Oman Insurance Sector, *structural tailwinds at play …*

27 April 2022

Company	Rating
Al Madina Takaful (AMAT)	Accumulate
Target Price (TP), OMR	0.109
Upside	16%

- Low insurance penetration rate among the EMs provides ample growth opportunities
- GWP likely to recover from 2022, driven by mandatory health insurance, improving economic activities, and business sentiments amid favorable demographics
- Hardening of the reinsurance market may encourage insurers for higher retentions
- Loss ratio likely to normalize on prudent underwriting and better claim management
- Investment income, a major earnings contributor, continues to improve on decent investment yield and growing investment book

We expand our coverage in Oman Insurance Sector by initiating on **Al Madina Takaful Insurance Company**, given the continued outperformance of the company (10% GWP CAGR) compared to the broader sector (1% CAGR). While the overall sector remained under pressure in 2021, due to higher death claims, Takaful companies were more resilient. Nonetheless, we expect a sustainable recovery in terms of higher GWP, better loss ratio, and growing investment income for the sector from 2022. The much-needed regulatory enforcement (mandatory health insurance for private-sector employees as well tourists) could play an important role in the sector's recovery. In addition, favorable demographics, coupled with improving economic activities, upbeat business sentiments, and rising general awareness about insurance products post-pandemic, paint an optimistic outlook for the sector. We have used a combination of two valuation methodologies (DDM and relative P/B) with equal weights assigned to both.

- **Low insurance penetration provides future growth visibility.** The Oman Insurance market has one of the lowest penetration rates (GWP/GDP: ~1.9%), with significant upside potential, driven by the structural reforms, growing population, and likely improvement in disposable income for locals due to Omanization. Further, rising awareness about the importance of insurance in the aftermath of COVID-19, and the growing digitalization of insurance products would drive the penetration higher.
- **Mandatory health insurance likely to play a pivotal role in the sector's turnaround.** The Omani government, in July last year, announced compulsory health insurance (Dhamani scheme) for all the employees (including dependents) working in the private sector, as well as for inbound tourists. This will likely cover over 5mn people (including ~2mn private sector employees and their family members and ~3mn estimated visitors) in a phased manner. Stricter enforcement should expand the medical insurance segment significantly, and drive the sector's top-line going forward, given its healthy GWP share.
- **Better claim management and steadily higher investment income to drive earnings.** Post challenging FY21, the sector is likely to witness a steady recovery in earnings with the loss ratio likely to normalize gradually near to its pre-pandemic year on efficient claim management, and decent investment income on prudent investment book**.** The expansion in the investment book is positive for the sector as it provides a cushion to the bottom line.

We expect our coverage companies to benefit from the likely recovery in sector dynamics, led by AMAT, which dominates the Takaful business (65% market share). Amongst the insurance sector, in the last 5 years, takaful companies have continuously outperformed the sector and grown their share from ~10% in FY17 to ~14% by FY21.

Name	Last Px (OMR)	Target Price (OMR)	Upside / (Downside) (%)	Current P/B	P/B'22e, (x)	ROA'22e, (%)	ROE'22e, (%)	Cash Div Yield, %
Al Madina Takaful Co Saoc	0.094	0.109	16.4%	0.7	0.7	1.2%	6.8%	8.5%
Average				**0.7**	**0.7**	**1.2%**	**6.8%**	**8.5%**

Source: Bloomberg, U Capital Research, valued as of 27 April 2022

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Oman Insurance Sector

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Valuation

We have used DDM and P/B multiple with equal weightage assigned to derive the target price for each insurance company. For DDM, we have used a 5-year explicit forecast period (FY22-26e) and assumed a 2% terminal growth rate. We have then calculated the present value of future dividends using the cost of equity (Ke) and added the present terminal value to arrive at a target price for the company.

For the relative valuation, we have considered the average P/B multiple of relevant peers. Then we have adjusted these multiples by giving a premium or discount, wherever required, to reflect our assessment of each insurance company's future financial performance, and recent as well as expected movement in their valuation multiples. The adjusted P/B multiple is then multiplied by the forecasted FY22e BVPS.

Valuation

	AMAT
(Currency)	*OMR*
DDM (50% weight)	
PV of Dividends (mn)	
Year 1	1.3
Year 2	1.3
Year 3	1.3
Year 4	1.2
Year 5	1.2
Terminal	22.1
Total PV of Excess Returns	13.7
Assumptions	
Risk Free Rate (%)	5.4%
Adjusted Beta	0.8
Risk Premium (%)	6.5%
Cost of Equity (COE) (%)	10.6%
Equity value (mn)	19.9
Outstanding Shares (mn)	175.0
Target Price	***0.114***
P/B based Relative Valuation (50% weight)	
Target P/B multiple for 2022e	0.80
BVPS 2022e	0.131
Target Price	***0.105***
Weighted Average Target Price	**0.109**
Current Market Price	*0.094*
Upside/(Downside), %	16.4%
Recommendation	**Accumulate**

Source: Company Filings, Bloomberg, U Capital Research

Risks to Valuation

Key downside risks to our valuations include:

- Slower growth in market share, GWP, or decline in premium rates or stringent regulatory framework.
- Higher-than-expected loss ratio and weaker-than-expected dividend payment, which may impact our forward-looking estimates and thereby rating.

Key upside risks to our valuations include:

- Unexpected rise in premium rates, faster-than-expected gain in market share, lower-than-expected loss ratio, better underwriting, and above-expected dividends.
- Better-than-expected improvement in operating efficiencies.

Sensitivity Analysis

Our TP for **AMAT** is not sensitive to +/- 0.25% changes to terminal growth or in CoE assumptions (changes ~+/-2%). Our TP is not sensitive to +/-0.02x changes in the target P/B multiple, affecting our TP by ~+/-1% with every change.

AMAT

CoE \ Terminal growth	1.50%	1.75%	2.00%	2.25%	2.50%
10.14%	0.110	0.111	0.113	0.114	0.116
10.39%	0.109	0.110	0.111	0.112	0.114
10.64%	0.107	0.108	**0.109**	0.111	0.112
10.89%	0.106	0.107	0.108	0.109	0.110
11.14%	0.104	0.105	0.106	0.107	0.108

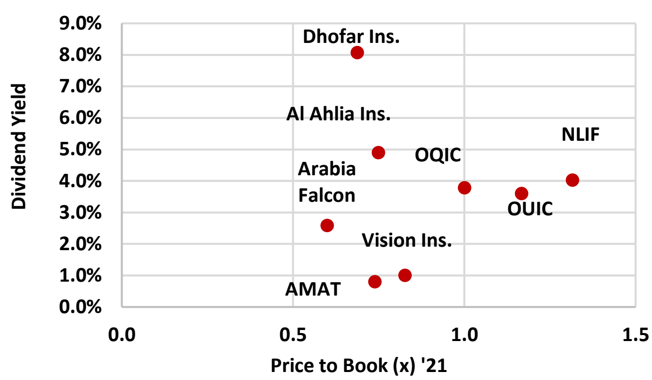
P/B Multiple \ Book Value per share (OMR)	0.09	0.11	0.13	0.15	0.17
0.76x	0.091	0.099	0.107	0.114	0.122
0.78x	0.092	0.100	0.108	0.116	0.124
0.80x	0.093	0.101	**0.109**	0.117	0.125
0.82x	0.094	0.102	0.111	0.119	0.127
0.84x	0.095	0.103	0.112	0.120	0.129

Peer Group Valuation

Name	Mkt Cap (OMR mn)	Last Px (OMR)	Px Change 1M, %	Px Change 3M, %	Px Change YTD, %	P/B'22e, (x)	ROA'22e, (%)	ROE'22e, (%)	Div Yield' 22e, (%)
Insurance									
DHOFAR INSURANCE*	22.3	0.19	-4	-5	-5	0.7	1.9%	9.7%	8.1%
OMAN UNITED INSURANCE CO	36.0	0.36	-8	-4	-4	1.2	3.8%	13.5%	9.0%
NATIONAL LIFE & GENERAL INSU	87.5	0.33	-2	-3	-3	1.3	5.4%	15.7%	5.9%
VISION INSURANCE SAOC*	11.0	0.11	2	34	20	0.8	-3.2%	-12.7%	na
ARABIA FALCON INSURANCE CO*	11.9	0.12	0	0	0	0.6	2.6%	9.1%	10.4%
AL AHLIA INSURANCE CO SAOC*	30.2	0.30	0	-7	-16	0.7	4.9%	9.6%	16.6%
OMAN QATAR INSURANCE CO	20.5	0.21	-4	-4	-4	0.8	3.7%	13.4%	4.0%
AL MADINA TAKAFUL CO SAOC	16.5	0.09	2	-3	-1	0.7	1.2%	6.8%	8.5%
Average						**0.9**	**2.5%**	**8.1%**	**8.9%**
Median						**0.8**	**3.1%**	**9.6%**	**8.5%**

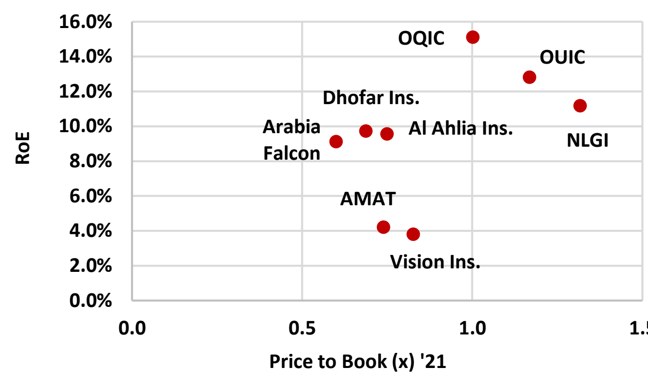
Source: Bloomberg, U Capital Research, values as of 27 April 2022, *na- not available, *current data for the non-covered companies

Fig. 1: Insurance - Price to Book & Dividend Yield



Source: Bloomberg, U Capital Research, as of 27 April 2022

Fig. 2: Insurance - Price to Book & RoE



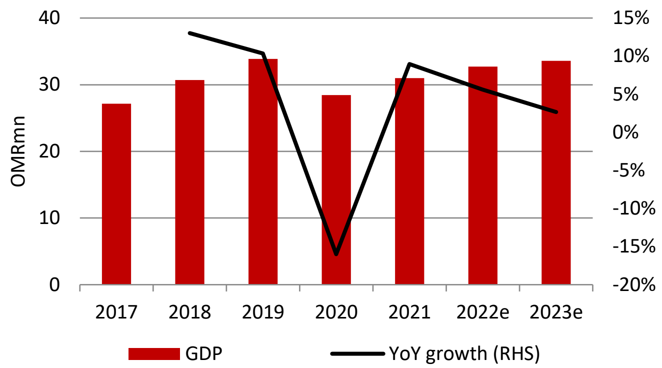
Source: Bloomberg, U Capital Research, as of 27 April 2022

Macro-economic & Sector Overview

Economic growth shifting into a higher gear; the insurance industry rebuilding the engines of growth

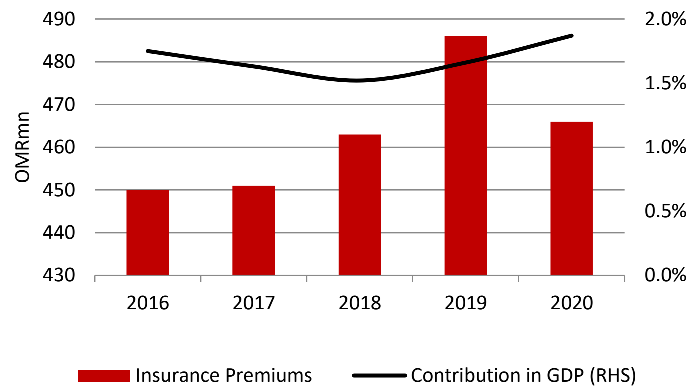
As per IMF's World Economic Outlook (WEO) April 2022, global growth is projected to expand by 3.6% in 2022. Further, IMF expects higher GDP growth for Oman at 5.6% in 2022, primarily aided by higher oil prices. However, as we go forward, the IMF assesses this rate to slow down before picking up again from 2025. In our opinion, this growth seems achievable due to Omani's government's focus on non-oil sectors, as a part of vision 2040, to be the core contributors to GDP.

Fig. 3: Oman's economy to be on the growth track



Source: WEO April 2022, U Capital Research

Fig. 4: Insurance contribution to GDP increased



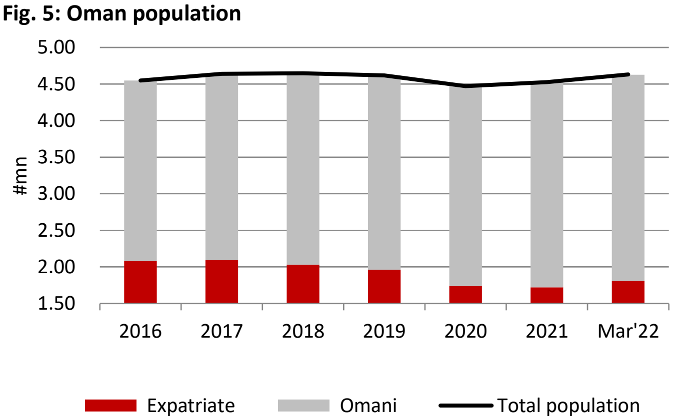
Source: WEO April 2022, CMA, U Capital Research

The insurance industry plays an essential role in the sustainable growth of an economy, as it turns out accumulated capital into productive investments. The diversification strategy from the oil sector to non-oil sectors, specifically tourism, logistics, manufacturing, fisheries, and mining, for the Omani economy's development will help to grow the allied sectors, such as insurance. Thus, we believe the insurance penetration as a percentage of GDP in Oman to increase steadily going forward. Moreover, mandatory health insurance, higher awareness of insurance products, and increased disposable income will further support the insurance sector's growth.

Increase in population along with high disposable income to boost the overall insurance demand

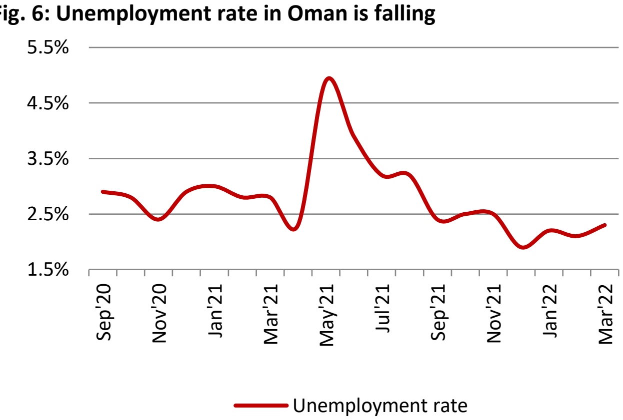
Amid the outbreak of COVID-19, the total population in Oman decreased by 4.2% YoY to 4.47mn, as the expatriate population plummeted at a significant rate of 11.4% YoY. However, with the COVID-19 situation getting eased from 2021, the population increased to 4.48mn (+0.2% YoY), primarily supported by growth in the local population. Further, this uptrend has continued in 2022 also, and by Mar 2022, the total population grew to 4.63mn (+2.2% from 2021), led by growth in both local and expatriates. Going ahead, the IMF expects the population to grow at an average rate of 3.5% to reach 5.3mn by 2026e, largely driven by the recovery in the expats population post expected sustainable economic recovery amid higher oil prices.

Fig. 5: Oman population



Source: NCSI, U Capital Research

Fig. 6: Unemployment rate in Oman is falling



Source: NCSI, U Capital Research

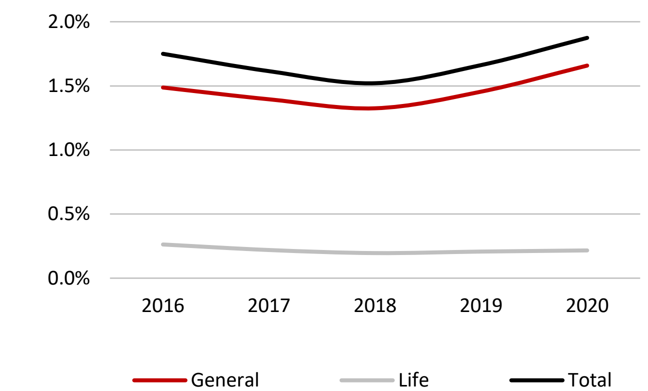
With the Sultanate of Oman setting specific quotas for various industries to achieve its ongoing Omanization goals, we believe this will create employment opportunities for the citizens; thus, will lead to higher disposable income for the locals. Thus, the unemployment (2.3% in Mar 2022) situation in Oman is currently improving, after increasing to 4.9% in mid of 2021. Hence, in our opinion, Omanization shall help to improve the local population's disposable income. Accordingly, higher disposable income for locals coupled with likely improvement in the total population should drive the demand for insurance products.

A low insurance penetration rate offers ample growth opportunities

In the recent past, the insurance penetration rate (GWP/GDP) has improved. However, the penetration rate in Oman is still one of the lowest compared to other emerging countries. The penetration rate in 2020 surged to ~1.9% vs. ~1.7% in 2019. The general insurance sector drove this increase (2020: +1.7% vs. 2019: +1.5%). On the other hand, the life segment penetration remained at the back foot and registered little movement (2020: +0.2% and 2019: +0.2%). Going forward, in our opinion, the penetration rate is expected to improve on structural changes such as mandatory health insurance, increased awareness & realization of the importance of having insurance products, increase in disposable income, and improvement in the economic situation.

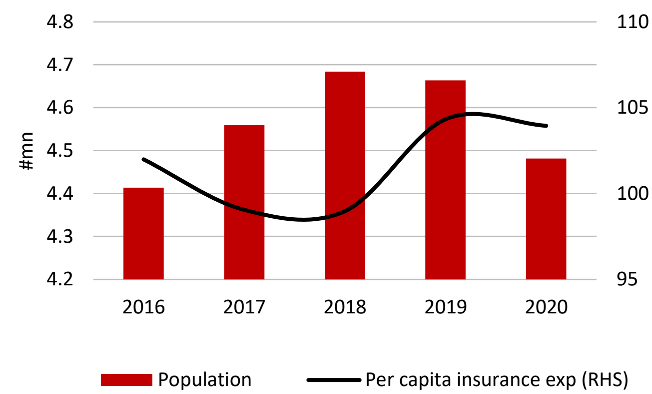
Moreover, looking at low penetration from another angle indicates that it can provide insurance players ample growth opportunities. With improved local population and disposable income, the per capita insurance expense has also increased in Oman. For 2020, the per capita insurance expenses expanded to OMR 103.9 compared to OMR 102.0 in 2016. Going forward, per capita insurance expenses should improve along with the expected improvement in the penetration rates.

Fig. 7: Penetration rate remains low



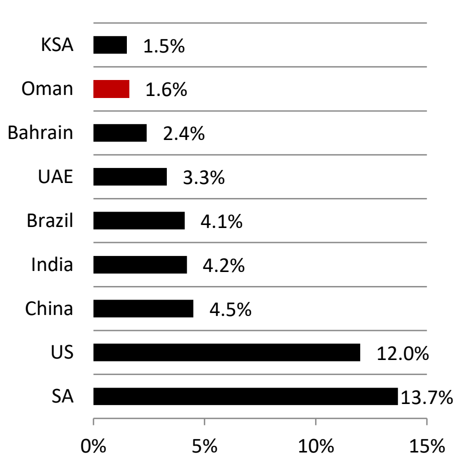
Source: CMA, U Capital Research

Fig. 8: Per capita insurance expenses slipped in 2020



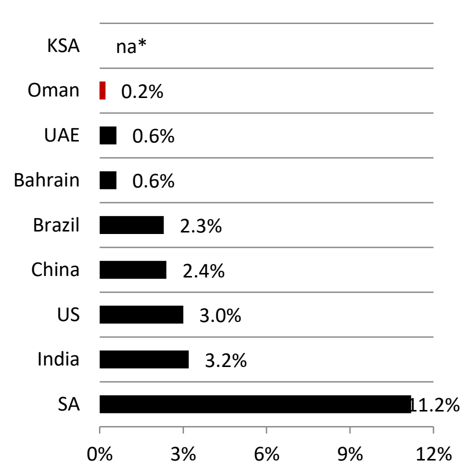
Source: CMA, U Capital Research

Fig. 9: Global total insurance penetration



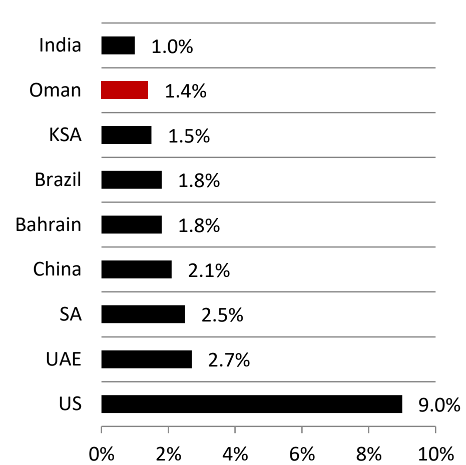
Source: SwissRe, U Capital Research

Fig. 10: Global life insurance penetration



Source: SwissRe, U Capital Research, * ***Not available***

Fig. 11: Global non-life insurance penetration



Source: SwissRe, U Capital Research

Mandatory health insurance – a game-changer moment for the domestic insurance sector

The introduction of mandatory medical insurance for employees working in the private sector in Oman is a key positive for future growth in the insurance sector. As a part of the Oman government's comprehensive reform plan, in July 2021, the Capital Market Authority (CMA) revealed the launch of the first phase of the mandatory health insurance system (Dhamani). As per the scheme, the private sector employers are obliged to provide health insurance coverage to their employees (local and expatriates as well as their dependents). Also, it will be mandatory for tourists visiting Oman to have health insurance. As per top officials of the CMA, the scheme will be fully rolled out across Oman in a phased manner in the next few years. The Dhamani scheme aims to cover more than five million people, and the private sector is expected to cover close to two million employees and their family members. Moreover, three million tourists and visitors coming to Oman are projected to be covered under the scheme in the medium term. Additionally, residential/nationals above 70 years of age are now eligible to buy insurance products.

An increase in insurance awareness can work as a growth catalyst

During the COVID-19 breakdown, people realized the importance of having health and life insurance, which gives financial protection in difficult times. During COVID-19, many people were under financial stress as they either lost their job or faced pay cuts. In such a challenging situation, many had to bear the financial burden of COVID-19 hospitalization bills. However, we believe this turned out to be an eye-opener for people who had not invested in insurance products. They realized the importance of having an insurance umbrella to cover them on their rainy days. We believe most of the population will turn to health and life insurance and consider it a necessity. This increase in awareness is positive for the sector, which will increase the size of the overall insurance market.

Investment in digital technology to mitigate complex challenges

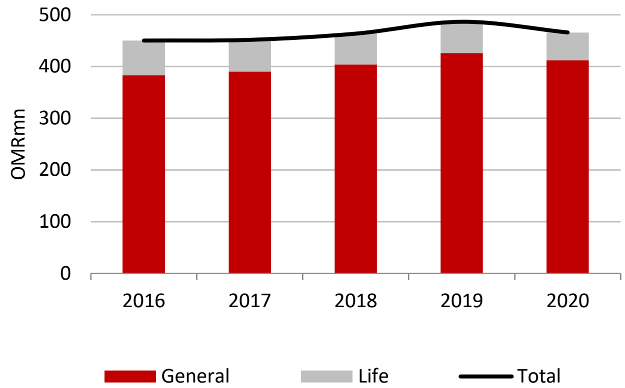
The world embraces digital technology in day-to-day life, and the insurance industry is nowhere an exception to this change. The adoption of digital platforms will help insurance companies in serving future client demands more efficiently. Moreover, it will assist companies in analyzing the financial performance of products and have a perspective on all the micro and macro indicators of the insurance industry, such as the age bracket of people opting for health insurance products. As people embrace mobile use, digital technology can enable clients to upload/download documents, process claims, buy new policies, and pay premiums online. Consequently, insurance players have a dual advantage in digital adoption; firstly, a decrease in overall administration expenses, and secondly, this will lead to a faster settlement ratio, which may help them to retain/renew their existing clients thus overall improving better underwriting.

GWP likely to improve on economic recovery and much needed regulatory push

Gross written premiums (GWP) of the insurance sector in 2020 shrunk by 4.3% YoY to OMR 466mn (2019: OMR 487mn). This drop was mainly driven by the life insurance segment, which decreased by 11.4% YoY to OMR 54mn. The general insurance segment also registered a decline, albeit at a slower pace of 3.2% YoY to OMR 412mn. During the year, the share of general insurance in total GWP was 88.5% (2019: 87.5%), while the life insurance segment contributed 11.5% (2019: 12.5%). From 2016 to 20, the general insurance segment GWP grew at a CAGR of 1.9%. However, the life segment GWP declined at a CAGR of 5.6%. Overall, the sector's GWP was nearly flat, expanding at a CAGR of a meager 0.9%, underpinned by structural weakness in the Omani economy amid low oil prices, and lack of any regulatory push till date.

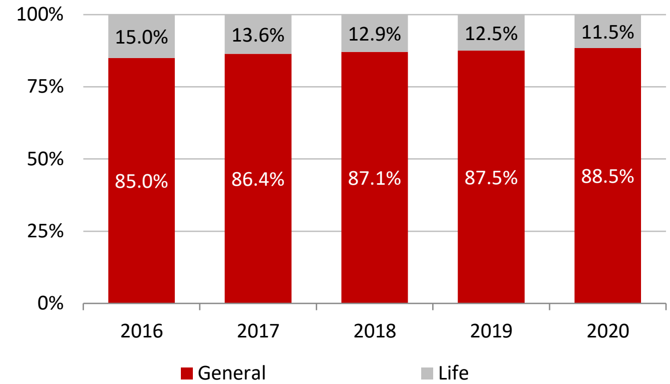
Going forward, the outlook looks promising, supported by likely improvement in the economic growth leading to higher employment levels as well as disposal income which should drive the demand for discretionary products such as insurance. Further, likely improvement in penetration rate driven by regulatory enforcement (mandatory health insurance, travel insurance, among others), and better awareness of insurance products should help the sector to witness a sustainable recovery in GWP (likely to be mid-single-digit CAGR over the coming five years).

Fig. 12: GWP remains flat



Source: CMA, U Capital Research

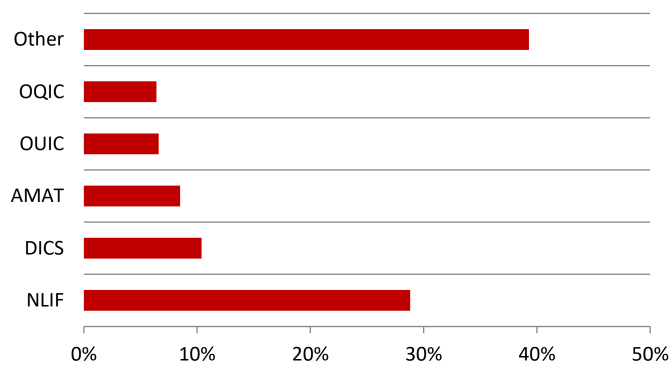
Fig. 13: General insurance has the lion's share in total GWP



Source: CMA, U Capital Research

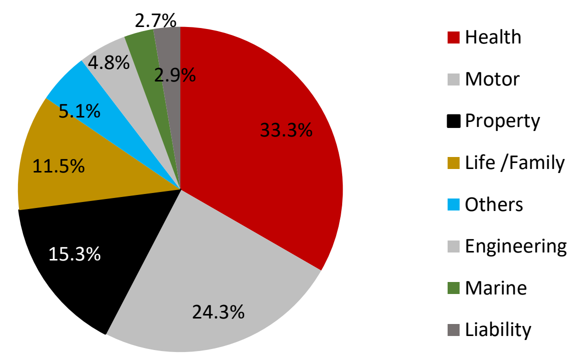
In 2020, health insurance had the lion's share in total GWP at 33.3% (2017: 29.8%), and motor insurance was in the second position with 24.3% (2017: 33.9%). In 2020, NLIF was a leading company with a 28.8% share in total GWP in Oman: DICS being the second, with 10.4%.

Fig. 14: NLIF is at the top in the total GWP



Source: CMA, U Capital Research

Fig. 15: Breakdown of GWP for 2020



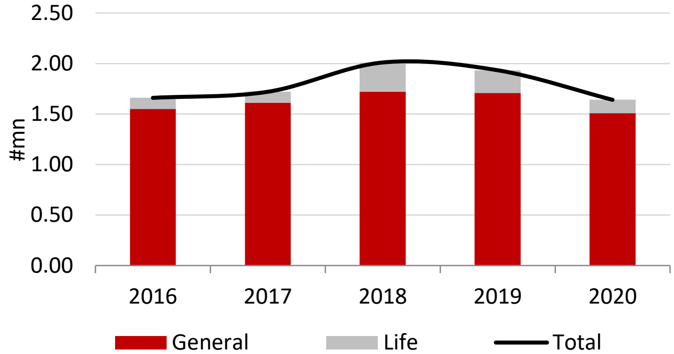
Source: CMA, U Capital Research

Number of policies issued to come on a growth path

After registering a surge in the number of policies issued in 2018 & 2019, the insurance sector reported a decline in 2020. The total number of policies issued dropped by 15.1% YoY to 1.6mn (2019: 1.9mn). This drop was primarily due to a 41.2% reduction in life insurance policies. In 2020, the general insurance policy also shrunk by 11.7% YoY to 1.5mn. The motor insurance business had relatively less pain in 2020, with 1.4mn policies sold (2019: 1.6mn), a reduction of 9.3% YoY.

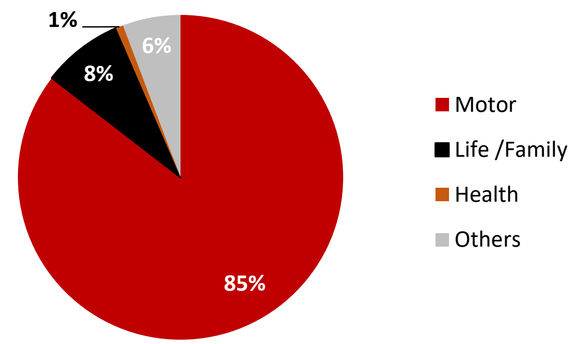
After witnessing degrowth across most of the business segments amid the covid imposed restrictions over the past couple of years, we expect the volume to start improving as the situation has now largely normalized. Moreover, SMEs, which might have suffered losses during the COVID period and took stringent actions of laying off to cut down costs, are expected to recover post opening of the economy in the Sultanate. Moreover, the implementation of mandatory health insurance, recovery in the tourism sector, and likely increase in the demand for automobiles remains the key volume driver for the sector. Accordingly, we expect the number of policies to reach its pre-pandemic levels over the medium term.

Fig. 16: Policies issued declining since 2018



Source: CMA, U Capital Research

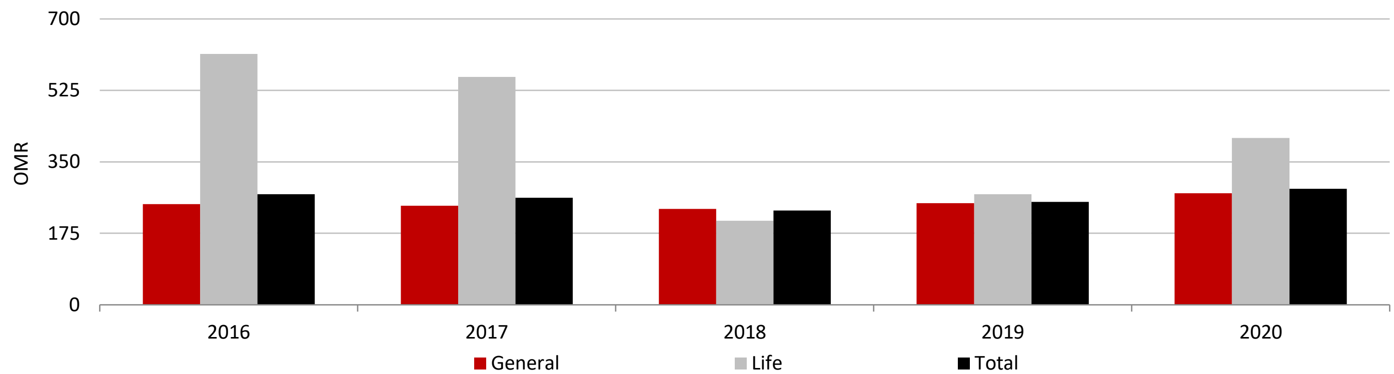
Fig. 17: Breakdown of policies issued in 2020



Source: CMA, U Capital Research

Historically, the average insurance premium remained largely flat, owing to the stiff competition and weak demand with the life insurance premium declining over the years, offsetting a slight improvement in the general segment's average premium. Going forward, we expect the premium rates to continue to remain broadly stable in the coming years. In Mar'22, the CMA instructed all insurance companies to add natural calamities coverage at the conclusion or renewal of insurance policies for homes, properties, and establishments. We believe insurance companies might start charging an additional premium to cover natural calamities.

Fig. 18: Average premium paid per policy*



Source: CMA, U Capital Research. * As per our calculations

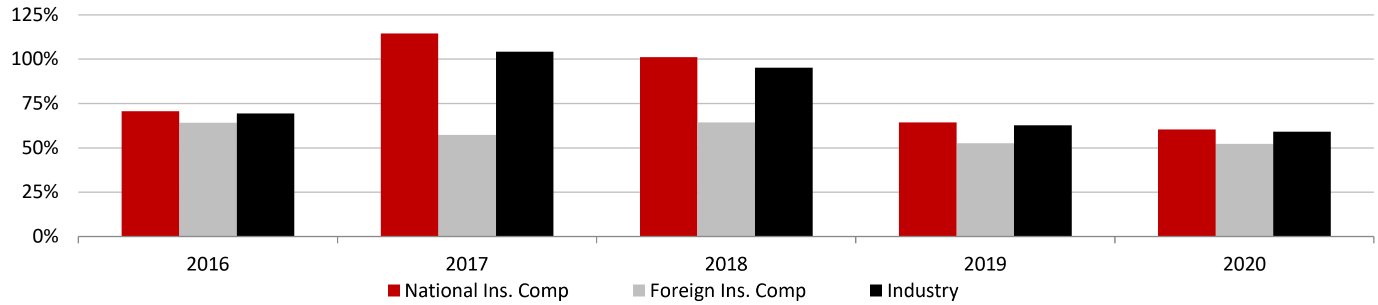
Hardening of reinsurance market with structural changes

Reinsurance companies have had a tough time in the last 2 years, on the verge of a steep rise in loss ratio, especially in Oman. After 15 years of the soft reinsurance market, the reinsurance companies have tightened their reinsurance treaties, majorly the facultative treaty. Due to Sultanate's repeated exposure to unstable climatic conditions and losses incurred from natural catastrophic insurance in addition to prevailing uncertainties, the international reinsurance companies have not only increased reinsurance rates but also are going cautiously selective in accepting risks. Besides, numerous restrictions, such as new exclusion clauses, penalizing insurers with poor data quality, stricter scrutinization, increasing deductibles, etc. Therefore, given the positive economic outlook, we may see domestic insurance companies start retaining more business to reduce the reinsurance costs and thereby improve their underwriting profits in the coming years.

Loss ratio likely to improve on better claim management

The sector's loss ratio improved significantly to 59.2% (the previous five-year average of 78.1%) in FY20, the lowest level in the last five years, on the back of low claims due to i) fewer motor insurance claims amid the travel restriction, ii) deferral medical claims. Analysis from companies under our coverage showed that this trend reversed in 2021 as COVID-19-related death claims in the life insurance portfolio surged significantly. Furthermore, medical and motor claims also soared amid the lifting of restrictions on movement. Going forward we believe that the sector's combined loss ratio should start normalizing, aided by a cautious underwriting strategy and efficient claim management.

Fig. 19: Loss ratio improved in 2020

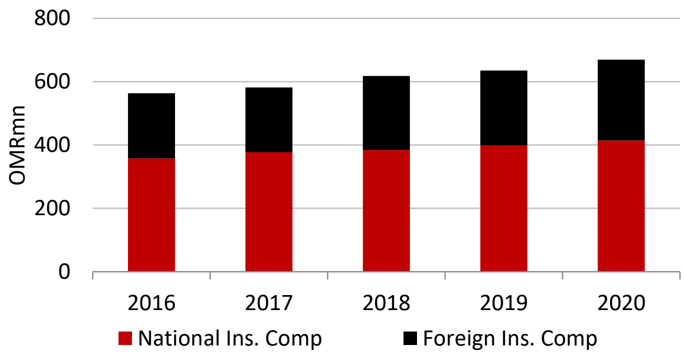


Source: CMA, U Capital Research

Investment income continues to support bottom-line

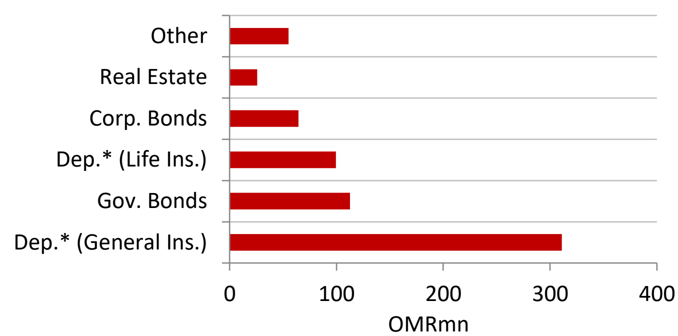
The investments book of insurance companies in Oman has shown a consistent improvement since 2016, helped by prudent investment strategies. As per the 2020 investment breakdown, the sector's investments were in conservative assets, as 61.4% of the investment book was primarily concentrated in banking deposits (general and life). Going forward, the sector's investment book is expected to increase (despite a likely slowdown in 2021 on higher claims), due to the likely normalization of the loss ratio.

Fig. 20: Investment of insurance companies



Source: CMA, U Capital Research

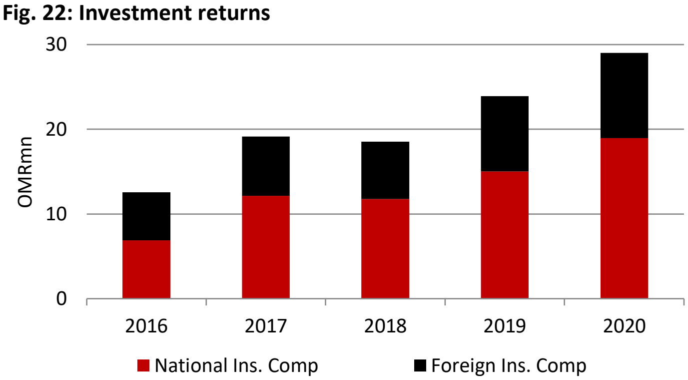
Fig. 21: Breakdown of investments – 2020



Source: CMA, U Capital Research, *Deposits

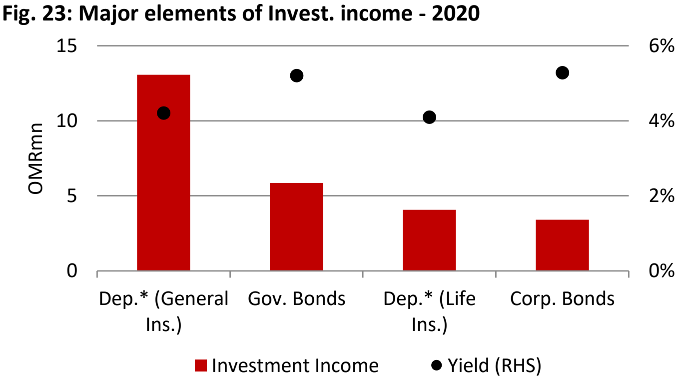
The investment performance was encouraging as the return from these investments grew at a CAGR of 23.3% from 2016 to 2020. Local players outpaced foreign companies and generated strong investment income (CAGR of 28.9%) during the same period. The top four investments generated a yield between 4.2% to 5.3%. Going forward, we expect investment income continues to improve, driven by an expanded investment portfolio, and likely better investment yield amid the rising interest rate environment. Accordingly, this should continue to drive the sector's earnings going forward.

Fig. 22: Investment returns



Source: CMA, U Capital Research

Fig. 23: Major elements of Invest. income - 2020

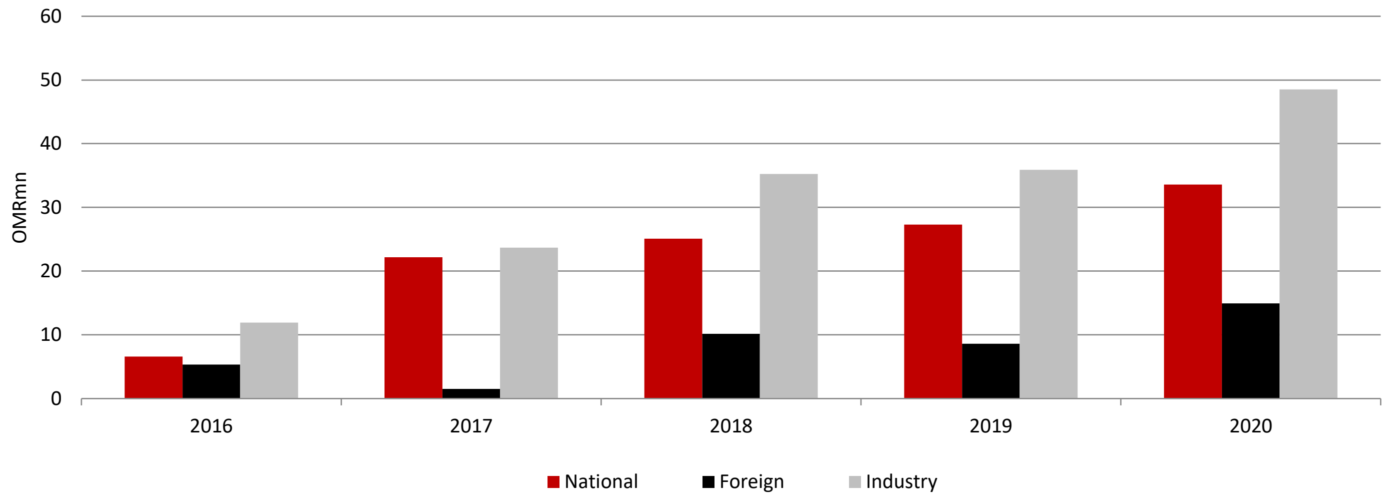


Source: CMA, U Capital Research, *Deposits

Profitability to remain in an upward trend in the foreseeable future

The sector's profitability remained in an upward trend consistently during 2016-20, with 2020 being an exceptionally strong year, mainly due to lower claims. However, in 2021, most companies might have witnessed pressure on earnings given likely higher claims. Nonetheless, we expect the sector's earning performance is likely to improve in the coming years, driven by (i) healthy GWP growth, (ii) normalization of the loss ratio, (iii) enhanced cost efficiencies, and (iv) better investment returns.

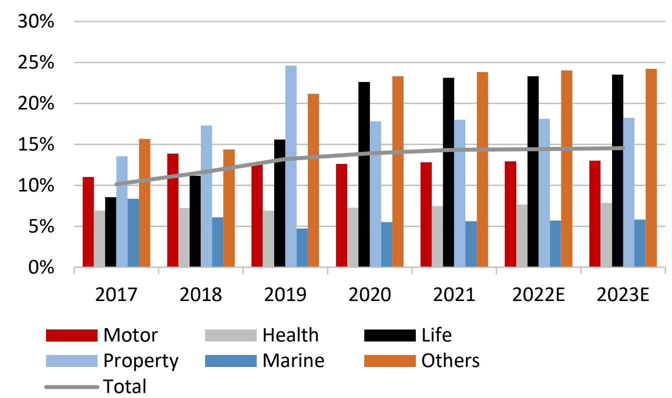
Fig. 24: Net Profit continued to improve over the years



Source: CMA, U Capital Research

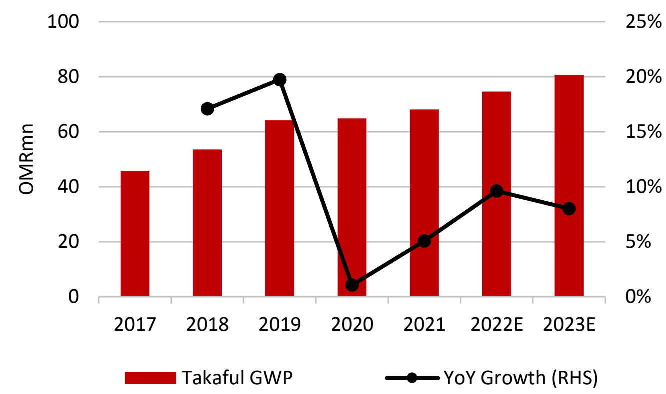
Snapshot of Takaful insurance operations in Oman

Fig. 25: Takaful business continuously gaining market share against conventional insurance companies



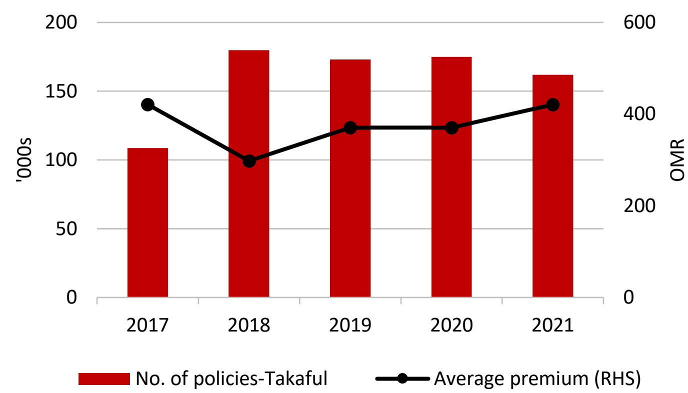
Source: CMA, U Capital Research

Fig. 26: Takaful GWP on an uptrend even during pandemic



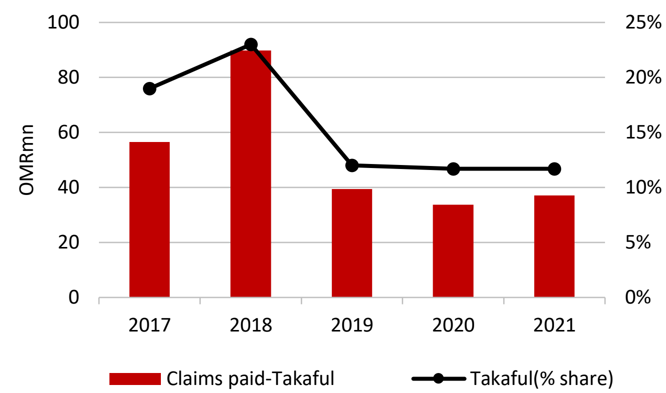
Source: CMA, U Capital Research

Fig. 27: No. of takaful policies continued to grow while avg. premium remaining largely stable



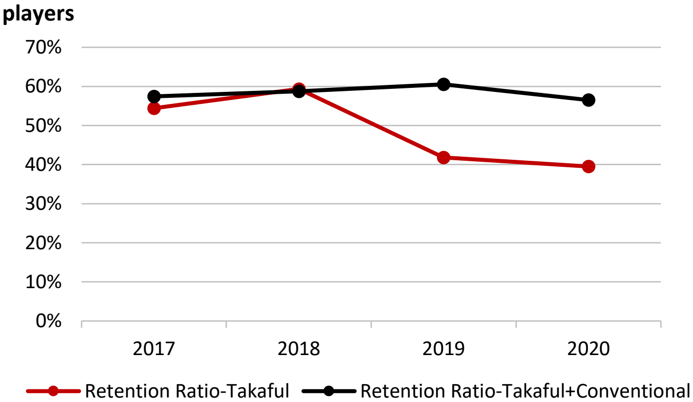
Source: CMA, U Capital Research

Fig. 28: Takaful operations having relatively lower claims share



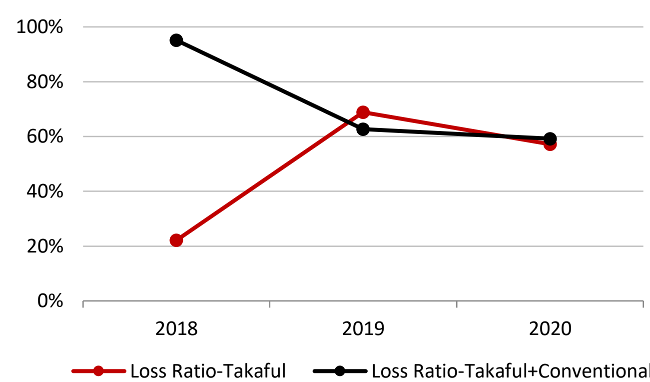
Source: CMA, U Capital Research

Fig. 29: Takaful companies have decreasing retention ratio trend, signifying less risk-bearing capacity than conventional insurance players



Source: CMA, U Capital Research

Fig. 30: In the last 2 years, the loss ratio followed the same trend for both takaful and conventional insurance companies



Source: CMA, U Capital Research

Al Madina Takaful (AMAT)

Target Price: OMR 0.109
Upside/ (Downside): 16.4%

Recommendation	**Accumulate**
Bloomberg Ticker	AMAT OM
Current Market Price (OMR)	0.09
52wk High / Low (OMR)	0.110/0.090
12m Average Vol. (000)	932.0
Mkt. Cap. (USD/OMR Mn)	43/16
Shares Outstanding (mn)	175.00
Free Float (%)	74%
3m Avg Daily Turnover (OMR'000)	78.3
6m Avg Daily Turnover (OMR'000)	54.6
P/E'22e (x)	10.6
P/B'22e (x)	0.7
Dividend Yield '22e (%)	8.5%

Price Performance:	
1 month (%)	2
3 month (%)	(3)
12 month (%)	7

Source: Bloomberg, valued as of 27 Apr. 2022

Price-Volume Performance

Source: Bloomberg

- **Third largest insurance company with robust underwriting performance, underpinned by continued market share gains even during the challenging times**
- **More focus on the retail segment and strategizing its distribution channel to drive the future growth**
- **Growing investment income backed by a prudent investment strategy to aid earnings**
- **Consistent dividend payouts a key investment positive**

We initiate coverage on Al Madina Takaful Insurance Company with an **Accumulate** rating and a target price of OMR 0.109 per share, implying an **upside of 16.4%**. Currently, the stock trades at 0.7x P/B, based on our FY22e book value. We believe this multiple does not fully factor in the positives in store for the company's growth prospects and hence we value the company at a higher multiple of 0.8x P/B of FY22e. Al Madina has shown resilience during the challenging environment in the last 2 years with steady and consistent top-line growth and remarkable investment income growth. This enabled the company to generate the highest double-digit bottom-line growth in the industry during the FY17-21 period. With the green shoots visible in the Oman economy and the sector, we believe the company should perform well in the coming years and may continue increasing its market shares across the business segments amid the strengthening of its distribution channels.

Investment Thesis

Valuation and risks: Our target price is based on blended valuation methodologies – (i) DDM Valuation and (ii) Relative Valuation (using P/B multiple). The downside risks to our valuation include less than expected growth in GWP, an unexpected increase in reinsurance premium, a decline in insurance premium rates, higher-than-expected claims, and regulatory investment limits in various products. Key upside risks to our valuation include an unexpected rise in premium rates, faster-than-expected gain in market shares, lower-than-expected loss ratio, better underwriting, and above-expected dividends.

Consistent performer: (i) Al Madina is the 3rd largest insurance company, with a 9.3% GWP share in FY21 in Oman. We believe the company will continue increasing its market share steadily by focusing more on profitable segments, which may result in higher retained contributions in the retail segments, such as motor business, SME segments, among others. However, the company's specialty business, a major contributor to its top line, may face stiff competition from market leaders, like OQIC, which may limit its market share gain; (ii) disciplined underwriting policy in place with focused sales planning, majorly through digital platforms; (iii) prudent, diversified and Shari'ah compliant investment policy yielding stable returns and (iv) steady dividends, are the key positives for the company.

Financials & valuation summary:

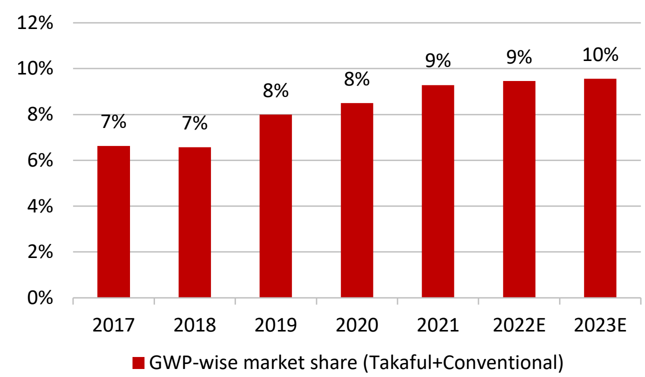
	FY19	FY20	FY21	FY22e	FY23e	FY24e
Gross Written Premiums (OMR mn)	38.9	39.6	44.1	48.9	53.0	56.8
Net Underwriting (OMR mn)	4.9	6.1	6.6	8.0	8.6	9.0
Net Profit (OMR mn)	0.9	0.7	1.0	1.5	1.7	1.9
Combined Ratio	97.8%	92.0%	96.0%	89.5%	89.3%	90.7%
ROA	0.9%	0.7%	0.8%	1.2%	1.3%	1.3%
ROE	3.9%	3.1%	4.2%	6.8%	7.5%	8.0%
DPS (OMR/share)	0.006	0.010	0.008	0.008	0.009	0.010
Dividend Yield	7.6%	12.8%	7.9%	8.5%	9.4%	10.1%
P/E (x)	15.1x	19.1x	17.4x	10.6x	9.6x	8.9x
P/BV (x)	0.6x	0.6x	0.7x	0.7x	0.7x	0.7x

Source: Company Reports, U Capital Research **P/E and P/B from 2021 onwards calculated on price of 27 April 2022*

Dominant insurance player with a significant market share in the takaful business

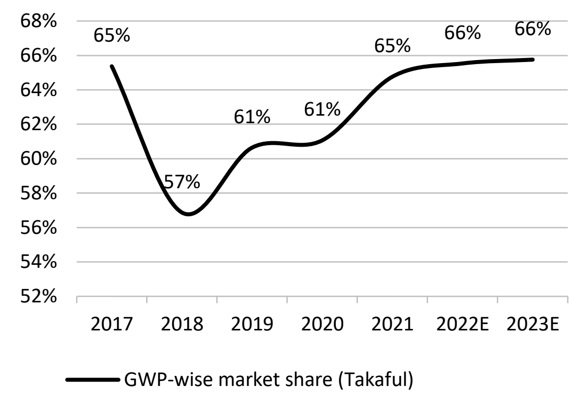
Al Madina is the 3rd largest insurance company in Oman (Takaful and Conventional companies), where its market share has continuously grown from 6.6% in FY17 to 9.3% in FY21. Considering only Takaful players in Oman, the company enjoys a dominant position with a market share of 64.8% as of FY21. By segments, the company's market share in FY21 is highest in the fire & energy business with 80.7% (10.9% of total GWP) followed by motor & marine with 61.6% (7.3% of total GWP) and lastly, the family division commands 20.6% (1.3% of the total GWP), amongst the takaful companies. Going forward, we expect the company to gradually improve its market share across all its business segments, aided by its specialized fire and energy division. Thus, overall, we believe the company's market share to improve to ~67% by FY26e amongst the takaful players and ~10% in the insurance industry.

Fig. 31: Continuously increasing its total market share …



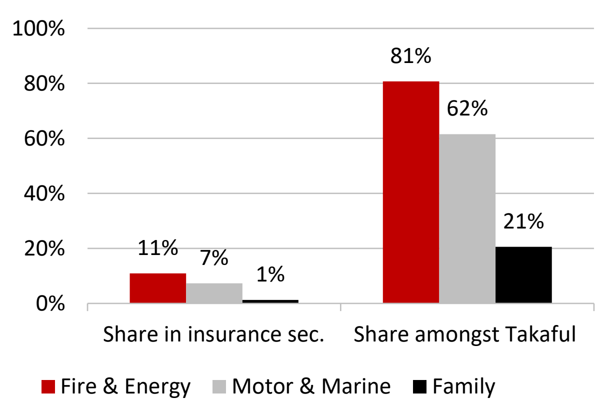
Source: Company Reports, U Capital Research

Fig. 32: … to further strengthen its Takaful market share



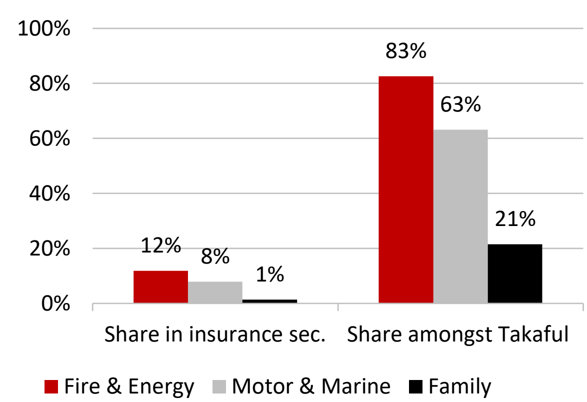
Source: Company Reports, U Capital Research

Fig. 33: AMAT's business-wise market share – FY21



Source: Company Reports, U Capital Research

Fig. 34: AMAT's business-wise market share – FY26e

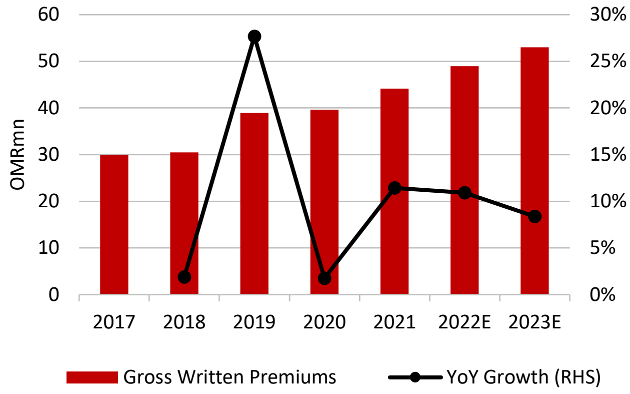


Source: Company Reports, U Capital Research

Gross contribution likely to maintain a healthy pace, owing to volume-driven growth amid easing pricing pressure

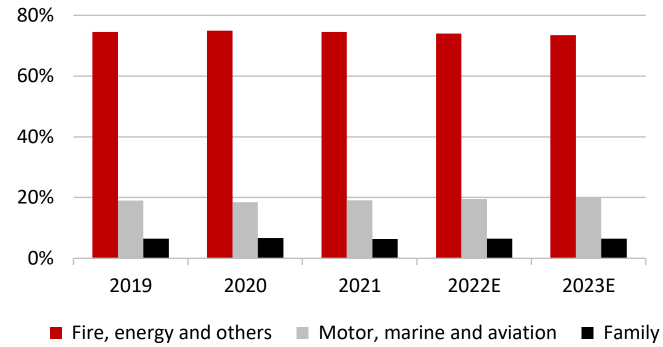
Gross contributions of AMAT grew at a CAGR of 10.2% during 2017-21 and reached OMR 44.1mn by FY21, despite the gloom in the economy that prevailed since the pandemic. The growth was driven by strong performance across its business segments. In terms of revenue contribution, Technical, Motor, and Family businesses contribute 74.5%, 19.1%, and 6.4% respectively in FY21. Going forward, we expect the company to expand its motor business at a CAGR of 9.4% from FY21 to FY26e, the highest amongst all the segments, as the company's focus in the coming years will be to increase its retail motor business, while Technical and family businesses are expected to grow at a CAGR of 7.6% and 7.3% respectively during the same period. Overall, with all its business segments growing, we believe Al Madina's gross contribution (GWP) to grow at a CAGR of 7.9% to reach OMR 64.6mn over FY21-26e.

Fig. 35: GWP on an uptrend even during the pandemic



Source: Company Reports, U Capital Research

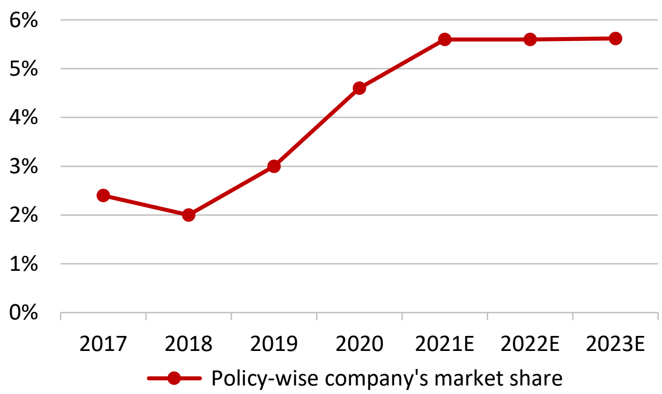
Fig. 36: Technical remains the key GWP contributor



Source: Company Reports, U Capital Research

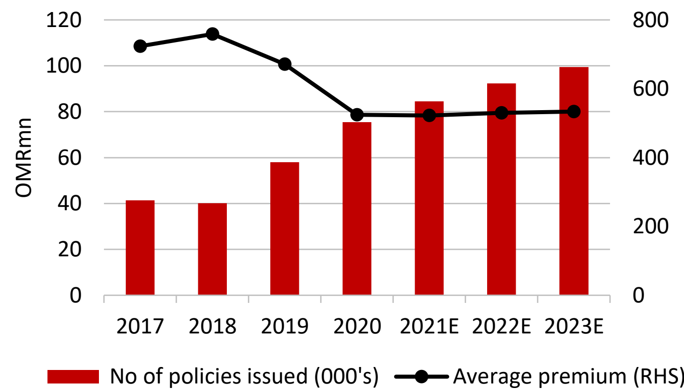
The continuous growth in GWP is likely to be driven by the addition of new business, given the company's strong market position complemented by solid brand visibility and effective sales strategy. In addition, strengthening staff in strategic locations to capture more retail-based market segments is likely to fuel the volume growth further. Accordingly, we expect the number of policies may grow at a CAGR of ~6% over FY21-26e. While the company's premium rates remained under pressure over the past few years due to stiff competition, we expect a recovery in the average premium rates and likely to remain stable in the coming years, helped by the improving economy on rising oil prices, favorable government enforcement on mandatory health insurance products, and inflation-driven insurance claims.

Fig. 37: Al Madina's volume-based strategy to help in gaining share



Source: Company Reports, U Capital Research. * As per our calculation

Fig. 38: Avg. premium rates to stabilize after a continuous pressure

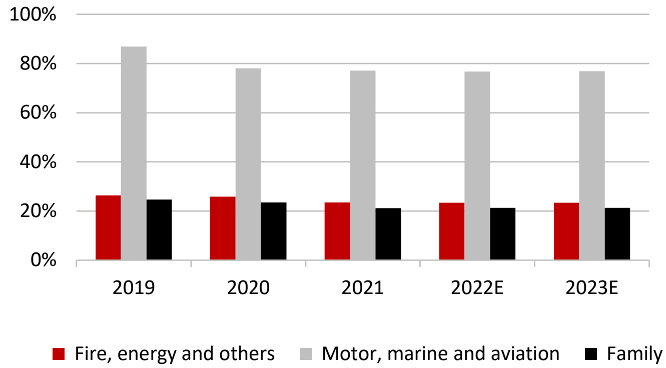


Source: Company Reports, U Capital Research. * As per our calculation

Retained contributions to increase in the profitable business segments

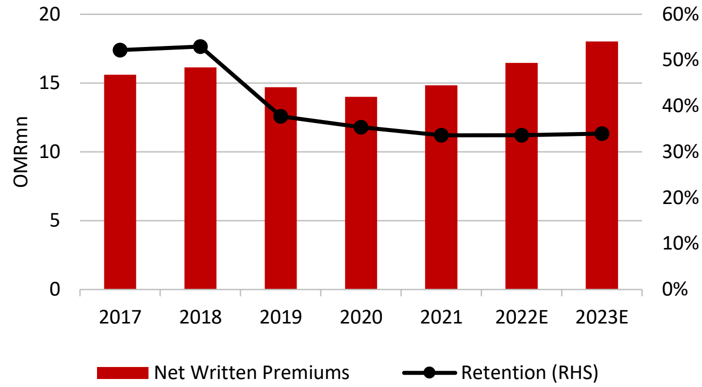
Al Madina's main focus will be to grow its market share in its profitable business segments with the maximum retention in premiums. We believe that in all the three segments, the company will have the highest retention contributions of 77.1% in the motor business with a CAGR growth of 9.4% over FY21-26e to reach OMR 10.2mn by FY26e. Further, we expect the fire & energy division to follow the motor division, with a retention ratio increasing from 23.6% in FY21 to 23.7% in FY26e, while expecting the family business to maintain the retention at 21.2% in the coming years. Overall, we expect the retention ratio to improve from 33.6% in FY21 to 34.5% in FY26e, which will help the company to improve its underwriting performance in the coming years.

Fig. 39: The motor segment continues to retain higher business



Source: Company Reports, U Capital Research

Fig. 40: Retained contributions should steadily increase from FY22e

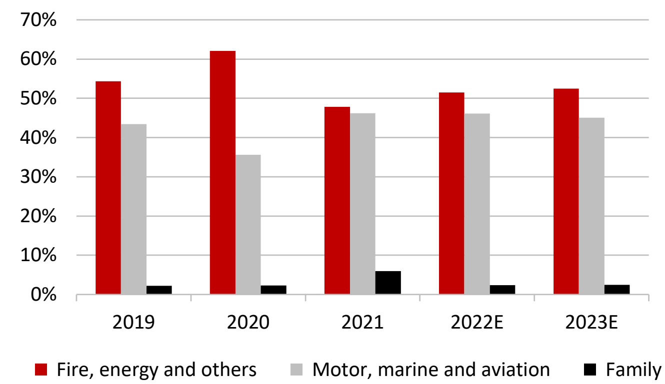


Source: Company Reports, U Capital Research

Combined ratio to improve on the back of decreasing expense ratio

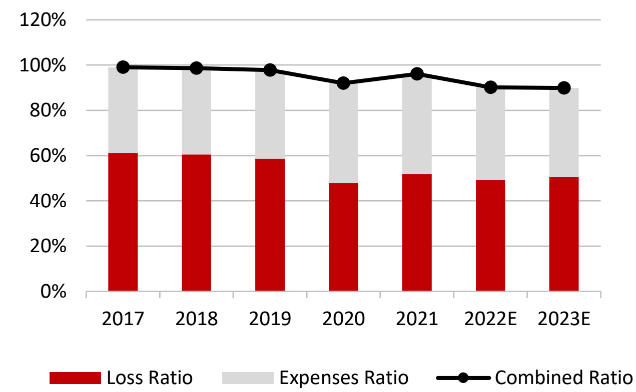
Historically, the company had a decreasing trend in loss ratio with a major fall seen during the pandemic years, due to lower claims reported to the company. Going ahead, with the opening-up of the economy and increased retention ratio, we believe the loss ratio will increase from 51.7% in FY21 to 54.8% by FY26e, led by the higher claims likely in the Technical division (~56% of total claims incurred in FY26e). Nonetheless, Al Madina has made lots of efforts in strengthening its supply chain network, especially related to Motor and Medical claims. This has resulted in improving operating efficiencies gradually by shortening the claim processing duration. Going ahead, the company remains focused to grow digitally with a combined effort on claim automation, which may lead to a reduction in underwriting and operating expenses, resulting in a lower expense ratio to 37.7% by FY26e. Therefore, despite a likely increase in claims, we expect the combined ratio to improve, aided by operational efficiencies gains.

Fig. 41: High exposure in the motor segment will lead to higher NCI



Source: Company Reports, U Capital Research

Fig. 42: Combined ratio likely to improve on digitalization

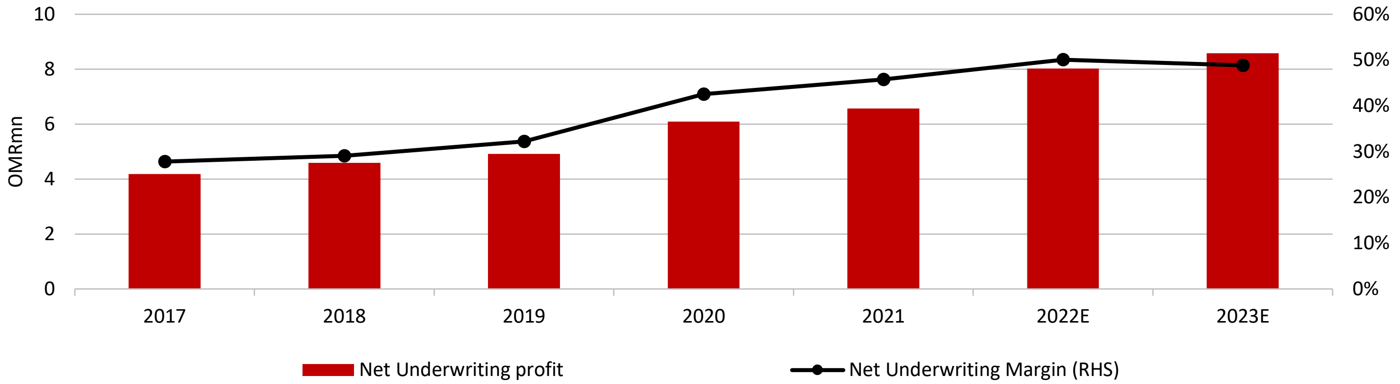


Source: Company Reports, U Capital Research

A strong underwriting strategy ensures resilient performance to continue going forward

Al Madina's all the businesses contribute positively to its underwriting surplus. This is well proved by its strong growth in underwriting surplus, where the top-line has grown at a CAGR of ~10% during FY17-21 while the underwriting surplus has garnered growth of ~12% during the same period. We expect the company to continue achieving more profit from its underwriting takaful operations, although at a moderate rate, given its focus on the Bancassurance business and SME segments, which historically have been profitable businesses. Consequently, we expect the underwriting surplus to grow at a CAGR of 8.4% over FY21-26e.

Fig. 43: Favorable product mix may lead to higher underwriting profits

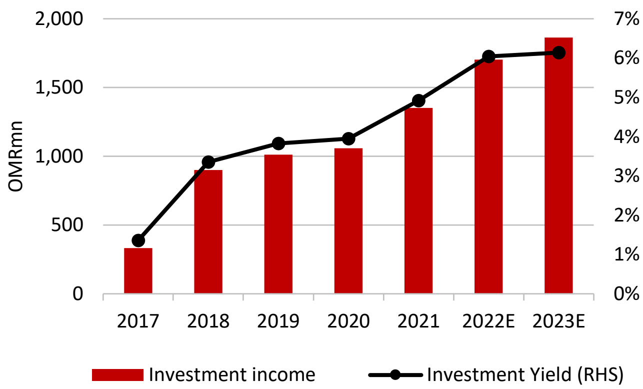


Source: Company Reports, U Capital Research

Well calibrated investment strategy ensures steadily growing investment income

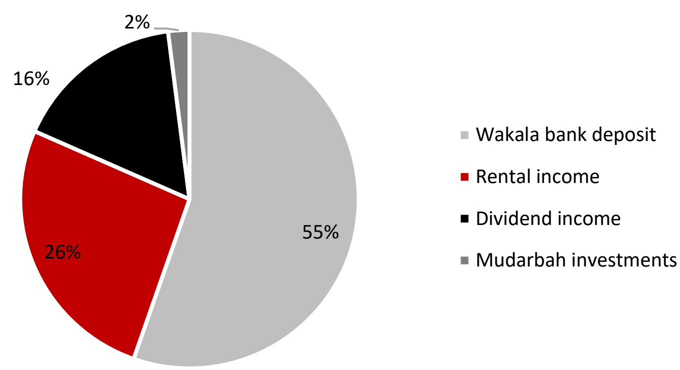
The company has a defensive asset allocation strategy in place, with an increased focus on fixed income yielding Sukuks and Wakala deposits. Within equities too, the company focus on those stocks which offer high dividend yields and have the unleveraged balance sheet, with strong cash flows. This investment approach has rewarded the company with investment income rising at a high double-digit growth rate over FY17-21, despite the rental yields and property valuations being impacted by the soft property market. Going ahead, Al Madina will continue to focus on low volatile investments, simultaneously maintaining a diversified portfolio, both by geography and asset class, to achieve optimal investment returns.

Fig. 44: Increasing investment income due to higher UPR



Source: Company Reports, U Capital Research

Fig. 45: Investment bifurcation in FY21



Source: Company Reports, U Capital Research

Resilient underwriting performance and robust investment income to drive earnings

Al Madina has one of the best bottom-line growth of 24.5% over FY17-21, aided by healthy underwriting performance and strong investment income. Going ahead, with the expected recovery in the insurance market post-pandemic era, coupled with an improving economy on higher oil prices, we expect the company to continue its robust performance. Given its focus on the retail business, the launch of new products, technological innovations, and hopefully the much-needed favorable pricing revisions in the local insurance market, we expect the bottom line to grow at a healthy CAGR of 16.9% over FY21-26e. Consequently, this should drive ROA from 0.8% in FY21 to 1.2% in FY26e and ROE from 4.2% in FY21 to 8.8% in FY26e.

Continuously rewarding its shareholders with decent dividends

AMAT has one of the highest dividend payout ratios in the industry, with an average dividend payout ratio of >100% in the last 5 years. Going ahead, we believe the company will continue with its strong dividend payout policy, increasing its dividend per share year-on-year from OMR 0.008 in FY21 to OMR 0.011 in FY26e, where we have conservatively assumed an average dividend payout ratio of 90% during the forecasted period. This should appeal to fixed-income-seeking investors.

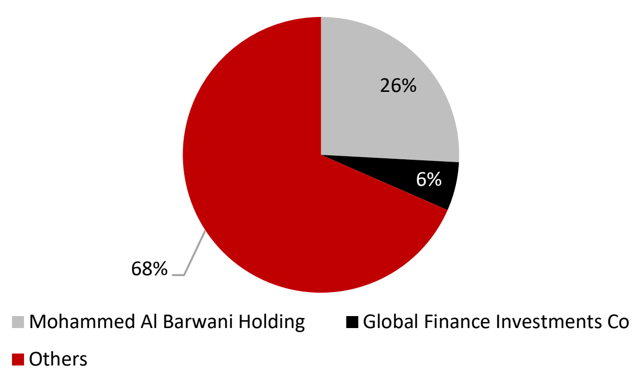
Assigning ACCUMULATE rating due to strong earnings and consistent dividend payouts

The company is well-positioned to continue achieving healthy top-line growth and underwriting profit in the coming years through disciplined underwriting, process efficiency, focused sales planning, and superior customer service. Concomitantly, the company will continue to look at opportunities to generate healthy yields on its investment book. With expertise in the Mega Specialty Risks market, the company is further focusing to grow its retail motor business by strengthening its supply chain network in strategic locations. This will help the company to have stabilized top-line growth while maintaining its market position. Thus, a well-planned growth strategy, cost optimization, proper product mix, and prudent investment strategy may help the company to deliver one of the best bottom-line growth in the industry, i.e., mid-double-digit growth in the next five years. Using the blended valuation method of DDM and P/B multiple, our target price stands at OMR 0.109, implying an upside potential is 16.4% from the current CMP of OMR 0.094.

About AMAT

Al Madina Insurance Company was incorporated in the year 2006 and became Oman's first takaful company in the year 2004. The company is amongst the top 10 insurance companies in Oman. The company offers insurance services such as a motor vehicle, marine cargo, life, medical, engineering, general accident, liability, fire, and property, and solely operates in the Oman region currently.

Fig. 46: AMAT's Shareholding Structure



Source: Company Filings, U Capital Research

Key financials

In OMR'000, except stated otherwise	FY19	FY20	FY21	FY22e	FY23e	FY24e
Income Statement						
Gross written premiums (gross contributions)	38,913	39,599	44,124	48,935	53,042	56,829
Insurance premium ceded to reinsurers, earned	-24,216	-25,600	-29,289	-32,466	-35,014	-37,420
Net written premium	14,697	13,999	14,835	16,469	18,028	19,410
Net earned premium (NEP)	**15,257**	**14,307**	**14,341**	**16,019**	**17,564**	**18,950**
Claims paid	-19,542	-17,568	-17,264	-19,004	-24,029	-23,733
Reinsurers' share of claims	10,475	10,583	10,025	11,232	15,308	14,038
Net underwriting result	**4,911**	**6,089**	**6,568**	**8,021**	**8,581**	**8,977**
Investment income	1,013	1,059	1,351	1,703	1,863	2,004
General and administrative expenses	-4,220	-4,470	-4,651	-4,753	-4,886	-5,179
Profit before taxation	**1,153**	**992**	**1,148**	**1,793**	**2,021**	**2,181**
Income tax	-239	-277	-193	-244	-303	-327
Profit for the year	**913**	**715**	**955**	**1,550**	**1,718**	**1,854**
Balance Sheet						
Cash and cash equivalents	5,973	7,260	7,266	10,411	9,713	10,243
Bank deposits	11,650	11,700	12,450	13,197	13,857	14,550
Financial investments	8,852	9,668	9,848	9,938	10,404	10,760
Premiums and insurance balances receivable	13,374	12,496	17,139	18,636	22,404	24,847
Reinsurers' share of insurance contract liabilities	44,099	44,766	62,312	60,426	68,379	75,457
Other receivables and prepayments	1,787	1,943	2,271	2,553	2,820	3,078
Total Assets	**96,516**	**97,023**	**1,22,364**	**1,26,306**	**1,40,313**	**1,52,941**
Liabilities arising from insurance contract	56,945	57,153	75,373	74,903	84,867	93,768
Due to reinsurers	9,739	9,473	12,815	14,200	15,445	16,604
Other liabilities and accruals	4,523	5,140	6,946	7,754	8,351	8,891
Total Liabilities	**74,952**	**74,528**	**1,00,105**	**1,02,709**	**1,15,300**	**1,26,694**
Share capital	17,500	17,500	17,500	17,500	17,500	17,500
Retained earnings	3,115	2,708	1,818	1,818	1,818	1,818
Total Equity	**23,546**	**23,402**	**22,729**	**22,884**	**23,056**	**23,241**
Total Liabilities and Shareholders' equity	**96,516**	**97,023**	**1,22,364**	**1,26,306**	**1,40,313**	**1,52,941**
Cash Flow Statement						
Net cash from operating activities	1,878	1,697	553	5,362	3,076	4,078
Net cash from investing activities	1,774	640	1,203	(823)	(2,227)	(1,880)
Net cash from financing activities	-875	(1,050)	(1,750)	(1,395)	(1,546)	(1,668)
Cash & cash equivalent at period end	**5,973**	**7,260**	**7,266**	**10,411**	**9,713**	**10,243**
Key Ratios						
Net underwriting margin	32.2%	42.6%	45.8%	50.1%	48.9%	47.4%
Pre-tax margin	7.6%	6.9%	8.0%	11.2%	11.5%	11.5%
NP margin	6.0%	5.0%	6.7%	9.7%	9.8%	9.8%
Loss Ratio	58.7%	47.8%	51.7%	49.4%	50.7%	52.2%
Expenses Ratio	39.1%	44.2%	44.3%	40.1%	38.6%	38.5%
Combined Ratio (COR)	97.8%	92.0%	96.0%	89.5%	89.3%	90.7%
Retention ratios	37.8%	35.4%	33.6%	33.7%	34.0%	34.2%
ROA	0.9%	0.7%	0.8%	1.2%	1.3%	1.3%
ROE	3.9%	3.1%	4.2%	6.8%	7.5%	8.0%
EPS (OMR)	0.005	0.004	0.005	0.009	0.010	0.011
BVPS (OMR)	0.135	0.134	0.130	0.131	0.132	0.133
DPS (OMR)	0.006	0.010	0.008	0.008	0.009	0.010
Dividend Yield (%)	7.6%	12.8%	7.9%	8.5%	9.4%	10.1%
Cash Dividend payout (%)	115.0%	244.7%	137.5%	90.0%	90.0%	90.0%
P/E (x)	15.14x	19.09x	17.41x	10.62x	9.57x	8.87x
P/BV (x)	0.59x	0.58x	0.73x	0.72x	0.71x	0.71x
Price as at period end*	0.079	0.078	0.095	0.094	0.094	0.094

Source: Company Reports, U Capital Research

*Current market price is used for the years forecasted

Disclaimer

Recommendation

BUY	Greater than 20%
ACCUMULATE	Between +10% and +20%
HOLD	Between +10% and -10%
REDUCE	Between -10% and -20%
SELL	Lower than -20%

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