

Publication	Malaysian Reserve	Section / Page	11	Date	8 May 2019
Headline	Takaful Malaysia Aims Family Takaful Biz Growth In FY19				

Takaful Malaysia aims family takaful biz growth in FY19

► Recommendation: Buy

TARGET Price: RM7

by RHB Research Institute Sdn Bhd (May 7)

Our View

WE STILL like Syarikat Takaful Malaysia Keluarga Bhd (STMB) on: 1) the overall low insurance penetration in Malaysia; 2) takaful 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.

EPS revisions. FY19-FY20 EPS revised by 24.3% and 37.2% to RM0.42 and RM0.47, 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 c.31% for FY19-FY20.

Market penetration. 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 GDP/capita reaches US\$10,000 (RM41,500), the life insurance penetration rate (premium/GDP) should accelerate.

With Malaysia's GDP/capita at

► SYARIKAT TAKAFUL MALAYSIA KELUARGA BHD				
FORECASTS AND VALUATION	DEC-18	DEC-19F	DEC-20F	DEC-21E
NET EARNED CONTRIBUTIONS (RM mil)	1,942	2,185	2,390	2,614
RECURRING NET PROFIT (RM mil)	295	346	391	430
RECURRING EPS (sen)	0.36	0.42	0.47	0.51
RECURRING P/E (x)	16.9	14.5	12.8	11.7

c.US\$10,600 in 2018, we see huge potential for the country to catch up with its more-developed regional peers. A growing middle class bodes well for insurance demand.

Strong partnerships. STMB's strong partnership with four major partners (including Bank Islam Malaysia Bhd, Bank Kerjasama Rakyat Malaysia Bhd and Affin Bank Bhd) will continue to be the major contributor.

According to management, STMB currently only commands c.1% of the total customer base of 4m-5m customers from these four banks, which suggests enormous potential for the company. We also appreciate STMB's effort in integrating the banks' IT systems with its own which gives it an edge over other takaful operators.

Strong start to FY19. STMB

recorded robust 1Q19 numbers, thanks to its partnership with Bank Rakyat and strong wakalah fee income growth (1Q19: +32% YoY). Group GEC grew 39.7% YoY, largely driven by the family segment. Claim ratio improved 8.7ppts sequentially (4Q18: 51.2%) due to lower claims incurred. The general segment's underlying loss narrowed to RM7.2m (FY18: RM31m).

Valuation. Trading at 4x P/BV after the YTD +60% rally in stock price. Our TP of RM7 is derived using GGM. 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.