

Allianz Malaysia (ALLZ MK)

4Q21 results within expectations

Operationally stable

Allianz's FY21 net profit was within expectations. Its underlying general business remains stable while its life business continues to see robust growth. We raise FY22-23E earnings by 3-7% on marginally lower claims. We expect a much-improved operational performance into FY22, though the ongoing risk is of higher interest rates that could contribute to lower investment results. BUY maintained with an unchanged RNAV-derived TP of MYR16.75 - yields are an attractive 5%.

Within expectations

Allianz's 4Q21 net profit of MYR155m (+7% YoY, +34% QoQ) took FY21 net profit to MYR479m (-8% YoY) - within our expectations at 104% of our full-year forecast. FY21 gross written premiums (GWP) expanded a decent 7% YoY but pretax profit contracted 14% YoY due to marked-to-market investment losses stemming from the rise in bond yields during the year, mainly at the life division. As a result, Allianz General contributed to a larger 66% of group pretax profit in FY21.

Stable performance from Allianz General

Despite the difficult operating environment amid slower auto sales and the lockdown, Allianz General's FY21 GWP eked out growth of 3.2% YoY, driven by the motor and engineering businesses. Its partnership with Pos Malaysia contributed to 6.5% of GWP during the year. Its underwriting surplus expanded a decent 9.1% YoY on the back of a lower combined ratio of 87.8% versus 88.4% in FY20, with lower commission and expense ratios buffering a higher claims ratio of 56.6% versus 55.5% in FY20. Pretax profit was however flat on lower investment income.

Strong growth in NBV at Allianz Life

Allianz Life's FY21 GWP expanded a decent 10.5% YoY and grew across all key distribution channels. However, pretax profit declined 29% YoY due to fair value losses on investments. Positively, nevertheless, annualized new premiums jumped 33% (due in part to lower volumes in 2020) and outpaced industry growth of 13%, while new business value (NBV) rose 15% YoY due to higher sales volume and higher margins

FYE Dec (MYR m)	FY20	FY21	FY22E	FY23E	FY24E
Gross earned premiums	5,233.2	5,671.1	5,995.3	6,400.6	6,834.7
Net earned premiums	4,870.7	5,240.8	5,594.6	5,975.7	6,383.9
Core net profit	520.3	478.5	509.8	520.3	541.6
Core EPS	150.3	138.3	147.3	150.3	156.5
Core FDEPS growth (%)	5.6	(8.0)	6.5	2.1	4.1
Core FD P/E (x)	8.4	9.2	8.6	8.4	8.1
DPS	58.0	63.0	63.0	63.0	63.0
Net dividend yield (%)	4.6	5.0	5.0	5.0	5.0
Book value (MYR)	11.64	11.97	13.19	14.45	15.76
P/BV (x)	1.1	1.1	1.0	0.9	0.8
ROAE (%)	13.5	11.7	11.7	10.9	10.4
ROAA (%)	2.5	2.1	2.1	2.0	1.9

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BUY

Share Price	MYR 12.66
12m Price Target	MYR 16.75 (+32%)
Previous Price Target	MYR 16.75

Company Description

Allianz Malaysia engages in the provision of life insurance and general insurance services.

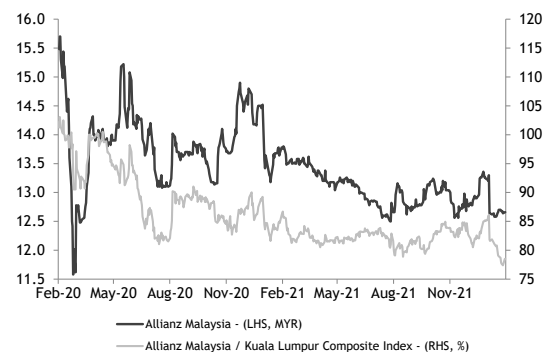
Statistics

52w high/low (MYR)	13.80/12.50
3m avg turnover (USDm)	0.2
Free float (%)	24.3
Issued shares (m)	178
Market capitalisation	MYR2.3B USD539M

Major shareholders:

Allianz SE	64.9%
Employees Provident Fund	6.5%
Kumpulan Wang Persaraan	3.5%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(4)	(3)	(8)
Relative to index (%)	(8)	(6)	(9)

Source: FactSet

Results summary

Year end: Dec (MYR'm)	Quarterly					Cumulative		
	4Q21	4Q20	YoY chg	3Q21	QoQ chg	2021	2020	YoY chg
Gross earned premiums	1,481.9	1,342.9	10.3	1,391.2	6.5	5,671.1	5,233.2	8.4
Premiums ceded to reinsurers	(129.8)	(105.2)	23.4	(106.4)	22.0	(430.3)	(362.6)	18.7
Net earned premiums	1,352.1	1,237.8	9.2	1,284.8	5.2	5,240.8	4,870.7	7.6
Investment income	189.4	183.2	3.4	193.4	(2.0)	759.9	712.5	6.7
Realized gains and losses	47.3	28.7	64.9	(22.1)	nm	53.5	30.3	76.5
Fair value gains and losses	(93.9)	78.8	nm	28.6	nm	(430.8)	39.9	nm
Fees & commissions	18.8	7.9	>100	12.6	49.8	52.3	31.1	68.0
Other operating income	11.3	1.6	>100	10.9	nm	44.6	34.9	27.9
Other revenue	173.0	300.1	(42.4)	223.4	(23)	479.5	848.7	(43.5)
Gross benefits & claims paid	(679.8)	(634.9)	7.1	(592.5)	14.7	(2,360.1)	(2,287.0)	3.2
Claims ceded to reinsurers	49.1	27.8	76.5	52.3	(6.1)	176.5	119.7	47.4
Gross chg to contract liabilities	(510.0)	(280.4)	81.9	(407.9)	25.0	(1,558.3)	(1,344.4)	15.9
Chg in contract liabs to reinsurers	211.7	(90.2)	nm	(13.2)	Nm	192.9	(17.4)	nm
Net benefits & claims	(929.1)	(977.7)	(5.0)	(961.4)	(3.4)	(3,549.1)	(3,529.0)	0.6
Fees & commissions expense	(196.9)	(196.8)	0.0	(209.0)	(5.8)	(811.2)	(774.6)	4.7
Management expenses	(190.8)	(172.1)	10.9	(165.6)	15.2	(683.8)	(641.4)	6.6
Other op expenditure	(15.2)	(4.4)	>100	(13.3)	14.6	(50.8)	(44.7)	13.5
Other expenses	(402.9)	(373.3)	7.9	(387.9)	3.9	(1,545.7)	(1,460.7)	5.8
Pretax profit	193.0	186.9	3.3	158.9	21.5	625.6	729.6	(14.3)
Tax	(38.4)	(42.8)	(10.4)	(43.7)	(12.3)	(147.1)	(209.3)	(29.7)
MI	-	-	-	-	-	-	-	-
Net profit	154.7	144.0	7.4	115.2	34.3	478.5	520.3	(8.0)
Core net profit	154.7	144.0	7.4	115.2	34.3	478.5	520.3	(8.0)
Segmental analysis								
Investment holding	(9.5)	1.7	nm	(11.9)	(19.9)	(32.1)	(11.2)	>100
General insurance	114.5	130.5	(12.2)	115.1	(0.5)	437.2	432.1	1.2
Life insurance	88.1	54.7	61.1	55.7	58.0	220.5	308.7	(28.6)
Pretax profit	193.0	186.9	3.3	158.9	21.5	625.6	729.6	(14.3)

Source: Company

SOTP valuation of MYR16.75

Our SOTP valuation is maintained at MYR16.75 and it assumes:

- An embedded value (EV) of MYR2.6b for Allianz Life and a P/EV of 1x. While Allianz Life's EV as at end-Jun 2021 stood at MYR3.3b, we have applied more conservative valuations in light of possibly higher MGS yields moving forward. Allianz Life computes its EV on a market consistent basis.
- A PBV of 1.5x for Allianz General, which is lower than historical M&A valuations of 2x, to reflect in the tough economic environment and prospects. This compares against a recent valuation of 1.4x for US-based Liberty Mutual Insurance's acquisition of AmGeneral Insurance, which is a smaller entity in terms of premium size.

SOTP valuation

	Basis	(MYR'm)	as at	Multiple (x)	(MYR'm)
Allianz Life	EV	2,600.0	June 2020	1.0	2,600.0
Allianz General	Book value	2,116.3	Dec 2019	1.5	3,254.9
Less: holding co debt					(54.3)
Total					5,800.6
Ordinary shares (m)					177.8
ICPS conversion (m)					168.4
Fully diluted SC (m)					346.2
SOP value/share (MYR)					16.75

Source: Maybank IBG Research

Risk statement

There are several risk factors for our earnings estimates, target price and rating for Allianz. Its life business is very much dependent on consumer sentiment and the growth in household wealth, while high claims would affect overall profitability. Its general business, meanwhile, is dependent on demand for transport vehicles and housing/commercial properties, which may wane amid slower economic growth. Moreover, 'de-tariffication' of fire and motor tariffs would affect overall profitability if rate competition intensifies.

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
Core P/E (x)	6.5	6.5	5.9	5.7	5.4
Core FD P/E (x)	9.8	9.3	8.6	8.4	8.1
P/BV (x)	1.3	1.1	1.0	0.9	0.8
P/NTA (x)	1.4	1.2	1.0	0.9	0.9
Net dividend yield (%)	3.9	4.9	5.0	5.0	5.0
INCOME STATEMENT (MYR m)					
Gross premiums & policy fees	5,305.2	5,689.6	6,025.3	6,430.6	6,864.7
Less Premiums ceded	(362.6)	(430.3)	(400.7)	(425.0)	(450.8)
Net written premiums	4,942.6	5,259.3	5,624.6	6,005.7	6,413.9
Chg in unearned prem. reserves	(72.0)	(18.5)	(30.0)	(30.0)	(30.0)
Net earned premiums	4,870.7	5,240.8	5,594.6	5,975.7	6,383.9
Oth. fees and commission income	31.1	52.3	75.0	75.0	75.0
Net investment income	712.5	759.9	306.7	424.0	438.0
Net gain on financial assets	70.2	(377.3)	0.0	0.0	0.0
Other income	34.9	44.6	53.5	64.2	77.1
Total income	5,719.4	5,720.4	6,029.7	6,538.9	6,974.0
Claim and benefit payments	(2,167.2)	(2,183.7)	(2,250.9)	(2,532.2)	(2,726.0)
Commission exp of insurance ops	(774.6)	(811.2)	(881.5)	(926.4)	(986.5)
Contributions to insurance funds	(1,361.8)	(1,365.4)	(1,384.9)	(1,499.4)	(1,602.8)
SG&A expenses	(641.4)	(683.8)	(726.1)	(779.8)	(827.6)
Other expenses	(44.7)	(50.8)	(68.3)	(68.3)	(68.3)
Total expenses	(4,989.7)	(5,094.8)	(5,311.7)	(5,806.1)	(6,211.2)
Pretax Profit	729.6	625.6	718.1	732.8	762.8
Income taxes	(209.3)	(147.1)	(208.2)	(212.5)	(221.2)
Profit after tax	520.3	478.5	509.8	520.3	541.6
Reported net profit	520.3	478.5	509.8	520.3	541.6
Core net profit	520.3	478.5	509.8	520.3	541.6
FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E

BALANCE SHEET (MYR m)					
Cash and cash equivalent	1,176.0	1,519.6	2,326.4	3,377.7	4,204.1
Prem. receivables & reinsurance	1,095.2	1,317.3	1,377.4	1,440.4	1,506.5
Investment assets	18,811.3	19,987.1	20,938.7	21,985.6	23,084.9
Deferred policy acquisition costs	116.2	123.7	127.4	131.2	135.1
Fixed assets	165.5	151.7	154.7	157.8	161.0
Intangible assets and goodwill	358.5	348.5	348.5	348.5	348.5
Deferred tax / tax write-back	0.0	34.4	0.0	0.0	0.0
Other assets	174.1	161.3	163.2	21.1	178.0
Total assets	21,896.7	23,643.5	25,436.3	27,462.3	29,618.0
Investment contract liabilities	16,053.3	17,648.5	19,033.4	20,532.8	22,135.6
Provision for outstanding claims	0.0	0.0	0.0	0.0	0.0
Oth. insurance liab / creditors	489.1	584.6	545.5	581.7	620.5
Deferred tax liabilities	435.0	391.3	403.0	415.1	427.5
Other liabilities	887.9	875.0	887.2	931.6	977.6
Subordinated debt	0.0	0.0	0.0	0.0	0.0
Total liabilities	17,865.2	19,499.3	20,869.1	22,461.1	24,161.2
Minority interest	0.0	0.0	0.0	0.0	0.0
Share capital	232.6	234.6	234.8	235.0	235.2
Reserves	3,798.9	3,909.6	4,332.5	4,766.2	5,221.6
Total shareholders fund	4,031.5	4,144.2	4,567.2	5,001.2	5,456.8
Total Capital Employed	4,031.5	4,144.2	4,567.2	5,001.2	5,456.8

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Financial Ratios					
Key Data (Group)					
ROA (%)	2.4	2.0	2.0	1.9	1.8
Net earned premium / equity (%)	120.8	126.5	122.5	119.5	117.0
Net investment return (%)	3.3	3.2	1.2	1.5	1.5
Total investment return (%)	4.1	3.9	1.5	2.0	1.9
Growth in gross premiums (%)	7.8	7.2	5.9	6.7	6.8
Net earned premium growth (%)	8.2	7.6	6.7	6.8	6.8
Net profit growth (%)	5.7	(8.0)	6.5	2.1	4.1
PE (x)	6.5	6.5	5.9	5.7	5.4
PBV (x)	1.3	1.1	1.0	0.9	0.8
EPS (MYR)	2.3	2.0	2.2	2.2	2.3
BVPS (MYR)	11.6	12.0	13.2	14.4	15.8
Investment mix: -					
<i>Bond investment (%)</i>	<i>77.9</i>	<i>0.0</i>	<i>81.0</i>	<i>81.0</i>	<i>81.0</i>
<i>Equity investment (%)</i>	<i>17.4</i>	<i>0.0</i>	<i>13.0</i>	<i>13.0</i>	<i>13.0</i>
<i>Investment properties (%)</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>
<i>Cash and cash equivalents (%)</i>	<i>4.7</i>	<i>0.0</i>	<i>6.0</i>	<i>6.0</i>	<i>6.0</i>
Property and casualty insurance					
Gross premium growth (%)	7.8	7.2	5.9	6.7	6.8
Net earned premium growth (%)	8.2	7.6	6.7	6.8	6.8
Loss ratio (%)	55.5	56.6	59.1	59.1	59.1
Expense ratio (%)	19.8	18.9	19.1	19.5	19.5
Combined ratio (%)	88.4	87.9	90.2	90.1	90.1
Net profit growth (%)	5.7	(8.0)	6.5	2.1	4.1
Solvency margin ratio (%)	na	na	na	na	na
Product mix: -					
<i>Automobile insurance (%)</i>	<i>66.4</i>	<i>65.4</i>	<i>65.4</i>	<i>65.4</i>	<i>65.4</i>
<i>Non-automobile insurance (%)</i>	<i>33.6</i>	<i>34.6</i>	<i>34.6</i>	<i>34.6</i>	<i>34.6</i>

Source: Company; Maybank

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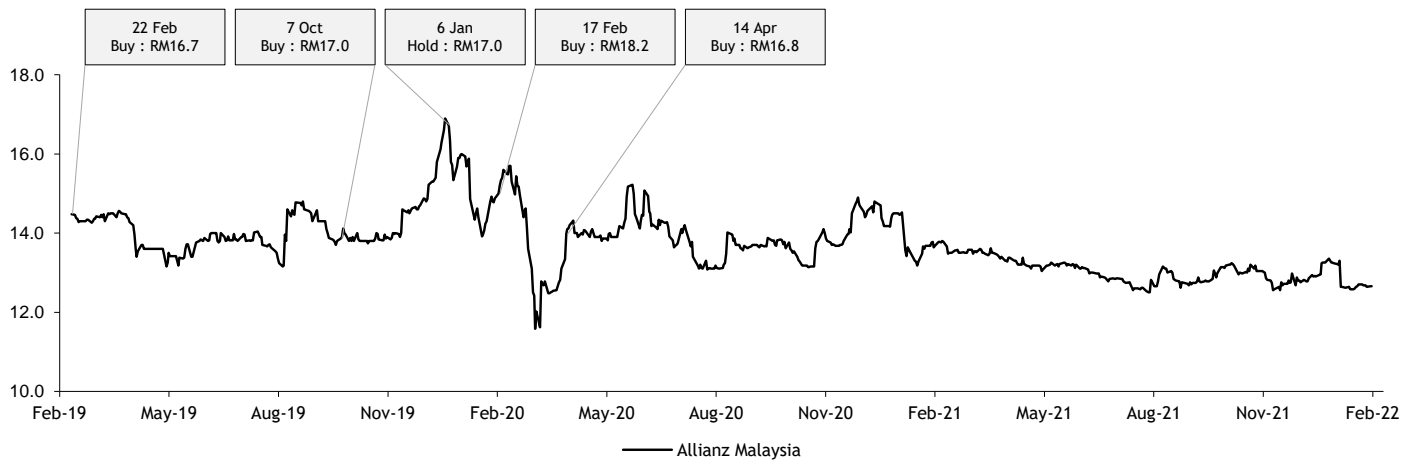
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