



Promina First-Half Profit Falls 5.7% on Lower Prices (Update5)

By Kevin Foley

Aug. 29 (Bloomberg) -- Promina Group Ltd., Australia's second-largest auto and home insurer, said first-half profit fell 5.7 percent as competition cut prices, higher interest rates reduced investment returns and a cyclone added to claims.

Net income fell to A\$216 million (\$164 million), or 21 cents a share, from A\$229 million, or 22 cents, a year earlier, Sydney-based Promina said in a statement today.

Chief Executive Officer Mike Wilkins is winning market share from bigger competitor Insurance Australia Group Ltd., with sales of insurance to individuals, including through his AAMI brand, rising 12.4 percent to A\$978 million in the half. Investment revenue fell 27 percent because of losses on bonds.

"The operating side of Promina's business is performing well but the investment side was weaker than we expected," said Karl Siegling, who helps manage A\$40 million at Cadence Capital in Sydney, including Promina stock.

Investment revenue fell to A\$117 million in the half from A\$162 million a year earlier because of losses on fixed-interest securities as interest rates climbed. Australia's central bank has lifted its key lending rate twice this year to a 5 1/2 year high, and New Zealand's rate is at a record 7.25 percent.

Insurance sales rose 7.8 percent to A\$1.73 billion as Promina won market share. Insurance Australia's premium income fell 3.6 percent in the half to A\$3.23 billion.

'A Contrast'

Promina's earnings are "quite a contrast to Insurance Australia, which in our opinion had a pretty poor operating result," said Cadence's Siegling. Insurance Australia's sales to individuals in Australia fell 2.6 percent in the half to A\$1.92 billion.

Shares of Promina closed 5 cents, or 0.9 percent, lower to A\$5.62 in Sydney. The stock is up 19 percent this year, outpacing a 16 percent gain in the seven-member S&P/ASX 200 Insurance Index.

Promina will pay a first-half dividend of 11 cents a share, up from 10.5 cents a year earlier. Profit was less than a A\$221 million median estimate of five analysts surveyed by Bloomberg.

The insurance margin, a measure of the profitability of policies, fell to 8.9 percent from 11.4 percent as claims increased and investment income

declined. The margin is underwriting profit plus investment returns as a percentage of premium income.

Sales Growth Forecast

Wilkins forecast at least 5 percent annual growth in sales through 2008, and a minimum average annual margin of 10 percent.

Promina will buy back a further A\$75 million of shares, doubling the amount of stock it plans to repurchase. It will also sell A\$150 million of bonds in the second half.

The insurer said claims from Cyclone Larry, the most powerful storm to hit Australia in 30 years, were A\$47 million pretax, crimping earnings. Larry, a category 5 storm, packed winds of 290 kilometers (180 miles) an hour as it tore through the north of Queensland state in March.

"We continue to believe that Promina has a strong likelihood of meeting premium growth guidance" as it continues to win market share in personal insurance, Ralph Butterworth, an analyst at UBS AG in Sydney, said in a report after the result. He rates Promina "buy" with a stock-price target of A\$6.80.

Butterworth ranks Promina's AAMI unit, which sells auto and home policies to more than 2 million individuals, as Australia's best domestic general insurance brand.

Insurance Australia, the nation's largest auto and home insurer, last week said second-half profit fell 13 percent to A\$298 million as increased competition cut policy prices and Cyclone Larry caused A\$165 million of claims.

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