Insurance

The War Drags On

POSITIVE (Maintain)

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HIGHLIGHTS

- **CY25 saw the lowest medical claims inflation in years, which is a testament to the effectiveness of ongoing measures**
- **However, CY26's claims inflation could be a lot higher: Logistical issues as a result of the Middle Eastern war may hike up drug and medical equipment prices once again (similar to pandemic times)**
- **Slowing local macroeconomic prospects could dampen insurers' growth in subsequent quarters, especially as cost pressures start affecting the mass-market consumers. Despite the Hormuz closure, we do not see MAT facing any material impact**
- **1QCY26 should be a solid quarter (a continuation of 4QCY25's excellent momentum), as the war impact has yet to land**
- **Maintain POSITIVE call: Despite possible headwinds in subsequent quarters, the sector's solid dividend yields, and strong growth momentum make it a very attractive pick**

Sector Verdict

The insurance sector should at least maintain its tremendous momentum in 1QCY26 – but subsequent quarters could see a negative impact from the ongoing war and its effect on the local macroeconomic environment. Slowing sales and a return of steep medical inflation (due to global logistical disruption) are our main points of concern.

Core Themes

1. ▲ **Valuations remain attractive, especially when compared to regional peers.**
2. ▲ **Sector dividends remain solid.** Dividend yields are in the mid-single-digit range. Fears surrounding the implementation of RBC 2 and its degressive impact on capital have been assuaged by insurers. However, concerns by regulators over the sector's performance could limit further upside.
3. ▲ **Healthy General GWP growth should persist, but the local economic outlook has dimmed.** We expect a continuation of solid sales momentum in 1QCY26. Subsequent quarters, however, could be negatively impacted by a weaker macroeconomic environment.
4. ▲ **Life insurance growth's solid recovery momentum to persist.** The latest stats show that it is staging a strong comeback: Improving market conditions and the introduction of base MHIT products (which are more easily accessible) should be a catalyst for recovery (for investment-linked products).
5. ► **MHIT-related overhang has softened as medical claims inflation slows – but watch out for rising drug prices.** Ongoing reforms, including a base MHIT product and a diagnosis-related group payment model, should help with the long-term outlook. However, elevated drug and medical equipment prices stemming from war-related logistical issues should result in steep medical cost inflation in the subsequent quarters.
6. ▼ **We may see higher reinsurance and claim costs in CY26.** Alongside SST implementation (which should affect earnings for at least two years), higher geopolitical risk and incidences of abnormal weather serve as negative drivers.
7. ▼ **Competition (particularly on the conventional end) remains intense.** Smaller insurers that are unable to capitalise on economies of scale will continue to have it rough.

COMPANY *IN FOCUS*

Allianz

Maintain BUY | Target Price: RM23.74
Price @ 24 April 2026: RM23.74

- AGIC scales rapidly and will capitalise on its market-leading position and economies of scale to grow its non-motor market share.
- ALIM's growth has recovered and is now outpacing the rest of the sector.
- ALIM is handling healthcare inflation well, with excellent health loss ratio performance.

SHARE PRICE CHART



STMB

Maintain BUY | Target Price: RM3.95
Price @ 24 April 2026: RM3.45

- Family side's growth continually outperforms the industry, especially after recent bancassurance tie-ups.
- General side has positively surprised us with its rapid GWP growth, despite rebalancing activity providing drag.
- Healthy dividend yields of >5%.

SHARE PRICE CHART



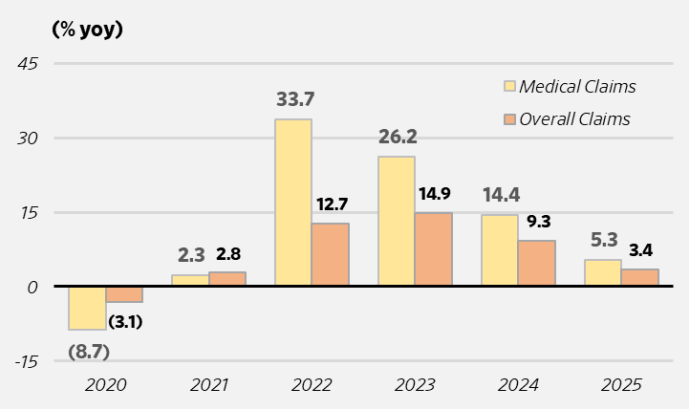
▲ **CY25 saw the lowest medical claims inflation in years…** LIAM reported a medical claims inflation figure of +5.3%yoy, the lowest in recent years. This has led to a solid overall growth in life insurance claims of +3.4%yoy in CY25. Ongoing cost inflation measures by insurers are clearly working.

▼ **…but ongoing Middle East logistical disruptions could escalate CY26's figures.** Supply chain disruptions and raw material shortages during the pandemic were a leading cause of the rapid healthcare inflation seen some years ago. The issues cleared up gradually, which led to better control over global drug and medical equipment prices.

Recently, news outlets have reported that these issues have resurfaced. The Guardian reported that pharmacies in England could see certain drug prices leap by up to 30%, as the jump in oil prices increases manufacturing and transport costs for medicine suppliers. Drug shortages have already been seen in some locations.

Malaysia is poised to feel a similar impact. Health Minister Datuk Seri Dr Dzulkefly Ahmad mentioned two weeks ago that the cost of medicines has risen (up to 30-40% in some cases), and possibly higher for specific medical devices. Medicine stockpiles are stable until June. We expect this to drive up medical inflation in CY26 once again.

Fig 1: Yearly Overall and Medical Claims Inflation



Source: LIAM, MBSBR

▼ **A weakening economic outlook is a problem for everyone.** The impact of the initial stages of the war was largely confined to business; now, the war has gone on long enough for the average consumer to feel the rising cost pressure. Retail loans have already been weakening over the last couple of years – the ongoing strain on the mass market could escalate this.

While insurers have alluded that 1QCY26's growth figures remain intact, we think that weak economic activity could pose a problem in subsequent quarters. General insurers, in particular, could see a pinch as the volume of vehicle and house purchases declines. **STMB**, highly dependent on bancatakaful, could see some moderation in sales if loan growth figures weaken enough.

► **We do not foresee any material impact from the MAT segment.** There has been some talk about the instability leading to increased coverage demand (especially for tankers and vessels transiting the Strait of Hormuz). We think a minor uptick in reinsurance costs due to the heightened risk is also possible. Regardless, we think any impact will be immaterial: MAT makes up a very limited component of listed insurers, and the portion transiting through the Middle East area is even smaller.

▲ **But 1QCY26 should be a solid result season at the very least.** In 1QCY26, the Middle Eastern war's impact had yet to be truly felt, while the strong MYR makes the cost of importing car parts and other components of the claim's ratio relatively affordable. The insurance sector should maintain the excellent momentum seen in 4QCY25: Growth had rebounded in both General and Life segments, while claims were kept under control due to the milder monsoon season. Subsequent quarters, however, could feel a pinch.

Maintain POSITIVE call. (Our comprehensive list of sector drivers is on the first page).

Top downside risks include:

1. Weaker economic growth leads to weaker premium growth.
2. Geopolitical risk, natural disasters, and changing weather conditions drive up reinsurance and claims significantly.
3. Healthcare inflation amps up once again, and BNM is forced to take further measures.

Top Picks: Allianz (BUY, TP: RM23.74) and **STMB (BUY, TP: RM3.95).**

PEER COMPARISON

Insurer	Call	Share P*	Target P	Upside	Mkt Cap	P/E (x)		P/B (x)		ROE (%)		Div Yield (%)	
		(RM)	(RM)	(%)	(RM b)	FY26	FY27	FY26	FY27	FY26	FY27	FY26	FY27
LPI	BUY	14.40	16.65	15.6	5.7	13.8	13.0	2.0	2.0	15.6	15.2	19.5	6.5
ALLZ	BUY	21.06	23.74	12.7	7.3	7.6	7.5	1.1	1.0	14.5	13.5	4.2	4.3
STMB	BUY	3.45	3.95	14.5	3.0	7.8	7.4	1.4	1.2	17.7	18.0	5.2	5.4
Simple avg						**9.7**	**9.3**	**1.5**	**1.4**	**15.9**	**15.6**	**9.6**	**5.4**
Weighted avg						**9.9**	**9.4**	**1.5**	**1.4**	**15.5**	**14.9**	**9.9**	**5.3**

**Closing prices from 24 Apr 2026.*

Insurer	Valuation	Details
LPI	P/BV	**FY26F P/BV of 2.31x.** ***GGM Assumptions:*** *FY26F ROE of* ***15.6%,*** *LTG of* ***4.0%*** *& COE of*
ALLZ	SOTP	**AGIC: FY26F P/BV of 1.4x.** **ALIM: FY26F P/CE of 0.6x.**
STMB	P/BV	**FY26F P/BV of 1.59x.** ***GGM Assumptions:*** *FY26F ROE of* ***17.7%,*** *LTG of* ***4.0%*** *& COE of*

Source: MBSBR

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STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	The stock price is expected to rise by >10% within 3 months after a Trading Buy rating has been assigned due to positive news flow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	The stock price is expected to fall by >10% within 3 months after a Trading Sell rating has been assigned due to negative news flow.

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.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology