nib holdings limited (nib) today announced a pre-tax underwriting profit of $42.7 million for the six months ended 31 December 2011 (1H11: $40.9 million). The improved year-on-year result was on the back of premium revenue growth of 12%.

nib’s Managing Director, Mr Mark Fitzgibbon, said the half year result had nib well positioned to again deliver improved underwriting profitability for the full financial year.

“Underwriting performance continues to reflect above industry average organic growth and an increasing contribution by our international workers business,” Mr Fitzgibbon said.

Net profit after tax of $38.3 million was marginally down (1H11: $39.0 million) due to a $6.2 million reduction in net investment income. The investment returns achieved over 1H12 were consistent with external market conditions and in line with relevant benchmarks, but a reduction in actual funds invested had a significant impact. There were less invested funds following capital management initiatives undertaken such as the $75 million Capital Return (July 2011) and payment of $23.3 million in special dividends (September 2011).

Return on equity for the first half was very strong at 18.0% (1H11: 14.8%), while earnings per share was up 2.5% to 8.2 cps (1H11: 8.0 cps).

“Achieving returns above our cost of capital is our main commercial aim and our challenge from here is to improve even further. At the same time, we more than understand this only comes with doing what we do very well and being the private health insurer of choice for people, we’ll never lose sight of that,” Mr Fitzgibbon said.

Dividends & capital management

nib declared an interim fully franked ordinary dividend of 4.25 cps (1H11: 4.0 cps) totalling $19.8 million.

As at 31 December 2011, after allowing for the interim dividend payment (payable 5 April 2012), nib had approximately $57 million of surplus funds above the company’s internal prudential target and no debt.

Mr Fitzgibbon said nib’s ordinary dividend policy will continue to reflect a sustainable payout ratio of fully franked dividends between 50 - 60% of full year NPAT. To the extent made possible by franking credits, the nib Board would also look to pay additional special dividends at the end of each financial year as a cornerstone of its capital management.

“Capital management is a top priority and in the absence of any clear and present acquisition opportunities emerging, the Board will continue to release surplus funds through a combination of special dividends, on-market share buy back and potential capital returns.”

Guidance & outlook

According to Mr Fitzgibbon, despite some uncertainty in the economy and changes to the 30% private health insurance (PHI) rebate, nib expects continued PHI growth given rising incomes, deep community concern about the public health system and the attractiveness of nib products. As such, nib plans to escalate its investment in organic growth during the second half of the year.

Date: Monday 20 February 2012
Subject: nib continues to deliver strong underlying earnings growth for first half FY12

- Premium revenue up 12.0% to $554.4 million
- Pre-tax underwriting profit up 4.5% to $42.7 million
- Earnings per share up from 8.0 cps to 8.2 cps
- Consolidated profit after tax marginally down to $38.3 million given lower investment returns
- Return on Equity\(^1\) up from 14.8% to 18.0%
- Interim dividend of 4.25cps fully franked up 6.3% (1H11: 4.0 cps)

\(^1\) Using average shareholders’ equity over rolling 12 month period
“The means testing of the 30% rebate is unhelpful and runs the serious risk of lowering PHI participation when more than ever, the public health system needs relief from burgeoning demand. Our analysis continues to suggest 4,700 or 0.6% of nib customers may drop their nib cover beyond normal lapse rates in FY13 because of the change. And we forecast another 19,600 or 2.3% of nib customers could downgrade their cover beyond normal levels in FY13. But it is what it is and we remain confident about ongoing sales performance, achieving a satisfactory return on our investment and, consistent with previous guidance, expect additional policyholder growth of 6 per cent this full financial year.”

nib has maintained its 2012 full year pre-tax net underwriting profit guidance of $65 million to $70 million, with investment in organic growth likely to see the result at the lower end of this range.

nib’s 2012 pricing submission is currently with the Federal Minister for Health for approval. The 2012 price change, subject to the Minister’s approval, will be effective 1 April 2012.

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