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Headline	Syarikat Takaful's Fundamental Ops Free From Impact of New Accounting Treatments				

KUALA LUMPUR: The new accounting standard for insurance contracts, MFRS 17, are purely accounting treatments and do not impact the fundamental business of Syarikat Takaful Malaysia Keluarga Bhd.

Kenanga Research said it still expected Syarikat Takaful to be a sound beneficiary of the recovery of the economy where overall earned premiums should pick up.

The firm said this should also be uplifted by more aggressive physical sales strategies.

"That said, a resurgence of claims could be expected as more activities will most likely lead to more incidents and claims.

"Pre-pandemic, claims incurred ratio could reach upwards to 40-50 per cent, although we anticipate a more moderate increase for the time being at 36 per cent (from 34 per cent during movement control periods)," it said.

Syarikat Takaful hosted a sharing session to explain the nature and implications of MFRS 17 comes January 1 next year.

Kenanga Research said tge MFRS 17 presented more comparable revenue recognition measures based on the tenure and coverage of insurance contracts.

Corresponding to the changes in revenue recognition, Syarikat Takaful expects its net profits to be toned down by 15 -20 per cent based on current year readings.

"However, this is also to say that the lost sum would be recorded in the subsequent years in line with the terms of the contracts' coverage," it said.

Post update, Kenanga Research leaves no changes to its assumptions for now as the new standards have yet to be implemented.

The firm maintains "Outperform" call and target price of RM4.25 on Syarikat Takaful.

It said the stock could have been sold down due to skepticism of the new accounting standards and possible earnings weakness arising from higher claims.

"We believe this presents a buying opportunity as the current adjustments above illustrate that its merits could have been underpriced," it added.