Publication	Simply WallStreet	Section / Page	Online	Date	8/11/2021
Headline	STMKB Stock Has Been Sliding But Fundamentals Look Strong: Is The Market Wrong				

It is hard to get excited after looking at Syarikat Takaful Malaysia Keluarga Berhad's recent performance, when its stock has declined 14% over the past three months. However, a closer look at its sound financials might cause you to think again. Given that fundamentals usually drive long-term market outcomes, the company is worth looking at. Specifically, we decided to study Syarikat Takaful Malaysia Keluarga Berhad's ROE in this article.

Return on Equity or ROE is a test of how effectively a company is growing its value and managing investors' money. In short, ROE shows the profit each dollar generates with respect to its shareholder investments.

How To Calculate Return On Equity?

The formula for return on equity 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% = RM370m ÷ RM1.7b (Based on the trailing twelve months to June 2021).

The 'return' refers to a company's earnings over the last year. Another way to think of that is that for every MYR1 worth of equity, the company was able to earn MYR0.22 in profit.

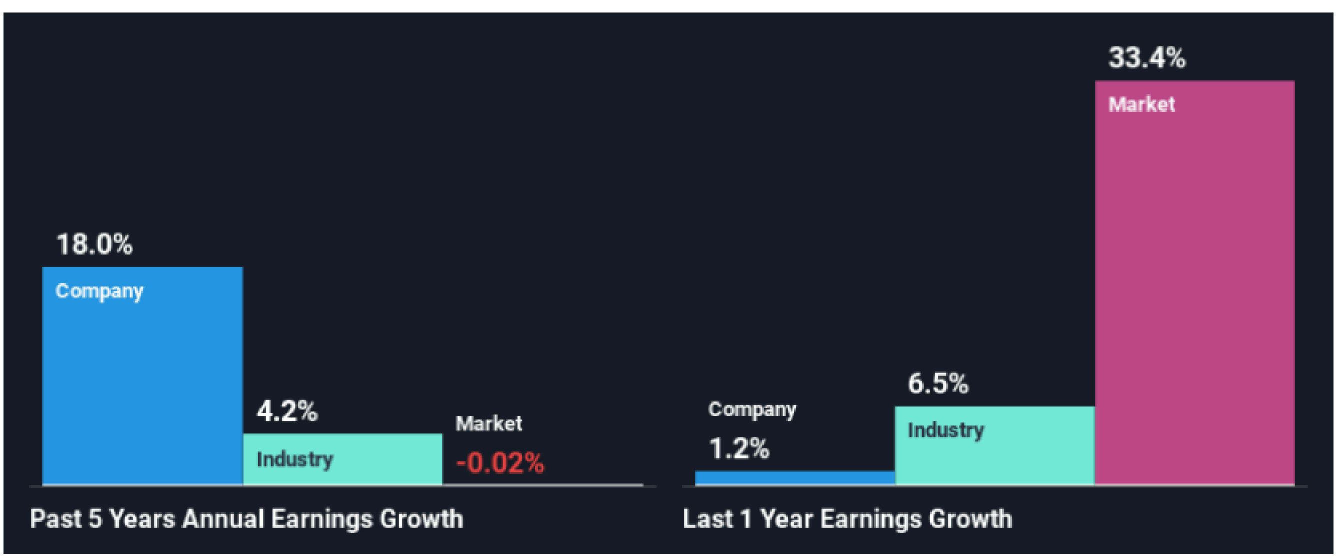
Why Is ROE Important For Earnings Growth?

We have already established that ROE serves as an efficient profit-generating gauge for a company's future earnings. Based on how much of its profits the company chooses to reinvest or "retain", we are then able to evaluate a company's future ability to generate profits. Assuming all else is equal, companies that have both a higher return on equity and higher profit retention are usually the ones that have a higher growth rate when compared to companies that don't have the same features.

Syarikat Takaful Malaysia Keluarga Berhad's Earnings Growth And 22% ROE

At first glance, Syarikat Takaful Malaysia Keluarga Berhad seems to have a decent ROE. On comparing with the average industry ROE of 8.0% the company's ROE looks pretty remarkable. This probably laid the ground for Syarikat Takaful Malaysia Keluarga Berhad's moderate 18% net income growth seen over the past five years.

We then compared Syarikat Takaful Malaysia Keluarga Berhad's net income growth with the industry and we're pleased to see that the company's growth figure is higher when compared with the industry which has a growth rate of 4.2% in the same period.



KLSE:TAKAFUL Past Earnings Growth November 7th 2021

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Earnings growth is an important metric to consider when valuing a stock. What investors need to determine next is if the expected earnings growth, or the lack of it, is already built into the share price. Doing so will help them establish if the stock's future looks promising or ominous. If you're wondering about Syarikat Takaful Malaysia Keluarga Berhad's's valuation, check out this gauge of its price-to-earnings ratio, as compared to its industry.

Is Syarikat Takaful Malaysia Keluarga Berhad Efficiently Re-investing Its Profits?

With a three-year median payout ratio of 42% (implying that the company retains 58% of its profits), it seems that Syarikat Takaful Malaysia Keluarga Berhad is reinvesting efficiently in a way that it sees respectable amount growth in its earnings and pays a dividend that's well covered.

Additionally, Syarikat Takaful Malaysia Keluarga Berhad has paid dividends over a period of at least ten years which means that the company is pretty serious about sharing its profits with shareholders. 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 47%. Accordingly, forecasts suggest that Syarikat Takaful Malaysia Keluarga Berhad's future ROE will be 21% which is again, similar to the current ROE.

Summary

On the whole, we feel that Syarikat Takaful Malaysia Keluarga Berhad's performance has been quite good. In particular, it's great to see that the company is investing heavily into its business and along with a high rate of return, that has resulted in a sizeable growth in its earnings. Having said that, the company's earnings growth is expected to slow down, as forecasted in the current analyst estimates. Are these analysts expectations based on the broad expectations for the industry, or on the company's fundamentals