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Headline	Takaful Malaysia's Strong Earnings Momentum Seen To Continue				

Takaful Malaysia's strong earnings momentum seen to continue

Syarikat Takaful Malaysia Keluarga Bhd (Jan 25, RM4.10)

Maintain buy with a higher target price (TP) of RM4.75: Syarikat Takaful Malaysia Keluarga Bhd reported a strong growth of 43% year-on-year (y-o-y) for its 12 months of financial year 2018 (12MFY18) profit after zakat, tax, and minority interest (Paztami) to RM292.6 million. This translated into 118.23% and 116.12% of our and the consensus full-year estimates respectively. On a quarterly basis, its fourth quarter of FY18 Paztami increased by +62% y-o-y to RM90.1 million.

Takaful Malaysia's 12MFY18 net earned contribution grew by +27.6% y-o-y to RM1,941.5 million. This was attributed to increases of +27% y-o-y and +24% y-o-y in gross earned contributions from both its family and general takaful

businesses respectively. Notably, the main growth drivers of 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's growth trend, which is growing at a faster pace than conventional and general takaful markets.

The group's FY18 combined ratio was at a healthy level of 69.5%, representing a net decrease of -3.4 percentage points (ppts) y-o-y. This was due to the downtick in the group's claim ratio and management expense ratio of -1.9ppts y-o-y and -1.5ppts y-o-y respectively. As a result, the underwriting margin improved by 3.4ppts (y-o-y) to 30.5%. It was worth noting that the FY17 net benefits and claims for family and general takaful had increased by +19% y-o-y and +40% y-o-y respectively. However, this

Syarikat Takaful Malaysia Keluarga Bhd

FYE DEC (RM MIL)	2015	2016	2017	2018	2019F
Operating revenue	1,788.6	2,013.3	2,139.2	2,639.1	3,034.9
Net earned contributions	1,256.4	1,486.3	1,521.4	1,941.5	2,124
Pre-tax and zakat profit	204.2	221.0	253.7	337.0	364.2
Paztami	156.0	176.3	206.7	292.6	315.0
Diluted EPS (sen)	19.0	21.4	25.0	35.7	36.9
EPS growth (%)	10.8	12.6	16.8	42.6	3.4
PER (x)	20.9	18.6	15.9	11.2	10.8
Net dividend (sen)	7.4	12.0	15.0	15.0	15.0
Net dividend yield (%)	1.9	3.0	3.8	3.8	3.8
Book value (sen)	84.0	89.0	95.0	91.0	92.0
PBV (x)	4.7	4.5	4.2	4.4	4.3
ROE (%)	22.6	24.2	24.8	35.1	37.8
ROA (%)	2.1	2.3	2.5	3.3	2.8

Sources: Company, MIDF Research

still translated into a lower claims ratio due to a stronger growth pace for net earned contributions.

The group maintained its strong

foothold in the takaful market in FY18 despite weak market sentiment and a poor equity market performance. Other income dropped

by 19.5% 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. However, we believe the group's digital strategy and prudent underwriting have been instrumental to the strong double-digit growth in its underwriting business for the year.

We have revised up our FY19 forecast by +25% as we take into account the continued strong momentum of its family and takaful businesses.

We have maintained our "buy" call on Takaful Malaysia and revised the TP to RM4.75 (from RM4.49) as we peg its FY19 earnings per share at a price-earnings ratio of 12.9 times (one standard deviation below the two-year average price-earnings ratio), premised on Takaful Malaysia continuing to perform at a similar growth level in FY19. — MIDF Research, Jan 25