

HLIB Research

PP 9484/12/2012 (031413)

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BUY (Maintain)

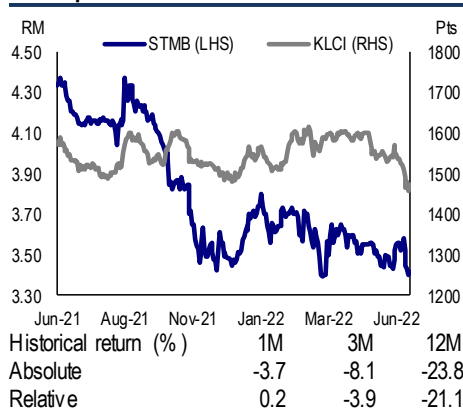
Target Price: RM4.20
Previously: RM4.40
Current Price: RM3.42

Capital upside 22.8%
Dividend yield 3.5%
Expected total return 26.3%

Sector coverage: Insurance

Company description: STMB is the sole pure listed takaful operator on Bursa Malaysia. It runs both the family and general takaful businesses along with a small overseas operation in Indonesia.

Share price



Stock information

Bloomberg ticker	STMB MK
Bursa code	6139
Issued shares (m)	837
Market capitalisation (RM m)	2,872
3-mth average volume ('000)	891
SC Shariah compliant	Yes
F4GBM Index member	No
ESG rating	★ ★ ★

Major shareholders

Lembaga Tabung Haji	28.2%
EPF	10.9%
KWAP	6.8%

Earnings summary

	FY21	FY22f	FY23f
FYE (Dec)	FY21	FY22f	FY23f
PATMI – core	411.4	327.4	379.4
EPS – core (sen)	49.8	39.6	45.9
P/E (x)	6.9	8.6	7.4

Syarikat Takaful Malaysia

In good hands

We continue to like STMB especially hearing more from their new head honcho, En Nor Azman, regarding business strategies, and believe that the company is in good hands. Broadly, the plan is to ride on existing core businesses (Banca, LPPSA, employee benefit, general takaful) and attempt to grow other small non-core segments (retail, recurring GEC business). Overall, our forecasts are intact and we reckon it is a good opportunity to buy STMB on weakness, particularly for those who want a longer-term play into the bright takaful space. Retain BUY call but with a lower GGM-TP of RM4.20 (from RM4.40), based on 2.43x FY23 P/B (adjusted for MFRS17 impact).

STMB held its annual briefing yesterday and the investment fraternity was welcomed by new CEO, En Nor Azman and senior management team. The presentation touched primarily on business plans and strategies, with 3 core pillars of (i) Control, (ii) Defend, and (iii) Expand. In general, the tone was upbeat and optimistic.

Control. Here, management walked through their broad plans for sustained financial performance and MFRS17 impact. The underlying intention is to ride on existing core businesses and attempt to grow other small non-core segments, without huge capital outlays. As for MFRS17 impact, management reiterated that earnings and book value may decline 15-20% and 30-45% respectively against MFRS4 figures. Also, the risk of cash call is limited and STMB is still capable of maintaining 12sen DPS.

Defend. To ensure a consistent base-line profitability, STMB looks to further cement its core business foundation in: (i) Bancatakaful, (ii) LPPSA, and (iii) employee benefit segments. For Banca, the plan is to retain key partners and at the same time increase the penetration of commercial banking, to preserve its market leadership (36% share). As for LPPSA, to hang on to its numero uno position (50% share), STMB will continue to leverage on its strong distribution network. Lastly, for employee benefit segment (a major player), it intends to tap into the corporate clientele of its banking partners.

Expand. The 3 areas STMB wants to expand further are: (i) general takaful segment, (ii) retail business, along with (iii) digitalization. For general takaful, management will employ a 2-pronged strategy to grow gross earned contribution (GEC) by embarking on product innovation and push for more online distribution. As for retail business, the focus is on recurring GEC, where STMB sees low-hanging opportunities in this space and looks to capitalize via cross and upselling; channel priorities are direct and digital, followed by Banca, given less intense investment outlay vs agency model.

Forecast. Unchanged since there were no material positive/negative updates.

Maintain BUY but with a lower GGM-TP of RM4.20 (from RM4.40), after rolling our valuations to FY23 and adjusting financial estimates to MFRS17 equivalent (using the mid-guidance by STMB). The TP is based on 2.43x P/B (from 1.8x) with assumptions of 23.1% ROE (from 17.0%), 11.3% COE, and 3% LTG. This is below its 5-year mean of 2.55x but above the sector's 1.32x. The discount is warranted as its ROE output is 6ppt beneath the 5-year average while the premium to peers is fair, since (i) it is one of the leaders in the Islamic insurance industry, (ii) only pure listed takaful operator on Bursa Malaysia, and (iii) strong ROE generation (10ppt higher than industry average). We reckon most short-term negatives surrounding the stock would have been priced in, seeing it is trading near to -2SD P/B. Thus, we believe this is a good opportunity to accumulate STMB on weakness, especially for those who want a longer-term play into the bright takaful space. Besides, we like STMB's new CEO, En Nor Azman given his clear business strategies and direction, which could help in replicating similar success story to his predecessor, Dato' Sri Mohamed Hassan.

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec	FY20	FY21	FY22f	FY23f	FY24f
Cash & ST funds	712.6	846.9	988.3	1,351.8	1,749.2
Invest securities	6,631.5	7,536.3	7,917.4	8,315.3	8,733.0
Loans & receivables	2,549.9	2,262.6	2,393.6	2,516.3	2,645.1
Other current assets	1,351.4	1,506.6	1,578.1	1,660.3	1,744.0
Other LT assets	547.7	556.3	570.3	585.0	600.4
Assets	11,793.1	12,708.8	13,447.7	14,428.6	15,471.7
Contract liabilities	9,223.6	9,786.3	10,444.7	11,128.3	11,861.4
Expense reserves	316.7	313.1	309.7	306.1	302.2
Other liabilities	711.0	767.0	621.4	657.4	691.5
Liabilities	10,251.3	10,866.5	11,375.8	12,091.7	12,855.2
Shareholder's equity	1,509.4	1,808.6	2,037.1	2,301.1	2,579.8
Minority interest	32.4	33.8	34.7	35.7	36.8
Equity	1,541.8	1,842.4	2,071.9	2,336.8	2,616.6

Cash Flow Statement

FYE Dec	FY20	FY21	FY22f	FY23f	FY24f
Profit before taxation	426.8	438.7	475.9	500.5	525.3
Non-cash adjustments	(374.6)	(308.0)	-	-	-
Working capital	303.7	176.0	(93.4)	99.6	118.9
Taxation	(77.7)	(54.5)	(147.5)	(120.1)	(126.1)
Others	-	-	-	-	-
CFO	278.3	252.2	234.9	480.0	518.2
Capex	(164.5)	(12.1)	5.3	(1.1)	(1.2)
Others	0.1	0.1	-	-	-
CFI	(164.4)	(12.0)	5.3	(1.1)	(1.2)
Changes in debt	-	-	-	-	-
Shares issued	-	-	-	-	-
Dividends	-	(99.7)	(98.9)	(115.4)	(119.5)
Others	(0.7)	(0.7)	-	-	-
CFF	(0.7)	(100.4)	(98.9)	(115.4)	(119.5)
Net cash flow	113.2	139.9	141.4	363.5	397.5
Forex	(3.8)	(5.5)	-	-	-
Others	-	-	-	-	-
Beginning cash	603.2	712.6	846.9	988.3	1,351.8
Ending cash	712.6	846.9	988.3	1,351.8	1,749.2

Income Statement

FYE Dec	FY20	FY21	FY22f	FY23f	FY24f
Gross contributions	2,514.1	2,766.4	2,942.2	3,129.6	3,302.9
Net contributions	2,073.0	2,243.1	2,385.6	2,542.5	2,687.0
Net benefits and claims	(889.0)	(948.5)	(1,047.2)	(1,126.4)	(1,190.8)
Management expenses	(375.1)	(475.0)	(491.6)	(519.4)	(547.2)
Investment income	425.7	423.6	460.9	482.2	504.5
Other net opex	(191.1)	(137.8)	(144.4)	(157.1)	(169.9)
Surplus to participants	(616.7)	(666.6)	(687.4)	(721.1)	(758.4)
Pre-tax profit	426.8	438.7	475.9	500.5	525.3
Taxation	(63.2)	(26.5)	(147.5)	(120.1)	(126.1)
Minority interest	(1.2)	(0.8)	(1.0)	(1.0)	(1.1)
Net profit	362.4	411.4	327.4	379.4	398.2
Exceptionals	-	-	-	-	-
Core net profit	362.4	411.4	327.4	379.4	398.2
HLIB/ Consensus			97%	96%	93%

Valuation & Ratios

FYE Dec	FY20	FY21	FY22f	FY23f	FY24f
Core EPS (sen)	43.9	49.8	39.6	45.9	48.2
P/E (x)	7.8	6.9	8.6	7.4	7.1
BVPS (RM)	1.83	2.19	2.47	2.79	3.12
P/B (x)	1.87	1.56	1.39	1.23	1.10
DPS (sen)	12.0	12.0	12.0	14.0	14.5
Dividend yield (%)	3.5	3.5	3.5	4.1	4.2
Payout ratio (%)	27.3	24.0	30.2	30.4	30.0
ROE (%)	26.5	24.8	17.0	17.5	16.3
ROA (%)	3.3	3.4	2.5	2.7	2.7

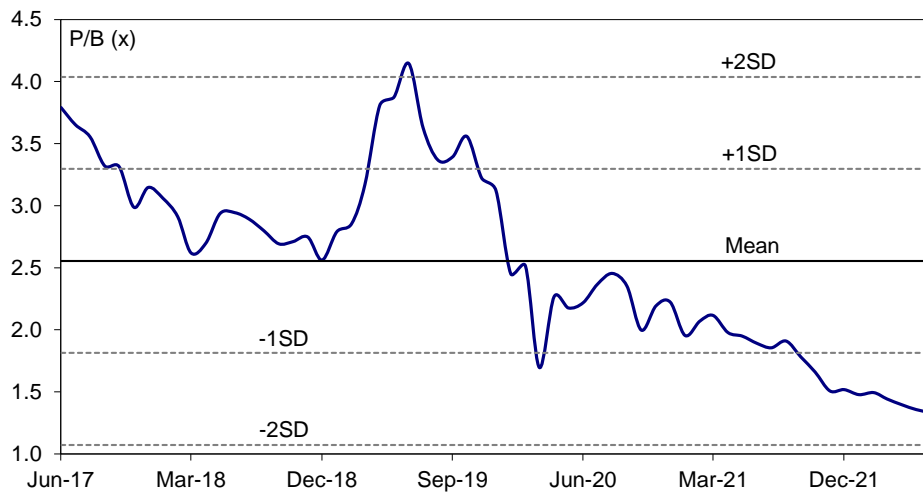
Assumptions

FYE Dec	FY20	FY21	FY22f	FY23f	FY24f
Growth (%)					
Gross contributions	(8.5)	10.0	6.4	6.4	5.5
Pre-tax profit	2.2	2.8	8.5	5.2	5.0
Core net profit	(0.7)	13.5	(20.4)	15.9	5.0
Profitability (%)					
Retention ratio	82.5	81.1	81.1	81.2	81.4
Net claims ratio	42.9	42.3	43.9	44.3	44.3
Mgmt exp ratio	18.1	21.2	20.6	20.4	20.4
Combined ratio	74.2	74.1	74.4	74.5	74.4

Figure #1 Peers comparison

Stock	Mkt Cap (RM m)	Price (RM)	Target (RM)	Rating	FYE	P/E (x)		P/B (x)		Yield (%)	
						FY22	FY23	FY22	FY23	FY22	FY23
ALLIANZ M'SIA	2,278	12.80	-	N.RATED	DEC	7.9	7.0	0.5	0.5	4.5	4.9
LPI CAPITAL	5,378	13.50	-	N.RATED	DEC	17.2	15.0	2.4	2.3	4.8	5.5
TUNE PROTECT	278	0.37	-	N.RATED	DEC	14.8	7.1	n.a.	n.a.	1.1	2.2
STMB	2,864	3.42	4.20	BUY	DEC	8.6	7.4	1.4	1.2	3.5	4.1
SIMPLE AVERAGE						12.1	9.1	1.4	1.3	3.5	4.2

HLIB Research, Bloomberg

Figure #2 5-year forward P/B band

HLIB Research, Bloomberg

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BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating guide

OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
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UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.

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