

29 March 2018 | Sector Update

Insurance/Takaful Sector

Maintain POSITIVE

Proactive measures by the central bank, a welcomed sight

INVESTMENT HIGHLIGHTS

- The insurance/takaful industry extended its positive momentum in 2017
- General insurance and takaful were almost flat
- Growth is expected in the life segment
- We reiterate our POSITIVE stance on the sector

The insurance/takaful industry maintained its positive momentum in 2017 with an overall growth of +3.5%yoy vs +4.4%yoy in 2016, supported by growing demand for protection products. We see life insurance and family takaful combined, grew at a decent rate of +5.8%yoy in 2017 in terms of new premium and contribution. We noted that the product type composition of both life insurance and family takaful remained broadly unchanged, a trend seen over the last five years. The product composition was mainly composed of whole-life endowment, mortgage-related term insurance and takaful products, which made up 64.8% of total new premiums or contribution. Based on prevailing trend, we expect aforementioned products will continue to dominate new premiums/contributions share at least in the near term.

Breaking down its growth, life insurance was predominantly driven by investment-linked products accounting for 44.5% of new premiums. Comparatively, new premiums of investment-linked products grew significantly by +26.3% in 2017, vs +3.6% of average annual growth between 2013 and 2016. This was a result of apparent shift in strategic focus from ordinary life participating products to investment-linked products by insurers. Meanwhile for takaful, traditional products remain attractive with ordinary family products grew by +9.5% in 2017 vs +5.2% in 2016. This was driven mainly by the increase demand for mortgage-related term policies due to encouraging development in Islamic financing. It is worth to note that company under our coverage namely Syarikat Takaful has benefited from this increasing demand, with growth in revenue by +3.0%yoy in 2017, driven by its mortgage related product.

Exhibit 1: Positive new premium growth recorded for the life insurance sector



Source: BNM

Exhibit 2: Positive new contribution growth recorded for the family takaful sector



Source: BNM

General insurance and takaful were almost flat. While life insurance and family takaful recorded growth, general insurance and takaful was almost flat in 2017. Gross premium and contributions of general insurance and takaful contracted slightly by -0.4% in 2017. This was largely due to the contraction in the off-shore oil business which dropped by -27.7% in parallel with lower activity in the oil and gas sector. If we were to exclude the business of offshore-oil, total gross premiums will inch up by +0.4%. Notwithstanding this, we are encouraged to see positive growth in the motor, fire and medical business; classified as the three largest contributors to gross premiums and contributions. Motor segment grew by +3.6% in 2017, benefiting from higher new car sales. Comparatively, this was a stark different from last year where it grew by only +0.5%. It is worth mentioning that general takaful business of Syarikat Takaful saw its FY17 gross earned contributions climbed higher by +11.0%yoy to RM554.2m with motor and fire products as primary contributors. Moving forward, we believe general insurance and takaful will display improvement taking into account the recovery of oil and gas sector, supported by key segments' positive momentum. While we are aware of the potential impact of phased liberalization to the general insurance and takaful industry, we have yet to see this materialise at a significant level. According to BNM, this was due to short period of implementation to date and the overall cautious approach to premium pricing.

Growth is expected in the life segment... Notably, life insurance and family takaful uptake among Malaysians have seen gradual increase. Overall penetration rate of both life insurance and family takaful policies stood at 36.5%, improving by +2.0ppts yoy. We are able to see encouraging development in take up rate among those of working age (20-59 years old) as well, where penetration rate reached 50.4% in 2017, up by +3.6pptsyoy. However, growth at national-level has been muted with only 1.1% annual growth over the past four years. Despite the positive trajectory, we are of the view that life insurance and family takaful has yet to achieve its full growth potential given its low overall penetration rate. Pursuant to this slow progression, it is comforting to see that Bank Negara had launched several proactive measures to better stimulate the industry's growth.

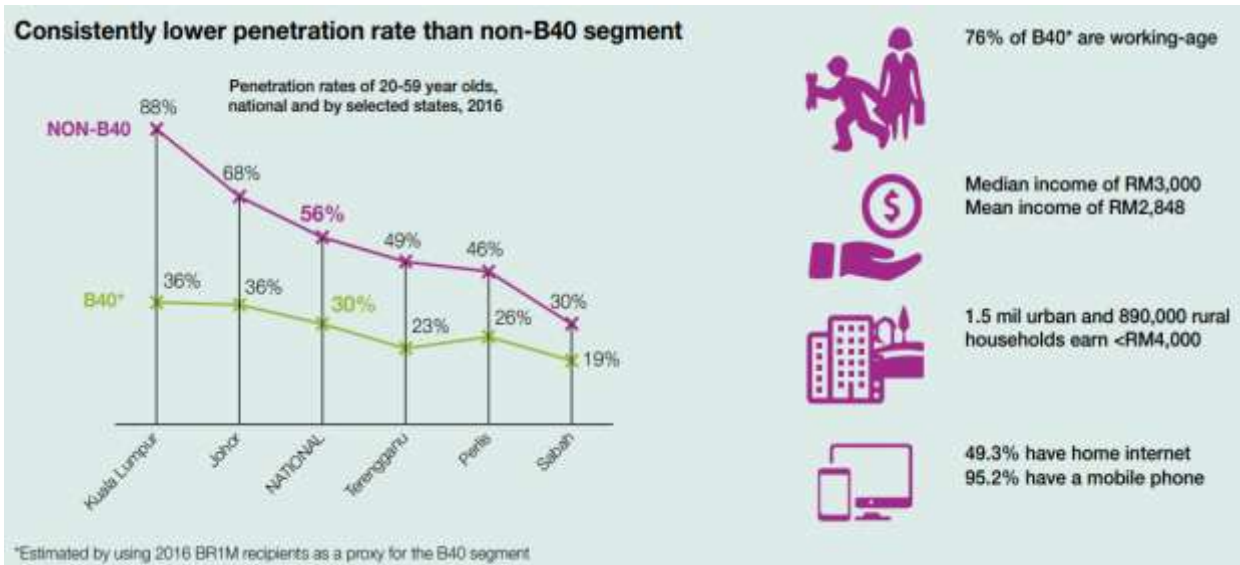
...with the introduction of Perlindungan Tenang. It is an initiative to introduce a range of insurance and takaful products to meet the needs of underserved Malaysians, particularly the Bottom 40% household segment (B40). This initiative was introduced on the premise that existing insurance and takaful products in the market are complex and unaffordable. As a result, this has constrained certain segment of the population in Malaysia especially amongst the B40 income segment. This may have been one of the cause for the current low penetration rate in life insurance and family takaful. With the objective to offer more affordable protection products in the market, the industry has launched a total of ten Perlindungan Tenang products comprised of six life insurance products, three family takaful products and one general insurance product. Encouragingly, over 2,000 Perlindungan Tenang policies were sold within the first two months. Looking at the trajectory in 2018, we believe the numbers of policies sold will trend higher with more participation from insurers and takaful providers coupled with higher public awareness campaign on Perlindungan Tenang. Other measures by BNM to stimulate insurance and takaful industry further include the 1) implementation of Balanced Scorecard framework, 2) offering of products through direct distribution channel and 3) implementation of free-pricing mechanism for general products. We see all the measures mentioned above as catalysts to stimulate higher take up rate of insurance policies.

Exhibit 3: B40 Life Insurance Uptake and Other Characteristics



Source: BNM

Exhibit 4: B40 Life Insurance Uptake and Other Characteristics



Source: BNM, DOSM

Overall, the industry maintained its performance in 2017 which is within our expectation. The growth in premium and contributions is expected to improve the industry's earnings performance. Considering that, we believe companies under our coverage namely Syarikat Takaful, LPI Capital and Tune Protect are poised to benefit. We are optimistic on the prospect of insurance and takaful industry improving further given the ample room for growth, supported by BNM's proactive measures to innovate the industry. Our top **BUY** for the sector is **Syarikat Takaful** with **TP of RM4.65**. Other **BUY** call is **Tune Protect** with **TP of RM1.26**. Further clarity on Tune Protect; we recall that its full year earnings came in below expectation, with PAT concluded lower by -42.4%yoy. Despite the drop, we view that there is further upside to come from its travel insurance business. AirAsia's aggressive fleet expansion plan will bode well with our expectation of better passenger growth. Meanwhile for **LPI Capital**, we remain **NEUTRAL** with a **TP of RM18.91** as we account for the challenging business environment in the general segment. Although we see digitalization as means to improve underwriting margin, we opine that it has already been reflected by LPI's share price.

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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.