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Headline	A Better Q4 Seen for Takaful Malaysia				

PETALING JAYA: Following the third quarter ended Sept 30, 2021 (Q3 of financial year 2021 or FY21) results which came in below analysts' expectations due to the impact of the prolonged lockdown on the premium growth of its family takaful business, a recovery is underway for Syarikat Takaful Malaysia Keluarga Bhd.

UOB Kay Hian (UOBKH) in a report noted that with the reopening of the economy in Q4 of 2021, the family takaful premium growth has started to recover from the month of October and this should lead to a quarter-on-quarter (q-o-q) improvement in Q4 earnings.

It said that net premium growth of 6% for the nine-month period and a relatively stable earnings trend were commendable, given the challenging environment.

However, given the uneven economic recovery, the research firm is only expecting a 5% net premium growth for FY22.

Takaful Malaysia reported a net profit of RM72.6mil for Q3 of FY21, which was lower 12% year-on-year (y-o-y) and 11% down q-o-q.

This brought nine-month earnings to RM255.2mil – down 1.56% from the previous corresponding period.

Overall group net earned premiums declined 10.9% y-o-y in Q3, dragged down by a 16.9% y-o-y contraction in family takaful net earned premiums.

On a more positive note, UOBKH said that robust growth in general takaful net premiums, underpinned by stronger motor premiums, had helped to cushion the weakness in its family takaful segment.

Meanwhile, RHB Research said the day one impact of the Malaysian Financial Reporting Standards 17 (MFRS 17), which is expected to come into effect on Jan 1, 2023, could see a 15% to 20% drop in forecast FY23 earnings.

Shareholder equity is expected to drop by 25% to 30%, estimates RHB.

But the research firm said it has not accounted for these changes in its forecasts.

"Our FY21-FY23 forecast profit after tax and minority interest has been lowered by 7%, 22%, 15%," RHB said in its report.

CGS-CIMB Research said it was lowering its FY21 net profit forecast by 7.7%.

This was due to the 9.4% cut in projected investment income, in view of the weaker-than-expected nine-month investment income.

It has also reduced its projected FY22 forecast net profit by 8.4% in lieu of the prosperity tax or Cukai Makmur, which raises its forecast FY22 tax expense by 48.7%.

That said, the three research houses have "buy" or "add" calls on the stock, given its attractive valuation.

The stock is trading at a 2022 price earnings of 8.1 times, which is below its five-year historical average of 11 times, and a potential re-rating catalyst, according to CGS-CIMB, would be the expected recovery in net profit growth to its projected 4.4% in FY22 and 15.6% in FY23, in line with the improvement in economic growth.

"Dividend yield is also attractive at 5.3% for forecast FY21," pointed out the research firm.

Analysts said the stock's price decline by close to a quarter year-to-date has taken into account the earnings impact to account for higher tax rates from Cukai Makmur and the cessation of tax incentives for wakalah income for family takaful premiums.