

# Asuransi Tugu Pratama Indonesia Tbk. (TUGU)

## The Hidden Value of Indonesia's Largest Publicly Listed General Insurance Company

TUGU is one listed insurance companies in Indonesia, where TUGU operates in the general insurance sector. If you hear the word TUGU, perhaps what comes to mind is this company affiliated with Pertamina SOE. Even though the insurance sector is not the favorite sector of choice for many investors in the financial sector of the equity market in Indonesia (Because mostly prefer banking and multi-finance sector), TUGU has several values and unique qualities which are different from other companies in the financial sector, especially insurance sector.

### TUGU: An Under-looked General Insurance Company in Indonesia

- General insurance in Indonesia is still underpenetrated compared to ASEAN peers, which gives it high growth room along with population growth, economy and increasing financial literacy. On the other hand, the trend of industry consolidation due to the new OJK regulations and the mandatory TPL discourse, in addition to creating bright growth prospects, can also have an impact on the increasingly healthy general insurance industry.
- TUGU is the largest listed general insurance company in terms of market cap, assets & equity and GWP size. This subsidiary of Pertamina has a comprehensive portfolio of products and services. In addition, TUGU also has subsidiaries in the non-insurance sector, namely car and property rentals to surveys and risk management. TUGU's future strategy prioritizes a balance between growth and risk.

### Performance Propelled by Improved UW Profitability

- The strategy to expand the non-captive and mass market can drive TUGU premium growth of ~12% p.a. Prudent risk management and ongoing operational efficiency can further reduce COR to around 94%, indicating the prospect of improving UW profitability in the future. We estimate EPS growth in 2025-26F to reach ~11-12% and assuming DPR is capped at 40%, dividend yield can reach 8.3% in 2026F, which we think is attractive because it is much higher than the industry and the market.

### Buy Recommendation with TP at IDR 1,990 (Upside Potential +73.0%)

- Using various valuation approaches: 1) income approach, 2) market approach and 3) precedent transactions, TUGU's current stock price is experiencing a steep discount. We initiated a buy call on TUGU with a target price of IDR 1,990 equivalent to 0.7x 2025F PBV which implies +73% upside potential from the current price.
- The upside risks for the TUGU scenario include: 1) a decrease in interest rates that will have an impact on lower cost of capital, thus triggering valuation rerating, and 2) the success of initiatives undertaken, both business-oriented and compliance with established regulations. Downside risks include a deterioration in premium quality that will increase the loss ratio due to high exposure to industry-specific risk and slower progress to achieve ROE > 10%.

## Asuransi Tugu Pratama Indonesia Tbk | Summary (IDR bn)

In IDR Bn (Otherwise Stated)	2023A	2024E	2025F	2026F
Revenues	3,591	4,303	4,760	5,268
Revenues growth	16.1%	19.8%	10.6%	10.7%
Net profit	1,322	702	785	880
Growth	280.9%	-46.9%	11.9%	12.1%
EPS (IDR)	372	197	221	248
P/E	3.1x	10.1x	10.4x	10.6x
P/BV	0.4x	0.7x	0.8x	0.9x
ROE	14.7%	7.2%	8.0%	8.9%
ROA	5.7%	2.7%	2.9%	3.1%
Dividend yield	12.9%	4.0%	3.9%	3.8%
EBITDA margin	18.8%	23.4%	23.6%	23.8%
NPM	36.8%	16.3%	16.5%	16.7%
DPS (IDR)	148.7	78.9	88.3	99.0
EBITDA	675	1,009	1,121	1,256

Source: Company Data, Bloomberg, NHKSI Research



Initiation Report | 10 October 2024

## Buy

Target Price (IDR)	1,990
Consensus Price (IDR)	2,046
TP to Consensus Price	-2.7%
Potential Upside	+73.0%

### Shares data

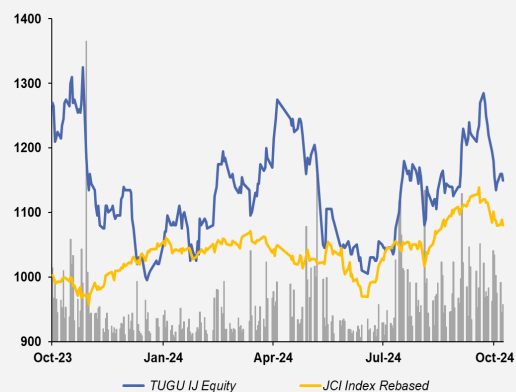
Last Price (IDR)	1,150
Price date as of	09 October, 2024
52 wk range (Hi/Lo)	1,330 / 985
Free float (%)	41.5
Outstanding sh. (mn)	3,556
Market Cap (IDR bn)	4,107
Market Cap (USD mn)	263
Avg. Trd Vol - 3M (mn)	6.82
Avg. Trd Val - 3M (IDR bn)	7.93
Foreign Ownership	27.4%

### Financial Services

#### Banking

Bloomberg	TUGU IJ
Reuters	TUGU.JK

### Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	9.0%	-5.3%	11.1%	-5.3%
Rel. Ret.	6.6%	-2.0%	8.2%	-14.2%

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Please consider the rating criteria & important disclaimer

NH Korindo Sekuritas Indonesia

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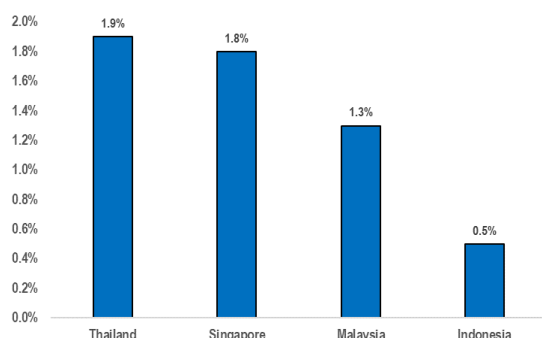
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## Industry Overview: Domestic General Insurance Industry Outlook

In Indonesia, insurance ecosystem comprises of insurance companies and supporting companies. Currently there are four types of insurance players in Indonesia, namely general insurance, life insurance, reinsurance, social insurance (BPJS-TK & BPJS-Kes) and social insurance for military, police (ASABRI) and civil servants (TASPEN). Whereas supporting companies like insurance and reinsurance brokers, loss assessor and insurance agents.

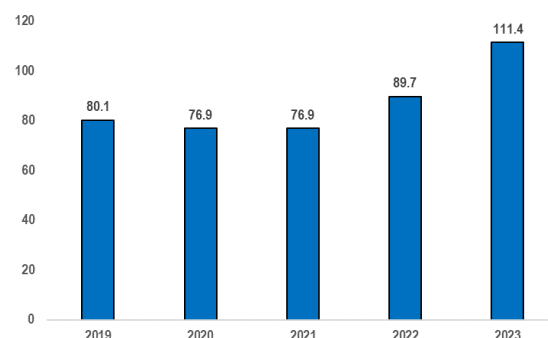
Indonesia's non-life insurance remains underpenetrated. According to industry association data, non-life insurance penetration ratio was 0.5% by 2023. This was substantially lower than Southeast Asian (SEA) peers like Singapore, Malaysia and Thailand with the ratio above 1%. As the largest economy (>USD 1 tn) and largest population (~278 mn) in SEA, Indonesia offers a lucrative opportunity for general insurance. The gross premiums generation last year recorded at IDR 111.4 tn growing at +8.6% 2019-23 CAGR outpacing life insurance at +3.6% 2019-23 CAGR. Therefore, its gross premium market share has risen from 14.3% in 2019 to 16.8% in 2023.

Figure 1. Indonesia vs SEA Peers Non-Life Insurance Penetration



Source: AAUI, OECD & NHKSI Research

Figure 2. Gross Premium of General Insurance in Indonesia 2019-23 (IDR Tn)

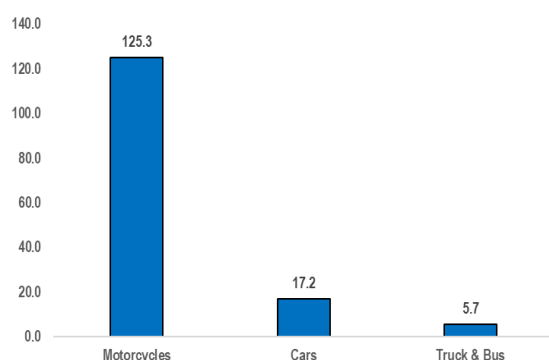


Source: AAUI & NHKSI Research

On top of growing population (+0.6-0.7% p.a) and economy (+5-6% p.a), we have identified three other drivers for domestic general insurance industry to expand and become healthier at the same time.

- Mandatory Motor Vehicle Third Party Liabilities (MV TPL).** Despite the ongoing discussion on implementation of UU P2SK (stipulated in 2023), we expect the total addressable market (TAM) for this segment to reach IDR 3.7-7.4 tn depends on pricing and scheme. This size reflects the population of total vehicles in Indonesia that reached ~148 mn.
- Minimum Equity Requirement.** OJK has stipulated a new regulation (No.23 of 2023) to strengthen general insurance capital. This regulation is basically similar with the previous implemented in banking sector. Insurance companies is mandated to increase their equity to minimum IDR 250 bn by 2026 and IDR 500 bn – Rp 1 tn by 2028 based on its KPPE. This also applies to sharia insurance (although the threshold is much lower) and reinsurance as well. We believe this to trigger industry consolidation through M&A and or closure, and hence reducing the level of competition in the current fragmented industry. Worth noting that by 2023 there were 72 general insurers, and ~33.3% have equity below IDR 250bn. Some players that already exceed the minimum requirement and or backed by solid and well-respected shareholders can easily pass this regulation and be benefitted.
- Sharia Business Unit Spin Off.** The separation of sharia business unit is also part of UU P2SK implementation and is expected to be completed by the end of 2024. Spinning of sharia business unit can be achieved either by M&A, divestiture and or establishment of a new company. It also aims to strengthen industry resilience. We see the impact as positive for the industry wide as sharia insurance companies can focus more on governance that adheres to Islamic principles and thus will attract more targeted customers. Furthermore, given Indonesia has the largest moslem population in the world, there is a possibility of increment in sharia insurance penetration.

Figure 3. The Estimated Number of Domestic Vehicles (Million units)



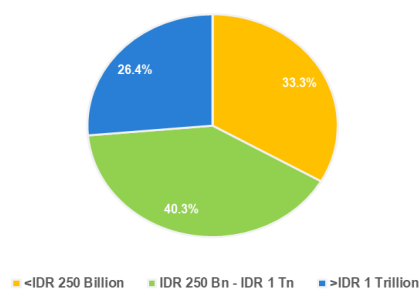
Source: BPS & NHKSI Research

Figure 4. OJK Requirement to Increase Minimum Equity for Insurance Industry (IDR Bn)

Types	2026	2028
Insurance	500	500-1000
Sharia Insurance	100	200-500
Reinsurance	500	1000-2000
Sharia Reinsurance	200	400-1000

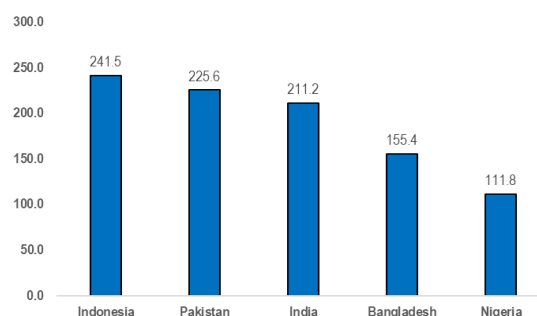
Source: OJK & NHKSI Research

Figure 5. Number of General Insurers based on Equity Size by 2023



Source: OJK &amp; NHKSI Research

Figure 6. Top 5 Countries with the Largest Moslem Population (Millions)



Source: Statista &amp; NHKSI Research

## Tugu Insurance (TUGU) in A Glance: History, Structure & Business Model

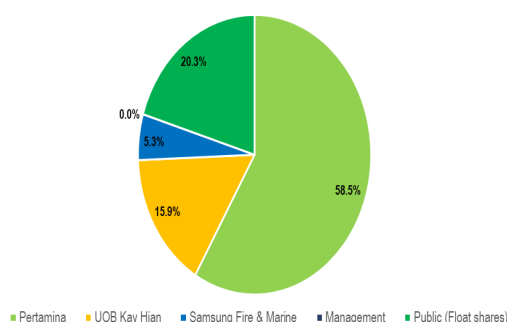
Tugu Insurance (TUGU) was established on November 25, 1981. At that time, TUGU's main business focus was to provide insurance products for the oil and gas sector, especially serving state-owned company Pertamina. Four years post its establishment, TUGU expanded into various insurance product segments. Then on May 28, 2018, TUGU officially became a public company after an IPO, issuing ~10% new shares successfully secured funding of IDR 684 bn. Following the success of IPO, TUGU has never been absent disbursing dividend to shareholders with the average payout of 40% over the past three years. On May 2023, company officially conducted stock split with the ratio 1:2.

On the shareholders side, Pertamina, a O&G SOE company holds 58.5% stake in TUGU and become the controlling shareholder. On the second place, UOB Kay Hian Pte Ltd owns 15.9% shares. This shareholder is affiliated with a leading private equity firm in SEA, Northstar Group. Samsung Fire and Marine Insurance Co.Ltd stand as minority shareholder has 5.3% stake. The rest is public (~20%) or free-float, whereas management share ownership is <1%.

TUGU operate as a holding company for insurance business, that said it is the core operation. However, it also owns reinsurance business (TuguRe). Besides that, TUGU also has expanded to non-insurance business. Pratama Mitra Sejati (PMS) as a subsidiary of TUGU provides a car and property rental service. Meanwhile, Synergy Management Consultant (SMC), another subsidiary engages in risk survey, management and valuation. On the other side, TUGU invests in JV with its shareholders and holding 30% stake in Asuransi Samsung Tugu.

Currently, the Sharia unit spin-off process is still progressing fit in timeline. TUGU is carrying out the stages including company establishment, license management, then followed by portfolio transfer and etc. The target of these processes hopefully can be completed by the end of 2024 or at the latest in early 2025.

Figure 7. Shareholders Structure of TUGU



Source: Company &amp; NHKSI Research

Figure 8. TUGU's Business Model

Type	Business Focus	Name	Ownership	Notes
Subsidiaries	Insurance & Reinsurance	Tugu Pratama Interindo (TPI)	99.99%	Direct ownership
		Tugu Insurance Company Ltd	100.00%	Direct & indirect (through TPI)
		Tugu Reinsurance Broker (TRB)	100.00%	Indirect through TPI
		Tugu Reasuransi Indonesia (TuguRe)	50.74%	Indirect through TPI
Joint Venture		Asuransi Samsung Tugu	30.00%	Partnership
Direct Participation		Reasuransi Maipark Indonesia	14.83%	
Non-Insurance	Car & Prop Rent	Pratama Mitra Sejati (PMS)	99.99%	Indirect through TPI
Subsidiaries	Risk Management	Synergy Management Consultant (SMC)	99.90%	Indirect through TPI

Source: Company &amp; NHKSI Research

## Tugu Insurance (TUGU) in A Glance: History, Structure & Business Model

Currently, TUGU has comprehensive insurance products for both corporate and retail segments. In the corporate segment, TUGU provides protection both conventionally and in sharia compliance basis for the energy, fire and property, marine, aviation and satellite, engineering, credit and surety, health, liability and miscellaneous. While for the retail segment, TUGU offers protection for motor vehicle insurance, property insurance, health insurance, personal accident insurance.

**These are the details of TUGU's products:**

### Corporate Clients

- 1) Energy: provide insurance coverage such as onshore property, offshore property, well control, marine hull and machinery.
- 2) Fire & Property: consist of various products that cover the risks for the assets, buildings, and what is inside the building.
- 3) Marine: protection for various risks that may arise during the shipbuilding and goods transport activities at sea.
- 4) Aviation & Satellite: Cover the risks that may arise in aviation activities and satellite launches
- 5) Engineering: coverage for all losses that result in delays during the construction project, such as machine installation projects or damage to electronic equipment due to accidents.
- 6) Credit & Surety: protect the Insured if bad things happen so that they are unable to pay the loan they have.
- 7) Health: commercial health insurance program addressed to groups/companies for their employees.
- 8) Liability: coverage for losses arising from claims by third parties who suffer losses (bodily injury and/or property damage) resulting from the activities of the insured.
- 9) Miscellaneous: protection for subjects that are beyond the coverage of other insurances, such as an indictment from a third party, risks of financial loss, and risks of accidents.

### Retail Clients

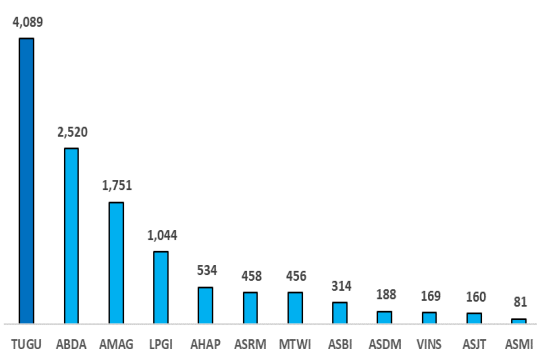
- 1) t-drive: protection for four-wheeled motorized vehicles that provides compensation for various risks of loss and damage due to accidents.
- 2) t-ride: product that provides compensation for the risk of loss or damage due to accidents in two- wheeled motorized vehicles.
- 3) t-fracture: covers the costs of medical and traditional treatment for cracked and broken bones due to accidents.
- 4) t-down payment: compensation to the Insured for the down payment for the purchase of a motor vehicle due to the total loss of the insured motor vehicle
- 5) t-home: provides protection for the home from all risks, such as accidents, natural disasters, legal liability and fire.
- 6) t-store: provides protection for owners and tenants of business premises from all risks, such as accidents, natural disasters, legal liability and fire.
- 7) t-foid: provides daily cash compensation to participants as stated in the Policy Summary, if during the insurance period, the participant is infected with typhus which requires hospitalization.
- 8) t-dengue: provides daily cash compensation to participants as stated in the Policy Summary, if during the insurance period, the participant is infected with dengue hemorrhagic fever which requires hospitalization in hospital.
- 9) t-protect: provides protection from minor or serious accidents that result in death.
- 10) t-travella: provides protection for passengers when travel both domestically and abroad
- 11) t-mudik: covers death, permanent disability, both partial and total, and medical costs for homecoming travelers.
- 12) t-personal cyber: comprehensive online protection that protects the customers from e-payment fraud, identity theft, and missing items, damage, or undelivered online purchases.
- 13) t-gas: compensation to the Insured or their heirs in the event of damage to the Insured's residential building, death compensation, and compensation for temporary housing costs due to fire, lightning, explosion, plane crash, smoke from building fires (except smoke resulting from forest fires or peat fire).
- 14) t-lube: compensation benefits if the Insured has an accident while driving as well as compensation if the insured's vehicle experiences a constructive total loss due to an accident.

## Company's Position in the Industry

Considering that there are currently 72 general insurance companies, and the majority are private companies, in this report we only focus on comparing public companies that have similarities in terms of business models with TUGU. We then evaluate TUGU's position in the market by looking at 4 main aspects, namely: 1) size, 2) profitability, 3) solvency level and 4) competitiveness. Our assessment uses monthly financial report of parent only entity and as of 31 August 2024. Results are summarized below:

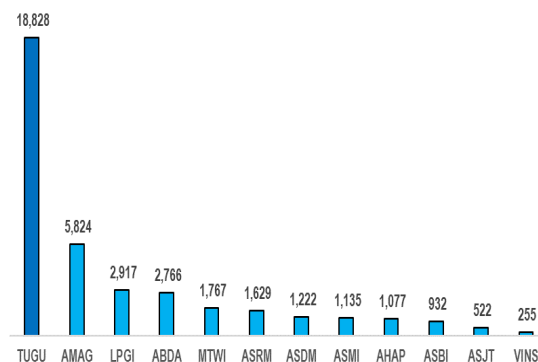
- 1) **Size.** We evaluate size based on market cap, assets, capital and gross premium. In all four aspects, TUGU ranked in the first position. With the equity value of IDR 6.7 tn, it is indeed sizeable enough that TUGU no longer need to inject more capital in pursuant to the minimum equity requirement by 2026.
- 2) **Profitability.** We employ two ratios that reflect general insurance profitability, they are underwriting (UW) margin and expense ratio. The later ratio follows the standard report of insurance which denotes claims, opex and commission cost relative to net premium. Our findings, for UW margin, TUGU ranked 2nd (62%) and substantially higher than peers average at 36%. Meanwhile, from the expense side, TUGU is considerably the most efficient publicly listed insurance company. This also means that TUGU has operated at an underwriting profit.
- 3) **Solvency.** We use RBC as the main indicator in assessing general insurance companies' solvency. TUGU's RBC as of end of August 2024 at 455%, remained higher than peers average of 375%. Furthermore, from 12 publicly traded general insurance companies, we found that there are two companies with RBC closed to the minimum OJK requirement of 120%.
- 4) **Competitiveness.** In Indonesia, the largest contributor of GWP production came from fire & property, credit insurance and motor vehicles. Those three segments contributed ~66% of total GWP in 2023. Meanwhile TUGU's competitiveness lies in aviation, marine hull, energy and engineering. In these segments, TUGU ranked 1st and 2nd largest GWP producer. Each of those segments, we estimated that TUGU's market share at 48%/26%/39%/18% respectively. On the other hand, TUGU's position in MV, credit insurance as well as PA & Health was weak. This could be justified as MV insurance is still dominated by private co that also control MV dealership, whereas in the credit insurance market archetype was duopolistic with the existence of Askrindo & Askrida, both are SOE related. In the PA & Health, market characteristics is fragmented. However, we think with TUGU's specialization & track record in energy, aviation as well as engineering project could sustain its position as one of the champions. We estimated last year's TUGU's GWP market share at ~7-8% and ranked 5th among other players. Yet if we strip off credit insurance, TUGU was among top 3 GWP producer in the country.

Figure 9. TUGU vs Peers Market Cap (IDR Bn)



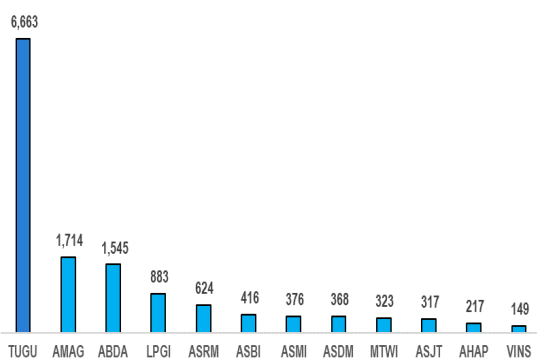
Source: Bloomberg & NHKSI Research

Figure 10. TUGU vs Peers Asset Size (IDR Bn)



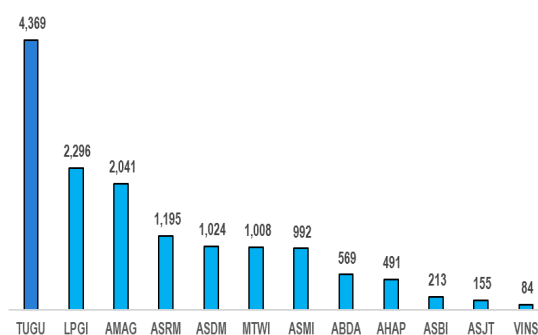
Source: Companies & NHKSI Research

Figure 11. TUGU vs Peers Equity Size (IDR Bn)



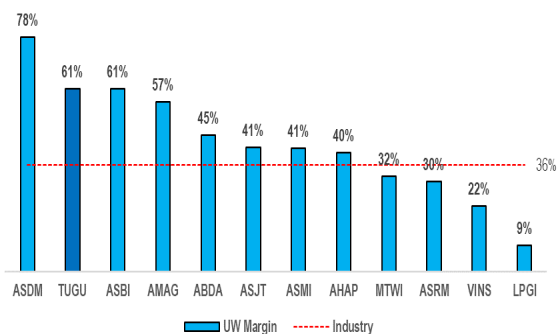
Source: Companies & NHKSI Research

Figure 12. TUGU vs Peers Gross Premium (IDR Bn)



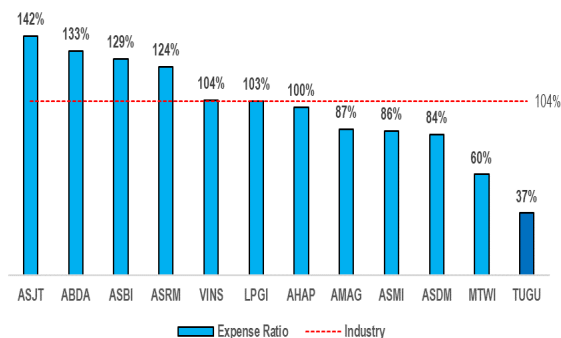
Source: Companies & NHKSI Research

Figure 13. TUGU vs Peers UW Margin



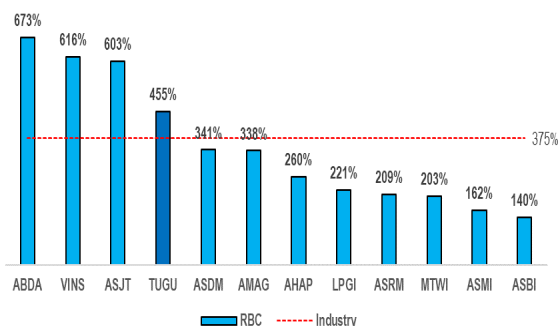
Source: Companies &amp; NHKSI Research

Figure 14. TUGU vs Peers Expense Ratio



Source: Companies &amp; NHKSI Research

Figure 15. TUGU vs Peers RBC



Source: Companies &amp; NHKSI Research

Figure 16. TUGU's GWP Rank by Segments

Segments	Estimated Market Share	Rank	No. Players
Aviation	48%	1	18
Marine Hull	26%	1	55
Energy	39%	2	12
Engineering	18%	2	66
Marine Cargo	9%	4	68
Liability	N.A	8	59
Surety	N.A	13	34
MV	N.A	18	68
Credit Insurance	N.A	22	23
PA & Health	N.A	45	65

Source: Companies &amp; NHKSI Research

## Assessment of Strategy & Impacts

For 2024 and 2025, TUGU's main business strategy focuses on three things, namely: 1) strengthening the ecosystem and cooperation with SOE from the corporate client side, 2) digital transformation to penetrate the mass market (retail) and 3) optimizing investment yields.

### 1. Strengthening ecosystem. As a subsidiary of Pertamina, TUGU has strong access to insure various strategic projects in O&G.

Furthermore, TUGU also has strong ties to other SOEs. However, the contribution of SOEs premiums to the total only reached ~19% by 2023, this indicates that TUGU's performance is not highly dependent on SOE. Yet, strengthening cooperation with SOE also opens a wide space for growth considering that its assets of IDR 10,470 tn in 2023. On the other hand, TUGU's strong financial position which has earned it a Long-Term Issuer Credit Rating of "a-" (Excellent) from AM Best for 8 consecutive years has also made it recognized nationally and globally so that it can attract corporate clients outside the SOE ecosystem.

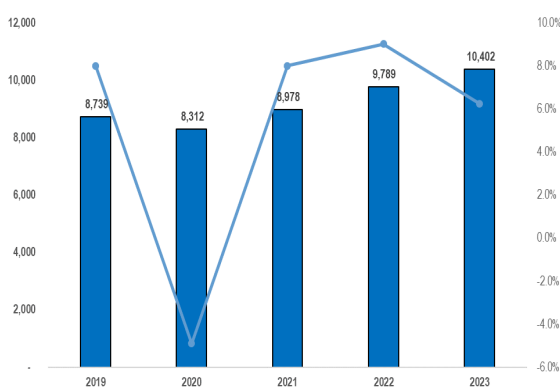
### 2. Tapping mass market. TUGU plans to aggressively target the retail segment and aspires its contribution to reach >10% from the historical rate of 6-8%.

To achieve this target, TUGU has invested in technology by developing a digital platform. We estimate that in 2025, retail customers can directly access the insurance products they need through the application or website that is being developed. We consider this strategy has two main implications, namely a more balanced business portfolio, and it can also reduce insurance agent commission costs. This transformation indicates that TUGU uphold its commitment to grow and also making their operation to be more efficient.

### 3. Optimizing investment yield. TUGU's investment performance tends to fluctuate from year to year.

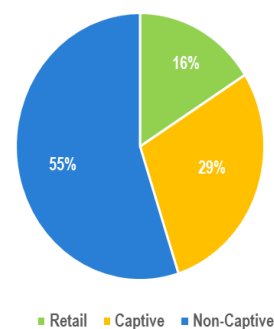
This is due to various factors such as the movement of the benchmark interest rate and the company's asset allocation. To achieve optimal investment returns, TUGU plans to divest properties owned in Hong Kong and London which according to management are worth IDR 1.3-1.4 trillion. Should this materialize, TUGU will have fresh funds that can be reinvested in more liquid assets with a more measurable risk profile. This fixed asset divestment is said to be ongoing. However, if it is successful in time, TUGU can optimize its investment yield at least in line with industry performance or even more. This certainly reminds us of when TUGU successfully won a lawsuit against Citibank and received fresh funds of IDR 1 trillion and reinvested in deposits and government bonds, which proved successful in increasing investment yields to 5.5%. We are confident that with good risk management, TUGU can boost its investment performance even though the potential for further interest rate cuts could affect yields.

Figure 17. Indonesia's SOE Assets (IDR Tn)



Source: Ministry of SOE & NHKSI Research

Figure 18. TUGU Retail Portfolio Target



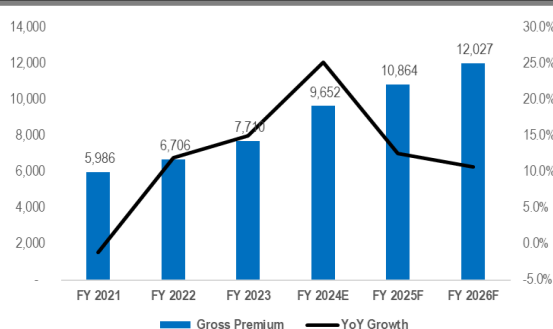
Source: Company & NHKSI Research

## TUGU Performance Updates & Financial Outlook

### Strong Insurance Business with Operational Efficiency

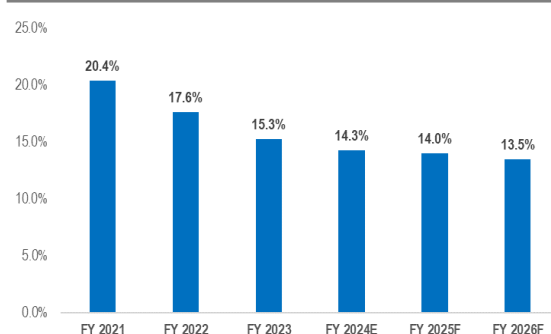
We see that by increasing the non-captive portion and targeting the mass market amidst the potential for industry consolidation, TUGU's premium can grow by 10-12% until 2026F. On the other hand, penetration into the retail segment through digital transformation will also save commission cost leading to drop in commission to premium ratio to 13-14% from the previous >15%. TUGU's ability to manage risk through a careful underwriting process & proven track record in managing projects in the energy, aviation and engineering segments can also maintain the company's loss ratio range in the range of 50-60%. Historically, TUGU's operational efficiency plan at both the parent and subsidiary levels has also run smoothly as reflected in the consistent decline in the expense ratio. We project that until 2026F the expense ratio can be maintained at <40%. As a result, TUGU's COR will continue to decline and be below 100% which shows that TUGU can operate at underwriting profit. The main challenge remains on its reinsurance business, if this segment is excluded, TUGU's actual COR stood at <90%.

Figure 19. Forecast of TUGU Premium (IDR Bn)



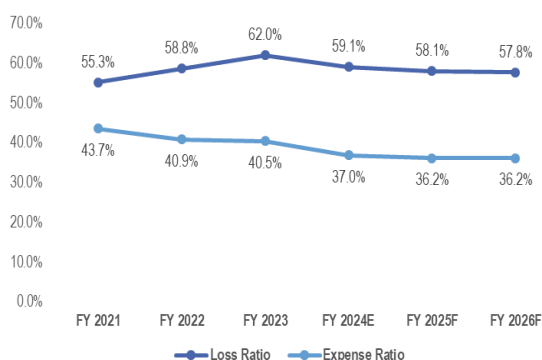
Source: Company & NHKSI Research

Figure 20. Forecast of TUGU's Commission Ratio



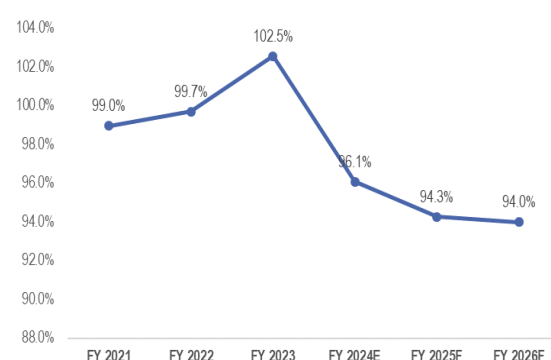
Source: Company & NHKSI Research

Figure 21. Forecast of TUGU's Loss & Exp. Ratio



Source: Company & NHKSI Research

Figure 22. Forecast of TUGU's COR



Source: Company & NHKSI Research

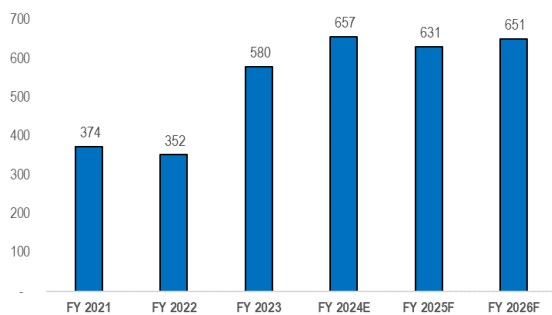
### Investment Yield Improvement Driven by Strong Cash Flow Generation

We see that the return trend from TUGU's investment has increased rapidly in 2023 and was similar with the industry's performance. It was primarily driven by the cash flow obtained from winning the legal case against Citibank (Hong Kong) was reinvested in liquid assets such as deposits and government bonds. The sizeable proceeds value helped increase yields.

On the other hand, TUGU's strong cash flow will also help maintain the company's investment yield in the future at least above 5%. Indeed, the prospect of a more accommodative policy stance in the next few years could have an impact on the yield of deposits and other fixed income instruments where most insurance industry investments are allocated.

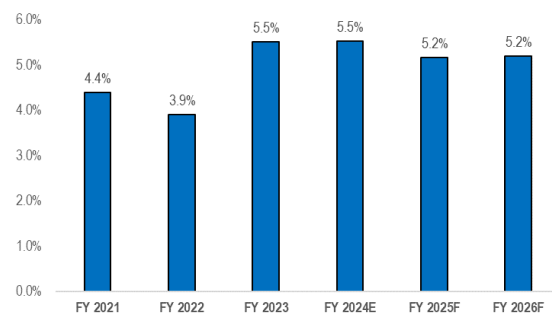
Currently, TUGU is running a broker selection to support the optimization of the sale of both property assets under TIC Hong Kong so that they can be converted into more profitable investment instruments or perhaps some special dividends like 2023 case. If TUGU succeeds in divesting property assets with low yields which targeted to be done at assets the end of this year or early next year, this will be another catalyst for TUGU to be able to achieve a higher yield than the industry considering that the portion of assets in the process of being divested is worth >10% of the company's total assets.

Figure 23. Forecast of TUGU's Inv. Income (IDR Bn)



Source: Company &amp; NHKSI Research

Figure 24. Forecast of TUGU's Investment Yield

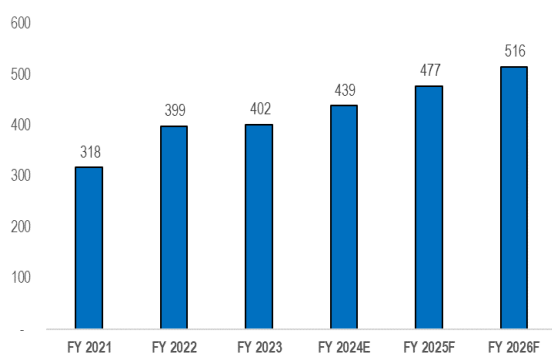


Source: Company &amp; NHKSI Research

### Growth from Non-Insurance Business

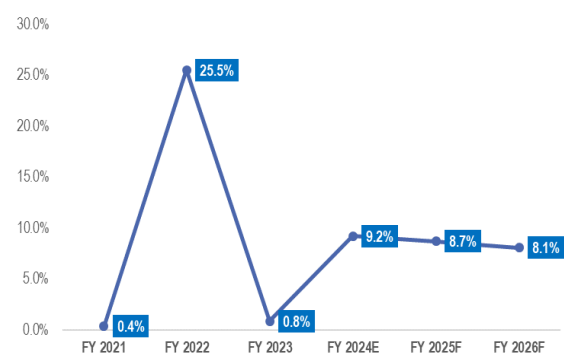
Improvements in the non-insurance segment also continue to occur, mainly contributed by the car and property rental segment (PMS), while vehicle sales have also increased significantly which we believe will be a driver of a revenue growth from this segment. On the other hand, PMS also shows an increasing trend in profitability. However, the risk management consultant revenue tends to fluctuate from year to year. We estimate that growth from the non-insurance segment can still reach +8-9% until 2026.

Figure 25. Forecast of TUGU's Other Operating Income (IDR Bn)



Source: Company &amp; NHKSI Research

Figure 26. Forecast of TUGU's Other Operating Income Annual Growth

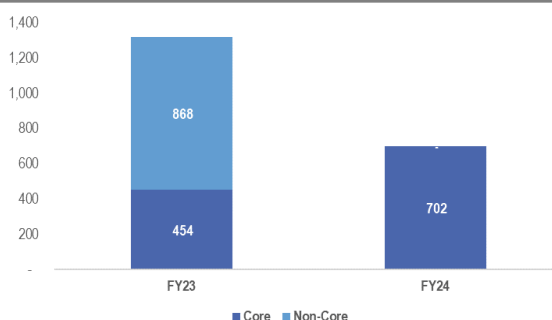


Source: Company &amp; NHKSI Research

### Solid Earnings Growth & Attractive Dividend Yield

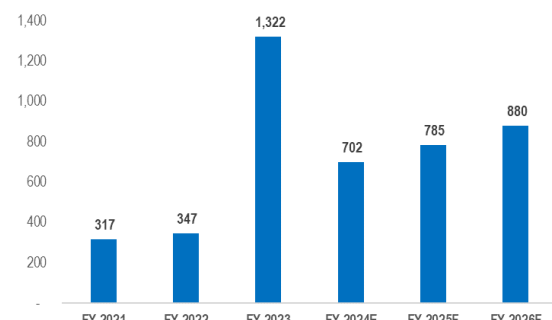
We estimate TUGU's consolidated profit to reach IDR 702 billion in 2024E. Indeed, there is a sharp decline compared to last year's net profit of IDR 1.3 trillion, this is due to TUGU no longer records one-time income like in 2023 (due to winning the case with Citibank). However, if we stripped off one-off gain, TUGU's net profit from core operations grew +48.9% yoy. This shows that this year's growth comes from TUGU's increasingly strong business fundamentals. With the strategy implemented and operational efficiency, we see TUGU's bottom line will likely expand by ~11-12% until 2026F.

Figure 27. Comparison of Core &amp; Non-Core Net Profit of TUGU (IDR Bn)



Source: Company &amp; NHKSI Research

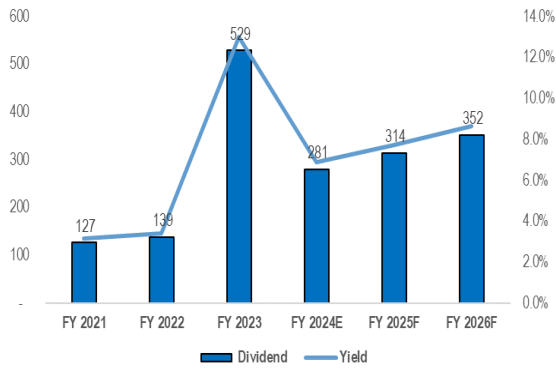
Figure 28. Forecast of TUGU's Net Profit (IDR Bn)



Source: Company &amp; NHKSI Research

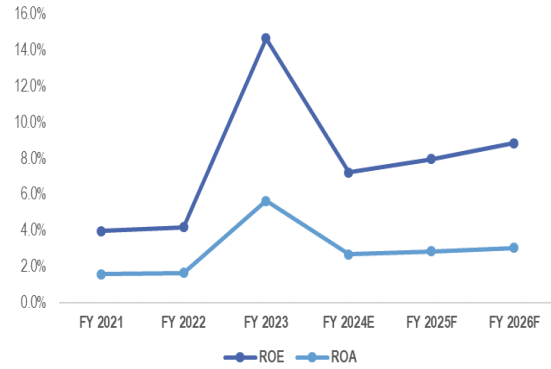
With the double-digit EPS growth outlook, TUGU is still able to maintain DPR in the range of 40% as in the last three years. Thus, if referring to the current stock price, dividend yield will be more attractive and reach ~8.3% in 2026F or almost 2x the yield of large bank deposits. However, if TUGU increases DPR, the yield will be more attractive and ROE and ROA > 10% will be achieved faster.

Figure 29. Forecast of TUGU's DPS (IDR) & Dividend Yield



Source: Company & NHKSI Research

Figure 30. Forecast of TUGU's ROA & ROE



Source: Company & NHKSI Research

## Valuation of TUGU

Stocks in the general insurance sector tend to have a small market capitalization value and are relatively illiquid compared to peers in the banking sector. This also makes the valuation multiple of book value of this sector is lower relative to the financial sector index. As we have previously mentioned before, TUGU has the largest market cap value compared to listed peers and better transaction liquidity.

To obtain a fair value of TUGU, we use 4 methods and give equal weight to each method. **The four methods are: 1) income approach, 2) market approach, 3) precedent transactions and 4) historical trading of TUGU shares.**

- 1) **Income Approach.** We employ Dividend Discount Model (DDM) to arrive at TUGU's stock fair value. We use the DDM approach because TUGU is consistent in distributing dividends. Some of the assumptions we use are risk free (10-yr Indo GB yield) at 6.5%; equity risk premium refers to the latest Damodaran data at 6.4%; beta at 1.25 and TG at 2.5% resulting in a CoE of 14.6%. Referring to the various variables above, we obtain a fair value of TUGU shares at IDR 1,730 /sh or equivalent to 0.6x TUGU PBV for 2025F.

Figure 31. Dividend Discount Model for TUGU

Cost of Capital Component	Value
Risk free	6.5%
Equity risk premium	6.4%
Stock beta	1.25
Terminal growth	2.5%
Cost of equity (Ke)	14.6%
Cap rate	12.1%

Income approach : Dividend Discount Model (DDM)	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Year	-	1	2	3	4	5
Dividend payout ratio	40%	40%	40%	40%	40%	40%
Attributable net profit (IDR bn)	702	785	880	985	1,099	1,231
Dividend paid (IDR bn)	281	314	352	394	440	492
Discount factor (x)	1.0	0.9	0.8	0.7	0.6	0.5
PV of dividend (IDR bn)	281	274	268	262	255	250
Terminal value	4,576					
Sum of PV dividend (IDR bn)	6,166					
Share outstanding (bn)	4					
Fair value (IDR/share)	1,734					
<b>Target price (IDR/share)</b>	<b>1,730</b>					
2025F BVPS	2,779					
PBV	0.62 x					

Source: Companies & NHKSI Research

- 2) **Market Approach.** This approach looks at the book value multiple (PBV) of TUGU's listed peers. We see that the average value of industry's is at 0.7x and the median value of the industry's PBV is at 0.9x. Referring to this metric, TUGU's stock price is relatively undervalued and if using a 0.7x multiplier for 2025F PBV, the fair value of TUGU shares is IDR 2,000/sh.

Figure 32. Industry (Indonesian Listed Insurance) PBV Multiple

General Insurance	Price (IDR/share)	Mkt Cap (IDR Bn)	Share Out (Bn)	PBV	Equity (IDR Bn)
TUGU	1,150	4,089	3.6	0.4	9,426
ABDA	4,060	2,520	0.6	1.6	1,552
AMAG	350	1,751	5.0	1.0	1,719
LPGI	348	1,044	3.0	1.2	847
MTWI	166	485	2.9	1.5	316
ASRM	372	557	1.5	0.7	837
AHAP	109	534	4.9	2.5	216
ASBI	900	314	0.3	0.8	387
VINS	116	169	1.5	1.1	153
ASDM	498	191	0.4	0.5	369
ASJT	114	160	1.4	0.5	322
ASMI	9	81	9.0	0.2	384
<b>Average</b>				<b>0.7</b>	
<b>Median</b>				<b>0.9</b>	

Source: Bloomberg, Companies & NHKSI Research

- 3) **Precedent Transactions.** We monitor various corporate actions such as M&A and capital raising in the Indonesian general insurance industry in the last 5 years and from 4 transactions, the average implied PBV ratio for the industry is at 1.4x and the median implied PBV for the industry is 1.1x. If using median number as a multiplier, the fair value of TUGU's stock price is obtained at IDR 3,130/sh.

Figure 31. Precedents Transaction of Indonesia's General Insurance

Acquirer	Acquired	Type	Stake	Period	Size (IDR Bn)	Book Value (IDR Bn)	P/B
Zurich Insurance Group	Asuransi Adira Dinamika	M&A	70%	2019	5,346	4,129	1.3
Batavia Prosperindo International	Malacca Trust Wuwungan (MTWI)	Right Issue	87%	2022	128	137	0.9
Hanwa Life Insurance	Lippo General Insurance (LPGI)	M&A	63%	2023	1,863	844	2.2
Capitol Investasi Bersama	Asuransi Staco Mandiri	M&A	85%	2024	120	120	1.0
<b>Industry</b>					<b>7,457</b>	<b>5,230</b>	<b>1.4</b>

Source: Bloomberg & NHKSI Research

- 4) **Historical Trading.** In the last 5 years, TUGU shares have moved with a PBV ratio in the range of 0.3-0.8x PBV and an average of 0.4x. If using the average as a multiplier, then the fair price of TUGU shares is IDR 1,140 /sh.

Figure 32. Historical TUGU PBV in Last 5 Years (ln x)



Source: Company & NHKSI Research

## Summary Valuation

We see that each valuation has its own pros & cons. However, with equal weighting, we think we will get a more complete picture. With equal weighting, it is obtained that the target price for TUGU for the next 12 months is IDR 1,990 / share which implies an 73% upside potential from the current price and is equivalent to 0.7x PBV 2025F and we initiate a buy recommendation for TUGU shares.

Figure 33. Dividend Discount Model for TUGU

Valuation Methods	FY25F BVPS	Implied PBV	Target Value	Weight	Implied Value
Income Approach : DDM	2,779	0.6	1,730	25%	IDR 430
Market Approach : Average Comps Multiple	2,779	0.7	2,000	25%	IDR 500
Precedent Transaction : Median Transaction Multiple	2,779	1.1	3,130	25%	IDR 780
Historical Trading : Median 5-Y P/B Band	2,779	0.4	1,140	25%	IDR 280
<b>Target Price</b>	<b>2,779</b>	<b>0.7</b>	<b>1,990</b>	<b>100%</b>	<b>IDR 1,990</b>

Source: Bloomberg & NHKSI Research

## Summary of Financials

### INCOME STATEMENT

(IDR bn)	2023/12A	2024/12E	2025/12F	2026/12F
<b>Revenues</b>	<b>3,591</b>	<b>4,303</b>	<b>4,760</b>	<b>5,268</b>
Growth (% y/y)	16.1%	19.8%	10.6%	10.7%
Net Claim Expenses	(1,911)	(2,211)	(2,466)	(2,739)
Operating Expenses	(1,005)	(1,083)	(1,173)	(1,273)
<b>EBITDA</b>	<b>675</b>	<b>1,009</b>	<b>1,121</b>	<b>1,256</b>
EBITDA Margin	18.8%	23.4%	23.6%	23.8%
Depreciation and Amortization	(105)	(111)	(113)	(122)
<b>EBIT</b>	<b>570</b>	<b>898</b>	<b>1,008</b>	<b>1,134</b>
EBIT Margin	15.9%	20.9%	21.2%	21.5%
Other Income (Expenses)	1,055	41	43	45
Share in Associate Net Inc.	8	9	9	11
<b>EBT</b>	<b>1,632</b>	<b>948</b>	<b>1,061</b>	<b>1,189</b>
EBT margin	45.4%	22.0%	22.3%	22.6%
Income Tax Expenses	(330)	(209)	(233)	(262)
Non Controlling interest	20	(38)	(42)	(48)
<b>Net Profit</b>	<b>1,322</b>	<b>702</b>	<b>785</b>	<b>880</b>
Growth (% y/y)	280.9%	-46.9%	11.9%	12.1%
Net Profit Margin	36.8%	16.3%	16.5%	16.7%

### BALANCE SHEET

(IDR bn)	2023/12A	2024/12E	2025/12F	2026/12F
Cash	538	455	484	586
Receivables	3,204	3,014	3,439	3,865
Investment Assets	11,672	12,037	12,321	12,676
Reinsurance Assets	7,262	8,431	8,840	9,401
Fixed Assets	1,614	1,698	1,762	1,851
Other Assets	847	1,243	1,242	1,241
<b>Total Assets</b>	<b>25,138</b>	<b>26,877</b>	<b>28,087</b>	<b>29,621</b>
Payables	2,593	2,477	2,856	3,240
Borrowing & Consumer Finance	342	426	426	460
Insurance Liabilities	11,148	12,534	13,262	14,263
Other Liabilities	776	944	944	944
<b>Total Liabilities</b>	<b>14,858</b>	<b>16,380</b>	<b>17,487</b>	<b>18,906</b>
Capital Stock + APIC	803	803	803	803
Retained Earnings	9,476	9,694	9,797	9,912
<b>Shareholders' Equity</b>	<b>10,280</b>	<b>10,497</b>	<b>10,600</b>	<b>10,715</b>

### CASH FLOW STATEMENT

(IDR bn)	2023/12A	2024/12E	2025/12F	2026/12F
Operating Cash Flow	2,619	887	851	961
Investing Cash Flow	(2,585)	(616)	(542)	(579)
Financing Cash Flow	(101)	(354)	(281)	(280)
<b>Net Changes in Cash</b>	<b>(68)</b>	<b>(83)</b>	<b>29</b>	<b>102</b>

Source: Company Data, Bloomberg, NHKSI Research

### PROFITABILITY & STABILITY

	2023/12A	2024/12E	2025/12F	2026/12F
ROE	14.7%	7.2%	8.0%	8.9%
ROA	5.7%	2.7%	2.9%	3.1%
Dividend Yield	12.9%	4.0%	3.9%	3.8%
Payout Ratio	40.0%	40.0%	40.0%	40.0%
Equity Ratio	40.9%	39.1%	37.7%	36.2%
Financial Leverage	240.2%	250.3%	260.5%	270.7%
Current Ratio	5.7%	7.6%	7.1%	12.7%
Par Value (IDR)	50	50	50	50
Total Shares (mn)	3,556	3,556	3,556	3,556
Share Price (IDR)	1,150	1,990	2,290	2,630
Market Cap (IDR tn)	4.1	7.1	8.1	9.4

### VALUATION INDEX

	2023/12A	2024/12E	2025/12F	2026/12F
Price /Earnings	3.1x	10.1x	10.4x	10.6x
Price /Book Value	0.4x	0.7x	0.8x	0.9x
Revenues CAGR (3-Yr)	7.6%	20.5%	19.1%	19.4%
Net Income CAGR (3-Yr)	42.4%	38.4%	35.3%	36.4%
Basic EPS (IDR)	372	197	221	248
BVPS (IDR)	2,891	2,952	2,981	3,014
DPS (IDR)	149	79	88	99

### OWNERSHIP

By Geography	%
Indonesia	72.6
Singapore	15.9
South Korea	5.3
Others	6.2

Shareholders	%
PT Pertamina	58.5
UOB Kay Hian Pte. Ltd.	15.9
Samsung Fire And Marine Insurance Co. Ltd.	5.3
Others	20.3

## Management Profile: Board of Commisioners



### Abdul Ghofar

#### **President Commissioner**

Indonesian citizen, graduated from Brawijaya University with a Bachelor of Economics degree in Accounting in 1999 and a Master of Accounting from Gadjah Mada University in 2001 and Melbourne University, Australia in 2006. Abdul Ghofar earned a Doctorate Degree in Business Administration from Victoria University, Australia in 2014.

Currently serves as President Commissioner and Independent Commissioner of TUGU since April 2024.

#### **Concurrent Position**

Dean Brawijaya University's Faculty of Economics and Business from 2021 until now.

#### **Working Experience:**

- Plh of the Accounting Department, Faculty of Economics and Business, Brawijaya University, in August – December 2017
- Deputy Dean for Academic Affairs, Faculty of Economics and Business, Brawijaya University from 2017 to 2021

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*Source: TUGU, NHKSI Research*



### Bagus Agung Rahadiansyah

#### **Commissioner**

Indonesian citizen, graduated from the ATAA in Cooperation with Securities Institute of Australia) with a Diploma in Technical Analysis and earned a Bachelor's degree in Management from the University of Indonesia in 2001.

Currently serves as Commissioner of TUGU since May 2022.

#### **Concurrent Position**

Senior Vice President Corporate Finance at PT Pertamina (Persero) since 2020.

#### **Working Experience**

- Institutional Sales at HSBC Ltd Jakarta (2006 – 2008)
- Head of Investor Sales at PT Bank ANZ Indonesia (2008 – 2015)
- Head of Investor Sales, Citibank NA Jakarta (2015 – 2019)
- Head of Investor Sales at PT Bank ANZ Indonesia (2019 – 2020).

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*Source: TUGU, NHKSI Research*



### Samuel Lie

#### **Commissioner**

Indonesian citizen, earned a Bachelor of Arts in Economics (Cum Laude) from the University of California, Berkeley, USA in 2013 and a Master of Arts in Economics from the University of Southern California, USA in 2014. In addition, Samuel Lie earned a Master of Science in Actuarial Science from Columbia University in 2015.

He was appointed as Commissioner at PT Asuransi Tugu Pratama Indonesia Tbk (Tugu Insurance) in April 2023.

#### **Concurrent Position**

Vice President at PT Nusantara Sugihartana Internasional since 2022.

#### **Working Experience**

- Analyst at PT Nusantara Sugihartana Internasional (2016 – 2018)
- Associate at PT Nusantara Sugihartana Internasional (2019 – 2021)

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*Source: TUGU, NHKSI Research*

## Management Profile: Board of Commisioners



### Poerwo Tjahjono

#### **Independent Commissioner**

Indonesian citizen, graduated from Padjadjaran University with a Bachelor's degree in Economics and Accounting in 1984 and earned a Master's degree in Management from Gadjah Mada University in 1999.

Poerwo Tjahjono has been trusted to serve as an Independent Commissioner at PT Asuransi Tugu Pratama Indonesia Tbk (Tugu Insurance) since 2020.

#### **Working Experience:**

- PT Pertamina (Persero) in 1986 – 2017
- Commissioner at PT Pertamina Tongkang (2007 – 2010)
- President Commissioner at PT Patrajasa (2011 – 2012)
- Commissioner at Petral (2011 – 2013)
- Member of the Audit Committee of the Board of Commissioners at PT Pertamina Hulu Energi (2012 – 2015)
- Member of the Risk Management Monitoring Committee, the Board of Commissioners at PT Pertamina (Persero) in 2015 – 2019.

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Source: TUGU, NHKSI Research



### Tajudin Noor

#### **Independent Commissioner**

Indonesian citizen, graduated from Airlangga University with a Bachelor of Economics degree in 1992 and earned a Master of Business Management from the Bogor Agricultural Institute in 2015.

Tajudin Noor was appointed Independent Commissioner at PT Asuransi Tugu Pratama Indonesia Tbk (Tugu Insurance) in April 2023.

#### **Concurrent Position**

Senior Vice President Corporate Finance at PT Pertamina (Persero) since 2020.

#### **Working Experience**

- Director of Finance & Business Support at PT Pertamina Lubricants (2017 – 2018)
- Director of Administration & Finance at PT Patra Niaga (2018 – 2019)
- Corporate Secretary at PT Pertamina (2019 – 2020)
- Senior Vice President (SVP) Human Capital Development at PT Pertamina (2020 – 2022)
- Commissioner at Pertamina International East Timur (2018- 2019)
- Commissioner at PT Pertamina International Shipping (2019 – 2022)
- Senior Vice President (SVP) of Logistic Integration & Optimization at PT Pertamina (Persero) in 2022

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Source: TUGU, NHKSI Research

## Management Profile: Board of Directors



### Tatang Nurhidayat

#### **President Director**

Indonesian citizen, graduated from Diponegoro University with a Bachelor's degree in Marine Science in 2008 and a Master's degree in Islamic Economics from Sekolah Tinggi Ekonomi Islam (STEI) Tazkia in 2018.

Currently serves as President Director of TUGU as well as several other positions as follows:

#### **Concurrent Position**

Commissioner of PT Reasuransi Maipark Indonesia in November 2022 and Chairman of Asosiasi Asuransi Syariah Indonesia (AASI) from 2020 until now.

#### **Working Experience:**

- Director of Sales & Marketing at PT Asuransi Takaful Umum from 2019 to 2021
- President Commissioner at PT LSP Perasuransian Syariah (2020 – 2022)
- Vice Chairman at Asosiasi Asuransi Syariah Indonesia (AASI) from 2017 to 2020
- Chairman of Dewan Asuransi Indonesia (DAI) in 2021-2023.

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*Source: TUGU, NHKSI Research*



### Emil Hakim

#### **Financial & Corporate Service Director**

Indonesian citizen, graduated from Sriwijaya University (UNSRI) with a Bachelor of Economics in Accounting in 2000 and a Master of Applied Finance from the Australian National University (ANU) in 2016.

Currently serves as Director of Finance & Corporate Services of TUGU effective since September 10, 2021.

#### **Working Experience**

- Assistant Manager at PT Pertamina (Persero)) (2008 - 2014).
- Finance Manager at the Balikpapan RDMP Project (PT Pertamina (Persero)) (2016 –2018).
- Senior Finance Advisor at Maurel & Prom Paris (Subsidiary of PT Pertamina Internasional EP) (2019 – 2020).
- Vice President Treasury at PT Pertamina Geothermal Energy (2020 – 2021).

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*Source: TUGU, NHKSI Research*



### Ery Widiatmoko

#### **Insurance Marketing Director**

Indonesian citizen, earned a Bachelor's degree in Geological Engineering from University Pembangunan (UPN) Veterans Yogyakarta in 1991, and actively participated in educational activities at Prasetya Mulya Business School Executive Learning Institute (ELI) in the fields of Financial Management, Strategic Management and General Business Management in 2012 – 2013.

Currently joins as Marketing Director of Non-Oil & Gas Insurance at TUGU effective since September 23, 2020.

#### **Working Experience**

- Executive Vice President (Retail Business) at PT Asuransi Astra Buana (2014 to 2018).
- Chief Network & Retail Business (Deputy Director) at TUGU (2018—2020).

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*Source: TUGU, NHKSI Research*

## Management Profile: Board of Directors



### Edi Yoga Prasetyo

#### **Director of Compliance and Risk Management**

Indonesian citizen, earned obtained his Bachelor's degree in Agriculture in 1995 from the Faculty of Agriculture, Institut Pertanian Bogor, majoring in Socio-Economic Sciences.

Currently joins as Director of Compliance and Risk Management at TUGU effective since April 2023.

#### **Concurrent Position**

Daily Board of Management and Head of Distribution Channel at the Indonesian Sharia Insurance Association (AASI) (2023-2026)

#### **Working Experience**

- Financial advisor at a life insurance company (1996)
- Entered Banking Industry (Citibank, Bank Lippo and BTPN) (2004—2011).
- PT. Asuransi Allianz Life Indonesia (2011)
- Managing Director of Sharia Business Unit at PT. Asuransi Allianz Life Indonesia (2022)
- Director at PT. Lembaga Sertifikasi Profesi Perasuransian Syariah (LSP-PS) (2022 – 2023)
- Daily Board of Management and Head of Distribution Channel at the Indonesian Sharia Insurance Association (AASI) (2020-2023)

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Source: TUGU, NHKSI Research



### Sudarlin

#### **Technical Director**

Indonesian citizen, earned a Bachelor of Economics from the University of Lampung; and a Master of Finance and Strategic Management from FEB Gadjah Mada University (UGM) in 2003.

Currently joins as Technical Director at TUGU effective since April 2023.

#### **Working Experience**

- Sales & Business Development for a multinational company engaged in static control (2004—2006)
- Professional Trainee at TUGU (2007)
- Senior Manager at TUGU (2013)
- Reinsurance Department Head in TUGU (2014 –2021)
- Reinsurance Group Head in TUGU (2021 –2023).=

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Source: TUGU, NHKSI Research

**NH Korindo Sekuritas Indonesia (NHKSI) Stock Ratings**

1. Based on a stock's forecasted absolute return over a period of 12 months from the date of publication.
2. Rating system based on a stock's potential upside from the date of publication
  - Buy : Greater than +15%
  - Overweight : +5% to 15%
  - Hold : -5% to +5%
  - Underweight : -5% to -15%
  - Sell : Less than -15%

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