.0	(4.1)
Gross Profit	28.9	39.4	55.5	91.8	40.7
Other Oper. (Exp)/Inc	(27.6)	(30.6)	(40.3)	46.0	31.9
Operating Profit	1.33	8.90	15.2	1,042.4	70.7
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	nm	nm
Associates & JV Inc	0.0	0.0	0.02	nm	(194.7)
Net Interest (Exp)/Inc	1.02	2.05	1.42	39.5	(30.6)
Exceptional Gain/(Loss)	0.0	0.0	0.0	nm	nm
Pre-tax Profit	2.32	10.9	16.6	617.6	52.2
Tax	(1.3)	(2.7)	(3.8)	183.6	40.4
Minority Interest	0.33	0.30	0.36	10.4	18.8
Net Profit	1.30	8.52	13.2	917.1	54.8
Net profit bef Except.	1.30	8.52	13.2	917.1	54.8
EBITDA	6.73	14.7	22.2	229.9	50.7
Margins (%)					
Gross Margins	61.0	63.4	71.7		
Opg Profit Margins	2.8	14.3	19.6		
Net Profit Margins	2.7	13.7	17.0		

Source of all data on this page: Company, DBS Bank Ltd

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Valuation table – Discounted Cash Flow (DCF)

Key Variables

Risk Free Rate (Rf)	3.0%
Market Return (Rm)	10.0%
Equity risk premium	7.0%
Beta	1.0
Cost of Equity (Ke)	9.8%
Proportion of debt financing	5.2%
After-tax cost of debt (Kd)	1.7%
Weighted Avg Cost of Capital (WACC)	9.3%

Discounted Cash Flow Valuation

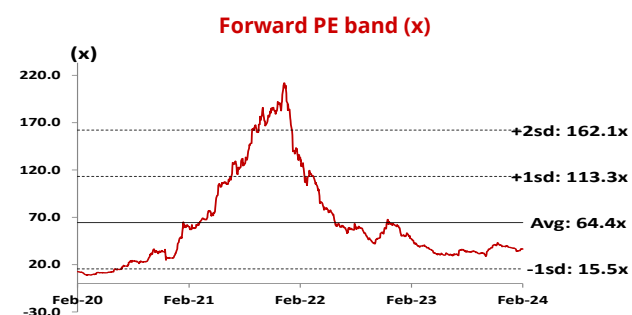
FYE Dec (S\$m)	FY24F	FY25F	Terminal Value
Operating profit	37.1	66.0	509.9
Add Depreciation and Amortisation	36.0	42.9	234.8
Less Tax Provision	(17.1)	(19.5)	(121.6)
Less Capex	(21.0)	(21.0)	(102.0)
Total FCF to the Firm	63.8	98.0	521.2

Terminal Growth (assumed)	5.0%
Sum of PV of FCF	391.1
PV of Terminal Value	2,023.4
Enterprise Value	2,414.5
Add : Net Cash (Debt)	49.5
Equity Value (S\$m)	2,464.0
No of shares (diluted)	295.7

Equity Value Per Share (S\$) **8.33**

Source: Company, DBS Bank Ltd

Historical PE and PB band



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



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

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Key Assumptions

FY Dec	2021A	2022A	2023A	2024F	2025F
Average AUA (\$bn)	19.0	17.4	19.8	22.8	26.2
Opex / average AUA (%)	0.41%	0.60%	0.64%	0.83%	0.86%

Segmental Breakdown

FY Dec	2021A	2022A	2023A	2024F	2025F
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Net Revenues (\$m)

B2B business	72.2	74.7	112.0	107.4	110.1
B2C business	41.1	32.8	32.9	71.6	73.4

Total	113.2	107.5	144.9	179.0	183.6
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Net Revenue (\$m)

Recurring revenue	78.7	81.0	124.7	143.2	146.9
Non-recurring revenue	34.5	26.4	20.1	35.8	36.7

Total	113.2	107.5	144.9	179.0	183.6
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Net Revenue (\$m)

Singapore	73.2	70.5	81.2	44.8	45.9
Hong Kong	24.4	24.2	52.6	89.5	91.8
Malaysia	13.2	13.6	14.0	15.5	15.9
Others	2.4	10.0	13.8	26.8	27.6

Total	113.2	118.2	161.7	176.6	181.1
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Income Statement (\$m)

FY Dec	2021A	2022A	2023A	2024F	2025F
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Revenue	216	209	257	376	454
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Cost of Goods Sold	(103)	(90.6)	(94.9)	(94.8)	(106)
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Gross Profit	113	118	162	281	348
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Other Opng (Exp)/Inc	(77.2)	(102)	(125)	(215)	(252)
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Operating Profit	36.0	16.1	37.1	66.0	95.7
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Other Non Opng (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
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Associates & JV Inc	(0.4)	0.30	0.22	0.22	0.22
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Net Interest (Exp)/Inc	0.13	(0.5)	(0.8)	11.5	12.3
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Exceptional Gain/(Loss)	0.0	(5.2)	0.0	0.0	0.0
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Pre-tax Profit	35.8	10.8	36.6	77.7	108
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Tax	(5.4)	(5.4)	(9.6)	(17.1)	(19.5)
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Minority Interest	0.23	1.08	1.26	0.0	0.0
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Preference Dividend	0.0	0.0	0.0	0.0	0.0
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Net Profit	30.6	6.42	28.3	60.6	88.7
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Net Profit before Except.	30.6	11.6	28.3	60.6	88.7
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EBITDA	54.1	37.2	60.8	102	139
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Growth

Revenue Gth (%)	27.2	(3.4)	22.8	46.7	20.6
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EBITDA Gth (%)	31.3	(31.2)	63.4	67.9	35.8
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Opg Profit Gth (%)	39.8	(55.3)	130.5	77.6	45.0
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Net Profit Gth (Pre-ex) (%)	44.8	(62.1)	143.2	114.4	46.3
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Margins & Ratio

Gross Margins (%)	52.4	56.6	63.0	74.8	76.6
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Opg Profit Margin (%)	16.7	7.7	14.5	17.5	21.1
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Net Profit Margin (%)	14.2	3.1	11.0	16.1	19.5
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ROAE (%)	26.3	3.7	12.0	22.9	29.3
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ROA (%)	12.8	1.9	4.4	7.1	9.2
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ROCE (%)	24.0	5.7	9.8	22.1	27.8
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Div Payout Ratio (%)	43.4	219.0	50.2	50.2	50.2
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Net Interest Cover (x)	NM	35.7	46.8	NM	NM
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Source: Company, DBS Bank Ltd

iFAST Corporation

Quarterly Income Statement (\$m)

FY Dec	4Q2022	1Q2023	2Q2023	3Q2023	4Q2023
Revenue	47.4	51.5	51.5	62.2	77.3
Cost of Goods Sold	(18.5)	(22.1)	(21.3)	(22.8)	(21.9)
Gross Profit	28.9	29.3	30.2	39.4	55.5
Other Oper. (Exp)/Inc	(27.6)	(27.0)	(26.7)	(30.6)	(40.3)
Operating Profit	1.33	2.35	3.50	8.90	15.2
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	(0.6)	0.0	0.0	0.02
Net Interest (Exp)/Inc	1.02	2.38	1.35	2.05	1.42
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	2.32	4.17	4.85	10.9	16.6
Tax	(1.3)	(1.5)	(1.6)	(2.7)	(3.8)
Minority Interest	0.33	0.27	0.33	0.30	0.36
Net Profit	1.30	2.98	3.59	8.52	13.2
Net profit bef Except.	1.30	2.98	3.59	8.52	13.2
EBITDA	6.73	7.14	8.76	14.7	22.2

Growth

Revenue Gth (%)	(9.1)	8.5	0.1	20.9	24.3
EBITDA Gth (%)	(3.9)	6.1	22.7	68.2	50.7
Opg Profit Gth (%)	(27.8)	76.8	48.8	154.3	70.7
Net Profit Gth (Pre-ex) (%)	(37.8)	129.7	20.7	137.0	54.8

Margins

Gross Margins (%)	61.0	57.0	58.6	63.4	71.7
Opg Profit Margins (%)	2.8	4.6	6.8	14.3	19.6
Net Profit Margins (%)	2.7	5.8	7.0	13.7	17.0

Balance Sheet (\$m)

FY Dec	2021A	2022A	2023A	2024F	2025F
Net Fixed Assets	7.55	5.96	8.53	12.5	13.2
Invts in Associates & JVs	6.55	3.48	0.41	0.64	0.86
Other LT Assets	56.1	121	157	148	128
Cash & ST Invts	44.1	151	360	378	498
Inventory	15.2	41.7	82.8	82.8	82.8
Debtors	92.0	130	218	255	307
Other Current Assets	3.33	5.35	7.10	7.10	7.10
Total Assets	225	459	833	884	1,037
ST Debt	0.0	12.2	34.5	34.5	34.5
Creditor	74.8	199	506	517	623
Other Current Liab	11.9	8.78	16.0	26.4	28.8
LT Debt	0.0	0.0	0.0	0.0	0.0
Other LT Liabilities	10.6	8.15	19.0	19.0	19.0
Shareholder's Equity	129	222	250	280	325
Minority Interests	(1.0)	8.23	7.18	7.18	7.18
Total Cap. & Liab.	225	459	833	884	1,037
Non-Cash Wkg. Capital	23.9	(30.5)	(215)	(199)	(255)
Net Cash/(Debt)	44.1	139	325	344	463
Debtors Turn (avg days)	195.3	193.9	247.2	229.1	226.1
Creditors Turn (avg days)	433.1	714.8	1,801.1	3,172.0	3,281.8
Inventory Turn (avg days)	69.1	148.8	318.2	513.5	476.6
Asset Turnover (x)	0.9	0.6	0.4	0.4	0.5
Current Ratio (x)	1.8	1.5	1.2	1.3	1.3
Quick Ratio (x)	1.6	1.3	1.0	1.1	1.2
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	N/A	146.4	72.5	60.9	60.9

Source: Company, DBS Bank Ltd

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Cash Flow Statement (S\$m)

FY Dec	2021A	2022A	2023A	2024F	2025F
Pre-Tax Profit	35.8	10.8	36.6	77.7	108
Dep. & Amort.	18.4	20.8	23.5	36.0	42.9
Tax Paid	(4.2)	(2.9)	(6.6)	(17.1)	(19.5)
Assoc. & JV Inc/(loss)	0.35	(0.3)	(0.2)	(0.2)	(0.2)
Chg in Wkg.Cap.	(9.4)	7.01	180	(26.5)	54.0
Other Operating CF	0.0	0.0	0.0	0.0	0.0
Net Operating CF	41.0	35.4	234	69.8	185
Capital Exp.(net)	(19.6)	(17.9)	(25.0)	(21.0)	(21.0)
Other Invs.(net)	0.0	0.0	0.0	0.0	0.0
Invs in Assoc. & JV	(0.9)	(0.1)	(28.0)	0.0	0.0
Div from Assoc & JV	0.04	0.04	0.0	0.0	0.0
Other Investing CF	0.22	1.31	0.0	0.0	0.0
Net Investing CF	(20.2)	(16.6)	(53.0)	(21.0)	(21.0)
Div Paid	(12.2)	(14.1)	(14.2)	(30.4)	(44.5)
Chg in Gross Debt	0.0	12.2	0.0	0.0	0.0
Capital Issues	0.0	103	0.0	0.0	0.0
Other Financing CF	(6.7)	(10.7)	0.0	0.0	0.0
Net Financing CF	(18.9)	90.9	(14.2)	(30.4)	(44.5)
Currency Adjustments	0.24	(14.7)	0.0	0.0	0.0
Chg in Cash	2.12	95.1	166	18.4	120
Opg CFPS (S cts)	18.2	9.70	18.0	32.6	44.4
Free CFPS (S cts)	7.74	5.99	70.6	16.5	55.6

Source: Company, DBS Bank Ltd

Target Price & Ratings 12-mth 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:	26 Apr 23	4.68	3.92	FULLY VALUED
2:	27 Oct 23	6.31	6.95	HOLD

Source: DBS Bank Ltd

Analyst: Lee Keng LING

DBS Bank Ltd 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: 22 Feb 2024 07:45:20 (SGT)

Dissemination Date: 22 Feb 2024 08:16:06 (SGT)

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