

17 June 2022

Syarikat Takaful M'sia Keluarga

Value Still Present

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

We recalibrate our applied PBV valuation to 2.5x (@30% discount from hypothetical post-MFRS17 valuations of industry leader). We also increase the stress bearing of our hypothetical MFRS17 impact to TAKAFUL, lowering our FY23E BVPS to RM1.56 (from RM1.94). All in, we arrive at a new target price of RM3.90 (from RM4.25) but maintain our OP call as current sell-down seems unjustified. We feature TAKAFUL as a preferred Shariah pick.

We came away from TAKAFUL's Analyst and Fund Managers Briefing feeling positive with the presented business plans going forward. **Key takeaways are as follows:**

- **Maintaining its leading Bancatakaful position.** The group is thought to be the leader in Bancatakaful with an estimated 36% market share and 17 bank partners in tow. The group is confident of retaining its position fuelled by value-adds to their partners' wealth management portfolio with credit-related propositions (which we see is TAKAFUL's key strength). As of FY21, 61% of the group's Family Takaful contribution originated from banca channels (vs FY20: 53%).
- **Boosting share in Employee Benefits (EB) space.** EB has always been seen to be highly competitive by the nature of its annual renewals. Incorporating more robust digital solutions paired with wellness and lifestyle programs could elevate the group's branding and competitive edge in this space. Tie-ins with its existing banca partnerships would also provide strong leverage.
- **Digitalisation will likely take precedence in accelerating retail and recurring contribution businesses.** The group is cognizant of the higher scalability of digital capabilities, better penetration of digital channels and ease of cross selling. Additionally, investing in a higher agency workforce could incur heavier investments. Digitalisation will also be essential in smoothing customer experiences and minimising operating costs via automation. An opportunity in an underpenetrated market of RM13b in annual contribution has been identified, in which TAKAFUL only has a 16% foot in.

Post update, we leave no changes to our FY22E/FY23E assumptions.

Maintain OUTPERFORM but with a lower TP of RM3.90 (from RM4.25). Our newly ascribed PBV of 2.5x (from 2.2x) is reflective of a 30% discount from our hypothetical post-MFRS17 valuations of an industry leader which offers better dividend yield prospects and share price resiliency as compared to TAKAFUL. As for our hypothetical BVPS, we stretch our applied impact from FY23E retained earnings and EPS to 45% (from 30%) and 20% (from 15%) respectively, in line with the range-end of the group's guidance.

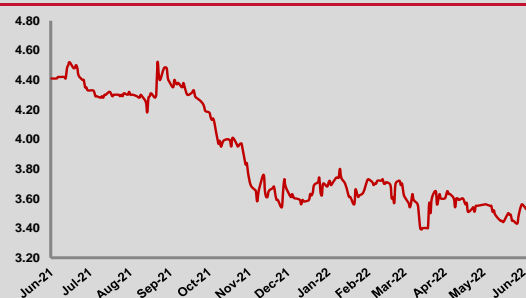
In spite of the increased stress in our adjustments, capital upside opportunity is still present, indicating that any sell-down from MFRS17 implementation concerns could be overdone. Further, long-term investors may take note that MFRS17's impact to the group's financial statements should normalise within 5-6 years. **TAKAFUL is also one of our preferred Shariah-compliant picks** which we still like for its strong market position and solid ROE against other financial institutions.

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

OUTPERFORM ↔

Price : RM3.42
Target Price : RM3.90 ↓

Share Price Performance



KLCI	1,466.27
YTD KLCI chg	-6.0%
YTD stock price chg	-7.6%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	STMB MK Equity
Market Cap (RM m)	2,863.6
Shares Outstanding	837.3
52-week range (H)	4.52
52-week range (L)	3.39
3-mth avg daily vol	842,477
Free Float	42%
Beta	0.7

Major Shareholders

Lembaga Tabung Haji	28.2%
Employees Provident Fund	10.9%
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		336	394
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)	6.9	8.3	7.9
PBV (x)	1.6	1.4	1.3
Net Div. Yield (%)	3.5	4.1	4.7

Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2019A	2020A	2021A	2022E	2023E	FY Dec (RM m)	2019A	2020A	2021A	2022E	2023E
Operating revenue	3,125	2,957	3,179	2,863	2,963	Growth					
Takaful op. income	1,094	979	1,047	1,130	1,220	Operating revenue	18.4%	-5.4%	7.5%	-9.9%	3.5%
Gross earned premium	2,749	2,514	2,766	2,886	3,010	Takaful op. Income	21.1%	-10.5%	6.9%	8.0%	7.9%
Net earned premium	2,354	2,073	2,243	2,351	2,451	Gross earned premium	19.8%	-8.5%	10.0%	4.3%	4.3%
Other income	483	510	525	540	540	Net earned premium	21.3%	-12.0%	8.2%	4.8%	4.2%
Net benefits & claims	-988	-889	(949)	(1,027)	(1,076)	Other income	47.7%	5.6%	3.0%	2.9%	0.0%
Other operating exp	-724	-602	(659)	(693)	(692)	Pre-tax Profit	24.0%	2.2%	2.8%	2.9%	6.7%
Pre-tax profit	418	427	439	452	482	Core PATAMI	31.1%	-0.7%	13.5%	-16.0%	5.2%
Zakat	-1	-1	(1)	(1)	(1)	EPS	24.8%	-0.9%	12.4%	-15.9%	5.2%
Tax expense	-50	-62	(25)	(103)	(116)						
PATAMI	365	362	411	345	363	Operating Metrics					
Core PATAMI	365	362	411	345	363	Reinsurance ratio	14%	18%	19%	19%	19%
						Retention ratio	86%	82%	81%	81%	81%
						Claims incurred ratio	36%	35%	34%	36%	36%
						Commission expenses	8%	8%	8%	7%	7%
						Mgmt expense ratio	16%	16%	19%	16%	16%
						Combined ratio	59%	59%	61%	59%	59%
						Effective tax	12%	15%	6%	20%	24%
						ROA	3.8%	3.3%	3.4%	2.6%	2.6%
						ROE	33.1%	26.5%	24.8%	18.0%	16.9%
						Valuation					
						Core EPS (RM)	0.44	0.44	0.49	0.41	0.43
						PER (x)	7.8	7.8	6.9	8.3	7.9
						Div. Yld. (%)	5.8%	3.5%	3.5%	4.1%	4.7%
						BVPS (RM)	1.48	1.82	2.16	2.44	2.71
						PBV (x)	2.3	1.9	1.6	1.4	1.3
Balance Sheet											
FY Dec (RM m)	2019A	2020A	2021A	2022E	2023E						
Net fixed assets	223	225	227	136	96						
Other investments	5,806	9,346	9,504	9,504	9,504						
Retakaful assets	756	978	1,156	1,546	1,592						
Receivables	2,834	303	336	305	318						
Cash equivalents	603	713	847	1,919	2,193						
Other assets	123	229	638	192	192						
Total assets	10,346	11,793	12,709	13,603	13,894						
Takaful liabilities	8,258	9,224	9,786	9,786	9,786						
Total payables	490	671	756	1,423	1,484						
Other liabilities	343	356	324	324	324						
Total liabilities	9,092	10,251	10,866	11,533	11,594						
Share capital	197	212	231	231	231						
Reserves	1,026	1,298	1,578	1,807	2,036						
Shareholders' eq.	1,223	1,509	1,809	2,037	2,267						
Minority interest	32	32	33	33	33						
Total liability & eq.	10,346	11,793	12,708	13,603	13,894						

Source: 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 Y/c (%)	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	14.36	3,666.2	N	02/2023	10.0%	7.0%	18.2%	15.1%	10.3	8.7	7.6	1.8	1.7	19.9%	3.5%	16.45	OP	
CTOS DIGITAL BHD	6.40	5,179.5	Y	12/2022	-11.7%	-2.6%	-22.8%	3.6%	14.6	18.9	18.2	6.3	6.2	33.1%	4.8%	7.05	MP	
BURSA MALAYSIA BHD	1.27	2,933.7	Y	12/2022	24.5%	15.2%	31.8%	16.7%	49.4	37.5	32.1	9.9	5.2	18.1%	1.5%	2.00	OP	
LPI CAPITAL BERHAD	13.50	5,378.2	N	12/2022	-3.7%	1.7%	-25.5%	27.4%	15.6	20.9	16.4	2.5	2.5	11.9%	4.4%	14.10	MP	
SYARIKAT TAKAFUL MALAYSIA KELUARGA BHD	3.42	2,863.6	Y	12/2022	4.3%	4.3%	-16.0%	5.2%	6.9	8.3	7.9	1.6	1.4	18.0%	4.1%	3.90	OP	
Simple Average					4.7%	5.1%	-2.9%	13.6%	19.4	18.9	16.4	4.4	3.4	20.2%	3.7%			

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:

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

