

Allianz Malaysia (ALLZ MK)

BUY

Share Price MYR 12.60
 12m Price Target MYR 16.75 (+33%)
 Previous Price Target MYR 16.75

1Q22 results within expectations

Attractive 5% yield

The rise in bond yields will impact earnings of the group this year, but we have largely taken that into account with expectations of marginally lower core earnings this year. This, however, does not negate from the fact that the underlying business performance of both the life and general divisions remains healthy. BUY maintained with an unchanged RNAV-derived TP of MYR16.75 - yields are an attractive 5%.

Within expectations

Allianz's 1Q22 core net profit of MYR101m (-6% YoY, -35% QoQ) was within expectations, accounting for 20% of our full-year forecast. 1Q tends to be the slowest period for the group and we expect momentum to pick up in the following quarters. Stripping out marked-to-market (MTM) movements, core net profit grew at a robust pace of 30% YoY.

Improved market share for Allianz General

Allianz General saw its gross written premiums (GWP) expand at a healthy pace of 11.8% YoY. As a result, its market share rose to 14% in 1Q22 from 13.3% in 1Q21. Net earned premiums growth was a slower 3.8% YoY but with a lower combined ratio of 88.9% versus 90.5% in 1Q21, its pretax profit expanded at a decent pace of 10.4% YoY.

Higher market share for Allianz Life as well

Allianz Life's 1Q22 GWP expanded 7.7% YoY. While its annualized new premiums (ANP) declined by 11.2% (from a higher base in 1Q21 which benefited from a suppressed 1Q20 with the start of the lockdowns), the industry's ANP contracted by a larger 15.7%. As such, its market share improved as well to 9.3% from 8.8% in 1Q21. New business value (NBV) declined 28.5% YoY due to lower sales volume from its agency business. With lower fair value losses, however, Allianz Life's pretax profit rebounded to MYR68m in 1Q22 from a loss of MYR20m in 1Q21.

Company Description

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

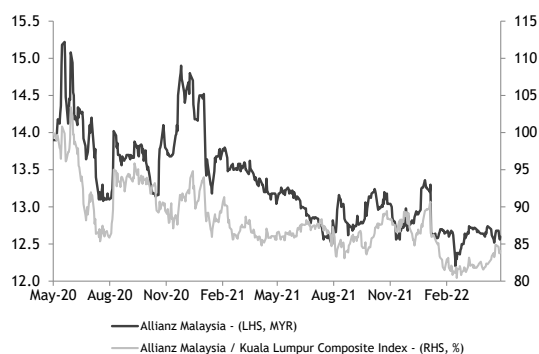
Statistics

52w high/low (MYR)	13.36/12.20
3m avg turnover (USDm)	0.1
Free float (%)	24.2
Issued shares (m)	178
Market capitalisation	MYR2.2B USD511M

Major shareholders:

Allianz SE	64.8%
Employees Provident Fund	6.7%
Kumpulan Wang Persaraan	3.5%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(0)	(0)	(3)
Relative to index (%)	3	3	(2)

Source: FactSet

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	523.5	509.8	513.0	541.6
Core EPS	150.4	138.3	147.3	148.2	156.5
Core FDEPS growth (%)	5.7	(8.1)	6.5	0.6	5.6
Core FD P/E (x)	8.4	9.1	8.6	8.5	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	14.42	15.74
P/BV (x)	1.1	1.1	1.0	0.9	0.8
ROAE (%)	13.5	12.8	11.7	10.7	10.4
ROAA (%)	2.5	2.1	2.1	1.9	1.9

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Results summary

Year end: Dec (MYR'm)	Quarterly					Cumulative		
	1Q22	1Q21	YoY chg	4Q21	QoQ chg	3M22	3M21	YoY chg
Gross earned premiums	1,499.2	1,411.4	6.2	1,481.9	1.2	1,499.2	1,411.4	6.2
Premiums ceded to reinsurers	(100.4)	(100.8)	(0.5)	(129.8)	(22.7)	(100.4)	(100.8)	(0.5)
Net earned premiums	1,398.8	1,310.6	6.7	1,352.1	3.5	1,398.8	1,310.6	6.7
-	-	-	-	-	-	-	-	-
Investment income	208.5	195.2	6.8	189.4	10.1	208.5	195.2	6.8
Realized gains and losses	18.9	49.3	(61.7)	47.3	(60.1)	18.9	49.3	(61.7)
Fair value gains and losses	(146.3)	(414.1)	(64.7)	(93.9)	55.8	(146.3)	(414.1)	(64.7)
Fees & commissions	9.1	9.1	(0.2)	18.8	(51.9)	9.1	9.1	(0.2)
Other operating income	14.1	13.8	1.9	11.3	nm	14.1	13.8	1.9
Other revenue	104.3	(146.7)	nm	173.0	(40)	104.3	(146.7)	nm
-	-	-	-	-	-	-	-	-
Gross benefits & claims paid	(716.0)	(492.5)	45.4	(679.8)	5.3	(716.0)	(492.5)	45.4
Claims ceded to reinsurers	86.5	34.0	>100	49.1	76.3	86.5	34.0	>100
Gross chg to contract liabilities	(281.1)	(203.3)	38.3	(510.0)	(44.9)	(281.1)	(203.3)	38.3
Chg in contract liabs to reinsurers	(42.6)	(54.4)	(21.7)	211.7	(120)	(42.6)	(54.4)	(21.7)
Net benefits & claims	(953.3)	(716.3)	33.1	(929.1)	2.6	(953.3)	(716.3)	33.1
-	-	-	-	-	-	-	-	-
Fees & commissions expense	(211.1)	(204.6)	3.2	(196.9)	7.2	(211.1)	(204.6)	3.2
Management expenses	(167.9)	(164.7)	1.9	(190.8)	(12.0)	(167.9)	(164.7)	1.9
Other op expenditure	(19.0)	(10.9)	74.5	(15.2)	24.9	(19.0)	(10.9)	74.5
Other expenses	(398.0)	(380.2)	4.7	(402.9)	(1.2)	(398.0)	(380.2)	4.7
Pretax profit	151.8	67.4	>100	193.0	(21.4)	151.8	67.4	>100
Tax	(50.5)	(4.1)	>100	(38.4)	31.6	(50.5)	(4.1)	>100
MI	-	-	-	-	-	-	-	-
Net profit	101.3	63.3	60.2	154.7	(34.5)	101.3	63.3	60.2
Core net profit	101.3	108.3	(6.4)	154.7	(34.5)	101.3	108.3	(6.4)
Segmental analysis								
Investment holding	(18.1)	(5.0)	>100	(9.5)	89.6	(18.1)	(5.0)	>100
General insurance	102.2	92.6	10.4	114.5	(10.7)	102.2	92.6	10.4
Life insurance	67.7	(20.2)	nm	88.1	(23.1)	67.7	(20.2)	Nm
Pretax profit	151.8	67.4	>100	193.0	(21.4)	151.8	67.4	>100

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	5.8	5.4
Core FD P/E (x)	9.8	9.3	8.6	8.5	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)	(219.8)	(221.2)
Profit after tax	520.3	478.5	509.8	513.0	541.6
Reported net profit	520.3	478.5	509.8	513.0	541.6
Core net profit	520.3	523.5	509.8	513.0	541.6
FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E

BALANCE SHEET (MYR m)					
Cash and cash equivalent	1,176.0	1,519.6	2,325.9	3,369.3	4,195.0
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	25,435.8	27,453.9	29,609.0
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	4,331.9	4,757.7	5,212.6
Total shareholders fund	4,031.5	4,144.2	4,566.7	4,992.7	5,447.7
Total Capital Employed	4,031.5	4,144.2	4,566.7	4,992.7	5,447.7

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	119.7	117.2
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	0.6	5.6
PE (x)	6.5	6.5	5.9	5.8	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	15.7
Investment mix: -					
<i>Bond investment (%)</i>	<i>76.8</i>	<i>78.6</i>	<i>81.0</i>	<i>81.0</i>	<i>81.0</i>
<i>Equity investment (%)</i>	<i>17.7</i>	<i>18.5</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>5.6</i>	<i>2.9</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	0.6	5.6
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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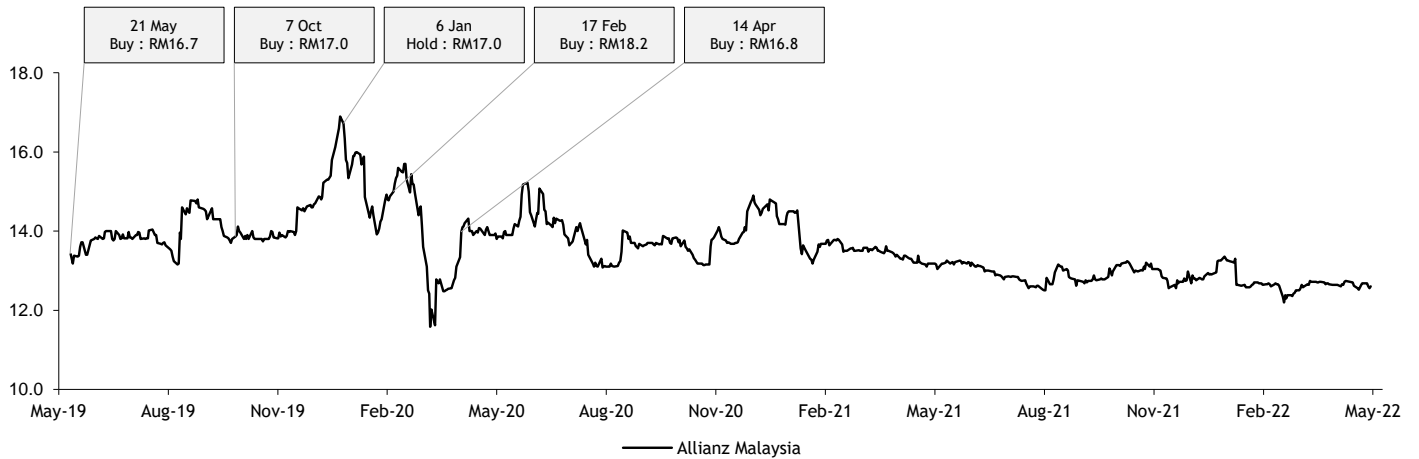
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