

26 January 2018 | 4QFY17 Results Review

## Syarikat Takaful Malaysia Berhad

*Takaful products strengthen its appeal*

**Maintain BUY**

**Adjusted Target Price (TP): RM4.65**

### INVESTMENT HIGHLIGHTS

- **FY17 earnings came in strong, and slightly expectations**
- **General and family takaful business are positive drivers**
- **Earnings for FY18 revised upward**
- **We maintain our BUY stance with an adjusted TP of RM4.65 per share**

**Earnings slightly above consensus.** STMB's FY17 earnings came in slightly above expectations. It accounts for 106.2% and 104.6% of ours and consensus' full year forecast. The FY17 PAZTAMI grew by +17.3%yoy to RM206.7m. The same trend was seen for the quarterly earnings where 4QFY17's PAZTAMI expanded +43.4%yoy.


**Family and General Takaful products maintain its appeal to consumers.** Operating revenue for FY17 grew +6.0%yoy, to register at RM2.1b stemming from higher sales generated by both family takaful and general takaful business. The growth for family takaful driven by its mortgage related product, leading to a +3.0%yoy increase in FY17 gross earned contributions. We also note that its net benefits and claims decreased by -12.0%yoy due to reduction in medical claims. Meanwhile, general takaful business saw its FY17 gross earned contributions climbed higher by +11.0%yoy to RM554.2m with motor and fire products as primary contributors. Despite the uptrend in general takaful business, we note that the FY17 earnings of the said segment were largely absorbed by higher net benefits and claims paid, which grew +33.0%yoy.

**Combined ratio fared better.** While we note that general segment faced higher benefits and claims paid, the group's FY17 overall combined ratio remains at comfortable rate of 72.9%, improving by 4.6ppts yoy. Recall that the 4-year combined ratio averaged 79.6%.

**Earnings revised upward.** Given that FY17 earnings came in above expectation, we believe that an upward revision is warranted to take into account the increase in earnings, which supported by higher wakalah fee income. Hence, we adjust the FY18F PAZTAMI higher by +9.6% and introduce our FY19F earnings.

| RETURN STATS                 |               |
|------------------------------|---------------|
| Price (25 January 2018)      | RM3.59        |
| Target Price                 | RM4.65        |
| Expected Share Price Return  | +29.5%        |
| Expected Dividend Yield      | +3.6%         |
| <b>Expected Total Return</b> | <b>+33.1%</b> |

| STOCK INFO             |                 |
|------------------------|-----------------|
| KLCI                   | 1,845.86        |
| Bursa / Bloomberg      | 6139 / STMB MK  |
| Board / Sector         | Main / Finance  |
| Syariah Compliant      | Yes             |
| Issued shares (mil)    | 823.1           |
| Par Value (RM)         | 0.20            |
| Market cap. (RM'm)     | 2,955.1         |
| Price over NA          | 3.48x           |
| 52-wk price Range      | RM3.36 – RM4.25 |
| Beta (against KLCI)    | 0.89x           |
| 3-mth Avg Daily Vol    | 0.11m           |
| 3-mth Avg Daily Value  | RM0.40m         |
| Major Shareholders (%) |                 |
| BIMB Holdings          | 59.72           |
| EPF                    | 12.35           |

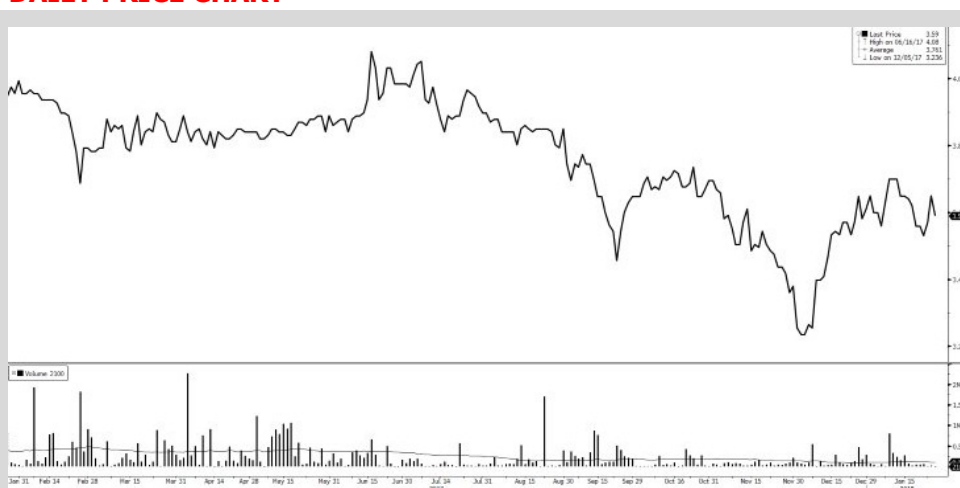
**Valuation and recommendation.** Consequent to the result, we maintain our **BUY** call on Syarikat Takaful. However our **TP** is adjusted lower to **RM4.65** (from RM4.90) as we pegged its **FY18 EPS** to PER of **17x**. We had lowered the premium we had accorded to the previous PER, as we factor in the overall risk coming from the IFSA requirement (splitting of insurance business), which will possibly incur higher than expected operational expenses. On the other hand, we believe STMB is well positioned to take advantage of the underserved consumer market, which is mostly represented by Islamic demographic population that favours takaful protection. Recall that Malaysia is facing low penetration of life/takaful insurance subscription issue circa 56.2% (vs 75% target by 2020). With greater intensity of digitalization adopted in the group's operation, it will enable STMB to boost its core earnings reaching out to targeted market. As the only listed pure takaful player on Bursa, we view that the recent retracement of its share price makes the stock an attractive investment proposition. 

## INVESTMENT STATISTICS

| FYE Dec                         | FY15         | FY16         | FY17         | FY18F        | FY19F        |
|---------------------------------|--------------|--------------|--------------|--------------|--------------|
| Operating revenue (RM'm)        | 1,788.6      | 2,013.3      | 2,139.2      | 2,284.7      | 2,321.0      |
| Net earned contributions (RM'm) | 1,256.4      | 1,486.3      | 1,521.4      | 1,624.9      | 2,145.0      |
| Pre-tax and zakat profit (RM'm) | 204.2        | 221.0        | 253.7        | 244.5        | 294.5        |
| <b>PAZTAMI (RM'm)</b>           | <b>156.0</b> | <b>176.3</b> | <b>206.7</b> | <b>214.3</b> | <b>232.4</b> |
| Diluted EPS (sen)               | 19.0         | 21.4         | 25.0         | 26.6         | 28.2         |
| EPS growth (%)                  | 10.8         | 12.6         | 16.8         | 6.3          | 6.0          |
| PER (x)                         | 18.9         | 16.8         | 14.4         | 13.5         | 12.8         |
| Net Dividend (sen)              | 7.4          | 12.0         | 15.0         | 13.0         | 13.0         |
| Net Dividend Yield (%)          | 2.1          | 3.3          | 4.2          | 3.6          | 3.6          |
| Book Value (sen)                | 84.0         | 89.0         | 95.0         | 91.0         | 93.0         |
| PBV (x)                         | 4.3          | 4.0          | 3.8          | 3.9          | 3.9          |
| ROE (%)                         | 22.6         | 24.2         | 24.8         | 26.3         | 27.9         |
| ROA (%)                         | 2.1          | 2.3          | 2.5          | 2.6          | 2.8          |

Source: Bursa Malaysia, MIDFR

## DAILY PRICE CHART



Source: Bloomberg

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## 4QFY17 RESULTS SUMMARY

| FYE Dec (RM'm)                       | Quarterly Results |               |               |              |               | Cumulative    |               |              |
|--------------------------------------|-------------------|---------------|---------------|--------------|---------------|---------------|---------------|--------------|
|                                      | 4Q17              | 4Q16          | 3Q17          | YoY          | QoQ           | 12M17         | 12M16         | YoY          |
| Gross earned contributions           | 457.8             | 447.4         | 476.2         | 2.3%         | -3.9%         | 1818.9        | 1728.5        | 5.2%         |
| <b>Net earned contributions</b>      | <b>371.9</b>      | <b>382.7</b>  | <b>374.0</b>  | <b>-2.8%</b> | <b>-0.6%</b>  | <b>1521.4</b> | <b>1486.3</b> | <b>2.4%</b>  |
| Administration income                | 24.6              | 20.5          | 28.1          | 20.3%        | -12.4%        | 80.9          | 56.6          | 42.9%        |
| Investment income                    | 80.2              | 72.7          | 75.7          | 10.3%        | 5.9%          | 305.4         | 280.7         | 8.8%         |
| Realised gains and (losses)          | -1.8              | -21.9         | 6.6           | -91.6%       | -127.9%       | 23.1          | -3.0          | -870.0%      |
| Fair value gains and (losses)        | 8.6               | 0.2           | -15.6         | 3914.1%      | -154.7%       | -7.5          | 15.8          | -147.4%      |
| Other operating income               | 0.6               | 4.4           | 2.9           | -86.2%       | -78.8%        | 4.0           | 6.5           | -37.4%       |
| <b>Other income</b>                  | <b>112.1</b>      | <b>75.9</b>   | <b>97.6</b>   | <b>47.8%</b> | <b>14.8%</b>  | <b>405.9</b>  | <b>356.5</b>  | <b>13.9%</b> |
| Gross benefits and claims paid       | -263.7            | -283.2        | -234.4        | -6.9%        | 12.5%         | -1005.3       | -1127.5       | -10.8%       |
| Claims ceded to retakaful            | 74.1              | 66.0          | 30.4          | 12.2%        | 143.6%        | 164.0         | 244.8         | -33.0%       |
| Gross change to contract liabilities | 47.3              | 64.0          | 8.8           | -26.1%       | 438.2%        | 34.6          | 159.5         | -78.3%       |
| Change to contract liabilities ceded | -31.8             | -31.5         | 3.6           | 1.2%         | -985.2%       | -5.5          | -143.0        | -96.2%       |
| <b>Net benefits and claims</b>       | <b>-174.1</b>     | <b>-184.6</b> | <b>-191.6</b> | <b>-5.7%</b> | <b>-9.1%</b>  | <b>-812.2</b> | <b>-866.3</b> | <b>-6.2%</b> |
| Management expenses                  | -78.7             | -82.9         | -66.3         | -5.1%        | 18.7%         | -296.4        | -284.6        | 4.1%         |
| Expense reserve                      | -6.3              | -8.3          | -5.9          | -23.7%       | 8.0%          | -37.9         | -16.7         | 127.3%       |
| Other opex                           | -53.2             | -16.8         | -45.8         | 217.5%       | 16.2%         | -188.9        | -189.0        | 0.0%         |
| <b>Other expenses</b>                | <b>-138.2</b>     | <b>-139.4</b> | <b>-117.9</b> | <b>-0.8%</b> | <b>17.2%</b>  | <b>-523.2</b> | <b>-490.3</b> | <b>6.7%</b>  |
| <b>Profit before tax and zakat</b>   | <b>56.0</b>       | <b>40.9</b>   | <b>66.0</b>   | <b>37.1%</b> | <b>-15.1%</b> | <b>253.7</b>  | <b>221.0</b>  | <b>14.8%</b> |
| Taxation                             | 0.2               | -2.3          | -17.6         | -108.7%      | -101.1%       | -47.5         | -46.2         | 2.9%         |
| Zakat                                | -0.5              | 0.3           | -0.2          | -297.5%      | 210.3%        | -1.1          | -0.3          | 210.7%       |
| <b>PAZTAMI</b>                       | <b>56.3</b>       | <b>39.3</b>   | <b>48.6</b>   | <b>43.4%</b> | <b>15.9%</b>  | <b>206.7</b>  | <b>176.3</b>  | <b>17.3%</b> |
| Diluted EPS (sen)                    | 6.8               | 4.8           | 5.9           | 43.3%        | 16.0%         | 25.0          | 21.4          | 16.8%        |

| Key metrics               | 4Q17  | 4Q16  | 3Q17  | +/-<br>ppts | +/-<br>ppts | 12M17 | 12M16 | +/-<br>ppts |
|---------------------------|-------|-------|-------|-------------|-------------|-------|-------|-------------|
| Claims ratio              | 46.8% | 48.3% | 51.2% | -1.4        | -4.4        | 53.4% | 58.3% | -4.9        |
| Management expenses ratio | 21.2% | 21.7% | 17.7% | -0.5        | 3.4         | 19.5% | 19.2% | 0.3         |
| Combined ratio            | 68.0% | 69.9% | 68.9% | -1.9        | -1.0        | 72.9% | 77.4% | -4.6        |
| Underwriting margin       | 32.0% | 30.1% | 31.1% | 1.9         | 1.0         | 27.1% | 22.6% | 4.6         |

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. |