TakafulMalaysia MyBulletin

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Headline	Takaful's Bank Partnerships Expected To Boost Earnings				

Takaful's bank partnerships expected to boost earnings

Syarikat Takaful Malaysia Keluarga Bhd
(May 8, RM6.18)

Maintain buy with a higher target price of RM7 (previously RM4.40): We still like Syarikat Takaful Malaysia Keluarga Bhd (STMB) for these key reasons: (1) the overall low insurance penetration in Malaysia, (2) takaful (Islamic insurance) growth outpacing that of the industry, (3) STMB's deep moat in takaful via its strong bancatakaful channel, and (4) its innovation in digitalising the business. STMB is trading at four times its financial year 2020 (FY20) price-to-book value (P/BV). Our Gordon Growth model-derived TP is based on about 4.4 times FY20 P/BV (slightly above +1 standard deviation [SD] from historical mean), justified by rising return on equity (RoE).

FY19-20 earnings per share (EPS) are revised by 24.3% and 37.2% to 42 sen and 47 sen, suggesting 17% and 13% EPS growth, on the back of robust growth in family takaful's gross earned contribution (GEC) and wakalah fee income. RoE should be maintained at a high of about 31% for FY19-20.

Syarikat Takaful Malaysia Keluarga Bhd

FYE DEC (RM MIL)	2017	2018	2019F	2020F	2021F
Net earned contributions	1,521	1,942	2,185	2,390	2,614
Net contribution growth (%)	2.4	27.6	12.6	9.4	9.4
Recurring net profit	207	295	346	391	430
Net profit growth (%)	17.3	42.7	17.2	13.2	10.0
Recurring EPS (RM)	0.25	0.36	0.42	0.47	0.51
DPS (RM)	0.15	0.15	0.21	0.23	0.26
Recurring PER (x)	24.0	16.9	14.5	12.8	11.7
P/BV (x)	6.0	5.0	4.4	3.8	3.4
Dividend yield (%)	2.5	2.5	3.5	3.9	4.3
ROAE (%)	26.2	32.0	31.8	31.4	32.4
ROAA (%)	2.6	3.4	3.7	3.8	3.9

Sources: Company, RHB Research

Low insurance penetration and a rising middle class should be the structural drivers for insurance demand in Malaysia. The S-curve suggests that once a country's gross domestic product (GDP)/capita reaches US$10,000 (RM41,500), the life insurance penetration rate (premium/GDP) should accelerate. With Malaysia's GDP/capita at about US$10,600 in 2018, we see huge potential for the country to catch up with its more-developed regional peers. Also, a growing middle class bodes well for insurance demand on the back of higher disposable income and awareness on the need of insurance protection.

STMB's strong partnership with four major partners, including Bank Islam Malaysia Bhd, Bank Rakyat and Affin Bank Bhd, will continue to be the major contributor. According to the management, STMB currently commands only about 1% of the total customer base of four to five million customers from these four banks, which suggests enormous potential for the company. We also appreciate STMB's effort in integrating the IT systems of these four banks with its own, which gives it an edge over other takaful operators.

STMB recorded robust first quarter of FY19 (1QFY19) numbers, thanks to its partnership with Bank Rakyat and strong wakalah fee income growth (1QFY19: +32% year-on-year [y-o-y]). Group GEC grew 39.7% y-o-y, largely driven by the family segment. Claim ratio improved 8.7 percentage points sequentially (4QFY18: 51.2%) due to lower claims incurred. The general segment's underlying loss narrowed to RM7.2 million (FY18: RM31 million).

The counter is trading at four times P/BV after the year-to-date plus 60% rally in its share price. We admit that, given the stellar share price performance, there could be some profit taking in the near term. That said, we believe the stock price remains on an upward trajectory over the medium-to-longer term on the abovementioned thesis. — *RHB Research, May 7*