



## LOLC GENERAL INSURANCE LTD

### Initial Public Offering

#### IPO DETAILS

Issue price	LKR 7.90
Issue Value	LKR 948 Mn
% of total shareholding	10%
IPO shares (Mn)	120
Post IPO shares (Mn)	1,200
Subscription open date	16/12/2021
Subscription close date	21/12/2021

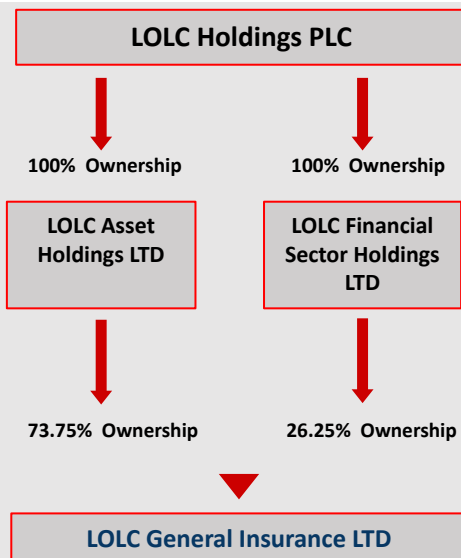
#### SHAREHOLDING INFORMATION

Pre IPO	Ownership
LOLC Asset Holdings Ltd	73.75%
LOLC Financial Sector Holdings Pvt Ltd	26.25%
Post IPO	Ownership
LOLC Asset Holdings Ltd	63.75%
LOLC Financial Sector Holdings Pvt Ltd	26.25%
IPO Shareholders	10%

#### UTILIZATION OF IPO PROCEEDS

- Enhance the corporate profile and improve transparency in the market.
- Broad base the ownership.
- Access the Capital Markets to raise funds in the future.

#### GROUP STRUCTURE



#### COMPANY OVERVIEW

LOLC General Insurance Limited (LGIL) is one of the fastest growing General Insurance Companies in Sri Lanka. LGIL has the advantage of a steady captive business base through their parent company, LOLC Holdings PLC as a fully owned subsidiary. Currently LGIL also benefited from the large footprint of LOLC Group's financial service businesses to reach a client base islandwide by increasing their geographical branch network to 55 branches in 2021. LGIL has also expanded its regional presence across multiple geographies by acquiring Serendib Micro-Insurance PLC in Cambodia. LGIL operates in two business segments, Conventional and Takaful and offers motor and non-motor products covering fire, engineering, marine liability and miscellaneous classes.

#### IPO HIGHLIGHTS

120,000,000 Shares held by LOLC Asset Holdings Limited are offered through this Initial Public Offering at a price of Rs.7.90 per Share and is expected to raise 948 Mn. The main objectives of the issue are to enhance the corporate profile and improve transparency in the market, to broad base the ownership and to access the Capital Markets to raise funds in the future.

#### PRODUCT PORTFOLIO

LGIL has around 300,000 Active Policies diversified in,



Motor Insurance



Fire Insurance



Marine Insurance



Workmen's Compensation Insurance



Miscellaneous Insurance

#### PERFORMANCE HIGHLIGHTS

Financial Year	FY17	FY18	FY19	FY20
Gross Written Premiums (LKR Mn)	3,963	4,520	5,302	6,112
YoY Growth %	22.23%	14.06%	17.31%	15.29%
Net Earned Premiums (LKR Mn)	2,846	3,469	3,920	4,448
YoY Growth %	19.68%	21.91%	13.00%	13.45%
Profit Before Income Tax (LKR Mn)	272	182	731	1,537
YoY Growth %	-13.13%	-33.17%	301.83%	110.37%
Net Profit (LKR Mn)	190	89	575	1,112
YoY Growth %	-12.39%	-53.21%	546.10%	93.25%

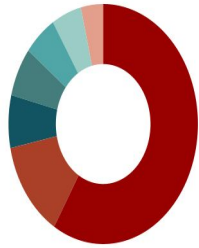
LGIL's GWP which was at LKR 5.3 Bn in 2019 had recorded a 15.29% YoY Growth reaching LKR 6.1 Bn in 2020. Despite the restrictions imposed by the government on vehicle importation, LGIL has fared above expectation recording a Year-on-Year Net Profit growth of 93.25% in 2020.

#### FUTURE OUTLOOK

LGIL which was previously operating under LOLC branches are shifting to their own branches. According to the management, 33 branches were opened recently which is expected to increase further. The low penetration outside of the Western Province will provide a strong opportunity for growth. The growth focus of the management is to expand the business in the non-motor segment and further strengthen its non-captive channels. LGIL has the potential to expand further in the non-motor insurance business as its current base is relatively low compared to industry peers. LGIL has already a strongly established business through captive channels. Hence, management is focusing on means to further expand the business through non-captive channels.



## LGIL's Investment Asset Portfolio (2020)



Treasury bond	58.60%
Unit Trusts	13.10%
Term deposits	7.10%
Treasury bills	6.60%
Corporate debentures	5.60%
Repurchase agreements	5.10%
Commercial papers	3.80%

## INVESTMENT ASSETS

As per the business model of insurance companies, a significant portion of the income is generated as investment income. The investment portfolio of LGIL is concentrated in low-risk assets as shown below. In terms of the maturity, the company has invested in short to medium term assets primarily due to liquidity requirements, being a general insurance company.

## FORECASTED INCOME STATEMENT

'000	FY '21E	FY '22E	FY '23E	FY '24E	FY '25E
Gross written premium	7,121,022	8,295,991	9,664,830	11,259,526	13,117,348
Premium ceded to reinsurers	(1,039,669)	(1,211,215)	(1,411,065)	(1,643,891)	(1,915,133)
<b>Net Written Premium</b>	<b>6,081,353</b>	<b>7,084,776</b>	<b>8,253,764</b>	<b>9,615,636</b>	<b>11,202,215</b>
Net change in reserves for unearned premium	(1,068,153)	(1,244,399)	(1,449,724)	(1,688,929)	(1,967,602)
<b>Net Earned Premium</b>	<b>5,013,200</b>	<b>5,840,378</b>	<b>6,804,040</b>	<b>7,926,707</b>	<b>9,234,613</b>
<b>Other Income</b>					
Investment Income	653,867	807,526	997,294	1,231,658	1,521,098
Fees and Commission Income	179,945	222,233	274,457	338,955	418,609
Other Income	5,939	7,335	9,058	11,187	13,816
<b>Total Other Income</b>	<b>839,751</b>	<b>1,037,093</b>	<b>1,280,810</b>	<b>1,581,800</b>	<b>1,953,523</b>
<b>Total Income</b>	<b>5,852,951</b>	<b>6,877,471</b>	<b>8,084,850</b>	<b>9,508,507</b>	<b>11,188,136</b>
<b>Benefits, Claims and Expenses</b>					
Insurance claims and benefits	(2,414,190)	(3,470,030)	(4,359,900)	(5,018,240)	(5,765,100)
Underwriting and net acquisition (costs/income)	33,830	36,638	39,679	42,972	46,539
Other Operating and Administrative Expenses	(1,780,256)	(2,073,998)	(2,416,207)	(2,814,882)	(3,279,337)
Finance Costs	(35,746)	(39,320)	(43,252)	(47,578)	(52,335)
<b>Total Benefits, Losses and Expenses</b>	<b>(4,196,361)</b>	<b>(5,546,710)</b>	<b>(6,779,681)</b>	<b>(7,837,727)</b>	<b>(9,050,234)</b>
<b>Profit Before Income Tax Expense</b>	<b>1,656,590</b>	<b>1,330,760</b>	<b>1,305,169</b>	<b>1,670,780</b>	<b>2,137,903</b>
Income Tax Expense	(198,791)	(186,306)	(182,724)	(233,909)	(513,096.67)
<b>Profit For The Year</b>	<b>1,457,799</b>	<b>1,144,454</b>	<b>1,122,445</b>	<b>1,436,871</b>	<b>1,624,806</b>

## FUTURE DIRECTION OF LGIL

### Captive Market Base Through LOLC

LGIL is a subsidiary of one of Sri Lanka's diversified Conglomerates LOLC Holdings PLC which has captive market base local and global presence.. This Enables LGIL to benefit through anticipated product innovations and process improvements through expansions.

### Strong Growth in Non Captive Base

LGIL expect to increase contribution from non captive channels through exploring new partners with leading banks, targeting mid-large sized corporates and by a well established relationship with stock brokers.

### Having a Strong Brand Presence

LOLC has been operating in Sri Lanka for over 40 years and today LOLC is one of the strongest brand names in the country. The LOLC brand name enables LGIL to capture the market and to position itself to replicate similar performance of the LOLC Group.

### Business Expansion Strategies

#### Local Expansion

LGIL recently bringing their branch network total up to fifty-five (55) branches in April 2021, propose to continue to expand its branch network to expand its footprint. Further, the company plans to increase its agency cadre to 1,000 by 2023 to improve the non-captive business.

#### Overseas Expansion

LGIL has expanded its operation into Cambodia and Myanmar. The company owns a 45% stake in Serendib Micro-Insurance PLC in Cambodia and a representative office in Myanmar, to implement its Micro Insurance business



## FORWARD PRICE TO EARNINGS & PRICE TO BOOK BASED VALUATION

Forward P/E Based Valuation		Forward P/B Based Valuation	
PER Multiple for Year 2022/23	8.47	P/BV Multiple for Year 2022/23	1.50
Forward EPS LGL (LKR)	1.04	Forward BVPS LGIL (LKR)	2.98
Value Per Share (LKR)	<b>8.77</b>	Value Per Share (LKR)	<b>4.47</b>
IPO Share Price	7.90	IPO Share Price	7.90
Upside %	<b>11%</b>	Upside %	<b>-43%</b>

Intrinsic Value Based on P/E & P/B Valuation	
Average Price (P/E, P/B)	<b>6.62</b>
IPO Share Price (LKR)	7.90
Upside %	<b>-16%</b>

- Based on the Forward P/E method, the Value Per Share is LKR 8.77 calculated after considering the Earnings per Share of LKR 1.08. The Issue Price is at a discount of 11%.
- Based on the Forward P/BV method, the Value Per Share is LKR 4.47 calculated after considering the Book Value per Share of LKR 2.98. The issue price is at a premium of 43%.
- Intrinsic Value is calculated by taking the average of P/E & P/BV Values per share. Therefore Value per Share arrived at is LKR 6.62. The Issue Price is at a premium of 16%.

## EQUITY RESEARCH TEAM

**Imesha Minoli**      **Shevan Anthony**  
Financial Analyst      Financial Analyst

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## INVESTMENT ADVISORS



### Nestor Stock Brokers (Pvt) Ltd

Name		Phone
Lalith Sepalage	President/Retail Sales	0115388130
Marlon Fernando	Acting Head of Sales	0718692664
Indika Sampath	Investment Advisor	0715329605
Lasantha Jinadasa	Investment Advisor	0711461571
Mangala Perera	Investment Advisor	0719859197
Thanuja De Silva	Investment Advisor	0710321872
Asith Ishanka	Investment Advisor	0711131234
Randika Madushanka	Investment Advisor	0717051659
Chamari Iresha	Investment Advisor	0710146756
Kanushka Jayatissa	Investment Advisor	0702555650
Fadhil Ilham	Investment Advisor	0716353962
Wipula Bandara	Investment Advisor	0702555523
Sanath Gunawardana	Investment Advisor	0719634743
Ruwan Rodrigo	Investment Advisor	0711045071
Amila Luwishewa	Investment Advisor	0715388241
Harin Nishantha	Investment Advisor	0773512849
Gimhan Dodampahala	Investment Advisor	0701051720
Manjula Krishnamali	Investment Advisor	0775529136