

PRESS RELEASE BY LPI CAPITAL BHD

PERFORMANCE OF LPI GROUP FOR 2ND QUARTER OF FY2022

The Malaysian Government has relaxed most of its COVID-19 restrictions following a dip in the number of cases subsequent to the Omicron-fuelled wave in the 1st Quarter of 2022. There has been an upsurge in public mobility with activity levels almost returning to pre-pandemic levels while general public has lowered its guard against the virus. Likewise, Malaysia as a whole is in the early stages of economic recovery after reopening from COVID-19 lockdowns. However, even as countries around the world continue to transition to endemicity, a new set of economic challenges has arisen, the most serious being the risk of recession stemming from the decisions of central banks to aggressively tighten monetary policies to combat runaway inflation.

Reviewing the performance of LPI Capital Bhd (LPI) for the 2nd Quarter of FY2022, Tan Sri Dato' Sri Dr Teh Hong Piow, Chairman and Founder, commented, "Malaysia's strong economic fundamentals at this juncture allow it to withstand the impact of recession that may emerge from global economies. The reopening of all economic sectors is expected to fuel economic growth but the outlook continues to be very challenging. The performance of the Malaysian general insurance industry has been affected by the volatility of returns on investment instruments and the normalisation of claims experience, as the country transitions to endemicity.

Given the above, the performance of Lonpac Insurance Bhd (Lonpac), the Group's wholly-owned insurance subsidiary, had been impacted by a surge in claims and the poor results of its investment portfolio. For the 2nd Quarter of FY2022, Lonpac's Net Claims Incurred Ratio increased to 46.8% from 35.8% reported in the previous corresponding Quarter. With the Management Expenses Ratio at 19.8% and Commission Ratio maintained at 6.0%, Lonpac registered a higher Combined Ratio of 72.6% as compared to 64.3% achieved in the 2nd Quarter of FY2021. As a result, Lonpac's Underwriting Profit was 21.5% lower at RM69.4 million against RM88.4 million registered in the previous corresponding Quarter. Due to the rising interest rates, Lonpac's investment portfolio of fixed income securities and unit trust funds reported fair value losses of RM7.3 million in the Quarter under review. For the 2nd Quarter of FY2022, Lonpac registered a Profit Before Tax of RM74.9 million, 32.6% lower against the RM111.2 million achieved in the previous corresponding Quarter. Despite the intense competition in the general insurance industry, Lonpac managed to maintain its market position with its Gross Premium Income coming in at RM372.0 million, representing a 0.7% increase from RM369.4 million reported previously. Net Earned Premium Income for the Quarter under review increased by 2.5% to RM253.4 million from RM247.2 million.

For LPI, its Profit Before Tax for the 2nd Quarter of FY2022 was reported at RM73.5 million, 33.1% lower as compared to RM109.9 million registered in the previous corresponding Quarter. LPI's Net Profit Attributable to Shareholders was 32.3% lower at RM56.8 million from RM83.9 million. Meanwhile, Net Return on Equity came in at 2.7% against 4.1% previously,

translating to an Earnings Per Share of 14.25 sen, down from 21.07 sen achieved in the 2nd Quarter of FY2021.”

Tan Sri Teh further added, “Lonpac’s underwriting performance in FY2022 weakened as claims begin to normalise upwards, especially from the Motor and Miscellaneous Accident insurance segments. For the six months ended 30 June 2022, its Motor Claims Incurred Ratio surged to 82.6% from 61.0% registered in the previous corresponding period. The increase was due to a higher frequency of motor claims reported as most vehicles were back on the road, and due to the increase in average third party bodily injury claims reserve as a result of an increasing trend in court awards. The Miscellaneous Accident class of insurance registered higher claims incurred ratio at 55.4%, increasing from 43.7% reported previously, attributed mainly to the Engineering and Medical insurance segments. Lonpac’s Net Claims Incurred Ratio for the six months under review came in at a higher 46.9% against 37.4% registered previously. With the Management Expenses Ratio at 22.5% and Commission Ratio at 4.8%, Lonpac’s Combined Ratio increased to 74.1% from 63.9% reported in the 1st Half Year of FY2021. In view of the higher claims experience, Lonpac’s Underwriting Profit deteriorated by 32.4% to RM122.0 million as compared to RM180.5 million achieved in the previous corresponding period. Its Profit Before Tax for the 1st Half of FY2022 was reported at RM136.2 million, 25.1% lower than RM181.9 million registered in FY2021. Lonpac reported a marginal increase in its Gross Premium Income by 1.0% to RM848.6 million while its Net Earned Premium Income registered 5.8% lower at RM470.6 million due mainly to higher reinsurance outward and the increase in unearned premium reserve.

LPI's performance for the 1st Half Year of FY2022 was affected by the lower profitability reported by Lonpac coupled with a reduction in its investment income. Investment income of the Group was RM17.7 million lower at RM40.8 million from RM58.5 million registered in the previous corresponding period, mainly due to lower dividend incomes from its equity and unit trust investments. For the first six months ended 30 June 2022, LPI reported a Profit Before Tax of RM149.2 million, 28.3% lower as compared to RM208.0 million reported in the previous corresponding period. Its Net Profit Attributable to Shareholders was registered at RM118.3 million, 28.8% lower as compared to RM166.2 million. Net Return on Equity reported at 5.6% against 8.0% previously while Earnings Per Share came in lower at 29.69 sen against 41.73 sen.”

Highlights of the Group's Performance: -

LPI CAPITAL BHD GROUP	2nd Quarter Ended		6 Months Ended	
	30/6/2022	30/6/2021	30/6/2022	30/6/2021
Revenue (RM'000)	397,045	419,993	794,784	860,779
Profit Before Tax (RM'000)	73,468	109,898	149,236	208,046
Net Profit Attributable to Shareholders (RM'000)	56,768	83,919	118,296	166,229
Net Return on Equity (%)	2.7	4.1	5.6	8.0
Earnings Per Share (sen)	14.25	21.07	29.69	41.73

LONPAC INSURANCE BHD	2nd Quarter Ended		6 Months Ended	
	30/6/2022	30/6/2021	30/6/2022	30/6/2021
Profit Before Tax (RM'000)	74,913	111,221	136,162	181,897
Gross Premium Income (RM'000)	371,970	369,389	848,552	840,100
Net Earned Premium Income (RM'000)	253,383	247,243	470,578	499,734
Underwriting Profit (RM'000)	69,354	88,370	122,001	180,532
Net Claims Incurred Ratio (%)	46.8	35.8	46.9	37.4
Management Expenses Ratio (%)	19.8	22.5	22.5	21.1
Commission Ratio (%)	6.0	6.0	4.8	5.4
Combined Ratio (%)	72.6	64.3	74.1	63.9

Tan Sri Teh announced, “Despite the lower profit reported by the Group in the 1st Half Year of FY2022 as compared to the corresponding period in FY2021, the Board of Directors has declared a first interim dividend of 25.0 sen per share (29.0 sen per share in FY2021). This first interim dividend payment which amounts to RM99.6 million is part of the Group’s efforts to reward shareholders for their continued support. This first interim dividend payment represents 84.2% (FY2021: 69.5%) of the Group’s Net Profit Attributable to Shareholders.”

Tan Sri Teh further commented, “Geopolitical tensions and looming recessionary pressures add further uncertainty to the global economic recovery. The Malaysian economy will be impacted by lower external demand if developed global economies move into recession. Many countries are also bracing for the impact of another wave of COVID-19 cases following the detection of more infectious subvariants of Omicron.

Despite the heightened uncertainty and volatility of the operating environment, the Group will continue to strengthen its distribution channels and tighten its underwriting policy to facilitate continued growth and improved underwriting performance. The 2nd phase of liberalisation of the insurance industry expected to commence in the 2nd Half Year of FY2022 will put further pressures on premium pricing and underwriting margin. Nevertheless, with its emphasis on prudence in underwriting and continued product innovation, the LPI Group is confident that it will remain competitive and resilient to sustain its profitability in the liberalised environment.”

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