

11 October 2018 | 3QFY18 Results Review

LPI Capital Berhad

Remains resilient in current volatile market

Maintain NEUTRAL

Unchanged Target Price (TP):RM16.70

INVESTMENT HIGHLIGHTS

- **Results came in within expectations**
- **Remains a performing player in the industry**
- **Earnings forecast remains unchanged for FY18 and FY19**
- **Maintain NEUTRAL with unchanged TP of RM16.70**

Within expectations. LPI Capital reported 3QFY18 core earnings of RM91.7m, posting a slight decline of -0.2%yoy. Nonetheless for cumulative 9MFY19, core net earnings recorded an uptick of +1.0%yoy to RM230.1m. Accordingly, this translated to 75.4% and 71.9% of ours and consensus full year estimates.

Stable growth through tough times. Recent uncertainties such as the review of major infrastructure projects, an oversupply in the property market and deregulation, have all resulted in a slower demand and competitive environment for general insurance. However, LPI Capital's operating revenues grew marginally +1.6%yoy to RM1,124.6m in 9MFY18. This is mainly attributable to the dividend income and interest income received as part of operating revenue, which grew by +12.2%yoy and +10.3%yoy respectively. Similarly, the 9MFY18 net earned premium income climbed +8.6%yoy to RM676.7m which was due to the higher retention rate and lower claims ceded to reinsurer. This could indicate LPI Capital's ability and confidence to retain risk in its portfolio even amid volatile market. To put this into perspective, the general insurance industry reported a mere 0.7% growth in its gross premium written in 1HFY18.

Combined ratio slightly increased. The group's combined ratio recorded a net increase of 1.4ppts yoy, from 64.3% in 3QFY17. This was due to the surge in the group's management expense ratio and commission ratio, which grew by +1.9ppts yoy and +2.7ppts yoy respectively. This translated to a -1.4ppts yoy drop in the group's 3QFY17 underwriting margin to 34.3%. The increase in commission ratio was mainly attributed by the lower reinsurance commission received as the group sought to retain more risks on their own and reduced reinsurance ceded. Recall that the industry average of combined ratio was 92.3% as at 30 June 2018.

RETURN STATS	
Price (10 October 2018)	RM16.80
Target Price	RM16.70
Expected Share Price Return	-0.6%
Expected Dividend Yield	+4.2%
Expected Total Return	+3.6%

STOCK INFO	
KLCI	1,735.18
Bursa / Bloomberg	8621 / LPI MK
Board / Sector	Main / Finance
Syariah Compliant	No
Issued shares (mil)	398.4
Par Value (RM)	1.00
Market cap. (RM'm)	6,692.8
Price over NTA	3.55x
52-wk price Range	RM15.00– RM17.50
Beta (against KLCI)	0.49x
3-mth Avg Daily Vol	0.08m
3-mth Avg Daily Value	RM1.39m
Major Shareholders (%)	
Consolidated Teh Hldgs	42.74
Sompo Holdings Inc	8.54
Hong Piow Teh	1.41

...and prudent underwriting and pricing discipline provided cushion. Its overall 3QFY18 claims ratio experienced a decline of -3.2ppts yoy from 40.3% of the same period last year as the net claims incurred by Motor, Miscellaneous and Fire segment declined -53.5%yoy, -28.6%yoy, and -9.2%yoy respectively. This translated to an average growth rate of +2.5%yoy of underwriting surplus in 3QFY18. The growth was mainly driven by Motor segment, climbing +44.3%yoy while moderated by Fire and Miscellaneous due to lower net earned premiums and higher net claims incurred respectively in the quarter.

Earnings estimates. We maintain our FY18 and FY19 earnings forecast given the results were in line with our expectations.

Recommendation. Despite the recent economy slowdown and uncertainty, our outlook on the group's business remains rather neutral at this juncture as it has a track record of financial strength and profitability to cushion imminent downside scenario risks. The group also has a ratio of cash flow from operating activities to net income of 126.5% (RM291m/RM230m), indicating sufficient cash flow to meet its obligations and even pay dividend to its shareholders. Despite this, we maintain our **NEUTRAL** stance on LPI Capital we take into account potential headwinds from the liberalisation of motor and fire tariff (which is under review) and current uncertain environment affecting the infrastructure landscape where LPI is an active player. Our TP of **RM16.70** is also unchanged as we peg its **FY19F core EPS** to **PER** of **18.6x**.

INVESTMENT STATISTICS

FYE Dec	FY15	FY16	FY17	FY18F	FY19F
Operating Revenue	1284.6	1378.9	1470.6	1584.7	1663.2
Net earned premiums (RM'm)	706.9	767.3	850.2	873.3	946.9
Underwriting profit (RM'm)	229.8	274.4	300.4	317.1	359.2
Operating profit (RM'm)	391.1	516.5	401.3	509.0	558.6
Pre-tax profit	393.1	518.9	403.7	510.1	559.6
Core net profit	244.8	289.2	310.8	304.6	358.0
Vs. consensus estimate (RM'm)				319.8	345.4
Basic EPS	80.6	109.7	78.0	97.3	112.4
Core EPS (sen)	61.4	72.6	78.0	76.5	89.8
Recurring EPS growth (%)	11.7	18.1	7.5	-2.0	17.5
PER (x)	27.3	23.1	21.5	22.0	18.7
Net Dividend (sen)	70.0	80.0	72.0	75.0	70.0
Net Dividend Yield (%)	4.1	4.7	4.2	4.4	4.2
BVPS (RM)	4.4	4.6	4.8	4.9	5.3
PBV (x)	3.9	3.7	3.5	3.5	3.2
ROE (%)	14.1	15.6	16.2	15.3	17.0
ROA (%)	6.8	7.8	8.1	7.6	8.5

Source: Company, MIDFR

DAILY PRICE CHART



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Source: Bloomberg, MIDFR

3QFY18 RESULTS SUMMARY

FYE Dec (RM'm)	Quarterly Results					Cumulative		
	3Q18	3Q17	2Q18	YoY	QoQ	9M18	9M17	YoY
Operating revenue	390.6	406.8	353.0	-4.0%	10.6%	1,124.6	1,107.1	1.6%
Gross earned premiums	358.0	378.9	335.6	-5.5%	6.7%	1,043.3	1,033.9	0.9%
Net earned premiums	235.2	231.5	225.1	1.6%	4.4%	676.7	623.1	8.6%
Investment income	32.6	27.9	17.4	17.0%	87.4%	81.3	73.3	11.0%
Realised gains and losses	0.1	0.2	0.0	N.A	>100%	0.0	3.1	N.A
Fair value gains and losses	-0.2	0.0	-0.4	N.A	-50.9%	-1.6	0.0	N.A
Commission income	23.9	37.7	25.6	-36.6%	-6.5%	80.6	94.8	-15.0%
Other income	58.3	69.7	43.7	-16.4%	33.5%	167.1	177.1	-5.6%
Gross claims paid	-114.7	-127.3	-102.2	-9.9%	12.2%	-356.8	-353.2	1.0%
Claims ceded to reinsurers	29.9	40.7	26.1	-26.5%	14.6%	103.1	119.4	-13.7%
Gross change to contract liabilities	19.0	7.3	-110.9	158.9%	-117.2%	-87.0	1.7	>-100%
Change in contract liabilities ceded	-21.6	-14.1	94.8	53.4%	-122.7%	59.2	-17.1	>100%
Net claims incurred	-87.4	-93.4	-92.2	-6.4%	-5.2%	-281.5	-249.1	13.0%
Commission expenses	-41.9	-49.2	-39.3	-14.9%	6.6%	-120.2	-123.1	-2.3%
Management expenses	-49.1	-44.1	-50.2	11.5%	-2.2%	-148.0	-137.0	8.0%
Other expenses	-91.3	-93.3	-89.5	-2.2%	1.9%	-270.5	-260.0	4.0%
Operating profit	114.8	114.5	87.1	0.2%	31.9%	291.8	291.0	0.3%
Share of associates and JV	1.8	0.5	0.6	266.5%	218.7%	3.3	2.0	62.2%
Profit before tax	116.6	115.0	87.6	1.4%	33.1%	295.1	293.0	0.7%
Taxation	-24.8	-22.9	-21.1	8.6%	17.4%	-65.0	-62.2	4.5%
Net profit	91.8	92.2	66.5	-0.4%	38.1%	230.1	230.8	-0.3%
Core net profit	91.7	91.9	66.5	-0.2%	38.0%	230.1	227.7	1.0%
Core EPS	23.0	27.7	20.0	-16.9%	15.0%	57.7	68.6	-15.8%

	3Q18	3Q17	2Q18	+/- ppts	+/- ppts	9M18	9M17	+/- ppts
Claims ratio	37.2%	40.3%	41.0%	-3.2	-3.8	41.6%	40.0%	1.6
Management expense ratio	20.9%	19.0%	22.3%	1.9	-1.4	21.9%	22.0%	-0.1
Commission ratio	7.7%	5.0%	6.1%	2.7	1.6	5.9%	4.5%	1.3
Combined ratio	65.7%	64.3%	69.4%	1.4	-3.7	69.3%	66.5%	2.8
Retention ratio	65.7%	61.1%	67.1%	4.6	-1.4	66.8%	63.2%	3.6
Underwriting margin	34.3%	35.7%	30.6%	-1.4	3.7	30.7%	33.5%	-2.8

Segmental breakdown								
	3Q18	3Q17	2Q18	YoY	QoQ	9M18	9M17	YoY
Net earned premiums (RM'm)								
Fire	95.3	101.5	98.0	-6.1%	-2.7%	285.1	272.1	4.8%
Motor	73.0	74.8	69.9	-2.5%	4.3%	209.6	199.0	5.3%
Marine, aviation & transit	4.3	5.5	4.6	-21.2%	-5.9%	13.9	14.0	-0.7%
Miscellaneous	62.6	49.7	52.7	26.0%	18.8%	168.1	138.0	21.8%
Net claims incurred (RM'm)								
Fire	-10	-13.8	-9.2	-25.3%	12.3%	-36.9	-43.5	-15.3%
Motor	-46.9	-55.5	-53.5	-15.5%	-12.4%	-157.0	-141.1	11.2%
Marine, aviation & transit	-0.9	-2.0	-0.9	-55.0%	4.6%	-2.5	-4.8	-48.4%
Miscellaneous	-29.3	-22.1	-28.6	32.8%	2.3%	-85.2	-59.7	42.7%
Net claims incurred (%)								
Fire	10.8%	13.6%	9.3%	-2.8	1.4	12.9%	16.0%	-3.07
Motor	64.3%	74.2%	76.6%	-9.9	-12.3	74.9%	70.9%	4.00
Marine, aviation & transit	21.1%	37.0%	19.0%	-15.9	2.1	17.6%	33.9%	-16.28
Miscellaneous	46.8%	44.4%	54.4%	2.4	-7.6	50.7%	43.3%	7.43
Net commission (RM'm)								
Fire	-7.2	-7.0	-5.9	2.9%	21.2%	-18.3	-16.1	13.9%
Motor	-6.9	-6.0	-6.0	14.6%	16.3%	-19.0	-15.8	20.4%
Marine, aviation & transit	0.1	0.0	0.1	>100%	0.8%	1.0	0.7	35.3%
Miscellaneous	-4.0	1.5	-2.0	>-100%	102.9%	-3.3	2.8	>-100%
Underwriting surplus* (RM'm)								
Fire	77.8	80.7	82.9	-3.6%	-6.1%	230.0	212.5	8.2%
Motor	19.2	13.3	10.4	44.3%	83.5%	33.6	42.1	-20.2%
Marine, aviation & transit	3.5	3.5	3.8	2.1%	-8.0%	12.5	10.0	24.6%
Miscellaneous	29.3	29.1	22.0	0.5%	32.8%	79.6	81.1	-1.9%

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.