

27 April 2018 | 1QFY18 Results Review

LPI Capital Berhad

Growth dragged by higher claim expenses

INVESTMENT HIGHLIGHTS

- Results came in within expectations
- Growth driven by strong demand for fire insurance
- We maintain our earnings forecast for FY18, while revising down our FY19's
- NEUTRAL with adjusted TP of RM16.69 as we rollover our valuation to FY19.

Within expectations. LPI Capital reported 1QFY18 net profit of RM72.5m, posting a growth of +2.8%yoy. However, LPI's core profit growth was higher at +4.8%yoy. The 1QFY18 net profit came in within ours and consensus forecasts, accounting for 22.0% and 20.1% of full year estimates respectively.

Growth of gross earned premium set a positive tone for the year. The group reported operating revenue of RM381.0m in 1QFY18, climbing up by +9.6%yoy. Accordingly, gross earned premium followed suit with an encouraging growth of +9.9%yoy to RM349.7m. We opine the upward trajectory as commendable, beating our +5.3% growth forecast for the full year. We noted that overall premium was largely driven by fire class which grew by +21.6%yoy. Meanwhile for the motor class, premium recorded +7.9%yoy higher to RM66.7m. It is worth noting that motor and fire classes represent about 30.8% and 42.5% of overall net earned premium respectively. Given the large representation of both segments on premium income, we opine that further improvement on the group's overall earnings is likely throughout the year.

However, the jump in claims is a concern. LPI's net claims incurred came in +42.8%yoy higher in 1QFY18 to RM101.9m. This was attributable to higher motor insurance claims by +46.5%yoy from the same period last year. Overall, this translated to loss/claims ratio of 47.1% for the group, which was +7.2ppts yoy higher. Moving forward, we opine that loss ratio is likely to taper down due to high base effect, supported by the group's selective risk underwriting for its motor class following the phased liberalisation.

Resulting to higher combined ratio. The group's combined ratio recorded a net increase of +9.3pptsyoy, from 63.8% in 1QFY18. This was due to the surge in the group's overall claim expenses, which translated to a -9.3ppts yoy drop in the group's 1QFY18 underwriting margin.

Maintain NEUTRAL
Adjusted Target Price(TP): RM16.69
(from RM15.76)

RETURN STATS

Price (26 April 2018)	RM16.14
Target Price	RM16.69
Expected Share Price Return	3.4%
Expected Dividend Yield	4.3%
Expected Total Return	+7.7%

STOCK INFO

KLCI	1,851.93
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)	6,429.9
Price over NA	3.41x
52-wk price Range	RM14.52– RM17.36
Beta (against KLCI)	0.57x
3-mth Avg Daily Vol	0.07m
3-mth Avg Daily Value	RM1.09m
Major Shareholders (%)	
Consolidated The Hldgs	42.74
Sompo Holdings Inc	8.54
Standard Life Aberdeen	1.67

Underwriting surplus grew at an average of +5.8%yoy in 1QFY18. The growth supported by almost all segments including Fire, MAT and Miscellaneous. However, it was dragged by motor class due to its substantial decline of -78.0%yoy.

Impact to earnings. Given that earnings came in within estimates, we maintain our FY18 numbers at this juncture. However, we are fine-tuning our forecast in FY19; taking into account the higher than expected claims expenses. Accordingly, we revised our growth assumption on claims to approximately +15.0%yoy. This will contract our core net profit assumption by -10.3% to RM358.0m.

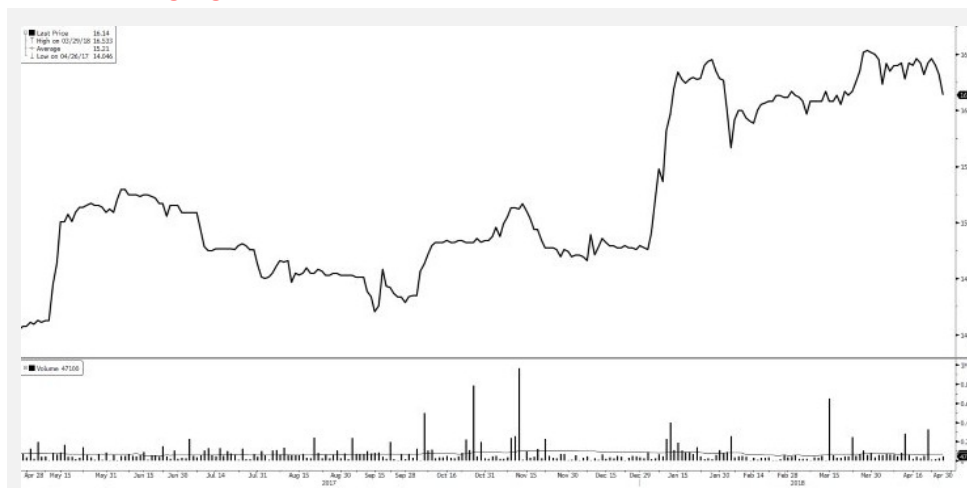
Recommendation. Throughout the year, we believe the group is expected to improve its performance based on the consistent premium growth, driven by the group's main classes of general insurance namely fire and motor. While we are optimistic on the growth trajectory of the group's revenue, we believe challenging industry's headwinds such as higher than expected claim expenses also poses threat to its profitability. Taking that into account, we are maintaining our **NEUTRAL** call on the stock. Rolling over our valuation to FY19, we are adjusting our **TP** is higher to **RM16.69** (from RM15.76), pegging the **EPS** to **PER** of **19x**. Overall, we opine that the group will potentially record improvement in earnings this, stemming from positive economic outlook. This is further coupled with the group's ability to strengthen its market share in the general insurance market, supported by the group's standing as the country's largest property underwriter.

INVESTMENT STATISTICS

FYE Dec	FY15	FY16	FY17	FY18F	FY19F
Operating Revenue	1284.6	1378.9	1470.6	1614.8	1663.2
Net earned premiums (RM'm)	706.9	767.3	850.2	896.5	946.8
Underwriting profit (RM'm)	229.8	274.4		330.5	294.3
Operating profit (RM'm)	391.1	516.5	401.3	558.1	558.6
Pre-tax profit	393.1	518.9	403.7	559.1	559.7
Core net profit	244.8	289.2	310.8	330.2	358.0
Vs. consensus estimate (RM'm)				329.1	363.2
Core EPS (sen)	61.4	72.6	78.0	82.9	89.9
Recurring EPS growth (%)	11.7	18.1	7.5	6.2	8.4
PER (x)	26.6	22.5	20.9	19.7	18.2
Net Dividend (sen)	70.0	80.0	72.0	75.0	70.0
Net Dividend Yield (%)	4.3	4.9	4.4	4.6	4.3
BVPS (RM)	4.4	4.6	4.8	5.0	5.3
PBV (x)	3.7	3.5	3.4	3.3	3.1
ROE (%)	14.1	15.6	16.2	16.6	17.0
ROA (%)	6.8	7.8	8.1	8.2	8.5

Source: Company, MIDFR

DAILY PRICE CHART



Danial Razak
 muhammad.danial@midf.com.my
 03-21738396

Source: Bloomberg, MIDFR

1QFY18 RESULTS SUMMARY

FYE Dec (RM'm)	Quarterly Results				
	1Q18	1Q17	4Q17	YoY	QoQ
Operating revenue	381.0	347.6	363.5	9.6%	4.8%
Gross earned premiums	349.7	318.2	346.8	9.9%	0.9%
Net earned premiums	216.4	179.1	227.1	20.8%	-4.7%
Investment income	31.3	29.4	16.7	6.3%	86.8%
Realised gains and losses	-0.1	0.3	-0.1	N.A	-19.8%
Fair value gains and losses	-1.0	0.0	0.0	N.A	N.A
Commission income	31.1	30.4	23.8	2.5%	30.9%
Other income	61.3	60.9	42.4	0.5%	44.6%
Gross claims paid	-139.9	-101.2	-157.7	38.2%	-11.3%
Claims ceded to reinsurers	47.2	29.3	67.7	61.1%	-30.3%
Gross change to contract liabilities	4.9	-15.3	8.6	-131.9%	-42.9%
Change in contract liabilities ceded	-14.1	15.8	2.8	-189.0%	-608.1%
Net claims incurred	-101.9	-71.4	-78.6	42.8%	29.6%
Commission expenses	-39.0	-35.5	-39.7	9.8%	-1.9%
Management expenses	-48.6	-45.5	-40.9	6.8%	18.9%
Other expenses	-87.6	-81.0	-80.6	8.1%	8.7%
Operating profit	90.7	87.8	110.2	3.3%	-17.8%
Share of associates and JV	0.9	1.0	0.5	-10.3%	97.2%
Profit before tax	91.6	88.8	110.7	3.1%	-17.3%
Taxation	-19.1	-18.2	-27.7	4.6%	-31.1%
Net profit	72.5	70.6	83.0	2.8%	-12.6%
Core net profit	73.6	70.2	83.1	4.8%	-11.4%
Core EPS	18.5	17.6	20.9	4.8%	-11.4%

Source: Bloomberg, MIDFR

	1Q18	1Q17	4Q17	+/- pts	+/- pts
Claims ratio	47.1%	39.8%	34.6%	7.2	12.5
Management expense ratio	22.5%	17.2%	18.0%	5.3	4.5
Commission ratio	3.6%	6.8%	7.0%	-3.2	-3.4
Combined ratio	73.2%	63.8%	59.6%	9.3	13.5
Retention ratio	69.9%	67.4%	75.4%	2.5	-5.5
Underwriting margin	26.8%	36.2%	40.4%	-9.3	-13.5

Segmental breakdown					
	1Q18	1Q17	4Q17	YoY	QoQ
Net earned premiums (RM'm)					
Fire	91.9	75.6	103.7	21.6%	-11.4%
Motor	66.7	61.8	65.1	7.9%	2.4%
Marine, aviation & transit	5.0	2.9	4.0	72.4%	25.0%
Miscellaneous	52.8	38.8	54.3	36.1%	-2.7%
Net claims incurred (RM'm)					
Fire	-17.4	-14.5	-12.8	20.3%	36.2%
Motor	-56.5	-38.6	-46.3	46.5%	22.1%
Marine, aviation & transit	-0.7	-0.8	-0.3	-16.6%	122.3%
Miscellaneous	-27.2	-17.5	-19.2	55.7%	41.9%
Net claims incurred (%)					
Fire	19.0%	19.2%	12.3%	-0.2	6.6
Motor	84.8%	62.5%	71.1%	22.3	13.7
Marine, aviation & transit	13.3%	27.6%	7.5%	-14.2	5.8
Miscellaneous	51.6%	45.1%	35.4%	6.5	16.2
Net commission (RM'm)					
Fire	-5.2	-4.5	-7.3	15.5%	-28.8%
Motor	-6.1	-4.9	-5.6	24.7%	9.1%
Marine, aviation & transit	0.8	0.9	0.2	-16.3%	276.5%
Miscellaneous	2.7	3.3	-3.2	-18.5%	-184.1%
Underwriting surplus* (RM'm)					
Fire	69.3	56.6	83.6	22.4%	-17.1%
Motor	4.0	18.3	13.1	-78.0%	-69.3%
Marine, aviation & transit	5.1	3.1	3.8	64.0%	33.8%
Miscellaneous	28.3	24.6	32.0	14.9%	-11.7%

Source: Bloomberg, 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.