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Takaful Malaysia could gain traction from brand equity

Syarikat Takaful Malaysia Keluarga Bhd (July 17, RM6.95)

Downgrade to market perform with a higher target price (TP) of RM7.15: Recall that in the first quarter of 2019, Syarikat Takaful Malaysia Keluarga Bhd (Takaful Malaysia) registered a year-on-year profit after tax and minority interest growth of 38% to RM96.4 million. This was led by new bancassurance partnerships (namely with Bank Rakyat) since July 2018 which boosted the group's credit-related products. Contributions from the segment are expected to be sustained, accounting for about 40% of the group's gross contributions. Further expansion in this segment and other insurance segments could be fuelled by Bank Negara Malaysia's (BNM) directive to increase Malaysia's Islamic finance mix to 40% by 2020.

With a growing online distribution presence, the group looks to capture a larger share within the employee benefit market. This could add up to the group's medical coverage division, which is estimated to make up 20% of contributions, in addition to offering value-added services to prospective employers. On the other hand, an increase in the adoption of online platforms could result in lower commission expenses and agent fees, hence a leaner operating landscape. We also opine that digitalisation could extend the group's footprint towards less assessable markets (for example rural and suburban areas).

Still the industry leader within the Takaful space, we believe the group could gain traction from its trusted brand equity in the market. Aside from the above key segments, a larger agency force will facilitate more client-facing offerings (for example, term insurance and investment-linked products), though not expected to contribute significantly to the group. With regard to fire insurance, a pending review is expected to be brought up by BNM during the second half of 2019, which could potentially see a similar track to liberalise and de-tariff the segment. Regardless, we believe it may not impact the Takaful group as significantly as other players given their proportionately lower exposure to the insurance class (accounting for about 10% of gross contributions versus other players at about 40%).

While we leave our earnings estimates unchanged, we have upgraded our blended valuations to 16 times/four times for the financial year 2020 price-earnings ratio/price-to-book value (from 15 times/3.5 times previously), moving to +1 standard deviation from the previously pegged three-year forward average. We believe the stock's limited exposure and risks to the fire insurance review could attract attention from investors seeking a defensive position in the insurance space. However, the buying rally of the stock led by its stellar results has diluted its dividend yield to less than 3%, which may keep some investors away with the limited capital upside, hence our downgrade to "market perform".

Risks to our call include: i) higher/lower premiums underwritten; ii) higher/lower-than-expected claims incurred; and iii) a higher/lower-than-expected management expense ratio. — *Kenanga Research, July 17*

Syarikat Takaful Malaysia Keluarga Bhd

FYE DEC (RM MIL)	2018A	2019E	2020E
Gross premium	2,294	2,747	3,021
Net premium	1,942	2,318	2,567
Other income	327	402	373
Total income	2,268	2,721	2,940
Pre-tax profit	337	441	460
Net profit (NP)	293	363	379
Core Patmi	278	366	382
Consensus NP	-	367	409
Core EPS (sen)	33.8	44.4	46.3
EPS growth (%)	42.7	24.0	4.4
DPS (sen)	15.0	19.0	20.0
BVPS (RM)	1.19	1.45	1.71
ROE (%)	32.7	33.6	29.3
PER (x)	20.6	15.7	15.0
PBV (x)	5.8	4.8	4.1
Net dividend yield (%)	2.2	2.7	2.9

Source: Kenanga Research