Securities

AFFIN HWANG CAPITAL

Outthink. Outperform.

Ready for lift-off

Tune Protect has a lucrative travel insurance segment, strong airline partners, scalable business model and fintech exposure. While we expect short-term headwinds due to regulatory changes, we believe the company's medium to long-term outlook remains intact, with some potential catalysts. We initiate coverage on Tune Protect shares with a BUY rating and PT of RM1.57.

Lucrative travel segment should benefit from robust air travel growth

Tune Protect's travel insurance products sold via airline partners AirAsia and others' ticketing platforms or its own website are lucrative due to low claims incurred as well as lower distribution cost. We also expect the segment to benefit from the airline partners' ambitious expansion plans.

Scalable business model and fintech initatives

Tune Protect's scalable business model (Fig 9) effectively allows it to serve multiple countries without applying for local insurance licenses or hiring large numbers of agents. It was also one of the trailblazers in fintech for the online insurance distribution of insurance products.

Short-term headwinds due to "opt in" policy changes

Since the Malaysian Aviation Commission's (MAVCOM) 2H16 ruling barring automatic add-ons of optional services during travel ticket purchases, travel product sales have been negatively affected. While we expect the take-up rate to be affected, we believe that with i) expanding customer pool of airline partners; ii) increases in average premiums per policy; and iii) mitigative steps taken by management, the impact of the ruling should ease over time.

Net profit growth trend distorted; potential catalysts expected

While we forecast a fall in headline net profit in FY17 and a relatively flat FY18, we note that FY16 and FY17E profit has been boosted by a one-off release of MMIP and motor reserves. On a core net profit basis, we expect FY17 to be flat but look for growth to resume at 7.0-8.1% yoy in FY18-19. Future catalysts include the establishment of an Islamic reinsurance, or retakaful, window, a potential Indonesian acquisition and a bonus issue as well as a potential release of reserves in the future.

Initiate coverage with a BUY rating, price target at RM1.57

We initiate coverage on Tune Protect with a **BUY** rating and a 12-month price target of **RM1.57** (upside potential: 14.6%) on a 2.03x 2018E P/BV due to its lucrative travel (reinsurance) segment, proxy to robust air travel growth, scalable business model and fintech initiatives. FY17-19 ROE is expected to be decent at around 13.2-13.5% while FY17-19E yields are at 3.6-4.0%, which we view as attractive vis-à-vis its peers at 2.8%.

Earnings & Valuation Summary

FYE 31 Dec (RMm)	2015A	2016A	2017E	2018E	2019E
Gross written premiums	474.0	501.0	529.9	557.8	590.1
Net earned premiums	303.8	333.0	327.7	344.8	365.5
Underwriting profit	45.5	55.6	46.2	45.1	50.6
Pretax profit	76.5	94.7	86.4	86.2	93.1
Net profit	69.0	80.0	73.6	73.3	79.3
EPS (sen)	9.2	10.6	9.8	9.8	10.5
PER (x)	14.9	12.9	14.0	14.0	13.0
Core net profit	61.9	68.2	68.6	73.3	79.3
Core EPS (sen)	8.2	9.1	9.1	9.8	10.5
Core EPS growth (%)	-8.5	10.2	0.4	7.0	8.1
Core PER (x)	16.6	15.1	15.0	14.0	13.0
Net DPS (sen)	4.0	5.0	5.0	5.5	5.5
Dividend Yield (%)	2.9	3.6	3.6	4.0	4.0
P/BV (x)	2.3	2.1	1.9	1.8	1.7
ROE (%)	14.4	14.4	13.3	13.2	13.2
Affin/Consensus (x)	-	-	0.8	0.7	0.8

Source: Company, Bloomberg

Initiation of Coverage

Tune Protect

TIH MK
Sector: Insurance

RM1.37 @ 18 May 2017

BUY

Upside: 14.6%

Price Target: RM1.57

Previous Target: N/A

Price Performance

	1M	3M	12M
Absolute	-2.1%	-3.5%	-11.0%
Rel to KLCI	-3.6%	-6.8%	-17.7%

Stock Data

Issued shares (m)	751.8
Mkt cap (RMm)/(US$m)	1,029.9/238.0
Avg daily vol - 6mth (m)	1.7
52-wk range (RM)	1.27-1.72
Est free float	49.8%
BV per share (RM)	0.66
P/BV (x)	2.07
Net cash/(debt) (RMm)	10.21
ROE (2017E)	13.3%
Derivatives	Nil
Shariah Compliant	No

Key Shareholders

Tune Group Sdn Bhd	15.8%
AirAsia Bhd	13.7%
CIMB SI II Sdn Bhd	9.4%

Source: Affin, Bloomberg

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Tune Protect Group: Valuation and recommendation

Initiate with a BUY, price target at RM1.57, based on a 2.03x P/BV target

We initiate coverage on Tune Protect with a **BUY** rating, at a 12-month price target of **RM1.57** (upside potential: 14.6%) based on a 2.03x P/BV target derived from a Gordon Growth Model methodology. Our underlying assumptions include: i) FY18E ROE of 13.2%; ii) growth rate of 5%; and iii) cost of equity of 9.0%. At a P/BV of 2.03x, this values Tune Protect at a conservative 0.5 standard deviation below the average of 2.5x over the past three years. At present, Tune is trading at FY17E and FY18E P/BV multiples of 1.9x and 1.8x.

Fig 1: Gordon growth model key assumptions

Assumptions	FY18E
Return on equity, ROE	13.2%
Growth, g	5.0%
Cost of equity, Ke	9.0%
P/BV	2.03

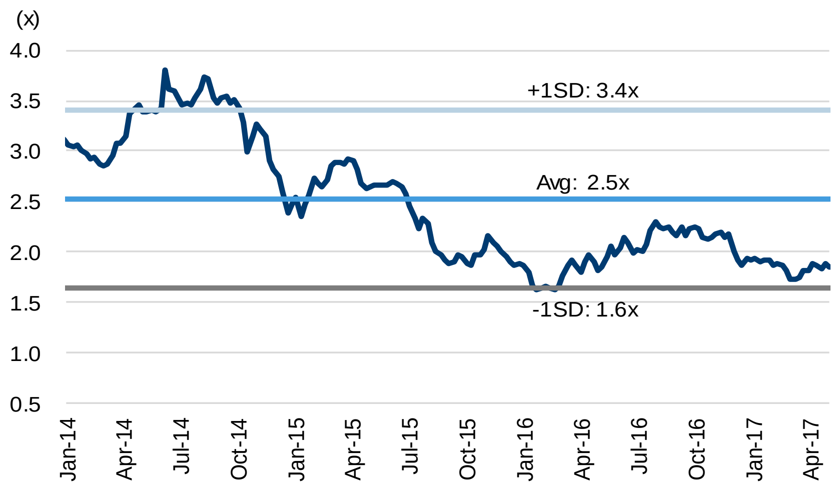
*P/BV = (ROE-g)/(Ke-g)

Source: Bloomberg, Affin Hwang forecasts

Despite near-term uncertainties, future drivers and catalysts expected

We believe that the stock remains undervalued, even though we are currently penciling in lower ROE expectations of 13-14% in FY17-19 (vis-à-vis 14-17.6% achieved in the past three financial years). The slightly lower ROE is due to near-term uncertainties in light of the impact from the switch to the 'opt-in' function for air travel insurance on AirAsia Berhad's website. Nonetheless, we expect more drivers and catalysts in future, about which we are more upbeat and believe should outweigh near-term headwinds.

Fig 2: Tune Protect's P/BV multiples on a forward basis (Jan-14 - to date)



Source: Bloomberg, Affin Hwang

Fig 3: Peer comparison

	Bloomberg Code	Rating	Price (RM)	TP (RM)	Mkt Cap (RMm)	Year end	PE (x) CY17E	PE (x) CY18E	EPS growth (%) CY17E	EPS growth (%) CY18E	P/B (x)	ROE (%) CY17E	ROE (%) CY18E	Div. Yield (%) CY17E	Div. Yield (%) CY18E
Allianz Malaysia Bhd*	ALLZ MK	N/R	12.50	N/R	2,173	Dec	11.5	10.5	13.6	5.1	1.3	11.6	10.9	0.8	1.0
LPI Capital Berhad	LPI MK	BUY	18.70	21.40	6,208	Dec	19.6	18.3	4.0	4.4	3.1	15.7	15.1	4.0	4.0
Tune Protect Group Bhd	TIH MK	BUY	1.37	1.57	1,030	Dec	13.9	12.7	-14.4	8.6	2.0	13.4	13.5	3.6	4.0
Syarikat Takaful Malaysia	STMB MK	N/R	4.01	N/R	3,301	Dec	15.4	14.1	11.1	9.2	4.2	24.9	23.0	2.7	2.9
Sector average					**13,675**		**15.1**	**13.9**	**3.6**	**6.8**	**2.6**	**16.4**	**15.6**	**2.8**	**3.0**

Source: Bloomberg, Affin Hwang forecasts; prices as of 18 May 2017

Note:
** Includes dilution of irredeemable convertible preference shares*

A unique general insurer with exposure to robust air travel growth

On a more positive note, Tune Protect has been a beneficiary of robust air travel growth in the Asian region mainly through its partnership with AirAsia Berhad (AIRA MK, RM3.47, BUY) (Tune Protect's second-largest shareholder), which is expanding its wings through new JVs in populous Vietnam and China. It also has partnerships with other airlines such as AirAsia X Berhad, AirArabia and Cebu Pacific Air.

The partnerships allow Tune Protect to have a wider geographical exposure which should minimize the operating risks involved in a particular market or product, especially in light of the upcoming liberalization of the general insurance market in Malaysia (detariffication of motor and fire premiums and introduction of more innovative products).

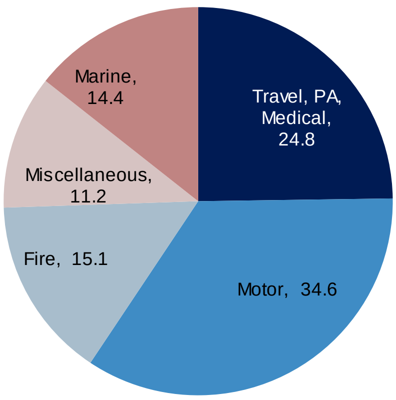
Our next section continues to discuss the key differentiating factors of Tune Protect vis-à-vis the industry.

Key differentiating factors

Highly profitable travel insurance product (>65% of underwriting profit)
Unlike most general insurance players, Tune Protect Group mainly focuses on its flagship travel insurance products which are mainly sold via AirAsia and other partner airlines' platforms for their domestic and overseas routes. Thanks to cost-effective distribution channels and an extremely low claims ratio, the travel insurance portfolio is highly profitable with underwriting margins of ~50%.

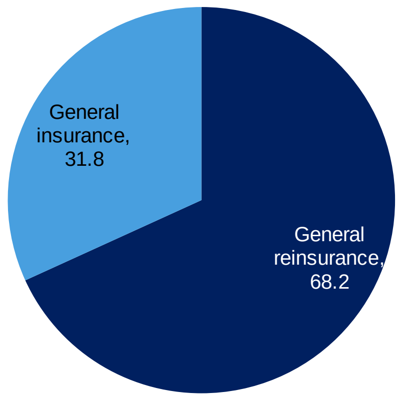
While the travel insurance segment only contributes less than 25% of Tune Protect's gross written premiums (GWP), its strong profitability allows it to contribute more than 80% (FY16 profit contribution was lower at 68.2% due to one-off release of reserves in the general insurance segment) of Tune Protect's underwriting profit. (Note: travel insurance products are underwritten under a reinsurance arrangement; kindly refer to Fig 9 for further details).

Fig 4: Gross written premium breakdown (FY16)



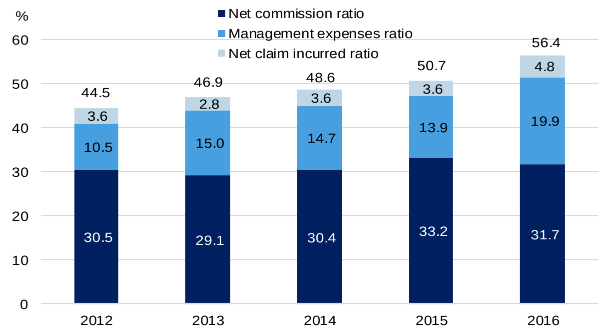
Source: Company, Affin Hwang

Fig 5: Underwriting profit contribution (FY16)



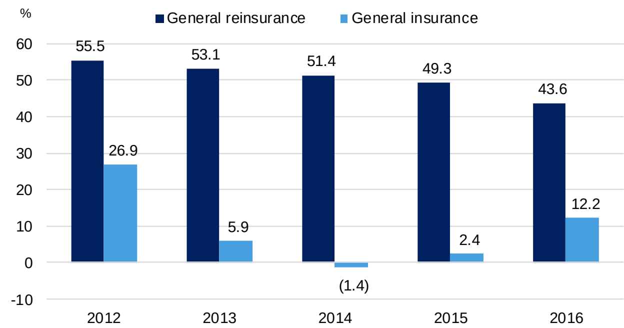
Source: Company, Affin Hwang

Fig 6: Breakdown of travel insurance combined ratio



Source: Company, Affin Hwang

Fig 7: Underwriting margins for segment



Source: Company, Affin Hwang

Ambitious airline partner AirAsia on an aggressive expansion path

Its main travel insurance partner, AirAsia, is one of the leading low-cost carriers (LCC) in the world, as it was named the World's Best Low-Cost Airline and Asia's Best Low-Cost Airline for the eighth year running in the Skytrax World Airline Awards.

As demand for low-cost travel remains high, AirAsia has been aggressively expanding both in terms of routes served and fleet size (Fig 8). AirAsia currently boasts an extensive route network to over 100 destinations in the Asia Pacific region. We also note that AirAsia has firm orders for over 300 Airbus A320neo deliveries up through 2028, a strong signal of its ambition to increase flight frequency as well as expand its global footprint. As AirAsia Group's exclusive partner for offering of travel insurance, Tune Protect, stands to benefit from the ambitious expansion plans of its main product partner.

As of 30 April 2017, AirAsia Berhad owns a direct stake of 13.65% in Tune Protect. AirAsia Berhad and Tune Protect also share common controlling shareholders in Tan Sri (Dr.) Anthony Francis Fernandes and Datuk Kamarudin Bin Meranun, who own ~32% of AirAsia Berhad and ~29% (partly via AirAsia Berhad) of Tune Protect.

Fig 8: AirAsia's estimated fleet delivery

Source: AirAsia

Addition of new partners in the Middle East and India

Other than AirAsia, we understand that Tune Protect is actively looking for other partners to distribute its travel insurance products. In March 2014, Tune Protect entered the Middle East with a joint venture agreement with Cozmo Travel LLC (Cozmo Travel) and set-up Tune Protect Commercial Brokerage LLC, which mainly serves AirArabia, the largest LCC in the MENA region. It also has an existing partnership with Cebu Pacific Air.

Towards the end of 2016, Tune Protect has also entered into a strategic partnership with Jet Airways Middle East to provide insurance to the Indian airlines' guests flying out of the region; tied up with a new online travel portal, Skysouq.com, via Sur Travel Agencies LLC in Oman; formed an alliance with Acon Travels & Tours in Qatar; and developed a regional partnership with World Travel Services, which offers the travel agency community access to more than 200,000 hotels and apartments worldwide.

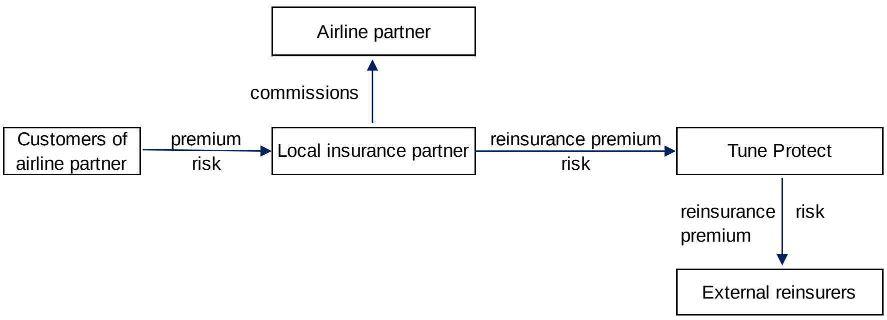
While these partners' contributions are still minimal compared to AirAsia, the growth of Tune Protect's existing partners as well as the potential addition of new partners should provide incremental growth for Tune Protect.

Timely, cost-efficient and scalable business model

For Malaysian routes, the travel insurance policies are underwritten directly by the company's subsidiary, Tune Protect Malaysia, and a significant portion is subsequently reinsured to Tune Protect Re. Meanwhile, for routes which involve countries whereby Tune Protect does not have an insurance license to operate, it would enter into a reinsurance arrangement with a local insurance partner who would underwrite the travel insurance policies and reinsure the bulk of the premium and risk to Tune Protect. Tune Protect's travel insurance product is also mainly distributed through the product partners' ticketing platforms or its own website.

Such arrangements, together with its efficient distribution channel via airline partners' ticketing platforms or its own website, allows Tune Protect to effectively serve multiple countries without applying for local insurance licenses or hiring large numbers of agents to establish a market presence. The scalability of its business model would allow it to penetrate new markets in a timely and cost-efficient manner, in line with the expansion plans of its airline partners.

Fig 9: Business model of tie-ups with airline partners



Source: Company, Affin Hwang

For the distribution of conventional products, Tune Protect relies on its 1,300 member agency force as well as motor franchise dealers. It has also recently partnered with Pos Malaysia Berhad to be included as one of the panel insurers for its products to be distributed through post offices. We understand that the company remains committed to digitalizing the value chain and this would help to distribute its conventional products efficiently.

Early embracer of fintech; innovation of digital products

Tune Protect is one of the trailblazers of the industry for the online distribution of certain insurance products, though some peers have already undertaken the same move. Tune Protect has also been utilising technology to improve various aspects of its business model, including but not limited to business processes and product innovation. These are reflected in its newly launched three strategic pillars (lead in product innovation & differentiation; widen distribution channels & expand reach; deliver exceptional customer experience) as part of its longer-term aspiration to be the leading digital insurer.

For digital products, it added two new products, Tune Protect Dental Easy (dental health) and Tune Protect PA Easy (personal accident), in 2016 to its existing digital products, Tune Protect Guard Easy (protection against snatch theft and robbery), Tune Protect Ride Easy (car passengers) and its flagship Tune Protect Travel Easy. There are also new partnerships formed such as the 2-years exclusive partnership with Super Strap Sdn Bhd to provide bundled baggage wrap insurance in six airports and KL Sentral in Malaysia as well as Changi Airport in Singapore.

Tune Protect is also actively widening its distribution channels to improve its overall customer experience. We understand that more products will be offered online through its website and its mobile application while the purchase, renewal and claims process are also to be digitalized.

Moving forward, there may be demand for more personalized products such as on-demand and usage-based policies – for instance, motor insurance. We also note that Bank Negara Malaysia has been encouraging insurers to spur product innovation and explore different distribution channels such as online distribution to improve the country's insurance penetration rate. Being one of the early embracers of fintech, its considerable experience in the internet space and speed to market should better position Tune Protect over its peers to meet the constantly evolving needs of consumers in the digital age.

Outlook and Financials

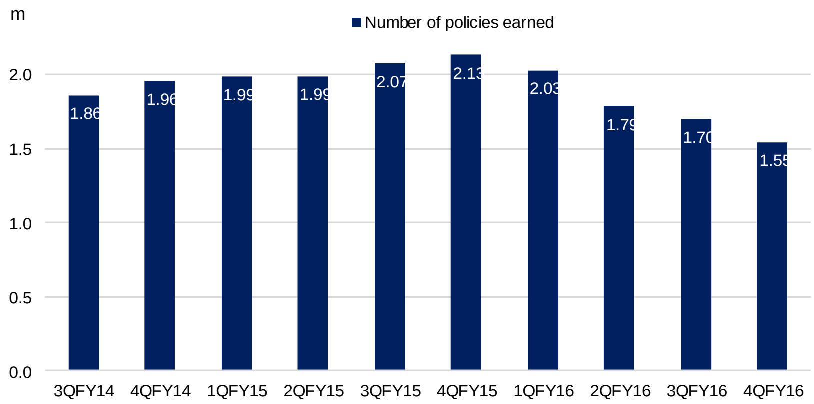
Steps to mitigate potential decline in travel insurance sales

Tune Protect's management has undertaken a few initiatives, including:

i) Prompting customers to reconsider insurance before completing ticket purchases;
ii) Sending email reminders to non-customers prior to departure;
iii) Offering a new dynamic pricing model to allow better risk profiling and policy pricing for customers; and
iv) Negotiating with AirAsia to bundle travel insurance together with some flight tickets.

These steps are being undertaken in order to mitigate the potential decline in travel insurance sales since the gazetting of the Malaysian Aviation Consumer Protection Code 2016 (announced in July 2016). The consumer protection code has barred automatic add-ons of optional services such as travel insurance and luggage coverage when consumers are purchasing air travel tickets online. A present, such additional services can only be voluntarily "opted in" by consumers as opposed to the previous practice of consumers having to "opt out". The move has negatively affected Tune Protect's sale of travel insurance policies, even in the seasonally stronger 4Q16 (details in Fig 10).

Fig 10: Number of travel insurance policies earned per quarter



Source: Company, Affin Hwang

On a more positive note, we believe that air travel within Asia remains robust, especially after AirAsia entered into a joint venture (JV) with Vietnam's Gumin Company Ltd and Hai Au Aviation Joint Stock Co to set up a low-cost airline in Vietnam. Recently, on 15 May 2017, AirAsia signed a memorandum of understanding (MoU) with two Chinese parties (China Everbright Group and Henan Government Working Group) to set up AirAsia China, which is to be based in Henan (Zhengzhou Province).

While we expect the FY17 take-up rate for the travel insurance segment to be affected by the full-year impact of changes in regulations, we believe that the expanding customer pool (increasing number of passengers carried by airline partners), increases in average premium per policy as well as the mitigative steps by management highlighted above should minimize such impact. Over the longer term, should customer awareness for travel insurance increase, we think it would be a positive catalyst for Tune Protect.

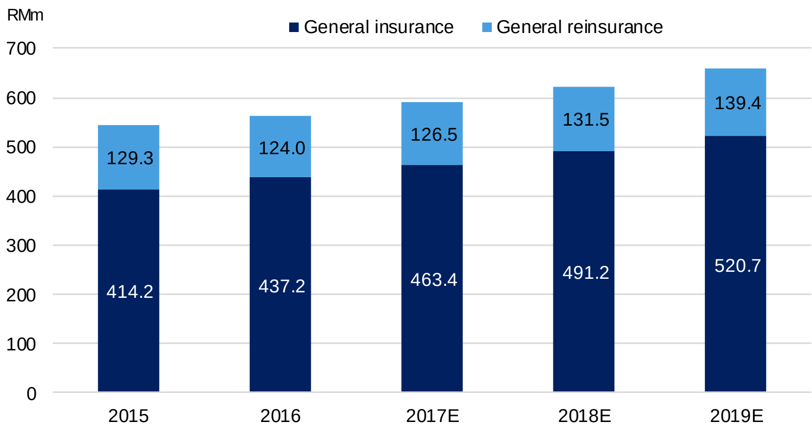
General insurance premium expected to grow ahead of travel segment

Despite industry headwinds, Tune Protect's general insurance GWP grew at a decent rate of 5.6% yoy in 2016, though slower than FY14-15's growth rate of 11.7% yoy and 9.0% yoy respectively due to the lower base effect. Its underwriting profit meanwhile more than quadrupled in 2016, thanks to a one-off release of Malaysian Motor Insurance Pool (MMIP) reserves and investment income of RM13.8m as well as a one-off release of motor reserves.

We expect Tune Protect's general insurance segment GWP to continue growing at circa 6% p.a. while we look for general reinsurance (travel insurance) GWP to grow at 2% yoy in FY17, 4% yoy in FY18 and 6% yoy in FY19.

As Tune Protect is increasing the proportion of its reinsurance of motor insurance products from 10% to 35%, the amount of claims incurred should be lower, in line with a decline in the retention ratio. Overall, we expect the combined ratio for the general insurance segment to remain close to 100% in the short to medium term, and thus we expect its contribution to Tune Protect's underwriting profitability to remain low at ~20%.

Fig 11: GWP forecasts (before consolidation adjustment)



Source: Company, Affin Hwang forecasts

Minimal impact from detariffication

Based on 2016 GWP, Tune Protect has less than 50% exposure to motor and fire policies while the exposure to these policies based on a net-earned-premium (NEP) basis is even lower at less than 25%, due to the low retention ratio. This implies that even if competition intensifies for the motor and fire insurance segments post-detariffication, we do not foresee a material impact on Tune Protect given the low contribution from such policies. On the other hand, we are still expecting travel insurance to be the main driver of its underwriting profit (at circa 80%, as mentioned in our earlier discussion).

Key assumptions on group combined ratio

During the forecast period, we expect the retention ratio to remain low at around 57-63% while the ratio of overall claims incurred is expected to inch up in 2017 and 2018 (absence of release in reserves) before improving in coming years as the underwriting experience improves. The commissions ratio should stay relatively stable while the management expense ratio is likely to stay elevated in the short term before trending lower when premiums grow at a faster rate. Overall, we expect the combined ratio to be higher in 2017, mainly due to expected changes in product mix with the general insurance segment to grow faster than the general reinsurance (travel insurance) segment. The claims incurred ratio is also expected to normalize from the 34.0% achieved in 2016 as we do not expect most of the one-off release of reserves to be repeated. These, however, should gradually improve over the years as Tune Protect improves its underwriting experience in the general insurance segment.

Net claims ratio

There was a spike in the net claims incurred ratio for the travel insurance segment in 2016. We understand that the spike was due to higher claims as well as a one-off increase in the provision of risk margin for adverse deviation (PRAD) for the segment from 50% to 75%, as required by the Labuan Financial Services Authority. This is unlikely to recur in 2017 and the claims ratio is expected to normalize for the segment.

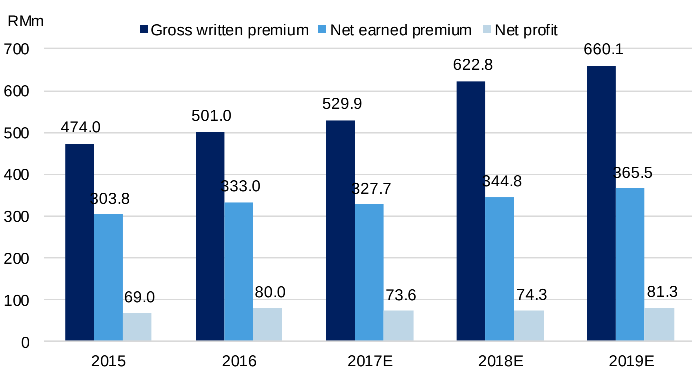
Meanwhile, the net claims incurred ratio for the general insurance segment has dropped significantly from 65.5% in 2015 to 51.4% in 2016. Other than the general improvement in its claims experience, we understand that it was mainly due to a one-off release in MMIP reserves (approximately RM8m) as well as a one-off release in motor segment reserves. However, these releases of reserves are unlikely to be sustained over coming years, and the claims ratio for the segment should normalize to around 60% as targeted by management.

FY17 net profit expected to decline due to lower MMIP reserves

For FY17, we are forecasting a decline of 8% yoy in headline net profit, while on a core net profit basis, we have a forecast of RM68.6m (flat yoy) for FY17 before resuming growth of 7.0% yoy in FY18 and 8.1% yoy in FY19 (core net profit). As a result, we also expect Tune Protect's core ROE to ease to 13.3% (FY17-18E) compared to the average core ROE for the past 3 years of around 15.5%.

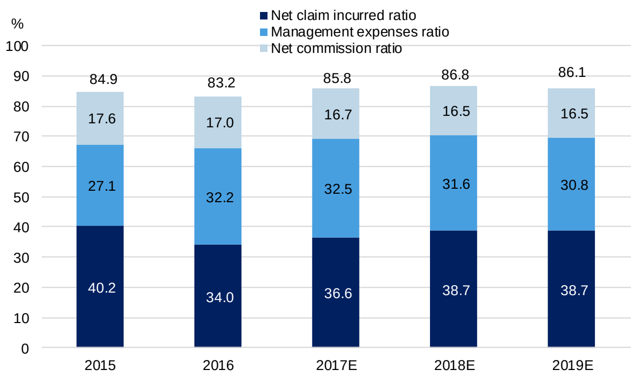
We note that 2016 net profit was propped up by the one-off release in MMIP reserves and motor reserves. Though we expect to see some one-off releases of MMIP reserves in 1Q17 (based on our channel checks), we believe that the lower reserves released in 2017 could cause the claims incurred to be higher and headline net profit to be lower.

Fig 12: GWP, NEP and net profit forecasts



Source: Company, Affin Hwang forecasts

Fig 13: Combined ratio forecasts



Source: Company, Affin Hwang forecasts

Potential catalysts

Establishment of retakaful window

On 4 May 2017, Tune Protect announced the establishment of a retakaful window under the Labuan Financial Services and Securities Act 2010. We understand that the retakaful window will operate under a similar business model to its current reinsurance business, whereby a takaful operator (local insurance partner) would underwrite the policies and reinsure most of the premiums and risks to Tune Protect. It would also focus initially on the travel insurance segment in Malaysia, before expanding to other segments and other regions such as Indonesia and the Middle East.

While we are also aware that the takaful product may cannibalise Tune Protect's current conventional offerings to a certain extent, we are positive on this development as Malaysia remains a Muslim-majority population and there could be pent-up demand for such takaful travel products. This could effectively expand the customer pool for Tune Protect. However, it is still premature to factor in such an impact as the retakaful window still needs to undergo several operational milestones such as finding a takaful partner. We expect the retakaful business to commence at the earliest by 2018.

Potential Indonesia acquisition

Tune Protect attempted in 2015 to acquire Indonesia general insurer, PT Batavia Mitratama Insurance, and attempted in 2016 to acquire another Indonesia general insurer, PT Asuransi Staco Mandiri. Both attempts failed to materialise and the deals were aborted.

Despite previous setbacks, we understand that the company remains interested in expanding into Indonesia to allow it to underwrite policies directly in the country. Such a move, should it materialize, could allow Tune Protect to enjoy a larger share of the travel insurance premiums and profit of policies currently underwritten by its Indonesia insurance partner. It would also be able to develop other general insurance products to cater to Indonesia's population of 260 million. While this may also expose Tune Protect to policy uncertainties in Indonesia as well as the learning curve of operating in a foreign country, we believe such an acquisition would be positive for the company at the right price. However, we believe it is too premature for us to factor in any such potential acquisition at this juncture.

Potential bonus issue due to abolition of par value

Under the newly gazetted Companies Act 2016, the par value concept has been abolished and share premiums are to be merged with share capital. We however note that there is a 24-month window upon the commencement of the Act, during which the companies may utilize the share premium for purposes including, but not limited to, the distribution of bonus shares.

Tune Protect still has a share premium amounting to RM173.3m in its balance sheet as at 31 December 2016. Based on its latest number of outstanding shares of 751.8m, Tune Protect could potentially propose a 1-for-5 bonus issue. Such a move could improve the trading liquidity of Tune Protect's shares and improve the trading sentiment.

Potential release of reserves a boost to net profit and book value

For the general insurance segment, we note that based on the claims development table (Fig 14), the loss development factors for most development years were below 1 while the ultimate loss development factor (Fig 15) has remained significantly below 1 (0.76-0.84) for the past few financial years. We have included an extract of the claims development table from the latest annual report and the loss development factor calculations below as an illustration.

Fig 14: Claims development table for net general insurance contract liabilities in 2016

FYE 2016 (RMm)	Before 2009	2010	2011	2012	2013	2014	2015	2016	Total
At end of accident year	100.10	114.03	134.69	134.46	121.00	144.80	158.57	170.01	
One year later	88.39	106.96	121.26	128.14	103.63	123.66	124.41		
Two years later	87.74	98.74	108.85	114.50	96.87	107.16	-		
Three years later	82.17	94.71	104.17	103.15	92.56	-	-		
Four years later	80.22	93.97	103.64	102.07	-	-	-		
Five years later	80.45	93.37	100.45	-	-	-	-		
Six years later	80.02	92.54	-	-	-	-	-		
Seven years later	82.42								
Current estimate of cummulative claims incurred	82.42	92.54	100.45	102.07	92.56	107.16	124.41	170.01	871.64

Source: Company data, Affin Hwang

Fig 15: Loss development factors in 2016

FYE 2016	Before 2009	2010	2011	2012	2013	2014	2015	2016	Average	Ultimate loss development factor
One year later	0.88	0.94	0.90	0.95	0.86	0.85	0.78		0.88	0.76
Two years later	0.99	0.92	0.90	0.89	0.93	0.87			0.92	0.86
Three years later	0.94	0.96	0.96	0.90	0.96				0.94	0.94
Four years later	0.98	0.99	0.99	0.99					0.99	1.00
Five years later	1.00	0.99	0.97						0.99	1.01
Six years later	0.99	0.99							0.99	1.02
Seven years later	1.03								1.03	1.03
.	1.00								1.00	1.00

Source: Company data, Affin Hwang

We believe this indicates that the actual claims experience has been much more favourable that what management has anticipated, or in other words, the reserves set aside could have been more than what is actually required. We believe that management may have been conservative as some of the portfolio was previously underwritten under Oriental Capital Assurance Berhad before the company was acquired and renamed Tune Insurance Malaysia Berhad.

While we are cautious on the extrapolation of past trends, should the claims experience continue to remain favourable, we believe eventually the actuarial assumptions could be reviewed and there would be some release of reserves in the future. Although any such release of reserves may be one-off in nature, it could nonetheless still provide a boost to the net profit and book value of the company. We have yet to factor in such a potential release of reserves in our forecasts due to the uncertainty of the timing and amount.

Key risks

Key risks to our Buy call would include:

i) A continuous decline in the travel insurance segment.

ii) For the bundling arrangement, there could be a certain level of pushbacks from AirAsia as its overall ticket price may appear more expensive.

iii) Higher claims ratio.

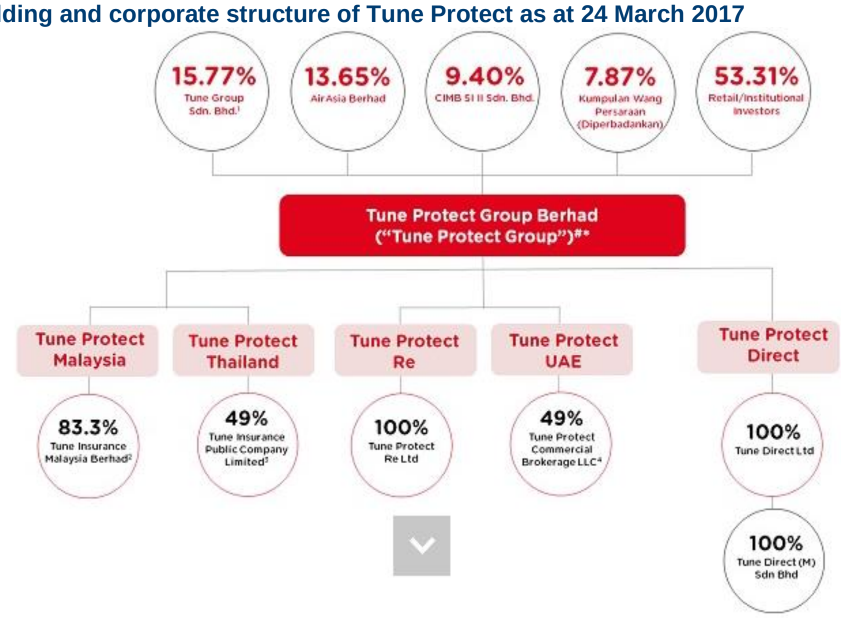
Appendices

Appendix 1: Company profile

Tune Protect Group Berhad (Tune Protect), formerly known as Tune Ins Holdings Berhad, is a financial holding company that underwrites and reinsures non-life insurance products through its subsidiary companies. Widely known for its signature travel insurance product partnering with AirAsia and its affiliates, Tune Protect has also added new partners over the years, including Cebu Pacific Air, Air Arabia, Cozmo Travel LLC and AAE Travel Pte Ltd.

Founded in 2011, Tune Protect has a relatively short track record but has evolved from offering travel insurance to underwriting more than 20 individual and corporate insurance products with the acquisition of Tune Insurance Malaysia Berhad (formerly known as Oriental Capital Assurance Berhad) in May 2012. Today, Tune Protect is present in over 50 countries across Asia Pacific and Middle East North Africa (MENA) regions. It was listed on the Main Market of Bursa Malaysia in February 2013.

Fig 16: Shareholding and corporate structure of Tune Protect as at 24 March 2017



Notes:

1. Shareholders: Tan Sri Dr. Anthony Francis Fernandes (50%) and Dato' Kamarudin Bin Meranun (50%)
2. The remaining 16.7% is owned by minority and unrelated shareholders
3. The remaining 51% is owned by various Thai partners including Osotspa Co. Ltd.
4. The remaining 51% is owned by Cozmo Travel LLC

Tune Insurance (Labuan) Ltd, 80% is owned by Tune Protect Group and the remaining 20% is owned by Multi-Purpose Capital Holdings Berhad (Tune Insurance (Labuan) Ltd has surrendered its Labuan captive insurer's license on 23 September 2015 and placed under Members' Voluntary Winding-up on 30 December 2016)

* Tune Insurance PCC Ltd, 100% is owned by Tune Protect Re (Tune Insurance PCC Ltd has surrendered its Labuan captive insurer's license on 3 Oct 2016)

Source: Company, Affin Hwang

Appendix 2: Key assumptions table

Fig 17: Key assumptions for general reinsurance segment

General reinsurance	2015	2016	2017E	2018E	2019E
GWP growth (%)	22.2	(4.1)	2.0	4.0	6.0
NEP growth (%)	15.8	0.2	2.0	4.0	6.0
Retention ratio (%)	98.1	98.0	98.0	98.0	98.0
Net claims incurred ratio (%)	3.6	4.8	4.2	4.2	4.2
Net commissions ratio (%)	33.2	31.7	32.0	32.0	32.0
Management expenses ratio (%)	13.9	19.9	20.0	20.0	20.0
Combined ratio (%)	50.7	56.4	56.2	56.2	56.2

Source: : Company, Affin Hwang forecasts

Fig 18: Key assumptions for general segment

General insurance	2015	2016	2017E	2018E	2019E
GWP growth (%)	9.0	5.6	6.0	6.0	6.0
NEP growth (%)	12.5	16.1	(3.7)	6.0	6.0
Retention ratio (%)	45.6	49.5	45.0	45.0	45.0
Net claims incurred ratio (%)	65.5	51.4	57.0	60.0	60.0
Net commissions ratio (%)	6.9	8.3	7.0	7.0	7.0
Management expenses ratio (%)	25.2	28.1	28.0	27.0	26.0
Combined ratio (%)	97.6	87.8	92.0	94.0	93.0

Source: : Company, Affin Hwang forecasts

Fig 19: Key assumptions for overall business

Overall	2015	2016	2017E	2018E	2019E
GWP growth (%)	9.4	5.7	5.8	5.3	5.8
NEP growth (%)	13.8	9.6	(1.6)	5.2	6.0
Retention ratio (%)	67.0	68.5	63.3	63.3	63.4
Net claims incurred ratio (%)	40.2	34.0	36.6	38.7	38.7
Net commissions ratio (%)	17.6	17.0	16.7	16.5	16.5
Management expenses ratio (%)	27.1	32.2	32.5	31.6	30.8
Combined ratio (%)	84.9	83.2	85.8	86.8	86.1

Source: : Company, Affin Hwang forecasts

Tune Protect - FINANCIAL SUMMARY

Profit & Loss Statement

FYE Dec	2015	2016	2017E	2018E	2019E
Gross written premiums	474.0	501.0	529.9	557.8	590.1
Net earned premiums	**303.8**	**333.0**	**327.7**	**344.8**	**365.5**
Net claims incurred	(122.3)	(113.2)	(119.9)	(133.4)	(141.4)
Net commission expenses	(53.5)	(56.8)	(54.6)	(57.1)	(60.5)
Other expenses	(82.5)	(107.5)	(107.0)	(109.2)	(113.0)
Underwriting profit	**45.5**	**55.6**	**46.2**	**45.1**	**50.6**
Realised gains	(0.0)	0.0	0.0	0.0	0.0
Other investment gains	33.4	35.0	36.0	36.6	37.9
Associates' contribution	(2.3)	4.0	4.2	4.4	4.7
Finance costs	0.0	0.0	0.0	0.0	0.0
PBT	**76.5**	**94.7**	**86.4**	**86.2**	**93.1**
Tax	(3.6)	(8.1)	(6.9)	(6.9)	(7.5)
Net profit	69.0	80.0	73.6	73.3	79.3
Core net profit	**61.9**	**68.2**	**68.6**	**73.3**	**79.3**

Balance Sheet Statement

FYE Dec	2015	2016	2017E	2018E	2019E
Financial assets	587.6	693.6	705.8	712.3	755.3
Reinsurance assets	244.8	211.7	241.0	272.0	288.3
Other assets	378.6	361.5	376.8	437.5	455.0
Total assets	**1,211.0**	**1,266.8**	**1,323.6**	**1,421.8**	**1,498.6**
Insurance contract liab	577.3	562.9	612.5	646.9	685.8
Other liabilities	142.1	162.6	129.3	137.6	131.1
Total liab	**719.4**	**725.4**	**741.8**	**784.4**	**816.9**
Shareholders' Funds	**491.6**	**541.4**	**581.8**	**637.3**	**681.7**

Cash Flow Statement

FYE Dec	2015	2016	2017E	2018E	2019E
PBT	76.5	94.7	86.4	86.2	93.1
Non-cash adjustments	(22.0)	(30.9)	(34.2)	(34.9)	(36.3)
Working capital changes	(33.9)	(67.3)	(43.6)	(3.3)	(36.5)
Cash tax paid	(7.5)	(10.6)	(6.9)	(6.9)	(7.5)
Others	30.2	27.3	27.8	28.1	29.1
Cashflow from operation	**43.1**	**13.1**	**29.5**	**69.3**	**42.0**
Capex	(2.5)	(4.0)	(2.0)	(2.0)	(2.0)
Others	0.0	0.0	0.0	0.0	0.0
Cash flow from investing	**(2.5)**	**(4.0)**	**(2.0)**	**(2.0)**	**(2.0)**
Debt raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Dividends paid	(32.2)	(39.9)	(39.1)	(37.6)	(41.3)
Others	0.0	0.0	0.0	0.0	0.0
Cash flow from financing	**(32.2)**	**(39.9)**	**(39.1)**	**(37.6)**	**(41.3)**
Free Cash Flow	**40.6**	**9.2**	**27.5**	**67.3**	**40.0**

Key Financial Ratios and Margins

FYE Dec	2015	2016	2017E	2018E	2019E
Growth					
Gross written premium (%)	9.4	5.7	5.8	5.3	5.8
Net earned premium (%)	13.8	9.6	(1.6)	5.2	6.0
Underwriting profit (%)	9.5	22.2	(16.9)	(2.3)	12.2
PBT (%)	(5.9)	23.7	(8.7)	(0.3)	8.1
Core net profit (%)	(8.5)	10.2	0.4	7.0	8.1
Profitability					
Net claims ratio (%)	40.2	34.0	36.6	38.7	38.7
Comms ratio (%)	17.6	17.0	16.7	16.5	16.5
Mgmt exp ratio (%)	27.1	32.2	0.0	0.0	0.0
Combined ratio (%)	84.9	83.2	53.3	55.2	55.2
Effective tax rate (%)	4.8	8.6	8.0	8.0	8.0
Core ROE (%)	14.4	14.4	13.3	13.2	13.2
Core ROA (%)	5.4	5.5	5.3	5.3	5.4
Liquidity					
Fin. assets over net ins liab (x)	1.8	2.0	1.9	1.9	1.9
Op. cash flow (RMm)	43.1	13.1	29.5	69.3	42.0
Free cashflow (RMm)	40.6	9.2	27.5	67.3	40.0
FCF/share (sen)	5.4	1.2	3.7	8.9	5.3
Investment statistics					
PER (X)	16.6	15.1	15.0	14.0	13.0
EPS (sen)	8.2	9.1	9.1	9.8	10.5
EPS growth rate (%)	(8.5)	10.2	0.4	7.0	8.1
BV/share (RM)	0.6	0.7	0.7	0.8	0.8
P/BV	2.3	2.1	1.9	1.8	1.7
Dividend payout (%)	54.5	48.9	51.1	56.4	52.2
NDPS (sen)	4.0	5.0	5.0	5.5	5.5
Net yield (%)	2.95	3.65	3.65	4.01	4.01

Segmental contribution (%)

FYE Dec	2015	2016	2017E	2018E	2019E
Net earned premium					
General reinsurance	40.8	37.3	38.6	38.2	38.2
General insurance	59.2	62.7	61.4	61.8	61.8
Underwriting profit					
General reinsurance	93.3	68.2	77.5	81.9	79.5
General insurance	6.7	31.8	22.5	18.1	20.5

Source: Company, Affin Hwang

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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