

# Insurance consolidation stirs interest in P&O

BY Joyce Goh

As the insurance industry continues to consolidate, with the big boys of general insurance eyeing the smaller players, Pacific & Orient Bhd (P&O) has emerged as a possible acquisition target, sources say.

"One of the top five general insurance players in Malaysia is exploring the possibility of acquiring P&O," says a source. "It is studying the company and should it decide to go ahead, it will write to Bank Negara Malaysia for approval to start formal negotiations."

It is not clear if the potential buyer is looking at P&O as a whole or just its insurance business. P&O returned to the black for FY2009 ended Sept 30, registering a net profit of RM14.9 million compared to a net loss of RM32.6 million the year before. P&O's earnings were boosted by its insurance business — its largest contributor to revenue.

A P&O official declined to comment when asked by *The Edge*. The company is also in the money-lending and information technology businesses.

Lately, the top firms in the general insurance sector have been on the

lookout for prospective mergers and acquisitions (M&A) deals.

"It is understood that the big players, mainly foreign-owned insurers, are looking actively at potential acquisitions. This is to help expedite the consolidation of the industry as encouraged by Bank Negara as well as to grow. And of course, it is being done with a view to maintaining higher shareholdings in the insurance entities here in Malaysia," says a top official with an investment bank looking at potential deals.

In April last year, Bank Negara liberalised the insurance sector and announced that to further build the resilience and competitiveness of the insurance and takaful industry, insurance companies and takaful operators will be given greater flexibility in tie-ups with foreign partners. Accordingly, foreign equity participation in local insurance companies and takaful operators will be increased up to 70%.

Interestingly, the central bank also said a higher foreign equity limit of more than 70% will be considered for insurance companies on a case-by-case basis for players that can facilitate the consolidation and rationalisation of the industry. Furthermore, existing foreign insurers that participate in the

process will be accorded flexibility in meeting divestment requirements.

Already, two listed companies with general insurance business have announced that Bank Negara has given them the green light to commence negotiations on the potential disposal of their respective insurance units. Jerneh Asia Bhd made the announcement five months ago in December while PacificMas Bhd made its announcement on April 21.

Jerneh Asia did not name the party it is in talks with but reports have noted that it is a foreign one. PacificMas, meanwhile, has disclosed that it is entering into talks with its related company Great Eastern Group. Singapore's Oversea-Chinese Banking Corp Ltd (OCBC) is the ultimate holding company of PacificMas and Great Eastern Group. The proposed acquisition of Pacific Insurance came after Great Eastern's wholly-owned unit, Overseas Assurance Corp (M) Bhd (OAC), started talks to possibly acquire the general insurance business of Tahan Insurance Malaysia Bhd.

Should Great Eastern successfully acquire these two local insurance businesses, say industry observers, it may continue to look for another one or two local general insurers.

Nevertheless, *The Edge* reported last week that while Great Eastern has received the go-ahead from Bank Negara to enter into talks with PacificMas, another foreign insurer is eyeing the insurance business of PacificMas as well, but has undertaken its own studies on the business before it decides whether to buy and write to Bank Negara for approval to start formal talks.

Aside from this, there is market talk that Hong Leong Group's insurance unit — Hong Leong Assurance Bhd — is a potential acquisition target of foreign insurers. This insurer is in the life and general insurance segment.

"Foreign insurers are keen to grow and at the same time help in the consolidation of the general insurance industry here. While they are at it, they are also hopeful that they will be able to hold a higher stake in their investment in insurance companies here and not have to pare down their respective stakes," says an industry observer.

"About half of the 32 general insurance companies in Malaysia registered a turnover in 2009 of less than RM300 million a year. Even among the top players, only one — Allianz (Gen-

eral Insurance Malaysia Bhd) — had a turnover in excess of RM1 billion. Therefore, with so many players and the industry growing by around 7% per year, the segment is due for consolidation. Total market turnover was only RM11.5 billion in 2009 compared to RM10 billion in 2007," he adds.

The 10 top general insurers in Malaysia are Chartis Malaysia Insurance Bhd (formerly AIG General Insurance (Malaysia) Bhd), Allianz, AmG Insurance Bhd, Berjaya Sampo Insurance Bhd, Etiqa Insurance Bhd, Kurnia Asia Bhd, Lonpac Insurance Bhd, MAA Assurance Bhd, MSIG Insurance (Malaysia) Bhd (a subsidiary of Mitsui Sumitomo Insurance Company Ltd) and Tokio Marine Insurans (Malaysia) Bhd. They command a collective 60% of the local market.

Just over a month ago, Bank Negara reiterated that it wants to see a consolidation of the insurance sector, with vulnerable insurers merging with the larger and well-capitalised players. Governor Tan Sri Zeti Akhtar Aziz said the central bank, after stopping the issue of new licences, was encouraging insurance players to merge.

Its message was clear and it would be interesting to see how the consolidation of the industry plays out. ■

# Prudential said to be eyeing P&O

BY Yong Yen Nie

U K-based insurer Prudential plc is looking at acquiring the insurance businesses of Pacific & Orient Bhd (P&O), sources say.

It is learnt that Prudential has written to Bank Negara Malaysia to seek the central bank's approval to begin talks with P&O on the potential sale of the group's insurance business.

The price of the transaction is not known. CIMB Group Holdings Bhd's (then known as Bumiputera-Commerce Holdings Bhd) sale of its general insurer Commerce Assurance Bhd to Allianz Group in 2007 — was done at more than 2.5 times Commerce Assurance's price-to-book ratio. However, that transaction commanded a premium because CIMB has a captive market.

Other insurers would not command such a premium. The norm is between 1.2 times to 1.8 times book value.

At 1.2 times book value, the entire businesses of P&O may fetch a price of about RM190 million, based on its FY2009 book value of RM163.3 million. At the higher end, the valuation could go up to RM290 million.

P&O, which closed at 92.5 sen last Friday, has a market capitalisation of RM211.23 million.

Prudential already has a locally incorporated unit, Prudential Assurance Malaysia Bhd, which has life and

general insurance operations here.

Interestingly, P&O's share price surged to an intra-day high of 99 sen last Friday. It was among the most heavily traded stocks on that day, fueling speculation that a sale of its insurance businesses was imminent.

In May, *The Edge* reported that P&O had emerged as a possible acquisition target among larger players, and one of the top five general insurance players in the country was studying the feasibility of acquiring P&O.

An industry observer says Prudential's interest in P&O is not surprising, after an unsuccessful buyout attempt in American International Assurance (AIA), the Asian unit of American International Group (AIG). AIA's assets include its Malaysian insurance business.

P&O is majority owned by its managing director and CEO Chan Thye Seng, with a 61.1% stake.

Industry sources say Chan has been contemplating divesting a strategic stake in P&O, making the general insurer a natural M&A target among insurers.

When contacted by *The Edge*, Chan declined to comment on the issue.

Industry observers say P&O is also an attractive target, given its smallish size and profitable general insurance business.

Apart from the general insurance business, P&O also has money lending and information technology businesses

via two subsidiaries. Nevertheless, the insurance business is the highest earnings contributor to the P&O group.

P&O returned to the black for FY2009 ended Sept 30, registering a net profit of RM14.9 million compared with a net loss of RM32.6 million the year before. This was boosted by improvements in its insurance operations strategy, including better distribution channels and realigned underwriting portfolio mix.

P&O's turnaround in business direction in the past one to two years has resulted in the insurer having the largest market share in motorcycle coverage.

Kenanga Research says it expects P&O to record premium growth of 20% in FY2010 and 15% in FY2011, faster than the industry average, owing to motorcycle sales growth and its ability to capture market share from its peers. P&O's claims ratio is also likely to be less affected than its peers, given its strong grip on its motorcycle underwriting, which represents RM210 million out of RM325 million of its total underwriting, the research house says.

At its closing price of 92.5 sen last Friday, P&O is trading at 6.6 times its price-earnings ratio (PER) for FY2010. Kenanga says the valuation is undemanding, considering that it is at the low end of the six times to 15 times FY2011/12 PER of local general insurers.

Based on Kenanga's FY2011 earnings per share forecast of 29.7 sen, the stock has a forward PER of just three times.

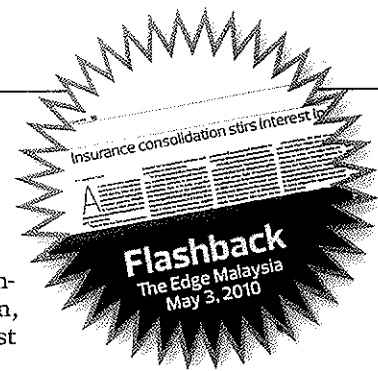
"Although there is already substantial price upside to our base case valuation, the stock is worth even more on a M&A basis. Our M&A value for P&O is in the range of 1.5 times to two times FY2011 price-to-book value, which is in comparison with the first-phase consolidation of the Malaysian banking sector," it says.

Industry observers say the big players, mainly foreign-owned insurers, are actively looking at potential acquisitions to beef up their market share. This is especially after Bank Negara liberalised the insurance sector by allowing foreign equity participation in local insurers of up to 70%, from 49% previously.

The consolidation of the local insurance sector has been accelerating.

In June, Hong Leong Financial Group (HLFG) signed deals with Japanese insurer Mitsui Sumitomo Insurance (MSI) to merge HLFG's general insurance businesses with MSI's local unit MSIG Insurance (Malaysia) Bhd. In return, HLA will get 30% equity interest in the enlarged entity. HLFG is also disposing of a 30% stake in its life insurer to MSI for RM940 million.

Another two listed companies with general insurance businesses — Jerneh Asia Bhd and PacificMas Bhd — have announced that Bank Negara has given



them the green light to commence negotiations for the potential disposal of their respective insurance units.

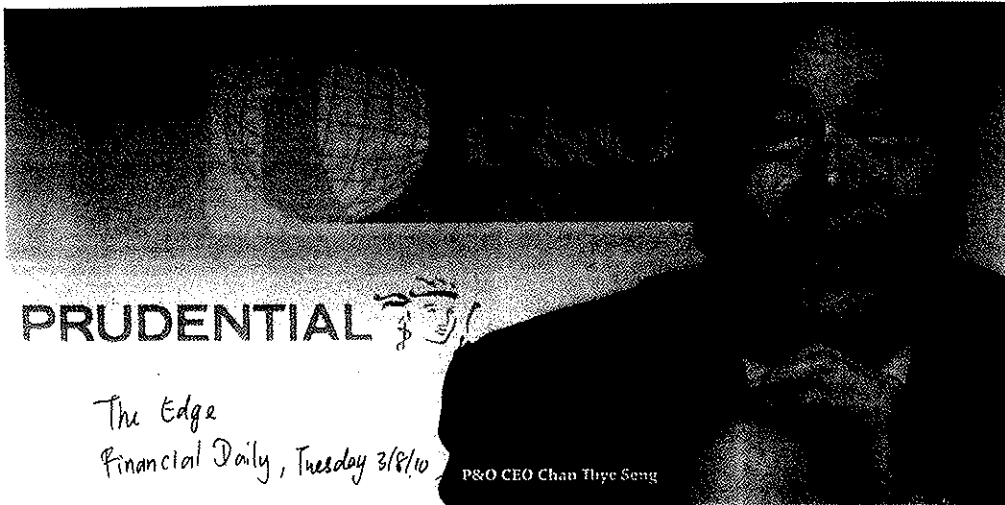
Jerneh, which is effectively controlled by tycoon Robert Kuok, hit a 13-year high of RM3.18 last Wednesday, with high trading volume of 3.07 million shares, buoyed by speculation that a buyer had been found for its insurance arm.

Jerneh Asia did not name the party it is in talks with but some names being bandied about include Italian insurance outfit Assicurazioni Generali SpA, HSBC and South Korea's Samsung Fire and Marine Insurance Co.

Meanwhile, PacificMas has said it is entering into talks with its related company Great Eastern Group. Singapore's Oversea-Chinese Banking Corp Ltd (OCBC) is the ultimate holding company of PacificMas and Great Eastern Group.

The proposed acquisition of Pacific Insurance came after Great Eastern's wholly owned unit, Overseas Assurance Corp (M) Bhd, started talks to possibly acquire the general insurance business of Tahan Insurance Malaysia Bhd.

The flurry of developments in the insurance sector will continue to spur interest in P&O.



# P&O confirms Prudential interest

Insurer waiting for BNM nod before starting talks on potential stake sale

by **Tony CH Goh**  
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KUALA LUMPUR: General insurer Pacific & Orient Bhd (P&O), whose shares have surged on rumours of the entry of a foreign insurance giant, has announced that UK's Prudential Holdings Ltd is interested to take a stake in the company.

This confirms a report in the latest edition of *The Edge* business weekly,

as well as another report in *The Edge* back in May.

In a statement to Bursa Malaysia yesterday, P&O said it had on July 29, 2010, written to Bank Negara Malaysia (BNM) to seek its approval to begin preliminary talks for the potential divestment of an equity interest in Pacific & Orient Insurance Co Bhd to Prudential.

"Approval remains pending and discussions will only commence

once approval has been obtained," it said. Over the weekend, *The Edge* had reported that UK giant Prudential may be eyeing a stake in P&O.

Speculation on its sale caused P&O's shares to surge last week and yesterday. Its stock rose some 50% last week, ending at 92.5 sen on Friday and surged another 22.5 sen or 24% yesterday to RM1.15 on heavy volume of 21.08 million shares.

P&O has been the subject of takeover speculation since early this year.

Recall that in May, *The Edge* had reported that one of the top five general insurance players in Malaysia was eyeing a takeover of P&O, in line with BNM's call for the consolidation of the local insurance industry following the government's plan to liberalise the sector.

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by **Chong Jin Hun**  
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KUALA LUMPUR: The ringgit and Malaysian stock market rose to their strongest levels in over two years as investors snapped up Asian emerging market assets and currencies in anticipation the region would exhibit strong economic growth, especially relative to Europe and the US.

Increased capital inflows to Malaysia, economists said, could be seen from the higher level of foreign ownership of Malaysian Government Securities (MGS). As at June 2010, foreign ownership of outstanding MGS had risen to 23.5% from 12.5% in March 2009.

"Since the movement of the ringgit is highly correlated with the level

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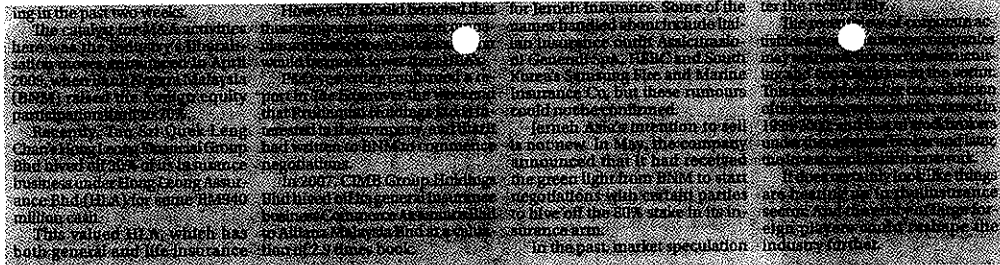
## China slows to cruising speed; India perks up

by **Alan Wheatley & Zhou Xin**

BEIJING: China's manufacturing sector cooled further in July, even shrinking by one measure, but markets took the news as a sign of a desired slowdown rather than a harbinger of a slump that could derail global recovery.

Manufacturing surveys from other big emerging economies India and Russia, also served to bolster investor sentiment, with Asia's third-largest economy marking its 16th month of expansion and Russia's activity improving for the seventh month in a row.

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## P&O may see new shareholder after share split, says analyst

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"There is a possibility that P&O could see the entry of a new shareholder after the completion of its share split exercise and recent talk on possible mergers and acquisitions in the insurance sector. P&O's shares are also trading at a reasonable PE," said an analyst at a local research house.

P&O completed its share split exercise on July 19, increasing its total shares outstanding to 226.56 million from 113.25 million previously. Kenanga Research had estimated the stock was trading at a forward price-earnings (PE) ratio of just over eight times. As at March 31, 2010, P&O's net tangible assets per share stood at RM1.34.

Both Jermeh and PacificMas announced in December 2009 and April this year respectively that they had received the green light from BNM to start negotiations with potential buyers for their general insurance business.

In P&O, Mah Wing Holdings Sdn

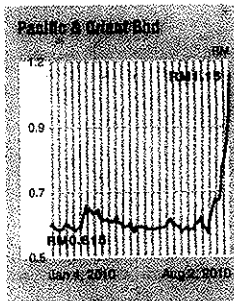
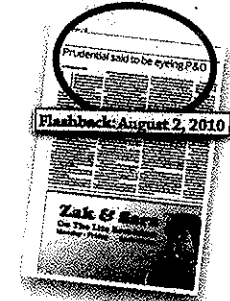
Bhd and Mah Wing Investment Ltd, both linked to P&O's CEO Chan Thye Seng, are the largest shareholders with 22.77% and 21.57% respectively. Chan holds another 12.18% after acquiring an additional 3.4 million shares on July 13.

The combined stake of 56.52% would make Chan the controlling shareholder. However, most of the shares under Mah Wing Holdings and Mah Wing Investment are pledged to various financial institutions.

P&O posted a net profit of RM14.9 million in the financial year ended Sept 30, 2009 (FY09) versus a net loss of RM32.6 million in FY08, boosted by recovery in its insurance business.

It has a 5% market share in motor insurance, which contributes close to 80% of its revenue, but has been trying to make inroads in the non-motor insurance market, such as oil and gas, and indemnity. It also has interest in money lending and the information technology sector.

It was reported in June that Pa-



cific & Orient Insurance Co Bhd, a leading local motor insurance player, was set to pull out completely from the third-party motor insurance segment, following the trend of other insurers in Malaysia which have stayed clear of the sector.

The general insurer, a subsidiary of P&O, was second only to Kurnia Insurans (M) Bhd for underwriting third-party motor insurance cover in 2008.

Latest figures from the General Insurance Association of Malaysia (PIAM) showed combined loss ratios for the motor insurance business in 2007 and 2008 standing at

114% and 115%, respectively. It said insurers had expressed their concern over the rapidly increasing payouts especially for third-party bodily injury claims. The claims ratio for third-party bodily injury claims skyrocketed to 262% in 2007 and 288% in 2008, PIAM added.

Industry sources estimate that motor insurance, which is compulsory for all motorists, generated gross premiums of close to RM600 million last year, with Kurnia Insurans and P&O Insurance accounting for almost half of the industry's total.

ment component rose.

The Institute for Supply Management (ISM) said its index of national factory activity fell to 55.5 in July from 56.2 in June, while the median forecast by 60 economists surveyed by Reuters was 54.2. A reading below 50 indicates contraction in the manufacturing sector, while a number above 50 means expansion.

It was the third straight month of slower growth, and the lowest reading since December.

"The rate of growth is down slightly but still a very strong rate of growth as far as the manufacturing sector is concerned," said Norbert Ore, chair of the ISM manufacturing business survey committee. "The major concern is a slowing in new orders."

New orders dropped to 53.5 from 58.5 in June, while the report's employment component rose to 58.6 from 57.8 in June.

US stocks added to gains following the data, while US Treasury debt prices extended losses. The dollar edged up against the yen. — Reuters

## Oil jumps towards US\$81

LONDON: Oil rose to its highest level in nearly three months yesterday, topping US\$80 (RM252.80) a barrel as a sharp rise on equity markets raised optimism over the strength of the global economic recovery and the outlook for energy demand.

US September crude added 2.5% and was up US\$1.95 cents to US\$80.90 a barrel by 1312 GMT, just off the intra-day peak of US\$81.02, the highest price since May 5.

ICE Brent rose US\$1.99 cents to US\$80.17, the highest level since May 13.

US crude looks to have broken out of the US\$70-US\$80 a barrel trading range, which has been the trend for most of the last three months, triggering further buying. — Reuters

## home business

# P&O receives nod to talk to Prudential

KUALA LUMPUR: Bank Negara Malaysia has given the nod for Prudential Holdings Ltd to begin talks to buy a stake in insurer Pacific & Orient (P&O), a source with direct knowledge of the deal said yesterday.

Prudential Holdings, a subsidiary of Prudential plc, is the latest foreign insurer keen to enter Malaysia's growing insurance market.

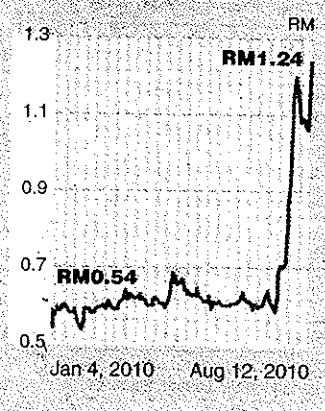
"Pacific & Orient received the approval by fax yesterday (Wednesday) morning, but there have been no discussions about a price yet," the source said, asking not to be identified as the approval had not been made public.

Pacific & Orient shares closed 17% or 18 sen higher at RM1.24, with 15.17 million shares done. Pacific & Orient declined to comment while Prudential's Malaysian officials were not immediately available.

Pacific & Orient had said this month it asked the central bank for approval to begin preliminary talks for the potential divestment of an equity interest in Pacific & Orient Insurance to Prudential.

The news follows Malaysia's Hong Leong Financial Group's an-

Pacific & Orient Bhd



nouncement in June that it would merge its non-life insurance business with Japan's Mitsui Sumitomo Insurance Co and sell a stake in its life business in deals worth about US\$480 million (RM1.53 billion).

Analysts have said Prudential may be changing its approach to penetrating the Asian market after its failed bid for AIG's Asian unit. Prudential now holds a composite licence in Malaysia that covers both the life and general insurance businesses. — Reuters

## US jobless claims unexpectedly rise in latest week

WASHINGTON: The number of people filing new claims for unemployment insurance unexpectedly rose in the latest week to its highest level in close to six months, a fresh signal of a weak jobs market.

The number of new claims for jobless benefits rose 2,000 to 484,000 in the week ended Aug 7, the second straight increase, Labour Department data showed yesterday.

The four-week moving average, which economists prefer because it smoothes out weekly fluctuations, rose 14,250 to 473,500, also

the highest level since the week ended Feb 20.

Economists polled by Reuters had expected claims in the latest week to fall to 465,000 from the previously reported 479,000.

The number of people still collecting unemployment benefits after an initial week of aid in the week ended July 31 fell 118,000 to 4.45 million, the lowest level since late June. Economists had expected 4.53 million. The four-week moving average of continuing claims fell 64,500 to 4.52 million, the lowest level since December 2008. — Reuters