

5 February 2024

Financial Services | Non-Bank Financials

Non-Bank Financials

Neutral (From Overweight)

Look To The Laggards; D/G To NEUTRAL

- **Downgrade to NEUTRAL from Overweight.** Sector earnings growth should hold up in 2024, supported by a decent macroeconomic backdrop. We remain bullish on the insurers, but are more selective towards the non-bank lenders given the sub-sector's mixed risk-reward offerings. We downgrade the sector to a NEUTRAL as we believe valuation has caught up to fundamentals, and advocate a laggard play for the sector – Aeon Credit Service (ACSM) and Syarikat Takaful M'sia Keluarga (STMB) are our Top Picks.
- **Insurance: Total returns still decent.** We are expecting a moderate year for insurers under our coverage for two key reasons: i) An expected slowdown in car sales coming off a record-high year in FY23; and ii) moderation in total investment returns, largely due to an absence of the low-base effect. Nevertheless, stabilising claims and reinsurance costs, as well as a pickup in life insurance/family *takaful* contributions should enable mid-single digit bottomline growth, at the least. Capital upside could come from a gradual pricing out of Malaysia Financial Reporting Standards 17 (MFRS17) concerns, while yields of 4-5% are decent.
- **Non-bank lenders: Stay selective.** Receivables growth in CY24 should more or less track current targets – low-double digit for ACSM and ELK-Desa Resources, and mid-single digit for RCE Capital. However, we are cognisant of valuations being stretched for certain counters after a decent showing in CY23. Our preferred pick for the sub-sector is still ACSM for its undemanding valuation (0.9x P/BV vs 14% ROE) and sizable presence in multiple states to anchor its growth on. While EPS growth will undoubtedly be hindered by start-up losses from its soon-to-launch digital bank, we believe the investment will pay dividends in the medium to long term via new customer acquisition and cross-selling opportunities.
- **Bursa Malaysia: Positives already priced in.** BURSA's share price has performed decently YTD, having added 8% since the start of the year and 21% since Jun 2023. While management is upbeat on an improvement in securities average daily value (SADV) in 2024, we believe the market has largely priced in these expectations. On the other hand, BURSA's ventures into new territories (carbon markets, debt fundraising, etc) are unlikely to contribute meaningfully to its topline in the medium term. We are NEUTRAL on the local exchange – the biggest upside risk could come from better-than-expected SADV (our 2024 SADV forecast: MYR2.7bn), while downside risk could come from greater-than-expected opex.
- **Look to the laggards.** After a year of compelling share price performances sector-wide in 2023, we believe valuation has caught up to fundamentals. In 2024, we turn to the two laggards, ACSM and STMB. Both are demonstrating healthy fundamentals and possess bright growth prospects (ACSM EPS growth: +14% ex-digital bank losses in FY25F (Feb), STMB EPS growth: +10% in FY24 (Dec)), but respectively trading at significant discounts to historical mean valuations. On the flipside, stretched valuations for certain counters present a profit-taking opportunity.

Stocks Covered 6
Rating (Buy/Neutral/Sell): 3 / 1 / 2
Last 12m Earnings Revision Trend: Positive

Top Picks

Aeon Credit (ACSM MK) – BUY
Syarikat Takaful M'sia Keluarga (STMB MK) – BUY

Target Price

MYR7.00
MYR4.30

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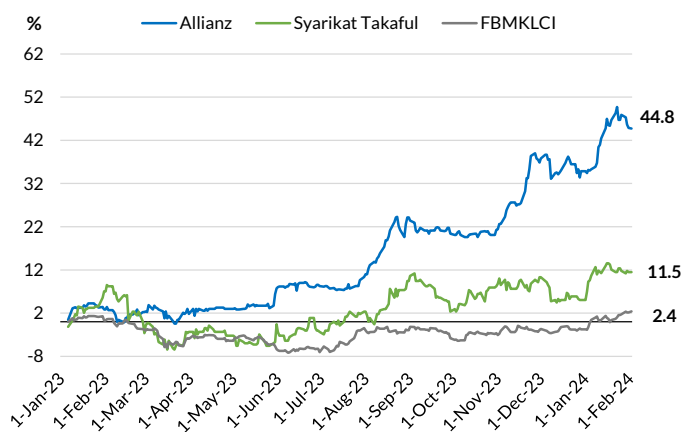
Company Name	Rating	Target (MYR)	% Upside (Downside)	P/E (x) Dec-24F	P/B (x) Dec-24F	ROAE (%) Dec-24F	Yield (%) Dec-24F
AEON Credit Service	Buy	7.00	18.8	7.8	1.1	14.4	3.9
Allianz Malaysia	Buy	21.10	10.4	4.7	0.6	13.5	5.5
Bursa Malaysia	Neutral	7.90	5.5	22.6	7.1	32.1	4.0
ELK-Desa Resources	Sell	1.05	(11.8)	12.5	1.1	8.8	5.0
RCE Capital	Sell	2.30	(26.0)	15.2	2.6	17.5	4.9
Syarikat Takaful M'sia Keluarga	Buy	4.30	13.5	8.0	1.6	22.3	4.0

Source: Company data, RHB

5 February 2024

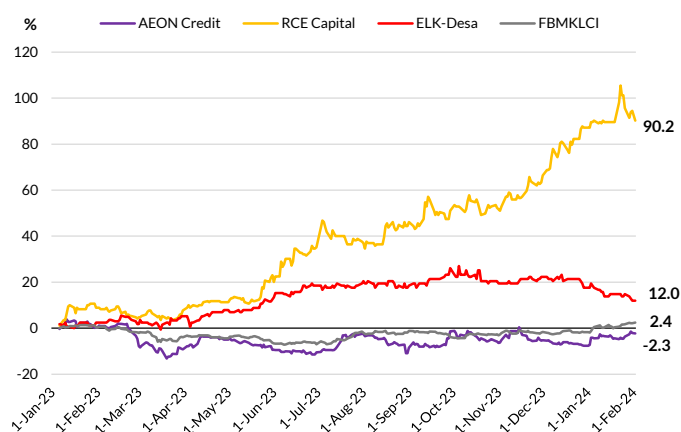
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Figure 1: Insurers' share prices gained post 1Q23 results given more clarity on MFRS17 adoption, with STMB being a slight laggard possibly due to less attractive yield



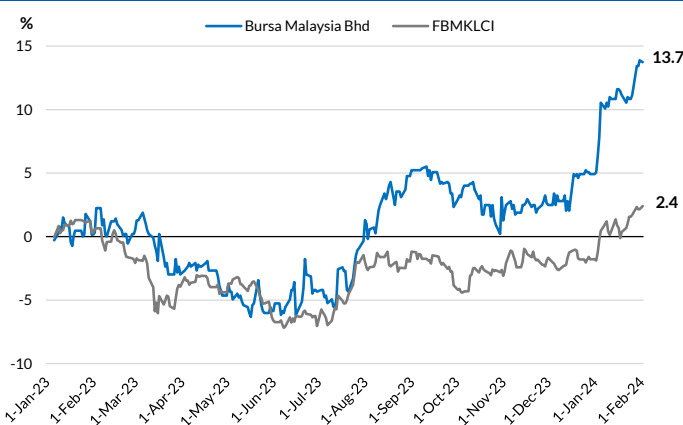
Source: Bloomberg, RHB

Figure 2: ACSM is a laggard likely on concerns surrounding its share of start-up losses from the digital banking venture



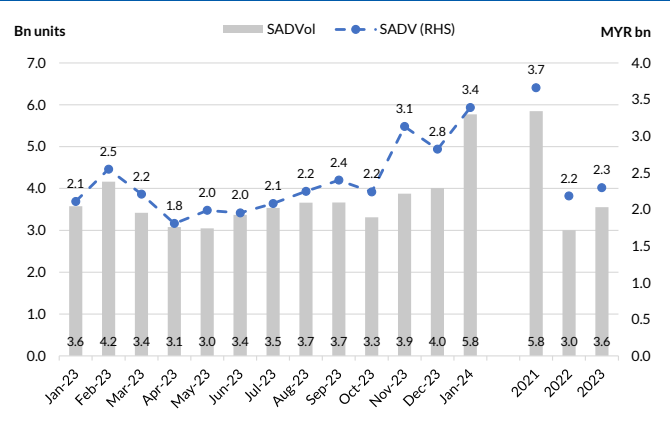
Source: Bloomberg, RHB

Figure 3: BURSA's strong share price performance since Aug 2023 attributable to a pick-up in SADV amid a more stable political climate and surge of positive news flow



Source: Bloomberg, RHB

Figure 4: BURSA – securities market activity on an uptrend, earnings accretive for the bourse

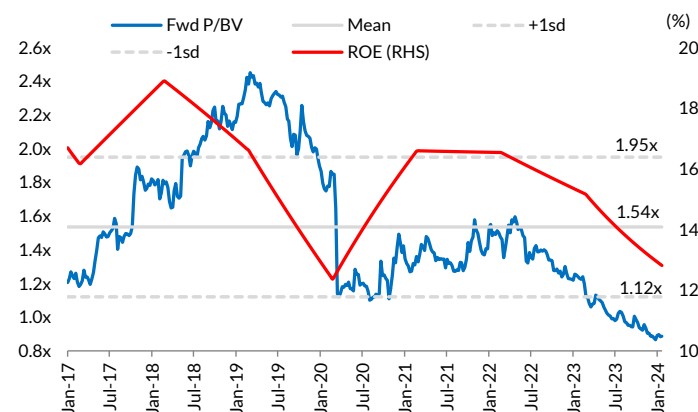


Note: SADVol = securities average daily volume

Note 2: Data up to 26 Jan 2024

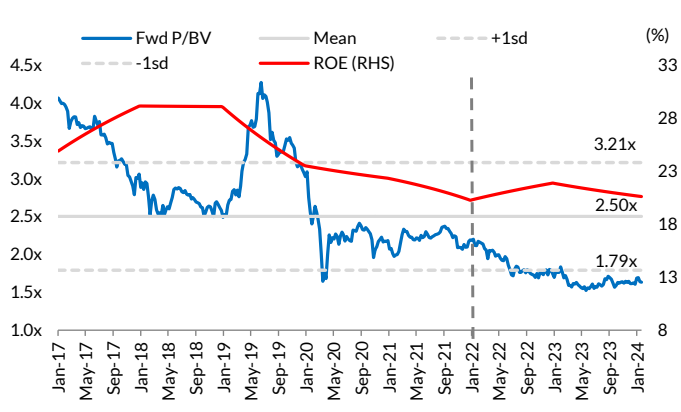
Source: Bursa Malaysia, RHB

Figure 5: ROE hit from digital bank losses has taken a toll on ACSM's share price, although growth prospects remain bright – our FY25F (Feb) EPS growth stands at 14% ex-digital bank losses



Source: Bloomberg, RHB

Figure 6: Potential mean reversion for STMB post-MFRS17 could present opportunities for capital gains*



Note: *Based on RHB MFRS17 forecasts for Jan 2022 onwards

Source: Bloomberg, RHB

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