Syarikat Takaful M'sia Keluarga

Staying Ahead

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MARKET PERFORM ↓

Price : **RM6.95**

Target Price : **RM7.15 ↑**

Post-meeting, we are assured by TAKAFUL's near-term outlook. Its market-leading position in the takaful insurance space is complemented by bancassurance tie-ins, with anticipated fruition from other fronts (i.e. employee benefits, motor). While we raise our TP to RM7.15 (from RM6.50) on higher valuations premised on the stock's defensiveness against the pending fire insurance review, we downgrade it to MP on limited capital upside.

Conducive partnerships. Recall that in 1Q19, TAKAFUL registered a YoY PATAMI growth of 38% to RM96.4m. This was led by new bancassurance partnerships (namely Bank Rakyat) since July 2018 which boosted the group's credit-related products. Contribution from the segment is expected to sustain, accounting for c.40% of the group's gross contributions. Further expansion in this segment and other insurance segments could be fuelled by Bank Negara's directive to increase Malaysia's Islamic finance mix to 40% by 2020.

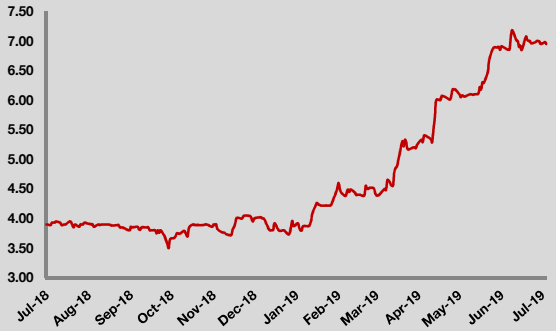
Enabling digitalisation. With a growing online distribution presence, the group looks to capture a larger share within the employee benefits market. This could add up to the group's medical coverage division, which is estimated to make up 20% of contributions, in addition to offering value-added services to prospective employers. Digitalisation could also lead to better accessibility and convenience for its motor insurers which could serve as an incentive to subscribe with TAKAFUL. On the other hand, an increase in adoption of the online platforms could result in lower commission expenses and agent fees, hence a leaner operating landscape. We also opine that digitalisation could extend the group's footprint towards less assessable markets (i.e. rural, sub-urban areas).

Holding the fort. Still the industry leader within the Takaful space, we believe the group could gain traction from its trusted brand equity in the market. Aside for the above key segments, a larger agency force will facilitate more client-facing offerings (i.e. term-insurances, investment-linked products), though not expected to contribute significantly to the group. With regards to fire insurance, a pending review is expected to be brought up by Bank Negara during this 2H19 period, which could potentially see a similar track to the liberalise and detariffy the segment. Regardless, we believe it may not impact the TAKAFUL group as significantly as other players given their proportionately lower exposure to the insurance class (accounting for c.10% of gross contributions vs other players at c.40%).

Downgrade to MARKET PERFORM (from OUTPERFORM) but with a higher TP of RM7.15 (from RM6.50, previously). While we leave our earnings estimates unchanged, we upgrade our blended valuations to 16.0x/4.0x FY20E PER/PBV (from 15.0x/3.5x, previously), moving to +1SD from the previously pegged 3-year forward average. We believe that the stock's limited exposure and risks to the Fire Insurance review could attract attention from investors seeking a defensive position in the insurance space. However, the buying rally of the stock led by its stellar results have diluted its dividend yields to less than 3%, which may keep some investors away with the limited capital upside. Hence our downgrade to Market Perform.

Risks to our call include: (i) higher/lower premium underwritten, (ii) higher/lower-than-expected claims incurred, and (iii) higher/lower-than-expected management expense ratio.

Share Price Performance



KLCI	1,668.94
YTD KLCI chg	-1.3%
YTD stock price chg	82.9%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	STMB MK Equity
Market Cap (RM m)	5,746.2
Shares Outstanding	826.8
52-week range (H)	7.18
52-week range (L)	3.50
3-mth avg daily vol	1,124,518
Free Float	28%
Beta	0.5

Major Shareholders

BIMB Holdings Sdn Bhd	59.5%
Employees Provident Fund	8.5%
Islamic Development Bank	4.2%

Summary Earnings Table

FY Dec (RM'm)	2018A	2019E	2020E
Gross Premium	**2,294**	**2,747**	**3,021**
Net Premium	**1,942**	**2,318**	**2,567**
Other Income	327	402	373
Total Income	**2,268**	**2,721**	**2,940**
Pre-tax Profit	337	441	460
Net profit (NP)	**293**	**363**	**379**
Core PATAMI	**278**	**366**	**382**
Consensus NP	-	367	409
Earnings Revision (%)	-	0.0%	0.0%
Core EPS (sen)	33.8	44.4	46.3
EPS growth (%)	42.7%	24.0%	4.4%
DPS (sen)	15.0	19.0	20.0
BVPS (RM)	1.19	1.45	1.71
ROE (%)	32.7%	33.6%	29.3%
PER (x)	20.6	15.7	15.0
PBV (x)	5.8	4.8	4.1
Net Div. Yield (%)	2.2%	2.7%	2.9%

Income Statement

FY Dec (RM m)	2016A	2017A	2018A	2019E	2020E
Operating revenue	**2,013**	**2,139**	**2,639**	**2,708**	**2,933**
Takaful op. income	648	711	904	997	1,107
Gross earned premium	1,728	1,819	2,294	2,747	3,021
Net earned premium	**1,486**	**1,521**	**1,942**	**2,318**	**2,567**
Other income	357	406	327	402	373
Net benefits & claims	(866)	(812)	(999)	(1,199)	(1,267)
Other operating exp	(490)	(493)	(579)	(643)	(706)
Pre-tax profit	221	254	337	441	460
Zakat	(0)	(1)	(1)	(1)	(1)
Tax expense	(46)	(48)	(43)	(77)	(81)
Net profit	**174**	**205**	**293**	**363**	**379**
Core PATAMI	**176**	**207**	**278**	**366**	**382**

Balance Sheet

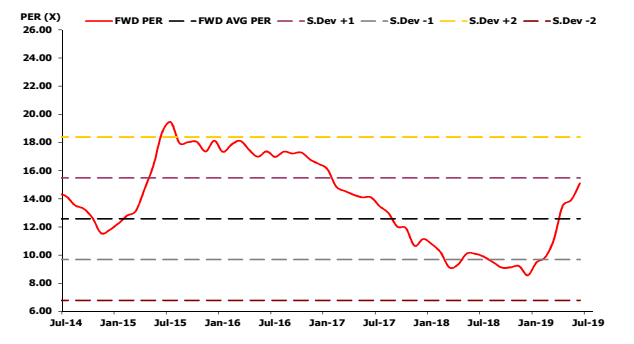
FY Dec (RM m)	2016A	2017A	2018A	2019E	2020E
Net Fixed Assets	275	273	277	250	222
Other investments	4,519	4,925	5,488	5,488	5,488
Retakaful assets	468	506	537	559	615
Receivables	1,475	1,486	1,494	1,555	1,710
Cash equivalents	942	921	1,006	2,070	2,247
Other assets	79	84	130	130	130
Total assets	**7,758**	**8,195**	**8,932**	**10,052**	**10,412**
Takaful liabilities	6,436	6,710	7,128	7,128	7,128
Total Payables	417	436	521	1,432	1,575
Other Liabilities	162	216	271	271	271
Total liabilities	**7,015**	**7,361**	**7,919**	**8,831**	**8,973**
Share Capital	164	179	185	185	185
Reserves	564	639	798	1,007	1,224
Shareholders' Eq.	**728**	**819**	**984**	**1,193**	**1,410**
Minority interest	15	15	29	29	29
Total liability & eq.	**7,758**	**8,195**	**8,932**	**10,052**	**10,412**

Financial Data & Ratios

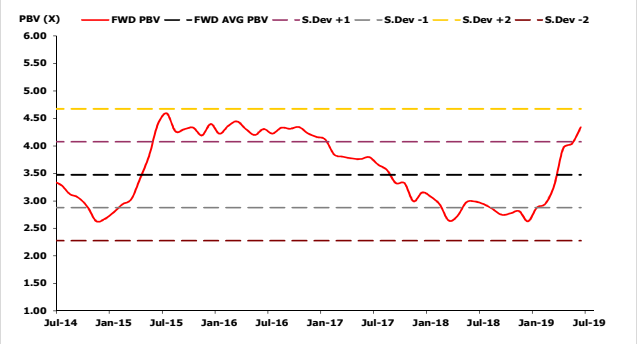
FY Dec (RM m)	2016A	2017A	2018A	2019E	2020E
Growth (%)					
Operating revenue	12.6%	6.3%	23.4%	2.6%	8.3%
Takaful op. income	21.2%	9.7%	27.1%	10.3%	11.0%
Gross earned premium	13.8%	5.2%	26.1%	19.7%	10.0%
Net earned premium	18.3%	2.4%	27.6%	19.4%	10.7%
Other income	6.4%	13.9%	-19.5%	23.2%	-7.4%
Pre-tax Profit	8.2%	14.8%	32.9%	30.9%	4.4%
Net Profit	13.0%	17.3%	42.7%	24.0%	4.4%
EPS	6.8%	17.5%	42.5%	23.9%	4.4%
Operating Metrics (%)					
Reinsurance Ratio	14.0%	16.4%	15.4%	15.6%	15.0%
Retention Ratio	86.0%	83.6%	84.6%	84.4%	85.0%
Claims Incurred Ratio	50.1%	44.7%	43.6%	43.6%	41.9%
Commission expenses	8.0%	8.0%	8.0%	8.0%	8.0%
Mgmt Expense Ratio	20.3%	18.6%	16.8%	18.6%	18.6%
Combined Ratio	78.4%	71.3%	68.4%	70.2%	68.6%
Effective Tax	20.9%	18.7%	12.9%	17.5%	17.5%
ROA	2.3%	2.6%	3.4%	3.9%	3.7%
ROE	24.9%	26.7%	32.7%	33.6%	29.3%
Valuation					
Core EPS (RM)	0.21	0.25	0.34	0.44	0.46
PER (x)	32.5	27.7	20.6	15.7	15.0
Div. Yld. (%)	1.7%	2.2%	2.2%	2.7%	2.9%
BVPS (RM)	0.88	0.99	1.19	1.45	1.71
PBV (x)	7.9	7.0	5.8	4.8	4.1

Source: Kenanga Research

Fwd PER Band



Fwd PBV Band



Source: Bloomberg, Kenanga Research

Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
NON-BANK FINANCIAL INSTITUTIONS																	
AEON CREDIT SERVICE (M) BHD	16.76	4,205.0	N	02/2020	12.3%	14.3%	-2.9%	13.7%	12.5	12.9	11.4	2.9	2.5	20.5%	2.7%	14.75	UP
BURSA MALAYSIA BHD	6.98	5,643.4	Y	12/2019	-2.5%	13.4%	-9.7%	9.0%	25.1	27.8	25.5	6.3	6.2	22.6%	3.4%	6.85	MP
LPI CAPITAL BHD	16.18	6,445.8	N	12/2019	-19.7%	6.2%	6.6%	1.7%	20.5	19.3	18.9	3.0	3.0	15.5%	4.4%	16.50	MP
SYARIKAT TAKAFUL MALAYSIA KELUARGA BHD	6.95	5,746.2	Y	12/2019	19.7%	10.0%	31.5%	4.4%	20.6	15.7	15.0	5.8	4.8	33.6%	2.7%	7.15	MP
Simple Average					**2.5%**	**11.0%**	**6.4%**	**7.2%**	**19.7**	**18.9**	**17.7**	**4.5**	**4.1**	**23.0%**	**3.3%**		

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

******Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

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