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Syarikat Takaful M'sia Keluarga

Rooted Against the Tides

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We maintain our OP call and TP of RM4.35. Following a recent engagement, we are not overly concerned about TAKAFUL's near-term prospects in relation to the recent flooding event which is more severe than Dec 2021's, with retakaful reinstatement impact likely to be well contained. Its credit-related products remain as its greatest point with continued support from financial institutions solidifying future growth potential.

Bracing for retakaful provisions, though may not be of great concern. The insurance and takaful industry may be up for further revisions to reinsurance and retakaful premiums, owing to the recent floods across Peninsular Malaysia leading to greater risk profiling. This was seen in Dec 2021's flooding which displaced c.71k residents. Meanwhile, based on available statistics as of the date of this report, it was gathered that c.150k residents have been displaced so far.

With regards to TAKAFUL's impact, the Dec 2021 floods resulted in a reinstatement of retakaful contributions in FY22, albeit expected to be less than 5% of its 1QFY22 General gross premiums which per our estimates has less than 1% impact to earnings during the quarter. This is attributed to General Takaful only accounting for 22% of net contributions, with Family Takaful's single contribution credit-related products making up the lion's share of earnings.

On that note, while we anticipate for higher retakaful provisions to be made in 1QFY25 on reassessments from Dec 2024's heavier flooding incident, it is not likely to be detrimental to TAKAFUL's overall earnings.

Grounded bancatakaful and financing prospects. In 9MFY24, revenues from Family (c.66% of total) and General Takaful (c.33%) grew 32% and 17%, respectively. Growth appears broad based across all segments with single contribution credit-related products being the largest segment (c.80% of Family Takaful, c.50% of total).

This segment is expected to remain strong, helmed by solid bancatakaful relationships, which in turn is supported by positive expectations for financing growth going into FY25 (c.5%). The relatively low exposure to detariffed segments (fire, motor) of c.25% will likely remain unchanged as we opine that more intense price competition and profitability hinder incentive to participate. Even so, the collective growth in contributions (+10%) was thanks to the rise in mortgage and hire purchase demand.

Branching out to wider demographics. A year since its launch, TAKAFUL's Kaotim platform has aided the group into penetrating the millennial and young adults segment with greater traction seen in its motor class insurance and retail products. While it will not likely be a large contributor to new underwritings given the group's heavy reliance on banca and agents, the platform enables the group to reach out underserved communities which would be less assessable physically.

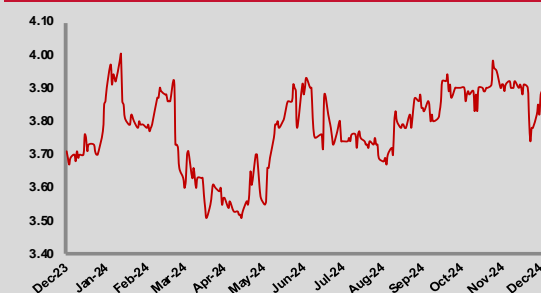
Valuations. Our TP of RM4.35 is based on an unchanged forecast and 1.7x FY25F PBV. This comes at a discount against the industry average PBV of 2.1x on the back of: (i) lower net margins of 11% (vs peer's 17%), and (ii) lower dividend returns of 4%-5% (vs peer's 6%-7%). TAKAFUL's lower sensitivity to 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. **Maintain it at OUTPERFORM.**

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 : RM3.89
Target Price : RM4.35 ↔

Share Price Performance



KLCI	1,613.25
YTD KLCI chg	10.9%
YTD stock price chg	5.1%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	STMB MK Equity
Market Cap (RM m)	3,257.1
Shares Outstanding	837.3
52-week range (H)	4.00
52-week range (L)	3.51
3-mth avg. daily vol	879,833
Free Float	53%
Beta	0.8

Major Shareholders

Lembaga Tabung Haji	28.2%
Employees Provident Fund	18.4%
Kumpulan Wang Persaraan	6.8%

Summary Earnings Table

FY Dec (RM m)	2023A	2024F	2025F
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 (NP)	347	360	392
Core NP	347	360	392
Consensus (NP)		386	414
Earnings Revision (%)		-	-
Core EPS (RM)	41.5	43.0	46.8
Core EPS Growth (%)	22.5	3.7	8.9
DPS (RM)	14.0	17.2	18.7
BVPS (RM)	2.0	2.3	2.5
ROE (%)	20.7	19.0	18.4
PER (x)	9.4	9.1	8.3
PBV (x)	1.9	1.7	1.5
Net Div. Yield (%)	3.6	4.4	4.8



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.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
NON-BANK FINANCIAL INSTITUTIONS																	
AEON CREDIT SERVICE M BHD	OP	6.40	8.35	30.5%	3,268	N	02/2025	70.4	84.4	-15.2%	19.9%	9.1	7.6	1.2	13.1%	25.0	3.9%
BURSA MALAYSIA BHD	OP	8.63	10.00	15.9%	6,984	Y	12/2024	40.0	39.9	28.4%	-0.3%	21.6	21.6	8.7	40.8%	38.0	4.4%
CTOS DIGITAL BHD	OP	1.26	1.70	34.9%	2,911	Y	12/2024	4.6	5.4	1.3%	18.6%	27.6	23.3	4.7	17.3%	3.2	2.5%
LPI CAPITAL BERHAD	OP	12.70	15.00	18.1%	5,059	N	12/2024	95.2	92.0	20.9%	-3.4%	13.3	13.8	2.2	16.9%	85.7	6.7%
SYARIKAT TAKAFUL MSIA KELUARGA BHD	OP	3.89	4.35	11.8%	3,257	Y	12/2024	43.2	45.3	13.4%	4.9%	9.0	8.6	1.5	17.2%	17.0	4.4%
SECTOR AGGREGATE					21,479					8.3%	6.2%	14.0	13.2	2.5	17.5%		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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