

iFAST Corporation Ltd.

A Strong Start to 2017

SINGAPORE | FINANCE | 1Q17 RESULTS

- 1Q17 PATMI of S\$1.96mn was in line with our estimate.
- Surprise came from higher than expected q-o-q growth in AUA but offset by a wider than expected operating expense margin.
- **Upgrade to “ACCUMULATE” from previous “NEUTRAL” rating due to recent share price correction. Our target price is unchanged at S\$0.78, pegged at unchanged 25x PER based on FY17F EPS of 3.12 cents (previous FY17F forecast was 3.13 cents).**

Results at a glance

(SGD mn)	1Q17	1Q16	y-o-y (%)	4Q16	q-o-q (%)	Comments
Recurring net revenue	9.41	8.13	16%	9.04	4%	Higher AUA y-o-y
Non-recurring net revenue	1.76	1.23	43%	1.94	-9%	Higher commission y-o-y
Total Net Revenue	11.17	9.35	19%	10.98	2%	
Other operating income	0.44	0.54	-19%	0.47	-7%	Lower AFS financial assets y-o-y
Staff costs	4.84	4.56	6%	5.21	-7%	Annual salary adj. and inc. no. of staff in China y-o-y
Other operating expenses	3.70	3.80	-3%	4.06	-9%	Relatively lower unrealised exchange losses y-o-y
Operating profit	2.17	1.18	84%	1.27	71%	
						Lower interest rates. Redemption of bond securities
Net Finance Income	0.20	0.25	-18%	0.20	2%	y-o-y
PATMI	2.01	1.25	61%	1.15	75%	

Source: Company, Phillip Securities Research (Singapore)

iFAST’s Asset under Administration (“AUA”) grew faster than expected to hit S\$6.46bn. Total AUA grew 17.2% year-on-year (“y-o-y”) and 8.2% quarter-on-quarter (“q-o-q”). We see most of the growth coming through in the 1Q17 contributed by Singapore’s AUA growth of 5.0% q-o-q. We see the growth boosted by improved market sentiment that drove the momentum for sales of investment products. And we also see the momentum in iFAST’s B2C channel sales picking up quickly following the launch of the FSMOne on its Singapore B2C operations in Dec 2016.

Trading in SGX-listed stocks and ETFs on target to launch in 2Q17. iFAST has cleared some key system tests in the process of applying for Trading and Clearing Member to SGX, and is awaiting formal clearance from authorities.

Hong Kong’s AUA grew 17.3% y-o-y and 6.6% q-o-q to hit S\$1.40bn. Improved market sentiment and improved range and depth of products and services contributed the growth in AUA both in its Hong Kong B2C and B2B sales channels. The AUA growth catalyst for the B2B market came from the launch of stocks/ETFs in the B2B platform in 2016. Moving forward in 2017, we see catalysts for B2C AUA growth coming from the launch of stocks/ETFs on its B2C platform in April 2017. And following the success of FSMOne platform in Singapore, we could see even more AUA growth once FSMOne platform is remodelled into the Hong Kong B2C platform.

Malaysia’s AUA grew 33.5% y-o-y and 12.6% q-o-q to hit S\$413.31mn. Malaysian operations also obtained approval in April 2017 to operate fund management business. With the approval, the Malaysian operation intends to offer robo-advisory portfolios by middle of 2017.

Net profit growth was also driven by normalizing of staff costs. 1Q17’s staff costs margin was 43.3% of net revenue, a sharp drop from FY16’s average of 47.4%. We see the higher staff costs margin in 2016 a result of a difficult operating environment as more staff were hired to grow business while the soft markets led to a weak AUA growth and lower net revenues. So the lower staff costs margin in 1Q17 can be seen as a return to a level closer to FY15’s. We estimate FY17e average margin to be c.44% but still higher than FY15’s average staff costs margin of 41.5% as iFAST’s AUA is seen growing at a faster pace in 2017 than 2015 on the back of a strong FSMOne performance.

5 June 2017

Accumulate (Upgrade)

LAST TRADED PRICE	SGD 0.735
FORECAST DIV	SGD 0.0279
TARGET PRICE	SGD 0.780
TOTAL RETURN	9.92%

COMPANY DATA

O/S SHARES (MN) :	263
MARKET CAP (USD mn / SGD mn) :	138 / 193
52 - WK HI/LO (SGD) :	124 / 0.59
3M Average Daily T/O (mn) :	0.64

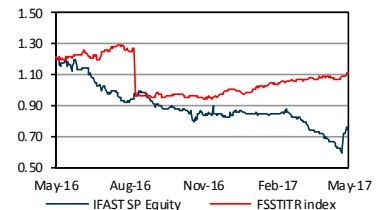
MAJOR SHAREHOLDERS (%)

Lim Chung Chun	22.55%
Singapore Press Holdings Ltd	15.49%
Wee Kian Lim	7.74%
Schroders PLC	4.99%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	6.8	(9.6)	(35.6)
STI RETURN	2.18	7.34	19.59

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY 15	FY 16	FY 17F	FY 18F
Net Revenue (SGD mn)	415	40.7	49.2	57.9
NPAT (SGD mn)	12.1	5.4	7.9	10.4
EPS (Cents)	4.65	2.08	3.12	4.27
P/E (X)	29.0	40.6	25.0	18.3
BVPS (Cents)	29.34	30.26	31.90	34.90
P/B (X)	4.60	2.80	2.40	2.20
DPS (Cents)	2.79	2.79	2.79	2.79
Div. Yield (%)	2.8%	2.9%	3.6%	3.6%

Source: Bloomberg

Valuation: P/E Multiple @ 25x

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Upgrade to “ACCUMULATE” from previous “NEUTRAL” rating with an unchanged target price of S\$0.78. We have increased our FY17e AUA estimate from S\$6.3bn to S\$6.9bn. Correspondingly, we have also increased our staff costs margin from previous estimate of c.42% to c.43% in response to stronger AUA growth. The overall effect to FY17e net profit estimate remains unchanged from our previous estimate. iFAST’s 25x PER is below 1 standard deviation of its 1 year historical PER therefore we use 25x PER as a conservative guide for its forward earnings.

Fig 1. Net Revenue (\$mn)

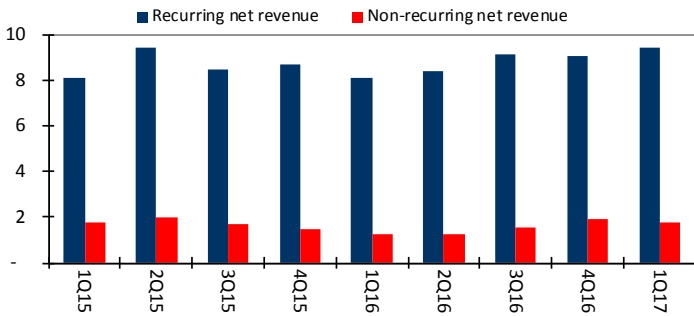


Fig 2. Other Operating Income (\$'000)

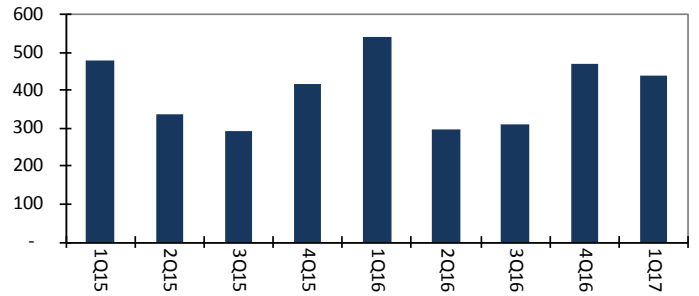


Fig 3. Operating Expense to Net Revenue (%)

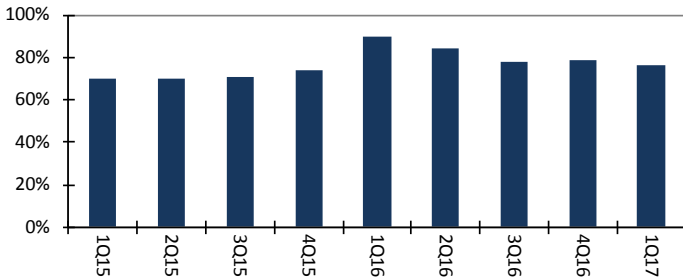


Fig 4. Net Profit Margin based on Net Revenue (%)

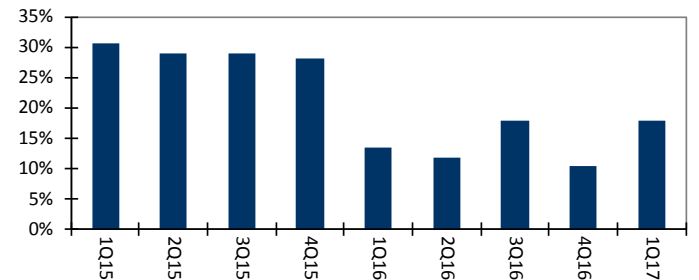


Fig 5. Net Revenue and Operating profit growth (%)

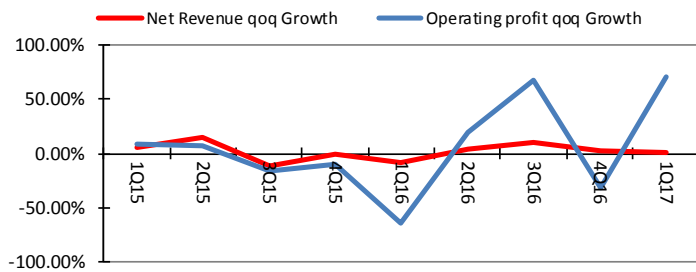


Fig 6. AUA of Investment products (\$bn)

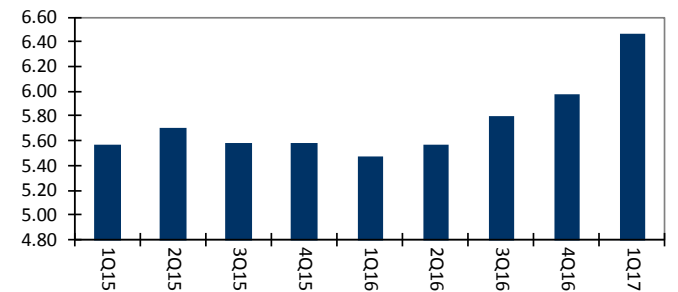


Fig 7. Quarterly Net Revenue to AUA ratio (Bps)

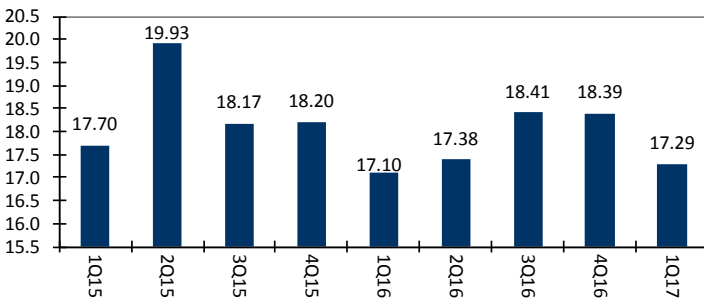


Fig 8. Net Profit (\$'000)

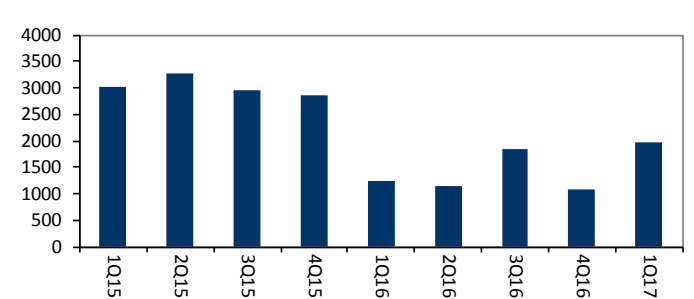


Fig 9. Annualised Net Revenue to average AUA ratio (Bps)

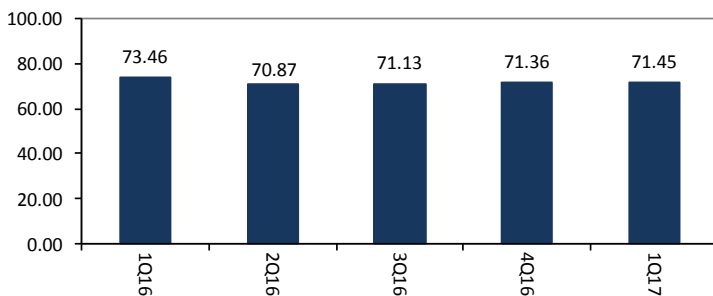
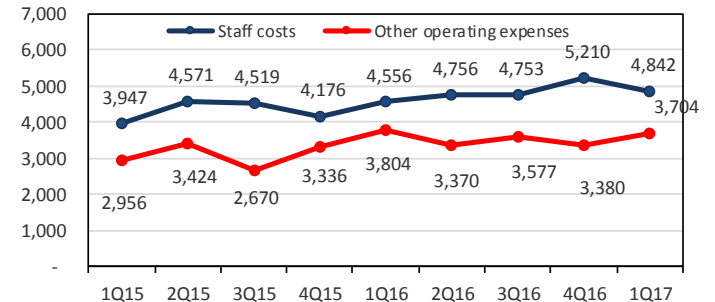


Fig 10. Staff costs and other operating costs (\$'000)



Source (Fig 1 - Fig 10): Company, Phillip Securities Research

Financials

Income Statement

Y/E Dec, SGD'000	FY15	FY16	FY17e	FY18e	FY19e
Recurring net revenue	34,647	34,714	40,605	47,693	55,922
Non-recurring net revenue	6,887	5,978	8,605	10,201	12,003
Net Revenue	41,534	40,692	49,210	57,894	67,925
Other Operating Income	1,525	1,622	1,044	650	469
Operating expenses	-31,083	-37,160	-41,756	-47,402	-54,008
Operating profit	11,976	5,154	8,498	11,142	14,387
Net finance income	799	836	815	759	691
Associates & JVs	-24	-158	-524	0	0
Profit Before Tax	12,751	5,832	8,789	11,901	15,078
Taxation	-651	-761	-1,065	-1,530	-1,916
Net Income, reported	12,100	5,447	7,924	10,371	13,162
Net Income, adj.	12,100	5,071	7,724	10,371	13,162

Per share data (SG Cents)

Y/E Dec, SG Cents	FY15	FY16	FY17e	FY18e	FY19e
EPS, reported	4.65	2.08	3.12	4.27	5.65
EPS, diluted	4.50	2.04	3.04	4.14	5.48
DPS	2.79	2.79	2.79	2.79	2.79
BVPS	29.34	30.26	31.90	34.90	39.42

Cashflow Statements (SGD mn)

Y/E Dec, SGD'000	FY15	FY16	FY17e	FY18e	FY19e
CFO					
Net Profit	12,100	5,447	7,924	10,371	13,162
Depreciation & Amortisation	1,484	3,070	3,923	4,025	4,594
WC changes	327	-4,462	-2,435	-2,086	-2,364
Others	-140	1,430	1,098	1,710	2,300
Cash generated from ops	13,771	5,485	10,510	14,021	17,692
Taxes paid, net	-301	-679	-773	-1,530	-1,916
Interest received	717	940	805	759	691
Cashflow from operations	14,187	5,746	10,542	13,250	16,468
CFI					
CAPEX, net	-5,688	-6,706	-5,287	-7,653	-10,034
Net change in AFS financial assets	-10,429	2,537	7,320	6,388	6,269
Others	20	-2,661	-679	0	0
Cashflow from investments	-16,097	-6,830	1,355	-1,265	-3,765
CFF					
Loans, net of repayments	0	0	0	0	0
Dividends	-7,085	-7,311	-7,075	-6,793	-6,510
Share buyback	0	-2,531	-296	0	0
Others	3,204	4,012	115	0	0
Cashflow from financing	-3,881	-5,830	-7,256	-6,793	-6,510
Effect of FX fluctuations on cash held	-77	-25	-350	0	0
Net change in cash	-5,868	-6,939	4,291	5,192	6,192
CCE, end	29,520	22,464	26,554	31,746	37,938

Source: Company, Phillip Securities Research (Singapore) Estimates

*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

Balance Sheet

Y/E Dec, SGD'000	FY15	FY16	FY17e	FY18e	FY19e
Financial assets, AFS	0	0	0	0	0
Property, plant and equipment	2,438	2,187	1,776	2,140	3,152
Intangibles	5,163	10,375	12,208	15,676	20,322
Investments in assoc. company	362	1,829	1,701	1,701	1,701
Deferred tax assets	4	0	0	0	0
Others	510	313	290	351	406
Total non-current assets	8,477	14,704	15,975	19,868	25,581
Cash and cash equivalents	29,520	22,464	26,554	31,746	37,938
Trade and other receivables	19,877	24,091	28,901	33,950	39,673
Financial assets, AFS	31,964	32,127	24,826	18,438	12,170
Others	1,442	1,742	1,850	2,148	2,499
Total current assets	82,803	80,424	82,130	86,282	92,280
Total Assets	91,280	95,128	98,105	106,150	117,861
Trade and other payables	13,836	15,524	16,961	19,924	23,283
Current tax payable	646	504	621	625	623
Total current liabilities	14,482	16,028	17,581	20,549	23,906
Deferred tax liabilities	239	481	372	372	373
Other payables	0	0	0	0	0
Total non-current liabilities	239	481	372	372	373
Total Liabilities	14,721	16,509	17,954	20,921	24,279
Shareholder Equity	76,559	78,446	79,476	83,435	90,283
Non-controlling interests	0	150	174	174	164
Total equity	76,559	78,596	79,650	83,609	90,447

Valuation Ratios

Y/E Dec, SGD'000	FY15	FY16	FY17e	FY18e	FY19e
P/E (X)	29.0	40.6	23.4	17.1	12.9
P/B (X)	4.6	2.8	2.4	2.2	2.0
Dividend Yield (%)	2.1%	3.3%	3.6%	3.6%	3.6%

Growth & Margins (%)

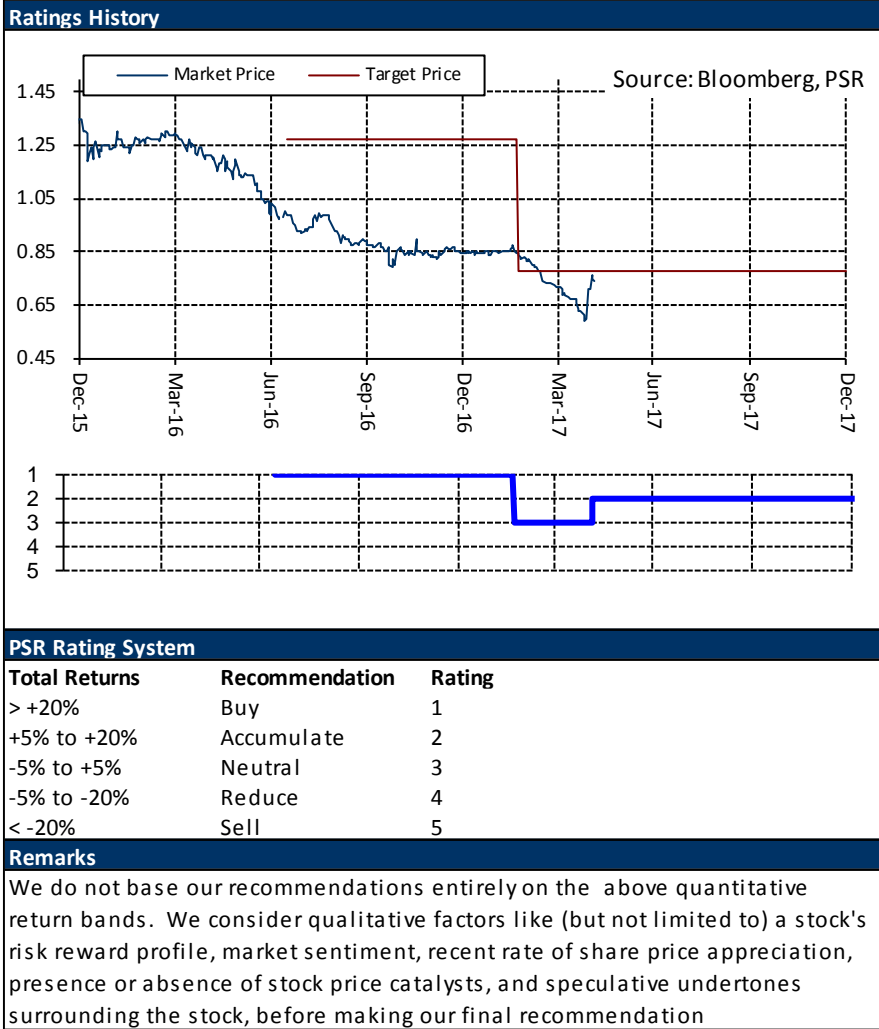
Growth					
Net Revenue	13.2%	-2.0%	20.9%	17.6%	17.3%
Net Income, adj.	41.3%	-55.0%	45.5%	30.9%	26.9%
Margins					
Net profit margin	29.1%	13.4%	16.1%	17.9%	19.4%
Operating profit margin	28.8%	12.7%	17.3%	19.2%	21.2%

Key Ratios

ROE (%)	16.2%	7.0%	10.0%	12.7%	15.1%
ROA (%)	14.0%	5.8%	8.2%	10.2%	11.7%
Dividend Payout ratio	60.0%	134.1%	89.5%	65.4%	49.4%
Cost to net revenue	71.3%	82.4%	76.9%	74.9%	0.0%

Other Key Figures

Average AUA (SGD mn)	5,610	5,703	6,892	8,085	9,477
Net Revenue / Average AUA	0.74%	0.71%	0.71%	0.72%	0.72%
Operating expenses / Average AUA	0.55%	0.65%	0.61%	0.59%	0.57%



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