



## Company report

# SYARIKAT TAKAFUL MALAYSIA KELUARGA

(STMB MK EQUITY, TAKA.KL)

31 Mar 2021

*Superior ROE; strong online distribution***BUY**

(Initiation)

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**Rationale for report: Initiation**

Price	RM4.75
Fair Value	RM6.20
52-week High/Low	RM5.09/RM3.20

**Key Changes**

Fair value	Initiation
EPS	Initiation

YE to Dec	FY20	FY21F	FY22F	FY23F
Net Earned Premium (RM mil)	2,073	2,287	2,530	2,798
Core net profit (RM mil)	364	394	459	500
FD Core EPS (Sen)	43.9	47.6	55.4	60.4
FD Core EPS growth (%)	-1.0	8.4	16.5	9.0
Consensus net profit (RM mil)	0	378	392	423
DPS (Sen)	12.0	21.3	24.9	27.1
BV/share (RM)	1.8	2.1	2.4	2.7
PE (x)	10.8	10.0	8.6	7.9
Div yield (%)	2.5	4.5	5.2	5.7
P/BV (x)	2.6	2.3	2.0	1.7
ROE (%)	26.6	24.4	24.8	23.7
Net Gearing (%)	nm	nm	nm	nm

**Stock and Financial Data**

Shares Outstanding (million)	828.3
Market Cap (RM mil)	3,934.4
Book Value (RM/share)	1.82
P/BV (x)	2.6
ROE (%)	26.6
Net Gearing (%)	-

Major Shareholders	BIMB Holdings (59.2%) Employees Provident Fund (5.2%)
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Free Float	35.6
Avg Daily Value (RM mil)	2.5

Price performance	3mth	6mth	12mth
Absolute (%)	(1.7)	(3.3)	44.8
Relative (%)	0.5	(9.5)	19.6

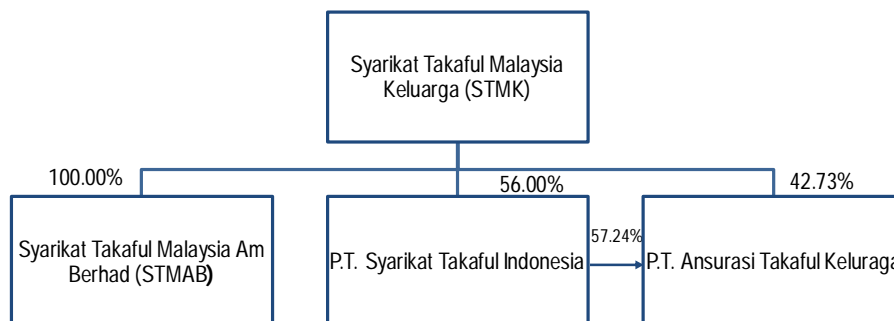


— STMB MK — FBMKLCI Index

**Investment Highlights**

- We initiate coverage on Syarikat Takaful Malaysia Keluarga (STMK) with a BUY call and fair value of RM6.20/share. This is based on FY22 P/BV of 2.6x derived from the Gordon growth model (GGM) with an ROE of 24.8%, cost of equity (COE) of 10.8% and long-term growth rate of 2.0%. Our forward P/BV is at a premium compared to the peer average of 1.4x. We see this as justified, premised on its superior ROE compared to its peers and also it being the only listed pure takaful operator locally. We have assigned a 3-star ESG rating for STMK (Exhibit 41). The group is involved in general and family takaful business.
- Our investment case for STMK is based on the following:
  - Strong market share of 24% for general and 22% for family takaful. It is ranked 2<sup>nd</sup> in general takaful and 1<sup>st</sup> in family takaful. Presently, there are 4 takaful operators in general takaful and 11 in family takaful;
  - 1<sup>st</sup> listed pure Islamic insurance company locally which has been in existence for more than 3 decades;
  - Above-industry gross written premiums (GWP) growth for the general takaful, ranked 1<sup>st</sup> for fire and 3<sup>rd</sup> for motor, the main segments of general takaful business;
  - Premiums for credit-related products contributed a significant 78.8% of its family takaful GWP. Further penetration of Islamic financing as a percentage of the banking system's loans and a pick-up in the expansion rate of Islamic credits as the economy recovers are set to increase the group's GWP;
  - Multiple banca partnerships to support sales of general and family takaful products. Bank Islam, RHB Islamic, Affin Islamic, Bank Rakyat and Aeon Credit are the preferred partners for its banca business;
  - A healthy combined ratio of 70.3% for 12M20 with profitable underwriting performance for general and family takaful business;
  - Stable group claims ratio at 42.9%. The claims ratio for general takaful at 35.0% for FY20 is lower than the takaful industry's 55.7% and the conventional general insurance industry's 52.9%;
  - A healthy surplus funds at RM1.3bil (general takaful RM209mil and family takaful RM1.1bil); and
  - Decent dividend yields at 5.2%/5.5% for FY21/22.

## EXHIBIT 1: CORPORATE STRUCTURE



Source: Company

### OPERATING GENERAL AND FAMILY TAKAFUL BUSINESS

Syarikat Takaful Malaysia was established in 1984 and commenced operations on 22 July 1985. It was subsequently converted to a public limited company and was listed on the Main Board of Bursa Malaysia on 30 July 1996. It is the only listed takaful operator that has consistently rewarded its general takaful customers with cashbacks through healthy surplus funds.

Pursuant to the adoption of the Financial Services Act 2013 (FSA) and Islamic Financial Services Act 2013 (ISFA), conventional insurers and takaful operators had to relinquish their composite insurance/takaful licences. The changes in regulations required them to operate their general and life/family takaful businesses under two separate companies. To comply with the Act, Syarikat Takaful Malaysia was then restructured. This resulted in Syarikat Takaful Malaysia Am (STMAB) being incorporated as a 100%-owned subsidiary of Syarikat Takaful Malaysia (STM). STM was then renamed as Syarikat Takaful Malaysia Keluarga (STMK) (Exhibit 1). The group has presence in Indonesia through operations of two subsidiaries – P.T. Syarikat Takaful Indonesia and P.T. Ansurasi Takaful Keluarga which are 56.0% and 42.7% owned respectively by STMK. Profit contribution from the operations in Indonesia of RM4.7mil was minimal, accounting for 1.1% of group PBT in FY20.

BIMB Holdings (BHB) is the largest shareholder of STKM, holding 59.19%. BHB owns 100% of Bank Islam, the first full-fledged Islamic Bank in Malaysia established in 1983. Lembaga Tabung Haji is the key shareholder of Bank Islam with an equity stake of 53.82%.

The group operates with diversified distribution channels for its general and family takaful businesses. STMK manages the family takaful business while STMAB manages the general takaful business. For general takaful, agencies are the main distribution channel. Meanwhile, bancatakaful partners and direct distribution are the key sales channels for family takaful.

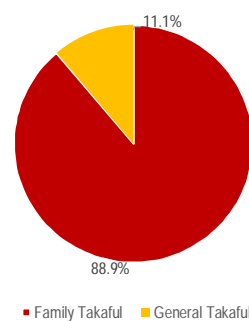
It has a market share of 22.0% for general takaful and 24.0% for family takaful business. These percentages exclude the share of conventional general and life insurance companies.

The group has 24 service centres nationwide.

### RANKED 2<sup>ND</sup> IN GENERAL TAKAFUL AND 1<sup>ST</sup> IN FAMILY TAKAFUL

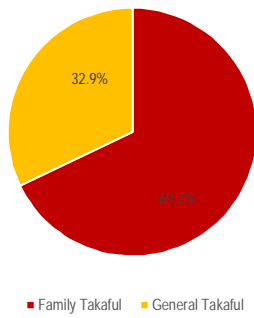
Family takaful is the larger contributor to the group's gross written premium (GWP) and surplus attributable to takaful operators/participant (surplus). Based on 12M20 results, family takaful contributed 69.7% and 88.9% of STMK's GWP and surplus respectively while the contributions from general takaful were 32.9% and 11.1% respectively.

### EXHIBIT 2: CONTRIBUTION TO GROUP SURPLUS ATTRIBUTABLE TO TAKAFUL OPERATOR/PARTICIPANTS BEFORE ELIMINATION



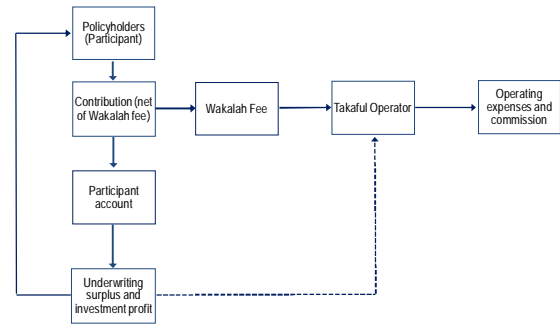
Source: Company, AmlInvestment Bank Bhd

**EXHIBIT 3: CONTRIBUTION TO GROUP GWP**



Source: Company, AmInvestment Bank Bhd

**EXHIBIT 4: WAKALAH MODEL**

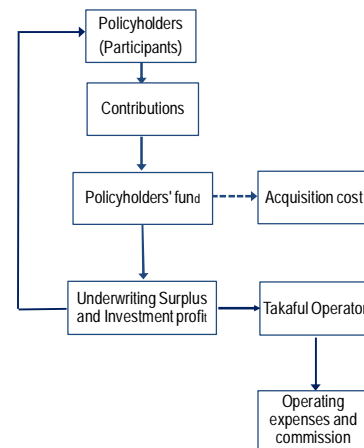


Source: Company, AmInvestment Bank Bhd

**ADOPTS WAKALAH MODEL FOR BUSINESS OPERATIONS**

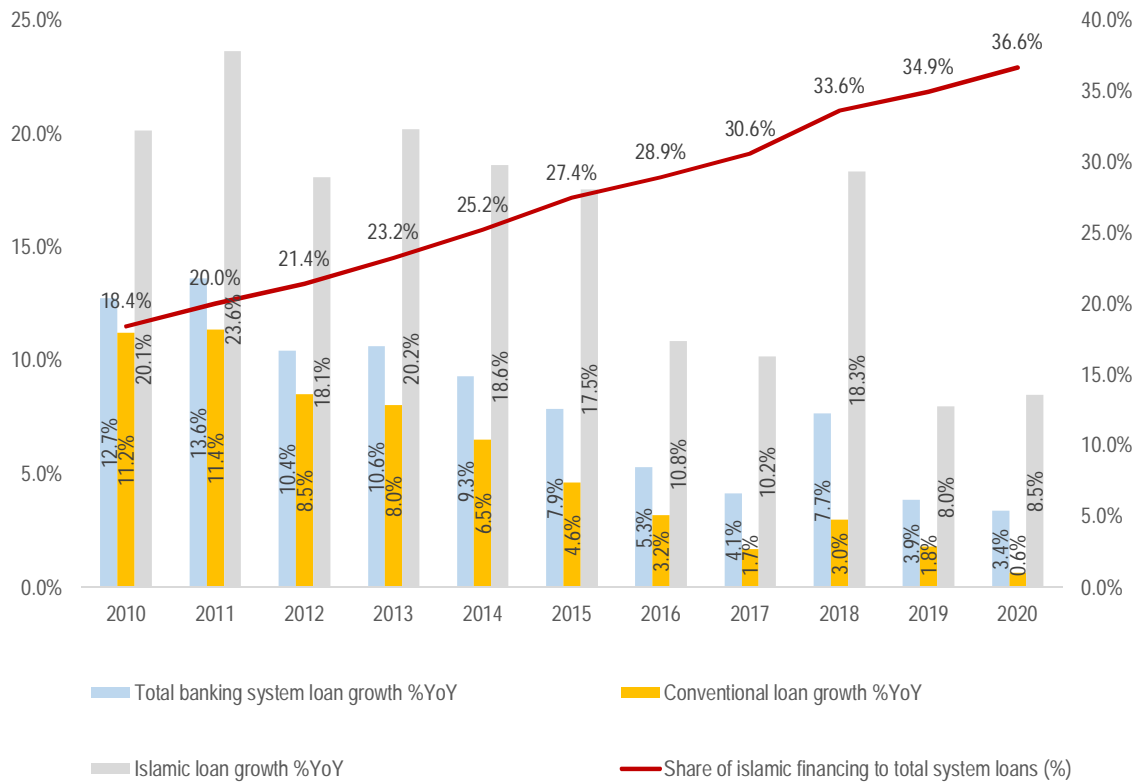
STMK operates under the Wakalah model which manages the takaful funds from contributions on behalf of participants and receives a wakalah (service fee) for the services rendered. By contributing tabarru' into the common takaful fund, both the participants and takaful operator will be entitled to a share of any surplus funds. This has allowed the group to be competitive in the industry with no-claim cashbacks of 7.5% to general takaful customers with comprehensive fire and motor takaful certificates.

**EXHIBIT 5: MODIFIED MUDHARABAH (PREVIOUS BUSINESS MODEL)**



Source: Company, AmInvestment Bank Bhd

**EXHIBIT 6: ISLAMIC FINANCING COMPARED TO CONVENTIONAL LOAN GROWTH**



Source: Company

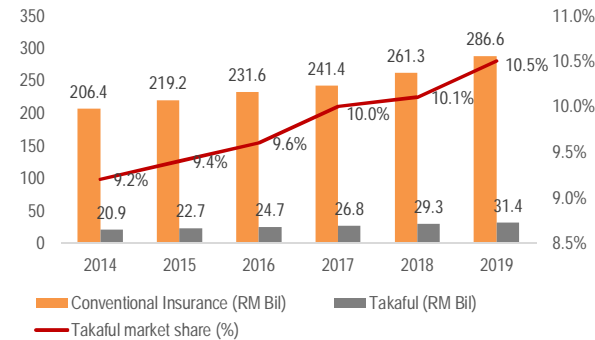
**FURTHER PENETRATION OF ISLAMIC FINANCING TO FUEL GROWTH OF GENERAL AND FAMILY TAKAFUL PREMIUMS**

Exhibit 6 shows that Islamic financing’s market share of the total industry’s loan has climbed to 36.6% in 2020 from 18.4% in 2010. In 2020, growth Islamic financing of 8.5% YoY far outpaced the conventional loans expansion rate of 0.6% YoY. We continue to see room for further penetration of Islamic financing. This bodes well for the growth of general and family takaful premiums.

**TAKAFUL SHARE OF TOTAL INSURANCE INDUSTRY ASSETS ON RISING TREND**

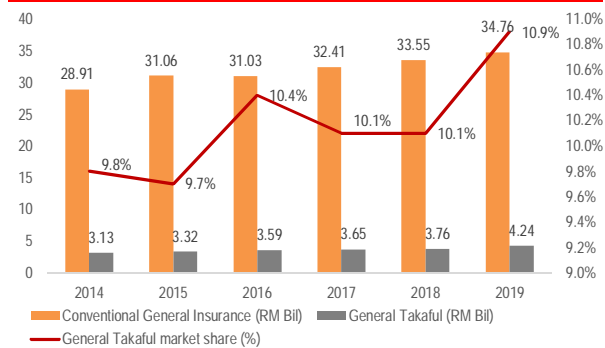
Exhibit 7 shows that the takaful market share of the total industry's assets has steadily risen to 10.5% in 2019 from 9.2% in 2014. This has been supported by the gradual increase in the general and family takaful market share of the total insurance industry's assets to 10.9% and 10.5% respectively.

**EXHIBIT 7: TAKAFUL MARKET SHARE OF TOTAL INDUSTRY ASSETS**



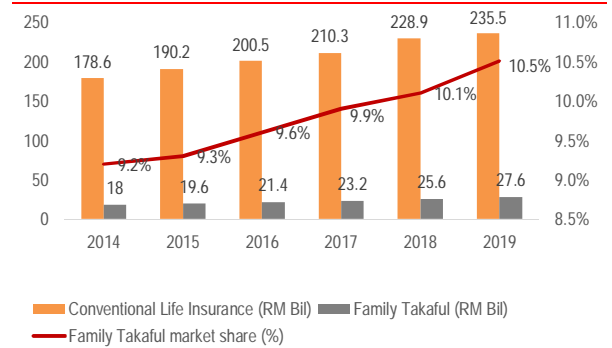
Source: Company, AmlInvestment Bank Bhd

**EXHIBIT 8: GENERAL TAKAFUL MARKET SHARE OF TOTAL INDUSTRY ASSETS**



Source: Company, AmlInvestment Bank Bhd

**EXHIBIT 9: FAMILY TAKAFUL MARKET SHARE OF TOTAL INDUSTRY ASSETS**



Source: Company, AmlInvestment Bank Bhd

### **LED BY EXPERIENCED MANAGEMENT TEAM**

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Group CEO is Datuk Seri Mohamed Hassan Kamil, aged 58. He has more than 30 years of experience in the insurance industry. A fellow of the Society of Actuaries, he was appointed to the board of STKM on 1 September 2006 as a non-independent non-executive director. Subsequently, he was nominated as the group managing director of STMK in 2007 and group CEO in 2017.

Meanwhile, the CEO of STMAB is Mohamed Sabri Ramli, aged 50. He has over 25 years of experience in the insurance and takaful industry. Mohamed Sabri joined STMAB in 2018 and was subsequently appointed as one of the key management team members in Aug 2018.

### **NO MATERIAL CHANGES POST-CORPORATE RESTRUCTURING OF BHB**

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The corporate restructuring of BHB will eventually see Bank Islam becoming the listed entity and the bank holding company, taking over the listing status of BHB. It is slated for completion by Aug 2021.

Under the proposed restructuring, 1 BHB share will be swapped with 1 Bank Islam (BI) share after the consolidation of BI shares while 1 BHB share will be entitled to 0.25 STMK share. Hence, for STMK, instead of the indirect shareholdings in STMK through BHB shares, shareholders will eventually own STMK shares directly in their own names post-restructuring. There will not be any impact on the business operations of STMK. The liquidity of STMK shares is anticipated to improve after the completion of this corporate exercise.

## EXHIBIT 10: FINANCIAL HIGHLIGHTS OF SYARIKAT TAKAFUL MALAYSIA KELUARGA (GROUP LEVEL)

Income Statement (RM MIL, FYE 31 Dec)	4Q19	3Q20	4Q20	% QoQ	% YoY	12M19	12M20	% YoY
<b>Operating revenue</b>	780	753	775	2.8%	-0.6%	3,125	2,957	-5.4%
Gross written premium	685	660	683	3.5%	-0.2%	2,760	2,582	-6.5%
Gross earned premium	695	675	702	3.9%	0.9%	2,749	2,514	-8.5%
<b>Net earned premium</b>	<b>597</b>	<b>571</b>	<b>580</b>	1.5%	-2.9%	<b>2,354</b>	<b>2,073</b>	-12.0%
Investment income	95	94	92	-1.8%	-3.7%	364	376	3.1%
Realised gains and losses	1	10	2	-76.2%	77.2%	15	34	122.0%
Fair value gains and losses	1	25	27	8.2%	1968.1%	32	16	-48.8%
Administration income	18	21	20	-4.5%	14.2%	66	82	23.8%
Other operating income	4	1	1	-8.0%	-66.4%	5	2	-56.5%
<b>Other income</b>	<b>119</b>	<b>151</b>	<b>142</b>	-5.7%	19.4%	<b>483</b>	<b>510</b>	5.6%
Gross claims paid	-316	-287	-262	-8.5%	-17.1%	-1,198	-1,043	-12.9%
Claims ceded to retakaful	70	56	61	8.5%	-13.0%	227	201	-11.4%
Gross change in contract liabilities	21	-134	4	-103.2%	-79.4%	-70	-216	209.0%
Change in contract liabilities ceded to retakaful	-34	117	-21	-118.1%	-38.5%	53	169	218.7%
<b>Net claims incurred</b>	<b>-260</b>	<b>-248</b>	<b>-219</b>	-11.9%	-16.0%	<b>-988</b>	<b>-889</b>	-10.0%
Administration expense	-50	-51	-49	-3.6%	-2.2%	-213	-192	-9.5%
Management expenses	-121	-103	-87	-15.2%	-28.1%	-413	-375	-9.2%
Expense reserve	-6	-5	11	-313.1%	-276.4%	-60	-5	-91.1%
Other operating expenses	-21	-18	-20	12.2%	-2.0%	-80	-77	-4.0%
<b>Other expenses</b>	<b>-199</b>	<b>-177</b>	<b>-145</b>	-18.0%	-26.9%	<b>-766</b>	<b>-650</b>	-15.1%
<b>Surplus attributable to takaful operators/participants</b>	<b>-172</b>	<b>-199</b>	<b>-241</b>	21.0%	40.3%	<b>-665</b>	<b>-617</b>	-7.3%
<b>Profit before tax</b>	<b>86</b>	<b>98</b>	<b>117</b>	19.9%	37.0%	<b>418</b>	<b>427</b>	2.2%
Tax expense	-8	-15	-13	-10.8%	69.4%	-51	-63	22.9%
Minority interest	-3	0	-1			-1	-1	
<b>Net profit after tax</b>	<b>75</b>	<b>83</b>	<b>103</b>	24.9%	37.3%	<b>365</b>	<b>362</b>	-0.7%
<b>Recurring/core net profit</b>	<b>75</b>	<b>83</b>	<b>103</b>	24.9%	37.3%	<b>365</b>	<b>362</b>	-0.7%
<b>Basis EPS (sen)</b>	<b>9.1</b>	<b>10.0</b>	<b>12.4</b>	24.7%	36.7%	<b>44.2</b>	<b>43.8</b>	-0.9%
<b>Diluted EPS (sen)</b>	<b>9.0</b>	<b>10.0</b>	<b>12.4</b>	24.3%	36.8%	<b>43.9</b>	<b>43.6</b>	-0.8%
<b>Ratios (%)</b>								
Reinsurance ratio	14.1%	15.4%	17.4%			14.3%	17.5%	
Retention ratio	85.9%	84.6%	82.6%			85.7%	82.5%	
Claims ratio	43.6%	43.4%	37.7%			42.0%	42.9%	
Administration ratio	5.5%	5.3%	5.1%			6.2%	5.3%	
Management expense ratio	20.3%	18.0%	15.0%			17.6%	18.1%	
Other expense ratio	4.5%	4.1%	1.5%			5.9%	4.0%	
Combined ratio	73.9%	70.8%	59.3%			71.7%	70.3%	
UW margin	26.1%	29.2%	40.7%			28.3%	29.7%	
ROE	23.7%	22.7%	27.4%			33.1%	26.5%	

Source: Company

### HIGHER GWP GROWTH OF GENERAL TAKAFUL OFFSET BY SLOWDOWN IN GWP FROM FAMILY TAKAFUL BUSINESS IN FY20

Based on the 5-year CAGR (2014–2019), the group's GWP expanded by an average of 13.6%. However, the overall group GWP slipped by 6.5% YoY for FY20 attributed to

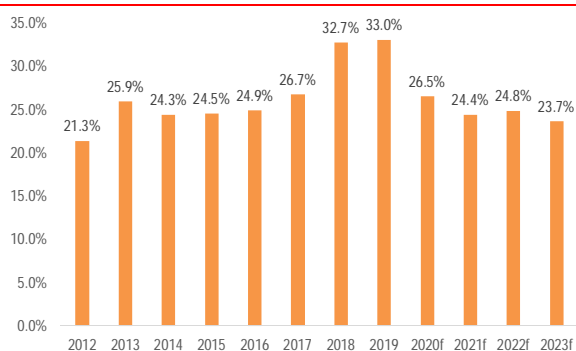
slower sales of credit-related and group medical products under the family takaful business.

Family takaful's GWP fell by 13.9% YoY. This had offset the stronger GWP growth of the general takaful business of 14.4% YoY which outpaced the general takaful industry's +4.6% YoY.

## MULTIPLE BANCA PARTNERSHIPS TO SUPPORT SALES OF FAMILY AND GENERAL TAKAFUL PRODUCTS

Banca partnerships are the key distribution channel for family takaful products. Sales of credit-related products under the family takaful business hinges on the growth of domestic banking industry's Islamic financing. We expect sales of credit-related takaful products to gradually gain traction. With the economic growth gradually recovering, we see a slightly faster growth of financing in 2021 vs. 2020. In turn, this will benefit sales of credit-related takaful products.

### EXHIBIT 11: GROUP ROE

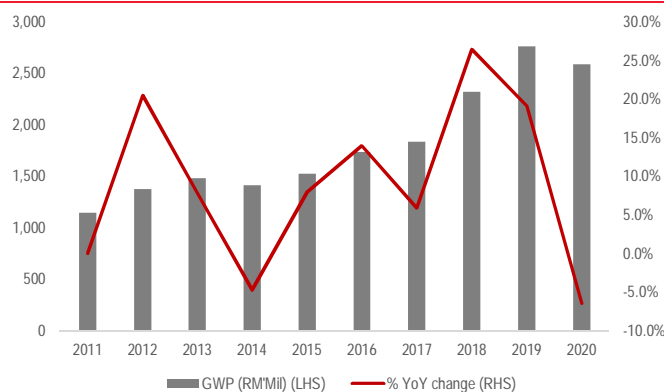


Source: Company, AmInvestment Bank Bhd

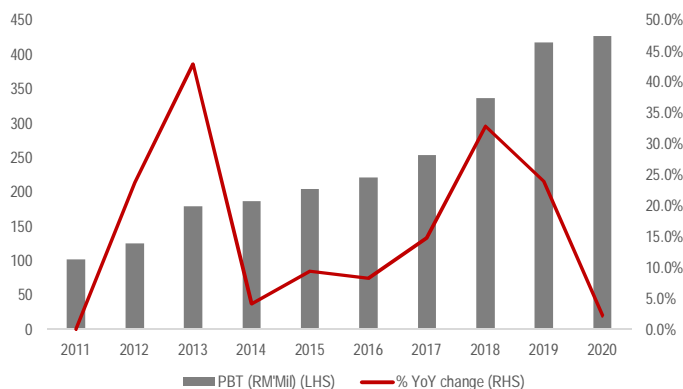
## HEALTHY BALANCE OF UNALLOCATED SURPLUS FUNDS RM1.3BIL

As at the end of Dec 2020, surplus funds for the general takaful business stood at RM209mil. Meanwhile, the unallocated surplus funds for family takaful were RM1.1bil. This brings the group's total remaining surplus funds to RM1.3bil.



**EXHIBIT 12: GROUP GWP**

Source: Company

**EXHIBIT 13: GROUP PBT**

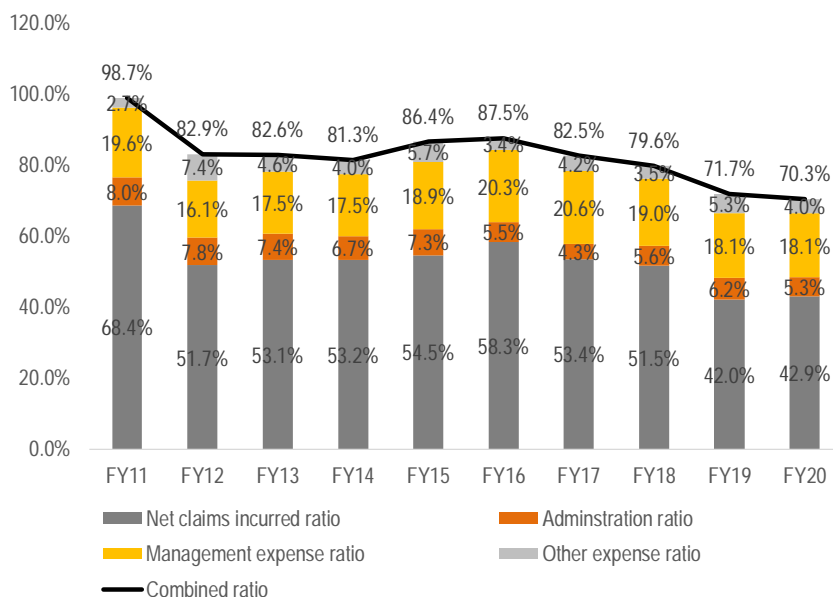
Source: Company, AmInvestment Bank Bhd

**DECENT FINANCIAL PERFORMANCE IN FY20**

With strong market shares in family and general takaful and a healthy surplus funds, the group is poised to weather the challenges in the takaful industry.

12M20 saw a steady net profit after tax of RM362mil (-0.7% YoY). The stable earnings were underpinned by higher investment income, lower claims largely from motor and medical, lower management expenses, coupled with a release in expense reserves. All these improvements had offset a slower topline growth from the decrease in sales of credit-related and group medical products under family takaful.

The group recorded an improved underwriting margin of 29.7% with a lower combined ratio of 70.3% for 12M20 on the back of lower administration and other expenses ratio.

**EXHIBIT 14: COMPONENTS OF COMBINED RATIO AT GROUP LEVEL**

Source: Company, AmlInvestment Bank

**LOWER COMBINED RATIO WITH IMPROVING CLAIMS RATIO**

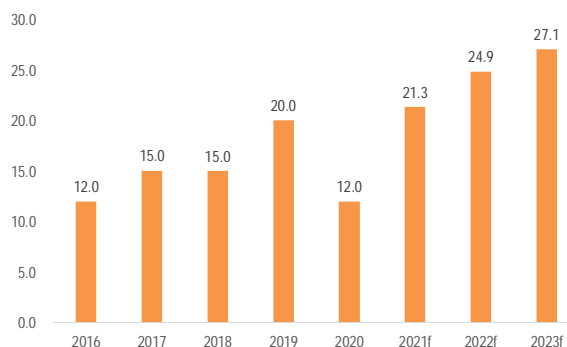
Management expense ratio has been stable at 18.1% while administration or commission ratio has trended lower to 5.3% in 12M20. Meanwhile, net claims ratio stood at 42.9% and has improved significantly compared to the previous financial years as seen in Exhibit 14. Motor claims ratio stood at 65.0% while that for non-motor was 19%. Claims ratio for fire and personal accident (PA) was <10% and <30% respectively.

**CAPITAL RATIOS WELL ABOVE REGULATORY REQUIREMENTS**

The group has capital ratios of >200% which are well above the minimum regulatory requirement of at least 130.0%. STMAB has a CAR ratio of higher than 300.0%.

**NO DIVIDEND POLICY**

The group does not have a dividend policy. Nevertheless, based on the past 5 years, the average dividend payout was 46.0%.

**EXHIBIT 15: DIVIDEND PER ORDINARY SHARE**

Source: Company, AmlInvestment Bank Bhd

## GENERAL TAKAFUL BUSINESS MANAGED BY SYARIKAT TAKAFUL MALAYSIA AM (STMAB)

### EXHIBIT 16: FINANCIAL HIGHLIGHTS OF GENERAL TAKAFUL

Income Statement (RM MIL, FYE 31 Dec)	4Q19	3Q20	4Q20	% QoQ	% Yoy	12M19	12M20	% Yoy
<b>Operating revenue</b>	201	753	242	-67.8%	20.6%	755	859	13.8%
Gross written premium	193	746	235	-68.5%	21.6%	724	828	14.4%
Gross earned premium	164	192	200	4.5%	22.2%	706	757	7.1%
<b>Net earned premium</b>	<b>95</b>	<b>108</b>	<b>115</b>	6.0%	20.4%	<b>430</b>	<b>437</b>	1.8%
Investment income	8	7	7	-0.9%	-5.1%	31	31	-1.8%
Realised gains and losses	0	0	2	nm	12330.0%	3	2	-7.8%
Fair value gains and losses	0	0	0	-80.0%	-95.6%	1	0	-119.1%
Administration income	17	21	20	-4.5%	17.6%	63	82	29.9%
Other operating income	1	0	1	1240.3%	44.3%	1	0	-47.5%
<b>Other income</b>	<b>25</b>	<b>28</b>	<b>31</b>	8.6%	21.6%	<b>98</b>	<b>115</b>	17.0%
Gross claims paid	-92	-72	-76	5.4%	-17.1%	-319	-254	-20.2%
Claims ceded to retakaful	47	33	36	7.7%	-24.3%	141	109	-23.1%
Gross change in contract liabilities	28	-122	37	-130.1%	33.9%	-63	-169	169.2%
Change in contract liabilities ceded to retakaful	-38	110	-17	-115.7%	-54.2%	38	161	328.4%
<b>Net claims incurred</b>	<b>-55</b>	<b>-52</b>	<b>-21</b>	-59.6%	-61.9%	<b>-202</b>	<b>-153</b>	-24.3%
Administration expense	0	0	0	na	na	0	0	na
Management expenses	0	0	0	na	na	0	0	na
Wakalah expense	-69	-81	-77	-4.9%	12.4%	-308	-319	3.4%
Other operating expenses	0	-1	0	-99.5%	-44.4%	0	-1	1468.2%
<b>Other expenses</b>	<b>-69</b>	<b>-82</b>	<b>-77</b>	-6.1%	12.4%	<b>-308</b>	<b>-319</b>	3.6%
<b>Surplus attributable to takaful operators/participants</b>	<b>-3</b>	<b>2</b>	<b>47</b>	1799.9%	-1579.3%	<b>17</b>	<b>80</b>	361.8%
<b>Ratios (%)</b>								
Reinsurance ratio	41.9%	43.5%	42.7%			39.2%	42.2%	
Retention ratio	58.1%	56.5%	57.3%			60.8%	57.8%	
Claims ratio	57.8%	47.9%	18.3%			47.1%	35.0%	
Wakalah expense ratio	72.3%	75.2%	67.5%			71.8%	72.9%	
Other expense ratio	0.0%	1.0%	0.0%			0.0%	0.2%	
Combined ratio	130.1%	124.0%	85.7%			118.9%	108.1%	

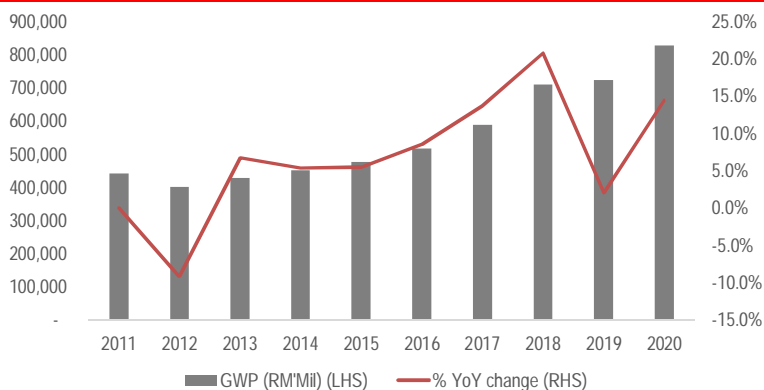
Source: Company

### IMPROVED COMBINED RATIO UNDERPINNED BY LOWER CLAIMS

12M20 saw higher surplus attributable to takaful operators/participants of RM80mil (+361.8% YoY), underpinned by higher net earned premium and lower net

claims (-24.3% YoY). General takaful ceded out more of its premiums to re-takaful operators resulting in lower retention ratio of 57.8% in 12MFY20.

**EXHIBIT 17: GENERAL TAKAFUL'S GWP GROWTH**



Source: Company, AmInvestment Bank Bhd

**EXHIBIT 18: GWP GROWTH OF GENERAL TAKAFUL VS. INDUSTRY'S**

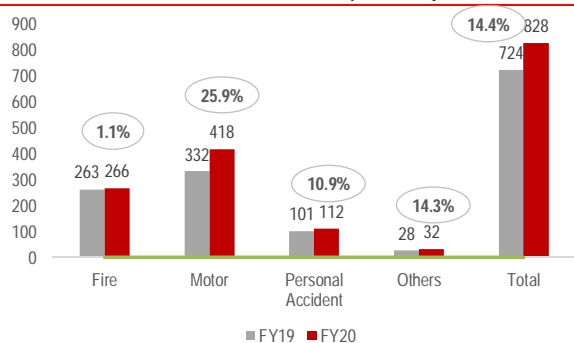
	2018	2019	2020
General Takaful	20.8%	2.0%	14.4%
Industry	8.9%	18.8%	4.6%

Source: Company, AmInvestment Bank Bhd

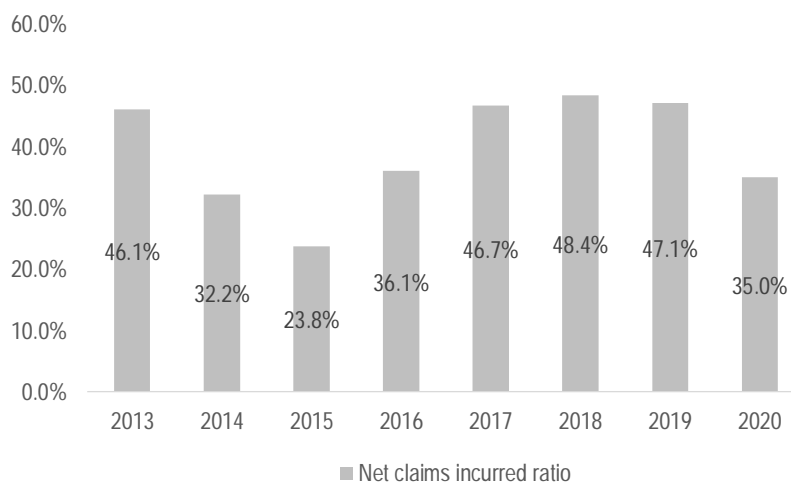
**OUTPACING GENERAL TAKAFUL INDUSTRY FOR GWP GROWTH**

For FY20, GWP for the general takaful business under STMAB grew at a much faster pace than the industry's. In 2020, the industry recorded a contraction in premiums for marine, aviation and transit and medical and health by 10.7% YoY and 58.1% YoY respectively. Meanwhile, for motor and fire, the industry's premium growth was modest at 6.4% YoY and 4.6% YoY respectively.

**EXHIBIT 19: BREAKDOWN IN VALUE OF GENERAL TAKAFUL GWP (RM MIL)**



Source: Company, AmInvestment Bank Bhd

**EXHIBIT 20: GENERAL TAKAFUL NET CLAIMS RATIO**

Source: Company, AmInvestment Bank Bhd

**CLAIMS RATIO FOR GENERAL TAKAFUL SIGNIFICANTLY LOWER THAN CONVENTIONAL GENERAL INSURANCE/TAKAFUL INDUSTRY'S**

Exhibit 21 depicts the GWP growth and net claims incurred (NCI) ratio of general takaful vs. the industry's.

In 2020, the general takaful business recorded a lower claims ratio of 35.0% vs. the takaful industry's 55.7%.

**EXHIBIT 21: COMPARISON WITH INDUSTRY'S**

	General Takaful 12M20	Conventional general insurance industry 12M20	Takaful Industry 12M20
GWP growth	14.4%	-0.6%	4.6%
Claims ratio	35.0%	52.9%	55.7%

Source: Company, AmInvestment Bank Bhd

**EXHIBIT 22: NCI RATIOS BY KEY SEGMENT**

Segment	General Takaful 2020	Takaful Industry 2020
Motor	65.0%	68.2%
Fire	<10%	16.8%
PA	<30%	25.3%

Source: Company, AmInvestment Bank Bhd

**EXHIBIT 23: TOP GENERAL TAKAFUL OPERATORS AS AT DEC 2020 BASED ON GROSS DIRECT PREMIUMS**

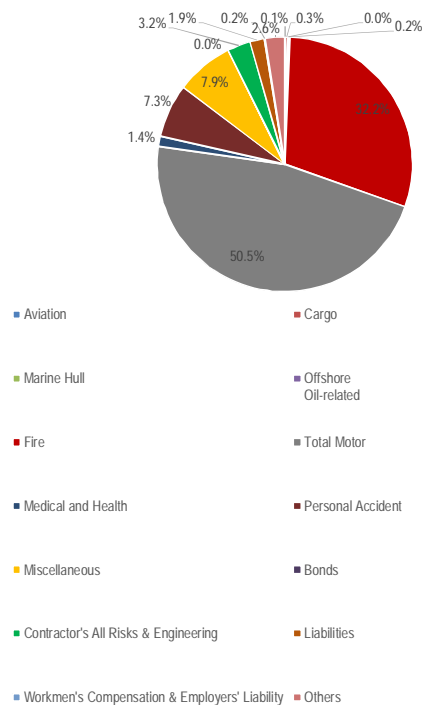
Rank	Takaful operator	Market Share
1	Etiqa General Takaful	45.30%
2	Syarikat Takaful Keluarga Am	23.88%
3	Zurich General Takaful	18.39%
4	Takaful Ikhlas General	12.43%
	<b>Total</b>	<b>100.00%</b>

Source: ISM, Company

**2<sup>ND</sup> LARGEST GENERAL TAKAFUL OPERATOR**

Syarikat Takaful Malaysia Am is the 2nd largest general takaful operator domestically behind Etiqa General Takaful. In the 3<sup>rd</sup> and 4<sup>th</sup> spots are Zurich General Takaful and Takaful Ikhlas General with market shares of 18.39% and 12.43% respectively.

**EXHIBIT 24: GENERAL TAKAFUL PORTFOLIO MIX**



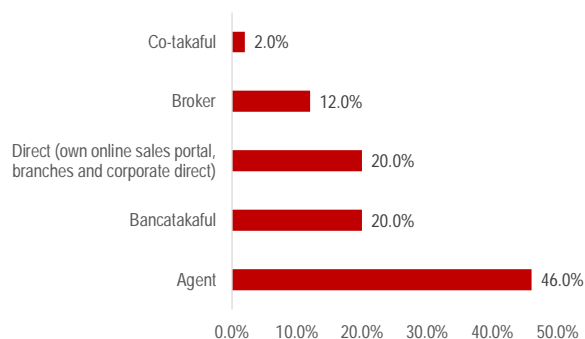
Source: Company, AmInvestment Bank Bhd

**DIVERSIFIED PORTFOLIO MIX WITH MOTOR AND FIRE INSURANCE AS THE LARGEST SEGMENTS**

For the general takaful business, the group has a diversified portfolio with motor and fire as the 1<sup>st</sup> and 2<sup>nd</sup> largest segments, accounting for 50.5% and 32.2% respectively of its total GWP.

Elsewhere, personal accident, contractor's all-risk and engineering & liabilities insurance make up 7.3%, 3.2% and 1.9% respectively of the total GWP. Meanwhile, medical and health premiums only accounted for 1.4% of its total GWP. The group intends to grow the fire segment in FY21 with the recruitment of more corporate agents while maintaining a mix of motor to non-motor premiums of 50%:50%.

### EXHIBIT 25: CONTRIBUTION TO GWP BY DISTRIBUTION CHANNEL



Source: Company

### RANKED 1ST FOR FIRE AND 3<sup>RD</sup> IN MOTOR

STMAB has a sizeable market share for fire insurance at 42.78%. It is ranked No.1 for the segment, ahead of Etiqa General Takaful, Takaful Ikhlas and Zurich General Takaful.

On motor premiums, STMAB is ranked 3<sup>rd</sup> with a market share of 18.29% behind Etiqa General Takaful and Zurich General Takaful.

Also, it holds strong market shares, ranking No.2 in aviation, cargo, marine hull, medical & health, personal accident, contractor's all-risk and engineering, workers' compensation and employers' liabilities insurance.

### EXHIBIT 26: TAKAFUL OPERATORS FOR MOTOR INSURANCE BY RANKING

Rank	Takaful operator	GWP (RM Mil)	Market Share
1	Etiqa General Takaful Berhad	1,104	48.27%
2	Zurich General Takaful Malaysia Berhad	488	21.36%
3	Syarikat Takaful Malaysia Am Berhad	418	18.29%
4	Takaful Ikhlas General Berhad	276	12.08%
	<b>Total</b>	<b>2,286</b>	<b>100.00%</b>

Source: Company, AmlInvestment Bank Bhd

### EXHIBIT 27: TAKAFUL OPERATORS OF FIRE INSURANCE BY RANKING

Rank	Takaful operator	GWP (RM Mil)	Market Share
1	Syarikat Takaful Malaysia Am Berhad	266	42.78%
2	Etiqa General Takaful Berhad	193	31.06%
3	Takaful Ikhlas General Berhad	97	15.55%
4	Zurich General Takaful Malaysia Berhad	66	10.60%
	<b>Total</b>	<b>622</b>	<b>100.00%</b>

### AGENCY IS KEY DISTRIBUTION CHANNEL FOR GENERAL TAKAFUL

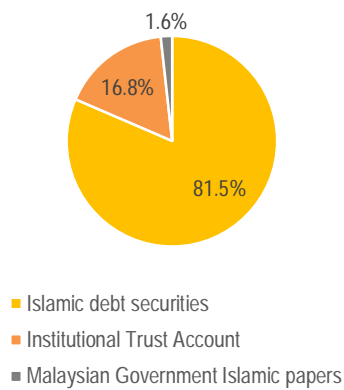
Exhibit 25 shows that 46.0% of the group's general takaful's GWP are derived from agents. The agents include MyEG and the online portal Bijak.my (Bijak). The collaboration with Bijak commenced last year and has garnered GWPs of RM40mil which made up 10% of the general takaful's motor premiums of RM418mil. Meanwhile, brokers and direct channels (online own sales portal, branches and corporate direct) contributed 20.0% each to the general takaful's total GWP. Its own online sales portal is gaining traction with the GWP contribution of circa RM83mil (10%) to the total GWP.

## GOVERNMENT BONDS A SIGNIFICANT PORTION OF INVESTMENT PORTFOLIO FOR GENERAL TAKAFUL

Islamic debt securities make up a significant 43.2% of the investments for general takaful.

The remaining investments are in institutional trust account and Malaysian government Islamic papers, accounting for 16.8% and 1.6% respectively of the total investments.

### EXHIBIT 28: INVESTMENT PORTFOLIO FOR GENERAL TAKAFUL



Source: Company



## FAMILY TAKAFUL BUSINESS

## EXHIBIT 29: FINANCIAL HIGHLIGHTS OF FAMILY TAKAFUL

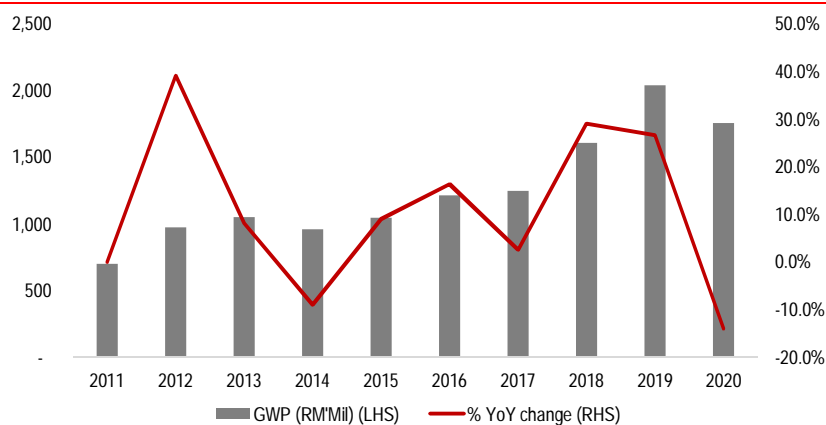
Income Statement (RM MIL, FYE 31 Dec)	4Q19	3Q20	4Q20	% QoQ	% Yoy	12M19	12M20	% Yoy
<b>Operating revenue</b>	562	520	518	-0.6%	-7.8%	2,314	2,039	-11.9%
Gross written premium	491	449	448	-0.3%	-8.8%	2,037	1,753	-13.9%
Gross earned premium	531	484	501	3.6%	-5.7%	2,042	1,757	-14.0%
<b>Net earned premium</b>	<b>502</b>	<b>463</b>	<b>465</b>	0.4%	-7.4%	<b>1,925</b>	<b>1,635</b>	-15.0%
Investment income	71	71	70	-2.1%	-1.1%	278	286	2.9%
Realised gains and losses	1	10	0	nm	-100.0%	11	28	161.0%
Fair value gains and losses	4	24	27	12.7%	620.6%	30	17	-43.3%
Administration income	1	0	0	27.3%	-97.3%	3	0	-98.7%
Other operating income	3	1	0	-76.8%	-90.5%	3	0	-90.9%
<b>Other income</b>	<b>79</b>	<b>107</b>	<b>98</b>	-9.1%	23.1%	<b>325</b>	<b>331</b>	2.0%
Gross claims paid	-229	-219	-189	-13.5%	-17.4%	-895	-805	-10.1%
Claims ceded to retakaful	23	23	25	9.7%	10.7%	85	92	8.2%
Gross change in contract liabilities	-7	-12	-33	177.7%	386.7%	-7	-47	565.6%
Change in contract liabilities ceded to retakaful	3	7	-4	-156.2%	-222.0%	15	8	-50.1%
<b>Net claims incurred</b>	<b>-210</b>	<b>-201</b>	<b>-201</b>	0.0%	-4.4%	<b>-802</b>	<b>-752</b>	-6.2%
Administration expense	0	0	0	na	na	0	0	na
Management expenses	0	0	0	na	na	0	0	na
Wakalah expense	-184	-146	-148	1.7%	-19.6%	-721	-572	-20.7%
Other operating expenses	-2	-1	-2	200.9%	-7.8%	-7	-6	-3.6%
<b>Other expenses</b>	<b>-186</b>	<b>-146</b>	<b>-150</b>	2.4%	-19.5%	<b>-727</b>	<b>-578</b>	-20.5%
<b>Surplus attributable to takaful operators/participants</b>	<b>184</b>	<b>223</b>	<b>211</b>	-5.2%	14.6%	<b>721</b>	<b>636</b>	-11.7%
<b>Ratios (%)</b>								
Reinsurance ratio	5.6%	4.3%	7.3%			5.8%	6.9%	
Retention ratio	94.4%	95.7%	92.7%			94.2%	93.1%	
Claims ratio	41.9%	43.4%	43.2%			41.7%	46.0%	
Wakalah expense ratio	36.8%	31.5%	31.9%			37.4%	35.0%	
Other expense ratio	0.4%	0.1%	0.4%			0.4%	0.4%	
Combined ratio	79.0%	75.0%	75.5%			79.4%	81.4%	

Source: Company

### LOWER SURPLUS ATTRIBUTABLE TO TAKAFUL OPERATOR/PARTICIPANTS FOR FAMILY TAKAFUL DUE TO DECLINE IN PREMIUM GROWTH IN FY20

12M20 saw family takaful's surplus attributable to takaful operator/participants slipping by 11.7% YoY largely attributed to weaker premium growth in FY20. Sales of credit-related and group medical products decreased, impacted by the Covid-19 pandemic.

Nevertheless, with the implementation of the MCO, medical claims declined, consequently leading to lower net claims incurred in FY20. Investment income rose 2.9% YoY in FY20 attributed to the increase in profit income from fixed income investments. This was partially offset by lower fair value gains by 43.3% YoY arising from the improved equity market performance.

**EXHIBIT 30: FAMILY TAKAFUL GWP GROWTH**

Source: Company, AmInvestment Bank Bhd

### **SLOWER GWP GROWTH FOR FAMILY TAKAFUL IN FY20 SHOULD PICK UP, IN LINE WITH GROWTH IN ISLAMIC FINANCING ONCE ECONOMIC RECOVERY GAINS TRACTION**

GWP growth for family takaful averaged a 5-year (2015–2020) CAGR of 10.9%. The family takaful industry's premiums grew 7.0% YoY in 2020 while the combined (conventional life and family takaful) industry's premium growth was flat at 0.3% YoY.

**EXPECT CREDIT-RELATED GWP TO IMPROVE IN FY21 FROM A SLOWDOWN IN FY20**

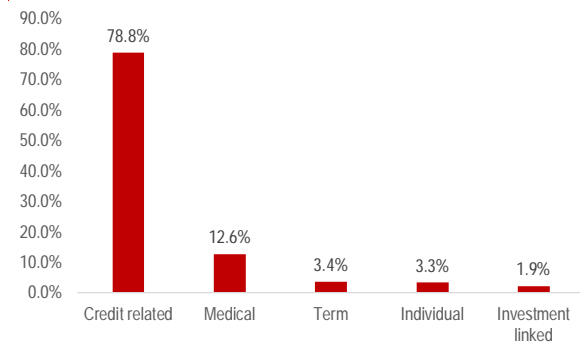
Applications for home financing from LPPSA (the Public Sector Home Financing Board) were impacted by the MCO and this has played a part in slowing down the group's credit-related premiums in FY20. With the recommencement of operations, online portals of LPPSA have allowed the submission of financing request again. Hence, we expect credit-related premiums to rise in FY21 vs. FY20.

Additionally, we expect growth in personal financing to be higher in FY21 than FY20. This is likely to contribute to the improvement in credit-related premiums for the group in FY21.

**GWP COMPRISED LARGELY SINGLE PREMIUMS FROM CREDIT-RELATED PRODUCTS**

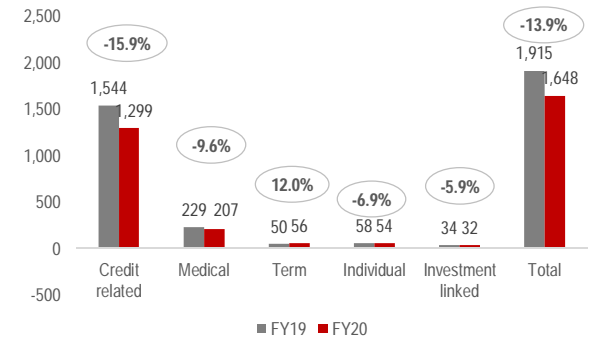
Family takaful's GWP is made up of 98.0% single premiums and 2% single premiums as at the end of 2020.

**EXHIBIT 31: FAMILY TAKAFUL GWP MIX FOR FY20**



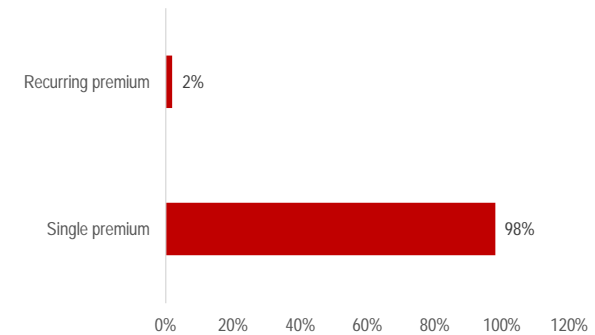
Source: Company

**EXHIBIT 32: BREAKDOWN IN VALUE OF FAMILY TAKAFUL GWP (RM MIL)**



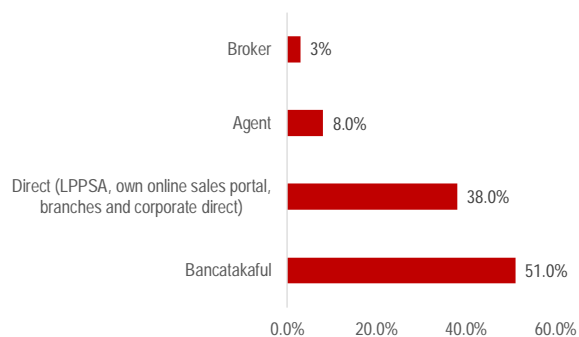
Source: Company

**EXHIBIT 33: MIX OF SINGLE AND RECURRING PREMIUMS FOR FAMILY TAKAFUL**



Source: Company

### EXHIBIT 34: CONTRIBUTION TO GWP FOR FAMILY TAKAFUL BY DISTRIBUTION CHANNEL



Source: Company

### BANCATAKAFUL, MAIN CONTRIBUTOR OF FAMILY TAKAFUL GWP

Bancatakalul contributed 51.0% or RM1.3bil of family takaful's GWP totalling RM1.65bil in FY20.

Meanwhile, direct channels (LPPSA, online sales portal, branches and corporate direct) and agents contributed 38.0% and 8.0% of family takaful's GWP respectively.

### CREDIT RELATED, THE KEY SEGMENT OF FAMILY TAKAFUL'S GWP

Of the total credit related premiums of RM1.3bil in FY20, 45% are premiums from bank borrowers' taking personal financing while 35% are premiums tied to LPPSA house financing. The remaining 20% are premiums related to other types of mortgage financing.

### EXHIBIT 35: BANCATAKAFUL PARTNERS

Banks	Type of partnership/business model	Expiration of partnership
1 Bank Islam	Preferred Partner	
2 RHB Islamic	Preferred Partner since August 2015	2025
3 Afin Islamic	Preferred Partner since September 2017	2022
4 Bank Rakyat	Preferred Partner since July 2018	2023
5 Aeon Credit	Preferred Partner since August 2019	2024
6 MBSB	Open panel	
7 Al-Rajhi Bank	Open panel	
8 Koperasi Bank Persatuan	Open panel	
9 Kuwait Finance House	Open panel	
10 Public Islamic Bank	Open panel	
11 Sabah Credit Corporation	Open panel	
12 Bank Simpanan Nasional	Open panel	
13 Alliance Islamic Bank	Open panel	
14 Standard Chartered Saadiq	Open panel	
15 Agro Bank	Open panel	
16 SME Bank	Open panel	
17 AmBank Islamic	Open panel	
18 CMB Islamic	Open panel	
19 UOB	Open panel	

Source: Company

## PREFERRED PARTNERSHIPS FOR BANCATAKAFUL WITH 5 BANKS

Most of its preferred partnerships with banks for bancatakaful are for the duration of 5 years. The group has established preferred partnerships with 5 banks – Bank Islam, RHB Islamic, Affin Islamic, Bank Rakyat and Aeon Credit. The bancatakaful partnership with RHB Islamic was renewed recently in 2020 for 5 years, up to 2025 with improvements in incentives for general and family takaful sales. Meanwhile, the remaining 14 partnerships with other banks and cooperatives are on a panel basis (Exhibit 35).

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

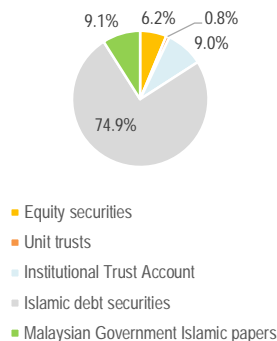
Effective 1 July 2019, the new MAR requirements were implemented. The key change for investment-linked policies was that the minimum requirements for reserving of premiums for the first two years to the policyholders' unit funds have been raised to 60% from 45% previously. This provided higher protection in the first two years of the new policies to investment-linked policy owners' account values. Most the family takaful business's GWP comprised largely single premium credit-related products. Also, the group's mix of investment-linked family takaful premiums is low at only 1.9% of the total GWP. Hence, the impact of the new MAR rules is immaterial to the earnings of STMK.

## EXHIBIT 36: 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

## EXHIBIT 37: INVESTMENT PORTFOLIO FOR FAMILY TAKAFUL



Source: Company

## MAINLY INVESTED IN ISLAMIC DEBT SECURITIES AND MGS; LESS THAN 10% IN EQUITIES

84.1% of family takaful's investments are in Islamic debt securities and Malaysian government securities (MGS). Meanwhile, investments in equities only account for 7.0% of the family takaful's total investments.

## NO ADVERSE IMPACT FROM INTEREST RATE RISK

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98% of the family takaful GWP comprised single premiums (mostly premiums for credit-related products). Hence, the duration of the assets and liabilities for the group is closely matched. This will not result in any material impact on the group's profit after tax and equity from any interest rate changes.

## KEY RISKS

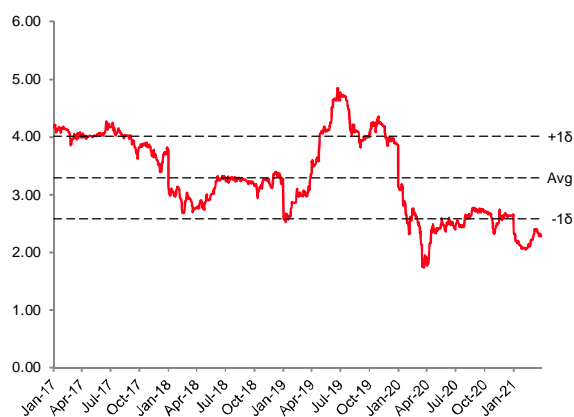
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- i. **Slowdown in GDP growth will impact growth in premiums.** Lower GDP growth will impact the premium growth of general and family takaful.
- ii. **Unexpected rise in claims ratios, impairment of investment securities, receivables and intangible assets could affect the group's 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. **Gradual move to fully detariff fire and motor insurance will impact pricing on coverage for fire and motor takaful.** Further detariffication are likely to impact the pricing and intensity of competition for fire and motor takaful.
- iv. **MFRS 17 may impact groups' earnings as well as shareholders' equity for day 1 adjustment.** The implementation of MFRS 17, which is likely to impact the reporting of insurance companies' profits, has been delayed to 1 Jan 2023. The new accounting standard requires revenue (mainly premiums) to be amortised over the period of insurance coverage or contract. This spreads out the recognition of revenue instead of recognizing most revenues on day 1, which is the practice now. As there will be retrospective adjustments when MFRS 17 comes into effect, it is expected to see day 1 reduction in equity of insurance/takaful companies from adjustment to raise liabilities for contractual service margins (CSM).

**EXHIBIT 38: PEER COMPARISON**

Ticker	Name	Price	P/E 21 (X)	P/E 22 (X)	P/B 21 (X)	P/B 22 (X)	ROE 21 (%)	ROE 22 (%)	Div Yld 21 (%)	Div Yld 22 (%)
ALLZ MK Equity	Allianz Malaysia	13.5	8.2	7.5	0.5	0.5	12.3	12.2	5.1	5.3
LPI MK Equity	LPI Capital	13.6	15.5	14.8	2.4	2.3	16.3	16.4	5.3	5.8
<b>Average</b>			<b>11.9</b>	<b>11.2</b>	<b>1.5</b>	<b>1.4</b>	<b>14.3</b>	<b>14.3</b>	<b>5.2</b>	<b>5.6</b>

**EXHIBIT 39: PB BAND CHART**



**EXHIBIT 40: PE BAND CHART**



**EXHIBIT 41: 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 42: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Operating revenue	3,125	2,957	3,048	3,387	3,782
Gross written premium	2,760	2,582	2,715	3,003	3,321
Gross earned premium	2,749	2,514	2,715	3,003	3,321
Premium ceded	- 394	- 441	- 428	- 473	- 523
Net earned premium	2,354	2,073	2,287	2,530	2,798
Investment income	364	376	332	384	460
Gain on financial assets	15	34	37	41	45
Commission income	66	82	81	90	99
<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>37</b>	<b>19</b>	<b>- 18</b>	<b>24</b>	<b>- 26</b>
Net claims	- 988	- 889	- 961	- 1,063	- 1,175
Commission expense	- 213	- 192	- 212	- 235	- 260
<b>Management expense</b>	<b>- 427</b>	<b>- 375</b>	<b>- 421</b>	<b>- 466</b>	<b>- 515</b>
<b>Other expenses</b>	<b>- 125</b>	<b>- 82</b>	<b>- 87</b>	<b>- 95</b>	<b>- 108</b>
Operating profit	418	427	455	530	578
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	418	427	455	530	578
<b>Tax</b>	<b>- 51</b>	<b>- 63</b>	<b>- 61</b>	<b>- 71</b>	<b>- 78</b>
Net profit	366	364	394	459	500
Core net profit	366	364	394	459	500
Balance Sheet (RMmil, YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Cash & deposits with FIs	603	713	1,089	1,508	1,666
Loans & receivables	0	0	0	0	0
Insurance receivables	204	303	451	670	997
Investment securities	5,663	6,631	7,347	8,131	9,162
Investment properties	36	37	38	39	40
Deferred acquisition cost	0	0	0	0	0
Fixed assets	223	225	226	228	229
<b>Other assets</b>	<b>3,616</b>	<b>3,884</b>	<b>4,063</b>	<b>4,386</b>	<b>4,779</b>
Total assets	10,346	11,793	13,215	14,963	16,873
Insurance contract liabilities	8,258	9,224	10,245	11,548	12,899
Insurance payables	175	233	308	409	542
Borrowings	1	1	1	0	0
Deferred tax liabilities	8	12	18	26	39
<b>Other liabilities</b>	<b>649</b>	<b>783</b>	<b>885</b>	<b>970</b>	<b>1,109</b>
Total liabilities	9,092	10,251	11,457	12,953	14,590
Share capital	197	212	212	212	212
<b>Reserves</b>	<b>1,026</b>	<b>1,298</b>	<b>1,514</b>	<b>1,765</b>	<b>2,039</b>
Shareholders' funds	1,223	1,509	1,725	1,977	2,251
Key Ratios (YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
ROE (%)	33.2	26.6	24.4	24.8	23.7
ROA (%)	3.8	3.3	3.2	3.3	3.1
Growth in gross earned premium (%)	19.8	- 8.5	8.0	10.6	10.6
Growth in net earned premium (%)	21.3	- 12.0	10.3	10.6	10.6
Core net profit growth (%)	25.2	- 0.7	8.4	16.5	9.0
EPS growth (%)	24.8	- 1.0	8.4	16.5	9.0
Book value per share growth (%)	24.0	23.1	14.3	14.6	13.9
Key Assumptions (YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Reinsurance ratio (%)	14.3	17.5	15.8	15.8	15.8
Retention ratio (%)	85.7	82.5	84.2	84.2	84.2
Claims ratio (%)	42.0	42.9	42.0	42.0	42.0
Commission ratio (%)	6.2	5.3	5.7	5.7	5.7
Management expense ratio (%)	18.1	18.1	18.4	18.4	18.4
Combine ratio (%)	71.7	70.3	70.0	69.9	70.0
Investment yield (%)	6.4	5.6	4.5	4.7	5.0
Underwriting margin (%)	28.3	29.7	30.0	30.1	30.0

Source: Company, AmInvestment Bank Bhd estimates



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