

2 December 2024

Financial Services | Insurance

Syarikat Takaful M'sia Keluarga (STMB MK)

Buy (Maintained)

Higher Dividend Payouts In The Future?

Target Price (Return): MYR4.90 (29.6%)
Price (Market Cap): MYR3.78 (USD712m)
ESG score: 3.0 (out of 4)
Avg Daily Turnover (MYR/USD) 3.58m/0.83m

- **Stay BUY, new MYR4.90 TP (from MYR4.40), 30% upside, c.4% FY25F yield.** Syarikat Takaful Malaysia Keluarga's 9M24 results were in line with our and Street's estimates. *Takaful* revenue growth remained strong, potentially reflecting repricing efforts, though investment returns appear to be slowing down after a strong 1H24. We continue to like STMB for its leadership in the bright *takaful* space, whereas its new dividend reinvestment plan (DRP) could allow for higher dividend payouts in the future.
- **Results review.** 3Q24 net profit of MYR100.7m (+10% YoY, +8% QoQ) brought the 9M24 sum to MYR296.1m (+7% YoY), forming 72% and 76% of our and consensus' full-year estimates. For 9M, *takaful* revenue surged 36% YoY on strong revenue growth from both the Family (+39%) and General (+17%) funds. Underwriting margin slid 1ppt to 6.4%, but this was mitigated by better net investment and finance returns (+5%). On a sequential basis, we saw underwriting margin rebound QoQ to 10.8% (2Q24: 2.0%), which we think reflects its ongoing repricing efforts to mitigate rising claims costs. All in, 9M24 ROE stood at 22%, down 2ppts YoY due to the larger equity base.
- **Higher dividend payouts?** STMB announced a MYR0.17 interim DPS, which translates to a payout of 48% on 9M24 profits, and is likely the final dividend announcement for the year (per historical trends). This came ahead of our forecasted MYR0.15, and is a significant increase from the MYR0.14/42% payout announced in 9M23. We think the larger payout is sustainable, as STMB recently established a DRP, which would allow for greater conservation of capital, especially with evolving capital regulations. Note that investors are given the option to not exercise the DRP on the 9M24 DPS (ie receive full payment in cash). STMB currently maintains a capital adequacy ratio in excess of the current 130% regulatory minimum.
- **Risk fund analysis.** Repricing initiatives appear to be bearing fruit, especially on the Family *takaful* side, where 9M24 revenue growth (+39% YoY) exceeded claims growth (+30%) – this allowed the segment's underwriting surplus to expand by MYR175m. The general *takaful* segment looks to still be facing claims pressure, as 9M24 underwriting surplus remained flat despite the strong 17% YoY revenue growth. We also note the sequential decline in the Family fund's investment returns, which was impacted by marked-to-market losses (vs gains in 2Q24). This is not entirely concerning, as the global rate cut cycle could allow for some turnaround in investment returns in 4Q.
- **Forecasts trimmed by 3%** as we assume a higher effective tax rate, in line with the YTD showing. We roll forward our valuation year to FY25F, and as a result, our TP rises to MYR4.90 (from MYR4.40). Our TP includes an unchanged 0% ESG premium/discount.

Analysts

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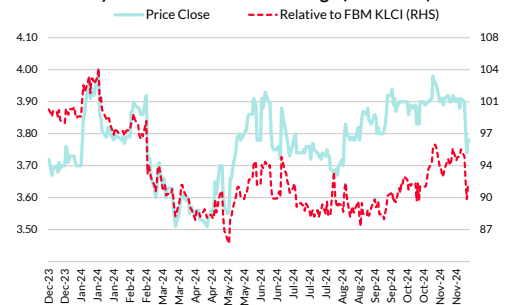
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	2.2	(5.0)	(1.8)	(3.1)	1.9
Relative	(7.4)	(3.7)	1.8	(2.4)	(8.3)
52-wk Price low/high (MYR)				3.51	4.00

Syarikat Takaful M'sia Keluarga (STMB MK)



Source: Bloomberg

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Reported net profit (MYRm)	283	347	397	412	432
Net profit growth (%)	-	22.6	14.5	3.8	4.7
Recurring net profit (MYRm)	283	347	397	412	432
Recurring EPS (MYR)	0.34	0.41	0.48	0.49	0.52
BVPS (MYR)	1.69	2.01	2.31	2.73	3.08
DPS (MYR)	0.14	0.14	0.17	0.16	0.17
Recurring P/E (x)	11.18	9.11	7.96	7.67	7.33
P/B (x)	2.2	1.9	1.6	1.4	1.2
Dividend Yield (%)	3.6	3.7	4.5	4.2	4.4
Return on average equity (%)	21.1	22.5	22.0	19.6	17.8

Source: Company data, RHB

Overall ESG Score: 3.0 (out of 4)

E: GOOD

As of the 2023 Annual Report, STMB has yet to disclose its Scope 1, 2 and 3 emissions. However, other environmental indicators such as water, paper and energy use, were down YoY. The group also has multiple ESG-linked offerings, including *takaful* protection plans for solar panels and electric vehicles.

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 - in 2023, employees received an average of 34 training hours (2022: 31 hours per employee).

G: EXCELLENT

The board consists of six independent directors and two non-independent directors, 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.

Financial Exhibits

Asia	Financial summary (MYR)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Malaysia	EPS	0.34	0.41	0.48	0.49	0.52
Financial Services	Recurring EPS	0.34	0.41	0.48	0.49	0.52
Syarikat Takaful M'sia Keluarga	DPS	0.14	0.14	0.17	0.16	0.17
STMB MK	BVPS	1.69	2.01	2.31	2.73	3.08
Buy						
Valuation basis	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
GGM-derived based on:	Recurring P/E (x)	11.18	9.11	7.96	7.67	7.33
i) CoE of 12.6%;	P/B (x)	2.2	1.9	1.6	1.4	1.2
ii) Long-term growth of 3.5% and;	Dividend Yield (%)	3.6	3.7	4.5	4.2	4.4
iii) Sustainable ROE of 19.8%.						
Key drivers	Income statement (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Our FY24F forecasts are most sensitive to changes in:	Insurance revenue	2,571	2,942	3,282	3,512	3,747
i. Takaful revenue;	Incurred claims	(2,012)	(2,015)	(2,074)	(2,172)	(2,315)
ii. Claim ratios; and	Directly attributable expenses	(349)	(556)	(923)	(995)	(1,064)
iii. Investment returns.	Reinsurance result	(3)	(197)	(59)	(61)	(65)
	Insurance service result	206	175	227	283	304
	Gross investment income	440	533	613	626	644
	Net fair value gains/(losses)	(50)	(3)	(16)	(81)	(83)
	Investment return	390	530	597	545	561
	Operating revenue	3,011	3,476	3,895	4,138	4,391
	Net financial result	(145)	(190)	(234)	(216)	(224)
	Other income/(expenses)	(8)	(9)	(5)	(6)	(6)
	Pre-tax profit	453	508	584	606	635
	Taxation	(170)	(161)	(187)	(194)	(203)
	Reported net profit	283	347	397	412	432
	Recurring net profit	283	347	397	412	432
Key risks	Profitability ratios	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Key risks include:	Claims ratio (%)	78.3	68.5	63.2	61.8	61.8
i. Slowdown in takaful sales;	Expense ratio (%)	13.5	19.1	28.3	28.5	28.6
ii. Higher claim ratios; and	Reinsurance ratio (%)	(0.1)	(6.7)	(1.8)	(1.7)	(1.7)
iii. Lower investment returns.	Underwriting margin (%)	8.0	5.9	6.9	8.1	8.1
	Gross investment yield (%)	10.2	6.0	6.3	6.1	6.1
	Net investment yield (%)	9.0	5.9	6.2	5.3	5.3
	Return on average assets (%)	2.1	2.6	3.0	3.1	3.2
	Return on average equity (%)	21.1	22.5	22.0	19.6	17.8
	Dividend payout ratio (%)	39.9	33.8	35.8	32.0	32.0
Company Profile	Balance sheet (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Syarikat Takaful Malaysia Keluarga provides shariah-compliant general and family insurance whereby the risk is voluntarily and collectively shared by a group of participants.	Tangible fixed assets	324	333	348	363	379
	Intangible assets	18	25	25	25	25
	Total investments	8,622	9,260	10,103	10,390	10,684
	Other assets	890	2,447	3,192	4,459	5,555
	Cash at bank	2,067	851	937	1,030	1,133
	Total assets	13,296	14,408	16,245	18,071	19,761
	Other liabilities	11,852	12,693	14,275	15,755	17,149
	Total liabilities	11,852	12,693	14,275	15,755	17,149
	Shareholders' equity	1,410	1,679	1,934	2,281	2,577
	Total equity	1,443	1,714	1,969	2,316	2,612
	Contractual service margin	1,245	1,218	1,376	1,524	1,662
	Growth	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Insurance revenue growth (%)	0.0	14.5	11.5	7.0	6.7
	Investment result growth (%)	0.0	35.9	12.6	(8.6)	2.9
	Incurred claims growth (%)	0.0	0.2	2.9	4.7	6.6
	Contractual service margin growth (%)	20.5	(2.2)	13.0	10.7	9.1
	Net profit growth (%)	0.0	22.6	14.5	3.8	4.7
	EPS growth (%)	0.0	22.6	14.5	3.8	4.7

Source: Company data, RHB

Results At a Glance

Figure 1: STMB's 3Q24 and 9M24 results review

FYE Dec (MYRm) – Group	3Q23	2Q24	3Q24	% YoY	% QoQ	9M23	9M24	% YoY	Comments
Operating revenue	775.3	1,004.1	1,109.1	43%	10%	2,412.4	3,141.7	30%	Sum of <i>takaful</i> revenue and investment income.
Takaful revenue	639.5	862.5	976.0	53%	13%	2,014.4	2,730.7	36%	Driven by double-digit YoY growth from both Family and General <i>takaful</i> . We think this potentially reflects ongoing repricing efforts on both Family and General <i>takaful</i> coverage.
Takaful service expenses	(523.3)	(842.3)	(861.5)	65%	2%	(1,705.7)	(2,534.4)	49%	
<i>Claims incurred</i>	(511.1)	(682.9)	(682.6)	34%	0%	(1,447.4)	(1,987.4)	37%	
<i>Directly attributable expenses and Wakalah fees</i>	(11.8)	(142.0)	(168.7)	>100%	19%	(253.7)	(517.5)	>100%	
<i>(Losses)/reversal of losses on onerous contracts</i>	(0.4)	(17.4)	(10.2)			(4.6)	(29.4)		
<i>Others</i>	0.0	0.0	0.0			0.0	0.0		
Retakaful income/(expense)	(66.8)	(3.2)	(9.2)	-86%	>100%	(163.1)	(21.0)	-87%	
Takaful service result	49.4	17.0	105.2	>100%	>100%	145.5	175.3	20%	
Underwriting margin (%)	7.7	2.0	10.8			7.2	6.4		Margin pressure driven by higher claims and directly attributable expenses.
Investment income	135.8	141.6	133.1	-2%	-6%	398.1	411.0	3%	
Fair value gains/(losses)	5.4	45.2	(36.3)			(4.9)	31.3		
Investment return	141.2	186.8	96.8	-31%	-48%	393.1	442.3	12%	
Net <i>takaful</i> finance expenses	(55.7)	(65.0)	(52.0)	-7%	-20%	(140.5)	(176.7)	26%	In tandem with greater investment return.
Net investment and finance result	85.5	121.8	44.8	-48%	-63%	252.7	265.6	5%	
Other non-attributable income/(expense)	(4.0)	(2.2)	(1.7)			(5.8)	(5.6)		
PBT	130.9	136.6	148.3	13%	9%	392.3	435.2	11%	
Tax expense	(39.8)	(43.0)	(47.8)	20%	11%	(115.5)	(138.8)	20%	
ETR (%)	30.4	31.4	32.2			29.4	31.9		Higher than the statutory tax rate due to a greater amount of non-deductible expenses.
PAT	91.1	93.7	100.5	10%	7%	276.8	296.5	7%	
Minority interest	0.0	(0.6)	0.1			(0.2)	(0.4)		
PATAMI	91.1	93.1	100.7	10%	8%	276.6	296.1	7%	Formed 72%/76% of our/consensus' full-year estimates.

Source: Company data, RHB

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Figure 2: STMB – family takaful's 3Q24 and 9M24 results

FYE Dec (MYRm) – Family	3Q23	2Q24	3Q24	% YoY	% QoQ	9M23	9M24	% YoY
Operating revenue	528.1	523.8	519.9	-2%	-1%	1,074.3	1,515.4	41%
Takaful revenue	523.5	479.6	555.0	6%	16%	1,070.4	1,484.2	39%
Takaful service expenses	(593.7)	(587.9)	(579.5)	-2%	-1%	(1,249.6)	(1,698.7)	36%
Claims incurred	(348.5)	(425.7)	(399.1)	15%	-6%	(925.1)	(1,202.3)	30%
Directly attributable expenses and Wakalah fees	(245.3)	(162.2)	(180.4)	-26%	11%	(379.0)	(496.4)	31%
(Losses)/reversal of losses on onerous contracts	0.0	0.0	0.0			0.0	0.0	
Others	0.0	0.0	0.0			0.0	0.0	
Retakaful income/(expense)	6.7	9.7	2.7	-60%	-73%	(6.2)	16.4	>100%
Takaful service result	(63.5)	(98.6)	(21.8)	-66%	-78%	(185.3)	(198.1)	7%
Investment income	93.0	101.0	93.3	0%	-8%	269.7	290.8	8%
Fair value gains/(losses)	4.6	44.2	(35.0)			3.8	31.2	
Investment return	97.6	145.3	58.2	-40%	-60%	273.5	322.0	18%
Net takaful finance expenses	(34.2)	(45.9)	(36.5)	7%	-21%	(87.7)	(122.7)	40%
Net investment and finance result	63.5	99.3	21.7	-66%	-78%	185.8	199.3	7%
Other non-attributable income/(expense)	0.1	(0.7)	0.1			(0.5)	(1.1)	
PBT	0.0	(0.0)	(0.0)			0.0	0.0	
CSM – end period	1,321.0	1,227.0	1,232.0	-7%	0%			
New business value/CSM at inception	84.0	56.0	44.0	-48%	-21%			
CSM release	(54.0)	(59.0)	(57.0)	6%	-3%			

Source: Company data, RHB

Figure 3: STMB – general takaful's 3Q24 and 9M24 results

FYE Dec (MYRm) – General	3Q23	2Q24	3Q24	% YoY	% QoQ	9M23	9M24	% YoY
Operating revenue	332.7	366.3	377.7	14%	3%	933.4	1,094.4	17%
Takaful revenue	332.7	366.3	377.7	14%	3%	932.4	1,094.4	17%
Takaful service expenses	(265.3)	(365.9)	(375.5)	42%	3%	(805.0)	(1,091.6)	36%
Claims incurred	(144.4)	(181.8)	(221.5)	53%	22%	(425.0)	(631.0)	48%
Directly attributable expenses and Wakalah fees	(121.1)	(123.8)	(118.1)	-2%	-5%	(338.5)	(363.7)	7%
(Losses)/reversal of losses on onerous contracts	0.0	0.0	0.0			0.0	0.0	
Others	0.1	(60.4)	(35.9)			(41.6)	(96.9)	
Retakaful income/(expense)	(75.0)	(8.7)	(9.3)	-88%	7%	(150.9)	(26.2)	-83%
Takaful service result	(7.6)	(8.3)	(7.1)	-7%	-15%	(23.5)	(23.4)	0%
Investment income	12.7	14.9	13.4	5%	-10%	37.3	42.4	14%
Fair value gains/(losses)	0.0	0.0	0.0			1.0	0.0	
Investment return	12.7	14.9	13.4	5%	-10%	38.3	42.4	11%
Net takaful finance expenses	(5.1)	(6.6)	(6.3)	23%	-4%	(14.5)	(19.1)	32%
Net investment and finance result	7.6	8.3	7.1	-7%	-15%	23.8	23.3	-2%
Other non-attributable income/(expense)	0.0	0.0	0.0			(0.3)	0.1	
PBT	0.0	(0.0)	(0.0)			0.0	(0.0)	

Source: Company data, RHB

Figure 4: Adjustments to full-year earnings forecasts

FYE Dec	Net profit (MYR m)			Diluted EPS (MYR)			DPS (MYR)		
	Previous	Revised	% Chg	Previous	Revised	% Chg	Previous	Revised	% Chg
2024F	399	397	-2.8	0.49	0.48	-2.8	0.16	0.17	6.3
2025F	426	412	-3.1	0.51	0.49	-3.1	0.16	0.16	-3.1
2026F	445	432	-3.1	0.53	0.52	-3.1	0.17	0.17	-3.1

Source: Company data, RHB

The main change to our earnings forecasts was to the effective tax rate, where we assume a higher rate of 32% (from 30%) in line with the YTD showing. We also adjust our revenue, claims, and investment returns assumptions slightly, but these had a minimal net effect on the bottomline.

Our DPS assumption for FY24F is raised to the interim level of MYR0.17 declared (36% payout on our full-year forecast). For FY25-26F, we keep our payout assumption unchanged at 32%, pending further clarity from management on the dividend outlook.

Valuation and TP

Our TP is raised to MYR4.90 (from MYR4.40), and is based on a GGM-derived P/BV of 1.80x (previously 1.86x). Key changes to our model inputs include: i) A lower ROE assumption of 19.8% from 20.3%, in line with the earnings forecast changes; and ii) a higher BVPS of MYR2.73 from MYR2.35, as we roll forward our valuation year to FY25F.

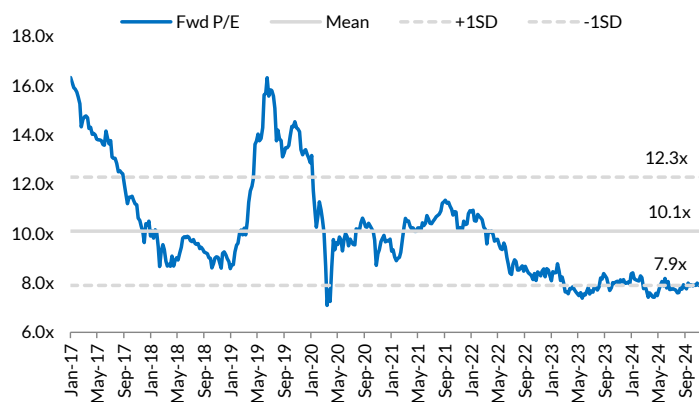
We continue to like STMB for its strong leadership in the bright *takaful* space, including pioneering the digital *takaful* offering "Kaotim" to expand its reach to a larger clientele. Valuations are also undemanding, with the counter trading at c.1.5x P/BV despite commanding mid-teens/low-20% ROE.

Figure 5: STMB – GGM valuation

Cost of equity (COE) computation:		Sustainable ROE (%)	19.8
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)	1.80
Cost of equity - CAPM (%)	12.6	BVPS – FY24F	MYR2.73
ESG premium/ (discount)	0	Target price	MYR4.90
		TP (rounded)	MYR4.90

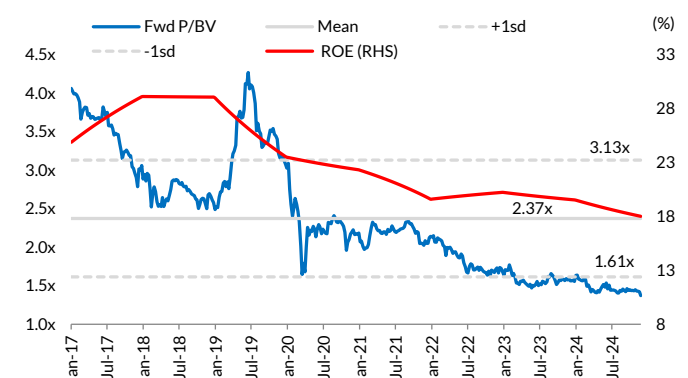
Source: Company data, RHB

Figure 6: STMB's 12-month forward P/E



Source: Bloomberg, RHB

Figure 7: STMB's 12-month forward P/BV against ROE



Source: Bloomberg, RHB

Emissions And ESG

Trend analysis

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. These indicators demonstrated an increasing trend in FY22, though we suspect this is largely due to the full reopening of the economy.

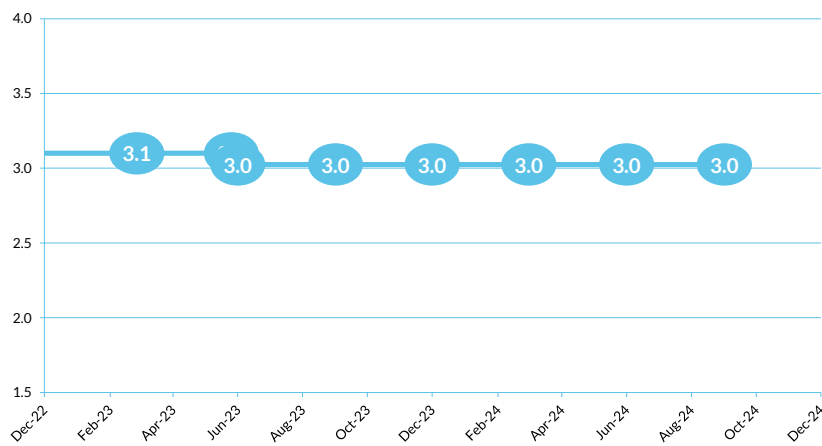
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	-	-	na
Scope 2	-	-	na
Scope 3	-	-	na
Total emissions	na	na	na

Source: Company data, RHB

Latest ESG-Related Developments

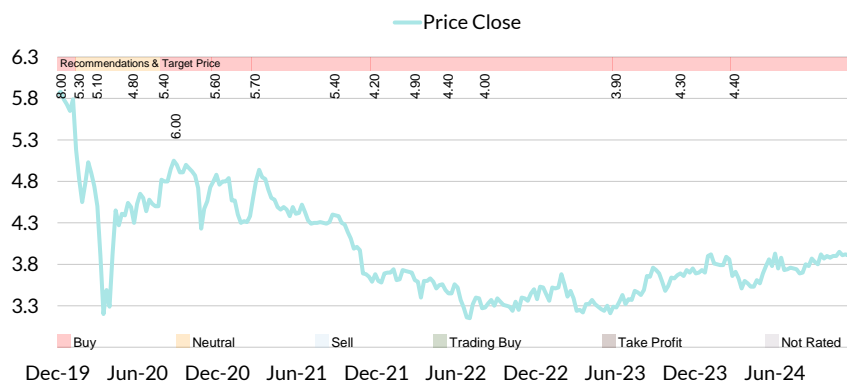
- **Takaful protection for solar panels:** STMB recently launched a takaful protection plan for solar panels, insuring customers against risks such as fire, lightning, storms and accidents.
- **Additional ESG-linked offerings:** STMB has plans to launch a takaful plan with a charity feature, in which 5% of contributions will be donated to orphanages.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-05-28	Buy	4.40	3.91
2024-02-27	Buy	4.40	3.73
2023-10-26	Buy	4.30	3.67
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

Source: RHB, Bloomberg

RHB Guide to Investment Ratings

Buy:	Share price may exceed 10% over the next 12 months
Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
Take Profit:	Target price has been attained. Look to accumulate at lower levels
Sell:	Share price may fall by more than 10% over the next 12 months
Not Rated:	Stock is not within regular research coverage

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