Strong earnings growth ahead for Tune Ins says analyst

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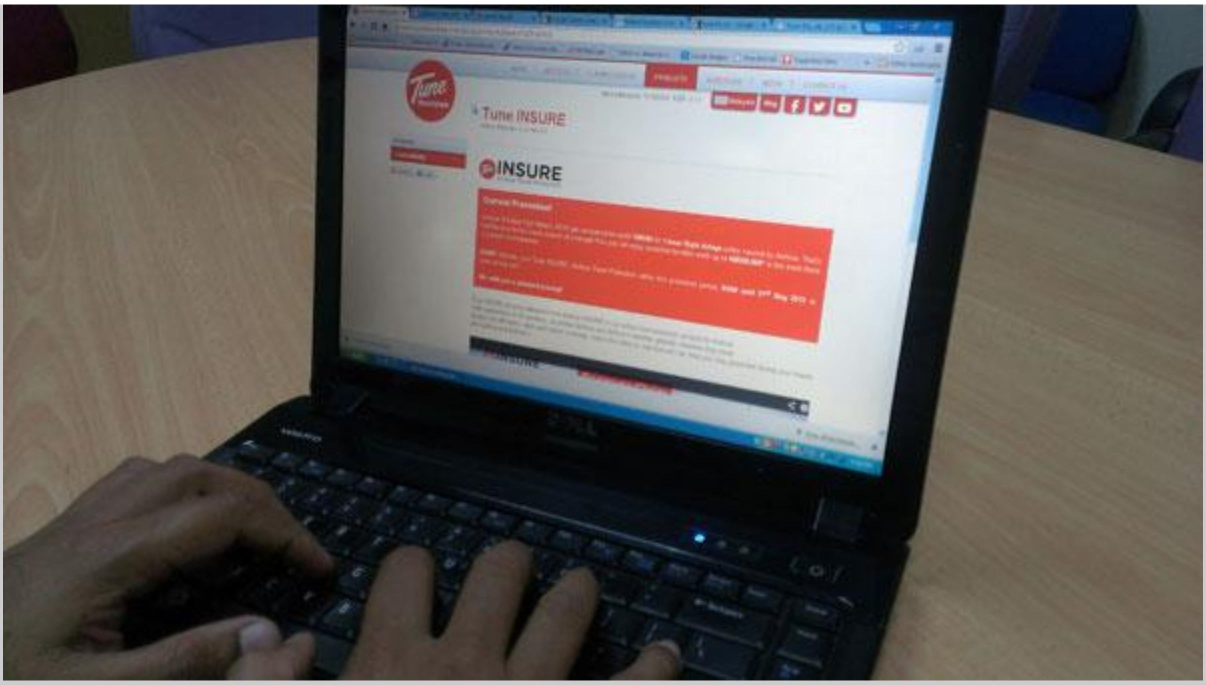

EARNINGS GROWTH: Photo shows a person surfing the Tune Insurance website for insurance packages. Tune Ins has potentially strong earnings growth ahead and keen investor uptake, as seen in the recent rally of its share price in the market.

KUCHING: Tune Ins Holdings Bhd (Tune Ins), engaged in the provision of various general and life insurance products in the Asia Pacific region, has potentially strong earnings growth ahead and keen investor uptake, as seen in the recent rally of its share price in the market.

The insurance group's share price had surged by a large margin in the past few market days, spurred by what RHB Research Institute Sdn Bhd (RHB Research) believed to be 'heightened investor interest' and 'the pricing in of its overseas acquisitions'.

"We believe the group's top-line growth will continue to be driven by the strong latent potential of the online premiums.

"We expect group level claims ratio to be better than industry as we expect proportion of low-claims online travel insurance premiums to increase," the research house said in a stock update yesterday, adding that the online claims ratio was historically at 3.6 per cent.

As the Indonesian subsidiary Tune Ins acquired was expected to contribute to full-year financial year 2014 (FY14) earnings, RHB Research incorporated an incremental premium of five per cent in the group's online business for FY14.

This would translate into earnings per share (EPS) accretion of four per cent, it stated. In addition, the group's repayment of RM133 million borrowings was expected to leave it with zero debt-to-equity ratio.

The incremental premium to net profit for the online business was based on its assumptions in which Indonesia would contribute 15 per cent of all travel policies in FY14 (FY12:13 per cent), Tune Ins would keep 25 per cent of the online premiums it shared with its Indonesian partner (assuming it fully underwrites the unit's travel business and the retention) and expenses ratios being unchanged – hence a 50 per cent profit margin.

RHB Research lifted its fair value of the stock by 17.1 per cent to RM2.05 per share from RM1.75 per share previously.

This was on the back of revising FY14 EPS to 10 sen and a higher price earnings ratio of 20 times from 18 times before, due to a sector re-rating and the revision in its EPS growth.

"The group's rerating catalysts in its overseas acquisitions have begun to materialise but we believe the upside has been priced in.

"We have yet to include its profits from its subsidiary's non-online general insurance business pending more visibility.

"Incorporating this unit's RM1.87 million earnings (assuming no growth from FY12) would lift our adjusted FY14 EPS to 5.8 per cent and fair value to RM2.12 per share," RHB Research pointed out.