

TQM Alpha

TQM Alpha
Public Company Limited

TQM

Bloomberg TQM TB
Reuters TQM.BK



Gradual recovery with new acquisitions

We expect a gradual earnings recovery in 2H24 and 2025 on moderate fee & service income growth, easing cost to income ratio and rising contribution from the lending business and affiliates after two new acquisitions in 3Q24. We keep our Neutral rating with an unchanged TP of Bt28, seeing valuation as demanding.

New acquisitions. In 3Q24, TQM acquired a 19.43% stake in My Group Intelligent Company Limited (My Group) for Bt300mn. As owner of the Mysave and Shippop brands, My Group operates over 6,600 logistics service points, which add touchpoints for TQM to tap into customers. It also acquired a 25% stake in Ngern Rueang Jib Co., Ltd. (JipJip Money) which is a leading brand specializing in premium consignment services for luxury assets such as high-end bags, watches and jewelry. In 2024, TQM expects My Group's earnings at ~Bt70mn (vs. Bt38mn in 2023) and JipJip Money's at ~Bt20mn (vs. Bt1mn in 2023). We raise our assumption of profit from affiliates from Bt7mn to Bt15mn in 2024 and from Bt10mn to Bt30mn in 2025.

Trim fee & service income growth. We trim 2024F fee & service income growth to 8% from 9% (vs. +7% YoY in 1H24), still in line with TQM's target of 5-10%, looking for little change QoQ in 3Q24 with a seasonal rise QoQ in 4Q24. In 2025, we expect fee & service income growth to edge down to 7% off a larger base and slower growth in renewal auto premiums (TQM's main product) after an estimated 20% fall in domestic car sales in 2024.

Easing cost to income ratio. We expect cost to income ratio to come down gradually from 70.51% in 2023 to 70.44% in 2024 and 69.68% in 2025 as a result of economies of scale after adding ~400 staff in 1Q23.

Rising contribution from lending business. Loans at subsidiary Easy Lending are up 32% YTD to Bt1.4bn as of 2Q24: 70% insurance premium loans, 27% secured loans and 3% car title loans. We forecast loan growth at 150% in 2024 and 75% in 2025. We thus expect net interest income to surge 203% to Bt33mn in 2024 and 99% to Bt66mn in 2025.

2H24F and 2025F earnings outlook. In 2H24, we expect earnings to rise HoH and YoY, underpinned by a moderate YoY growth in stable fee & service income, rising contribution from the lending business and larger profit from affiliates after two new acquisitions. We expect earnings growth to accelerate from 1% in 2023 to 6% in 2024 and 12% in 2025.

Maintain Neutral with an unchanged TP. We maintain our Neutral rating with an unchanged TP of Bt28 (based on 5.1x PBV or 17.4x PE for 2025F).

Key risks: 1) Fee and service income are at risk from slowing car sales and rising competition and 3) ESG risk on market conduct.

Forecasts and valuation

Year to 31 Dec	Unit	2022	2023	2024F	2025F	2026F
Net profit	(Btmn)	809	816	864	970	1,071
EPS	(Bt)	1.35	1.36	1.44	1.62	1.78
BVPS	(Bt)	4.28	4.52	5.01	5.51	6.10
DPS	(Bt)	1.20	1.00	1.01	1.13	1.25
EPS growth	(%)	(9.11)	0.86	5.89	12.26	10.35
P/E	(%)	20.02	19.85	18.74	16.70	15.13
P/BV	(%)	6.30	5.97	5.38	4.90	4.43
ROE	(%)	30.85	30.89	30.20	30.74	30.75
Dividend yield	(%)	4.44	3.70	3.73	4.19	4.63

Source: InnovestX Research

Tactical: NEUTRAL

(3-month)

Stock data

Last close (Sep 5) (Bt)	27.00
Target price (Bt)	28.00
Mkt cap (Btbn)	16.20
Mkt cap (US\$m)	482

Beta	L
Mkt cap (%) SET	0.09
Sector % SET	1.33
Shares issued (mn)	600
Par value (Bt)	0.50
12-m high / low (Bt)	35.5 / 24.3
Avg. daily 6m (US\$m)	0.44
Foreign limit / actual (%)	49 / 5
Free float (%)	30.4
Dividend policy (%)	≥ 50

Share performance

(%)	1M	3M	12M
Absolute	0.0	0.0	(12.9)
Relative to SET	(9.3)	(5.4)	(3.9)

Source: SET, InnovestX Research

2023 Sustainability / 2022 ESG Score

SET ESG Ratings	BBB
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ESG Bloomberg Rank in the sector

ESG Score Rank	1/18
Environmental Score Rank	1/18
Social Score Rank	2/18
Governance Score Rank	1/18

ESG Comment

TQM has a proper policy regarding to environmental and social issues with a decent board of directors.

Source: Bloomberg Finance L.P.

Analyst

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Value proposition

Established by the Punnipa family (which has been in the insurance business since 1953), TQM Alpha (TQM) is Thailand's largest insurance broker for both non-life and life insurance, with a focus on motor insurance, in a fragmented market of more than 743 players. It has a market share of ~10% in non-life insurance brokers (6% of non-life insurance premiums). Around 96% of its commission income came from non-life insurance.

Business outlook

We forecast 2024 earnings growth of 5%, underpinned by a forecast 8% growth in fee and service income, a gradual rise in cost to income ratio and rising contribution from the lending business and affiliates after two new acquisitions in 3Q24.

Bullish views	Bearish views
1. Moderate fee & service income growth.	1. We expect a fall in commission rate due to a rising proportion of corporate clients via M&A.
2. Easing cost to income ratio from economies of scale	

Key catalysts

Factor	Event	Impact	Comment
IPO of subsidiaries over 2024-2026	IPO of insurance business subsidiaries in 2024, financial business in 2025 and tech platform business in 2026	Unlock the value of its subsidiaries	Potential realized and unrealized gain

Sensitivity analysis

Factor	Earnings impact TP impact	
25 bps change in gross margin	4%	Bt1/sh.
1 ppt change in fee & service income growth	3%	Bt1/sh.
25 bps change in opex to income ratio	4%	Bt1/sh.

Our view on ESG

We view that TQM has a proper policy regarding to environmental and social issues but has provided a committed timeline and actual performance relative to its targets. We view its management and governance as satisfactory, reflecting a decent size and a diverse board of directors and transparency with stakeholders.

ESG Disclosure Score

Bloomberg ESG Score	44.40 (2022)
Rank in Sector	1/18

CG Rating	DJSI	SETESG	SET ESG Ratings
TQM	5	No	Yes
			BBB

Source: Thai Institute of Directors (IOD), SET

Environmental Issue (E)

- 2023 performance: Electricity consumption decreased 25% (vs. 15% target) from the baseline year 2020; Water consumption decreased 64% (vs. 20% target) from the baseline year 2020; Total weight of collected garbage of 106.5 tons (vs. target of 120 tons); Infected waste of 0.042 tons (vs. target of 0.115 tons)
- The company's greenhouse gas emissions data is in the process of registering for a carbon footprint certification. The goal is to reduce greenhouse gas emissions by 3% by the year 2030, and there is a plan to manage flood problems to prepare for climate change conditions.

Social Issue (S)

- 2023 performance: Customer satisfaction of 93.91% vs. 90% target; Zero complaints and legal actions regarding human rights violations; Employee engagement score of 72% vs. target of no less than 72%; Average training hours of 38 hours/person/year, in line with target.
- The company has guidelines and controls in place to ensure compliance with applicable laws and regulations, and it takes responsibility for contributing positively to society. This includes cooperation, support, assistance, and volunteering in activities beneficial to the community and society, aimed at promoting economic strength as well as the restoration of society and culture.

Governance Issue (G)

- As of 31 December 2023, the Board of Directors comprises 11 directors: 5 independent directors (45%), 1 (9%) non-executive director, and 5 (45%) executive Directors. Female directors comprised 45% of the board.
- Although the Chairman of the Board is not an independent director, the Board of Directors appointed another independent director to work jointly in considering and setting agendas of Board meetings, encouraging balance between the Board of Directors and management according to good corporate governance for listed companies.

ESG Disclosure Score

	2021	2022
ESG Disclosure Score	45.82	44.40
Environment	30.08	25.82
Emissions Reduction Initiatives	Yes	Yes
Climate Change Policy	Yes	Yes
Biodiversity Policy	No	No
Energy Efficiency Policy	Yes	Yes
Waste Reduction Policy	Yes	Yes
Water Policy	Yes	Yes
Social	26.15	26.15
Human Rights Policy	Yes	Yes
Equal Opportunity Policy	Yes	Yes
Business Ethics Policy	Yes	Yes
Health and Safety Policy	Yes	Yes
Training Policy	Yes	Yes
Fair Remuneration Policy	No	No
Governance	81.10	81.10
Size of the Board	10	11
Number of Board Meetings for the Year	7	9
Board Meeting Attendance Pct	100	97
Number of Female Executives	4	5
Number of Independent Directors	5	5
% Independent directors to total board members	50	45

Source: Bloomberg Finance L.P.

Disclaimer

Bloomberg ESG Disclosure Scores rate companies on their level of disclosure of ESG data. Bloomberg offers four disclosure scores, for overall ESG, as well as Environmental, Social, and Governance. To review the fully transparent methodology, calculate disclosure scores for any company, and compare a company's scores vs its peers, see ESG Disclosure Score Model in Bloomberg.

Financial statement

Profit and Loss Statement

FY December 31	Unit	2019	2020	2021	2022	2023	2024F	2025F	2026F
Fee & service income	(Btmn)	2,712	3,083	3,498	3,590	3,685	3,985	4,271	4,579
Cost of service	(Btmn)	1,414	1,517	1,606	1,691	1,735	1,952	2,093	2,244
Gross income	(Btmn)	1,298	1,565	1,893	1,899	1,950	2,032	2,178	2,335
Other income	(Btmn)	72	54	184	138	77	143	241	341
Total operating expenses	(Btmn)	0	2	2	2	25	59	102	159
Income before tax	(Btmn)	746	747	855	924	917	981	1,050	1,123
Income tax	(Btmn)	624	869	1,219	1,111	1,084	1,136	1,268	1,394
Core net profit	(Btmn)	116	167	230	226	224	227	254	279
Minority interest	(Btmn)	507	702	989	886	860	909	1,014	1,115
Net profit	(Btmn)	0	0	99	76	43	44	44	44
EPS	(Bt)	507	702	890	809	816	864	970	1,071
DPS	(Bt)	0.85	1.17	1.48	1.35	1.36	1.44	1.62	1.78

Balance Sheet

FY December 31	Unit	2019	2020	2021	2022	2023	2024F	2025F	2026F
Cash & cash equivalent	(Btmn)	2,758	2,167	804	729	1,187	1,163	1,173	1,255
Other current assets	(Btmn)	731	1,310	567	909	1,039	1,039	1,039	1,039
Premises & equipment	(Btmn)	80	94	79	99	123	491	541	591
Other non-current assets	(Btmn)	688	801	1,885	1,949	1,595	1,595	1,595	1,595
Total assets	(Btmn)	4,257	4,954	4,436	4,903	5,459	6,252	7,447	8,902
Total current liabilities	(Btmn)	1,816	1,957	729	1,110	1,341	1,839	2,738	3,837
Total non-current liabilities	(Btmn)	91	597	697	635	844	844	844	844
Total liabilities	(Btmn)	1,907	2,554	1,426	1,745	2,185	2,684	3,583	4,682
Paid-up capital	(Btmn)	300	300	300	300	300	300	300	300
Total Equities	(Btmn)	2,350	2,400	2,676	2,570	2,714	3,009	3,304	3,661
BVPS	(Bt)	3.92	4.00	4.46	4.28	4.52	5.01	5.51	6.10

Key Financial Ratios

FY December 31	Unit	2019	2020	2021	2022	2023	2024F	2025F	2026F
Revenue growth	(%)	8.41	13.68	13.49	2.62	2.65	8.13	7.20	7.20
Gross margin	(%)	47.86	50.77	54.10	52.89	52.90	51.00	51.00	51.00
Opex to income ratio	(%)	27.50	24.25	24.43	25.73	24.88	24.62	24.58	24.53
Cost to income ratio	(%)	77.60	72.22	68.00	70.14	70.51	71.07	69.65	68.44
Net profit margin	(%)	18.71	22.77	25.45	22.54	22.15	21.69	22.72	23.38
ROE	(%)	22.57	29.56	35.08	30.85	30.89	30.20	30.74	30.75
ROA	(%)	12.55	15.24	18.96	17.33	15.75	14.76	14.17	13.10
D/E	(x)	0.81	1.06	0.53	0.68	0.81	0.89	1.08	1.28

Financial statement

Profit and Loss Statement

FY December 31	Unit	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24
Fee & service income	(Btmn)	895	974	984	898	871	931	1,066	952
Cost of service	(Btmn)	432	452	488	423	407	418	516	472
Gross income	(Btmn)	463	521	496	475	464	514	550	480
Other income	(Btmn)	30	61	14	23	41	(1)	25	29
Total operating expenses	(Btmn)	1	(1)	3	3	6	13	13	15
Income before tax	(Btmn)	223	250	242	247	232	195	263	234
Income tax	(Btmn)	269	334	264	248	267	305	298	260
Core net profit	(Btmn)	56	67	55	56	55	59	58	53
Minority interest	(Btmn)	213	267	209	192	212	246	240	207
Net profit	(Btmn)	7	57	14	(5)	5	29	15	11
EPS	(Bt)	206	210	195	197	207	217	226	196

Balance Sheet

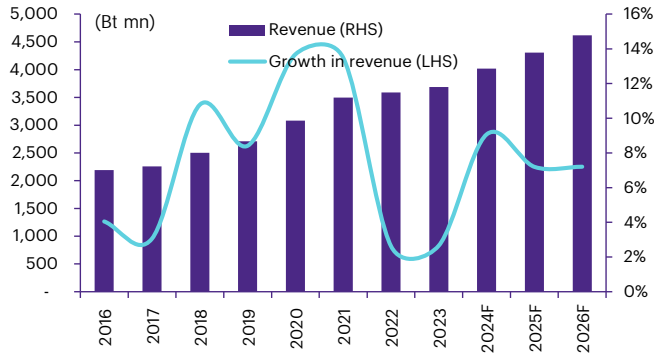
FY December 31	Unit	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24
Cash & cash equivalent	(Btmn)	607	729	902	820	715	1,187	1,459	1,292
Other current assets	(Btmn)	807	909	955	1,066	1,029	1,039	1,082	1,208
Premises & equipment	(Btmn)	82	99	116	127	128	123	120	116
Other non-current assets	(Btmn)	1,913	1,949	1,854	1,696	1,633	1,595	1,448	1,272
Total assets	(Btmn)	4,419	4,903	5,072	4,847	5,154	5,459	5,859	6,227
Total current liabilities	(Btmn)	913	1,110	1,125	1,103	1,186	1,341	1,525	2,160
Total non-current liabilities	(Btmn)	661	635	632	573	891	844	812	772
Total liabilities	(Btmn)	1,575	1,745	1,757	1,676	2,077	2,185	2,337	2,932
Paid-up capital	(Btmn)	300	300	300	300	300	300	300	300
Total Equities	(Btmn)	2,290	2,570	2,714	2,613	2,537	2,714	2,932	2,738
BVPS	(Bt)	3.82	4.28	4.52	4.36	4.23	4.52	4.89	4.56

Key Financial Ratios

FY December 31	Unit	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24
YoY Revenue growth	(%)	16.39	(8.52)	12.33	6.33	(2.67)	(4.34)	8.38	5.99
Gross margin	(%)	51.72	53.55	50.40	52.94	53.28	55.17	51.58	50.44
Opex to income ratio	(%)	24.95	25.65	24.62	27.54	26.62	20.98	24.69	24.61
Cost to income ratio	(%)	70.83	67.83	73.22	72.73	70.08	65.85	71.44	71.97
Net profit margin	(%)	22.99	21.53	19.82	21.93	23.74	23.35	21.15	20.61
ROE	(%)	35.10	34.51	29.52	29.57	32.14	33.13	31.95	27.68
ROA	(%)	18.55	17.99	15.64	15.88	16.55	16.39	15.94	12.99
D/E	(x)	0.69	0.68	0.65	0.64	0.82	0.81	0.80	1.07

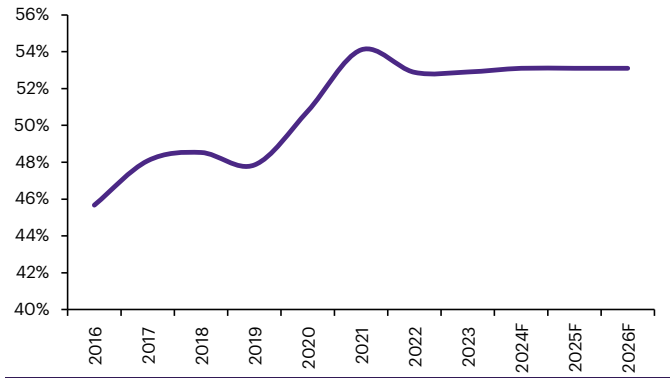
Appendix

Figure 1: Fee & service income growth



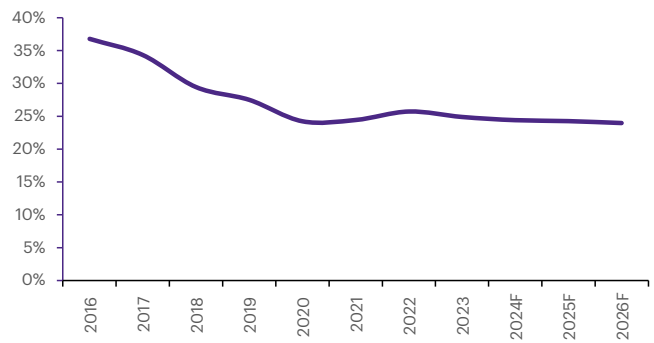
Source: TQM and InnovestX Research

Figure 2: Gross margin



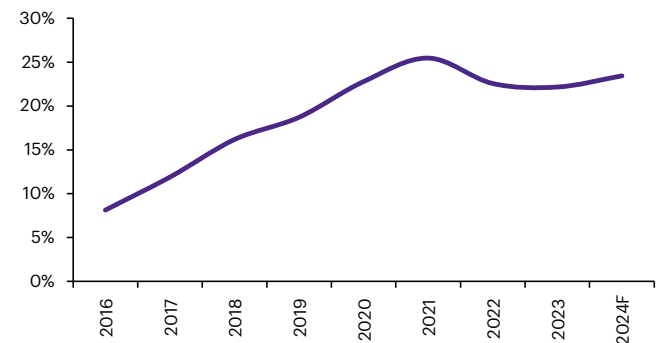
Source: TQM and InnovestX Research

Figure 3: Opex to income ratio



Source: TQM and InnovestX Research

Figure 4: Net profit margin



Source: TQM and InnovestX Research

Figure 5: Valuation summary (price as of Sep 5, 2024)

	Rating	Price (Bt/Sh)	Target (Bt/Sh)	ETR (%)	P/E (x)			EPS growth (%)			P/BV (x)			ROE (%)			Div. Yield (%)		
					23A	24F	25F	23A	24F	25F	23A	24F	25F	23A	24F	25F	23A	24F	25F
BLA	Outperform	18.70	21.0	15.0	12.5	9.2	7.3	(21)	36	27	0.7	0.7	0.6	6	8	9	2.6	2.7	3.4
THRE	Outperform	0.58	0.8	40.1	11.7	9.3	8.0	n.m.	26	16	0.7	0.6	0.6	6	7	8	0.0	2.2	3.8
THREL	Underperform	1.71	1.6	(6.4)	16.8	n.m.	18.9	(60)	n.m.	n.m.	0.8	0.8	0.8	4	(3)	4	4.1	0.0	3.7
TLI	Neutral	8.40	8.4	4.0	9.9	8.8	8.4	5	13	4	0.9	0.9	0.8	10	0	0	6.0	4.0	4.1
TQM	Neutral	27.00	28.0	7.4	19.8	18.7	16.7	1	6	12	6.0	5.4	4.9	31	30	31	3.7	3.7	4.2
Average					14.1	11.5	11.8	(18.8)	20.2	14.8	1.8	1.7	1.5	11	8	10	3.3	2.5	3.9

Source: InnovestX Research

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