

Prudential PLC

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Prudential, Balfour Beatty and UK inflation data to dominate Wednesday's news agenda

Prudential PLC (LON:PRU) is nearing the completion of its planned demerger so this will be a key area of focus when the group reports its first-half results on Wednesday.

The life insurance and pensions giant is splitting its business into two by spinning off its UK and Europe operations into a separate company called M&G while keeping Prudential PLC focused on Asia and the US.

The demerger is expected to be completed at some point between the third quarter of this year and the first quarter of next so investors are looking for an update on that front.

In terms of the financials, analysts at UBS expect Prudential to post operating profit of £2.62bn for the first half, up 9% on last year.

"This is driven by Asia £1.1bn (up 20% year-on-year, +4% vs cons), US £1.28bn (up 28% due to DAC benefit, +10% vs cons), UK £0.35bn (up 65% due to management actions, +11% vs cons), M&G £0.25bn (-8% y-o-y, in-line vs cons) and Eastspring £0.1bn (up 6% y-o-y, -4% vs cons)," they said.

The analysts predict the value of new business rose 6% to £1.89bn. The interim dividend is expected to be raised by 5% to 16.45p, representing a third of the 2018 dividend.

Admiral results to be 'relatively flat', says broker

Shares in Admiral Group PLC (LON:ADM) have skidded 10% lower in the past month as the motor and home insurer has faced a few bumps in the road in 2019, putting a pause on what has been an enjoyable time for investors in previous years.

With the insurance market providing a challenging backdrop due to a combination of higher claims inflation and little upwards movement in price, the UK general insurance sector has underperformed its European peers, with many analysts sellers.

However, Barclays reckons the market might be starting to turn up, giving a double upgrade to Admiral back in June, believing insurance premiums had reached an inflection point in the second quarter.

"To us this confirms the positive stance on UK motor insurers that should see cyclical tailwinds and close the performance gap to European P&C insurers," Barclays added in July.

Shore Capital, on the other hand felt that price indices show continued declines in motor pricing, with the decline in prices "smaller than seen in 2018 but not yet at the point of price increases".

Furthermore, last month the government raised the so-called Ogden discount rate, meaning that UK insurers will have

Price: 1267

Market Cap: £32.96 billion

1 Year Share Price Graph



Share Information

Code: PRU

Listing: LSE

52 week High Low
1532.78 1109.67

Sector: Financial Services

Website: www.prudential.com

Company Synopsis:

Prudential PLC is a provider of life insurance, investment and savings products. In October 2019 it spun off its UK-focused arm M&G PLC, leaving Prudential as an Asia-led group. Prudential PLC has 20 million customers and is listed on stock exchanges in London, Hong Kong, Singapore and New York. Prudential PLC is not affiliated in any manner with Prudential Financial, Inc.

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to pay out less to people who are seriously injured in motor accidents, but the hike was smaller than analysts had suggested.

And if that wasn't enough, the Financial Conduct Authority launched a probe into what it called the "excessive difference between premiums charged to new customers and those renewing".

Peel Hunt expects the results to be "relatively flat", with its main focus being on the company's "ability to push through rate increases ahead of claims inflation", having cut its earnings per share forecasts by 17% for the full year as it sees lower reserve releases and commission income on the back of Ogden.

The consensus forecast for the interim dividend is 56.5p.

Probe to overshadow Balfour Beatty results

Construction group Balfour Beatty plc (LON:BBY) is scheduled to published half-year results on Wednesday as uncertainty still clouds its US resident housing arm.

Balfour Beatty Communities, which operates 21 military housing bases for the US Air Force, is being investigated over reports that it falsified maintenance records at three bases, helping it earn incentive fees.

Balfour has appointed a law firm to investigate after the Air Force froze incentive fees at all 21 bases, which are worth 13% of its \$33mln in annual military housing net income, until an independent review on the book-keeping has been provided.

Analysts at UBS said it believes "the key focus will be on the downside risk stemming from the issues in the US military housing portfolio", which "could result in some modest risk to short-term profit guidance".

Otherwise the Swiss bank does not expect material changes to the outlook, as chief executive Leo Quinn has simplified the group and continues on his turnaround strategy. UBS has pencilled in half-year revenues of £4bn and profit from operations of £81mln, including divestment gains of £15mln, with pre-exceptional profit before tax of £73mln.

UK inflation tipped to fall

More UK economic data is due on Wednesday, following on from Tuesday's jobs report, which showed a record number of people in employment and a rise in wages.

As economists turn their attention to the consumer price inflation data, RBC predicts the annual growth rate will slip from 2.0% in June to 1.8% in July.

CPI has averaged 2% since the start of the year, which is in line with the Bank of England's target.

However, economists think this steady course of inflation is unlikely to last given the recent slump in the value of the pound, sparked by hardline Brexiter Boris Johnson becoming prime minister.

The retail price index for July will also be watched closely given that it is used to determine the price hike for rail fares.

On Thursday the ONS said it had found errors in the weighting of different goods in the basket of items used in RPI.

June's RPI rate should have been 2.8% rather than 2.9% while March's rate of RPI should have been 2.5% rather than 2.4%, it said.

There have been calls to scrap RPI since the ONS has said for several years that it no longer gives an accurate measure of inflation.

Significant events expected on Wednesday August 14:

Interims: Admiral PLC (LON:ADM), Apax Global PLC (LON:APAX), Avast PLC (LON:AVST), Balfour Beatty plc

(LON:BBY), Lookers PLC (LON:LOOK), Network International PLC (LON:NETW), Prudential PLC (LON:PRU), Bank of Georgia Group PLC (LON:BGEO), IndigoVision PLC (LON:IND), Electronica Regs PLC (LON:ELSA)

Economic data: China retail sales, China industrial production, UK CPI and RPI, Eurozone GDP, US import prices

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