

01 March 2018 | 4QFY17 Results Review

## Tune Protect Group Berhad

*New initiatives provide headroom for growth*

**Maintain BUY**

**Revised Target Price (TP): RM1.26**  
(from RM1.42)

### INVESTMENT HIGHLIGHTS

- Tune's FY17 PATAMI came in at RM46.0m
- Cumulative earnings were dragged down by higher overall claim expenses
- Topline numbers showing positive signs
- Earnings revision to FY18 and FY19
- Maintain BUY with adjusted TP of RM1.26

**Lower cumulative PATAMI.** Tune Protect recorded FY17's normalised PATAMI of RM46.0m, dropping by -42.4%yoy. The earnings accounted for 70.9% and 78.7% of ours and consensus FY17 full year estimates respectively, which is below our expectation. Despite an increase in the group's FY17 gross earned premiums of +6.0%, earnings declined substantially partially due to higher overall claim expenses and higher impairment provision in FY17.

**Claims incurred were seen higher for FY17...** In comparison to the same period last year, FY17 gross claims paid grew by +5.1%yoy due to higher claims in Fire and PA segments. In terms of the group's net claims incurred, it was up by +24.3%yoy for FY17. This translated to FY17 net claims ratio of 43.8%, an increase of +9.8ppts yoy. The increase in ratio did not come as a surprise considering that the recent floods in Penang had given rise to flood claims. Despite the presence of such the natural catastrophe in FY17, we believe the claims ratio were still manageable, given that the group's 4-year historical average ratio was at ~40.0%. Notably, higher expenses had led up to the increase of combined ratio for FY17, which went up by +10.8ppts to 94.0%. As a result, underwriting margin tumbled by -65.4% to RM19.4m.


**Topline numbers showing positive signs.** Despite the drop in earnings, it is noteworthy that gross written premiums grew by +3.3%yoy for FY17, continuing its positive topline momentum. This positive variance was driven by product bundling and business in Thailand. Moving forward, we believe the positive trajectory will continue to be driven by its various digital initiatives for higher customer acquisition.

RETURN STATS	
Price (28 Feb 2018)	RM1.01
Target Price	RM1.26
Expected Share Price Return	+24.8%
Expected Dividend Yield	+5.0%
<b>Expected Total Return</b>	<b>+29.7%</b>

STOCK INFO	
KLCI	1,856.20
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)	759.3
Price over NTA	1.62x
52-wk price Range	RM0.98 – RM1.62
Beta (against KLCI)	0.77x
3-mth Avg Daily Vol	1.05m
3-mth Avg Daily Value	1.10m
Major Shareholders (%):	
Tune Group	15.77
AirAsia Berhad	13.65
CIMB SI II S/B	9.40
KWAP	8.62

**Deploying efforts to more lucrative segments of insurance business.** Despite the FY17 earnings were impacted by notable increase in claim expenses, we remain positive on the prospect of earnings performance moving forward as the group selectively grow preferred line of business in CAR, Bonds and Foreign Workers protection. Collectively, the group's general insurance business achieved +5.4% full year growth for Gross Written Premium, outpacing the industry's growth. We are also encouraged to see that the group is constantly working on new areas of growth, to best align with its digital agenda. Notably, the group is now working towards increasing its presence in the global Insurtech space (i.e. use of technology innovations designed to extract savings and efficiency from the current insurance industry model), as it plans to introduce P2P insurance model in ASEAN market in the near term.

**Earnings adjusted downwards.** While we believe the business trajectory to remain positive, we revise our forecasts downward by -9.6% and -22.6% for FY18 and FY19 respectively due to the higher insurance claims and management expenses..

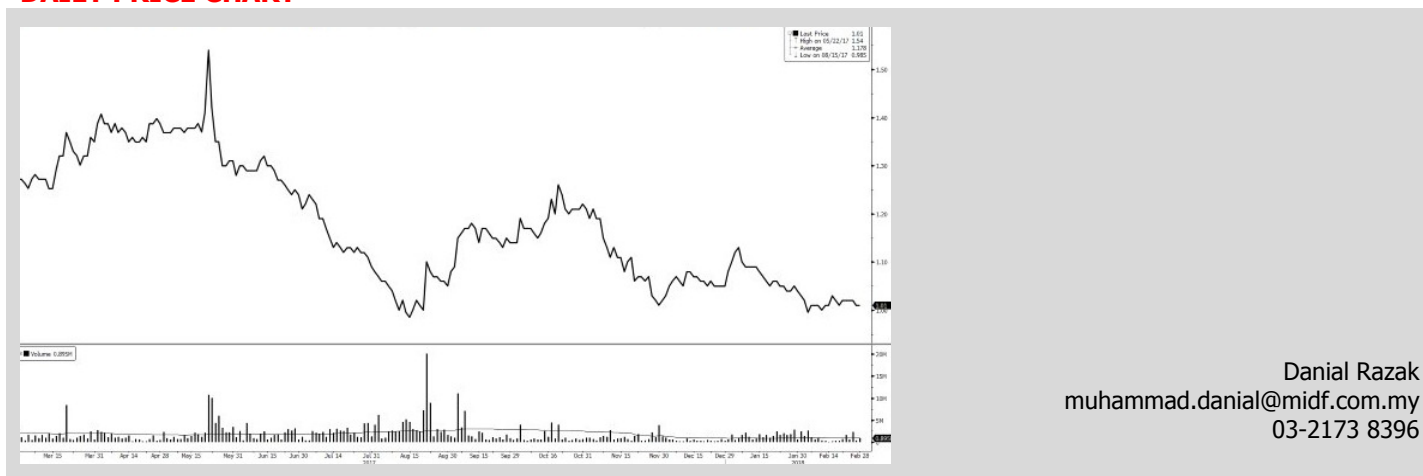
**Valuation.** Moving forward, we view that Tune Protect's new initiatives in technology, customer segmentation and product innovation will add more headroom for the business to grow. This will be further supported by its long term arrangement with AirAsia and Tune Hotels, allowing TIH an access to a substantial pool of client database. 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 RM1.26 (from RM1.42), pegging it FY18EPS to PER of 14x. We adjust our TP due to the revision to our FY18 earnings. We believe any retracement in the share price as a good opportunity for investors to accumulate its shares. 

## INVESTMENT STATISTICS

FYE Dec	FY15	FY16	FY17A	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
<b>Normalised PATAMI (RM'm)</b>	<b>69.0</b>	<b>80.0</b>	<b>46.0</b>	68.1	69.9
<i>Vs. consensus estimate (RM'm)</i>	-	-	-	67.8	74.0
Diluted EPS (sen)	9.2	10.6	6.1	9.1	9.3
EPS growth (%)	1.1	15.2	-42.3	47.9	2.7
PER (x)	11.0	9.5	16.5	11.2	10.9
Net dividend yield (%)	5.0	4.2	5.0	5.0	5.9
Book value (sen)	60.0	66.0	66.8	85.3	91.1
PBV (x)	1.7	1.5	1.5	1.2	1.1
ROE (%)	14.8	16.0	8.4	11.4	13.2
ROA (%)	6.0	6.9	3.5	4.8	5.9

Source: Company, forecasts by MIDFR

## DAILY PRICE CHART



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Source: Bloomberg, MIDFR

## 4QFY17 Results Summary

FYE Dec (RM'm)	Quarterly Results					Cumulative		
	4Q17	4Q16	3Q17	YoY	QoQ	FY17	FY16	YoY
<b>Operating revenue</b>	<b>138.5</b>	<b>135.5</b>	<b>140.1</b>	<b>2.3%</b>	<b>-1.1%</b>	<b>542.6</b>	<b>516.6</b>	<b>5.0%</b>
Gross earned premiums	130.4	127.2	131.5	2.5%	-0.8%	515.3	486.3	6.0%
<b>Net earned premiums</b>	<b>80.8</b>	<b>84.7</b>	<b>82.5</b>	<b>-4.7%</b>	<b>-2.1%</b>	<b>321.3</b>	<b>333.0</b>	<b>-3.5%</b>
Investment income	8.1	8.2	8.6	-1.8%	-5.7%	27.3	30.3	-9.8%
Fee and commission income	9.4	6.8	8.3	38.0%	12.8%	40.7	29.0	40.4%
<b>Other revenue</b>	<b>18.1</b>	<b>18.5</b>	<b>18.7</b>	<b>-1.9%</b>	<b>-3.1%</b>	<b>72.5</b>	<b>64.0</b>	<b>13.3%</b>
Gross claims paid	-59.8	-47.5	-41.1	25.7%	45.4%	-186.2	-177.2	5.1%
Claims ceded to reinsurers	20.6	11.8	10.6	74.6%	94.1%	61.3	73.1	-16.1%
Gross change to contract liabilities	-15.6	-3.9	-12.3	303.6%	27.2%	-51.9	29.1	-278.6%
Change to contract liabilities ceded	18.0	2.5	9.2	615.5%	95.6%	36.1	-38.2	-194.4%
<b>Net claims</b>	<b>-36.8</b>	<b>-37.1</b>	<b>-33.6</b>	<b>-0.9%</b>	<b>9.6%</b>	<b>-140.7</b>	<b>-113.2</b>	<b>24.3%</b>
Fee and commission expenses	-18.2	-21.1	-20.4	-14.0%	-10.7%	-80.5	-85.7	-6.1%
Management expenses	-34.5	-29.1	-31.9	18.7%	8.0%	-121.4	-107.1	13.4%
<b>Other expenses</b>	<b>-54.6</b>	<b>-50.5</b>	<b>-53.0</b>	<b>8.1%</b>	<b>3.0%</b>	<b>-204.8</b>	<b>-193.2</b>	<b>6.0%</b>
Share of associates and JV	1.3	1.2	1.3	10.0%	6.2%	4.5	4.0	11.7%
<b>Profit before tax</b>	<b>8.9</b>	<b>16.8</b>	<b>15.9</b>	<b>-47.3%</b>	<b>-44.2%</b>	<b>52.9</b>	<b>94.7</b>	<b>-44.1%</b>
Taxation	0.4	0.5	-1.9	-23.9%	-120.2%	-2.9	-8.1	-64.4%
<b>PATAMI</b>	<b>8.4</b>	<b>16.5</b>	<b>12.7</b>	<b>-49.5%</b>	<b>-34.4%</b>	<b>46.0</b>	<b>80.0</b>	<b>-42.4%</b>
Diluted EPS	1.1	2.2	1.7	-49.5%	-34.3%	6.1	10.6	-42.5%
	<b>4Q17</b>	<b>4Q16</b>	<b>3Q17</b>	<b>+/- ppts</b>	<b>+/- ppts</b>	<b>FY17</b>	<b>FY16</b>	<b>+/- ppts</b>
Net Claims ratio	45.5%	43.8%	40.7%	1.7	4.8	43.8%	34.0%	9.8
Management expenses ratio	42.7%	34.3%	38.7%	8.4	4.0	37.8%	32.2%	5.6
Commission expense ratio	10.9%	16.9%	14.6%	-6.1	-3.7	12.4%	17.0%	-4.7
Combined ratio	99.1%	95.0%	94.0%	4.1	5.1	94.0%	83.2%	10.8
Retention ratio	61.9%	66.6%	62.7%	-4.7	-0.8	62.4%	68.5%	-6.1

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 <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.