



AmInvestment Bank

## Company report

# ALLIANZ MALAYSIA

(ALLZ MK EQUITY, AINM.KL)

23 May 2022

*Premiums for general and life businesses outpacing industry growth*

## BUY

(Maintained)

Kelvin Ong, CFA

kelvin-ong@ambankgroup.com

03-2036 2294

Rationale for report: Company results/update

Price	RM12.60
Fair Value	RM17.90
52-week High/Low	RM13.50/RM12.18

### Key Changes

Fair value	⬇️
EPS	⬇️

YE to Dec	FY21	FY22F	FY23F	FY24F
Net Earned Premium (RM mil)	5,241	5,659	6,055	6,478
Core net profit (RM mil)	613	508	602	692
FD Core EPS (Sen)	137.9	131.0	173.4	199.4
FD Core EPS growth (%)	11.3	-17.2	18.5	15.0
Consensus net profit (RM mil)	0	518	565	600
DPS (Sen)	63.0	64.3	77.6	87.3
BV/share (RM)	23.4	24.8	26.6	28.6
PE (x)	8.7	7.9	7.2	6.6
Div yield (%)	4.5	5.3	5.5	5.9
P/BV (x)	0.6	0.5	0.5	0.4
ROE (%)	15.0	11.9	13.3	14.2
Net Gearing (%)	nm	nm	nm	nm

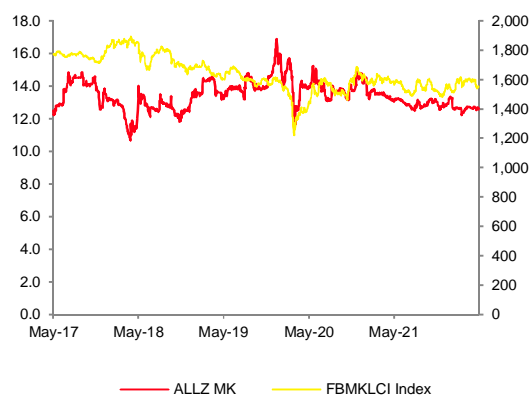
### Stock and Financial Data

Shares Outstanding (million)	176.8
Market Cap (RM mil)	2,227.5
Book Value (RM/share)	23.43
P/BV (x)	0.5
ROE (%)	15.0
Net Gearing (%)	-

Major Shareholders	Allianz SE (64.8%) Employees Provident Fund (6.7%)
--------------------	---

Free Float	28.5
Avg Daily Value (RM mil)	0.4

Price performance	3mth	6mth	12mth
Absolute (%)	(0.3)	(3.4)	(3.4)
Relative (%)	3.2	(4.8)	(1.7)



### Investment Highlights

- We maintain our BUY call on Allianz Malaysia (Allianz) with a slightly higher fair value (FV) of RM17.90/share from RM17.80/share. In our SOP valuation, we have rolled forward to FY23F for the general insurance business, pegging it to PB multiple of 1.4x. Our FV reflects a neutral 3-star ESG rating.
- We lower our core earnings estimates for FY22F/23F by 13%/2%. This is after penciling in further fair value losses on investments with the interest rate continuing to rise.
- The group recorded an improved 1QFY22 core net profit of RM115mil (+6% YoY) after stripping out the one-off tax impact of Cukai Makmur. The stronger earnings were attributable to the increase in net earned premium (NEP) and lower fair value losses on investments from the life business partially offset by higher net claims.
- 1QFY22 core earnings were within our expectations, making up 20% of our FY22F net profit and 22% of street forecast.
- Group operating revenue grew 6% YoY in 1QFY22 supported by higher gross earned premium (GEP) and investment income. Allianz's 1QFY22 combined ratio rose to 94.6% vs. 82% in 1QFY21 largely underpinned by higher claims ratio. 1QFY22 saw a rise in the group's claims ratio to 68%. The overall claims ratio of Allianz General Insurance Company (AGIC) of 57.6% was higher than the general insurance ratio of 51.9% and and takaful industry's 58.5%.
- Gross written premiums (GWP) growth continued to gain traction, rising to 9.5% YoY in 1QFY22. This was supported by the general insurance business under AGIC's GWP which expanded by 11.8% YoY. AGIC agency channel recorded stronger personal accident and motor business. The general insurance subsidiary's GWP surpassed the domestic general insurance industry's growth of 6.5% YoY. Meanwhile, GWP of its life business under Allianz Life Insurance Malaysia (ALIM) rose 7.7% YoY in 1QFY22 supported by growth in premiums from all key distribution channels.

AGIC posted a stronger PBT (after consolidation adjustment) of RM102mil (+10% YoY) underpinned by higher net earned premium (+3.8% YoY) partially offset by an increase in management, net fee and commission expenses. Underwriting profit for the general insurance business climbed 21.5% YoY for 1QFY22. AGIC recorded an improved combined ratio of 88.9% in 1QFY22 on lower claims and expense ratios. Its motor claims ratio of 54.9% remained lower than the general insurance industry's 61.2%.

- Meanwhile, PBT of the life insurance business under ALIM of RM67.7mil rose by >100% YoY in 1QFY22 largely attributed to lower fair of value losses on investments and higher NEP.
- Annualised new business premium (ANP) for its life business fell by 11% YoY in 1QFY22. This was lower than the contraction of 15.7% YoY of the life insurance industry. The decline was due to lower ANP growth from the agency channel of 26.9% YoY while that for bancassurance edged up by 26% YoY. ANP for investment-linked products slid by 7% YoY. This has resulted in a decline in new business value for the life business by 28.5% YoY to RM59mil in 1QFY22. Nevertheless, the market share for its life business continued to expand to 9.3%.
- The stock remains deeply undervalued based on FY23F P/BV of 0.5x. Dividend yields remain decent at 5.3% for FY22F and 5.5% for FY23F.
- We continue to like Allianz for its strong market share in the general and life insurance businesses. As the largest general insurer domestically, it is envisaged that the group will be able to withstand competition in the general insurance industry moving forward from further liberalisation of motor and fire tariffs. We do not expect the group's life insurance business to be significantly impacted by FRS 17 which will be implemented on 1 Jan 2023. This is in view of ALIM's stronger focus in investment-linked (IL) products which provide higher margins. Any stronger growth in new IL premiums ahead is poised to lift the life business's embedded value and this will be positive for the stock's valuation.

## EXHIBIT 1: FINANCIAL HIGHLIGHTS OF ALLIANZ MALAYSIA (GROUP LEVEL)

Income Statement (RM MIL, FYE 31 Dec)	1Q21	4Q21	1Q22	% QoQ	% Yoy
<b>Operating revenue</b>	1,607	1,671	1,708	2.2%	6.3%
Gross earned premium	1,411	1,482	1,499	1.2%	6.2%
<b>Net earned premium</b>	<b>1,311</b>	<b>1,352</b>	<b>1,399</b>	3.5%	6.7%
Investment income	195	189	209	10.1%	6.8%
Realised gains and losses	49	47	19	-60.1%	-61.7%
Fair value gains and losses	-414	-94	-146	55.8%	-64.7%
Commission income	9	19	9	-51.9%	-0.2%
Other operating income	14	11	14	24.9%	1.9%
<b>Other income</b>	<b>-147</b>	<b>173</b>	<b>104</b>	-39.7%	<100%
Gross claims paid	-492	-680	-716	5.3%	45.4%
Claims ceded to reinsurers	34	49	87	76.3%	>100%
Gross change in contract liabilities	-203	-510	-281	-44.9%	38.3%
Change in contract liabilities ceded to reinsurers	-54	212	-43	<100%	-21.7%
<b>Net claims incurred</b>	<b>-716</b>	<b>-929</b>	<b>-953</b>	2.6%	33.1%
Commission expense	-205	-197	-211	7.2%	3.2%
Management expenses	-165	-191	-168	-12.0%	1.9%
Interest expense	0	0	0	-6.6%	-46.5%
Other operating expenses	-11	-15	-19	25.3%	78.2%
<b>Other expenses</b>	<b>-380</b>	<b>-403</b>	<b>-398</b>	-1.2%	4.7%
<b>Profit before tax</b>	<b>67</b>	<b>193</b>	<b>152</b>	-21.4%	>100%
Tax expense	-4	-38	-50	31.6%	>100%
<b>Net profit after tax</b>	<b>63</b>	<b>155</b>	<b>101</b>	-34.5%	60.2%
<b>Recurring/core net profit</b>	<b>108</b>	<b>175</b>	<b>115</b>	-34.2%	6.2%
<b>Segmental PBT</b>					
Investment holding	-5	-10	-18		
General insurance	93	115	102		
Life insurance	-20	88	68		
Group PBT	<b>67</b>	<b>193</b>	<b>152</b>		
<b>Ratios (%)</b>					
Reinsurance ratio	7.1%	8.8%	6.7%		
Retention ratio	92.9%	91.2%	93.3%		
Claims ratio	54.7%	68.7%	68.1%		
Commission ratio	14.9%	13.2%	14.4%		
Management expense ratio	12.6%	14.1%	12.0%		
Combined ratio	82.1%	96.0%	94.6%		
UW margin	17.9%	4.0%	5.4%		

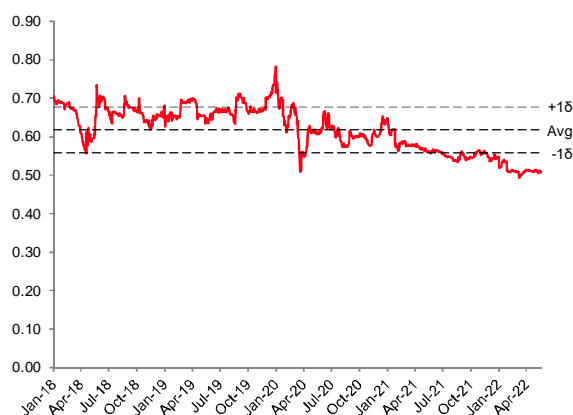
Source: Company

## EXHIBIT 2: SUM-OF-PARTS VALUATION

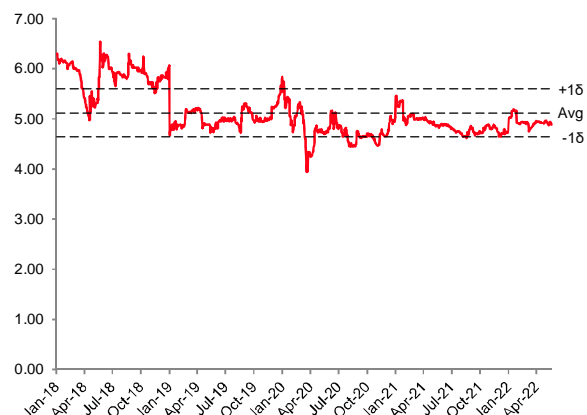
Companies	Shareholders funds (RM Mil)	As of	Equity Stake	Book Value Multiple	Basis	Valuation (RM mil)	Sum of parts per share (RM)
Allianz General (AGIC)	3,413		100%	1.4	Based on forecast for FY23	4,778	13.8
Allianz Life (ALIM)	3,500	12/31/2021	100%	1.0	1x Embedded value of FY21	3,500	10.08
<b>SOP Valuation</b>						<b>8,278</b>	<b>23.8</b>
Holding company discount					25%	2,070	6.0
<b>SOP Valuation after holding company discount</b>						<b>6,209</b>	<b>17.9</b>
No of ordinary shares						178	
Effects of conversion of ICPS						168	
Diluted number of ordinary shares						347	
<b>Fair Value</b>						<b>17.9</b>	

Source: Company, AmInvestment Bank

## EXHIBIT 3: PB BAND CHART



## EXHIBIT 4: PE BAND CHART



## EXHIBIT 5: ESG RATING

<b>Overall</b>	★	★	★		
Board composition	★	★	★		
Employee welfare and environmental protection	★	★	★		
Corporate social responsibility	★	★	★	★	
Earnings quality	★	★	★		
Balance sheet strength	★	★	★		
Accessibility & transparency	★	★	★	★	

We accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-star

## EXHIBIT 6: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Operating revenue	5,946	6,431	6,909	7,349	7,818
Gross written premium	0	0	0	0	0
Gross earned premium	5,233	5,671	6,107	6,534	6,992
Premium ceded	- 363	- 430	- 448	- 480	- 513
Net earned premium	4,871	5,241	5,659	6,055	6,478
Investment income	712	760	802	814	826
Gain on financial assets	30	53	0	0	0
Commission income	31	52	59	63	67
<b>Other operating income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Other income</b>	<b>75</b>	<b>- 386</b>	<b>- 169</b>	<b>4</b>	<b>72</b>
Net claims	- 3,529	- 3,549	- 3,982	- 4,209	- 4,498
Commission expense	- 775	- 811	- 930	- 995	- 1,064
<b>Management expense</b>	<b>- 641</b>	<b>- 684</b>	<b>- 761</b>	<b>- 814</b>	<b>- 871</b>
<b>Other expenses</b>	<b>- 45</b>	<b>- 51</b>	<b>- 84</b>	<b>- 94</b>	<b>- 105</b>
Operating profit	730	626	594	825	905
Finance cost	0	0	0	0	0
<b>Share of profit from associates</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Profit before tax	730	626	594	825	905
<b>Tax</b>	<b>- 209</b>	<b>- 147</b>	<b>- 140</b>	<b>- 223</b>	<b>- 213</b>
Net profit	520	478	455	602	692
Core net profit	551	613	508	602	692
<b>Balance Sheet (RMmil, YE 31 Dec)</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22F</b>	<b>FY23F</b>	<b>FY24F</b>
Cash & deposits with FIs	1,176	1,520	2,662	4,000	5,557
Loans & receivables	0	0	0	0	0
Insurance receivables	200	191	195	200	204
Investment securities	18,730	19,942	21,094	22,312	23,601
Investment properties	0	0	0	0	0
Deferred acquisition cost	116	124	133	142	153
Fixed assets	107	110	108	107	105
<b>Other assets</b>	<b>1,568</b>	<b>1,757</b>	<b>1,761</b>	<b>1,804</b>	<b>1,850</b>
Total assets	21,897	23,643	25,954	28,565	31,470
Insurance contract liabilities	16,053	17,649	19,481	21,505	23,738
Insurance payables	489	585	640	700	766
Borrowings	43	25	25	25	25
Deferred tax liabilities	435	391	456	532	620
<b>Other liabilities</b>	<b>845</b>	<b>850</b>	<b>969</b>	<b>1,107</b>	<b>1,264</b>
Total liabilities	17,865	19,499	21,571	23,868	26,413
Share capital	771	771	773	774	774
<b>Reserves</b>	<b>3,260</b>	<b>3,373</b>	<b>3,610</b>	<b>3,923</b>	<b>4,284</b>
Shareholders' funds	4,032	4,144	4,383	4,697	5,058
<b>Key Ratios (YE 31 Dec)</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22F</b>	<b>FY23F</b>	<b>FY24F</b>
ROE (%)	14.3	15.0	11.9	13.3	14.2
ROA (%)	2.7	2.7	2.0	2.2	2.3
Growth in gross earned premium (%)	7.9	8.4	7.7	7.0	7.0
Growth in net earned premium (%)	8.2	7.6	8.0	7.0	7.0
Core net profit growth (%)	11.9	11.3	- 17.2	18.5	15.0
EPS growth (%)	11.9	11.3	- 17.2	18.5	15.0
Book value per share growth (%)	9.7	2.8	5.8	7.2	7.7
<b>Key Assumptions (YE 31 Dec)</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22F</b>	<b>FY23F</b>	<b>FY24F</b>
Reinsurance ratio (%)	6.9	7.6	7.3	7.3	7.3
Retention ratio (%)	93.1	92.4	92.7	92.7	92.7
Claims ratio (%)	72.5	67.7	70.4	69.5	69.4
Commission ratio (%)	15.3	14.5	15.4	15.4	15.4
Management expense ratio (%)	13.2	13.0	13.4	13.4	13.4
Combine ratio (%)	100.9	95.2	99.2	98.3	98.3
Investment yield (%)	3.8	3.8	3.8	3.7	3.5
Underwriting margin (%)	- 0.9	4.8	0.8	1.7	1.7

Source: Company, AmInvestment Bank Bhd estimates

**DISCLOSURE AND DISCLAIMER**

This report is prepared for information purposes only and it is issued by AmInvestment Bank Berhad (“AmInvestment”) without regard to your individual financial circumstances and objectives. Nothing in this report shall constitute an offer to sell, warranty, representation, recommendation, legal, accounting or tax advice, solicitation or expression of views to influence any one to buy or sell any real estate, securities, stocks, foreign exchange, futures or investment products. AmInvestment recommends that you evaluate a particular investment or strategy based on your individual circumstances and objectives and/or seek financial, legal or other advice on the appropriateness of the particular investment or strategy.

The information in this report was obtained or derived from sources that AmInvestment believes are reliable and correct at the time of issue. While all reasonable care has been taken to ensure that the stated facts are accurate and views are fair and reasonable, AmInvestment has not independently verified the information and does not warrant or represent that they are accurate, adequate, complete or up-to-date and they should not be relied upon as such. All information included in this report constitute AmInvestment’s views as of this date and are subject to change without notice. Notwithstanding that, AmInvestment has no obligation to update its opinion or information in this report. Facts and views presented in this report may not reflect the views of or information known to other business units of AmInvestment’s affiliates and/or related corporations (collectively, “AmBank Group”).

This report is prepared for the clients of AmBank Group and it cannot be altered, copied, reproduced, distributed or republished for any purpose without AmInvestment’s prior written consent. AmInvestment, AmBank Group and its respective directors, officers, employees and agents (“Relevant Person”) accept no liability whatsoever for any direct, indirect or consequential losses, loss of profits and/or damages arising from the use or reliance of this report and/or further communications given in relation to this report. Any such responsibility is hereby expressly disclaimed.

AmInvestment is not acting as your advisor and does not owe you any fiduciary duties in connection with this report. The Relevant Person may provide services to any company and affiliates of such companies in or related to the securities or products and/or may trade or otherwise effect transactions for their own account or the accounts of their customers which may give rise to real or potential conflicts of interest.

This report is not directed to or intended for distribution or publication outside Malaysia. If you are outside Malaysia, you should have regard to the laws of the jurisdiction in which you are located.

If any provision of this disclosure and disclaimer is held to be invalid in whole or in part, such provision will be deemed not to form part of this disclosure and disclaimer. The validity and enforceability of the remainder of this disclosure and disclaimer will not be affected.