

Syarikat Takaful Malaysia Keluarga Berhad

(6139 | STMB MK) Financial services | Insurance

Maintain NEUTRAL

Earnings to be under pressure in FY20

Revised Target Price: RM5.10

(previously RM6.60)

KEY INVESTMENT HIGHLIGHTS

- **STMKB's 4QFY19 normalised earnings fell by -17.4%yoy to RM75.7m, mainly due to higher management expenses**
- **STMKB's FY19 normalised earnings rose by +23.7% to RM364.8m which is within our expectation**
- **However, we opine that the potential deal loss of RHB Islamic Bank and increasingly competitive landscape might put earnings under pressure moving forward**
- **Maintain NEUTRAL with a revised TP of RM5.10**

Within expectation. Syarikat Takaful Malaysia Keluarga Berhad (STMB)'s FY19 earnings grew by +23.7%yoy to RM364.8m. This came in within our and consensus' expectation, accounting for 97.1% and 97.2% of the full year estimates respectively. The firm earnings growth was attributable to higher net Wakalah fee income arising mainly from continued double-digit business growth in the Family Takaful segment and higher net investment income. Nonetheless, the group's 4QFY19 earnings fell by -17.4%yoy to RM75.7m, primarily due to higher management expenses and lower growth in gross earned contributions.

Lowest quarterly earnings in FY19. We observed that earnings growth turned negative in 4QFY19 (-17.4%yoy) as compared to 1QFY19, 2QFY19 and 3QFY19 growth of +38.3%yoy, +60.5%yoy and +33.8% respectively. This was also the lowest recorded quarterly earnings in FY19 of RM75.7m in comparison to RM96.4m, RM80.9m and RM112.3m in 1Q, 2Q and 3QFY19 respectively. We opine that this was primarily due to the sharp decline in the growth of net earned premium from an average of above +20% in the first three quarters of FY19 to about +6.7% in 4QFY19. In addition, the ongoing motor and fire liberalisation exercise to be adding downward pressure to its general insurance segment as well.

Loss of a bancatakaful partner in FY20. To recall, RHB Islamic Bank has decided not to renew their bancatakaful service agreement with STMB upon expiry on 31st July 2020. We estimate that earnings might drop more than by -5% due to the fallout of the deal. However, STMB could still take part in the bidding process and get a fair chance to renew the contract. Even if they do win the bidding, we believe the margins from this deal will be lower in view of the increasing entrants of takaful providers and products in the market.

Potential deterioration in combined ratio. Due to the potential further tapering growth in net earned contribution in FY20, we opine that the group's combined ratio to worsen to above 70%. This is predicated on the expected increase in management expenses ratio and claims ratio. Note that the group's 4QFY19 management expenses rose to above 20% for the first time in two years, indicating the need of increased expenses to compete in the increasingly tough operating environment.

RETURN STATISTICS

Price @ 25 th Feb 2020 (RM)	4.77
Expected share price return (%)	+6.9
Expected dividend yield (%)	+3.1
Expected total return (%)	+10.0

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-1.2	+3.5
3 months	-16.3	-14.4
12 months	+7.4	+23.4


KEY STATISTICS

FBM KLCI	1,500.88
Syariah compliant	Yes
Issue shares (m)	824.22
Estimated free float (%)	32.92
Market Capitalisation (RM'm)	3,943.80
52-wk price range	RM4.13 – RM7.18
Beta vs FBM KLCI (x)	0.50
Monthly velocity (%)	11.02
Monthly volatility (%)	21.28
3-mth average daily volume (m)	1.30
3-mth average daily value (RM'm)	6.68
Top Shareholders (%)	
BIMB Holdings Sdn Bhd	59.45
EPF	5.39
Islamic Development Bank	4.23

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Earnings estimates. In light of the increasingly tough competitive landscape and potential loss of RHB Islamic Bank as a bancatakaful partner, we are revising downwards our forecasted FY20 and FY21 earnings to RM329.0m and RM337.9m respectively. This is taking into account our assumption of lower gross earned contribution and higher management expenses.

Target Price. In light of the downward adjustment to our earnings estimate, we are revising downward our target price to **RM5.10** (previously RM6.60). This is premised on pegging its FY20 diluted EPS to a PE of 12.8x (two-year historical average). Note that we have lowered our PE assumption from previously 14.0x to 12.8x in view of the increasingly competitive landscape and tapering earnings growth rate.

Maintain NEUTRAL. We are of the view that outlook of the group in FY20 to be less promising, predominantly due to the expected lower growth of contributions from both its Family and General takaful segment. The potential loss of a bancatakaful partner (i.e. RHB Islamic Bank) might further jeopardize earnings growth in 2HFY20. In addition, we view that the combined ratio might further weaken to above 70% due in large part of lower growth in net earned contribution. 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. 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	2,611.2	2,480.6	2,431.0
Net earned contributions (RM'm)	1,941.5	2,354.4	2,197.3	2,046.0	1,974.7
Pre-tax and zakat profit (RM'm)	337.0	417.7	378.0	386.9	403.3
PAZTAMI (RM'm)	294.9	368.6	329.0	337.9	356.6
Diluted EPS (sen)	35.6	44.6	39.8	40.9	43.1
EPS growth (%)	42.4	25.0	-10.7	2.7	5.4
PER (x)	13.4	10.7	12.0	11.7	11.1
Net Dividend (sen)	15.0	20.0	15.0	15.0	16.0
Net Dividend Yield (%)	3.1	4.2	3.1	3.1	3.4
BVPS (sen)	119.4	125.3	131.6	138.2	144.9
PBV (x)	4.0	3.8	3.6	3.5	3.3
ROE (%)	30.0	35.7	30.3	29.7	29.8
ROA (%)	3.3	4.0	3.5	3.5	3.5

Source: Company, MIDFR

4QFY19 RESULTS SUMMARY

FYE Dec (RM'm)	Quarterly			Cumulative		
	4Q19	%YoY	%QoQ	FY19	FY18	%YoY
Operating Revenue	779.9	11.2	6.0	3124.6	2639.1	18.4
Gross earned contributions	695.4	4.8	-2.8	2748.6	2294.3	19.8
Net earned contributions	597.2	6.7	-3.7	2354.4	1941.5	21.3
Investment income	83.5	17.1	-9.2	317.9	276.0	15.2
Other income	119.3	59.8	10.9	482.6	326.8	47.7
Gross benefits and claims paid	-316.3	7.7	-0.1	-1198.3	-1112.6	7.7
Claims ceded to retakaful	69.6	76.8	27.2	226.9	160.2	41.6
Net benefits and claims	-260.3	-0.3	3.5	-988.2	-999.3	-1.1
Management expenses	-121.3	28.2	29.5	-413.3	-349.2	18.4
Administration fees	-50.5	2.9	-20.3	-212.8	-184.1	15.6
Other expenses	-198.8	27.2	15.3	-766.1	-620.8	23.4
Profit before tax and zakat	85.6	-16.8	-29.7	417.7	337.0	24.0
Taxation	-7.6	-38.5	-13.1	-50.2	-43.4	15.7
Zakat	0.3	-191.3	-186.5	-1.3	-1.0	23.3
PAZTAMI	75.7	-16.4	-32.6	364.8	294.9	23.7
Diluted EPS (sen)	9.0	-17.4	-33.1	43.9	35.7	23.2
	4Q19	+/- ppts	+/- ppts	FY19	FY18	+/- ppts
Claims ratio	43.6	-3.1	3.0	42.0	51.5	-14.5
Management expenses ratio	20.3	3.4	5.2	17.6	18.0	-1.2
Commission ratio	8.5	-0.3	-1.8	9.0	9.5	-1.0
Combined ratio	72.4	0.0	6.5	68.6	78.9	-16.7
Underwriting margin	27.6	0.0	-6.5	31.4	21.1	16.7

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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.