Syarikat Takaful M'sia Keluarga

Impact Ahead

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MARKET PERFORM ↓

Price : **RM4.72**

Target Price : **RM4.85** ↓

Although 1QFY20 PATAMI of RM102m came within estimate, operating revenue fell slightly with the outlook likely to be challenging in subsequent quarters. FY20E earnings slashed down on account of subdued economy ahead arising from the Covid-19 impact. TP is lowered to RM4.85 with call reduced to MARKET PERFORM.

In line. 1QFY20 PATAMI of RM101.6m is in line with our/consensus expectations, making up 27%/28% of respective estimates. No dividend declared as expected.

YoY, 1QFY20 operating revenue fell slightly (-0.6%) to RM913m, underpinned by slightly weaker performance from both General (-1.1%) and Family Takaful Business (-1.3%). Lower sales from employee benefits products dragged Family Takaful while General Takaful was dragged by slower performance from the fire and motor classes. Operationally, performance ratios deteriorated with higher claims incurred ratio (CIR) at 45.60% (+3.1ppt) and management expense ratio at 18.5% (+1.1ppt) - dragged further by poor numbers from other income (-72% to RM36m). The quarter's weak performance was somewhat mitigated by lower opex (-4.3% to RM213.4m) translating to a 1QFY20 PATAMI of RM10.16m (+5.3%).

QoQ, 1QFY20 operating revenue improved by +17%, mainly attributable to higher sales generated from both Family and Takaful Business although this was mainly due to better results from investments (+2% to RM80m) as gross premiums saw a marginal uptake (+0.4%) while the retention ratio during the period was also lower (83.9%, -2ppt). Higher CIR of 45.6% (+2.0ppt) was supplemented by an increase in management expense ratio at 18.5% (+10ppt) with other operating expenses up by +221% to RM84.1m. However, PBT was up by 33% to RM114m due to higher net wakalah fee income arising from business growth in the Family and General Takaful.

Stirred and shaken. The Covid-19 pandemic and the associated economic impact are posing new challenges and uncertainties. Given the adverse impact likely to materialise in the 2nd and 3rd quarters given the extended MCO and cautious consumer spending ahead, operating revenue will likely be a stretch in the coming months. Although earnings growth excitement could be tapering off, we still anticipate the group to remain a prominent player in the Takaful industry as a beneficiary of Bank Negara's agenda to expand the country's Islamic finance proportion to 40%. Improvements to its operating ratios could allow the group to remain sustainable while introducing more less-conventional, non-credit related products to grow its market share. Additionally, efforts to promote a digitalised front could allow the group to cater to underserved areas while cutting back on expenses (i.e. commissions, agent fees).

Post-results, we slash our FY20E earnings by 16% to RM320m on account of the anticipated adverse economic impact.

Reduced to MARKET PERFORM with a lower TP of RM4.85 (from RM6.05). We tone down our valuation to 2.935x FY20E PBV (from 3.5x, +1SD above the stock's 3-year mean) – implying 1SD below 5-year mean. Our lower valuation is premised on weak earnings arising from the subdued economy ahead.

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

Share Price Performance

KLCI	1,410.16
YTD KLCI chg	-11.2%
YTD stock price chg	-17.2%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	STMB MK Equity
Market Cap (RM m)	3,902.5
Shares Outstanding	826.8
52-week range (H)	7.18
52-week range (L)	2.93
3-mth avg daily vol	1,421,787
Free Float	27%
Beta	1.2

Major Shareholders

BIMB Holdings Sdn Bhd	59.5%
Employees Provident Fund	6.5%
Islamic Development Bank	4.5%

Summary Earnings Table

FY Dec (RM m)	2019A	2020E	2021E
Gross Premium	**2,749**	**2,280**	**2,611**
Net Premium	**2,354**	**1,965**	**2,260**
Other Income	483	505	508
Total Income	**2,837**	**2,470**	**2,768**
Pre-tax Profit	418	368	408
PATAMI	**365**	**320**	**356**
Core PATAMI	**365**	**320**	**356**
Consensus NP	-	360	374
Earnings Revision (%)	-	-16.1	-8.9
Core EPS (sen)	44.1	38.7	43.1
EPS growth (%)	23.7	(12.3)	11.3
DPS (sen)	20.0	21.0	21.0
BVPS (RM)	1.48	1.66	1.88
ROE (%)	33.1	24.7	24.4
PER (x)	10.7	12.2	11.0
PBV (x)	3.2	2.9	2.5
Net Div. Yield (%)	4.2	4.4	4.4

Results Highlights

FYE Dec (RM m)	1Q FY20	4Q FY19	QoQ Chg	1Q FY19	YoY Chg	3M FY20	3M FY19	YTD Chg
Operating revenue	**913.0**	**779.9**	**17.1%**	**918.2**	**-0.6%**	**913.0**	**918.2**	**-0.6%**
Gross Earned Premium	**698.3**	**695.4**	**0.4%**	**707.1**	**-1.2%**	**698.3**	**707.1**	**-1.2%**
Net Earned Premium	**585.7**	**597.2**	**-1.9%**	**601.1**	**-2.6%**	**585.7**	**601.1**	**-2.6%**
Other income	36.0	119.3	-69.9%	130.0	-72.3%	36.0	130.0	-72.3%
Net benefits and claims	(266.8)	(260.3)	2.5%	(255.6)	4.4%	(266.8)	(255.6)	4.4%
Operating expenses	(213.4)	(198.8)	7.4%	(222.9)	-4.3%	(213.4)	(222.9)	-4.3%
Profit before tax	**114.2**	**85.6**	**33.5%**	**113.3**	**0.8%**	**114.2**	**113.3**	**0.8%**
Zakat	(0.3)	(0.3)	1.7%	(0.3)	-10.2%	(0.3)	(0.3)	-10.2%
Tax expense	(13.0)	(7.6)	70.3%	(17.3)	-25.2%	(13.0)	(17.3)	-25.2%
Profit after tax	**100.9**	**77.6**	**30.0%**	**95.6**	**5.5%**	**100.9**	**95.6**	**5.5%**
Core PATAMI	**101.6**	**75.1**	**35.3%**	**96.4**	**5.3%**	**101.6**	**96.4**	**5.3%**
EPS (sen)	12.2	9.1	34.8%	11.7	5.1%	12.2	11.7	5.1%
Reinsurance Ratio	16.1%	14.1%		15.0%		16.1%	15.0%	
Retention Ratio	83.9%	85.9%		85.0%		83.9%	85.0%	
Claims Incurred Ratio	45.6%	43.6%		42.5%		45.6%	42.5%	
Management Expense Ratio	18.5%	8.5%		17.4%		18.5%	17.4%	
Effective Tax	11.4%	8.9%		15.3%		11.4%	15.3%	
PBT margin	12.5%	11.0%		12.3%		12.5%	12.3%	
PAT margin	11.1%	10.0%		10.4%		11.1%	10.4%	

Source: Company, Kenanga Research

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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	9.02	2,287.7	N	02/2021	8.3%	5.9%	2.2%	6.2%	8.4	8.2	7.7	1.5	1.3	16.9%	4.1%	8.80	MP
BURSA MALAYSIA BHD	7.50	6,063.8	Y	12/2020	8.9%	2.7%	12.5%	2.4%	32.5	28.9	28.2	7.9	7.8	27.2%	3.3%	6.50	OP
LPI CAPITAL BERHAD	13.02	5,186.9	N	12/2020	3.4%	0.1%	2.3%	4.3%	16.1	15.7	15.1	2.6	2.5	16.2%	5.5%	15.90	OP
SYARIKAT TAKAFUL MALAYSIA KELUARGA BHD	4.72	3,902.5	Y	12/2020	-17.0%	14.5%	-12.3%	11.3%	10.7	12.2	11.0	3.2	2.9	24.7%	4.4%	4.85	MP
Simple Average					**0.9%**	**5.8%**	**1.1%**	**6.1%**	**16.9**	**16.3**	**15.5**	**3.8**	**3.6**	**21.2%**	**4.3%**		

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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