



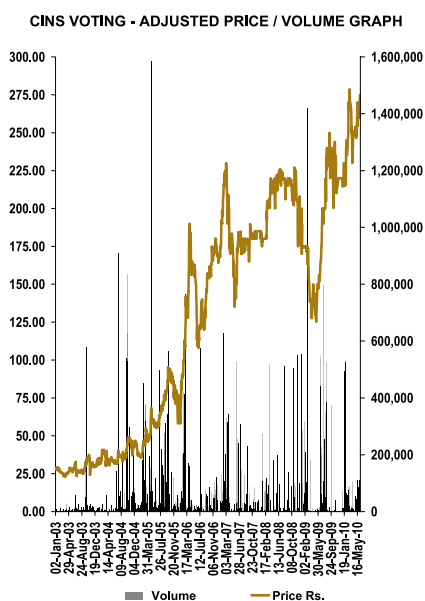
Ceylinco Insurance PLC (CINS)

CINS.N Rs 275.00; CINS.X Rs. 190.00

BUY

Financial Year	Net Income (Rs.mn)	PAT (Rs.mn)	EPS (Rs.)	EPS Growth %	PER (x) - Voting	PER (x) - Non Voting	ROE %	NAV Per Share	P/BV	Dividend Yield %	DPS Rs.
2004	2,601	385	14.57	44.11	18.88	13.04	22.7%	64.27	4.28	0.73%	2.00
2005	3,667	624	23.61	62.06	11.65	8.05	22.4%	105.18	2.61	0.80%	2.20
2006	4,732	819	30.99	31.26	8.87	6.13	23.1%	134.17	2.05	0.91%	2.50
2007	5,872	1,011	38.29	23.57	7.18	4.96	22.5%	170.56	1.61	0.91%	2.50
2008	6,948	485	18.37	(52.02)	14.97	10.34	7.7%	237.84	1.16	0.91%	2.50
2009	5,945	694	26.29	43.10	10.46	7.23	10.1%	260.26	1.06	1.82%	5.00
2010E	6,419	1,040	39.39	49.80	6.98	4.82	14.4%	274.25	1.00	1.82%	5.00
2011E	7,318	1,223	46.29	17.53	5.94	4.10	15.9%	291.09	0.94	1.82%	5.00
2012E	8,416	1,446	54.74	18.25	5.02	3.47	17.5%	312.34	0.88	1.82%	5.00
2013E	9,722	1,731	65.54	19.72	4.20	2.90	19.4%	337.32	0.82	1.82%	5.00
2014E	11,313	2,097	79.39	21.14	3.46	2.39	21.5%	370.11	0.74	1.82%	5.00

CINS			
Reuters Code	CINS.CM		
Bloomberg Code	CINS.SL		
Share Price - Voting LKR	275.00		
Share Price - Non - Voting LKR	190.00		
Issued Share Capital (Shares)			
Voting	20,000,000		
Non - Voting	6,414,480		
12 mth High/Low - Voting (Rs.)	280.00 / 152.00		
Average Daily Volume (Shares) - Voting	55,959		
Market Capitalisation - Voting Rs. mn	5,500		
Market Capitalisation - Non-Voting Rs. mn	1,219		
Price Performance (%)	1 mth	6 mth	12 mth
ASPI	6.47	49.86	104.15
CINS	10.00	25.00	77.42



Profile

>> Ceylinco Insurance PLC has managed to navigate itself through a tumultuous period from mid 2008 through 2009 with the company facing contraction in the industry amid weak economic conditions made all the worse by a loss of reputation on the Ceylinco group stemming from the Golden Key debacle and the subsequent collapse of several group companies which shared its name although not materially linked to the company.

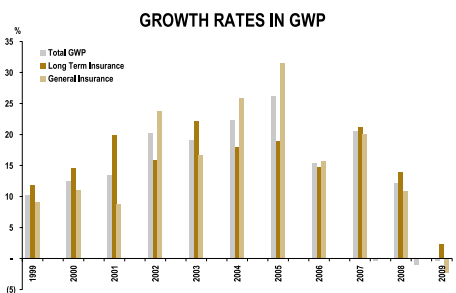
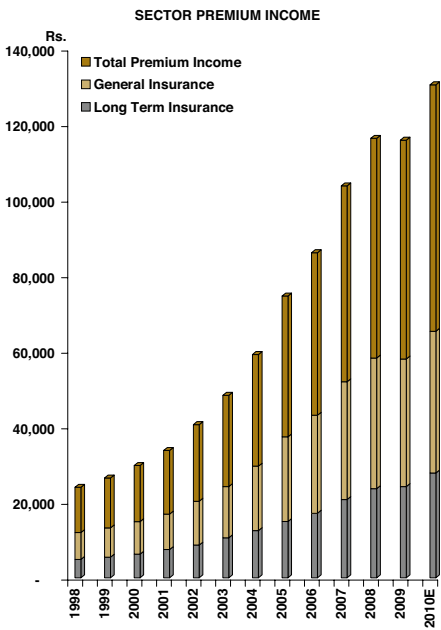
>> The company however emerged as the market leader in both life and non life businesses despite having lost 3.8% and 5.8% in market share in Life and Non Life businesses respectively in 2009. Sustained focus on service levels helped ensure that the decline in market share was arrested in the 4Q FY09 and we expect CINS to hold existing market share if not slightly improve on market share in the current year.

>> The company deliberately pulled back from aggressive advertising in 2009 as the company soon realized that increased advertising spend was unlikely to negate the negative publicity stemming from the Golden Key collapse. These along with a

clamp down on discretionary spending and curtailment of top level staff remuneration resulted in considerable savings helping the company post healthy earnings in 2009 despite a decline in premium income.

>> The company continues to charge at least a 10% premium on its policies and continues to report underwriting profits, indicative of the quality of insurance it writes as well as its high service delivery and product innovation which has successfully commanded premium pricing in the market over the years. The company also successfully managed to retain its core team with just a handful of mid level employees leaving the firm.

>> FY09 witnessed the company prudently cleaning its balance sheet, writing down several Ceylinco group related assets despite some carrying sound value, ceding to the advice of auditors. These write offs amounted to approximately Rs 170mn in addition to nearly Rs 400mn in write downs in the 4Q FY08. We are of the opinion that the company's balance sheet does not contain any further assets of significance related to the former Ceylinco group that require provisioning. It is likely



that some reversals on provisions may occur going forward although these have not been factored into our forecasts. Furthermore the company increased its dividend payout doubling the quantum from the previous year which we expect would be further enhanced going forward. The former Chairman of CINS at the centre of the Golden Key debacle did not seek re-election to the Board of the company for FY10.

>> The company ended FY09 posting creditable earnings of Rs. 692 mn after provisions of approximately Rs. 170mn despite a 20% reduction in general premium and a 9% reduction in life premium. Earnings were boosted by sound investment income and a significant reduction in operating expense.

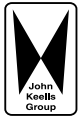
General Insurance

>> Non Life premiums in the sector declined by 2.3% in FY09 on the back of weak economic conditions in the first half as fighting intensified as the conflict neared its conclusion. Excessive duties on imports along with surcharges and added costs to open credit lines for imports coupled with high interest rates resulted in a drastic drop in new vehicle registrations. With motor insurance accounting for 60% of total general insurance premiums, the drop in new vehicle registrations had a severe impact on the general insurance business as a whole.

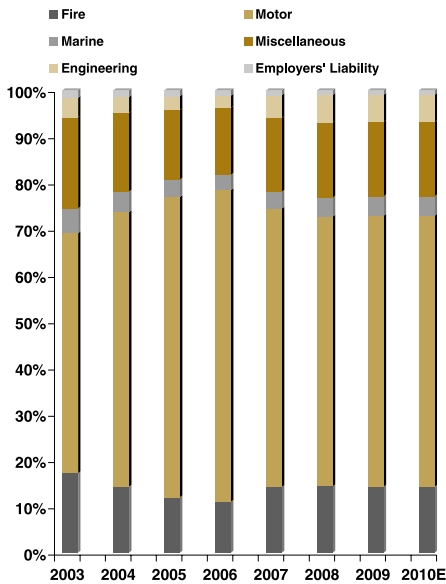
>> CINS however incurred a 19.5% drop in general insurance premium income in FY09 due to the reasons elaborated upon earlier in the report. However the company has witnessed a significant reversal of lost motor policies in the 1Q FY10 and we expect the company to record an 11% growth in non life premiums in the current year. The company is expected to record a claims ratio of 56.80% and an expense ratio of 43.03% for FY10 amounting to a combined ratio of 99.83% for the current financial year.

>> The On-the-Spot claims settlement offering that was largely responsible for steering the company to market leadership in the sector is now active for all policies issued in the non life business. This is expected to be further enhanced in the current year further easing the claims settlement process for the client. The company is also expected to continue to market new sachet type insurance products providing niche coverage requiring a lower premium outlay for customers. The company has over 260 branches and sales booths island wide and is expected to strengthen distribution further particularly in the North and East in the current year. The sector is also expected to benefit from a significant duty reduction on vehicle imports which should spur new vehicle registrations although renewals of motor insurance premiums will be lower as a result of an anticipated decline in vehicle prices.

>> The company's non life fund currently stands at Rs. 6.05bn with yields expected to be lower than the previous year due to a decline in yields on treasury securities and bank securities. The company still holds significant non quoted investments in sectors such as cement and hydro power as well as real estate assets which are still reported at cost in the balance sheet which in our opinion is significantly understated. A shift to fair value accounting with the adoption of IFRS from end FY11 is expected to give a clearer view on the value of the



CEYLINCO INSURANCE NON LIFE GWP MIX



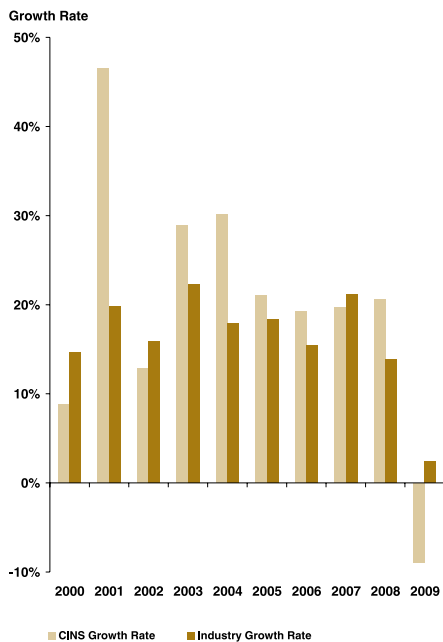
company's asset base. The solvency ratio in the company's non life business stood at 2.45 times as at end FY09.

Life Insurance

>> Current market share in the life business amounts to 31.13% a 2.3% reduction in absolute terms from end 2008 levels. The company reported a 8.9% reduction in life premium during FY09 while the industry witnessed a 2.34% contraction. Life insurance penetration remains low in the country with under 11% of the population holding a policy at present. The company added 159,000 policies in FY09 down from 188,483 policies added in FY08.

>> The company's mix of life policies are evenly spread between participatory and non participatory policies. Regulations permit 10% of any surplus on participatory policies to be passed onto the shareholders each year. The company aims to increase exposure to non participatory policies with the addition of more riders to attract increased new business. Much of the growth in new policies is expected to arise from pension linked policies, in line with demographic trends in the country. The company's use of its own sales staff as apposed to insurance agents or brokers has consistently helped the company report lower lapse ratios than the industry. We expect the CINS to record life premium growth of 18% in the current financial year.

GWP - Life : CINS vs Industry



>> The Life fund of the company stood at Rs. 27.75bn as at 31st March 2009 with the solvency ratio for the life business at 8.35 times as at 31st December 2009. Surpluses in the Life fund and profitability in individual product classes depend on the quality of the insurance written, and is best ascertained by an actuary. Therefore any forecast of possible surpluses in the Life Fund and consequent transfers to the P & L are arbitrary in nature. However for purposes of valuations we have conservatively assumed a transfer to the Profit and Loss account of approximately Rs. 520mn in FY10E up by 4% from last year. The lower growth in the surplus transferred is a result of lower yields anticipated on fixed income securities following the sharp decline in interest rates.

Global Presence

>> CINS has continued to strengthened its position as a regional player expanding into countries such as Nepal, Bangladesh, Mauritius, Maldives and Middle East through joint ventures and strategic alliances earning income via patented products, management fees and revenue/profit sharing agreements; although not significant at present. CINS also operates a registered insurance company in Maldives which has recorded robust growth over the last 2 years.

Earnings and Valuations

>> CINS has seen continuous growth in its bottom line with earnings for 2008 and 2009 suppressed by one off provisioning on group related assets and prudent deferred tax provisions.

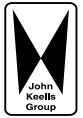
>> CINS has undertaken investments in unquoted entities in the cement, mini hydro power sector as well as significant real estate assets. We expect CINS to post



Rs. 1.04bn in earnings for FY2010E, representing a growth of 49.8% from 2009 equating to a fully diluted EPS of Rs. 39.39.

>> The voting share, at a price of Rs. 275.00 trades at a PE of 6.98x FY2010E earnings. The voting counter trades at a discount of 17.6% to the sector. The NAV per share stood at Rs. 265.89 as per the latest financials in 1Q2010, which we believe to be understated given that many investments in property and non quoted securities are reported at cost. Given the potential growth opportunities available to CINS particularly with increased new business from the North and East, we believe that the counter is heavily undervalued. We recommend BUY.

Income Statement	2002	2003	2004	2005	2006	2007	2008	2009	2010E	2011E	2012E	2013E
For the year ended 31st December	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn
Non Life	2,607	3,721	5,581	8,033	9,561	10,351	11,287	9,081	10,125	11,752	13,757	16,103
Life	2,360	3,043	3,961	4,794	5,718	6,847	8,257	7,522	8,880	10,080	11,781	13,778
	4,967	6,764	9,542	12,827	15,279	17,198	19,545	16,604	19,005	21,832	25,538	29,881
Reinsurance Premium	(705)	(760)	(925)	(1,433)	(2,289)	(2,351)	(3,229)	(2,255)	(2,421)	(2,806)	(3,285)	(3,845)
Net Written Premium	4,262	6,004	8,617	11,394	12,990	14,847	16,316	14,348	16,584	19,025	22,253	26,036
Increase in Unearned Premium	(351)	(521)	(907)	(1,023)	(463)	(426)	(278)	755	(250)	(538)	(629)	(737)
Net Earned Premium	3,911	5,484	7,710	10,372	12,527	14,420	16,038	15,103	16,334	18,488	21,624	25,299
Investment and other Income	1,007	1,225	1,082	1,362	1,686	2,144	4,061	4,349	4,738	5,090	5,877	6,794
Total Revenue	4,919	6,709	8,792	11,733	14,213	16,564	20,099	19,452	21,072	23,578	27,501	32,093
Benefits Losses & Expenses	(3,380)	(4,758)	(6,191)	(8,066)	(9,481)	(10,692)	(13,151)	(13,507)	(14,653)	(16,260)	(19,085)	(22,371)
Operating Income	1,539	1,951	2,601	3,667	4,732	5,872	6,948	5,945	6,419	7,318	8,416	9,722
Staff Expenses	(527)	(720)	(920)	(1,213)	(1,554)	(1,920)	(2,299)	(1,951)	(2,024)	(2,294)	(2,626)	(3,020)
Operating Expenses	(418)	(577)	(803)	(1,133)	(1,456)	(1,781)	(2,259)	(1,908)	(1,932)	(2,169)	(2,494)	(2,868)
Selling Expenses	(221)	(229)	(317)	(450)	(568)	(702)	(843)	(709)	(739)	(840)	(963)	(1,107)
Depreciation	(79)	(101)	(126)	(180)	(273)	(294)	(364)	(362)	(362)	(384)	(413)	(448)
Other Expenses	(54)	(50)	(16)	(27)	(31)	(47)	(441)	(65)	(66)	(75)	(83)	(95)
Amortization of Negative Goodwill	(27)	4	1	-	-	-	-	-	-	-	-	-
	(1,326)	(1,674)	(2,182)	(3,004)	(3,882)	(4,745)	(6,205)	(4,995)	(5,124)	(5,763)	(6,580)	(7,538)
Profit from Operations	213	276	419	664	850	1,127	743	950	1,295	1,555	1,836	2,184
Finance Cost	-	(33)	(34)	(47)	(36)	(82)	(100)	(94)	(39)	(41)	(44)	(47)
Income from Associates	-	24	(3)	7	13	(3)	11	26	-	-	-	-
Profit before taxation	213	266	383	624	826	1,042	655	883	1,256	1,514	1,792	2,136
Income Tax Expenses	0	(0)	(1)	-	-	(30)	(169)	(188)	(216)	(291)	(346)	(405)
Profit After Taxation	213	266	382	624	826	1,011	485	694	1,040	1,223	1,446	1,731
Minority Interest	0	1	3	(0)	(8)	-	-	-	-	-	-	-
Net Profit for the year	213	267	385	624	819	1,011	485	694	1,040	1,223	1,446	1,731



Balance Sheet	2002	2003	2004	2005	2006	2007	2008	2009	2010E	2011E	2012E	2013E
As at 31st December	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn
Assets												
Investments	8,476	9,158	11,110	14,593	16,261	18,941	24,175	26,783	31,058	35,089	40,684	47,241
Intangible Assets					106	90	154	135	135	135	135	135
Property Plant and Equipment	1,737	1,868	2,313	3,289	3,992	5,359	6,195	6,184	6,461	6,728	7,010	7,306
Other Assets	1,667	1,886	4,362	4,256	6,353	7,976	9,583	10,357	12,088	14,046	16,615	19,628
Total Assets	11,880	12,912	17,786	22,138	26,712	32,367	40,107	43,458	49,742	55,998	64,444	74,311
Liabilities												
Insurance Provision - Life	6,871	8,676	10,045	11,900	13,897	16,835	21,301	26,450	31,224	35,443	41,425	48,444
Unit Linked Fund					18	70	101	103	105	107	109	111
Insurance Provision - Non Life	1,008	1,599	4,375	3,841	5,476	6,012	6,230	6,077	6,766	7,813	9,094	10,587
Other Liabilities	2,886	1,281	1,656	3,600	3,740	4,905	6,155	3,869	4,302	4,827	5,425	6,092
Total Liabilities	10,765	11,556	16,076	19,340	23,132	27,822	33,787	36,498	42,397	48,190	56,053	65,234
Equity												
Stated Capital	166	166	200	200	200	202	1,325	1,325	1,325	1,325	1,325	1,325
Share Premium	14	14	-	2	2	-	-	-	-	-	-	-
Revaluation Reserve	81	81	81	579	579	574	829	829	829	829	829	829
Tsunami Relief Reserve	-	-	550	-	-	-	-	-	-	-	-	-
Reserves	852	1,085	867	1,997	2,763	3,729	4,129	4,721	5,091	5,536	6,097	6,757
Total Capital and Reserves	1,112	1,346	1,698	2,778	3,544	4,505	6,282	6,875	7,244	7,689	8,250	8,910
Minority Interest	3	10	12	19	36	40	38	86	101	119	141	166
Total Equity and Liabilities	11,880	12,912	17,786	22,138	26,712	32,367	40,107	43,458	49,742	55,998	64,444	74,311

