



MACQUARIE
ACN 002 574 923

Macquarie Private Wealth

Snapshot

Insurance Australia Group

Business Description

Insurance Australia Group Ltd (IAG) is the largest general insurer in Australia and New Zealand, providing personal and commercial insurance policies under the brands NRMA Insurance, CGU, SGIO, SGIC and Swann Insurance. IAG also underwrites motor, home and some other lines of insurance for RACV in Victoria and has operations in Thailand, the UK, Malaysia and China.

Strategy Analysis

IAG's targets are top-quartile shareholder returns and a cash ROE of 1.5 times WACC. The strategy is to accelerate growth in Australia and New Zealand, lift Asian premiums to 10% of total gross written premiums by 2016 and return the UK business to profit. Specific steps are to build on momentum in the Australia Direct business through a focus on customers' needs and consistent product offerings, ride an eventual upturn in commercial lines, and in New Zealand to increase market share by developing a reputation for customer service after major claims events. The Asian expansion plans include existing markets of Malaysia, Thailand and India, and in new target markets of China, Vietnam and Indonesia. Insurance Australia Group reported NPAT of \$250m for the year ended 30 June 2011. Revenues from ordinary activities were \$12.25bn, up 30.5% from last year. Diluted EPS was 12.01 cents compared to 4.36 cents last year. Net operating cash flow was \$620m compared to \$1.12bn last year. The final dividend declared was 7 cents, taking the full year dividend to 16 cents compared with 13 cents last year. Insurance and investment operations are, by their nature, volatile due to the exposure to natural perils and industry cycles and thus profit predictions are difficult. Nonetheless, the group's guidance for the year ending 30 June 2012 is: GWP growth of 6-9%; and an insurance margin in the range of 10-12%.

27 January 2012

Recommendation

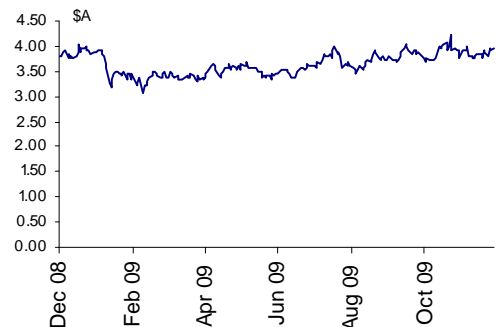
Recommendation: Neutral
Relative to: All Ind (ex Fins)

Investment Fundamentals

ASX code: IAG
Stock price: \$2.86
Market cap: \$5,946m

	Y/E 30/06/2012	2012e	2013e	2014e	2015e
Reported e	\$m	359.5	620.2	658.1	649.4
Adjusted e	\$m	407.5	668.2	706.1	697.4
EPS adjusted	¢	19.5	32.0	33.8	33.4
EPS growth	%	-4.9	64.0	5.7	-1.2
PE	x	14.7	8.9	8.5	8.6
PE relative	x	1.2	0.9	0.9	0.9
DPS	¢	13.0	21.0	20.5	20.5
Yield	%	4.5	7.3	7.2	7.2
Franking	%	100.0	100.0	100.0	100.0

Share Price



Source: ASX and Company accounts

Segment Performance

Results by Industry	Revenue (%)	Return on Sales (%)	Return on Assets (%)	Annual Shareholders' Return	
				1 year	3 year
Australia Direct Insurance	37.7	0.0	15.5	-21.0%	-6.0%
New Zealand Insurance	27.6	0.0	0.1	-11.0%	3.0%
Australia Intermediate Insurance	25.9	0.0	4.6		
United Kingdom Insurance	6.8	0.0	-21.9		
Asia Insurance	1.9	0.0	-3.0		
Total	99.9	0.0	-4.7		
				Dividend Reinvestment Plan	Yes
				Shareholder Discounts	No
Results by Geography					
Asia	0.0	0.0	0.0		
Australia	0.0	0.0	0.0		
New Zealand	0.0	0.0	0.0		
United Kingdom	0.0	0.0	0.0		
Total	0.0	0.0	0.0		

Company contact details:

Insurance Australia Group Limited
Level 26, 388 George St
Sydney NSW 2000
Tel: +61 2 9292 9222
www.iag.com.au

If you have any queries regarding this Research information or with any aspect of your legalsuper account please call legalsuper on 1800 060 312 (freecall) or email mail@legalsuper.com.au

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