

05 April 2018 | Corporate Update

## Syarikat Takaful Malaysia Berhad

*Enhancement focus on digital structure*

**Maintain BUY**  
Target Price (TP): RM4.65

### INVESTMENT HIGHLIGHTS

- **STMB held its annual analyst briefing**
- **Business performance was entirely strong**
- **Maintain earnings forecast for FY18 and FY19**
- **We maintain our BUY stance with TP of RM4.65 per share**

We attended an analyst briefing by Syarikat Takaful Malaysia, to gain updates on the company's recent business development. Overall, the takaful business recorded encouraging growth in both general and family takaful. The earnings in 2017 breached RM200m mark for the first time. This showed demand for takaful products continued to be robust. Interestingly, growth in key segments namely motor insurance proved to be resilient despite headwinds from the changing landscape of general segment following liberalisation.

**Breaking down its performance**, general takaful chalked up an +11.0%yoy increase, growing at a faster rate in comparison to the industry. Key driver was the continued expansion of its motor business, attributable to its telemarketing strategy. Notably, growth was also steered by aggressive underwriting in motor business. In terms of premium pricing, management noted that there were minimal changes as insurers and takaful operators mostly stayed on the side line since second phase liberalisation was implemented in July last year. Interestingly, despite the industry's high loss ratio of circa 80.0%, Syarikat Takaful managed to keep the percentage loss at 60.0%-70.0% on average. This was due to the group's prudent expansion of its motor business, with primary focus of keeping the loss ratio low. We are positive on this, as low loss ratio will help to keep underwriting profit margin healthy. Recall that the group overall underwriting margin in 2017 stood at 27.1%, up by +4.6pptsyoy from the same period last year.

**Meanwhile for family takaful**, it recorded earnings growth of +3.0%yoy, driven by its mortgage related products. It is worth noting that traditional takaful product continued being attractive with ordinary family products growing by +9.5% in 2017 vs +5.2% in 2016. In terms of market share, Syarikat Takaful maintained its number one position, capturing the largest percentage in the market of 23%.


RETURN STATS	
Price (4 April 2018)	RM3.29
Target Price	RM4.65
Expected Share Price Return	+41.3%
Expected Dividend Yield	+2.6%
<b>Expected Total Return</b>	<b>+43.9%</b>

STOCK INFO	
KLCI	1,815.94
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)	2,711.7
Price over NA	3.19x
52-wk price Range	RM3.17 – RM4.25
Beta (against KLCI)	0.92x
3-mth Avg Daily Vol	0.28m
3-mth Avg Daily Value	RM0.96m
Major Shareholders (%)	
BIMB Holdings	59.64
EPF	12.28

**More offerings with new online platform.** Management expects online is set to an important channel for consumers to purchase takaful policies. Thus far, three products have been introduced on the channel namely Takaful myClick Motor, Takaful myClick PA and Takaful my Click MediPlus. According to management, the traction for these new products has been encouraging given its convenience and seamless purchasing process. In the near term, Syarikat Takaful will roll out more products on the platform, providing more options to customers. Consequently, we are of the view this will stimulate higher traffic towards the platform, which eventually will lessen its dependant on third-party agency channel. At the same time, we expect Syarikat Takaful's early tie up with Fusionex an established IT software group that specializes in Analytics and Big Data, will continue to strengthen its underlying digital structure. More initiatives are in the plan, 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.

**Group's opex expected to remain stable.** Notably, the company will see its business separated between general and family come 1st July 2018. The action was taken to comply with BNM's rulings, leading insurers/ takaful operators with composite license to split its business operation. According to the management, the impact will be minimal as the two separate entities will be operationally supported by shared services of the group, where no substantial investment required.

**Impact to earnings.** We maintain our forecasts for FY18 and FY19 at this juncture, as we have already taken into account the positive developments.

**Valuation and recommendation.** Given our positive view, we maintain our **BUY** call on Syarikat Takaful with **TP of RM4.65**. We believe STMB is well positioned to take advantage of Malaysian demographic that favours Islamic products and takaful protection. Recall that Malaysia has low penetration of life/takaful insurance subscription issue circa 56.2% (vs 75% target by 2020). With greater intensity of digitalization adopted in the company'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)	17.3	15.4	13.2	13.5	11.7
Net Dividend (sen)	7.4	12.0	15.0	13.0	13.0
Net Dividend Yield (%)	2.2	3.6	4.6	3.6	4.0
Book Value (sen)	84.0	89.0	95.0	91.0	93.0
PBV (x)	3.9	3.7	3.5	3.9	3.5
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



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Source: Bloomberg

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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.