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Headline	Bright Long-Term Growth Prospects Seen For Syarikat Takaful				

Syarikat Takaful Malaysia Keluarga Bhd (Feb 26, RM4.70)

Upgrade to buy with a lower target price of RM5.55: This is below its five-year mean of 3.59 times but above the sector's 2.05 times. The discount is warranted as its return on equity (ROE) output is two percentage points (ppts) below the five-year average while the premium to peers is fair given it is one of the leaders in the Islamic insurance industry, being the only purely listed takaful operator on Bursa Malaysia, generating strong ROE (12ppts higher versus the industry average).

We turn positive on Syarikat Takaful Malaysia Keluarga Bhd (STMB) as valuations became inexpensive versus historical levels (trading at -1.5 standard deviation price-to-book value), suggesting most of the negatives dragging its short-term growth have been priced in. Also, the stock's dividend yield of 4%-5% is decent.

STMB posted a fourth quarter ended Dec 31, 2019 (4QFY19) net profit of RM75 million (-33% quarter-on-quarter [q-o-q], -17% year-on-year [y-o-y]), bringing FY19 sum to RM365 million (+24%). This was a tad below our expectations, making up 93% of our full-year forecasts but came in within consensus (97%). The key variance was a higher-than-expected surplus to takaful operator/participants at the family business.

Its 4QFY19 net profit fell 33% q-o-q, no thanks to slower gross contribution (-3%) at both its family (-2%) and general (-5%) businesses. The fall was further aggravated by higher management expenses (+30%).

Meanwhile, gross contributions rose 5% y-o-y on better credit-related product sales at its family takaful business (+7%). However, the surplus to takaful operator/participants jumped 51% (mainly from the family business) and dragged down its bottom line by 17%. Otherwise, operating profit was up 19%.

For year to date, net earnings grew 24% due to a 20% rise in gross contributions, 1% drop in claims, and 69% surge in investment-related gains. That said, the twofold increase in surplus to takaful operator/participants capped its FY19 performance to be stronger.

Over the next one year, STMB has to contend with the possibility of losing its bancatakaful tie-up with RHB (which we believe will likely be renewed but with more competitive terms) and a challenging Public Sector Home Financing Board business.

However, looking at the underpenetrated insurance space, favourable demographics, and huge domestic protection gap, the structural long-term growth prospects for the group remain bright, in our opinion. Also, via a wide network of bancatakaful partners, STMB rides on the robust Islamic banking growth (6ppts faster than its conventional counterparts). — Hong Leong Investment Bank Research, Feb 26