Tune Protect Group Bhd

Back to Claim Its Stake

By Clement Chua I clement.chua@kenanga.com.my

	Rating	Fair Value
Last Price	-	RM0.505
Kenanga	Trading Buy	RM0.600
Consensus	Buy	RM0.490

INVESTMENT MERIT

We call a "Trading Buy" on TUNEPRO with a TP of RM0.600. We bank our valuations on pre-Covid levels as the macroeconomic environment seem to normalise. Even if flights from Air Asia do not pick up, the group's performance which mostly hinges on its general insurance arm should benefit from its new lifestyle product pipeline.

Reduced dependency on AirAsia. TUNEPRO is synonymous with AirAsia as its travel insurance provider (Tune Reinsurance). Along the way, TUNEPRO has formed partnerships that granted it strong regional exposure in the Middle East and ASEAN countries to support its travel insurance segment amidst the Covid-19 pandemic where restrictions are looser. As of 2QFY21, AirAsia comprised of <10% of its business from c.90% pre-pandemic.

That said, travel insurance only makes up 5-7% of group's Gross Written Premium (GWP) no thanks to Covid-19 restrictions, from c.20% prior. **Now that flights are poised to resume,** management opined that we could see stronger exponential growth from greater travel insurance take-up amidst looming Covid-19 concerns. This is further strengthened with countries like Thailand imposing a mandatory Covid-19 insurance for visiting foreigners.

More lifestyle propositions to spur general insurance. Its lion's share motor segment (30% of group GWP) were faced with some difficulties (-30% in 1HFY21-YTD) as vehicle purchases were affected by movement controls and a suppressed economy. However, this is expected to normalise with progressive economy reopening and rebound in consumer spending. Part of the strategy to tap into the said reopening is the introduction of more lifestyle products, which is their most profitable segment unlike the commercial and SME space.

Tuning in to other wants of young demographic. Management identified the younger consumer demographic (millennials, Gen Z) as a segment with strong potential but with existing insurance products not being compatible enough with their spending habits. Hence, TUNEPRO sought to introduce a range of personalised products that can be marketed in more affordable and customised bite-size offerings that are assessable digitally. Essentially riding on AirAsia's product strategy of "pay-only-what-you-need", these offerings include customisable home insurance plans that can be matched to market, student travel protection for studies, and pet travel coverage.

Digital approach for greater stretch with lower cost. TUNEPRO is embracing its insuretech identity, capitalising on data and cloud capabilities to form more partnerships to cross distribute services between its platforms. Currently, the group as 42 partners within a wide range of services besides airlines, including property, e-commerce, e-wallets, telcos, logistics and will likely ink more partnerships along the way. A strong digital backbone should translate to cost savings as the group scales (supporting heavy volumes of claims processing, quotations, and customer support) as a disruptor from traditional platforms.

From the abovementioned, **we anticipate that TUNEPRO could see EPS growth of 62%/27% in FY21/FY22,** respectively. The main drivers will come from its general insurance business, being the main net earned premium contributor. It is not farfetched to expect Tune Re to double its standing from FY20's Covid-19 levels, albeit from a low base. We expect the group's combined ratio to normalise from FY20 of 108% to FY21E: 96% and FY22: 93%, closely in line with past years' performance.

"Trading Buy" with a Fair Value of RM0.600, premised on a 0.7x FY22E PBV, which is 0.5SD above TUNEPRO's 3-year mean. This is in line with its pre-Covid valuations, which we think should be accounted with the progressive reopening of economies. We also think this is fair as the stock will still be trading at a discount from the KLFIN and its larger insurance peers. No dividends are expected for the time being, although the group used to pay 40-50% of earnings.

Stock Information

Shariah Compliant	No
Stock Name	Tune Protect Group Bhd
CAT Code	5230
Industry	Insurance
Industry Sub-sector	Life/Health Insurance
YTD stock price chg	16.09%
Market Cap (RM'm)	379.64
Shares Outstanding (m)	751.76
52-week range (Hi)	0.515
52-week range (Low)	0.295
3-mth avg daily vol:	1,072,949
Free Float	56.1%
Beta	1.27
Altman's Z-score	N.A.

Major Shareholders

Tune Group Sdn Bhd	15.8%
Airasia Bhd	13.7%
CIMB SI II Sdn Bhd	9.4%

Financials

FYE Dec (RM m)	2020A	2021E	2022E
Operating Revenue	449.3	476.7	572.9
Operating Profit	32.3	42.5	56.2
Profit Before Tax (PBT)	34.7	43.8	58.9
PATAMI	**18.4**	**29.8**	**37.7**
EPS (sen)	2.4	4.0	5.0
BV/Share (RM)	0.76	0.80	0.85
PER (x)	20.6	12.8	10.1
Price/BV (x)	0.66	0.63	0.59
Net Gearing (x)	1.6	1.4	1.5
DPS (sen)	0.0	0.0	0.0
Div. Yield (%)	0.0%	0.0%	0.0%

Quarterly Financial Data

(RM'm)	4Q20	1Q21	2Q21
Operating Revenue	117.2	117.4	110.7
PBT	3.1	-19.8	20.3
PATAMI	1.0	-15.4	14.2
Basic EPS (sen)	0.1	-2.1	1.9
Revenue Growth (QoQ)	6.6%	0.2%	-5.8%
EPS growth (QoQ)	-55.4%	N.M.	192.2%
Net Profit Margin	0.9%	-13.2%	12.9%

Peers Comparisons	PBV (1y-fwd)	Div. Yld	Mkt Cap (RM m)
LPI	2.6	5.3%	5,569
TAKAFUL	1.9	5.1%	3,300
KLFIN	**1.1**	**4.3%**	**374.8b**

Crème of the crop on ESG. TUNEPRO has been sowing many ESG management and sustainability initiatives. The group aims to be entirely operationally paperless by 2021 and will strive to achieve zero coal exposure in terms of underwriting and investments by 2030. It is currently not in the FTSE4Good Index but we opine it will be included during the Dec 2021 review. Management indicated that TUNEPRO has achieved an ESG score of 3.1/5.0, which puts it in the top quartile (4-star rated) in FTSE4Good's grading band. It would also be the only insurer placed at this mark at the moment.

Daily Charting – Tune Protect Group Bhd

Comment: TUNEPRO's share price has reversed from a multi-year downtrend when the stock simultaneously overcome a descending trendline and crossed above the 100-day SMA in November last year. Nevertheless, in the immediate term, as both the RSI and stochastic indicators are in the midst of pulling back from their overbought positions, the shares may enter into a consolidation phase after climbing 26% from a low of RM0.40 in early August to close at RM0.505 yesterday. For TUNEPRO to resume its upward trajectory, the stock has to convincingly clear an intermediate resistance hurdle of RM0.52, a level that was tested twice (in March 2021 and early this week) previously. Should a price breakout occur, the resistance thresholds of RM0.58 (R1) and RM0.63 (R2) await. On the downside, the share price is expected to find support at RM0.44 (S1) and RM0.39 (S2).

About the stock:

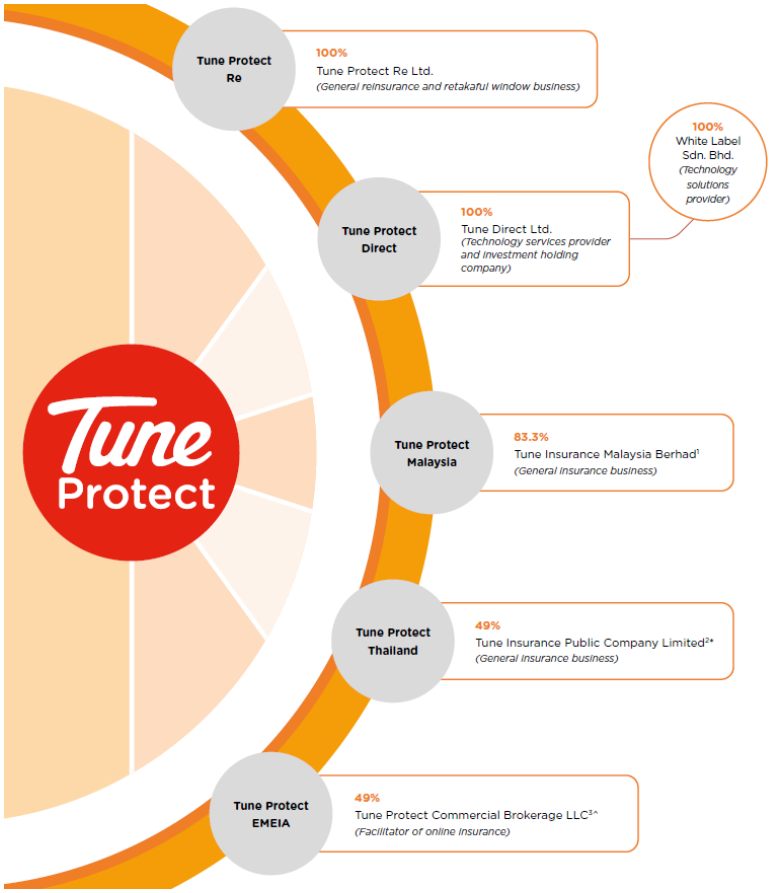
Name	:	Tune Protect Group Bhd
Bursa Code	:	TUNEPRO
CAT Code	:	5230

Key Support & Resistance level

Resistance	:	RM0.58 (R1)	RM0.63 (R2)
Support	:	RM0.39 (S1)	RM0.44 (S2)
Outlook	:	Neutral	

Source: Kenanga Research

CORPORATE STRUCTURE



Source: Company

BUSINESS OVERVIEW

Tune Protect is a financial holding company that provides underwriting and reinsurance services for non-life insurance products.

The group's businesses are regionally diversified, which include the Middle East (UAE, Oman, Morocco), ASEAN countries (Thailand, Vietnam, Philippines) and others.

BUSINESS SEGMENTS

The group has segmentized its products into the followings:

- Health
- Lifestyle (including reinsurance of travel insurance)
- SME
- Commercial

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KENANGA INVESTMENT BANK BERHAD (15678-H)
Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my