

25 April 2018 | 1QFY18 Results Review

Syarikat Takaful Malaysia Berhad

General Takaful advancing at strong momentum

INVESTMENT HIGHLIGHTS

- Syarikat Takaful posted earnings of RM69.8m for 1QFY18
- General Takaful was the darling in 1QFY18
- Earnings forecast revised up for FY18 and FY19
- We maintain our BUY call with adjusted TP of RM4.44

Syarikat Takaful posted earnings of RM69.8m for 1QFY18. The results were above our expectations, accounting for 32.6% of our FY18 estimates. In comparison to the same period last year, earnings grew by +23.3%yoy. STMB's gross earned contributions, which accounted part of operating revenue, displayed the same trend. It grew by +7.6%yoy to RM506.3m. Besides higher Wakalah fee income, earnings growth was also driven by the increase in contributions of general takaful, which expanded +27.2%yoy to RM182.4m. Given the encouraging rise of general takaful business, it currently accounts for approximately 36.0% of the group's overall takaful funds, from 30.4% in 1QFY17.

General Takaful was the darling in 1QFY18. We are encouraged to see that STMB's growth in the general segment was still resilient, despite the industry headwinds due to motor insurance liberalizations. Motor and fire classes remained as growth drivers, driving double-digit growth in 1QFY18. However, it is worth noting that both classes partly contributed to the higher claims and benefits of +16%.

Family takaful was mostly flat in 1QFY18. Earnings from family takaful were mostly flat in the quarter, with gross earned contributions recorded at RM324.0m. In terms of net benefits and claims, it increased by +10.0% to RM210.6m due to higher death and surrender claims. While we saw 1QFY18 proved to be challenging for Family Takaful business, we are optimistic that contributions will remain elevated, supported by the group's marketing effort to reach wider market.

Combined ratio still healthy. Despite claims and benefits paid was seen trending up in 1QFY18, the group's overall combined ratio remains at comfortable rate of 75.5%. This was -1.3ppts yoy lower than last year's level. Recall that the 4-year combined ratio averaged 79.6%. Meanwhile, we see management and commission expenses are showing good signs. Both expenses were seen decreasing by -0.9ppts yoy and -0.4ppts yoy respectively, absorbing the increase in the group's overall claims and benefits paid.

Maintain BUY
Adjusted Target Price (TP): RM4.44
(From RM4.65)

RETURN STATS	
Price (25 April 2018)	RM3.24
Target Price	RM4.44
Expected Share Price Return	+37.0%
Expected Dividend Yield	+4.0%
Expected Total Return	+40.0%

STOCK INFO	
KLCI	1,865.24
Bursa / Bloomberg	6139 / STMB MK
Board / Sector	Main / Finance
Syariah Compliant	Yes
Issued shares (mil)	824.2
Par Value (RM)	0.20
Market cap. (RM'm)	2,687.0
Price over NA	3.16x
52-wk price Range	RM3.17 – RM4.25
Beta (against KLCI)	0.93x
3-mth Avg Daily Vol	0.27m
3-mth Avg Daily Value	RM0.90m
Major Shareholders (%)	
BIMB Holdings	59.64
EPF	12.29

Impact on earnings. Given that results came in above our expectations, we are revising up our FY18 and FY19 forecasts by +7.4% and +1.6% respectively. This is taking into account the encouraging growth of general class.

Maintain BUY. We are maintaining our **BUY** call on **Syarikat Takaful**. We adjusted the TP to RM4.44 (from RM4.65) as we rollover our valuation to FY19. The change in our TP is due to adjusting our PE multiple to 15x from 17x previously as we change the historical average period to 5 years from 3 years. We believe this is fair as it better reflect the stable period. Moving forward we believe that the group will be able to expand its foothold in the takaful market, supported by its long-term strategic focus in the new digital market. While we believe traditional distribution channels such as banca and agency will remain important, we foresee its new digital online channel will be able to capture wider market share. With more products expected to be rolled out via the digital platform, we are positive that it will be a key earnings driver. According to management, the traction for these new products has been encouraging given its convenience and seamless purchasing process. Additionally, more initiatives are planned including innovation in online underwriting. This will enable the company to achieve better performance metrics including high straight through processing rates and quick turnaround time.

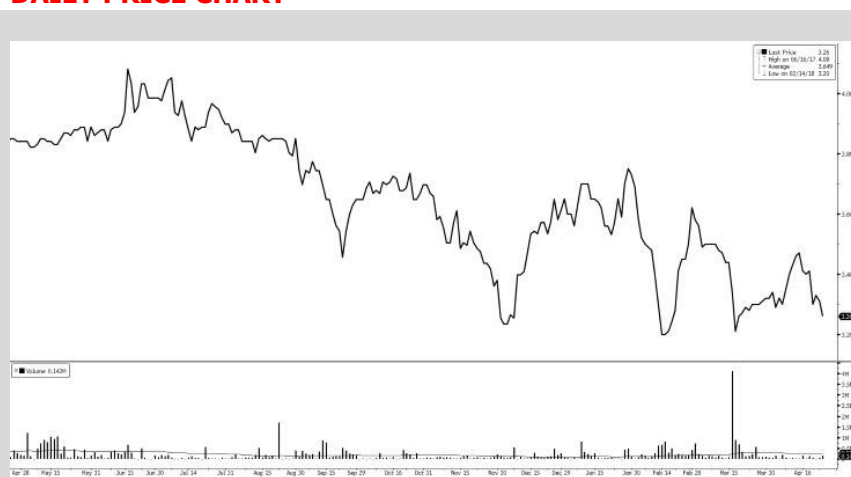


INVESTMENT STATISTICS

FYE Dec	FY15	FY16	FY17	FY18	FY19
Operating revenue (RM'm)	1,788.6	2,013.3	2,139.2	2,398.9	2,460.3
Net earned contributions (RM'm)	1,256.4	1,486.3	1,521.4	1,706.1	1,750
Pre-tax and zakat profit (RM'm)	204.2	221.0	253.7	256.7	263.2
PAZTAMI (RM'm)	156.0	176.3	206.7	230.3	236.2
Diluted EPS (sen)	19.0	21.4	25.0	27.9	28.7
EPS growth (%)	10.8	12.6	16.8	11.8	2.6
PER (x)	17.2	15.2	13.0	11.7	11.4
Net Dividend (sen)	7.4	12.0	15.0	13.0	13.0
Net Dividend Yield (%)	2.3	3.7	4.6	4.0	4.0
Book Value (sen)	84.0	89.0	95.0	91.0	92.0
PBV (x)	3.9	3.7	3.4	3.6	3.5
ROE (%)	22.6	24.2	24.8	27.6	28.3
ROA (%)	2.1	2.3	2.5	2.6	2.8

Source: Bursa Malaysia, MIDFR

DAILY PRICE CHART



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Source: Bloomberg

1QFY18 RESULTS SUMMARY

FYE Dec (RM'm)	Quarterly Results				
	1Q18	1Q17	4Q17	YoY	QoQ
Gross earned contributions	506.3	470.5	457.8	7.6%	10.6%
Net earned contributions	423.6	397.5	371.9	6.6%	13.9%
Administration income	19.2	16.4	24.6	16.6%	-22.3%
Investment income	75.4	71.2	80.2	5.9%	-5.9%
Realised gains and (losses)	1.9	8.6	-1.8	-77.5%	-205.5%
Fair value gains and (losses)	-3.0	2.4	8.6	-226.7%	-135.1%
Other operating income	2.1	0.4	0.6	392.6%	253.0%
Other income	95.7	99.1	112.1	-3.4%	-14.7%
Gross benefits and claims paid	-299.4	-272.8	-263.7	9.7%	13.5%
Claims ceded to retakaful	43.7	34.0	74.1	28.4%	-41.0%
Gross change to contract liabilities	11.8	-2.3	47.3	-617.3%	-75.0%
Change to contract liabilities ceded	-15.3	7.8	-31.8	-295.1%	-51.9%
Net benefits and claims	-259.2	-233.2	-174.1	11.1%	48.8%
Management expenses	-80.0	-78.4	-78.7	2.0%	1.6%
Expense reserve	-31.2	-23.6	-6.3	32.0%	392.1%
Other opex	-58.8	-46.6	-53.2	26.0%	10.4%
Other expenses	-169.9	-148.7	-138.2	14.3%	22.9%
Profit before tax and zakat	84.9	72.6	56.0	17.1%	51.6%
Taxation	-15.0	-15.5	0.2	-3.3%	-7565.2%
Zakat	-0.2	0.2	-0.5	-182.8%	-67.2%
PAZTAMI	69.8	56.8	56.3	22.8%	23.9%
Diluted EPS (sen)	8.5	6.9	6.8	22.9%	24.2%

Key metrics	1Q18	1Q17	4Q17	+/- ppts	+/- ppts
Claims ratio	61.2%	58.7%	46.8%	2.5	14.4
Management expenses ratio	18.9%	19.7%	21.2%	-0.9	-2.3
Commission expenses ratio	-4.5%	-4.1%	-6.6%	-0.4	2.1
Combined ratio	75.5%	74.3%	61.4%	1.3	14.2
Underwriting margin	24.5%	25.7%	38.6%	-1.3	-14.2

Source: Bursa Malaysia, 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.