

11 February 2022

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Insurance Australia Group Ltd

Insurance

HOLD

IAG A\$4.55
TARGET PRICE A\$4.58

Insurance Australia Group Ltd (IAG) engages in underwriting of general insurance and related corporate services. It operates through the following geographical divisions: Australia, New Zealand, and Corporate and Other.

Company Data

Number of shares	2,465.1
Market Capitalisation	\$11,216.2
Free float (%)	99.8
12-month high/low	\$5.45/\$4.23
Average Daily Turnover (\$m)	22.103371
% S&P/ASX200	0.521
DDM Ranking	244
% All Ordinaries	0.451
GICS Industry Group	Insurance

Source: FactSet, Barclay Pearce Capital

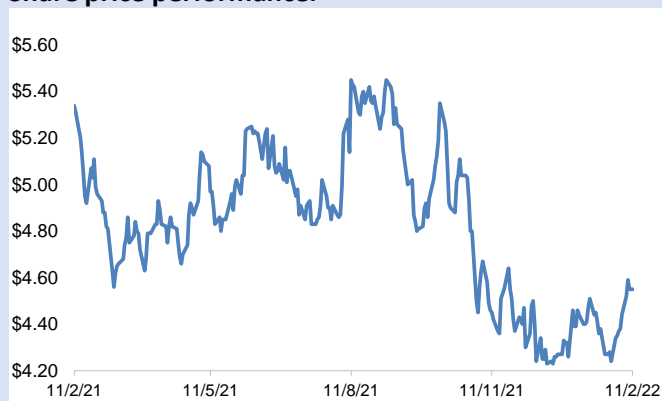
Earnings Summary (AUD)

Year end June	2021A	2022F	2023F	2024F
Revenue (\$M)	12,602.0	13,079.0	13,479.3	13,823.0
EBITDA (\$M)	1,388.2	971.6	1,311.2	1,406.2
Reported NPAT (\$M)	-427.0	579.6	810.5	858.4
Adjusted NPAT (\$M)	747.0	549.2	792.0	846.0
Reported EPS (c)	-17.8	21.1	29.2	31.2
Adjusted EPS (c - FD)	31.2	21.8	30.8	33.1
Adjusted EPS growth (%)	157.6	-29.9	40.8	7.5
Adjusted P/E (x)	14.6	20.8	14.8	13.8
Dividend (c/sh)	20.0	16.9	24.1	25.5
Gross yield (%)	6.3	5.3	7.6	8.0
Net yield (%)	4.4	3.7	5.3	5.6
ROIC (%)	9.0	6.5	9.1	9.4

Source: Barclay Pearce Capital

Barclay Pearce Capital contributes all company estimates to Thomson Reuters, FactSet, Nucleus 195 and Capital IQ.

Share price performance.



Source: FactSet, Barclay Pearce Capital

2022 Half Yearly Report and Accounts

On 11th February 2022, Insurance Australia Group Ltd (IAG) announced its Half Yearly Report and Accounts with the following highlights:

Financial Highlights:

- Strong GWP growth of 6.2%;
 - GWP growth largely rate driven with positive signs of volume growth across key home and motor portfolios in the Australian direct business;
 - Growth momentum improved over the half despite COVID-19 lockdown impacts (~0.6% GWP reduction);
- Confidence in FY22 outlook with GWP guidance upgraded;
 - Forecast GWP growth upgraded to mid single-digit;
 - Forecast reported insurance margin maintained at 10-12%;
- Momentum behind underlying margin of 15.1%;
 - Increase on the 14.7% achieved in FY21;
 - Similar to 1H21 – includes COVID-19 net benefit of around \$55-\$65m which reflects low motor claims frequency partly offset by higher average claims costs and increased operating expenses;
- Lower reported margin of 7.1% impacted by natural perils costs;
 - Natural perils costs above allowance by \$299m in line with market update in November 2021;
 - Modest net reserve strengthening;
 - Positive credit spread impact;
- Net profit after tax of \$173m;
 - No material change to business interruption provision;
 - No net insurance exposure to trade credit via BCC Trade Credit;
 - Exit from Asia near complete with sale of Vietnam business; and
- Cash earnings of \$176m and cash ROE of 5.7%;
 - 1H22 dividend of 6cps (1H21: 7cps).

IAG Managing Director and CFO, Nick Hawkins, said: "IAG delivered a solid performance in 1H22, reflecting the foundations we have put in place to create a stronger and more resilient IAG. We've reset the business with a simpler operating model, new leadership, and a clear strategy for growth which we are investing in to create long-term value for our stakeholders."

We have upgraded our FY22 gross written premium (GWP) guidance from low to mid single-digit growth reflecting the confidence we have in the business and future economic outlook. We've reaffirmed reported insurance margin guidance of 10-12% for FY22."

Earnings changes

IAG has reported diluted cash EPS for 1H22 of 6.77 cps, which is a 62.1% decrease from 1H21. This compares to market expectations of 7 cps for 1H22. Hence, we do not expect any significant earnings revisions for FY22 and future periods.

Valuation

We are updating our 12-month target price from \$5.26 to \$4.58 and are retaining our HOLD recommendation. The price target is underpinned by our valuation.

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Barclay Pearce Capital provides research services to its client. Mr Wright is General Manager of Research and has over twenty (30) years' experience in the financial services industry, particularly in financial analysis and research report writing. Mr Wright joined the Barclay Pearce team in 2021 where he has been involved in the research and publication of reports. Prior to this Mr Wright worked at a number of entities where he held Director/Head of Research and General Manager of Research positions. Mr Wright holds a Bachelor of Mathematics (Honours) from Edinburgh University and has completed the SDIA Accreditation Program (RG146) through DeakinPrime.

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Buy – Describes stocks that we expect to provide a total return (price appreciation plus net yield) of 15% or more within a 12-month period.

Hold – Describes stocks that are neither a buy nor underperform.

Underperform – Describes stocks that we expect to provide a total return (price appreciation plus net yield) of less than minus 10% within a 12-month period.

NR – The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Barclay Pearce Capital policies.

Speculative Buy – Describes stocks we research with a positive bias, whose company fundamentals and/or financials are being covered, but for which there is insufficient information for Barclay Pearce Capital to assign a Buy or Underperform rating.

Free Float (float / current shares outstanding) *100 – This float figure is the number of shares that are available to the public and is calculated by subtracting the shares held by insiders and those deemed to be stagnant shareholders. Stagnant holders include ESOP's, ESOT's, QUEST's, employee benefit trusts, founding shareholder equity stake plus senior management equity stake, corporations not actively managing money, venture capital companies and shares held by Governments.

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Valuation Methodology

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Barclay Pearce Capital Recommendation Proportions

Buy	36.6%	(0.0% of stocks with recommendations are Barclay Pearce clients)
Hold	31.6%	(0.0% of stocks with recommendations are Barclay Pearce clients)
Underperform	31.8%	(0.0% of stocks with recommendations are Barclay Pearce clients)