

## SAUDI RE

Stellar GWP growth in FY 21e despite slow rollout of IDI, we raise EPS FY21e/22e by c50%

- GWPs are on track for 36% y/y growth in FY 21e, despite the slow rollout of IDI, due to 2 major contract wins with Medgulf (SAR 130m) and Probitas (SAR 170m) in Q1, explaining the strong GWP (+ 58% y/y) and NEP (+59%) in Q1.
- Hardening reinsurance rates should further boost renewal rates by 10% for FY 21e, and keep net loss ratios at <65%, with excess of loss (XoL) and retrocessionaires remaining unchanged.
- IDI rollout has been slow, with minimal policies booked in Q1, as system linkages and the infrastructure take time. We further delay the rollout to FY 22e, with the new LoB supported by megaprojects and corporate CapEx.
- We reiterate our Buy recommendation lift our TP to SAR 19.0 from SAR 16.7, and our EPS FY21/22e forecasts by 48-52%, providing 23% upside.

**Stellar performance in Q1 with earnings surging by +90.3% y/y and GWPs by +58.1%.** Growth was supported by two major contract wins in Q1, i) a medical quota share with MedGulf worth SAR 130m ([link](#)), and ii) a new reinsurance contract with Probitas worth SAR 177m ([link](#)). Furthermore, combined ratios fared better than expect with loss ratios clocking at 62.2% (-2.8ppts vs. ACE), and expense ratios at 24.3% (-1.9ppts). Primarily, Saudi Re benefited from hardening reinsurance rates +10% ([link](#)), and economies of scale as SG&A improve to 7% of NEP, while underwriting expenses increase only by 6.0% y/y.

**Growth prospects remain compelling for FY 21e (+36% y/y), thanks to major contract wins (SAR 300m, 32% of GWP FY 20) and hardening renewal rates (+10%).** We expect SaudiRe to have already booked 65.5% of FY 21e premiums in Q1, while the hardening rates environment is expected to further boost Saudi Re's renewal rates by +10% in the coming quarters, translating to a total growth of +36% y/y in FY 21e, on our workings.

**IDI rollout falls behind schedule, as system linkages and infrastructure setup take time, though the program remains on track for FY 22e** (at the latest). We model for a FY 21-26e GWP CAGR of 18.2% increasing GWPs to SAR 2.9bn by FY 26e, as we expect SAR 92m-1.5bn of deposit-premiums to filter through FY 22-26e (vs SAR 88m-1.8bn between FY 21-26e previously), as visibility on mega projects and large corporate capex plans improves. In addition, we expect IDI-premiums to boost investment income by c.24% on average, as deposit-premiums are placed in longer-dated FI investments yielding c.3.4%, until the construction period is complete and insurance coverage kicks-in (for more details on IDI please check [link p.21](#)), while IDI is long tail reinsurance business. Nonetheless, investment income contribution to earnings should decrease from 63% in FY 21e to 53% by FY26e due to lower investment yields (2.4% vs 2.9%) and improving combined ratios (-2.4ppts FY 21-25e), though investments/equity increases from 79% to 2.1x FY 21-26e.

**Margin improvements to boost RoE 21e to 5.6% and to 12.3% by FY 26e.** We reduce our net loss ratios estimates by -2.3ppts in FY 21e, -1.6ppts in FY 22e, and -1.0% in FY 23e, after the strong delivery in Q1, as Saudi Re continues to mitigate its risk exposure with its optimal mix of XoL contracts and retrocessionaires (22% and 3.2% on avg, respectively), coupled with the hardening rates environment. Furthermore, we reduce our expense ratios by -90bps in FY 22e, -2.1ppts in FY 23e and -30bps in FY 24e, as we expect growth from IDI to improve its economies of scale as of FY 22e.

**Valuation remains attractive with future growth secured from the rollout of IDI.** Saudi Re stock performance has only marginally outperformed the KSA insurance sector YtD (+3.8% vs. +1.2%) as the reinsurer is relatively shielded from the tightening margins in the medical segment and slower growth in motor TPLs, with upside risk to the IDI rollout if it filters through in H2 21A or FY22e, as visibility on projects improve. The stock is trading at P/tNAV 21e of 1.4x (vs 1.5x FY 13-20A avg) and P/E 22e of 17.7x (vs. 25.4x FY 19-20A avg), while RoE should improve to 6.4% by FY 22e and 12.3% by FY 26e from 5.4% in FY20.

BUY

SAR 19↑

### Insurance / KSA

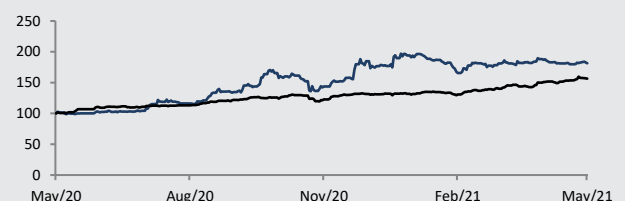
Bloomberg code	SAUDIRE AB
Market index	KSA
Target Price	19.0
Upside (%)	34.5

### Market data 04/05/2021

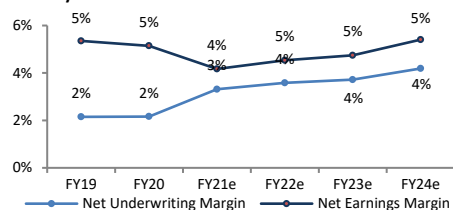
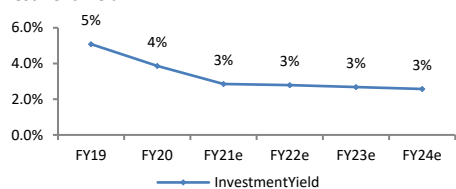
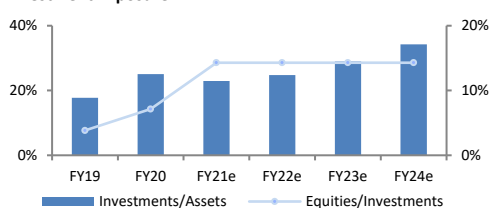
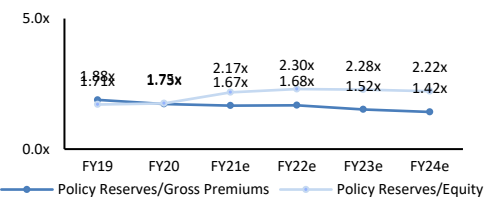
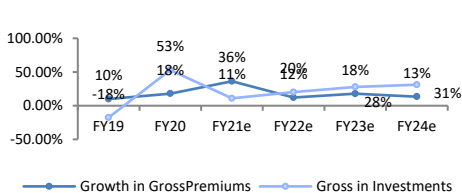
Last closing price	14.1
52 Week range	7.2-15.9
Market cap (SAR m)	1,144
Market cap (USD m)	305
Average Daily Traded Value (SAR m)	34.0
Average Daily Traded Value (USD m)	9.1
Free float (%)	94%

Year-end (local m)	2020	2021e	2022e	2023e
Gross Written Premiums	935	1,274	1,428	1,681
Underwriting Profit	69	111	131	152
EPS	0.59	0.66	0.80	0.98
P/E (x) (market price)	23.8	21.5	17.7	14.3
BVPS	11.40	12.05	12.85	13.84
Tangible BVPS	9.55	10.45	11.09	11.92
P/B (x) (market price)	1.2	1.2	1.1	1.0
P/TBVPS (x) (market price)	1.5	1.4	1.3	1.2
DPS	-	-	-	-
Div. yield (%)	-	-	-	-
RoAA (%)	1.7	1.6	1.7	1.9
RoAE (%)	5.4	5.6	6.4	7.4
Investments/Assets (%)	25.1	22.9	24.8	29.0
Investment Yield (%)	3.9	2.9	2.8	2.7
Net Loss Ratio	60.6	63.3	64.2	65.0
Combined Ratio	96.4	94.8	94.5	94.1
Underwriting Profit Margin	2.2	3.3	3.6	3.7
Net Profit Margin	5.1	4.2	4.5	4.7
Policy Reserves/Equity	175.1	217.4	230.0	227.9

### Price Performance



**Abacus** Arqaam Capital Fundamental Data

**Profitability**

**Investment Yield**

**Investment Exposure**

**Solvency ratios & reserve adequacy**

**Growth**

**SAUDI RE**

Year-end	2019	2020	2021e	2022e	2023e	2024e
<b>Performance analysis</b>						
Cession Ratio	16.1	14.2	11.4	13.0	17.3	24.9
Net Loss Ratio	64.9	60.6	63.3	64.2	65.0	65.2
Expense Ratio	32.2	35.9	31.4	30.3	29.1	28.5
Combined Ratio	97.2	96.4	94.8	94.5	94.1	93.7
Underwriting Profit Margin	2.1	2.2	3.3	3.6	3.7	4.2
Investment Yield	5.1	3.9	2.9	2.8	2.7	2.6
Net Margin	5.4	5.1	4.2	4.5	4.7	5.4
RoAE	5.0	5.4	5.6	6.4	7.4	8.8
RoAA	1.7	1.7	1.6	1.7	1.9	2.3
Net Premiums/Equity	0.7	0.7	0.9	0.9	1.0	1.1
Gross Premiums/Equity	0.9	1.0	1.3	1.4	1.5	1.6
Claims Reserve/NPE	1.7	1.6	1.3	1.2	1.1	1.0
Investment Income/Total Income	30.0	28.5	15.5	14.9	14.7	14.2

Year-end	2019	2020	2021e	2022e	2023e	2024e
<b>Investment Exposure</b>						
Investments/Assets	17.8	25.1	22.9	24.8	29.0	34.2
Equities/Investments	3.8	7.1	14.3	14.3	14.3	14.3
Equity/Assets (%)	34.1	33.2	29.0	27.8	27.4	27.0

Year-end	2019	2020	2021e	2022e	2023e	2024e
<b>Liquidity/Leverage</b>						
Policy Reserves/Gross Premiums	1.9	1.7	1.7	1.7	1.5	1.4
Policy Reserves/Net Earned Premiums	2.3	2.5	2.5	2.5	2.3	2.1
Policy Reserves/Equity	1.7	1.8	2.2	2.3	2.3	2.2
Debt/Capital	-	-	-	-	-	-
Debt/Equity (x)	-	-	-	-	-	-

Year-end	2019	2020	2021e	2022e	2023e	2024e
<b>Growth</b>						
Gross Premiums	9.9	17.9	36.3	12.0	17.7	13.4
Net Earned Premiums	4.7	0.7	30.4	15.0	12.4	18.2
Investments	(17.6)	52.9	10.9	20.2	27.8	31.1
Assets	9.2	8.4	21.1	11.4	9.2	10.9
Total Reserves	8.8	8.1	31.3	12.8	6.7	6.2
Equity	5.1	5.5	5.8	6.6	7.7	9.2

Year-end	2019	2020	2021e	2022e	2023e	2024e
<b>Valuation</b>						
P/B(x) (current price)	1.3	1.2	1.2	1.1	1.0	0.9
P/B(x) (target price)	1.8	1.7	1.6	1.5	1.4	1.3
P/E(x) (current price)	27.0	23.8	21.5	17.7	14.3	11.1
P/E(x) (target price)	36.3	32.0	29.0	23.8	19.3	14.9

**Abacus** *Arqaam Capital Fundamental Data*
**Investment thesis**

Saudi Re was established in Riyadh in 2008 and is currently the only Saudi Arabia-based reinsurer, and it is regulated by the Saudi Arabian Monetary Agency (SAMA) in Riyadh. The company is listed on the Riyadh stock exchange with a diversified investors base. It writes most lines of general, life, and health inwards reinsurance on a predominantly proportional treaty basis, with some non-proportional and facultative business.

Saudi Re has a A3 rating from Moody's and AA rating from Tasneef (local rating agency). Its portfolio is now well diversified geographically and across all lines of business.

**Key Drivers:**

- Strong brand and market position in Saudi Arabia as the sole Saudi professional reinsurer as well as a growing presence in its target markets of Asia, Africa and Lloyd's
- Preferential position in Saudi market due to a right of first refusal on a portion of premiums ceded by primary carriers in the Saudi market,
- Strong asset quality exemplified by its conservative investment portfolio
- Good capital adequacy, both in terms of capital levels, with gross underwriting leverage (GUL) of 2.2x, and relatively modest exposure to natural catastrophe risk
- Strong financial flexibility with non-existent leverage and good access to capital markets in Saudi Arabia given its listing on the Saudi stock exchange, and broad investor base.

**Key Shareholder's**

Ahmad H Al Qusaibi	5.0%
Sate Street Global Advisors	0.5%
Acadian Asset Management	0.3%

**SAUDI RE**

Year-end	2019	2020	2021e	2022e	2023e	2024e
<b>Income statement (mn)</b>						
<b>Gross Written Premiums</b>	<b>792.8</b>	<b>935.1</b>	<b>1,274.2</b>	<b>1,427.6</b>	<b>1,680.9</b>	<b>1,906.1</b>
Ceded Premiums	146.2	162.5	176.4	224.1	342.5	537.9
Retained Premiums	646.6	772.6	1,097.9	1,203.6	1,338.3	1,368.3
Movement in Unearned Premiums	4.1	125.5	247.4	164.5	79.6	72.5
<b>Net Premiums Earned</b>	<b>642.5</b>	<b>647.1</b>	<b>843.9</b>	<b>970.0</b>	<b>1,090.5</b>	<b>1,288.9</b>
Commissions paid	172.8	194.7	209.3	230.3	250.3	297.5
Net commissions	(154.6)	(182.0)	(193.9)	(211.6)	(224.0)	(258.6)
Other underwriting expenses	3.6	4.0	4.6	5.1	5.8	6.5
Changes in technical reserves	-	-	-	-	-	-
Net Claims	417.1	392.0	534.6	622.6	709.1	840.0
<b>Underwriting Profit</b>	<b>67.2</b>	<b>69.1</b>	<b>110.9</b>	<b>130.8</b>	<b>151.6</b>	<b>183.8</b>
Investment Income	47.2	38.3	32.5	37.5	44.2	54.0
Other operating income	1.0	6.7	1.0	1.0	1.1	1.1
<b>Investment &amp; other income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Interest Expense	-	-	-	-	-	-
General & Administrative	50.2	48.9	68.6	79.6	89.1	104.0
<b>Operating Profit</b>	<b>65.2</b>	<b>65.3</b>	<b>75.7</b>	<b>89.7</b>	<b>107.7</b>	<b>135.0</b>
Distribution of surplus	(3.5)	(3.4)	(3.8)	(4.5)	(5.4)	(6.7)
Other income/(loss)	(2.4)	(1.1)	(2.6)	(3.1)	(4.0)	(4.9)
Tax	13.9	14.8	16.2	17.3	18.6	20.3
Minority Interest	-	-	-	-	-	-
<b>Net Income</b>	<b>45.4</b>	<b>45.9</b>	<b>53.1</b>	<b>64.7</b>	<b>79.7</b>	<b>103.0</b>
Reported EPS	0.52	0.59	0.66	0.80	0.98	1.27

Year-end	2019	2020	2021e	2022e	2023e	2024e
<b>Balance sheet (mn)</b>						
Cash	13.2	13.2	191.0	147.2	(79.8)	(397.8)
Intangible Assets	-	-	-	-	-	-
Reinsurance Contract Assets	368.4	272.3	577.1	653.8	698.0	741.7
Investment Properties	-	-	-	-	-	-
Investments	455.3	696.1	771.7	927.6	1,185.9	1,554.3
Associates	101.4	120.1	126.1	132.5	139.1	146.0
Insurance Receivables	818.5	1,050.2	1,054.9	1,149.9	1,280.7	1,432.6
Fixed Assets	33.6	33.6	30.8	29.3	27.9	26.5
Other Assets	772.9	593.1	612.9	707.2	841.6	1,036.6
<b>Total Assets</b>	<b>2,563.3</b>	<b>2,778.7</b>	<b>3,364.5</b>	<b>3,747.5</b>	<b>4,093.4</b>	<b>4,540.1</b>
Short-term Insurance Contract Liabilities	1,092.5	1,067.7	1,108.7	1,150.8	1,198.6	1,255.3
Long-term Policyholder Liabilities	402.0	548.5	1,013.7	1,244.0	1,355.5	1,457.0
Debt	-	-	-	-	-	-
Insurance Payables	123.8	146.3	195.9	241.8	348.7	534.1
Other Liabilities	70.0	93.0	69.9	69.9	69.9	69.9
<b>Total Liabilities</b>	<b>1,688.3</b>	<b>1,855.5</b>	<b>2,388.2</b>	<b>2,706.5</b>	<b>2,972.7</b>	<b>3,316.3</b>
<b>Shareholders Equity</b>	<b>875.1</b>	<b>923.2</b>	<b>976.3</b>	<b>1,041.0</b>	<b>1,120.7</b>	<b>1,223.8</b>
Minority Interest	-	-	-	-	-	-
<b>Total Equity</b>	<b>875.1</b>	<b>923.2</b>	<b>976.3</b>	<b>1,041.0</b>	<b>1,120.7</b>	<b>1,223.8</b>
BVPS	10.80	11.40	12.05	12.85	13.84	15.11

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**Exhibit 1: SaudiRe Earnings Review Q1 21A: Strong start to the year, already booking 65.5% of FY 21e GWPs**

SAUDI RE	Reported	AC	vs	Reported	q/q	Reported	Reported	y/y	y/y
SAR m's	Q1 21A	Q1 21e	20	Q4 20A	20	Q1 20A	Q4 19A	Q1	Q4
<b>Gross Written Premiums</b>	<b>834.3</b>	<b>641.8</b>	<b>30.0%</b>	<b>77.1</b>	<b>nm</b>	<b>527.7</b>	<b>116.4</b>	<b>58.1%</b>	<b>(33.7%)</b>
<b>Net Earned Premiums</b>	<b>195.2</b>	<b>160.4</b>	<b>21.6%</b>	<b>173.7</b>	<b>12.4%</b>	<b>122.7</b>	<b>174.3</b>	<b>59.0%</b>	<b>(0.4%)</b>
Net claims	(121.4)	(103.5)	17.3%	(107.3)	13.2%	(58.5)	(116.5)	107.7%	(7.9%)
claims ratio	62.2%	64.5%	(2.3%)	61.8%	0.4%	47.6%	66.8%	14.6%	(5.1%)
OpEx	(47.4)	(40.5)	17.1%	(44.1)	7.5%	(44.7)	(44.1)	6.0%	(0.1%)
<b>Underwriting Income</b>	<b>26.3</b>	<b>16.5</b>	<b>59.9%</b>	<b>22.3</b>	<b>18.1%</b>	<b>19.6</b>	<b>13.7</b>	<b>34.5%</b>	<b>63.2%</b>
Investment Income	(16)	(19)	(17.5%)	(12)	34.8%	(19)	(14)	(15.3%)	(14.9%)
	9.2	9.4	(2.6%)	16.6	(44.6%)	9.5	4.0	(3.5%)	nm
<b>Net Income Before Z&amp;T</b>	<b>19.6</b>	<b>6.6</b>	<b>197.1%</b>	<b>27.0</b>	<b>(27.6%)</b>	<b>10.3</b>	<b>3.8</b>	<b>90.3%</b>	<b>nm</b>
Expense Ratio	24.3%	26.2%	(1.9%)	25.4%	(1.1%)	36.4%	25.3%	(12.1%)	0.1%
<b>Combined Ratio</b>	<b>86.5%</b>	<b>91.2%</b>	<b>(4.7%)</b>	<b>87.2%</b>	<b>(0.7%)</b>	<b>84.1%</b>	<b>92.2%</b>	<b>2.5%</b>	<b>(5.0%)</b>

Source: Company Data, Arqaam Capital Research

**Exhibit 2: Saudi Re changes of estimates table:**

	FY 21e		FY 22e		FY 23e		FY 24e					
	New	Old	New	Old	New	Old	New	Old				
<b>Gross Written Premiums</b>	<b>1,274</b>	<b>1,065</b>	<b>19.6%</b>	<b>1,428</b>	<b>1,431</b>	<b>(0.2%)</b>	<b>1,681</b>	<b>1,503</b>	<b>11.8%</b>	<b>1,906</b>	<b>1,866</b>	<b>2.1%</b>
Net Premiums Earned	844	753	12.0%	970	782	24.1%	1,090	810	34.6%	1,289	1,098	17.4%
Net commissions	(194)	(181)	7.1%	(212)	(171)	23.4%	(224)	(168)	33.3%	(259)	(213)	21.3%
Net claims incurred	535	494	8.1%	623	514	21.0%	709	535	32.5%	840	714	17.7%
<b>Underwriting Income</b>	<b>111</b>	<b>74</b>	<b>49.9%</b>	<b>131</b>	<b>91</b>	<b>44.1%</b>	<b>152</b>	<b>102</b>	<b>48.9%</b>	<b>184</b>	<b>164</b>	<b>11.8%</b>
Investment & other income	33	36	(7.9%)	39	45	(15.1%)	45	57	(20.0%)	55	64	(13.6%)
Operating Profit	76	61	24.5%	90	70	27.6%	108	82	31.7%	135	134	1.1%
NP before Z&T	69	52	33.1%	82	60	37.7%	98	70	40.7%	123	118	4.5%
<b>Net Income</b>	<b>53</b>	<b>36</b>	<b>48.1%</b>	<b>65</b>	<b>43</b>	<b>51.9%</b>	<b>80</b>	<b>52</b>	<b>53.1%</b>	<b>103</b>	<b>99</b>	<b>4.1%</b>
	0.4	0.3		0.5	0.3		0.6	0.4		0.8	0.8	
<b>Ratios</b>												
Net Claims Ratio	63.3%	65.6%	(2.3%)	64.2%	65.8%	(1.6%)	65.0%	66.0%	(1.0%)	65.2%	65.0%	0.2%
Expense Ratio	31.4%	31.3%	0.1%	30.3%	31.3%	(0.9%)	29.1%	31.1%	(2.1%)	28.5%	28.9%	(0.3%)
Net Profit Margin	4.2%	3.4%	0.8%	4.5%	3.0%	1.6%	4.7%	3.5%	1.3%	5.4%	5.3%	0.1%
GWP/Equity	1.3x	1.1x	19.5%	1.4x	1.4x	(5.7%)	1.5x	1.4x	7.3%	1.6x	1.6x	(6.1%)
RoAE	5.6%	3.8%	1.8%	6.4%	4.3%	2.1%	7.4%	5.1%	2.3%	8.8%	9.0%	(0.2%)
<b>Growth</b>												
Gross Premiums	36%	14%	22.4%	12%	34%	(22.3%)	18%	5%	12.7%	13%	24%	(10.8%)
Net Earned Premiums	30%	16%	14.0%	15%	4%	11.2%	12%	4%	8.8%	18%	35%	(17.3%)
<b>TP</b>	<b>19.0</b>	<b>16.7</b>	<b>13.8%</b>									

Source: Company Data, Arqaam Capital Research

**Exhibit 3: Evolution of Q1 20A – Q4 21e**

Consolidated Insurance	Q1 20	Q2 20	Q3 20	Q4 20	FY 20	Q1 21	Q2 21E	Q3 21E	Q4 21E	FY 21E
<b>Gross Written Premiums</b>	<b>527,718</b>	<b>131,337</b>	<b>198,922</b>	<b>77,138</b>	<b>935,114</b>	<b>834,284</b>	<b>144,471</b>	<b>212,847</b>	<b>82,623</b>	<b>1,274,225</b>
<i>growth in premiums earned</i>	24.4%	59.8%	17.0%	-33.7%	17.9%	58.1%	10.0%	7.0%	7.1%	36.3%
Ceded Premiums	38,395	49,408	29,735	44,937	162,475	41,908	50,565	31,927	21,251	145,651
<i>Cession Ratio</i>	7.3%	37.6%	14.9%	58.3%	14.2%	5.0%	35.0%	15.0%	25.7%	11.4%
Retained Premiums	489,323	81,929	169,187	32,201	772,639	792,376	93,906	180,920	24,065	1,091,266
<i>Retention ratio</i>	92.7%	62.4%	85.1%	41.7%	82.6%	95.0%	65.0%	85.0%	29.1%	85.6%
	7.3%	37.6%	14.9%	58.3%	0.173749	5.0%	35.0%	15.0%	70.9%	0.1435842
Movement in unearned premiums	366,579	(73,535)	(26,032)	(141,494)	125,519	597,214	(72,235)	(95,781)	(181,789)	247,408
<i>% of GWP</i>	69.5%	-56.0%	-13.1%	-183.4%	13.4%	71.6%	-50.0%	-45.0%	-220.0%	19.4%
<b>Net Earned Premiums</b>	<b>122,743</b>	<b>155,464</b>	<b>195,219</b>	<b>173,695</b>	<b>647,121</b>	<b>195,162</b>	<b>166,141</b>	<b>276,701</b>	<b>205,853</b>	<b>843,857</b>
NEP/GWP	23.3%	118.4%	98.1%	225.2%	69.2%	23.4%	115.0%	130.0%	249.1%	66.2%
					0	59%				0
Commissions received	2,030	3,330	1,890	5,444	12,693	2,095	3,655	3,044	6,623	15,417
<i>% of ceded premiums</i>	1.7%	2.1%	1.0%	3.1%	2.0%	1.1%	2.2%	1.1%	3.2%	1.8%
Claims recovered	74,855	42,719	99,779	51,805	299,715	118,856	118,178	32,862	268,131	538,028
<i>% of gross claims</i>	15.3%	52.1%	59.0%	160.9%	38.8%	15.0%	125.8%	18.2%	1114.2%	49.3%
Movements in outstanding claims	(22,428)	51,412	15,099	41,779	92,265	(22,428)	(95,293)	209,183	(94,906)	(3,445)
<i>% of gross claims</i>	-38.4%	50.8%	12.1%	38.9%	23.5%	-18.5%	-89.6%	118.1%	-73.2%	-0.6%
<b>Net Claims Incurred</b>	<b>58,463</b>	<b>101,259</b>	<b>124,949</b>	<b>107,308</b>	<b>391,980</b>	<b>121,438</b>	<b>106,330</b>	<b>177,089</b>	<b>129,727</b>	<b>534,583</b>
<i>Net Loss Ratio</i>	47.6%	65.1%	64.0%	61.8%	60.6%	62.2%	64.0%	64.0%	63.0%	63.3%
					0					0
Commissions paid & other costs	45,406	45,885	55,162	48,230	194,682	45,406	48,181	69,175	46,505	209,267
<i>as % of premiums</i>	37.0%	29.5%	28.3%	27.8%	30.1%	23.3%	29.0%	25.0%	22.6%	24.8%
					0.0%					0.0%
Other UW expenses	1,342	1,948	(602)	1,314	4,003	2,000	1,424	739	401	4,564
<i>as % of GWP</i>	0.3%	1.5%	-0.3%	1.7%	0.4%	0.2%	1.0%	0.3%	0.5%	0.4%
					0.0%					0.0%
<b>Net UW Profit</b>	<b>19,561</b>	<b>9,702</b>	<b>17,599</b>	<b>22,286</b>	<b>69,149</b>	<b>26,318</b>	<b>10,205</b>	<b>29,699</b>	<b>29,221</b>	<b>110,861</b>
<i>margin</i>	3.7%	7.4%	8.8%	28.9%	7.4%	3.2%	7.1%	14.0%	35.4%	8.7%
Income from time deposits	3,716	2,939	2,058	2,017	10,729	757	4,000	4,000	3,437	12,194
Investment income	5,478	6,637	6,832	8,653	27,600	8,232	6,500	6,000	(429)	20,303
Other income	326	347	141	5,899	6,712	193	248	248	310	1,000
<b>Investment &amp; other revenue</b>	<b>9,520</b>	<b>9,922</b>	<b>9,031</b>	<b>16,569</b>	<b>45,041</b>	<b>9,183</b>	<b>10,748</b>	<b>10,248</b>	<b>3,318</b>	<b>33,498</b>
<b>Operating profit</b>	<b>(12,511)</b>	<b>(10,430)</b>	<b>(12,253)</b>	<b>(13,730)</b>	<b>(48,924)</b>	<b>(13,661)</b>	<b>(10,301)</b>	<b>(19,369)</b>	<b>(25,297)</b>	<b>(68,628)</b>
Insurance operations' share of surplus	(534)	(312)	(1,157)	(1,429)	(3,432)	(150)	(184)	(1,217)	(2,235)	(3,787)
Other expenses	(5,746)	142	2,537	1,924	(1,143)	(2,108)	(651)	(651)	807	(2,603)
<b>PBT</b>	<b>10,290</b>	<b>9,026</b>	<b>15,757</b>	<b>27,049</b>	<b>60,692</b>	<b>19,582</b>	<b>9,818</b>	<b>18,710</b>	<b>8,049</b>	<b>69,341</b>

Source: Company Data, Arqaam Capital Research

**Exhibit 4: Saudi Re's Valuation Table:**

	2019A	2020e	2021e	2022e	2023e	2024e	2025e	2026e	perp	subtotal	% of total	
<b>1. DCF</b>												
Net profit	42,423	48,109	53,113	64,735	79,722	103,029	130,653	178,025	178,025			
Other adjustments (comprehensive income)	--	--	--	--	--	--	--	--	--			
Minus: excess return excess capital	12,464	11,926	10,137	11,269	12,624	13,005	13,838	14,214	14,214			
Return on excess capital	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%			
Tax shelter	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%			
Adjusted net profit	29,960	36,183	42,976	53,465	67,097	90,024	116,815	163,811	163,811			
Capital requirements	298,295	368,585	502,400	532,510	567,922	658,238	757,443	912,536	912,536			
RoEcC	10.0%	9.8%	8.6%	10.0%	11.8%	13.7%	15.4%	18.0%	18.0%			
Cost of capital	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%			
Capital charge	29,829	36,859	50,240	53,251	56,792	65,824	75,744	91,254	91,254			
Economic profit	130	(676)	(7,264)	214	10,305	24,200	41,071	72,557	72,557			
Discount factor			1.00	0.91	0.83	0.75	0.68	0.62	0.56			
NPV of Economic Profit			(7,264)	195	8,517	18,182	28,052	45,052	72,557			
DCF EVA Forecast period										92,733		
Perpetual growth rate (GDP)										3.0%		
Terminal Value										1,036,533		
Terminal value discounted											585,096	
Required Capital											368,585	
<b>Value of the bank operations</b>											<b>1,046,415</b>	<b>68.0%</b>
<b>2. Capital surplus/deficit</b>												
<b>Available capital:</b>												
Shareholders equity	875,071	923,179	976,293	1,041,027	1,120,749	1,223,778	1,354,431	1,532,456				
Less Goodwill & intangibles	62,816	62,816	55,856	43,807	32,236	29,245	26,343	33,763				
Less dividends												
<b>Tangible equity</b>	<b>812,255</b>	<b>860,364</b>	<b>920,436</b>	<b>997,220</b>	<b>1,088,513</b>	<b>1,194,533</b>	<b>1,328,088</b>	<b>1,498,693</b>				
<b>Capital needs</b>												
Net Written Premium (NWP)	597,548	722,834	1,039,967	1,081,684	1,115,676	1,305,357	1,470,634	1,723,571				
Technical reserves	31,682	30,963	32,153	33,372	34,760	36,404	38,258	40,434				
Equity investments	17,461	46,500	110,242	132,519	169,414	222,046	306,409	449,226				
Claims provision	774,953	794,552	821,282	852,410	887,864	929,863	977,220	1,032,785				
Associates	101,446	120,141	126,148	132,456	139,078	146,032	153,334	161,001				
Equity as % NEP	35.2%	35.9%	36.7%	36.7%	36.7%	36.8%	36.9%	37.0%				
Equity as % Technical reserves	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%				
Equity as % of investments	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%				
Equity as % of claims reserves	35.2%	35.2%	35.2%	35.2%	35.2%	35.2%	35.2%	35.2%				
Equity as % of associates	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%				
Capital Requirements	298,295	368,585	502,400	532,510	567,922	658,238	757,443	912,536				
<b>Surplus capital</b>	<b>513,961</b>	<b>491,779</b>	<b>418,037</b>	<b>464,711</b>	<b>520,591</b>	<b>536,295</b>	<b>570,644</b>	<b>586,157</b>			<b>491,779</b>	<b>32.0%</b>
<b>3. Other adjustments</b>												
Total adjustments												
<b>4. Dividends</b>												
<b>Total Fair Value</b>											<b>1,538,193</b>	<b>0.0%</b>
Number of shares											81,000	
Conversion mandatory convertibles											--	
Fully diluted number of shares											81,000	
<b>Fair value per share</b>											<b>19.0</b>	
Current share price											14.1	
<b>Upside</b>											<b>34.5%</b>	
Implied P/E	36.3x	32.0x	29.0x	23.8x	19.3x	14.9x	11.8x	8.6x				
Implied P/B	1.8x	1.7x	1.6x	1.5x	1.4x	1.3x	1.1x	1.0x				
Implied P/BV 2012												
Implied P/BV 2013												

Source: Company Data, Arqaam Capital Research

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