

Tune Protect Group Berhad

(5230 | TIH MK) Financial Services | Insurance

Earnings to be adversely impacted by AirAsia segment

KEY INVESTMENT HIGHLIGHTS

- **4QFY19's normalised earnings fell -21.8%yoy to RM10.6m**
- **FY19's normalised earnings of RM48.3 (+6.4%yoy) came in below both our and consensus expectation.**
- **Earnings to be negatively affected by its AirAsia segment business due to COVID-19 outbreak in the medium term**
- **Dividend yield remains a plus point at this juncture**
- **Downgrade to NEUTRAL with a revised target price of RM0.42**

Below expectation. Tune Protect Group Berhad (TPG)'s 4QFY19 normalised earning decreased by -21.8%yoy to RM10.6m. Cumulatively, the group's FY19 normalised earnings grew by +6.4%yoy to RM48.3m. However, this came in below both our and consensus expectations, accounting for 87.2% and 87.4% of the full year FY19 earnings estimates respectively. This was mainly due to lower-than-expected of both operating revenue and net earned premium (NEP).

Top-line on continued downtrend. On a cumulative basis, the group's FY19 gross written premium (GWP) and operating revenue continue to decline by -10.6%yoy and -11.5%yoy to RM463.9m and RM500.8m respectively. This led to the group's NEP to drop -12.6%yoy to RM469.3m which was contributed by the fall in NEP of both TPR (-16.7%yoy) and TPM -11.9%yoy. This was mainly attributable to the group's portfolio restructuring at its general insurance arm, TPM, where it plans to gradually reduce the reliance on the high-premium pricing of motor portfolio towards more profitable lower-premium non-motor portfolio. Moving forward, we expect the topline to trend downward due to the potential business loss from the AirAsia segment in FY20.

Tapering underwriting profit. To recall, note that the trend of underwriting profit generally follows of that the combined ratio. Even though the net commission and management expenses have improved -5.8%yoy and -10.8%yoy to -RM40.0m and -RM120.1m respectively, it wasn't sufficient to make up for the fall in NEP. As a result, the net commission ratio and management expenses ratio have deteriorated by -1.3ppts yoy and -1.6ppts yoy to 15.7% and 47.2% respectively. On the contrary, the net claims ratio improved slightly -2.2ppts yoy to 32.3% as driven by the lower net claims of RM82.4m (-19.2%yoy). Ultimately, the group's combined ratio worsened marginally by -0.7ppts yoy to 95.2% which has caused the underwriting profits to plunge -29.6%yoy to RM12.2m. Moreover, we expect the anticipated lower business activities from its most profitable travel insurance segment (i.e. AirAsia) to put downward pressure on its underwriting profit.

Downgrade to NEUTRAL

(Previously BUY)

Revised Target Price: RM0.42

(previously RM0.72)

RETURN STATISTICS

Price @28 th Feb 2020 (RM)	0.435
Expected share price return (%)	-3.4
Expected dividend yield (%)	+6.9
Expected total return (%)	+3.5

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-16.3	-12.5
3 months	-23.0	-14.7
12 months	-31.0	-20.5

KEY STATISTICS

FBM KLCI	1,482.64
Syariah compliant	No
Issue shares (m)	751.76
Estimated free float (%)	64.64
Market Capitalisation (RM'm)	327.02
52-wk price range	0.42 – 0.76
Beta vs FBM KLCI (x)	1.09
Monthly velocity (%)	11.02
Monthly volatility (%)	22.06
3-mth average daily volume (m)	1.24
3-mth average daily value (RM'm)	0.66
Top Shareholders (%)	
Pantai Cahaya Bulan Ventures	15.77
ALL Asia Media Equities Limited	13.65
Employee Provident Fund	9.40


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Earnings forecast. In view of the tough operating environment, we are revising downward our normalised earnings forecast for FY20 and FY21 to RM45.9m and 49.1m 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. Note that we are introducing our new set of earnings forecast for FY22 as well.

Target Price (TP). We are revising our TP to RM0.42 (*previously RM0.72*). This is derived by pegging its FY20EPS of 6.1sen to PER of 6.9x which is about the 1.0x SD-discount to the group's 2-year historical average.

Downgrade to NEUTRAL. We are concerned of the group's earnings potential in FY20 where it could be potentially dragged by its AirAsia segment in the short to medium terms due to the COVID-19 outbreak which has disrupted global travel. To recall, travel insurance has been the key profit contribution for the group. The group's portfolio restructuring has also been putting downward pressure on its revenue and NEP which possibly resulted in lower underwriting profit as evidenced in FY19. Moving forward, we are of the view that the group's underwriting profit will be under pressure mainly due to the constrained air travelling affecting its AirAsia segment. Note that this segment still accounts for about 80.0% of the NEP of its TPR's businesses. Nonetheless, we remain encouraged of the group's portfolio restructuring at its TPM division which has seen its gross written premium increasing at 4QFY19 as driven the more profitable non-motor segments. Moreover, we opine that the recently announced stimulus package could possibly partially allay the concern from its AirAsia segment. We are also comforted by the group's relatively appealing dividend yield of +6.9% if dividend remains the same as prior year. All in, we are downgrading our call on TPG to **NEUTRAL** from previously BUY. 

INVESTMENT STATISTICS

FYE 31 st Jan	FY18A	FY19A	FY20E	FY21F	FY22F
Operating revenue (RM'm)	566.1	500.8	400.6	420.7	433.3
Net earned premiums (RM'm)	295.4	254.7	229.2	233.8	240.8
PATAMI (RM'm)	55.1	61.6	64.1	67.3	70.6
Normalised net profit (RM'm)	45.4	48.3	45.9	49.1	51.6
Diluted EPS (sen)	6.0	6.4	6.1	6.5	6.9
EPS growth (%)	-9.2	6.4	-5.0	7.0	5.0
PER (x)	7.2	6.8	7.1	6.7	6.3
Net dividend (sen)	3.0	3.0	3.0	3.0	3.0
Net dividend yield (%)	6.9	6.9	6.9	6.9	6.9
Book value (sen)	69.9	71.6	73.0	74.5	76.0
PBV (x)	0.6	0.6	0.6	0.6	0.6
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: 4QFY19 Results Summary

(All in RM'm unless otherwise stated)	Quarterly			Cumulative		
FYE Dec	4Q19	%YoY	%QoQ	FY19	FY18	%YoY
Operating revenue	125.8	-10.4	1.6	500.8	566.1	-11.5
Gross earned premiums	117.1	-11.3	1.1	469.3	537.0	-12.6
Net earned premiums	64.8	-13.8	5.2	254.7	295.4	-13.8
Investment income	8.8	4.5	9.5	31.5	29.1	8.3
Fee and commission income	9.7	23.6	16.9	36.9	46.5	-20.5
Other revenue	14.2	-18.4	-43.4	82.5	80.8	2.0
Gross claims paid	-114.8	130.5	133.3	-307.2	-204.6	50.1
Claims ceded to reinsurers	94.6	309.3	261.2	211.0	89.6	135.5
Net claims	-13.0	-39.2	-48.1	-82.4	-102.0	-19.2
Fee and commission expenses	-19.3	-1.5	5.5	-76.9	-88.9	-13.5
Management expenses	-35.0	-18.5	25.3	-120.1	-134.6	-12.1
Other expenses	-54.8	-13.2	18.3	-197.5	-225.1	-12.2
Share of associates and JV	1.0	-31.8	13.9	4.4	4.9	-10.4
Profit before tax	12.3	28.1	-24.7	61.6	55.1	11.9
Taxation	-0.9	-157.2	-32.4	-3.6	-2.2	67.1
Normalised net profit	10.6	-21.8	-3.2	48.3	45.4	6.4
Diluted EPS	1.4	-21.8	-3.1	6.4	6.0	6.4
	4Q19	+/- ppts	+/- ppts	FY19	FY18	+/- ppts
Net Claims ratio	20.0%	-8.4	-20.5	32.3%	34.5%	-2.2
Management expenses ratio	54.0%	-3.1	8.6	47.2%	45.6%	1.6
Commission expense ratio	14.8%	-0.8	-1.4	15.7%	14.4%	1.3
Combined ratio	88.8%	-12.3	-13.3	95.2%	95.1%	0.1
Retention ratio	55.4%	-1.6	2.2	54.3%	55.0%	-0.7

Source: Company, MIDFR

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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.