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Syarikat Takaful M'sia Keluarga

Resilient Front

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We maintain our OP call and TP of RM4.10. From a recent briefing, we gathered a better sense of TAKAFUL's operations post-MFRS 17. The group appears to be doing well in sustaining its market share but with some pressures from higher retakaful costs. Meanwhile, while the group's exposure to fire class is considerably lower compared to peers, it remains pro-active in maintaining its position amidst the recent detariffication. Stronger investment returns would also support FY23 earnings.

We recently hosted TAKAFUL in a meeting for updates. Our key takeaways are as follows:

- **Portfolio growth held.** In 1HFY23, TAKAFUL saw an 18% YoY increase in takaful revenue. From the Family Takaful end (+22%), credit-related products remain as the lion's share, accounting for c.80% of its portfolio. This remains to be backed by strong bancatakaful contributions with new partners in Agrobank and Bank Muamalat. On the flipside, we gathered General Takaful mostly gained thanks to a growing motor exposure. With regards to fire class products, the group reflects that it has been able to tide the ongoing fire detariffication by repackaging its residential products without compromising on its premiums. Based on past-MFRS 4 accounting standards, fire class premiums make up 24% of General Takaful and 9% of overall top line.
- **Retakaful may continue to be a bane.** With regards to takaful service expenses (+24%), it is noted that claims only saw an increase of 15% (with claims-to-revenue at 58.4%, -5.0ppt). The group attributed higher retakaful costs to be the main cause of the surge. It is noted that more frequent floods have led to the reassessment of reinsurance premiums, which we reckon may only upside-biased going forward. No thanks to this, takaful service result ended was 8% lower.
- **Contractual service margin (CSM) replenishment intact.** Under the new MFRS 17 standards, we noted the group had reported a CSM book of RM1.25b which would be recognised across the tenure of its written policies. Aligning with the growth in revenue, A netflow of RM17m seen in YTD-1HFY23 was reflected in the group's CSM books. This could be mostly thanks to the higher take up of credit-related products (c.49% of total revenue).
- **Recoveries in investment to carry through.** In 1HFY22, TAKAFUL reported deep losses in investment fair value (c.RM73m) which undermined its overall returns. Meanwhile, 1HFY23 net investment income doubled to RM251.9m thanks to better trading sentiment which uplifted equities and fixed income asset performances which we believe could sustain throughout FY23.

Forecasts. Post updates, we maintain our FY23F/FY24F assumptions.

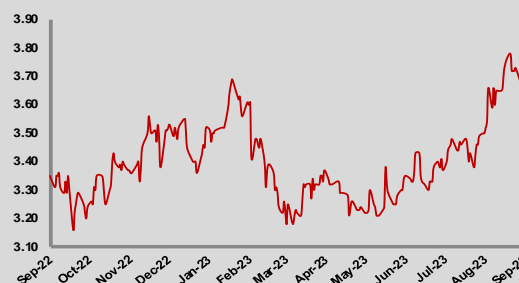
Maintain OUTPERFORM and TP of RM4.10. Our TP is based on an unchanged 1.9x FY24F PBV, being a 30% discount against a leading peer. We believe TAKAFUL still offers a distinctive opportunity as a return of trading sentiment could translate into demand for shariah alternatives. Meanwhile, its industry leading ROEs could act as buffers against possibly intensifying market conditions. Additionally, its relatively lower exposure to detariffication-sensitive portfolios could be a point of comfort for investors. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us.

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 : RM3.66
Target Price : RM4.10 ↔

Share Price Performance



KLCI	1,457.99
YTD KLCI chg	-2.5%
YTD stock price chg	6.4%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	STMB MK Equity
Market Cap (RM m)	3,064.5
Shares Outstanding	837.3
52-week range (H)	3.78
52-week range (L)	3.16
3-mth avg daily vol	483,982
Free Float	40%
Beta	0.6

Major Shareholders

Lembaga Tabung Haji	28.2%
Employees Provident Fund	12.9%
Kumpulan Wang Persaraan	6.9%

Summary Earnings Table

FY Dec (RM m)	2022A*	2023F	2024F
Takaful Revenue	2,228	2,362	2,527
Takaful Service Result	418	307	354
Net Investment Inc.	252	302	287
Net Financial Result	-111	-116	-122
Net Op. Expenses	7	-5	-5
Profit before tax	422	488	513
Taxation and Zakat	-72	-117	-123
Net Profit	350	371	390
Core Net Profit	350	371	390
Consensus NP		357	390
Earnings Revision (%)		0.0	0.0
Core EPS (sen)	41.8	44.3	46.6
Core EPS growth (%)		6.0	5.3
DPS (RM)	13.5	17.7	18.6
BVPS (RM)	1.61	1.87	2.15
ROE (%)	26.0	23.6	21.6
PER (x)	8.8	8.3	7.9
PBV (x)	2.27	1.95	1.70
Net Div. Yield (%)	3.7	4.8	5.1

* Based on an annualised 1HFY22 to reflect ongoing reporting standards

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%	2,911	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	6.92	6.25	-9.7%	5,600	Y	12/2023	27.3	31.1	-2.5%	14.0%	25.3	22.2	7.0	27.9%	26.0	3.8%
CTOS DIGITAL BHD	OP	1.44	1.80	25.0%	3,326	Y	12/2023	4.3	5.2	11.4%	19.1%	33.2	27.8	6.0	18.7%	2.6	1.8%
LPI CAPITAL BERHAD	OP	11.52	14.70	27.6%	4,589	N	12/2023	76.1	84.0	15.2%	10.4%	15.1	13.7	2.0	13.5%	60.9	5.3%
SYARIKAT TAKAFUL MSIA KELUARGA BHD	OP	3.66	4.10	12.0%	3,065	Y	12/2023	44.3	46.6	6.0%	5.3%	8.3	7.9	2.0	23.6%	17.7	4.8%
SECTOR AGGREGATE					19,491					4.5%	11.5%	13.8	12.4	2.4	17.6%		4.0%

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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