Securities

AFFIN HWANG CAPITAL

Out think. Out perform.

Managing expectations

Tune Protect's 1Q17 net profit of RM11.9m came broadly in line with our estimate but underperformed consensus expectations. The continued adverse effect from regulatory changes, higher claims and lower investment income contributed to the disappointing results. We expect a negative pullback in the share price, and reiterate our BUY rating with an unchanged TP of RM1.57.

1Q17 within expectations but below consensus

1Q17 net profit of RM11.9m (-47.2% yoy, -27.9% qoq) came in at 16.1% and 13.4% of our and the consensus estimates. While we have expected a weaker 1H17, the results were nonetheless underwhelming due to the continued adverse effect from the "Opt in" regulatory changes to its travel segment, higher claims from the motor franchise business and lower investment income. These are, however, partially offset by a one-off release of MMIP reserves of RM4.7m.

All is not lost

As expected, Tune Protect's travel segment continued to be adversely hit by the "Opt in" regulatory changes (Fig 3). However, we note that the decline in number of policies issued has stabilised during the quarter (Fig 4) while the company will start the travel insurance bundling for AirAsia's selected customer segments such as the Premium Flex, Premium Flatbed, etc. starting end-May. Moreover, we note that the customer pool for its partner airlines is still expanding at a healthy pace (Fig 5) and this should eventually translate to better travel policy sales. Meanwhile, for the general insurance segment, we understand that the company plans to manage its claims costs through better workshop arrangements.

AirAsia collaboration a minor boost

Tune Protect has announced a collaboration with AirAsia for further data integration between the two companies, which would allow Tune Protect to leverage on AirAsia's data and digital team to digitise its insurance operations and improve the customer experience. While we note that it is unlikely to materially impact the Tune Protect's financials in the short term, we are nevertheless positive on the move which will further strengthen their working relationship and cross-selling capabilities.

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

Results Note

Tune Protect

TIH MK
Sector: Insurance

RM1.54 @ 22 May 2017

BUY (maintain)

Upside: 1.9%

Price Target: RM1.57

Previous Target: RM1.57

Price Performance

	1M	3M	12M
Absolute	+10.0%	+8.5%	+0.0%
Rel to KLCI	+8.8%	+4.4%	-8.2%

Stock Data

Issued shares (m)	751.8
Mkt cap (RMm)/(US$m)	1,157.7/268.6
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)	2.33
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 Hwang, Bloomberg

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Net profit could bottom in 2Q17

Despite forecasting a potentially better travel segment performance and lower claims from the general insurance segment, we are expecting Tune Protect's net profit to bottom in 2Q17 in the absence of the release in actuarial reserves, before a sequential rebound in the coming quarters. We have already factored in the RM5m release of actuarial reserves and a weaker 1H17 and therefore make no changes to our forecasts.

Reiterate BUY with unchanged TP

The share price has surged by 12.4% in the past two trading days, possibly due to the announcement of the collaboration with AirAsia. A negative pullback in the share price is possible, however, in reaction to the weak 1Q17 results. We reiterate our **BUY** recommendation with an unchanged TP of **RM1.57** (based on 2.03x 2018 P/BV).

Key risks

The key downside risks include a sustained decline in its travel insurance segment and a higher claims ratio.

Fig 1: Results Comparison

FYE Dec (RMm)	1Q17	QoQ % chg	YoY % chg	4Q16	Comments
Gross written premium	162.9	*30.4*	*6.4*	124.9	Increase in general insurance gross written premium (+10.0% yoy) more than offset the decline in travel segment (-26.7% yoy)
Gross earned premium	125.1	*(1.7)*	*1.4*	127.2	
Net earned premium	77.1	*(9.0)*	*(6.7)*	84.7	Lower net earned premium due to lower retention ratio in motor segment.
Net claims incurred	(31.9)	*(14.0)*	*10.5*	(37.1)	Increase in net claims incurred ratio (1Q17: 41.4% vs 1Q16: 31.9%) mainly due to higher claims in motor franchise business, but offset by MMIP release of reserves of RM4.7m
Net commission expenses	(7.4)	*(48.3)*	*(37.9)*	(14.3)	
Management expenses	(28.5)	*(2.1)*	*34.3*	(29.1)	
Underwriting profit	**9.3**	***120.8***	***(54.8)***	**4.2**	
Underwriting margin (%)	*12.1*	*+7.1ppt*	*-12.9ppt*	*5.0*	Expansion in underwriting margin qoq was due to release of MMIP reserves, offset by higher claims in the motor franchise business
Other income/expenses	0.0	*(99.8)*	*>100*	4.3	
Investment income	5.0	*(39.1)*	*(19.5)*	8.2	
Other investment gains	0.1	*>100*	*(62.6)*	(1.2)	Lower investment gains due to lower interest income and recognition of RM1m loss from MMIP investment income
Share of results of associates and joint ventures	0.6	*(54.0)*	*(64.0)*	1.2	
Pretax-profit	**15.1**	*(10.4)*	*(42.1)*	**16.8**	
Taxation	(1.7)	*>100*	*(2.3)*	0.5	
Minority Interests	(1.5)	*86.5*	*(12.3)*	(0.8)	
Net Profit	**11.9**	*(27.9)*	*(47.2)*	**16.5**	Broadly in-line with estimates
Core Net Profit	**7.5**	*(36.9)*	*(70.5)*	**11.9**	
EPS (sen)	1.6	*(27.9)*	*(47.2)*	2.2	
Core EPS (sen)	1.0	*(36.9)*	*(70.5)*	1.6	
DPS (sen)	0.0	*n.m.*	*n.m.*	5.0	

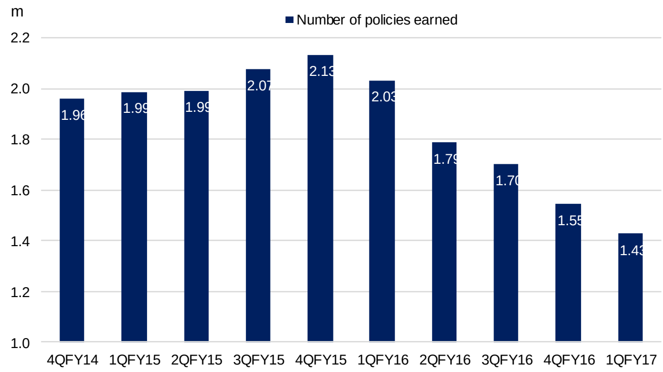
Source: Affin Hwang, Company data

Fig 2: Insurance key ratios

	1QFY15	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17
Retention ratio (%)	62.4	64.9	69.8	70.1	67.0	71.2	69.3	66.6	61.7
Net claim incurred ratio (%)	39.7	37.0	48.2	35.8	34.9	19.4	37.6	43.8	41.4
Net commission ratio (%)	18.4	15.5	17.8	18.6	14.4	18.5	18.4	16.9	9.6
Management expenses ratio (%)	28.1	31.2	28.5	18.6	25.6	33.3	35.3	34.3	36.9
Combined ratio (%)	86.2	83.7	94.6	73.0	75.0	71.1	91.4	95.0	87.9
ROE (%)	16.7	16.3	12.4	21.4	20.5	23.8	12.3	13.7	9.8
ROA (%)	6.1	5.9	4.4	7.5	7.4	8.8	4.4	5.2	3.8

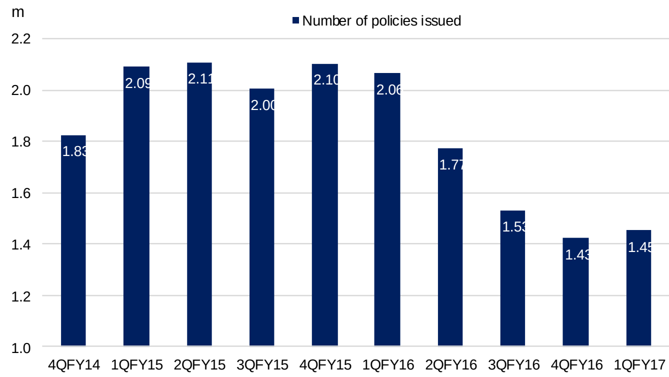
Source: Company, Affin Hwang

Fig 3: Quarterly number of travel policies earned



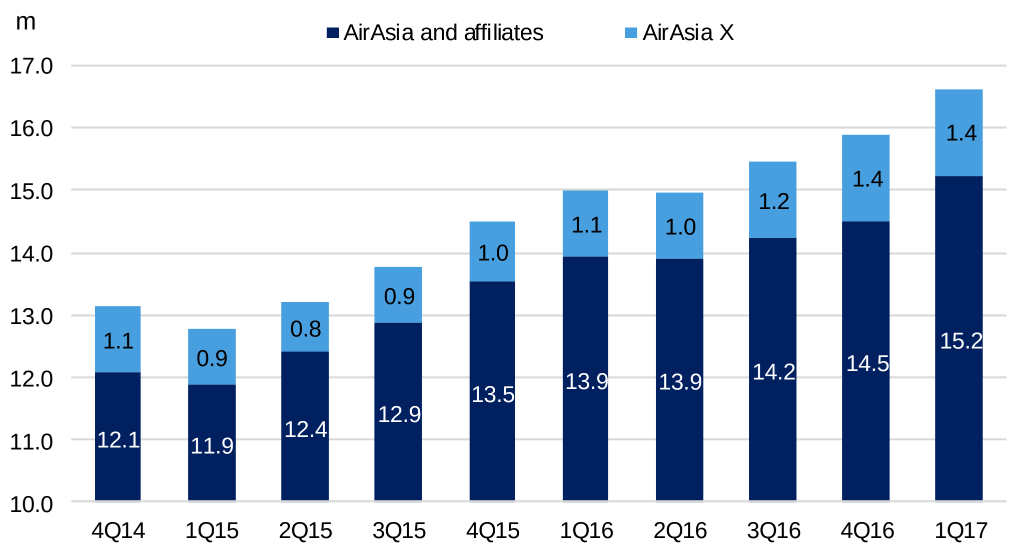
Source: Company, Affin Hwang

Fig 4: Quarterly number of travel policies issued



Source: Company, Affin Hwang

Fig 5: Passenger numbers of main airline partners



Source: Company, Affin Hwang

Note:
** Tune Protect also partners with other airlines such as AirArabia, Cebu Pacific Air etc.*

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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