

**BUY** (Unchanged)

Company Update

**TP: Bt 140.00**

Upside : 34.6%

(Unchanged)

14 SEPTEMBER 2021

# TQM Corporation Pcl (TQM TB)

## New drivers

**TQM's share price has plunged 24% from its Bt136 peak on market worries over less COVID premiums booked in 3Q21. The concerns are valid as earnings look set to soften from 2Q21. But we expect accelerated earnings momentum in 4Q21 given profit recognition of True Life and Easy Lending. Maintain BUY with a TP of Bt140.**

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### Easy Lending to start in 4Q21

Of total premium sales, 70% uses 0% installment plans and TQM subsidizes interest expenses for customers, paying banking fees to credit card companies. Knowing the customer profiles and having insurance plans as good hedging tools, TQM has set up Easy Lending (EL) to provide an in-house lending service. EL has already received a personal loan license and is ready to extend installment loans from 4Q21. EL targets new loans of Bt300m for 4Q21 with an 8% interest charge. We note that customers will continue enjoying 0% plans. Interest income earned at EL is replacing the banking fees TQM paid to banks. EL hopes to boost loans extended from Bt300m to Bt1.5bn in 2022. With TQM's net cash position, we see this as a good move to better utilize its excess liquidity. Netting this off with its interest income of 1.5%, we expect TQM to earn an additional 6.5% for loans extended by EL, or around Bt60m in 2022F.

### Growing 2H to offset slowing COVID-19 sales

TQM successfully sold COVID-19 premiums worth Bt1bn in 1H21 vs. only Bt400m in 1Q20. Most of the sales were booked in 2Q21 so with COVID insurance policies unavailable, premium sales look set to soften q-q in 3Q21F. That being said, TQM remains confident in total premium sales of Bt17.5bn this year as it aims to grow health, PA and housing insurance. 1H21 premium sales stood at Bt8.4bn and we estimate Bt9.1bn in 2H21F.

### Accelerated profits in 4Q21F

With the absence of high-margin COVID-19 insurance sales, we estimate 3Q21 profits of Bt200m, increasing by 18% y-y but declining 10% q-q. TQM's profits look set to accelerate in 4Q21F on the seasonality effect, the booking of True Life group's profits (at least Bt30m) and interest income from EL. We estimate 4Q21 profits of Bt250m, growing by 32% y-y and 25% q-q.

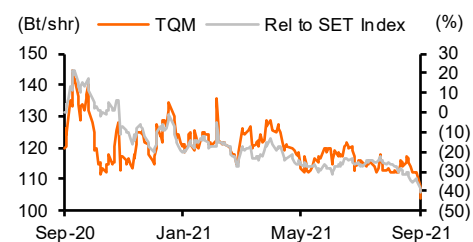
### Less expensive valuation; BUY

With its share price down 24% from its Bt136 peak in April, TQM now looks less expensive and we see the pullback offering a good entry point. The counter is trading 13% below its core business value of Bt120. In light of the firming of TQM's commitment to boost inorganic premiums by Bt14bn (Bt1bn already achieved via the JV with True Life), we factor an inorganic value of Bt20 into our TP. The next acquisition lined up is TQR in 1Q22 and this would allow TQM to achieve 57% of its acquisition target. By buying TQM now, investors would enjoy improving quarterly profits and the acquisition value for free. As TQM would remain in a net cash position, we expect decent dividend payments and estimate a dividend yield of 3% in 2022F.

### COMPANY VALUATION

Y/E Dec (Bt m)	2020A	2021F	2022F	2023F
Sales	3,083	3,462	3,887	4,346
Net profit	702	899	1,162	1,448
Consensus NP	—	867	1,061	1,448
Diff frm cons (%)	—	3.7	9.5	(0.0)
Norm profit	702	899	1,162	1,448
Prev. Norm profit	—	899	1,162	1,448
Chg frm prev (%)	—	0.0	0.0	0.0
Norm EPS (Bt)	2.3	3.0	3.9	4.8
Norm EPS grw (%)	38.4	28.1	29.2	24.6
Norm PE (x)	44.4	34.7	26.9	21.6
EV/EBITDA (x)	29.5	23.0	18.1	14.6
P/BV (x)	13.0	11.0	10.6	9.7
Div yield (%)	2.1	2.9	3.4	4.2
ROE (%)	29.6	34.4	40.3	47.0
Net D/E (%)	(112.3)	(103.4)	(104.2)	(106.4)

### PRICE PERFORMANCE



### COMPANY INFORMATION

Price: (Bt) as of 14-Sep-21	104.00
Market Cap (US\$ m)	947.4
Listed Shares (m shares)	300.0
Free Float (%)	41.7
Avg. Daily Turnover (US\$ m)	2.4
12M Price H/L (Bt)	144.50/107.50
Sector	Insurance
Major Shareholder	Eternal Growth Corp Ltd 50.9%

Sources: Bloomberg, Company data, Thanachart estimates



**Ex 1: 12-month DCF-based TP Calculation Using A Base Year Of 2022F**

(Bt m)	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	Terminal Value
EBITDA	1,453	1,802	2,199	2,655	3,154	3,362	3,584	3,797	4,023	4,262	—
Free cash flow	1,279	1,602	1,937	2,320	2,740	2,923	3,118	3,307	3,507	3,718	47,282
PV of free cash flow	1,279	1,348	1,494	1,612	1,738	1,694	1,649	1,597	1,546	1,430	18,186
Risk-free rate (%)	2.5										
Market risk premium (%)	8.0										
Beta	0.8										
WACC (%)	9.0										
Terminal growth (%)	2.0										
Enterprise value, incl. investments*	33,574										
Net debt (2021F)	(2,947)										
Minority Interest	24										
Equity value (Bt m)	36,498										
No .of shares (m)	300										
Equity value/ share (Bt)	121.7										
M&A value/ share (Bt)	19.6										
<b>TQM's all-in value/ share (Bt)</b>	<b>140.0</b>										

Sources: Company data, Thanachart estimates

## Valuation Comparison

## Ex 2: Valuation Comparison With Regional Peers

Name	BBG Code	Country	EPS growth		— PE —		— P/BV —		— ROE —		— Div. Yield —	
			21F (%)	22F (%)	21F (x)	22F (x)	21F (x)	22F (x)	21F (%)	22F (%)	21F (%)	22F (%)
China Life Insurance	601628 CH	China	16.4	14.9	15.0	13.1	1.7	1.6	12.2	12.4	2.4	2.6
China Pacific Insurance	601601 CH	China	12.2	13.1	9.4	8.3	1.1	1.0	12.4	12.8	4.8	5.4
Ping An Insurance Group	601318 CH	China	(9.5)	22.4	6.8	5.6	1.1	0.9	15.6	17.3	4.7	5.2
China Life Insurance	2628 HK	Hong Kong	18.0	9.2	6.4	5.8	0.8	0.7	12.2	12.0	5.7	6.1
Ping An Insurance Group	2318 HK	Hong Kong	30.0	4.1	5.1	4.9	0.4	0.4	7.8	8.3	6.2	6.4
			(9.7)	22.8	7.9	6.4	1.2	1.1	16.1	18.1	4.2	4.6
LPI Capital	LPI MK	Malaysia										
			2.1	5.2	16.1	15.3	2.5	2.4	16.2	16.4	5.2	5.4
Dongbu Insurance	005830 KS	South Korea										
Hyundai Marine & Fire	001450 KS	South Korea	9.8	(5.3)	6.1	6.4	0.6	0.6	10.4	9.3	4.3	4.3
LIG Insurance	002550 KS	South Korea	13.7	2.1	5.7	5.6	0.5	0.5	7.5	7.5	4.7	4.9
Meritz Fire & Marine	000060 KS	South Korea	na	na	na	na	na	na	na	na	2.2	1.9
Samsung Fire & Marine	000810 KS	South Korea	55.1	(16.6)	8.5	10.2	0.6	0.6	6.8	6.0	5.5	5.1
Cathay Financial Holding	2882 TT	Taiwan	74.3	(20.3)	6.3	8.0	0.9	0.8	14.9	11.2	5.2	4.9
China Life Insurance	2823 TT	Taiwan	29.0	(11.4)	6.9	7.7	0.8	0.7	11.1	9.6	2.6	2.5
Shin Kong Financial	2888 TT	Taiwan	22.4	(15.1)	7.0	8.2	0.5	0.5	8.2	4.4	3.7	3.9
Bangkok Life Assurance	BLA TB	Thailand	na	29.5	12.0	9.3	1.0	0.9	9.1	10.5	2.4	3.0
Thai Reinsurance	THRE TB	Thailand	500.0	na	4.6	17.3	0.6	1.4	12.0	8.0	15.2	3.6
Thaire Life Assurance	THREL TB	Thailand	50.0	na	10.0	na	1.2	na	12.0	na	7.0	na
TQM Corporation Pcl	TQM TB *	Thailand	28.1	29.2	34.7	26.9	11.0	10.6	34.4	40.3	2.9	3.4
<b>Average</b>			<b>52.6</b>	<b>5.6</b>	<b>9.9</b>	<b>9.9</b>	<b>1.6</b>	<b>1.5</b>	<b>12.9</b>	<b>12.8</b>	<b>4.9</b>	<b>4.3</b>

Source: Bloomberg

Note: \* Thanachart estimates , using Thanachart normalized EPS

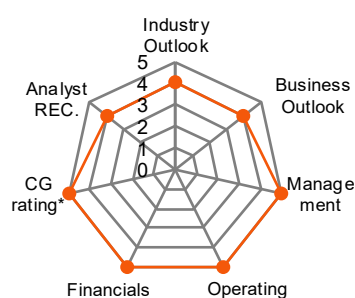
Based on 14 Sep 2021 closing prices

## COMPANY DESCRIPTION

Founded in 1953, TQM is the biggest insurance broker in Thailand. TQM structures itself as a holding company. It holds a 100% economic interest in two main subsidiaries, i.e., TQM Broker and TQM Life. The group also has Casmatt, which is 100% owned by TQM, to serve as its IT arm along with a 40% investment in TQLD, a start-up firm that specializes in insurance and tax advisory services. TQM conducted an IPO on 20 December 2018.

Source: Thanachart

## COMPANY RATING



### Rating Scale

<b>Excellent</b>	<b>5</b>
<b>Good</b>	<b>4</b>
<b>Fair</b>	<b>3</b>
<b>Weak</b>	<b>2</b>
<b>Very Weak</b>	<b>1</b>
<b>None</b>	<b>0</b>

Source: Thanachart; \* No CG Rating

## THANACHART'S SWOT ANALYSIS

### S — Strength

- Solid infrastructure and strong distribution platform.
- Scale benefits.
- Production innovation know-how.
- Solid balance sheet.

### O — Opportunity

- Increased life insurance penetration.
- Online expansion.
- Expansion into neighboring countries.

### W — Weakness

- Over 80% of premium sales and revenues are from non-life motor insurance, which has a strong correlation with industry car sales.

### T — Threat

- Economic slowdown.
- Changes in regulations.

## CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
<b>Target price (Bt)</b>	145.50	140.00	-4%
<b>Net profit 21F (Bt m)</b>	867	899	4%
<b>Net profit 22F (Bt m)</b>	1,061	1,162	9%
<b>Consensus REC</b>	<b>BUY: 5</b>	<b>HOLD: 0</b>	<b>SELL: 0</b>

## HOW ARE WE DIFFERENT FROM THE STREET?

- We believe we are ahead of the Bloomberg consensus in factoring in the JV with True Life and TQM's aggressive housing insurance sales with our 2021-22F earnings.
- Our TP is lower, likely as we cut the M&A value to reflect the JV structure.

Sources: Bloomberg consensus, Thanachart estimates

## RISKS TO OUR INVESTMENT CASE

- A failure to execute M&A transactions would represent the main downside risk to our TP.
- A slowdown in domestic car sales and slower growth of new product lines would be a secondary downside risk to our call.
- Severe pricing competition would be another downside risk.

Source: Thanachart

## INCOME STATEMENT

	FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
<i>Growing premium sales</i>						
Sales		2,712	3,083	3,462	3,887	4,346
Cost of sales		1,458	1,517	1,608	1,705	1,807
<b>Gross profit</b>		<b>1,254</b>	<b>1,565</b>	<b>1,854</b>	<b>2,182</b>	<b>2,538</b>
% gross margin		46.2%	50.8%	53.5%	56.1%	58.4%
Selling & administration expenses		702	747	770	777	785
<b>Operating profit</b>		<b>552</b>	<b>818</b>	<b>1,084</b>	<b>1,405</b>	<b>1,753</b>
% operating margin		20.4%	26.5%	31.3%	36.1%	40.3%
Depreciation & amortization		42	147	145	147	149
<b>EBITDA</b>		<b>594</b>	<b>965</b>	<b>1,229</b>	<b>1,552</b>	<b>1,902</b>
% EBITDA margin		21.9%	31.3%	35.5%	39.9%	43.8%
Non-operating income		72	54	68	76	83
Non-operating expenses		0	0	0	0	0
Interest expense		0	(2)	(9)	(10)	(9)
<b>Pre-tax profit</b>		<b>624</b>	<b>869</b>	<b>1,143</b>	<b>1,471</b>	<b>1,827</b>
Income tax		116	167	220	283	351
<b>After-tax profit</b>		<b>508</b>	<b>702</b>	<b>923</b>	<b>1,188</b>	<b>1,476</b>
% net margin		18.7%	22.8%	26.7%	30.6%	34.0%
Shares in affiliates' Earnings		(1)	0	0	0	0
Minority interests		(0)	(0)	(24)	(26)	(28)
Extraordinary items		0	0	0	0	0
<b>NET PROFIT</b>		<b>507</b>	<b>702</b>	<b>899</b>	<b>1,162</b>	<b>1,448</b>
<b>Normalized profit</b>		<b>507</b>	<b>702</b>	<b>899</b>	<b>1,162</b>	<b>1,448</b>
EPS (Bt)		1.7	2.3	3.0	3.9	4.8
Normalized EPS (Bt)		1.7	2.3	3.0	3.9	4.8

## BALANCE SHEET

	FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
<i>Net cash position</i>						
<b>ASSETS:</b>						
Current assets:		3,489	3,477	4,107	4,347	4,815
Cash & cash equivalent		2,758	2,706	3,240	3,380	3,740
Account receivables		672	715	806	905	1,012
Inventories		0	0	0	0	0
Others		58	56	61	62	63
Investments & loans		608	736	1,002	1,002	1,002
Net fixed assets		80	94	107	118	100
Other assets		81	647	563	477	391
<b>Total assets</b>		<b>4,257</b>	<b>4,954</b>	<b>5,779</b>	<b>5,945</b>	<b>6,308</b>
<b>LIABILITIES:</b>						
Current liabilities:		1,816	1,957	2,398	2,509	2,630
Account payables		1,303	1,258	1,335	1,415	1,500
Bank overdraft & ST loans		11	11	293	288	264
Current LT debt		0	0	0	0	0
Others current liabilities		502	688	770	806	866
<b>Total LT debt</b>		<b>91</b>	<b>597</b>	<b>530</b>	<b>470</b>	<b>409</b>
Others LT liabilities		0	(0)	0	0	0
<b>Total liabilities</b>		<b>1,907</b>	<b>2,554</b>	<b>2,928</b>	<b>2,978</b>	<b>3,040</b>
Minority interest		0	0	24	24	51
Preferred shares		0	0	0	0	0
Paid-up capital		300	300	300	300	300
Share premium		1,607	1,607	1,607	1,607	1,607
Warrants		0	0	0	0	0
Surplus		62	40	40	40	40
<b>Retained earnings</b>		<b>382</b>	<b>453</b>	<b>880</b>	<b>997</b>	<b>1,270</b>
Shareholders' equity		2,350	2,400	2,827	2,943	3,216
<b>Liabilities &amp; equity</b>		<b>4,257</b>	<b>4,954</b>	<b>5,779</b>	<b>5,945</b>	<b>6,308</b>

Sources: Company data, Thanachart estimates

**CASH FLOW STATEMENT**

<b>FY ending Dec (Bt m)</b>	<b>2019A</b>	<b>2020A</b>	<b>2021F</b>	<b>2022F</b>	<b>2023F</b>
Earnings before tax	624	869	1,143	1,471	1,827
Tax paid	(107)	(120)	(180)	(285)	(328)
Depreciation & amortization	42	147	145	147	149
Chg In working capital	58	(88)	(14)	(19)	(22)
Chg In other CA & CL / minorities	30	143	37	11	37
<b>Cash flow from operations</b>	<b>648</b>	<b>953</b>	<b>1,131</b>	<b>1,324</b>	<b>1,662</b>
Capex	(30)	(54)	(60)	(60)	(30)
Right of use	0	(690)	(10)	(10)	(10)
ST loans & investments	0	0	0	0	0
LT loans & investments	(317)	(129)	(266)	0	0
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	108	519	(70)	(64)	(64)
<b>Cash flow from investments</b>	<b>(239)</b>	<b>(353)</b>	<b>(406)</b>	<b>(134)</b>	<b>(104)</b>
Debt financing	0	0	282	(5)	(24)
Capital increase	0	0	0	0	0
Dividends paid	(285)	(630)	(772)	(1,046)	(1,174)
Warrants & other surplus	(17)	(23)	300	0	0
<b>Cash flow from financing</b>	<b>(302)</b>	<b>(652)</b>	<b>(190)</b>	<b>(1,051)</b>	<b>(1,198)</b>
<b>Free cash flow</b>	<b>619</b>	<b>899</b>	<b>1,071</b>	<b>1,264</b>	<b>1,632</b>

*Spending Bt266m to  
acquire True Life and True  
Extra brokers*

**VALUATION**

<b>FY ending Dec</b>	<b>2019A</b>	<b>2020A</b>	<b>2021F</b>	<b>2022F</b>	<b>2023F</b>
Normalized PE (x)	61.5	44.4	34.7	26.9	21.6
Normalized PE - at target price (x)	82.8	59.8	46.7	36.2	29.0
PE (x)	61.5	44.4	34.7	26.9	21.6
PE - at target price (x)	82.8	59.8	46.7	36.2	29.0
EV/EBITDA (x)	47.9	29.5	23.0	18.1	14.6
EV/EBITDA - at target price (x)	66.1	40.7	31.8	25.1	20.3
P/BV (x)	13.3	13.0	11.0	10.6	9.7
P/BV - at target price (x)	17.9	17.5	14.9	14.3	13.1
P/CFO (x)	48.1	32.7	27.6	23.6	18.8
Price/sales (x)	11.5	10.1	9.0	8.0	7.2
Dividend yield (%)	1.7	2.1	2.9	3.4	4.2
FCF Yield (%)	2.0	2.9	3.4	4.1	5.2
<b>(Bt)</b>					
Normalized EPS	1.7	2.3	3.0	3.9	4.8
EPS	1.7	2.3	3.0	3.9	4.8
DPS	1.8	2.2	3.0	3.5	4.3
BV/share	7.8	8.0	9.4	9.8	10.7
CFO/share	2.2	3.2	3.8	4.4	5.5
FCF/share	2.1	3.0	3.6	4.2	5.4

Sources: Company data, Thanachart estimates

**FINANCIAL RATIOS**

<b>FY ending Dec</b>	<b>2019A</b>	<b>2020A</b>	<b>2021F</b>	<b>2022F</b>	<b>2023F</b>
<b>Growth Rate</b>					
Sales (%)	8.4	13.7	12.3	12.3	11.8
Net profit (%)	25.5	38.4	28.1	29.2	24.6
EPS (%)	(5.9)	38.4	28.1	29.2	24.6
Normalized profit (%)	25.5	38.4	28.1	29.2	24.6
Normalized EPS (%)	(5.9)	38.4	28.1	29.2	24.6
Dividend payout ratio (%)	103.5	91.9	100.0	90.0	90.0
<b>Operating performance</b>					
Gross margin (%)	46.2	50.8	53.5	56.1	58.4
Operating margin (%)	20.4	26.5	31.3	36.1	40.3
EBITDA margin (%)	21.9	31.3	35.5	39.9	43.8
Net margin (%)	18.7	22.8	26.7	30.6	34.0
D/E (incl. minor) (x)	0.0	0.0	0.1	0.1	0.1
Net D/E (incl. minor) (x)	(1.2)	(1.1)	(1.0)	(1.0)	(1.1)
Interest coverage - EBIT (x)	na	390.91	114.45	139.38	202.30
Interest coverage - EBITDA (x)	na	461.33	129.76	153.98	219.44
ROA - using norm profit (%)	12.6	15.2	16.8	19.8	23.6
ROE - using norm profit (%)	22.6	29.6	34.4	40.3	47.0
<b>DuPont</b>					
ROE - using after tax profit (%)	22.6	29.6	35.3	41.2	47.9
- asset turnover (x)	0.7	0.7	0.6	0.7	0.7
- operating margin (%)	23.0	28.3	33.3	38.1	42.2
- leverage (x)	1.8	1.9	2.1	2.0	2.0
- interest burden (%)	100.0	99.8	99.2	99.3	99.5
- tax burden (%)	81.4	80.8	80.8	80.8	80.8
WACC (%)	9.0	9.0	9.0	9.0	9.0
ROIC (%)	(90.7)	(166.3)	(296.5)	(941.1)	(947.9)
NOPAT (Bt m)	449	660	875	1,135	1,416
invested capital (Bt m)	(397)	(295)	(121)	(149)	(260)

Sources: Company data, Thanachart estimates

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