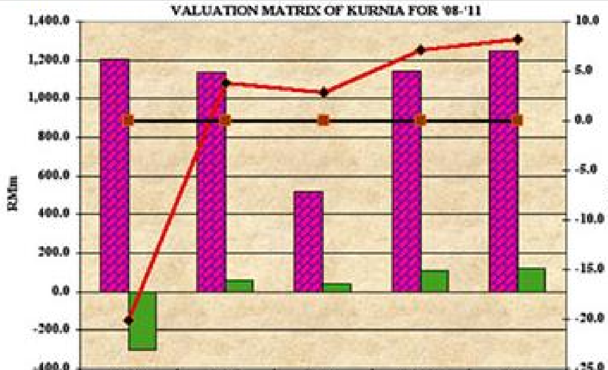
THE BORNEO POST
13 May 2010

Kurnia to benefit from improving underwriting surplus

May 13, 2010, Thursday

KUCHING: Kurnia Asia Bhd (Kurnia) is set to benefit from improved underwriting surplus going forward.

VALUATION MATRIX OF KURNIA FOR '08-'11



	2008	2009	2009a	2010F	2011
Revenue	1,203.1	1,137.7	517.5	1,139.9	1,247.0
Net Profit	-301.8	57.1	43.1	106.4	122.7
EPS (sen)	-20.1	3.8	2.9	7.1	8.2
DPS (sen)	0.0	0.0	0.0	0.0	0.0

FYE DECEMBER

SOURCE: RHB Research

RHB Research Institute Sdn Bhd (RHB Research) said that underwriting surplus improved by 160.9 per cent year on year (y-o-y) mainly due to better margins claims ratio of 66.1 per cent versus 70.3 per cent in the corresponding quarter of last year.

The lower claim ratio was due to a better portfolio mix including lower third party motor business. While investment income remained stable at RM29.6 million y-o-y, the higher underwriting surplus contributed to the 19.7 per cent improvement in general insurance profit transfer.

OSK Research Sdn Bhd (OSK Research) said in its research report that claims for third-party bodily injury slumped 36.5 per cent from RM85.5 million to RM54.3 million quarter on quarter (q-o-q) due to its aggressive efforts to cut down on third-party policies by 61.7 per cent.

This trimmed the net claim ratio to 66.1 per cent from 71.2 per cent in the previous quarter. Management expenses ratio dipped to 16.8 per cent from 17.1 per cent q-o-q as a result of a lower headcount and write-backs in provision for bad debts.

Furthermore, net investment income jumped 22.5 per cent q-o-q on a higher investment yield of 6.6 per cent versus 5.9 per cent in the last quarter, attributed to RM5.4 million in net gains from equities and REITs investment.

On the other hand, gross and net premiums rose 5.0 per cent and 3.9 per cent q-o-q respectively in accordance with Kurnia's strategy to boost its more profitable non-motor portfolio.

The non-motor business comprised of 22 per cent versus 17 per cent of the company's business portfolio against than in the previous quarter.

The research house pegged the target price of the company at RM0.74 per share. However it noted that change in government policy resulting in lower car prices, jump in claims ratio and total expense ratio exceeding to 100 per cent were potential risks.

The research house trimmed the forecasts for 2010 by 1.4 per cent after taking into account lower expenses and higher effective tax rate.