

## COMPANY UPDATE

### Syarikat Takaful Malaysia Keluarga (STMB MK)

#### Growth Momentum Intact

After yesterday's meeting with STMB, we are now fairly optimistic of the group's recovery prospects in 2022. More importantly, management has reaffirmed that the risk of a cash call remains low while current dividend can be maintained even under the MFRS17 regime, which has been one of the lingering concerns of the investment community. Maintain BUY and target price of RM4.80 (12.0x 2022F PE), in line with its 10-year historical mean.

#### WHAT'S NEW

- Premium growth remains robust.** Management alluded that overall group premium growth momentum remains promising with 2H22 premium yoy growth likely to mirror 1H22's 13% growth rate. This is above our current 9% yoy full-year assumption and is hovering at the upper end of the group's 11-13% premium growth target. For 2023, management remains confident in sustaining a similar growth rate with a slight slowdown in Mortgage Reducing Term Takaful (MRTT) growth to be offset by stronger personal financing premium growth, while general takaful growth is likely to remain robust, underpinned by fire premium growth.
- General insurance an outperformer.** Syarikat Takaful Malaysia Keluarga (STMB) reported a 19% yoy growth in general takaful premium in 1H22. The strong growth was sustained by the non-motor segment (51% of general takaful premium base), and in particular fire, which is on track to record a 25% yoy growth in 2022. In comparison, conventional fire premium growth for the overall industry expanded at a much softer 4.6% yoy growth in 1H22. STMB's strategy to cross-sell its fire insurance products to its MRTT customers is bearing fruit. More importantly, this is an example of potential low-hanging cross-selling and upselling opportunities that STMB can tap on to sustain strong premium growth in the medium term.
- Family Takaful humming along.** Despite STMB's market leading position within the Family Takaful segment (bancatakaful and Lembaga Pembiayaan Perumahan Sektor Awam scheme (LPPSA)), management remains confident in sustaining a 10-13% premium growth, underpinned by its bancatakaful business (77% of Family Takaful premium). Within its bancatakaful business, personal financing takaful remains the main engine of growth, expanding 22% yoy in 1H22 while MRTT came in at 8% yoy. Defending its market-leading bancatakaful position will include retaining its key partners (Bank Rakyat, RHB, and Bank Islam) while increasing the wallet share of takaful products from its key Bancatakaful partners. As for LPPSA (50% share), STMB will continue to leverage on its strong distribution network.
- Diversifying out of single contribution business as an additional engine of long-term growth.** The group has a leading market share in the takaful single premium category (bancassurance and LPPSA), resulting in single premium products currently contributing 80-85% of the group's Family Takaful gross premium base. As such, management has set its sights on raising the contribution from regular premium products such as investment-linked products by enhancing its digital offerings of such products.

#### KEY FINANCIALS

| Year to 31 Dec (RMm)       | 2020    | 2021    | 2022F   | 2023F   | 2024F   |
|----------------------------|---------|---------|---------|---------|---------|
| Gross written premiums     | 2,514.1 | 2,766.4 | 3,070.3 | 3,346.6 | 3,647.8 |
| Net earned premiums        | 2,073.0 | 2,243.1 | 2,486.9 | 2,710.7 | 2,954.7 |
| Underwriting profit/(loss) | 533.9   | 580.4   | 540.1   | 600.5   | 726.2   |
| Net profit (rep./act.)     | 362.4   | 411.4   | 323.1   | 389.4   | 438.0   |
| Net profit (adj.)          | 362.4   | 411.4   | 323.1   | 389.4   | 438.0   |
| EPS (sen)                  | 44.4    | 50.3    | 39.5    | 47.5    | 53.3    |
| PE (x)                     | 7.5     | 6.6     | 8.4     | 7.0     | 6.2     |
| Dividend yield (%)         | 3.6     | 3.6     | 4.7     | 5.7     | 6.0     |
| Total investment yield (%) | 6.5     | 7.5     | 6.6     | 6.4     | 6.1     |
| Combined ratio (%)         | 70.9    | 73.0    | 77.1    | 76.7    | 75.4    |
| ROE (%)                    | 26.5    | 25.5    | 17.8    | 19.2    | 19.3    |
| Consensus net profit       | -       | -       | 327.0   | 369.0   | 394.0   |
| UOBKH/Consensus (x)        | -       | -       | 1.0     | 1.1     | 1.1     |

Source: STMK, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

|              |        |
|--------------|--------|
| Share Price  | RM3.31 |
| Target Price | RM4.80 |
| Upside       | +45.0% |

#### COMPANY DESCRIPTION

Insurance service provider that offers life and property insurance products through its subsidiaries.

#### STOCK DATA

|                                 |            |
|---------------------------------|------------|
| GICS sector                     | Financials |
| Bloomberg ticker:               | STMB MK    |
| Shares issued (m):              | 837.3      |
| Market cap (Rmm):               | 2,771.5    |
| Market cap (US\$m):             | 609.2      |
| 3-mth avg daily t'over (US\$m): | 0.3        |

#### Price Performance (%)

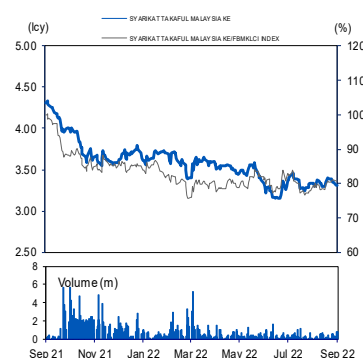
|                  |       |               |        |        |
|------------------|-------|---------------|--------|--------|
| 52-week high/low |       | Rm4.33/Rm3.15 |        |        |
| 1mth             | 3mth  | 6mth          | 1yr    | YTD    |
| (0.6)            | (1.8) | (2.6)         | (23.0) | (10.5) |

#### Major Shareholders

|     |      |
|-----|------|
| LTH | 28.2 |
| EPF | 11.8 |

|                     |      |
|---------------------|------|
| FY21 NAV/Share (Rm) | 2.33 |
|---------------------|------|

#### PRICE CHART



Source: Bloomberg

#### ANALYST(S)

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- **Expansion strategy.** The three areas STMB wants to expand further are: a) general takaful segment, b) retail business, along with c) digitalisation. For general takaful, management will employ a two-pronged strategy to grow gross earned contribution by embarking on product innovation and pushing for more online distribution. As for its retail business, the focus is on recurring gross earned premiums, where STMB sees low-hanging opportunities in this space and looks to capitalise via cross- and upselling; channel priorities are direct and digital, followed by Bancatakaful, given less intense investment outlay vs the agency model.
- **MFRS17 impact: Lower net profit offset by higher ROE.** Management alluded that the transition to MFRS17 from MFRS4 may see profit falling by 15-20% but ROE possibly jumping 6ppt due to retained profit reclassification to contractual service margin (CSM) liability, resulting in a 30-45% decline in book value. Also, MFRS17 profit is expected to normalise back to MFRS4 level within six years with only the booking of earned CSM profit, not including new business growth.
- **No changes to capital adequacy framework until 2025.** More importantly, despite the implementation of MFRS17 in 2023, Bank Negara Malaysia (BNM) has allowed insurers to continue applying the current Risk Based Capital Framework until 2025. This essentially allows the group to recognise its CSM liability as retained earnings and consequently, capital, which removes any risk of an equity cash call. We believe that BNM's intention is to allow insurance companies sufficient gestation period to build up their retained earnings post MFRS17 adoption, thereby reducing the risk of a cash call even when BNM eventually changes the capital adequacy framework on risk charge in 2025.
- **Maintaining dividend payouts even under MFRS17.** Management alluded that under the MFRS17 regime, they will still be able to sustain the 12 sen DPS that was paid out in 2020 and 2021. Overall, we continue to be nonchalant with the adoption of MFRS17, as the new accounting standard does not alter the business nature and cash flow of single contribution products, and does not require capital injection.

#### EARNINGS REVISION/RISK

- No change.

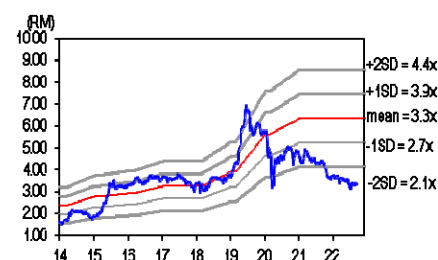
#### VALUATION/RECOMMENDATION

- **Maintain BUY and target price of RM4.80.** In an attempt to smoothen out the one-off impact of Cukai Makmur to our target price, we peg our valuations to an average of 2022 and 2023 earnings. Our target price is also based on a blended SOTP of P/B and PE, and implies a 12.0x 2022/23F EPS which is largely in line with its 10-year historical mean PE. The stock is trading at an undemanding -2.0SD to its historical 10-year mean PE, coupled with expectations of a recovery in premium trends in tandem with the economic reopening.

#### ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

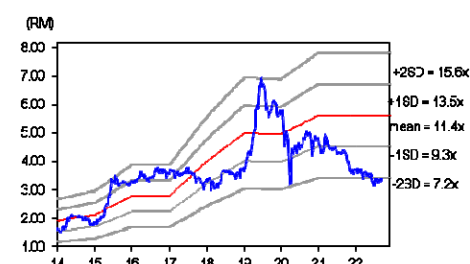
|  |   |
|--|---|
| <b>• Environmental</b>                                   |   |
| - <b>Reduce usage of water, electricity.</b>             | Management is committed to taking proactive measures to preserve the environment by setting targets to reduce the use of water, electricity and paper across the group.   |
| <b>• Social</b>  |   |
| - <b>Enhancing financial assistance to the needy.</b>    | The group has launched two programmes namely Takaful myJalinan Kasih and Takaful myJalinan Ilimu. The former programme aims to provide monetary assistance to the needy (eg orphans and single mothers), while the latter programme complements the work of school teachers by helping students to excel their studies. |
| <b>• Governance</b>                                      |   |
| - <b>Non-independent board of directors composition.</b> | The board consists of four independent non-executive directors and two non-independent non-executive directors.   |
| - <b>Tenure cap on directors.</b>                        | The group has also adopted a nine-year policy cap for its independent non-executive directors.  |

#### TRADING BELOW -2SD TO MEAN PBV



Source: STMK, UOB Kay Hian

#### TRADING AT -2SD TO MEAN PE



Source: STMK, UOB Kay Hian

#### VALUATION METRICS

|  | 2022F   | 2023F   |
|--|---------|---------|
| EPS (sen)  | 39.0    | 47.0    |
| Ascribed historical mean PER   | 12.0x   | 12.0x   |
| Fair valuation based on PE methodology (RM)                                      | RM 4.65 | RM 5.60 |
| Book value/share   | RM 2.32 | RM 2.60 |
| Ascribing P/B multiplier (Gordon growth derived, FY22: 19% ROE, FY23: 20.5% ROE) | 1.74x   | 1.92x   |
| Fair valuation based on P/B methodology  | RM 4.05 | RM 4.99 |
| Blended PE & P/B methodology   | RM 4.34 | RM 5.29 |
| TP:  | RM 4.80 |         |

Source: UOB Kay Hian

### PROFIT & LOSS

| Year to 31 Dec (RMm)              | 2021         | 2022F        | 2023F        | 2024F        |
|-----------------------------------|--------------|--------------|--------------|--------------|
| Gross written premiums            | 2,766        | 3,070        | 3,347        | 3,648        |
| Premium ceded to reinsurers       | (523)        | (583)        | (636)        | (693)        |
| <b>Net earned premiums</b>        | <b>2,243</b> | <b>2,487</b> | <b>2,711</b> | <b>2,955</b> |
| Reinsurance commission income     | 0            | 0            | 0            | 0            |
| Claims and insurance benefits     | (949)        | (1,169)      | (1,274)      | (1,359)      |
| G&A exp of insurance ops          | (239)        | (256)        | (267)        | (249)        |
| Other exp of insurance opss       | (475)        | (522)        | (569)        | (620)        |
| <b>Underwriting profit/(loss)</b> | <b>580</b>   | <b>540</b>   | <b>600</b>   | <b>726</b>   |
| Investment income                 | 429          | 495          | 505          | 515          |
| Interest inc. (Banking ops)       | 0            | 0            | 0            | 0            |
| Other income                      | 95           | 3            | 3            | 3            |
| G&A exp of non-insurance ops      | 0            | 0            | 0            | 0            |
| <b>Pre-tax profit</b>             | <b>439</b>   | <b>477</b>   | <b>510</b>   | <b>564</b>   |
| Tax                               | (27)         | (155)        | (122)        | (128)        |
| Minorities                        | (1)          | 1            | 2            | 2            |
| <b>Net profit</b>                 | <b>411</b>   | <b>323</b>   | <b>389</b>   | <b>438</b>   |
| Net profit (adj.)                 | 411          | 323          | 389          | 438          |

### BALANCE SHEET

| Year to 31 Dec (RMm)                  | 2021          | 2022F         | 2023F         | 2024F         |
|---------------------------------------|---------------|---------------|---------------|---------------|
| Cash                                  | 814           | 911           | 750           | 301           |
| Loans and advances                    | 2,848         | 2,946         | 3,072         | 3,199         |
| Investments (equity & fixed inc)      | 6,932         | 7,317         | 7,732         | 8,434         |
| Premiums receivables                  | 444           | 449           | 454           | 460           |
| Fixed assets (incl prop)              | 25            | 26            | 27            | 28            |
| Other assets                          | 1,547         | 1,807         | 2,345         | 2,936         |
| <b>Total assets</b>                   | <b>12,611</b> | <b>13,456</b> | <b>14,380</b> | <b>15,357</b> |
| Insurance payables                    | 1,087         | 1,152         | 1,220         | 1,292         |
| Insurance contract liabilities        | 9,778         | 10,365        | 10,987        | 11,646        |
| <b>Total liabilities</b>              | <b>10,865</b> | <b>11,517</b> | <b>12,207</b> | <b>12,938</b> |
| Shareholders' funds                   | 1,713         | 1,907         | 2,141         | 2,386         |
| Minority interest - accumulated       | 33            | 33            | 33            | 33            |
| <b>Total equity &amp; liabilities</b> | <b>12,611</b> | <b>13,456</b> | <b>14,380</b> | <b>15,357</b> |

### OPERATING RATIOS

| Year to 31 Dec (%)               | 2021 | 2022F | 2023F | 2024F |
|----------------------------------|------|-------|-------|-------|
| <b>Capital-related</b>           |      |       |       |       |
| Shareholders' funds/total assets | 13.6 | 14.2  | 14.9  | 15.5  |
| Total Assets/equity (x)          | 7.4  | 7.1   | 6.7   | 6.4   |
| <b>Liquidity</b>                 |      |       |       |       |
| Liquid assets/total assets       | 32.5 | 32.6  | 31.3  | 27.8  |
| <b>Valuation (%)</b>             |      |       |       |       |
| Adjusted P/E (x)                 | 6.8  | 8.7   | 7.2   | 6.4   |
| Dividend Yield                   | 3.5  | 4.6   | 5.5   | 5.8   |
| Payout ratio                     | 23.9 | 39.5  | 39.5  | 36.9  |

### KEY METRICS

| Year to 31 Dec (%)         | 2021  | 2022F  | 2023F | 2024F |
|----------------------------|-------|--------|-------|-------|
| <b>Growth</b>              |       |        |       |       |
| Gross premiums, yoy chg    | 10.0  | 11.0   | 9.0   | 9.0   |
| Investment income, yoy chg | (0.2) | 15.3   | 2.0   | 2.0   |
| Net profit, yoy chg        | 13.5  | (21.5) | 20.5  | 12.5  |
| <b>Profitability</b>       |       |        |       |       |
| Loss ratio                 | 42.3  | 47.0   | 47.0  | 46.0  |
| Expense ratio              | 30.7  | 30.1   | 29.7  | 29.4  |
| Combined ratio             | 73.0  | 77.1   | 76.7  | 75.4  |
| Net investment yield       | 7.5   | 6.6    | 6.4   | 6.1   |
| Total investment yield     | 7.5   | 6.6    | 6.4   | 6.1   |
| Reported ROE               | 25.5  | 17.8   | 19.2  | 19.3  |
| Adjusted ROE               | 25.5  | 17.8   | 19.2  | 19.3  |

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