

27 October 2023

Financial Services | Insurance

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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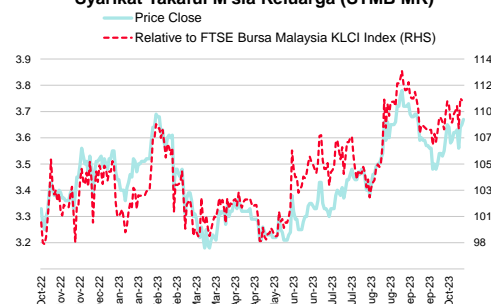
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Share Performance (%)

	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 myJalanan 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

Asia	Financial summary (MYR)	Dec-22	Dec-23F	Dec-24F	Dec-25F
Malaysia	EPS	0.34	0.43	0.48	0.50
Financial Services	Recurring EPS	0.34	0.43	0.48	0.50
Syarikat Takaful M'sia Keluarga	DPS	0.14	0.14	0.15	0.16
STMB MK	BVPS	1.69	1.97	2.30	2.65
Buy					
Valuation basis	Valuation metrics	Dec-22	Dec-23F	Dec-24F	Dec-25F
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%.					
Key drivers	Income statement (MYRm)	Dec-22	Dec-23F	Dec-24F	Dec-25F
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
Key risks	Profitability ratios	Dec-22	Dec-23F	Dec-24F	Dec-25F
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
Company Profile	Balance sheet (MYRm)	Dec-22	Dec-23F	Dec-24F	Dec-25F
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
	Growth	Dec-22	Dec-23F	Dec-24F	Dec-25F
	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

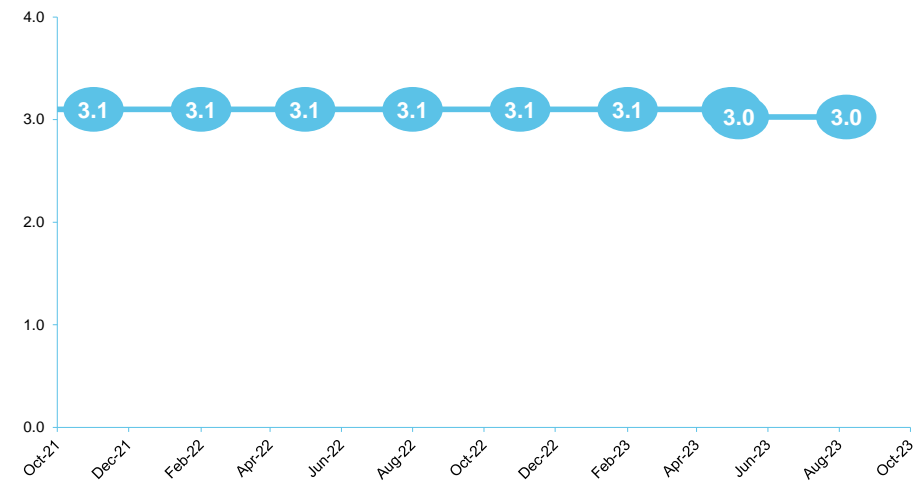
Source: Company data, RHB

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

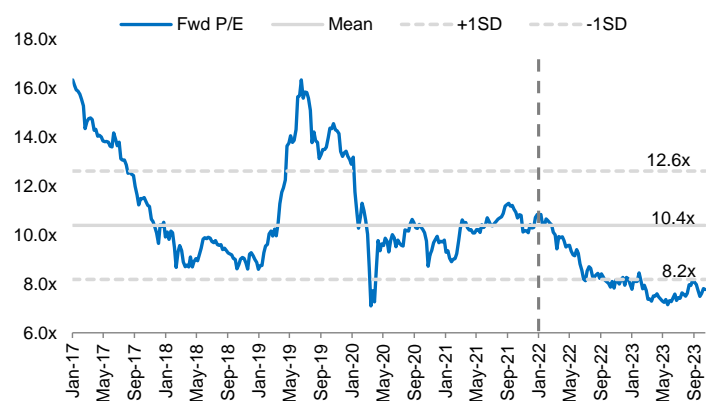
Post-transition, our TP remains at MYR4.30, and is based on a GGM-derived P/BV of 1.8x (near 1SD below the 5-year mean under MFRS4) with a zero ESG premium/discount applied. We maintain our long-term growth and cost of equity inputs from previously. There is no change to our TP, as the higher ROE assumption 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

Cost of equity (COE) computation:		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	TP (rounded)	MYR4.30

Source: Company data, RHB

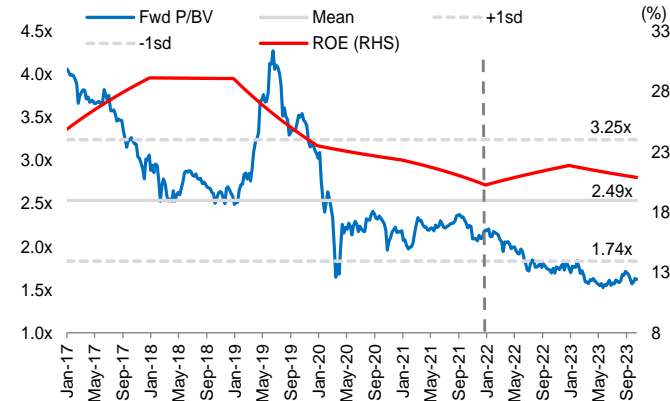
Figure 5: STMB's 12-month forward P/E*



*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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