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Tune Insurance makes way into MENA region

Posted on 24 January 2014 - 05:37am

PETALING JAYA (Jan 24, 2014): Tune Insurance Holdings Bhd's (TIH) joint venture (JV) with travel agency Cozmo Travel LLC will open the Middle East and North Africa (MENA) markets for the company and potentially boost its net profit up by 7%, said RHB Research Institute Bhd.

On Wednesday, TIH said it plans to enter into an indefinite JV agreement with Cozmo to provide travel insurance and customised travel solutions to independent and corporate travellers.

TIH will have equal management power and own a 50% stake in the JV company, Tune Arabia LLC, with total investment of US\$184,000 (RM612,000).

RHB Research in its report said the JV may appear immaterial since Cozmo, currently with 12 branches, was only set up in 2010 and holds a small market share.

However, the announcement interestingly stated that the JV company will underwrite travel insurance for Cozmo and its affiliated companies in the Air Arabia Group.

Air Arabia is a successful low-cost carrier (LCC) that flies to 51 destinations in the Middle East, North Africa (MENA) market.

"This move ties in with TIH's plans to penetrate the MENA market via its shareholder, AirAsia Bhd. The JV will enable TIH to tap into Air Arabia's base of 1.4 million customers per quarter," its analyst Kong Ho Meng said.

He noted that Air Arabia's business model appears similar to AirAsia's low-cost offerings and proven safety track record, being a member of the Arab Air Carriers Organization and a recipient of the Skytrax World Airline awards.

"We estimate every 6 million increase in passenger base could potentially boost net profit up to 7% (assuming travel insurance profit margin of 50%)," Kong said.

On the other hand, he noted that a surge in online claims ratio and lower-than-expected travel demand from Thailand could pose a risk to TIH.

"While Thailand's political situation may hurt TIH's near-term share price, we like the company's longer-term story. Last year, it gained prominence as an Asean insurer through its high-margin travel insurance business. We are optimistic on TIH's potential to expand beyond Asean and becoming a global insurer," he said.

Nevertheless, Kong was excited over TIH's longer-term plan and maintained a "buy" on the stock, with a fair value at RM2.40 at 22 times price to earnings ratio.