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19 April 2019 | Corporate Update

Tune Protect Group Berhad

Long Term Value Play

Maintain BUY

Target Price (TP): RM0.87

INVESTMENT HIGHLIGHTS

- **Global expansion into key emerging markets likely to start yielding results, especially for its non-Air Asia segment**
- **Leveraging insurtech capabilities to maximise value of the gap between online and offline endeavours**
- **Digital assets consolidation under a new entity to focus on unlocking the fee income potential in the insurance space**
- **Profitability in the general insurance segment to improve via focusing on selected higher margin products in the non-motor segments**
- **These initiatives likely bear fruits in terms of top and bottom line with a single digit growth rate in FY19**
- **Maintain BUY with unchanged TP of RM0.87**

A renewed aspiration. We met with the new Tune Protect's Group (TPG) CEO recently, Khoo Ai Lin, along with its senior management team to discuss on its strategies for growth. TPG targets ambitiously 43 million policies sales in 3 years from current 10 million policies sold in FY18. The key transformational initiatives are: (1) Expanding its reach into new markets starting with travel insurance; (2) Generating additional revenue stream through fee income; (3) Consolidating insurtech capabilities and other digital assets into a new entity to allow for efficiency and speed; (4) Focus on the selected higher margin products in the non-motor segments.

Progress of overseas expansion plan. In 1QFY19, Tune Protect (TPG) has tied up with PT Asuransi Buana Independent (ABI), an insurance provider in Indonesia and also with Association Indonesian Tours and Travel Agencies (ASITA) East Java in Surabaya which has about circa 21 branches nationwide and 700 travel agencies respectively. The exclusive two-year partnership with ABI will enable TPG to tap into local travel insurance space more efficiently via an online portal powered by TPG called 'AyoBerasuransi'. The partnership is based on 30:70 quota share between ABI and TPG respectively. TPG has also signed up around circa 40 ASITA travel agents thus far to offer travel protection via ABI. This deal is expected to bring in collectively USD350k worth of travel insurance premiums for the first year.

RETURN STATS	
Price (18 April 2019)	RM0.67
Target Price	RM0.87
Expected Share Price Return	+30.0%
Expected Dividend Yield	+4.1%
Expected Total Return	+34.1%

STOCK INFO	
KLCI	1,619.73
Bursa / Bloomberg	5230 / TIH MK
Board / Sector	Main / Finance
Syariah Compliant	No
Issued shares (mil)	751.8
Par Value (RM)	0.10
Market cap. (RM'm)	503.68
Price over NTA	1.0x
52-wk price Range	RM0.52 – RM1.00
Beta (against KLCI)	1.01x
3-mth Avg Daily Vol	1.11m
3-mth Avg Daily Value	0.74m
Major Shareholders (%):	
Tune Group	15.77
AirAsia Berhad	13.65
CIMB SI II S/B	9.40
KWAP	8.17

Venture in Vietnam to be finalised. In addition, the venture into Vietnam's travel reinsurance market is expected to be finalised by 1H19 and the group will also re-focus into driving Thailand market as well. Note that in FY18, we saw TPG's retakaful insurance was implemented in major countries in the Middle East. While these partnerships are in early stages, we believe that the overseas business will be a growing contributor to TPG's earnings in the long term.

Bridging the gap between online and offline segment. As the bulk of travel insurance business coming from AirAsia (AA) at circa 80% of TPG's GWP, it is imperative to look deeper into AA's mode of customer acquisition and how it translates into the take-up rate of TPG's travel insurance products. While we understand that circa 90% of TPG's travel insurance products are already sold online via AA's flights which are processed directly on AA's website (circa 55%), it is the offline channels (remaining 45% of flight tickets sold not via AA's website) that TPG is looking to tap into. This includes partnering up with travel agents by offering them with incentives and also TPG's proprietary software (known as "rocketship") that can be integrated into the travel agents' platform to streamline the process of purchasing and claiming insurance policy. We view that the offline segment could help to grow sales albeit at a lower margin as compared to online because of the commission ceded. That said, TPG would continue to enhance and strengthen its penetration in the online channels as well.

Tapping into the fee income segment. We understand that the group is consolidating its digital assets (insurtech capabilities) into a new entity which primarily will be focusing on driving new revenue streams. The main product of the new entity will be its proprietary software including a mobile app which is ready for deployment in providing back-end support as well as easing the distribution of insurance products. We opine that this technological product provides leverage for TPG to partner with third-party insurance companies, be it locally or overseas going forward. We understand that ABI in Indonesia has been using it to distribute travel insurance products. The new revenue stream could be coming from charging insurance partners a subscription fee for using the software system or a transaction fee for every processed policy. Going forward, we view that this new business model would potentially help to grow the other operating income segment of TPG.

Growing the non-motor segments. TPG's management guided that it will focus on driving the non-motor segments from current 60% of the general insurance portfolio mix to 70% and 80% in FY20 and FY21 respectively. We opine that this restructuring would affect the premium growth to be slow or reduced slightly in FY19. However, TPG has been rationalising its unprofitable motor franchise business as claims are high throughout the industry. Coupled with its plans on growing the selected profitable non-motor segments such as (1) fire insurance especially in the small and medium-sized industry, (2) insurance coverage for foreign workers, (3) PA insurance ties up with child care centre as well as (4) Motor PAYD innovative product. Moving forward, we believe the profitability of the general insurance segment would improve as supported by lower claims ratio and commission expense ratio.

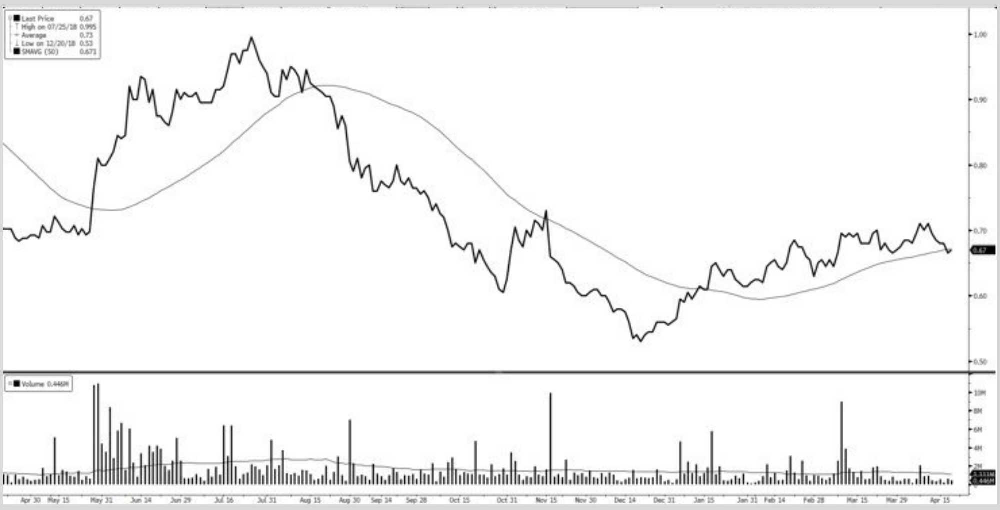
Long-term game. While these initiatives are positive developments for TPG moving forward, we understand that this requires significant investment and gestation period for it to show significant results. Nonetheless, we have seen some on-going initiatives that have contributed to the bottom line as claims ratio has dropped by -9.6ppt yoy in FY18 due to portfolio rationalisation and increased profitable travel insurance sales from overseas expansion. In addition, the dynamic pricing 2.0 on new AA's booking platform has been implemented in its core markets such as Malaysia, China, Indonesia, Singapore and Thailand to help in boosting revenue. Venturing into Indonesia and Vietnam's retakaful and reinsurance market will likely be a growth catalyst considering its demographics and vast population. The recent rationalisation of the workforce also enables TPG to reallocate resources to roles that are more suited for its plan to grow into a leading digital insurer. All factors considered, we maintain a **BUY** call on TPG with a target price of **RM0.87**.

INVESTMENT STATISTICS

FYE Dec	FY16A	FY17A	FY18A	FY19F	FY20F
Operating revenue (RM'm)	516.6	542.6	566.1	591.6	618.2
Net earned premiums (RM'm)	333.0	321.3	295.4	310.2	325.7
Pre-tax profit (RM'm)	94.7	52.9	55.1	60.6	66.7
Normalised PATAMI* (RM'm)	**86.6**	**50.0**	**55.7**	**60.0**	**65.4**
Diluted EPS (sen)	10.6	6.1	6.6	7.3	7.7
EPS growth (%)	15.2	-42.3	7.8	10.6	5.0
PER (x)	6.4	11.0	10.2	9.2	8.8
Net dividend (sen)	4.2	3.0	3.0	3.0	3.0
Net dividend yield (%)	6.2	4.4	4.4	4.4	4.4
Book value (sen)	66.0	66.8	69.9	71.6	73.0
PBV (x)	1.0	1.0	1.0	0.9	0.9
ROE (%)	16.0	9.2	9.6	9.8	10.0
ROA (%)	6.9	3.6	3.5	3.7	3.9

Source: Company, MIDF Research
**Excluded one-off VSS cost of RM3.7m in Dec 2018, normalised PAT level net of tax VSS cost of RM2.8m*

DAILY PRICE CHART



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Source: Bloomberg, 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 *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.