

## LPI Capital

### Market Position Unwavering

By Clement Chua | [clement.chua@kenanga.com.my](mailto:clement.chua@kenanga.com.my)

LPI's 9MFY23 results met our expectations in spite of rising reinsurance pressures thanks to support from investments. We anticipate LPI to remain resilient in defending its market share, backed by a leading financial institution and brand equity. We tweak our FY23–24F earnings down by <1% as we incorporate additional data to our model inputs. Maintain our TP of RM14.70 and OUTPERFORM call.

**9MFY23 within our expectations.** LPI's 9MFY23 net profit of RM235.1m was within our full-year forecast (78%) but above consensus full-year estimates (81%). The positive deviation from its end could be due lower-than-expected revenue growth (possibly from fire class products) which is undergoing competitive pressures from detariffication.

Effective 1 Jan 2023, the group 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 restated 3QFY22's net profit and ROE have risen by 6% and 0.1ppt, respectively.

**YoY**, 9MFY23 insurance service revenue increased by 12% following further strengthening in LPI's fire segment (+20%) on top of moderate growth across all segments. That said, owing to heightened reinsurance premiums (retention ratio falling to 63.9%, -9.4ppt) likely spurred from higher cession and excess of losses to reinsurers. On the other hand, thanks to stronger investment income driven by better trading markets, pretax profits still improved by 13%. In addition to lower effective taxes, 9MFY23 net profit landed at RM235.1m (+19%).

**Outlook.** Despite the competitive landscape for fire class insurance seemingly widening from the recent detariffication, LPI remains successful in retaining growth on a quarterly basis, likely supported by its affiliates. The group could also continue to leverage the broader economic growth to induce more projects into its miscellaneous segment. On the other hand, 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, driving persistent revaluation of its reinsurance coverage.

**Forecast.** Our FY23–24F earnings were fine-tuned as we refine our model inputs to reflect the new MFRS 17 requirements alongside 3QFY23's reported numbers.

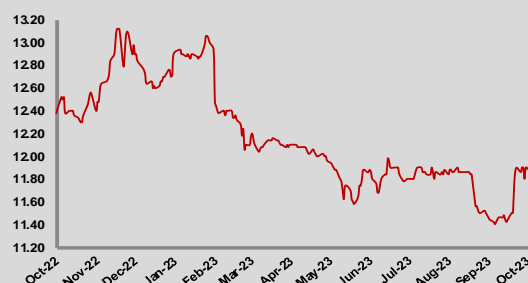
**Maintain OUTPERFORM with TP of RM14.70.** Our TP is based on an unchanged 2.5x FY24F BVPS, based on a 25% premium against the historical forward PBV of industry peers. We believe investors may still shy away from the insurance space until the material impact of MFRS 17 becomes more visible. However, 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 (see Page 4).

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

## OUTPERFORM ↔

Price : RM12.00  
Target Price : RM14.70 ↔

### Share Price Performance



KLCI	1,435.65
YTD KLCI chg	-4.0%
YTD stock price chg	-5.1%

### Stock Information

Shariah compliant	No
Bloomberg ticker	LPI MK Equity
Market cap (RM m)	4,780.6
Shares outstanding	398.4
52-week range (H)	13.12
52-week range (L)	11.40
3-mth avg daily vol	37,801
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	2023F
<b>Insurance Revenue</b>	1,620	1,798	1,888
Insurance Results	309	306	340
Net Financial Results	67	113	119
<b>Pre-tax Profit</b>	<b>355</b>	<b>400</b>	<b>440</b>
Net Profit (NP)	271	306	336
<b>Core NP</b>	<b>271</b>	<b>306</b>	<b>336</b>
Consensus (NP)		298	317
Earnings Revision (%)		1%	0%
Core EPS (RM)	0.68	0.77	0.84
Core EPS growth (%)	-19.8	12.9	9.9
DPS (RM)	0.60	0.61	0.67
BVPS (RM)	5.54	5.70	5.87
ROE (%)	12.3	13.5	14.4
PER (x)	17.5	15.5	14.1
PBV (x)	2.1	2.1	2.0
Net Div. Yield (%)	5.1	5.2	5.7

\* Based on an annualised 9MFY22 to reflect ongoing reporting standards

25 October 2023

## Results Highlights

	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE Dec (RM m)	FY23	FY23	Chg	FY22	Chg	FY23	FY22	Chg
Operating Revenue	498.4	462.4	7.8%	434.0	14.8%	1,424.1	1,254.4	13.5%
Insurance Service Revenue	454.4	439.6	3.4%	402.8	12.8%	1,324.8	1,182.5	12.0%
<b>Insurance Service Result</b>	<b>88.5</b>	<b>63.0</b>	<b>40.4%</b>	<b>85.3</b>	<b>3.7%</b>	<b>212.6</b>	<b>225.5</b>	<b>-5.7%</b>
Investment Income	44.0	22.8	93.4%	31.2	41.1%	99.2	71.9	38.1%
<b>Net Financial Result</b>	<b>34.5</b>	<b>21.4</b>	<b>61.5%</b>	<b>27.2</b>	<b>27.1%</b>	<b>90.2</b>	<b>48.6</b>	<b>85.6%</b>
Net Operating Expenses	-3.8	-4.0	-3.8%	-5.3	-27.5%	-12.3	-16.0	-23.3%
Associate Contributions	0.4	0.3	17.8%	0.4	10.9%	1.3	1.0	34.2%
<b>Profit before tax</b>	<b>119.6</b>	<b>80.8</b>	<b>48.0%</b>	<b>107.6</b>	<b>11.2%</b>	<b>291.7</b>	<b>259.0</b>	<b>12.6%</b>
Taxation	-22.2	-16.8	31.9%	-28.4	-21.8%	-56.6	-61.4	-7.8%
Minority interest	0.0	0.0	N.M	0.0	N.M.	0.0	0.0	N.M
<b>Net Profit</b>	<b>97.4</b>	<b>63.9</b>	<b>52.3%</b>	<b>79.2</b>	<b>23.0%</b>	<b>235.1</b>	<b>197.6</b>	<b>19.0%</b>
<b>Core Net Profit</b>	<b>97.4</b>	<b>63.9</b>	<b>52.3%</b>	<b>79.2</b>	<b>23.0%</b>	<b>235.1</b>	<b>197.6</b>	<b>19.0%</b>
Retention Ratio (to Gross Written Premiums)	62.4%	60.2%		72.0%		63.9%	73.3%	
Net claims incurred ratio*	39.4%	47.6%		43.4%		46.2%	44.8%	
Management expense ratio*	20.0%	21.6%		20.6%		20.6%	21.1%	
Net commission ratio*	8.7%	8.6%		6.4%		8.3%	6.8%	
Net insurance finance cost ratio*	2.9%	3.1%		1.7%		3.1%	1.6%	
Losses on onerous contracts ratio*	0.0%	-0.3%		-1.2%		-0.5%	-0.2%	
Combined ratio	71.0%	80.6%		70.9%		77.6%	74.1%	
Effective Taxation Rate	18.6%	20.8%		26.4%		19.4%	23.7%	
Annualised ROE	14.6%	13.0%		12.0%		14.4%	12.0%	

Notes:

\* As provided by the group's internal management accounts

Source: Company, Kenanga Research

## Segmental Performance

	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE Dec (RM m)	FY23	FY23	Chg	FY22	Chg	FY23	FY22	Chg
<b>Insurance Revenue</b>								
Fire	191.3	188.9	1.3%	163.2	17.2%	572.9	477.6	19.9%
Motor	101.0	97.8	3.3%	92.7	9.0%	293.8	268.4	9.4%
Marine, Aviation & Transit	26.3	23.1	14.2%	22.3	18.0%	74.0	67.7	9.4%
Miscellaneous	135.7	129.9	4.5%	124.7	8.9%	384.2	368.7	4.2%
<b>Total Insurance Revenue</b>	<b>454.4</b>	<b>439.6</b>	<b>3.4%</b>	<b>402.8</b>	<b>12.8%</b>	<b>1,324.8</b>	<b>1,182.5</b>	<b>12.0%</b>
<b>Insurance Service Result</b>								
Fire	55.8	55.2	1.1%	70.9	-21.3%	149.2	200.1	-25.5%
Motor	15.1	3.4	349.7%	0.3	N.M.	16.9	-25.5	-166.1%
Marine, Aviation & Transit	2.7	-0.1	N.M.	-0.3	N.M.	7.4	3.2	133.3%
Miscellaneous	14.9	4.6	226.7%	14.4	3.9%	39.1	47.7	-18.0%
<b>Total Insurance Service Result</b>	<b>88.5</b>	<b>63.0</b>	<b>40.4%</b>	<b>85.3</b>	<b>3.7%</b>	<b>212.6</b>	<b>225.5</b>	<b>-5.7%</b>
<b>Insurance Service Result/ Revenue</b>								
Fire	29.1%	29.2%		43.4%		26.0%	41.9%	
Motor	15.0%	3.4%		0.4%		5.7%	-9.5%	
Marine, Aviation & Transit	10.2%	-0.3%		-1.2%		10.0%	4.7%	
Miscellaneous	11.0%	3.5%		11.5%		10.2%	12.9%	
<b>Total</b>	<b>19.5%</b>	<b>14.3%</b>		<b>21.2%</b>		<b>16.0%</b>	<b>19.1%</b>	

Source: Company, Kenanga Research

25 October 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.
<b>NON-BANK FINANCIAL INSTITUTIONS</b>																	
AEON CREDIT SERVICE M BHD	OP	11.36	16.95	49.2%	2,900	N	02/2024	161.9	185.5	-1.0%	14.6%	7.0	6.1	1.0	15.5%	52.0	4.6%
BURSA MALAYSIA BHD	MP	6.69	6.25	-6.6%	5,414	Y	12/2023	31.2	31.3	11.4%	0.3%	21.4	21.4	6.8	31.9%	30.0	4.5%
CTOS DIGITAL BHD	OP	1.42	1.80	26.8%	3,280	Y	12/2023	4.3	5.2	11.4%	19.1%	32.7	27.5	5.9	18.7%	2.6	1.8%
LPI CAPITAL BERHAD	OP	12.00	14.70	22.5%	4,781	N	12/2023	76.7	84.3	12.9%	9.9%	15.6	14.2	2.1	13.6%	61.4	5.1%
SYARIKAT TAKAFUL MALAYSIA KELUARGA BHD	OP	3.64	4.10	12.6%	3,048	Y	12/2023	44.3	46.6	5.9%	5.3%	8.2	7.8	1.9	25.4%	17.7	4.9%
<b>SECTOR AGGREGATE</b>					<b>19,423</b>					<b>6.5%</b>	<b>9.0%</b>	<b>13.5</b>	<b>12.4</b>	<b>2.4</b>	<b>18.0%</b>		<b>4.2%</b>

Source: Kenanga Research

This section is intentionally left blank

**Stock ESG Ratings:**

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

☆ 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. Kenanga Investment Bank Berhad being a full-service investment bank offers investment banking products and services and acts as issuer and liquidity provider with respect to a security that may also fall under its research coverage.

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](http://www.kenanga.com.my) E-mail: [research@kenanga.com.my](mailto:research@kenanga.com.my)

