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Headline	Syarikat Takaful FY19 Earnings Expected To Stay Robust				

Syarikat Takaful FY19 earnings expected to stay robust

Syarikat Takaful Malaysia Keluarga Bhd (April 26, RM6)

Maintain buy with an unchanged target price (TP) of RM8.30. Syarikat Takaful Malaysia Keluarga's (STMK) strong first-quarter financial year 2019 (1QFY19) net profit (+37.8% year-on-year [y-o-y], and +6.5% quarter-on-quarter [q-o-q]) was within our expectations, but beat consensus estimates by 21%.

Key drivers were robust gross earnings contribution from the Family unit (+55.2% y-o-y, +1.1% q-o-q) due to higher sales of credit-related takaful products), higher General unit contribution (+12% y-o-y, +23% q-o-q), lower net claims, although this was offset by higher management expenses. STMK's earnings outlook in 2019 is expected to stay robust with return on equity (ROE) at more than 30%, driven by the "low-claims" credit-related takaful products via its bancatakaful channels and increased market penetration through online sales.

We reiterate our "buy" rating, with our TP unchanged at RM8.30 based on a 5.6 times price-to-book value target on earnings for estimated FY19 (FY19E) book value per share.

STMK's 1QFY19 net profit of RM96.4 million (+37.8 y-o-y; +6.5% q-o-q) was within our expectations but beat consensus estimates.

The strong performance was underpinned by gross earnings contribution growth of 40% y-o-y, while net earnings contribution was up 42% y-o-y (Family +53.2% y-o-y; General +11.6% y-o-y). Investment income for the period grew 13.2% y-o-y (though it was flat q-o-q) due to better profits generated from the Islamic debt securities. Portfolio fair value also turned around.

The quarter also saw overall net claims decline by 1.4% y-o-y and 2.1% q-o-q (net claims ratio improved significantly from 61% in 1QFY18 to 43% in 1QFY19) as a result of the shift in product sale towards the "low-claims" credit-related Family takaful products through its banca channel (more than 50% of top-line contribution) with preferred partners such as Bank Islam Malaysia, RHB Islamic, Affin Islamic and Bank Kerjasama Rakyat Malaysia. On the other hand, 1QFY19 management expenses (+30.7% y-o-y) were higher-than-expected.

Its value is also due to its superior ROEs and bancatakaful partnerships.

At the Takaful Operator level, we saw a growth of 30.7% y-o-y and 28.6% q-o-q in the operator's income, mainly through wakalah fees of RM294 million (+32% y-o-y; +25.4% q-o-q) and a surplus transfer of RM21.4 million (+16% y-o-y).

We have tweaked some of our assumptions in earnings for the FY19-FY21E forecasts, but these are merely housekeeping adjustments (on claims and expenses), resulting in some minor earnings revisions.

STMK's premium valuation is underpinned by its market leadership, superior ROEs and bancatakaful partnerships. Downside risks are a spike in claims, and weaker demand in the Islamic banking credit market. — *Affin Hwang Capital, April 26*