

25 February 2022

Syarikat Takaful M'sia Keluarga

Near-Term Challenges Present Buying Opportunity

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1HFY22 PATAMI of RM156.4m (-14%) is within expectations. We reckon current hurdles are short-term issue with measures in place to expand its market position. Sentiment may recover on sequentially better numbers, indicating possible buying opportunities at current levels. Maintain OP and MFRS 17 adjusted-TP of RM3.90. There is no adjustment to our TP based on ESG of which it is given a 3-star rating as appraised by us. TAKAFUL is also one of our 3QCY22 Top Shariah Picks.

1HFY22 within expectations. 1HFY22 PATAMI of RM156.4m made up 45%/47% of our/consensus expectations where seasonally higher earnings are usually reported in the 2H period. No dividend was declared as expected, as the group typically pays a single final dividend in its last quarter.

YoY, 1HFY22 operating revenue improved by 13% to RM1.83b from growth in both Family Takaful (mainly credit-related products) and General Takaful business. That said, combined ratio crept up to 79.9% (+12.6ppt) as net claims ratio rose to 51.5% (+9.1ppt) no thanks to the rise in instances against last year's MCO period. Other income (-24%) failed to support earnings from higher value losses in the equities market. 1HFY22 PATAMI came in at RM156.4m (-14%) post prosperity tax impact.

QoQ, 2QFY22 operating revenue dipped 17%. Sequentially, we saw lower credit-related sales and fire insurance sales as higher interest rates may have affected purchase decisions. On the flipside, claims incurred ratio was marked down (47.4%, -8.0ppt) mainly due to lower death claims on credit products, albeit mitigated by higher motor claims. Owing to the lower topline and higher effective taxes, 2QFY22 PATAMI reported at RM69.6m (-20%).

Possible soft spots in bancatakaful space. We anticipate a slowdown in policies take-up (particularly bancatakaful) due to added considerations from higher interest rates. Added by the group's leading position (est. 36% market share), the brunt may be felt by TAKAFUL more than others. Against this, the digitalisation of its retail channels would allow to group to penetrate into previously untapped markets while higher spend on its agency workforce should promote visibility and sales. The group is also doubling down on its employee benefits segment to provide greater exposure to corporate customers where tie-ins could be leveraged more cohesively.

Post results, we leave our FY22E/FY23E earnings unchanged.

Maintain OUTPERFORM and TP of RM3.90. Our ascribed PBV of 2.5x 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. Our hypothetical BVPS is premised on an applied cut to our FY23E retained earnings and EPS to 45% and 20% respectively.

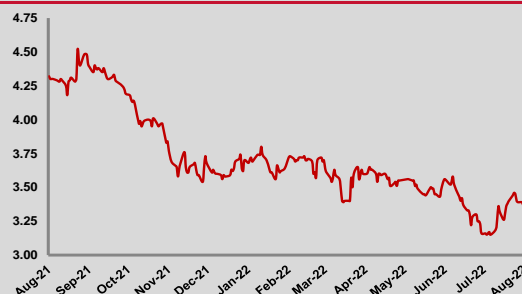
In spite of the increased stress in our adjustments, capital upside opportunity is still present, indicating that any sell-down from MFRS17 implementation concerns could be overdone. Further, long-term investors may take note that MFRS17's impact to the group's financial statements should normalise within 5-6 years. **TAKAFUL is one of our 3QCY22 Shariah-compliant Top 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, (iii) higher-than-expected management expense ratio, and (iv) further wave of pandemic.

OUTPERFORM ↔

Price : RM3.36
Target Price : RM3.90 ↔

Share Price Performance



KLCI 1,507.71
YTD KLCI chg -3.8%
YTD stock price chg -9.2%

Stock Information

| | |
|---------------------|----------------|
| Shariah Compliant | Yes |
| Bloomberg Ticker | STMB MK Equity |
| Market Cap (RM m) | 2,813.3 |
| Shares Outstanding | 837.3 |
| 52-week range (H) | 4.52 |
| 52-week range (L) | 3.15 |
| 3-mth avg daily vol | 456,383 |
| Free Float | 41% |
| Beta | 0.6 |

Major Shareholders

| | |
|--------------------------|-------|
| Lembaga Tabung Haji | 28.2% |
| Employees Provident Fund | 11.6% |
| 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 | | 331 | 376 |
| 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) | 6.8 | 8.1 | 7.7 |
| PBV (x) | 1.6 | 1.4 | 1.2 |
| Net Div. Yield (%) | 3.6 | 4.2 | 4.8 |

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| Results Highlights | | | | | | | | |
|--|--------------|--------------|---------------|--------------|---------------|----------------|----------------|---------------|
| | 2Q | 1Q | QoQ | 2Q | YoY | 6M | 6M | YoY |
| FYE Dec (RM m) | FY22 | FY22 | Chg | FY21 | Chg | FY22 | FY21 | Chg |
| Operating Revenue | 831.9 | 997.4 | -16.6% | 701.2 | 18.6% | 1,829.3 | 1,616.7 | 13.2% |
| Gross Earned Premium | 738.0 | 783.9 | -5.9% | 641.4 | 15.1% | 1,521.9 | 1,340.2 | 13.6% |
| Net Earned Premium | 594.7 | 626.5 | -5.1% | 526.0 | 13.1% | 1,221.1 | 1,084.8 | 12.6% |
| Other Income | 87.2 | 91.3 | -4.5% | 116.1 | -24.9% | 178.5 | 234.9 | -24.0% |
| Total Income | 681.9 | 717.8 | -5.0% | 642.1 | 6.2% | 1,399.7 | 1,319.7 | 6.1% |
| Net claims incurred | -282.0 | -347.0 | -18.7% | -224.8 | 25.4% | -628.9 | -460.0 | 36.7% |
| Operating Expenses | -187.9 | -220.2 | -14.7% | -157.0 | 19.7% | -408.1 | -354.3 | 15.2% |
| Operating Profit | 212.0 | 150.6 | 40.8% | 260.3 | -18.5% | 362.6 | 505.4 | -28.3% |
| Profit before taxation and zakat | 107.2 | 121.6 | -11.8% | 95.7 | 11.9% | 228.7 | 210.2 | 8.8% |
| Taxation & Zakat | -37.4 | -35.0 | 7.0% | -13.9 | 169.3% | -72.4 | -27.2 | 166.0% |
| Net profit | 69.7 | 86.6 | -19.5% | 81.8 | -14.8% | 156.3 | 182.9 | -14.6% |
| PATAMI | 69.6 | 86.8 | -19.8% | 81.5 | -14.6% | 156.4 | 182.7 | -14.4% |
| Core EPS (RM) | 8.3 | 10.4 | -19.8% | 9.8 | -14.7% | 18.7 | 21.9 | -14.7% |
| DPS (RM) | 0.0 | 0.0 | | 0.0 | | 0.0 | 0.0 | |
| Reinsurance Ratio | 19.4% | 20.1% | | 18.0% | | 19.8% | 19.1% | |
| Retention Ratio | 80.6% | 79.9% | | 82.0% | | 80.2% | 80.9% | |
| Claims Incurred Ratio (to Net Earned Premium, NEP) | 47.4% | 55.4% | | 42.7% | | 51.5% | 42.4% | |
| Net Admin Ratio (to NEP) | 8.1% | 6.4% | | 5.9% | | 7.2% | 5.9% | |
| Management Expense Ratio (to NEP) | 21.7% | 20.6% | | 19.3% | | 21.1% | 19.0% | |
| Opex Ratio to NEP | 31.6% | 35.1% | | 29.8% | | 33.4% | 32.7% | |
| Combined Ratio (to NEP) | 77.3% | 82.3% | | 67.9% | | 79.9% | 67.3% | |
| Effective Taxation Rate | 34.9% | 28.8% | | 14.5% | | 31.7% | 12.9% | |
| PBT Margin | 12.9% | 12.2% | | 13.7% | | 12.5% | 13.0% | |
| NP Margin | 8.4% | 8.7% | | 11.6% | | 8.5% | 11.3% | |
| Annualised ROE | 15.1% | 19.4% | | 20.9% | | 8.5% | 11.5% | |

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 | 13.90 | 3,548.8 | N | 02/2023 | 6.4% | 10.4% | 31.8% | 5.9% | 9.7 | 7.4 | 7.0 | 1.6 | 1.4 | 20.4% | 4.5% | 17.20 | OP | |
| CTOS DIGITAL BHD | 6.57 | 5,317.1 | Y | 12/2022 | -22.6% | 0.2% | -32.6% | 6.7% | 15.0 | 22.2 | 20.8 | 6.5 | 6.3 | 28.9% | 4.1% | 6.30 | MP | |
| BURSA MALAYSIA BHD | 1.45 | 3,349.5 | Y | 12/2022 | 24.5% | 15.2% | 31.8% | 16.7% | 56.4 | 42.8 | 36.7 | 11.4 | 5.9 | 18.1% | 1.3% | 1.55 | OP | |
| LPI CAPITAL BERHAD | 13.24 | 5,274.6 | N | 12/2022 | -3.7% | 1.7% | -27.3% | 27.4% | 15.3 | 21.1 | 16.5 | 2.5 | 2.4 | 11.6% | 4.2% | 14.10 | MP | |
| SYARIKAT TAKAFUL MALAYSIA KELUARGA BHD | 3.36 | 2,813.3 | Y | 12/2022 | 4.3% | 4.3% | -16.0% | 5.2% | 6.8 | 8.1 | 7.7 | 1.6 | 1.4 | 18.0% | 4.2% | 3.90 | OP | |
| Simple Average | | | | | 1.8% | 6.4% | -2.5% | 12.4% | 20.6 | 20.3 | 17.7 | 4.7 | 3.5 | 19.4% | 3.6% | | | |

Source: Bloomberg, Kenanga Research

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Stock ESG Ratings:

| | Criterion | Rating | | | | |
|-----------------|-----------------------------------|--------|---|---|---|--|
| GENERAL | Earnings Sustainability & Quality | ★ | ★ | ★ | | |
| | Corporate Social Responsibility | ★ | ★ | ★ | | |
| | Management/Workforce Diversity | ★ | ★ | ★ | ☆ | |
| | Accessibility & Transparency | ★ | ★ | ★ | ★ | |
| | Corruption-Free Pledge | ★ | ★ | ★ | | |
| | Carbon-Neutral Initiatives | ★ | ★ | ★ | | |
| SPECIFIC | Product Inclusivity | ★ | ★ | ★ | ☆ | |
| | Cybersecurity/Data Privacy | ★ | ★ | ★ | | |
| | Digital Transformation | ★ | ★ | ★ | ☆ | |
| | Staff Welfare & Training | ★ | ★ | ★ | | |
| OVERALL | | ★ | ★ | ★ | | |

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

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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