

25 April 2023

LPI Capital

Higher Claims May Ease

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

Post-MFRS 17, LPI's 1QFY23 net profit of RM73.8m is deemed to have met estimate, as we gather that the transitional impact from the new accounting standard could be more muted as compared to its peers. The group will still be a heavy contender in the fire insurance space which could see higher pricing pressures, but we are undeterred given its strong backing by a leading financial institution. Maintain OP with a higher TP of RM14.70 (from RM14.50) post MFRS 17 adjustments to our model forecasts.

1QFY23 within expectations as compared to previous accounting standards. 1QFY23 net profit of RM73.8m made up 22% of our full-year forecast and 24% of consensus full-year estimate based on MFRS 4 accounting standards.

Effective 1 Jan 2023, the group has applied the new MFRS 17-Insurance Contracts standard to replace MFRS 4 which uniformly distributes revenue recognition of insurance and reinsurance contracts but also changes accounting presentations, such as the removal of "net earned premiums" for "insurance service result". Comparing these standards, we note that a re-stated 1QFY22 saw the following changes: (i) net profit higher by 5.5%, and (ii) ROE enhanced by 0.7ppt.

YoY, 1QFY23 insurance service revenue rose 11% led by greater contributions from its key fire segment (+23%). However, due to greater claims from the same segment, net claims incurred ratio rose to 51.8% (+7.1ppts) and overall insurance service results were lower by 8%. On the flipside, net financial result surged 66% mostly thanks to fair value gains. This lifted pre-tax profit by 12% despite 1QFY23's combined ratio creeping up to 81.4% (+4.4ppts). All in, 1QFY23 net profit came in at RM73.8m (+14%).

Outlook. The group is likely to experience mounting pressures from the ongoing detariffication of the fire segment which is expected to stimulate more competitive market pricing. The motor insurance segment would follow suit in 2HCY23, albeit likely not as intense as the fire class due to its smaller proportion. Claims ratio could see some tapering off from the normalisation of overall activities but reinsurance premiums may continue to increase as flooding occurrences grow more frequent, spurring persistent revaluation of its reinsurance coverage.

Forecasts. Post results, we transition our model inputs to reflect the new MFRS 17 requirements, resulting in a -6%/-1% adjustment to our FY23F/FY24F earnings. Meanwhile, due to the higher allocation of reserves in equity, our BVPS saw a marginal 1% in both years.

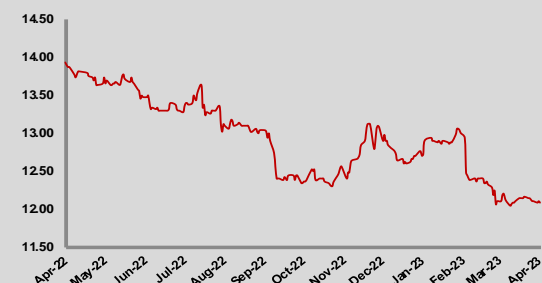
Maintain OUTPERFORM with a higher TP of RM14.70 (from RM14.50). The higher TP is derived from our new model inputs, particularly by the slightly enlarged BVPS. We had applied an unchanged 2.5x FY24F BVPS, based on a 25% premium against the historical forward PBV of industry peers. We believe investors may still shy away from the insurance space until the material impact of MFRS 17 becomes more visible. However, we see this as an opportunity to accumulate LPI given that its premium valuation remains justified based on its better dividend prospects and earnings, notwithstanding support from its affiliation with Public Bank. 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 : RM12.10
Target Price : RM14.70 ↑

Share Price Performance



KLCI 1,422.11
YTD KLCI chg -4.9%
YTD stock price chg -4.3%

Stock Information

Shariah compliant	No
Bloomberg ticker	LPI MK Equity
Market cap (RM m)	4,820.4
Shares outstanding	398.4
52-week range (H)	13.88
52-week range (L)	12.04
3-mth avg daily vol	37,442
Free float	48%
Beta	0.5

Major Shareholders

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

Summary Earnings Table

FY Dec (RM m)	2022A*	2023F	2024F
Insurance Revenue	1,761	1,867	1,923
Insurance Results	303	336	336
Net Financial Results	94	108	136
Pre-tax Profit	370	417	445
Net Profit (NP)	295	317	339
Core NP	295	317	339
Consensus (NP)	-	303	335
Earnings Revision (%)	-	-6	-1
Core EPS (RM)	0.74	0.80	0.85
Core EPS growth (%)	-19.8	7.5	6.7
DPS (RM)	0.60	0.64	0.68
BVPS (RM)	5.54	5.70	5.87
ROE (%)	13.4	14.0	14.5
PER (x)	16.3	15.2	14.2
PBV (x)	2.2	2.1	2.1
Net Div. Yield (%)	5.0	5.3	5.6

* Based on an annualised 1QFY22 to reflect ongoing reporting standards

25 April 2023

Results Highlights

FYE Dec (RM m)	1Q FY23	1Q FY22	YoY Chg	3M FY23	3M FY22	YoY Chg
Operating Revenue	463.3	416.1	11.3%	463.3	416.1	11.3%
Insurance Service Revenue	430.9	387.4	11.2%	430.9	387.4	11.2%
Insurance Service Result	61.0	66.6	-8.4%	61.0	66.6	-8.4%
Investment Income	32.4	28.7	13.2%	32.4	28.7	13.2%
Net Financial Result	34.3	20.7	65.6%	34.3	20.7	65.6%
Net Operating Expenses	-4.5	-6.0	-25.3%	-4.5	-6.0	-25.3%
Associate Contributions	0.6	0.2	220.7%	0.6	0.2	220.7%
Profit before tax	91.4	81.5	12.2%	91.4	81.5	12.2%
Taxation	-17.6	-16.6	6.0%	-17.6	-16.6	6.0%
Minority interest	0.0	0.0	N.M.	0.0	0.0	N.M.
Net Profit	73.8	64.9	13.8%	73.8	64.9	13.8%
Core Net Profit	73.8	64.9	13.8%	73.8	64.9	13.8%
Retention Ratio (to Gross Written Premiums)	68.2%	76.6%		68.2%	76.6%	
Net claims incurred ratio*	51.8%	44.7%		51.8%	44.7%	
Management expense ratio*	20.1%	23.2%		20.1%	23.2%	
Net commission ratio*	7.6%	7.1%		7.6%	7.1%	
Net insurance finance cost ratio*	3.3%	1.6%		3.3%	1.6%	
Losses on onerous contracts ratio*	-1.4%	0.4%		-1.4%	0.4%	
Combined ratio	81.4%	77.0%		81.4%	77.0%	
Effective Taxation Rate	19.2%	20.3%		19.2%	20.3%	
Annualised Return on Equity (ROE)	14.2%	11.9%		14.2%	11.9%	

Notes:

~ QoQ comparison with 4QFY22 is unavailable following 1QFY23's transition into MFRS 17

* As provided by the group's internal management accounts

Source: Company, Kenanga Research

25 April 2023

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	12.08	16.15	33.7%	3,084.1	N	02/2024	161.9	185.5	-1.0%	14.6%	7.5	6.5	1.1	15.5%	52.0	4.3%
BURSA MALAYSIA BHD	MP	6.41	6.25	-2.5%	5,187.6	Y	12/2023	28.0	31.2	0.2%	11.4%	22.9	20.5	6.5	28.7%	27.0	4.2%
CTOS DIGITAL BHD	OP	1.35	1.80	33.3%	3,118.5	Y	12/2023	4.4	5.3	14.1%	20.2%	30.4	25.3	5.0	17.0%	2.7	2.0%
LPI CAPITAL BERHAD	OP	12.10	14.70	21.5%	4,820.4	N	12/2023	79.6	85.0	7.5%	6.7%	15.2	14.2	2.1	14.2%	63.7	5.3%
SYARIKAT TAKAFUL MALAYSIA KELUARGA BHD	OP	3.32	4.15	25.0%	2,779.9	Y	12/2023	43.2	45.3	13.4%	4.9%	7.7	7.3	1.3	17.2%	17.0	5.1%
SECTOR AGGREGATE					18,990.5					5.5%	10.3%	13.4	12.1	2.2	15.5%		4.2%

Source: Kenanga Research

This section is intentionally left blank

25 April 2023

Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★		
	Community Investment	★	★	★		
	Workforce Safety & Wellbeing	★	★	★	★	
	Corporate Governance	★	★	★		
	Anti-corruption Policy	★	★	★		
	Emissions Management	★	★	★	★	
SPECIFIC	Cybersecurity/Data Privacy	★	★	★		
	Digitalisation & Innovation	★	★	☆		
	Financial Inclusion	★	★	★	☆	
	Ethical Practices	★	★	★		
	Legal & Regulatory Compliance	★	★	★		
	Customer Experience	★	★	★		
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