

03 August 2022

LPI Capital

Fairly Valued Amidst Near-Term Troubles

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1HFY22 CNP of RM118.3m (-29%) and interim dividend of 25.0 sen are within our expectations but missed consensus. The insurance space could benefit from rising demand as economic activities recover, but LPI may see headwinds with further liberalisation of fire insurance possibly compressing topline and normalising claims ratio on bottomline. Maintain MP and TP of RM14.10. There is no adjustment to our TP based on ESG of which it is given a 3-star rating as appraised by us.

1HFY22 in line with our expectations, but missed that of consensus, while reported net earnings of RM118.3m made up 46% and 37% of respective estimates. We suspect the miss on the street's part could be due to overly optimistic GWP growth expectations. The interim dividend of 25.0 sen declared is also within, close to our anticipated 85% payout ratio.

YoY, 1HFY22 NEP reported at RM470.6m (-6%), mainly dragged by lower contributions in the miscellaneous segment (-16%) on higher unearned premium provisions alongside softer Motor (-6%). Meanwhile, the lion's share fire insurance NEP was stable (-1%) while M.A.T. rose by 8% albeit being a minuscule contributor to the group. Although retention ratio was flattish (62%), claims ratio surged to 46.9% (+9.5ppt) with the return in economic activity bringing a rise to claims instances. This drove 1HFY22 combined ratio to 75.0% (+10.7ppt). All in, 1HFY22 net profit came in at RM118.3m (-29%).

QoQ, 2QFY22 NEP improved by 17% on better overall sequentially better performance in key segments. We reckon this is stirred by the progressive pick-up in economic movements which translates to greater insurance requirements. On the flipside, claims incurred ratio was somewhat stagnant at 46.8% but with higher commission expenses (6.0%, +2.7ppt) on greater agency activities. However, due to the drag in investment income (-58%), 2QFY22 NP was sequentially weaker at RM56.8m (-8%).

Challenges ahead. The group is expected to be led by its key fire insurance segment, benefitting from the rise in mortgage applications in prior years. Still, detariffication reviews are likely to keep premiums competitive and compress earnings potential. The normalisation of claims (mainly motor) should also persist as lower incidence rates in prior years thanks to movement restrictions are unlikely to repeat (i.e. FY21: 36.5% vs. historical average: 40%). On the flipside, the group will now be able to mobilise more aggressive agency strategies to regain lost ground, but may fall short in terms of digital channels as opposed to its peers.

Post results, we tweak our FY22E/FY23E assumptions by -2% each from earnings updates.

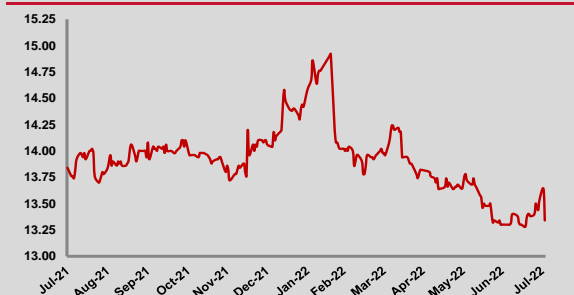
Maintain MARKET PERFORM and TP of RM14.10. Our TP is based on an unchanged 2.5x FY23E PBV, based on a 25% premium against the historical forward PBV of industry peers. We believe the premium is justified based on the group's better dividend prospects and share price resiliency. Though the group has the backing of a sizeable financial institution (i.e. Pubic Bank), the lack of guidance in terms of 2023 MFRS 17 adjustments may leave investors on the fence. Hence, we believe the risk-reward for the stock may be balanced for now.

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

MARKET PERFORM ↔

Price : RM13.34
Target Price : RM14.10 ↔

Share Price Performance



KLCI	1,495.05
YTD KLCI chg	-4.6%
YTD stock price chg	-5.1%

Stock Information

Shariah compliant	No
Bloomberg ticker	LPI MK Equity
Market cap (RM m)	5,314.4
Shares outstanding	398.4
52-week range (H)	14.92
52-week range (L)	13.28
3-mth avg daily vol	24,332
Free float	49%
Beta	0.5

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)	2021A	2022E	2023E
Gross Premiums	1,601	1,630	1,654
Net Premium	1,012	939	1,036
Operating Profit	436	358	410
Pre-tax Profit	437	357	409
Net Profit (NP)	345	251	319
Core NP	345	251	319
Consensus (NP)		322	358
Earnings Revision		-2%	-2%
Core EPS (RM)	0.87	0.63	0.80
Core EPS growth (%)	2.4	-27.3	27.4
DPS (RM)	0.74	0.55	0.70
BVPS (RM)	5.37	5.42	5.62
ROE (%)	16.3	11.6	14.5
PER (x)	16.9	23.3	18.3
PBV (x)	2.7	2.7	2.6
Net Div. Yield (%)	5.5	4.1	5.2

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Results Highlights

	2Q	1Q	QoQ	2Q	YoY	6M	6M	YoY
FYE Dec (RM m)	FY22	FY22	Chg	FY21	Chg	FY22	FY21	Chg
Operating Revenue	397.0	397.7	-0.2%	420.0	-5.5%	794.8	860.8	-7.7%
Gross Earned Premium	385.0	369.0	4.3%	404.7	-4.9%	754.0	802.2	-6.0%
Net Earned Premium (NEP)	253.4	217.2	16.7%	247.2	2.5%	470.6	499.7	-5.8%
Investment Income	12.1	28.7	-58.0%	15.3	-20.8%	40.8	58.5	-30.3%
Capital gain and losses	0.1	-0.1	-245.6%	8.3	-98.4%	0.0	9.0	-99.5%
Commission income	30.0	30.3	-1.0%	29.3	2.7%	60.4	59.5	1.5%
Other operating income	2.5	0.0	N.M.	1.1	125.3%	2.5	1.9	34.2%
Total Income	298.1	276.2	7.9%	301.2	-1.0%	574.3	628.6	-8.6%
Net claims incurred	-118.7	-101.8	16.5%	-88.5	34.1%	-220.5	-187.0	17.9%
Commission expenses	-45.3	-37.4	21.1%	-44.0	3.1%	-82.8	-86.2	-4.0%
Management expenses	-53.3	-56.7	-6.1%	-57.6	-7.5%	-110.0	-107.6	2.2%
Other expenses	-7.5	-4.3	75.6%	-1.2	504.9%	-11.8	-40.6	-71.0%
Operating Profit	73.3	75.9	-3.4%	109.8	-33.2%	149.2	207.1	-27.9%
Finance cost	-0.3	-0.3	-4.0%	-0.4	-24.4%	-0.6	-0.8	-24.4%
Share In Result of Associate	0.4	0.2	141.8%	0.5	-12.4%	0.6	1.8	-64.2%
Profit before taxation	73.5	75.8	-3.0%	109.9	-33.1%	149.2	208.0	-28.3%
Taxation	-16.7	-14.2	17.3%	-26.0	-35.7%	-30.9	-41.8	-26.0%
Net profit	56.8	61.5	-7.7%	83.9	-32.4%	118.3	166.2	-28.8%
Core NP	56.8	61.5	-7.7%	83.9	-32.4%	118.3	166.2	-28.8%
EPS (RM)	0.14	0.15	-7.7%	0.21	-32.4%	0.30	0.42	-28.8%
Core EPS (RM)	0.14	0.15	-7.7%	0.21	-32.4%	0.30	0.42	-28.8%
DPS (RM)	0.25	0.00		0.29		0.25	0.29	
Retention Ratio	65.8%	58.9%		61.1%		62.4%	62.3%	
Claims Incurred Ratio (to NEP)	46.8%	46.9%		35.8%		46.9%	37.4%	
Net Commission Ratio (to NEP)	6.0%	3.3%		6.0%		4.8%	5.4%	
Commission Exp Ratio (to NEP)	17.9%	17.2%		17.8%		17.6%	17.3%	
Management Expense Ratio (to NEP)	21.0%	26.1%		23.3%		23.4%	21.5%	
Combined Ratio (to NEP)	73.9%	76.3%		65.1%		75.0%	64.3%	
Effective Taxation Rate	22.7%	18.8%		23.6%		20.7%	20.1%	
Annualised Return on Equity (ROE)	10.8%	11.9%		17.2%		10.8%	17.2%	
Total Assets	5,146.7	5,198.7	-1.0%	4,676.4	10.1%	5,146.7	4,676.4	10.1%
Total Liabilities	3,015.5	3,063.1	-1.6%	2,609.6	15.6%	3,015.5	2,609.6	15.6%
Total Shareholders' Funds	2,131.1	2,135.5	-0.2%	2,066.8	3.1%	2,131.1	2,066.8	3.1%
Book Value per Share (RM)	5.35	5.36	-0.2%	5.19	3.1%	5.35	5.19	3.1%

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.			
NON-BANK FINANCIAL INSTITUTIONS																	
AEON CREDIT SERVICE M BHD	14.06	3,589.6	N	02/2023	6.4%	10.4%	31.8%	5.9%	9.8	7.5	7.0	1.6	1.4	20.4%	4.4%	17.20	OP
BURSA MALAYSIA BHD	6.53	5,284.7	Y	12/2022	-22.6%	0.2%	-32.6%	6.7%	14.9	22.1	20.7	6.5	6.3	28.9%	4.1%	6.30	MP
CTOS DIGITAL BHD	1.41	3,257.1	Y	12/2022	24.5%	15.2%	31.8%	16.7%	54.8	41.6	35.7	11.0	5.7	18.1%	1.3%	1.55	OP
LPI CAPITAL BHD	13.34	5,314.4	N	12/2022	-3.7%	1.7%	-27.3%	27.4%	15.4	21.2	16.7	2.5	2.5	11.6%	4.1%	14.10	MP
SYARIKAT TAKAFUL MALAYSIA KELUARGA BHD	3.37	2,821.7	Y	12/2022	4.3%	4.3%	-16.0%	5.2%	6.8	8.2	7.8	1.6	1.4	18.0%	4.2%	3.90	OP
Simple Average					1.8%	6.4%	-2.5%	12.4%	20.4	20.1	17.6	4.6	3.5	19.4%	3.6%		

Source: Bloomberg, Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★		
	Corporate Social Responsibility	★	★	☆		
	Management/Workforce Diversity	★	★	★	☆	
	Accessibility & Transparency	★	★	☆		
	Corruption-Free Pledge	★	★	★		
	Carbon-Neutral Initiatives	★	★	★		
SPECIFIC	Product Inclusivity	★	★	★	☆	
	Cybersecurity/Data Privacy	★	★	★		
	Digital Transformation	★	★	☆		
	Staff Welfare & Training	★	★	★		
OVERALL		★	★	★		

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

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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