

Publication	Malaysian Reserve	Section / Page	Online	Date	23 March 2019
Headline	New Products to Sustain Momentum at Takaful Malaysia Keluarga				

Syarikat Takaful Malaysia Keluarga Bhd is attracting investor interest as its current valuation does not reflect its performance potential.

Affin Hwang Capital Research, a unit of Affin Hwang Investment Bank Bhd, expects the growth of Islamic banking and finance and e-commerce will allow Takaful Malaysia Keluarga to post robust 32%-33% return on equity (ROE) over the 2019-2021 financial year period, as it gains from its high-margin credit-related products that have low claims ratios.

The lack of need to spend heavily on capital expenditure makes the case for a possible special dividend in future from Takaful Malaysia Keluarga as well.

Hence, the research house has a 'Buy' rating on the Islamic insurance service provider with a price target of RM8.30 based on 5.6 times its price-to-book value, well above the RM4.65 sen closing price yesterday.

Takaful Malaysia Keluarga operates its family takaful and general takaful units, distributing mostly high-margin single contribution.

Malaysia's family takaful business accounts for 12.3% of the entire life insurance market, while the general takaful business is 16% of the general insurance market, Affin Hwang's report yesterday noted.

Affin Hwang head of research Alan Tan stated that Takaful Malaysia Keluarga's strengths include its ability to leverage on a wide panel of banking partners, low-cost operating model, competitive advantages and sufficient capital.

"We believe Takaful Malaysia Keluarga has been on an aggressive market expansion drive, with its family takaful growing 25.6% year-on-year (YoY) and general takaful at 35.3% YoY, outperforming the industry growth rate of 15.2% and 17% respectively," he said.

He said even though Takaful Malaysia Keluarga remains a small player in the insurance market, it has nevertheless been able to grow its top line at above industry average growth rates.

Affin Hwang noted that among the initiatives which are driving Takaful Malaysia Keluarga's growth strategies are the expansion of high-margin products such as credit-related takaful cover (for banks' customers), while leveraging on the digital channels and affiliated partners for distribution (which helps in lowering agent fees).

"Part of these initiatives are already reflected in its fourth-quarter earnings last year, where net profit jumped 61.9% YoY. Dividends also looked attractive, yielding 4.4% to 6.5%," Tan said.

According to him, Takaful Malaysia Keluarga's management has been proactive in navigating the groups' direction in the last two years by embarking on a digital transformation journey, through building an eco-system which supports both its sales and after-sales services.

"Despite competitors having gone digital, Takaful Malaysia Keluarga managed to differentiate itself through the offering of attractive rebates for customers and enhanced services.

"As Takaful Malaysia Keluarga adopts more digital innovations and artificial intelligence on its online platform and app, we see the potential for management expenses to decline," Tan said.

Takaful Malaysia Keluarga now intends to launch investment-linked products, which are expected to gain traction due to its close working relationships with various financial institutions.

The bancassurance channel has been one of Takaful Malaysia Keluarga's preferred growth drivers, which was reflected in new business growth of 48% YoY in 2018 vis-à-vis the takaful industry growth of 18%.

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“The banca channel contributed 44% of new business growth for Takaful Malaysia Keluarga in 2018. The traditional takaful will be launched in the second half of 2019 and distributed via bank partners,” Tan said.

Moving forward, the general takaful unit will review its non-motor segment in order to focus on more strategic market segments.

The business will be managing down the motor mix from the current 50% of annual gross earned premium and focus on online distribution to minimise agent fees.

The family takaful unit will embark on new strategies like partnering more banks for the sale of takaful products such as the expansion of high-margin credit-related takaful cover and bantakaful partnership for the cross-selling of products.

Tan concluded that there is a strong potential for takaful products to continue growing in Malaysia due to its low penetration rate and Bank Negara Malaysia’s sustained push for Islamic banking growth in the country.

Takaful Malaysia Keluarga is 59.6%-owned by BIMB Holdings Sdn Bhd and 11.7%-owned by the Employees Provident Fund. It has a market capitalisation of about RM3.8 billion.

Based on Takaful Malaysia Keluarga’s historical track record, its net profit grew at a cumulative growth rate of nearly 20% from 2012 to 2018, while ROE has increased steadily from 21% in 2012 to 32.7% in 2018.