



Company Note

I Malaysia

HOLD (previously ADD)

Consensus ratings*: Buy 1 Hold 0 Sell 0

Current price: RM0.53
 Target price: RM0.55
 Previous target: RM1.19
 Up/downside: 4.8%
 CIMB / Consensus: -62.8%

Reuters: IFCA.KL
 Bloomberg: IFCA MK
 Market cap: US\$79.28m
 RM319.3m
 Average daily turnover: US\$0.76m
 RM3.04m
 Current shares o/s: 558.0m
 Free float: 46.0%

* Source: Bloomberg

Key changes in this note

- ▶ FY16F EPS cut to negative territory.
- ▶ FY17F EPS cut by 77%.
- ▶ FY18F EPS cut by 69%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-4.6	-9.5	-15.3
Relative (%)	-6.1	-12.4	-22.2

Major shareholders	% held
IFCA Software (Asia) S/B	46.5
DP Capital	5.6
Kevin Lim	2.0

Analyst(s)



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IFCA MSC

2Q16 still in the red

- IFCA's 1H16 net loss of RM5.0m was disappointing against our previous full-year net profit forecast of RM12.1m.
- The main culprit was domestic revenue which fell 55% yoy to RM20m in 1H16.
- The company has RM62.5m net cash or 10sen net cash per share, equivalent to 20% of its share price.
- Downgrade to Hold, change target basis from P/E to P/BV until earnings turnaround.

1H16 swings into a RM5m net loss

1H16 revenue was down 36% to RM35.7m while net loss was RM5m, vs. RM15.4m net profit in 1H15. The loss was mainly due to the collapse of domestic revenue, down 55% to RM20m. No interim DPS was declared.

Higher depreciation and amortisation charges

Another major reason for the company's losses in 1H16 was the higher-than-expected depreciation and amortisation (D&A) charges. In 1H16, D&A charges were RM3.7m vs. RM3.1m for the whole of 2015. We understand the higher D&A charges were mainly due to the full commercial launch of its mobile platform and P365 starting from 2H15 onwards, after which the company had to fully recognise D&A charges.

Overseas revenue up due to consolidation of Indonesia operations

1H16 overseas revenue rose 40% yoy at RM15.6m (Figure 3). Most of the revenue growth due to the consolidation of its Indonesia distributor acquired at end-2015. We understand 1H16 sales from China was flat on a yoy basis, which is not a positive sign. We had expected China to compensate for the weakness in the domestic market but this was not the case.

Focus now on growing P365

Property365.my(P365) now has around 2,000 negotiators registered with the company. We understand inventory for sale is more than RM3bn and while sales have been slow, P365 has been gaining more interest among property developers and agents over the past few months. Management needs to focus now on its marketing efforts for P365.

Net cash balance sheet

IFCA's balance sheet was a strong RM62.5m net cash or 10sen net cash per share as at end-1H16. The net cash contributes close to 20% of its current share price. As most of the development costs on its mobile platform and P365 have been completed, we believe spending would be focused on marketing activities for P365 over the next few quarters.

Downgrade to Hold from Add

We slash our FY16-18 EPS forecasts for the weaker domestic sales outlook. Given the poor results and poor outlook, our target basis is changed from 2017 21x P/E (in-line with the peers) to average sector 2.5x P/BV, resulting in a 54% TP cut. We downgrade the stock to Hold from Add. Downside risks include further weakness in the domestic market, while upside risks are a recovery in China and domestic markets. We prefer MyEG for exposure in the technology sector due to its strong earnings growth outlook.

Financial Summary	Dec-14A	Dec-15A	Dec-16F	Dec-17F	Dec-18F
Revenue (RMm)	89.2	101.6	76.0	81.0	85.5
Net Profit (RMm)	21.10	21.80	(0.70)	3.49	7.02
Core EPS (RM)	0.037	0.039	(0.010)	0.013	0.019
Core EPS Growth	530%	7%	(125%)		47%
FD Core P/E (x)	13.99	13.05	NA	37.82	26.27
Price To Sales (x)	3.51	3.08	4.12	3.86	3.66
DPS (RM)	0.010	0.010	-	-	-
Dividend Yield	1.90%	1.90%	0.00%	0.00%	0.00%
EV/EBITDA (x)	9.78	9.64	43.06	23.86	15.84
P/FCFE (x)	19.57	14.51	55.07	54.77	32.58
Net Gearing	(69.0%)	(74.8%)	(81.6%)	(84.5%)	(88.1%)
P/BV (x)	4.39	3.53	3.55	3.44	3.24
ROE	36.8%	29.3%	(6.6%)	8.8%	12.4%
% Change In Core EPS Estimates			(140%)	(77%)	(69%)
CIMB/consensus EPS (x)			(0.05)	0.10	0.19

SOURCE: COMPANY DATA, CIMB FORECASTS

Downgrade to Hold

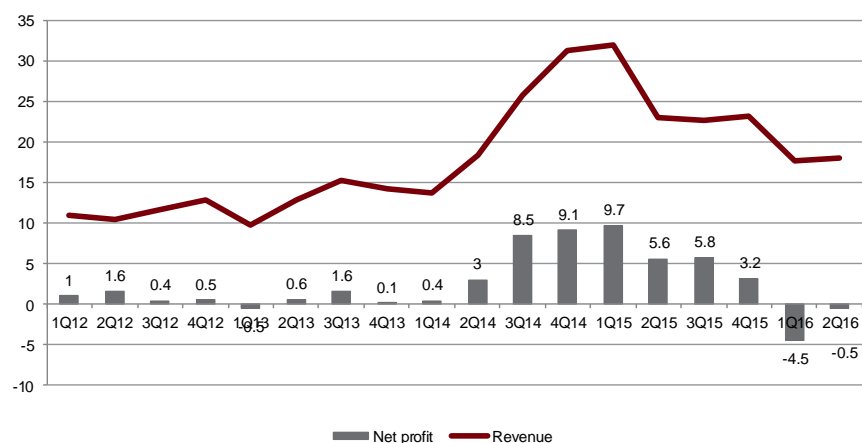
This is our first downgrade of the stock since we initiated coverage at end-2014. The decline in domestic sales in 1H16 was faster than we expected. We were looking for flat growth for the domestic division this year as some customers moved from the Windows platform to the mobile-based platform. However, this was not so. To make matters worse, D&A charges are expected to double in FY2016. We have cut our earnings forecasts to take into account weak domestic sales. Until the quarterly earnings turnaround, we are switching from a P/E basis to average sector 2.5x P/BV basis. Downgrade to Hold from Add and switch to MyEG for exposure in the technology sector.

Figure 1: Results Comparison

FYE Dec (RM m)	2QFY16	2QFY15	yoy % chg	qoq % chg	2QFY16 cum	2QFY15 cum	yoy % chg	Prev. FY16F	Comments
Revenue	18.0	23.9	(25.9)	1.7	35.7	55.9	(36.1)	102.3	Below, weaker-than-expected domestic revenue
Operating costs	(16.8)	(17.4)	21.8	(20.8)	(37.9)	(35.8)	5.9	(84.3)	
EBITDA	1.2	6.5	(153.8)	134.3	(2.2)	20.1	(110.9)	18.0	
EBITDA margin (%)	6.7	27.2	(172.7)	133.7	(6.2)	36.0	(117.1)	17.6	Below, lower economies of scale
Depn & amort.	(2.3)	(0.6)	116.7	76.9	(3.7)	(1.3)	184.6	(4.0)	
EBIT	(1.1)	5.9	(181.4)	(77.1)	(5.9)	18.8	(131.4)	14.0	
Interest expense	-	-	-	-	-	-	-	-	In line, RM62.5m net cash or 10 sen net cash/share
Interest & inv t inc	0.9	0.6	33.3	12.5	1.7	1.3	30.8	1.0	
Pretax profit	(0.2)	6.5	(161.5)	(95.0)	(4.2)	20.1	(120.9)	15.0	Below, also hit by flat China revenue contribution
Tax	(0.5)	(0.8)	12.5	(44.4)	(1.3)	(4.1)	(68.3)	(2.7)	
Tax rate (%)	(250.0)	12.3	(282.8)	nm	(31.0)	20.4	(251.7)	18.0	In line, MSC status ended
Minority interests	0.1	(0.10)	500.0	nm	0.5	(0.6)	183.3	(0.2)	
Net profit	(0.6)	5.6	(180.4)	(86.7)	(5.0)	15.4	(132.5)	12.1	Below, domestic sales hit by weak property market sentiment
EPS (sen)	(0.1)	1.0	(175.9)	(88.1)	-0.8	2.8	(128.6)	2.2	

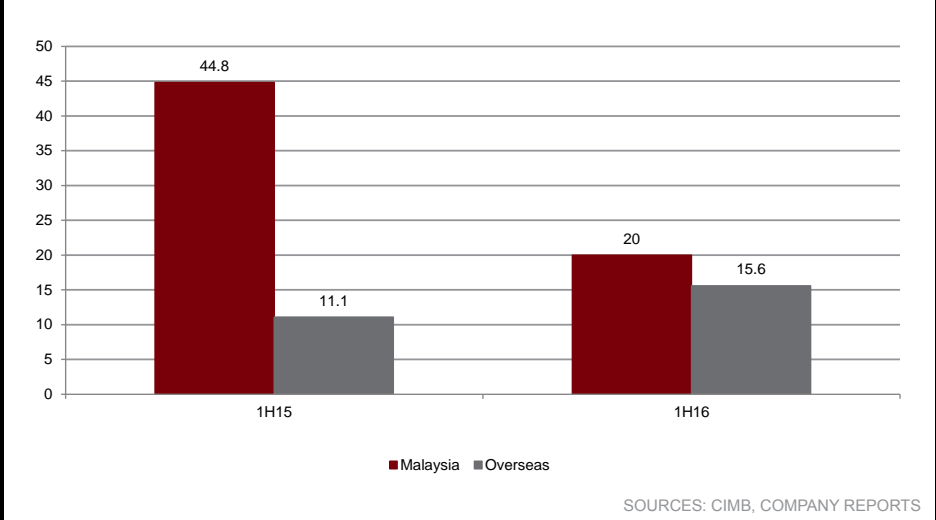
SOURCES: CIMB, COMPANY REPORTS

Figure 2: IFCA quarterly revenue and net profit (RMm)



SOURCES: CIMB, COMPANY REPORTS

Figure 3: IFCA 1H revenue breakdown (RMm)



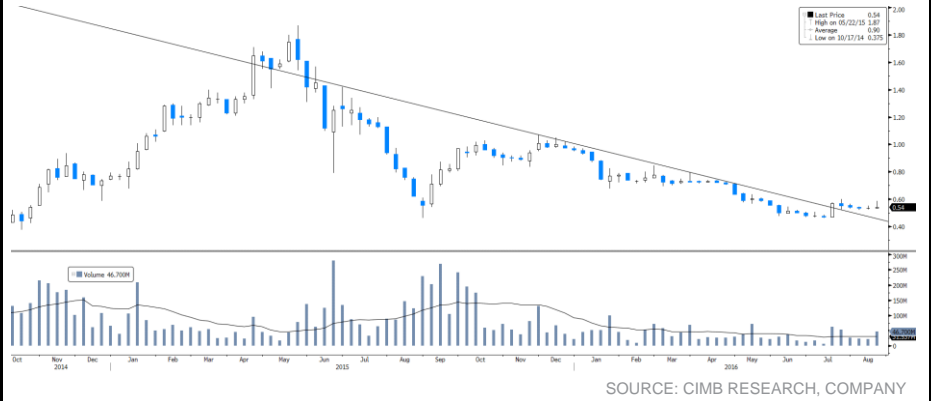
Weekly MACD has turned positive

IFCA’s weekly chart shows a major breakout of its resistance trendline in Jul. Since then, the stock has been trading sideways. In addition, the weekly volume chart shows volume just below 50m shares last week, above the 10-week SMA of 31m shares.

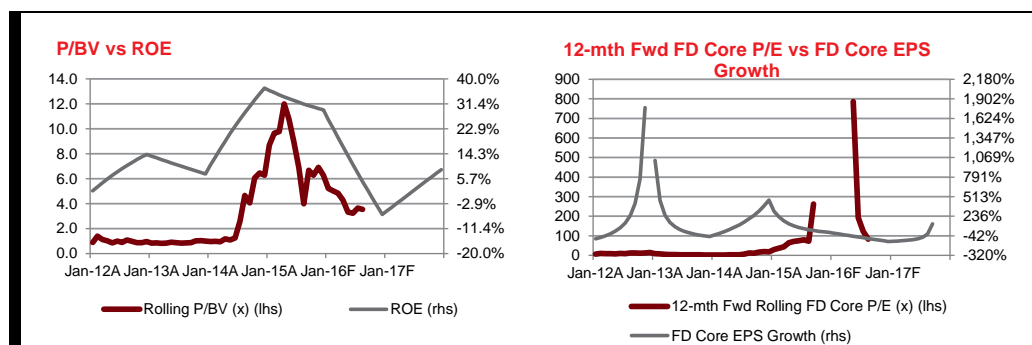
Figure 4: IFCA weekly price chart (RM0.53)



Figure 5: IFCA weekly chart with volume



BY THE NUMBERS



Profit & Loss

(RMm)	Dec-14A	Dec-15A	Dec-16F	Dec-17F	Dec-18F
Total Net Revenues	89.20	101.60	76.00	81.00	85.50
Gross Profit	75.82	86.36	64.60	68.85	72.68
Operating EBITDA	27.00	25.60	5.60	9.90	14.40
Depreciation And Amortisation	(1.90)	(3.00)	(6.10)	(6.40)	(6.60)
Operating EBIT	25.10	22.60	(0.50)	3.50	7.80
Financial Income/(Expense)	0.50	3.30	1.00	1.00	1.00
Pretax Income/(Loss) from Assoc.	0.00	0.00	0.00	0.00	0.00
Non-Operating Income/(Expense)	0.00	0.00	0.00	0.00	0.00
Profit Before Tax (pre-EI)	26.50	27.90	5.60	9.90	14.40
Exceptional Items	0.00	0.00	0.00		
Pre-tax Profit	25.60	25.90	0.50	4.50	8.80
Taxation	(3.80)	(4.20)	(1.00)	(0.81)	(1.58)
Exceptional Income - post-tax	0.00	0.00	0.00	0.00	0.00
Profit After Tax	21.80	21.70	(0.50)	3.69	7.22
Minority Interests	(0.70)	0.10	(0.20)	(0.20)	(0.20)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	21.10	21.80	(0.70)	3.49	7.02
Recurring Net Profit	21.87	23.48	(5.80)	7.92	11.61
Fully Diluted Recurring Net Profit	22.38	23.99	(5.28)	8.39	12.08

Cash Flow

(RMm)	Dec-14A	Dec-15A	Dec-16F	Dec-17F	Dec-18F
EBITDA	27.00	25.60	5.60	9.90	14.40
Cash Flow from Inv. & Assoc.	0.00	0.00	0.00	0.00	0.00
Change In Working Capital	(4.70)	3.67	5.16	0.70	0.92
(Incr)/Decr in Total Provisions	0.00	0.00	0.00	0.00	0.00
Other Non-Cash (Income)/Expense	0.00	0.00	0.00	0.00	0.00
Other Operating Cashflow	4.30	0.00	0.00	0.00	0.00
Net Interest (Paid)/Received	0.50	3.30	1.00	1.00	1.00
Tax Paid	(1.40)	(4.20)	(1.00)	(0.81)	(1.58)
Cashflow From Operations	25.70	28.37	10.76	10.79	14.74
Capex	(9.80)	(7.00)	(5.00)	(5.00)	(5.00)
Disposals Of FAs/subsidiaries	0.10	0.00	0.00	0.00	0.00
Acq. Of Subsidiaries/investments	0.00	0.00	0.00	0.00	0.00
Other Investing Cashflow	0.00	0.00	0.00	0.00	0.00
Cash Flow From Investing	(9.70)	(7.00)	(5.00)	(5.00)	(5.00)
Debt Raised/(repaid)	0.00	0.20	0.00	0.00	0.00
Proceeds From Issue Of Shares	3.30	0.00	0.00	0.00	0.00
Shares Repurchased	0.00	0.00	0.00	0.00	0.00
Dividends Paid	(4.50)	(4.36)	0.00	0.00	0.00
Preferred Dividends	0.00	0.00	0.00	0.00	0.00
Other Financing Cashflow	0.00	0.00	0.00	0.00	0.00
Cash Flow From Financing	(1.20)	(4.16)	0.00	0.00	0.00
Total Cash Generated	14.80	17.21	5.76	5.79	9.74
Free Cashflow To Equity	16.00	21.57	5.76	5.79	9.74
Free Cashflow To Firm	16.00	21.37	5.76	5.79	9.74

BY THE NUMBERS

Balance Sheet

(RMm)	Dec-14A	Dec-15A	Dec-16F	Dec-17F	Dec-18F
Total Cash And Equivalents	49.80	67.10	72.90	78.00	86.40
Total Debtors	16.90	15.24	11.40	12.15	12.83
Inventories	0.00	0.00	0.00	0.00	0.00
Total Other Current Assets	2.90	3.60	3.90	3.80	6.80
Total Current Assets	69.60	85.94	88.20	93.95	106.03
Fixed Assets	9.30	13.30	12.20	10.80	9.20
Total Investments	0.00	0.00	0.00	0.00	0.00
Intangible Assets	0.00	0.00	0.00	0.00	0.00
Total Other Non-Current Assets	13.80	11.10	11.00	11.00	11.00
Total Non-current Assets	23.10	24.40	23.20	21.80	20.20
Short-term Debt	0.20	0.30	0.30	0.30	0.30
Current Portion of Long-Term Debt	0.00	0.00	0.00	0.00	0.00
Total Creditors	11.20	13.21	14.53	15.98	17.58
Other Current Liabilities	9.30	7.30	7.40	7.15	10.50
Total Current Liabilities	20.70	20.81	22.23	23.43	28.38
Total Long-term Debt	0.10	0.20	0.20	0.20	0.20
Hybrid Debt - Debt Component	0.00	0.00	0.00	0.00	0.00
Total Other Non-Current Liabilities	0.20	0.25	0.30	0.50	0.20
Total Non-current Liabilities	0.30	0.45	0.50	0.70	0.40
Total Provisions	0.00	0.00	0.00	0.00	0.00
Total Liabilities	21.00	21.26	22.73	24.13	28.78
Shareholders' Equity	71.30	88.74	88.18	90.97	96.58
Minority Interests	0.40	0.30	0.50	0.70	0.90
Total Equity	71.70	89.04	88.68	91.67	97.48

Key Ratios

	Dec-14A	Dec-15A	Dec-16F	Dec-17F	Dec-18F
Revenue Growth	71.5%	13.9%	(25.2%)	6.6%	5.6%
Operating EBITDA Growth	500%	(5%)	(78%)	77%	45%
Operating EBITDA Margin	30.3%	25.2%	7.4%	12.2%	16.8%
Net Cash Per Share (RM)	0.08	0.11	0.12	0.13	0.14
BVPS (RM)	0.12	0.15	0.15	0.15	0.16
Gross Interest Cover	N/A	N/A	N/A	N/A	N/A
Effective Tax Rate	15%	16%	200%	18%	18%
Net Dividend Payout Ratio	17.4%	15.6%	NA	NA	NA
Accounts Receivables Days	54.22	57.73	64.15	53.06	53.31
Inventory Days	-	-	-	-	-
Accounts Payables Days	245.5	292.3	445.2	458.3	477.6
ROIC (%)	183%	110%	20%	54%	92%
ROCE (%)	44.1%	34.5%	6.3%	10.9%	15.1%
Return On Average Assets	33.5%	24.2%	4.1%	7.8%	11.1%

Key Drivers

	Dec-14A	Dec-15A	Dec-16F	Dec-17F	Dec-18F
ASP Change (% , Main Product)	3.0%	3.0%	3.0%	3.0%	3.0%
Unit sales growth (% , main prod)	30.0%	15.0%	15.0%	15.0%	15.0%
No. Of Lines (main Product)	N/A	N/A	N/A	N/A	N/A
Rev per line (US\$, main prod)	300,000.0	300,000.0	300,000.0	300,000.0	300,000.0
ASP chg (% , 2ndary prod)	N/A	N/A	N/A	N/A	N/A
Unit sales grth (% , 2ndary prod)	80.0%	60.0%	60.0%	50.0%	50.0%
No. Of Lines (secondary Product)	N/A	N/A	N/A	N/A	N/A
Rev per line (US\$, 2ndary prod)	N/A	N/A	N/A	N/A	N/A

SOURCE: CIMB RESEARCH, COMPANY DATA

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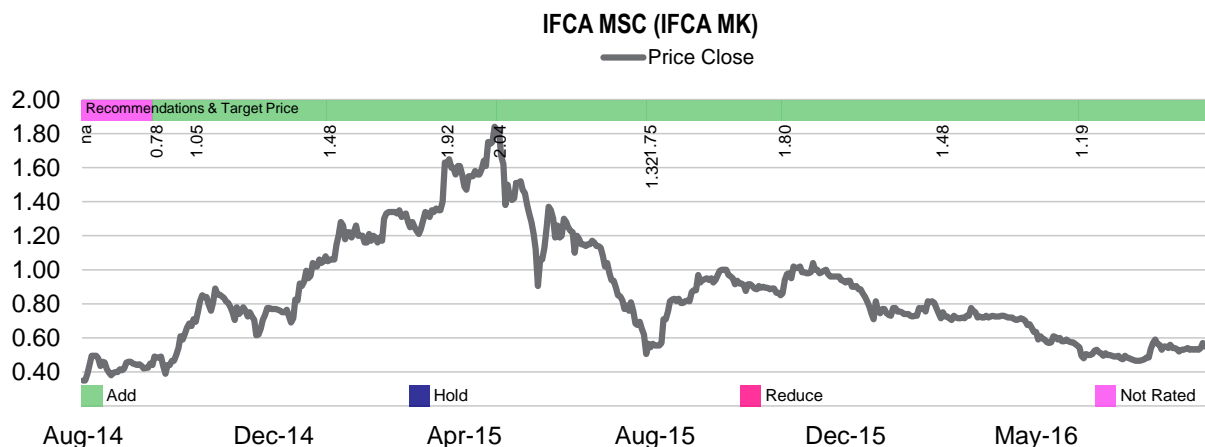
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Distribution of stock ratings and investment banking clients for quarter ended on 30 June 2016		
1574 companies under coverage for quarter ended on 30 June 2016		
	Rating Distribution (%)	Investment Banking clients (%)
Add	56.5%	7.1%
Hold	32.2%	2.9%
Reduce	9.8%	0.6%

Spitzer Chart for stock being researched (2 year data)



Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2015, Anti-Corruption Progress Indicator 2015.

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Good, 3A, MCOT – Excellent, 3A, MEGA – Very Good, 2, MINT - Excellent, 3A, MTLN – Good, 2, NYT – Good, no progress, OISHI – Very Good, 3B, PLANB – Good, 3B, PS – Excellent, 3A, PSL - Excellent, 4, PTT - Excellent, 5, PTTEP - Excellent, 4, PTTGC - Excellent, 5, QH – Very Good, 2, RATCH – Excellent, 3A, ROBINS – Excellent, 3A, RS – Very Good, 1, SAMART - Excellent, 3B, SAPPE - Good, 3B, SAT – Excellent, 5, SAWAD – Good, 1, SC – Excellent, 3B, SCB - Excellent, 4, SCBLIF – not available, no progress, SCC – Excellent, 5, SCN – Good, 1, SCCC - Good, 3A, SIM - Excellent, 3B, SIRI - Good, 1, SPALI - Excellent, 3A, SPRC – not available, no progress, STA – Very Good, 1, STEC – Very Good, 3B, SVI – Very Good, 3A, TASCO – Very Good, 3A, TCAP – Very Good, 4, THAI – Very Good, 3A, THANI – Very Good, 5, THCOM – Excellent, 4, THRE – Very Good, 3A, THREL – Very Good, 3A, TICON – Very Good, 3A, TISCO - Excellent, 4, TK – Very Good, 3B, TKN – not available, no progress, TMB - Excellent, 4, TPCH – Good, 3B, TOP - Excellent, 5, TRUE – Very Good, 2, TTW – Very Good, 2, TU – Very Good, 3A, UNIQ – not available, 2, VGI – Excellent, 3A, WHA – Good, 3A, WORK – not available, no progress.

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Neutral A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.

Underweight An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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Definition:

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Neutral A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.

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