

28 May 2018 | 1QFY18 Result Review

Tune Protect Group Berhad

Approaching the end of the tunnel

Maintain BUY

Adjusted Target Price (TP): RM1.10
(from RM1.26)

INVESTMENT HIGHLIGHTS

- Tune's 1QFY18 PATAMI came in at RM16.6m
- Improvement in combined ratio, a welcomed sight
- Top line numbers showing positive signs
- Rolling over valuation to FY19
- Maintain BUY with adjusted TP of RM1.10

Higher PATAMI in 1QFY18. Tune Protect reported 1QFY18 PATAMI of RM16.0m, climbing up by +38.8%yoy. The earnings were in-line with our expectation accounted for 24.3% and 21.5% of ours and consensus FY18 full year estimates respectively. Earnings growth was followed by the increase in the group's 1QFY18 gross written premiums of +5.2%, driven by recovery in travel insurance business and growth in existing motor portfolio. We are also encouraged to see claim and management expenses improved in the quarter as well.

Combined ratio improved. It fell by -7.1ppts yoy from last year to 80.8%. The biggest improvement was in net claims ratio where it fell -6.1ppts yoy, due to favourable claims environment in the quarter. Further contraction in combined ratio was aided by lower management expenses, which declined by -13.6%yoy, driven by the global travel segment. In terms of ratio, it fell -3.6ppts yoy to 33.3%. Overall, the combined ratio displayed commendable improvement in 1QFY18 at 80.8%, better than FY17 and FY16 average ratio. We believe improve in its overall cost structure, will enable it to improve its underwriting profit. This will be done via its enhancement of better customer acquisition in digital segment which will provide headroom for overall enhancement in cost structure. Notably, total number of customers from digital contribution grew +73.8%yoy.


Highest GWP recorded in travel business. Travel segment business recovered, with top-line growing by +11.1%yoy to RM29.1m. Notably, this was the highest GWP recorded since 3QFY16, following the new opt-in booking policy ruling by MAVCOM. While we note that the past several quarters has been challenging for the company, we are encouraged to see its key strategic initiatives namely product bundling and dynamic pricing, are coming to fruition. With future introduction of dynamic pricing 2.0 and other digital initiatives, this will stretch the company's ability to enhance its revenue.

RETURN STATS	
Price (25 May 2018)	RM0.73
Target Price	RM1.10
Expected Share Price Return	+52.1%
Expected Dividend Yield	+8.3%
Expected Total Return	+60.4%

STOCK INFO	
KLCI	1,797.40
Bursa / Bloomberg	5230 / TIH MK
Board / Sector	Main / Finance
Syariah Compliant	No
Issued shares (mil)	751.8
Par Value (RM)	0.10
Market cap. (RM'm)	545.0
Price over NTA	1.15x
52-wk price Range	RM0.71 – RM1.15
Beta (against KLCI)	1.00x
3-mth Avg Daily Vol	1.25m
3-mth Avg Daily Value	1.01m
Major Shareholders (%):	
Tune Group	15.77
AirAsia Berhad	13.65
CIMB SI II S/B	9.40
KWAP	8.52

AirAsia's fleet expansion leaves Tune Protect to benefit. The company's travel insurance business was largely comprised of AirAsia passengers, accounting for 36.0% of the overall travel insurance contribution. We expect this to climb higher, following AirAsia's long-term strategy to consistently expand its fleet size to 500 aircrafts by 2027. Given this strategy, we foresee passengers carried by the LCC to grow at consistent pace via the introduction of few new routes in the coming years. Notably, AirAsia recorded passenger growth of +16.0%yoy, followed by an increase in capacity by +19.0%yoy in comparison to 1QFY17.

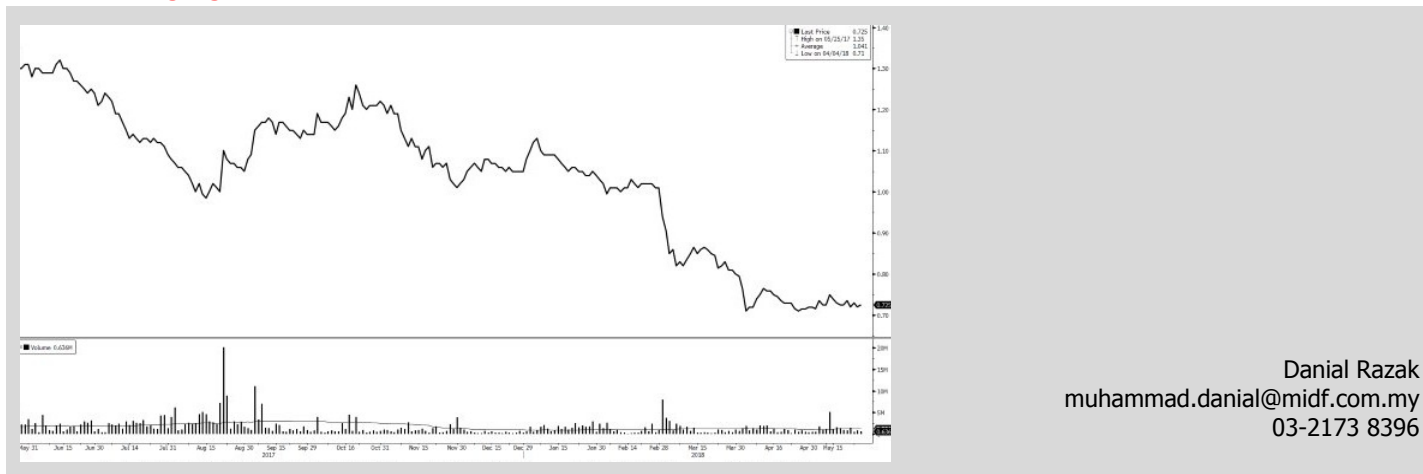
No impact to earnings. We are not revising our earnings forecast at this juncture, given the results was within expectations.

Valuation. We see green shoots of earnings recovery for the company, stemming from its active initiatives of technologically-driven, customer segmentation and product innovation strategies. Its long term business arrangement with AirAsia and Tune Hotel, will continue to provide support to the company's business from its access to a substantial pool of client database that is continuously expanding. Also, we believe AirAsia's aggressive capacity expansion to bode well with the recovery of its travel insurance business, stemming from higher expectation of passenger carried by AirAsia. Given this optimism, we maintain our **BUY** call on Tune Protect with an adjusted TP of RM1.10 (from RM1.26) as we rollover our valuation to FY 19. We are adjusting the TP lower due to pegging its EPS to a lower PER of 12x based on 1-std below 2-year average. Previously we had pegged our TP to PER of 14x based on 2-year historical average. We believe that due to structural changes in the airline sector since 2016, we believe that there might be lingering uncertainties to the travel insurance business. Hence, we opine the lower PER accorded to the stock currently is justified. 

INVESTMENT STATISTICS

FYE Dec	FY15	FY16	FY17	FY18F	FY19F
Operating revenue (RM'm)	480.2	516.6	542.6	567.2	582.4
Net earned premiums (RM'm)	303.8	333.0	321.3	335.9	344.9
Pre-tax profit (RM'm)	76.5	94.7	52.9	76.6	81.6
Normalised PATAMI (RM'm)	69.0	80.0	46.0	68.1	69.9
<i>Vs. consensus estimate (RM'm)</i>	-	-		55.7	63.2
Diluted EPS (sen)	9.2	10.6	6.1	9.0	9.3
EPS growth (%)	1.1	15.2	-42.3	47.7	2.6
PER (x)	7.9	6.8	11.8	8.0	7.8
Net dividend (sen)	5.0	4.2	3.0	5.0	6.0
Net dividend yield (%)	6.9	5.8	4.1	6.9	8.3
Book value (sen)	60.0	66.0	66.8	90.1	91.1
PBV (x)	1.2	1.1	1.1	0.8	0.8
ROE (%)	14.8	16.0	9.2	13.3	13.3
ROA (%)	6.0	6.9	3.6	6.3	6.3

DAILY PRICE CHART



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Source: Bloomberg, MIDFR

1QFY18 Results Summary

FYE Dec (RM'm)	Quarterly Results					Cumulative		
	1Q18	1Q17	4Q17	YoY	QoQ	3M18	3M17	YoY
Operating revenue	143.0	130.1	138.5	9.9%	3.2%	143.0	130.1	9.9%
Gross earned premiums	136.4	125.1	130.4	9.1%	4.6%	136.4	125.1	9.1%
Net earned premiums	73.7	77.1	80.8	-4.4%	-8.7%	73.7	77.1	-4.4%
Investment income	6.5	5.0	8.1	30.3%	-19.2%	6.5	5.0	30.3%
Fee and commission income	17.5	14.6	9.4	20.1%	85.9%	17.5	14.6	20.1%
Other revenue	23.6	20.3	18.1	16.1%	29.9%	23.6	20.3	16.1%
Gross claims paid	-46.0	-42.2	-59.8	9.0%	-23.1%	-46.0	-42.2	9.0%
Claims ceded to reinsurers	16.6	15.1	20.6	10.2%	-19.0%	16.6	15.1	10.2%
Gross change to contract liabilities	-24.5	-14.9	-15.6	64.0%	57.1%	-24.5	-14.9	64.0%
Change to contract liabilities ceded	27.8	10.1	18.0	175.3%	54.1%	27.8	10.1	175.3%
Net claims	-26.0	-31.9	-36.8	-18.4%	-29.2%	-26.0	-31.9	-18.4%
Fee and commission expenses	-26.4	-22.0	-18.2	20.3%	45.4%	-26.4	-22.0	20.3%
Management expenses	-24.6	-28.5	-34.5	-13.6%	-28.8%	-24.6	-28.5	-13.6%
Other expenses	-51.8	-51.0	-54.6	1.6%	-5.2%	-51.8	-51.0	1.6%
Share of associates and JV	0.8	0.6	1.3	40.6%	-41.2%	0.8	0.6	40.6%
Profit before tax	20.2	15.1	8.9	34.4%	128.5%	20.2	15.1	34.4%
Taxation	-2.0	-1.7	0.4	19.3%	-610.7%	-2.0	-1.7	19.3%
PATAMI	16.6	11.9	8.4	38.8%	98.4%	16.6	11.9	38.8%
Diluted EPS	2.2	1.6	1.1	38.4%	98.2%	2.2	1.6	38.4%
	1Q18	1Q17	4Q17	+/- ppts	+/- ppts	3M18	3M17	+/- ppts
Net Claims ratio	35.3%	41.4%	45.5%	-6.1	-10.2	35.3%	41.4%	-6.1
Management expenses ratio	33.3%	36.9%	42.7%	-3.6	-9.4	33.3%	36.9%	-3.6
Commission expense ratio	12.1%	9.6%	10.9%	2.5	1.3	12.1%	9.6%	2.5
Combined ratio	80.8%	87.9%	99.1%	-7.1	-18.3	80.8%	87.9%	-7.1
Retention ratio	54.1%	61.7%	61.9%	-7.6	-7.9	54.1%	61.7%	-7.6

Source: Bloomberg, 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.