Publication	Borneo Post	Section / Page	Online	Date	28 January 2019
Headline	STMB Exceeds Expectations Despite Market Conditions				

KUCHING: Syarikat Takaful Malaysia Keluarga Bhd (STMB) performed above expectations for the financial year 2018 (FY18) despite the challenging market conditions seen last year, analysts observed.

MIDF Amanah Investment Bank Bhd's research arm (MIDF Research) in a recent report, pointed out that STMB reported strong growth of 43 per cent year-on-year (y-o-y) for its first 12 months of FY18 profit after zakat, tax, amortisation and minority interest (PAZTAMI) to RM292.6 million.

It said: "The group has continued its strong foothold in the takaful market in FY18 despite weak market sentiments and poor equity market performance."

While the group's other income dropped by 19.5 per cent y-o-y to RM326.8 million as a result of mainly fair value losses of RM80.5 million from RM7.5 million in the prior year, the research team believed that the group's digital strategy and prudent underwriting has been instrumental to the strong double-digit growth in its underwriting business for the year.

Aside from that, MIDF Research noted that STMB's 12MFY18 net earned contributions grew by 27.6 per cent y-o-y to RM1,941.5 million and this was attributed to the increase of 27 per cent y-o-y and 24 per cent y-o-y in gross earned contributions from both its Family and General Takaful businesses respectively.

Notably, it said the main growth drivers in Family and General Takaful continued to be credit-related products and fire and motor classes respectively.

"The growth in Family Takaful was also in line with the industry growth trend, which is growing at a faster pace than conventional and general takaful market," it added.

Based on its strong performance in FY18, MIDF Research said: "We are revising up our FY19 forecast by 25 per cent as we take into account the continued strong momentum in its Family and Takaful businesses."

Meanwhile, the research team at Kenanga Investment Bank Bhd (Kenanga Research) pointed out that takaful products continue to command strong demand against conventional insurance offerings, backed by national efforts to increase the country's Islamic banking proportion.

"Additionally, we anticipate a growing adoption in medical insurance from the prevalent concerns of rising medical costs. Continuing with their emphasis to cater to the middle-and-upper-income population bracket, the group looks to expand its agency force and online distribution channels to enhance cost efficiency.

"In spite of the additional initiatives, the improving CIR indicates that the group continues to have solid credit controls.

"We believe that further establishing a strong front could allow the group to have a reasonable footing against other players in the industry ahead of the liberalisation review of fire insurance classes in 2019," Kenanga Research added.

Post-results, the research team raised its FY19E earnings by 10.5 per cent, mainly in consideration of better sales in both Family and General Takaful businesses and operating ratios (namely management expense, CIR and reinsurance ratios).

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All in, Kenanga Research maintained its 'market perform' rating on the stock.

It commented: "The stock commands a superior FY19E returns on equity of 30 per cent against an industry average of circa 20 per cent. Furthermore, higher dividend yields of circa 4.5 per cent against the industry average of 3.5 per cent could make the stock a more attractive pick against other insurance players in the market."

MIDF Research maintained its 'buy' recommendation on STMB. It added: "This is premised on STMB to continue to perform at similar growth level in FY19."

It further pointed out that the Malaysian Government has announced initiatives in 2019 to stimulate the development of the insurance sector such as the monthly tax rebate of RM250 for life and takaful insurance products.

"This will most likely prompt non-policy holders to take up insurance products.

"Also, we opine STMB is optimised to capitalise on the favourable government stimulus and the strong interests in takaful products as driven by rapid expansion of its digital platform, and the increasing up-take of Islamic financials products and services.

"On an industry level, Family takaful remains to be the most profitable, in which it represents circa 70 per cent of STMB's gross earned contributions," it said.