

09 November 2018 | Visit Note

Malayan Banking Berhad

Solid contributor from insurance and takaful

INVESTMENT HIGHLIGHTS

- **Strong position in the insurance and takaful segment**
- **Growing faster than industry**
- **The insurance and takaful segment will continue to be a meaningful contributor to the Group**
- **No revision to FY18 and FY19 forecast**
- **Maintain BUY with unchanged TP of RM11.40, based on PB multiple of 1.6x**

A look at Etiqa. The Group held an investor day recently to present on its insurance and takaful subsidiary. Below were our key take away from the meeting:

- It is the no. 1 in Malaysia in combined general insurance & takaful, in general takaful, in bancassurance/bancatakaful and in online insurance & takaful.
- It is growing faster than the industry.
- Focusing to grow in ASEAN countries.

Strong position in Malaysia. Etiqa Insurance & Takaful is the leader in the general insurance & takaful segment. For the 12-month period until March CY18, it held an 11.5% market share in this segment (source: LIAM/ISM Statistics. Meanwhile, it had a 10.5% market share in the new business for life/family, making it no. 4 in this segment. Overall, we believe that it is closing the gap with its 3 biggest competitor and gaining more market share.

Growing faster than the industry. One of the reasons for this is that Etiqa have been consistently growing faster than industry. For example, on a rolling 12-month period until 1QFY18 and 2QFY18, its regular premium/contribution for life & family business grew +38.0%yoy to RM446m and +46.2%yoy to RM475m respectively vs. industry's growth of +1.5%yoy and +1.1%yoy respectively. As for Etiqa's general business, the net written premium/contribution for the 12-month rolling period up to 1QFY18 and 2QFY18 grew a consistent +3.0%yoy respectively vs. to the industry's -0.9%yoy and 0.6%yoy respectively.

Strong presence. We believe that the robust growth was partly contributed by its strong agency force. It has more than 8,000 agents with 27 branches or sales service centres. This wide distribution network allows for better client coverage. Also, it is the no. 1 online insurance and takaful operator in Malaysia.

Reiterate BUY

Unchanged Target Price (TP): RM11.40

RETURN STATS	
Price (8 November 2018)	RM9.32
Target Price	RM11.40
Expected Share Price Return	+22.3%
Expected Dividend Yield	+6.2%
Expected Total Return	+28.5%

STOCK INFO	
KLCI	1,721.42
Bursa / Bloomberg	1155 / MAY MK
Board / Sector	Main / Finance
Syariah Compliant	No
Issued shares (mil)	11,035.2
Market cap. (RM'm)	102,848.4
Price over NA	1.4x
52-wk price Range	RM8.68 - RM11.08
Beta (against KLCI)	0.99
3-mth Avg Daily Vol	10.2m
3-mth Avg Daily Value	RM97.6m
Major Shareholders	
Skim Amanah Saham	34.13%
EPF	13.13%
PNB	7.55%

Some banking abbreviations used in this report:

CA = Collective Impairment Allowance
 CI = Cost-Income Ratio
 CET1 = Common Equity Tier 1
 ECL = Expected Credit Losses
 GIL = Gross Impaired Loan
 LD = Loan-Deposit
 NII = Net Interest Income
 NOII = Non-interest income
 NIM = Net Interest margin
 CASA = Current and Savings Accounts
 COF = Cost of Funds
 IA = Individual Assessment Allowance
 YTD = Year-to-date


Consistent contribution to Group's PBT. The impact of Etiqa's solid performance is consistent contribution to Group's PBT. On a rolling 12-month period from 4QFY14 to 2QFY18, it had contributed on average 9.2% to Group's PBT, while the range of the contribution was between 7.5% and 11.2%. In fact, the insurance and takaful segment assisted the robust NOII growth in 1HFY18, which was partly due to net earned insurance premiums expanding +19.6%yoy to RM3.0b. We believe that with Etiqa's strong growth, it will continue to support the Group's overall earnings performance.

Expanding in ASEAN. Going forward, Etiqa will be looking at growing its business in ASEAN. It will be leveraging on the high growth prospect and the Group's strong base in the region. We believe that this makes good strategic sense. The preferred channel will be through Bancassurance, online and direct marketing. Amongst the completed efforts were the establishment of Etiqa Insurance Ptd Ltd., which is a dual licensed insurance company in Singapore, ventured into life and non-life insurance via controlling stake in of 68.3% in AsianLife General Assurance in Philippines and acquired 75% stake in PT Asuransi Asoka Mas for non-life insurance in Indonesia.

FORECAST

We are maintaining our FY18 and FY19 forecast pending the Group's 3QFY18 result announcement.

VALUATION AND RECOMMENDATION

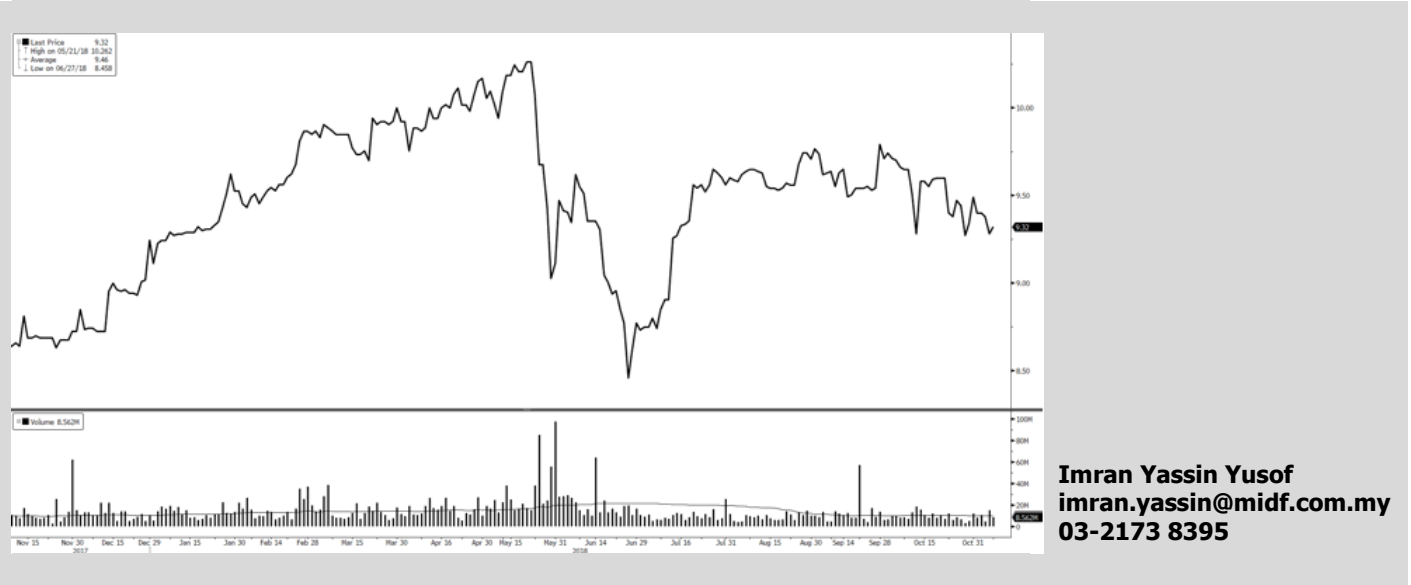
We believe that the insurance and takaful segment will continue to be a meaningful contributor to the Group. It will either boost during good times or moderate any headwinds to the Group's earnings. We do not expect any negative surprises to the Group's upcoming 3QFY18 result and believe that at current share price, the Group offers an compelling value. In addition, its dividend yield of circa 6% will provide some buffer. Therefore, we **reiterate** our **BUY** call with unchanged **TP of RM11.40**. We based our TP on pegging FY19 BVPS to PB of 1.6x. 

INVESTMENT STATISTICS

FYE Dec	FY16	FY17	FY18F	FY19F
Net interest income (RM'm)	11,568	12,147	12,699	13,068
Islamic banking income (RM'm)	4,189	4,900	5,047	5,148
Non-interest income (RM'm)	6,506	6,298	6,610	7,622
Total income (RM'm)	22,263	23,345	24,356	25,838
Pretax profit (RM'm)	8,844	10,098	10,558	11,255
Net profit (RM'm)	6,743	7,521	8,071	8,713
Core net profit (RM'm)	6,743	7,521	8,071	8,713
Core EPS (sen)	67.8	72.0	74.1	78.4
PER (x)	13.7	12.9	12.6	11.9
Net dividend (sen)	52	55	58	61
Net dividend yield (%)	5.6	5.9	6.2	6.5
Book value per share (sen)	6.72	6.77	6.90	7.15
PBV (x)	1.4	1.4	1.4	1.3
ROE (%)	10.6	10.3	10.6	10.8

Forecast by MIDFR

DAILY PRICE CHART



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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	<i>Negative</i> total return is expected, by -10% or more, 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.