

LPI Capital Berhad

(8621 | LPI MK) Financial Services | Finance

No Incentive to Participate

KEY INVESTMENT HIGHLIGHTS

- **Public Bank acquiring a 44.15% stake in LPI. This will trigger a MGO**
- **Offer price is unattractive – at a discount to current market price**
- **Still fundamentally sound with good dividend yield. Offer price is not a reflection of its fundamentals**
- **Forecasts unchanged**
- **Maintain BUY | Unchanged TP of RM14.52 | based on an unchanged FY25F P/BV of 2.42x**

Verdict: Unattractive offer price, but fundamentally remains strong with good dividend yield.

Yays	1. Becoming part of a wider banking group – opportunities for growth.
Nays	1. Unattractive offer price.
OKs	1. No material impact for now.

Acquiring a stake in LPI. It was announced yesterday that Public Bank (“PBB”) will acquire 175,896,000 LPI Shares held by the estate of the late Tan Sri Dato’ Sri Dr. Teh Hong Piow (“estate”) and Consolidated Teh Holdings Sdn Bhd (“Conteh”), representing a total 44.15% equity interest in LPI, for a total cash consideration of RM1.72b or RM9.80 per share. For context, the estate and Conteh held 1.41% and 42.74% stake respectively. This will trigger a MGO to acquire all the remaining LPI Shares not already held by the group and persons acting in concert for a cash offer price of RM9.80 per Share.

Steep discount to market price. Based on its closing price prior to its trading suspension and 5-day VWAP of RM13.00 and RM12.84 respectively, the purchase and offer price by PBB is a discount of 24.6% and 23.7% respectively. The offer price implies a P/BV of 1.71x, which is a discount from its current P/BV of 2.3x.

Minorities unlikely to be attracted. There is potential for synergies with PBB. However, given the discount, we believe that the MGO will not likely see any interest from the remaining shareholders, especially as the current market price provides a more attractive avenue for minority investors looking to exit. Public Bank intends to maintain the listing of LPI.

Forecasts unchanged. We make no changes to the earnings forecast.

Key downside risks. (1) Weak investment result, (2) Ramp up in claims, (3) Weaker GWP growth.

Maintain BUY call: Unchanged GGM-TP of RM 14.52. The TP is based on an unchanged FY25F P/BV of 2.42x. LPI is still fundamentally sound with good dividend yields. We do not see the offer price as a reflection of its fundamentals.

(GGM assumptions: FY25F ROE of 15.4%, LTG of 4.0% & COE of 8.7%)



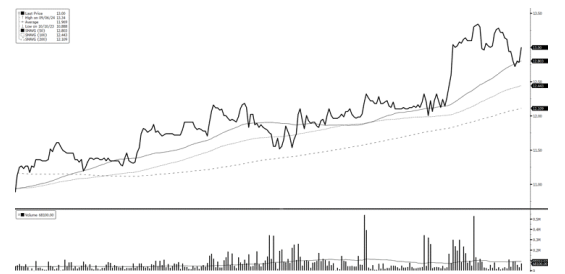
Maintain BUY

Unchanged Target Price: RM14.52

RETURN STATISTICS

Price @ 10 October 2024 (RM)	13.00
Expected share price return (%)	+11.7
Expected dividend yield (%)	+6.0
Expected total return (%)	+17.7

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	0.3	0.2
3 months	0.5	3.0
12 months	10.5	-3.2

INVESTMENT STATISTICS

FYE Dec	FY24F	FY25F	FY26F
Core NP (RM m)	345	364	389
CNP growth (%)	10	6	7
Div yield (%)	5.7	6.0	6.4
Gross DPS (sen)	73.5	77.6	83.1
P/BV (x)	2.3	2.2	2.2
BVPS (RM)	5.9	6.0	6.1
ROE (%)	14.9	15.4	16.1
MIDF/Street CNP (%)	96	96	96

KEY STATISTICS

FBM KLCI	1,640.94
Issue shares (m)	398.38
Estimated free float (%)	48.45
Market Capitalisation (RM'm)	5,178.98
52-wk price range	RM11.5 - RM13.4
3-mth avg daily volume (m)	0.08
3-mth avg daily value (RM'm)	1.08
Top Shareholders (%)	
Consolidated Teh Holdings Sdn	42.74
Sompo Holdings Inc	8.54
Retirement Benefits Fund	4.71

Analyst

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FINANCIAL SUMMARY

INCOME STATEMENT

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Insurance revenue	1,535	1,782	1,796	1,893	1,995
Insurance service expenses	(1,260)	(827)	(1,109)	(1,167)	(1,236)
Reinsurance expense	11	(661)	(352)	(369)	(387)
Insurance service result	286	294	335	357	373
Investment return	92	149	147	149	165
Net finance result	(17)	(32)	(33)	(32)	(32)
Net investment & financial result	75	117	114	116	133
Total ins, inv & financial result	361	411	450	474	506
Other income	1	4	4	4	4
Other OPEX and finance costs	(21)	(21)	(21)	(21)	(21)
Associates	1	2	2	2	2
PBT	342	395	434	458	490
Tax	(89)	(81)	(89)	(94)	(101)
NCI	-	-	-	-	-
Reported NP	252	314	345	364	389
Core NP	252	314	345	364	389

BALANCE SHEET

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Cash & ST funds	725	315	315	315	315
Reinsurance contracts	1,316	878	992	1,101	1,222
Investment securities	2,608	3,167	2,943	2,706	2,747
Other assets	201	209	485	788	812
Total assets	4,850	4,569	4,736	4,911	5,096
Insurance contracts	2,559	2,200	2,310	2,425	2,547
Other liabilities	82	86	91	96	101
Total liabilities	2,641	2,286	2,401	2,521	2,648
Share capital	398	398	398	398	398
Reserves	1,810	1,885	1,937	1,991	2,050
Total equity	2,209	2,284	2,335	2,390	2,448
Total L&E	4,850	4,569	4,736	4,911	5,096

Source: LPI Capital, MIDFR

FINANCIAL RATIOS

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Profitability (%)					
ROE	11.5	14.0	14.9	15.4	16.1
ROA	5.4	6.7	7.4	7.5	7.8
Combined ratio (%)	81.4	83.5	81.3	81.1	81.3
Claims	57.4	23.7	37.0	36.9	37.2
Expense	24.7	22.7	24.7	24.8	24.8
Reinsurance	-0.7	37.1	19.6	19.5	19.4
Growth (%)					
Insurance revenue		16.1	0.8	5.4	5.4
Insurance expense		-34.4	34.1	5.2	5.9
Insurance service result		2.7	14.2	6.6	4.4
PBT		15.6	9.9	5.6	7.0
Core NP		24.4	9.8	5.6	7.0
Valuation metrics					
Core EPS (sen)	63.3	78.7	86.5	91.3	97.7
Gross DPS (sen)	60.0	66.0	73.5	77.6	83.1
Div payout (%)	95	84	85	85	85
BVPS (RM)	5.5	5.7	5.9	6.0	6.1
Core P/E (x)	21.1	16.9	15.4	14.6	13.6
Div yield (%)	4.5	4.9	5.5	5.8	6.2
P/BV (x)	2.4	2.3	2.3	2.2	2.2

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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.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology