

25 February 2022

Syarikat Takaful M'sia Keluarga

1QFY22 Within Expectations

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TAKAFUL's 1QFY22 CNP of RM86.8m (-14%) is within expectations. Higher earned premiums are expected in all fronts, but higher claims too should follow suit. In anticipation of the adoption of MFRS 17, the impact of lower retained earnings and profits post-adjustments could lower our FY23E BVPS of RM2.71 to RM1.94. Rolling forward our valuation base year, this lowers our TP to RM4.25 (from RM5.35) with unchanged parameters, indicating possible buying opportunities amidst current weakness. Maintain OP.

1QFY22 within expectations. 1QFY22 came in as expected, making up 25%/24% of our/consensus full-year earnings estimates. No dividend was declared as expected.

YoY, 1QFY22 operating revenue rose 9% thanks to generally better net contributions by both Family Takaful (mainly credit-related products) and General Takaful businesses. We believe the growth was a timely beneficiary of the gradual economic recovery. Notably, net claims surged by 48% (claims incurred ratio: 55.4%, +13.3 ppt) coinciding with the increase in movement and incidences. Additionally, losses in fair value (equities) led to decline in other operating income (-23%). Alongside higher effective taxes (likely to creep up to estimated 32% from prosperity tax), 1QFY22 PATAMI closed at RM86.8m (-14%).

QoQ, 1QFY22 operating revenue expanded by 14% but this was due to higher claims ceded to retakaful with net earned contributions diminishing comparatively (-4%). Similar to the above, claims incurred ratio also saw a meaningful increase (+16.3ppt) sequentially. With tax gains registered in the previous quarter, 1QFY22 PATAMI registered a drop of 44%.

Growth in premiums offset by claims. The group's recovery in earned premiums is reflective of an industry-wide recuperation, previously underpinned by tight movement controls. The resumption in activity should allow for more aggressive physical sales channels to make up for lost ground. This is elevated by the group's leading position within bancassurance offerings (estimated at 30% market share). This aside, TAKAFUL has developed its own digital sales platform and digital agents to appeal to a broad scope of customers and provide greater convenience. On the flipside, increased economic activities and movements should translate to a normalisation in the rate of incidences. Understandably, this would be reflective in higher claims and spell double damage to earnings together with a softer trading climate.

Post results, we leave our FY22E earnings unchanged. While we also leave our FY23E numbers unchanged for now, we stay **wary of MFRS 17 in FY23.** In line with the updates from MFRS 4 to MFRS 17 in 2023, management expects varying impact to its earnings and books. Notably, following reclassifications in fee recognition and cashflows, accounting impact post-MFRS 17 include: (i) retained earnings coming off by 30-45%; and (ii) CNP declining by 15-20%. Following these shifts, ROE is expected to trail close to 25% (from 18%).

Maintain OUTPERFORM with an updated TP of RM4.25 (from RM5.35). While we maintain our applied 2.2x PBV (0.5SD below mean), we propose pairing against a hypothetical FY23E BVPS of RM1.94 which captures the factors of -30% to retained earnings and -15% to EPS in FY23E.

The stock could have been sold down due to scepticism of the new accounting standards and possible earnings weakness arising from higher claims. We believe this presents a buying opportunity as the current adjustments above illustrate that its merits could have been underpriced. Additionally, valuation levels still linger below pre-Covid levels (3-4x PBV) which could suggest strong re-rating gains should sentiment revert as well.

OUTPERFORM ↔

Price : RM3.51
Target Price : RM4.25 ↓

Share Price Performance



KLCI	1,556.76
YTD KLCI chg	-0.7%
YTD stock price chg	-5.1%

Shariah Compliant	Yes
Bloomberg Ticker	STMB MK Equity
Market Cap (RM m)	2,938.9
Shares Outstanding	837.3
52-week range (H)	4.37
52-week range (L)	3.39
3-mth avg daily vol	957,681
Free Float	42%
Beta	0.6

Major Shareholders

Lembaga Tabung Haji	28.2%
Employees Provident Fund	10.4%
Kumpulan Wang Persaraan	6.8%

Summary Earnings Table

FY Dec (RM m)	2021A	2022E	2023E
Gross Premium	2,766	2,886	3,010
Net Premium	2,243	2,351	2,451
Other Income	525	540	540
Total Income	2,768	2,891	2,991
Pre-tax Profit	439	452	482
PATAMI	411	345	363
Core PATAMI	411	345	363
Consensus NP		362	391
Earnings Revision		0%	0%
Core EPS (sen)	49.2	41.3	43.5
EPS growth (%)	13.5	-16.0	5.2
DPS (sen)	12.0	14.0	16.0
BVPS (RM)	2.16	2.44	2.71
ROE (%)	24.8	18.0	16.9
PER (x)	7.1	8.5	8.1
PBV (x)	1.6	1.4	1.3
Net Div. Yield (%)	3.4	4.0	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, and (iv) further wave of pandemic.

Results Highlights								
	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FYE Dec (RM m)	FY22	FY21	Chg	FY21	Chg	FY22	FY21	Chg
Operating Revenue	997.4	878.0	13.6%	915.5	8.9%	997.4	915.5	8.9%
Gross Earned Premium	783.9	793.0	-1.1%	698.9	12.2%	783.9	698.9	12.2%
Net Earned Premium	626.5	649.7	-3.6%	558.8	12.1%	626.5	558.8	12.1%
Other Income	91.3	148.7	-38.6%	118.9	-23.2%	91.3	118.9	-23.2%
Total Income	717.8	798.4	-10.1%	677.7	5.9%	717.8	677.7	5.9%
Net claims incurred	-347.0	-254.2	36.5%	-235.2	47.5%	-347.0	-235.2	47.5%
Operating Expenses	-220.2	-214.4	2.7%	-197.3	11.6%	-220.2	-197.3	11.6%
Operating Profit	150.6	329.8	-54.3%	245.2	-38.6%	150.6	245.2	-38.6%
Profit before taxation and zakat	121.6	140.1	-13.2%	114.4	6.2%	121.6	114.4	6.2%
Taxation & Zakat	-35.0	16.4	-313.2%	-13.3	162.6%	-35.0	-13.3	162.6%
Net profit	86.6	156.5	-44.7%	101.1	-14.4%	86.6	101.1	-14.4%
PATAMI	86.8	156.1	-44.4%	101.1	-14.2%	86.8	101.1	-14.2%
Core EPS (RM)	10.4	18.7	-44.4%	12.2	-14.7%	10.4	12.2	-14.7%
DPS (RM)	0.0	12.0		0.0		0.0	0.0	
Reinsurance Ratio	20.1%	18.1%		20.0%		20.1%	20.0%	
Retention Ratio	79.9%	81.9%		80.0%		79.9%	80.0%	
Claims Incurred Ratio (to Net Earned Premium, NEP)	55.4%	39.1%		42.1%		55.4%	42.1%	
Net Admin Ratio (to NEP)	6.4%	4.5%		5.9%		6.4%	5.9%	
Management Expense Ratio (to NEP)	20.6%	24.4%		18.7%		20.6%	18.7%	
Opex Ratio to NEP	35.1%	33.0%		35.3%		35.1%	35.3%	
Combined Ratio (to NEP)	82.3%	68.0%		66.7%		82.3%	66.7%	
Effective Taxation Rate	28.8%	-11.7%		11.6%		28.8%	11.6%	
PBT Margin	12.2%	16.0%		12.5%		12.2%	12.5%	
NP Margin	8.7%	17.8%		11.0%		8.7%	11.0%	
Annualised ROE	19.44%	36.68%		26.93%		4.86%	6.65%	

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 Ylc (%)	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	15.48	3,952.2	N	02/2023	10.0%	7.0%	18.2%	15.1%	11.1	9.4	8.2	2.0	1.8	19.9%	3.2%	16.45	OP	
CTOS DIGITAL BHD	6.79	5,495.1	Y	12/2022	-11.7%	-2.6%	-22.8%	3.6%	15.5	20.0	19.3	6.7	6.5	33.1%	4.6%	7.05	MP	
BURSA MALAYSIA BHD	1.46	3,372.6	Y	12/2022	24.5%	15.2%	31.8%	16.7%	56.8	43.1	36.9	11.4	5.9	18.1%	1.3%	2.00	OP	
LPI CAPITAL BERHAD	13.74	5,473.8	N	12/2022	-3.7%	1.7%	-25.5%	27.4%	15.9	21.3	16.7	2.6	2.5	11.9%	4.4%	14.10	MP	
SYARIKAT TAKAFUL MALAYSIA KELUARGA BHD	3.51	2,938.9	Y	12/2022	4.3%	4.3%	-16.0%	5.2%	7.1	8.5	8.1	1.6	1.4	18.0%	4.0%	4.25	OP	
Simple Average					4.7%	5.1%	-2.9%	13.6%	21.3	20.5	17.8	4.9	3.6	20.2%	3.5%			

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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Published and printed by:

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