

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

28 Jan 2021

BUY

Last Traded Price (28 Jan 2021): S\$5.04 (STI : 2,920.30)
Price Target 12-mth: S\$6.40 (27% upside) (Prev S\$3.96)

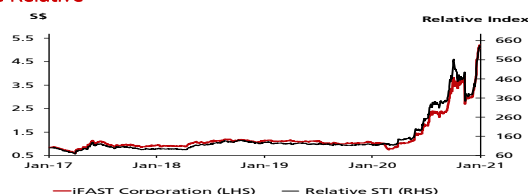
Analyst

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What's New

- Maintain BUY with higher TP of S\$6.40 despite the recent stellar share price performance (+c.70% YTD)
- More room for AUA growth; market share in key Singapore market is still small while China offers ample opportunities
- Scalable business model with products and services growing in both depth and width
- AUA growth momentum to outpace industry; CAGR of 34% in the past two years vs. 10% for the industry

Price Relative



Forecasts and Valuation

FY Dec (\$m)	2019A	2020F	2021F	2022F
Revenue	125	172	232	287
EBITDA	24.3	36.1	49.7	63.4
Pre-tax Profit	11.1	25.9	36.4	47.2
Net Profit	9.31	20.7	29.1	37.8
Net Pft (Pre Ex.)	9.31	20.7	29.1	37.8
Net Pft Gth (Pre-ex) (%)	(12.9)	122.2	40.7	29.8
EPS (S cts)	3.46	7.61	10.7	13.9
EPS Pre Ex. (S cts)	3.46	7.61	10.7	13.9
EPS Gth Pre Ex (%)	(14)	120	41	30
Diluted EPS (S cts)	3.46	7.61	10.7	13.9
Net DPS (S cts)	3.15	6.92	9.74	12.6
BV Per Share (S cts)	33.5	33.8	34.8	36.0
PE (X)	145.6	66.3	47.1	36.3
PE Pre Ex. (X)	145.6	66.3	47.1	36.3
P/Cash Flow (X)	75.5	46.6	36.8	27.8
EV/EBITDA (X)	54.8	37.4	27.2	21.2
Net Div Yield (%)	0.6	1.4	1.9	2.5
P/Book Value (X)	15.0	14.9	14.5	14.0
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	10.6	22.7	31.2	39.2
Earnings Rev (%):		3	26	36
Consensus EPS (S cts):		7.70	10.6	12.0
Other Broker Recs:		B: 2	S: 0	H: 2

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

Strong growth momentum

Investment Thesis:

Maintain BUY with higher TP of S\$6.40. We maintain our positive view on iFAST despite the recent stellar share price performance, which we believe, was mainly driven by the anticipation of the contract win for the Hong Kong pension fund project; 2) the solid Assets Under Administration (AUA) growth for FY2020, and 3) the digitalisation trend accelerated by COVID-19.

More room for AUA growth. With its highly scalable business model coupled with a growing and deepening range of products and services, iFAST is well poised to capture more market share in Singapore, where its share is just 10% of the c.S\$128bn in Assets Under Management (AUM) of the collective investment schemes in Singapore, as well as in China, where there are ample opportunities.

AUA growth momentum to outpace industry. AUA for iFAST grew at a 2-year CAGR (FY18-FY20) of 34%, vs 10% from FY17-FY19 for the industry. With the expanding range of products and services, coupled with the boost from COVID-19 that helped to accelerate the rate of digital adoption, we expect AUA to grow by 30% in FY2021 and 20% in FY2022F.

Valuation:

Maintain BUY with higher TP of S\$6.40. Our target price (TP) of S\$6.40 is based on the Dividend Discount Model (DDM) valuation methodology given that it is a cash-led business. iFAST has adopted a dividend payout ratio of at least 60% since its listing at end-2014.

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)	272
Mkt. Cap (S\$m/US\$m)	1,373 / 1,033
Major Shareholders (%)	
Lim Chung Chun	22.3
Singapore Press Holdings Ltd	14.9
Lim Wee Kian	7.3
Free Float (%)	40.6
3m Avg. Daily Val (US\$m)	5.1

GIC Industry : Financial / Diversified Financials



DBS
Live more, Bank less

WHAT'S NEW

Catalysts in place for higher growth ahead

Maintain BUY with higher TP of S\$6.40. We maintain our positive view on iFAST despite the recent stellar share price performance, which we believe, was mainly driven by the anticipation of the contract win for the Hong Kong pension fund project; 2) the solid AUA growth for FY2020, and 3) the digitalization trend accelerated by COVID-19.

Our positive view is premised on:

- 1) **More room for AUA growth.** iFAST's market share in its key market, Singapore is still small while China market offers ample opportunities
- 2) **Scalable business model.** iFAST has already built a scalable platform and is now reaping the fruit of its labour
- 3) **AUA growth momentum to outpace industry.** AUA for iFAST grew at a 2-year CAGR (FY18-FY20) of 34%, vs 10% from FY17-FY19 for the industry.

Why the strong surge in share price recently?

iFAST's share price staged a stellar performance YTD, up a whopping 72%. iFAST was one of the few stocks with market capitalisation of above S\$1bn to register such strong gains in less than a month. Besides the market risk-on momentum for equities, especially the small- to mid-caps, we believe the other reasons are as follows:

- 1) **Anticipated contract win for the Hong Kong pension fund project**

To recap, iFAST is one of the two finalists shortlisted to digitise the Hong Kong retirement funds system, paving the way for lower fees for more than four million savers.

The Mandatory Provident Fund Schemes Authority (MPFA) is seeking to update its systems by creating an electronic platform that will centralise the data of its 4.3m members by 2022. The goal is to allow users to consolidate multiple accounts, switch between plans and to lower fees. The centralised platform operator would be able to generate fee income from the MPFA platform.

Among the two finalists is a consortium led by Oneconnect Financial Technology – backed by Ping An Insurance Group, and working with a French technology partner, Atos. The other player is a group led by PCCW, and iFAST is their technology partner.

What is iFAST's chance of winning this project?

We believe iFAST has a relatively high chance of winning this project, given its expertise in building online trading platform. iFAST has built its FSMOne platform that the group has in Singapore a few years back, where users just need to have one account to trade multiple products. iFAST was also involved in a similar platform for The Employees Provident Fund (EPF) in Malaysia and is also the investment administrator for The Central Provident Fund Board in Singapore.

The other contender, a consortium led by Oneconnect Financial Technology and backed by Ping An Insurance Group, is working with Atos, a French multinational information technology service and consulting company and has offices worldwide. It specialises in hi-tech transactional services, unified communications, cloud, big data and cybersecurity services.

The contract period of the eMPF Platform project is expected to comprise a two-year implementation period and a seven-year operation/maintenance period. The contract is subject to extension for a minimum of one year and up to a maximum of three years. The winner is expected to be announced soon.

Potential contribution to iFAST could be in excess of S\$10m, >50% of our projected earnings for FY20F if it wins the contract

There are no details on this potential contract. We assume iFAST could get a cut of the fee income. As at June 2020, MPFA had net assets worth HK\$967.8bn. Based on a 20-basis point calculation, this works out to c.HK\$2bn (S\$357m) per year. Assuming if iFAST gets a 3-5% cut of the fee income, contribution to bottom line could be in excess of S\$10m in the medium term.

What happen if it fails to get the contract?

Our current earnings forecasts have not factored in this potential win. Based on iFAST's organic growth and its scalable business model, we project earnings growth of 41% in FY21F and another 30% in FY22F even without this contract.

In terms of share price performance, there could be some knee-jerk reaction if iFAST fails to clinch the contract. Based on its previous incident on the failed attempt to secure the digital bank licence in Singapore, its share price tanked 30% in one day but surged to a new high in about a month's time.

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2) iFAST reported solid growth in FY20 AUA

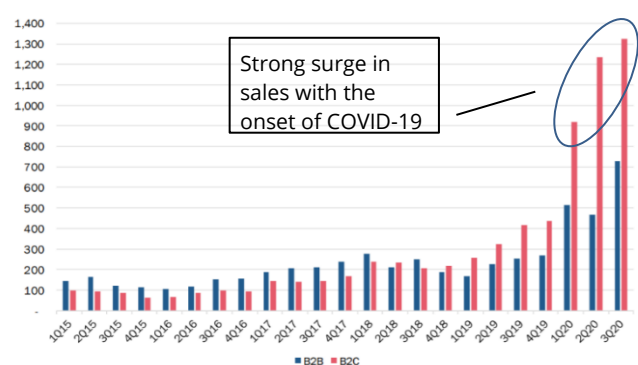
iFAST's AUA as at 31 December 2020 has reached another record high level of S\$14.45bn, up 44.5% y-o-y and +14.8% on a q-o-q basis, exceeds our forecast of S\$12bn (+20% y-o-y). AUA were up across all core markets, with Singapore, which contributed the lion's share of 69.2% to total AUA, taking the lead. The AUA of the Singapore operation grew 52.8% y-o-y reaching a milestone of S\$10bn.

In terms of products breakdown, unit trust continues to be the key contributor of the group's wealth management business. As at 31 December 2020, the unit trust AUA grew 31.8% y-o-y and accounted for 75.4% of the overall group AUA. Contribution from the Stocks & ETFs segment further increased to 12.9%, from 11.1% in 3Q20 and 6.1% in 4Q19. We expect this growth momentum in AUA to continue going forward, and project AUA growth of 30% in FY21F and 20% in FY22F.

3) The digitalisation trend accelerated by COVID-19

With the onset of the COVID-19 pandemic, the transaction value jumped in 1Q20. The surge was even more prominent for the B2C segment, with a doubling of total sales, excluding the switching of funds. This uptrend is expected to be intact going forward.

iFAST Singapore Total Sales ex-switching (S\$m)



Source: Company; DBS Bank

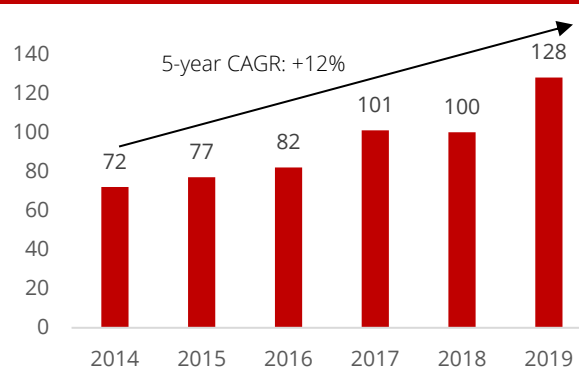
Remain positive on iFAST, with or without the HK project

Our positive view is premised on:

1) More room for growth; market share still small in Singapore while China offers ample opportunities

We believe that there is still room for growth in its key Singapore market as the current AUA level remains low, at about 10% of the c.S\$128bn in Assets Under Management (AUM) of the [collective investment schemes in Singapore](#), which is the retail investment funds. Singapore contributes close to 70% of iFAST's total AUA.

Collective Investment Schemes Funds size (S\$bn)

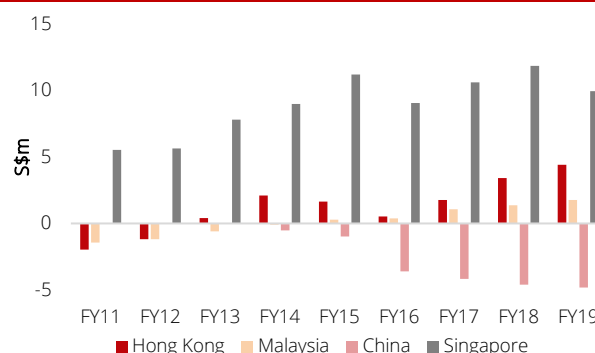


Source: 2019 Singapore Asset Management Survey; DBS Bank

In China, iFAST is still in the early stages of building its brand among potential clients and investment practitioners in the wealth management space. The outlook could be promising once the group starts to reap the fruits of its labour in China.

Elsewhere, other markets including Hong Kong and Malaysia, earnings have been trending higher in the last few years.

Earnings trend by geography



Source: Company; DBS Bank

2) iFAST has already built a scalable platform

Over the years, iFAST has built a scalable platform, with the range of products and services growing in both depth and width. Furthermore, once iFAST achieves operational efficiency, especially once its China operation becomes profitable, this should be more apparent. In recent years, recurring net revenue-to-AUA has been lower than the operating expense-to-AUA, as costs remained high in the last few years – as the group beefed up its platforms, with its China operation still incurring losses. This trend is expected to reverse once iFAST grows in scale and its China operation becomes profitable, likely from FY22F onwards.

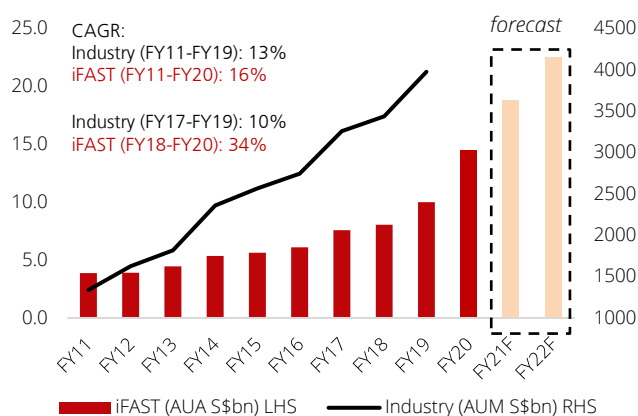
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4) AUA growth momentum to outpace industry

iFAST is now reaping the fruits of its labour. AUA has been growing steadily over the past few years, especially in the last two years. AUA for iFAST grew at a 2-year CAGR (FY18-FY20) of 34%, vs 10% from FY17-FY19 for the industry. With the expanding range of products and services, coupled with the boost from COVID-19 that helped to accelerate to rate of digital adoption, we expect AUA to grow 30% in FY2021 and another 20% in FY2022F.

We continue to expect iFAST to grow faster than the industry, riding on its scalable business model and expanded product range.

Expect iFAST's AUA growth to outpace industry



Source: Company; DBS Bank; Singapore Asset Management Survey 2019

Earnings & Recommendation

Revised earnings up on strong AUA growth momentum. On the back of the strong AUA growth and after factoring in the record AUA in 2020, we now project AUA to grow 30% in FY21F, followed by another 20% in FY22F, vs our previous growth assumption of 20% each in FY21F and FY22F. As such, our earnings for FY20F/21F/22F is raised by 3%/26%/36%.

Maintain BUY with higher TP of S\$6.40. Our new target price (TP) of S\$6.40 (S\$3.96 prev.) is still based on the Dividend Discount Model (DDM) valuation methodology given that it is a cash-led business. iFAST has been paying at least 60% dividend payout ratio (excluding losses from China) since its listing at end-2014. Its cash and near cash equivalents of c.S\$32.5m as at end-September 2020 is more than sufficient to support dividend payout of c.S\$18m for FY20F. The higher TP is mainly due to the higher earnings projections and also higher terminal growth assumption of 5% vs. 4.5% previously. Maintain BUY.

Expect strong 4Q20/FY20 results. We expect a strong set of 4Q20/FY20 results, on the back of the solid AUA growth momentum. We project 4Q20 revenue and net earnings to grow 48% and 115% y-o-y respectively (+11% and 3% q-o-q respectively). FY20 results is expected to be released after market close on 5 February 2021.

Company Background

iFAST is an internet-based investment product distribution platform. As at end-June 2020, the group offered over 7,500 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 450 financial institutions and other corporations, and over 9,300 wealth advisers are using iFAST's B2B platforms. More than 490,000 customer accounts have been opened across the five markets the group is operating in.

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Dividend Discount Model (DDM) Valuation table

Risk Free Rate (Rf)	2.0%
Market Return (Rm)	9.4%
Equity risk premium	7.4%
Beta	0.7
Cost of Equity (Ke)	7.3%
Proportion of financing that is debt	4.1%
After-tax cost of debt (Kd)	1.7%
WACC	7.0%

FYE Dec (\$m)	FY20F	FY21F	FY22F	Terminal Value
Net profit	20.7	29.1	37.8	
Dividends (Core)	18.8	26.5	34.4	
Dividend payout (%)	91%	91%	91%	
Discounted FCF	17.5	23.0	27.8	1464.2

Terminal Growth (assumed)	5.0%
PV of FCF (FY20-29)	256.1
PV of Terminal Value	1,464.2
Net Cash (Debt)	20.0
Equity Value (\$m)	1,740.3

No of shares (Fully Diluted) 271.9

Value Per Share (\$)

6.40

Source: DBS Bank

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	2018A	2019A	2020F	2021F	2022F
Average AUA (S\$bn)	8.05	10.0	14.5	18.8	22.5
Opex / average AUA (%)	0.62	0.56	0.46	0.46	0.47

Segmental Breakdown

FY Dec	2018A	2019A	2020F	2021F	2022F
Net Revenues (S\$m)					
B2B business	41.1	44.3	52.6	71.0	87.9
B2C business	18.5	20.9	35.1	47.3	58.6
Total	59.6	65.2	87.7	118.3	146.5
Net Revenue (S\$m)					
Recurring revenue	48.3	52.9	65.8	82.8	103
Non-recurring revenue	11.3	12.3	21.9	35.5	44.0
Total	59.6	65.2	87.7	118.3	146.5
Net Revenue (S\$m)					
Singapore	39.3	42.0	50.9	68.6	85.0
Hong Kong	14.3	16.7	28.9	39.1	48.4
Malaysia	5.3	6.0	5.3	7.1	8.8
China	0.8	0.6	2.6	3.6	4.4
Total	59.6	65.2	87.7	118.3	146.5

Income Statement (S\$m)

FY Dec	2018A	2019A	2020F	2021F	2022F
Revenue	121	125	172	232	287
Cost of Goods Sold	(61.6)	(60.2)	(84.3)	(114)	(141)
Gross Profit	59.6	65.2	87.7	118	147
Other Opng (Exp)/Inc	(48.6)	(54.0)	(61.8)	(81.9)	(99.2)
Operating Profit	11.0	11.2	26.0	36.5	47.4
Other Non Opng (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.52	(0.1)	(0.2)	(0.2)	(0.2)
Net Interest (Exp)/Inc	0.83	(0.1)	0.09	0.07	0.06
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	12.4	11.1	25.9	36.4	47.2
Tax	(1.7)	(1.8)	(5.2)	(7.3)	(9.4)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	10.7	9.31	20.7	29.1	37.8
Net Profit before Except.	10.7	9.31	20.7	29.1	37.8
EBITDA	17.1	24.3	36.1	49.7	63.4
Growth					
Revenue Gth (%)	19.8	3.4	37.1	34.9	23.8
EBITDA Gth (%)	39.6	42.2	48.3	37.7	27.6
Opg Profit Gth (%)	32.0	1.6	132.2	40.6	29.7
Net Profit Gth (Pre-ex) (%)	42.7	(12.9)	122.2	40.7	29.8
Margins & Ratio					
Gross Margins (%)	49.2	52.0	51.0	51.0	51.0
Opg Profit Margin (%)	9.1	8.9	15.1	15.7	16.5
Net Profit Margin (%)	8.8	7.4	12.0	12.5	13.1
ROAE (%)	12.8	10.6	22.7	31.2	39.2
ROA (%)	7.8	5.9	12.6	16.0	18.4
ROCE (%)	11.1	8.0	19.4	26.7	33.7
Div Payout Ratio (%)	78.6	91.0	91.0	91.0	91.0
Net Interest Cover (x)	NM	174.7	NM	NM	NM

Source: Company, DBS Bank

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Quarterly Income Statement (\$m)

FY Dec	3Q2019	4Q2019	1Q2020	2Q2020	3Q2020
Revenue	33.8	33.8	38.5	38.6	45.0
Cost of Goods Sold	(16.9)	(16.9)	(19.7)	(18.7)	(22.1)
Gross Profit	16.9	17.0	18.8	19.8	22.9
Other Oper. (Exp)/Inc	(14.0)	(13.7)	(14.5)	(14.1)	(15.4)
Operating Profit	2.82	3.24	4.29	5.77	7.44
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.09	0.11	(0.1)	0.0	(0.1)
Net Interest (Exp)/Inc	0.03	0.04	0.17	0.0	(0.1)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	2.93	3.40	4.38	5.74	7.31
Tax	(0.5)	(0.4)	(0.8)	(1.3)	(1.2)
Minority Interest	0.0	0.0	0.04	0.05	0.05
Net Profit	2.41	2.96	3.64	4.53	6.16
Net profit bef Except.	2.41	2.96	3.64	4.53	6.16
EBITDA	6.30	6.92	7.92	9.64	11.4

Growth

Revenue Gth (%)	10.2	0.2	13.8	0.2	16.7
EBITDA Gth (%)	4.0	9.8	14.5	21.7	17.7
Opg Profit Gth (%)	(4.7)	15.0	32.3	34.5	29.0
Net Profit Gth (Pre-ex) (%)	0.6	22.9	22.9	24.6	36.1

Margins

Gross Margins (%)	49.9	50.1	48.9	51.5	50.8
Opg Profit Margins (%)	8.3	9.6	11.1	15.0	16.5
Net Profit Margins (%)	7.1	8.7	9.4	11.7	13.7

Balance Sheet (\$m)

FY Dec	2018A	2019A	2020F	2021F	2022F
Net Fixed Assets	3.25	3.69	8.03	10.4	10.9
Invt in Associates & JVs	2.95	5.38	5.18	4.98	4.78
Other LT Assets	24.1	43.4	43.4	40.7	37.1
Cash & ST Invt	61.3	24.8	24.4	24.2	28.0
Inventory	24.1	19.1	19.1	19.1	19.1
Debtors	41.0	59.0	68.5	92.5	114
Other Current Assets	1.26	1.79	1.79	1.79	1.79
Total Assets	158	157	170	194	216
ST Debt	37.4	3.81	3.81	3.81	3.81
Creditor	32.0	45.2	52.9	71.4	88.4
Other Current Liab	1.66	5.90	9.54	11.6	13.8
LT Debt	0.0	0.0	0.0	0.0	0.0
Other LT Liabilities	1.60	12.7	12.7	12.7	12.7
Shareholder's Equity	85.6	90.1	91.9	94.6	98.0
Minority Interests	(0.2)	(0.4)	(0.4)	(0.4)	(0.4)
Total Cap. & Liab.	158	157	170	194	216
Non-Cash Wkg. Capital	32.7	28.9	27.0	30.4	33.2
Net Cash/(Debt)	23.9	21.0	20.6	20.4	24.2
Debtors Turn (avg days)	117.6	145.4	135.3	126.6	131.4
Creditors Turn (avg days)	212.3	299.5	242.0	226.1	234.1
Inventory Turn (avg days)	151.5	167.9	94.5	69.7	56.1
Asset Turnover (x)	0.9	0.8	1.0	1.3	1.4
Current Ratio (x)	1.8	1.9	1.7	1.6	1.5
Quick Ratio (x)	1.4	1.5	1.4	1.3	1.3
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	25.3	318.2	289.0	289.0	289.0

Source: Company, DBS Bank

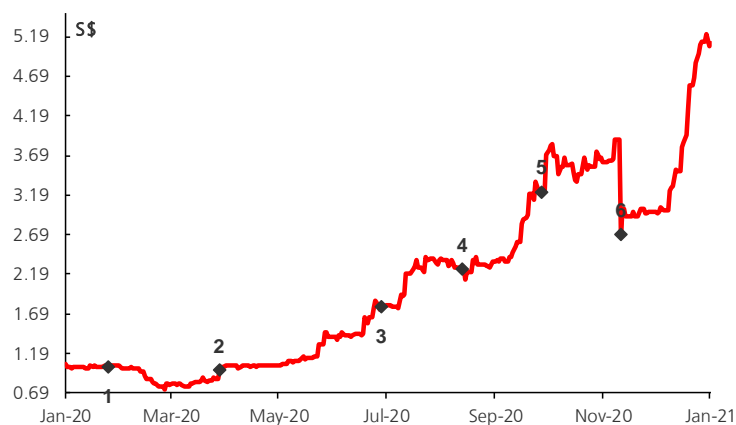
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Cash Flow Statement (S\$m)

FY Dec	2018A	2019A	2020F	2021F	2022F
Pre-Tax Profit	12.4	11.1	25.9	36.4	47.2
Dep. & Amort.	5.59	13.2	10.3	13.4	16.3
Tax Paid	(1.7)	(1.5)	(5.2)	(7.3)	(9.4)
Assoc. & JV Inc/(loss)	(0.5)	0.05	0.20	0.20	0.20
Chg in Wkg.Cap.	(1.3)	(4.8)	(1.8)	(5.5)	(5.0)
Other Operating CF	3.19	0.0	0.0	0.0	0.0
Net Operating CF	17.6	17.9	29.4	37.2	49.2
Capital Exp.(net)	(9.4)	(12.1)	(11.0)	(11.0)	(11.0)
Other Invts.(net)	6.23	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	(0.8)	(2.5)	0.0	0.0	0.0
Div from Assoc & JV	0.05	0.04	0.0	0.0	0.0
Other Investing CF	(15.0)	6.23	0.0	0.0	0.0
Net Investing CF	(19.0)	(8.3)	(11.0)	(11.0)	(11.0)
Div Paid	(8.4)	(8.5)	(18.8)	(26.5)	(34.4)
Chg in Gross Debt	37.3	(33.3)	0.0	0.0	0.0
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	0.27	(5.7)	0.0	0.0	0.0
Net Financing CF	29.1	(47.4)	(18.8)	(26.5)	(34.4)
Currency Adjustments	0.0	(0.1)	0.0	0.0	0.0
Chg in Cash	27.8	(37.9)	(0.4)	(0.2)	3.84
Opg CFPS (S cts)	7.10	8.48	11.5	15.7	19.9
Free CFPS (S cts)	3.07	2.17	6.77	9.65	14.1

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	20 Feb 20	1.02	1.10	HOLD
2:	23 Apr 20	0.98	1.27	BUY
3:	24 Jul 20	1.77	2.35	BUY
4:	08 Sep 20	2.25	2.60	BUY
5:	23 Oct 20	3.23	3.96	BUY
6:	07 Dec 20	2.69	3.96	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: 28 Jan 2021 18:09:32 (SGT)

Dissemination Date: 28 Jan 2021 18:10:22 (SGT)

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

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