

Publication	The Edge	Section / Page	Online	Date	1 April 2021
Headline	AmInvestment Bank Research Starts Coverage of Takaful, FV at RM6.20				

KUALA LUMPUR (March 31): AmInvestment Bank Research has initiated coverage of Syarikat Takaful Malaysia Keluarga Bhd (STMK) at RM4.75 with a "buy" call and a fair value (FV) of RM6.20 per share.

Its analyst Kelvin Ong in a note today said the valuation is based on the company's price-to-book value (P/BV) of 2.6 times for the financial year ending Dec 31, 2022 (FY22) derived from the Gordon growth model with a return on equity (ROE) of 24.8%, cost of equity of 10.8% and long-term growth rate of 2%.

"Our forward P/BV is at a premium compared to the peer average of 1.4 times. We see this as justified, premised on its superior ROE compared to its peers and also with it being the only listed pure takaful operator locally," he added.

According to him, STMK has a strong market share of 24% for general and 22% for family takaful, and it is ranked second in general takaful and first in family takaful.

Besides, it is the first listed pure Islamic insurance company locally, which has been in existence for more than three decades.

He also said the group had above-industry gross written premium (GWP) growth for general takaful, and ranked first for fire and third for motor, the main segments of the general takaful business.

Meanwhile, premiums for credit-related products contributed a significant 78.8% of its family takaful GWPs.

"Further penetration of Islamic financing as a percentage of the banking system's loans and a pickup in the expansion rate of Islamic credits as the economy recovers are set to increase the group's GWPs," he said.

He also noted that the group had multiple banca partnerships to support sales of general and family takaful products.

According to him, Bank Islam, RHB Islamic, Affin Islamic, Bank Rakyat and AEON Credit are the preferred partners for its banca business.

He said the group had a healthy combined ratio of 70.3% for FY20, with a profitable underwriting performance for the general and family takaful business.

He noted that the group had a stable group claims ratio of 42.9%.

"The claims ratio for general takaful at 35% for FY20 was lower than the takaful industry's 55.7% and the conventional general insurance industry's 52.9%," he said.

He also noted that the group had healthy surplus funds at RM1.3 billion (general takaful RM209 million and family fakafal RM1.1 billion), and decent dividend yields forecast at 5.2%/5.5% for FY21/22.

At 9.49am today, STMK had fallen three sen or 0.63% to RM4.72, valuing the group at RM3.95 billion.