

14 August 2017 | Corporate Update

Syarikat Takaful Malaysia Berhad

Conversion of Composite License

Maintain BUY
Unadjusted Target Price (TP): RM4.90

INVESTMENT HIGHLIGHTS

- **The company was granted approval from BNM to operate in separate entities**
- **Expected to complete by the 2QCY18**
- **Benefit the company in the long run**
- **At this juncture, business fundamental remains intact**
- **Maintain BUY with unadjusted TP of RM4.90**

Since establishment in 1985, the company has been operating under composite license which allowed the operation of both its family and general insurance businesses. Following a requirement under Sections 16(1) and 286 of the IFSA 2013 (refer Exhibit 3 and Exhibit 4), the company is subject to structural reorganization, once completed will require STMB to operate under separate licenses for family takaful and general takaful products.

Pursuant to Bursa's announcement on 10th August 2017, we note that Bank Negara has approved the proposed reorganization submitted by the company in December 2016. As such, the central bank will issue family takaful business license to STMB under its new name Syarikat Takaful Malaysia Keluarga Berhad and another license for general takaful business to a new company named Syarikat Takaful Am Berhad, wholly owned subsidiary of STMKB.

The proposal is expected to complete by the second quarter of next year, pending further approval from shareholders and authorities (Refer Exhibit 1 and Exhibit 2).

Business fundamental remains intact. The company is expected to experience marginal increase in its management expenses, stemming from the need to hire more staffs to sustain the group's operation moving forward. However, we opine that the Proposed Reorganization will keep the business fundamental intact, leaving no adverse impact to the top line numbers. This is premised on the growing demand of takaful products and positive development of Islamic finance in the local market. Interestingly, we note that the growth in earnings of takaful operators has consistently outperformed the conventional insurers' over the past few years and we expect that this trend will continue.

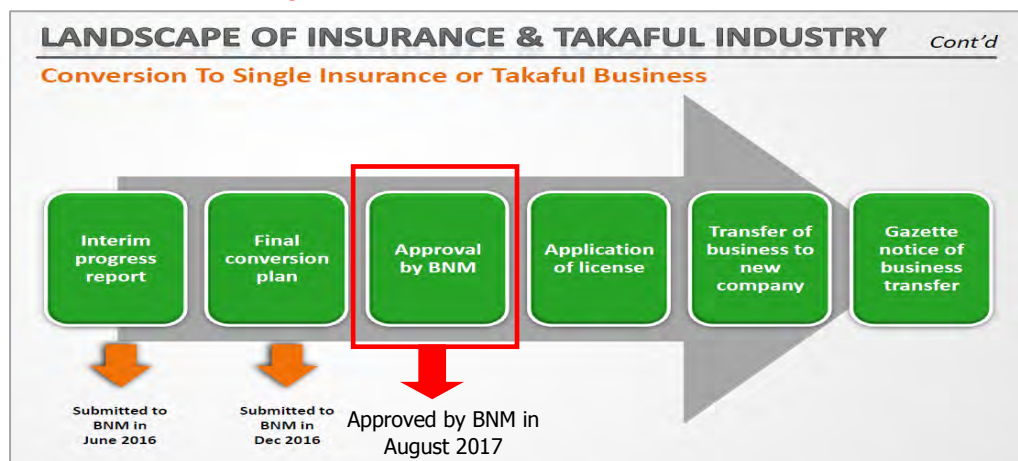
Benefit the company in the long run. In light of the announcement, we believe that this exercise will benefit Syarikat Takaful in the long run and enhance its prospect as one of the biggest takaful provider in Malaysia. We understand that the said exercise will potentially create minor changes to current operation, to adapt with the transformation.

RETURN STATS	
Price (11 August 2017)	RM3.96
Target Price	RM4.90
Expected Share Price Return	+23.7%
Expected Dividend Yield	+10.1%
Expected Total Return	+33.8%

STOCK INFO	
KLCI	1766.96
Bursa / Bloomberg	1818 / Bursa MK
Board / Sector	Main / Finance
Shariah Compliant	Yes
Issued shares (mil)	823.1
Par Value (RM)	0.20
Market cap. (RM'm)	3259.70
Price over NA	4.09
52-wk price Range	3.80-4.37
Beta (against KLCI)	0.57
3-mth Avg Daily Vol	0.21
3-mth Avg Daily Value	0.84
Major Shareholders (%)	
BIMB Holdings	59.7%
EPF	12.3%
Islamic Development Bank	4.3%

In terms of the group's financial structure, the management has indicated that share capital and net gearing will be maintained at current level.

Exhibit 1: Conversion process



Source: Syarikat Takaful Malaysia Berhad

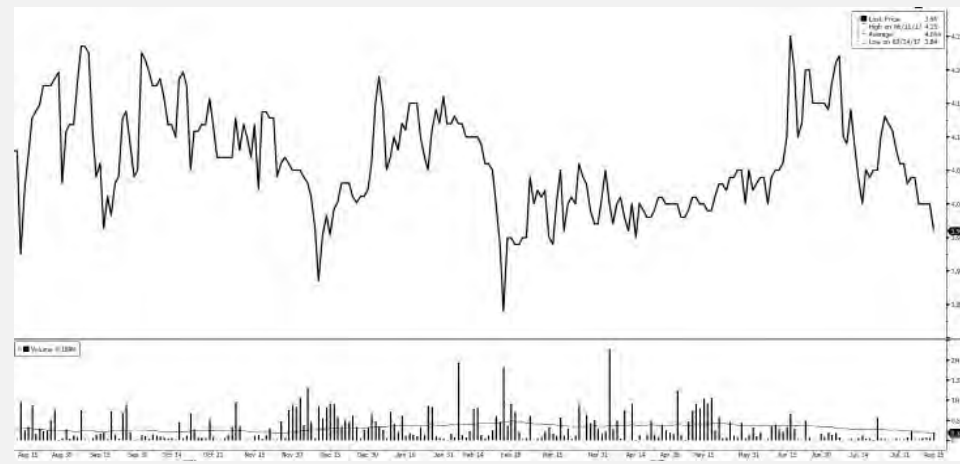
Recommendation. Although we believe the impact of this proposed reorganization would be minimal, we do not discount of possible adjustment to the group's new internal CAR target and expected future CAPEX, as a result of license conversion. However, at current juncture, we make no changes to our assumptions and expectations given the minimal impact from this news. We continue to like STMB based on the above mentioned points. Our BUY call on the stock remains with unchanged TP of RM4.90.

INVESTMENT STATISTICS

FYE Dec	FY15	FY16	FY17F	FY18F
Revenue (RM'm)	518.5	506.8	546.2	581.9
EBITDA (RM'm)	302.5	294.8	316.3	349.9
Pre-tax Profit (RM'm)	278.8	270.6	293.2	327
PATAMI (RM'm)	198.6	193.6	208.8	232.6
<i>Vs. Consensus Estimate (RM'm)</i>	-	-	196.3	215.0
EPS (sen)	37.0	36.0	38.9	43.4
EPS growth (%)	-0.1	-2.7	8.1	11.6
PER (x)	10.7	11.0	10.2	9.1
Dividend (sen)	34.5	34	36	39.9
Dividend Yield (%)	8.7	8.6	9.1	10.1

Source: Company, MIDFR

DAILY PRICE CHART



Research Team
research@midf.com.my
03-2772 1668

Source: Bloomberg, MIDFR

APPENDIX

Exhibit 2: Approvals required

Approvals required:

In addition to the approvals obtained via the BNM Approval Letter, the Proposed Reorganisation is also subject to the following being obtained:

1. BNM's approval for STMB and NewCo to enter into proposed shared services arrangement and for the outsourcing of certain core activities by NewCo to STMB;
2. an order of the High Court of Malaya confirming the Scheme of Transfer;
3. approval of the shareholders of STMB for the Proposed Name Change for STMB at a general meeting to be convened;
4. certain rulings and confirmations from the Inland Revenue Board of Malaysia and the Royal Malaysian Customs Department; and
5. approvals from any other relevant authorities and/or parties, if required.

Source: Bursa Malaysia

Exhibit 3: Section 16(1) of IFSA 2013

Licensed takaful operator to carry on family takaful or general takaful business

16. (1) A licensed takaful operator, other than a licensed professional retakaful operator, shall not carry on both family takaful business and general takaful business.

Source: Islamic Financial Services Act 2013

Exhibit 4: Section 286 of IFSA 2013

Conversion to single takaful business

286. A licensed takaful operator, other than a licensed professional retakaful operator, lawfully carrying on both family and takaful business and general takaful business under the repealed Takaful Act 1984 shall comply with subsection 16(1) within five years of the appointed date or such longer period as may be specified by the Minister, on the recommendation of the Bank, by notice in writing to the licensed takaful operator upon its written application before the expiry of the five year.

Source: Islamic Financial Services Act 2013

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).

(Bank Pelaburan)

(A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% 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.