

17 March 2025

# LPI Capital

## Loaded Payout Imminent

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LPI's proposed disposal of its entire 1.13% equity interest in PBBANK sets in motion and confirmed our earlier hypothesis for a handsome return to shareholders. This is to the tune of a 70% payout, though slightly lower than our 80% expectation, is still a commendable c.13% yield. As recent share price has retreated close to its pre-merger levels at c.RM13.00, it is likely the special dividend has not been priced in yet. LPI appears focused on finding investments to replace PBBANK's dividend income before reinvesting, anticipating efficiencies from their collaboration. We maintain our TP of RM16.00 and **OUTPERFORM** call. Without special dividends, LPI still leads the pack with yields of c.6%.

Last Friday, LPI announced the proposed disposal of its 1.13% stake in PBBANK to comply with the Companies Act. The proposed disposal mandated may be implemented in multiple tranches to third party purchaser(s) at a price yet to be determined at the juncture, subject to the approval of LPI's shareholders.

Assuming the disposal is entirely concluded at PBBANK's 14 Mar 2025 closing of RM4.48, total disposal proceeds would amount to RM987m.

**Presumed special dividends affirmed.** In our report "Crossing Fingers on a Windfall" (LPI-250205-CU), we theorised that the proceeds from the eventual disposal could see special dividends at a payout of 80% from the total proceeds, in line with LPI's historical dividend payout. However, the announcement illustrated a proposed special dividend proportion of c.70%, with RM4.55m being allocated for expenses incurred from the proposal and remaining c.29% to be set aside for potential investments.

Though short of our expectations, based on the abovementioned hypothetical disposal proceeds, a 70% payout amounts to RM691m in special dividends or RM1.756 per share. This translates to a yield of 13.4% which we believe is remains coveted among investors.

**Filling up the investment income gap.** Losing out on a sizeable dividend income from PBBANK with the proposed disposal (FY24: RM46.3m), LPI appears more eager to utilise the remaining c.29% proceeds to increase its portfolio of equity, debt and other investments. Only if the group is unable to seek suitable investments from the disposal, would it consider utilising it for working capital purposes. The move is not likely to trigger any issue from a regulatory ratio standpoint, with LPI's capital adequacy ratio being well-above 130%.

We are not surprised by this as both LPI and PBBANK expressed strong intent to bolster collaborative efforts and cross-selling, which on its own could translate to cost savings and higher operating efficiency. This would therefore require minimal capital injection.

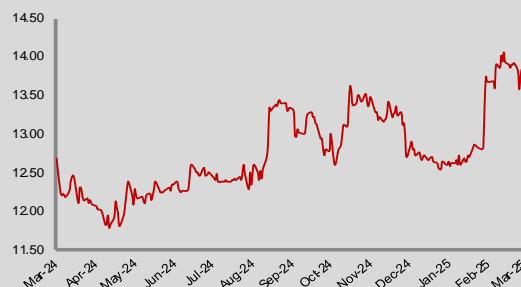
**Forecast.** Maintained as earnings assumptions are already absent dividend income from PBBANK and synergistic gains from the merger. Even without, ROEs are still expected to linger at 15%-16% with yields of above 6%.

**Maintain OUTPERFORM and TP of RM16.00.** Our TP is based on an unchanged 2.6x FY26F PBV. This represents a 25% premium against the industry average of 2.1x which we believe is fair given: (i) better net margins of 18%-20% (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 with the pending acquisition further solidifying synergies. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us.

# OUTPERFORM ↔

**Price :** RM13.06  
**Target Price :** RM16.00 ↔

### Share Price Performance



KLCI	1,512.15
YTD KLCI chg	-7.9%
YTD stock price chg	4.0%

### Stock Information

Shariah Compliant	No
Bloomberg Ticker	LPI MK Equity
Market Cap (RM m)	5,202.9
Shares Outstanding	398.4
52-week range (H)	14.06
52-week range (L)	11.78
3-mth avg. daily vol.	137,128
Free Float	92%
Beta	0.53

### Major Shareholders

Public Bank Berhad	44.2%
Sompo Holdings Inc	8.5%
Retirement Benefits Fund	4.7%

### Summary Earnings Table

FY Dec (RM m)	2024A	2025F	2026F
<b>Insurance Revenue</b>	1,781.6	1,924.1	2,058.8
Insurance Results	377.8	384.8	411.8
Net Financial Results	107.0	96.3	105.9
<b>Pre-tax Profit</b>	<b>474.1</b>	<b>464.8</b>	<b>500.1</b>
Net Profit	377.1	371.9	400.1
<b>Core Net Profit</b>	<b>377.1</b>	<b>371.9</b>	<b>400.1</b>
Consensus (NP)	-	399.2	421.2
Earnings Revision (%)	-	-	-
Core EPS (RM)	0.9	0.9	1.0
Core EPS Growth (%)	20.2	-1.4	7.6
DPS (RM)	0.8	0.8	0.9
BVPS (RM)	6.08	6.11	6.15
ROE (%)	15.6	15.3	16.3
PER (x)	13.8	14.0	13.0
PBV (x)	2.15	2.14	2.12
Div. Yield (%)	6.1	6.4	6.9

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

**Income Statement**

FY Dec (RM m)	2022A	2023A	2024A	2025F	2026F
<b>Insurance Ser. Revenue</b>	<b>1,535</b>	<b>1,782</b>	<b>1,782</b>	<b>1,924</b>	<b>2,059</b>
Insurance Ser. Result	286	294	378	385	412
Investment Income	92	149	146	124	130
<b>Net Financial Result</b>	<b>75</b>	<b>117</b>	<b>107</b>	<b>96</b>	<b>106</b>
Net Operating Expenses	-20	-17	-13	-19	-21
Associate Contributions	1	2	2	3	3
<b>Profit before tax</b>	<b>342</b>	<b>395</b>	<b>474</b>	<b>465</b>	<b>500</b>
Taxation	-89	-81	-97	-93	-100
<b>Net Profit</b>	<b>252</b>	<b>314</b>	<b>377</b>	<b>372</b>	<b>400</b>
<b>Core Net Profit</b>	<b>252</b>	<b>314</b>	<b>377</b>	<b>372</b>	<b>400</b>

**Balance Sheet**

FY Dec (RM m)	2022A	2023A	2024A	2025F	2026F
Cash and Equivalents	725	315	150	550	550
Reinsurance Contracts	1,316	878	880	879	880
Fin. Investments	2,608	3,167	3,559	3,000	3,000
Intangible Assets	5	4	3	3	3
Other assets	195	205	193	199	196
<b>Total Assets</b>	<b>4,850</b>	<b>4,569</b>	<b>4,785</b>	<b>4,631</b>	<b>4,628</b>
Insurance Contracts	2,559	2,200	2,257	2,171	2,129
Other Liabilities	82	86	106	0	0
<b>Total Liabilities</b>	<b>2,641</b>	<b>2,286</b>	<b>2,363</b>	<b>2,171</b>	<b>2,129</b>
Share Capital	398	398	398	398	398
Other Reserves	827	832	872	872	872
Retained Earnings	983	1,053	1,152	1,189	1,229
<b>Total Equity</b>	<b>2,209</b>	<b>2,284</b>	<b>2,422</b>	<b>2,459</b>	<b>2,499</b>

**Financial Data & Ratios**

FY Dec	2022A	2023A	2024A	2025F	2026F
<b>Growth</b>					
Insurance Ser. Rev.	-	16.1%	0.0%	8.0%	7.0%
Insurance Ser. Res.	-	2.7%	28.6%	1.9%	7.0%
Net Financial Res.	-	56.8%	-8.4%	-10.0%	10.0%
Pre-tax Income	-	15.6%	20.1%	-2.0%	7.6%
Net Profit	-	24.4%	20.2%	-1.4%	7.6%
Core Net Profit	-	24.4%	20.2%	-1.4%	7.6%

**Operating Metrics**

Effective Tax	26.2%	21.2%	25.9%	22.0%	22.0%
ROA	5.2%	7.3%	5.5%	6.5%	6.5%
ROE	11.4%	16.3%	12.8%	15.2%	15.0%

**Valuation**

Core EPS (RM)	0.63	0.79	0.95	0.93	1.00
Core PER (x)	20.6	16.6	13.8	14.0	13.0
BVPS (RM)	5.5	5.7	6.1	6.2	6.3
PBV (x)	2.4	2.3	2.1	2.1	2.1
Divd Per Share (RM)	0.60	0.75	0.80	0.84	0.90
Div. Yld. (%)	4.6	5.7	6.1	6.4	6.9

Source: Kenanga Research

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## 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	6.15	7.00	13.8%	3,140.3	N	02/2025	59.0	80.7	-29.0%	36.9%	10.4	7.6	1.1	11.1%	21.0	3.4%
BURSA MALAYSIA BHD	OP	7.54	9.70	28.6%	6,102.1	Y	12/2025	38.7	40.1	1.0%	3.5%	19.5	18.8	6.9	35.5%	37.0	4.9%
CTOS DIGITAL BHD	OP	1.11	1.50	35.1%	2,564.1	Y	12/2025	5.0	5.8	10.8%	15.6%	22.0	19.0	3.9	18.3%	3.8	3.4%
LPI CAPITAL BERHAD	OP	13.06	16.00	22.5%	5,202.9	N	12/2025	93.3	100.4	-1.4%	7.6%	14.0	13.0	2.1	15.3%	84.0	6.4%
SYARIKAT TAKAFUL MALAYSIA KELUARGA BHD	OP	3.49	4.40	26.1%	3,043.9	Y	12/2025	46.9	48.3	4.0%	2.8%	7.4	7.2	1.4	19.1%	18.8	5.4%
<b>SECTOR AGGREGATE</b>					<b>20,053</b>					<b>-6.2%</b>	<b>12.0%</b>	<b>13.4</b>	<b>12.0</b>	<b>2.2</b>	<b>16.7%</b>		<b>4.7%</b>

Source: Kenanga Research

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**Stock ESG Ratings:**

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

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