Tune Protect Group Berhad

(5230 | TIH MK) Financial Services | Insurance

Downgrade to SELL

(Previously NEUTRAL)

Earnings from travel segment to be in jeopardy

***Revised* Target Price: RM0.25**

(previously RM0.42)

KEY INVESTMENT HIGHLIGHTS

- **1QFY20's normalised earnings fell -86.4%yoy to RM2.5m which came in below our and consensus expectation**
- **This was mainly attributable to the larger-than-expected decline in TPR's travel business (-22.9%yoy in GWP)**
- **MCO and ongoing Covid-19 to continue to add significant downward pressure on its earnings from both TPR and TPM**
- **Downgrade to SELL with a revised target price of RM0.25**

Below expectation. Tune Protect Group Berhad (TPG)'s 1QFY20 normalised earnings decreased by -86.4%yoy to RM2.5m. This came in below both our and consensus expectations, accounting for 5.4% and 5.8% of the full year FY20 earnings estimates respectively. This was mainly due to the lower-than-expected net earned premium (NEP) from TPR (-13.8%yoy) and TPM (-8.3%yoy) as caused by the reduction in air travel demand and challenging general insurance landscape respectively.

Top-line to face uphill battle. The group's 1QFY20 gross written premium (GWP) and operating revenue continue its downward trend, declining by -5.2%yoy and -3.4%yoy to RM115.0m and RM122.4m respectively. This led to the group's NEP to drop -10.3%yoy to RM58.4m which was contributed by the fall in NEP of both TPR (-13.8%yoy) and TPM -8.3%yoy to RM20.0m and RM38.3m respectively. This was mainly attributable to the group's reduction in air travel business from TPR and portfolio restructuring at its general insurance arm, TPM amidst an increasingly competitive operating environment. Moving forward, we expect the top-line to continue to trend downward due to the potential significant business loss from the AirAsia segment in FY20, particularly in 2QFY20 in view of the extended MCO.

Underwriting profit to be in jeopardy. To recall, note that the trend of underwriting profit generally follows of that the combined ratio. In 1QFY20, the declining NEP and increased net claims (+18.8%yoy) and management expenses (+2.0% yoy) have led to a deterioration in net claims ratio (+9.6ppts yoy) and management expenses ratio (+5.1ppts yoy) to 39.2% and 42.5% respectively. Ultimately, the group's combined ratio worsened marginally by +13.3ppts yoy to 95.3% which has caused the underwriting profits to plunge -76.5%yoy to RM2.7m. Moreover, we expect the anticipated lower business activities from its most profitable travel insurance segment (i.e. AirAsia) to continue to place significant downward pressure on its underwriting profit in coming quarters. We also do not discount the possibility of the group to post underwriting losses in 2QFY20 given the potential further drawdown in NEP amidst an unfavourable claims environment. Note that a combined ratio of >100% means that the group suffers an underwriting losses.

RETURN STATISTICS	
Price @22nd May 2020 (RM)	0.34
Expected share price return (%)	-26.5
Expected dividend yield (%)	+8.8
Expected total return (%)	**-17.7**

SHARE PRICE CHART

Share price performance (%)	Absolute	Relative
1 month	+1.5	-2.4
3 months	+28.3	-26.8
12 months	-51.1	-45.4

KEY STATISTICS	
FBM KLCI	1,436.76
Syariah compliant	No
Issue shares (m)	751.76
Estimated free float (%)	64.64
Market Capitalisation (RM'm)	255.6
52-wk price range	RM0.2 RM0.76
Beta vs FBM KLCI (x)	1.51
Monthly velocity (%)	11.02
Monthly volatility (%)	22.06
3-mth average daily volume (m)	2.95
3-mth average daily value (RM'm)	0.95
Top Shareholders (%)	
Tune Group Sdn Bhd	15.77
AirAsia Berhad	13.65
CIMB SI II Sdn Bhd	9.4

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Earnings forecast. In view of the MCO, Covid-19 led travel restriction and tough operating environment, we are revising downward our normalised earnings forecast for FY20, FY21 and FY22 to RM19.3m, 28.0m and RM35.0m respectively. This is to take into account the contraction in NEP due to portfolio restructuring and tough operating environment as well as impact from COVID-19 on air travel demand.

Target Price (TP). We are rolling forward our valuation base year to FY21 and revise our TP to **RM0.25** *(previously RM0.42)*. This is derived by pegging its FY21EPS of 3.7sen to PER of 6.9x which is about the 1.0x SD-discount to the group's 2-year historical average.

Downgrade to SELL. We are foreseeing a bleak outlook of the group's earnings performance in FY20 where it could be potentially dragged by its AirAsia segment in the intermediate term due to the extended MCO throughout 2QCY20 and COVID-19 outbreak which has disrupted global travel. To recall, travel insurance has been the key profit contribution for the group (>70%). Moving forward, we are expecting that the reduced air travel demand and unfavourable claims environment to put further downward pressure on its revenue and NEP which could possibly result in lower underwriting profit as evidenced in 1QFY20. Note that the travel segment still accounts for about 80.0% of the NEP of its TPR's businesses. We also expect the group's underwriting profit to be negatively affected by the general insurance arm, TPM, due to the increasingly competitive landscape and weakening economic indicators. All in, we are downgrading our call on TPG to **SELL** from previously NEUTRAL.

INVESTMENT STATISTICS

FYE 31st Jan	FY18A	FY19A	FY20E	FY21F	FY22F
Operating revenue (RM'm)	566.1	500.8	350.6	403.1	443.5
Net earned premiums (RM'm)	295.4	254.7	178.3	222.9	256.3
PATAMI (RM'm)	55.1	61.6	33.9	40.7	48.8
Normalised net profit (RM'm)	**45.4**	**48.3**	**19.3**	**28.0**	**35.0**
Diluted EPS (sen)	6.0	6.4	2.6	3.7	4.7
EPS growth (%)	-9.2	6.4	-60.0	45.0	25.0
PER (x)	7.2	6.8	13.2	9.1	7.3
Net dividend (sen)	3.0	3.0	3.0	3.0	3.0
Net dividend yield (%)	6.9	6.9	8.8	8.8	8.8
Book value (sen)	69.9	71.6	73.0	74.5	76.0
PBV (x)	0.6	0.6	0.5	0.5	0.4
ROE (%)	9.6	9.8	10.0	10.2	10.4
ROA (%)	3.5	3.7	3.9	4.1	4.3

Source: Company, MIDFR

TUNE PROTECT GROUP BHD: 1QFY20 Results Summary

(All in RM'm unless otherwise stated)	Quarterly				
FYE Dec	**1Q20**	**1Q19**	**4Q19**	**%YoY**	**%QoQ**
Operating revenue	**122.4**	**126.7**	**125.8**	**-3.4**	**-2.8**
Gross earned premiums	115.0	121.3	117.1	-5.2	-1.7
Net earned premiums	**58.4**	**65.1**	**64.8**	**-10.3**	**-10.0**
Investment income	7.3	5.3	8.8	37.0	-16.7
Fee and commission income	10.3	11.7	9.7	-12.3	5.6
Other revenue	**14.2**	**21.7**	**14.2**	**-34.4**	**-0.1**
Gross claims paid	-37.8	-67.3	-114.8	-43.8	-67.0
Claims ceded to reinsurers	21.8	37.5	94.6	-41.8	-76.9
Net claims	**-22.9**	**-19.3**	**-13.0**	**18.8**	**76.4**
Fee and commission expenses	-18.3	-21.5	-19.3	-15.2	-5.6
Management expenses	-24.8	-24.3	-35.0	2.0	-29.2
Other expenses	**-44.3**	**-46.2**	**-54.8**	**-4.1**	**-19.2**
Share of associates and JV	-1.9	1.0	1.0	-284.3	-286.2
Profit before tax	**3.6**	**22.3**	**12.3**	**-84.0**	**-70.9**
Taxation	-0.8	-2.1	-0.9	-62.5	-13.0
Normalised net profit	**2.5**	**18.3**	**10.6**	**-86.4**	**-76.5**
Diluted EPS	**0.3**	**2.4**	**1.4**	-86.4	-76.5
	1Q20	**1Q19**	**4Q19**	**+/- ppts**	**+/- ppts**
Net Claims ratio (%)	39.2	29.6	20.0	9.6	19.2
Management expenses ratio (%)	42.5	37.4	54.0	5.1	-11.5
Commission expense ratio (%)	13.6	15.1	14.8	-1.4	-1.2
Combined ratio (%)	95.3	82.0	88.8	13.3	6.5
Retention ratio (%)	50.7	53.6	55.4	-2.9	-4.7

Source: Company, MIDFR

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STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* 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 *fall* 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.