

# LPI Capital Berhad

(8621 | LPI MK) Financial Services | Finance

**Maintain BUY**


## An Acquisition Target?

**Unchanged Target Price: RM14.52**

### DEVELOPMENT

- According to a media report yesterday, there is apparently a corporate development at Public Bank Bhd whereby it is believed to be undertaking a potential acquisition of a related company. It is reported that the development may be in relation to LPI Capital Bhd.
- LPI Capital Bhd wholly owns Lonpac Insurance Bhd, a leading general insurance provider in Malaysia.
- Subsequently, trading in the securities of both companies will be suspended from 9am today (Wednesday), 9 October 2024, pending an announcement.
- We should note that both Public Bank and LPI Capital have common shareholders. Consolidated Teh Holdings is the private investment vehicle of the late Tan Sri Teh Hong Piow, the founder of Public Bank.

### OUR VIEW

- **An interesting and surprising development.** While pending any announcement by both parties, it is wildly speculated that Public Bank will be acquiring LPI Capital. We view this possibility as both surprising and interesting if it turns out to be true. Our surprise is based on our observation of industry trends whereby banks would normally have exposure in the insurance industry via bancassurance arrangements, while some banks have even exited the insurance business recently.
- **Would be value accretive but not by much.** Assuming that this development is as speculated, with a 100% acquisition (LPI's market capitalisation as of 8 October 2024 is RM5.2b) and completed in FY25, we do see it to be value accretive for Public Bank but not significant.
- **Will not be a complicated transaction.** Again, speculating if this development is true, we do not foresee any difficulties in the supposed transaction. For context, LPI market capitalisation as of 8 October 2024 is RM5.2b, while Public Bank's is RM88.7b. Meanwhile, Public Bank has a cash reserve of RM12.4b.
- **Advantage will be on leveraging networks and bundling.** While the speculated transaction will be value accretive, we opine it will be significant. It will depend on any post-merger plans. We believe that it could unlock some synergy such as leveraging on both party's customer networks and bundling of products.
- **No change to earnings estimates.** We make no change to our earnings estimates for now, pending any announcement.
- **Maintain BUY call.** All-in, we are neutral with a slight positive bias should this speculated transaction is true. We maintain our **BUY** call for LPI with **TP of RM14.52**. We like Public Bank for its robust asset quality and somewhat attractive dividends. Our TP is based on FY25 P/BV of 2.42x. 

## 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)
<b>Insurance service result</b>	<b>286</b>	<b>294</b>	<b>335</b>	<b>357</b>	<b>373</b>
Investment return	92	149	147	149	165
Net finance result	(17)	(32)	(33)	(32)	(32)
<b>Net investment &amp; financial result</b>	<b>75</b>	<b>117</b>	<b>114</b>	<b>116</b>	<b>133</b>
<b>Total ins, inv &amp; financial result</b>	<b>361</b>	<b>411</b>	<b>450</b>	<b>474</b>	<b>506</b>
Other income	1	4	4	4	4
Other OPEX and finance costs	(21)	(21)	(21)	(21)	(21)
Associates	1	2	2	2	2
<b>PBT</b>	<b>342</b>	<b>395</b>	<b>434</b>	<b>458</b>	<b>490</b>
Tax	(89)	(81)	(89)	(94)	(101)
NCI	-	-	-	-	-
<b>Reported NP</b>	<b>252</b>	<b>314</b>	<b>345</b>	<b>364</b>	<b>389</b>
<b>Core NP</b>	<b>252</b>	<b>314</b>	<b>345</b>	<b>364</b>	<b>389</b>

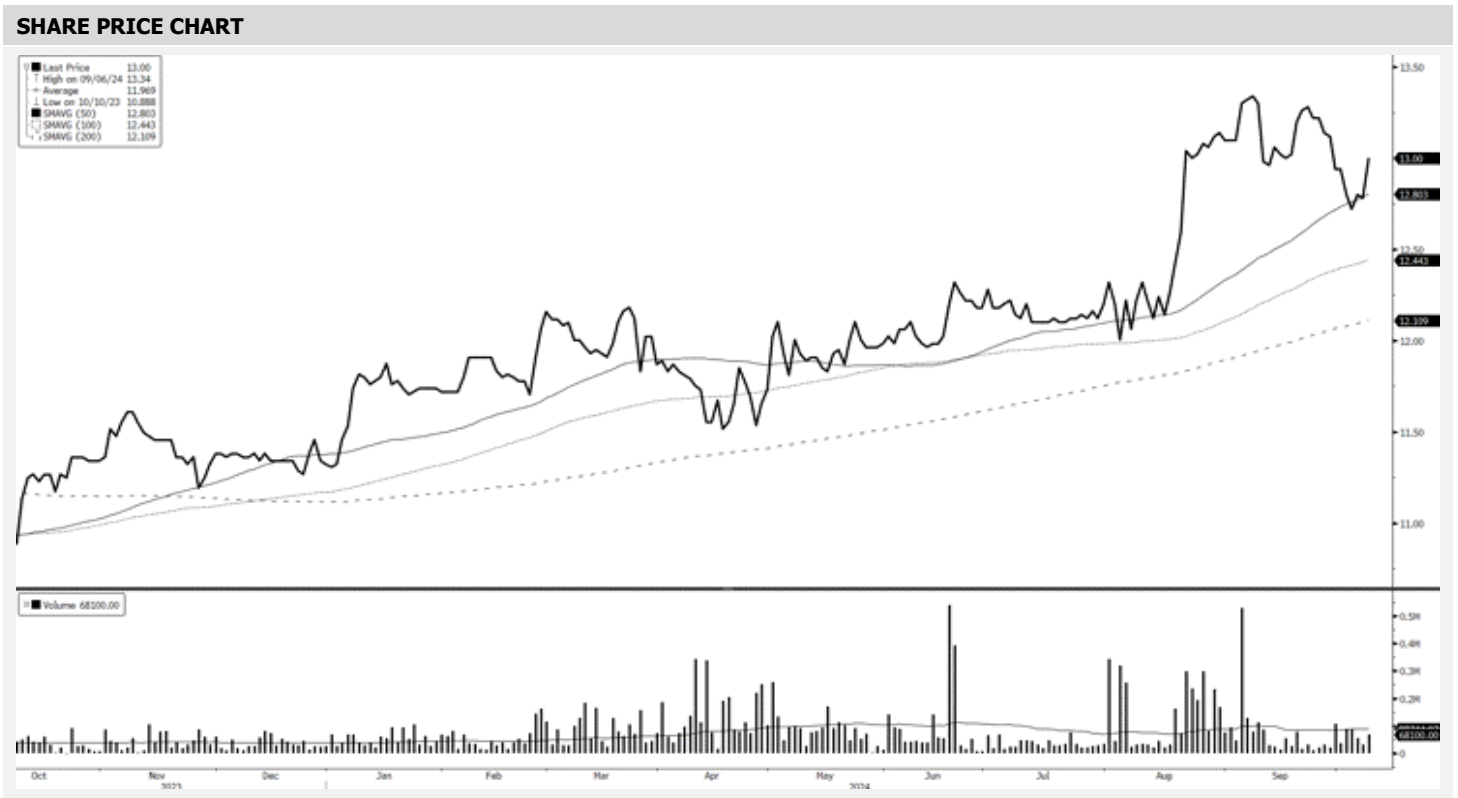
### BALANCE SHEET

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
<b>Total assets</b>	<b>4,850</b>	<b>4,569</b>	<b>4,736</b>	<b>4,911</b>	<b>5,096</b>
Insurance contracts	2,559	2,200	2,310	2,425	2,547
Other liabilities	82	86	91	96	101
<b>Total liabilities</b>	<b>2,641</b>	<b>2,286</b>	<b>2,401</b>	<b>2,521</b>	<b>2,648</b>
Share capital	398	398	398	398	398
Reserves	1,810	1,885	1,937	1,991	2,050
<b>Total equity</b>	<b>2,209</b>	<b>2,284</b>	<b>2,335</b>	<b>2,390</b>	<b>2,448</b>
<b>Total L&amp;E</b>	<b>4,850</b>	<b>4,569</b>	<b>4,736</b>	<b>4,911</b>	<b>5,096</b>

### FINANCIAL RATIOS

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
<b>Profitability (%)</b>					
ROE	11.5	14.0	14.9	15.4	16.1
ROA	5.4	6.7	7.4	7.5	7.8
<b>Combined ratio (%)</b>					
Claims	81.4	83.5	81.3	81.1	81.3
Expense	57.4	23.7	37.0	36.9	37.2
Reinsurance	24.7	22.7	24.7	24.8	24.8
	-0.7	37.1	19.6	19.5	19.4
<b>Growth (%)</b>					
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
<b>Valuation metrics</b>					
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
<b>Div yield (%)</b>	<b>4.5</b>	<b>4.9</b>	<b>5.5</b>	<b>5.8</b>	<b>6.2</b>
P/BV (x)	2.4	2.3	2.3	2.2	2.2

Source: Company, MIDFR



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.

#### 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