

27 October 2023

Financial Services | Insurance

## Insurance

## Overweight (Maintained)

### Greater Earnings Visibility With MFRS17

- **Maintain OVERWEIGHT.** In this report, we outline the key impacts of the adoption of Malaysia Financial Reporting Standards 17 (MFRS17) on Allianz Malaysia (ALLZ) and Syarikat Takaful Malaysia (STMB). We also introduce our maiden MFRS17 forecasts in accompanying company update notes. Post-transition, insurers remain our Top Picks within the non-bank financial institutions (NBFI) space.
- **MFRS17 impact.** The impact of MFRS17 adoption varied directionally between the two insurers – ALLZ had its retained earnings and net profits restated upwards, whereas STMB's were revised downwards. We believe the difference lies in the types of insurance/*takaful* contracts that make up their respective in-force books, along with the accounting processes undertaken pre-transition. Post-transition, profits from insurance/*takaful* contracts are to be recognised over time, across the lifespan of the contracts. This would have a greater impact on the profit recognition timing of the longer-tailed life insurance contracts. Additionally, MFRS17 requires the establishment of a contractual service margin (CSM) account, which records the yet-to-be recognised profits from in-force contracts, ie expected future profits. Despite the changes to shareholders' equity, there is no impact on capital adequacy and dividend payout capacity for both insurers, as calculations are still made based on the existing risk-based capital framework for now.
- **Forecasts.** Our new MFRS17 FY22-25 forecasts for Allianz reflect a >20% increase from our previous MFRS4 estimates – this is mainly premised on ALLZ's enlarged restatement of its historical numbers post-transition (1H22 net profit was restated upwards by 52%). On the other hand, our forecasts for STMB remain more or less flat post-transition, as downward revisions from the transition were mitigated or offset by its strong YTD performance and positive outlook.
- **Valuation.** For now, we maintain our valuation methods for both insurers – changes to TP, if any, are a reflection of forecast revisions and BVPS/ROE adjustments from transition. Valuations for our insurers have de-rated since the MFRS17 effective date announcement in early 2020. Post-transition, given the greater earnings visibility – and to a certain extent, accessibility of the numbers – we reckon a re-rating is warranted, especially as both insurers remain in fundamentally sound positions in our view.
- **Still OVERWEIGHT.** We reiterate that the insurers are our Top Picks among the NBFI stocks. Both ALLZ and STMB are respected market leaders in the domestic insurance and *takaful* industries, occupying the pole positions in the general insurance and family *takaful* fields respectively. While claims – especially on the life insurance/family *takaful* side – are expected to remain elevated, both groups have initiated repricing activities and closer monitoring of claims cases to mitigate the impact. In the meantime, sturdy growth in general insurance results, along with improving investment returns, could help the insurers weather the challenging market conditions.
- **Key downside risks to our call** include weaker-than-expected insurance or *takaful* sales, adverse fixed income movements affecting investment yields, and higher-than-expected claims.

Stocks Covered 2  
Rating (Buy/Neutral/Sell): 2 / 0 / 0  
Last 12m Earnings Revision Trend: Positive

#### Top Picks

Allianz Malaysia (ALLZ MK) – BUY  
Syarikat Takaful M'sia Keluarga (STMB MK) – BUY

#### Target Price

MYR18.70  
MYR4.30

#### Analysts

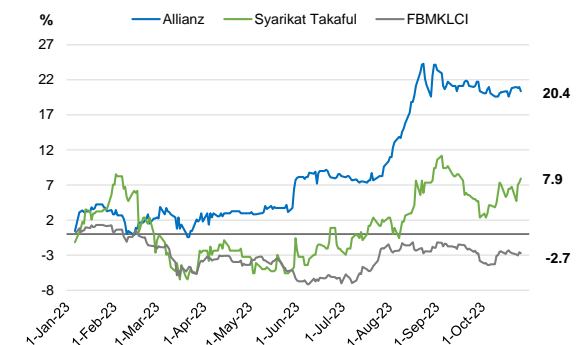
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#### Insurers' YTD price performance vs FBM KLCI



Source: Company data, RHB

Company Name	Rating	Target (MYR)	% Upside (Downside)	P/E (x) Dec-24F	P/B (x) Dec-24F	ROAE (%)	Yield (%) Dec-24F
Allianz Malaysia	Buy	18.70	17.6	4.0	0.5	13.3	6.4
Syarikat Takaful M'sia Keluarga	Buy	4.30	17.2	7.7	1.6	22.3	4.2

Source: Company data, RHB

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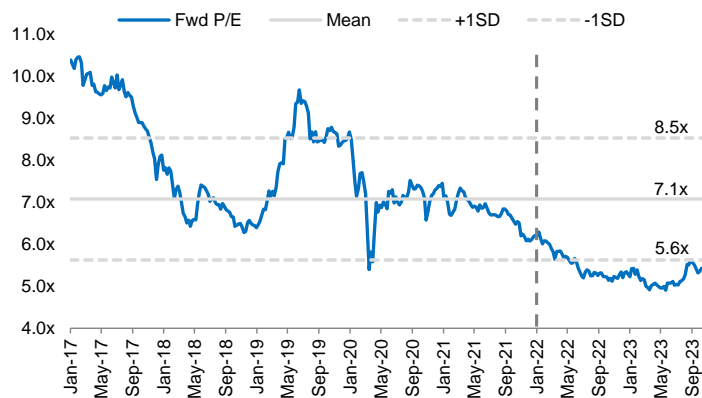
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Figure 1: Key changes to financial indicators post-MFRS17 adoption

Indicator	Allianz		Syarikat Takaful		As at
	MFRS4	MFRS17	MFRS4	MFRS17	
PATAMI (MYRm)	197.9	300.6	156.4	142.8	1H22
ROE (%)	9.5	13.3	16.5	21.8	1H22
Total assets (MYRm)	23,643.5	22,973.8	12,708.8	12,139.7	1 Jan 22
Total liabilities (MYRm)	19,499.3	18,488.5	10,866.5	10,832.9	1 Jan 22
Retained earnings (MYRm)	2,084.8	2,170.0	1,544.8	1,024.1	1 Jan 22
Life non-participating fund (MYRm)	1,241.5	1,493.9	na	na	1 Jan 22
Total equity (MYRm)	4,144.2	4,485.3	1,808.6	1,273.0	1 Jan 22
TP (MYR)	18.20	18.70	4.30	4.30	

Source: Company data, RHB

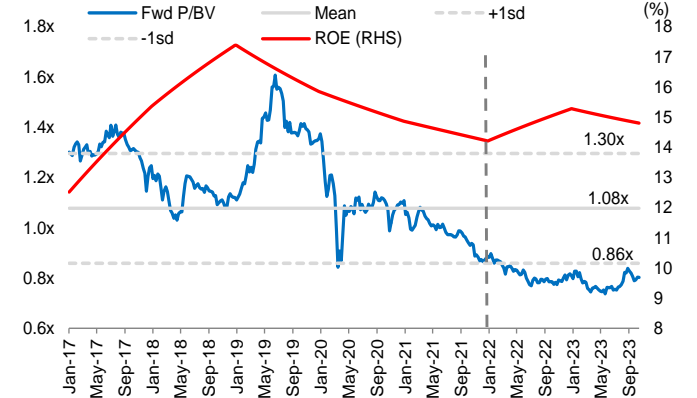
Figure 2: Insurers' aggregate 12-month forward P/E\*



\*Note: Based on actual MFRS4 EPS up to FY21, and RHB MFRS17 forecasts FY22 onwards (indicated by the vertical line)

Source: Bloomberg, RHB

Figure 3: Insurers' aggregate 12-month forward P/BV against ROE\*



\*Note: Based on actual MFRS4 EPS up to FY21, and RHB MFRS17 forecasts FY22 onwards (indicated by the vertical line)

Source: Bloomberg, RHB

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## Syarikat Takaful M'sia Keluarga (STMB MK)

**Buy** (Maintained)

### Decent Outlook In Tough Times; Keep BUY

- **Maintain BUY and MYR4.30 TP, 17% upside with c.4% FY24F yield.** In this report, we look at the impact of the adoption of Malaysia Financial Reporting Standards 17 (MFRS17) on Syarikat Takaful, and introduce our MFRS17 forecasts for FY22-25 (note that FY22 numbers are based on internal estimates for now). STMB remains a sector Top Pick, due to its strong momentum in key growth indicators, and brand equity in the promising *takaful* industry.
- **MFRS17 impact.** Upon transition, STMB's retained earnings shrank 34% to MYR1.02bn, while total equity decreased by 29%. 1H22 PATAMI was adjusted downwards by 9% to MYR142.8m. As a result, 1H22 ROE, by our estimates, stood at 21.8%, up from 16.5% under MFRS4. A contractual service margin (CSM) was established upon transition, amounting to MYR1.04bn – this is indicative of future profit inflows for the group. There is no impact on capital adequacy, as calculations are still based on the existing risk-based capital framework for now.
- **1H23 results recap.** STMB recorded 1H23 net profit of MYR185.5m, up 30% YoY. While *takaful* revenue grew by a solid 18% YoY growth, this was brought down by higher claims incurred (+24%) and higher *retakaful* expenses (+34%) – the latter was due to agreements made with certain *retakaful* operators relating to the flood events in late 2021, and should stabilise in FY24F. Investment returns doubled due to an absence of significant marked-to-market losses, while a lower effective tax rate further lifted the bottomline. As at the latest available dates, STMB occupies the first and second spots in the family *takaful* and general *takaful* segments.
- **A decent outlook in a tough environment.** STMB assured us that it will revise product prices to better reflect the medical inflation experienced by hospitals and clinics. On the bright side, claims on the general *takaful* side appear to have stabilised to pre-pandemic levels. Moving forward, general *takaful* will still be the key topline driver, as the family *takaful* side continues to be burdened by weaker contributions from Public Sector Home Financing Board (LPPSA) – feedback from management indicates that contributions should recover in FY24F. Additionally, the strong growth of the group's CSM (+12% YoY in 1H23) is a positive sign, and STMB has also booked in MYR136m in new business value YTD. The group also committed to paying out at least the same amount in dividends as FY22 (13.5 sen per share), indicating a c.4% yield.
- **Forecasts and TP.** We forecast net profit to increase at a CAGR of 14% over FY22-25. This comes from a combination of sustained investment returns, easing claims ratios, and the initial low base effect. We maintain our GGM-derived P/BV method of valuation to obtain an unchanged TP of MYR4.30. Our TP includes zero ESG premium/discount.

Forecasts and Valuation	Dec-22	Dec-23F	Dec-24F	Dec-25F
Reported net profit (MYRm)	286	361	399	419
Net profit growth (%)	-	26.4	10.4	5.1
Recurring net profit (MYRm)	286	361	399	419
Recurring EPS (MYR)	0.34	0.43	0.48	0.50
BVPS (MYR)	1.69	1.97	2.30	2.65
DPS (MYR)	0.14	0.14	0.15	0.16
Recurring P/E (x)	10.75	8.50	7.70	7.33
P/B (x)	2.2	1.9	1.6	1.4
Dividend Yield (%)	3.7	3.8	4.2	4.4
Return on average equity (%)	21.3	23.6	22.3	20.2

Source: Company data, RHB

Target Price (Return): MYR4.30 (+17%)  
 Price (Market Cap): MYR3.67 (USD643m)  
 ESG score: 3.0 (out of 4)  
 Avg Daily Turnover (MYR/USD) 2.34m/0.51m

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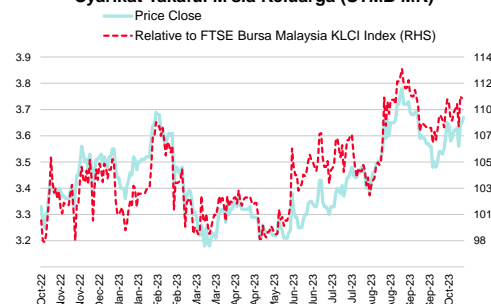
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	6.7	2.8	6.7	11.6	10.2
Relative	10.3	3.0	7.2	9.6	11.1
52-wk Price low/high (MYR)				3.18 – 3.78	

#### Syarikat Takaful M'sia Keluarga (STMB MK)



Source: Bloomberg

#### Overall ESG Score: 3.0 (out of 4)

##### E: GOOD

While STMB have yet to disclose its Scope 1, 2 and 3 emissions, it does disclose other environmental indicators such as energy, water and paper consumption. The group also has multiple ESG-linked offerings, including *takaful* protection plans for solar panels and EVs.

##### S: GOOD

STMB's community-based activities are carried out through its Takaful myJalinan arm, which has impacted many groups including underprivileged communities, families and students. The group is committed to strengthening and upskilling its workforce - as at July 2023, over 17k training hours had been delivered, for an average of over 15 training hours per employee (FY22: 30 hours).

##### G: EXCELLENT

The board consists of six independent directors and two non-independent ones, among whom three directors are female. Board members, senior management and employees are well trained in matters of compliance, risk management and business best practices.

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## Financial Exhibits

<b>Asia</b>	<b>Financial summary (MYR)</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
Malaysia	EPS	0.34	0.43	0.48	0.50
Financial Services	Recurring EPS	0.34	0.43	0.48	0.50
<b>Syarikat Takaful M'sia Keluarga</b>	DPS	0.14	0.14	0.15	0.16
STMB MK	BVPS	1.69	1.97	2.30	2.65
Buy					
<b>Valuation basis</b>	<b>Valuation metrics</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
GGM-derived based on:	Recurring P/E (x)	10.75	8.50	7.70	7.33
i. CoE of 12.6%;	P/B (x)	2.2	1.9	1.6	1.4
ii. Long-term growth of 3.5%	Dividend Yield (%)	3.7	3.8	4.2	4.4
iii. Sustainable ROE of 20.2%.					
<b>Key drivers</b>	<b>Income statement (MYRm)</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
Our FY24F forecasts are most sensitive to changes in:	Insurance revenue	2,214	2,846	3,180	3,434
i. <i>Takaful</i> revenue;	Incurred claims	(1,404)	(2,082)	(2,281)	(2,455)
ii. Claim ratios;	Directly attributable expenses	(578)	(418)	(601)	(659)
iii. Investment returns.	Reinsurance result	(126)	(163)	(75)	(81)
	Insurance service result	105	183	223	239
	Gross investment income	462	490	508	527
	Net fair value gains/(losses)	(47)	(35)	(36)	(38)
	Investment return	415	455	472	489
	Operating revenue	2,675	3,336	3,688	3,961
	Net financial result	(59)	(158)	(164)	(171)
	Other income/(expenses)	(3)	(5)	(6)	(6)
	Pre-tax profit	458	475	525	551
	Taxation	(172)	(114)	(126)	(132)
	Reported net profit	286	361	399	419
	Recurring net profit	286	361	399	419
<b>Key risks</b>	<b>Profitability ratios</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
Key downside risks include:	Claims ratio (%)	63.4	73.2	71.7	71.5
i. Slowdown in <i>takaful</i> sales;	Expense ratio (%)	26.3	14.9	19.1	19.4
ii. Higher claim ratios;	Reinsurance ratio (%)	(5.7)	(5.7)	(2.4)	(2.4)
iii. Lower investment returns.	Underwriting margin (%)	4.7	6.4	7.0	7.0
	Gross investment yield (%)	10.7	5.5	5.4	5.4
	Net investment yield (%)	9.6	5.1	5.0	5.0
	Return on average assets (%)	2.1	2.7	3.0	3.1
	Return on average equity (%)	21.3	23.6	22.3	20.2
	Dividend payout ratio (%)	39.5	32.0	32.0	32.0
<b>Company Profile</b>	<b>Balance sheet (MYRm)</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
Syarikat Takaful Malaysia Keluarga provides <i>shariah</i> -compliant general and family insurance whereby the risk is voluntarily and collectively shared by a group of participants.	Tangible fixed assets	324	339	353	369
	Intangible assets	18	18	18	18
	Total investments	8,622	9,313	9,650	10,000
	Other assets	890	2,359	3,749	4,964
	Cash at bank	2,067	2,274	2,501	2,752
	Total assets	13,296	15,813	17,935	19,931
	Other liabilities	11,852	14,129	15,973	17,682
	Total liabilities	11,852	14,129	15,973	17,682
	Shareholders' equity	1,410	1,651	1,928	2,216
	Total equity	1,443	1,684	1,961	2,249
	Contractual service margin	1,247	1,462	1,659	1,841
	<b>Growth</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
	Insurance revenue growth (%)	0.0	28.6	11.7	8.0
	Investment result growth (%)	0.0	9.6	3.7	3.7
	Incurred claims growth (%)	0.0	48.2	9.6	7.6
	Contractual service margin growth (%)	20.5	17.2	13.5	11.0
	Net profit growth (%)	0.0	26.4	10.4	5.1
	EPS growth (%)	0.0	26.4	10.4	5.1

Source: Company data, RHB

## Emissions And ESG

### Trend analysis

While STMB has yet to disclose its Scope 1, 2 and 3 emissions, it does disclose other environmental indicators such as energy, water and paper consumption. These indicators demonstrated an increasing trend in FY22, but we suspect this is largely due to the full reopening of the economy.

Emissions (tCO2e)	Dec-20	Dec-21	Dec-22
Scope 1	-	-	-
Scope 2	-	-	-
Scope 3	-	-	-
Total emissions	na	na	na

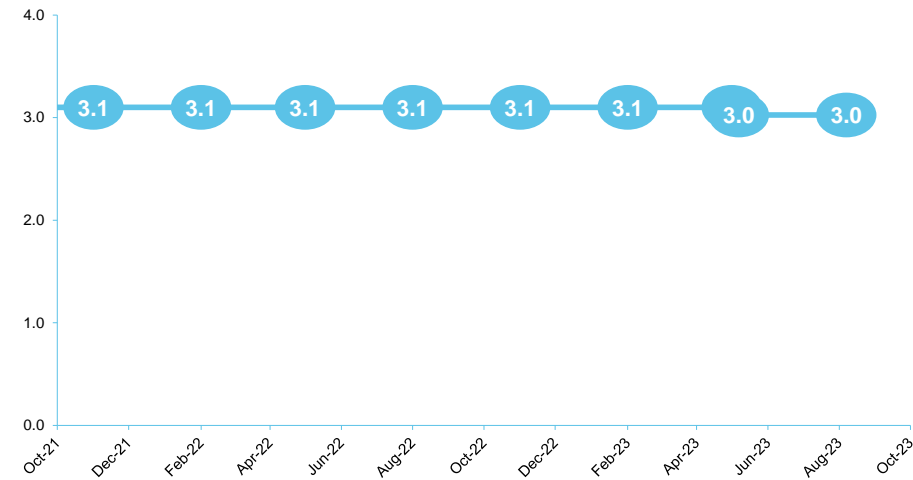
Source: Company data, RHB

## Latest ESG-Related Developments

**Takaful protection for solar panels:** STMB recently launched a *takaful* protection plan for solar panels, insuring customers against risks such as fire, lightning, storms and accidents.

**Additional ESG-linked offerings:** STMB has plans to launch a *takaful* plan with a charity feature, in which 5% of contributions will be donated to orphanages.

## ESG Rating History



Source: RHB

Figure 1: Key changes to financial indicators post-MFRS17 adoption

Indicator	MFRS4	MFRS17	As at
PATAMI (MYRm)	156.4	142.8	1H22
ROE (%)	16.5	21.8	1H22
Total assets (MYRm)	12,708.8	12,139.7	1 Jan 22
Total liabilities (MYRm)	10,866.5	10,832.9	1 Jan 22
Retained earnings (MYRm)	1,544.8	1,024.1	1 Jan 22
Total equity (MYRm)	1,808.6	1,273.0	1 Jan 22

Source: Company data, RHB

Figure 2: Adjustments to full-year earnings forecasts

FYE Dec	Net profit (MYR m)			EPS (MYR)			DPS (MYR)		
	Previous	Revised	% Chg	Previous	Revised	% Chg	Previous	Revised	% Chg
2023F	367	361	-1.6	0.44	0.43	-1.5	0.17	0.14	-20.6
2024F	392	399	1.7	0.47	0.48	1.7	0.19	0.15	-17.9
2025F	419	419	-0.1	0.50	0.50	0.0	0.20	0.16	-19.4

Source: Company data, RHB

Figure 3: STMB – RHB net profit forecasts vs consensus

	FY23F	FY24F	FY25F
RHB	361.1	398.7	418.8
Consensus	355.4	389.6	427.3

Source: Company data, RHB

## Valuation and TP

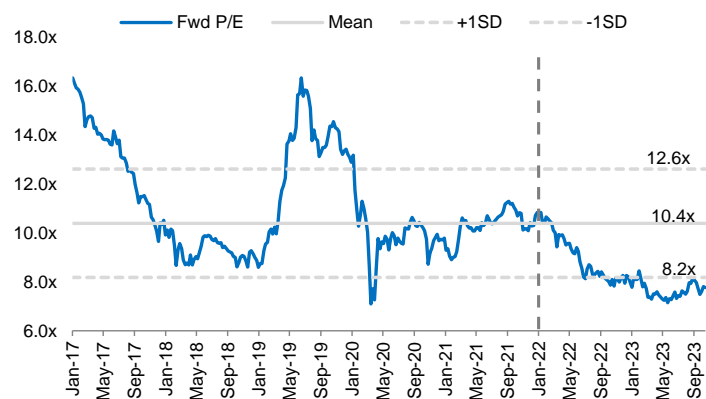
Post-transition, our TP remains at MYR4.30, and is based on a GGM-derived P/BV of 1.8x (near 1SD below the 5-year mean under MFRS4) with a zero ESG premium/discount applied. We maintain our long-term growth and cost of equity inputs from previously. There is no change to our TP, as the higher ROE assumption of 20.2% (from 16.9%) was offset by the lower FY24F BVPS of MYR2.30 (previously MYR2.92). We keep our BUY call on STMB for its strong momentum in key growth indicators (*takaful* revenue, end-balance CSM, new business value), undemanding valuation, and strong brand equity in the *takaful* industry.

Figure 4: STMB – GGM valuation

<b>Cost of equity (COE) computation:</b>		Sustainable ROE (%)	20.2
Risk free rate (%)	4.0	COE (%)	12.6
Equity premium (%)	8.6	Long-term growth (g)	3.5
Beta (x)	1.0	Implied P/BV (x)	1.85
Cost of equity - CAPM (%)	12.6	BVPS – FY24F	MYR2.30
		Target price	MYR4.25
ESG premium/ (discount)	0	<b>TP (rounded)</b>	<b>MYR4.30</b>

Source: Company data, RHB

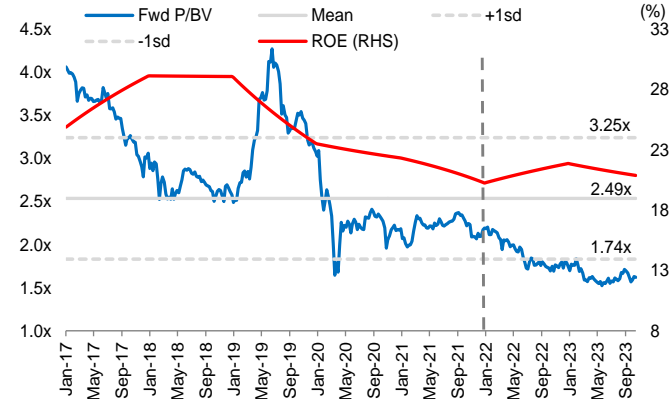
Figure 5: STMB's 12-month forward P/E\*



\*Note: Based on actual MFRS4 EPS up to FY21, and RHB MFRS17 forecasts FY22 onwards (indicated by the vertical line)

Source: Bloomberg, RHB

Figure 6: STMB's 12-month forward P/BV against ROE\*



\*Note: Based on actual MFRS4 EPS up to FY21, and RHB MFRS17 forecasts FY22 onwards (indicated by the vertical line)

Source: Bloomberg, RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-06-01	Buy	3.90	3.32
2023-02-26	Buy	4.00	3.48
2022-08-04	Buy	4.00	3.36
2022-05-12	Buy	4.40	3.52
2022-02-25	Buy	4.90	3.70
2021-11-24	Buy	4.20	3.63
2021-08-25	Buy	5.40	4.52
2021-02-23	Buy	5.70	4.36
2020-11-24	Buy	5.60	4.78
2020-08-25	Buy	6.00	5.00
2020-07-28	Buy	5.40	4.48
2020-05-19	Neutral	4.80	4.67
2020-02-26	Neutral	5.10	4.70
2020-01-16	Neutral	5.30	5.11
2019-10-25	Buy	8.00	6.38

Source: RHB, Bloomberg



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## Allianz Malaysia (ALLZ MK)

**Buy** (Maintained)

### Staying Resilient; Stay BUY

- **Reiterate BUY, new MYR18.70 TP from MYR18.20, 18% upside with c.6% FY24F yield.** In this report, we outline the impact of the adoption of Malaysia Financial Reporting Standards 9 (MFRS9) and 17 (MFRS17) on Allianz Malaysia, and introduce our forecasts aligned to both standards for FY22-25F (note that FY22 numbers are based on internal estimates for now). ALLZ is still a sector Top Pick, given its market leadership in the domestic insurance industry and strong ESG credentials.
- **MFRS17 and MFRS9 impact.** Upon transitioning to both standards, ALLZ's total retained earnings and life non-participating fund was adjusted upwards by 10%, leading to a 8% increase in total equity. 1H22 headline net profit grew 52% to MYR300.6m – the big rise was mainly due to ALLZ reclassifying certain fair value through profit or loss (FVTPL) investments into fair value through other comprehensive income (FVOCI) post-MFRS9, along with faster profit emergence from investment-linked contracts. 1H22 ROE rose to 13.3% (from 9.5%, under MFRS4). A contractual service margin (CSM) of MYR2.7bn was established, which is indicative of future profit inflows. There is no impact on capital adequacy, as calculations are still based on the existing risk-based capital framework. for now.
- **1H23 results recap.** Net profit grew 13% YoY on the back of higher insurance revenue (+8% YoY), a lower expense ratio (-0.8ppts YoY) and greater investment return (>100% YoY). However, a higher claims ratio (+3.7ppts YoY) and finance expenses relating to unit-linked life funds dampened the positive impact on PBT (+6% YoY). As at the latest available dates, Allianz General (AGIC) and Allianz Life (ALIM) commanded the first and fourth market positions in the domestic general insurance and life insurance industries.
- **Navigating a challenging market.** ALLZ will continue to focus on repricing activities and close monitoring of claims cases to contain the elevated medical claims environment. In the meantime, new business growth for ALIM will be focused on the investment-linked protection segment. Notwithstanding the slowdown in new business value booked in 1H23 (-5% YoY), the 4% YoY increase in CSM as at 1H23 is positive for future profit growth. Elsewhere, AGIC will continue to explore new opportunities – particularly in motor insurance – including partnerships with new electric vehicle market entrants (eg BYD) and insurance for second-hand cars.
- **Forecasts and TP.** We forecast a net profit CAGR of 9% over FY22-25. This comes from a combination of stable investment returns group-wide, and stronger AGIC insurance service results. Post-transition, we continue to use a SOP valuation for ALLZ – price-to-embedded value (P/EV) for ALIM and P/BV for AGIC. Our TP rises to MYR18.70 (from MYR18.20), mostly due to a larger FY24F BVPS assumption for AGIC post-transition. Our TP includes an ESG premium of 6%, given ALLZ's leadership in the ESG space among domestic insurers.

Forecasts and Valuation	Dec-22	Dec-23F	Dec-24F	Dec-25F
Reported net profit (MYRm)	579	660	701	743
Net profit growth (%)	-	13.9	6.3	6.0
Recurring net profit (MYRm)	579	660	701	743
Recurring EPS (MYR)	3.26	3.71	3.94	4.17
BVPS (MYR)	26.35	28.26	31.20	34.32
DPS (MYR)	0.85	0.96	1.02	1.09
Recurring P/E (x)	4.87	4.29	4.04	3.81
P/B (x)	0.6	0.6	0.5	0.5
Dividend Yield (%)	5.3	6.1	6.4	6.8
Return on average equity (%)	13.1	13.6	13.3	12.7

Source: Company data, RHB

Target Price (Return): MYR18.7 (+18%)  
 Price (Market Cap): MYR15.9 (USD592m)  
 ESG score: 3.3 (out of 4)  
 Avg Daily Turnover (MYR/USD) 0.46m/0.10m

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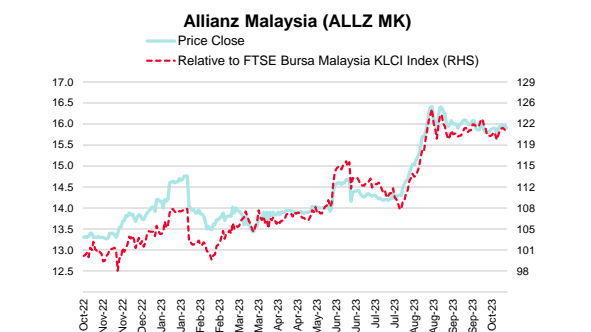


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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	12.3	(0.6)	11.2	14.4	19.5
Relative	15.9	(0.4)	11.7	12.4	20.4
52-wk Price low/high (MYR)				13.3 – 16.4	



Source: Bloomberg

#### Overall ESG Score: 3.3 (out of 4)

##### E: GOOD

The group achieved 100% renewable energy (RE) in operations in 2021, mainly through the purchase of RE certificates. ALLZ also offers financial protection to solar panel owners through its insurance products, which recorded a 37% YoY growth in gross written premiums in 2022.

##### S: GOOD

ALLZ's efforts towards community development are managed by its corporate responsibility arm, Allianz4Good. As a business, the group is also heavily involved in the social and financial inclusion agenda, through active participation in the Rahmah insurance initiative. Employees have access to the UN Global Compact academy, which offers learning resources covering critical ESG-related topics.

##### G: EXCELLENT

ALLZ's strategic ESG direction is determined by its parent Allianz Group, which is a member of the coveted Net-Zero Insurance Alliance under the United Nations Environment Programme. Domestically, ALLZ is also a member of the United Nations Global Compact Network Malaysia & Brunei.



## Financial Exhibits

<b>Asia</b>	<b>Financial summary (MYR)</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
Malaysia	EPS	3.26	3.71	3.94	4.17
Financial Services	Recurring EPS	3.26	3.71	3.94	4.17
<b>Allianz Malaysia</b>	DPS	0.85	0.96	1.02	1.09
ALLZ MK	BVPS	26.35	28.26	31.20	34.32
Buy					
<b>Valuation basis</b>	<b>Valuation metrics</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
SOTP	Recurring P/E (x)	4.87	4.29	4.04	3.81
	P/B (x)	0.6	0.6	0.5	0.5
	Dividend Yield (%)	5.3	6.1	6.4	6.8
<b>Key drivers</b>	<b>Income statement (MYRm)</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
i. Stronger-than-expected sales;	Insurance revenue	4,406	4,672	4,858	5,067
ii. Low claims ratio;	Incurred claims	(2,300)	(2,346)	(2,391)	(2,465)
iii. Substantial improvement in penetration rates.	Directly attributable expenses	(1,085)	(1,127)	(1,172)	(1,222)
	Reinsurance result	(228)	(353)	(368)	(383)
	Insurance service result	795	846	928	997
	Gross investment income	870	963	978	1,013
	Net fair value gains/(losses)	(410)	(70)	(72)	(75)
	Investment return	460	893	905	938
	Operating revenue	5,277	5,635	5,836	6,080
	Net financial result	(298)	(674)	(706)	(745)
	Other income/(expenses)	(149)	(158)	(164)	(172)
	Pre-tax profit	811	907	963	1,019
	Taxation	(232)	(247)	(262)	(276)
	Reported net profit	579	660	701	743
	Recurring net profit	579	660	701	743
<b>Key risks</b>	<b>Profitability ratios</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
i. Weaker-than-expected sales;	Claims ratio (%)	52.2	50.2	49.2	48.6
ii. Higher-than-expected claims;	Expense ratio (%)	27.9	27.5	27.5	27.5
iii. Weaker-than-expected investment returns.	Reinsurance ratio (%)	(5.2)	(7.6)	(7.6)	(7.6)
	Underwriting margin (%)	18.0	18.1	19.1	19.7
	Gross investment yield (%)	4.2	4.4	4.2	4.2
	Net investment yield (%)	2.2	4.0	3.9	3.9
	Return on average assets (%)	2.4	2.7	2.7	2.7
	Return on average equity (%)	13.1	13.6	13.3	12.7
	Dividend payout ratio (%)	26.0	26.0	26.0	26.0
<b>Company Profile</b>	<b>Balance sheet (MYRm)</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
Allianz Malaysia is part of the Allianz Group in Germany. It is an investment holding company with two wholly-owned subsidiaries, Allianz Life Insurance Malaysia (ALIM) and Allianz General (AGIC).	Tangible fixed assets	144	152	159	167
	Intangible assets	422	422	422	422
	Total investments	21,371	22,740	23,566	24,423
	Other assets	802	778	1,133	1,569
	Cash at bank	1,275	1,403	1,543	1,697
	Total assets	24,015	25,494	26,823	28,278
	Insurance contract liabilities	17,871	18,949	19,703	20,549
	Reinsurance contract liabilities	151	158	166	174
	Other liabilities	19,338	20,465	21,270	22,170
	Total liabilities	19,338	20,465	21,270	22,170
	Shareholders' equity	4,677	5,029	5,553	6,108
	Total equity	4,677	5,029	5,553	6,108
	Contractual service margin	2,931	3,043	3,184	3,352
	<b>Growth</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
	Insurance revenue growth (%)	0.0	6.0	4.0	4.3
	Investment result growth (%)	0.0	94.0	1.4	3.6
	Incurred claims growth (%)	0.0	2.0	1.9	3.1
	Contractual service margin growth (%)	0.0	3.8	4.6	5.3
	Net profit growth (%)	0.0	13.9	6.3	6.0
	EPS growth (%)	0.0	13.6	6.3	6.0

Source: Company data, RHB

Emissions And ESG

**Trend analysis**  
The group's baseline year is 2019, against which total emissions have declined by 71%. The absence of Scope 2 emissions is due to the group purchasing renewable energy certificates to offset its internal emissions.

Emissions (tCO2e)	Dec-20	Dec-21	Dec-22
Scope 1	652	384	777
Scope 2	0	0	0
Scope 3	790	471	943
Total emissions	1441	855	1720

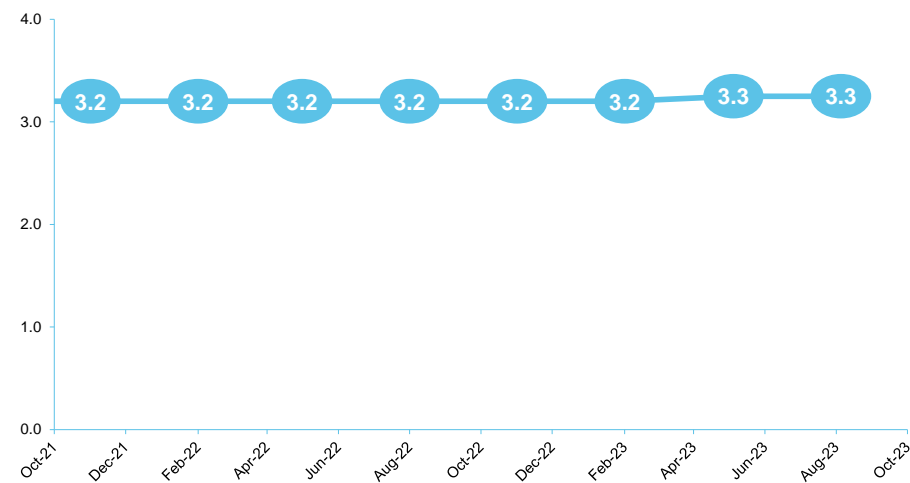
Source: Company data, RHB

Latest ESG-Related Developments

**Rahmah Insurance Initiative participant:** ALLZ recently announced the launch of several products under the Rahmah Insurance Initiative for extending affordable insurance services to the community, including one car insurance product and one life insurance product.

**Insurance for solar panels:** ALLZ also offers insurance solutions for residential and commercial users of solar panels – retail solar panel insurance recorded a 37% YoY growth in GWP in FY22.

ESG Rating History



Source: RHB

**Figure 1: Key changes to financial indicators post-MFRS17 adoption**

Indicator	MFRS4	MFRS17	As at
PATAMI (MYRm)	197.9	300.6	1H22
ROE (%)	9.5	13.3	1H22
Total assets (MYRm)	23,643.5	22,973.8	1 Jan 22
Total liabilities (MYRm)	19,499.3	18,488.5	1 Jan 22
Retained earnings (MYRm)	2,084.8	2,170.0	1 Jan 22
Life non-participating fund (MYRm)	1,241.5	1,493.9	1 Jan 22
Total equity (MYRm)	4,144.2	4,485.3	1 Jan 22

Source: Company data, RHB

**Figure 2: Adjustments to full-year earnings forecasts**

FYE Dec	Net profit (MYR m)			EPS (MYR)			DPS (MYR)		
	Previous	Revised	% Chg	Previous	Revised	% Chg	Previous	Revised	% Chg
2023F	519	660	27.2	2.96	3.71	25.2	0.68	0.96	41.7
2024F	561	701	24.9	3.17	3.94	24.3	0.71	1.02	44.3
2025F	586	743	26.7	3.31	4.17	26.1	0.78	1.09	39.1

Source: Company data, RHB

**Figure 3: Allianz – RHB net profit forecasts vs consensus**

	FY23F	FY24F	FY25F
RHB	659.7	701.0	742.8
Consensus	648.3	685.3	729.9

Source: Company data, RHB

## Valuation and TP

Our TP of MYR18.70 (from MYR18.20) is based on an SOP valuation.

For AGIC, we ascribe an unchanged GGM-derived 0.9x P/BV on its FY24F book value of MYR2.75bn (from MYR2.55bn under our MFRS4 forecasts).

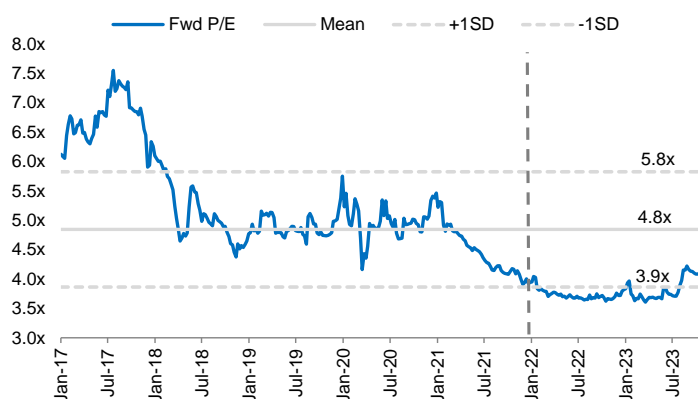
For ALIM, we applied an unchanged 1x P/EV on a MYR3.6bn embedded value (EV) assumption, as per management's latest guidance.

**Figure 4: Allianz – SOP valuation**

	Equity value (MYR m)	Multiple (x)	Valuation basis	Total (MYRm)
Allianz General	2,750	0.9	P/BV	2,503
Allianz Life	3,600	1.0	P/EV	3,600
				<b>6,103</b>
Outstanding shares (m)				178
ICPS (m)				168
<b>Fully-diluted outstanding shares (m)</b>				<b>346</b>
<b>SOP/Share</b>				<b>17.63</b>
ESG Premium				6%
<b>TP (rounded)</b>				<b>18.70</b>

Source: Company data, RHB

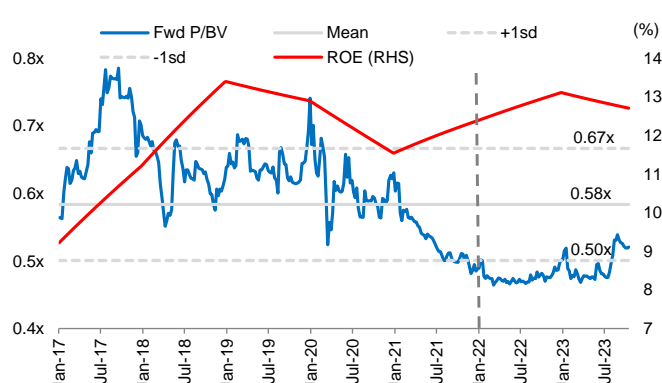
Figure 5: ALLZ's 12-month forward P/E\*



\*Note: Based on actual MFRS4 EPS up to FY21, and RHB MFRS17 forecasts FY22 onwards (indicated by the vertical line)

Source: Bloomberg, RHB

Figure 6: ALLZ's 12-month forward P/BV against ROE\*



\*Note: Based on actual MFRS4 EPS up to FY21, and RHB MFRS17 forecasts FY22 onwards (indicated by the vertical line)

Source: Bloomberg, RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-08-24	Buy	18.2	16.1
2023-05-30	Buy	16.7	14.4
2023-02-24	Buy	16.4	13.7
2022-11-24	Buy	16.4	13.4
2022-08-28	Buy	16.6	13.0
2022-02-24	Buy	17.9	12.7
2022-02-23	Buy	17.7	12.7
2021-11-26	Buy	17.7	12.8
2021-08-25	Buy	17.3	12.7
2021-02-24	Buy	18.2	13.8
2020-11-26	Buy	17.7	13.7
2020-05-03	Buy	16.7	14.1
2020-02-28	Buy	18.2	15.3
2019-11-28	Buy	16.3	14.6
2019-08-23	Buy	16.3	14.6

Source: RHB, Bloomberg

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