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Tune Ins outlook positive, CIMB Research maintains ‘outperform’ rating

PETALING JAYA: CIMB Reseach has raised the target price for Tune Ins Holdings Bhd, saying its proposed acquisition of a 70% stake in Indonesia's PT Batavia Mitratama Insurance (BMI) is expected to be earnings accretive.

CIMB Research told its clients that it was maintaining its “outperform” rating on the stock, given the swift expansion of its travel insurance business, and the earnings per share (EPS)-accretive deal to acquire BMI for RM26mil.

It raised its target price for the stock to RM1.71 from RM1.63 as a result of the deal.

In its analysis, CIMB said it estimated that the transaction would enhance Tune Ins' financial year 2014 net profit/EPS by about 3.6% based on the assumption of a RM2.3mil net profit for BMI that year, representing an annual growth rate of 10% in financial year 2013 to 2014, 15% of Tune Ins' travel insurance business to be generated from Indonesia, a 70:30 share for Tune Ins and its insurance partner of the travel insurance premium generated in Indonesia, a 3% opportunity cost for the internal funds to finance the deal, and a 54% net profit margin (net profit over gross premium) for the travel insurance business.

The deal was expected to be earnings and EPS-accretive due to the possibility of Tune Ins underwriting 100% of its travel insurance business in Indonesia compared with 70%80% currently, the absence of new equity issuance, and decent return on equity of 11% for BMI, it added.

Based on BMI's net assets of RM16.5mil as at December, the deal translated to a price/book value of 2.3 times, which in CIMB Research's view was on the high side, it said.

Taking out the price for the option, it would only be 1.1 times.

Due to the appeal of Asia's growing middle class and rising personal income, potential acquirers had to pay handsomely for stakes in insurance companies, it noted.

Tune Ins closed one sen down at RM1.48 yesterday.

The investment in BMI is expected to be completed in three to six months from April 30.

CIMB is advising investors to accumulate the stock, which would be catalysed by the swift expansion of its high-margin travel insurance business, and benefits from the transformation of its Malaysian business.