

# Valuation Report: Income Insurance Limited



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- We value the company using a combination of Price-to-NBEV ratio, Price-to-Book ratio and Price-to-EV ratio. The equity valuation range is S\$1,131mn to S\$2,991mn. Applying an equal weightage of the three valuation methods, the valuation for the equity is S\$2,115mn and a per share value of S\$19.74 (based on the total number of shares outstanding as disclosed by Income as at time of writing). We have not applied a discount for the illiquidity of the shares.
- All historical and forecast financials are from the company.
- Some of the merits of the company include new business premiums to increase by >16% by 2025 to more than S\$1bn, new business embedded value to grow by >55% to more than S\$135mn, and potential to grow from the suite of NTUC products.

## Company Background

Formerly known as NTUC Income Insurance Co-operative Limited (“NTUC Income”), the company now operates as Income Insurance Limited (“Income Insurance”), a public non-listed company limited by shares following the successful transfer of the insurance business on 1 September 2022. Income Insurance Limited serves ~1.7mn Singaporeans and is one of the leading composite insurers in Singapore, offering life, health and general insurance. Income Insurance has 5 branches and 10 lite branches across Singapore, as well as operations in Indonesia, Malaysia, Thailand and Vietnam.

**Life Insurance:** Income Insurance provides a range of insurance options, including three whole life insurance plans and 14 term insurance plans. The flagship whole life policy is known as Income Star Secure Pro, and its term life equivalent is Income Star Term Protect. Additionally, the company offers specialized life insurance policies tailored to various needs, including plans for seniors, women, maternity coverage, and families.

**Health Insurance:** The company has 11 health insurance plans, including group insurance, with the most pertinent one being the Medisave-eligible Enhanced IncomeShield. It is an Integrated Shield Plan (IP) designed to provide protection against significant hospitalization expenses.

**General Insurance:** Income Insurance also offers many kinds of general insurance, such as personal accident insurance, savings plans and investment plans, car or motorcycle insurance, travel insurance, home insurance and maid insurance.

## Investment Highlights

- Income 2025 ambition.** Income Insurance intends to grow its business in terms of both volume and value. New business premiums have grown at a CAGR of 9% from S\$778mn in FY20 to S\$862mn in FY22. The company expects new business premiums to surpass S\$1bn in FY25 with a 100% growth in Life Application Programming Interface (API), Personal Lines Insurance, New Business Models, Employee Benefits and Commercial Lines. New Business Embedded Value (NBEV) has grown at a CAGR of 39% from S\$45mn in FY20 to S\$87mn in FY22, with expectations to exceed S\$135mn in FY25. Lastly, while Insurance Operating Results have dipped 3% to S\$111mn in FY22, Income Insurance intends to reach >S\$155mn in FY25 for a growth of 30% per annum.

## Financials

### Income Statement

Y/E Dec, SGD mn	FY18	FY19	FY20	FY21
Net Premiums	3,599	3,599	3,599	3,599
<b>Total operating income</b>	<b>3,888</b>	<b>7,360</b>	<b>7,690</b>	<b>4,657</b>
Net Benefits & Claims	3,231	6,488	6,774	3,849
<b>Operating surplus</b>	<b>171</b>	<b>326</b>	<b>374</b>	<b>170</b>
Other Comp. Income	(27)	52	11	(3)
<b>Total Comp. Income</b>	<b>127</b>	<b>364</b>	<b>387</b>	<b>159</b>
<b>Net Comp. Income</b>	<b>126</b>	<b>364</b>	<b>384</b>	<b>160</b>

### Balance Sheet

Y/E Dec, SGD mn	FY18	FY19	FY20	FY21
Investment properties	1,921	1,954	1,910	1,916
Other financial assets	32,610	35,357	40,251	41,322
Cash	645	676	1,216	1,432
<b>Total Assets</b>	<b>37,203</b>	<b>41,939</b>	<b>45,843</b>	<b>47,267</b>
Ins. contract prov.	31,379	33,734	37,806	38,911
<b>Total liabilities</b>	<b>33,674</b>	<b>38,083</b>	<b>41,582</b>	<b>42,907</b>
Shareholder's equity	3,523	3,850	4,252	4,350
<b>Total Equity</b>	<b>3,528</b>	<b>3,856</b>	<b>4,261</b>	<b>4,360</b>

Source: Income Insurance

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- Digital Initiatives.** Income Insurance is a leading digital insurer in Singapore and the region, with their flagship SNACK by Income product as their leading financial lifestyle app. SNACK is engaging with the digitally adept younger generation from a very early age, primarily through their Investments offering, which is highly appealing. They are continuously evolving and partnering with over 150 collaborators to create a comprehensive financial lifestyle app. This app will provide customers with access to a wide range of products in the future, including micro-insurances, conventional general insurance, and various insurance and investment benefits offered by their partners. The company's other prominent digital initiative is EKKO, an omni-channel online-to-offline (O2O) solution to enable agents to sell more efficiently and effectively. It leverages on digital partnerships, such as Trust Bank, Grab, CapitaStar and Fairprice Group, to provide a complete omni-channel experience for customers to engage with Income Insurance via the various touchpoints available to them.
- Regional insurance presence.** HIVE by Income is an Insurance-as-a-Service platform created by Income Insurance to penetrate into the region. It enables any insurer and digital platform owner across the region to launch, localize and scale innovative embedded insurance propositions. Their pre-built InsurTech integrations enhance their partners' speed to market, and their ability to capture new customer segments and engagement with minimal additional cost and a competitive advantage that is data-driven. The company currently has presence in Thailand, with café Casa Lapin, in Indonesia, with parametric-based Droplet, and in Vietnam, with JupViec Care, a pay-as-you-earn stackable personal accident product for on-demand helpers, and QRPay, a digibanca partnership with TPBank.

## Valuation

### Price-to-NBEV valuation

We use Great Eastern Holdings Ltd (G07 SGX) as a comparable to Income Insurance, both of which are major players in the insurance industry in the same region, for a guide on how an insurance provider would trade.

New Business Embedded Value (NBEV) represents the present value of future profits from new business premiums. We will be using the Price-to-NBEV ratio, which is calculated by share price over NBEV per share. GE traded at a 10-year average P/NBEV of 19.4x. The three-year average is 13.0x. The current P/NBEV is 9.4x.

As such, we peg our valuation of Income Insurance at 13.0x P/NBEV, its average P/NBEV from 2020 to 2022. We believe that a P/NBEV of 13.0x is appropriate as Income Insurance's current growth trajectory and plans are more in line with GE's from 2020 onwards. On this basis, our valuation implies an equity value of S\$1,131mn (13x P/NBEV).

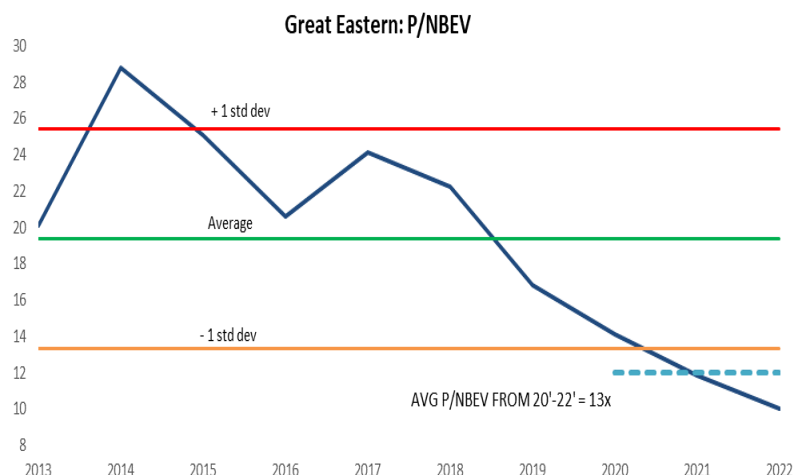
To determine the range of valuations, we applied a 5% and 10% discount and premium to both NBEV and P/NBEV metrics (Figure 1). At the bottom end of our valuation range, 10% lower projected FY22 NBEV and 10% lower P/NBEV of 11.7x, the equity value is S\$916mn (Figure 1). At the top end of our valuation range, we use a 10% higher projection of FY22 NBEV and a P/NBEV of 14.3x, the equity value is S\$1,369mn.

Figure 1: Sensitivity analysis for Price-to-NBEV valuation of Income Insurance

		P/NBEV (x)		
		11.7	13.0	14.3
NBEV FY22	10.0%	1,120	1,244	1,369
	5.0%	1,069	1,188	1,306
	0.0%	1,018	<b>1,131</b>	1,244
	-5.0%	967	1,074	1,182
	-10.0%	916	1,018	1,120

Source: PSR, Income Insurance

Figure 2: GE's P/NBEV range from FY20-FY22 is a more appropriate comparison



Source: PSR, Bloomberg

**Price-to-Book valuation**

Similarly, we use Great Eastern Holdings Ltd (G07 SGX) as a comparable to Income Insurance, both of which have similar balance sheets, for a guide on how an insurance provider would trade.

We will be using the Price-to-Book ratio, which is calculated by share price over book value per share, with book value being the net assets (total assets – total liabilities). GE traded at a 10-year average P/B of 1.40x. The three-year average is 0.96x. The current P/B is 1.14x.

Figure 3: Sensitivity analysis for Price-to-Book valuation of Income Insurance

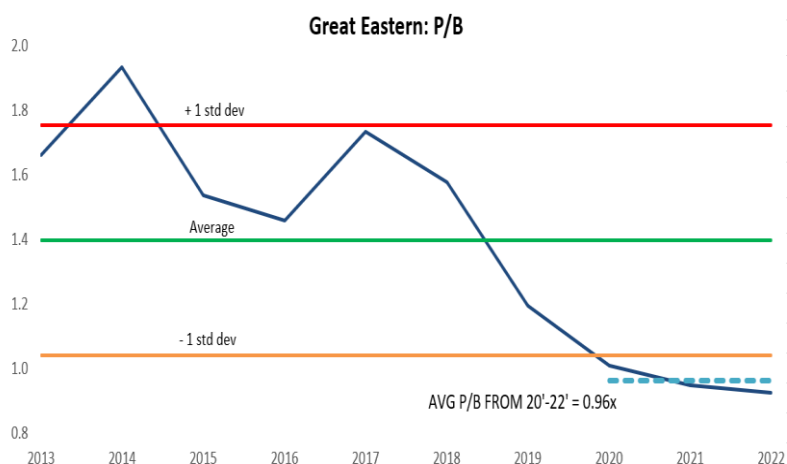
		P/B (x)		
		0.86	0.96	1.06
Book Value FY22	10.0%	2,948	3,290	3,633
	5.0%	2,814	3,141	3,468
	0.0%	2,680	<b>2,991</b>	3,303
	-5.0%	2,546	2,842	3,138
	-10.0%	2,412	2,692	2,972

Source: PSR, Income Insurance

As such, we peg our valuation of Income Insurance at 0.96x P/B, its average P/B from 2020 to 2022. We believe that a P/B of 0.96x is appropriate as Income Insurance's current balance sheet and book will be more reflective of GE's from 2020 onwards. On this basis, our valuation implies an equity value of S\$2,991mn (0.96x P/B).

To determine the range of valuations, we applied a 5% and 10% discount and premium to both Book Value and P/B metrics (Figure 3). At the bottom end of our valuation range, 10% lower projected FY22 Book Value and 10% lower P/B of 0.86x, the equity value is S\$2,412mn (Figure 3). At the top end of our valuation range, we use a 10% higher projection of FY22 Book Value and a P/NBEV of 1.06x, the equity value is S\$3,633mn.

Figure 4: GE's P/B range from FY20-FY22 is a more appropriate comparison



Source: PSR, Bloomberg

**Price-to-EV valuation**

Similarly, we use Great Eastern Holdings Ltd (G07 SGX) as a comparable to Income Insurance, both of which have similar balance sheets, for a guide on how an insurance provider would trade. Embedded Value was based on independent valuation conducted by Milliman Private Limited on Income Insurance Limited.

We will be using the Price-to-Embedded Value (EV) ratio, which is calculated by share price over embedded value per share. GE traded at a 10-year average P/EV of 0.78x. The three-year average is 0.52x. The current P/EV is 0.46x.

As such, we peg our valuation of Income Insurance at 0.52x P/B, its average P/EV from 2020 to 2022. We believe that a P/EV of 0.52x is appropriate as Income Insurance’s current balance sheet and book will be more reflective of GE’s from 2020 onwards. On this basis, our valuation implies an equity value of S\$2,224mn (0.52x P/EV) based on the FY22 embedded value of Income.

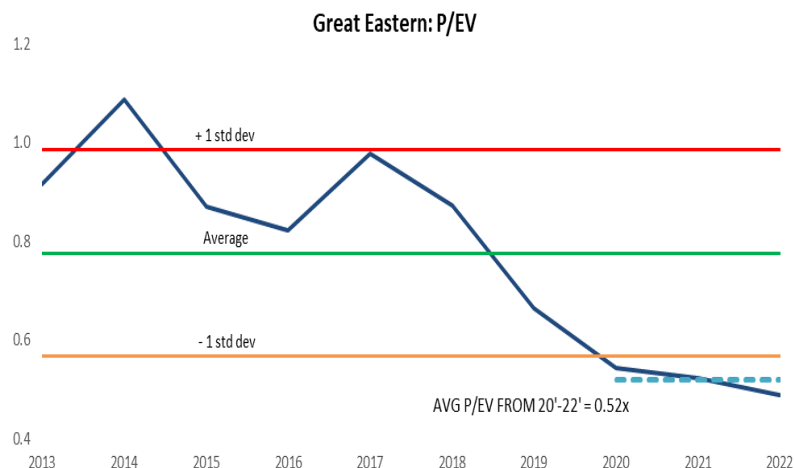
To determine the range of valuations, we applied a 5% and 10% discount and premium to both EV and P/EV metrics (Figure 5). At the bottom end of our valuation range, 10% lower projected FY22 EV and 10% lower P/EV of 0.47x, the equity value is S\$1,801mn (Figure 5). At the top end of our valuation range, we use a 10% higher projection of FY22 EV and a P/EV of 0.57x, the equity value is S\$2,691mn.

Figure 5: Sensitivity analysis for Price-to-EV valuation of Income Insurance

Embedded Value FY22	P/EV (x)		
	0.47	0.52	0.57
10.0%	2,202	2,446	2,691
5.0%	2,102	2,335	2,569
0.0%	2,001	<b>2,224</b>	2,446
-5.0%	1,901	2,113	2,324
-10.0%	1,801	2,001	2,202

Source: PSR, Income Insurance

Figure 6: GE’s P/EV range from FY20-FY22 is a more appropriate comparison



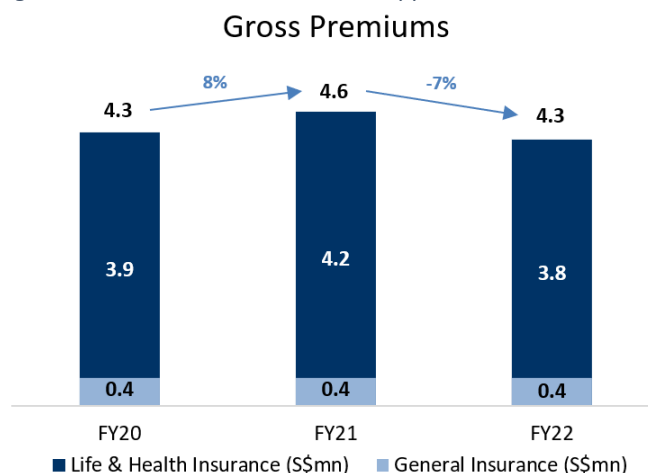
Source: PSR, Bloomberg

**Gross Premiums**

Gross premiums, which represent revenue premium for new insurance contract and renewal premiums of the company’s in-force insurance contracts, dipped 7% YoY to S\$4.3bn in FY22. This was mainly due to the challenging economic environment and the impact of the rising interest rate environment on their participating savings product, partly mitigated by growth across general insurance (Property & Casualty (P&C) insurance and Non-Participating insurance) and growth in higher margin Non-Participating Health business.

Participating insurance make up the majority gross premiums, at 53% of total gross premiums as at FY22, with Non-Participating insurance the second largest at 34%. Property & Casualty (P&C) insurance is at 10% of total gross premiums while Investment-Linked Insurance Policies (ILP) the smallest at 3%.

Figure 7: Income’s Gross Premiums dipped 7% YoY in FY22



Source: PSR, Company

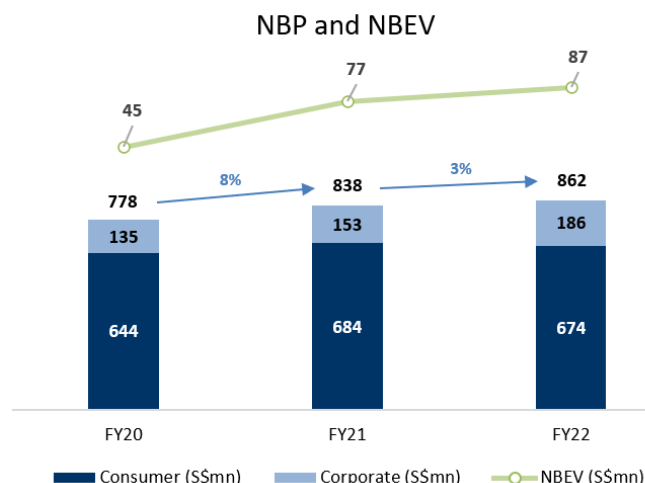
### New Business Premiums and New Business Embedded Value

New Business Premiums (NBP) volumes grew 3% YoY to S\$862mn in FY22. The growth was mainly contributed by strong growth in corporate lines (+20% YoY), motor insurance (+8% YoY) from mainly private cars, and personal insurance (+99% YoY) underpinned by the outbound travel recovery which boosted travel insurance. However, this growth was offset by a dip in life Whole Person Impairment (WPI) insurance (-22% YoY).

P&C insurance made up 53% of FY22 total NBP, while non-participating insurance at 26%, participating insurance at 20% and ILP the smallest at 1%.

New Business Embedded Value (NBEV) grew at a faster rate than NBP volumes, growing 13% YoY to S\$87mn in FY22. This is reflecting the impact of higher margins across all products, which was partly offset by the impact of product mix.

Figure 8: Both NBP and NBEV grew YoY in FY22

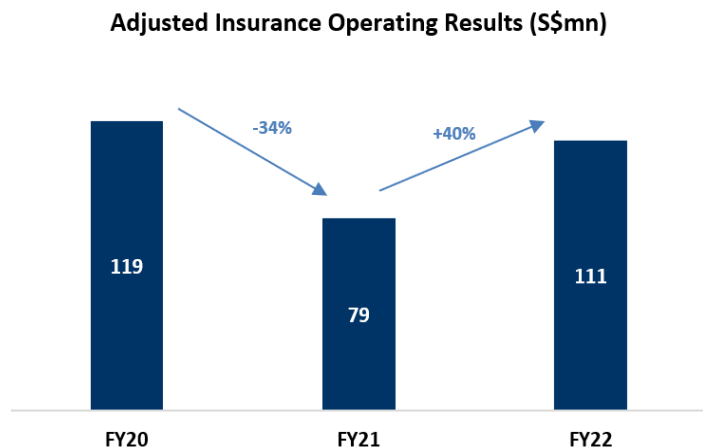


Source: PSR, Company

### Net Operating Profit after Tax

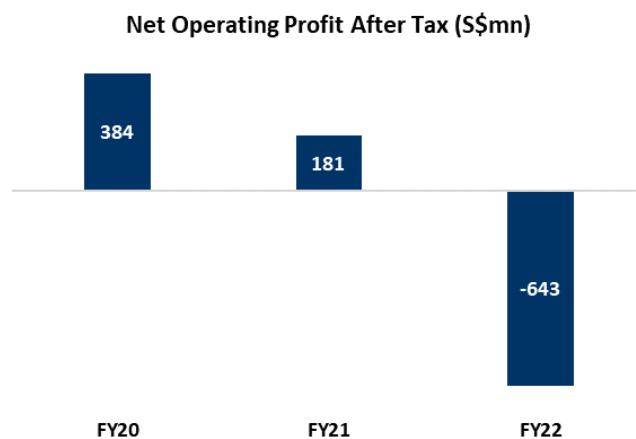
Adjusted Insurance Operating Results (IOR) grew 40% YoY to S\$111mn in FY22 but Net Operating Profit After Tax reported a loss of S\$643mn during the same period (FY21: profit of S\$181mn). This mainly a result of equity and bond market volatility resulting in negative mark-to-market fair value movements in the shareholder’s investment portfolio.

Figure 9: Adjusted IOR recovered in FY22



Source: PSR, Company

Figure 10: Net OPAT negative in FY22



Source: PSR, Company

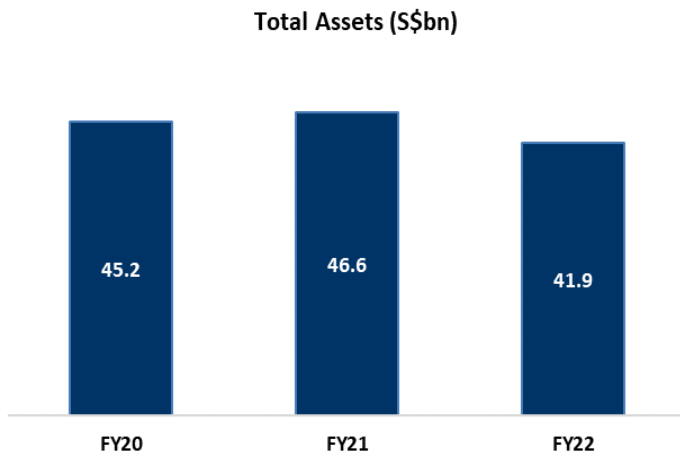
### Total Asset and Asset Mix

Total Assets dipped 10% YoY to S\$41.9bn in FY22, mainly driven by the impact of mark-to-market fair value movements in both equity and bond market as a result of the rising interest rate environment and economic uncertainty across 2022.

Overall Asset Mix continues to remain stable with the predominant focus on investment assets (89%) with the remainder in Cash (4%), Investment properties (3%), Loans (2%) and Other debtors (2%).

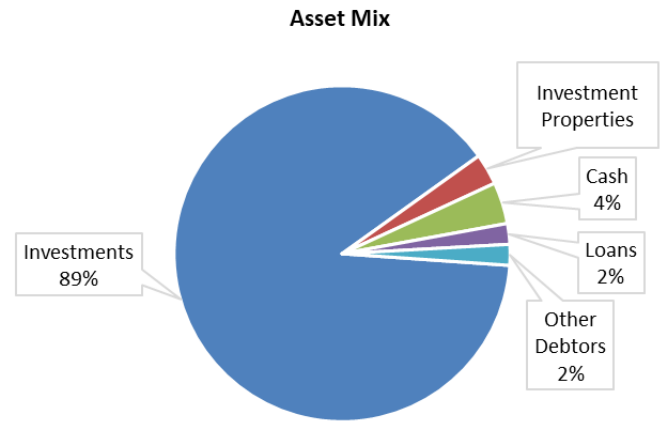
Notably, the company’s Capital Adequacy Ratio (CAR) stands at 193% in FY22. This is well above MAS requirements (at least 100%) and Income Insurance’s internal risk appetite threshold, despite the impact of 2022 mark-to-market fair value impacts.

Figure 11: Total Assets dipped in FY22



Source: PSR, Company

Figure 12: Asset mix predominately in investment assets



Source: PSR, Company

## Financials

### Income Statement

Y/E Dec, SGD mn	FY17	FY18	FY19	FY20	FY21
Net Premiums	3,513	3,599	3,895	4,210	4,461
Fee and Other Income	19	149	28	85	34
Other Income	2,868	141	3,437	3,394	162
<b>Total operating income</b>	<b>6,400</b>	<b>3,888</b>	<b>7,360</b>	<b>7,690</b>	<b>4,657</b>
Net Benefits and Claims	5,575	3,231	6,488	6,774	3,849
Operating expenses	459	487	546	541	638
<b>Operating surplus</b>	<b>366</b>	<b>171</b>	<b>326</b>	<b>374</b>	<b>170</b>
Associates & JVs	11	70	52	-4	53
<b>Net Surplus</b>	<b>351</b>	<b>154</b>	<b>312</b>	<b>376</b>	<b>162</b>
Other Comprehensive Income	-52	(27)	52	11	(3)
<b>Total Comprehensive Income</b>	<b>298</b>	<b>127</b>	<b>364</b>	<b>387</b>	<b>159</b>
Non-controlling Interest	0	1	0	3	-0
<b>Net Comprehensive Income</b>	<b>298</b>	<b>126</b>	<b>364</b>	<b>384</b>	<b>160</b>

### Balance Sheet

Y/E Dec, SGD mn	FY17	FY18	FY19	FY20	FY21
Investment properties	1,870	1,921	1,954	1,910	1,916
Investment in joint ventures	91	107	154	559	581
Other financial assets	32,076	32,610	35,357	40,251	41,322
Loans	696	693	680	659	641
Insurance and other receivables	281	327	411	426	613
Cash and cash equivalents	586	645	676	1,216	1,432
Others	718	900	2,709	823	2,195
<b>Total Assets</b>	<b>36,318</b>	<b>37,203</b>	<b>41,939</b>	<b>45,843</b>	<b>47,267</b>
Insurance contract provisions	30,645	31,379	33,734	37,806	38,911
Borrowings	1,016	1,017	1,064	1,856	1,853
Insurance and other payables	1,109	1,204	1,552	1,805	2,039
Others	90	75	1,733	115	105
<b>Total liabilities</b>	<b>32,860</b>	<b>33,674</b>	<b>38,083</b>	<b>41,582</b>	<b>42,907</b>
Shareholder's equity	3,453	3,523	3,850	4,252	4,350
Non-controlling interest	5	6	6	10	9
<b>Total Equity</b>	<b>3,458</b>	<b>3,528</b>	<b>3,856</b>	<b>4,261</b>	<b>4,360</b>

### Per share data (SGD)

Y/E Dec	FY17	FY18	FY19	FY20	FY21
EPS	3.02	1.28	3.68	3.53	1.46
DPS	0.60	0.60	0.75	0.60	0.60
BVPS	34.99	35.70	39.01	39.15	40.04
Dividend payout ratio	20%	47%	20%	17%	41%

### Supplementary items

Y/E Dec	FY17	FY18	FY19	FY20	FY21
CAR	282%	273%	283%	-	-

### Margins and Ratios

Y/E Dec	FY17	FY18	FY19	FY20	FY21
<b>Growth</b>					
Net Premium	16%	2%	8%	8%	6%
Total operating income	44.2%	-39.2%	89.3%	4.5%	-39.4%
Operating surplus	143.8%	-53.3%	91.1%	14.8%	-54.7%
Net surplus	163.2%	-56.0%	102.1%	20.5%	-57.0%
Net comprehensive Income	96.9%	-57.6%	187.8%	5.5%	-58.4%
<b>Key Ratios</b>					
ROE	8.6%	3.6%	9.5%	9.0%	3.7%
ROA	0.9%	0.3%	0.9%	0.9%	0.3%

Source: Company

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