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Takaful seen to stand resilient against potential headwinds

Syarikat Takaful Malaysia Keluarga Bhd (Oct 1, RM5.90)

Upgrade to outperform with a lower target price (TP) of RM6.85: Post-meeting, we are assured by Syarikat Takaful Malaysia Keluarga Bhd's (Takaful) near-term outlook. While top-line growth could be less exciting as banca-partnership yields plateau, its efficient operating set-up should keep bottom-line expansion healthy. Its strong balance sheet remains one of the leading merits of the group. Upgrade to "outperform" (from "market perform") but with a lower TP of RM6.85 (from RM7.15) as we move to a price-to-book value (PBV) only valuation from a blended price-earnings ratio (PER)/PBV methodology previously.

Since July 2018, thanks to its bancassurance tie-ins (namely Bank Rakyat), Takaful has been registering a solid growth trajectory, especially from its credit-related single premium products. Going forward, the segment is likely to remain the biggest contributor (estimate: 50%) to the top line, having led the 32% year-on-year (y-o-y) growth in net earned premiums (NEP). However, we anticipate NEP expansions going forward to be more peckish as the group's business fully moves to higher sequentially base levels. That being said, the group should remain a beneficiary of Bank Negara Malaysia's (BNM) directive for a greater Islamic finance mix locally of 40% by 2020.

From its recent first half of 2019 results, the group posted healthier claims incurred ratio at 41.9% (-14.6 percentage points [ppt]) and management expense ratio at 9.2% (-0.1ppt). Having built a strong top-line base, we believe the group could put emphasis on its already stellar operating ratios to further boost sustainability. This extends to the group's efforts to streamline its medical/employee benefits segments. Digitalisation persists as a key driver in keeping costs lean, by enabling a lower commission channel of sales while also being a more assessable platform to cater to new and existing customers.

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As a leader within the takaful insurance space, we expect the group to stand resilient against potential headwinds in the industry. Though BNM's fire class review looks to have been given another year, we believe it should not impact the group detrimentally, thanks to its well-diversified mix in general insurance products. Additionally, recent entrants are not expected to pose any threat to the group with its long established industry presence with synergistic partnerships to boot. We also opine that the group's buoyant operating numbers could give it plenty of room should there be a need to ramp up its competitive gear.

Post-meeting, we leave our financial year 2019/2020 estimate (FY19E/FY20E) numbers unchanged. We adjust our TP as we move to a four times FY20E PBV from a blended 16 times/four times FY20E PER/PBV (in line with the stock's +1 standard deviation over its three-year mean). We believe investors could be less reactive to earnings growth owing to the slowing traction but would continue to bank on the stock for its solid book. Takaful commands a superior return on equity of about 30% (versus industry average of 20%) while continuing to be a leader in the takaful insurance space.

Risks to our call include: i) lower premium underwritten; ii) higher-than-expected claims incurred; and iii) higher-than-expected management expense ratio. — *Kenanga Research, Oct 1*

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	-	361	396
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)	17.5	13.3	12.7
PBV (x)	4.9	4.1	3.4
Net dividend yield (%)	2.5	3.2	3.4

Source: Kenanga Research