7 May 2019

Financial Services | Insurance

Syarikat Takaful Malaysia Keluarga (STMB MK)

Buy (Maintained)

BUY This Pure Play to a Growing Segment

Target Price (Return)	MYR7.00 (+16%)
Price:	MYR6.02
Market Cap:	USD1,202m
Avg Daily Turnover (MYR/USD)	7.27m/1.76m

- **BUY, new MYR7.00 from MYR4.40, 16% upside with 3.5% FY19F yield.** We still like Syarikat Takaful Malaysia Keluarga (STMB) on: the overall low insurance penetration in Malaysia, *takaful* (Islamic insurance) growth outpacing that of the industry, STMB's deep moat in *takaful* via its strong *bancatakaful* channel, and its innovation in digitalising the business. It is trading at 4x FY20 P/BV. Our GGM-derived TP is based on c.4.4x FY20 P/BV (slightly above +1SD from historical mean), justified by rising ROE.
- **FY19-20 EPS revised by 24.3% and 37.2% to MYR0.42 and MYR0.47,** suggesting 17% and 13% EPS growth, on the back of robust growth in Family *takaful's* gross earned contribution (GEC) and *wakalah* fee income. ROE should be maintained at a high c.31% for FY19-20.
- **Low insurance penetration and a rising middle class** should be the structural drivers for insurance demand in Malaysia. The *S-curve* suggests that once a country's GDP/capita reaches USD10,000, the life insurance penetration rate (premium/GDP) should accelerate. With Malaysia's GDP/capita at c.USD10,600 in 2018, we see huge potential for the country to catch up with its more-developed regional peers. Also, a growing middle class bodes well for insurance demand on the back of higher disposable income and awareness on the need of insurance protection.
- **STMB's strong partnership with four major partners** (including Bank Islam, Bank Rakyat and Affin Bank) will continue to be the major contributor. According to management, STMB currently only commands c.1% of the total customer base of 4-5m customers from these four banks, which suggests enormous potential for the company. We also appreciate STMB's effort in integrating the banks' IT systems with its own which gives it an edge over other *takaful* operators.
- **Strong start to FY19.** STMB recorded robust 1Q19 numbers, thanks to its partnership with Bank Rakyat and strong *wakalah* fee income growth (1Q19: +32% YoY). Group GEC grew 39.7% YoY, largely driven by the Family segment. Claim ratio improved 8.7ppts sequentially (4Q18: 51.2%) due to lower claims incurred. The general segment's underlying loss narrowed to MYR7.2m (FY18: MYR31m).
- **Trading at 4x P/BV** after the YTD +60% rally in stock price. Our TP of MYR7.00 is derived using GGM. We admit that, given the stellar share price performance, there could be some profit-taking in the near term. That said, we believe the stock price remains on an upward trajectory over the medium-to-longer term on the abovementioned thesis.

Forecasts and Valuations	Dec-17	Dec 18	Dec 19F	Dec 20F	Dec 21F
Net earned contributions (MYRm)	1,521	1,942	2,185	2,390	2,614
Net contribution growth (%)	2.4	27.6	12.6	9.4	9.4
Recurring net profit (MYRm)	207	295	346	391	430
Net profit growth (%)	17.3	42.7	17.2	13.2	10.0
Recurring EPS (MYR)	0.25	0.36	0.42	0.47	0.51
DPS (MYR)	0.15	0.15	0.21	0.23	0.26
Recurring P/E (x)	24.0	16.9	14.5	12.8	11.7
P/BV (x)	6.0	5.0	4.4	3.8	3.4
Dividend Yield (%)	2.5	2.5	3.5	3.9	4.3
Return on average equity (%)	26.2	32.0	31.8	31.4	32.4
Return on average assets (%)	2.6	3.4	3.7	3.8	3.9

Source: Company, RHB

Analyst

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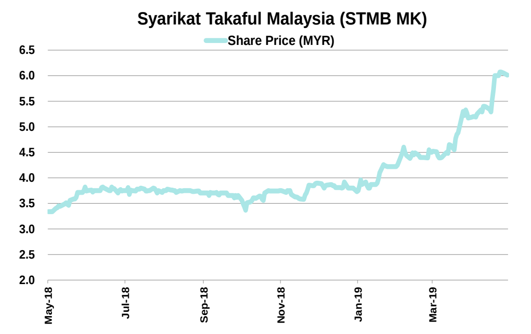
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	58.2	16.2	42.4	54.5	72.2
Relative	61.4	16.7	45.6	57.3	84.4
52-wk Price low/high (MYR)					3.35 – 6.20



Source: Bloomberg

Financial Exhibits

Asia
Malaysia
Financials Services
Syarikat Takaful Malaysia Keluarga
STMB MK
BUY

Valuation basis

Valuation based on GGM with the assumptions:
i. ROE of 31%;
ii. COE of 10.05%;
iii. Growth rate of 3.8%.

Key drivers

i. Low penetration rate with huge protection gap;
ii. Growing middle-class;
iii. High growth in Islamic finance/insurance; and
iv. Strong *bancatakaful* relationships

Key risks

i. Slowdown in insurance sales;
ii. Higher claim ratio;
iii. Lower investment returns

Company Profile

STMB is a pure Islamic insurance (*takaful*) company that offers both life and non-life insurance.

Financial summary	**Dec-17**	**Dec-18**	**Dec-19**	**Dec-20**	**Dec-21**
EPS	0.25	0.36	0.42	0.47	0.51
Core EPS	0.25	0.36	0.42	0.47	0.51
DPS	0.15	0.15	0.21	0.23	0.26
BVPS	1.00	1.19	1.38	1.57	1.79

Valuation metrics	**Dec-17**	**Dec-18**	**Dec-19**	**Dec-20**	**Dec-21**
Recurring P/E (x)	24.0	16.9	14.5	12.8	11.7
P/BV (x)	6.05	5.04	4.37	3.83	3.37
Dividend yield (%)	2.5	2.5	3.5	3.9	4.3

Income statement (MYR'm)	**Dec-17**	**Dec-18**	**Dec-19**	**Dec-20**	**Dec-21**
Gross earned premiums/contributions	1819	2294	2579	2814	3071
Reinsurance/retakaful ceded	(298)	(353)	(393)	(424)	(457)
Net earned premiums/contributions	1,521	1,942	2,185	2,390	2,614
Net investment income	321	243	332	362	390
Total operating income	1,765	2,273	2,547	2,780	2,614
Claims, maturities & surrenders	(841)	(952)	(1,070)	(1,149)	(1,259)
Agents' commissions	na	na	na	na	na
Management fees	(314)	(369)	(426)	(464)	(504)
Other operating costs	(210)	(252)	(281)	(304)	(328)
Cash operating costs	(485)	(569)	(655)	(710)	(769)
Overheads	(460)	(553)	(639)	(694)	(753)
Pretax profit	254	337	414	475	528
Taxation	(49)	(44)	(71)	(86)	(101)
Reported net profit	207	295	346	391	430
Recurring net profit	207	295	346	391	430

Profitability ratios	**Dec-17**	**Dec-18**	**Dec-19**	**Dec-20**	**Dec-21**
Retention ratio (%)	83.6	84.6	84.7	84.9	85.1
Claims ratio (%)	53.4	51.5	50.7	49.8	49.8
Commission ratio (%)	-	-	-	-	-
Expense ratio (%)	24.9	24.6	25.5	25.3	25.2
Combined ratio (%)	78.3	76.1	76.1	75.1	75.0
Underwriting margin (%)	21.7	23.9	23.9	24.9	25.0
Investment yield (%)	4.3	4.1	4.1	4.0	4.0
Return on average assets (%)	2.6	3.4	3.7	3.8	3.9
Return on average equity (%)	26.2	32.0	31.8	31.4	32.4
Dividend payout ratio (%)	59.7	41.9	50.0	50.0	50.0

Balance sheet (MYR'm)	**Dec-17**	**Dec-18**	**Dec-19**	**Dec-20**	**Dec-21**
Tangible fixed assets	8,158	8,895	9,736	10,574	11,485
Intangible assets	48	93	93	93	93
Total investments	7,133	7,800	8,604	9,406	10,278
Premiums receivable	172	139	156	169	184
Other assets	842	899	920	942	966
Cash at bank	921	1,006	1,097	1,269	1,457
Total assets	8,195	8,932	9,772	10,610	11,521
Long term insurance liabilities	6,710	7,128	7,656	8,212	8,817
Other liabilities	652	792	953	1,070	1,195
Total liabilities	7,361	7,919	8,609	9,282	10,012
Shareholders' equity	819	984	1,138	1,306	1,490
Total equity	833	1,012	1,164	1,328	1,509

Capital	**Dec-17**	**Dec-18**	**Dec-19**	**Dec-20**	**Dec-21**
Net premium income growth (%)	2.4	27.6	12.6	9.4	9.4
Net investment income growth (%)	9.3	(24.2)	36.4	9.0	7.7
Claims, maturities & surrenders growth (%)	(4.7)	13.2	12.4	7.4	9.6
Net profit growth (%)	17.3	42.7	17.2	13.2	10.0
EPS growth (%)	16.9	42.4	16.7	12.8	9.6

Source: Company data, RHB

Valuation

Robust earnings growth for FY19-20. We project earnings growth of 17% and 13% for FY19-20. This should be mainly driven by the Family segment's earnings growth of 34% and 14% for FY19-20 and 12% and 9% growth in *wakalah* fee income. For the General segment, we chose a rather conservative approach in our earnings forecasts, where we expect segmental losses to persist. We are not overly concerned by it, as our segmental breakdown and sensitivity analysis shows that the losses are still manageable.

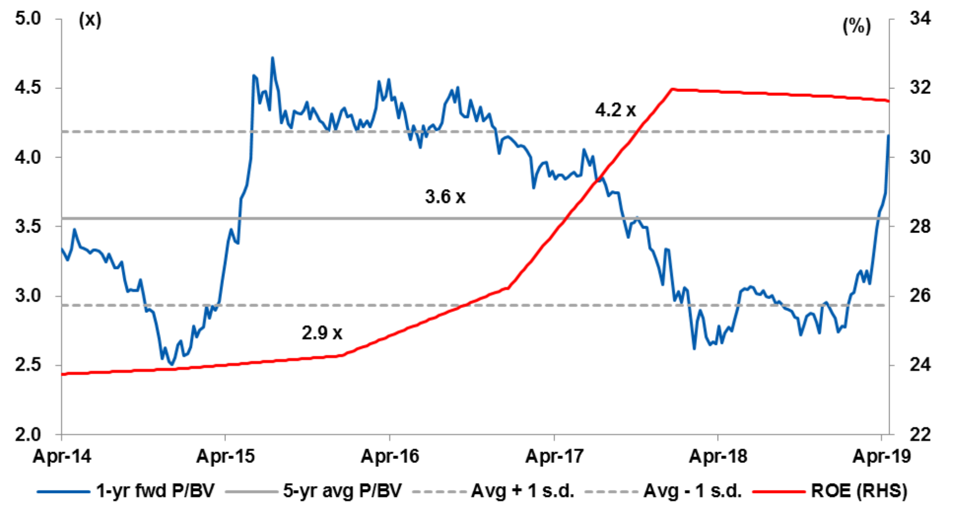
Figure 1: Earnings forecasts breakdown

Earnings drivers (growth)	Dec-17	Dec 18	Dec 19F	Dec 20F	Dec 21F
Group net premium	2.4%	27.6%	12.6%	9.4%	9.4%
- Family net premium	2.3%	25.6%	13.0%	10.0%	10.0%
- General net premium	2.8%	35.3%	11.0%	7.0%	7.0%
Group net earnings	17.3%	42.7%	17.2%	13.2%	10.0%
- Family net earnings	33.4%	-11.9%	34.4%	14.1%	8.6%
- General net earnings	-87.0%	-138.2%	nm	nm	nm
Operator's *wakalah* fee income	12.7%	34.4%	12.1%	8.9%	8.9%

Source: Company data, RHB

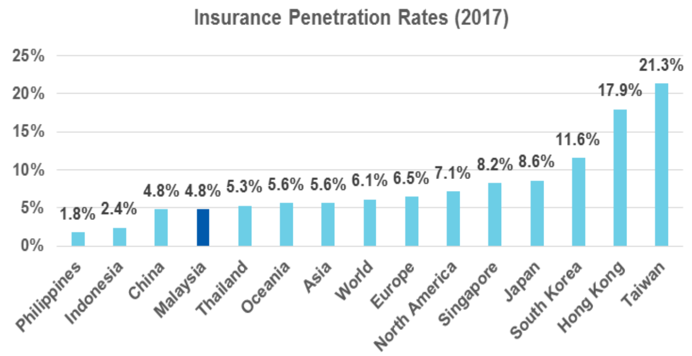
Valuing stock at 4.4x P/BV. Our GGM-based TP of MYR7.00 offers 16% upside on top of the 3.5% FY19F dividend yield. Key assumptions include ROE of c.31%, COE of 10.05% and growth of 3.8%. Our TP is based on 4.4x FY20 P/BV, above +1SD from its 5-year historical mean, mainly supported by its high ROE level.

Figure 2: STMB's 1-year forward P/BV range



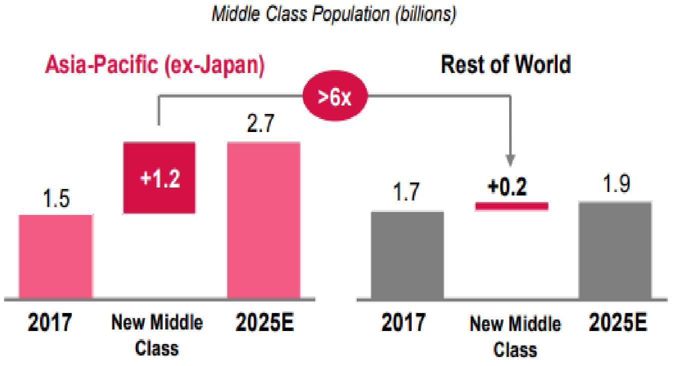
Thesis In Charts

Figure 3: Region's low penetration…



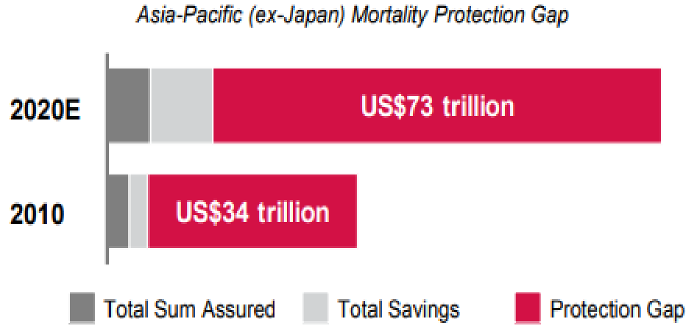
Source: Swiss Re, RHB

Figure 4: …with a large new middle-class to be created…



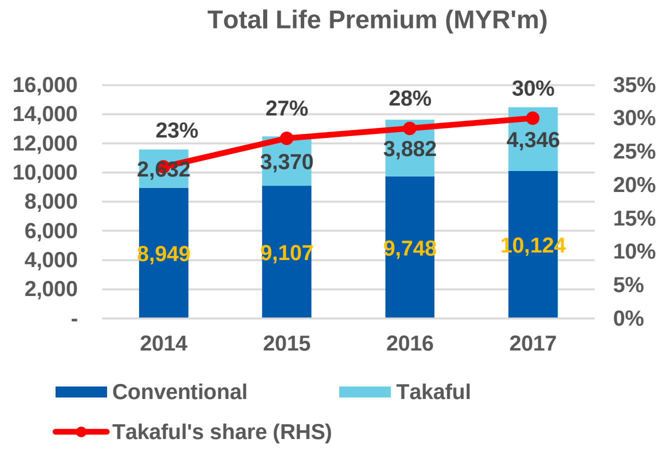
Source: McKinsey, World Bank, Brookings Institution, EIU,BCG, AIA, RHB

Figure 5: …and huge protection gap



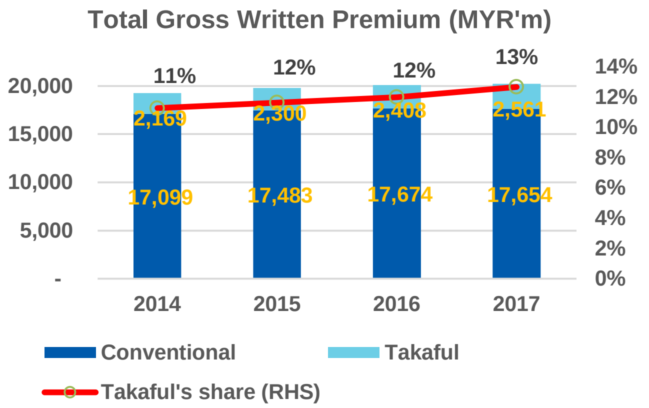
Source: McKinsey, World Bank, Brookings Institution, EIU,BCG, AIA, RHB

Figure 6: Family *Takaful* continues to outperform…



Source: Insurance Services Malaysia Berhad (ISM), Life Insurance Association of Malaysia (LIAM), RHB

Figure 7: …so does General *takaful*



Source: ISM, LIAM, RHB

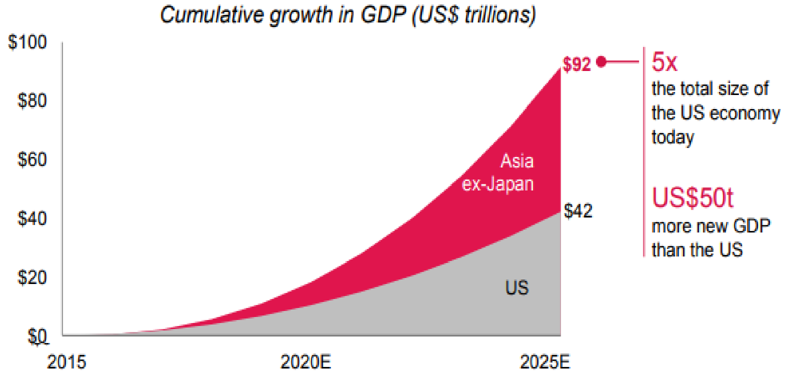
Figure 8: STMB's P/BV vs ROE

Source: Bloomberg, RHB

Growth Drivers

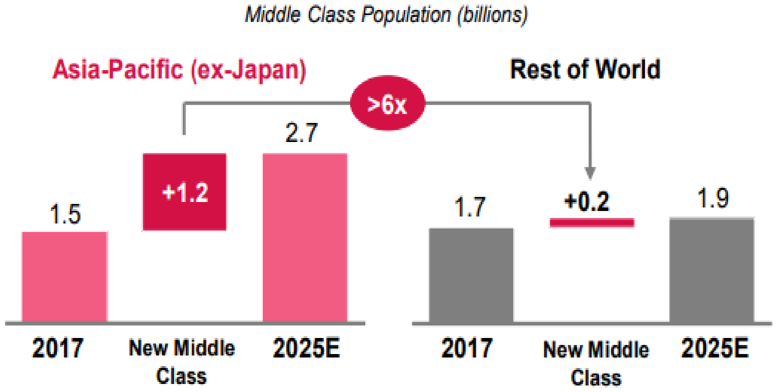
We expect the Asia ex-Japan (AxJ) region to continue spearheading global economic growth, with it being one of the fastest (if not the fastest) growing regions. As such, AxJ is also expected to see the creation of the largest new middle-class population by 2025E, grossly outpacing the rest of the world.

Figure 9: AxJ expected to lead the growth…



Source: McKinsey, World Bank, Brookings Institution, EIU,BCG, AIA, RHB

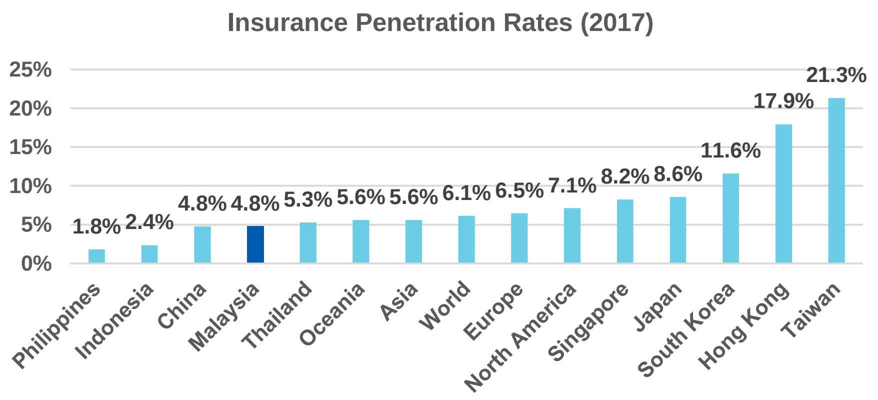
Figure 10: …which will result in the creation of a large middle-class population



Source: McKinsey, World Bank, Brookings Institution, EIU,BCG, AIA, RHB

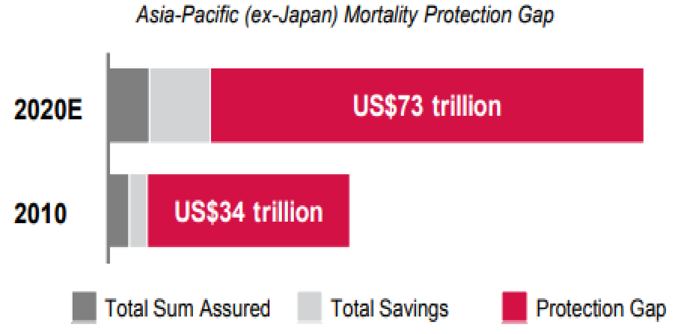
However, despite the rapid growth in the past, the insurance penetration rate (premium/GDP) still remains at very low levels in most of the AxJ countries (especially emerging Asia), relative to their more developed peers. On top of that, the already-huge protection gap (difference between insured losses and economic losses, or uninsured losses) is expected to expand even further. We opine this is likely due to the fact that emerging Asian populations were slow to adopt the use of insurance products and heavily relied on their own savings.

Figure 11: Emerging Asia has one of the lowest insurance penetration rates…



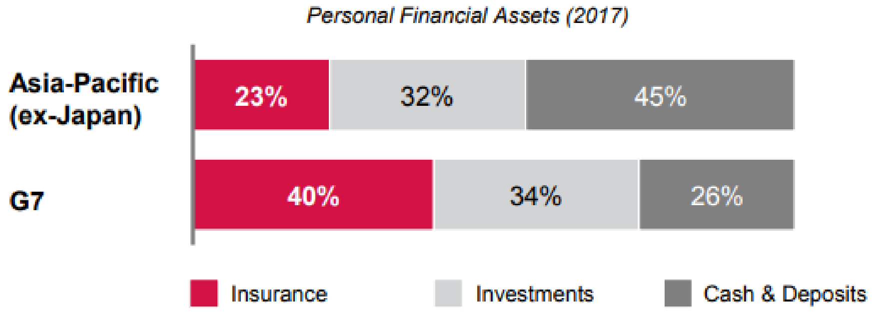
Source: Swiss Re, RHB

Figure 12: …and the protection gap is set to expand further



Source: McKinsey, World Bank, Brookings Institution, EIU,BCG, AIA, RHB

Figure 13: Heavy allocation in cash and deposits



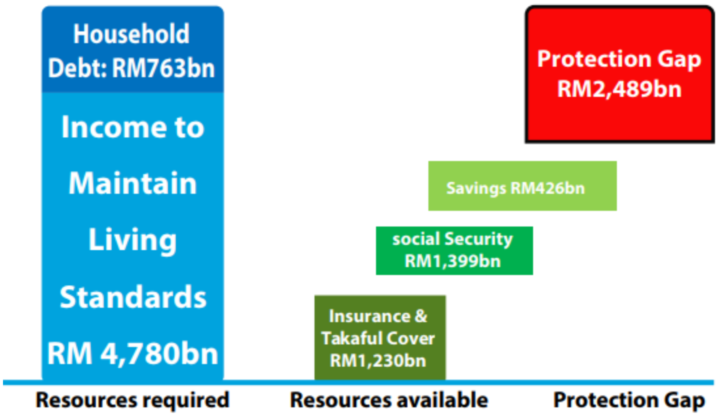
Source: McKinsey, World Bank, Brookings Institution, EIU,BCG, AIA, RHB

We expect the situation to change favourably. In our view, the low insurance penetration rate and huge protection gap present a sizeable addressable market for the insurance companies. This will be the main source of supply for "potential customers". However, having a big addressable market alone is not enough. Hence, the new middle-class population will accelerate the growth momentum of insurance demand, for they are likely to be more willing (higher awareness for insurance needs) and able (higher disposable income) to purchase insurance products.

The Local Context

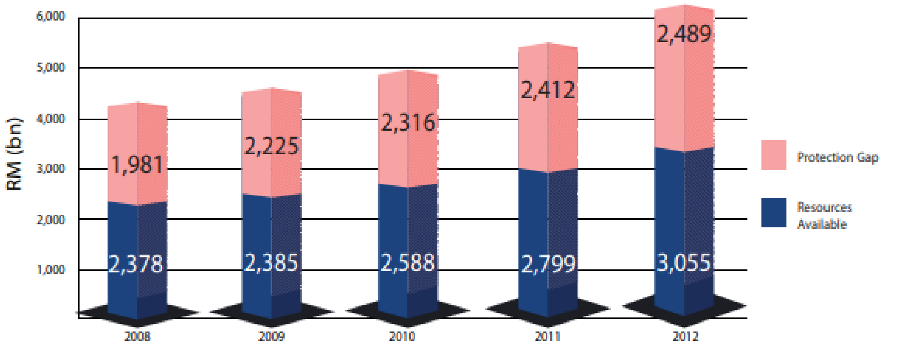
According to an estimate conducted by Malaysia Takaful Association in 2012, Malaysia's protection gap stood at c.MYR2.5bn, indicating a whopping c.45% of potential economic losses were left unprotected. Although the data was dated, we believe it is likely that the protection gap has expanded since 2012, given its past trend shown in Figure 15.

Figure 14: 45% of potential economic losses left unprotected



Source: Malaysia Takaful Association, RHB

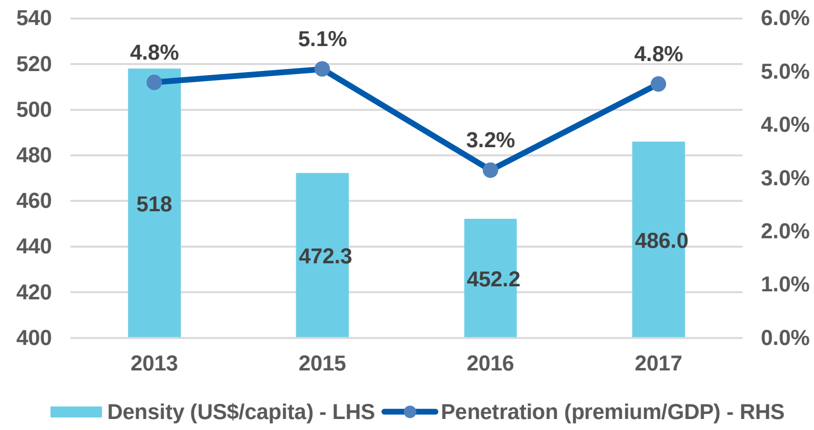
Figure 15: Protection gap on a rising trend



Source: Malaysia Takaful Association, EIU,BCG, AIA, RHB

Looking at more recent data compiled by Swiss Re (world's second largest reinsurer measured in gross reinsurance premiums written), we noticed that, for Malaysia, both the insurance penetration rate and insurance density (premium/capita) have not improved much over the last three years. In fact, there was a dip in both the penetration rate and density back in 2015-2016. We think that this was due to the subdued economic condition – recall that Brent crude fell by >60% from 2014's high and the MYR depreciated c.30% against the USD. Nonetheless, both metrics rebounded in 2017.

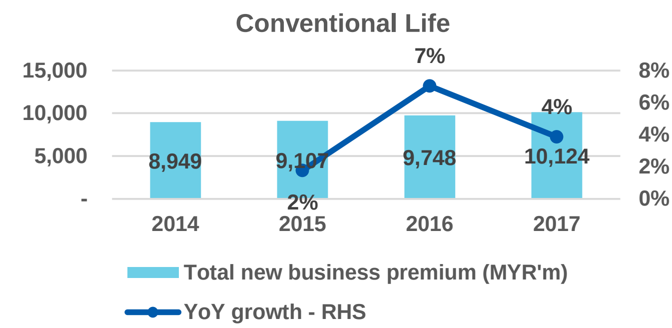
Figure 16: Historical insurance penetration and density



Source: Malaysia Takaful Association, EIU,BCG, AIA, RHB
**2014 data is not available*

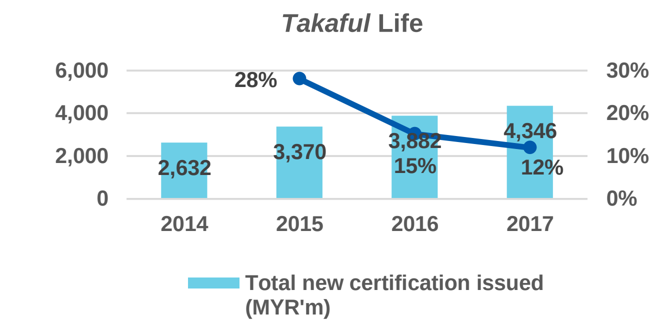
Digging deeper into the breakdown between conventional insurance and Islamic insurance (*takaful*), we see that *takaful* growth rates grossly outperform those of conventional insurance. For the life segment, *takaful* life has recorded faster growth than the conventional life business due to the change in consumer preference and the Central Bank's initiative to promote Islamic finance. More impressively, the YoY growth rates of *takaful* were at least doubled that of the conventional.

Figure 17: Conventional life growth lags



Source: ISM, LIAM, RHB

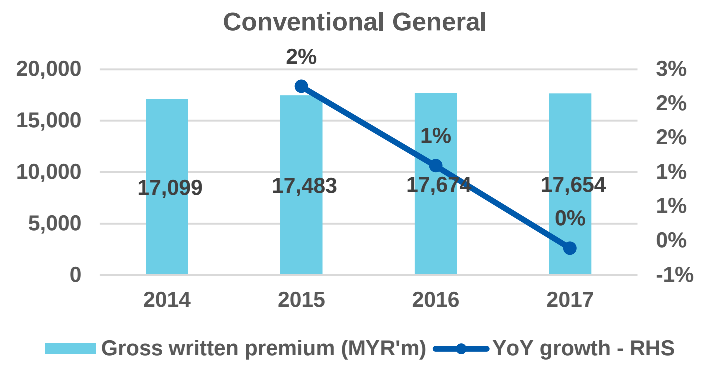
Figure 18: *Takaful* growing 2x-3x as fast



Source: ISM, LIAM, RHB

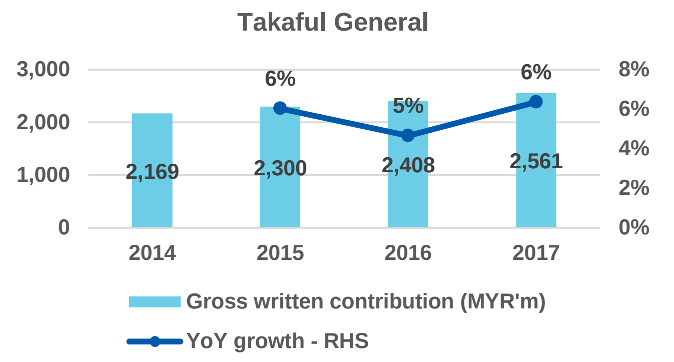
Takaful's outperformance spans across to the general segment as well. While the conventional general registered rather muted growth in recent years, general *takaful* was able to sustain its growth at mid-single digit levels, far ahead of its conventional counterparts.

Figure 19: Conventional growth largely muted



Source: ISM, LIAM, RHB

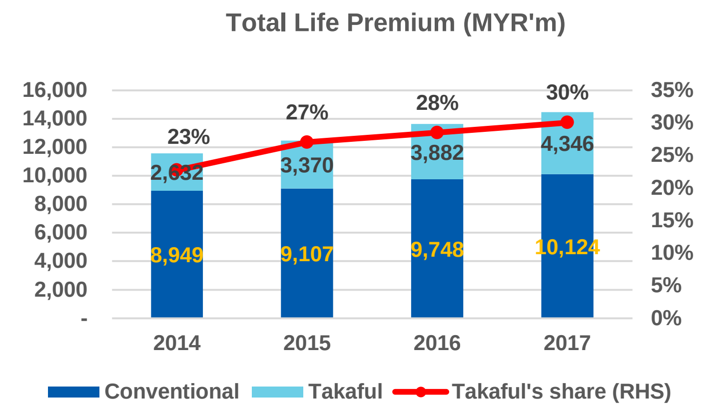
Figure 20: *Takaful* still growing healthily



Source: ISM, LIAM, RHB

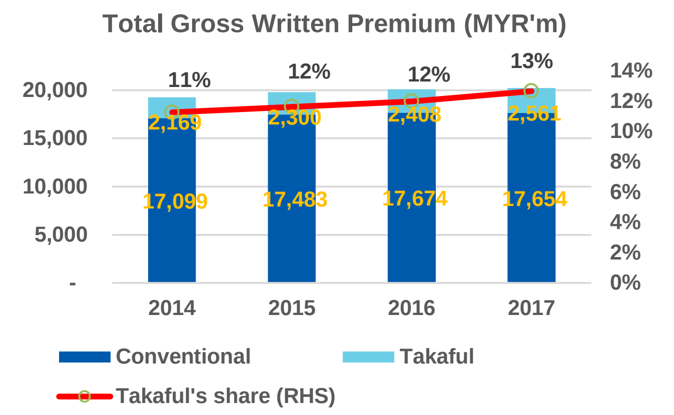
As a result, *takaful* gained market share in both the life and general segments. Based on the latest market data available, *takaful's* shares stood at c.30% and 13% for the life and general segments.

Figure 21: *Takaful* gains share in life…



Source: ISM, LIAM, RHB

Figure 22: …as well as in general



Source: ISM, LIAM, RHB

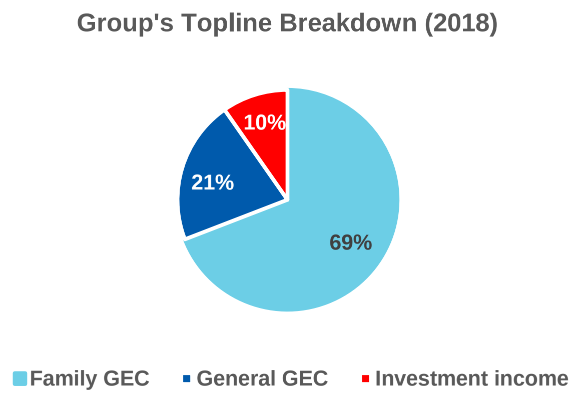
The Operator

Established in 1981 and incorporated in 1984, STMB is a home-grown Islamic insurance company (*takaful* operator) in Malaysia. It commands 28% and 25% market shares in Family (life) *takaful* and General *takaful* segments, making it the largest and second largest players in the respective markets (measured in total new contributions).

Looking at the group's revenue breakdown, 69% of revenue stems from the Family segment, 21% from the General division, and investment returns account for the remaining 10%.

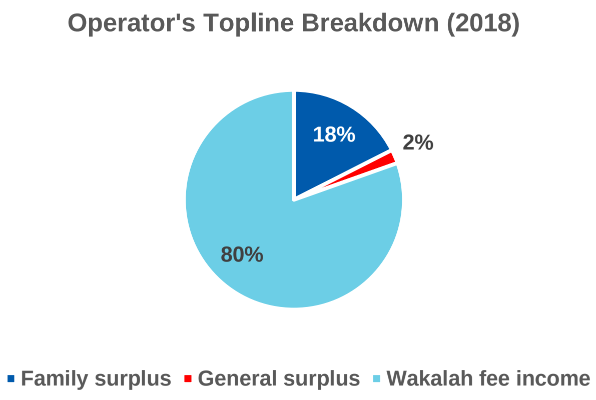
For the operator, 80% of its income is from *wakalah* fee income (37:63 split between Family and General). General surplus is minuscule, likely due to the deficit recorded.

Figure 23: Family GEC the main contributor



Source: Company data, RHB

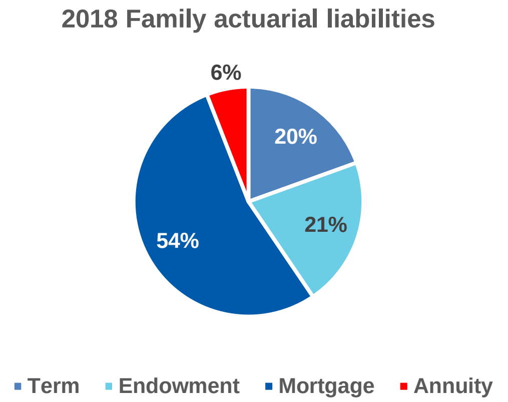
Figure 24: *Wakalah* fee income dominates



Source: Company data, RHB

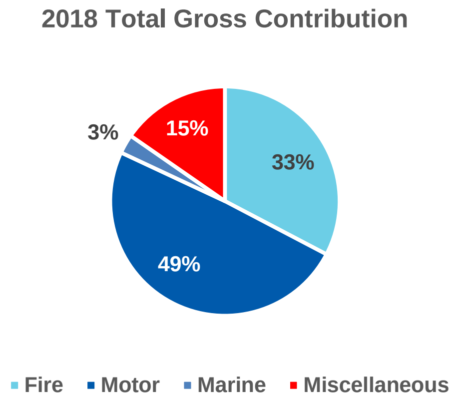
SMTB's Family segment mostly comprises credit-related products with, mortgages dominating the product mix (54% of actuarial liabilities). On the General side, motor insurance made up almost half of the total gross contribution, followed by 33% in fire insurance.

Figure 25: Family segment is credit-heavy



Source: Company data, RHB

Figure 26: Motor takes half



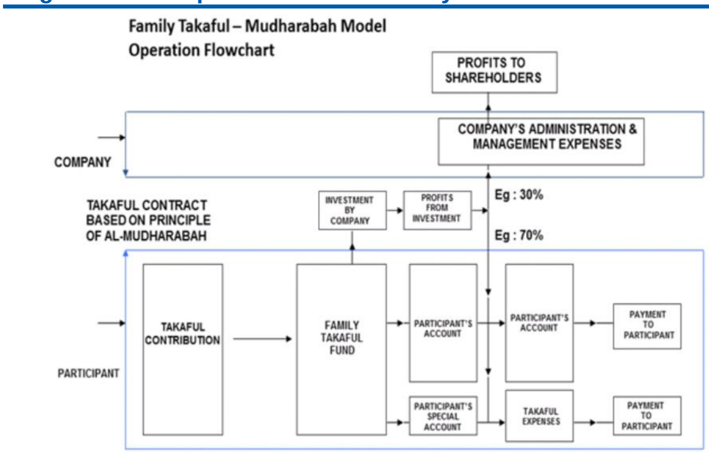
Source: Company data, RHB

STMB changed its business model from a *mudharabah*-based (profit sharing) model to a more *wakalah*-based (fee charging) model in 2012. It currently operates via a hybrid model but, as shown in Figure 24, *wakalah* fee income accounts for the lion's share of income. This has a profound impact on the company's business model and reporting style.

Wakalah vs *Mudharabah*

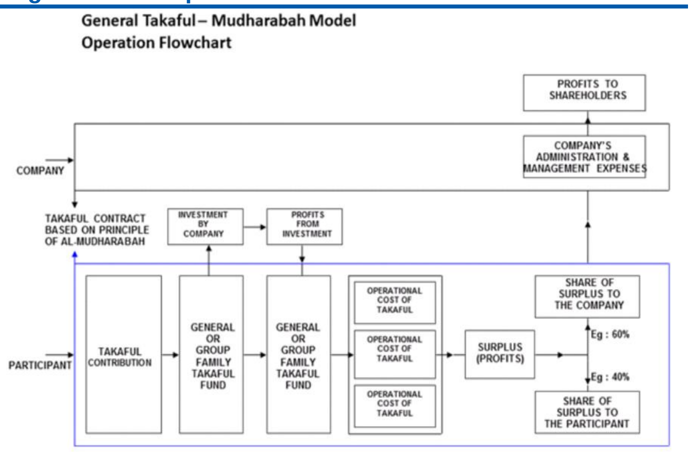
Prior to 2012, STMB operated similarly to most of its insurance peers, where the operator shares the residual insurance profit/surplus after netting off the operation expenses and insurance obligations fulfilled (ie investment returns and surplus from underwriting activities), at a pre-determined rate. Hence, the operator's results are dependent on three major variances (differences between the expected assumptions and actual results): mortality variance, investment variance and operation variance.

Figure 27: Sample flow chart – Family



Source: Islamic Banking & Finance Institute Malaysia (IBFIM), RHB

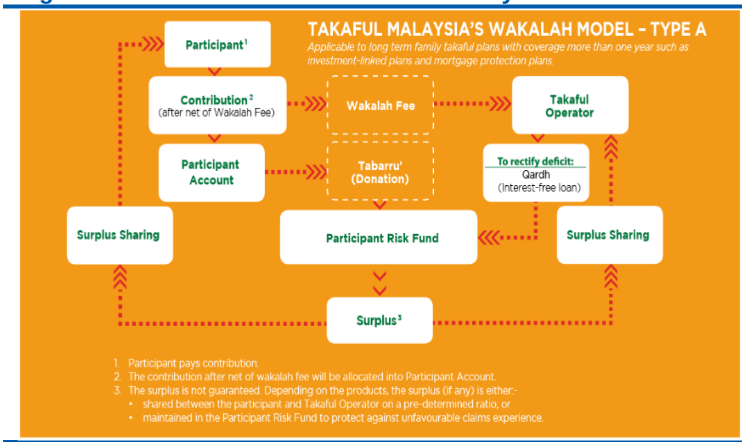
Figure 28: Sample flow chart – General



Source: IBFIM, RHB

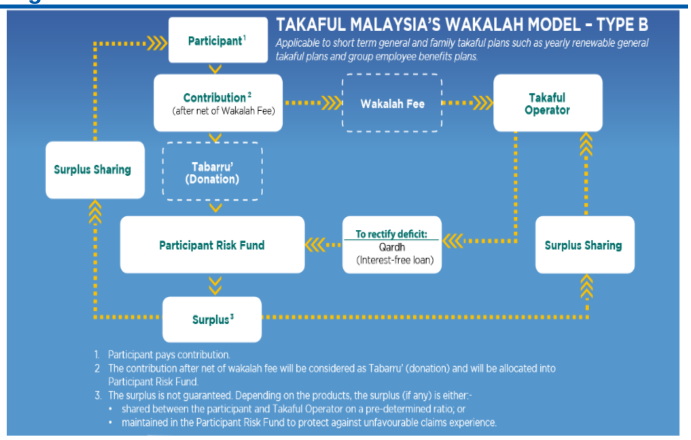
Under the *wakalah* model, the operator is merely acting as an agent (*wakil*) to the participants and manages the participation of the latter in a variety of *takaful* products provided by the agent. In return for providing the agency services, it is allowed to charge a fee (*wakalah* fee) under the arrangement. Such fees (a percentage of GEC) are usually front-loaded and levied every time a contribution is made by a participant.

Figure 29: STMB's *wakalah* model – Family



Source: Company data, RHB

Figure 30: STMB's *wakalah* model – General

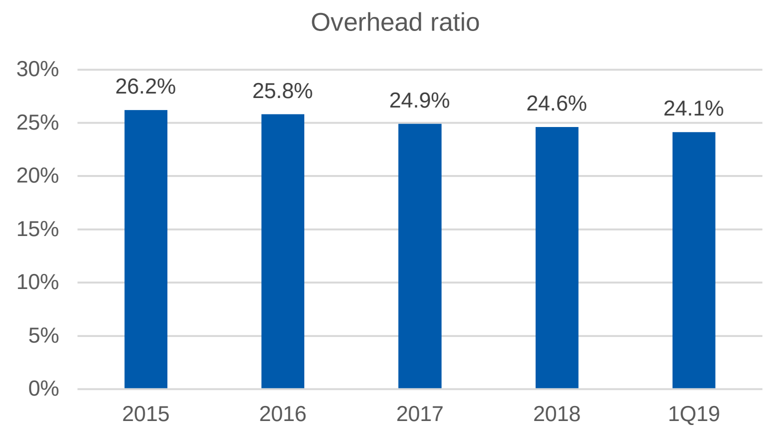


Source: Company data, RHB

We believe this business transmission puts STMB in a very unique and favourable position. The operator's income is now less affected by the underlying results but rather more dependent on the GEC growth. How we see it is that, as long as the company can grow its contribution received, the positive momentum should trickle down to the *wakalah* fee income growth.

To maintain earnings growth – on top of the growth from GEC – management would just have to prevent any major cost overrun and remain prudent in its underwriting practices (to sustain the surplus balances). In fact, we are seeing the "operational leverage" effect in play, where the overhead as a percentage of net earned contributions (NEC) continues to trend downwards – indicating good cost management.

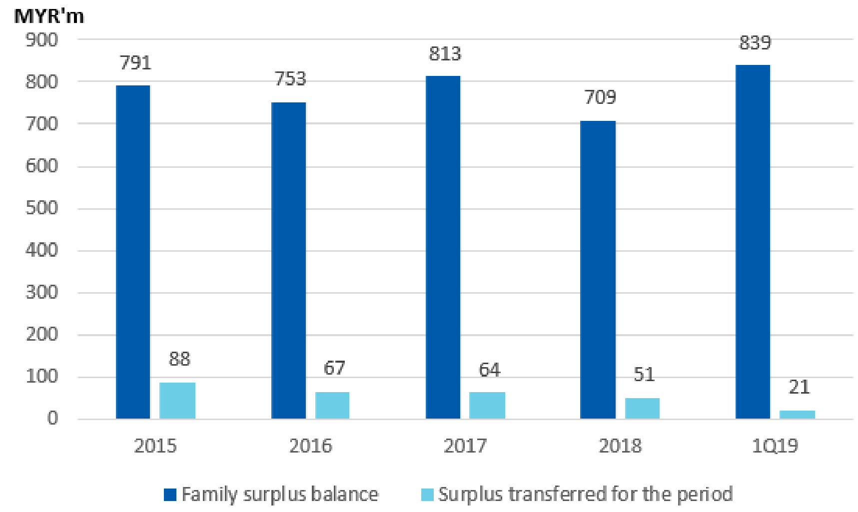
Figure 31: Overhead ratio trending down



Source: Company data, RHB

STMB's Family surplus balance remains at a healthy level, at MYR700m to the mid-MYR800m range over the years. This has indeed allowed surpluses being consistently transferred to its income statement. Additionally, the healthy surplus level should also provide room for the operator to adjust *wakalah* fee rate upwards (by effectively channelling less money into the risk funds).

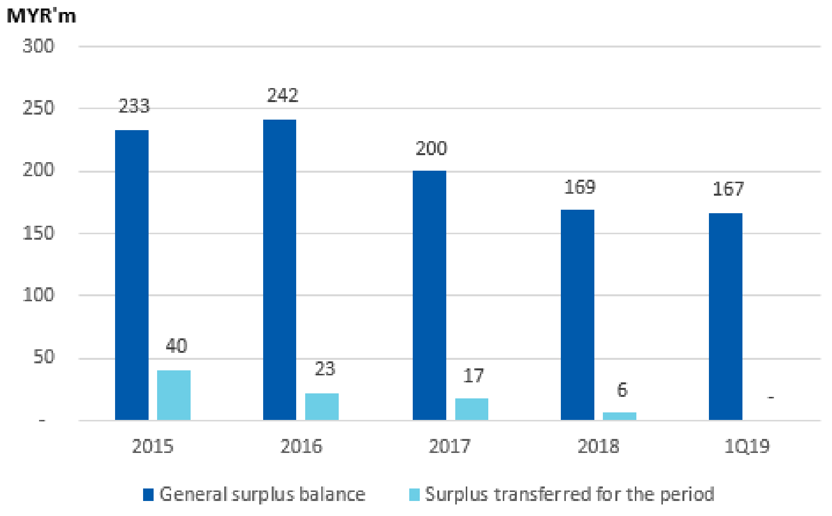
Figure 32: Healthy Family surplus balance and transfer



Source: Company data, RHB

Things are less rosy for STMB's General segment – although not at an alarming level. This segment remained in deficit in the most recent quarter, bringing the surplus balance down to MYR167m, from the high of MYR242m in 2016. We also noticed that there was no surplus being transferred to the operator in 1Q19, given the deficit incurred. Moving forward, we opine it is possible that management may temporarily dial back on the transfer rate or suspend transferring any surpluses. To err on the side of caution, we imputed a small deficit transferred in our FY19-20 earnings forecast. We expect the deficit level to narrow, as the company has halved the 15% cash back on motor insurance since 4Q18.

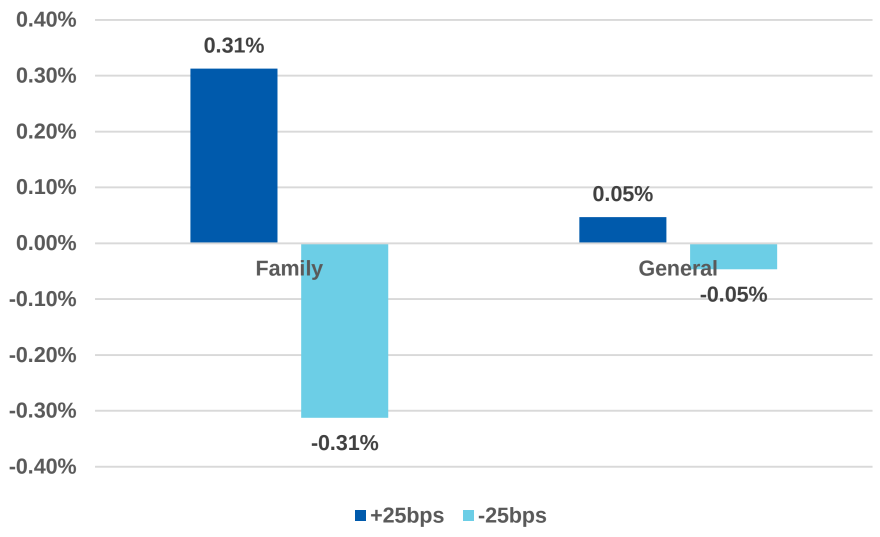
Figure 33: Moderating surplus level; zero transfer in latest quarter



Source: Company data, RHB

To complete the picture, we incorporate a sensitivity analysis on our FY19 earnings estimates from a ±25bps change in *wakalah* fee rate, in an attempt to gauge the potential earnings impact should the rate was cut. We found that a 25bps cut in estimated General *wakalah* fee rate has a minimal impact on our earnings forecast. Since the impact from the Family segment is c.6x larger, we believe a cut in the General rate will be easily mitigated by an increase in the Family rate. In short, we believe the potential cut in General rate is rather manageable.

Figure 34: Sensitivity analysis



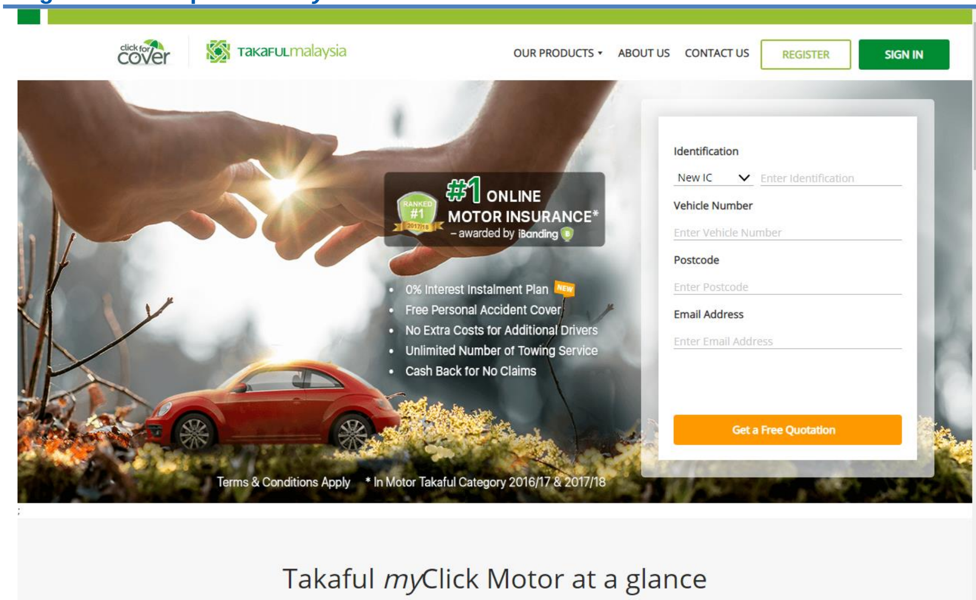
Source: Company data, RHB

Technology edge

We like management's conscious shift to develop an edge on technology innovation. Such technology innovation is not only seen in the customer acquisition process, but also in less visible areas like integrating back-end offices between the operator and its *bancatakaful* partners.

Under its "*Click for Cover"* initiative, SMTB currently offers up to six products where a potential customer can sign up online. We even tried to sign up for the Takaful *my*Click Motor insurance. The entire process is rather streamlined and, to our surprise, took no more than five minutes to complete the entire process. We believe this is especially important when it comes to attracting millennial customers and selling non-life products where products are generic in nature and less complex than life. As per management, the *my*Click Motor brings in c.MYR3m-4m/month as of 1Q19 and they are targeting to reach a MYR10m/month run rate in the next 12 months.

Figure 35: Snapshot of *my*Click Motor



Source: Company data, RHB

STMB has also invested in integrating its back office with those of its partners'. The company's database will be automatically updated whenever a bank acquires a new customer. This would allow STMB to enjoy "first-to-market advantage" by tapping into this pool of potential customers before any of its competitors do. Besides that, the management also commented that the current customer penetration rate is only c.1% out of the 4-5m customer base its *bancatakaful* partners have. This also signals significant potential if the company is able to increase its penetration rate.

1Q19 Results At a Glance

STMB recorded a strong start for FY19. Net profit grew c.38% YoY to MYR96.4m, largely due to its robust topline growth of c.40% in both gross and net contribution. On expenses, its management expense ratio improved to c.17.4%, up 5ppts QoQ. Its claim ratio came in as a surprise at c.42.5%, which management attributed to lower medial claims incurred during the period. However, we expect the claim ratio to normalise in the subsequent quarters to a more reasonable c.50%. On investment front, STMB recorded a sizeable FV gain of MYR21m (FY18: FV loss MYR81m), which also helped to boost net profit.

Figure 36: 1Q19 Group result snapshot

FYE Dec (MYR'm)-Group	1Q18	4Q18	1Q19	% QoQ	% YoY
Gross earned contributions	506.3	614.0	707.1	*15.2*	*39.7*
Contributions ceded to retakaful	(82.7)	(104.0)	(106.0)	*1.9*	*28.2*
Net earned contributions	**423.6**	**510.0**	601.1	*17.9*	*41.9*
Net claims incurred	(255.7)	(254.3)	(240.5)	*-5.4*	*-5.9*
Net change in contract liabilities	(3.5)	(6.8)	(15.1)	*>100*	*>100*
Net benefits and claims	**(259.2)**	**(261.0)**	(255.6)	*-2.1*	*-1.4*
Management expenses (ME)	(80.0)	(114.0)	(104.5)	*-8.4*	*30.7*
Expense reserves	(31.2)	0.4	(40.5)	*>100*	*30.0*
Net administrative income/(expenses)	(29.8)	(34.5)	(40.6)	*17.5*	*36.1*
Net fees	**(141.0)**	**(148.1)**	(185.6)	*25.3*	*31.7*
Investment income	75.4	84.6	85.4	*0.9*	*13.2*
Realised gains and (losses)	1.9	-	2.9	*nm*	*49.7*
Fair value gains and (losses)	(3.0)	(31.3)	21.1	*>100*	*>100*
Net investment results	**74.4**	**53.3**	109.4	*>100*	*47.1*
Net other operating income/ (expenses)	(7.7)	13.2	(16.8)	*>100*	*>100*
Operating profit before surplus transfer	**90.2**	**167.3**	252.6	*50.9*	*>100*
(Surplus)/Deficit attributable to the takaful operator / participants	(5.2)	(114.1)	(139.3)	*22.0*	*>100*
Profit Before Tax	**84.9**	**53.2**	113.3	*>100*	*33.4*
Zakat and tax expense	(15.2)	(12.7)	(17.7)	*39.0*	*16.4*
ETR (%)	*17.7*	*23.3*	*15.3*		
Minority Interest	0.2	0.5	0.8	*77.0*	*>100*
Net profit to shareholders fund	**70.0**	**40.9**	96.4	*>100*	*37.8*
Ratios %					
Retention ratio	*83.7%*	*83.1%*	*85.0%*	*2.0%*	*1.3%*
Net claims ratio	*61.2%*	*51.2%*	*42.5%*	*-8.7%*	*-18.7%*
Management expense ratio	*18.9%*	*22.4%*	*17.4%*	*-5.0%*	*-1.5%*
Administrative ratio	*7.0%*	*6.8%*	*6.8%*	*0.0%*	*-0.3%*
Combined ratio	*87.1%*	*80.3%*	*66.6%*	*-13.7%*	*-20.4%*

Source: Company data, RHB

By segment

STMB's Family segment continued to be the star for the group. GEC surged c.55% YoY, while earnings soared by over 300% YoY. Whilst the c.25ppts improvement in claim ratio certainly helped, another main earnings driver was STMB's partnership with Bank Rakyat since 3Q18. Interestingly, STMB also increased its *wakalah* fee ratio (% of GEC) by 5.6ppts higher than FY18. This has resulted in a c.32% YoY surge in the operator's *wakalah* fee income. We believe there might still be some room to further increase the ratio, should the Family surplus balance stay at healthy levels.

Figure 37: 1Q19 Family segment results snapshot

FYE Dec (MYm)-Family	1Q18	4Q18	1Q19	% QoQ	% YoY
Gross earned contributions	324.0	497.6	502.9	*1.1*	*55.2*
Contributions ceded to *retakaful*	(15.7)	(31.3)	(30.5)	-2.3	94.6
Net earned contributions	**308.3**	**466.4**	472.4	*1.3*	*53.2*
Net claims incurred	(212.1)	(210.4)	**(199.8)**	*-5.0*	*-5.8*
Net change in contract liabilities	1.4	(7.6)	(5.3)	*-29.8*	*>100*
Net benefits and claims	**(210.6)**	**(218.0)**	**(205.1)**	-5.9	-2.6
Net claims ratio	*68.3*	*46.7*	*43.4*	*-3.3%*	*-24.9%*
Administrative income	0.6	0.5	1.6	>100	>100
Wakalah fee expense	(120.4)	(163.0)	(192.4)	18.0	59.8
Investment income	59.7	64.7	66.2	2.3	11.0
Realised gains and (losses)	1.9	-	1.7	nm	-10.3
Fair value gains and (losses)	(2.3)	(28.7)	20.5	>100	>100
Net investment results	**59.3**	**36.0**	88.4	>100	49.2
Net other operating income/ (expenses)	0.9	2.9	(2.5)	>100	>100
Surplus/(Deficit) attributable to *takaful* operator/participants	**37.9**	**124.9**	162.3	30.0	>100

Source: Company, RHB

General *takaful's* performance, however, was not as stellar. Gross contribution still grew c.12% YoY but bottomline growth was largely muted. Underlying results continue to be in the red (1Q19: MYR7.2m), albeit narrowing from the MYR31m underlying loss recorded in FY18. There was no surplus being transferred to the operator and the *wakalah* fee ratio was scaled back by 6ppts YoY to 50% of GEC.

Figure 38: 1Q19 General segment results snapshot

FYE Dec (MYRm)-General	1Q18	4Q18	1Q19	% QoQ	% YoY
Gross earned contributions	182.4	166.0	204.2	*23.0*	*12.0*
Contributions ceded to retakaful	(67.0)	(72.7)	(75.4)	*3.7*	*12.6*
Net earned contributions	**115.4**	**93.3**	128.8	*38.1*	*11.6*
Net claims incurred	(46.1)	(46.1)	(43.5)	*-5.6*	*-5.7*
Net change in contract liabilities	(4.9)	0.8	(9.8)	*>100*	*98.5*
Net benefits and claims	**(51.1)**	**(45.3)**	(53.3)	*17.6*	*4.3*
Net claims ratio	*44.3*	*48.6*	41.4	*-7.2%*	*-2.9%*
Administrative income	18.6	14.0	18.4	*32.1*	*-0.8*
Wakalah fee expense	(102.2)	(71.2)	(101.2)	*42.1*	*-1.0*
Investment income	6.9	7.6	7.8	*2.4*	*14.1*
Realised gains and (losses)	0.0	-	0.6	*nm*	*>100*
Fair value gains and (losses)	(0.2)	(0.6)	0.7	*>100*	*>100*
Net investment results	**6.7**	**7.0**	9.1	*30.2*	*35.6*
Net other operating income/ (expenses)	0.0	1.5	(1.3)	*>100*	*>100*
Surplus/(Deficit) attributable to takaful operator/participants	**(12.6)**	**(0.8)**	0.7	*>100*	*>100*

Source: Company data, RHB

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