

02 December 2015 | 3QCY15 Earnings Wrap

## Insurance/Takaful Sector

**Maintain POSITIVE**

*Underwriting profit to improve further*

### INVESTMENT HIGHLIGHTS

- All three (3) insurance/takaful companies under our coverage met earnings expectations
- Earnings are expected to continue to improve in the coming quarters on account of growth prospect in both net earned income and new number of policies
- Hence we maintain POSITIVE recommendation on the sector

### A. 3QCY15 RESULTS EXPECTATION

**All met our expectations.** Under our universe, all of the companies announced results that were in line with expectations in 3QCY15 (see table 1). Tune Protect Group ("Tune") registered the highest growth in net earned premium of 19% against corresponding period last year. It was attributed to double digit growth in its global travel and fire businesses as well as higher retention of motor business.

**Bottom line growing steadily.** Meanwhile, LPI Capital ("LPI") and Syarikat Takaful Malaysia ("STMB") have been consistent in keeping tight cost and claims management that resulted in higher underwriting profit growth of 9%/yoy and more than two-fold respectively. In addition, both companies chalked steady growth in 9MFY15 core net profit of 8%/yoy and 7%/yoy respectively. On the other hand, Tune recorded lower core bottom line in 3QFY15 as it was impacted by higher management expenses and one-off rebranding costs, but its 9MFY15's core net profit ended with flattish growth.

**Table 1: Summary of Quarterly Results**

Stock	Period Under Review	Core Net Profit (RM'm)	Against Expectation				Comment
			MIDFR	%	Consensus	%	
LPI	9MFY15	179.6	Within	78%	Within	78%	-
STMB	9MFY15	119.6	Within	72%	Below	69%	-
Tune	9MFY15	45.5	Within	74%	Below	58%	-

Source: Bursa Malaysia, Bloomberg, MIDFR

**No changes to forecasts and recommendations.** As no upside or downside surprises were reported in core earnings of LPI, STMB and Tune, we conclude that overall earnings remains intact vis-à-vis our forecasts at this juncture. Consequently, our recommendations for the stocks are maintained.

**Table 2: Changes in Recommendations & Target Prices**

Stock	Recommendation		Target Price (RM)	
	Old	New	Old	New
LPI	NEUTRAL	NEUTRAL	13.18	13.66
STMB	NEUTRAL	NEUTRAL	3.42	3.42
Tune	BUY	BUY	1.86	1.86

Source: MIDFR

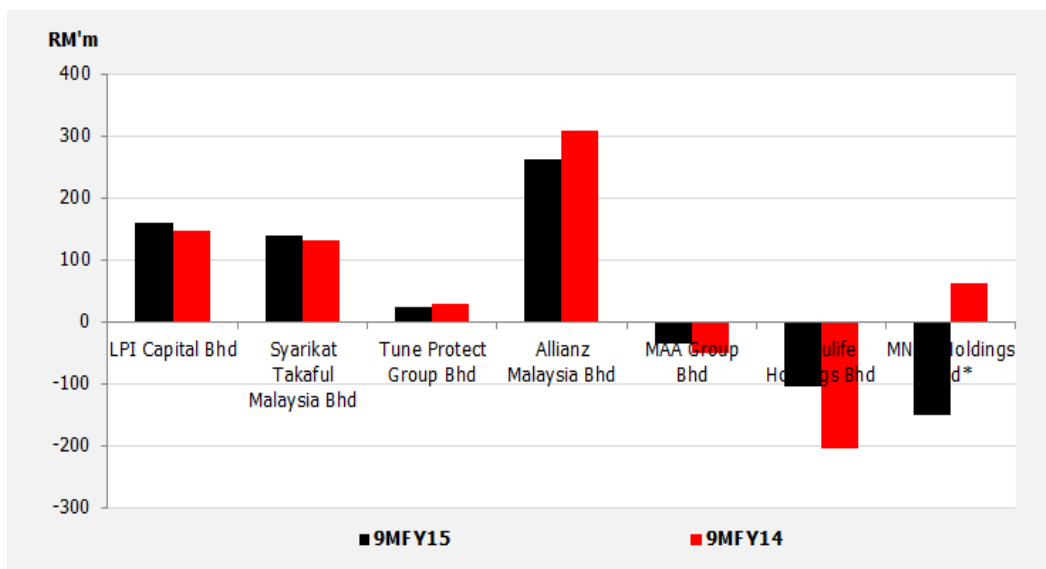
## B. INDUSTRY PERFORMANCE

**Quarterly insurance/takaful bulletin.** Data from Bank Negara Malaysia show that the industry's underwriting profits declined to RM69.7m in 3QCY15 as opposed to RM72m in 2QCY15 as a result of higher claims costs in the fire insurance segment. General insurers/takaful operators recorded lower operating profits during the period on account of lower investment income at RM556.8m (-29.3%yoy). The performance of life insurers and family takaful operators turned marginally negative with a net deficit of -RM416m (vs. RM3.8b in 3QCY14) due to higher valuation losses on debt investments, in tandem with the increase in bond yields during the quarter.

**Sustained resilience of the capitalization.** For the quarter period, the capital adequacy ratio of the insurance sector was healthy at 243.8% against 239.0% in 2QCY15.

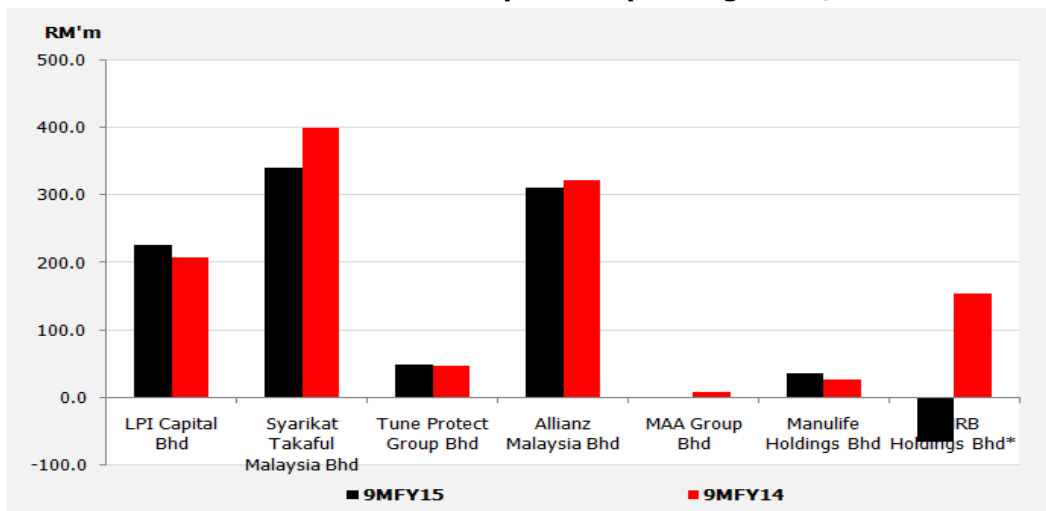
**Only four public listed companies underwrite policies with profitability.** As explained in the earlier section, LPI and STMB have been prudent in underwriting practice. Yet Allianz Malaysia topped the underwriting profitability size among public listed insurance companies. On the top line, we find the growth of net earned premium/contribution for most listed players was stable at single digit of 3.5% in 9MFY15 period.

**Chart 1: Public Listed Insurance Companies' Underwriting Profit/Loss**



Source: MIDFR

**Chart 2: Public Listed Insurance Companies' Operating Profit/Loss**




Source: MIDFR

## C. VALUATION AND RECOMMENDATION

**Maintain POSITIVE.** In short, growth in both net earned and new number of policies remained intact with our expectations despite weaker bottom line among some public listed players. We reckon the growth will continue to be backed by lower penetration rate in insurance and takaful sectors. With detariffication of motor and fire insurance next year, we may also see a reduction in claims ratio. In addition, we also find an average underwriting profit/loss for most listed insurance/takaful players improved significantly by approximately 63%yoy for 9MFY15 period. Pursuant to this, we maintain our **POSITIVE** recommendation on the insurance/takaful sector.

**Recommendations.** Currently, **Tune Protect (TP: RM1.86)** is the only stock under our coverage with a **BUY** recommendation. However, we also like **Syarikat Takaful Malaysia (TP: RM3.42)** and **LPI Capital (TP: RM13.66)** despite our Neutral calls as we view these stocks now as fully valued. We reckon these companies possess (i) good earnings growth potential, (ii) inherent underwriting profit and margin quality, and (iii) generous dividend payout of more than 50%.

**Risks.** Downside risks to the sector include (1) regulatory changes, (2) interest rate movement that could affect insurer portfolio returns and product pricing, (3) intense competition from detariffication of motor and fire insurance, and (4) higher-than-expected claims. 

**Table: Peer Comparison**

Stock	Last price (RM)	Recom.	TP (RM)	EPS (sen)		PER (x)		Div. yield (%)		PBV (x)	
				FY15F	FY16F	FY15F	FY16F	FY15F	FY16F	FY15F	FY16F
<b><u>Insurer/Takaful</u></b>											
LPI	14.72	NEUTRAL	13.66	68.9	71.3	21.4	20.6	3.4	3.4	2.9	2.8
STMB	3.73	NEUTRAL	3.42	20.3	21.4	18.4	17.4	4.3	4.6	4.8	4.5
Tune	1.40	BUY	1.86	8.7	9.8	16.1	14.3	2.5	2.8	2.5	2.2
Allianz Malaysia	10.60	NR	-	-	-	-	-	-	-	-	-
MPHB Capital	1.53	NR	-	-	-	-	-	-	-	-	-
Manulife Hldgs	2.98	NR	-	-	-	-	-	-	-	-	-
Pacific & Orient	1.43	NR	-	-	-	-	-	-	-	-	-
MAA Group	0.77	NR	-	-	-	-	-	-	-	-	-
<b><u>Reinsurer</u></b>											
MNRB Holdings	3.18	NR	-	-	-	-	-	-	-	-	-

Source: MIDFR

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## MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

### SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.