

PEOPLE'S INSURANCE LIMITED
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INITIAL PUBLIC OFFER AT LKR 15 PER SHARE

TAPROBANE RESEARCH

Date of Release: 14th December 2015

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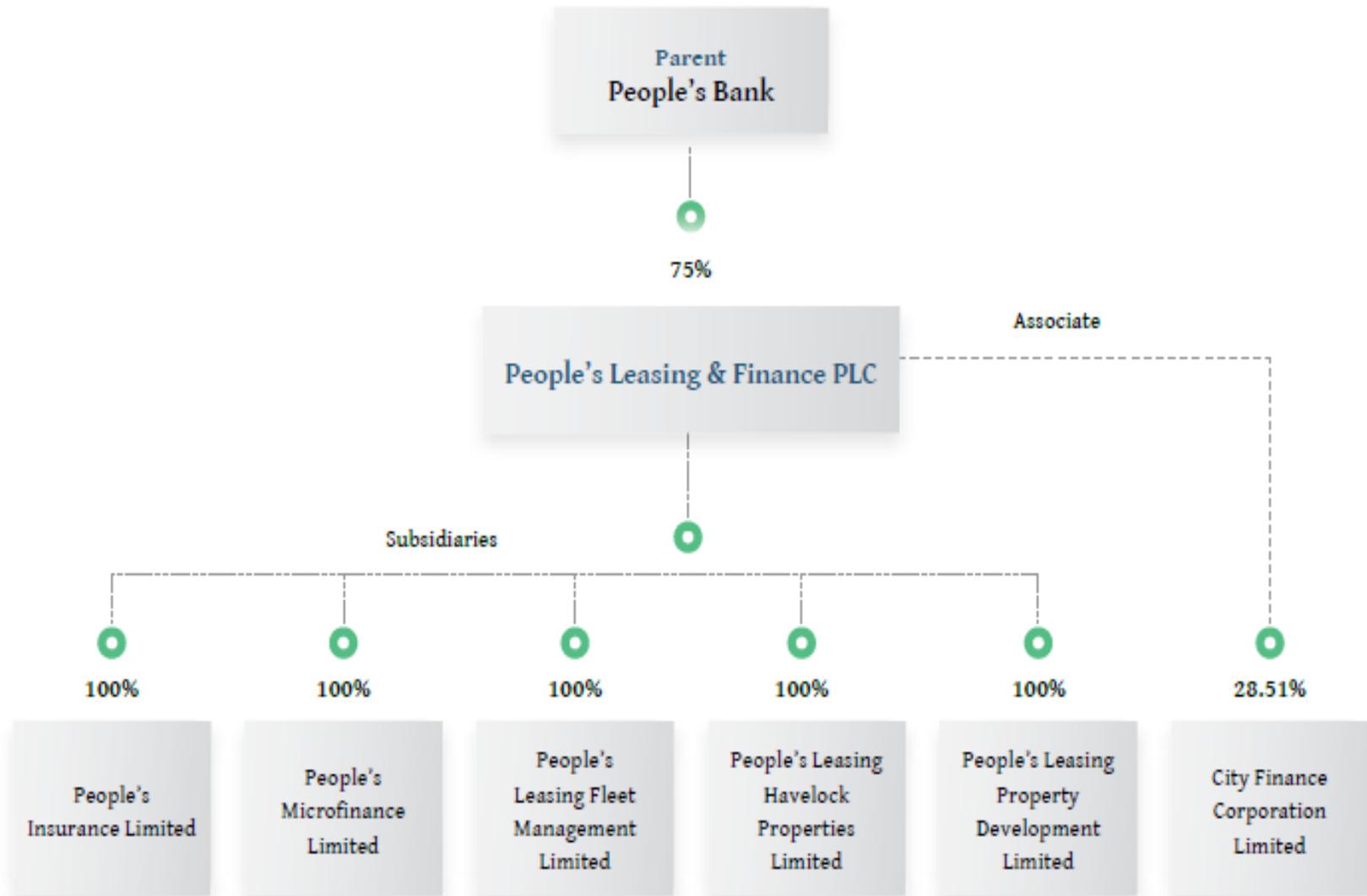
Our rationale to subscribe...

- Not discounting concerns relating to the underwriting of the claims as reflected in claims ratio clocking in at 70% levels, and the moderate performance expected in the insurance industry, we opine that the investment would be beneficial given the attractive dividends expected, potential for growth backed by its parent company, and low-cost operating a model.
- A profitable investment at this price; the price earnings ratio at the offer price is lower than its more established counterparts, and the price to book value is among the range of other players.
- Our valuations translate into a share price slightly above the offer price of LKR 15

Company Background...

- The Company is a 100% owned subsidiary of People's Leasing and Finance PLC, the largest Licensed Finance Company which is in turn 75% owned by the Second Largest Licensed Commercial Bank, People's Bank, Sri Lanka.
- Fifth Largest General Insurance Player in Sri Lanka (in terms of Gross Written Premium) and ranks ninth amongst all insurance players in terms of Gross Written Premium.
- Commenced Operations in 2010
- Based in Colombo with two regional offices in Negombo and Galle
- Seventy Four window offices within the People's Leasing and Finance branch network and 24 representatives placed at People's Bank branches in key locations.

Company Background...



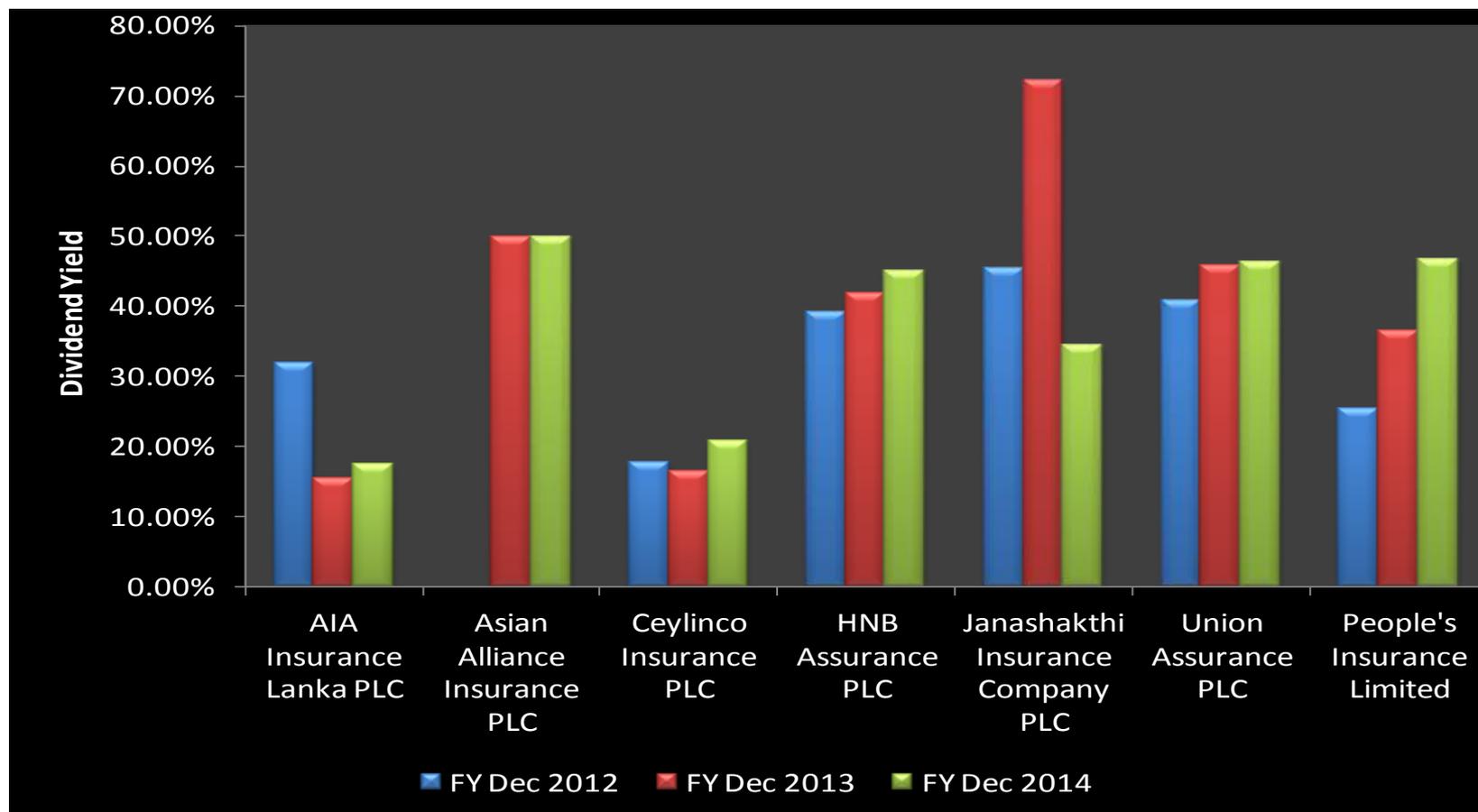
Company Background....

- Engaged in the provision of insurance with presence in the non-life operations.
- Motor insurance makes up major proportion of the Gross Written Premiums
- Within this segment, private car policies represented 21% whilst dual purpose vehicle policies represented 21%, covering 42% of the total motor premium income. The balance was shared by other policies such as commercial purpose vehicles, buses, three-wheelers, bikes, etc. particularly with a substantial exposure to small and medium businesses in growth.
- Gross Written Premiums from People's Leasing and Finance PLC makes up 84% of People's Insurance Limited's Gross Written Premium

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Dividend Payout and its listed counterparts

A progressive increase in the dividend payout was witnessed in the past to be on par with some of the more established players. We opine this would continue into the future.



Comparatively better Price Earnings Ratio

- The Price Earnings Ratio (PE) of Listed Companies with greater than a 30% share in the Non-Life Segment is shown below
- The PE for People's Insurance Limited at LKR 15 per share is closest to that of Union Assurance PLC

Company Name	EPS (LKR) 9M FY Dec 2015	Annualised EPS (LKR)	MPS (LKR) as at 04th Dec 2015	Annualised PE (Times)	Trailing PE ratio (Times)
Ceylinco Insurance PLC	69.33	92.44	1,400.00	15.14	9.66
Janashakthi Insurance Company PLC	0.83	1.11	18.00	16.27	8.33
Union Assurance PLC	16.82	22.43	165.00	7.36	6.34
HNB Assurance PLC	(1.07)	(1.43)	71.00	(49.77)	18.88
Asian Alliance Insurance PLC	0.96	1.28	16.60	12.97	2.41
Amana Takaful PLC	(0.11)	(0.15)	1.30	(8.86)	(10.00)
People's Insurance Limited*	2.35	N/A	15.00	N/A	6.38

*Premised on average EPS and the offer price as per Prospectus

Source: Company Annual Reports

- An average Earnings Per Share (EPS) of LKR 2.35 for People's Insurance Limited (PIL) and an average trailing Price Earnings Ratio (PE) of the above companies excluding Amana Takaful PLC (loss making) of 9.12times translates to a share price of little more than LKR 20 for PIL.

Price to Book Value at the notional share price seems fair

- An Average Price to Book Value Per Share (PBV) of Listed Companies with greater than a 30% share in the Non-Life Segment is shown below
- The Price to Book Value Per Share for People's Insurance Limited at LKR 15 per share is closest to that of Janashakthi Insurance PLC
- Using a median PBV the share price translates to approximately LKR 18 and LKR 20 (based on Net Asset Value Per Share of People's Insurance Limited- before and after split)

Company Name	Market Price Per Share (LKR) (4th Dec 2015 prices)	Net Asset Value Per Share (LKR) Sept 2015	Price to Book Value (Times)	Gross Written Premium Composition%- Year 2014	
				Non-Life	Life
Ceylinco Insurance PLC	1,400.00	638.38	2.19	47%	53%
Janashakthi Insurance PLC	18.00	12.04	1.50	75%	25%
Union Assurance PLC	165.00	42.50	3.88	45%	55%
HNB Assurance PLC	71.00	41.45	1.71	49%	51%
Asian Alliance Insurance PLC	16.60	4.97	3.34	35%	65%
Amana Takaful PLC	1.30	0.95	1.37	66%	34%
People's Insurance Limited*	15.00	10.55	1.42	100%	N/A

*Net Asset Value Per Share based on the August 2015 before the split

Source: Annual Reports of Respective Companies and IBSL Annual Report 2014 for Gross Written Premium composition

Stable earnings growth...

- The Company had witnessed a Compounded Annual Growth Rate of 40.34% since 2010 to 2014 –based on IBSL Annual Report (Provisional figures)
- In line with the Industry PIL's gross written premium growth was sluggish in FY Dec 2014
- The GWP is tied mainly to the growth in the motor sector.
- Underscored by market dynamics including a higher tariff structure for motor vehicle imports prevailed till the later part of the year under review and intense competition amongst the non-life insurers.
- However the company is able to show improved net underwriting supported mainly by its low cost operating model.

Gross Written Premium General Insurance -Top six players

	2009	2010	2011	2012	2013	2014	CAGR
Sri Lanka Insurance Corporation	8,764.54	8,766.03	11,134.58	12,359.19	12,549.76	12,113.57	8.42%
Ceylinco Insurance PLC	9,081.30	8,724.29	9,558.94	10,434.92	10,311.48	10,772.85	5.41%
Janashakthi Insurance PLC	4,272.93	4,324.17	5,086.21	5,773.43	6,318.63	6,491.56	10.69%
Union Assurance PLC	3,210.22	3,433.83	4,055.44	4,436.05	5,116.97	4,950.74	9.58%
People's Insurance Limited	-	847.06	2,284.58	2,795.45	3,085.04	3,286.06	40.34%
AIA Insurance Lanka PLC	2,503.63	2,490.84	2,456.35	2,143.25	2,428.68	2,655.58	1.61%

Source: IBSL Annual Report 2014 -2014 figures are based on provisional numbers

Financials 2014 Snap Shot

INCOME STATEMENT	Audited			
	LKR Million	FY Dec 2012	FY Dec 2013	FY Dec 2014
<u>General Insurance Revenue Account</u>				
Gross Premiums, less return premiums	2,944.49	3,251.08	3,440.61	
Less: (Premiums Ceded to Reinsurance)	(306.66)	(321.93)	(293.94)	
Net Premiums	2,637.83	2,929.15	3,146.67	
Less: (Net Change in Reserves for Unexpired Risks)	(189.59)	(128.67)	(156.20)	
Earned Premiums	2,448.24	2,800.48	2,990.47	
Less: (Net Claims Paid)	(1,970.05)	(2,120.22)	(2,162.70)	
Gross Underwriting Profit/(Loss)	478.19	680.26	827.76	
Less: (Net Commission)	(243.88)	(292.26)	(310.77)	
(Other expenses)	(192.38)	(281.48)	(365.15)	
Net Underwriting Profit/(Loss)	41.93	106.52	151.84	
Investment Income	266.82	13.21	70.52	
Other Income & exceptional item	15.25	381.15	350.47	
Profit before tax	324.00	500.88	572.84	
Income Tax	(89.34)	(130.06)	(122.71)	
Profit for the year	234.66	370.82	450.13	

Comparatively higher claims but low cost helps maintain net underwriting margins..

	31/12/2012	31/12/2013	31/12/2014
Gross underwriting margin	18.13%	23.22%	26.31%
Net underwriting margin	1.59%	3.64%	4.83%
Claims Ratio	80.47%	75.71%	72.32%
Expense Ratio	17.82%	20.49%	22.60%
Combined Ratio	98.29%	96.20%	94.92%
Investment Income Ratio	10.69%	13.46%	13.38%
Operating Ratio	87.59%	82.73%	81.54%

- One of the few companies to report a net underwriting profit
- Combined ratio is relatively lower than peers because of the lower expense ratio
- Claims ratio is relatively high; but there has been an improving trend and we expect the claims ratio to ease towards the latter part of the year. In this regard, in 2014, the systems of PLC and People's Insurance Limited were integrated under one platform, enabling synergistic operations between the two companies to take effect with ease and efficiency. The new integrated system also supports to minimise data duplication and facilitates client information sharing, insurance quotations and payment collections.

Capitalisation-on par with peers

General	Solvency Margin	
	2013	2014
Ceylinco Insurance PLC	1.33	1.45
Janashakthi Insurance Company PLC	1.67	1.71
Union Assurance PLC	2.18	3.17
AIA Insurance Lanka PLC	4.01	3.13
HNB Assurance PLC	3.89	3.07
Asian Alliance Insurance PLC	2.21	1.71
Amana Takaful PLC	N/A	N/A

People's Insurance Limited-General Insurance	2013	2014
Net admissible assets (LKR Mn)	889.00	1,008.00
Required solvency margin (LKR Mn)	586.00	629.00
Excess over required solvency margin (LKR Mn)	303.00	379.00
Solvency ratio (Times)	1.52	1.60

- Solvency Margin is more in line with Janashakthi Insurance PLC and Asian Alliance Insurance PLC- amongst the General Insurance players.

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