

26 November 2024

Financial Services | Insurance

## Allianz Malaysia (ALLZ MK)

**Buy** (from Neutral)

### Defensive Traits To Shine; Upgrade To BUY

- **Upgrade to BUY from Neutral, TP rises to MYR24.40 from MYR21.70, 20% upside with c.6% FY25F yield.** We came away from Allianz Malaysia's 3Q24 results briefing feeling assured of the group's earnings prospects, underpinned by its sustained revenue growth and prudent cost management. We turn more positive on the counter, as we believe its defensive traits could provide investors with a safe haven in periods of market volatility.
- **A defensive pick to tide through volatile times.** ALLZ could provide investors with a shelter against the current volatile market climate, given its following defensive traits: i) It has a dominant presence in Malaysia, with the top market share in general insurance and fourth largest market share in life insurance; ii) its earnings stability is underpinned by continued topline growth and prudent cost management; iii) its decent dividend yields of 5-6% are among the highest in the non-bank financial institutions sector.
- **Results briefing highlights.** In 3Q24, ALLZ had recognised c.MYR88m in expenses related to FX adjustments on its investment-linked funds with exposure to the USD. Since the USD has re-strengthened to a certain extent against the MYR in QTD-4Q24, management expects some reversal of this expense in 4Q24. Elsewhere, Allianz Life Insurance (ALIM) customers appear to be receiving its repricing initiatives well, as the block persistency ratio gained 2ppts YoY to almost 88% (ie 88% of existing regular premium life insurance customers renew their policies with ALIM). Looking ahead, ALIM will closely monitor claims cases to mitigate further underwriting margin pressure. At the same time, the group will continue investing in recruitment and productivity measures to boost its agency force.
- **Combined ratio to ease.** Allianz General Insurance (AGIC) reported a higher combined ratio of 89% in 9M24, up 3ppts YoY. This was partly due to a low base, as AGIC has seen an upward normalisation of large-ticket claims from its fire and engineering customers YTD. In QTD-4Q24, management has not noted significant abnormalities in large-ticket claims, and it is also working with clients to reprice their policies – these are mostly customers with over 10 years of relationship with AGIC. Also note that the bulk of AGIC's portfolio still comes from motor insurance (almost 70%), which has a greater claims frequency, but at much smaller ticket sizes per claim.
- **Forecasts and TP.** We trim FY24-26F earnings by 2% (for each year) post-3Q24 results as we lift our combined ratio assumptions for AGIC. Nevertheless, there could be scope for an upside surprise on earnings – especially if new car sales, ALIM's agency strategies, and co-payment measures turn out to be more robust than anticipated. We raise our TP to MYR24.40 from MYR21.70, as we now ascribe a higher target P/BV of 1.4x to AGIC. Our TP includes an unchanged 6% ESG premium, as ALLZ's ESG score is three notches above the country median.

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Reported net profit (MYRm)	594	720	732	773	826
Net profit growth (%)	-	21.2	1.6	5.5	6.9
Recurring net profit (MYRm)	614	731	732	773	826
Recurring EPS (MYR)	3.46	4.11	4.11	4.34	4.64
BVPS (MYR)	26.35	28.88	32.26	35.50	38.97
DPS (MYR)	0.85	1.01	1.07	1.13	1.21
Recurring P/E (x)	5.86	4.93	4.93	4.67	4.37
P/B (x)	0.8	0.7	0.6	0.6	0.5
Dividend Yield (%)	4.2	5.0	5.3	5.6	6.0
Return on average equity (%)	13.5	14.7	13.5	12.8	12.5

Source: Company data, RHB

Target Price (Return): MYR24.40 (+20%)  
Price (Market Cap): MYR20.30 (USD817m)  
ESG score: 3.3 (out of 4)  
Avg Daily Turnover (MYR/USD) 0.49m/0.11m

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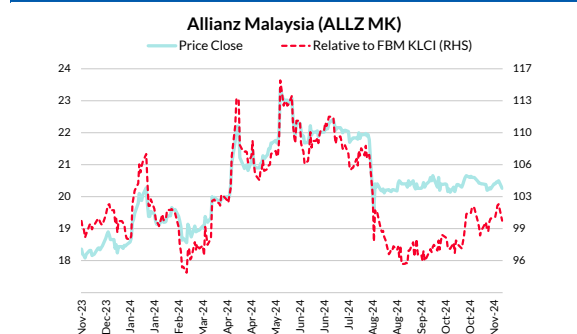


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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	9.9	(1.9)	0.2	(11.6)	10.8
Relative	0.1	(0.6)	2.6	(10.2)	0.9
52-wk Price low/high (MYR)				18.1	23.4



Source: Bloomberg

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

##### E: GOOD

In FY23, the group recorded a 74% decrease in total greenhouse gas emissions against the baseline year of 2019. It achieved 100% 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.

##### S: GOOD

ALLZ's efforts towards community development are managed by its corporate responsibility arm, Allianz4Good. It is also heavily involved in social and financial inclusion, through active participation in the Rahmah insurance initiative. Employees have access to the United Nations 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 (UN) Environment Programme. Domestically, ALLZ is also a member of the UN Global Compact Network Malaysia & Brunei. The group's 2023 sustainability statement was externally assured by an independent assurance provider.

## Financial Exhibits

<b>Asia</b>	<b>Financial summary (MYR)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
Malaysia	EPS	3.35	4.05	4.11	4.34	4.64
Financial Services	Recurring EPS	3.46	4.11	4.11	4.34	4.64
<b>Allianz Malaysia</b>	DPS	0.85	1.01	1.07	1.13	1.21
ALLZ MK	BVPS	26.35	28.88	32.26	35.50	38.97
Buy						
<b>Valuation basis</b>	<b>Valuation metrics</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
SOP	Recurring P/E (x)	5.86	4.93	4.93	4.67	4.37
	P/B (x)	0.8	0.7	0.6	0.6	0.5
	Dividend Yield (%)	4.2	5.0	5.3	5.6	6.0
<b>Key drivers</b>	<b>Income statement (MYRm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
i. Stronger-than-expected sales;	Insurance revenue	4,419	4,942	5,486	5,799	6,082
ii. Low claims ratio;	Incurred claims	(2,277)	(2,645)	(3,050)	(3,057)	(3,124)
iii. Substantial improvement in penetration rates.	Directly attributable expenses	(1,071)	(1,252)	(1,395)	(1,476)	(1,527)
	Reinsurance result	(277)	(229)	(303)	(384)	(435)
<b>Key risks</b>	Insurance service result	794	817	739	882	997
i. Weaker-than-expected sales;	Gross investment income	632	666	1,127	1,195	1,238
ii. Higher-than-expected claims;	Net fair value gains/(losses)	(10)	476	688	123	128
iii. Weaker-than-expected investment returns.	Investment return	621	1,142	1,815	1,319	1,366
	Operating revenue	5,050	5,608	6,613	6,995	7,321
<b>Company Profile</b>	Net financial result	(369)	(832)	(1,383)	(1,006)	(1,092)
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 Berhad (ALIM) and Allianz General (AGIC).	Other income/(expenses)	(174)	(170)	(207)	(179)	(184)
	Pre-tax profit	854	946	963	1,016	1,087
	Taxation	(260)	(226)	(231)	(244)	(261)
	Reported net profit	594	720	732	773	826
	Recurring net profit	614	731	732	773	826
	<b>Profitability ratios</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Claims ratio (%)	51.5	53.5	55.6	52.7	51.4
	Expense ratio (%)	28.6	29.0	29.2	28.5	28.1
	Reinsurance ratio (%)	(6.3)	(4.6)	(5.5)	(6.6)	(7.1)
	Underwriting margin (%)	18.0	16.5	13.5	15.2	16.4
	Gross investment yield (%)	3.1	3.0	4.4	4.2	4.2
	Net investment yield (%)	3.0	5.1	7.2	4.7	4.7
	Return on average assets (%)	2.5	2.9	2.7	2.6	2.6
	Return on average equity (%)	13.5	14.7	13.5	12.8	12.5
	Dividend payout ratio (%)	25.4	24.8	26.0	26.0	26.0
	<b>Balance sheet (MYRm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Tangible fixed assets	144	161	169	177	186
	Intangible assets	422	426	426	426	426
	Total investments	21,371	23,052	27,651	28,653	29,692
	Other assets	802	722	(1,265)	(598)	(59)
	Cash at bank	1,275	1,562	1,718	1,890	2,079
	Total assets	24,015	25,922	28,698	30,548	32,323
	Insurance contract liabilities	17,871	19,316	21,445	22,669	23,775
	Reinsurance contract liabilities	151	70	73	77	81
	Other liabilities	19,338	20,781	22,956	24,229	25,387
	Total liabilities	19,338	20,781	22,956	24,229	25,387
	Shareholders' equity	4,677	5,141	5,741	6,318	6,936
	Total equity	4,677	5,141	5,741	6,318	6,936
	Contractual service margin	2,931	3,248	3,529	3,750	3,969
	<b>Growth</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Insurance revenue growth (%)	0.0	11.8	11.0	5.7	4.9
	Investment result growth (%)	0.0	83.8	58.9	(27.3)	3.6
	Incurred claims growth (%)	0.0	16.2	15.3	0.2	2.2
	Contractual service margin growth (%)	0.0	10.8	8.6	6.3	5.8
	Net profit growth (%)	0.0	21.2	1.6	5.5	6.9
	EPS growth (%)	0.0	20.9	1.6	5.5	6.9

Source: Company data, RHB

Figure 1: 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	750	732	-2.4	2.17	2.11	-2.4	1.10	1.07	-2.4
2025F	791	773	-2.4	2.29	2.23	-2.4	1.16	1.13	-2.4
2026F	843	826	-2.1	2.44	2.39	-2.1	1.23	1.21	-2.1

Source: Company data, RHB

Figure 2: Adjustments to key assumptions

FYE Dec	AGIC PBT (MYRm)			ALIM PBT (MYRm)			Contractual Service Margin (MYRm)		
	Previous	Revised	% Chg	Previous	Revised	% Chg	Previous	Revised	% Chg
2024F	529	506	-4.4	458	457	0.0	3,425	3,529	3.0
2025F	578	553	-4.3	463	463	0.0	3,627	3,750	3.4
2025F	631	608	-3.7	478	479	0.0	3,828	3,969	3.7

Source: Company data, RHB

## Valuation and TP

Our TP of MYR24.40 (from MYR21.70) is based on an SOP valuation.

For AGIC, we ascribe a higher P/BV of 1.4x (from 1.2x) – this is now within the 1.4-1.7x range of the previous three domestic general insurance M&A deals. We also roll forward our valuation base year to FY25F.

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

Figure 3: ALLZ's SOP valuation

	Equity value (MYR m)	Multiple (x)	Valuation basis	Total (MYRm)
Allianz General	3,132	1.4	P/BV	4,385
Allianz Life	3,600	1.0	P/EV	3,600
				<b>7,985</b>
Outstanding shares (m)				178
ICPS (m)				168
Fully-diluted outstanding shares (m)				<b>346</b>
SOP/Share				<b>23.06</b>
ESG Premium				6%
TP (rounded)				<b>24.40</b>

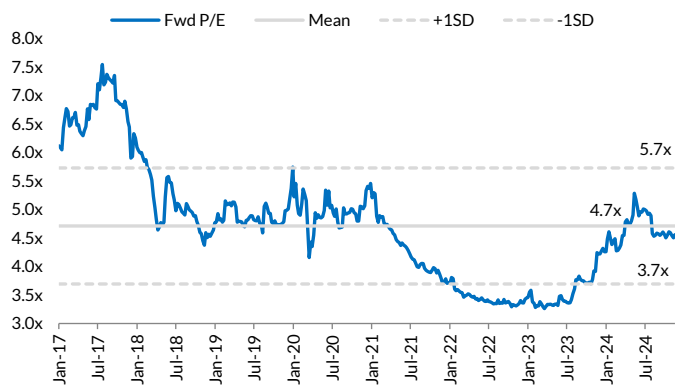
Source: Company data, RHB

Figure 3: Deal multiples of most recent general insurance M&amp;A deals in Malaysia

Year	Acquirer	Acquiree	% acquired	Consideration (MYRbn)	Deal P/BV (x)
2014	Liberty Mutual Insurance	Uni Asia Capital	68	0.38	1.1
2014	Sanlam Emerging Markets	MCIS Zurich	51	0.39	1.7
2022	Generali NV Asia	AXA Affin General Insurance	3	0.08	2.1
2022	Generali NV Asia	MPI Generali Insurans	51	0.51	1.4
2022	Liberty Insurance	AmGeneral Insurance	100	2.29	1.4
2024	Public Bank	LPI Capital	44	1.72	1.7

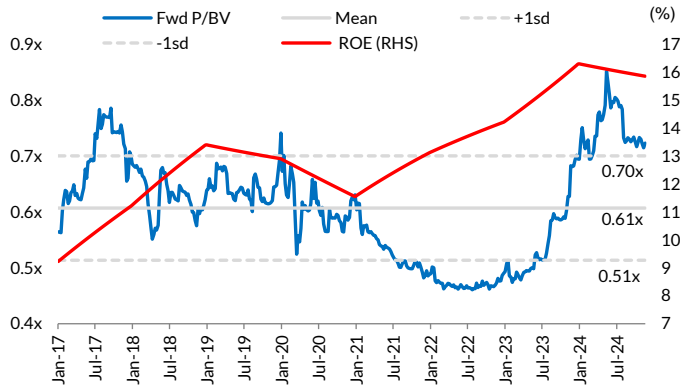
Source: Company data

Figure 4: Allianz's 12-month forward P/E



Source: Bloomberg, RHB

Figure 5: Allianz's 12-month forward P/BV vs ROE



Source: Bloomberg, RHB

## Emissions And ESG

### Trend analysis

ALLZ's baseline year for emissions is 2019. Against this baseline, the group has recorded a 74% decline. The absence of Scope 2 emissions is due to the group purchasing RE certificates to offset its internal emissions.

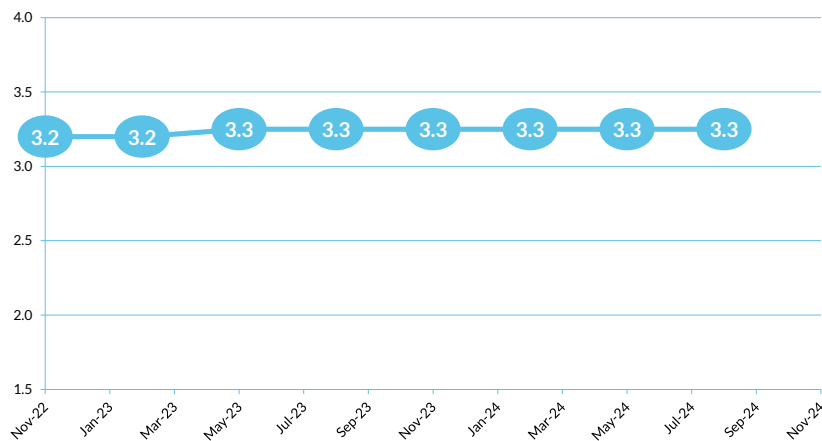
Emissions (tCO <sub>2</sub> e)	Dec-21	Dec-22	Dec-23
Scope 1	384	777	34
Scope 2	-	-	na
Scope 3	471	943	1,478
Total emissions	855	1,720	1,512

Source: Company data, RHB

## Latest ESG-Related Developments

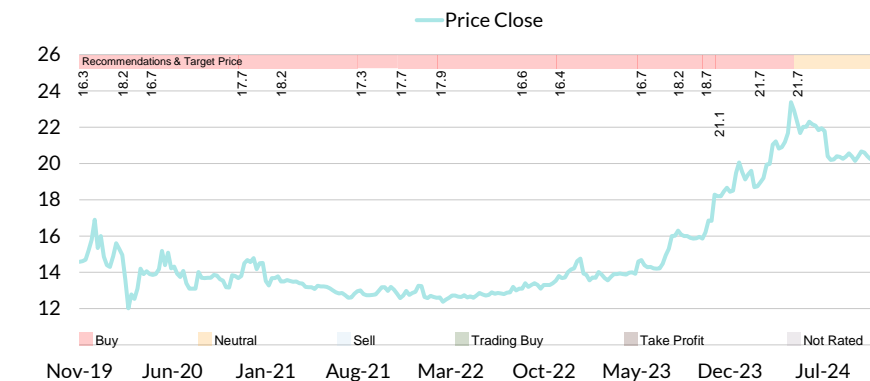
- Rahmah Insurance Initiative participant:** ALLZ recently announced the launch of several products under the Rahmah Insurance Initiative, extending affordable insurance services to the community. These include one car insurance product and one life insurance product.
- Insurance for solar panels:** ALLZ also offers insurance solutions for residential and commercial users of solar panels. Its retail solar panel insurance segment recorded a 37% YoY growth in GWP in FY22.

## ESG Rating History



Source: RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-05-24	Neutral	21.7	22.9
2024-02-27	Buy	21.7	19.1
2023-11-26	Buy	21.1	18.3
2023-10-26	Buy	18.7	15.9
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

Source: RHB, Bloomberg

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<b>Buy:</b>	Share price may exceed 10% over the next 12 months
<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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<b>Not Rated:</b>	Stock is not within regular research coverage

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