

21 March 2023

Tune Protect Group Bhd

Jetting to Clearer Skies

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INVESTMENT MERIT

TUNEPRO is anticipated to recover from a slump with the return of flights expected to translate favourably into earnings. This is compounded with its regional partnerships accumulated over past years. Furthermore, the exit from an inefficient commercial segment could smoothen ratios while claim rates could come off relative to the rise in new policies underwritten. The improving sentiment in the aviation space would also uplift investor appetite. ADD with a fair value of RM0.55 on a 0.75x FY24F PBV valuation.

Return of flight travel to propel reinsurance segment. The group's core travel reinsurance segment suffered from Covid restrictions pinning down flights. A pick-up is expected as the demand for flights reverts, albeit likely below pre-Covid as reservations could still exist amidst the rising cost of flying. This is seen from FY19's 9.7m policies issued via local and regional affiliates against only 4.2m policies in FY22. That said, TUNEPRO has built a solid partnership portfolio to offer greater exposure in the Middle East. We gather that FY19 sold 632k policies and surged to 3.1m policies in FY22.

Trimming portfolio to streamline offerings. The group was bogged down by the underperformance of its commercial segment (i.e. marine, aviation cargo, transit) as a notable cause for retention ratios to mostly linger below 70% (vs peer average of 80%). The group intends to exit this space by not renewing existing policies, which we reckon would not be hurtful given its relatively small contribution (FY22: 16% of total gross written premiums but only 2% of total net written premiums). This could allow greater focus onto more vibrant segments such as personal accident (net written premium, FY22: RM94m vs FY21: RM8m) thanks to greater tie-ins (c.70 partners at present) and digital footprint.

Further shaving of hefty combined ratio. TUNEPRO would occasionally book combined ratios of >100% (FY22: 107.6%) owing to disproportions in claims and expenses against top line performance. Going forward, the group believes a more palatable <100% range would be achievable as borders' reopening would boost income amidst more selective expansion in operating expenses. Meanwhile, claims ratios are expected to normalise from FY22's 34% on fewer Covid claims and less frequent motor incidences. Additionally, a growing focus in high-margin fire class insurance could also dilute cost ratios.

Poised to return to the black. After five quarters of consecutive losses, 4QCY22 turned profitable (RM558k) as underwriting losses narrowed on improvements in combined ratios in addition to better investment returns as trading activities revitalised. These factors would complement the returning demand for travel reinsurance and better retention ratios. Alongside the normalisation of claims and lower combined ratios (99%/98%), we opine the group could report net profits of RM11.2m/RM20.5m in FY23F/FY24F. Note that this is still below its pre-Covid earnings of RM45m-RM50m which we believe may require longer-term effort to bring combined ratios to c.90%.

We value TUNEPRO at RM0.55, based on 0.75x FY24F PBV. Our valuation implies a 25% discount to its peer average, which we believe is justified given TUNEPRO still lags in terms of ROE (c.3% vs peer average of c.11%) and a lack of dividend potential. That said, its depressed stock price is due to its strong proximity to a prominent local flight operator and the lull in the aviation sector.

As these elements are expected to recover in tandem with stronger economic movements, we believe the appetite for TUNEPRO would be well. Meanwhile, the forecasted doubling of its earnings could draw high growth seekers. There is no adjustment to our fair value based on ESG given a 3-star rating as appraised by us. **ADD**

	Rating	Fair Value
Last Price		RM0.41
Kenanga	Add	RM0.55
Consensus	Buy	RM0.46

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	30.16%
Market Cap (RM'm)	308.22
Shares Outstanding (m)	751.76
52-week range (Hi)	0.46
52-week range (Low)	0.23
3-mth avg daily vol:	2,495,270
Free Float	52.8%
Beta	1.07
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)	2022A	2023F	2024F
Operating Revenue	529.5	521.6	586.7
Operating Profit	-19.1	21.9	37.3
Profit Before Tax (PBT)	-33.7	14.6	26.8
Net Profit	-34.4	11.2	20.5
EPS (sen)	-4.6	1.5	2.7
BV/Share (RM)	0.70	0.71	0.74
PER (x)	-9.0	27.6	15.1
Price/BV (x)	0.59	0.58	0.56
Net Gearing (x)	1.6	1.5	1.6
DPS (sen)	0.0	0.0	0.0
Div. Yield (%)	0.0	0.0	0.0

Quarterly Financial

Data (RM'm)	2Q22	3Q22	4Q22
Operating Revenue	142.8	129.7	139.0
PBT	-22.4	-11.9	3.5
Net Profit	-19.8	-12.2	0.6
Basic EPS (sen)	-2.6	-1.6	0.1
Revenue Growth (QoQ)	21.0%	-9.2%	7.1%
EPS growth (QoQ)	557.5%	-38.4%	104.3%
Net Profit Margin	-13.9%	-9.4%	0.4%

Peers Comparisons

	2y-fwd PBV (x)	Div. Yld (%)	Mkt Cap (RM m)
ALLIANZ	0.48	5.2	2,406
LPI	2.03	5.1	4,820
MNRB	0.28	2.0	736
TAKAFUL	1.16	4.8	2,671
Average	0.99	4.3	

Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★		
	Community Investment	★	★	★		
	Workforce Safety & Wellbeing	★	★	★	★	
	Corporate Governance	★	★	★		
	Anti-corruption Policy	★	★	★		
	Emissions Management	★	★	★	★	
SPECIFIC	Cybersecurity/Data Privacy	★	★	★		
	Digitalisation & Innovation	★	★	★	★	
	Financial Inclusion	★	★	★		
	Ethical Practices	★	★	★		
	Legal & Regulatory Compliance	★	★	★		
	Customer Experience	★	★	★	☆	
OVERALL		★	★	★		

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



Comment: Following a bounce-off from a trough of RM0.23 in mid-October last year to a recent high of RM0.46 in mid-March this year, plotting higher lows along the way, TUNEPRO's share price (which ended at RM0.41 yesterday) could be entering a consolidation phase already. This comes as the RSI indicator is in the midst of unwinding from an overbought position. Beyond the short-term, a resumption of the uptrend pattern (after previously breaking past a descending trendline and the 100-day SMA) will likely be forthcoming when the 100-day SMA overcomes the 200-day SMA to chart a golden cross. With that said, we have set our resistance thresholds at RM0.45 (R1) and RM0.49 (R2). On the downside, the share price is expected to find support at RM0.37 (S1) and RM0.34 (S2, which coincides with the 50% Fibonacci retracement line).

About the stock:

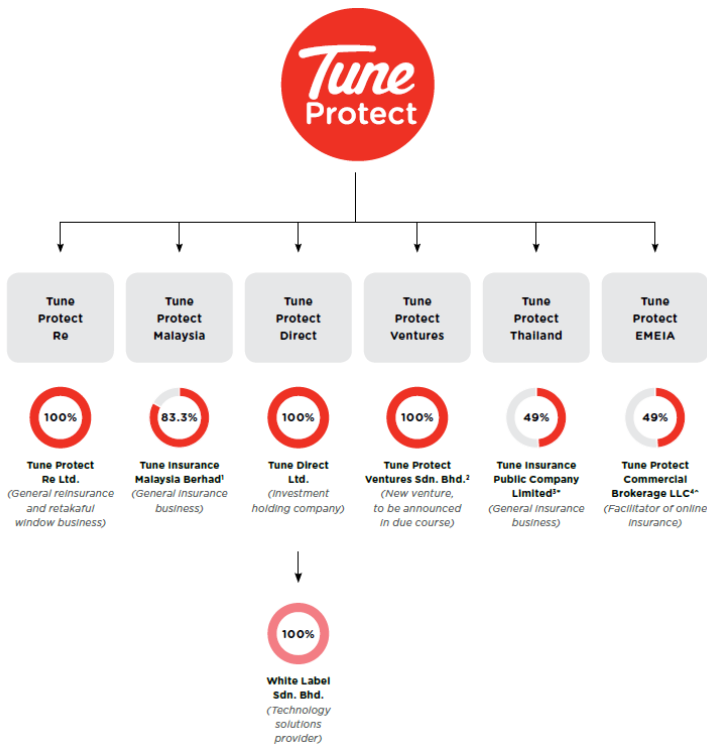
Name : Tune Protect Group Bhd
Bursa Code : TUNEPRO
CAT Code : 5230

Key Support & Resistance level

Resistance : RM0.45 (R1) RM0.49 (R2)
Support : RM0.37 (S1) RM0.34 (S2)
Outlook : Neutral

Source: Kenanga Research

CORPORATE STRUCTURE **BUSINESS OVERVIEW**



BUSINESS SEGMENTS

The group has segmented its products into the following:

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

Source: Company

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