

16 July 2019

LPI Capital Bhd

2Q19 Within Expectations

By Clement Chua | clement.chua@kenanga.com.my

6M19 Net Profit of RM147.9m (+7%) and interim dividend of 27.0 sen per share are within expectations. Immediate concerns could arise from the coming 2019 fire insurance review, given the group's sizeable exposure (c.40% of total revenue). Nonetheless, this could be mitigated by improving presence in other insurance classes. Maintain MARKET PERFORM and TP of RM16.50.

6M19 as expected. 6M19 Net Profit of RM147.9m made up 44% of both our and consensus full-year estimates. We deem this to be within expectations as the 1HFY periods typically make up c.45% of full-year numbers. The declared interim dividend of 27.0 sen is also deemed to be within expectations.

YoY, 6M19 revenue rose by 6% to RM779.6m thanks to better gross premiums yielded across all segments, mainly led by the key Fire Insurance business (+12%). Net earned premium grew by 10% on the back of an improved retention ratio (67.1%, +2.7ppt) but operating profit only expanded by 6% following a higher combined ratio incurred (73.1%, +1.9ppt). Higher claims incurred (46.1%, +2.1ppt) was dragged by more incidents seen in the Miscellaneous Insurance segment while expense ratios (i.e. commission and management) eased. All in, 6M19 Net Profit increased to RM147.9m (+7%).

QoQ, 2Q19 revenue saw flattish decline (-2%) stemmed by lower investment income (-45%), cushioned by higher gross premiums (+3%). The combined ratio for the quarter stood at 72.3% (-1.6ppt) mainly on the back of lower claims incurred for the period. Following higher effective tax rate of 23.6% (+4.4ppt), 2Q19 net earnings dropped to RM70.8m (-8%).

Keeping all fronts in check. Fire insurance should still helm LPI's performance in the long run, tapping onto Public Bank's market leading presence in the mortgage space alongside their wide agency distribution network. This could come in the forefront against headwinds arising from the coming review of fire class insurance. To recap, the segment accounts for c.40% of gross earned premiums and c.65% of underwriting surplus before management expenses. On the other hand, the motor segment continues to demonstrate encouraging transaction volumes, indicating the strength of the group in this segment following its detariffication. On Miscellaneous items, growth avenue could come from the group's venture into other classes (i.e. medical, workmen compensation) while the potential revival of infrastructure projects could awaken and rejuvenate business in the construction and engineering sectors, currently in a lull.

Post-results, we leave our FY19E/FY20E earnings unchanged.

Maintain MARKET PERFORM and TP of RM16.50. Our valuation is based on an unchanged blended 19.0x/3.0x FY20E PER/PBV. The valuations are based on the stock's respective +1SD over the 3-year mean of PER and PBV. Currently, we believe the sentiment for the stock could be steered by the solid backing from a sizeable financial institution (i.e. Public Bank) which may provide comfort on the sustainability of the group's operations. Dividend returns of 4.5%/4.6% for FY19/FY20 could be decent enough for investors as well.

Risks to our call include: (i) higher/lower premium underwritten, (ii) higher/lower-than-expected claims, and (iii) higher/lower-than-expected management expense ratio.

MARKET PERFORM ↔

Price : **RM16.06**
Target Price : **RM16.50** ↔

Share Price Performance



KLCI 1,672.37
YTD KLCI chg -1.1%
YTD stock price chg 2.0%

Stock Information

Shariah compliant	No
Bloomberg ticker	LPI MK Equity
Market cap (RM m)	6,398.0
Shares outstanding	398.4
52-week range (H)	17.14
52-week range (L)	14.90
3-mth avg daily vol	27,869
Free float	44%
Beta	0.4

Major Shareholders

Consolidated Teh Holdings Sdn Bhd	42.7%
Sompo Holdings Inc	8.5%
Retirement Benefits Fund	4.7%

Summary Earnings Table

FY Dec (RM'm)	2018A	2019E	2020E
Gross Premiums	1,469.4	1,563.7	1,624.8
Net Premium	930.8	985.4	1,056.8
Operating Profit	402.0	418.4	425.4
Pre-tax Profit	406.0	418.4	425.4
Net profit (NP)	314.0	334.8	340.4
Core NP	314.0	334.8	340.4
Consensus NP		332.7	352.1
Earnings Revision (%)		0.0%	0.0%
EPS (RM)	0.79	0.84	0.85
EPS growth (%)	0.1%	6.6%	1.7%
Core EPS (RM)	0.79	0.840	0.85
Core EPS growth (%)	0.0	0.1	0.0
DPS (RM)	0.68	0.72	0.74
BVPS (RM)	5.41	5.45	5.59
ROE (%)	0.2	0.2	0.2
PER (x)	20.4	19.1	18.8
PBV (x)	3.0	2.9	2.9
Net Div. Yield (%)	4.2%	4.5%	4.6%



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Results Highlights

FYE Dec (RM'm)	2Q19	1Q19	QoQ	2Q18	YoY	6M19	6M18	YoY
Revenue	386.9	392.7	-1.5%	353.0	9.6%	779.6	734.0	6.2%
Gross Earned Premium	368.0	358.2	2.7%	335.6	9.6%	726.2	685.4	6.0%
Net Earned Premium (NEP)	252.0	235.6	6.9%	225.1	11.9%	487.6	441.5	10.4%
Investment Income	18.9	34.5	-45.1%	17.4	8.7%	53.4	48.7	9.7%
Capital gain and losses	0.0	0.7	-99.7%	0.0	100.0%	0.7	(1.1)	-166.2%
Commission income	25.1	28.5	-12.1%	25.6	-2.0%	53.6	56.7	-5.4%
Other operating income	3.7	1.7	117.4%	0.7	420.3%	5.3	3.4	56.2%
Total Income	299.7	301.1	-0.5%	268.8	11.5%	600.7	549.2	9.4%
Net claims incurred	(113.2)	(111.8)	1.3%	(92.2)	22.8%	(225.0)	(194.1)	15.9%
Commission expenses	(43.0)	(40.8)	5.4%	(39.3)	9.4%	(83.9)	(78.3)	7.1%
Management expenses	(51.0)	(50.1)	1.8%	(50.2)	1.5%	(101.0)	(98.8)	2.2%
Operating Profit	92.4	94.9	-2.6%	86.3	7.1%	187.3	177.0	5.8%
Finance cost	(0.2)	(0.2)	28.4%	-	N.M.	(0.4)	(0.0)	N.M.
Share In Result of Associate	0.5	0.8	-40.4%	0.6	-20.1%	1.2	1.5	-18.0%
Profit before taxation	92.6	95.4	-3.0%	86.9	6.6%	188.1	178.5	5.4%
Taxation	(21.8)	(18.3)	19.5%	(21.1)	3.3%	(40.1)	(40.2)	-0.2%
Net profit	70.8	77.2	-8.3%	65.7	7.7%	147.9	138.2	7.0%
Core NP	70.8	77.2	-8.3%	65.7	7.7%	147.9	138.2	7.0%
EPS (RM)	0.18	0.19	-8.3%	0.17	7.7%	0.37	0.35	7.0%
Core EPS (RM)	0.18	0.19	-8.3%	0.17	7.7%	0.37	0.35	7.0%
DPS (RM)	0.27	-		0.26		0.27	0.26	
Retention Ratio	68.5%	65.8%		67.1%		67.1%	64.4%	
Claims Incurred Ratio (to NEP)	44.9%	47.4%		41.0%		46.1%	44.0%	
Net Commission Ratio (to NEP)	7.1%	5.2%		6.1%		6.2%	4.9%	
Commission Exp Ratio (to NEP)	17.1%	17.3%		17.5%		17.2%	17.7%	
Management Expense Ratio (to NEP)	20.2%	21.2%		22.3%		20.7%	22.4%	
Combined Ratio (to NEP)	72.3%	73.9%		69.4%		73.1%	71.2%	
Effective Taxation Rate	23.6%	19.2%		24.3%		21.3%	22.5%	
Annualised Return on Equity (ROE)	13.9%	15.5%		13.7%		13.9%	13.7%	
Total Assets	4,305.4	4,309.4		4,158.9		4,305.4	4,158.9	
Total Liabilities	2,245.0	2,314.7		2,136.3		2,245.0	2,136.3	
Total Shareholders' Funds	2,060.4	1,994.7		2,022.7		2,060.4	2,022.7	
Book Value per Share (RM)	5.17	5.01		6.09		5.17	6.09	

Source: Company, Kenanga Research

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Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
NON-BANK FINANCIAL INSTITUTIONS																		
AEON CREDIT SERVICE M BHD	16.70	4,189.9	N	02/2020	12.3%	14.3%	-2.9%	13.7%	12.5	12.9	11.3	2.8	2.5	21.4%	2.7%	14.75	UP	
BURSA MALAYSIA BHD	6.97	5,635.3	Y	12/2019	-2.5%	13.4%	-9.7%	9.0%	25.1	27.8	25.5	6.3	6.2	23.3%	3.4%	6.85	MP	
LPI CAPITAL BHD	16.06	6,398.0	N	12/2019	-19.7%	6.2%	6.6%	1.7%	20.4	19.1	18.8	3.0	2.9	15.5%	4.5%	16.50	MP	
SYARIKAT TAKAFUL MALAYSIA KELUARGA BHD	6.98	5,771.0	Y	12/2019	19.0%	7.4%	31.5%	4.4%	27.8	22.8	22.4	5.8	4.8	33.3%	2.7%	6.50	OP	
Simple Average					2.3%	10.3%	6.4%	7.2%	21.4	20.6	19.5	4.5	4.1	23.4%	3.3%			

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia

Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my

