



AmInvestment Bank

Company report

ALLIANZ MALAYSIA

(ALLZ MK EQUITY, AINM.KL)

1 Oct 2020

*Attractive valuation; decent ROEs***BUY**

(Initiation)

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Rationale for report: Initiation

Price	RM13.66
Fair Value	RM17.40
52-week High/Low	RM16.87/RM11.40

Key Changes

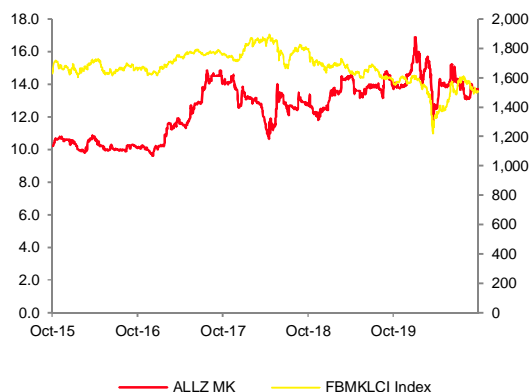
Fair value	Initiation
EPS	Initiation

YE to Dec	FY19	FY20F	FY21F	FY22F
Net Earned Premium (RM mil)	4,502	4,768	5,101	5,459
Core net profit (RM mil)	492	506	548	572
FD Core EPS (Sen)	142.3	146.1	157.8	164.5
FD Core EPS growth (%)	30.1	2.8	8.1	4.4
Consensus net profit (RM mil)	0	472.0	482.3	490.0
DPS (Sen)	65.0	63.9	69.0	72.0
BV/share (RM)	20.8	22.3	23.9	25.6
PE (x)	4.9	4.8	4.4	4.2
Div yield (%)	4.8	4.7	5.1	5.3
P/BV (x)	0.7	0.6	0.6	0.5
ROE (%)	14.0	13.3	13.4	13.1
Net Gearing (%)	nm	nm	nm	nm

Stock and Financial Data

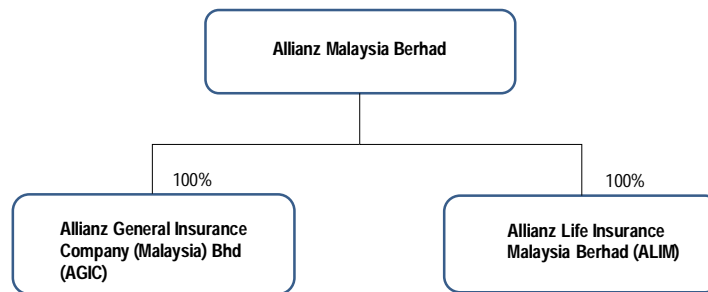
Shares Outstanding (million)	176.8
Market Cap (RM mil)	2,414.9
Book Value (RM/share)	20.78
P/BV (x)	0.7
ROE (%)	14.0
Net Gearing (%)	-
Major Shareholders	Allianz SE (65.2%) Employees Provident Fund (3.1%)
Free Float	34.8
Avg Daily Value (RM mil)	1.1

Price performance	3mth	6mth	12mth
Absolute (%)	(3.1)	9.5	(0.4)
Relative (%)	(3.4)	(1.7)	4.8

**Investment Highlights**

- We initiate coverage on Allianz Malaysia (Allianz) with a BUY call and fair value of RM17.40/share derived from SOP valuation. The group is involved in conventional general and life insurance business through its 100% owned subsidiaries, Allianz General Insurance Company Malaysia (AGIC) and Allianz Life Insurance Malaysia (ALIM).
- Our investment case for Allianz is based on the following:
 - Supported by parent Allianz SE in Germany with strong credit ratings and solvency ratio. Allianz SE, one of the leading insurers in the world, holds a 65.22% stake in Allianz Malaysia;
 - Above-industry gross written premiums (GWP) growth for the general and life insurance business;
 - Recovering annualized new premiums (ANP) for the life insurance business from a weaker 2Q20 which saw selling activities for life policies impacted by the MCO;
 - A strong market share in the general and life insurance business. Allianz is the largest general insurer domestically with a 12.9% market share. It is ranked No. 1 in motor insurance and No. 5 in life insurance with a market share of 8.0% based on ANP;
 - New agreement inked with Pos Malaysia (Pos) in Oct 2019 will bolster growth in GWP for AGIC. The new agreement places Allianz as the preferred insurer for Pos. This is a step up in collaboration from the previous arrangement where Allianz was only one of a panel of insurers for Pos. We see this as an opportunity for AGIC to increase its sales in both motor and non-motor insurance through Pos;
 - Improved combined ratio at 92.3% for 6M20 with lower motor and medical claims, reducing its net claims ratio;
 - Stable commission and management expense ratios. The management expense ratio that is lower than the industry's for general insurance business reflects its cost efficiency which will give it an advantage in the pricing of insurance products; and
 - A dividend policy of paying out at least 30.0% of its after tax profits. We project a dividend yield of 4.7%/5.0% for FY20/21.

EXHIBIT 1: CORPORATE STRUCTURE



Source: Company

GENERAL AND LIFE INSURANCE BUSINESS

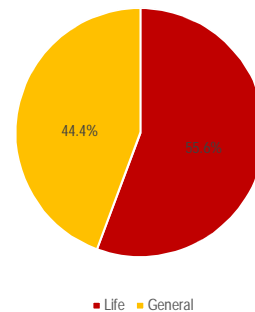
Allianz commenced operations in Malaysia in 2001 by acquiring Malaysia British Assurance (MBA) Bhd and MBA Life Assurance Bhd from the Lion Group. Subsequently in 2007, the group took over Commerce Assurance Bhd (CAB), the property and casualty insurance arm of Bumiputra Commerce Holdings Bhd (BCHB). The acquisition of CAB entailed a 10-year (2007–2017) bancassurance agreement with CIMB Bank Bhd (CIMB Bank). The banca partnership with CIMB Bank was terminated upon the expiry of the contract in 2017.

Allianz Malaysia Bhd (holding company) holds 100.0% in both Allianz General Insurance Company (Malaysia) Bhd (AGIC) and Allianz Life Insurance Malaysia Bhd (ALIM), operating the general and life insurance business respectively. In 2010, Allianz completed a capital-raising exercise with the issuance of renounceable rights issue of new irredeemable convertible preference shares (ICPS) of RM1 each and raised RM611mil. RM490mil of the amount was then utilized to repay the credit facility extended by its parent, Allianz SE to acquire CAB, RM116mil to increase the capital base of AGIC and ALIM to comply with the risk-based capital (RBC) requirements, and the balance to defray expenses for the fund-raising exercise and working capital.

AGIC RANKED 1ST IN GENERAL INSURANCE WHILE ALIM IS 5TH IN LIFE INSURANCE IN TERMS OF ANP

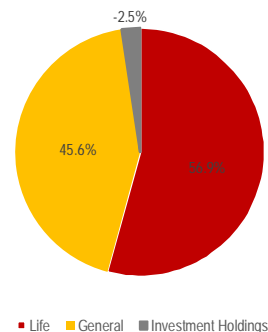
Life insurance is the larger contributor to the group's gross written premium (GWP) and pretax profits (PBT). Based on 6M20 results, ALIM contributed 55.6% and 56.9% of Allianz's GWP and PBT respectively while the contributions from general insurance business under AGIC were 44.4% and 45.6% respectively.

EXHIBIT 2: CONTRIBUTION TO GROUP GWP



Source: Company, AmInvestment Bank Bhd

EXHIBIT 3: CONTRIBUTION TO GROUP PBT



Source: Company, AmInvestment Bank Bhd

SUPPORTED BY ALLIANZ SE, ONE OF THE WORLD'S LEADING INSURERS

Allianz SE, the parent company, is headquartered in Munich, Germany. The parent company holds 65.22% in the ordinary shares of Allianz Malaysia. It reported a combined ratio of 95.5% and solvency ratio of 212% in 2019.

Allianz SE has strong ratings of AA, Aa3 and A+ with stable outlook from Standard & Poor's, Moody's and A.M. Best respectively.

Key strengths of the parent company:

- i) Leading property and casualty insurer globally;
- ii) Among the top 5 life/health businesses globally;
- iii) Among the top 5 asset managers globally;
- iv) Global leader in credit insurance;
- v) Worldwide leader in travel insurance and assistance services; and
- vi) One of the leading corporate insurers globally.

Allianz Group has 147,268 employees serving more than 100mil retail and corporate clients in over 70 countries.

Allianz Malaysia is led by a highly experienced management team. Group CEO and CEO of AGIC is Zakri Mohd Khir who has more than 30 years of experience in the insurance industry. Prior to his employment with Allianz, he was the general manager of The American Malaysian Insurance Bhd. He was appointed as the chairman of the Social Security Organisation (Socso) on 8 October 2018 and subsequently resigned on 7 April 2020. Meanwhile, the CEO of ALIM is Joseph Kumar Gross. Gross joined Allianz SE in 2002 as the SVP of strategic brand management and was subsequently appointed as the executive director and head of group market management before taking on the current position as the CEO of ALIM on 20 April 2016.

ALLIANZ SE HOLDS 85.2% OF ICPS ISSUED BY ALLIANZ MALAYSIA

Presently, the number of outstanding ICPS stands at 169.3mil of which Allianz SE holds 144.2mil or 85.2% of the total. Holders of the ICPS receive non-cumulative preferential dividends of 1.2x the dividend rate of the ordinary shares. The conversion price to ordinary shares of Allianz Malaysia has been fixed at 1 ordinary share to 1 ICPS.

The current market capital of Allianz Malaysia based on ordinary shares is RM2.4bil. Should the ICPS be converted to ordinary shares, this will lead to an increase in its market capital of close to RM5bil.

There is no intention of the parent company, Allianz SE, to convert its ICPS as yet. With it holding just 65.2% of the ordinary shares of Allianz Malaysia, this complies with the foreign ownership requirement allowed in insurance companies of up to 70.0%. If the event of a full conversion of the ICPS, the group's number of ordinary shares will be expanded from 177mil to 346mil.

EXHIBIT 4: FINANCIAL SNAPSHOT OF ALLIANZ SE

	2015	2016	2017	2018	2019
Total revenues (EUR mil)	125,190	122,416	126,149	132,283	142,369
Operating profit (EUR mil)	10,735	11,056	11,097	11,512	11,855
Total assets (EUR mil)	848,942	883,809	901,300	897,567	1,011,185
Shareholders' equity (EUR mil)	63,144	67,083	65,553	61,232	74,002
Return on equity (%)	12.5	12.0	11.8	13.2	13.6
Combined ratio (%)	94.6	94.3	95.2	94.0	95.5
Solvency capital ratio (%)	-	218	229	229	212

Source: Company, AmInvestment Bank Bhd

EXHIBIT 5: FINANCIAL HIGHLIGHTS OF ALLIANZ MALAYSIA (GROUP LEVEL) FOR 6M20

Income Statement (RM MIL, FYE 31 Dec)	2Q19	1Q20	2Q20	% QoQ	% Yoy	6M19	6M20	% Yoy
Operating revenue	1,366	1,485	1,404	-5.4%	2.8%	2,710	2,889	6.6%
Gross earned premium	1,195	1,306	1,228	-6.0%	2.8%	2,378	2,534	6.6%
Net earned premium	1,105	1,228	1,140	-7.1%	3.2%	2,205	2,368	7.4%
Investment income	171	179	176	-1.4%	2.8%	332	355	6.8%
Realised gains and losses	7	-71	-4	-94.3%	-158.4%	-21	-75	259.9%
Fair value gains and losses	128	-486	368	-175.7%	186.7%	324	-118	-136.4%
Commission income	10	7	6	-11.2%	-37.7%	20	13	-35.0%
Other operating income	10	24	7	-71.5%	-30.9%	21	22	6.4%
Other income	326	-348	553	-259.0%	69.5%	676	196	-70.9%
Gross claims paid	-621	-564	-427	-24.3%	-31.2%	-1,209	-991	-18.0%
Claims ceded to reinsurers	47	26	24	-4.4%	-48.3%	95	50	-47.4%
Gross change in contract liabilities	-368	126	-700	-656.8%	90.1%	-790	-574	-27.4%
Change in contract liabilities ceded to reinsurers	16	9	-4	-141.1%	-123.0%	20	5	-74.9%
Net claims incurred	-926	-404	-1,106	173.6%	19.5%	-1,884	-1,510	-19.8%
Commission expense	-181	-188	-187	-0.6%	3.5%	-357	-376	5.1%
Management expenses	-135	-167	-145	-13.1%	7.1%	-287	-312	8.6%
Interest expense	0	-1	0	-8.9%	66.7%	-1	-1	11.4%
Other operating expenses	-11	-28	-6	-80.1%	-49.8%	-22	-24	11.0%
Other expenses	-328	-384	-338	-11.8%	3.3%	-668	-713	6.8%
Profit before tax	178	92	249	170.4%	39.9%	329	341	3.5%
Tax expense	-60	-12	-81	549.7%	34.7%	-112	-93	-17.0%
Net profit after tax	118	80	168	111.0%	42.5%	217	247	14.2%
Recurring/core net profit	118	80	168	111.0%	42.5%	217	247	14.2%
Ratios (%)								
Reinsurance ratio	7.5%	6.0%	7.2%			7.3%	6.6%	
Retention ratio	92.5%	94.0%	92.8%			92.7%	93.4%	
Claims ratio	83.8%	32.9%	97.0%			85.4%	63.8%	
Commission ratio	15.5%	14.8%	15.9%			15.3%	15.3%	
Management expense ratio	12.3%	13.6%	12.7%			13.0%	13.2%	
Combined ratio	111.5%	61.3%	125.6%			113.8%	92.3%	
UW margin	-11.5%	38.7%	-25.6%			-13.8%	7.7%	

Source: Company

ABOVE INDUSTRY GROWTH IN GWP FOR GENERAL AND LIFE INSURANCE

Overall group GWP grew by a commendable 7.3% YoY for 6M20. The group's GWP expanded by an average of 4.4% based on the 5-year CAGR (2014–2019).

By entity, for 6M20, AGIC's premiums grew 6.3% YoY, outpacing the domestic general insurance industry's -3.1% YoY. Contributing to the strong AGIC premium growth was the commendable growth in motor premiums of 9.3% YoY from the tie-up with Pos Malaysia and fire insurance which grew 10.3% YoY.

Meanwhile, ALIM's GWP grew by a commendable 8.2% YoY vs. the life insurance industry's contraction of 12.6%

YoY for 6M20. Selling activities for life insurance were impacted by the MCO (movement control order) in 6M20.

NEW AGREEMENT WITH POS MALAYSIA TO BOLSTER GROWTH IN GENERAL INSURANCE PREMIUMS

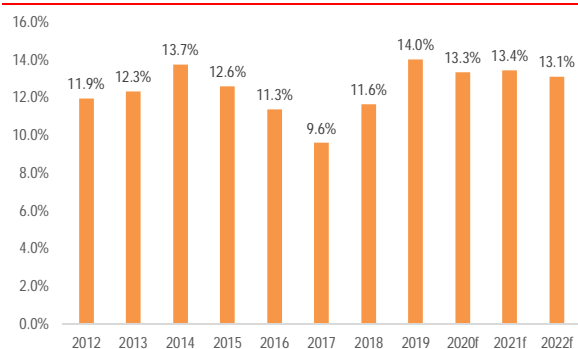
The group was one of the panel of insurers for Pos Malaysia (Pos) until the execution of a new agreement in October 2019. The agreement now places Allianz as the preferred insurer for Pos. This is a step-up in collaboration compared to other competitors that remain on the panel of insurers for Pos. The new arrangement has bolstered the premium growth for general insurance in 6M20 which beat the industry's with a contribution of RM90mil (circa 8.0%) to AGIC's total GWP of RM1.14bil.

The increase in premiums was a significant improvement over 6M19's RM20mil generated through Pos. Close to 100% of the premiums are motor insurance with private cars and motorcycles owners renewing their insurance under Allianz.

Presently, the mix of motor insurance through Pos is made up of 70–80% private cars and 20–30% motorcycles. The types of motor insurance offered through Pos include: i) comprehensive; ii) third-party fire and theft; and iii) third-party insurance.

Moving forward, the group plans to expand the insurance products sold through Pos to include non-motor. We see this as an opportunity for AGIC to further increase its growth in premiums in the future, thus sustaining a higher growth in GWP over the industry.

EXHIBIT 6: GROUP ROE

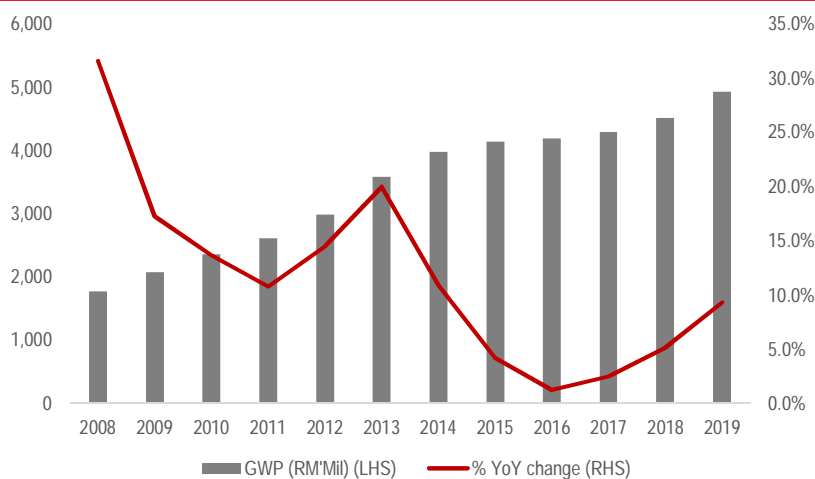


Source: Company, AmInvestment Bank Bhd

HEALTHY SURPLUS FUNDS

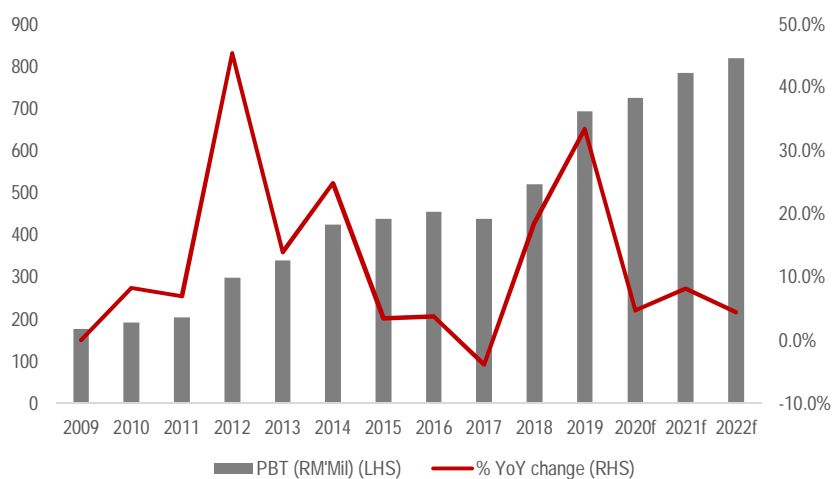
As at the end of June 2020, the surplus fund for general insurance business stood at RM2.3bil. Meanwhile, the surplus fund for life insurance business was RM1.4bil (shareholders' fund: RM298mil and life fund: RM1.08bil).

EXHIBIT 7: GROUP GWP



Source: Company

EXHIBIT 8: GROUP PBT



Source: Company, AmInvestment Bank Bhd

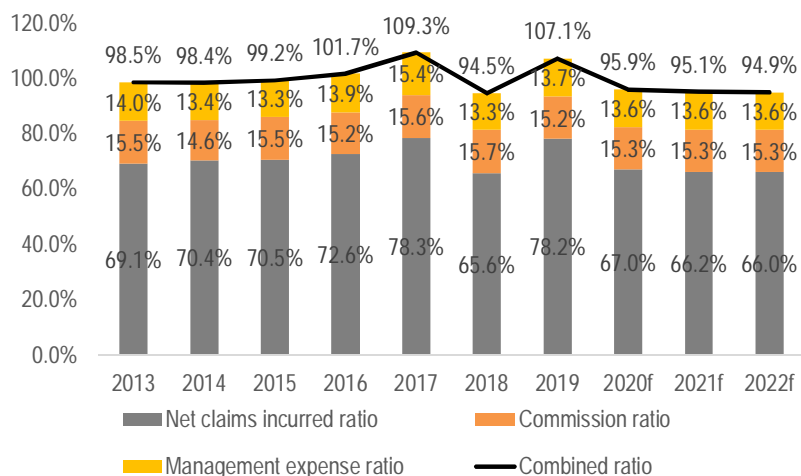
IMPROVED FINANCIAL PERFORMANCE IN 6M20

The outlook for the general and life insurance industry remains challenging in the near to medium term due to the Covid-19 pandemic impacting consumer sentiment and economic activity.

Nevertheless, the group's strong market shares in motor, fire and life insurance bode well for it to weather through the challenges better than most of its peers. This, coupled with its cost efficiency over the industry for expense ratio, provide an advantage in pricing of general insurance products to withstand the intensity of market competition.

6M20 saw an improved net profit after tax of RM247mil, up by 14.2% YoY. The stronger earnings were underpinned by a notable increase in net earned premiums by 7.4% YoY, higher investment income and lower net claims incurred.

The group recorded an improved underwriting margin of 7.7% with a lower combined ratio of 92.3% for 6M20 largely on the back of improved net claims ratio for the financial period while management and commission expense ratios were kept stable.

EXHIBIT 9: COMPONENTS OF COMBINED RATIO AT GROUP LEVEL

Source: Company, AmlInvestment Bank

STABLE GROUP MANAGEMENT AND COMMISSION EXPENSE RATIOS WHILE CLAIMS RATIO IS IMPROVING BASED ON 6M20 RESULTS

Management and commission expense ratio remained stable at 13.2% and 15.3% respectively for 6M20. Meanwhile, net claims ratio improved to 63.8% in 6M20 compared to 85.4% in 6M19. Motor claims were lower due to the MCO in 2Q20 and a decline in medical claims have contributed to the lower claims ratio at group level, leading to higher underwriting margin.

SIZEABLE AGENCY FORCE

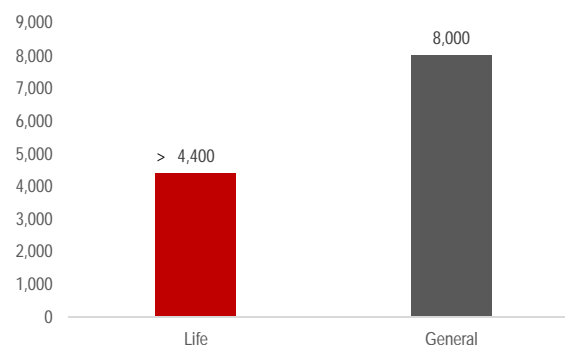
The group has 12,000 agents (general: 8,000 and life: >4,400). Also, it operates 37 branches in major cities nationwide.

CAPITAL RATIOS AT COMFORTABLE LEVELS

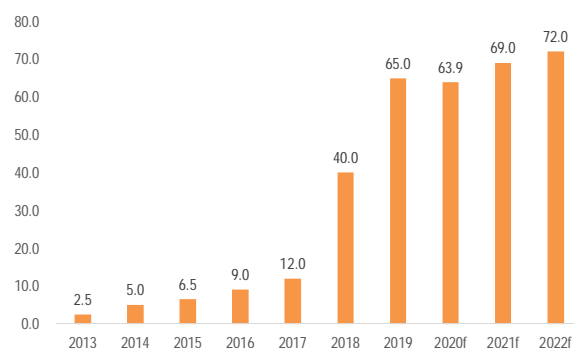
AGIC and ALIM have capital ratios above the statutory minimum capital adequacy ratio of 130.0%. The group's target is to hold capital ratios north of 180.0%.

DIVIDEND POLICY OF AT LEAST 30.0% PAYOUT

The group has a dividend policy of paying out at least 30.0% of its after tax profits.

EXHIBIT 10: NUMBER OF AGENTS

Source: Company

EXHIBIT 11: DIVIDEND PER ORDINARY SHARE

Source: Company, AmlInvestment Bank Bhd

GENERAL INSURANCE – ALLIANZ GENERAL INSURANCE COMPANY (MALAYSIA) (AGIC)

EXHIBIT 12: FINANCIAL HIGHLIGHTS OF AGIC

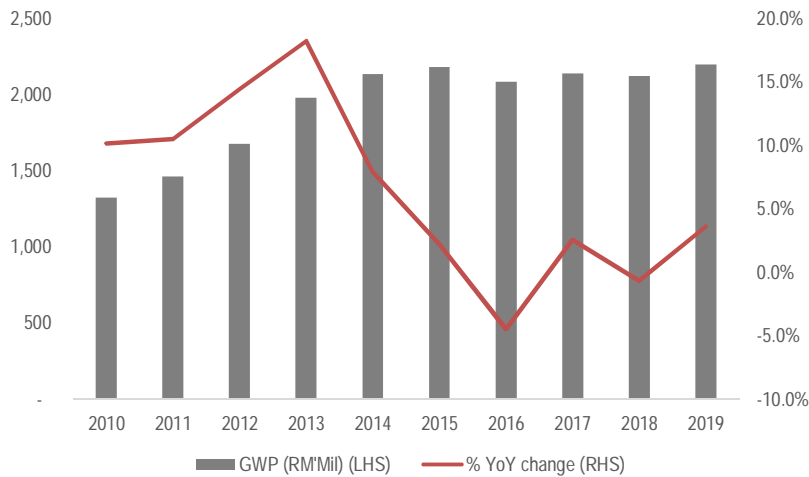
Income Statement (RM MIL, FYE 31 Dec)	6M19	6M20	% YoY
Operating revenue	1,154	1,200	4.0%
Gross earned premium	1,061	1,109	4.6%
Premiums ceded to reinsurers	-140	-117	-16.8%
Net earned premium	921	993	7.8%
Investment income	93	91	-1.8%
Realised gains and losses	1	1	-51.5%
Fair value gains and losses	0	0	na
Commission income	20	13	-35.5%
Other operating income	3	0	-98.7%
Other income	117	105	-10.6%
Gross claims paid	-566	-426	-24.8%
Claims ceded to reinsurers	55	30	-46.0%
Gross change in contract liabilities	-61	-190	210.5%
Change in contract liabilities ceded to reinsurers	20	5	-74.1%
Net claims incurred	-552	-580	5.2%
Commission expense	-132	-141	7.4%
Management expenses	-173	-185	6.8%
Interest expense	-1	-1	-24.2%
Other operating expenses	-2	-1	-76.5%
Other expenses	-308	-327	6.3%
Profit before tax	178	190	6.5%
Tax expense	-46	-47	3.3%
Net profit after tax	133	143	7.6%
Recurring/core net profit	133	143	7.6%
Ratios (%)			
Reinsurance ratio	13.2%	10.5%	
Retention ratio	86.8%	89.5%	
Claims ratio	59.9%	58.5%	
Commission ratio	12.1%	12.9%	
Management expense ratio	18.8%	18.6%	
Combined ratio	90.8%	90.0%	
UW margin	9.2%	10.0%	

Source: Company

STABLE COMBINED RATIO WITH IMPROVED UNDERWRITING MARGIN

6M20 saw a stronger net profit after tax (before consolidation adjustment) of RM143mil (+7.6% YoY), underpinned by a net earned premium growth of 7.8% YoY which outpaced

the general insurance industry's -2.4% YoY. This led to a marginally improved combined ratio and higher underwriting margin with a sustained claims ratio of circa 59%.

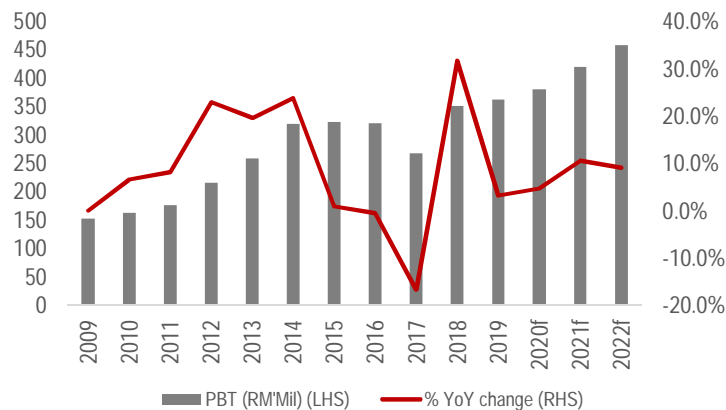
EXHIBIT 13: AGIC'S GWP GROWTH

Source: Company, AmlInvestment Bank Bhd

EXHIBIT 14: GWP GROWTH OF AGIC VS. INDUSTRY'S

	2015	2016	2017	2018	2019	6M20
AGIC	2.2%	-4.5%	2.5%	-0.7%	3.6%	6.3%
Industry	2.2%	1.1%	-0.1%	1.5%	-0.8%	-3.1%

Source: Company, AmlInvestment Bank Bhd

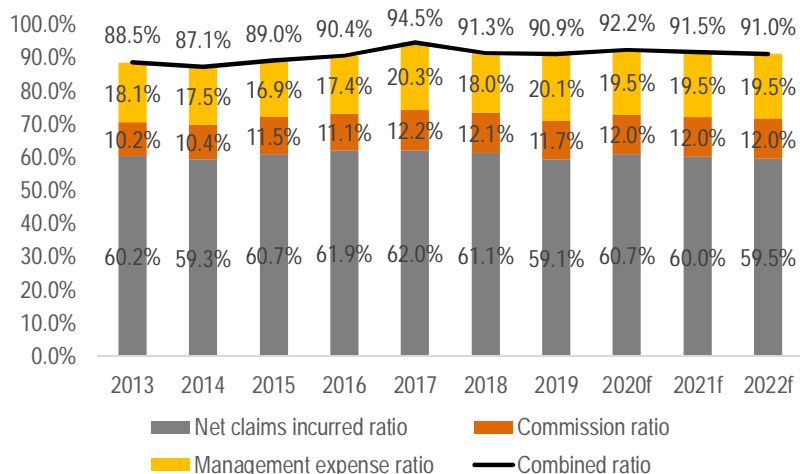
EXHIBIT 15: AGIC'S PBT GROWTH

Source: Company, AmlInvestment Bank Bhd

OUTPACING GENERAL INSURANCE INDUSTRY FOR GWP GROWTH

For FY19 and 6M20, GWP of AGIC grew at a faster pace than the industry's. The key difference is that the industry is slowing down with contractions in motor insurance at -7.5% YoY with only a modest growth in fire insurance at 2.5% YoY. This compares to AGIC's growth of 9.3% YoY and 10.3% YoY. Meanwhile, the industry's GWP for marine, aviation and transit and personal accident insurance's

premiums contracted by 0.7% YoY and 13.3% YoY respectively.

EXHIBIT 16: AGIC'S COMBINED RATIO

Source: Company, AmlInvestment Bank Bhd

CLOSE TO INDUSTRY'S COMBINED RATIO WITH BETER COST EFFICIENCY COMPARED TO THE GENERAL INSURANCE INDUSTRY

Exhibit 18 depicts the net claims incurred (NCI) ratios by product segments of AGIC vs. the industry's. In 2019, AGIC's NCI for motor insurance, its largest segment at 62.1%, was lower than the industry's 69.6%. Even though the ratios for fire, medical, health and personal accident were higher than the industry's, AGIC still reported an overall NCI ratio that was close to the industry.

For 6M20, AGIC's lower motor claims ratio has lowered its net claims incurred ratio. Allianz General's combined ratio of 90.1% was close to the conventional general insurance industry's 88.3%.

AGIC's management expense ratio at 18.7% for 6M20 was lower than the conventional general insurance's 24.9%.

EXHIBIT 17: COMPARISON OF RATIOS VS. INDUSTRY

	AGIC 6M20	Industry 6M20	Takaful 6M20
GWP growth	6.3%	-3.1%	0.6%
Commission ratio	12.9%	9.5%	8.2%
Claims ratio			
* Overall	58.5%	53.9%	53.3%
* Motor	61.8%	62.4%	65.8%
Expense ratio	18.7%	24.9%	30.3%
Combined ratio	90.1%	88.3%	91.8%

Source: Company, AmlInvestment Bank Bhd

EXHIBIT 18: NCI RATIOS BY SEGMENT

Segment	AGIC 2019	Industry 2019
Aviation	536.6%	70.1%
Cargo	30.7%	38.7%
Marine Hull	49.6%	63.0%
Offshore Oil Related	9.0%	80.2%
Fire	47.1%	27.4%
Total Motor	62.1%	69.6%
Motor 'Act'	217.3%	109.0%
Motor 'Others'	50.4%	59.7%
Medical and Health	74.3%	67.4%
Personal Accident	68.1%	32.7%
Bonds	3.8%	8.1%
Contractor's All Risks & Engineering	159.4%	136.6%
Liability	0.2%	34.1%
Workmen's Compensation & Employers' Liability	5.9%	127.6%
Others	31.6%	43.6%
Total	59.1%	57.8%

Source: Company, AmlInvestment Bank Bhd

EXHIBIT 19: TOP 10 GENERAL INSURERS AS AT JUNE 2020 BASED ON GWP

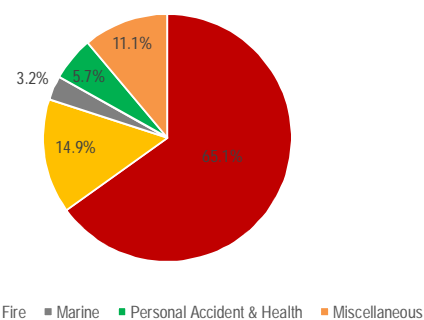
Rank	Insurer	Market Share
1	Allianz General Insurance Company (Malaysia) Berhad	12.90%
2	Lonpac Insurance Berhad	8.79%
3	AmGeneral Insurance Berhad	8.64%
4	Etiqa General Insurance Berhad	8.50%
5	AXA Affin General Insurance Berhad	7.83%
6	MSIG Insurance (Malaysia) Bhd	7.73%
7	Tokio Marine Insurans (Malaysia) Berhad	5.01%
8	Berjaya Sompo Insurance Berhad	4.63%
9	Zurich General Insurance Malaysia Berhad	4.47%
10	Chubb Insurance Malaysia Berhad	4.21%

Source: Company

THE LARGEST GENERAL INSURER

AGIC is the largest the general insurer domestically with a market share of 12.9%, followed by Lonpac and AmGeneral Insurance in the 2nd and 3rd spots at 8.79% and 8.64% respectively.

EXHIBIT 20: AGIC'S PORTFOLIO MIX



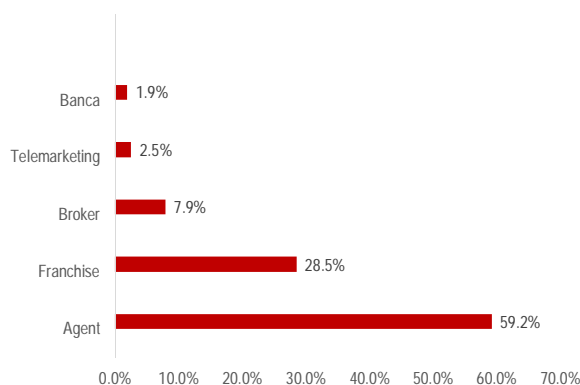
Source: Company, AmInvestment Bank Bhd

DIVERSIFIED PORTFOLIO MIX

AGIC has a diversified portfolio with motor and fire as the 1st and 2nd largest segments, accounting for 65.1% and 14.9% respectively of its total GWP.

Elsewhere, marine and personal accident & health insurance make up 3.2% and 5.7% respectively of its total GWP.

EXHIBIT 21: CONTRIBUTION TO GWP BY DISTRIBUTION CHANNEL



Source: Company

RANKED 1ST IN MOTOR INSURANCE WITH MARKET SHARE OF 18.8%

Allianz has a sizeable market share for motor insurance at 18.8%, ranked No.1 for the segment ahead of AmGeneral Insurance and Axa Affin General. Of the motor premiums, 95.0% are for comprehensive policies and the remaining 5.0% for third-party policies. Circa 30% of the motor GWP are for insuring national cars (Proton & Perodua), 20% (Mercedes and BMW) and the remaining 50% for vehicles under other marquees.

Based on ISM's statistics as at Dec 2019, net claims incurred ratio for AGIC's motor insurance of 62.13% was below the conventional general insurance industry's 69.55%.

AGIC is ranked third among local general insurers (including takaful) for fire insurance with a market share of 9.8%. On fire insurance, Lonpac Insurance and MSIG are the 1st and 2nd largest with market share of 19.1% and 10.9% respectively.

AGENCY IS THE KEY DISTRIBUTION CHANNEL FOR GENERAL INSURANCE

Exhibit 21 shows that 59.2% of AGIC's GWP are derived from agents. Franchise and brokers contributed 28.5% and 7.9% of the general insurance's GWP respectively. The franchise distribution channels comprised car dealers and Pos Malaysia. Meanwhile, banca partnership contribution was a tepid 1.9% of AGIC's GWP.

EXHIBIT 22: TOP 10 INSURERS FOR MOTOR

Rank	Insurer	Market Share
1	Allianz General Insurance Company (Malaysia) Berhad	18.77%
2	AmGeneral Insurance Berhad	15.87%
3	AXA Affin General Insurance Berhad	8.48%
4	Zurich General Insurance Malaysia Berhad	6.84%
5	MSIG Insurance (Malaysia) Bhd	6.83%
6	Liberty Insurance Berhad	5.48%
7	Tokio Marine Insurans (Malaysia) Berhad	4.88%
8	Berjaya Sampo Insurance Berhad	4.70%
9	RHB Insurance Berhad	4.27%
10	Lonpac Insurance Berhad	3.89%

Source: Company, AmlInvestment Bank Bhd

EXHIBIT 23: TOP 10 INSURERS FOR FIRE INSURANCE

Rank	Insurer	Market Share
1	Lonpac Insurance Berhad	19.07%
2	MSIG Insurance (Malaysia) Bhd	10.89%
3	Allianz General Insurance Company (Malaysia) Berhad	9.75%
4	Berjaya Sampo Insurance Berhad	6.09%
5	Tokio Marine Insurans (Malaysia) Berhad	5.95%
6	Etiqa General Insurance Berhad	5.79%
7	AXA Affin General Insurance Berhad	5.20%
8	MPI Generali Insurans Berhad	4.79%
9	Chubb Insurance Malaysia Berhad	4.51%
10	RHB Insurance Berhad	4.49%

Source: Company, AmlInvestment Bank Bhd

In 2017, Allianz announced a 15-year bancassurance agreement with Standard Chartered Bank (SCB). This was to distribute the group's general insurance products including personal accident, travel, fire and motor insurance to SCB's retail banking clients across five key markets in Asia (Hong Kong, Singapore, Malaysia, Indonesia and China).

The group has formed digital partnerships with Speedhome (formerly known as Speedrent), an online platform which manages home rentals, Socar, an online car rental platform and Policystreet, an Insurtech platform as well as Touch 'n Go. However, the contribution from the digital channels to GWP remained small.

GOVERNMENT BONDS A SIGNIFICANT PORTION OF AGIC'S INVESTMENT PORTFOLIO

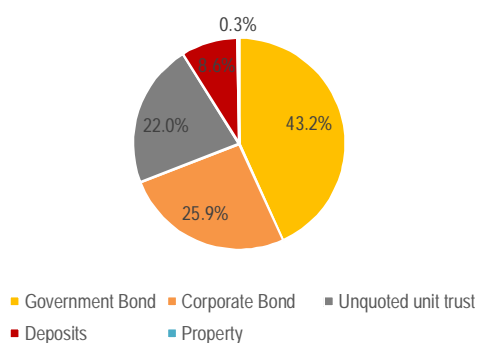
Government bonds make up a significant 43.2% of AGIC's investments. Investment in corporate bonds and unquoted unit trust accounted for 25.9% and 22.0% respectively of Allianz General's investments. A substantial portion of the investment securities of AGIC fall under investment grades with credit ratings between A and AAA. Also, it has investments that are non-rated comprising Malaysian government securities (MGS) and Malaysian government guaranteed bonds.

NO IMPACT ON GROUP AFTER TAX PROFITS FROM CHANGES IN INTEREST RATE FOR GENERAL INSURANCE BUSINESS

Changes in interest rate on the general insurance business will not have any impact on the group's after tax profits. We understand that the impact of any movements in interest rate will flow through comprehensive income, consequently affecting only equity.

Based on FY19, the sensitivity of the impact of a 50bps change in interest rate on equity was +/- RM44.3mil.

EXHIBIT 24: AGIC'S INVESTMENT PORTFOLIO



Source: Company

LIFE INSURANCE – ALLIANZ LIFE INSURANCE MALAYSIA BHD (ALIM)

EXHIBIT 25: FINANCIAL HIGHLIGHTS OF ALIM

Income Statement (RM MIL, FYE 31 Dec)	6M19	6M20	% YoY
Operating revenue	1,556	1,685	8.2%
Gross earned premium	1,317	1,425	8.2%
Premiums ceded to reinsurers	-33	-50	51.7%
Net earned premium	1,284	1,375	7.1%
Investment income	239	260	8.7%
Realised gains and losses	-22	-79	254.2%
Fair value gains and losses	324	-118	-136.4%
Commission income	0	0	na
Other operating income	18	22	24.3%
Other income	559	85	-84.7%
Gross claims paid	-643	-566	-12.1%
Claims ceded to reinsurers	40	20	-49.2%
Gross change in contract liabilities	-729	-384	-47.3%
Change in contract liabilities ceded to reinsurers	0	0	50.0%
Net claims incurred	-1,333	-930	-30.2%
Commission expense	-226	-234	3.8%
Management expenses	-111	-124	12.3%
Interest expense	-2	0	-77.9%
Other operating expenses	-19	-24	24.6%
Other expenses	-357	-383	7.2%
Profit before tax	153	147	-3.8%
Tax expense	-66	-46	-30.9%
Net profit after tax	87	101	16.9%
Recurring/core net profit	87	101	16.9%
Ratios (%)			
Reinsurance ratio	2.5%	3.5%	
Retention ratio	97.5%	96.5%	
Claims ratio	103.8%	67.6%	
Commission ratio	17.6%	17.0%	
Management expense ratio	8.6%	9.0%	
Combined ratio	130.0%	93.7%	
UW margin	-30.0%	6.3%	

Source: Company

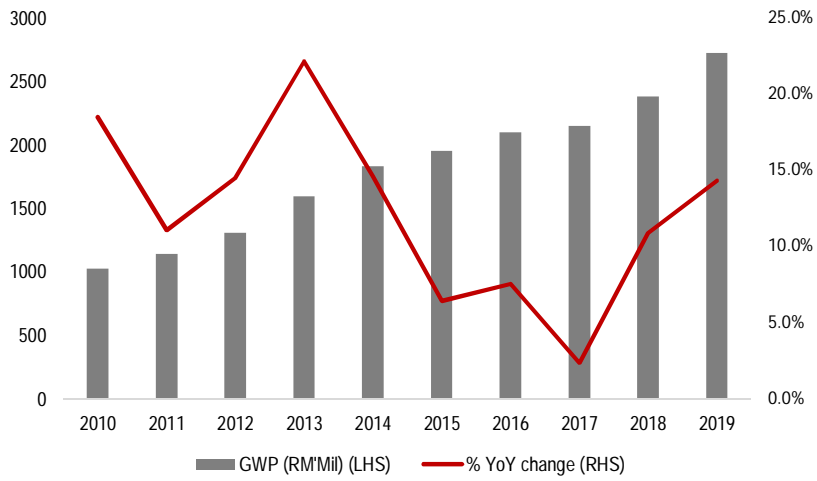
SOFTER PBT FOR LIFE BUSINESS DUE TO WEAKER PREMIUM GROWTH IN 2Q20 AND LOWER NET INVESTMENT RESULTS

6M20 saw ALIM's PBT slip by 3.8% YoY largely attributed to weaker premium growth in 2Q20 with selling activities for life insurance impacted by the MCO.

Additionally, Allianz Life reported lower net investment results due to the decline in valuation for equity. Nevertheless, the lower net claims have partially offset the weaker topline growth and investment results. 2H20

performance is expected to improve for ALIM with sales of life insurance picking up pace recovering from MCO.

EXHIBIT 26: ALIM'S GWP GROWTH

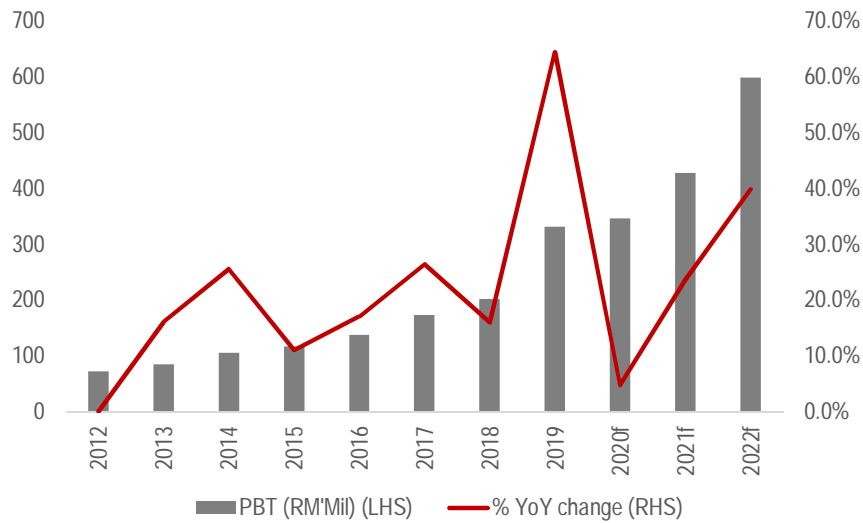


Source: Company, AmInvestment Bank Bhd

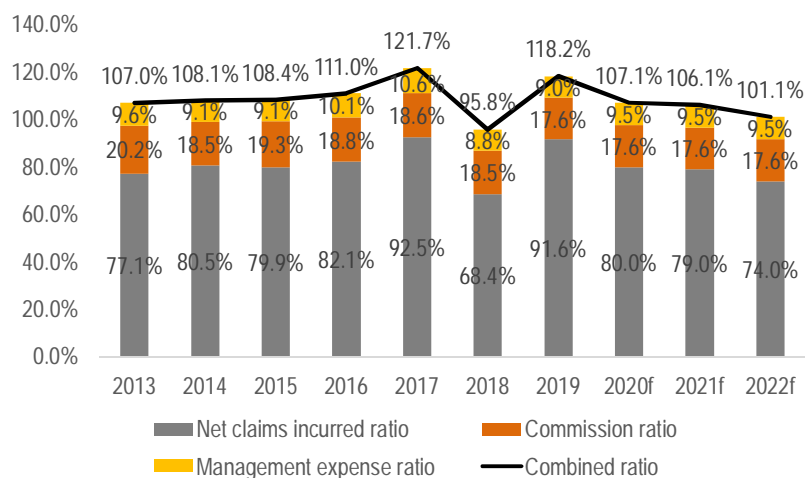
STEADY INCREASE IN GWP GROWTH FOR LIFE INSURANCE

ALIM's GWP has been steadily rising YoY from 2017 to 2019. Growth in GWP averaged a 5-year (2014–2019) CAGR of 8.2%.

EXHIBIT 27: ALIM'S PBT GROWTH



Source: Company, AmInvestment Bank Bhd

EXHIBIT 28: ALIM'S COMBINED RATIO

Source: Company, AmInvestment Bank Bhd

PROJECTING GRADUAL IMPROVEMENTS IN ALIM'S COMBINED RATIO

Based on the trend from 2013 to 2019, ALIM's management and commission expense ratios have been stable. 6M20 saw ALIM's claims ratio trending lower to 67.6% due to the MCO in 2Q20. Although it is expected to rise after the MCO, we expect the claim ratio to still record an improvement in 2020 compared to 2019.

EXHIBIT 29: ALIM'S ANNUALISED NEW BUSINESS PREMIUM (ANP) GROWTH COMPARED VS. INDUSTRY

Distribution channel	6M2020				12M2019		5 year CAGR (2014-2019)	
	Allianz Life (% growth)	Industry (% growth)	Market share	Market Ranking	Allianz Life (% growth)	Industry (% growth)	Allianz Life	Industry
Agency (Traditional)	-11.3%	7.0%	12.4%	3	13.4%	2.3%	11.6%	-7.8%
Agency (Investment Linked)	-37.8%	-31.1%	8.9%	5	11.4%	14.4%	7.6%	8.4%
Agency (Total)	-30.9%	-24.0%	9.8%	5	12.0%	11.8%	8.6%	3.7%
Bancassurance	-11.8%	-15.0%	5.1%	8	35.2%	21.9%	21.5%	16.7%
Employee Benefits	11.5%	6.7%	9.1%	4	20.0%	6.6%	9.6%	11.1%
Total	-24.8%	-19.2%	8.0%	5	16.3%	14.8%	10.6%	7.5%

Source: AmlInvestment Bank Bhd, Company

ANP RECOVERING AFTER A SLOW 2Q20

Selling activities of the agency in 2Q20 were impacted by the MCO. Nevertheless, sales of life insurance through agency have improved in July 2020 with a stronger pick-up in the month of August 2020.

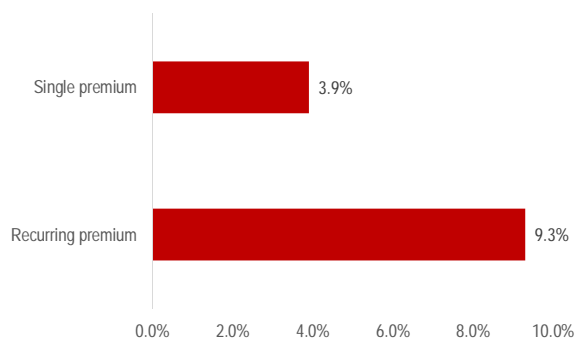
Additionally, quarter-to-date in 3Q20, ANP through bancassurance has improved compared to the level in 2Q20.

With the recovery of ANP from agency and bancassurance, YTD ANP (up until August 2020) is likely to improve, thus narrowing the contraction seen in 6M20.

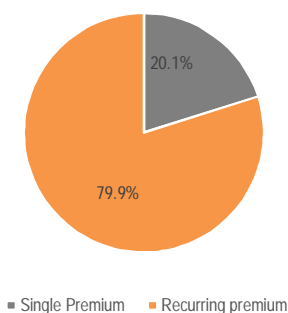
ALIM'S GWP COMPRISED LARGELY RECURRING PREMIUMS

ALIM's GWP comprised 79.9% recurring premiums and 20.1% single premiums as at the end of June 2020. The percentage of recurring premiums was slightly lower compared to 82.0% in Dec 2019.

Based on 6M20, growth of single and regular premiums was 3.9% and 9.3% YoY respectively.

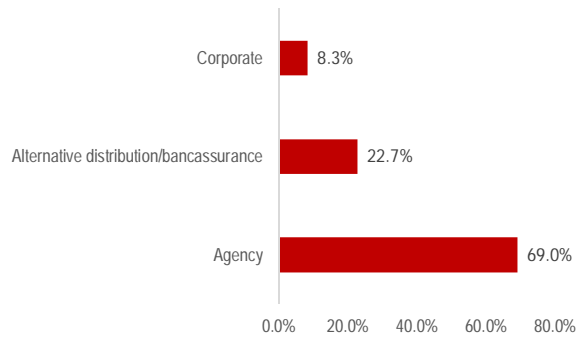
EXHIBIT 31: ALIM'S GROWTH IN GWP FOR 6M20

Source: Company

EXHIBIT 30: ALIM'S GWP MIX

Source: Company

EXHIBIT 32: CONTRIBUTION TO ANP FOR LIFE INSURANCE BY DISTRIBUTION CHANNEL



Source: Company

AGENCY, A LARGE CONTRIBUTOR OF ANP

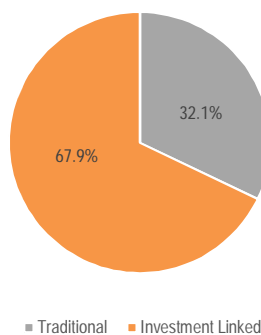
Agency contributed 69.0% of the ALIM's annualized new premiums (ANP) for 6M20. Bancassurance/alternative distribution and corporate business channels contributed 22.7% and 8.3% of Allianz Life's ANP respectively.

Corporate business is the channel for ALIM to generate new policies for employee benefits from medium to large corporations. ANP for employee benefit policies for 6M20 grew 11.5%, outpacing the industry's 6.7% growth.

INVESTMENT-LINKED POLICIES, THE KEY SEGMENT OF AGENCY'S ANP

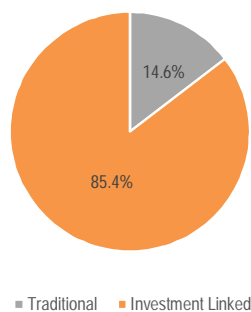
Investment-linked policies are the key segment for Agency and contributed to 67.9% of the delivery channel's ANP with traditional life policies making up the remaining 32.1%. In terms of policy count, Investment-linked policies which generally generate higher margins, accounted for 85.4% of the agency's total policies while traditional policies made up 14.6%.

EXHIBIT 33: AGENCY'S ANP MIX



Source: Company

EXHIBIT 34: AGENCY'S PRODUCT MIX BY POLICY COUNT



Source: Company

NO MATERIAL IMPACT FROM NEW MINIMUM ALLOCATION RATE (MAR) REQUIREMENTS

Effective 1 July 2019, the new MAR requirements were implemented. The key change for investment-linked policies was that the minimum requirements for reserving of premiums for the first two years to the policyholders' unit funds have been raised to 60% from 45% previously. This provided higher protection in the first two years of the new policies to investment-linked policy owners' account values. Nevertheless, the impact of the new MAR rules is not material to the earnings of Allianz Life.

EXHIBIT 35: NEW MINIMUM ALLOCATION RATE (MAR)

Year	Previous allocation of premiums	New MAR
1	45.0%	60.0%
2	45.0%	60.0%
3	70.0%	60.0%
4	70.0%	80.0%
5	80.0%	80.0%
6	90.0%	80.0%
7	90.0%	95.0%
8	100.0%	95.0%
9	100.0%	95.0%
10	100.0%	95.0%
11 onwards	100.0%	100.0%

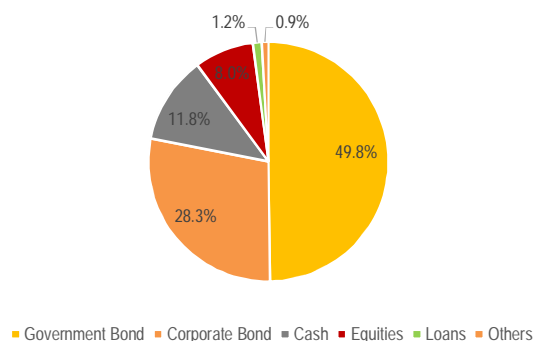
Source: Company

EXCLUSIVE BANCASSURANCE TIE-UP WITH HSBC

Allianz entered into a 10-year exclusive distributorship bancassurance arrangement with HSBC in Oct 2012. The upfront cash consideration by Allianz for this arrangement was US\$100.5mil or €77mil. Under this agreement, Allianz's life insurance products will be distributed by HSBC in China, Indonesia, Malaysia, Australia, Sri Lanka and Taiwan. Meanwhile, in Brunei and the Philippines, life insurance products will be offered by Allianz's strategic partners.

In 2019, the contribution from the exclusive bancassurance partnership with HSBC Bank Malaysia was 19.6% of Allianz Life's ANP with the earlier sales recording an improvement in ANP by 35.2% YoY.

EXHIBIT 36: ALIM'S INVESTMENT PORTFOLIO



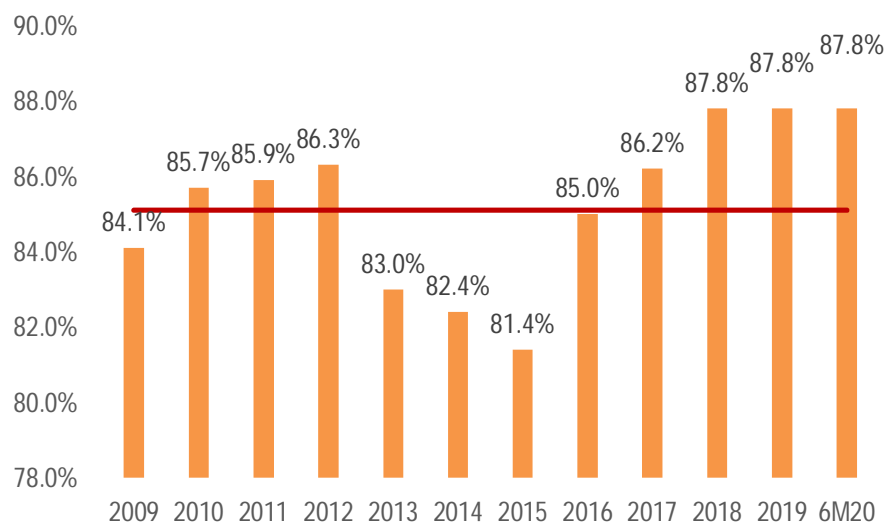
Source: Company

MAINLY INVESTED IN BONDS; LESS THAN 10% IN EQUITIES

Circa 50% of ALIM's investments are in government bonds. Meanwhile, corporate bonds account for 28.3% of its investments.

The key difference in the investments between Allianz Life and Allianz General's is that the Allianz Life invests 8.0% of its total investment portfolio in equities while the latter has no investments in shares.

The bonds investments are all in the investment grade (ratings A to AAA) and also in non-rated Malaysian government securities and government guaranteed bonds.

EXHIBIT 37: PERSISTENCY RATIO FOR LIFE INSURANCE

Source: Company

CONSISTENT IN ACHIEVING PERSISTENCY RATIO OF MORE THAN 80%

The persistency ratio for Allianz Life has been kept stable at 87.8%. This was higher than the average (2009–2019) of 85.1%.

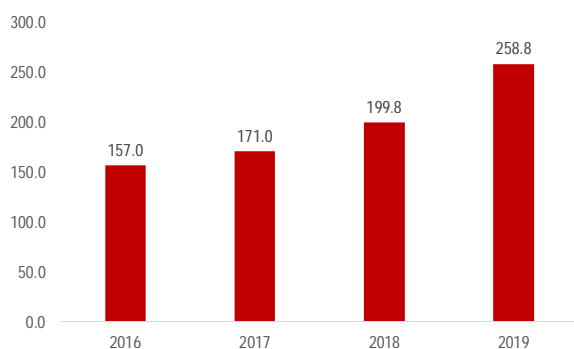
MANAGEABLE IMPACT FROM INTEREST RATE RISK

The duration of the assets and liabilities for life insurance has been closely matched. However, there will still be impact on the group's profit after tax and equity from any interest rate changes. This is due to the group's higher amount of assets compared to liabilities for solvency purposes (maintaining adequacy in capital).

In the event of a decline in interest rate, the value of assets (investment securities) and amount of contractual liabilities will increase resulting in a fair value gain. Conversely, should the interest rate rise, both the assets and liabilities will fall leading to a recognition of fair value losses.

For life par and investment-linked funds, any interest rate changes will impact the insurance contractual liabilities. Meanwhile, for shareholders and non-par funds, the impact of any interest rate changes will be on the group's after tax profit and equity.

In FY19, the fair value gains for the group from a decline of 81bps in the 10-year MGS yield to 3.33% was RM24.9mil.

EXHIBIT 38: NEW BUSINESS VALUE (NBV) FOR LIFE BUSINESS

Source: Company, AmlInvestment Bank Bhd

IMPROVING NEW BUSINESS VALUE (NBV)

NBV for Allianz Life has been steadily rising. In 2019, NBV grew by 29.5% YoY to RM259mil, signifying improved profitability with the growth of life insurance business.

KEY RISKS

- i. **Slowdown in GDP growth will impact growth in premiums.** Lower GDP growth will impact the premium growth of general insurance business as well as the ANP of life insurance.
- ii. **Unexpected rise in claims ratios, impairment of investment securities, receivables and intangible assets could affect group earnings.** Any unexpected increase in claim ratios of its insurance business, potential impairment of investment securities, receivables and intangible assets will affect the group's profit.
- iii. **Further detariffication on fire insurance will impact pricing on coverage for fire.** The next phase of detariffication for fire premiums has now been delayed to the end of 2021. A further detariffication could impact pricing and intensity of competition for fire insurance.
- iv. **Exposure to interest rate risk.** Even though the group's duration for assets and liabilities is closely matched, there is still exposure to interest rate risk arising from the group's assets which are higher than liabilities. Any increase in interest rates will lower both the group's assets (value of investment securities) and contractual liabilities resulting in fair value losses.
- v. **Changes to regulatory requirements and accounting standards may impact groups' earnings.** Any changes to regulatory requirements and accounting standards are likely to impact the profitability of the group. The implementation of FRS 17 (which will impact the reporting of profits of insurance companies) has been delayed to 2022.
- vi. **Potential financial penalty from the authority could impact earnings.** AGIC and 21 other general insurance companies (all PIAM members) have received notices from the Malaysian Competition Commission (MyCC) that they have infringed Section 4 of the Competition Act.

MyCC's found the 22 general insurers, including AGIC, to have violated on the prohibition with the agreement entered into between PIAM and the Federation of Automobile Workshop Owners' Association of Malaysia on trade discount rates and agreed labour rates for the PIAM Approved Repairer's Scheme workshops.

MyCC has imposed a financial penalty of RM18.5mil on AGIC. AGIC is currently in discussion with its legal advisors and will be defending its position that it has not infringed the Competition Act. In the event that the fine stays and is required to be booked as advised by legal advisors and auditor, the impact to FY21 earnings is estimated to be 3.3%.

EXHIBIT 39: 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)	2,707		100%	2.0	Based on forecast for FY21	5,415	15.6
Allianz Life (ALIM)	2,600	6/30/2020	100%	1.0	1x Embedded value of 6M20	2,600	7.51
SOP Valuation						8,015	23.1
Holding company discount					25%	2,004	5.8
SOP Valuation after holding company discount						6,011	17.4
No of ordinary shares						177	
Effects of conversion of ICPS						169	
Diluted number of ordinary shares						346	
Fair Value						17.4	

EXHIBIT 40: PEER COMPARISON

	Price	Market Cap (Mil in local currency)	PE20	PE21	PB20	PB21	ROE20	ROE21	Div Yield 20	Div Yield 21
ALLZ MK Equity	13.68	2,420	4.8	4.4	0.6	0.6	13.3	13.4	4.7	5.0
LPI MK Equity	13.00	5,179	16.4	15.2	2.4	2.3	15.5	16.0	5.1	5.5
TIH MK Equity	0.33	244	9.6	7.6	0.4	0.4	5.9	6.8	4.0	5.5
STMB MK Equity	4.92	4,086	12.2	11.3	3.1	2.7	26.1	24.8	3.7	3.9
SIMPLE AVERAGE			10.7	9.6	1.6	1.5	15.2	15.3	4.4	5.0

EXHIBIT 41: PB BAND CHART

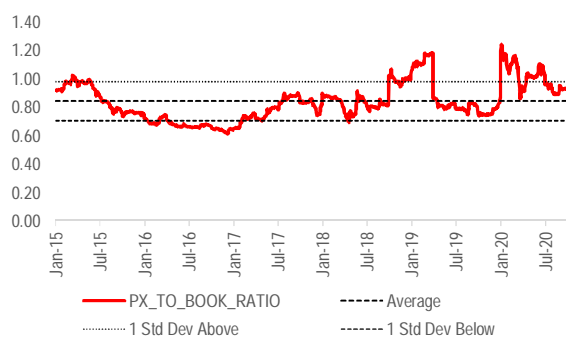


EXHIBIT 42: PE BAND CHART

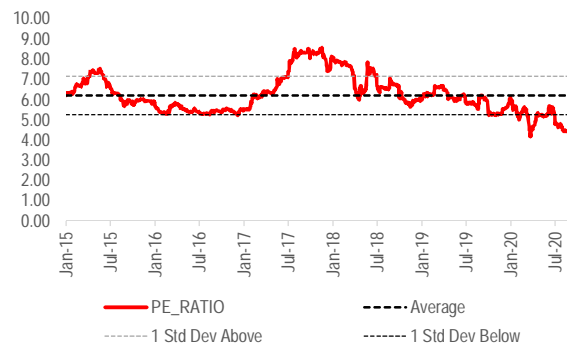


EXHIBIT 43: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Operating revenue	5,182	5,534	5,877	6,302	6,757
Gross written premium	0	0	0	0	0
Gross earned premium	4,547	4,848	5,118	5,476	5,860
Premium ceded	- 367	- 346	- 350	- 375	- 401
Net earned premium	4,180	4,502	4,768	5,101	5,459
Investment income	635	686	759	825	898
Gain on financial assets	- 21	- 9	0	0	0
Commission income	29	55	51	55	59
Other operating income	0	0	0	0	0
Other income	- 284	392	- 162	- 217	- 275
Net claims	- 2,741	- 3,522	- 3,195	- 3,376	- 3,602
Commission expense	- 685	- 738	- 781	- 836	- 894
Management expense	- 555	- 618	- 648	- 693	- 742
Other expenses	- 38	- 58	- 67	- 75	- 84
Operating profit	519	692	725	784	818
Finance cost	0	0	0	0	0
Share of profit from associates	0	0	0	0	0
Profit before tax	519	692	725	784	818
Tax	- 142	- 200	- 218	- 236	- 246
Net profit	377	492	506	548	572
Core net profit	377	492	506	548	572
Balance Sheet (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Cash & deposits with FIs	1,240	1,600	2,096	2,653	3,257
Loans & receivables	0	0	0	0	0
Insurance receivables	228	195	194	193	192
Investment securities	14,249	16,085	17,494	19,027	20,694
Investment properties	20	20	20	20	20
Deferred acquisition cost	95	111	120	129	139
Fixed assets	114	87	83	78	74
Other assets	1,459	1,610	1,661	1,735	1,848
Total assets	17,405	19,710	21,668	23,835	26,224
Insurance contract liabilities	12,324	14,422	15,912	17,556	19,369
Insurance payables	428	424	439	454	470
Borrowings	0	57	57	57	57
Deferred tax liabilities	250	356	427	513	616
Other liabilities	1,041	777	895	1,032	1,191
Total liabilities	14,043	16,037	17,730	19,612	21,703
Share capital	771	771	772	772	773
Reserves	2,591	2,903	3,166	3,451	3,748
Shareholders' funds	3,362	3,674	3,938	4,223	4,520
Key Ratios (YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
ROE (%)	11.6	14.0	13.3	13.4	13.1
ROA (%)	2.2	2.7	2.4	2.4	2.3
Growth in gross earned premium (%)	7.4	6.6	5.6	7.0	7.0
Growth in net earned premium (%)	6.4	7.7	5.9	7.0	7.0
Core net profit growth (%)	30.9	30.6	2.8	8.1	4.4
EPS growth (%)	29.5	30.1	2.8	8.1	4.4
Book value per share growth (%)	6.0	8.8	7.2	7.2	7.0
Key Assumptions (YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Reinsurance ratio (%)	8.1	7.1	6.8	6.8	6.8
Retention ratio (%)	91.9	92.9	93.2	93.2	93.2
Claims ratio (%)	65.6	78.2	67.0	66.2	66.0
Commission ratio (%)	15.7	15.2	15.3	15.3	15.3
Management expense ratio (%)	20.1	19.1	13.6	13.6	13.6
Combine ratio (%)	101.4	112.5	95.9	95.1	94.9
Investment yield (%)	4.4	4.3	4.3	4.3	4.3
Underwriting margin (%)	5.5	- 7.1	4.1	4.9	5.1

Source: Company, AmInvestment Bank Bhd estimates

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