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Tune Ins on a roll but risks remain

CEO says foreign funds that have invested in company 'looking at us as a growth-and-dividend stock'

by RAJESHPAL SINGH

photo by DD HOE

PETER Miller is a happy CEO. The head of Tune Ins Holdings Bhd is delivering on his company's unique competitive advantages and business model, leading some analysts to call it one of the best insurance stocks in Malaysia.

"We are extremely pleased with where we are at the moment," Miller tells ***FocusM***, noting that the foreign funds which bought into Tune Ins "are looking at us as a growth-and-dividend stock".

Nonetheless, not all are convinced that Tune Ins is a golden goose. Gabriela Fang, analyst with JF Apex Securities Bhd, says the company's promise to pay a minimum of 40% of annual profit-after-tax as dividends translates into a minimum yield of 2.84% at Tune Ins' IPO price of RM1.35, which does not compare favourably with what could be earned from several other listed insurance providers.

For comparison, at the time of Tune Ins' IPO in February, Lonpac Insurance Bhd offered a dividend yield of about 6.1%, Pacific & Orient Insurance Co Bhd 8.8% and MNRB Holdings Bhd 4%.

Other analysts, such as CIMB Research's Winson Ng, caution that Tune Ins is highly dependent on one major client – AirAsia, one of the world's largest low-cost carriers. This exposes Tune Ins to indirect risks such as the possibility of epidemic outbreaks (such as SARS) and terrorist attacks on planes, which may lead to a prolonged slump in air travel and a drastic increase in claims on Tune Ins' travel insurance.

On the other hand, Fang, Ng and other analysts agree that Tune Ins' competitive advantages stem from its very close links with AirAsia, and the benefits outweigh any potential downsides from being highly dependent on one major client.

Miller, who hails from the UK, appears unperturbed that Tune Ins' fortune is so closely tied to AirAsia's. "If you know Tony (Fernandes), he has his foot on the accelerator. He is in big markets and always wants to grow faster. The faster AirAsia grows, it's better for me as well," laughs Miller.

Exceeding expectations

From its listing on Feb 20, 2013 at RM1.35, Tune Ins rose as high as RM2.21 and closed at RM1.89 on July 10, earning its shareholders a decent paper profit. Ng believes the stock still has some upside left for further gains, estimating a target price of RM2.54.

The stock's attraction is illustrated by the fact that several major foreign funds, which typically invest for the long haul, account for the bulk of the 22.5% in equity placed out to institutional investors at the time of its IPO.

Tune Ins Holdings Bhd

Key management
- Peter Miller (CEO)
- Tammy Tan Ah Moi (CFO)
- Daniel Su Tieng Teck (CEO of Tune Insurance Malaysia Bhd)

Major shareholders
- 55.85% Tune Money Sdn Bhd
- 16.19% AirAsia
- 22.5% Institutional investors including bumiputera

Market capitalisation
RM1.42b

Share price
RM1.89 (as at July 10, 2013)

Tune Ins operates two core businesses, the first being online-based – it sells travel insurance to customers of AirAsia, Tune Hotels, AirAsia Expedia and Cebu Airlines as part of ticket/room-booking. The other core business is general insurance, via 83.3% subsidiary Tune Insurance Malaysia Bhd (TIMB, formerly Oriental Capital Assurance), which it acquired in May 2012.

While Tune Ins has only one licence in Malaysia to conduct general insurance via TIMB, its online business model enables its travel insurance to be underwritten by local insurance partners in 15 countries in the Asia-Pacific, which reinsure these to Tune Ins' reinsurance subsidiaries in Labuan.

This online distribution model is "extremely low-cost and high-volume and very profitable, which allows Tune Ins to price its travel insurance products very competitively," notes Fang.

"Last year we sold six million travel-insurance policies and we are expecting about 26% growth for this year," says Miller, with the average premium per policy being about RM15.

Although seemingly high, this volume accounted for less than 25% of AirAsia's passengers last year. With AirAsia's passenger volume estimated to grow by 15% to 39 million passengers in 2013; and with an estimated 361 aircraft on order (36 planes to be added in 2013); there is huge potential for Tune Ins for its travel insurance vis-à-vis AirAsia.

"AirAsia's expansion plans will inevitably boost the take-up rates of online insurance, in tandem with increasing flight passengers," says JF Apex Securities' Fang. She adds that under the agreement between Tune Ins and AirAsia, the low-cost carrier is entitled to 16-31% of the premiums paid by purchasers of Tune Ins' travel insurance. "This is definitely a synergistic partnership for both."

Miller says the faster AirAsia grows, the better it is for Tune Ins

The travel-insurance business contributes the bulk of Tune Ins' bottom line, about 75%, due to its high profit margin. However, the biggest contributor to the company's revenues, as high as 70%, actually is its general insurance business.

TIMB has about 1,080 agents and 16 branches throughout Malaysia. "TIMB exceeded all our expectations in terms of profitability," says Miller, explaining that much effort had been made to give TIMB a more balanced portfolio; it had been overweight on loss-making motor insurance.

"Now we are getting a good mix – motor, fire, personal accident, marine cargo, oil & gas – and they are all profitable," states Miller. One of TIMB's major corporate clients is Petronas.

CIMB's Ng notes that Tune Ins' strategy to increase its general-insurance business hinges on achieving a lower claims ratio, gaining better efficiency and boosting cross-selling with the online business.

Miller says the fact Tune Ins has the capability and experience to work closely with major corporations such as AirAsia and Petronas means it is able to meet the travel-insurance needs of other airlines worldwide, and provide the insurance needs of organisations ranging from SMEs to Fortune 500 companies.

For the present, Ng recommends investors stay invested in Tune Ins, given the swift expansion of its travel-insurance business, potential tie-ups with more airlines, the revamp of its general-insurance business in Malaysia and the planned earnings per share (EPS) accretive acquisitions of small-to-midsized insurers in several countries.

Tune Ins' major shareholders are Tune Money Sdn Bhd and AirAsia Bhd, with 55.85% and 16.19% respectively, both of which are controlled by Tan Sri Tony Fernandes and Datuk Kamarudin Meranun. Fernandes and Kamarudin co-founded AirAsia, and have a 23% stake in the low-cost carrier via Tune Money.

Other substantial shareholders in Tune Money are Datuk Seri Kalimullah Hassan, AirAsia X director and chairman, and CEO of the ECM Libra Financial Group; and Lim Kian Onn, co-founder of the ECM Libra Financial Group. They each have a 8.21% stake in Tune Money. FocusM

AirAsia relationship is key

TUNE Ins has a three-fold strategy to increase its travel-insurance products, says CEO Peter Miller. "The first is to continue to focus on AirAsia and we certainly will maintain a quality, dedicated team to manage our AirAsia relationship.

"The second is to acquire small insurance companies in major markets when the opportunity arises so that we can directly underwrite rather than work through partners; and the third strategy is built around consumer education, to get people to understand the importance of acquiring travel insurance and the value of our products."

Geographically, Malaysia is the largest market for Tune Ins travel-insurance products – which consist of a Travel Protection Plan, AA Lifestyle Protection Plan and Tune Hotels Lifestyle Protection Plan. In 2011, Malaysia accounted for 57% of the travel-protection policies sold, followed by Thailand (19%), Indonesia (13%), Singapore (6%) and China (4%).

"China has been the fastest-growing in terms of travel insurance, while Indonesia has got fantastic opportunities. Indonesia undoubtedly has the highest potential, but it is very difficult to say if it will be a bigger market than Malaysia in five years' time – but I think there is a chance it will be," says Miller.

He hopes to complete the 70% acquisition of PT Batavia Mitratama Insurance, an Indonesian insurer, within months. This will provide Tune Ins with a secure platform from which to directly offer travel insurance to Indonesia-based airlines and passengers, rather than having to work through a local partner.

Miller is also looking to acquire small-to-midsized insurers in Thailand, Taiwan, South Korea and Brunei for the same purpose. "We already have people on the ground looking at opportunities."