

16 October 2020

LPI Capital Bhd

Rebound but 4Q Looks Challenging

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9MFY20 earnings saw a commendable mild improvement YoY thanks to sequentially stronger earnings following the reopening of the economy. While 4Q looks like another challenging quarter with the CMCO in operation, we opined it will be manageable and the impact is unlikely to be severe as that in Q2. We maintain our **OUTPERFORM** call with a lowered TP of RM15.35. Earnings have been relatively resilient while we think its dividend yield of c.>5% is attractive amidst a low interest rate environment.

In line. 9MFY20 Core Net Profit (CNP) of RM241m made up 73%/79% of our/market estimates. As expected, 3QFY20 saw a rebound given the implementation of the RMCO beginning of June. No dividend was declared as expected.

YoY, 9MFY20 CNP saw a mild improvement (+2.4%) to RM242m on the back of an uptick in gross earned premiums (GEP) of +0.8% to RM1,126m. The two main GEP contributing segments; Fire (~41%) and Miscellaneous (31%) saw contrasting fortunes; Fire (-1.9% YoY) and Miscellaneous (+3.1%), with the Motor segment (+5.0%). Combined Ratio fell by 250bps to 70% as Claims Incurred ratio fell 150bps to 44% and Management Expense stayed flat at 20% offset by Net Commission ratio falling 90bps to 5.8%. Other income moderated (+4% to RM182m) dragged by weaker investment income (-16%) and other operating income (-48%) which was offset by a capital gain of RM17.5m.

QoQ, With the RMCO introduced in 3Q, CNP rebound 11% to RM86m, underpinned by slight growth in NEP (+1.1%) to RM254m together with improvement in both Claims and Commission Ratios. GEP saw a dip (-1.2%) to RM377m dragged by the fall in the Fire Segment (-7.4%), likely underpinned by lower contribution from commercial property cushioned by Motor and Miscellaneous segment at +2.2% and +1.6%, respectively, as the economy slowly reopened.

Challenging 4Q. While the 3Q earnings saw an improvement thanks to reopening of the economy, we do see risks ahead in 4Q given the implementation of the CMCO. We think the Fire segment could come under pressure as its commercial side had seen a slower recovery even under the RMCO with the Motor segment could lose momentum given the uncertainties ahead.

Post results, our FY20E earnings are unchanged as results are in line.

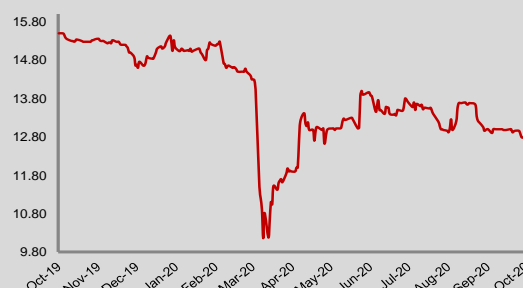
Maintain **OUTPERFORM but TP lowered of RM15.35** (from RM15.90) applying FY21E 2.78x PBV (previously 2.92x FY21 PBV) valuation (implying a 5-year mean with a 0.5SD below mean) as we do not see lofty ROEs ahead (5-year mean at 18%) and expected to maintain at c.16% ahead of the liberalisation of the insurance industry. At current price level, its >5% dividend yield could appeal to yield-seeking investors, even if the group lowers its pay-out to its 5-year average of c.76%.

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

OUTPERFORM ↔

Price : 12.82
Target Price : RM15.35 ↓

Share Price Performance



KLCI	1,513.95
YTD KLCI chg	-4.7%
YTD stock price chg	-15.1%

Stock Information

Shariah compliant	No
Bloomberg ticker	LPI MK Equity
Market cap (RM m)	5,107.3
Shares outstanding	398.4
52-week range (H)	15.60
52-week range (L)	9.90
3-mth avg daily vol	44,184
Free float	48%
Beta	0.8

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)	2019A	2020E	2021E
Gross Premiums	1,524	1,590	1,734
Net Premium	1,012	1,019	1,063
Operating Profit	414	424	445
Pre-tax Profit	415	423	444
Net Profit (NP)	322	330	344
Core NP	322	330	344
Consensus (NP)		305	328
Earnings Revision (%)			
Core EPS (RM)	0.81	0.83	0.86
Core EPS growth (%)	2.6	2.4	4.3
DPS (RM)	0.70	0.65	0.74
BVPS (RM)	4.95	5.37	5.52
ROE (%)	15.6	16.1	15.9
PER (x)	15.8	15.5	14.8
PBV (x)	2.6	2.4	2.3
Net Div. Yield (%)	5.5	5.1	5.8



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Results Highlights								
FYE Dec (RM m)	3Q20	2Q20	QoQ	3Q19	YoY	9M20	9M19	YoY Chg
Operating Revenue	395.8	399.5	-0.9%	423.8	-6.6%	1,199.2	1,203.4	-0.4%
Gross Earned Premium	376.9	381.6	-1.2%	390.4	-3.5%	1,126.1	1,116.6	0.8%
Net Earned Premium (NEP)	254.2	251.4	1.1%	258.3	-1.6%	742.8	746.0	-0.4%
Investment Income	18.8	17.9	5.1%	33.4	-43.6%	73.2	86.8	-15.8%
Capital gain and losses	6.0	11.5	-47.9%	0.0	598400%	17.5	0.7	2273.2%
Commission income	23.1	26.4	-12.5%	24.5	-5.9%	86.6	78.1	10.9%
Other operating income	2.7	0.7	261.3%	4.0	-33.6%	4.9	9.4	-48.1%
Total Income	304.8	308.0	-1.0%	320.3	-4.8%	924.8	921.0	0.4%
Net claims incurred	(100.5)	(114.6)	-12.3%	(112.5)	-10.7%	(324.8)	(337.5)	-3.8%
Commission expenses	(43.5)	(42.5)	2.3%	(44.3)	-2.0%	(129.5)	(128.2)	1.0%
Management expenses	(48.6)	(50.6)	-4.1%	(52.2)	-6.9%	(152.4)	(153.2)	-0.5%
Operating Profit	112.0	100.2	11.7%	111.3	0.6%	309.1	298.6	3.5%
Finance cost	(0.5)	(0.5)	-3.0%	(0.5)	N.M.	(1.4)	(1.0)	N.M.
Share In Result of Associate	0.6	0.5	1.6%	0.6	-10.5%	2.6	1.8	41.5%
Profit before taxation	112.1	100.3	11.8%	111.4	0.7%	310.3	299.4	3.6%
Taxation	(25.9)	(22.9)	13.2%	(23.5)	10.1%	(68.8)	(63.7)	8.1%
Net profit	86.2	77.4	11.3%	87.8	-1.9%	241.5	235.8	2.4%
Core NP	86.2	77.4	11.3%	87.8	-1.9%	241.5	235.8	2.4%
EPS (RM)	0.22	0.19	11.3%	0.22	-1.9%	0.61	0.59	2.4%
Core EPS (RM)	0.22	0.19	11.3%	0.22	-1.9%	0.61	0.59	2.4%
DPS (RM)	-	0.28		-		0.28	0.27	
Retention Ratio	67.4%	65.9%		66.2%		66.0%	66.8%	
Claims Incurred Ratio (to NEP)	39.5%	45.6%		43.6%		43.7%	45.2%	
Net Commission Ratio (to NEP)	8.0%	6.4%		7.7%		5.8%	6.7%	
Commission Exp Ratio (to NEP)	17.1%	16.9%		17.2%		17.4%	17.2%	
Management Expense Ratio (to NEP)	19.1%	20.1%		20.2%		20.5%	20.5%	
Combined Ratio (to NEP)	66.7%	72.1%		71.4%		70.0%	72.5%	
Effective Taxation Rate	23.1%	22.8%		21.1%		22.2%	21.3%	
Annualised Return on Equity (ROE)	18.7%	15.9%		17.6%		18.7%	17.6%	
Total Assets	4,180.5	4,105.2	1.8%	4,137.8	1.0%	4,180.5	4,137.8	1.0%
Total Liabilities	2,414.5	2,276.6	6.1%	2,225.0	8.5%	2,414.5	2,225.0	8.5%
Total Shareholders' Funds	1,766.1	1,828.6	-3.4%	1,912.8	-7.7%	1,766.1	1,912.8	-7.7%
Book Value per Share (RM)	4.43	4.59	-3.4%	4.80	-7.7%	4.43	4.80	-7.7%

Source: Company, Kenanga Research

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Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div Yld (%)	Target Price (RM)	Rating	
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.				
NON-BANK FINANCIAL INSTITUTIONS																			
AEON CREDIT SERVICE M BHD	10.06	2,568.4	N	02/2021	8.3%	5.6%	2.1%	5.4%	9.4	9.2	8.7	1.6	1.5	18.0%	3.7%	10.15	MP		
BURSA MALAYSIA BHD	8.80	7,119.4	Y	12/2020	29.0%	-8.4%	50.3%	-13.6%	38.1	25.4	29.4	9.3	9.0	36.1%	3.6%	9.40	MP		
LPI CAPITAL BERHAD	12.82	5,107.3	N	12/2020	-1.0%	2.8%	2.4%	4.3%	15.8	15.5	14.8	2.6	2.4	16.1%	5.1%	15.35	OP		
SYARIKAT TAKAFUL MALAYSIA KELUARGA BHD	4.88	4,052.5	Y	12/2020	-17.0%	14.5%	-12.3%	11.3%	11.1	12.6	11.3	3.3	2.9	24.7%	4.3%	5.25	MP		
Simple Average					4.8%	3.6%	10.6%	1.9%	18.6	15.7	16.1	4.2	4.0	23.7%	4.2%				

Source: Bloomberg, Kenanga Research

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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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