

26 October 2018 | 3QFY18 Results Review

Syarikat Takaful Malaysia Berhad

Strongest quarter thus far

Maintain BUY

Revised Target Price (TP):RM4.49
(previously RM4.44)

INVESTMENT HIGHLIGHTS

- Results came in above expectations driven by strong growth contribution momentum
- Combined ratio slightly improved
- Earnings forecast revised up for FY18 and FY19
- Maintain BUY with revised TP of RM4.49

Above expectations. Syarikat Takaful (STMB) reported strong growth of +35.5%yoy for its 9MFY18 PAZTAMI, to RM202.5m. This translated to 87.93% and 88.89% of ours and consensus full year estimates. On a quarterly basis, its 3QFY18 PAZTAMI increased by a whopping +71.7%yoy to RM82.8m, which marked the largest increment over the past 3 years.

Driven by continued strong double-digit growth in net earned contributions. STMB's 9MFY18 net earned contributions grew by +20.2%yoy to RM1,381.9m. This was attributed to the increase of gross earned contributions from both its Family and General Takaful businesses by +17.0%yoy and +26.0%yoy respectively. Notably, the key growth drivers in Family and General Takaful were the credit-related products as well as fire and motor classes respectively. The growth in its General Takaful is at a faster pace as compared to conventional general insurance industry which reported a mere 0.7% growth in its gross premium written in 1HFY18.


Combined ratio slightly improved. The group's 9MFY18 combined ratio was at a healthy level of 71.8%, representing a net decrease of 2.6ppts yoy. This was attributed by the downtick in the group's claims ratio and management expense ratio of -2.1ppts yoy and -0.5ppts yoy respectively. As a result, underwriting margin improved +2.6ppts yoy to 28.2%. It worth noting that the 9MFY17 net benefits and claims for Family and General Takaful have increased by +13%yoy and +29%yoy respectively. However, this still resulted in lower claims ratio.

Strong performance despite uncertainties. Despite the current market uncertainties as well as deregulation of the industry, the group's YTD performance has shown strong progression, to maintain its foothold in the takaful market. Moving forward, we expect the group's digital platform to continue providing support for customers' acquisition. We see the growth of online transaction to be strategic, enroute to optimizing the group's operational structure in the long run.

RETURN STATS	
Price (25 October 2018)	RM3.70
Target Price	RM4.49
Expected Share Price Return	+21.3%
Expected Dividend Yield	+3.5%
Expected Total Return	+24.8%

STOCK INFO	
KLCI	1,686.59
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)	3,049.6
Price over NTA	3.41x
52-wk price Range	RM3.17– RM4.05
Beta (against KLCI)	0.56x
3-mth Avg Daily Vol	0.09m
3-mth Avg Daily Value	RM0.34m
Major Shareholders (%)	
BIMB Hldgs	59.64
EPF	12.30

Earnings estimates. We are revising up our FY18 and FY19 forecast by +7.5% and +6.7%, given the results were above our expectations. This is taking into account the continued momentum in its Family and Takaful businesses.

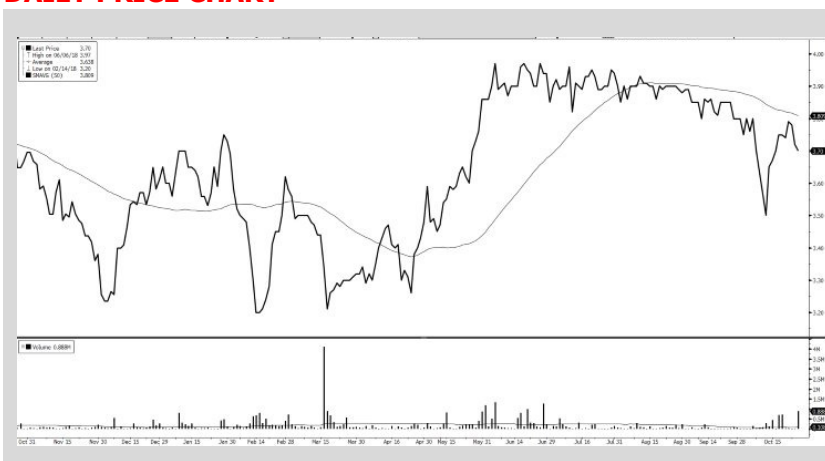
Recommendation. We are maintaining our **BUY** call on **Syarikat Takaful**, and revised the **TP** to **RM4.49 (from RM4.44)** as we peg its FY19EPS to PER of 14.7x. This is predicated on STMB to maintain its performance in FY19 (albeit at moderating pace) despite potential industry headwinds such as the deregulation of motor and fire insurance, as well as government focus in pushing for affordable insurance products. Also, we opine STMB is optimised to continue to grow steadily as driven by (1) rapid expansion of its digital platform, and (2) the increasing up-take of Islamic financials products and services. With current weakness in its share price, we believe it is a good opportunity for investors to have exposure in the growing takaful market. Key downside risks would be (1) the forecasted downward revision of GDP in FY19 in which we have factored in, and (2) pursuit of growth at the expense of prudent underwriting. 

INVESTMENT STATISTICS

FYE Dec	FY15	FY16	FY17	FY18F	FY19F
Operating revenue (RM'm)	1,788.6	2,013.3	2,139.2	2,333.7	2,463.7
Net earned contributions(RM'm)	1,256.4	1,486.3	1,521.4	1,683.0	1,766
Pre-tax and zakat profit (RM'm)	204.2	221.0	253.7	327.6	334.4
PAZTAMI (RM'm)	156.0	176.3	206.7	247.5	252.1
Diluted EPS (sen)	19.0	21.4	25.0	30.0	30.6
EPS growth (%)	10.8	12.6	16.8	20.0	2.0
PER (x)	19.5	17.3	14.8	12.3	12.1
Net Dividend (sen)	7.4	12.0	15.0	13.0	13.0
Net Dividend Yield (%)	2.0	3.2	4.1	3.5	3.5
Book Value (sen)	84.0	89.0	95.0	91.0	92.0
PBV (x)	4.4	4.2	3.9	4.1	4.0
ROE (%)	22.6	24.2	24.8	27.6	28.3
ROA (%)	2.1	2.3	2.5	2.6	2.8

Source: Company, MIDFR

DAILY PRICE CHART



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Source: Bloomberg, MIDFR

3QFY18 RESULTS SUMMARY

FYE Dec (RM'm)	Quarterly Results					Cumulative		
	3Q18	3Q17	2Q18	YoY	QoQ	9M18	9M17	YoY
Gross earned contributions	614.0	476.2	510.5	28.9%	20.3%	1630.7	1361.2	19.8%
Net earned contributions	520.4	374.0	437.9	39.1%	18.8%	1381.9	1149.5	20.2%
Administration income	27.2	28.1	14.1	-3.5%	92.1%	60.5	56.2	7.5%
Investment income	83.3	75.7	78.3	10.0%	6.4%	236.9	225.2	5.2%
Realised gains and (losses)	0.0	6.6	0.4	-100.0%	-100.0%	2.3	25.0	-90.8%
Fair value gains and (losses)	12.3	-15.6	-58.6	-178.8%	-121.0%	-49.3	-16.0	207.4%
Other operating income	1.3	2.9	0.9	-54.2%	52.3%	2.3	4.8	-51.0%
Other income	124.1	97.6	35.1	27.0%	253.8%	252.8	295.2	-14.4%
Gross benefits and claims paid	-207.3	-234.4	-248.2	-11.6%	-16.5%	-819.0	-741.6	10.4%
Claims ceded to retakaful	12.5	30.4	39.1	-58.9%	-68.0%	120.9	89.9	34.4%
Gross change to contract liabilities	-10.5	8.8	-75.7	-219.2%	-86.2%	-95.0	-12.7	647.8%
Change to contract liabilities ceded	0.6	3.6	57.3	-84.0%	-99.0%	54.9	26.4	108.1%
Net benefits and claims	-204.7	-191.6	-227.5	6.8%	-10.0%	-738.2	-638.0	15.7%
Management expenses	-92.6	-66.3	-82.0	39.8%	13.0%	-254.5	-217.8	16.9%
Commission expenses	0.0	0.0	0.0	N.A	N.A	0.0	0.0	N.A
Expense reserve	-17.0	-5.9	-4.5	189.4%	279.3%	-52.7	-31.6	66.9%
Other opex	-55.1	-45.8	-46.1	20.3%	19.5%	-158.0	-137.0	15.3%
Other expenses	-164.7	-117.9	-132.6	39.7%	24.2%	-465.2	-386.4	20.4%
Profit before tax and zakat	87.8	66.0	61.4	33.0%	42.9%	234.2	197.6	18.5%
Taxation	-4.7	-17.6	-11.3	-73.3%	-58.1%	-31.0	-47.7	-35.1%
Zakat	-0.3	-0.2	-0.2	73.1%	39.6%	-0.7	-0.5	31.2%
PAZTAMI	82.8	48.2	50.0	71.7%	65.7%	202.5	149.4	35.5%
Diluted EPS (sen)	10.15	5.9	6.1	72.6%	66.4%	24.7	18.2	35.6%

Key metrics	3Q18	3Q17	2Q18	+/- ppts	+/- ppts	9M18	9M17	+/- ppts
Claims ratio	39.3%	51.2%	52.0%	-11.9	-12.6	53.4%	55.5%	-2.1
Management expenses ratio	17.8%	17.7%	18.7%	0.1	-0.9	18.4%	18.9%	-0.5
Combined ratio	57.1%	68.9%	70.7%	-11.8	-13.5	71.8%	74.5%	-2.6
Underwriting margin	42.9%	31.1%	29.3%	11.8	13.5	28.2%	25.5%	2.6

Source: Company, 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.