Event | Initiation | Preview | Results | Strategy | **Update**

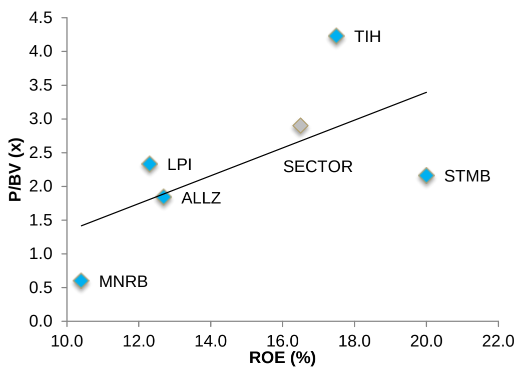
Insurance

NEUTRAL (Maintained)

Testing The Water

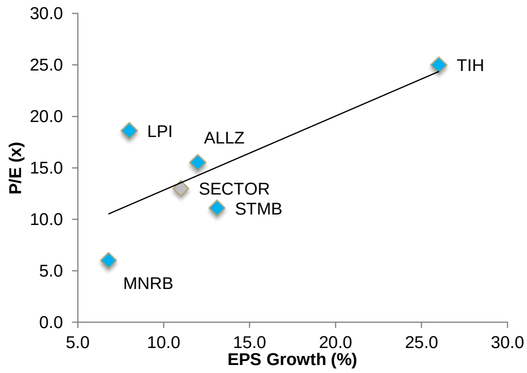
Macro ♦♦
Risks ♦♦♦
Growth ♦♦
Value ♦♦

Sector P/BV vs ROE



Source: RHB estimates

Sector P/E vs EPS CAGR



Source: RHB estimates

The Research Team 603 9207 7654 ext 7620
research2@my.oskgroup.com

We are slightly surprised by a *Focus Malaysia* article which reported that several motor insurers have started imposing loading based on broad-based terms rather than full/multi-criteria practices. This may intensify competition in the near term. We note that the industry is developing a Motor Pricing Model, expected to be rolled out by 2014. We believe it will be a risk-based pricing, which is fairer to customers.

- **Testing the market.** Recall that the removal of motor and fire insurance tariff by 2016 may alter competition as insurers would be able to charge motor/fire premiums using free market forces. If what the article says is true, it could be a sign that some industry players are starting to consider unconventional strategies to test the market. However, a broad-based pricing would put an unfair insurance cost burden on "good risk" vehicle owners with low claims experience.

- **Will competition intensify?** We believe the broad-based term pricing may intensify competition in the motor insurance industry in the near term. However, as the practice of broad-based term pricing could turn away good customers, we support a multi-criteria risk-based pricing. The purpose of the de-tariffication is to allow the market to determine fairer premium rates according to the risk profile of the insurance claims. Vehicle owners with good risks should enjoy better premium rates compared to those with bad risks. A risk-based pricing strategy coupled with consumer awareness should also help reduce accident rates, as vehicle owners will be more cautious since more accident claims would translate into higher premiums. The major downside for insurers to perform the multi-criteria pricing is the need for scale and technological capabilities.

- **ISM studying Motor Pricing Model**. Nevertheless, we believe such consumer concerns are short-lived. Based on Insurance Services Malaysia (ISM) July 2013 issue, the industry is working with ISM – which has the vehicle valuation database – to develop an industry Motor Pricing Model. This model is expected to go live in 1QCY14. A price war is also unlikely as the local industry is well aware of the de-tariffication issues in other countries, where high volatility in market premium rates and strategic errors have impeded future industry development.

- **Favouring strong underwriters.** Our stance is unchanged as we continue to favour insurers with a track record of superior underwriting strength and ample economies of scale and expertise to carry out risk-based pricing. These features will help any insurer overcome unhealthy competition. Our Top BUY remains Syarikat Takaful Malaysia (STMB MK, FV: MYR11.00) with our FV pegged to 14x FY14 EPS, given its strong foothold in the fast-growing takaful industry.

			P/E (x)	P/B (x)	Yield (%)	
Company Name	**Price**	**Target**	**Dec-13F**	**Dec-13F**	**Dec-13F**	**Rating**
LPI Capital	MYR15.12	MYR15.75	18.6	2.3	5.1	NEUTRAL
MNRB Holdings	MYR3.50	MYR3.30	6.0	0.6	7.8	SELL
Syarikat Takaful Malaysia	MYR7.95	MYR11.00	11.6	2.3	3.5	BUY

Source: Company data, RHB estimates

More info from the media article

- Third-party motor insurance is currently underpriced

Adjusting third-party insurance premiums? The article also mentioned that third-party cover for motor may see additional charges for loading factor. This makes sense given that the coverage is severely underpriced, especially for commercial vehicles where their high risk nature is not fully priced in the current loading factor. However, striking a balance against pricing sensitivity is difficult, as a huge jump in premiums could also turn away potential business from customers or economic activities that rely on such vehicles. We observe that the registration of commercial vehicles has been increasing faster than that of private vehicles over the past five years.

Figure 1: Vehicles registered in Malaysia

Year	Passenger Cars	Growth (%)	Commercial vehicles	Growth (%)	Total	Growth (%)
2008	497,459	na	50,656	na	548,115	na
2009	486,342	-2.2	50,563	-0.2	536,905	-2.0
2010	543,594	11.8	61,562	21.8	605,156	12.7
2011	535,113	-1.6	65,010	5.6	600,123	-0.8
2012	552,189	3.2	75,564	16.2	627,753	4.6
4-year CAGR		**2.6**		**10.5**		**3.4**

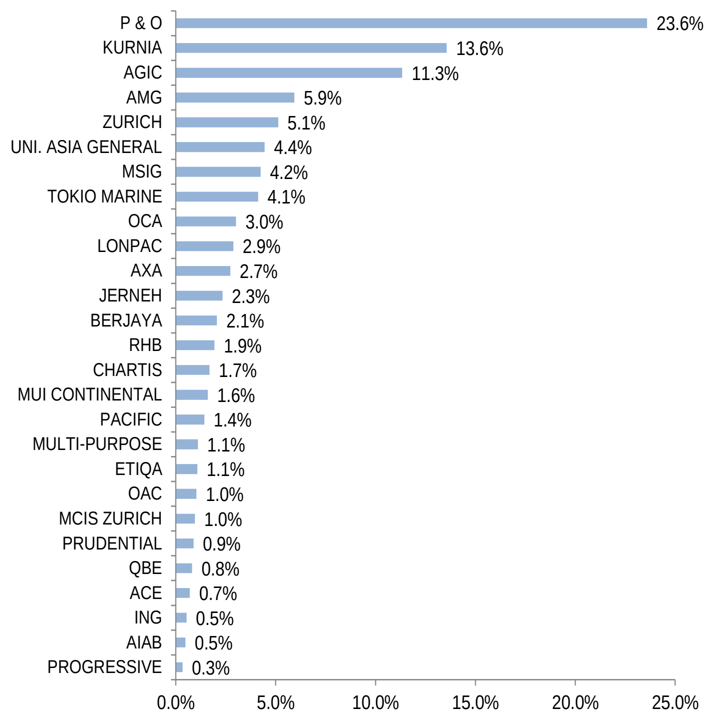
Source: MAA, ISM July 2013 issue

Figure 2: Motor insurance claims experience by combined loss ratio (%)

Policy Type	Year	Motorcycle (%)	Private Car (%)	Goods Carrying Vehicle (%)	Taxi (%)	Hire Car (%)	Bus (%)
Comprehensive	2005	111	91	116	41	31	140
	2006	131	94	126	50	30	167
	2007	141	110	141	57	36	164
Third Party	2005	120	197	240	216	184	406
	2006	149	219	279	311	153	426
	2007	180	257	311	317	280	416

Source: PIAM

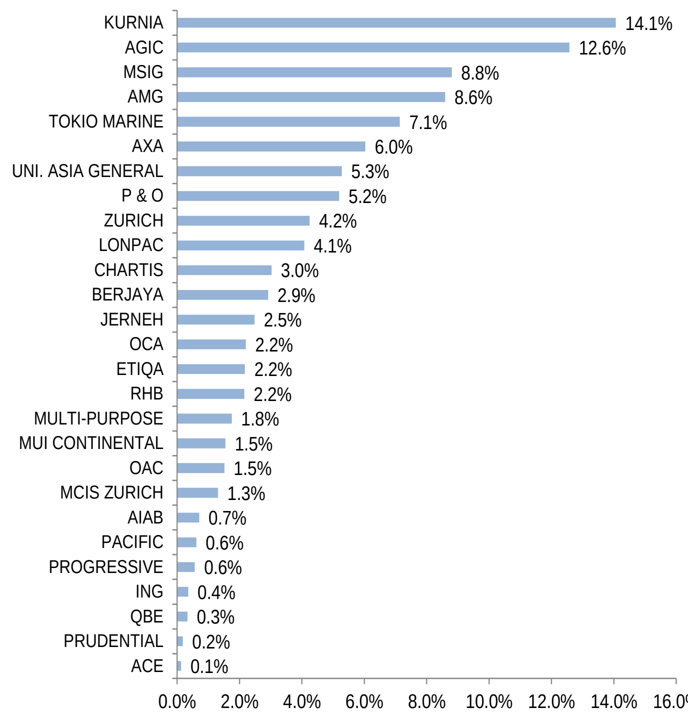
Figure 3: 2012 premiums market share - Motor "Act*" Cover among conventional general insurers



Source: BNM

** Act cover refers to third party death or bodily injury risks as stipulated under Road Transport Act, 1987.*

Figure 4: 2012 premiums market share - Motor "Other**" Cover among conventional general insurers



Source: BNM

*** Other cover refers to risks other than those insured under "Act" cover including accidental own property damage, theft and third party property damage.*

RHB Guide to Investment Ratings

Buy: Share price may exceed 10% over the next 12 months
Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral: Share price may fall within the range of +/- 10% over the next 12 months
Take Profit: Target price has been attained. Look to accumulate at lower levels
Sell: Share price may fall by more than 10% over the next 12 months
Not Rated: Stock is not within regular research coverage

Disclosure & Disclaimer

All research is based on material compiled from data considered to be reliable at the time of writing, but RHB does not make any representation or warranty, express or implied, as to its accuracy, completeness or correctness. No part of this report is to be construed as an offer or solicitation of an offer to transact any securities or financial instruments whether referred to herein or otherwise. This report is general in nature and has been prepared for information purposes only. It is intended for circulation to the clients of RHB and its related companies. Any recommendation contained in this report does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. This report is for the information of addressees only and is not to be taken in substitution for the exercise of judgment by addressees, who should obtain separate legal or financial advice to independently evaluate the particular investments and strategies.

RHB, its affiliates and related companies, their respective directors, associates, connected parties and/or employees may own or have positions in securities of the company(ies) covered in this research report or any securities related thereto, and may from time to time add to, or dispose off, or may be materially interested in any such securities. Further, RHB, its affiliates and related companies do and seek to do business with the company(ies) covered in this research report and may from time to time act as market maker or have assumed an underwriting commitment in securities of such company(ies), may sell them or buy them from customers on a principal basis and may also perform or seek to perform significant investment banking, advisory or underwriting services for or relating to such company(ies), as well as solicit such investment, advisory or other services from any entity mentioned in this research report.

RHB and its employees and/or agents do not accept any liability, be it directly, indirectly or consequential losses, loss of profits or damages that may arise from any reliance based on this report or further communication given in relation to this report, including where such losses, loss of profits or damages are alleged to have arisen due to the contents of such report or communication being perceived as defamatory in nature.

The term “RHB” shall denote where applicable, the relevant entity distributing the report in the particular jurisdiction mentioned specifically herein below and shall refer to RHB Research Institute Sdn Bhd, its holding company, affiliates, subsidiaries and related companies.

Malaysia

This report is published and distributed in Malaysia by RHB Research Institute Sdn Bhd (233327-M), Level 11, Tower One, RHB Centre, Jalan Tun Razak, 50400 Kuala Lumpur, a wholly-owned subsidiary of RHB Investment Bank Berhad (RHBIB), which in turn is a wholly-owned subsidiary of RHB Capital Berhad.

Singapore

This report is published and distributed in Singapore by DMG & Partners Research Pte Ltd (Reg. No. 200808705N), a wholly-owned subsidiary of DMG & Partners Securities Pte Ltd, a joint venture between Deutsche Asia Pacific Holdings Pte Ltd (a subsidiary of Deutsche Bank Group) and OSK Investment Bank Berhad, Malaysia which have since merged into RHB Investment Bank Berhad (the merged entity is referred to as “RHBIB”, which in turn is a wholly-owned subsidiary of RHB Capital Berhad). DMG & Partners Securities Pte Ltd is a Member of the Singapore Exchange Securities Trading Limited. DMG & Partners Securities Pte Ltd may have received compensation from the company covered in this report for its corporate finance or its dealing activities; this report is therefore classified as a non-independent report.

As of 28 July 2013, DMG & Partners Securities Pte Ltd and its subsidiaries, including DMG & Partners Research Pte Ltd do not have proprietary positions in the securities covered in this report, except for:
a) -

As of 28 July 2013, none of the analysts who covered the securities in this report has an interest in such securities, except for:
a) -

Special Distribution by RHB

Where the research report is produced by an RHB entity (excluding DMG & Partners Research Pte Ltd) and distributed in Singapore, it is only distributed to "Institutional Investors", "Expert Investors" or "Accredited Investors" as defined in the Securities and Futures Act, CAP. 289 of Singapore. If you are not an "Institutional Investor", "Expert Investor" or "Accredited Investor", this research report is not intended for you and you should disregard this research report in its entirety. In respect of any matters arising from, or in connection with this research report, you are to contact our Singapore Office, DMG & Partners Securities Pte Ltd.

Hong Kong

This report is published and distributed in Hong Kong by RHB OSK Securities Hong Kong Limited (“RHBSHK”) (formerly known as OSK Securities Hong Kong Limited), a subsidiary of OSK Investment Bank Berhad, Malaysia which have since merged into RHB Investment Bank Berhad (the merged entity is referred to as “RHBIB”), which in turn is a wholly-owned subsidiary of RHB Capital Berhad.

RHBSHK, RHBIB and/or other affiliates may beneficially own a total of 1% or more of any class of common equity securities of the subject company. RHBSHK, RHBIB and/or other affiliates may, within the past 12 months, have received compensation and/or within the next 3 months seek to obtain compensation for investment banking services from the subject company.

Risk Disclosure Statements

The prices of securities fluctuate, sometimes dramatically. The price of a security may move up or down, and may become valueless. It is as likely that losses will be incurred rather than profit made as a result of buying and selling securities. Past performance is not a guide to future performance. RHBSHK does not maintain a predetermined schedule for publication of research and will not necessarily update this report

Indonesia

This report is published and distributed in Indonesia by PT RHB OSK Securities Indonesia (formerly known as PT OSK Nusadana Securities Indonesia), a subsidiary of OSK Investment Bank Berhad, Malaysia, which have since merged into RHB Investment Bank Berhad, which in turn is a wholly-owned subsidiary of RHB Capital Berhad.

Thailand

This report is published and distributed in Thailand by RHB OSK Securities (Thailand) PCL (formerly known as OSK Securities (Thailand) PCL), a subsidiary of OSK Investment Bank Berhad, Malaysia, which have since merged into RHB Investment Bank Berhad, which in turn is a wholly-owned subsidiary of RHB Capital Berhad.

Other Jurisdictions

In any other jurisdictions, this report is intended to be distributed to qualified, accredited and professional investors, in compliance with the law and regulations of the jurisdictions.

Kuala Lumpur	Hong Kong	Singapore
Malaysia Research Office RHB Research Institute Sdn Bhd Level 11, Tower One, RHB Centre Jalan Tun Razak Kuala Lumpur Malaysia Tel : +(60) 3 9280 2185 Fax : +(60) 3 9284 8693	**RHB OSK Securities Hong Kong Ltd.** **(formerly known as OSK Securities Hong Kong Ltd.)** 12th Floor World-Wide House 19 Des Voeux Road Central, Hong Kong Tel : +(852) 2525 1118 Fax : +(852) 2810 0908	**DMG & Partners** **Securities Pte. Ltd.** 10 Collyer Quay #09-08 Ocean Financial Centre Singapore 049315 Tel : +(65) 6533 1818 Fax : +(65) 6532 6211
Jakarta	**Shanghai**	**Phnom Penh**
PT RHB OSK Securities Indonesia **(formerly known as PT OSK Nusadana Securities Indonesia)** Plaza CIMB Niaga 14th Floor Jl. Jend. Sudirman Kav.25 Jakarta Selatan 12920, Indonesia Tel : +(6221) 2598 6888 Fax : +(6221) 2598 6777	**RHB OSK (China) Investment Advisory Co. Ltd.** **(formerly known as OSK (China) Investment Advisory Co. Ltd.)** Suite 4005, CITIC Square 1168 Nanjing West Road Shanghai 20041 China Tel : +(8621) 6288 9611 Fax : +(8621) 6288 9633	**RHB OSK Indochina Securities Limited** **(formerly known as OSK Indochina Securities Limited)** No. 1-3, Street 271 Sangkat Toeuk Thla, Khan Sen Sok Phnom Penh Cambodia Tel: +(855) 23 969 161 Fax: +(855) 23 969 171
	Bangkok	
	RHB OSK Securities (Thailand) PCL **(formerly known as OSK Securities (Thailand) PCL)** 10th Floor, Sathorn Square Office Tower 98, North Sathorn Road,Silom Bangrak, Bangkok 10500 Thailand Tel: +(66) 862 9999 Fax : +(66) 108 0999	