TakafulMalaysia MyBulletin

Publication	Malaysian Reserve	Section / Page	18	Date	18 July 2019
Headline	Takaful Malaysia Posts Higher PATAMI on Bancassurance Tie-Ins				

Takaful Malaysia posts higher PATAMI on bancassurance tie-ins

▶ Recommendation: Market Perform
TARGET Price: RM7.15
by Kenanga Research (July 17)

▶ SYARIKAT TAKAFUL MALAYSIA KELUARGA BHD

YE DEC	2018A	2019E	2020E
TOTAL INCOME (RM mil)	2,268	2,721	2,940
CORE PATAMI (RM mil)	278	366	382
CORE EPS (sen)	33.8	44.4	46.3
PER (x)	20.6	15.7	15.0

POST-MEETING, we are assured by Syarikat Takaful Malaysia Keluarga Bhd's (Takaful Malaysia) near-term outlook. Its market-leading position in the takaful insurance space is complemented by bancassurance tie-ins, with anticipated fruition from other fronts (ie employee benefits, motor).

While we raise our TP to RM7.15 (from RM6.50) on higher valuations premised on the stock's defensiveness against the pending fire insurance review, we downgrade it to 'Market Perform' on limited capital upside.

Conducive partnerships. Recall that in 1Q19, Takaful Malaysia registered a YoY PATAMI growth of 38% to RM96.4m. This was led by new bancassurance partnerships (namely Bank Rakyat Malaysia Bhd) since July 2018 which boosted the group's credit-related products.

Contribution from the segment is expected to sustain, accounting for c.40% of the group's gross contributions. Further expansion in this segment and other insurance segments could be fuelled by Bank Negara Malaysia's (BNM) directive to increase Malaysia's Islamic finance mix to 40% by 2020.

Enabling digitalisation. Digitalisation could also lead to better accessibility and convenience for its motor insurers which could serve as an incentive to subscribe with Takaful Malaysia.

On the other hand, an increase in adoption of the online platforms could result in lower commission expenses and agent fees, hence, a leaner operating landscape. We also opine that digitalisation could extend the group's footprint towards less assessable markets (ie rural, suburban areas).

Holding the fort. Still the industry leader within the takaful space, we believe the group could gain traction from its trusted brand equity in the market. Aside for the above key segments, a larger agency force will facilitate more client-facing offerings, though not expected to contribute significantly to the group.

With regards to fire insurance, a pending review is expected to be brought up by BNM during this 2H19 period, which could potentially see a similar track to liberalise and detariff the segment.

Regardless, we believe it may not impact the group as significantly as other players, given their proportionately lower exposure to the insurance.

Downgrade to 'Market Perform' (from 'Outperform') but with a higher TP of RM7.15 (from RM6.50, previously). While we leave our earnings estimates unchanged, we upgrade our blended valuations to 16.0x/4.0x FY20E PER/PBV (from 15x/3.5x, previously), moving to +1SD from the previously pegged three-year forward average.

We believe the stock's limited exposure and risks to the fire insurance review could attract attention from investors seeking a defensive position in the insurance space. However, the buying rally of the stock led by its stellar results have diluted its dividend yields to less than 3%, which may keep some investors away with the limited capital upside.

Risks to our call include: i) higher/lower premium underwritten; ii) higher/lower than expected claims incurred; and iii) higher/lower than expected management expense ratio.