TAKAFULmalaysia MyBulletin

Publication	The Star	Section / Page	6	Date	27 July 2021
Headline	Syarikat Takaful Malaysia Adopts Cautious Stance Due to Pandemic				

Syarikat Takaful Malaysia adopts cautious stance due to pandemic

PETALING JAYA: Syarikat Takaful Malaysia Bhd (STMB) is yet another company to see its earnings targets being cut amid the prolonged movement restrictions across the nation due to Covid-19.

In such an unprecedented situation, which has impacted the spending power and sentiment of consumers to say the least, insurance companies like STMB have already been seeing a dampener on their earnings.

Hong Leong Investment Bank's (HLIB) research unit in a note on the company yesterday noted that after posting flat first-quarter 2021 gross earned contribution (GEC), STMB's business had started to pick up in early April for about a month before turning tepid again due to the Covid-19 outbreak resurgence and lockdown reinstatement.

"Also, similar to the first movement control order or MCO last year, credit-related products were affected," HLIB said.

It noted that the group's employee benefit segment was seen to be impacted as well.

"All considered, we tune down our financial year 2021 (FY21)-FY23 GEC growth assumption to 2%-5% from 7%," it told clients.

Controlled by BIMB Holdings Bhd, STMB is expected to go through upward normalisation in claims for both the medical and motor businesses once the economy reopens more broadly, said HLIB.

Even though STMB still intends to pay out dividends like last year, the research house now thinks it is too optimistic to assume a normalised dividend payout of 45%, considering the current Covid-19 situation that causes uncertainties.

"Also, management has a conservative undertone. Thus, we cut our FY21 dividend payout assumption to 27%, in line with FY20 levels," it said, adding that in its opinion, FY22 would be a more reasonable timeline to expect STMB to revert to its 45% divvy run-rate. "We reduce FY21-FY23 profit estimates by 2%-4% to reflect the adjustments," HLIB noted.

STMB posted a marginally lower net profit of RM101.14mil for the first quarter ended March 31, from RM101.59mil registered in the same quarter last year. Revenue, nevertheless, improved to RM915.50mil from RM913.04mil previously.

HLIB in its report said on the whole, it still liked STMB for its longer-term prospects which include an underpenetrated insurance space and favourable demographics. It is retaining its "buy" call on the stock but with a lower target price of RM5.35 from RM5.50 earlier following its profit cuts.

It said the premium accorded to STMB against its peers was warranted, as STMB was one of the leaders in the Islamic insurance industry, is the only pure listed takaful operator on Bursa Malaysia, and generates a strong return on equity which is six percentage points higher than the industry average. "We remain positive on STMB as valuations are undemanding versus historical levels," it said.