

1Q20 Results Update

June 18, 2020

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	113.4
Target Price (SAR)	104.0
Upside/Downside (%)	(8.3%)

As of June 15th, 2020

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	13.6
52 Wk High (SAR)	116.4
52 Wk Low (SAR)	79.0
Total Outstanding shares (in mn)	120
Free Float (%)	57.8%

Bupa Arabia vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	4.0%	(4.6%)
6m	14.0%	22.9%
12m	20.9%	39.3%

Major Shareholders (%)

Bupa Investments Overseas Co. Ltd.	39.25%
Nazer Holding Group Co.	9.00%

Gross Written Premium (SAR bn) and Loss Ratio



Source: Bloomberg, Company Financials, FALCOM Research; Data as of 15th June, 2020

Bupa's net profit rises on higher underwriting results in 1Q20

Bupa Arabia's net income before Zakat jumped 33.5% YoY to SAR 125.7mn. The rise was aided by a 19.4% increase in the company's general written premium to SAR 3.5bn. This was followed by an increase in net earned premium, despite an unfavorable movement in unearned premiums. Surplus from insurance operations was up 43.3% YoY to SAR 105mn, despite a rise in operating expenses.

During 1Q20, Bupa reported consistent improvement in underwriting results and higher investment income, aided by continued re-pricing and increase in general population. The COVID-19 pandemic is expected to have a moderate impact on the Saudi insurance industry as almost 97% of the industry's GWP exposure is in general and health insurance. Given the lockdown of businesses, curfew and confinement measures, some lines of insurance are expected to witness lower claims. With the government covering healthcare costs related to COVID-19 for all citizens and residents, there will be lower pandemic-related claims to the industry. Besides, once the country recovers from the pandemic, the government's push to make insurance mandatory for Saudi nationals working in the private sector is expected to bode well for the industry. However, any irrational price competition, as seen in the past in the Saudi insurance market, may hurt the company's prospects. Thus, in view of the countervailing factors mentioned above, we maintain our 'Neutral' rating on the stock.

- Gross written premium (GWP) increased 19.4% YoY to SAR 3.5bn, pushing net written premium (NWP) up 19.7% YoY to SAR 3.5bn. Net earned premium grew 21.6% YoY to SAR 2.7bn, despite unfavorable movements in net earned premium.
- Net claims incurred increased 21.3% YoY to SAR 2.3bn. The company incurred policy acquisition cost of SAR 62.9mn in 1Q20 against SAR 57.9mn in 1Q19. Consequently, net underwriting results improved 27.5% YoY to SAR 291mn.
- General and administrative expenses advanced 30.8% YoY to SAR 139mn in 1Q20, whereas investment and commission income rose marginally by 1.7% to SAR 34mn.
- Net income before Zakat and taxes was up 33.5% to SAR 125.7mn in 1Q20.
- Combined ratio for the quarter was 94.9% against 95.5% in 1Q19 and 93.7% in 4Q19. Expense ratio for 1Q20 declined to 8.2% compared with 8.5% in 1Q19.
- Bupa Arabia reported a retention ratio of 99.5% in 1Q20, marginally more than the 99.3% reported in 1Q19.
- As of June 2020, Bupa Investments Overseas Limited (BIOL) is planning to increase its shareholding in Bupa Arabia from 39.25% to 43.25%. This follows an agreement on the acquisition of a portion of Nazer Group's stake in Bupa Arabia, resulting in a 4.00% increase in BIOL's stake to 43.25%.

Valuation: We revise our target price to a fair value of SAR 104.0 per share and retain our "Neutral" rating on the stock.

	1Q'20	1Q'19	% YoY	FY20E	FY19	% YoY
GWP (SAR mn)	3,470	2,905	19.4%	10,801	10,411	3.8%
NWP (SAR mn)	3,452	2,885	19.7%	10,692	10,305	3.8%
Net claims incurred (SAR mn)	2,318	1,911	21.3%	8,099	7,749	4.5%
Net profit before Zakat (SAR mn)	126	94	33.5%	726	713	1.8%
EPS (SAR)*	0.83	0.63	31.5%	5.16	4.97	3.9%
Loss Ratio	86.7%	87.0%	(0.2%)	83.3%	82.7%	0.6%
Expense Ratio	8.2%	8.5%	(0.3%)	9.1%	9.2%	(0.1%)
Combined Ratio	94.9%	95.5%	(0.5%)	92.4%	91.9%	0.5%

Source: Company Financials, FALCOM Research

*EPS is based on net income after Zakat and taxes

FALCOM Rating Methodology

FALCOM Financial Services uses its own evaluation structure, and its recommendations are based on quantitative and qualitative data collected by the analysts. Moreover, the evaluation system places covered shares under one of the next recommendation areas based on the closing price of the market, the fair value that we set and the possibility of ascent/descent.

Overweight: The Target share price exceeds the current share price by $\geq 10\%$.

Neutral: The Target share price is either more or less than the current share price by 10%.

Underweight: The Target share price is less than the current share price by $\geq 10\%$.

To be Revised: No target price had been set for one or more of the following reasons: (1) waiting for more analysis, (2) waiting for detailed financials, (3) waiting for more data to be updated, (4) major change in company's performance, (5) change in market conditions or (6) any other reason from FALCOM Financial Services.

FALCOM Financial Services

Contact us on the below phone numbers:

Customer Services: **8004298888**

Brokerage Services: **920004711**

Fax or Email us at the blow number:

Fax: **+966 11 2032546**

Email: **addingvalue@falcom.com.sa**

Mail us at the following address:

P.O. Box 884

Riyadh 11421

Kingdom of Saudi Arabia

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