



## Company report

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# LPI CAPITAL

(LPI MK EQUITY, LOND.KL)

16 Oct 2020

*Lower net claims incurred; drop in investment income*

## HOLD

(Maintained)

**Rationale for report: Company results/update**

Price	RM12.82
Fair Value	RM13.60
52-week High/Low	RM15.60/RM9.90

### Key Changes

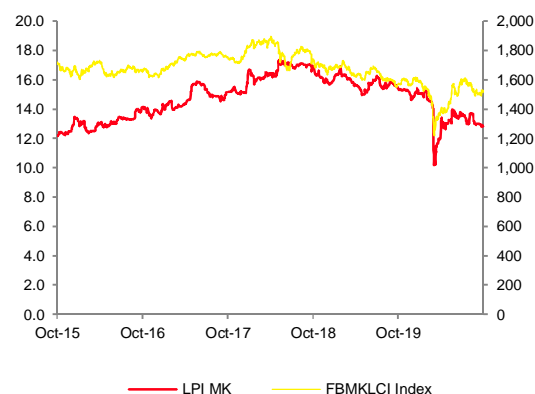
Fair value	↕
EPS	↕

YE to Dec	FY19	FY20F	FY21F	FY22F
Net Earned Premium (RMmil)	1,012	1,055	1,097	1,139
Core net profit (RMmil)	322	320	342	367
FD Core EPS (Sen)	80.9	81.6	87.3	93.0
FD Core EPS growth (%)	2.5	-0.6	6.9	7.3
Consensus net profit (RMmil)	0	305	328	342
DPS (Sen)	70.0	70.6	75.5	80.4
BV/share (RM)	4.9	4.9	5.2	5.6
PE (x)	16.3	16.2	15.1	14.2
Div yield (%)	5.5	5.5	5.9	6.3
P/BV (x)	2.6	2.6	2.5	2.3
ROE (%)	15.6	16.4	17.1	17.1
Net Gearing (%)	nm	nm	nm	nm

### Stock and Financial Data

Shares Outstanding (million)	398.4
Market Cap (RM mil)	5,107.5
Book Value (RM/share)	4.95
P/BV (x)	2.6
ROE (%)	15.6
Net Gearing (%)	-
Major Shareholders	Consolidated Teh Holdings (42.7%) Sompo Holdings (8.5%)
Free Float	48.7
Avg Daily Value (RM mil)	0.6

Price performance	3mth	6mth	12mth
Absolute (%)	(6.4)	6.8	(17.2)
Relative (%)	(2.0)	(2.1)	(14.3)



### Investment Highlights

- We maintain our HOLD recommendation on LPI Capital (LPI) with unchanged fair value of RM13.60/share. Our fair value is based on FY21 P/BV of 2.6x supported by an ROE of 17.1%. We make no changes to our earnings estimates.
- LPI recorded a higher net profit of RM86mil (+11.3% QoQ) in 3Q20 attributed to lower net claims incurred.
- 9M20 core earnings of RM241mil grew modestly by 2.4% YoY contributed by lower claims and higher fair value gains on investments by RM7.5mil. This was despite recording a drop in dividends and interest received on securities held by the group. Cumulative net profit was within expectations, making up 75.3% of our and 79.0% of consensus estimate respectively.
- 3Q20 gross written premium (GWP) grew 11.7% QoQ to RM381mil attributed to higher growth of motor and insurance categorized under the miscellaneous segment. We believe that this was due to the resumption of business activities after the lockdown imposed during the movement control order (MCO). Also QoQ, the improvement in motor premiums was supported by the pickup in sales of new motor vehicles due to the announced sales tax exemption. For 9M20, GWP was flat at RM1.2bil (-0.002% YoY).
- LPI's net earned premium (NEP) for 9M20 was subdued at RM743 mil (-0.4% YoY). This was due to the decline in NEP for the marine, aviation and transit as well as the miscellaneous segment. The group's retention ratio was sustained at 66.0% in 9M20.
- Underwriting margin for 9M20 rose to 30.1% vs. 27.5% in 9M19 supported by lower claims, management and commission expense ratios.
- Claims ratio improved slightly to 43.7% in 9M20 compared with 45.2% in 9M19 with the improvement of motor, marine, aviation & transit and the miscellaneous segments ratios. We understand that in 3Q20, claims overprovided for the marine, aviation & transit segment were written back. Meanwhile, claims ratio for fire insurance has held up at 13.2%.

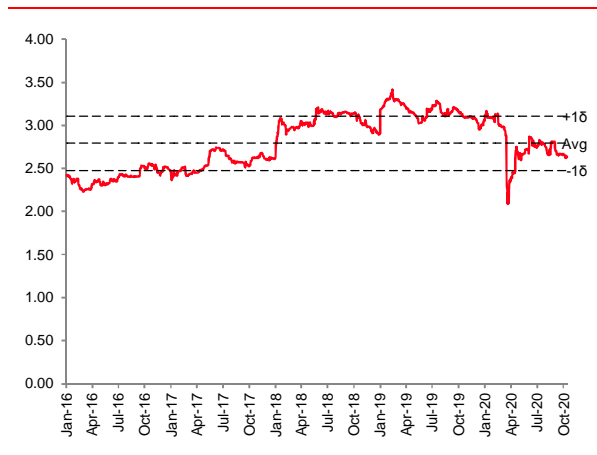
## EXHIBIT 1: LPI CAPITAL RESULTS SUMMARY

Income Statement (RM Mil, FYE 31 Dec)	3Q19	2Q20	3Q20	% QoQ	% Yoy	9M19	9M20	% Yoy
<b>Operating revenue</b>	424	400	396	-0.9%	-6.6%	1,203	1,199	-0.4%
Gross earned premium	390	382	377	-1.2%	-3.5%	1,117	1,126	0.8%
<b>Net earned premium</b>	<b>258</b>	<b>251</b>	<b>254</b>	1.1%	-1.6%	<b>746</b>	<b>743</b>	-0.4%
Investment income	33	18	19	5.1%	-43.6%	87	73	-15.8%
Realised gains and losses	0	0	0	na	na	0	0	-66.7%
Fair value gains and losses	1	11	6	na	na	3	11	238.7%
Commission income	25	26	23	-12.5%	-5.9%	78	87	10.9%
Other operating income	3	1	3	261.3%	1.4%	5	4	-17.9%
<b>Other income</b>	<b>62</b>	<b>57</b>	<b>51</b>	-10.5%	-18.4%	<b>173</b>	<b>175</b>	0.8%
Gross claims paid	-163	-96	-142	47.1%	-13.3%	-438	-378	-13.8%
Claims ceded to reinsurers	60	29	44	48.6%	-27.1%	144	116	-19.7%
Gross change in contract liabilities	12	-59	-164	176.2%	-1481.7%	36	-217	-708.2%
Change in contract liabilities ceded to reinsurers	-21	12	162	1279.4%	-881.7%	-79	155	-295.6%
<b>Net claims incurred</b>	<b>-113</b>	<b>-115</b>	<b>-100</b>	-12.3%	-10.7%	<b>-338</b>	<b>-325</b>	-3.8%
Realised losses	0	0	0	na	na	0	0	na
Fair value losses	0	0	0	na	na	-79	-1	-98.2%
Commission expense	-44	-42	-43	2.3%	-2.0%	-128	-129	1.0%
Management expenses	-52	-50	-49	-2.9%	-6.9%	-153	-152	-0.9%
Impairment losses	0	-1	0			-2	-1	-48.2%
<b>Other expenses</b>	<b>-97</b>	<b>-93</b>	<b>-92</b>	-1.1%	-4.6%	<b>-362</b>	<b>-284</b>	-21.7%
<b>Operating profit</b>	<b>111</b>	<b>100</b>	<b>112</b>	11.7%	0.6%	<b>299</b>	<b>309</b>	3.5%
<b>Finance cost</b>	<b>-1</b>	<b>0</b>	<b>0</b>	-3.0%	-15.9%	<b>-1</b>	<b>-1</b>	43.0%
Share of profit after tax of equity accounted associate company	1	1	1	1.6%	-10.5%	2	3	41.5%
<b>Profit before tax</b>	<b>111</b>	<b>100</b>	<b>112</b>	11.8%	0.7%	<b>299</b>	<b>310</b>	3.6%
Tax expense	-24	-23	-26	13.2%	10.1%	-64	-69	8.1%
<b>Net profit after tax</b>	<b>88</b>	<b>77</b>	<b>86</b>	11.3%	-1.9%	<b>236</b>	<b>241</b>	2.4%
<b>Recurring/core net profit</b>	<b>88</b>	<b>77</b>	<b>86</b>	11.3%	-1.9%	<b>236</b>	<b>241</b>	2.4%
<b>Core EPS (sen)</b>	<b>22.0</b>	<b>19.4</b>	<b>21.6</b>	11.3%	-1.9%	<b>59.2</b>	<b>60.6</b>	2.4%
<b>Ratios (%)</b>								
Reinsurance ratio	33.8%	34.1%	32.6%			33.2%	34.0%	
Retention ratio	66.2%	65.9%	67.4%			66.8%	66.0%	
Claims ratio	43.6%	45.6%	39.5%			45.2%	43.7%	
Commission ratio	7.7%	6.4%	8.0%			6.7%	5.8%	
Management expense ratio	20.2%	19.9%	19.1%			20.5%	19.1%	
Combined ratio	71.4%	71.9%	66.7%			72.5%	68.6%	
UW margin	28.6%	28.1%	33.3%			27.5%	30.1%	
ROE	17.7%	16.3%	19.5%			15.4%	17.2%	
<b>Breakdown by segments</b>								
<b>Fire</b>								
Net earned premium (RM Mil)	106	105	103	-1.8%	-3.0%	306	295	-3.6%
Underwriting surplus before management expenses (RM Mil)	86	83	84	1.1%	-1.7%	244	244	-0.1%
Claims ratio (%)	12.6	15.6	10.4			13.2	13.2	
Commission ratio (%)	6.9	5.1	7.9			7.1	4.2	
Retention ratio (%)	63.1	64.2	68.0			65.3	64.2	
<b>Motor</b>								
Net earned premium (RM Mil)	83	84	85	1.3%	2.4%	240	255	6.1%
Underwriting surplus before management expenses (RM Mil)	16	18	18	3.0%	18.3%	44	49	11.7%
Claims ratio (%)	71.5	69.2	68.7			71.9	71.0	
Commission ratio (%)	9.7	9.5	9.6			9.6	9.6	
Retention ratio (%)	94.9	96.3	95.5			94.9	96	
<b>Marine, Aviation &amp; Transit</b>								
Net earned premium (RM Mil)	4	3	5	37.2%	17.5%	14	13	-8.2%
Underwriting surplus before management expenses (RM Mil)	3	4	6	80.8%	108.6%	13	15	20.0%
Claims ratio (%)	34.6	6.5	-28.2			29.8	-0.1	
Commission ratio (%)	-11.1	-9.6	-7.7			-18.3	-15.5	
Retention ratio (%)	18.8	19.6	22.3			21.4	21.4	
<b>Miscellaneous</b>								
Net earned premium (RM Mil)	65	59	61	3.9%	-5.5%	185	180	-3.0%
Underwriting surplus before management expenses (RM Mil)	22	16	24	52.7%	12.2%	57	67	16.3%
Claims ratio (%)	59.1	67.8	53.2			64.9	58.5	
Commission ratio (%)	7.5	5.3	7.2			4.3	4.6	
Retention ratio (%)	57.3	52.1	53.2			56.5	52.9	

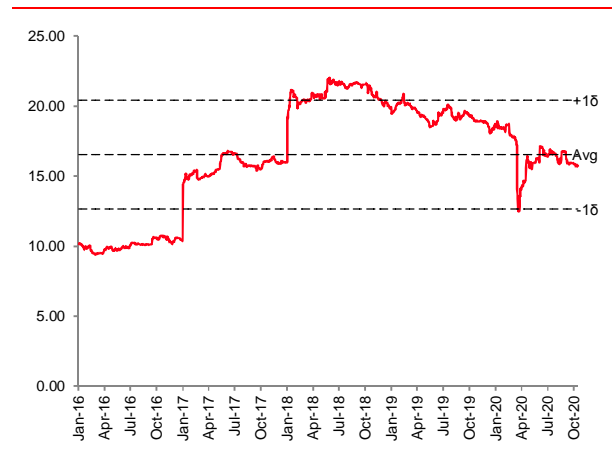
Source: Company, AmInvestment Bank Bhd

- **9M20 saw a marginal reduction in management expense ratio to 19.1%. Meanwhile, commission ratio improved to 5.8% for 9M20. This was due to higher commission income with the increase in premiums ceded out to reinsurers. The group registered an improved combined ratio for 9M20 of 68.6% (9M19: 72.5%) vs. our estimate of 71.3% for FY20.**
- **Aging of insurance receivables remained healthy with 93.0% of the total receivables falling within 90 days.**
- **Fair value reserves declined further to RM533.7mil in 9M20 vs. RM568.7mil in 6M20. This was contributed by higher fair value losses on FVOCI securities (mainly Public Bank shares) to RM163.7mil.**
- **The outlook for the general insurance industry remains challenging due to subdued growth in gross premiums. Additionally, pricing power remains weak for fire and motor insurance with the inability to raise premiums despite providing more coverage/protection for policies.**

**EXHIBIT 2: PB BAND CHART**



**EXHIBIT 3: PE BAND CHART**



## EXHIBIT 4: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Operating revenue	1,514	1,603	1,672	1,737	1,806
Gross written premium	1,469	1,524	1,584	1,644	1,707
Gross earned premium	1,414	1,496	1,559	1,619	1,681
Premium ceded	- 483	- 485	- 504	- 522	- 541
Net earned premium	931	1,012	1,055	1,097	1,139
Investment income	100	106	112	119	125
Gain on financial assets	0	0	5	5	3
Commission income	104	102	101	99	97
<b>Other operating income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Other income</b>	<b>7</b>	<b>7</b>	<b>7</b>	<b>8</b>	<b>8</b>
Net claims	- 381	- 445	- 467	- 474	- 480
Commission expense	- 163	- 171	- 168	- 169	- 170
<b>Management expense</b>	<b>- 193</b>	<b>- 199</b>	<b>- 218</b>	<b>- 227</b>	<b>- 236</b>
<b>Other expenses</b>	<b>- 359</b>	<b>- 370</b>	<b>- 386</b>	<b>- 396</b>	<b>- 406</b>
Operating profit	402	414	427	457	487
Finance cost	0	- 1	- 1	- 1	- 1
<b>Share of profit from associates</b>	<b>4</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>
Profit before tax	406	415	428	458	487
<b>Tax</b>	<b>- 92</b>	<b>- 92</b>	<b>- 103</b>	<b>- 110</b>	<b>- 117</b>
Net profit	314	322	325	348	370
Core net profit	314	322	320	342	367
<b>Balance Sheet (RMmil, YE 31 Dec)</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20F</b>	<b>FY21F</b>	<b>FY22F</b>
Cash & deposits with FIs	419	186	200	183	186
Loans & receivables	1,351	1,540	1,648	1,685	1,722
Insurance receivables	160	150	149	149	149
Investment securities	1,369	1,266	1,171	1,346	1,515
Investment properties	27	28	27	27	27
Deferred acquisition cost	46	44	50	51	52
Fixed assets	18	7	6	5	4
<b>Other assets</b>	<b>851</b>	<b>826</b>	<b>841</b>	<b>860</b>	<b>884</b>
Total assets	4,241	4,046	4,091	4,306	4,538
Insurance contract liabilities	1,859	1,807	1,878	1,952	2,029
Insurance payables	88	93	98	104	109
Borrowings	0	47	47	47	47
Deferred tax liabilities	5	3	5	8	12
<b>Other liabilities</b>	<b>131</b>	<b>123</b>	<b>121</b>	<b>119</b>	<b>117</b>
Total liabilities	2,084	2,074	2,150	2,230	2,315
Share capital	398	398	398	398	398
<b>Reserves</b>	<b>1,758</b>	<b>1,574</b>	<b>1,543</b>	<b>1,677</b>	<b>1,825</b>
Shareholders' funds	2,157	1,972	1,941	2,076	2,223
<b>Key Ratios (YE 31 Dec)</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20F</b>	<b>FY21F</b>	<b>FY22F</b>
ROE (%)	15.4	15.6	16.4	17.1	17.1
ROA (%)	7.8	7.8	7.9	8.2	8.3
Growth in gross earned premium (%)	2.4	5.8	4.2	3.8	3.8
Growth in net earned premium (%)	9.5	8.7	4.3	3.9	3.9
Core net profit growth (%)	0.1	2.6	- 0.6	6.9	7.3
EPS growth (%)	- 16.5	2.5	- 0.6	6.9	7.3
Book value per share growth (%)	- 6.3	- 8.7	- 1.6	6.9	7.1
<b>Key Assumptions (YE 31 Dec)</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20F</b>	<b>FY21F</b>	<b>FY22F</b>
Reinsurance ratio (%)	34.2	32.4	32.3	32.3	32.2
Retention ratio (%)	65.8	67.6	67.7	67.7	67.8
Claims ratio (%)	40.9	43.9	44.2	43.2	42.1
Commission ratio (%)	6.3	6.8	6.4	6.4	6.4
Management expense ratio (%)	20.1	19.1	20.7	20.7	20.7
Combine ratio (%)	67.3	69.8	71.3	70.3	69.2
Investment yield (%)	7.1	8.2	9.4	8.6	8.1
Underwriting margin (%)	32.1	29.6	28.7	29.7	30.8

Source: Company, AmInvestment Bank Bhd estimates

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