

18 September 2019

# Allianz Malaysia Bhd

## A Sound Policy

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### INVESTMENT MERIT

**We call a “Trading Buy” on ALLIANZ with a FV of RM16.60 based on SoP valuation. The group is leveraging well on its market leader position in national motor insurance segment and has also delivered better-than-industry performance in the life insurance segment. Though cost ratios seem peakish, we anticipate a recovery as the group works towards a less motor dependent base while keeping cost management tight.**

**Highly motorised general business.** The group’s general business is predominantly made up by motor insurances at c.60% (vs peers’ 20-40%). Possibly thanks to its market leader status and being the preferred choice by consumers, ALLIANZ held steady against the 2017 motor liberalisation while also securing a 3% growth then. New car launches (i.e. Proton X70) could keep its business vibrant but management is cautious on the sustainability of its exceptional 1H19 claims ratio of 63.7% (where industry averaged at 69.8%).

We are not overly concerned about this affecting the group’s longer term outlook, having already sailed through what could have been the most competitive and compressive phase of the business, with a strong agency front to boot.

**Outperforming industry in life.** Based on statistics from the Life Insurance Association of Malaysia, the group registered a 5-year 2018 CAGR in annualised new premiums (ANP) of 8.2% (vs industry of 5.6%). The segment is backed by effective agency support in both traditional and investment-linked offerings with active product re-pricing to keep premiums relevant. This reflects the group’s commendable lapse ratio of 11.1% in 2Q19 from a high of 15.2% in 4Q17. On top of registering growth, this also works in improving policyholders’ stickiness with its 2Q19 persistency ratio coming in at 87.7% (vs 1Q15 of 81.9%).

**Finding a place in long-term sustainability.** With regards to costs, we gathered that ALLIANZ could be on the higher end with the expected combined ratio for General Insurance to linger at c.90% against estimated peers’ average of c.70%. We suspect this could be due to its high motor mix which saw heavy margin compression from its detariffication. However, we are not overly concerned by this comparison as claims from here are still better managed than overall industry levels (i.e. 93.2% in 2Q19). Continual efforts to tighten claim management and digital initiatives across businesses should keep profitability in check. On another note, management aspires to promote more non-motor insurance products, which we anticipate could improve profitability. Premised by this, **we forecast FY19/FY20 to see net premium and net profit growth of 3%/4% and 5%/9%.**

**Paying its due in dividends.** Though without a dividend policy, we noted that until FY18, the group had consistently paid less than 10% of earnings to ordinary shareholders. Management hopes to continue paying, and more generously, which we forecast to be at c.20% payout.

**We call “Trading Buy” with a FV of RM16.60.** Our call is based on a FD-SoP of ascribing; (i) 1.4x on our estimate for the General Insurance segment’s FY20 book value (close to its 3-year mean), and (ii) 1.0x on a guided embedded value of its Life Insurance segment of RM2.5b. Against its peers which trade at Fwd. PBV valuations of 3.0x-4.0x, ALLIANZ appears to be trading much more cheaply at less than 1.0x. This is likely skewed by the stock’s lower liquidity. Still, we see the stock’s value proposition as being: (i) the largest general insurer in the country and proxy to the Allianz International Group, and (ii) resilient and defensive exposure in the insurance space.

	Rating	Fair Value
Last Price	-	RM14.58
Kenanga	Trading Buy	RM16.60
Consensus	Trading Buy	RM16.92

### Stock Information

Shariah Compliant	No
Stock Name	Allianz Malaysia Bhd
CAT Code	1163
Industry	Insurance
Industry Sub-sector	Life/Health Insurance
YTD stock price chg	12.15%
Market Cap (RM'm)	2,577.27
Shares Outstanding (m)	176.77
52-week range (Hi)	14.98
52-week range (Low)	11.7
3-mth avg daily vol	27,867
Free Float	21.4%
Beta	0.61
Altman’s Z-score	No

### Major Shareholders

Allianz SE	65.3%
Employees Provident Fund	4.4%
Kumpulan Wang Persaraan	3.5%

### Financials

FY Dec (RM m)	2018A	2019E	2020E
<b>Operating Revenue</b>	5,182	5,348	5,583
Gross Premiums	4,547	4,604	4,766
<b>Net Premiums</b>	4,180	4,286	4,430
PBT	519	573	627
<b>PATAMI</b>	<b>377</b>	<b>396</b>	<b>433</b>
EPS (sen)	217.0	227.6	249.3
BV/Share (RM)	16.2	17.5	19.0
PER (x)	6.7	6.4	5.8
Price/BV (x)	0.9	0.8	0.8
DPS (sen)	40.0	47.0	51.0
Div Yield (%)	2.7%	3.2%	3.5%

### Quarterly Financial Data (RM'm)

	4Q18	1Q19	2Q19
<b>Operating Revenue</b>	<b>1,302</b>	<b>1,344</b>	<b>1,366</b>
Gross Premiums	1,142	1,183	1,195
<b>Net Premiums</b>	<b>1,052</b>	<b>1,100</b>	<b>1,105</b>
PBT	128	151	178
<b>PATAMI</b>	<b>100</b>	<b>99</b>	<b>118</b>
Basic EPS (sen)	29.1	28.6	34.0
Revenue Growth (QoQ)	0.0%	3.2%	1.6%
EPS growth (QoQ)	0.8%	-1.7%	19.0%
PATAMI Margin	7.7%	7.4%	8.6%

Peers Comparisons	PBV (1y-fwd)	Div. Yld (%)	Mkt Cap (RM'm)
LPI	2.9	4.6%	6,310
TAKAFUL	4.0	3.2%	4,845
<b>Average</b>	<b>3.5</b>	<b>3.9%</b>	-

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**Risks to our call include:** (i) slower-than-expected premium growth, (ii) higher-than-expected claims ratio, and (iii) lower-than-expected investment gains.

Allianz Sum-of-Parts Valuation				
Valuation method	Segment	FY20E (RM'm)	Valuation (x)	FY20E Value (RM'm)
P/BV	General Insurance	2,306.9	1.4	3,233.1
P/Embedded Value	Life Insurance (EV + New Business Value)	2,500.0	1.0	2,500.0
<b>Total Equity Value</b>				<b>5,733.1</b>
<b>Fully Diluted Shares ('m)</b>				<b>345.4</b>
- Ordinary Shares ('m)				173.8
- Irredeemable Convertible Preference Shares ('m)				171.6
<b>RM Value/Share</b>				<b>16.60</b>

Source: Kenanga Research



CORPORATE STRUCTURE	BUSINESS OVERVIEW
	<p>Allianz Malaysia is an insurance underwriter for both comprehensive general and life insurances. The group is mainly helmed by an agency-centric front of over 7,000 personnel, seconded by its franchise and brokerage distribution channels.</p>
	<p><b>BUSINESS SEGMENTS</b></p> <p><b>General insurance:</b> encompasses the underwriting of motor, fire, marine, personal accident and health, as well as miscellaneous insurances</p> <p><b>Life insurance:</b> generically caters to single premium and perpetual insurances policies</p>

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