

01 June 2023

Syarikat Takaful M'sia Keluarga

Positioned in a Sweet Spot

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Post-MFRS 17, TAKAFUL's 1QFY23 net profit of RM93.9m (+22%) was within expectations. TAKAFUL's credit-related products remain highly relevant, further propelled by effective Bancatakaful partnerships. Its relatively low exposure in fire and motor class insurances cushions headwinds from the pending detariffication of that space. Adjusting our model to the new accounting standard and rebasing our benchmark discount, our TP for TAKAFUL is lowered to RM3.90 (from RM4.15). Maintain OUTPERFORM.

1QFY23 within expectations as compared to previous accounting standards. 1QFY23 net profit of RM93.9m made up 26% each of our full-year forecast and consensus full-year estimate based on MFRS 4 accounting standards.

Effective 1 Jan 2023, the group has applied the new MFRS 17-Insurance Contracts standard to replace MFRS 4 which uniformly distributes revenue recognition of takaful and retakaful contracts but also changes accounting presentations, such as the removal of "net earned premiums" for "takaful service result". Comparing these standards, we note that a restated 1QFY22 saw the following changes: (i) net profit reduced by 11.1%, (ii) ROE enhanced by 2.5ppts, and (iii) historical BVPS narrowing by 30%.

YoY, 1QFY23 takaful revenue rose by 17% thanks to higher demand for both Family (from an increase in coverage) and General Takaful products (from greater fire and motor class business). However, takaful service results declined by 19% as claims saw a group-wide increase, with service expense margin creeping to 95.1% (+3.6ppts). On the flipside, net investment income doubled from fixed income gains and lower fair value losses. Overall, this mitigated a higher net financial cost and translated to a 1QFY23 net profit growth to RM93.9m (+22%).

Outlook. The group appears to be enjoying healthy traction thanks to its sustained Bancatakaful portfolio helping its key credit-related products. The group had also ventured into other segments (i.e. employee benefits, medical) to boost its offerings. On the flipside, the pending further detariffication on fire and motor class insurance in 2HFY23 may stir price competitions within the space. That said, the group faces a lower exposure for these insurance classes, which makes up <30% of topline contributions as opposed to peers with up to <65% total dependency.

Forecasts. Post results, we transition our model inputs to reflect the new MFRS 17 requirements. This resulted in 10%/9% cut in reported earnings for FY23F/FY24F. We anticipate the demand for takaful products to sustain but higher claims may dampen profitability. The group may instead see stronger earnings contribution from its recovering investment portfolio.

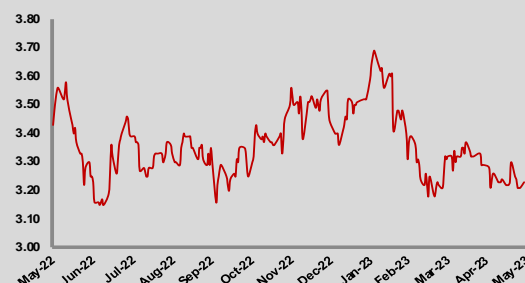
Maintain OUTPERFORM with a lower TP of RM3.90 (from RM4.15). We had previously applied hypothetical adjustments to our pre-MFRS 17 model on a 2.5x FY24F PBV, being a 30% discount from a leading peer. Given the peer also saw valuations tightened amidst uncertainties arising from MFRS 17, our same 30% discount translates to a 1.9x PBV on an adjusted FY24F BVPS of RM2.05.

Despite possible reservations for the stock, we believe TAKAFUL offers a distinctive opportunity to tap into the growing shariah market. Meanwhile, its industry leading ROEs could act as buffers against possibly intensifying market conditions. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us.

OUTPERFORM ↔

Price : RM3.38
Target Price : RM3.90 ↓

Share Price Performance



KLCI	1,387.12
YTD KLCI chg	-7.2%
YTD stock price chg	-1.7%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	STMB MK Equity
Market Cap (RM m)	2,830.1
Shares Outstanding	837.3
52-week range (H)	3.69
52-week range (L)	3.15
3-mth avg daily vol	205,626
Free Float	41%
Beta	0.6

Major Shareholders

Lembaga Tabung Haji	28.2%
Employees Provident Fund	12.7%
Kumpulan Wang Persaraan	6.9%

Summary Earnings Table

FY Dec (RM m)	2022A	2023F	2024F
Takaful Revenue	2,175	2,523	2,901
Takaful Service Result	184	202	247
Net Investment Inc.	239	287	272
Net Financial Result	-53	-56	-59
Net Op. Expenses	11	-5	-5
Profit before tax	437	427	455
Taxation and Zakat	-129	-103	-109
Net Profit	308	325	346
Core Net Profit	308	325	346
Consensus NP	-	362	388
Earnings Revision (%)	-	-10.1	-8.7
Core EPS (sen)	36.8	38.8	41.3
Core EPS growth (%)	-	5.5	6.5
DPS (RM)	13.5	17.5	18.6
BVPS (RM)	1.61	1.82	2.05
ROE (%)	22.8	21.3	20.2
PER (x)	9.2	8.7	8.2
PBV (x)	2.10	1.85	1.65
Net Div. Yield (%)	4.0	5.2	5.5

* Based on an annualised 1QFY22 to reflect ongoing reporting standards

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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	1Q	YoY	3M	3M	YoY
FYE Dec (RM m)	FY23	FY22	Chg	FY23	FY22	Chg
Takaful Revenue	635.3	543.7	16.9%	635.3	543.7	16.9%
Takaful Service Result before Retakaful	31.3	46.1	-32.0%	31.3	46.1	-32.0%
Net retakaful contracts income/(expense)	17.6	14.0	25.7%	17.6	14.0	25.7%
Takaful Service Results	48.9	60.0	-18.6%	48.9	60.0	-18.6%
Net Investment Income	121.9	59.7	104.3%	121.9	59.7	104.3%
Net Takaful Financial Results	-40.7	-13.3	205.3%	-40.7	-13.3	205.3%
Other Income	0.3	1.5	-77.5%	0.3	1.5	-77.5%
Other operating expenses	-0.8	1.2	-168.5%	-0.8	1.2	-168.5%
Profit before tax expense and zakat	129.6	109.1	18.8%	129.6	109.1	18.8%
Tax and zakat	-35.8	-32.2	11.1%	-35.8	-32.2	11.1%
Minority interest	0.0	0.0	N.M	0.0	0.0	N.M
Net Profit	93.9	77.0	22.0%	93.9	77.0	22.0%
Core Net Profit	93.9	77.0	22.0%	93.9	77.0	22.0%
Takaful Service Expense Margin (To Takaful Revenue)	95.1%	91.5%		95.1%	91.5%	
Net Takaful Service Margin (To Takaful Revenue)	7.7%	11.0%		7.7%	11.0%	
Effective Tax and Zakat Rate	27.6%	29.5%		27.6%	29.5%	
Annualised Return on Equity (ROE)	25.6%	21.9%		25.6%	21.9%	
Total Assets	13,502.5	N.A.		13,502.5	N.A.	
Total Liabilities	12,002.2	N.A.		12,002.2	N.A.	
Total Shareholders' Funds	1,468.8	N.A.		1,468.8	N.A.	
Book Value per Share (RM)	1.75	N.A.		1.75	N.A.	

Notes:

~ QoQ comparison with 4QFY22 is unavailable following 1QFY23's transition into MFRS 17

* N.A. due to the absence of MFRS 17-adjusted 1QFY22 financial statements

Source: Company, Kenanga Research

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Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.				
NON-BANK FINANCIAL INSTITUTIONS																	
AEON CREDIT SERVICE M BHD	OP	11.40	16.15	41.7%	2,910.5	N	02/2024	161.9	185.5	-1.0%	14.6%	7.0	6.1	1.0	15.5%	52.0	4.6%
BURSA MALAYSIA BHD	MP	6.20	6.25	0.8%	5,017.7	Y	12/2023	28.1	31.1	0.4%	10.7%	22.1	19.9	6.3	28.7%	27.0	4.4%
CTOS DIGITAL BHD	OP	1.34	1.80	34.3%	3,095.4	Y	12/2023	4.4	5.3	14.1%	20.2%	30.1	25.1	4.9	17.0%	2.7	2.0%
LPI CAPITAL BERHAD	OP	11.70	14.70	25.6%	4,661.1	N	12/2023	79.6	85.0	7.5%	6.7%	14.7	13.8	2.1	14.2%	63.7	5.4%
SYARIKAT TAKAFUL MSIA KELUARGA BHD	OP	3.38	3.90	15.4%	2,830.1	Y	12/2023	38.8	41.3	5.5%	6.5%	8.7	8.2	1.9	22.6%	17.5	5.2%
SECTOR AGGREGATE					18,514.7					3.6%	10.7%	13.4	12.1	2.3	16.7%		4.3%

Source: Kenanga Research

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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

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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