

Syarikat Takaful M'sia Keluarga

Buy the Book

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Post-meeting, we are assured by TAKAFUL's near-term outlook. While top-line growth could be less exciting as banca-partnership yields plateau, its efficient operating set-up should keep bottom-line expansion healthy. Its strong balance sheet remains one of the leading merits of the group. Upgrade to OP (from MP) but with a lower TP of RM6.85 (from RM7.15) as we move to a PBV only valuation from a blended PER/PBV methodology previously.

Yields from bancassurance still bearing but could be less fruitful. Since July 2018, thanks to its bancassurance tie-ins (namely Bank Rakyat), TAKAFUL has been registering a solid growth trajectory, especially from its credit-related single-premium products. Going forward, the segment is likely to remain the biggest contributor (est. 50%) to top-line, having led the 32% YoY growth in net earned premiums (NEP). However, we anticipate NEP expansions going forward to be more peckish as the group's business fully moves to higher sequentially base levels. That being said, the group should remain a beneficiary of Bank Negara's directive for a greater Islamic finance mix locally of 40% by 2020.

Sustainability is key. From its recent 1H19 results, the group posted healthier claims incurred ratio at 41.9% (-14.6ppt) and management expense ratio at 9.2% (-0.1ppt). Having built a strong top-line base, we believe the group could put emphasis on its already stellar operating ratios to further boost sustainability. This extends to the group's efforts to streamline its medical/employee benefits segments. Digitalisation persists as a key driver in keeping costs lean, by enabling a lower commission channel of sales while also being a more assessable platform to cater to new and existing customers.

Rooted deeply. As a leader within the takaful insurance space, we expect the group to stand resilient against potential headwinds in the industry. Though Bank Negara's fire class review looks to have been given another year, we believe it should not impact the group detrimentally thanks to its well-diversified mix in general insurance products. Additionally, recent entrants are not expected to pose any threat to the group with its long established industry presence with synergistic partnerships to boot. We also opine that the group's buoyant operating numbers could give it plenty of room should there be a need to ramp up its competitive gear.

Post-meeting, we leave our FY19E/FY20E numbers unchanged.

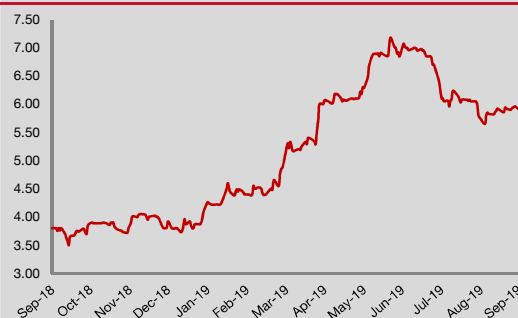
Upgrade to OUTPERFORM (from MARKET PERFORM) but with a lower TP of RM6.85 (from RM7.15, previously). We adjust our target price as we move to a 4.0x FY20E PBV from a blended 16.0x/4.0x FY20E PER/PBV (in line with the stock's +1SD over its 3-year mean). We believe investors could be less re-active to earnings growth owing to the slowing traction but would continue to bank on the stock for its solid book. TAKAFUL commands a superior ROE of c.30% (vs industry average of 20%) while continuing to be a leader in the takaful insurance space.

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

OUTPERFORM ↑

Price : **RM5.90**
Target Price : **RM6.85** ↓

Share Price Performance



KLCI	1,583.91
YTD KLCI chg	-6.3%
YTD stock price chg	55.3%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	STMB MK Equity
Market Cap (RM m)	4,878.1
Shares Outstanding	826.8
52-week range (H)	7.18
52-week range (L)	3.48
3-mth avg daily vol	1,424,977
Free Float	32%
Beta	0.6

Major Shareholders

BIMB Holdings Sdn Bhd	59.5%
Employees Provident Fund	6.5%
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	-	361	396
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)	17.5	13.3	12.7
PBV (x)	4.9	4.1	3.4
Net Div. Yield (%)	2.5%	3.2%	3.4%

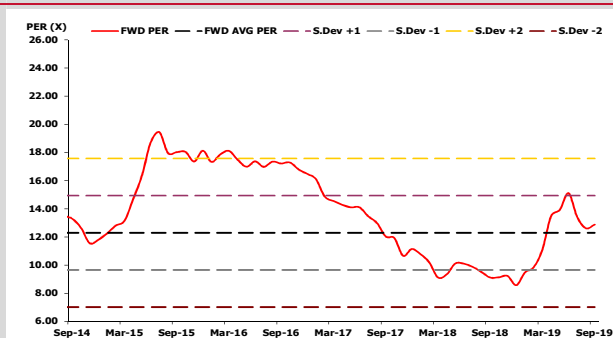
01 October 2019

Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2016A	2017A	2018A	2019E	2020E	FY Dec (RM m)	2016A	2017A	2018A	2019E	2020E
Operating revenue	2,013	2,139	2,639	2,708	2,933	Growth (%)					
Takaful op. income	648	711	904	997	1,107	Operating revenue	12.6%	6.3%	23.4%	2.6%	8.3%
Gross earned premium	1,728	1,819	2,294	2,747	3,021	Takaful op. Income	21.2%	9.7%	27.1%	10.3%	11.0%
Net earned premium	1,486	1,521	1,942	2,318	2,567	Gross earned premium	13.8%	5.2%	26.1%	19.7%	10.0%
Other income	357	406	327	402	373	Net earned premium	18.3%	2.4%	27.6%	19.4%	10.7%
Net benefits & claims	(866)	(812)	(999)	(1,199)	(1,267)	Other income	6.4%	13.9%	-19.5%	23.2%	-7.4%
Other operating exp	(490)	(493)	(579)	(643)	(706)	Pre-tax Profit	8.2%	14.8%	32.9%	30.9%	4.4%
Pre-tax profit	221	254	337	441	460	Net profit	13.0%	17.3%	42.7%	24.0%	4.4%
Zakat	(0)	(1)	(1)	(1)	(1)	EPS	6.8%	17.5%	42.5%	23.9%	4.4%
Tax expense	(46)	(48)	(43)	(77)	(81)						
Net profit	174	205	293	363	379	Operating Metrics (%)					
Core PATAMI	176	207	278	366	382	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)	27.5	23.5	17.5	13.3	12.7
						Div. Yld. (%)	2.0%	2.5%	2.5%	3.2%	3.4%
						BVPS (RM)	0.88	0.99	1.19	1.45	1.71
						PBV (x)	6.7	5.9	4.9	4.1	3.4

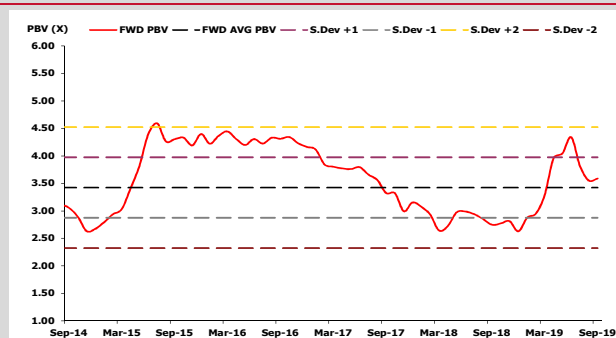
Balance Sheet					
FY Dec (RM m)	2016A	2017A	2018A	2019E	2020E
Net fixed assets	275	273	277	250	222
Other investments	4,519	4,925	5,488	5,488	5,488
Retakaful assets	468	506	537	559	615
Receivables	1,475	1,486	1,494	1,555	1,710
Cash equivalents	942	921	1,006	2,070	2,247
Other assets	79	84	130	130	130
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

Source: Kenanga Research

Fwd PER Band



Fwd PBV Band



Source: Bloomberg, Kenanga Research

01 October 2019

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.	1-Yr. Fwd.			
NON-BANK FINANCIAL INSTITUTIONS																			
AEON CREDIT SERVICE (M) BHD	14.58	3,658.2	N	02/2020	12.0%	13.8%	-17.5%	17.8%	10.9	13.2	11.2	2.5	2.2	17.7%	3.1%	13.00	UP		
BURSA MALAYSIA BHD	6.10	4,931.9	Y	12/2019	-4.3%	16.4%	-12.9%	13.1%	21.9	25.2	22.3	5.5	5.4	21.8%	3.8%	6.85	MP		
LPI CAPITAL BHD	15.64	6,230.7	N	12/2019	-19.7%	6.2%	6.6%	1.7%	19.8	18.6	18.3	2.9	2.9	15.5%	4.6%	16.50	MP		
SYARIKAT TAKAFUL MALAYSIA KELUARGA BHD	5.90	4,878.1	Y	12/2019	19.7%	10.0%	31.5%	4.4%	17.5	13.3	12.7	4.9	4.1	33.6%	3.2%	6.85	OP		
Simple Average					1.9%	11.6%	1.9%	9.2%	17.5	17.6	16.1	4.0	3.7	22.1%	3.7%				

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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