

11 January 2018 | 4QFY17 Results Review

LPI Capital Berhad

Commendable results, despite strong headwinds

Maintain NEUTRAL

Unchanged Target Price(TP): RM18.91

INVESTMENT HIGHLIGHTS

- **Results came in within expectations**
- **Growth driven by strong demand for fire insurance**
- **We maintain earnings forecast for FY18**
- **NEUTRAL with unchanged TP of RM18.91**

Within expectation. LPI's 4QFY17 recorded decent earnings at RM83.1m, chalking up year-on-year growth of +1.9%. Notably, the results came in within expectations recording 96.8% and 101.2% of ours and consensus' estimates for 12MFY17.

Positive earnings growth underpinned by a strong demand for fire and miscellaneous products. The group general insurance market operating revenue grew +6.7% for FY17. The demand for LPI's general insurance products remains robust despite operating in a more competitive environment following motor detarriffication. However, the motor segment experienced a notable decline in net earned premium by -10.7%yoy. Going forward, we opine contribution from motor segment to stabilize stemming from the group's strategy of rebalancing its underwriting risks to selective motor products which are yielding more lucrative returns. This will mitigate the possible contraction in the downtrend in overall underwriting margin.

Combined ratio was slightly up. The group's combined ratio recorded a net increase of +1.5ppts yoy, from 58.7% in 4QFY16. This was attributable to marginal surge in the group's overall claim expenses, which translated to a -1.5ppts yoy drop in the group's 4QFY17 underwriting margin. The decline, we opine is primarily driven by an expansion in net claims incurred from motor segment, where it grew by +17.3%yoy.

Underwriting surplus grew in almost all segments including Fire, MAT and Miscellaneous with the highest recorded in MAT, +82.5%yoy for 4QFY17. This was followed by the fire segment, where its underwriting surplus grew by +22.4%. Despite the fire segment registering higher net claims incurred by +9.0%yoy, the increase was largely absorbed the upsurge in net earned premium of +20.5%.

RETURN STATS	
Price (10 January 2018)	RM19.42
Target Price	RM18.91
Expected Share Price Return	-3.0%
Expected Dividend Yield	3.9%
Expected Total Return	+0.9%

STOCK INFO	
KLCI	1,822.92
Bursa / Bloomberg	8621 / LPI MK
Board / Sector	Main / Finance
Syariah Compliant	No
Issued shares (mil)	332.0
Par Value (RM)	1.00
Market cap. (RM'm)	6,447.2
Price over NA	3.10x
52-wk price Range	RM16.62– RM19.60
Beta (against KLCI)	0.56x
3-mth Avg Daily Vol	0.07m
3-mth Avg Daily Value	RM1.27m
Major Shareholders (%)	
Consolidated The Hldgs	42.74
Nipponkoa Insurance	8.54
Retirement Benefits Funds	4.71

Second interim dividend of 45 sen per share. In view of the strong group's performance, the board has declared 45 sen/share of second interim dividend, which amounted to 72 sen/share of full year dividend. As of this writing, the full year dividend represents a yield of 3.7%.

Proposed 1-to-5 bonus issue. At the same time, the management has proposed the issuance of 1 bonus share for every 5 existing LPI shares held by shareholders, with pending entitlement date. This proposal represents the issuance of 66,397,161 new shares. Based on our estimate, the new issuance will marginally dilute our current target price from RM18.91 to RM15.75, which will potentially lead to more trading activities of the stock.

Maintain forecast. As the results came in within our expectations, we maintain our FY18 earnings forecast. As the 4QFY17 earnings came to conclude the last year fiscal year, we are introducing our FY19 forecast.

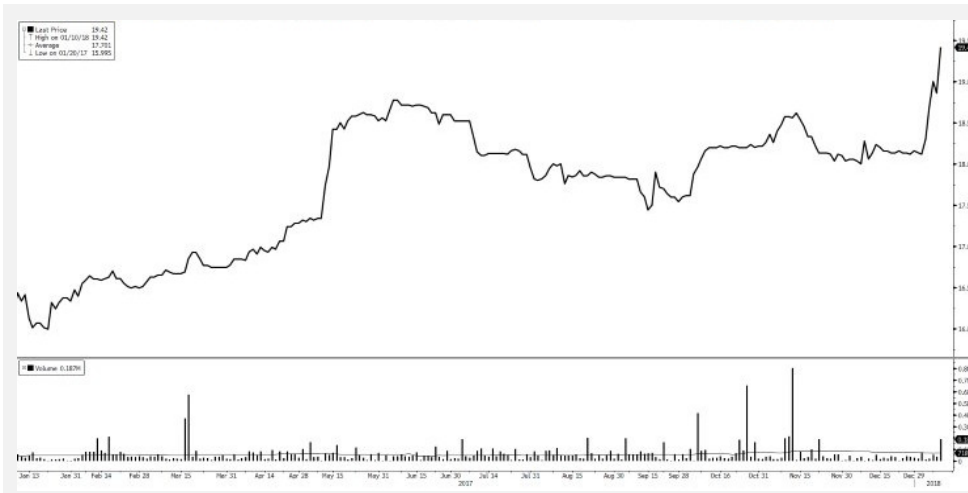
Recommendation. All in, we believe the group's better performance reflects positively on the stock. From a valuation standpoint, we do not see any fresh catalyst that will justify a higher valuation. Given that the earnings came in within expectation, we believe our current TP is justified. As such, we are maintaining our NEUTRAL call and TP of RM18.91 pegging its FY18 EPS to PER of 19x. We view that the group's positive performance will continue in the next fiscal year, stemming from positive economic outlook for the rest of the year according to our in-house economics forecast. This is further coupled with the group's ability to strengthen its market share in the general insurance market, leveraging on its strength 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
Operating profit (RM'm)	391.1	516.5	401.3	558.1	610.6
Pre-tax profit	393.1	518.9	403.7	559.1	611.6
Net profit	321.0	437.2	313.8	480.6	489.3
Recurring net profit	244.8	289.2	310.8	330.2	399.6
Vs. consensus estimate (RM'm)				363.6	422.0
Basic EPS	96.7	131.7	93.6	144.8	147.4
Recurring EPS (sen)	73.7	87.1	93.6	99.5	120.4
Recurring EPS growth (%)	11.7	18.1	7.5	6.2	21.0
PER (x)	26.3	22.3	20.7	19.5	16.1
Net Dividend (sen)	70.0	80.0	72.0	75.0	70.0
Net Dividend Yield (%)	3.6	4.1	3.7	3.9	3.6
BVPS (RM)	5.2	5.5	6.2	6.5	6.8
PBV (x)	3.7	3.5	3.1	3.0	2.9
ROE (%)	14.1	15.6	15.7	17.3	17.6
ROA (%)	6.8	7.8	7.6	8.4	8.6

Source: Company, MIDFR

DAILY PRICE CHART



Source: Bloomberg, MIDFR

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4QFY17 RESULTS SUMMARY

FYE Dec (RM'm)	Quarterly Results					Cumulative		
	4Q17	4Q16	3Q17	YoY	QoQ	12M17	12M16	YoY
Operating revenue	363.5	355.6	406.8	2.2%	-10.6%	1470.6	1378.9	6.7%
Gross earned premiums	346.8	339.4	378.9	2.2%	-8.5%	1380.6	1290.0	7.0%
Net earned premiums	227.1	210.3	231.5	8.0%	-1.9%	850.2	767.3	10.8%
Investment income	16.7	16.2	27.9	3.6%	-39.9%	90.0	88.9	1.3%
Realised gains and losses	-0.1	-0.1	0.2	N.A	-135.7%	3.0	150.3	-98.0%
Fair value gains and losses	0.0	-1.5	0.0	N.A	N.A	0.0	-2.3	N.A
Commission income	23.8	25.9	37.7	-8.2%	-37.0%	118.6	108.9	8.9%
Other income	42.4	42.6	69.7	-0.5%	-39.3%	219.4	353.8	-38.0%
Gross claims paid	-157.7	-136.5	-127.3	15.5%	23.8%	-510.8	-533.1	-4.2%
Claims ceded to reinsurers	67.7	51.5	40.7	31.4%	66.5%	187.1	236.8	-21.0%
Gross change to contract liabilities	8.6	40.8	7.3	-79.1%	16.4%	10.3	35.2	-70.7%
Change in contract liabilities ceded	2.8	-24.8	-14.1	-111.2%	-119.7%	-14.3	-33.1	>-100%
Net claims incurred	-78.6	-68.9	-93.4	14.2%	-15.8%	-327.7	-294.2	11.4%
Commission expenses	-39.7	-40.2	-49.2	-1.1%	-19.3%	-162.8	-147.0	10.7%
Management expenses	-40.9	-37.7	-44.1	8.3%	-7.3%	-177.8	-163.4	8.8%
Other expenses	-80.6	-77.9	-93.3	3.4%	-13.6%	-340.6	-310.5	9.7%
Operating profit	110.2	106.2	114.5	3.8%	-3.8%	401.3	516.5	-22.3%
Share of associates and JV	0.5	0.7	0.5	-32.6%	-6.1%	-2.5	2.4	-202.7%
Profit before tax	110.7	106.9	115.0	3.6%	-3.8%	403.7	518.9	-22.2%
Taxation	-27.7	-25.4	-22.9	9.0%	21.2%	-90.0	-81.7	10.1%
Net profit	83.0	81.5	92.2	1.9%	-10.0%	313.8	437.2	-28.2%
Core net profit	83.1	81.5	91.9	1.9%	-9.6%	310.8	289.2	7.5%
Core EPS	25.0	24.5	27.7	1.9%	-9.7%	94.5	87.1	8.5%
	4Q17	4Q16	3Q17	+/- ppts	+/- ppts	12M17	12M16	+/- ppts
Claims ratio	0.3	0.3	0.4	1.9	-5.7	0.4	0.4	0.2
Management expense ratio	0.2	0.2	0.2	-0.6	-0.4	0.2	0.2	-0.4
Commission ratio	0.1	0.1	0.0	0.2	2.1	0.1	0.0	0.2
Combined ratio	0.6	0.6	0.6	1.5	-4.1	0.6	0.6	0.1
Retention ratio	0.7	0.7	0.8	5.5	-3.5	0.8	0.8	6.1
Underwriting margin	0.4	0.4	0.4	-1.5	4.1	0.4	0.4	-0.1

Source: Bloomberg, MIDFR

Segmental breakdown								
	4Q17	4Q16	3Q17	YoY	QoQ	12M17	12M16	YoY
Net earned premiums (RM'm)								
Fire	103.7	86.1	101.5	20.5%	2.2%	375.8	322.5	16.5%
Motor	65.1	72.8	74.8	-10.7%	-13.1%	264.1	255.7	3.3%
Marine, aviation & transit	4.0	4.5	5.5	-11.7%	-27.6%	18.0	17.8	1.1%
Miscellaneous	54.3	47.0	49.7	15.7%	9.4%	192.3	171.3	12.2%
Net claims incurred (RM'm)								
Fire	-12.8	-11.8	-13.8	9.0%	-6.8%	-56.4	-62.5	-9.9%
Motor	-46.3	-39.5	-55.5	17.3%	-16.6%	-187.4	-165.0	13.6%
Marine, aviation & transit	-0.3	-2.4	-2.0	-88.0%	-86.0%	-5.0	-7.3	-31.2%
Miscellaneous	-19.2	-15.2	-22.1	26.0%	-13.1%	-78.9	-59.3	33.0%
Net claims incurred (%)								
Fire	12.4%	13.7%	13.6%	-1.3	-1.2	15.0%	19.4%	-4.4
Motor	71.2%	54.2%	74.2%	17.0	-3.0	71.0%	64.5%	6.5
Marine, aviation & transit	7.2%	52.7%	37.0%	-45.6	-29.9	28.0%	41.2%	-13.2
Miscellaneous	35.3%	32.4%	44.4%	2.9	-9.1	41.0%	34.6%	6.4
Net commission (RM'm)								
Fire	-7.3	-6.0	-7.0	21.2%	4.8%	-23.4	-16.1	45.6%
Motor	-5.6	-5.7	-6.0	-0.6%	-6.8%	-21.4	-20.0	6.8%
Marine, aviation & transit	0.2	0.0	0.0	<-100%	1733.3%	0.9	0.9	-1.0%
Miscellaneous	-3.2	-2.6	1.5	24.2%	-310.1%	-0.3	-2.9	-88.2%
Underwriting surplus* (RM'm)								
Fire	83.6	68.3	80.7	22.4%	3.5%	296.1	243.8	21.4%
Motor	13.1	27.7	13.3	-52.6%	-1.2%	55.2	70.7	-21.9%
Marine, aviation & transit	3.8	2.1	3.5	82.5%	11.3%	13.8	11.4	21.8%
Miscellaneous	32.0	29.2	29.1	9.6%	9.8%	113.1	109.1	3.6%

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.