

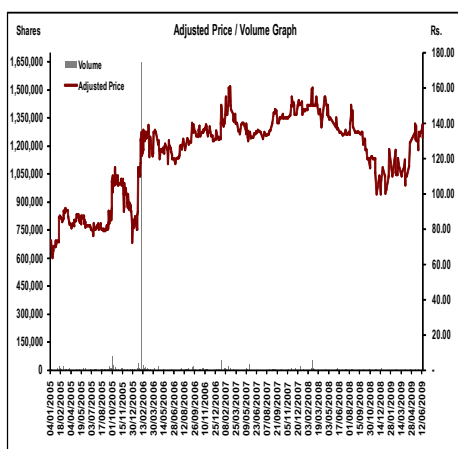
Eagle Insurance PLC (CTCE)

Rs. 132.00 **HOLD**

CTCE			
Reuters Code	CTCE.CM		
Bloomberg Code	CTCE.SL		
Share Price	132.00		
Issued Share Capital (Shares)			
Voting	30,000,000		
12 mth High / Low (Rs.)	150.00 / 100.00		
Average Daily Volume (Shares)	998		
Market Capitalisation - Rs. mn	3,960.00		
Price Performance (%)			
	1 mth	6 mth	12 mth
ASPI	12.62	50.27	(5.78)
CTCE	1.54	22.51	(2.22)

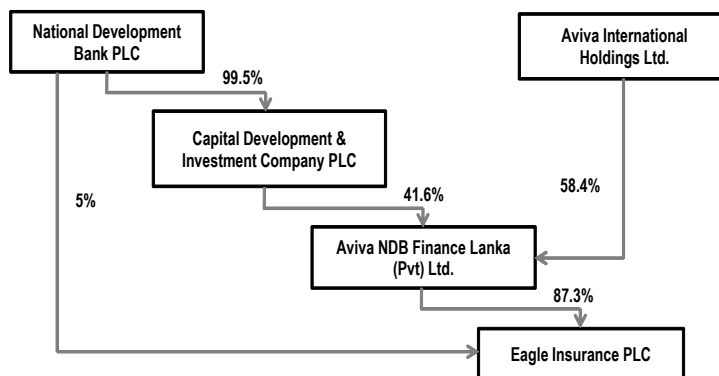
Financial Year	Net Income (Rs. Million)	PAT (Rs. Million)	EPS (Rs.)	EPS Growth (%)	PER	NAVPS (Rs.)	P/B Value
2005	416.29	515.38	17.18	103%	7.68	48.91	2.70
2006	454.73	523.47	17.45	2%	7.56	58.11	2.27
2007	467.99	527.08	17.57	1%	7.51	67.51	1.96
2008	163.54	463.72	15.46	-12%	8.54	74.13	1.78
2009E	264.20	512.67*	17.09	11%	7.72	80.92	1.63
2010E	426.91	581.60	19.39	13%	6.81	85.25	1.55

*Excluding the capital gain from the sale of subsidiary



Company Profile

- ✓ Eagle Insurance PLC (CTCE), formerly known as CTC Eagle Insurance was established in 1988 as a subsidiary of Ceylon Tobacco Company (CTC), a subsidiary of BAT Industries, UK. However, in 1999, BAT Industries divested its stake in the Insurance business which was then acquired by National Development Bank (NDB), a strong player in the domestic banking sector.
- ✓ Since 2006, CTCE is being backed by the largest insurance provider in UK namely Aviva International Holdings Ltd., with an indirect shareholding of 51% in CTCE. NDB has a direct shareholding of 5% along with an indirect holding of 36.1% in CTCE, resulting in a free float of 7.73%. The company's current ownership structure is as follows:



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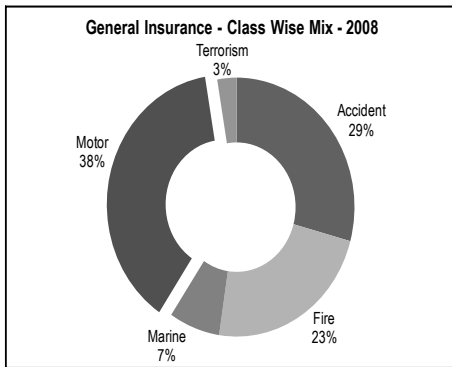
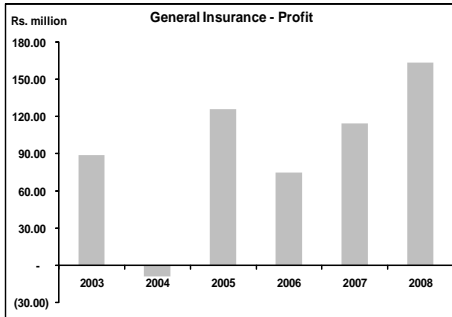
- ✓ CTCE recently divested its stake in one of its wholly owned subsidiaries, Eagle NDB Fund Management Company Limited for a price of Rs. 29.55 per share, recording a capital gain of Rs. 97.75 million.
- ✓ Over the years, CTCE has maintained its position as the 5th and 3rd largest General Insurer and Life Insurer respectively. According to the IBSL Annual Report, in 2007, the company enjoyed a market share of 18.27% and 5.99% in Life and General Insurance, respectively. Further, based on the distribution of assets in the industry, CTCE is ranked as the 3rd largest, accounting to 12.54% of the total assets in the industry.

June 2009



- ✓ In 2008, group PBT grew by 11% over 2007, of which the Life Insurance segment accounted for approximately 71%. Despite a growth in PBT, group earnings after tax declined by 12% as a result of a substantial increase in tax expense from Rs. 19 million to Rs. 141 million in 2008. This was due to a change in the company's accounting policy where by, interest income from Government securities had been grossed for withholding tax instead of its previous practice of netting off WHT on investment income.

CTCE - General Insurance



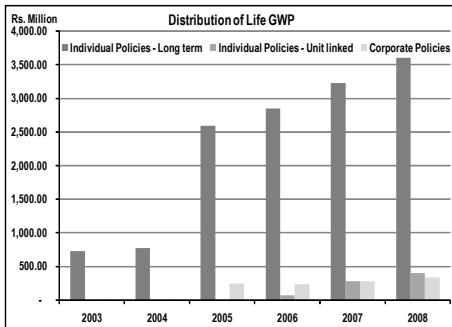
- ✓ The company's General Insurance segment accounts for just over 32% of total GWP compared against an industry norm of approximately 60%. Limited exposure to an extremely price competitive general insurance segment has enabled CTCE to protect itself from volatility in earnings.
- ✓ Although, the segment is dominated by Motor insurance with a contribution of 38% to segment's GWP, it is deemed to be considerably low against an industry average of approximately 55%. The other main contributors to the segment are Accident and Fire Insurance contributing 29% and 23% respectively.
- ✓ Despite heavy price competition in the segment, CTCE managed to enjoy healthy growth in GWP averaging approximately 14% during the last 5 years. However, in 2008, growth in General Insurance GWP was restricted to 10% mainly as a result of adverse economic conditions. Motor and Accident Insurance witnessed a growth of 18% and 19% respectively while other segments experienced a YoY decline in GWP.
- ✓ In 2008, approximately 49% of net earned premium amounted to motor insurance claims compared to 46% in 2007, despite its limited exposure to the motor insurance segment. However, the company expects to address the issue of higher claims which grew by 61% in 2008, by underwriting more quality focused business rather than volume driven business while also ensuring that its reinsurance programs are in line with the risk undertaken by the company.
- ✓ CTCE does not intend to be the cheapest insurance provider, and prices its policies at a premium to the industry average.
- ✓ The company has consolidated its position as the leader in bancassurance in the country tying up with its parent company NDB bank along with Sampath Bank and Standard Chartered Bank. Although the contribution from this channel is relatively small, the proportion is expected to grow in the years to come.
- ✓ Despite an underwriting loss of Rs 90.7 million in General Insurance, the segment's earnings grew by 43%, consequent to a 49% increase in investment income. By end of FY2008, approximately 82% of investments in the General Insurance segment were placed in high yielding government securities with an average duration of 1.2 years, thus supporting earnings in a high inflationary environment.
- ✓ In spite of a growth in earnings from the segment, the Combined ratio reached 107.3%, mainly driven by a higher claims ratio of 82.8% against 71.5% in 2007. Net claims grew by 61% in the Non-Life segment while the Life segment suffered from a 30% increase. However, the net expense ratio saw a decline as a result of stringent cost reduction strategies

undertaken by the company to combat the effects of inflation. The company is aiming for a combined ratio of 98%.

- ✓ The company is currently reinsured with its holding company, Aviva PLC.

CTCE - Life Insurance

- ✓ The segment consists of conventional life businesses along with unit linked life insurance business that has seen exponential growth since its introduction in 2006. Conventional individual life insurance policies has seen a CAGR of 38% during the last 5 years, while both corporate and unit linked insurance products grew by a CAGR of 107% and 143% respectively.



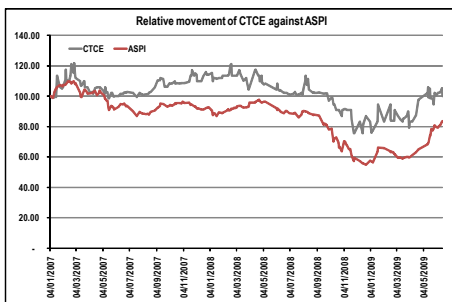
- ✓ GWP from Life insurance grew by 15% in 2008 with conventional individual life policies accounting for approximately 83% of Life GWP. The Unit linked life insurance business with a 9% share of Life GWP, has attracted many due to the flexibility offered in choosing how an individual's premium is invested.
- ✓ Due to adverse economic conditions in the economy, the Life insurance segment witnessed a growth in policy surrenders and a lapse ratio as high as 50%, resulting in a 30% dip in surplus transferred to income statement.
- ✓ Since 2003, CTCE as the 3rd largest life insurer in Sri Lanka has witnessed a CAGR of 17% in the Life Insurance Fund exceeding Rs. 14,400 million in 2008. The company has maintained a gross dividend above 8% to the life policy holders while in FY2008 this increased to 10%.
- ✓ The segment secured a 33% growth in investment income consequent to the high interest rates that prevailed. Approximately 83% of the Life investment portfolio has been allocated towards high yielding government securities with an average duration of approximately 2.5 years.
- ✓ Although interest rates, along with inflation have seen a decline, the company will be able to achieve a growth in investment income as funds have been invested at high rates. Further, the company is actively engaged in the trading of government securities and therefore is expected to enjoy heavy capital gains on bond trading in FY2009E.
- ✓ The segment's growth was boosted through an expansion of the agency network with the company having 3,088 agents as well as an extended branch network of 48 branches.
- ✓ The bancassurance channel contributes to nearly 9% of Life insurance GWP. This channel of distribution has seen growth, although at a slower pace as insurance is generally viewed as an alternative to savings.
- ✓ The company is reinsured with Munich Re for its Life Insurance business.

Outlook

- ✓ The General Insurance industry has witnessed heavy price competition while also facing a serious threat of high interest rates despite low inflation. Higher interest rates have discouraged new motor vehicle registrations which has seen a decline of 30.5% during 1Q2009. However, both inflation and interest rates have seen a decline in the recent past while regulations

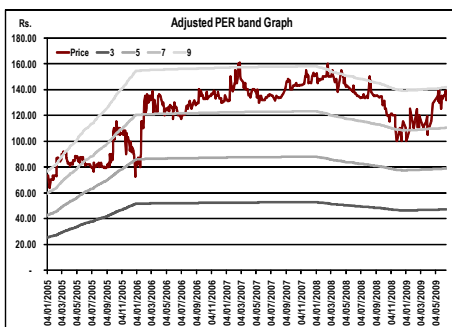
placed on import of motor vehicles have also been relaxed, causing a growth in motor insurance towards the latter half of the year.

- ✓ Although CTCE's dependency on Motor insurance is limited, we expect CAGR of 21% in GWP from Motor Insurance during the next 2 years, with a focus towards writing better business rather than going after volume.
- ✓ However, the segment's profitability is much dependent upon the level of claims during the year which is difficult to predict with accuracy. The claims ratio is expected to grow to 85.7% in FY2009E due to slower growth in GWP while in FY2010E, this is expected to decline to 82.9%. With the above claims ratios, the combined ratio is likely to remain above 100% for the next 2 years.
- ✓ In FY2009E, the general insurance segment is expected to witness an 11% growth in earnings excluding capital gains enjoyed from the sale of its subsidiary, while in FY2010E, it is expected to grow by 13%. In terms of its principal activity, the company is likely to perform well as the economy is expected to recover along with the clearing of the North creating more opportunities for business.
- ✓ On the other hand, we expect the Life Insurance segment to witness a growth in earnings of 15% for FY2009E despite higher lapses and surrenders during the early part of the year, with the former affecting the revenue stream while the latter increasing expenses. Further, a growth in investment income stemming from the funds invested at high interest rates is also expected to boost profitability.
- ✓ With an expectation of a rapid growth in disposable income towards FY2010E, we believe that there will be great potential for the Life insurance segment. A 20% increase in the Life insurance fund in FY2010E may dilute profitability growth in the segment to settle at a 12% growth from FY2009E levels.



Earnings & Valuations

- ✓ Although economic conditions continue to remain rough, we expect a CAGR of 19% in GWP during the next 2 years with the largest contribution seen from Life Insurance amounting to 68%.
- ✓ We expect group profitability to improve by approximately 24% in FY2009E to reach Rs. 576 million in earnings with Life Insurance accounting for over 56% of profits.
- ✓ Since early 2007, the ASPI dipped 35% while the counter dropped marginally by 2%, thereby outperforming the market. At a price of Rs. 132.00, the counter trades at a forward P/E multiple of 7.72 times. For FY2008 CTCE declared a dividend of Rs. 8.00 per share, representing a dividend yield of 6.4%. Although the counter exhibits high potential for growth, due to lack of liquidity given smaller free float, we recommend **HOLD**.



Income Statement (Rs. million) For the year ended 31st December	2005	2006	2007	2008	2009E	2010E
Gross Written Premium						
General Insurance	1,210.94	1,468.42	1,867.14	2,045.25	2,426.60	2,863.39
Life Insurance	2,832.54	3,150.04	3,788.10	4,342.22	5,146.14	6,175.36
	4,043.48	4,618.46	5,655.25	6,387.47	7,572.74	9,038.75
Premium ceded to reinsurers	(833.39)	(932.63)	(1,092.12)	(1,060.69)	(1,253.68)	(1,515.88)
Net Written Premium	3,210.08	3,685.84	4,563.13	5,326.79	6,319.06	7,522.87
Net change in reserve for unearned premium	(64.21)	(123.94)	(176.48)	(67.65)	(80.00)	(85.00)
Net Earned Premium	3,145.87	3,561.89	4,386.65	5,259.13	6,239.06	7,437.87
Benefit, Losses and Expenses						
Insurance claims and benefits (Net)	(1,169.58)	(1,489.07)	(1,687.38)	(2,373.15)	(2,755.35)	(2,925.77)
Underwriting (Net of reinsurance commission)	(301.31)	(353.90)	(432.59)	(552.50)	(614.30)	(739.48)
Deferred Commission	(5.89)	5.67	(0.34)	8.07	(4.32)	5.18
Increase in provision of Life Insurance fund	(1,252.80)	(1,269.87)	(1,798.35)	(2,178.02)	(2,600.88)	(3,350.89)
Total Benefits, Losses and Expenses	(2,729.58)	(3,107.16)	(3,918.66)	(5,095.60)	(5,974.86)	(7,010.97)
Net premium less benefits, losses and expenses	416.29	454.73	467.99	163.54	264.20	426.91
Other Revenue						
Income from Investments	945.33	1,021.02	1,279.22	1,730.04	1,934.24	2,035.20
Asset Management Fees & Related Income	15.17	16.08	18.99	23.75	9.60	0.56
Other income	170.15	214.44	189.98	252.40	284.43	286.40
Expenses						
Other operating & administrative expenses	(1,018.97)	(1,167.30)	(1,410.07)	(1,564.90)	(1,744.76)	(1,946.47)
Profit before Tax	527.97	538.96	546.12	604.82	747.72	802.59
Taxation	(12.59)	(15.50)	(19.04)	(141.10)	(171.52)	(220.99)
Profit after Tax	515.38	523.47	527.08	463.72	576.20	581.60

Balance Sheet (Rs. million) As at 31st December	2005		2006		2007		2008		2009E		2010E	
	Life	Group	Life	Group	Life	Group	Life	Group	Life	Group	Life	Group
Assets												
Investments at cost	8,713.78	9,970.62	9,992.94	11,467.12	11,000.55	12,753.34	12,555.93	14,834.96	13,801.41	16,681.67	16,587.32	18,999.34
Investments - Unit Linked	-	-	48.44	48.44	241.13	241.13	473.70	473.70	710.56	710.56	1,030.31	1,030.31
Policy Loans & Other loans	563.78	724.36	702.87	912.25	912.10	1,142.76	1,133.42	1,530.50	1,303.43	1,836.60	1,564.12	2,295.75
Property, Plant and Equipment	-	296.33	-	392.04	-	403.43	-	376.87	-	358.03	-	393.83
Other fund assets	-	368.02	-	310.76	-	272.74	-	187.50	-	176.25	-	158.63
Deferred Tax asset	-	-	-	-	-	-	-	57.07	-	-	-	-
Reinsurance receivable	57.67	384.01	88.27	513.78	64.11	330.58	83.94	492.29	88.13	350.47	92.54	298.76
Trade receivables	-	369.47	-	557.54	-	673.74	-	582.60	-	643.93	-	740.52
Other Assets	138.76	248.53	199.91	308.89	515.93	750.17	458.45	813.23	526.79	940.70	607.60	1,085.00
Cash and Cash Equivalents	153.34	296.89	92.20	382.36	102.37	400.84	184.66	442.28	1,272.00	735.31	1,246.10	856.83
Total Assets	9,627.34	12,658.23	11,124.62	14,893.18	12,836.20	16,968.73	14,890.09	19,791.02	17,702.32	22,433.53	21,127.98	25,858.97
Liabilities												
Insurance provision	9,238.18	10,096.94	10,508.05	11,630.68	12,306.40	13,395.40	14,484.42	15,932.04	17,085.31	18,338.35	20,436.20	21,532.16
Provision for Life Fund Solvency	-	-	-	-	-	-	-	175.00	-	192.50	-	211.75
Other Funds	-	368.02	-	310.76	-	272.74	-	187.50	-	176.25	-	158.63
Debentures	-	-	-	-	-	-	-	-	-	-	-	-
Reinsurance creditors	68.35	125.12	75.89	255.63	117.36	376.97	91.69	309.87	99.03	334.66	108.93	368.12
Other Liabilities	320.80	600.89	540.68	952.87	412.43	887.74	225.09	837.09	380.45	792.60	388.71	809.82
Income Tax liability	-	-	-	-	-	10.65	88.89	125.57	137.55	171.52	194.14	220.99
Bank overdraft	-	-	-	-	-	-	-	-	-	-	-	-
Total Liabilities	9,627.34	11,190.96	11,124.62	13,149.95	12,836.20	14,943.50	14,890.09	17,567.07	17,702.32	20,005.87	21,127.98	23,301.46
Shareholders' Equity												
Stated Capital	-	300.00	-	300.00	-	300.00	-	300.00	-	300.00	-	300.00
Capital Reserves	-	-	-	-	-	39.92	-	39.92	-	39.92	-	39.92
Revenue Reserves	-	1,167.27	-	1,443.23	-	1,685.32	-	1,884.04	-	2,087.74	-	2,217.59
Total Shareholder's Equity	-	1,467.27	-	1,743.23	-	2,025.23	-	2,223.95	-	2,427.66	-	2,557.51
TOTAL LIABILITIES & S/H EQUITY	12,658.23	12,658.23	14,893.18	14,893.18	16,968.73	16,968.73	19,791.02	19,791.02	22,433.53	22,433.53	25,858.97	25,858.97

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