

28 May 2024

Syarikat Takaful M'sia Keluarga

Poised for Appreciation

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TAKAFUL's 1QFY24 results met expectations. With sustained demand for its products, we believe the stock could be further highlighted for its relatively lower exposure to detariffication-spurred competition. Maintain our forecast but raise our TP by 13% to RM4.35 as we roll over our valuation base year and upgrade it to OP (from MP). We feature TAKAFUL as one of our Shariah Top Picks.

Within expectations. TAKAFUL's 1QFY24 net profit of RM102.3m came in at 28% of our full-year forecast and 26% of consensus full-year estimate.

YoY, 1QFY24 takaful revenue surged 40% mostly from gains in Family Takaful (from an increase in coverage) while General Takaful products also saw stronger traction from its fire and motor class products. However, net profit for the period only grew by 10% as service results were met with higher comparative claims in addition to amortisation of acquisition cash flows for wakalah fees.

QoQ meanwhile saw lower takaful revenue (-10%) but saw net profit spike by 46% thanks to fewer retakaful charges and better investment income on more robust trading conditions.

Outlook. TAKAFUL's products stay highly relevant, upheld by rising economic prospects. Its core offering lines of Bancatakaful, Treasury, Employee Benefits and General Takaful stay boosted by its increasing digital adoption for higher market penetration while maintaining traditional channels. Based on its portfolio of products, we continue to view TAKAFUL to be less at risk to price competition arising from the liberalisation of fire class insurance.

Forecasts. Unchanged.

Valuations. We raise our TP by 13% to RM4.35 (from RM3.85) as we roll over our valuation base year to FY25F on an unchanged 1.7x PBV. This comes at a discount against the industry average PBV of 2.1x on the back of: (i) lower net margins of 11% (vs peer's 17%), and (ii) lower dividend returns of 4%-5% (vs peer's 6%-7%).

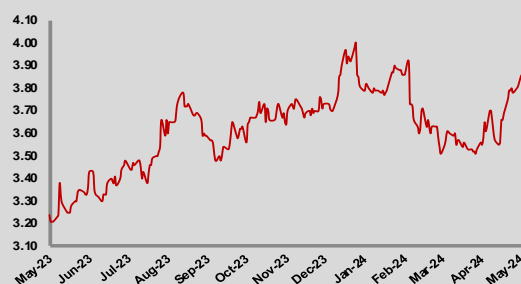
However, TAKAFUL's lower sensitivity to detariffication is further emphasised with the strong growth seen in its other business segments. On the other hand, its leading ROE against peers could make up for its softer performing metrics. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4). Upgrade to **OUTPERFORM** from **MARKET PERFORM** as TAKAFUL's risk-reward profile appears highly favourable at current price points. **We feature TAKAFUL as one of our Shariah Top Picks.**

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 : RM3.86
Target Price : RM4.35 

Share Price Performance



KLCI	1,618.27
YTD KLCI chg	11.2%
YTD stock price chg	4.3%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	STMB MK Equity
Market Cap (RM m)	3,232.0
Shares Outstanding	837.3
52-week range (H)	4.00
52-week range (L)	3.23
3-mth avg. daily vol.	638,418
Free Float	38%
Beta	0.8

Major Shareholders

Lembaga Tabung Haji	28.2%
Employees Provident Fund	15.4%
Kumpulan Wang Persaraan	6.8%

Summary Earnings Table

FY Dec (RM m)	FY23A	FY24F	FY25F
Takaful Revenue	2,942	3,207	3,463
Takaful Results	175	224	242
Net Financial Results	-190	-160	-152
Pre-tax Profit	508	514	560
Net Profit	347	360	392
Core Net Profit	347	360	392
Consensus (NP)	-	389	416
Earnings Revision (%)	-	-	-
Core EPS (RM)	41.5	43.0	46.8
Core EPS Growth (%)	22.5	3.7	8.9
DPS (sen)	14.0	17.2	18.7
BVPS (RM)	2.0	2.3	2.5
ROE (%)	20.7	19.0	18.4
PER (x)	9.3	9.0	8.2
PBV (x)	1.9	1.7	1.5
Net Div. Yield (%)	3.6	4.5	4.9

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Results Highlights

	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FYE Dec (RM m)	FY24	FY23	Chg	FY23	Chg	FY24	FY23	Chg
Takaful Revenue	892.2	989.6	-9.8%	635.3	40.4%	892.2	635.3	40.4%
Takaful Service Result before Retakaful	61.7	62.7	-1.6%	60.7	1.6%	61.7	60.7	1.6%
Net retakaful contracts income/(expense)	-8.6	-33.5	-74.3%	-11.8	-27.4%	-8.6	-11.8	-27.4%
Takaful Service Results	53.1	29.2	81.7%	48.9	8.6%	53.1	48.9	8.6%
Net Investment Income	158.7	136.9	15.9%	121.9	30.1%	158.7	121.9	30.1%
Net Takaful Financial Results	-59.8	-49.7	20.2%	-40.7	46.8%	-59.8	-40.7	46.8%
Other Income	0.3	0.6	-52.4%	0.3	-20.0%	0.3	0.3	-20.0%
Other operating expenses	-2.0	-1.7	18.6%	-0.8	137.3%	-2.0	-0.8	137.3%
Profit before tax expense and zakat	150.3	115.3	30.3%	129.6	15.9%	150.3	129.6	15.9%
Tax and zakat	-48.0	-45.0	6.5%	-35.8	34.2%	-48.0	-35.8	34.2%
Minority interest	0.0	0.0	-34.5%	-0.4	-104.6%	0.0	-0.4	-104.6%
Net Profit	102.3	70.3	45.5%	93.4	9.5%	102.3	93.4	9.5%
Core Net Profit	102.3	70.3	45.5%	93.4	9.5%	102.3	93.4	9.5%
Takaful Service Expense Margin (To Takaful Revenue)	93.1%	93.7%		90.4%		93.1%	90.4%	
Net Takaful Service Margin (To Takaful Revenue)	5.9%	3.0%		7.7%		5.9%	7.7%	
Effective Tax and Zakat Rate	31.9%	39.1%		27.6%		31.9%	27.6%	
Annualised Return on Equity (ROE)	22.9%	16.8%		25.4%		22.9%	25.4%	
Total Assets	15,323.7	14,407.5		13,502.5		15,323.7	13,502.5	
Total Liabilities	13,499.8	12,693.3		12,002.2		13,499.8	12,002.2	
Total Shareholders' Funds	1,788.6	1,679.0		1,468.8		1,788.6	1,468.8	
Book Value per Share (RM)	2.14	2.01		1.75		2.14	1.75	

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	7.39	8.55	15.7%	3,773.4	N	02/2025	83.4	85.8	0.5%	2.8%	8.9	8.6	1.3	15.4%	32.0	4.3%
BURSA MALAYSIA BHD	UP	8.53	6.70	-21.5%	6,903.3	Y	12/2024	33.1	33.5	6.2%	1.0%	25.7	25.5	8.6	33.7%	31.0	3.6%
CTOS DIGITAL BHD	UP	1.37	1.15	-16.1%	3,164.7	Y	12/2024	5.4	6.4	20.8%	17.7%	25.2	21.4	5.0	20.5%	3.8	2.8%
LPI CAPITAL BERHAD	OP	12.28	15.00	22.1%	4,892.1	N	12/2024	95.2	92.0	20.9%	-3.4%	12.9	13.3	2.2	16.9%	85.7	7.0%
SYARIKAT TAKAFUL MSIA KELUARGA BHD	OP	3.86	4.35	12.7%	3,232.0	Y	12/2024	43.2	45.3	13.4%	4.9%	8.9	8.5	1.5	17.2%	17.0	4.4%
SECTOR AGGREGATE					21,966					10.5%	2.7%	14.1	13.7	2.5	17.7%		4.4%

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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