TakafulMalaysia MyBulletin

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- **It** prefers fixed income to equities in FY19
- **Hoping** to match, if not exceed, FY18 performance
- **Analysts** 'very positive' on prospects

Syarikat Takaful prefers an equity-light strategy

by **Stephanie Jacob**

In view of the challenging domestic and global economic environment, Syarikat Takaful Malaysia Keluarga Bhd (STMK) is angling its investment activities towards a defensive asset allocation strategy for its FY19.

STMK is an Islamic-based insurer, providing various general and motor vehicle insurance products. Its largest shareholder is BIMB Holdings Bhd (59.6%), which is ultimately controlled by pilgrims' fund, Lembaga Tabung Haji.

"At this moment, (we are focused) mostly on fixed income instruments, sukuk, government-guaranteed type bonds. I think those (asset classes) provide a lot of stability," its CEO Datuk Seri Mohamed Hassan Kamil tells ***FocusM*** on the sidelines of the insurer's recent annual general meeting.

Given the recent poor performance of the local equity market, Mohamed Hassan confirms that equity will remain as the insurer's second choice asset class in FY19.

The strategy is a continuation of the one adopted in FY18, where STMK's equity allocation remained at a low level throughout the year. This helped cushion the impact of weakness from its equity portfolio, as it was mitigated somewhat by the performance of the other asset classes.

Thus, it is not surprising that STMK plans to stick with the plan given the volatility in the local and international stock markets. Earlier last week, markets tumbled as trade tensions between the US and China escalated, with both countries increasing trade tariffs on the other.

The FBM KLCI fell sharply to below the psychological mark of 1,600 after shedding 30 points in early trade on May 14. The index has since recovered to above the mark, to close at 1,611.43 on May 15. The market weakness was in tandem with Asian markets overall and indices are generally expected to remain volatile over the near term.

Meanwhile, in STMK's Annual Report 2018 management discussion and analysis section, Mohamed Hassan notes that the insurer would continue adopting "prudent and vigilant investment strategies to manage risks and returns resourcefully in advance of the ongoing uncertainties in the financial markets".

He added that STMK has also invested in a new investment system to support and enhance the investment management activities of the group.

Outperforming the sector

Investment challenges aside, Mohamed Hassan is confident that STMK will be able to outperform the industry as it has been doing over the past few years.

The insurer says it would continue adopting prudent and vigilant investment strategies to manage risks and returns

"We have outperformed the industry average for many years. As you can see, we grew by about 30% and 20% in our family and general business segments respectively, whereas the industry had been growing at a very low single-digit," he says.

He adds he is hopeful that the strong growth momentum of these two segments will continue.

In line with this, the CEO believes that STMK is capable of matching, if not exceeding, its strong FY18 performance in the current financial year.

In FY18, the insurer registered a 43% growth in net profit to RM292.6 mil from RM205.1 mil in the previous corresponding period. This came on the back of a stronger topline of RM2.63 bil from RM2.13 bil over the same period.

The positive outlook for FY19 is further buoyed by a strong performance in 1QFY19. Revenue for the quarter was up 23% year-on-year (yoy) to RM918.2 mil from RM746.2 mil. This translated into a net profit of RM95.6 mil against RM69.8 mil.

"Looking at the first quarter numbers, things are looking quite good for the remainder of the year," Mohamed Hassan said after the AGM. "Normally the first quarter result is always good for us, the remaining quarters tend to be a bit slow, but towards the end of the year it will pick up again."

Analysts are largely positive on the insurer's prospects. An analyst with a local brokerage opines that STMK's performance has been "very positive".

He argues that the company is in pole position to take advantage of a growing Islamic insurance industry and that its competitors are generally far from mounting a challenge to its dominance.

The analyst highlights STMK's exclusive partnership with several banks, namely Bank Islam, Bank Rakyat and Affin Bank, to sell Islamic insurance products to their customers, as a key growth driver.

An RHB Research report concurs that the partnership will be an important contributor to earnings. The report notes that the insurer currently commands only about 1% of the total customer base of these banks, suggesting there is significant potential to capitalise on.

Mohamed Hassan says the company can match, if not exceed, its strong FY18 performance in the current year

The analyst adds that the insurer's nascent operations in Indonesia are also expected to eventually develop into an important growth driver, although this will take some time.

According to Mohamed Hassan, STMK's long-term goal is for the Indonesian operations to contribute significantly to the insurer's bottomline but that it was unlikely to happen in FY19. STMK is among only a few foreign insurers with a standalone company in Indonesia, and the operations there currently account for less than 5% of its earnings.

Mohamed Hassan also said discussions are ongoing on the possibility of a joint venture in Indonesia, adding that such a move would require partnering with a company with distribution capabilities.

Meanwhile, the analyst sees STMK's valuations as being a "bit expensive", but believes the company's bright growth prospects and outperformance of the industry justify the premium to its share price.

Bonus issue a possibility

Affin Hwang Capital has a buy call on STMK, highlighting the company's strong return-on-equity (ROE) prospects over the next several years as a key consideration.

"Syarikat Takaful Malaysia Keluarga will likely deliver robust ROE of (an estimated) 32% to 33% over 2019 to 2021 on the back of sale of credit-related products, increasing market awareness of takaful products, growth of Islamic banking and electronic initiatives," says the research house.

It notes that forecast dividend yields are also attractive at about 4.4% to 6.5% for FY19 to FY21. It also says "a low capital expenditure requirement also suggests the potential for special dividend payments ahead".

MIDF Research, meanwhile, calls the insurer's 1QFY19 performance "stellar" and reiterates its buy call on the counter in a recent report. It says its rating is based on STMK's continuous ability over the past several quarters to deliver double-digit growth while keeping costs under control.

Meanwhile, Mohamed Hassan acknowledges the possibility of declaring a bonus issue should STMK's share price continue to hover at around its current levels. The insurer is currently trading at a five-year high of RM6.05 as of May 14.

"It is a possibility. It will improve liquidity in the market, and the price will adjust itself downwards to make it (the stock) more affordable, perhaps that is something we will look at," he says. FocusM

Syarikat Takaful Malaysia Keluarga Bhd

FINANCIAL SERVICES

KEY BOARD MEMBERS AND MANAGEMENT

Datin Seri Azlin Arshad (deputy chairman)

Datuk Seri Mohamed Hassan Kamil (Group CEO)

MAJOR SHAREHOLDER

BIMB Holdings Bhd

59.6%

MARKET CAP (May 15)

RM5.026b

Share price (May 15)

RM6.08

52-week high (May 9)

RM6.33

52-week low (May 15, 2018)

RM3.35

FINANCIAL RESULTS

(1Q ended March 31, 2019)

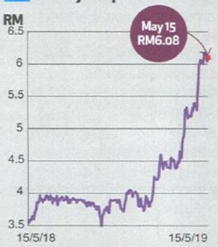
Revenue

RM918.2m

Net profit

RM95.6m

One-year price chart



Source: Bloomberg