



AmInvestment Bank

Company report

ALLIANZ MALAYSIA

(ALLZ MK EQUITY, AINM.KL)

25 Nov 2021

Annualized new premium growth for life business continues to be ahead of industry

BUY

(Maintained)

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Rationale for report: Company results/update

Price	RM13.00
Fair Value	RM17.70
52-week High/Low	RM15.50/RM13.00

Key Changes

Fair value	↔
EPS	↔

YE to Dec	FY20	FY21F	FY22F	FY23F
Net Earned Premium (RM mil)	4,871	5,101	5,459	5,841
Core net profit (RM mil)	520	573	627	683
FD Core EPS (Sen)	150.1	165.1	180.4	196.1
FD Core EPS growth (%)	5.6	10.1	9.5	8.8
Consensus net profit (RM mil)	-	494	512	553
DPS (Sen)	58.0	69.0	71.9	76.4
BV/share (RM)	22.8	24.7	26.7	28.9
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 (%)	13.5	13.7	13.8	13.9
Net Gearing (%)	nm	nm	nm	nm

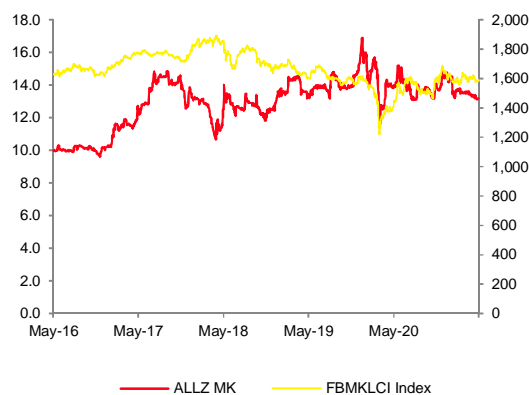
Stock and Financial Data

Shares Outstanding (million)	177.3
Market Cap (RM mil)	2,304.9
Book Value (RM/share)	22.79
P/BV (x)	0.6
ROE (%)	13.5
Net Gearing (%)	-

Major Shareholders	Allianz SE (65.2%) Employees Provident Fund (3.1%)
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Free Float	34.8
Avg Daily Value (RM mil)	1.1

Price performance	3mth	6mth	12mth
Absolute (%)	(3.8)	(5.1)	(4.8)
Relative (%)	(3.5)	(4.9)	(14.2)

**Investment Highlights**

- We maintain our BUY call on Allianz Malaysia (Allianz) with unchanged fair value of RM17.70/share derived from SOP valuation. No changes to our earnings estimates.
- The stock remains deeply undervalued based on a P/BV of 0.5x for FY22.
- The group recorded a lower core net profit of RM152mil (+16.2% QoQ) in 3Q21. This was attributable to a decline in net earned premium (NEP) and lower fair value gains of RM29mil in 3Q21 vs. RM49mil in 2Q21. Yield movements for the 10-year MGS climbed by 10bps QoQ to 3.5% in 3Q21. This has resulted in fair value losses on investments for its life business under ALIM.
- Cumulatively, the group reported a 9M21 core net profit of RM439mil (+16.6% YoY) after stripping out provisions for potential claims from beneficiaries of deceased policyholders based on the listing by the National Registration Department totalling RM62mil (1Q21: RM54mil, 2Q21: RM8mil and 3Q21: Nil). For 9M21 core earnings, we have also excluded the conservative provisions taken for Covid mortality of RM89mil in total (1Q21: Nil, 2Q21: RM40mil and 3Q21: RM49mil).
- 9M21 core earnings were within our expectations, making up 76.6% of our estimate. Meanwhile, it exceeded consensus projection making up 89.0% of street forecast.
- Group operating revenue grew by 7.7% YoY for 9M21 supported by higher gross earned premium (GEP) and investment income. Allianz's 9M21 combined ratio improved to 95.0% vs. 98.4% in 9M20, underpinned largely by lower commission and claims ratios. 9M21 saw the decline in the group's claims ratio to 67.4%.
- Its gross written premiums (GWP) growth slowed down in 3Q21. We believe this was due to the lockdowns imposed to manage the new wave of Covid-19. Selling activities of its general and life insurance business were impacted in the quarter. Allianz's GWP growth slipped to 4.3% YoY for 9M21 compared to 8.6% YoY for 6M21.
- For 9M21, the general insurance business under AGIC's GWP contracted by 0.6% YoY attributed to the slowdown in motor insurance. It was slightly below the domestic general insurance industry's 1.1% YoY growth. Meanwhile, its agency and franchise channels contributed 57.9% and 28.0% of the GWP respectively. Contribution to AGIC's GWP from its partnership with Pos Malaysia was 6.5% for 9M21 (9M20: 7.4%). Market share for the general insurance business remained robust at 13.1%.

- AGIC posted a stronger PBT (after consolidation adjustment) of RM322.7mil (+7.0% YoY) underpinned by higher net earned premium (+7.0% YoY) partially offset by higher net claims and management expenses. Underwriting profit for the general insurance business rose by 22.3% YoY for 9M21. AGIC recorded an improved combined ratio of 88.2% for 9M21, supported by lower commission and expense ratios. Motor claims ratio at 51.5% remained lower than the industry's 54.2%.
- Meanwhile, PBT of the life insurance business under ALIM of RM132.4mil declined by 47.9% YoY for 9M21 largely due to fair of value losses on investments from higher interest rates. Its 9M21 GWP grew by 8.2% YoY supported by recurring premiums (+12.2% YoY). Meanwhile, growth of GWP for single premiums decreased by 7.8% YoY.
- Annualized new business premium (ANP) for life business grew by 32.6% YoY for 9M21, contributed in part by the lower base in 2020. It surpassed the life insurance industry's 14.5% YoY growth. This was supported by growth in premiums from the agency (+33.0% YoY), bancassurance (+39.0% YoY) and employee benefits channels. By product, investment-linked ANP expanded by 42.2% YoY. Market share for life business rose moderately to 9.2% in 3Q21 vs. 9.0% in 2Q21.
- New business value for its life business expanded 28.1% YoY to RM212.5mil for 9M21. ANP growth for life business is envisaged to gradually increase the embedded value of ALIM. The easing of mobility restrictions and reopening of economy are poised to improve the group's premium growth in 4Q21. This is in view of the lesser challenge for selling activities after lockdown measures have been eased.

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

Income Statement (RM MIL, FYE 31 Dec)	3Q20	2Q21	3Q21	% QoQ	% Yoy	9M20	9M21	% Yoy
Operating revenue	1,531	1,569	1,585	1.0%	3.5%	4,420	4,760	7.7%
Gross earned premium	1,356	1,387	1,391	0.3%	2.6%	3,890	4,189	7.7%
Net earned premium	1,265	1,293	1,285	-0.7%	1.6%	3,633	3,889	7.0%
Investment income	175	182	193	6.3%	10.7%	529	571	7.8%
Realised gains and losses	77	-21	-22	4.7%	-128.7%	2	6	285.4%
Fair value gains and losses	79	49	29	-41.2%	-63.9%	-39	-337	767.5%
Commission income	10	12	13	6.4%	22.0%	23	33	43.7%
Other operating income	2	9	11	28.0%	342.3%	24	33	36.3%
Other income	343	230	223	-2.8%	-34.9%	540	307	-43.2%
Gross claims paid	-661	-595	-592	-0.5%	-10.3%	-1,652	-1,680	1.7%
Claims ceded to reinsurers	42	41	52	27.0%	24.7%	92	127	38.6%
Gross change in contract liabilities	-490	-437	-408	-6.7%	-16.7%	-1,064	-1,048	-1.5%
Change in contract liabilities ceded to reinsurers	68	49	-13	-127.1%	-119.5%	73	-19	-125.8%
Net claims incurred	-1,041	-942	-961	2.0%	-7.7%	-2,551	-2,620	2.7%
Commission expense	-202	-201	-209	4.1%	3.4%	-578	-614	6.3%
Management expenses	-157	-163	-166	1.9%	5.4%	-469	-493	5.0%
Interest expense	0	0	0	-36.5%	-52.1%	-1	-1	-44.2%
Other operating expenses	-6	-11	-13	19.0%	134.7%	-30	-35	15.6%
Other expenses	-365	-375	-388	3.5%	6.2%	-1,079	-1,143	6.0%
Profit before tax	202	206	159	-23.0%	-21.4%	543	433	-20.3%
Tax expense	-73	-61	-44	-28.1%	-40.2%	-166	-109	-34.7%
Net profit after tax	129	145	115	-20.8%	-10.8%	376	324	-13.9%
Recurring/core net profit	129	182	152	-16.2%	18.1%	376	439	16.6%
Segmental PBT								
Investment holding	-5	-6	-12			-13	-23	
General insurance	108	115	115			302	323	
Life insurance	99	97	56			254	132	
Group PBT	202	206	159			543	433	
Ratios (%)								
Reinsurance ratio	6.7%	6.7%	7.6%			6.6%	7.2%	
Retention ratio	93.3%	93.3%	92.4%			93.4%	92.8%	
Claims ratio	82.3%	72.9%	74.8%			70.2%	67.4%	
Commission ratio	15.2%	14.6%	15.3%			15.3%	14.9%	
Management expense ratio	12.4%	12.6%	12.9%			12.9%	12.7%	
Combined ratio	109.9%	100.0%	103.0%			98.4%	95.0%	
UW margin	-9.9%	-0.04%	-3.0%			1.6%	5.0%	

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)	3,046		100%	1.6	Based on forecast for FY22	4,873	14.1
Allianz Life (ALIM)	3,300	30/6/2020	100%	1.0	1x Embedded value of 6M21	3,300	9.53
SOP Valuation						8,173	23.6
Holding company discount					25%	2,043	5.9
SOP Valuation after holding company discount						6,130	17.7
No of ordinary shares						177	
Effects of conversion of ICPS						169	
Diluted number of ordinary shares						346	
Fair Value						17.7	

EXHIBIT 3: PB BAND CHART

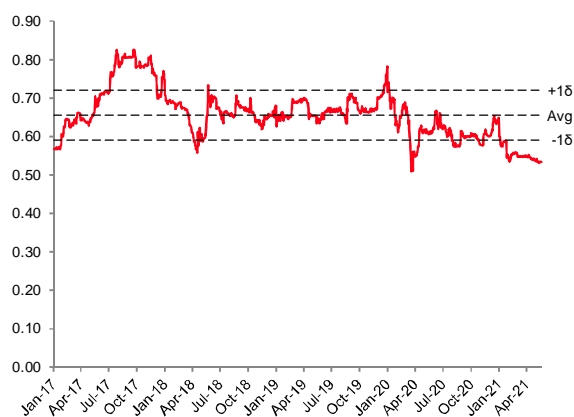


EXHIBIT 4: PE BAND CHART

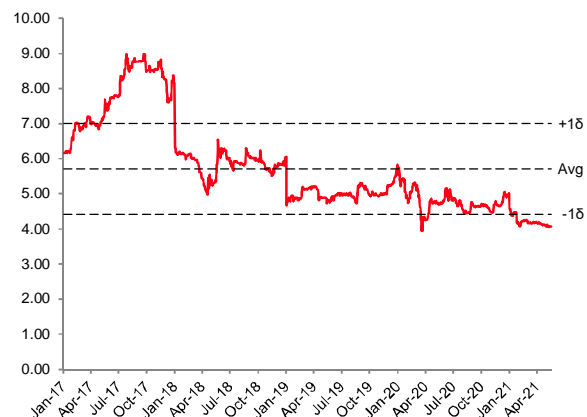


EXHIBIT 5: ESG RATING

Overall	★	★	★		
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)	FY19	FY20	FY21F	FY22F	FY23F
Operating revenue	5,534	5,946	6,249	6,660	7,072
Gross written premium	0	0	0	0	0
Gross earned premium	4,848	5,233	5,476	5,860	6,270
Premium ceded	- 346	- 363	- 375	- 401	- 429
Net earned premium	4,502	4,871	5,101	5,459	5,841
Investment income	686	712	773	800	802
Gain on financial assets	- 9	30	0	0	0
Commission income	55	31	55	59	63
Other operating income	0	0	0	0	0
Other income	392	75	91	114	147
Net claims	- 3,522	- 3,529	- 3,612	- 3,830	- 4,049
Commission expense	- 738	- 775	- 836	- 894	- 957
Management expense	- 618	- 641	- 693	- 742	- 794
Other expenses	- 58	- 45	- 75	- 84	- 94
Operating profit	692	730	804	880	958
Finance cost	0	0	0	0	0
Share of profit from associates	0	0	0	0	0
Profit before tax	692	730	804	880	958
Tax	- 200	- 209	- 231	- 253	- 276
Net profit	492	520	573	627	683
Core net profit	492	520	573	627	683
Balance Sheet (RMmil, YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Cash & deposits with FIs	1,600	1,176	2,771	3,472	4,272
Loans & receivables	0	0	0	0	0
Insurance receivables	195	200	204	209	213
Investment securities	16,085	18,730	19,326	21,049	22,925
Investment properties	20	0	0	0	0
Deferred acquisition cost	111	116	125	134	145
Fixed assets	87	107	102	96	91
Other assets	1,610	1,568	1,614	1,680	1,772
Total assets	19,710	21,897	24,143	26,640	29,418
Insurance contract liabilities	14,422	16,053	17,687	19,487	21,469
Insurance payables	424	489	511	534	558
Borrowings	57	43	43	43	43
Deferred tax liabilities	356	435	533	652	798
Other liabilities	777	845	1,007	1,200	1,431
Total liabilities	16,037	17,865	19,780	21,915	24,299
Share capital	771	771	772	773	774
Reserves	2,903	3,260	3,591	3,952	4,345
Shareholders' funds	3,674	4,032	4,363	4,725	5,119
Key Ratios (YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
ROE (%)	14.0	13.5	13.7	13.8	13.9
ROA (%)	2.7	2.5	2.5	2.5	2.4
Growth in gross earned premium (%)	6.6	7.9	4.6	7.0	7.0
Growth in net earned premium (%)	7.7	8.2	4.7	7.0	7.0
Core net profit growth (%)	30.6	5.7	10.1	9.5	8.8
EPS growth (%)	30.1	5.6	10.1	9.5	8.8
Book value per share growth (%)	8.8	9.7	8.2	8.3	8.3
Key Assumptions (YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Reinsurance ratio (%)	7.1	6.9	6.8	6.8	6.8
Retention ratio (%)	92.9	93.1	93.2	93.2	93.2
Claims ratio (%)	78.2	72.5	70.8	70.2	69.3
Commission ratio (%)	15.2	15.3	15.3	15.3	15.3
Management expense ratio (%)	19.1	13.2	13.6	13.6	13.6
Combine ratio (%)	112.5	100.9	99.7	99.1	98.2
Investment yield (%)	4.3	3.8	4.0	3.8	3.5
Underwriting margin (%)	- 7.1	- 0.9	0.3	0.9	1.8

Source: Company, AmInvestment Bank Bhd estimates

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