

Syarikat Takaful M'sia Keluarga

FY19 Within Expectations

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FY19 PATAMI of RM364.8m (+24%) and dividend of 20.0 sen declared are within estimates. Though investors could be wary of potential earnings risks as a banca-partnership with RHB Islamic Bank is put on the line, we believe the group should still operate sustainably with its other partners while boasting solid operating ratios with expansion in markets beyond its key credit-related products. Maintain OP but trim our TP to RM6.05 (from RM6.85) on lower PBV valuations.

FY19 within. FY19 PATAMI of RM364.8m is in line with our/consensus expectations, making up 100%/97% of respective estimates. An interim dividend of 20.0 sen was declared in Dec 2019. This is also closely within our anticipated payout of 19.0 sen.

YoY, FY19 operating revenue jumped to RM3.12b (+18%) driven by stronger performance in the Family Takaful business. This likely stemmed from the successful bancassurance partnerships which drove demand for credit-related products amidst a flattish General Takaful. Operationally, performance ratios also improved with lower claims incurred ratio (CIR) at 42.0% (-9.5ppt) and management expense ratio at 12.4% (-0.7ppt). Further supplemented by better numbers from other income (+48%), this translated to a FY19 PATAMI of RM364.8m (+24%).

QoQ, 4QFY19 operating revenue rose by 4%, although this was mainly due to better results from investments as gross premiums saw a slower uptake while the retention ratio during the period was also lower (85.9%, -0.8ppt). Higher CIR of 43.6% (+3.0ppt) was offset by a decrease in management expense ratio at 8.5% (-6.6ppt). However, owing to higher sales-related expenses, 4QFY19 PATAMI fell by 33% to RM75.1m.

Stirred but not deterred. Recently, the group was dampened by the retendering process with one of its banca-partners, RHB Islamic Bank, which would lapse in July 2020 if not renewed. We maintain our view that the hypothetical loss of this agreement may impact the group at only c.5% to bottom-line, as total bancassurance contributions are thought to make up less than 50%, with Bank Rakyat thought to be the largest contributor to the segment. Although earnings growth excitement could be tapering off, we 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% in 2020. 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).

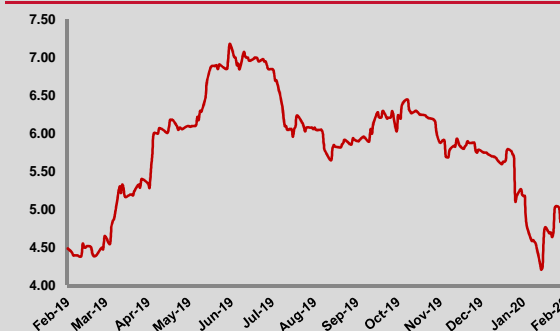
Post-results, we introduce our FY21E earnings.

Maintain OUTPERFORM but with a lower TP of RM6.05 (from RM6.85). We tone down our valuations to 3.5x FY20E PBV (from 4.0x, +1SD above the stock's 3-year mean). Our lower valuation is premised on softer investment sentiment arising from threats on the loss of banca-partnerships. We believe the stock sell-down could be overdone as it is still compelling for its superior ROE (c.25-30% vs industry 20%) and market leader position. Although dividend yield of 4.4% may not be the most tempting, we believe there is little earnings risk for the stock, save for unfavourable developments in its banca-partnerships. In addition, the pending restructuring of Bank Islam could unlock and overhang and introduce fresh liquidity to the stock.

OUTPERFORM ↔

Price : RM4.77
Target Price : RM6.05 ↓

Share Price Performance



KLCI 1,500.88
YTD KLCI chg -5.5%
YTD stock price chg -16.3%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	STMB MK Equity
Market Cap (RM m)	3,943.8
Shares Outstanding	826.8
52-week range (H)	7.18
52-week range (L)	4.21
3-mth avg daily vol	1,301,248
Free Float	33%
Beta	0.5

Major Shareholders

BIMB Holdings Sdn Bhd	59.5%
Employees Provident Fund	5.4%
Islamic Development Bank	4.2%

Summary Earnings Table

FY Dec (RM m)	2019A	2020E	2021E
Gross Premium	2,749	3,059	3,218
Net Premium	2,354	2,663	2,819
Other Income	483	509	511
Total Income	2,837	3,173	3,330
Pre-tax Profit	418	439	448
PATAMI	365	381	391
Core PATAMI	365	381	391
Consensus NP	-	384	415
Earnings Revision (%)	-	-	-
Core EPS (sen)	44.1	46.1	47.3
EPS growth (%)	23.7	4.5	2.6
DPS (sen)	20.0	21.0	21.0
BVPS (RM)	1.48	1.73	1.99
ROE (%)	33.1	28.7	25.4
PER (x)	10.8	10.3	10.1
PBV (x)	3.2	2.8	2.4
Net Div. Yield (%)	4.2	4.4	4.4

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

Results Highlights

	4Q	3Q	QoQ	4Q	YoY	12M	12M	YTD
FYE Dec (RM m)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Operating revenue	779.9	753.5	3.5%	701.5	11.2%	3,124.6	2,639.1	18.4%
Gross Earned Premium	695.4	715.5	-2.8%	663.6	4.8%	2,748.6	2,294.3	19.8%
Net Earned Premium	597.2	620.2	-3.7%	559.6	6.7%	2,354.4	1,941.5	21.3%
Other income	119.3	107.6	10.9%	74.7	59.8%	482.7	326.8	47.7%
Net benefits and claims	-260.3	-251.5	-3.5%	-261.0	0.3%	-988.2	-999.3	-1.1%
Operating expenses	-198.8	-172.4	15.3%	-156.3	-27.2%	-766.1	-620.8	-23.4%
Profit before tax	85.6	121.8	-29.7%	102.8	-16.8%	417.7	337.0	24.0%
Zakat	-0.3	-0.3	13.5%	-0.3	8.7%	-1.3	-1.0	-23.3%
Tax expense	-7.6	-8.8	13.1%	-12.4	38.5%	-50.2	-43.4	-15.7%
Profit after tax	77.6	112.6	-31.1%	90.1	-13.8%	366.3	292.6	25.2%
Core PATAMI	75.1	112.3	-33.1%	90.6	-17.1%	364.8	294.9	23.7%
EPS (sen)	9.1	13.6	-33.2%	11.0	-17.4%	44.1	35.7	23.5%
Reinsurance Ratio	14.1%	13.3%		15.7%		14.3%	15.4%	
Retention Ratio	85.9%	86.7%		84.3%		85.7%	84.6%	
Claims Incurred Ratio	43.6%	40.6%		46.6%		42.0%	51.5%	
Management Expense Ratio	8.5%	15.1%		16.9%		12.4%	13.1%	
Effective Tax	8.9%	7.2%		12.0%		12.0%	12.9%	
PBT margin	11.0%	16.2%		14.7%		13.4%	12.8%	
PAT margin	10.0%	14.9%		12.8%		11.7%	11.1%	

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	13.88	3,520.2	N	02/2020	12.7%	14.3%	-22.3%	23.2%	10.4	13.4	10.8	2.4	2.1	16.8%	3.2%	12.80	UP
BURSA MALAYSIA BHD	5.50	4,446.8	Y	12/2020	4.1%	2.7%	4.6%	2.4%	23.8	22.8	22.2	5.8	5.7	25.3%	4.2%	6.50	OP
LPI CAPITAL BHD	14.62	5,824.4	N	12/2019	3.4%	0.1%	2.3%	4.3%	18.1	17.7	16.9	3.0	2.8	16.2%	4.9%	15.90	OP
SYARIKAT TAKAFUL MALAYSIA KELUARGA BHD	4.77	3,943.8	Y	12/2020	11.3%	5.2%	4.5%	2.6%	10.8	10.3	10.1	3.2	2.8	28.7%	4.4%	6.05	OP
Simple Average					7.9%	5.6%	-2.7%	8.1%	15.8	16.0	15.0	3.6	3.3	21.7%	4.2%		

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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