

30 April 2024

LPI Capital

Fewer Reserves Needed

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

LPI's 1QFY24 results beat expectations as net claims appeared lower following reversal of past claims provisions, prompting us to raise our FY24F-FY25F earnings by 13%-4%. We see that there could be more intensive competition especially in the fire class insurance segment, but are not overly deterred by LPI's position, thanks to their backing from a leading bank. We maintain **OUTPERFORM** call but raise our TP to RM15.00 (from RM14.70) as we roll over our valuations.

1QFY24 beat expectations. LPI's 1QFY24 net profit hit 30% of both our full-year forecast and consensus full-year estimate. We find positive deviations in significantly better net claims (mainly attributed by the fire class segment) from higher reversed claims reserves during the period.

YoY, 1QFY24 insurance service revenue came in flattish, underpinned by weakness in its fire class insurance products (-19%). On the flipside, its motor (+11%) and miscellaneous (+12%) products provided support, likely on the back on more policies demanded. That said, insurance service results surged by 44% as net incurred claims were significantly lower at 40.1% (-11.7ppts) with claims provisions being reversed. We opine this could be tied to previous frontloaded reserves owing to unprecedented flooding incidences in prior years. This overall translated to greater net profit of RM101.3m (+37%) following higher effective taxes (20.5%, +1.3ppts).

QoQ, 1QFY24 revenue declined by 8% following the same pressures from the fire class insurance segment but with insurance results also coming in better (+8%) on the back of a higher policy retention (77.6%, +19.7ppts). On the flipside, investment income nearly doubled, thanks to dividend payments from the group's equity investments. All in, 1QFY24 net profit came in 29% stronger.

Outlook. LPI appears to be feeling the pinch with industry detariffication looking to level the competition in the fire class insurance segment. That said, we believe that the group will maintain a leading position in the market thanks to its close affiliation to PBBANK with mortgage demand expected to stay supportive. In the meantime, the group will likely continue expanding its agency force and bancassurance network for a more direct outreach to customers. Although the claims ratio might see a decline as overall activities normalize, reinsurance coverages could be reviewed as climate conditions worsen, raising risks tied to certain policies.

Forecast. Post results, we raise our FY24F-FY25F earnings by 13%-4% as we lower our net claims ratio to account for further possible reversal of claims reserves in fire class products.

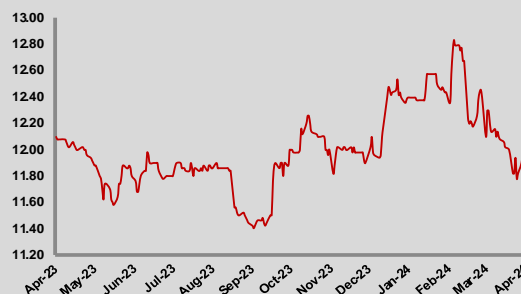
Maintain OUTPERFORM with a higher TP of RM15.00 (from RM14.70). We raise our TP as we roll over our valuation base year to FY25F on an unchanged 2.6x PBV. This represents a 25% premium against the industry average of 2.1x which we believe is fair given: (i) better net margins of 17% (vs peer's 11%), and (ii) higher dividend returns of 6%-7% (vs peer's 4%-5%). LPI's premium valuation may also be supported by its long-term viability 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 : RM11.92
Target Price : RM15.00 ↑

Share Price Performance



KLCI 1,582.66
YTD KLCI chg 8.8%
YTD stock price chg -0.3%

Stock Information

Shariah compliant	No
Bloomberg ticker	LPI MK Equity
Market cap (RM m)	4,748.7
Shares outstanding	398.4
52-week range (H)	12.84
52-week range (L)	11.40
3-mth avg. daily vol.	87,789
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)	2023A	FY24F	FY25F
Insurance Revenue	1,782	1,978	2,077
Insurance Results	294	396	374
Net Financial Results	117	120	126
Pre-tax Profit	395	499	482
Net Profit	314	379	367
Core Net Profit	314	379	367
Consensus (NP)	-	325	337
Earnings Revision (%)	-	+12.9	+3.9
Core EPS (RM)	0.79	0.95	0.92
Core EPS Growth (%)	22.1	1.2	0.0
DPS (RM)	0.75	0.86	0.83
BVPS (RM)	5.58	5.68	5.77
ROE (%)	14.1	16.8	16.0
PER (x)	15.0	12.4	12.8
PBV (x)	2.1	2.1	2.0
Div. Yield (%)	6.4	7.3	7.0

30 April 2024

Results Highlights

	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FYE Dec (RM m)	FY24	FY23	Chg	FY23	Chg	FY24	FY23	Chg
Operating Revenue	469.8	481.4	-2.4%	463.3	1.4%	469.8	463.3	1.4%
Insurance Service Revenue	422.7	457.1	-7.5%	430.9	-1.9%	422.7	430.9	-1.9%
Insurance Service Result	87.9	81.2	8.3%	61.0	44.0%	87.9	61.0	44.0%
Investment Income	47.0	24.3	93.8%	32.4	44.9%	47.0	32.4	44.9%
Net Financial Result	42.5	26.7	59.1%	34.3	23.8%	42.5	34.3	23.8%
Net Operating Expenses	-3.1	-5.1	-38.7%	-4.5	-30.3%	-3.1	-4.5	-30.3%
Associate Contributions	0.2	0.5	-63.9%	0.6	-69.8%	0.2	0.6	-69.8%
Profit before tax	127.3	103.2	23.4%	91.4	39.3%	127.3	91.4	39.3%
Taxation	-26.1	-24.6	5.9%	-17.6	48.4%	-26.1	-17.6	48.4%
Minority interest	0.0	0.0	N.M	0.0	N.M.	0.0	0.0	N.M
Net Profit	101.3	78.6	28.9%	73.8	37.2%	101.3	73.8	37.2%
Core Net Profit	101.3	78.6	28.9%	73.8	37.2%	101.3	73.8	37.2%
Retention Ratio (to Gross Written Premiums)	77.6%	57.9%		68.2%		77.6%	68.2%	
Net claims incurred ratio*	40.1%	41.7%		51.8%		40.1%	51.8%	
Management expense ratio*	21.2%	20.9%		20.1%		21.2%	20.1%	
Net commission ratio*	8.4%	8.8%		7.6%		8.4%	7.6%	
Net insurance finance cost ratio*	3.2%	3.0%		3.3%		3.2%	3.3%	
Losses on onerous contracts ratio*	0.6%	0.4%		-1.4%		0.6%	-1.4%	
Combined ratio	73.5%	74.8%		81.4%		73.5%	81.4%	
Effective Taxation Rate	20.5%	23.9%		19.2%		20.5%	19.2%	
Annualised ROE	18.3%	13.7%		14.2%		18.3%	14.2%	

Notes:

* As provided by the group's internal management accounts

Source: Company, Kenanga Research

Segmental Performance

	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FYE Dec (RM m)	FY24	FY23	Chg	FY23	Chg	FY24	FY23	Chg
<u>Insurance Revenue</u>								
Fire	156.7	186.9	-16.1%	192.6	-18.6%	156.7	192.6	-18.6%
Motor	105.0	103.8	1.1%	95.0	10.5%	105.0	95.0	10.5%
Marine, Aviation & Transit	28.5	29.3	-2.9%	24.6	15.7%	28.5	24.6	15.7%
Miscellaneous	132.5	137.0	-3.3%	118.6	11.7%	132.5	118.6	11.7%
Total Insurance Revenue	422.7	457.1	-7.5%	430.9	-1.9%	422.7	430.9	-1.9%
<u>Insurance Service Result</u>								
Fire	63.8	57.6	10.6%	38.2	66.8%	63.8	38.2	66.8%
Motor	-0.9	0.3	-390.5%	-1.6	-44.5%	-0.9	-1.6	-44.5%
Marine, Aviation & Transit	-0.5	0.5	-209.1%	4.8	-111.1%	-0.5	4.8	-111.1%
Miscellaneous	25.5	22.7	12.3%	19.6	30.1%	25.5	19.6	30.1%
Total Insurance Service Result	87.9	81.2	8.3%	61.0	44.0%	87.9	61.0	44.0%
<u>Insurance Service Result/ Revenue</u>								
Fire	40.7%	30.8%		19.8%		40.7%	19.8%	
Motor	-0.8%	0.3%		-1.7%		-0.8%	-1.7%	
Marine, Aviation & Transit	-1.9%	1.7%		19.3%		-1.9%	19.3%	
Miscellaneous	19.3%	16.6%		16.5%		19.3%	16.5%	
Total	20.8%	17.8%		14.2%		20.8%	14.2%	

Source: Company, Kenanga Research

30 April 2024

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	7.15	8.55	19.6%	3,650.9	N	02/2025	83.4	85.8	0.5%	2.8%	8.6	8.3	1.3	15.4%	32.0	4.5%
BURSA MALAYSIA BHD	UP	7.45	6.70	-10.1%	6,029.3	Y	12/2024	33.1	33.4	6.1%	0.9%	22.5	22.3	7.5	33.7%	31.0	4.2%
CTOS DIGITAL BHD	UP	1.40	1.15	-17.9%	3,234.0	Y	12/2024	5.4	6.4	20.8%	17.7%	25.7	21.9	5.1	20.5%	3.8	2.7%
LPI CAPITAL BERHAD	OP	11.92	15.00	25.8%	4,748.7	N	12/2024	95.2	92.0	20.9%	-3.4%	12.5	13.0	2.1	16.9%	85.7	7.2%
SYARIKAT TAKAFUL MALAYSIA KELUARGA BHD	MP	3.70	3.85	4.1%	3,098.0	Y	12/2024	43.2	45.3	13.4%	4.9%	8.6	8.2	1.4	17.2%	17.0	4.6%
SECTOR AGGREGATE					20,761					10.4%	2.7%	13.3	13.0	2.4	17.7%		4.6%

Source: Kenanga Research

This section is intentionally left blank

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. 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 E-mail: research@kenanga.com.my

