



AmInvestment Bank

Company report

ALLIANZ MALAYSIA

(ALLZ MK EQUITY, AINM.KL)

24 Nov 2022

Improving annualised new premiums for life business

BUY

(Maintained)

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Rationale for report: Company result/updates

Price	RM13.30
Fair Value	RM16.40
52-week High/Low	RM13.42/RM12.18

Key Changes

Fair value	⬇️
EPS	⬇️

YE to Dec	FY21	FY22F	FY23F	FY24F
Net Earned Premium (RMmil)	5,241	5,659	6,055	6,478
Core net profit (RMmil)	613	434	475	546
FD Core EPS (Sen)	137.9	111.9	136.9	157.2
FD Core EPS growth (%)	11.3	-29.2	9.5	14.8
Consensus net profit (RMmil)	-	460	429	466
DPS (Sen)	63.0	63.0	69.7	75.3
BV/share (RM)	23.4	24.5	25.9	27.5
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	10.2	10.7	11.6
Net Gearing (%)	nm	nm	nm	nm

Stock and Financial Data

Shares Outstanding (million)	176.8
Market Cap (RMmil)	2,351.3
Book Value (RM/share)	23.43
P/BV (x)	0.6
ROE (%)	15.0
Net Gearing (%)	-

Major Shareholders	Allianz SE (64.8%)
	Employees Provident Fund (7.6%)

Free Float	27.6
Avg Daily Value (RMmil)	0.4

Price performance	3mth	6mth	12mth
Absolute (%)	0.8	4.7	2.2
Relative (%)	3.5	11.9	7.8



Investment Highlights

- We maintain our BUY call on Allianz Malaysia (Allianz) with a lower FV of RM16.40/share from RM17.40/share based on a revised SOP valuation. This follows the lower the valuation accorded for its general insurance business. Our FV reflects an unchanged neutral 3-star ESG rating.
- We trim FY22F/23F/24F core earnings by 15%/14%/9% to factor in lower estimates for net investment income.
- 9MFY22 core earnings were below expectations accounting for 64% of our estimate but within consensus, making up 71% of street's. The variance to our forecast was mainly attributed to higher than expected fair value losses on investments.
- For 9MFY22, the group recorded a drop in core earnings by 25% YoY to RM327mil after stripping out the one-off tax impact of Cukai Makmur. The decline in earnings was largely attributable to lower profit contribution from the life insurance, impacted by fair value losses on investments and higher management expenses from investment holding.
- The group's operating revenue grew 6.5% YoY in 9MFY22, supported by higher gross earned premium (GEP) and investment income. Allianz's 9MFY22 overall combined ratio improved to 89.2% vs. 95% in 9MFY21, underpinned by lower claims, commission and management expense ratios.
- The group's claims ratio was lower at 63.2% in 9MFY22. The overall claims ratio of Allianz General Insurance Company (AGIC) of 58.6% was higher than the general insurance's 54% but lower than the takaful industry's ratio of 62%. As a key player in motor insurance with a commanding market share, AGIC's motor claims ratio of 58% continued to be lower than the general insurance industry's 64% and takaful's 77%.
- 3QFY22 saw the group record higher core net profit of RM127mil (+31% QoQ). This was contributed by lower fair value losses on investments for life business from an increase in interest rates and higher GEP, partially offset by increased net claims, commission and management expenses.

- **Gross written premiums (GWP) growth eased slightly to 9.4% YoY for 9MFY22 compared to 10% YoY in 6MFY22. This was contributed by the moderation of the GWP growth of its general insurance business to 12.3% YoY. Meanwhile, the GWP growth of life business under Allianz Life Insurance Malaysia (ALIM) eased to 7.2% YoY in 9MFY22 with a slower pace for both single and regular premiums.**
- **By profitability, AGIC posted a stronger PBT (after consolidation adjustment) of RM332mil (+2.8% YoY). This was driven by an improved underwriting profit with better non-motor claims and lower management expenses.**
- **PBT of the life insurance business under ALIM of RM142mil climbed by 7.6% YoY for 9M22 attributed to higher net earned premium partially offset by higher fair of value losses on investments, net change in benefits, claims paid and increase in management expenses.**
- **Annualised new business premium (ANP) for life business remained slow in tandem with industry trend. ANP fell by 0.6% YoY in 9MFY22. However, this was better than the industry's contraction of 5.6% YoY. The decline was largely attributable to lower ANP growth from agency channel of 3.4% YoY, while that for bancassurance rose by 15.8% YoY. ANP for investment-linked products increased by 3.6% YoY. Nevertheless, owing to lower business volume from the agency channel, 9MFY22 saw a decline in new business value for life business by 1.9% YoY to RM208mil. Market share for the life business increased slightly to 9.6% from 9.4% in the preceding quarter.**
- **The stock remains deeply undervalued based on FY23F P/BV of 0.5x and offers decent dividend yields of 5.3% for FY22F and 5.5% for FY23F.**
- **We like Allianz due to:**
 - i. **AGIC has a commanding market share of 13.3%, ranking no.1 in the general insurance industry. Hence, we continue to see that the group will be able to withstand pricing competition from the gradual liberalisation of fire and motor tariffs as well as consolidation of players in the industry.**
 - ii. **The group's stronger focus in investment-linked (IL) products with protection riders will put its life insurance business to be less significantly impacted by FRS 17, which will be implemented on 1 Jan 2023.**
 - iii. **Upon the adoption of FRS 17, the negative revaluation on the group's life insurance investments, which has dampened the group's net profit in FY21 and FY22, will no longer have any P&L impact from FY23F onwards. We understand that the marked-to-market changes in valuation of securities portfolio commencing from next year will be accounted under comprehensive income.**
 - iv. **The diversified portfolio and delivery channels for general and life insurance business bodes well for topline growth as well as to increase life insurance's new business value.**

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

Income Statement (RM MIL, FYE 31 Dec)	3Q21	2Q22	3Q22	% QoQ	% Yoy	9M21	9M22	% Yoy
Operating revenue	1,585	1,655	1,707	3.2%	7.7%	4,760	5,069	6.5%
Gross earned premium	1,391	1,460	1,487	1.8%	6.9%	4,189	4,446	6.1%
Net earned premium	1,285	1,374	1,407	2.4%	9.5%	3,889	4,180	7.5%
Investment income	193	194	220	13.3%	13.9%	571	623	9.2%
Realised gains and losses	-22	19	13	-33.0%	>-100%	6	51	>100%
Fair value gains and losses	29	-448	-114	-74.5%	>-100%	-337	-709	>100%
Commission income	13	10	8	-21.6%	-36.0%	33	27	-18.2%
Other operating income	11	29	33	12.8%	>100%	33	76	>100%
Other income	223	-195	160	>-100%	-28.6%	307	69	-77.5%
Gross claims paid	-592	-767	-851	11.0%	43.6%	-1,680	-2,334	38.9%
Claims ceded to reinsurers	52	31	96	>100%	82.9%	127	213	66.9%
Gross change in contract liabilities	-408	88	-180	>-100%	-55.9%	-1,048	-373	-64.4%
Change in contract liabilities ceded to reinsurers	-13	-54	-49	-9.2%	>100%	-19	-147	>100%
Net claims incurred	-961	-703	-985	40.2%	2.5%	-2,620	-2,641	0.8%
Commission expense	-209	-198	-208	5.2%	-0.5%	-614	-617	0.4%
Management expenses	-166	-140	-189	34.6%	14.0%	-493	-497	0.8%
Interest expense	0	0	0	>100%	85.1%	-1	-1	-17.2%
Other operating expenses	-13	-20	-18	-12.3%	33.5%	-35	-56	62.3%
Other expenses	-388	-358	-415	15.8%	6.9%	-1,143	-1,171	2.5%
Profit before tax	159	119	167	40.3%	4.8%	433	437	1.0%
Tax expense	-44	-22	-58	>100%	32.5%	-109	-130	20.0%
Net profit after tax	115	97	109	12.4%	-5.7%	324	306	-5.4%
Recurring/core net profit	152	97	127	31.0%	-17.0%	439	327	-25.4%
Segmental PBT								
Investment holding	-12	-6	-13			-23	-37	
General insurance	115	117	113			323	332	
Life insurance	56	8	66			132	142	
Group PBT	159	119	167			433	437	
Ratios (%)								
Reinsurance ratio	7.6%	5.9%	5.4%			7.2%	6.0%	
Retention ratio	92.4%	94.1%	94.6%			92.8%	94.0%	
Claims ratio	74.8%	51.1%	70.0%			67.4%	63.2%	
Commission ratio	15.3%	13.6%	14.2%			14.9%	14.1%	
Management expense ratio	12.9%	10.2%	13.4%			12.7%	11.9%	
Combined ratio	103.0%	75.0%	97.7%			95.0%	89.2%	
UW margin	-3.0%	25.0%	2.3%			5.0%	10.8%	

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)	3,060		100%	1.3	Based on forecast for FY23	3,978	11.5
Allianz Life (ALIM)	3,600	6/30/2022	100%	1.0	1x Embedded value of 6MFY22	3,600	10.4
SOP Valuation						7,578	21.8
Holding company discount					25%	1,895	5.5
SOP Valuation after holding company discount						5,684	16.4
No of ordinary shares						178	
Effects of conversion of ICPS						168	
Diluted number of ordinary shares						347	
Fair Value						16.4	

EXHIBIT 3: PB BAND CHART

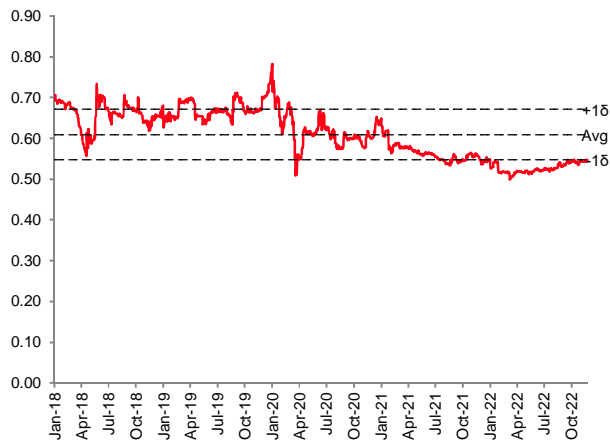


EXHIBIT 4: PE BAND CHART

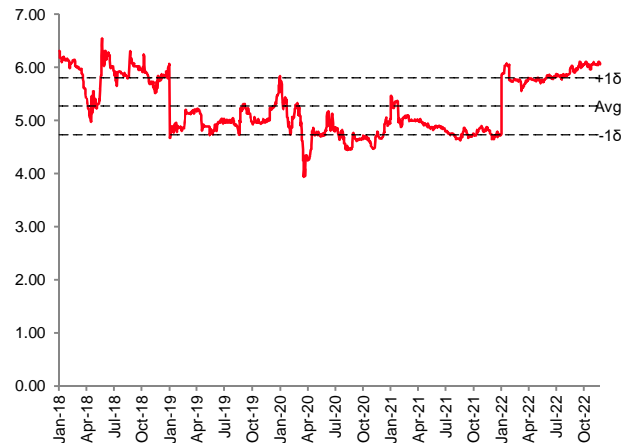


EXHIBIT 5: ESG RATING

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)	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
Other operating income	0	0	0	0	0
Other income	75	- 386	- 255	- 158	- 72
Net claims	- 3,529	- 3,549	- 3,982	- 4,209	- 4,498
Commission expense	- 775	- 811	- 930	- 995	- 1,064
Management expense	- 641	- 684	- 761	- 814	- 871
Other expenses	- 45	- 51	- 84	- 94	- 105
Operating profit	730	626	508	663	761
Finance cost	0	0	0	0	0
Share of profit from associates	0	0	0	0	0
Profit before tax	730	626	508	663	761
Tax	- 209	- 147	- 119	- 188	- 215
Net profit	520	478	389	475	546
Core net profit	551	613	434	475	546
Balance Sheet (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Cash & deposits with FIs	1,176	1,520	2,640	3,953	5,461
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
Other assets	1,568	1,757	1,761	1,804	1,850
Total assets	21,897	23,643	25,932	28,517	31,374
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
Other liabilities	845	850	1,000	1,178	1,363
Total liabilities	17,865	19,499	21,602	23,939	26,511
Share capital	771	771	773	774	774
Reserves	3,260	3,373	3,557	3,804	4,088
Shareholders' funds	4,032	4,144	4,330	4,578	4,863
Key Ratios (YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
ROE (%)	14.3	15.0	10.2	10.7	11.6
ROA (%)	2.7	2.7	1.8	1.7	1.8
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	- 29.2	9.5	14.8
EPS growth (%)	11.9	11.3	- 29.2	9.5	14.8
Book value per share growth (%)	9.7	2.8	4.5	5.7	6.2
Key Assumptions (YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
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

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