

<b>Publication</b>	Simply Wall St	<b>Section / Page</b>	Online	<b>Date</b>	27 January 2021
<b>Headline</b>	Could The Market Be Wrong About Syarikat Takaful Malaysia Keluarga Berhad (KLSE:TAKAFUL) Given Its Attractive Financial Prospects?				

Syarikat Takaful Malaysia Keluarga Berhad (KLSE: TAKAFUL) has had a rough month with its share price down 9.6%. But if you pay close attention, you might gather that its strong financials could mean that the stock could potentially see an increase in value in the long-term, given how markets usually reward companies with good financial health. Particularly, we will be paying attention to Syarikat Takaful Malaysia Keluarga Berhad's ROE today.

Return on equity or ROE is a key measure used to assess how efficiently a company's management is utilizing the company's capital. In short, ROE shows the profit each dollar generates with respect to its shareholder investments.

### How to Calculate Return On Equity?

The **formula for ROE** is:

Return on Equity = Net Profit (from continuing operations) ÷ Shareholders' Equity

So, based on the above formula, the ROE for Syarikat Takaful Malaysia Keluarga Berhad is:

22% = RM337m ÷ RM1.5b (Based on the trailing twelve months to September 2020).

The 'return' is the profit over the last twelve months. One way to conceptualize this is that for each MYR1 of shareholders' capital it has, the company made MYR0.22 in profit.

### Why Is ROE Important for Earnings Growth?

Thus far, we have learned that ROE measures how efficiently a company is generating its profits. Depending on how much of these profits the company reinvests or "retains", and how effectively it does so, we are then able to assess a company's earnings growth potential. Assuming everything else remains unchanged, the higher the ROE and profit retention, the higher the growth rate of a company compared to companies that don't necessarily bear these characteristics.

### A Side By Side comparison of Syarikat Takaful Malaysia Keluarga Berhad's Earnings Growth And 22% ROE

To start with, Syarikat Takaful Malaysia Keluarga Berhad's ROE looks acceptable. Further, the company's ROE compares quite favorably to the industry average of 8.8%. This certainly adds some context to Syarikat Takaful Malaysia Keluarga Berhad's exceptional 21% net income growth seen over the past five years. However, there could also be other causes behind this growth. For instance, the company has a low payout ratio or is being managed efficiently.

As a next step, we compared Syarikat Takaful Malaysia Keluarga Berhad's net income growth with the industry, and pleasingly, we found that the growth seen by the company is higher than the average industry growth of 6.3%.



KLSE:TAKAFUL Past Earnings Growth January 26th 2021

The basis for attaching value to a company is, to a great extent, tied to its earnings growth. The investor should try to establish if the expected growth or decline in earnings, whichever the case may be, is priced in. By doing so, they will have an idea if the stock is headed into clear blue waters or if swampy waters await. What is TAKAFUL worth today? The intrinsic value infographic in our free research report helps visualize whether TAKAFUL is currently mispriced by the market.

### Is Syarikat Takaful Malaysia Keluarga Berhad Making Efficient Use Of Its Profits?

Syarikat Takaful Malaysia Keluarga Berhad's three-year median payout ratio is a pretty moderate 45%, meaning the company retains 55% of its income. This suggests that its dividend is well covered, and given the high growth we discussed above, it looks like Syarikat Takaful Malaysia Keluarga Berhad is reinvesting its earnings efficiently. Moreover, Syarikat Takaful Malaysia Keluarga Berhad is determined to keep sharing its profits with shareholders which we infer from its long history of paying a dividend for at least ten years. Based on the latest analysts' estimates, we found that the company's future payout ratio over the next three years is expected to hold steady at 45%. As a result, Syarikat Takaful Malaysia Keluarga Berhad's ROE is not expected to change by much either, which we inferred from the analyst estimate of 23% for future ROE.

### Summary

In total, we are pretty happy with Syarikat Takaful Malaysia Keluarga Berhad's performance. Particularly, we like that the company is reinvesting heavily into its business, and at a high rate of return. Unsurprisingly, this has led to an impressive earnings growth. With that said, the latest industry analyst forecasts reveal that the company's earnings growth is expected to slow down. To know more about the company's future earnings growth forecasts take a look at this [free report on analyst forecasts for the company](#) to find out more. If you decide to trade Syarikat Takaful Malaysia Keluarga Berhad, use the lowest-cost\* platform that is rated #1 Overall by Barron's, Interactive Brokers. Trade stocks, options, futures, forex, bonds and funds on 135 markets, all from a single integrated account.