TAKAFULmalaysia MyBulletin

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Syarikat Takaful Malaysia 9MFY19 profit within expectations

Syarikat Takaful Malaysia Keluarga Bhd (Oct 25, RM6.38)

Maintain outperform with an unchanged target price (TP) of RM6.85: Syarikat Takaful Malaysia Keluarga Bhd's nine months of financial year 2019 (9MFY19) profit after tax and minority interests (Patmi) of RM289.7 million made up 79% and 80% of our and consensus full-year estimates respectively. We deemed the results to be within expectations, anticipating a slightly softer 4Q. No dividends were declared as expected. Typically, the group only declares a single dividend payment at year end.

Year-on-year (y-o-y), its 9MFY19 operating revenue rose 21% as the group's family takaful business' earned contributions surged, likely thanks to bancassurance partnerships boosting credit-related products amid a flattish general takaful. Overall, performance ratios were better, with claims incurred ratio (CIR) at 41.4% or down 12 percentage points (ppts) and management expense ratio at 16.6% (-1.8ppts). Growth in other income (+44%) also helped in the stronger 9MFY19 Patmi of RM289.7 million (+42%).

Quarter-on-quarter (q-o-q), its operating revenue for the third quarter (3Q) recovered by 12% following the seasonal weakness in family and general takaful in 2Q. Despite a higher volume, its CIR improved at 40.6% (-0.6ppt) in addition to management expense ratios at 15.1% (-2.4ppts). This translated into a 3QFY19 Patmi of RM112.3 million (+39%).

> **The management's efforts are in place to build a leaner and more sustainable operating environment in the long term, as reflected in its recent performance ratios. This could also be on a more digitalised front.**

It has been over a year since the group entered into its highly productive bancassurance partnership with Bank Rakyat. With that, we believe the growth traction ahead may not be significant as the earlier reported quarters. That being said, Bank Negara Malaysia's continuous agenda to extend the country's Islamic finance proportion to 40% by 2020 should still be favourable to the takaful industry.

Additionally, the management's efforts are in place to build a leaner and more sustainable operating environment in the long term, as reflected in its recent performance ratios. This could also be on a more digitalised front which could not only trim on commission expenses and agent fees, but also improves its products' accessibility and for a greater convenience to customers.

After the results announcement, we left our forecasts unchanged. Our TP is based on an unchanged four times financial year earnings 2020 price by volume ratio (FY20E PBV), close to the stock's +1 standard deviation over a three-year mean. Takaful operates in a well-diversified portfolio which we believe shelters it from regulatory risks, warranting premium valuations against its peers (two to three times average).

The group also commands a superior return on equity of about 30% versus the industry's average of 20%, while remaining a leader in the takaful insurance space. Risks to our call include a lower premium underwritten, higher-than-expected claims incurred and a higher-than-expected management expense ratio. — *Kenanga Research, Oct 25*