

Publication	The Edge	Section / Page	40	Date	13 May 2019
Headline	Syarikat Takaful Malaysia Keluarga Berhad				

Syarikat Takaful Malaysia Keluarga Bhd

Target price: **RM7 BUY**



RHB RESEARCH (MAY 7): We still like STMB due to the overall low insurance penetration in Malaysia, takaful (Islamic insurance) growth outpacing that of the industry, STMB's deep moat in takaful via its strong bancatakaful channel, and its innovation in digitalising the business. It is trading at 4 times FY2020 P/B value. Our Gordon growth model-derived target price is based on 4.4 times FY2020 P/B value, justified by rising return on equity (ROE).

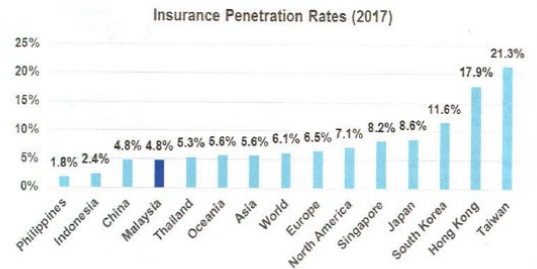
We have revised FY2019-20 EPS by 24.3% and 37.2% to 42 sen and 47 sen, suggesting a 17% and 13% growth, on the back of robust increase in Family takaful's gross earned contribution (GEC) and wakalah fee income. ROE should be maintained at a high 31% for FY2019-20. Low insurance penetration and a rising 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) per capita reaches US\$10,000, the life insurance penetration rate (premium/GDP) should accelerate. With Malaysia's GDP per capita at US\$10,600 last year, 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 due to higher disposable income and awareness of the need for insurance protection.

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

STMB recorded robust 1QFY2019 numbers, thanks to its partnership with Bank Rakyat and strong wakalah fee income growth (1QFY2019: +32% year on year). Group GEC grew 39.7% y-o-y, largely driven by the family segment. Claim ratio improved 8.7 percentage points sequentially (4QFY2018: 51.2%) due to lower claims incurred. The general segment's underlying loss narrowed from RM31 million in FY2018 to RM7.2 million.

Region's low penetration



STMB's 1-year forward P/BV range

