30 August 2018 | 2QFY18 Result Review

Tune Protect Group Berhad
Compelling growth story for the long term

***Maintain* BUY**
***Adjusted* Target Price (TP): RM1.04 (from RM1.10)**

INVESTMENT HIGHLIGHTS

- **1HFY18 PATAMI slightly below our expectation**
- **Combined ratio improved**
- **Positive trajectory remained intact**
- **Maintain BUY with adjusted TP of RM1.04**

PATAMI in 1HFY18 slightly below our expectation. Tune Protect reported 1HFY18 PATAMI of RM29.4m, a growth of +17.8%yoy. The earnings accounted for 43.1% and 50.0% of ours and consensus' FY18 full year estimates respectively. The growth in earnings was due to improvement in underwriting profits, which increased +42.0%yoy. This followed from the drop in net claims (-20.1%yoy) and management expenses (-5.2%yoy). In 2QFY18, we noted that underwriting profit was up by +22.0%yoy.

1HFY18's combined ratio improved as it fell by -4.6ppts(yoy) to 86.8%. Net claims ratio staged a robust improvement where it fell -6.3ppts(yoy), due to favourable claim environment in the period. Overall, the combined ratio displayed a healthy cost structure in 1HFY18, standing at 86.8%, which was better than the past two years average ratio.

GWP growth driven by travel business... Travel business grew its top line by +8.4%yoy to RM56.8m in 1HFY18. It was mainly driven by AirAsia passengers, contributing 79.5% of the growth contribution. According to management, improvement in the travel business was attributable to the product bundling initiative. Given this enrichment to existing offerings, we expect further progression in earnings, following the group's launch of dynamic pricing 2.0 in 2HFY18.

...but PAT jabbed by the segment's higher combined ratio. While GWP of travel business displayed healthy performance in 1HFY18, we are cognizant of the -2.4%yoy lower PAT contribution at RM24.2m. This was due to higher combined ratio of 58.8%, driven by higher net claims and impairment loss on insurance receivables.

Firm prospect in the long term. We believe as the company remained focus for a leaner cost structure, the group's earnings prospect will continue to be driven by new revenue-generating initiatives, which includes the roll out of innovative pricing mechanism. Notably, the Dynamic Pricing 2.0 initiative is expected to add 3-5% in incremental revenue in the first year of its launch.

RETURN STATS	
Price (29 August 2018)	RM0.86
Target Price	RM1.04
Expected Share Price Return	+20.9%
Expected Dividend Yield	+7.0%
Expected Total Return	+27.9%

STOCK INFO	
KLCI	1,820.64
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)	646.5
Price over NTA	1.32x
52-wk price Range	RM0.71 – RM1.26
Beta (against KLCI)	0.70x
3-mth Avg Daily Vol	2.65m
3-mth Avg Daily Value	2.35m
Major Shareholders (%):	
Tune Group	15.77
AirAsia Berhad	13.65
CIMB SI II S/B	9.40
KWAP	8.52

Banking on AirAsia's fleet expansion. Moving forward, we believe that the group will continue to drive top-line earnings as AirAsia increases capacity. Consequently**,** it is expected to provide further excitement on the group's travel insurance business. We believe the recent orders of 34 more A330neo by AirAsiaX will lend additional support in the long term. This is taking into account the potential increase of long-haul passengers flown by AirAsiaX, who have higher tendency to purchase travel insurance plan.

Adjustment in earnings. Given that earnings came in slightly below our expectation, we fine-tune our earnings for FY18F and FY19F, reducing the PATAMI by -8.5% and -6.0% respectively.

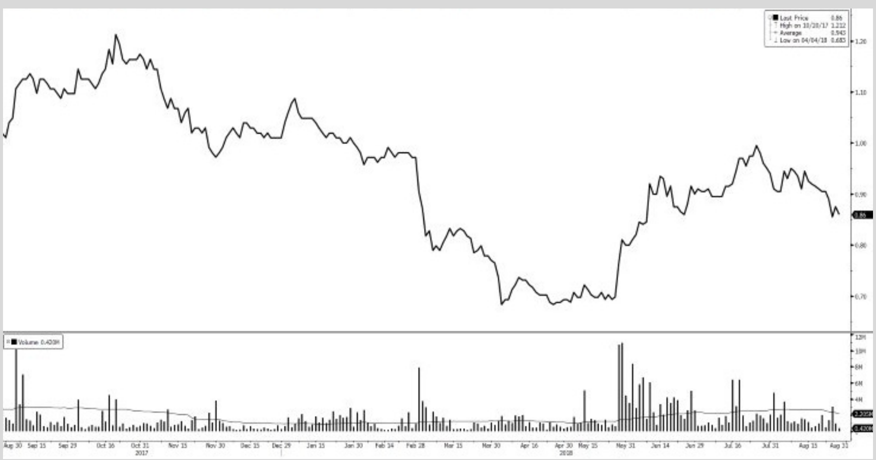
Valuation. While earnings were adjusted downwards, our positive view on the stock remained influenced by the group's long term strategic plans. Given this confidence, we maintain our **BUY** call on Tune Protect with an adjusted TP of RM1.04 (from RM1.10). This is pegging its EPS to PER of 12x based on 1-SD below 2-year average.

INVESTMENT STATISTICS

FYE Dec	FY15	FY16	FY17	FY18F	FY19F
Operating revenue (RM'm)	480.2	516.6	542.6	559.2	575.4
Net earned premiums (RM'm)	303.8	333.0	321.3	333.9	341.2
Pre-tax profit (RM'm)	76.5	94.7	52.9	72.4	76.3
Normalised PATAMI (RM'm)	**69.0**	**80.0**	**46.0**	**62.3**	**65.7**
Vs. consensus estimate (RM'm)	-	-	-	*55.7*	*63.2*
Diluted EPS (sen)	9.2	10.6	6.1	8.3	8.7
EPS growth (%)	1.1	15.2	-42.3	35.2	5.4
PER (x)	7.9	6.8	11.8	8.8	8.3
Net dividend (sen)	5.0	4.2	3.0	5.0	6.0
Net dividend yield (%)	6.9	5.8	4.1	5.8	7.0
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

Source: Company, MIDFR

DAILY PRICE CHART



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Source: Bloomberg, MIDFR

2QFY18 Results Summary

FYE Dec (RM'm)	Quarterly Results					Cumulative		
	2Q18	**2Q17**	**1Q18**	**YoY**	**QoQ**	**6M18**	**6M17**	**YoY**
Operating revenue	**141.3**	**133.9**	**143.0**	**5.5%**	**-1.2%**	**284.2**	**264.0**	**7.7%**
Gross earned premiums	134.0	128.3	136.4	4.5%	-1.8%	270.4	253.3	6.8%
Net earned premiums	**73.2**	**80.9**	**73.7**	**-9.6%**	**-0.7%**	**146.9**	**158.1**	**-7.0%**
Investment income	7.3	5.6	6.5	29.1%	11.2%	13.8	10.6	29.6%
Fee and commission income	10.6	8.4	17.5	26.9%	-39.2%	28.1	22.9	22.6%
Other revenue	**18.7**	**15.8**	**23.6**	**18.2%**	**-20.5%**	**42.2**	**35.7**	**18.3%**
Gross claims paid	-54.7	-43.1	-46.0	26.9%	19.0%	-100.7	-85.3	18.1%
Claims ceded to reinsurers	24.4	15.1	16.6	61.7%	46.5%	41.0	30.2	35.9%
Gross change to contract liabilities	-6.1	-9.1	-24.5	-33.7%	-75.3%	-30.6	-24.1	26.9%
Change to contract liabilities ceded	6.2	-1.3	27.8	-581.7%	-77.6%	34.0	8.8	286.4%
Net claims	**-30.2**	**-38.5**	**-26.0**	**-21.5%**	**15.9%**	**-56.2**	**-70.4**	**-20.1%**
Fee and commission expenses	-20.8	-20.0	-26.4	4.1%	-21.2%	-47.3	-42.0	12.6%
Management expenses	-27.6	-26.5	-24.6	3.8%	12.1%	-52.1	-55.0	-5.2%
Other expenses	**-48.7**	**-46.6**	**-51.8**	**4.6%**	**-6.0%**	**-100.4**	**-97.1**	**3.4%**
Share of associates and JV	0.5	1.3	0.8	-63.9%	-39.4%	1.3	1.9	-32.9%
Profit before tax	**13.6**	**13.1**	**20.2**	**3.4%**	**-33.1%**	**33.8**	**28.2**	**20.0%**
Taxation	-0.1	-0.3	-2.0	-57.9%	-92.8%	-2.1	-1.3	60.7%
PATAMI	**12.8**	**13.0**	**16.6**	**-1.5%**	**-22.7%**	**29.4**	**24.9**	**17.8%**
Diluted EPS	**1.7**	**1.7**	**2.2**	-1.7%	-22.7%	**3.9**	3.3	17.8%
	2Q18	**2Q17**	**1Q18**	**+/- ppts**	**+/- ppts**	**6M18**	**6M17**	**+/- ppts**
Net Claims ratio	41.2%	47.5%	35.3%	-6.3	5.9	38.3%	44.5%	-6.3
Management expenses ratio	37.6%	32.8%	33.3%	4.9	4.3	35.5%	34.8%	0.7
Commission expense ratio	13.9%	14.4%	12.1%	-0.4	1.8	13.0%	12.0%	1.0
Combined ratio	92.8%	94.7%	80.8%	-1.9	12.0	86.8%	91.4%	-4.6
Retention ratio	54.6%	63.1%	54.1%	-8.5	0.6	54.3%	62.4%	-8.1

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 *rise* 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 *fall* 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.