20 March 2015 | Initiating Coverage

LPI Capital Berhad (LPI)

Resilient to withstand challenges

***Initiate with* NEUTRAL**

Target Price (TP) : RM13.18**

INVESTMENT HIGHLIGHTS

- **We are initiating coverage on LPI with a NEUTRAL call and a TP of RM13.18, pegging the stock to a forward PER of 19.1x on FY15F EPS of 69.2 sen.**
- **The forward PE multiple of 19.1x is a premium compared to the sector's average of 15.4x. We believe this is justified based on LPI's: (i) solid and proven track record, (ii) prudent underwriting practice, (iii) strong agency network and relationship with Public Bank, and (iv) strong CAR of close to 300%.**
- **Our NEUTRAL rating is premised on the defensive qualities of the stock have been priced-in while the share price has already surged +20% since late January this year after its announcement of 1-for-2 bonus issue to boost its liquidity.**
- **We expect dividend payouts of close to 70% of its PAT for FY15 and FY16. This will translate into a decent dividend yield of 3.4% for both FY15 and FY16.**

Largest insurer in the fire segment. LPI is a general insurance player, with fire insurance contributing 37.6% of its portfolio in terms of its GWP. Fire insurance is a lucrative segment in Malaysia due to the: (i) absence of lumpy claims as compared to insurance policies covering major catastrophe risks such as earthquakes, and (ii) favourable tariff rates. Although the fire tariff structure will be abolished in the future, we expect contributions from fire segment for LPI to still grow albeit at lower margins. This is due to its expanding agency network and its relationship with Public Bank for bancassurance business which is expected to grow in tandem with the bank's loan book.

Diversified general insurance portfolio mix. As part of LPI's strategy to carefully select the risks to underwrite policies, the Group focuses on the less risky segments within the motor insurance space such as the comprehensive private car insurance. It also underwrites policies for MAT, engineering (construction), workmen compensation, PA, liability, medical, bond and miscellaneous accident classes. Hence, its diversified portfolio is expected to mitigate the impact from detariffication for motor and fire insurance.

Sound track record. LPI has continuously achieved positive growth in its NEP and net profit for more than a decade. Since FY04, the company has enjoyed a 10-year CAGR for net profit of 17.7%, driven by: (i) the expansion of our local and global economy, and (ii) the increasing awareness for protection amongst individuals and businesses in Malaysia.

RETURN STATS	
Price (19 March 2015)	RM14.87*
Target Price	RM13.18**
Expected Share Price Return	-12.8%
Expected Dividend Yield	+3.4%
Expected Total Return	**-9.5%**

**share price as at end of 19 March 2015 of RM22.30 adjusted for 1:2 bonus issue. **TP taken into account higher number of shares post bonus issue.*

STOCK INFO	
KLCI	1,809.13
Bursa / Bloomberg	8621 / LPI MK
Board / Sector	Main / Finance
Syariah Compliant	No
Issued shares	332.0m*
Par Value	RM1.00
Market cap.	RM4,935.5m
Price over NA	3.0x
52-wk price Range	RM16.40–RM22.50
Beta (against KLCI)	0.61
3-mth Avg Daily Vol	0.06m
3-mth Avg Daily Value	RM1.25m
Major Shareholders	
Consolidated Teh Holdings	42.7%
Nipponkoa Insurance	8.5%
Retirement Benefits Fund	4.7%
Aberdeen Asset Management	3.5%

Some insurance abbreviations used in this report:
Gross Written Premium: GWP
Gross Earned Premium: GEP
Net Earned Premium: NEP
Malaysia Motor Insurance Pool: MMIP
Marine, Aviation and Transit: MAT
Personal Accident: PA
Capital Adequacy Ratio: CAR

INVESTMENT STATISTICS

FYE Dec	FY13	FY14	FY15F	FY16F
Operating revenue (RM'm)	1,119.0	1,169.7	1,210.5	1,243.5
Gross earned premium (RM'm)	1,053.1	1,098.8	1,135.8	1,164.8
Net earned premium (RM'm)	620.7	653.7	679.7	697.4
Underwriting profit (RM'm)	186.2	203.9	207.3	212.7
Other income (RM'm)	161.5	230.9	173.9	180.4
Operating profit (RM'm)	257.3	342.0	293.0	303.2
Pre-tax profit (RM'm)	256.8	341.9	293.0	303.1
PAT (RM'm)	201.4	283.0	229.2	237.3
Recurring PAT^ (RM'm)	200.5	219.2	228.8	236.9
EPS (sen)	91.44	128.33	69.17*	71.62*
Recurring EPS (sen)	91.02	99.23	69.05*	71.50*
Recurring EPS growth (%)	+20.2	+9.0	+4.4*	+3.5*
PER (x)	24.4	17.4	21.5*	20.8*
Net dividend (sen)	70.0	75.0	50.0*	50.0*
Dividend yield (%)	3.1	3.4	3.4*	3.4*
ROE (%)	12.5^^	17.1^^	13.4	13.3
Claims incurred ratio (%)	45.5	44.0	43.0	43.0
Management expense ratio (%)	18.2	19.0	20.5	20.5
Commission ratio (%)	6.3	5.8	6.0	6.0
Combined ratio (%)	70.0	68.8	69.5	69.5

**Based on higher number of shares post bonus issue (ex-date: 21/03/2015, entitlement date: 24/03/2015, listing & quotation date: 25/03/2015)*
^Recurring PAT = PAT excluding one-off gains
^^Reported ROE numbers. ROE for FY14 higher due to gains from disposal of some Public Bank shares
Source: Company, Forecasts by MIDFR

The Group has recorded lower-than-industry ratios for claims, commission and management expenses as well as the overall combined ratio since FY09, thanks to its: (i) prudent underwriting practices, and (ii) tight control on expenses.

INSURANCE INDUSTRY OVERVIEW

Potential growth in Malaysia. In Malaysia, though the general insurance industry has enjoyed a five-year CAGR of 7.4% for in terms of GWP, total insurance penetration rate remained low at 55.5% in 2014 (2013:42.6%). Comparing to the penetration rates of >100% in other countries in the region, there is a significant gap which potentially allows the local insurance business to grow further. We believe that many Malaysians still have lower insurance coverage than are actually required. In other words, the insurance sector in Malaysia is still relatively under-penetrated; hence there is ample room for growth. (Sources: ISM and BNM).

Industry liberalization, regulatory changes and tariff deregulation spell increasing competition. Besides the issuance of additional licenses in particularly for takaful insurance, the Government's liberalization of the financial sector in 2009 has sparked more M&As due to the higher allowance for foreign equity (from 49% to 70%) in local insurance companies. This is expected to further fuel competition in the Malaysian insurance landscape. Besides that, BNM also introduced a host of regulatory changes involving the financial sector in order to enhance the industry's financial soundness, efficiency and consumer protection.

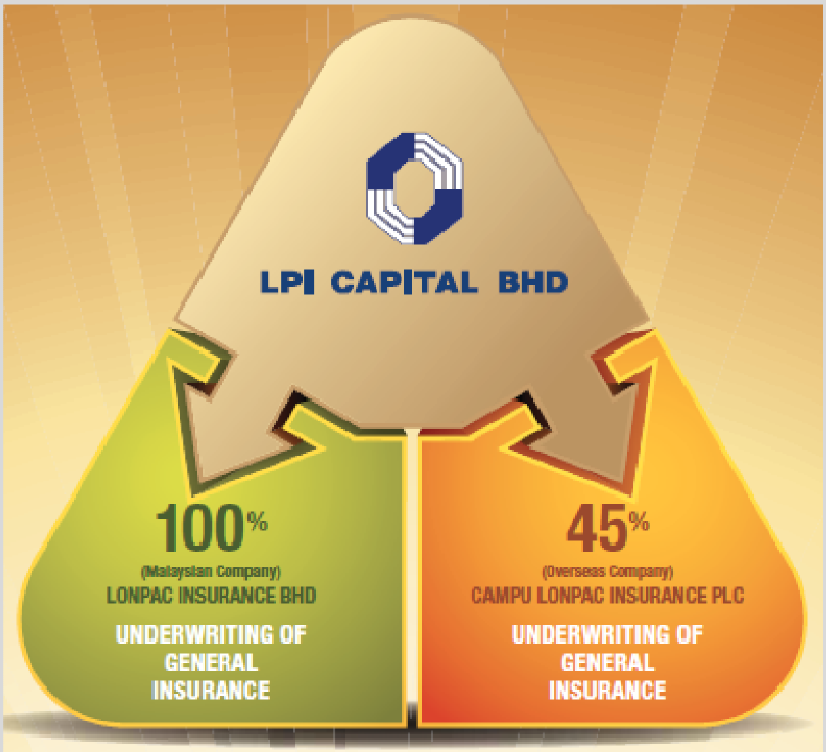
Meanwhile, tariff deregulation (abolition of statutory tariffs, for private cars, motorcycles and express buses) for the motor segment, which is the largest general insurance segment in Malaysia, is expected to come into full effect in 2016. Presently, there are significant mismatches in the structure as statutory-controlled motor premiums have not changed much since 1973. This is despite increasingly higher rate of accidents and claims costs. The claims ratio for motor segment was at 72.7% in 2013. With tariff deregulation, motor premiums will be more reflective of risks. Hence insurees who demonstrate better risk profiles will enjoy lower premiums as compared to the higher risk groups. The announcement of a detailed roadmap setting out the approach towards full market-based pricing and the final round of premiums adjustment are expected to take place this year (Sources: ISM and BNM). Greater pricing flexibility resulting from the detariffication is expected to bode well for general insurers with exposure to the motor segment. On the other hand, it is expected that the fire tariff will also be deregulated in the near future. This will potentially trigger greater intensity in competition among insurance players as well as resulting in decline in margins for fire insurance policies.

COMPANY BACKGROUND

LPI Capital Berhad (LPI) is an investment holding company, with core businesses in general insurance. It underwrites all classes of general insurance which includes fire, auto, marine, property and liability insurances. The company was incorporated on 24 May 1962 and was formerly known as London & Pacific Insurance Company Limited (LPICL). It was registered as an approved insurer in 1963 under the Malaysian Insurance Act 1963 and has since then been a leading Malaysian general insurer. It was listed on the Second Board of the Malaysian stock exchange in 1993 and subsequently transferred to the Main Market of Bursa Malaysia Securities in 1997. In 1999, LPI's insurance business was transferred to its wholly-owned subsidiary, Lonpac Insurance Berhad (Lonpac), through a rationalization scheme and continued to assume its current name.

LPI presently operates in three markets: in Malaysia and Singapore through Lonpac, as well as in Cambodia, through its 45%-owned Campu Lonpac Insurance Plc (Campu), which was formed via a joint-venture with Public Bank. The Group currently has 21 branches in all the states in Malaysia except Perlis, as well as a branch in Singapore. LPI is related to Public Bank, with Tan Sri Teh Hong Piow as common major shareholder and Chairman.

Figure 1: LPI's corporate structure (as at 31 December 2014)



Notes: The companies reflected above are operating subsidiary/associated companies.

Source: Company

BUSINESS OVERVIEW

No.1 market share in fire insurance segment. The loss ratio of fire insurance in Malaysia has been kept below 32% over the past six years. Total industry claims incurred ratios for the fire segment were 2014: 29.0%, 2013: 27.8%, and 2012: 26.9% (Source: ISM). This segment has been enjoying favorable underwriting margins and has been profitable in the country due to: (i) the absence of lumpy claims as compared to insurance policies covering major catastrophe risks such as earthquakes and (ii) favorable tariff rates.

However, when the fire tariff structure is abolished in the future, competition for this segment is expected to be more intense and we expect this to put pressure on the pricing for fire insurance premiums. We expect underwriting margins for fire insurance to be under pressure for LPI. Fire insurance is the highest contribution to the Group in terms of premium.

Table 1: Brief corporate milestones since 1962

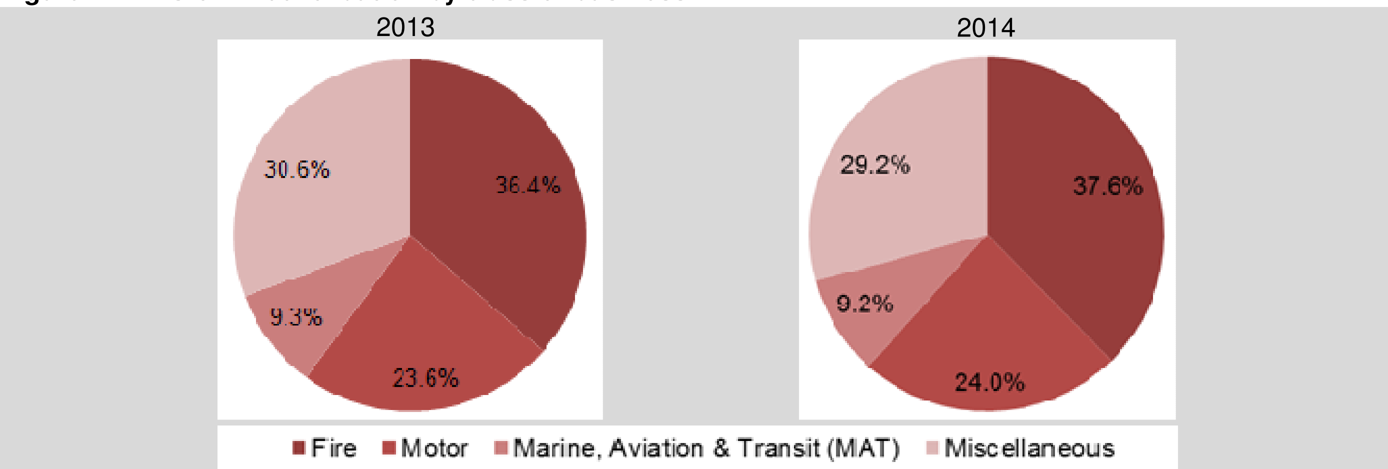
Year	Awards
1960's	• 1962 – LPICL was incorporated • 1963 – LPICL was registered as an approved insurer under the Malaysian Insurance Act • 1966 – LPICL changed its name to London and Pacific Insurance Company Sdn Bhd (LPICSB)
1970's	• 1972 – LPICSB was converted into a public company and changed its name to London and Pacific Insurance Company Berhad (LPICB)
1990's	• 1993 – LPICB was listed on the Second Board of Bursa Securities • 1994 – Lonpac was incorporated • 1996 – LPICB moved its head office to Bangunan Public Bank, Jalan Sultan Sulaiman • 1996 – LPICB was appointed by the Ministry of Human Resources to administer Foreign Workers Compensation Scheme • 1997 – LPICB shares were transferred to the Main Market • 1999 – Exercised a rationalisation scheme to transfer the entire insurance business from LPICB to Lonpac
2000 and later	• 2000 – Launched Lonpac's corporate website • 2002 – Lonpac celebrated a new partnership with NIPONKOA Insurance • 2004 – Official opening of Customer Service Centre • 2005 – 1st RM100 million annual profit before tax • 2007 – LPI held 45% interest in Campu Lonpac • 2012 – 1st RM1 billion annual gross premium income

Source: Company, MIDFR

Notwithstanding this, we believe that the Group will remain profitable due to its: (i) sound underwriting practices, and (ii) strong delivery channels with the use of agents and banks to penetrate the market. With its strong relationship with Public Bank, as well as agents that generate most of its fire insurance business, LPI's portfolio contribution from the fire segment is expected to still grow albeit at a lower margin.

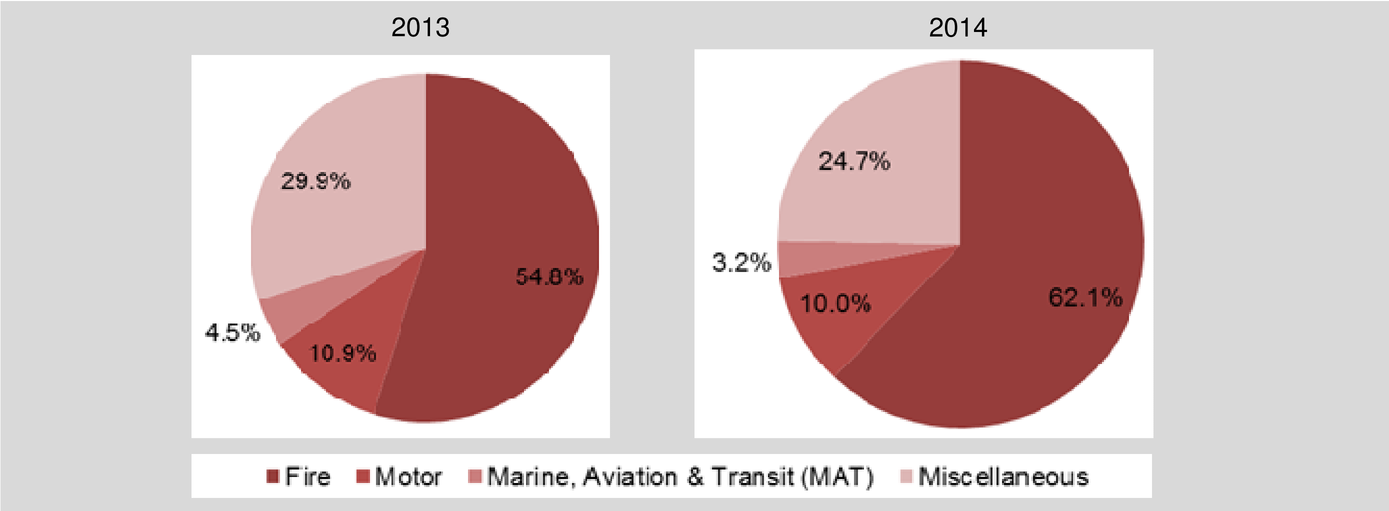
Cautious exposure in motor insurance segment. In Malaysia, motor insurance is the biggest portfolio contributing to about 50% of the total industry premium. However, for LPI, motor contributes to less than 25% of its total premiums. This is part of the Group's strategy to be cautious in selecting and underwriting policies by focusing on the more profitable segments, until the full detariffication of motor insurance in 2016 which the premiums will then be on risk-based pricing. Currently, it is focusing on the less risky and profitable segment of the motor insurance which is the comprehensive private car insurance.

Figure 2: LPI's GWP contribution by class of business



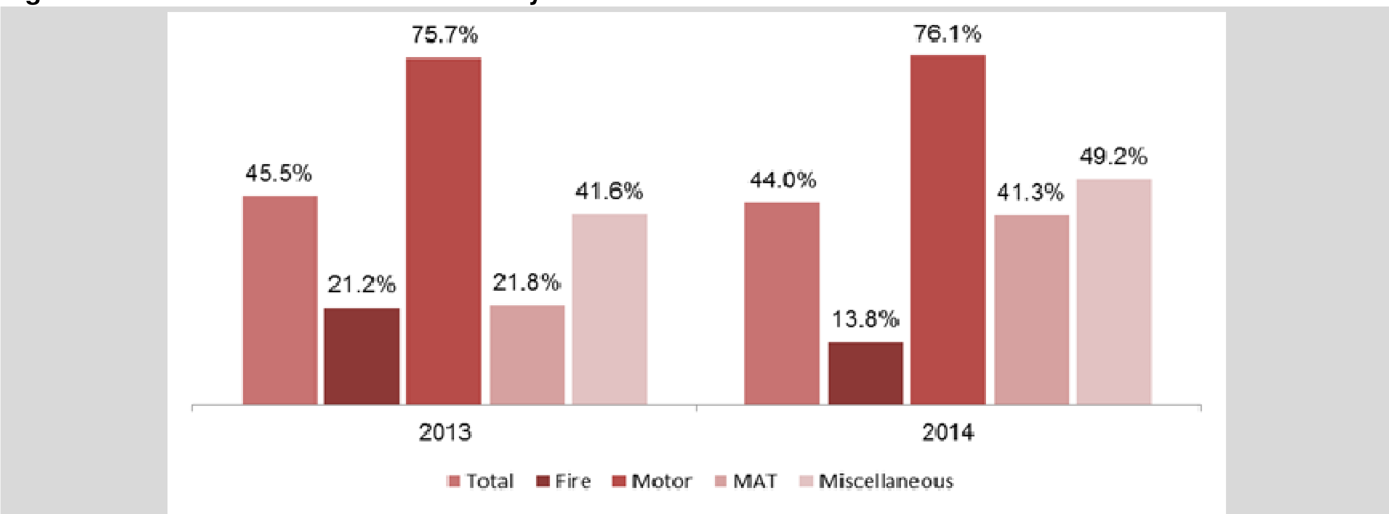
Source: Company, MIDFR

Figure 3: LPI's underwriting surplus contribution (before management expense) by class of business



Source: Company, MIDFR

Figure 4: LPI's net claims incurred ratio by class of business



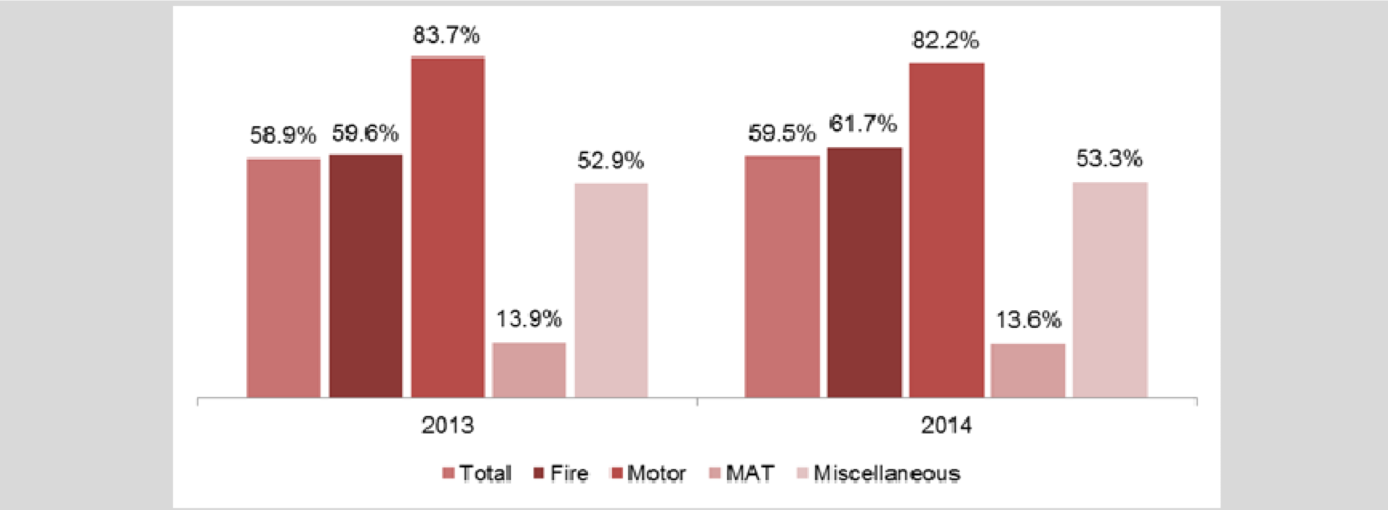
Source: Company, MIDFR

Broad experience in other classes of general insurance business. MAT is generally related to export businesses (insurance for export goods). This segment has been recording low claims ratio. However, due to the historical profitability of this particular segment, competition has intensified and premium rates have been softening. For insurers with risk exposure to aviation and oil-related businesses, general insurers generally cede their risk on these policies to reinsurers (Source: ISM).

Apart from fire, motor and MAT segments, LPI actively underwrites engineering risks for projects such as MRT1, land reclamation, property construction and infrastructure projects, to name a few. The Group also underwrites policies for workmen compensation, PA, liability insurance, medical, as well as bond business and miscellaneous accident classes. Contribution from several non-motor businesses such as liability insurance and workmen compensation are expected to grow in the medium- to long-term as the penetration rates for this insurance coverage remain low.

The medical insurance segment is now very commercialized because the costs for seeking medical attention at private hospitals are very expensive, thus fuelling the increase in demand for medical insurance. Though the claims ratio for medical insurance is generally higher, this is somewhat offset by the lower claims ratio from medical insurance for foreign workers. In Malaysia, most of the foreign workers are required to take up compulsory hospitalisation plans, which only cover for medical costs for government hospitals. For LPI, foreign workers' medical insurance and medical insurance which covers the expenses at private hospitals contribute almost equally to its medical insurance portfolio.

Figure 5: LPI's retention rate by class of business



Source: Company, MIDFR

Table 2: FPI's insurance portfolio mix under the miscellaneous segment

Insurance mix	Contribution to total premium income
Engineering	~ 6%
Workmen compensation	~ 3%
PA	~ 3%
Liability	~ 4%
Medical	~ 5%
Bond business and miscellaneous accident classes	~ 9%

Source: Company, MIDFR

Leveraging on extensive client database from direct global partners. Part of LPI's insurance portfolio is contributed from direct partnerships with global insurers. They are FM Insurance, RSA Insurance, Excel Insurance and Fubon Insurance, to name a few. Most of LPI's global partners insure the bigger commercial and industrial risks (including fire, liability, medical and MAT classes) and have customers in Malaysia but lack of presence in the country which limits their underwriting capability of the policies. LPI services the global partners' clients in Malaysia and will initially underwrite the policies. Subsequently, these policies are reinsured by the global partners. Although the premium income via these partnerships currently contribute to less than 10% of its total premiums, LPI is looking to eventually expand this segment.

Overseas ventures. LPI has a branch in Singapore under Lonpac, which contributes to less than 10% of Lonpac's total premium income. Singapore is a totally different market compared to Malaysia as the latter is highly regulated by BNM with statutory tariffs on motor and fire insurance. In contrast, the former adopts an open market stance with numerous players. Hence, the competition is very high and results are a bit more volatile compared to the Malaysian market. However, LPI has done some restructuring in the last two years, and its operation in Singapore is now stable and making profit. Moving forward, the Group is looking to strengthen its presence and expand its market share in Singapore. It will focus on its operations in Cambodia and Singapore first before looking at other regional expansions.

LPI operates in Cambodia through Campu Lonpac via a 45% equity stake. Public Bank owns the remaining 55% shareholdings in Campu Lonpac and has operations in Cambodia via an entity called Campu Bank, one of the most active commercial banks in the country. At present, profit contribution from Campu Lonpac stands at less than 5% of LPI's net premium income. Nevertheless, there is a growth potential in view that Cambodia's economy is expanding.

Agency and banks to remain as key distribution channels. LPI's main distribution channel in Malaysia is its agency force which contributes close to 45% of its total premium income mainly by servicing corporate customers. The Group has a total of 1,793 agents in the country as at end 2014, an increase of +7.7%yoy from 1,665 agents as at end 2013. Its second and third biggest distribution channels are bank (Public Bank for bancassurance) and local businesses. Most of LPI's businesses from bank are insurance policies for covering residential risk, commercial risk and the motor insurance of assets which are financed by Public Bank. Public Bank specifically, and other local businesses contribute to 25% and 10% respectively to its premium income. LPI derives its business for insurance policies to cover commercial and big industrial risks through insurance brokers and global partnerships. The Group is also currently working on its own platform to allow customers to renew their insurance policies online. With this online channel, savings from agency commissions can be passed on to its customers.

Table 3: LPI's complimentary value-add programs for quick and easy access to support services

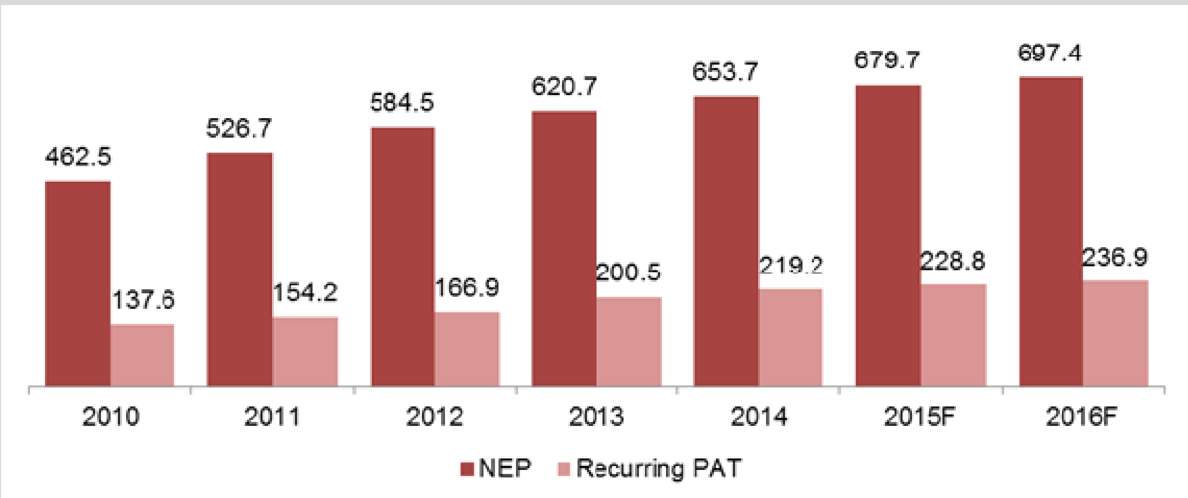
Programme	Description
Lonpac E-Assist	• 24-hour emergency car assistance • Covers minor roadside repairs, emergency towing, car rental services and arrangements for hotel accommodation • For comprehensive private car insurance policyholders
Lonpac Home-Assist	• Home-related services • For Lonpac's Houseowner and Householder policyholders
Lonpac Travel-Assist	• Medical and emergency assistance • For the persons covered under Lonpac's TravelNet, BizTravel and EasyTravel policies

Source: Company, MIDFR

FINANCIAL HIGHLIGHTS

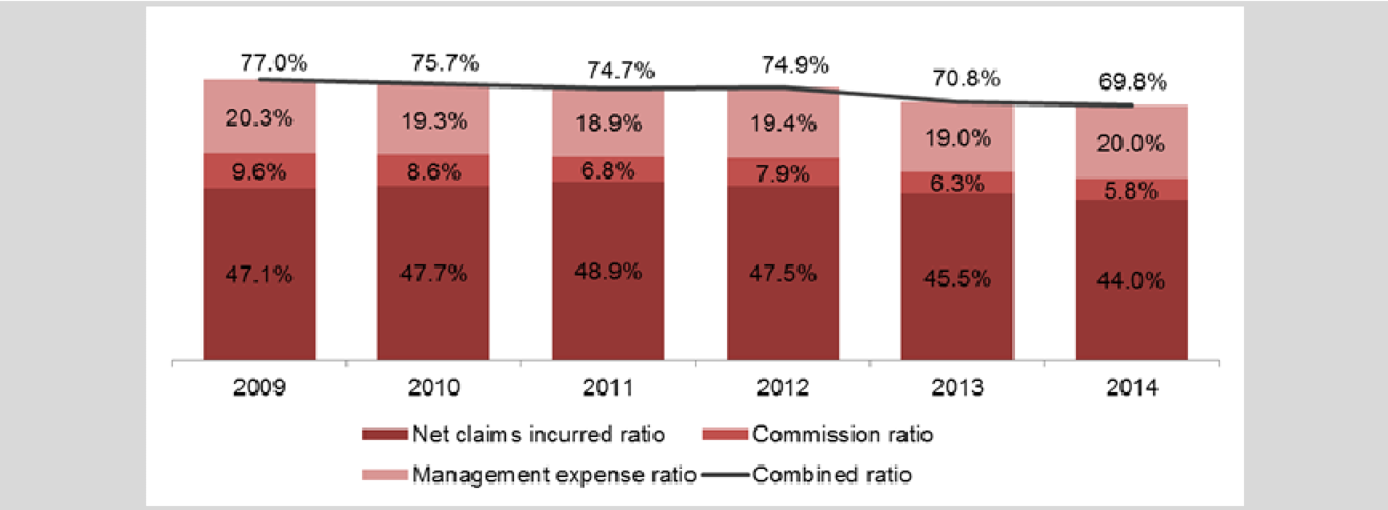
Sound and steady track record. LPI has continuously achieved positive growth in its NEP and net profit for more than a decade. Since FY04, the company has enjoyed a 10-year CAGR for net profit of 17.7%, driven by: (i) the expanding local and global economy, and (ii) the increasing awareness for protection amongst individuals and businesses in Malaysia. It has also been achieving lower-than-industry ratios for claims, commission and management expenses as well as the overall combined ratio since 2009, thanks to its: (i) prudent underwriting practices, and (ii) tight control on expenses.

Figure 5: LPI's NEP and recurring PAT^ (RM'm)



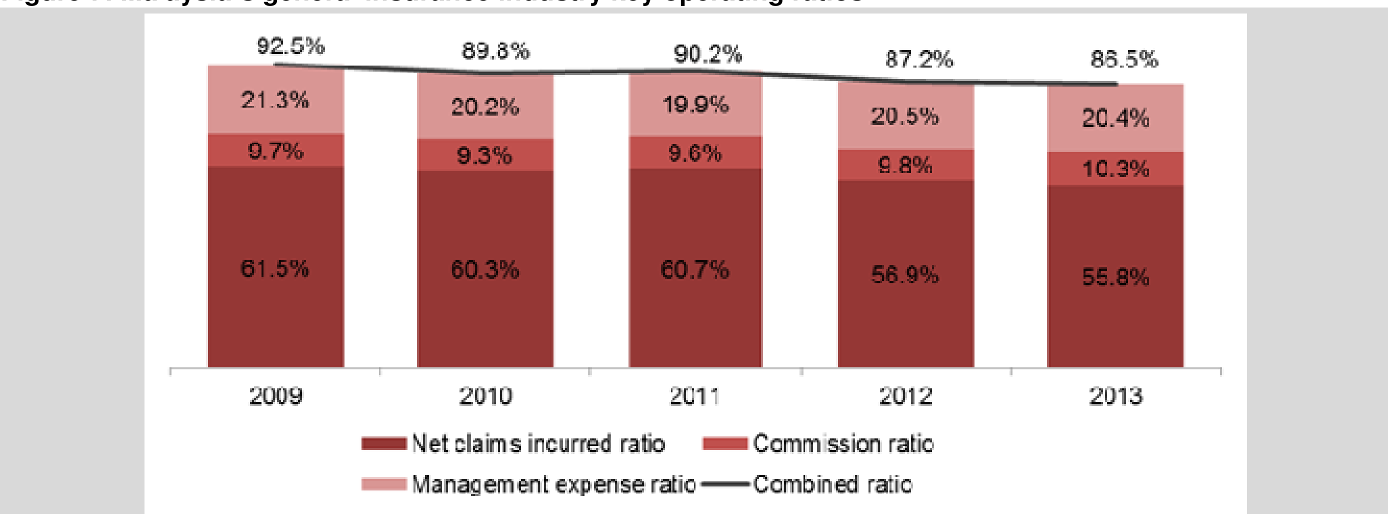
^Recurring PAT = PAT sans "realised gains and losses"
Source: Company, MIDFR

Figure 6: LPI's key operating ratios



Source: Company, MIDFR

Figure 7: Malaysia's general insurance industry key operating ratios



Source: ISM, MIDFR

Latest financial performance review. For FY14, net profit jumped +40.5%yoy, contributed mainly from RM59.9m gain from its sale of 5-6% of its holding in Public Bank shares. Sans the RM59.9m gain, net profit growth would be a decent +10.7%yoy. This growth was attributed to: (i) slightly higher net claims ratio by +0.1ppts, (ii) a lower commission expense ratio by -0.5ppts, and (iii) an improvement in management expense ratio by -1.5ppts. Retention ratio also improved by +0.6ppts to 59.5% in FY14 from 58.9% in FY13. Overall NEP grew by +5.3%yoy, driven mostly by an increase of +13.8%yoy in NEP contribution from the fire segment to RM254.1m from RM223.2m in FY13.

Consistent and healthy dividend payout. Though LPI has no dividend policy, it has consistently rewarded its shareholders with lucrative dividends since 2003. LPI's CAR is close to 300%, which is comfortably more than BNM's requirement of 130%. Thus, we foresee the company to have sufficient buffer for its business expansion as well as for continuous generous dividend payments for its shareholders in the future, barring any unexpected losses.

Strong financial rating. International insurance rating agency, A.M. Best Asia-Pacific Limited (A.M. Best), rated Lonpac's financial strength rating of A- (Excellent) and its issuer credit rating of a-, with a stable outlook attached to both ratings. These rating acknowledge Lonpac's track record of maintaining profitable growth amid a competitive landscape.

An award-winning company; a testament to sound corporate strategy. LPI has won a number of awards in recognition of its strong and sustained financial performance, as well as excellence in key financial areas. Amongst the awards that LPI has amassed thus far are listed in Table 3.

Table 3: LPI's list of awards

Year	Awards	Remarks
2011 - 2014	Best Brands in Financial Services – General Insurance	The award honours excellence among brands in Malaysia and throughout the world
2007 - 2014	Chubb Multinational Solutions Outstanding Affiliate World-Class Service Award	Awarded by the Chubb Group of insurance companies for LPI's efficient policy issuance and service levels
2010 - 2014	Edge Billion Ringgit Club Member	The Billion Ringgit Club recognises Malaysia' biggest and best performing companies
2014	MSWG – ASEAN Corporate Governance Transparency Index	The award recognises good corporate governance practices in publicly listed companies
2005 - 2011	Corporate Governance Excellence, CIMA Enterprise Governance Merit Award	The award recognises organisational excellence in delivering performance while conforming to set standards and practices
2009 - 2011	Malaysia Corporate Governance Index's Most Prompt AGM Award and Distinction Award	The awards recognises LPI's move to hold its annual general meeting less than 60 days after its financial year end
2005 - 2010	Enhanced Shareholder Value	Awarded by KPMG in recognition for corporate excellence in enhancing levels of disclosures and setting exemplary best practices
2006, 2009, 2011	Excellence in Annual Corporate Reporting	The award recognises LPI for its efforts to produce timely, informative, factual and reader-friendly disclosure through its annual corporate reporting
2011	Best Insurance Company, World Finance Insurance Awards	The award recognises organisations which have reached a benchmark of achievement and best practices in the financial and business world
2008, 2010	Best Return to Shareholders, CIMA Enterprise Governance Awards	
2010	General Insurance Company of the Year, 14th Asia Insurance Industry Awards	The award recognises commitment to customers and solid financial performance
2009, 2010	3rd Best Insurer Overall by Region – Asia	Beating competition from larger insurers in more mature markets including Japan, China, India and Korea

Source: Company

Conservative investment portfolio. 48% of LPI's investment portfolio is in equity, of which more than 90% comprises of Public Bank shares. Post the sale in FY14, LPI still holds about RM56m in value of Public Bank shares, which are intended to be held for long term. The remaining of its investments is in fixed deposits, money market and fixed incomes securities such as private bonds and government security bonds.

Areas of opportunity for premiums growth. LPI is looking to grow its premium income from several areas, specifically: (i) personalised insurance, (ii) extended warranty, such as for cars and electrical appliances, (iii) trade credit insurance, (iv) liability insurance, (v) medical insurance, and (vi) foreign worker insurance. We view this as a positive move as: (i) most of these areas still have low penetrations while demand is increasing, and (ii) it reduces the impact from detariffications in the fire and motor insurance segments.

INVESTMENT MERITS

(i) Number one market share in the fire segment, which generally enjoys low claims ratio relative to the other general insurance segments

(ii) Strong agency network and relationship with banks for bancassurance business, which both strongly contribute to LPI's fire insurance premium income

(iii) Focus on the more profitable areas of motor insurance segment

(iv) Leverage on the extensive client database of global partners while minimising risks by reinsuring back to them

(v) Solid and proven track record in terms of financial performance

(vi) Consistent and generous yet sustainable dividend payments

(vii) Prudent underwriting practice and cost management strength

INVESTMENTS RISKS

(i) Detariffication of fire insurance may lead to a drop in premium rates and a shrinking profit margin

(ii) Dependency on Public Bank for most of its bancassurance business

(iii) Over-dependence on the local market

(iv) Intensified competition in tandem with industry liberalisation and detariffication

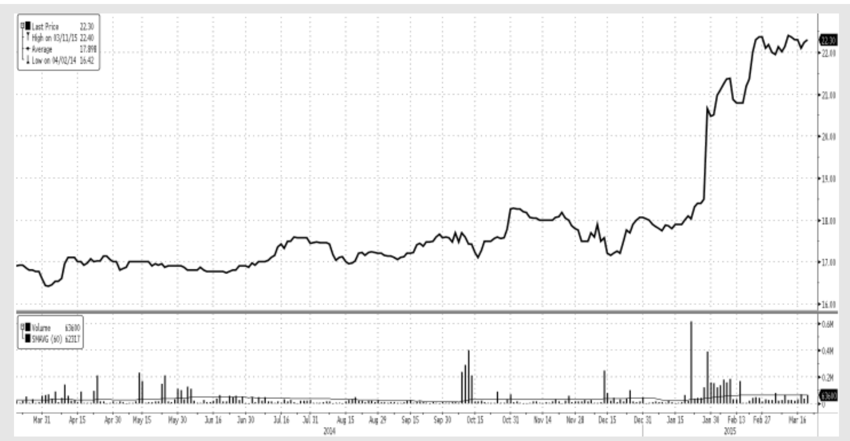
(v) Regulatory changes that could affect agency and operating costs

(vi) Unexpected losses from natural calamities

VALUATION AND RECOMMENDATION

In valuing LPI, we are using P/E valuation method. Our target price of RM13.18 (post 1:2 bonus issuance) is based on the stock's 5-year historical average PER of 19.1x on FY15F EPS of 69.2 sen. Despite of the intense competition in the general insurance industry, our higher-than-industry-average P/E is justified given LPI's: (i) solid and proven track record in financial performance, (ii) prudent underwriting practice, (iii) strong agency network and close relationship with Public Bank, and (iv) strong CAR which is way above BNM's requirement. We initiate coverage on LPI with a TP of RM13.18 and a NEUTRAL recommendation as the defensive qualities of the stock have been priced-in while the share price has already surged +20% since late January this year after its announcement of 1-for-2 bonus issue to boost its liquidity.

DAILY PRICE CHART



Source: Bloomberg, MIDFR

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FINANCIAL SUMMARY

Income Statement (RM'm)	FY12	FY13	FY14	FY15F	FY16F
Operating revenue	**1,039.3**	**1,119.0**	**1,169.7**	**1,210.5**	**1,243.5**
GWP	1,033.9	1,105.7	1,149.2	1,188.6	1,219.0
GEP	978.3	1,053.1	1,098.8	1,135.8	1,164.8
Ceded premium	(393.8)	(432.4)	(445.1)	(456.1)	(467.4)
NEP	**584.5**	**620.7**	**653.7**	**679.7**	**697.4**
Investment income	61.0	65.9	70.9	74.7	78.8
Other income	142.8	161.5	230.9	173.9	180.4
Net claims	(277.9)	(282.3)	(287.3)	(292.3)	(299.9)
Commission expense	(121.1)	(124.7)	(124.4)	(128.9)	(131.8)
Management expense	(113.6)	(117.9)	(130.8)	(139.3)	(143.0)
Finance cost	(1.4)	(1.3)	(1.1)	(1.1)	(1.1)
PBT	**214.0**	**256.8**	**341.9**	**293.0**	**303.1**
Taxation	(47.1)	(55.4)	(58.9)	(63.8)	(65.8)
Net profit	**166.9**	**201.4**	**283.0**	**229.2**	**237.3**

Balance Sheet (RM'm)	FY12	FY13	FY14	FY15F	FY16F
Assets					
Plant & equipment	12.0	10.2	8.4	8.4	8.4
Investment properties	15.9	19.7	25.2	29.0	33.3
Investment in associated co.	13.1	15.2	17.1	18.8	20.7
Investments	1,225.0	1,430.8	1,390.1	1,443.8	1,495.8
Reinsurance assets	483.6	614.4	654.6	705.2	756.0
Loans & receivables	453.7	344.6	315.0	305.6	299.5
Insurance receivables	98.8	117.9	115.9	119.8	122.9
Deferred acquisition costs	27.5	28.2	31.8	31.8	31.8
Cash & cash equivalents	419.7	621.5	819.2	899.1	963.9
Total Assets	**2,749.3**	**3,202.3**	**3,377.2**	**3,561.6**	**3,732.3**
Equity					
Share capital	221.3	221.3	221.3	332.0	332.0
Treasure shares at cost	(8.3)	(8.3)			
Reserves	1,159.6	1,393.5	1,431.5	1,384.4	1,456.0
Total Equity	**1,372.6**	**1,606.5**	**1,652.9**	**1,716.4**	**1,788.0**
Liabilities					
Ins.contract liabilities	1,149.7	1,360.8	1,480.1	1,583.4	1,669.8
Deferred tax liabilities	1.1	1.4	0.5	1.7	1.4
Borrowings	32.5	32.5	35.0	35.0	35.0
Ins. payables	66.2	75.6	90.2	96.5	101.7
Other payables	115.0	110.8	105.3	112.7	118.8
Tax payables	12.0	14.7	13.2	15.9	19.1
Total Liabilities	**1,376.6**	**1,595.8**	**1,724.3**	**1,845.2**	**1,944.3**

Cash Flow Statements (RM'm)	FY12	FY13	FY14	FY15F	FY16F
Operating Activities					
PBT	214.0	256.8	341.9	293.0	303.1
Investment income	(61.0)	(65.9)	(70.9)	(74.7)	(78.8)
Realised & fair value gains	(2.2)	(4.1)	(68.6)	(5.9)	(6.6)
Share of profit in asso. co.	(0.8)	(0.9)	(1.0)	(1.6)	(2.4)
Proceeds from financial asset	(34.8)	(54.0)	(57.2)	(79.1)	(79.1)
Maturity of financial asset	32.3	28.0	62.3	25.7	25.7
Repayment of corp. loan	0.5	0.5	0.5	0.5	0.5
Non-cash items	3.7	4.7	3.9	4.6	4.8
Changes in working cap.	(11.8)	172.7	115.0	74.4	52.6
Dividend income	28.8	31.2	32.9	33.9	35.6
Interest income	31.6	34.2	37.0	37.7	40.8
Rental income	0.5	0.4	0.7	0.8	0.9
Income tax paid	(45.0)	(52.7)	(60.4)	(61.2)	(64.2)
Operating CF	**156.0**	**351.2**	**336.0**	**248.2**	**233.0**
Investing Activities					
(Purchase) /disposal of P&E	(2.9)	(2.5)	(2.6)	(2.6)	(2.6)
Investing CF	**(2.9)**	**(2.5)**	**(2.6)**	**(2.6)**	**(2.6)**
Financing Activities					
Dividend paid	(143.2)	(149.8)	(158.6)	(165.6)	(165.6)
Proceeds from treasury share			17.8		
Borrowings	(7.0)		2.5		
Financing CF	**(150.2)**	**(149.8)**	**(138.4)**	**(165.6)**	**(165.6)**
Net inc/(dec) in cash	2.9	199.0	195.0	79.9	64.8
Cash at beginning of yr	415.4	419.7	621.5	819.2	899.1
Effect of exchange rate	1.3	2.8	2.7		
Cash at year end	**419.7**	**621.5**	**819.2**	**899.1**	**963.9**

Key Op. Ratios (%)	FY12	FY13	FY14	FY15F	FY16F
Reinsurance ratio	40.3	41.1	40.5	40.2	40.1
Retention ratio	59.7	58.9	59.5	59.8	59.9
Claims ratio	47.5	45.5	44.0	43.0	43.0
Commission ratio	7.9	6.3	5.8	6.0	6.0
Management expense ratio	19.4	19.0	20.0	20.5	20.5
Combined ratio	74.9	70.8	69.8	69.5	69.5
Underwriting margin	25.1	29.2	30.2	30.5	30.5

Source: Company, Forecasts by MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS	
STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	*Negative* total return is expected, by -15% or more, over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >15% 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.