



TUNE PROTECT GROUP

(TIH MK EQUITY, TUNE.KL)

3 Aug 2020

Still not out of the woods yet for travel insurance

SELL

(Maintained)

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Rationale for report: Company results/update

Price	RM0.28
Fair Value	RM0.25
52-week High/Low	RM0.71/RM0.20

key Changes

Fair value	↔
EPS	↔

YE to Dec	FY19	FY20F	FY21F	FY22F
Net Earned Premium (RMmil)	255	219	223	252
Core net profit (RMmil)	49	33	34	41
FD Core EPS (Sen)	6.7	4.4	4.6	5.4
FD Core EPS growth (%)	7.2	-31.7	3.2	18.2
Consensus net profit (RMmil)	0	21	32	40
DPS (Sen)	0.0	0.0	0.0	2.2
BV/share (RM)	0.7	0.8	0.8	0.9
PE (x)	5.0	7.7	7.4	6.3
Div yield (%)	0.0	0.0	0.0	7.9
P/BV (x)	0.4	0.3	0.3	0.3
ROE (%)	9.0	5.8	5.6	6.3
Net Gearing (%)	nm	nm	nm	nm

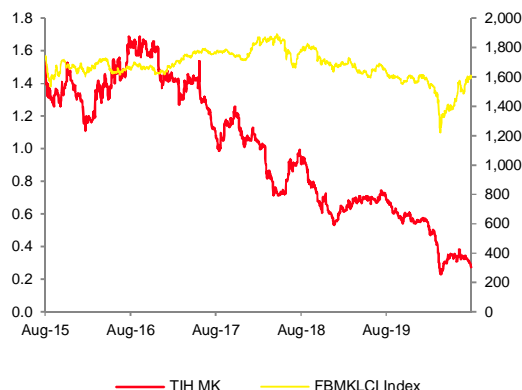
Stock and Financial Data

Shares Outstanding (million)	751.8
Market Cap (RM mil)	206.7
Book Value (RM/share)	0.74
P/BV (x)	0.4
ROE (%)	9.0
Net Gearing (%)	-

Major Shareholders	Tune Group (15.8%) AirAsia (13.7%)
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Free Float	48.7
Avg Daily Value (RM mil)	0.8

Price performance	3mth	6mth	12mth
Absolute (%)	(22.5)	(47.6)	(61.0)
Relative (%)	(32.0)	(49.5)	(60.0)



Investment Highlights

- We maintain our SELL call on Tune Protect Group (TPG) with an unchanged fair value of RM0.25/share based on FY21 P/BV of 0.3x, supported by an ROE of 5.6%. We have rolled over our valuation to FY21.
- TPG reported a higher net profit (PATAMI) of RM13.0mil (+403.9% QoQ) in 2Q20. This was largely driven by higher fair value gains on investments (+RM17.6mil) from favourable swings in MGS yields, recovering from 1Q20 and realized gains on investments (+RM1.2mil). Also, it was contributed by lower net claims and net commission expenses in line with the lower premiums for the quarter. Excluding the fair value gains on debt securities, earnings were still weak for 2Q20.
- 2Q20 saw a higher reinsurance ratio of 61.9% to cede risk on non-motor insurance to reinsurers.
- 1H20 earnings of RM15mil declined 48.0% YoY contributed by lower net earned premiums (NEP) arising from the decline in travel PA insurance due to Covid-19 and a drop in fire and engineering insurance. Besides, the group recorded weaker share of profits from its associate (Tune Protect Thailand) and JV (Tune Protect EMEIA) attributed to the lower demand for travel insurance.
- Net profit for 1H20 was within expectation, accounting for 45.5% of our estimate. However, it beat consensus projection making up 70.0% of street numbers.
- Tune Protect Malaysia (TPM), its general insurance subsidiary, posted a higher profit of 18.0% YoY at RM20mil. This was attributed to lower net commission expenses, improvement in claims experience and decline in management expenses (advertising and marketing, staff cost, other admin and general expenses coupled with lower provision for impairment of receivables).
- TPG's subsidiary Tune Protect Re (TPR), operating the travel insurance business, recorded a weak 2Q20. It was impacted by lockdown measures for air travel in its key markets due to the Covid-19 pandemic. April 2020 saw a substantial drop in travel PA which then recovered moderately in May and June 2020 with the opening up of domestic travel in selected markets.

In Malaysia, domestic travelling was allowed in June 2020 after the movement control order (MCO) with the resumption of AirAsia's operations. 1H20 profit of TPR slipped 56.9% YoY to RM9.6mil with a lower NEP of RM23.5mil.

- Group GWP fell by 11.5% YoY to RM215mil in 1H20. TPR's GWP declined 59.1% YoY to RM19.1mil from a slowdown in travel insurance. AirAsia as well as AirArabia and B2B segments recorded lower travel insurance premiums. Meanwhile, GWP of TPM edged down by 4.2% YoY to RM198.9mil due to lower motor insurance partially offset by higher non-motor insurance mainly marine, hull and cargo classes of business. The mix of motor and non-motor insurance GWP for TPM was 23.0% and 77.0% respectively.
- Group combined ratio in 1H20 climbed to 99.3% vs. 95.1% in 1H19 underpinned by lower NEP, largely from the drop in travel premiums and lower retention ratio. Arising from the decrease in NEP, the group's claims ratio and management expense ratio rose to 42.2% and 50.6% respectively for 1H20. Commission expense ratio improved to 6.4% in 1H20 attributed to higher commission income and a decrease in commission expenses in tandem with the drop in premiums.
- Underwriting margins tumbled to 0.7% in 1H20 vs. 4.9% in 1H19, contributed by lower travel insurance demand which yields higher profits from the low claims experience.
- The outlook for the travel insurance and general insurance business continues to be challenging due to the outbreak of Covid-19. Despite the resumption of domestic air travel, consumers are likely to remain wary on travelling in the near to medium term. Also, with the second wave of the pandemic, most international borders for air travel remained closed, and this is likely to hinder the progress of recovery for travel insurance in the quarters ahead to be significantly better than what has been seen in May and June 2020. Even though countries like the United Arab Emirates and Oman have made travel and health insurance mandatory for all inbound passengers, the opening of international borders for air travelling remains key for a stronger recovery in demand for travel insurance. Meanwhile, growth of premiums for the general insurance is expected to remain muted with the slowdown in economy as a result of the virus.
- No dividends have been declared for quarter. With no dividends paid for FY19, we continue expect that there will also be no payouts in FY20.

EXHIBIT 1: RESULTS COMPARISON

Income Statement (RM Mil, FYE 31 Dec)	2Q19	1Q20	2Q20	% QoQ	% YoY	6M19	6M20	% YoY
Operating revenue	124	122	101	-17.5%	-18.9%	251	223	-11.1%
Gross earned premium	115	115	93	-19.1%	-19.1%	236	208	-12.0%
Net earned premium	63	58	35	-39.3%	-43.9%	128	94	-26.8%
Investment income	9	7	8	7.8%	-16.1%	15	15	3.2%
Realised gains and losses	2	1	2	168.5%	-25.8%	3	3	-14.4%
Fair value gains and losses	2	-6	11	-273.7%	383.1%	6	5	-16.5%
Commission income	7	10	10	-7.1%	34.5%	19	20	5.4%
Other operating income	1	2	0	-97.6%	-91.5%	1	2	118.4%
Other income	22	14	31	114.4%	38.9%	43	45	3.3%
Gross claims paid	-76	-38	-36	-5.2%	-52.7%	-143	-74	-48.5%
Claims ceded to reinsurers	53	22	22	-0.8%	-58.9%	90	43	-51.8%
Gross change in contract liabilities	-11	-17	-66	287.4%	519.6%	1	-83	-8453.2%
Change in contract liabilities ceded to reinsurers	9	10	63	526.2%	634.3%	8	73	869.9%
Net claims incurred	-25	-23	-17	-26.9%	-33.6%	-44	-40	-10.9%
Commission expense	-18	-18	-8	-58.1%	-56.9%	-39	-26	-34.0%
Management expenses	-33	-25	-23	-8.4%	-30.7%	-57	-48	-16.8%
Other operating expenses	0	-1	1	-182.5%	-1031.1%	0	0	183.8%
Finance cost	0	0	0	64.8%	74.5%	0	0	nm
Other expenses	-51	-44	-29	-33.4%	-41.8%	-97	-74	-23.6%
Share of results of a JV company	0	0	0	126.6%	-47.4%	1	-1	-255.7%
Share of results of associates	1	-2	1	-132.1%	-42.0%	2	0	-81.3%
Profit before tax	11	4	21	467.4%	90.8%	33	24	-26.8%
Tax expense	1	-1	-2	128.2%	-318.4%	-1	-3	102.6%
Non-controlling interests	-1	0	-6	2168.0%	601.0%	-3	-6	139.6%
Net profit after tax and MI	11	3	13	403.9%	17.1%	29	15	-48.0%
Recurring/core net profit	11	3	13	403.9%	17.6%	29	15	-48.0%
Underwriting profit	-5	3	-2	-175.4%	-61.9%	6	1	-89.2%
Recurring EPS (sen)	1.4	0.3	1.7	403.9%	17.6%	3.9	2.0	-47.9%
Ratios (%)								
Reinsurance ratio	45.1%	49.3%	61.9%			45.8%	54.9%	
Retention ratio	54.9%	50.7%	38.1%			54.3%	45.1%	
Claims ratio	39.8%	39.2%	47.2%			34.6%	42.2%	
Commission ratio	16.8%	13.6%	-5.4%			15.9%	6.4%	
Management expense ratio	51.9%	42.5%	64.1%			44.5%	50.6%	
Combined ratio	108.6%	95.3%	105.8%			95.1%	99.3%	
Underwriting margin	-8.6%	4.7%	-5.8%			4.9%	0.7%	

Source: AmInvestment Bank Bhd, Company

EXHIBIT 2: PB BAND CHART



EXHIBIT 3: PE BAND CHART



EXHIBIT 4: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Operating revenue	566	501	422	429	486
Gross written premium	0	0	0	0	0
Gross earned premium	537	469	399	405	459
Premium ceded	-242	-215	-179	-182	-206
Net earned premium	295	255	219	223	252
Investment income	29	32	23	24	28
Gain on financial assets	3	12	0	0	0
Commission income	46	37	25	31	28
Other operating income	0	0	0	0	0
Other income	2	2	1	0	0
Net claims	-101	-82	-77	-78	-86
Commission expense	-89	-77	-55	-62	-64
Management expense	-135	-120	-99	-100	-114
Other expenses	-2	0	-1	-1	-1
Operating profit	50	57	36	37	44
Finance cost	0	0	0	0	0
Share of profit from associates	5	4	2	2	2
Profit before tax	55	62	38	39	46
Tax	-6	-11	-4	-5	-5
Net profit	50	51	33	34	41
Core net profit	45	49	33	34	41
Balance Sheet (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Cash & deposits with FIs	7	12	30	36	30
Loans & receivables	98	88	81	74	68
Insurance receivables	159	131	112	114	129
Investment securities	688	786	828	873	920
Investment properties	0	0	0	0	0
Deferred acquisition cost	0	0	0	0	0
Fixed assets	8	4	3	3	3
Other assets	537	585	618	650	684
Total assets	1,498	1,605	1,673	1,751	1,835
Insurance contract liabilities	767	782	809	853	898
Insurance payables	112	81	87	87	87
Borrowings	0	0	0	0	0
Deferred tax liabilities	1	0	0	0	0
Other liabilities	45	44	45	45	45
Total liabilities	924	907	941	984	1,030
Share capital	249	249	249	249	249
Reserves	277	310	344	379	417
Shareholders' funds	526	559	593	627	666
Key Ratios (YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
ROE (%)	8.8	9.0	5.8	5.6	6.3
ROA (%)	3.2	3.1	2.0	2.0	2.3
Growth in gross earned premium (%)	4.2	-12.6	-15.1	1.5	13.3
Growth in net earned premium (%)	-8.1	-13.8	-13.9	1.5	13.3
Core net profit growth (%)	-1.4	7.2	-31.7	3.2	18.2
EPS growth (%)	-1.4	7.2	-31.7	3.2	18.2
Book value per share growth (%)	4.7	6.3	6.1	5.8	6.1
Key Assumptions (YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Reinsurance ratio (%)	45.0	45.7	45.0	45.0	45.0
Retention ratio (%)	55.0	54.3	55.0	55.0	55.0
Claims ratio (%)	34.2	32.3	35.0	35.0	34.0
Commission ratio (%)	14.4	15.7	14.0	14.0	14.0
Management expense ratio (%)	45.6	47.2	45.0	45.0	45.0
Combine ratio (%)	94.1	95.2	94.0	94.0	93.0
Investment yield (%)	4.2	4.0	2.8	2.8	3.0
Underwriting margin (%)	5.9	4.8	6.0	6.0	7.0

Source: Company, AmInvestment Bank Bhd estimates

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