nib holdings limited (nib) today announced a pre-tax underwriting profit of $61.5 million for the 12 months ended 30 June 2011 (FY11). The result was up 31% on FY10 with premium revenue reaching $1 billion for the first time, having grown by 12%.

nib’s Managing Director, Mr Mark Fitzgibbon, said FY11 was a strong result that continued nib’s track record of growth across key metrics.

“Our FY11 result saw continued underlying profitability improvement. Once again we grew much faster than the industry, with net policyholder growth of 6% in our domestic health insurance business, well ahead of the industry average of 3.2%,” Mr Fitzgibbon said.

This represents the eighth consecutive year nib’s growth has outstripped overall system growth and reflects nib’s successful brand positioning, product innovation and focus on customer service.

“Organic growth combined with margin improvement continues to be a key driver of earnings with pre-tax underwriting profit up 31% to $61.5 million. While our investment in newer and higher margin businesses, in particular our International Workers business, has also contributed,” Mr Fitzgibbon added.

An investment return of $32.1 million or 6.6% was in line with portfolio benchmarks. Consolidated net profit after tax was $65.5 million, compared to $61.5 million last year. Earnings per share were 13.7 cents with return on equity of 16.5% and operating cash flow of $88.3 million.

**New revenue and earnings**

nib’s efforts to lift market share has not blunted its determination to build new sources of earnings. Significant progress was made in FY11 to expand nib’s International Workers and International Students businesses with the goal that these businesses will in time, make a very meaningful contribution towards earnings.

International Workers includes the IMAN business which nib acquired in October 2010 for approximately $23 million. IMAN’s premium revenue for the nine months to 30 June 2011 was $16 million with a net underwriting result of $2.8 million.

The International Students business is in the early stages of development and made a small loss for FY11 due to set up costs. The business is however, already yielding positive results with nib having acquired student business from UAE, Kuwait and Malaysia.

Pre-tax earnings from life and travel insurance commissions for the FY11 totalled $1 million.

**Dividends & capital management**

nib declared a final fully franked dividend of 9 cents per share (cps) totalling $42 million comprising an ordinary dividend of 4 cps and a special dividend of 5 cps. nib’s FY11 full year dividend was 13 cps (8 cps ordinary, 5 cps special), reflecting a payout ratio of 93%.

nib’s dividend policy will continue to reflect a payout ratio of fully franked dividends between 50% to 60% of full year NPAT and to the extent made possible by franking credits, the release of surplus capital.
Following shareholder approval at the company’s General Meeting on 5 July 2011, a Capital Return of approximately $75 million ($0.1607 per nib share) was distributed to shareholders on 21 July 2011.

As at 30 June 2011, after allowing for the 2011 final dividend payment and Capital Return, nib had $63 million of surplus funds above the company’s internal prudential target.

Mr Fitzgibbon said capital management will remain a focus for the business over the next 12 months as nib seeks to further improve return on invested capital.

“We will continue to prudently buy back shares and pay special dividends when possible through franking credit availability. The Board will also consider an additional capital return in 2012 depending upon our capital position. However we’re as keen as ever on finding M&A investment opportunities and they certainly can’t be ruled out. This industry remains terribly fragmented and the potential for synergies and value enhancement are very significant. And of course, we are very open-minded to how nib might play a role in orderly industry consolidation.”

FY12 guidance and outlook

According to Mr Fitzgibbon, despite uncertainty regarding the broader macro economic outlook, nib is expected to deliver strong policyholder growth and maintain double digit underlying earnings accretion in FY12.

“The outlook for the Australian private health insurance sector is fairly strong and we expect industry wide policyholder growth for FY12 will be 3%.

“As we see around the world, people will continue to spend more on their healthcare and Governments will have little alternative but allow an increased role for the private sector. There may be some ‘bumps in the road’ such as the proposed means testing of the 30% private health insurance rebate, but even if this gets up, private health insurance will inevitably become more and more significant in the total scheme of things.

“Within this context, nib will continue to grow market share particularly in our under 40s target market as well as look to emulate the success we’ve had to date with targeted campaigns in the seniors and corporate markets.

“Net policyholder growth in our health insurance business is forecast to be in the range of 5% to 6% for FY12. Pre-tax underwriting profit, including our nascent international operations, is forecast to be between $65 million to $70 million,” Mr Fitzgibbon added.

Mr Fitzgibbon also acknowledged nib’s Chairman Mr Keith Lynch who will retire on 30 September 2011.

“Keith has made an amazing contribution to the success of nib over the past 30 years. Leading nib through a period of significant change and unprecedented growth, Keith was instrumental in transforming the company from a not-for-profit mutual organisation into a national and ASX-listed private health insurer.

“I would like to thank Keith for his guidance and unwavering support and wish him well in retirement.”

Independent Non Executive Director, Mr Steve Crane, has been appointed Chairman effective 1 October 2011.