

18 October 2022

LPI Capital

Opportunities Amid Softer Reporting

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

9MFY22 net earnings of RM193.0m (-29%) is within our expectations as higher claim ratios were not surprising. We maintain our TP of RM14.10 but upgrade our call to OP (from MP) from the underpricing of the stock's strong fundamentals in a normalising sector landscape. Challenges in the fire insurance segment could be mitigated by its firm positioning in the space while ROE could remain buoyant from pending accounting adjustments.

9MFY22 met our expectations. 9MFY22 reported net earnings of RM193.0m made up 77% of our full-year forecast but missed consensus full-year estimate (71%). We believe the negative deviation on the street's part was due to under-accounting of rise in claims from the re-opened economy. No dividends were declared this quarter as the group typically pays biannually.

YoY, 9MFY22 NEP declined by 5% owing to lower contributions in the miscellaneous segment (-11%) on higher unearned premium provisions. There was also softening in the key fire insurance segment's NEP (-2%) and Motor (-4%), although the minor Marine, Aviation & Transit segment supported (+8%) earnings. Stable retention ratio (63%) suggests risk profiling could be optimal but claims ratio rose to 45.4% (+9.3ppt) as claims instances normalise on returning economic activity. This was the leading driver for a higher combined ratio (73.9%, +11.0 ppt) during the period, which translated to a 9MFY22 net profit of RM193.0m (-29%).

Higher competition to sprout. The detariffication of the group's key fire insurance segment could pose some top-line stress to the group amidst more liberal pricing ranges in the market. Possible compression of housing loan applications in a rising interest rate environment may further exacerbate the situation. On the flipside, continual demand for new automobiles could translate to supportive motor premium readings in the coming quarters. Meanwhile, we believe pressure from claims would stabilise in the near term which may keep retention rates at more optimal levels. Historically, claim readings averaged at 40% against YTD levels of 45%.

Forecast. Post results, we leave our FY22F/FY23F assumptions unchanged.

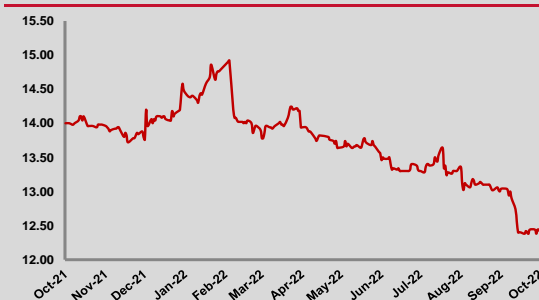
Upgrade to OUTPERFORM (from MARKET PERFORM) with TP of RM14.10. Our TP is based on an unchanged 2.5x FY23F PBV, based on a 25% premium against the historical forward PBV of industry peers. At current price levels, we believe there are buying opportunities as LPI's premium remains justified based on its better dividend prospects and earnings, notwithstanding support from its affiliation with Public Bank. Additionally, the group may be a beneficiary of 2023's new MFRS 17 adjustments owing to their higher mix of longer-termed policies (i.e. fire). There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us.

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

OUTPERFORM ↑

Price : RM12.34
Target Price : RM14.10 ↔

Share Price Performance



KLCI 1,386.27
YTD KLCI chg -11.6%
YTD stock price chg -12.2%

Stock Information

Shariah compliant	No
Bloomberg ticker	LPI MK Equity
Market cap (RM m)	4,916.0
Shares outstanding	398.4
52-week range (H)	14.92
52-week range (L)	12.34
3-mth avg daily vol	35,728
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	2022F	2023F
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)		273	317
Earnings Revision		0%	0%
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 (%)	6.0	4.5	5.7

18 October 2022

Results Highlights								
	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE Dec (RM m)	FY22	FY22	Chg	FY21	Chg	FY22	FY21	Chg
Operating Revenue	429.6	397.0	8.2%	427.9	0.4%	1,224.4	1,288.7	-5.0%
Gross Earned Premium	398.4	385.0	3.5%	395.4	0.7%	1,152.4	1,197.7	-3.8%
Net Earned Premium (NEP)	250.1	253.4	-1.3%	255.9	-2.3%	720.7	755.6	-4.6%
Investment Income	31.3	12.1	159.0%	32.5	-3.7%	72.1	91.0	-20.8%
Capital gain and losses	0.6	0.1	333.6%	0.0	N.M.	0.6	9.0	-93.2%
Commission income	29.4	30.0	-2.1%	25.8	14.2%	89.8	85.2	5.4%
Other operating income	1.5	2.5	-38.1%	1.6	-2.4%	4.0	3.4	17.4%
Total Income	312.9	298.1	5.0%	315.7	-0.9%	887.2	944.2	-6.0%
Net claims incurred	-106.4	-118.7	-10.4%	-86.0	23.7%	-326.9	-273.0	19.7%
Commission expenses	-45.6	-45.3	0.5%	-43.5	4.8%	-128.4	-129.7	-1.1%
Management expenses	-57.0	-53.3	7.1%	-49.9	14.4%	-167.0	-157.5	6.0%
Other expenses	-0.7	-7.5	-91.0%	-5.3	-87.3%	-12.4	-45.9	-72.9%
Operating Profit	103.2	73.3	40.8%	131.0	-21.2%	252.5	338.2	-25.3%
Finance cost	-0.3	-0.3	-2.9%	-0.4	-20.8%	-0.9	-1.2	-23.3%
Share In Result of Associate	0.4	0.4	-19.3%	0.7	-47.9%	1.0	2.4	-59.6%
Profit before taxation	103.3	73.5	40.6%	131.3	-21.4%	252.5	339.4	-25.6%
Taxation	-28.5	-16.7	71.0%	-26.0	10.0%	-59.5	-67.8	-12.2%
Net profit	74.7	56.8	31.7%	105.4	-29.1%	193.0	271.6	-28.9%
Core NP	74.7	56.8	31.7%	105.4	-29.1%	193.0	271.6	-28.9%
EPS (RM)	0.19	0.14	31.7%	0.26	-29.1%	0.48	0.68	-28.9%
Core EPS (RM)	0.19	0.14	31.7%	0.26	-29.1%	0.48	0.68	-28.9%
DPS (RM)	0.00	0.25		0.00		0.25	0.29	
Retention Ratio	62.8%	65.8%		64.7%		62.5%	63.1%	
Claims Incurred Ratio (to NEP)	42.5%	46.8%		33.6%		45.4%	36.1%	
Net Commission Ratio (to NEP)	6.5%	6.0%		6.9%		5.3%	5.9%	
Commission Exp Ratio (to NEP)	18.2%	17.9%		17.0%		17.8%	17.2%	
Management Expense Ratio (to NEP)	22.8%	21.0%		19.5%		23.2%	20.8%	
Combined Ratio (to NEP)	71.8%	73.9%		60.0%		73.9%	62.9%	
Effective Taxation Rate	27.6%	22.7%		19.8%		23.6%	20.0%	
Annualised Return on Equity (ROE)	14.5%	10.8%		22.1%		14.5%	22.1%	
Total Assets	5,035.8	5,146.7	-2.2%	4,604.1	9.4%	5,035.8	4,604.1	9.4%
Total Liabilities	2,956.2	3,015.5	-2.0%	2,555.6	15.7%	2,956.2	2,555.6	15.7%
Total Shareholders' Funds	2,079.6	2,131.1	-2.4%	2,048.5	1.5%	2,079.6	2,048.5	1.5%
Book Value per Share (RM)	5.22	5.35	-2.4%	5.14	1.5%	5.22	5.14	1.5%

Source: Company, Kenanga Research

18 October 2022

Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
NON-BANK FINANCIAL INSTITUTIONS																	
AEON CREDIT SERVICE M BHD	OP	12.72	16.95	33.3%	3,247.5	N	02/2023	173.6	199.0	21.3%	14.7%	7.3	6.4	1.3	18.9%	62.0	4.9%
BURSA MALAYSIA BHD	MP	6.12	6.50	6.2%	4,952.9	Y	12/2022	29.6	32.5	-32.5%	9.7%	20.7	18.8	5.9	29.0%	27.0	4.4%
CTOS DIGITAL BHD	OP	1.32	1.55	17.4%	3,049.2	Y	12/2022	3.4	4.0	31.8%	16.7%	39.0	33.4	5.4	18.1%	1.9	1.4%
LPI CAPITAL BERHAD	OP	12.34	14.10	14.3%	4,916.0	N	12/2022	62.9	80.1	-27.3%	27.4%	19.6	15.4	2.3	11.6%	55.0	4.5%
SYARIKAT TAKAFUL MALAYSIA KELUARGA BHD	OP	3.26	3.90	19.6%	2,729.6	Y	12/2022	41.3	43.5	-16.0%	5.2%	7.9	7.5	1.3	18.0%	14.0	4.3%
Simple Average								62.2	71.8	-4.6%	14.7%	18.9	16.3	3.2	19.1%		3.9%

Source: Kenanga Research

This section is intentionally left blank

18 October 2022

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.**

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published by:

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