

30 July 2018 | 2QFY18 Results Review

Syarikat Takaful Malaysia Berhad

In-line with estimates

Maintain BUY
Unchanged Target Price (TP): RM4.44

INVESTMENT HIGHLIGHTS

- Syarikat Takaful posted earnings of RM119.7m in 1HFY18
- Overall operating revenue posted growth
- Combined ratio was stable
- Maintain BUY with an unchanged TP of RM4.44

Syarikat Takaful recoded earnings of RM50.0m for 2QFY18. The cumulative earnings in 1HFY18 came in at 52.0% and 53.4% of ours and consensus full year estimates. On quarterly basis, there was a net addition of RM50.0m of PAZTAMI in 2QFY18 earnings, bringing the total earnings in 1HFY18 to RM 119.7m. This marked a notable improvement of +18.3%yoy.

Overall operating revenue posted growth. Operating revenue in 1HFY18 was higher by +13.0%yoy to RM1.3b. This was due to the increase in income generated by both Family and General Takaful business attributable to higher net wakalah fee income. Notably, its general takaful business was the main growth driver, with income rose by +26.0%yoy primarily in the fire and motor classes. While the revenue trend had been encouraging, we noted that profits were largely moderated by higher net benefits and claims of +40.0%yoy. This was due to higher expenses in fire and motor classes.


Family takaful recorded decent improvement in 1HFY18. Income from family takaful was higher by +5.0%yoy in the quarter. This was driven by higher sales of credit-related products, to record gross earned contributions of RM674.1m. In terms of net benefits and claims, it increased by +3.0% to RM370.7m following the increase in surrender and medical claims. While net benefits and claims remain a risk to profitability moving forward, we are optimistic that contributions are likely to expand further, supported by the group's marketing effort to reach wider market. Accordingly, we believe that this will be driven by its strategic initiatives in the digital space.

Combined ratio seemed stable. The cumulative total of net claims and benefits was higher in 1HFY18, increasing by +9.0%yoy to RM486.7m from the same period last year. Despite the increase, claims ratio declined marginally by -1.1ppts. This was following the higher growth in net earned contributions in the period by +11.1%yoy. Coupled with a flat management expenses ratio in 1HFY18, the overall group's combined ratio showed an improvement. It declined by -2.1ppts yyoy to record a ratio of 71.4%.

RETURN STATS	
Price (27 July 2018)	RM3.90
Target Price	RM4.44
Expected Share Price Return	+13.8%
Expected Dividend Yield	+3.3%
Expected Total Return	+17.1%

STOCK INFO	
KLCI	1,769.1
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)	3,214.5
Price over NA	3.83x
52-wk price Range	RM4.10 – RM3.17
Beta (against KLCI)	0.56x
3-mth Avg Daily Vol	0.25m
3-mth Avg Daily Value	RM0.94m
Major Shareholders (%)	
BIMB Holdings	59.64
EPF	12.30

Impact on earnings. Given that results are within our expectations, we maintain our earnings forecasts at this juncture.

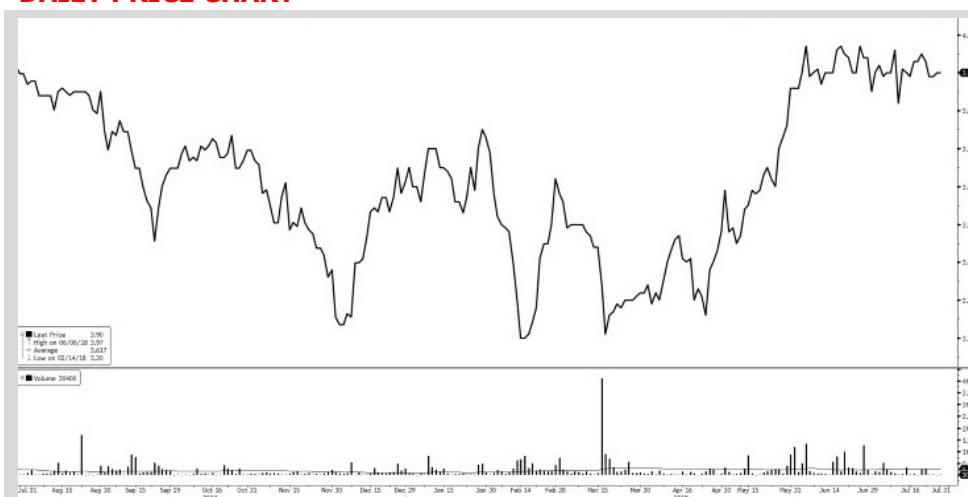
Maintain BUY. We maintain **BUY** call on **Syarikat Takaful** remains intact with an unchanged **TP** of **RM4.44**. Our positive outlook is underpinned by a stream of robust opportunities in the takaful market, including 1) low penetration rate of insurance/takaful coverage; and 2) favourable demographic trend in Malaysia. Given these market features, we have seen an encouraging growth in incomes generated since introduction. While we observed that demand has been strong due to structural gap in the market, the group continues to expand their focus on improving its overall value chain. This will be largely supported by its long-term strategic focus of digitalization initiatives. Moving forward, these efforts 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	FY18F	FY19F
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)	20.5	18.2	15.6	14.0	13.6
Net Dividend (sen)	7.4	12.0	15.0	13.0	13.0
Net Dividend Yield (%)	1.9	3.1	3.8	3.3	3.3
Book Value (sen)	84.0	89.0	95.0	91.0	92.0
PBV (x)	4.6	4.4	4.1	4.3	4.2
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

2QFY18 RESULTS SUMMARY

FYE Dec (RM'm)	Quarterly Results					Cumulative		
	2Q18	2Q17	1Q18	YoY	QoQ	6M18	6M17	YoY
Gross earned contributions	510.5	447.4	506.3	14.1%	0.8%	1,288.61	1,145.18	12.5%
Net earned contributions	437.9	378.0	423.6	15.9%	3.4%	861.5	775.5	11.1%
Administration income	14.1	11.7	19.2	21.2%	-26.2%	33.3	28.1	18.5%
Investment income	78.3	78.3	75.4	0.0%	3.8%	153.7	149.5	2.8%
Realised gains and (losses)	0.4	9.8	1.9	-96.3%	-81.3%	2.3	18.4	-87.5%
Fair value gains and (losses)	-58.6	-2.7	-3.0	2030.9%	1853.9%	-61.6	-0.4	16019.6%
Other operating income	0.9	2.4	2.1	-64.7%	-59.7%	2.4	2.6	-7.3%
Other income	35.1	99.4	95.7	-64.7%	-63.3%	130.1	198.2	-34.4%
Gross benefits and claims paid	-248.2	-234.4	-299.4	5.9%	-17.1%	-547.6	-507.2	7.9%
Claims ceded to retakaful	39.1	25.5	43.7	53.2%	-10.5%	82.8	59.5	39.1%
Gross change to contract liabilities	-75.7	-19.2	11.8	294.3%	-740.6%	-63.9	-21.5	197.3%
Change to contract liabilities ceded	57.3	14.9	-15.3	284.0%	-474.4%	42.0	22.8	84.5%
Net benefits and claims	-227.5	-213.2	-259.2	6.7%	-12.2%	-486.7	-446.4	9.0%
Management expenses	-82.0	-73.1	-80.0	12.1%	2.5%	-161.9	-151.5	6.8%
Expense reserve	-4.5	-2.1	-31.2	117.7%	-85.6%	-35.7	-25.7	38.9%
Other opex	-46.1	-45.6	-58.8	1.2%	-21.5%	-104.3	-91.9	13.4%
Other expenses	-132.6	-120.8	-169.9	9.8%	-22.0%	-301.9	-269.2	12.2%
Profit before tax and zakat	61.4	59.1	84.9	4.0%	-27.7%	146.4	131.6	11.2%
Taxation	-11.3	-14.5	-15.0	-22.6%	-25.0%	-26.3	-30.1	-12.7%
Zakat	-0.2	-0.1	-0.2	52.8%	21.9%	-0.4	-0.4	10.6%
PAZTAMI	50.0	44.4	69.8	12.6%	-28.4%	119.7	101.2	18.3%
Diluted EPS (sen)	6.1	5.5	8.5	10.3%	-28.0%	14.6	12.3	18.2%

Key metrics	2Q18	2Q17	1Q18	+/- ppts	+/- ppts	6M18	6M17	+/- ppts
Claims ratio	52.0%	56.4%	61.2%	-4.5	-9.2	56.5%	57.6%	-1.1
Management expenses ratio	18.7%	19.3%	18.9%	-0.6	-0.2	18.8%	19.5%	-0.7
Commission expenses ratio	-3.2%	-3.1%	-4.5%	-0.1	1.3	-3.9%	-3.6%	-0.2
Combined ratio	67.4%	72.7%	75.5%	-5.2	-8.1	71.4%	73.5%	-2.1
Underwriting margin	32.6%	27.3%	24.5%	5.2	8.1	28.6%	26.5%	2.1

Source: Bursa Malaysia, MIDFR

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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.