Blue-chip Research Houses: Conceptions and misconceptions about iFast Corp.
July 2024: Current price of $7.54 vs. DBS target ($9.57) and CGS International target ($9.50).
Our iFast stock valuation < $1.
Analysts covering iFast Corporation include the following:
Ms Ling Lee Keng, DBS Research Platform, Insights Direct DBS Group Research analyst
Ms Andrea Choong, CGS International (CGSI) analyst
Messrs Aakash Rawat and Benjamin Tan, UBS Global Research analysts
Mr Tan Yong Hong, Citi Research analyst

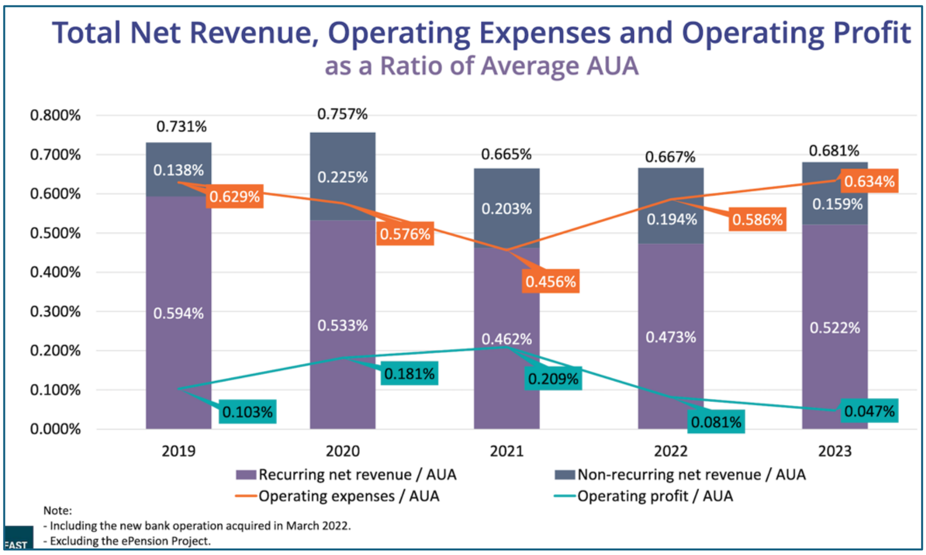
We are short iFast Corporation Ltd (SGX:AIY).
THIS RESEARCH REPORT EXPRESSES SOLELY OUR OPINIONS.
FULL REPORT at ***SakuraResearch.com***

iFAST: A Covid19 darling primed for correction (similar to share performances of Zoom Video, or AEM Holdings).
Intense competition, inability to generate meaningful cash flows, and increasing balance sheet stress.

Misconception 1.
Hong Kong ePension is a long-term recurring revenue source.
Nope. Group Management believes that the ePension division in Hong Kong will be an important growth driver in 2024 and 2025. What will happen to Hong Kong's revenue and profit guidance starting from 2026, when the HK ePension project enters the maintenance phase?
We reckon a 70%-80% drop once this IT project enters the maintenance phase.
As such, we think ePension revenues are mostly non-recurring.

Misconception 2.
The Assets Under Administration (AUA) figures are showing great growth.
Nope, since the Group's founding in 2000, its AUA hasn't diversified away from its small and mature market (Singapore ~70% of all its AUA), facing intense competition from Endowus, Moomoo, IBKR, Tiger, Syfe, StashAway, POEMS, and numerous others in every market the Group operates.
The curious case is that recently the Group decided to use its UK iGB Bank customer deposits as part of AUA count!
Ifast Group seems desperate to show some AUA growth.

Misconception 3.
We think AUA has reached critical mass, spurring better operating margins.
Nope, actually the Group's operating profit margins % per AUA are dropping to record lows after the 2020 and 2021 Covid peaks.



Retrieved from the Group's 2023 annual report.

Misconception 4.

UK Global Bank customer deposits rose to $646m in 2QFY2024 from $359m at the end of 2023. Net interest margin is the main operating profit source, right?

Nope. For 2023, net fee and commission income (EzRemit) of £3,557,000 was more than double the net interest income of £1,701,000. How does the Group plan to compete with remittance fintech giants such as Revolut, Wise, Nium, YouTrip, and numerous others? Watch out for the goodwill impairment risks related to the UK bank acquisition.

Misconception 5.

The UK Bank is going to generate great profits soon, right?

Nope. Upstart digital banks are famously cash-burning for many years, before they can become sustainably profitable. For instance, Sea-owned MariBank experienced widened losses in 2023, while GXS Bank (founded in 2022 and backed by Singtel and Grab Holdings) aims for profitability by 2027!

The funny things are that iGB bank has no debit cards, no ATMs, and its key profit-generating service – remittance EzRemit website (EzRemit.com) is not functional yet.

We estimate significant cash burning in 2025 and after at iGB, before the Group can generate meaningful net profits in the UK bank. Watch out for the goodwill impairment risks related to the UK bank acquisition.

Misconception 6.

The Group is growing its revenues, net income and generates amazing cash flows, right?

Nope. Since the COVID 2020 and 2021 peaks, the Group cash flows are struggling. Pathetic cash flow yields, we think.

The Group so desperate to show some positive cash flow trends that it is using UK Bank Customer deposits as part of operating cash inflow.

	Q2, 2024	Q1, 2024	2023	2022	2021	2020	Growth 2020 to 2023
Reported Operating Cash Flows	138,723,000	149,181,000	273,450,267	47,399,111	46,533,133	41,561,273	558%
Customer deposits inflow (UK Bank)	126,572,000	151,414,000	256,691,091	26,564,189	$0.00	$0.00	
"Normalized" Operating cash flow	12,151,000	-2,233,000	16,759,176	$20,834,922	$46,533,133	41,561,273	-60%

Misconception 7.

A great dividend-paying stock?

Nope, a ~0.7% dividend yield is so meagre compared to the risk-free Singapore savings bond yields or its local peer's (UOB-Kay Hian Holdings Ltd) dividend yield of 6%+.

The Group's operating cash flows, after removing the UK bank customer inflows, can barely cover the Group's annual CapEx and dividend payments. The free cash flow yield is less than 1%. No wonder the Group had to borrow $100m at a 4+% yield recently because its cash flows have been suffering since the 2020 and 2021 Covid peaks.

Misconception 8.

The Group has a solid and healthy balance sheet.

Nope. The balance sheet has been showing increasing stress since the COVID-19 peak of 2020-2021. Total liabilities have skyrocketed by 955% since the end of 2021, while Equity has increased by only about 124%. The high leverage ratio exposes the group to significant risks when the stock markets experience heightened volatility and downturn.

iFAST Balance Sheet (SGD)	2021	2022	2023	30-June-2024	Growth, 2021 to H1, 2024
Total Assets	224,851,345	458,537,161	832,901,856	1,311,722,000	483%
Total Liabilities	97,216,138	227,820,447	575,524,882	1,026,049,000	**955%**
Total Net Assets (i.e., Equity)	127,635,207	230,716,714	257,376,974	285,673,000	**124%**
Intangible Assets and Goodwill	32,623,482	73,993,153	80,136,322	77,373,000	137%
Total Tangible Net Assets	95,011,725	156,723,561	177,240,652	208,300,000	119%
Total Liabilities to Total Equity ratio (Leverage)	0.76	0.99	2.24	3.59	372%
Total Liabilities to Total Tangible net assets ratio	1.02	1.45	3.25	4.93	381%

 info@SakuraResearch.com

Sakura Research is short iFast Corporation Ltd (SGX:AIY) and long UOB-Kay Hian (SGX:U10).

UOB Kay Hian - Cash-rich balance sheet, great cash flow yields and high dividend rate, and a prime target for privatisation/take-over by its parent UOB Bank.

iFast was a Covid-19 darling, but it is now primed for a correction and underperformance. Sakura Research expects its share price to fall back below $1, which is similar to the level it was before COVID-19.

After months of analysis, Sakura Research believes that iFast's operations and performance are fundamentally misunderstood by the public. iFast cannot generate meaningful free cash flows, its balance sheet shows increasing stress, and its intrinsic value is a fraction of its current market capitalization.

Sakura Research postulates that iFast is facing headwinds and negative trends in every major aspect of its business following one-off COVID-19 bump:

*iFast core platform/brokerage business is struggling, with operating profitability per AUA dropping to record lows amid intense competition in every market iFast operates.

*There is a temporary revenue boost from Hong Kong ePension IT project (2023-2025), which is expected to decline massively starting in 2026.

*Goodwill impairment is anticipated from the costly UK bank acquisition, which reported losses in 2022, 2023, and H1 2024. Additional cash infusions will be needed for the UK bank, necessitating more equity and bonds issuance.

*There are concerns about aggressive revenue recognition, questionable growth in total receivables, and possibly understated credit impairments.

*Adjusted operating cash flows are degrading (turned negative in Q1 2024). There is very little free cash flow, barely enough to cover annual capital expenditures and dividends. More loans and bonds would need to be raised by iFast.

*iFast survival strategy involves paying more operating expenses with overvalued equity to flatter is cash flows.

*The balance sheet is increasingly distressed, with total liabilities skyrocketing by 955% since the end of 2021, while equity grew only 124% in the same timeframe.

*The senior management team is stagnant, with indications of nepotism and questionable governance structures.

#UOBKayHian #iFast #iFastCorp #iFastGlobalBank #SGX #UOBKayHian #SakuraResearch #Singapore