

Syarikat Takaful M'sia Keluarga

Looking for An Improved Sentiment

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Improved 4QFY20 performance saw Takaful's FY20 earnings exceeding our/market estimates. Positive vaccine rollout will see better sentiment in 2H 2021 which is also a historically strong period for Takaful. TP is revised to RM6.00 as we raised our FY21E earnings by 6% and coupled with an attractive dividend yield of ~5%, we reiterate our **OUTPERFORM** rating.

Above. FY20 PATAMI of RM364m accounts for 113%/108% of our/market estimates. The positive variance was attributed to strong performance in the 4Q partly due to lower claims incurred. DPS of 12.0 sen was declared - below expectations as payout was at 27% (vs. FY19 of 45%).

YoY. Activities were affected by the various lockdowns in place throughout CY2020. FY20 operating revenue contracted 5% with Gross Earned Premium (GEP) falling 8%, underpinned by weaker GEP from Family Takaful (-14%) vs. a healthier General Fund (+7%) due to lower sales from credit-related products and group medical products from the former as business activities were impacted by the COVID-19 pandemic. Better performance from General Fund was attributed to healthy business from the motor class segment. Net claims incurred fell 10% to RM889m with both Family and General Fund falling by 6% and 24%, respectively, due to lower claims from medical (Family) and motor (General). Income from other operations was soft (+6% vs. FY19 of +47%) dragged by weaker investment income (-21% to RM37m) and soft Fair Value gains of RM16m (-49%). Opex was well managed, contracting by 15% mitigating the impact of falling premiums as CNP for the period ended at RM364m (<-1%).

QoQ saw sequential improvement as CNP ended at +25% to RM104m due to lower claims incurred. GEP moderated at +4% to RM702m attributed to moderate sales from both Family Fund (+5%) and General Fund (+4%) on improved contribution from credit-related products (Family) and from fire and motor segments (General). The CMCO period saw lower claims with both Family and General Fund's claims contracting at 60% and 12%, respectively. The strong CNP was also boosted by opex declining 18% sequentially to RM145m.

Positive developments ahead. Given that consumer sentiment will be boosted by the vaccine rollout, fiscal measures and prevailing low interest rates, we believe 2021 will see pent-up demand for Family Takaful Fund. We expect claims incurred ratio to rise progressively ahead as we expect less lockdowns vis-à-vis CY2020. Moving ahead, growth will be boosted by its online distribution and digital technologies supporting distribution channels. Given the lessons learnt from 2020, we expect the Group will continue with innovative strategies via the implementation of its digital strategy, online solutions and digital ecosystem to expand its distribution capabilities and brand awareness.

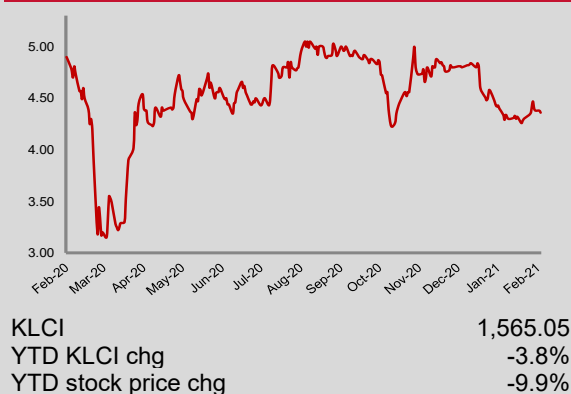
Post results, our FY21E earnings are tweaked by +6% (coming from a higher base) and we also introduce our FY22E earnings.

TP raised. We raised our TP to RM6.00 (from RM5.25) based on a 2.9x FY21E PBV (0.5SD below mean from -1SD). Vaccine rollout and various fiscal measures should see risks abating while activities are generally stronger in 2H of the financial year and will be underscored by full-swing vaccine rollout in 2H 2021. Furthermore, the counter offers an attractive dividend yield of ~5%. Reiterate **OUTPERFORM**.

OUTPERFORM ↔

Price : RM4.37
Target Price : RM6.00 ↑

Share Price Performance



Shariah Compliant	Yes
Bloomberg Ticker	STMB MK Equity
Market Cap (RM m)	3,622.2
Shares Outstanding	830.8
52-week range (H)	5.09
52-week range (L)	2.93
3-mth avg daily vol	372,653
Free Float	28%
Beta	1.1

Major Shareholders

BIMB Holdings Sdn Bhd	59.2%
Employees Provident Fund	5.3%
Kumpulan Wang Persaraan	4.5%

Summary Earnings Table

FY Dec (RM m)	2020A	2021E	2022E
Gross Premium	2,514	2,638	2,683
Net Premium	2,073	2,248	2,325
Other Income	657	515	509
Total Income	2,730	2,762	2,834
Pre-tax Profit	427	446	391
PATAMI	362	377	342
Core PATAMI	362	377	342
Consensus NP	335	353	372
Earnings Revision (%)	113.3	5.8	0.0
Core EPS (sen)	43.8	45.5	41.3
EPS growth (%)	(0.7)	3.9	(9.2)
DPS (sen)	12.0	20.0	20.0
BVPS (RM)	1.82	2.08	2.29
ROE (%)	26.5	23.3	18.9
PER (x)	10.0	9.6	10.6
PBV (x)	2.4	2.1	1.9
Net Div. Yield (%)	2.8	4.6	4.6



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Risks to our call include: (i) lower premium underwritten, (ii) higher-than-expected claims incurred, (iii) higher-than-expected management expense ratio, (iv) further wave of pandemic, and (iv) slow distribution of vaccines.

Results Highlights

FYE : Dec (RM m)	4Q20	3Q20	QoQ	4Q19	YoY	12M20	12M19	YoY
Operating Revenue	774.9	753.5	2.8%	779.9	-0.6%	2,957.2	3,124.6	-5.4%
Gross Earned Premium	701.7	675.4	3.9%	695.4	0.9%	2,514.1	2,748.6	-8.5%
Net Earned Premium	579.7	571.1	1.5%	597.2	-2.9%	2,073.0	2,354.4	-12.0%
Other Income	142.5	151.2	-5.7%	119.3	19.4%	511.7	484.6	5.6%
Total Income	722.2	722.3	0.0%	716.5	0.8%	2,584.7	2,839.1	-9.0%
Net claims incurred	(218.5)	(248.0)	-11.9%	(260.3)	-16.0%	(889.0)	(988.2)	-10.0%
Operating Expenses	(145.3)	(177.2)	-18.0%	(198.8)	-26.9%	(652.2)	(768.1)	-15.1%
Operating Profit	358.4	297.1	20.6%	257.5	39.2%	1,043.5	1,082.8	-3.6%
Profit before taxation and zakat	117.2	97.8	19.9%	85.6	37.0%	426.8	417.7	2.2%
Taxation & Zakat	(13.4)	(15.0)	-10.8%	(7.9)	69.4%	(63.2)	(51.4)	22.9%
Net profit	103.8	82.7	25.5%	77.6	33.7%	363.6	366.3	-0.7%
Core NP	103.8	82.7	25.5%	77.6	33.7%	362.4	364.8	-0.7%
Core EPS (RM)	12.4	10.0	24.7%	9.1	36.7%	43.8	44.2	-0.9%
Reinsurance Ratio	17.4%	15.4%		14.1%		17.5%	14.3%	
Retention Ratio	82.6%	84.6%		85.9%		82.5%	85.7%	
Claims Incurred Ratio (to Net Earned Premium, NEP)	37.7%	43.4%		43.6%		42.9%	42.0%	
Net Admin Ratio (to NEP)	5.1%	5.3%		5.5%		5.3%	6.2%	
Management Expense Ratio (to NEP)	15.0%	3.1%		3.4%		18.1%	17.6%	
Combined Ratio (to NEP)	57.8%	51.8%		52.5%		66.3%	65.8%	
Effective Taxation Rate	11.4%	15.4%		9.3%		14.8%	12.3%	
PBT Margin	15.1%	13.0%		11.0%		14.4%	13.4%	
NP Margin	13.4%	11.0%		10.0%		12.3%	11.7%	
Annualised ROE	28.94%	24.27%		25.86%		25.33%	30.50%	

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.	1-Yr. Fwd.		
NON-BANK FINANCIAL INSTITUTIONS																		
AEON CREDIT SERVICE M BHD	11.48	2,930.9	N	02/2021	8.3%	5.6%	1.5%	4.8%	10.7	10.5	10.0	1.9	1.7	17.9%	3.2%	11.60	MP	
BURSA MALAYSIA BHD	9.00	7,281.2	Y	12/2021	2.4%	-2.5%	-7.2%	0.6%	19.2	20.6	20.5	8.0	7.8	38.4%	4.5%	9.65	MP	
LPI CAPITAL BERHAD	13.46	5,362.2	N	12/2021	2.9%	4.0%	2.4%	2.9%	15.9	15.5	15.1	2.6	2.5	16.3%	5.5%	15.10	OP	
SYARIKAT TAKAFUL MALAYSIA KELUARGA BHD	4.36	3,622.2	Y	12/2021	4.9%	1.7%	3.9%	-9.2%	10.0	9.6	10.6	2.4	2.1	23.3%	4.6%	6.00	OP	
Simple Average					4.7%	2.2%	0.2%	-0.2%	13.9	14.1	14.1	3.7	3.5	24.0%	4.4%			

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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