

Syarikat Takaful Malaysia Keluarga Bhd

(6139 | STMB MK) Financial services | Insurance

Maintain NEUTRAL

Contribution to be affected by COVID-19

Revised Target Price: RM4.82

(previously RM5.10)

KEY INVESTMENT HIGHLIGHTS

- **STMKB's 1QFY20 normalised earnings increased by +5.3%yoy to RM101.6m, which was within our expectation**
- **However, we opine that the group's 1QFY20 key performance metrics have been showing weaknesses**
- **Moreover, we expect the Covid-19 pandemic and movement control order (MCO) might put earnings under pressure moving forward**
- **Maintain NEUTRAL with a revised TP of RM4.82**

Decent 1QFY20 earnings performance. Syarikat Takaful Malaysia Keluarga Berhad (STMB)'s FY19 earnings grew by +5.3%yoy to RM101.6m. This came in within our and consensus' expectation, accounting for 30.9% and 28.7% of the full year estimates respectively. The firm's earnings growth was mainly attributable to lower expense reserves which in line with the lower productions from group medical products.

Nonetheless, key performance metrics were lacklustre. The group's operating revenue and net earned contributions (NEC) fell marginally by -0.6%yoy and -2.6%yoy to RM913.0m and RM585.7m respectively. This was primarily due to lower sales generated from Family Takaful segment. This segment's gross earned contribution (GEC) decreased by -1.3%yoy to RM496.3m, resulted from subdued sales from employee benefit products. In addition, the group's general takaful segment's GEC also declined by -1.0%yoy, possibly brought by the ongoing motor and fire liberalisation exercise. In addition, recall that RHB Islamic Bank has decided not to renew their bancataful service agreement with STMB upon expiry on 31st July 2020. We believe these developments are showing early signs of increasingly competitive industry dynamics that are taking place in the Takaful segment.

Moving forward, Covid-19 outbreak to cause a decline in premium income. In view of the extended MCO and anticipated weakening business sentiments in 2QCY20, we are expecting the group's NEC to be negatively impacted. This was predominantly due to the social distancing guidelines and travel restriction which might lead to lower sales from its Family Takaful segment. We are also foreseeing a decline in premium income from the motor and fire insurance as a result of possible weaker consumer spending. Moving forward, we are also of the view that affected policyholders might be letting their insurance policies to lapse as they might treat insurance purchases as less of a priority.

Resilient combined ratio to be cushion. While the group's combined ratio increased by +4.5ppts yoy to 74.4% in 1QFY20, it was still below the average industry combined ratio of 79.4% in CY19. The deterioration in combined ratio was predominantly attributable to the rise in claims ratio by +3.0ppts yoy to 45.6%, contributed by the increase in net claims from both its Family and General Takaful segment. Nonetheless, we posit that the relatively low combined ratio would provide ample room for the group to partially manoeuvre through this storm.

RETURN STATISTICS

Price @ 18 th May 2020 (RM)	4.72
Expected share price return (%)	+2.1
Expected dividend yield (%)	+3.2
Expected total return (%)	+5.3

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	+6.1	+5.9
3 months	+45.2	+6.3
12 months	-22.1	-11.3


KEY STATISTICS

FBM KLCI	1,410.16
Syariah compliant	Yes
Issue shares (m)	826.79
Estimated free float (%)	27.38
Market Capitalisation (RM'm)	3,902.46
52-wk price range	RM2.93 - RM7.18
Beta vs FBM KLCI (x)	1.16
Monthly velocity (%)	11.02
Monthly volatility (%)	21.28
3-mth average daily volume (m)	1.42
3-mth average daily value (RM'm)	5.61
Top Shareholders (%)	
BIMB Holdings Sdn Bhd	59.45
EPF	6.50
Islamic Development Bank	4.48

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Earnings estimates. In light of the lacklustre economic indicators dampening insurance demand, increasingly tough competitive landscape and potential loss of RHB Islamic Bank as a bacantakaful partner, we are revising downwards our forecasted FY20, FY21 and FY22 earnings by -8.4%, -7.7% and -7.2% to RM301.5m, RM311.8m and RM331.0m respectively. This is taking into account our assumption of lower gross earned contribution and higher claims.

Target Price. In light of the downward adjustment to our earnings estimate, we are revising downward our target price to **RM4.82** (previously RM5.10) after rolling over our valuation base year FY21. This is premised on pegging its FY21 diluted EPS to a PE of 12.8x (two-year historical average).

Maintain NEUTRAL. We are of the view that outlook of the group in FY20 to be less promising, predominantly due to the weakening economic indicators arising from the Covid-19 outbreak and extended MCO to dampen insurance demand moving forward. Thus, we are expecting lower growth of contributions from both its Family and General takaful segment. On another note, we posit the the Takaful industry seems to be facing an increasingly competitive environment during the pandemic. This is evidenced by the potential loss of a bancatakaful partner (i.e. RHB Islamic Bank) which might further jeopardize earnings growth in 2HFY20 and entrance of new takaful player (i.e. FWD Takaful) into the Malaysian market. In addition, the ongoing de-tariffication of the motor and fire insurance continues to present a less encouraging performance from its general insurance segment. This segment alone contributes approximately 30.0% to its group's gross earned contribution. Meanwhile, we are also cautiously optimistic on the group to weather the increasingly competitive environment as the group continues to invest in digital initiatives and deals with Bank Rakyat, Bank Islam and Affin bank remain intact. The relatively low combined ratio would also enable the group to safeguard its profitability. All factors considered, we are maintaining our **NEUTRAL** recommendation on STMB. 

INVESTMENT STATISTICS

FYE 31 Dec (RM'm)	FY18A	FY19A	FY20E	FY21F	FY22F
Operating revenue (RM'm)	2,639.1	3,124.6	2,968.3	2,819.9	2,763.5
Gross earned contribution	2,294.3	2,748.6	2,583.7	2,454.5	2,405.4
Net earned contributions (RM'm)	1,941.5	2,354.4	2,169.8	2,019.9	1,949.1
Pre-tax and zakat profit (RM'm)	337.0	417.7	350.5	360.8	377.7
PAZTAMI (RM'm)	294.9	368.6	301.5	311.8	331.0
Diluted EPS (sen)	35.6	44.6	36.5	37.7	40.0
EPS growth (%)	42.4	25.0	-18.2	3.4	6.0
PER (x)	13.2	10.6	12.9	12.5	11.8
Net Dividend (sen)	15.0	20.0	15.0	15.0	16.0
Net Dividend Yield (%)	3.2	4.2	3.2	3.2	3.4
BVPS (sen)	119.4	125.3	131.6	138.2	144.9
PBV (x)	4.0	3.8	3.6	3.4	3.3
ROE (%)	30.0	35.7	27.8	27.4	27.7
ROA (%)	3.3	4.0	3.2	3.2	3.3

Source: Company, MIDFR

1QFY20 RESULTS SUMMARY

FYE Dec (RM'm)	Quarterly				
	1Q20	1Q19	4Q19	%YoY	%QoQ
Operating Revenue	913.0	918.2	779.9	-0.6%	17.1%
Gross earned contributions	698.3	707.1	695.4	-1.2%	0.4%
Net earned contributions	585.7	601.1	597.2	-2.6%	-1.9%
Investment income	95.1	85.4	83.5	11.3%	13.9%
Other income	36.0	130.0	119.3	-72.3%	-69.9%
Gross benefits and claims paid	-301.7	-288.3	-316.3	4.6%	-4.6%
Claims ceded to retakaful	49.2	47.8	69.6	2.8%	-29.4%
Net benefits and claims	-266.8	-255.6	-260.3	4.4%	2.5%
Management expenses	-108.5	-104.5	-121.3	3.8%	-10.6%
Administration fees	-60.7	-60.6	-50.5	0.2%	20.3%
Other expenses	-213.4	222.9	-198.8	-195.7%	7.4%
Profit before tax and zakat	114.2	113.3	85.6	0.8%	33.5%
Taxation	-13.0	-0.3	-7.6	3785.3%	70.3%
Zakat	-0.3	-17.3	0.3	-98.3%	-201.7%
PAZTAMI	101.6	96.4	75.7	5.3%	34.2%
Diluted EPS (sen)	12.2	11.6	9.1	5.3%	34.2%
Key metrics	1Q20	1Q19	4Q19	+/- ppts	+/- ppts
Claims ratio	45.6%	42.5%	40.6%	3.0	5.0
Management expenses ratio	18.5%	17.4%	15.1%	1.1	3.4
Commission ratio	10.4%	10.1%	10.2%	0.3	0.2
Combined ratio	74.4%	70.0%	65.9%	4.5	8.6
Underwriting margin	25.6%	30.0%	34.1%	-4.5	-8.6

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.