

GCC Insurance Sector, *mandatory lines to play a vital role ...*

22 Dec 2022

Company Rating

Bupa Arabia Insurance (BUPA) **Accumulate**

Tawuniya Insurance (TAWUNIYA) **Accumulate**

Saudi Reinsurance (SAUDIRE) **Accumulate**

Qatar Insurance Co (QATI) **Accumulate**

- A low penetration rate provides ample opportunities for the sector to grow
- The top line to benefit from a strong focus on Health and P&C segments, supported by compulsory insurance and a rise in economic activities, respectively
- Local cession program to benefit the players in the reinsurance industry
- Improvement in the underwriting profits with likely lower reinsurance premiums, better claim management, and cost controls related to policy acquisition and G&A expenses
- Increase in the bottom line with expected higher Investment income, further leading to better dividend-paying policy

We initiate coverage on GCC Insurance Sector with four names in focus: **Bupa Arabia Insurance, Tawuniya Insurance, Saudi Reinsurance, and Qatar Insurance Co.** In 2021, the sector growth remained strong with an increase in GWP premiums under the health, motor, and property segments. Going ahead, we expect GWP growth momentum to continue in the coming years driven by compulsory health insurance for expats and their families as well as hajj and umrah pilgrims, increased awareness among citizens for health policies post covid-19, rising medical costs, compulsory health insurance for FIFA World Cup 2022 visitors and higher property demand amid a rise in economic activities. Higher GWP and improvement in the combined ratio will drive the underwriting profit which along with higher investment income owing to likely better performance from fixed income portfolio would lead to improvement in the bottom line in future periods. We have used a combination of three valuation methodologies (DDM, Residual Income, and relative P/B) by assigning 40%, 40%, and 20% weightage to derive the target price.

- **Low insurance penetration provides enough room for growth.** Saudi Arabia has an insurance penetration rate of 1.34% (as per SAMA data) while Qatar has a penetration rate of 2.5% as of 2021 which shows ample opportunity for growth amid a growing population, increased awareness of medical insurance amongst citizens post-covid-19 pandemic, and few lines of insurance mandated as essential by regulators would lead improvement in the penetration rates in the future.
- **Local cession program to support the GWP for reinsurance players.** SAMA has recently implemented a 30% compulsory cession to the local reinsurer, where Saudi Re being the major player in the reinsurance industry, is likely to get a boost in GWP upon this implementation.
- **Top line to get boosted by health insurance.** Health insurance holds 60% of the share in terms of sector GWP as of 2021. Going forward, the segment holds a promising outlook in terms of premium growth supported by various measures including 1) the Saudi government implementing compulsory health insurance for expats and their families by their Saudi employers 2) compulsory hajj and umrah insurance for overseas pilgrims 3) new benefits added to the coverage by CHI (Council of Cooperative Health Insurance) 4) rising medical costs with baseline inflation and 5) article 11. This bodes well for the overall industry GWP growth in the coming years.

We expect all four companies to benefit from strong mandatory lines in the sector. Amongst our coverage, Bupa Arabia Insurance offers a consistent dividend yield.

Name	Last Px (LC)	Target Price (LC)	Upside/ (Downside) (%)	Current P/B (x)	P/B 23e, (x)	ROA'23e, (%)	ROE' 23e, (%)	Div Yield' 23, (%)
Bupa Arabia Insurance	170.20	195.78	15.0%	4.9	4.9	4.0%	15.0%	2.8%
Tawuniya Insurance	82.80	95.43	15.3%	3.2	3.1	2.2%	12.6%	1.7%
Saudi Reinsurance	14.06	15.64	11.2%	1.3	1.2	1.4%	5.3%	0.0%
Qatar Insurance Co.	2.01	2.29	13.7%	0.7	0.7	1.3%	7.3%	6.0%
Average				2.5	2.5	2.2%	10.1%	2.6%

Source: Bloomberg, U Capital Research, valued as of 22 December 2022

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GCC Insurance Sector

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Valuation

We have used DDM, Residual Income, and P/B multiple with assigning 40%, 40% and 20% weightage to derive the target price for each insurance company. For DDM and Residual Income 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 adjusted these multiples by giving a premium or discount, wherever required, to reflect our assessment of each insurance and reinsurance 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 FY23e BVPS.

Valuation	BUPA	TAWUNIYA	SAUDIRE	QATI
(Currency)	SAR	SAR	SAR	QAR
DDM (40% weight)				
PV of Dividends (mn)				
Sum of PV of Dividends (Year 1 to 5)	3,342.8	1,278.4	0.0	1,654.4
Terminal	2,536.8	14,424.3	0.0	7,648.6
Total PV of Excess Returns	20,098.6	11,056.0	0.0	5,979.4
Equity value (mn)	23,441.4	12,334.4	0.0	7,633.8
Target Price	195.35	98.68	0.00	2.34
Residual Income (40% weight)				
PV of Residual Income (mn)				
Sum of PV of Residual Income (Year 1 to 5)	2,595.9	1,108.4	(21.9)	(950.5)
Terminal	21,172.7	10,397.6	423.0	(1,331.4)
Total PV of Terminal Value	16,774.4	7,969.6	327.5	(1,040.8)
Equity value (mn)	23,565.3	12,117.0	1,269.6	9,223.8
Target Price	197.10	96.94	14.25	2.82
Assumptions				
Risk Free Rate (%)	4.4%	4.4%	4.4%	4.1%
Adjusted Beta	0.5	0.7	0.6	0.6
Risk Premium (%)	3.5%	3.5%	3.5%	7.8%
Cost of Equity (COE) (%)	6.0%	6.8%	6.6%	8.5%
Outstanding Shares (mn)	120.0	125.0	89.1	3,266.1
P/B Based Relative Valuation (20% weight)				
Target multiple for 2023e	5.5	3.2	1.8	0.4
BVPS 2023e	35.01	27.03	11.96	3.11
Target Price	194.01	85.94	21.20	1.13
Weighted Average Target Price	195.78	95.43	15.64	2.29
Current Market Price	170.20	82.80	14.06	2.01
Upside/(Downside), %	15.0%	15.3%	11.2%	13.7%
Recommendation	Accumulate	Accumulate	Accumulate	Accumulate

Source: Company Filings, Bloomberg, U Capital Research, *We have given 80% weightage to residual income for Saudi Re.

Risks to Valuation

Key downside risks to our valuations include:

- declining growth in the GWP, re-insuring higher premiums leading to lower underwriting profits
- segment-specific higher claims, and
- lower investment income supported by weak market performance

Key upside risks to our valuations include:

- a spike in the premium rates, and higher retention ratios to book better underwriting profits
- a huge improvement in the loss and combined ratios, and
- higher than expected dividend-paying policy

Sensitivity Analysis

Our overall TP (DDM based) for **BUPA** is moderately sensitive to +/- 0.25% changes to terminal growth or in CoE assumptions (changes ~+/-4-6%). Our overall TP (P/B-based) is not sensitive to +/-0.10x changes in the target multiple, affecting our TP by +/-0.4% with every change.

BUPA

		Terminal growth							Book Value (SAR)				
CoE		1.5%	1.8%	2.0%	2.3%	2.5%	P/B Multiple		34.81	34.91	35.01	35.11	35.21
	5.5%	199.63	208.50	218.65	230.39	244.12		5.34 x	194.17	194.27	194.38	194.49	194.60
	5.7%	189.98	197.69	206.45	216.47	228.05		5.44 x	194.86	194.97	195.08	195.19	195.30
	6.0%	181.42	188.17	195.78	204.42	214.30		5.54 x	195.56	195.67	195.78	195.89	196.00
	6.2%	173.77	179.72	186.38	193.89	202.41		5.64 x	196.26	196.37	196.48	196.60	196.71
	6.5%	166.88	172.16	178.04	184.62	192.02		5.74 x	196.95	197.07	197.18	197.30	197.41

Our overall TP (DDM based) for **TAWUNIYA** is moderately sensitive to +/- 0.25% changes to terminal growth or in CoE assumptions (changes ~+/-3.5-5%). Our overall TP (P/B-based) is not sensitive to +/-0.10x changes in the target multiple, affecting our TP by +/-0.6% with every change.

TAWUNIYA

		Terminal growth							Book Value (SAR)				
CoE		1.50%	1.75%	2.00%	2.25%	2.50%	P/B Multiple		26.83	26.93	27.03	27.13	27.23
	6.33%	97.66	101.25	105.26	109.76	114.84		2.98x	94.23	94.29	94.35	94.41	94.47
	6.58%	93.35	96.54	100.08	104.02	108.45		3.08x	94.77	94.83	94.89	94.95	95.01
	6.83%	89.45	92.29	95.43	98.92	102.80		3.18x	95.30	95.37	95.43	95.50	95.56
	7.08%	85.89	88.44	91.24	94.34	97.77		3.28x	95.84	95.91	95.97	96.04	96.10
	7.33%	82.64	84.94	87.45	90.21	93.25		3.38x	96.38	96.45	96.51	96.58	96.65

Our overall TP (Residual Income based) for **SAUDI RE** is moderately sensitive to +/- 0.25% changes to terminal growth or in CoE assumptions (changes ~+/-1-6%). Our overall TP (P/B-based) is slightly sensitive to +/-0.10x changes in the target multiple, affecting our TP by +/-1.5% with every change.

SAUDI RE

		Terminal growth							Book Value (SAR)				
CoE		1.50%	1.75%	2.00%	2.25%	2.50%	P/B Multiple		11.76	11.86	11.96	12.06	12.16
	6.06%	16.96	17.20	17.48	17.79	18.14		1.57x	15.10	15.13	15.16	15.19	15.23
	6.31%	16.11	16.29	16.51	16.74	17.01		1.67x	15.33	15.37	15.40	15.43	15.47
	6.56%	15.34	15.48	15.64	15.82	16.02		1.77x	15.57	15.60	15.64	15.68	15.71
	6.81%	14.64	14.75	14.86	14.99	15.14		1.87x	15.80	15.84	15.88	15.92	15.95
	7.06%	14.00	14.08	14.16	14.25	14.36		1.97x	16.04	16.08	16.12	16.16	16.20

Our overall TP (DDM based) for **QATI** is slightly sensitive to +/- 0.25% changes to terminal growth or in CoE assumptions (changes ~+/- 2%). Our overall TP (P/B-based) is moderately sensitive to +/-0.10x changes in the target multiple, affecting our TP by +/-3.5% with every change.

QATI

		Terminal growth				
		1.5%	1.8%	2.0%	2.3%	2.5%
CoE	7.96%	2.41	2.44	2.48	2.51	2.55
	8.21%	2.33	2.35	2.38	2.41	2.44
	8.46%	2.24	2.27	2.29	2.32	2.34
	8.71%	2.17	2.19	2.21	2.23	2.25
	8.96%	2.10	2.11	2.13	2.15	2.17

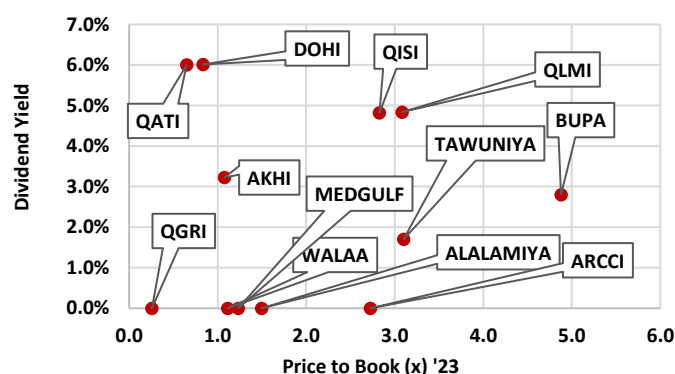
		Book Value (QAR)				
		2.91	3.01	3.11	3.21	3.31
P/B Multiple	0.16x	2.16	2.16	2.17	2.17	2.17
	0.26x	2.22	2.22	2.23	2.23	2.24
	0.36x	2.28	2.28	2.29	2.30	2.31
	0.46x	2.33	2.34	2.35	2.36	2.37
	0.56x	2.39	2.40	2.42	2.43	2.44

Peer Group Valuation

Name	Mkt Cap (LC mn)	Last Px (LC)	Health GWP (%)	Motor GWP (%)	P&C and others GWP (%)	P/B'23, (x)	ROA'23, (%)	ROE'23, (%)	Div Yield' 23, (%)
Insurance									
MEDITERRANEAN & GULF INSURAN	916	8.72	67%	19%	14%	1.1	-7.3	-37.2	NA
AL ALAMIYA COOPERATIVE INSUR	464	11.60	22%	48%	30%	1.5	-7.1	-18.4	NA
AL RAJHI CO FOR CO-OPERATIVE	3,596	89.90	13%	60%	27%	2.7	1.0	3.7	NA
WALAA COOPERATIVE INSURANCE	1,221	14.36	15%	26%	58%	1.2	-3.3	-14.3	NA
QLM LIFE & MEDICAL INSURANCE	1,592	4.55	100%	0%	0%	3.1	4.2	14.7	4.8
DOHA INSURANCE CO	998	2.00	0%	19%	81%	0.8	3.0	7.7	6.0
QATAR GENERAL INSURANCE & RE	1,328	1.52	12%	26%	63%	0.3	0.7	1.3	NA
QATAR ISLAMIC INSURANCE GROU	1,245	8.30	63%	35%	2%	2.8	21.1	22.9	4.8
AL KHALEEJ TAKAFUL GROUP	594	2.33	31%	35%	34%	1.1	7.7	8.1	3.2
CO FOR COOPERATIVE INSURANCE	10,350	82.80	78%	6%	16%	3.1	2.2	12.6	1.7
BUPA ARABIA FOR COOPERATIVE	20,424	170.20	100%	0%	0%	4.9	4.0	15.0	2.8
QATAR INSURANCE CO	6,578	2.01	3%	0%	97%	0.7	1.3	7.3	6.0
Average						1.9	2.3	1.96	4.20
Median						1.4	1.8	7.52	4.82

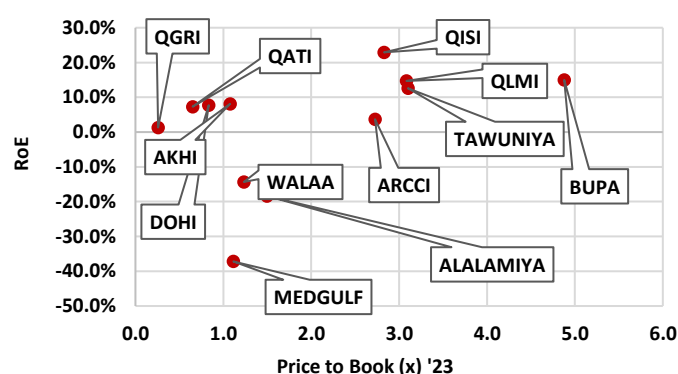
Source: Bloomberg, U Capital Research, values as of 22 December 2022, na – not available, only coverage companies are based on FY23 multiples, and peer companies are based on FY22 multiples due to data unavailability.

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



Source: Bloomberg, U Capital Research, as of 22 December 2022

Fig. 2: Insurance - Price to Book & RoE



Source: Bloomberg, U Capital Research, as of 22 December 2022

*P/B 23 multiple is considered for coverage companies as data for peers are mostly not available.

Name	Mkt Cap (LC mn)	Last Px (LC)	Px Change 1M, %	Px Change 3M, %	Px Change YTD, %	P/B'23, (x)	ROA'23, (x)	ROE'23, (%)	Div Yield' 23, (%)
Reinsurance									
RAND MERCHANT INVESTMENT HOL	NA	NA	NA	NA	NA	NA	53.0	115.7	NA
CLIENTELE LTD	3,655	1090.00	3.4	-0.9	7.4	3.2	4.3	39.2	11.0
BOTSWANA INSURANCE HLDGS LTD	5,001	1771.00	0.5	0.6	1.2	1.5	2.6	14.0	7.7
OMAN INSURANCE CO PSC	1,663	3.60	5.9	8.1	38.5	0.7	2.8	10.1	5.6
SAUDI RE FOR COOPERATIVE REI	1,253	14.06	-3.3	-2.5	-15.3	1.2	1.4	5.3	NA
Average						1.6	12.8	36.85	8.08
Median						1.3	2.8	14.0	7.7

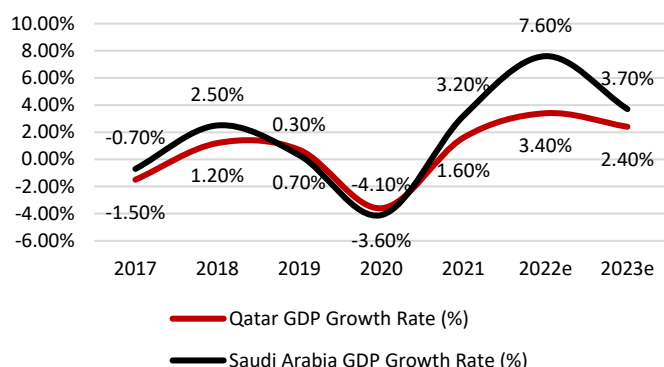
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Macro-economic & Sector Overview

Higher economic growth supporting the Insurance Industry

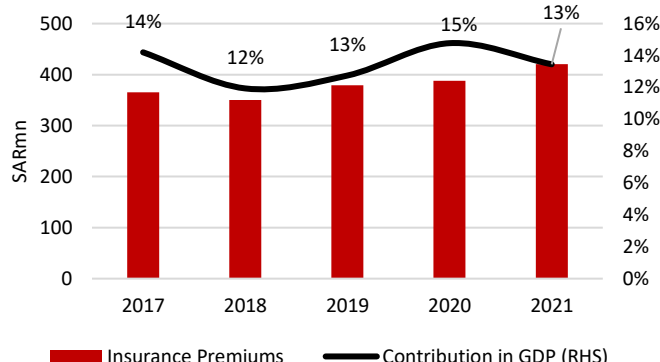
As per IMF's World Economic Outlook (WEO), global growth is projected to be 3.2% in 2022, and 2.7% in 2023 compared to growth of 6% in 2021. This is the weakest growth profile since 2001 except for the global financial crisis and the acute phase of the COVID-19 pandemic. The projected rate is considering the slowdown in the economy and rising Inflation. Meanwhile, IMF expects Saudi Arabia's GDP to grow at 7.6% in 2022 and Qatar's GDP to grow at 3.40% in 2022 aided by higher oil prices and hydrocarbon prices supporting the increase in the developments across the region considering Saudi Vision 2030 and Qatar vision 2030.

Fig. 3: Saudi Arabia and Qatar's economy to rise in 2022



Source: IMF, U Capital Research

Fig. 4: Saudi Arabia's Insurance contribution to GDP between 12-15%



Source: IMF, CMA, U Capital Research

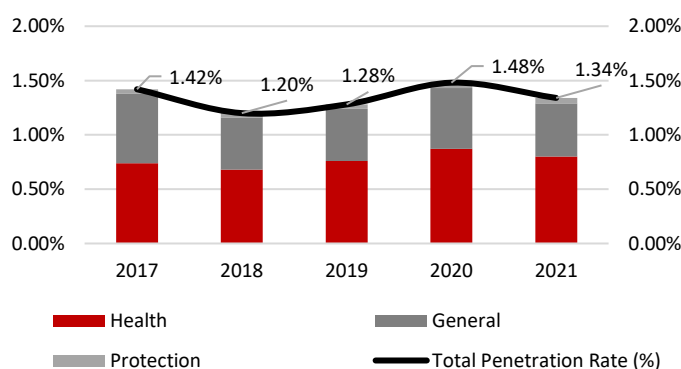
Saudi Arabia's Insurance contribution to GDP is better placed with a range of 12-15% from 2017 to 2021. A rising population supported by expatriates, an increased number of hajj and umrah pilgrimages, compulsory health insurance, and a low penetration rate will create wide opportunities for Insurance products in 2022 and further. Meanwhile, post-FIFA World Cup in Qatar, there will be an increase in tourism and construction activities which will likely contribute to GDP and create ample opportunities for Insurance products, especially in the Property and health segments going ahead.

Enough room to grow amid a low penetration rate

Saudi Arabia has an insurance penetration rate (ratio of insurance premium to GDP) of 1.34% (as per SAMA data) in 2021 with a major contribution of 0.80% from the health segment. The rise in Umrah pilgrimages and increase in awareness among people considering the covid-19 pandemic will lead to the growth in the health penetration rate in 2022 and beyond. Further, an increase in the expat population, mandatory health insurance, and increased vehicle sales will lead to an increase in the GWP premiums hence supporting the penetration rate to grow in future periods.

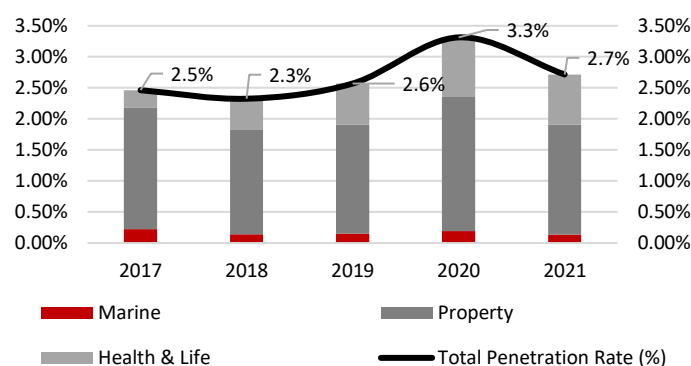
Meanwhile, Qatar has a penetration rate of 2.5% in 2021 (as per company premiums data) with a major contribution of 1.8% from the Property & Casualty segment. Qatar has compulsory lines that have led to growth in the overall penetration rate with expatriate health, motor, engineering, and construction. The Insurance market in Qatar is quite saturated as far as property insurance is concerned. The non-life segment benefits from engineering and workers' compensation premiums, however, as substantial infrastructure construction continues in the lead-up to hosting the 2022 FIFA World Cup. In fact, Qatar has plans to invest up to USD 100bn in tournament-related infrastructure, and even more when axillary works, and improvements are considered. Qatar will also keep investing in infrastructure for transportation, education, sports and leisure, health care, telecommunications, and hospitality under Qatar National Vision 2030 to meet its long-term diversification goals, which should encourage the usage of insurance and hence lead to an increase in the penetration rate in future periods. Also, the compulsory health scheme for citizens in Qatar is not in place, going ahead with the implementation of compulsory insurance will add up to the growth in the penetration rate for Qatar.

Fig. 5: Saudi Arabia's Insurance penetration rate remained below 2%



Source: SAMA, U Capital Research

Fig. 6: Qatar Insurance penetration rate shows growth visibility



Source: PSA Qatar, U Capital Research

Mandatory health insurance for expats, hajj, and umrah pilgrims

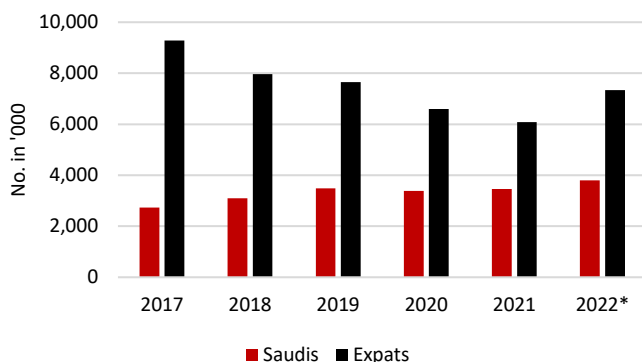
The compulsory health insurance for expat and their families in Saudi Arabia along with the compulsory health insurance for Hajj and Umrah pilgrimages will drive growth for health insurance products in 2022 and further. Demand for health insurance will arise with the recent introduction of 18 new health benefits as well as 10 improvements in existing benefits by CHI (effective from October 1st 2022) to the coverage by Insurance companies. Saudi Arabia also expects growth in the insurable market from 30% in FY 20 to 40% in FY 25 with Vision 2030 programs.

Meanwhile in Qatar, the govt. issued a new regulation that requires employers to obtain minimum basic health insurance from an approved Qatari insurer for all employees, including their eligible dependent family members. Employers who don't provide the required health insurance coverage will not be allowed to obtain new work residence permits or renew existing permits. The Country has also mandated compulsory travel insurance (including health coverage) for all visitors visiting Qatar.

With the Covid-19 pandemic, the insured lives in Saudi Arabia declined by 10% to 9.9mn in 2020 from 11.1mn in 2019 with a major decline in the expats insured lives which comprise 66% of the total insured lives to 6.6mn in 2020 from 7.6mn in 2019. The expats population majorly declined in 2020 with expats leaving the labor market. However, with the ease of covid-19 restrictions and the rise in economic activities, there has been increasing demand for jobs in Saudi Arabia which led to an increasing population as of Aug 2022 to 11.1mn supported by 7.3mn expats. Going ahead, the recovery in oil prices supporting economic activities will lead to ample job opportunities leading to an increase in the expats population in future periods hence driving huge growth in the health segment premiums with mandatory health insurance mandate by Saudi Govt for expat and their families.

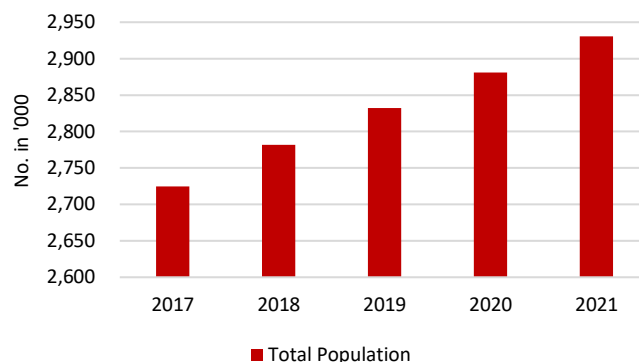
Qatar's population has increased by 1.7% to 2.9mn in 2021 from 2.8mn in 2020. Nationals contribute 11% and expats contribute 89% of the total population in Qatar. However, post FIFA world cup in Qatar there will create huge economic activities, new job opportunities and positively impact the increase in the expat population. Further, the increase in the expats population and visitors with compulsory health insurance as per the new scheme will lead to growth in the Health and Life Insurance segment.

Fig. 7: Increase in Expats' insured lives in Saudi Arabia in 2022



Source: Bupa Arabia, U Capital Research, *9M 2022

Fig. 8: Qatar Population on an increasing trend

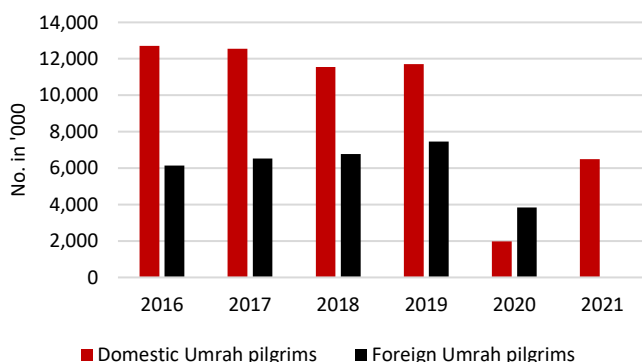


Source: World Bank, U Capital Research

Umrah pilgrimages declined in 2020 to 5.82mn from 19.15mn in 2019 with the covid-19 pandemic. Further, the rebound in covid-19 cases leading to worldwide travel restrictions led to a decline in Foreign Umrah pilgrimages to 0.013mn in 2021 from 3.84mn in 2020. However, after the vaccine roll-out, there was Umrah allowed for Saudi citizens which led to a rise in the domestic Umrah pilgrimages to 6.48mn in 2021 from an all-time low of 1.97mn in 2020.

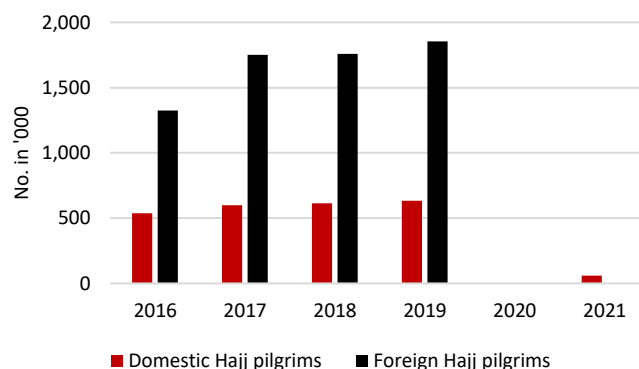
The kingdom of Saudi Arabia's Ministry of Hajj and Umrah in July 2022 announced compulsory health insurance for all pilgrimages which will lead to growth in health premiums as Saudi Arabia is open to 1.0mn in 2022 for foreign and domestic pilgrims who have been fully vaccinated against the coronavirus, tested negative for covid-19 and are between 18 and 65 years old. Saudi Arabia expects around 30 million pilgrimages by 2030e as per Saudi Vision. It has also increased the permits for Hajj and Umrah pilgrimages considering the lower impact of covid-19 and accordingly there is huge growth expected in the health segment premiums in the future periods.

Fig. 9: Increased Domestic Umrah pilgrimage in 2021



Source: GATSAT, U Capital Research

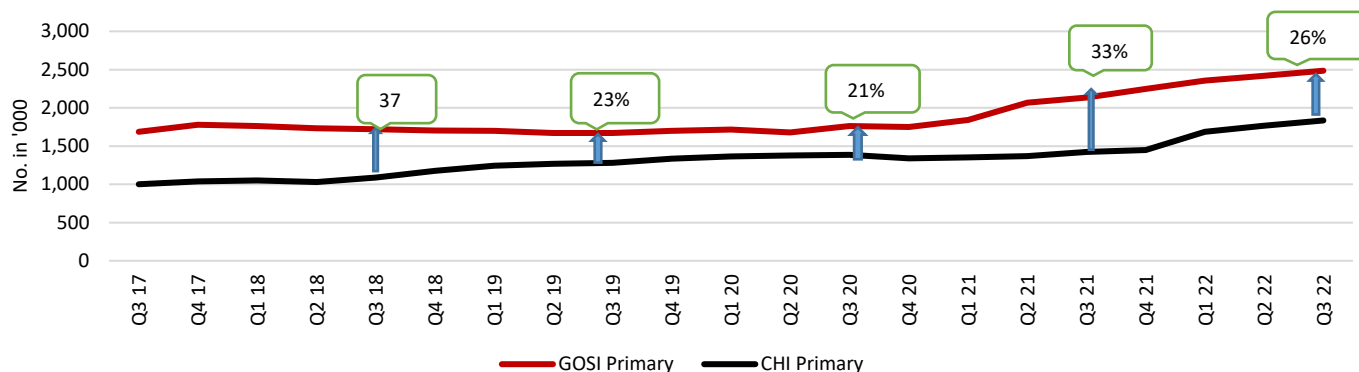
Fig. 10: Slight Recovery in Hajj pilgrimage post covid-19



Source: GATSAT, U Capital Research

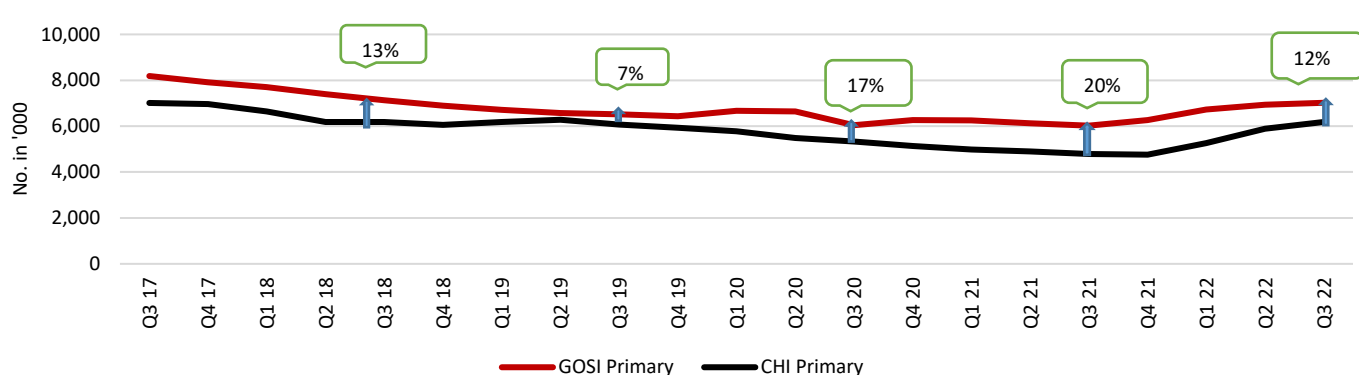
The insured lives of expats in Saudi Arabia increased in 2017 and 2018 with wide employment opportunities in the region. However, the insured lives declined in 2020 and 2021 with the impact of covid-19 and expats leaving the country and focusing on Saudi localization which led to an increase in the gap to 20%. Further, the rising in oil prices supporting the economy and increase in the economic activities with ease in restrictions dragged the expats back to the region which led to an increase in population and further led to an increase in insured lives with compulsory insurance for expats. This has also reduced the gap to 12%. Going ahead, with the increase in the expats population we expect the gap to shrink further with an increase in insured lives.

Fig. 11: Saudi's gap and enforcement till Q3 22



Source: Bupa Insurance, U Capital Research, *GOSI- General Organization for Social Insurance and CHI- Council of Cooperative Health Insurance

Fig. 12: Expat's gap and enforcement till Q3 22

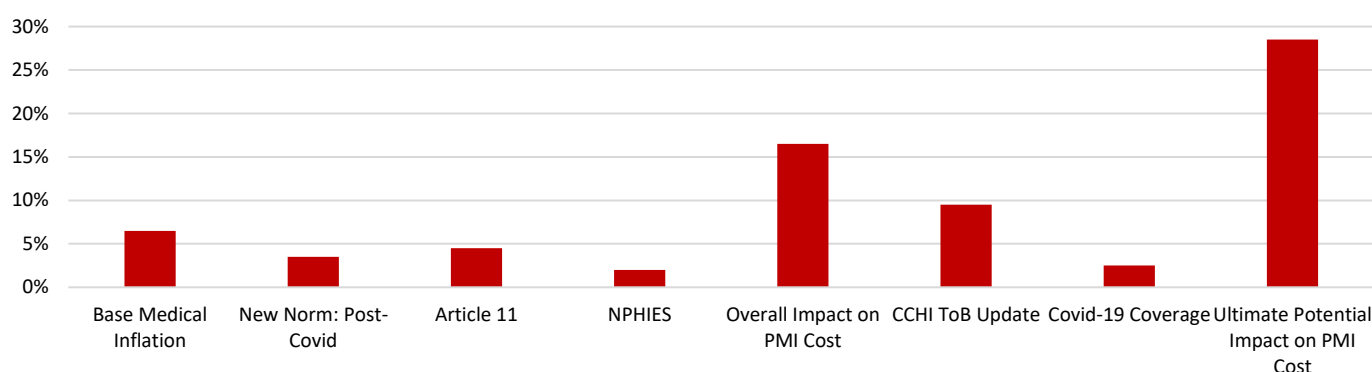


Source: Bupa Insurance, U Capital Research, *GOSI- General Organization for Social Insurance and CHI- Council of Cooperative Health Insurance

The PMI regulatory landscape will impact the overall PMI costs which will lead to an increase in the premiums and further impact the GWP growth of the company going forward which holds the major share in the health premiums. Changes in the PMI are as follows:

- Medical Inflation: Influenced by the post-Covid-19 pandemic change in member and provider behavior
- Article 11: It demands that all government suppliers that are accredited be added to insurance companies networks.
- NPHIES: The development of a unified electronic services platform seeks to simplify interactions between providers and insurers.
- Table of benefits: new benefits will be implemented in two stages; the first stage will start in October 2022 and the second stage will start in July 2023.
- Covid-19 coverage: Adjusted the Covid-19 expense-bearing requirement to only cover inpatient and emergency instances when insurance companies are involved. To test suspected instances and treat verified ones, CHI accepted a new medical protocol.

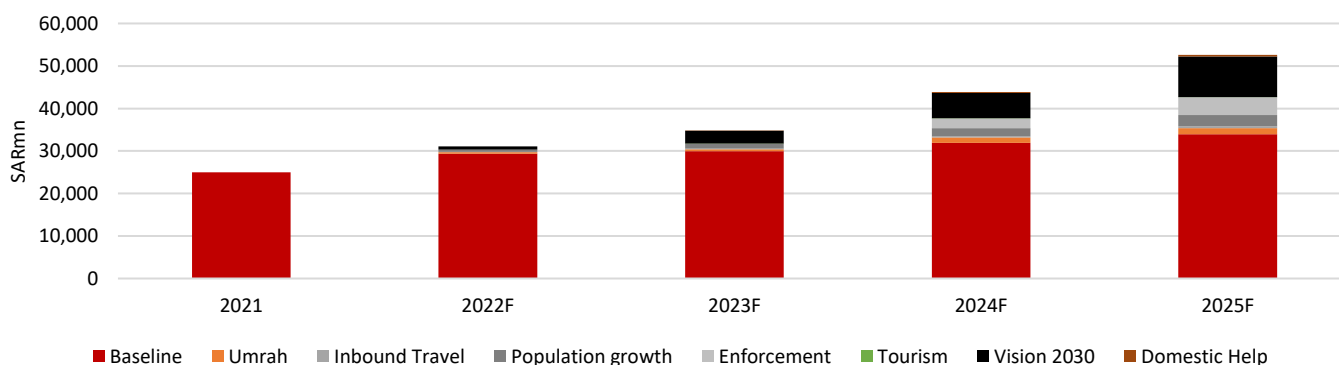
Fig. 13: PMI regulatory changes to impact sector PMI costs going forward



Source: Bupa Insurance, U Capital Research, *PMI- Performance Market Indicator

The future growth opportunities in Health insurance are majorly supported by Baseline, Vision 2030, and Enforcement. The GWP of health insurance is expected to reach SAR 52,586mn by FY25f. Accordingly, this will benefit the GWP of 2 major players in health insurance i.e., Bupa Arabia and Tawuniya Insurance.

Fig. 14: Potential PMI growth of ~SAR 20,000mn by FY2025f



Source: Bupa Insurance, U Capital Research, *PMI- Performance Market Indicator

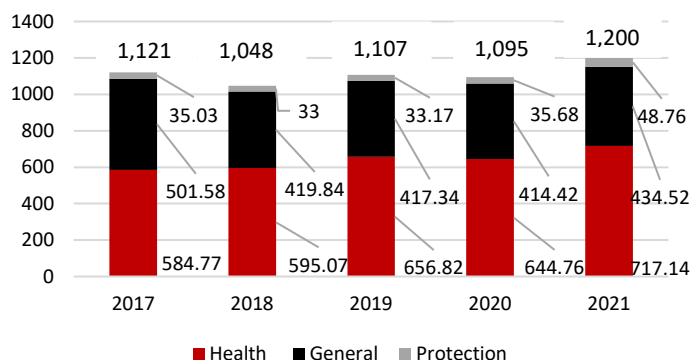
FIFA World Cup 2022 to act as a growth catalyst for Qatar GWP

The FIFA World Cup 2022 will contribute \$ 17bn to Qatar's economy. To host the FIFA World Cup in 2022, the government of Qatar invested in initiatives that strengthened the nation. Qatar managed to overcome the COVID-19 and blockade hurdles. Significantly, the real estate industry has advanced greatly in recent years. The expansion of the real estate market will help the insurance market thrive supporting the growth in the Property segment which holds 65% of the market share in terms of GWP. Additionally, Qatar is leveraging infrastructure spending to support a sustainable economy. The infrastructural spending is hastening Qatar's economic diversification. Due to the FIFA World Cup 2022, Qatar's real estate, tourism, hospitality, health, and transportation industries are anticipated to thrive which will add value to the overall Insurance sector. According to the estimates by FIFA, around 1,10,000 passengers will be traveling per day during the event which will increase the total no. of visitors and lead to an increase in the health policies supporting the premium with mandatory insurance for visitors.

Rise in Insurance density with increased GWP

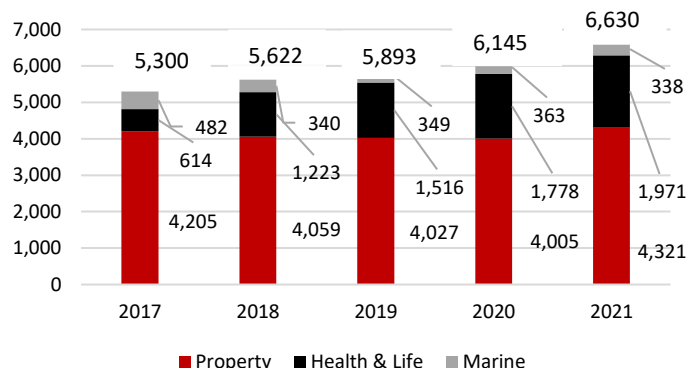
In Saudi Arabia, an increasing population of 35.01mn with a rise in GWP of SAR 42,030mn in 2021 supported by demand in the Health and Motor segment has led to an increase in the Insurance density (Gross Written Premiums per Capita) by 10% to reach SAR 1,200 in 2021 from SAR 1,095 in 2020. According to SAMA, the 5yrs CAGR for Insurance density has been 0.69%. Meanwhile in Qatar, with a rising population of 2.66mn in 2021 and an increase in GWP supported by demand in the Property segment has led to an increase in the Insurance density to 6,630 in 2021 from 6,145 in 2020. Going ahead with the increased demand for health insurance In Saudi Arabia and property & casualty insurance in Qatar will increase the Insurance density in the 2022-2023 periods.

Fig. 15: Saudi Arabia Insurance Density dominated by Health



Source: SAMA, U Capital Research

Fig. 16: Qatar Insurance Density on a higher trend



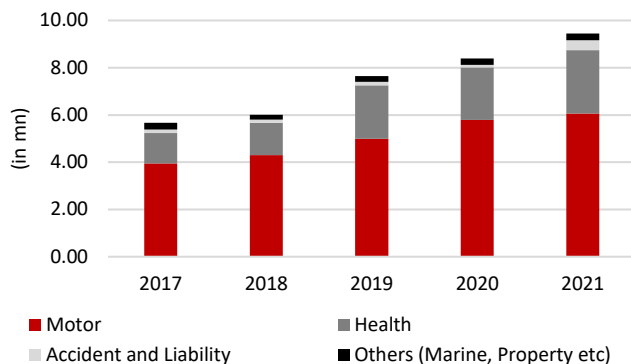
Source: PSA Qatar, U Capital Research

Increase in no. of policies supported by awareness among people

Saudi Arabia holds the highest population in the GCC supported by the expats population. The number of policies has been increasing from 2017 to 2021. In 2021, the policy count was 9.4mn which was mainly supported by 6.06mn motor policies and 2.69 health policies. The increase in policies is with the due impact of compulsory health insurance for Hajj and Umrah pilgrimages. Covid-19 did not impact much decline in the overall policies in 2020 but there was a decline in Health policies to 2.21mn in 2020 compared to 2.25mn in 2019, also there was a slight decline in the Accident and liability segment. Post Covid-19 there was a demand for Insurance products majorly Health Insurance with an increase in awareness among people which supported the increase in policies in 2021.

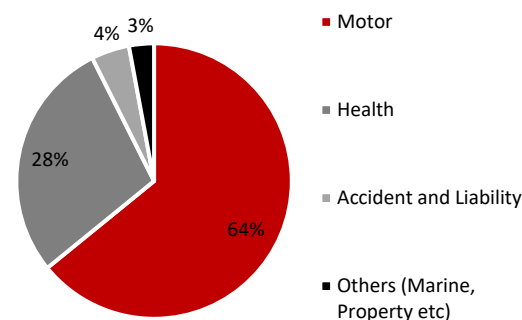
Considering the breakdown of policies in 2021, motor insurance holds a share of 64% followed by health with 28% and Accident & others with 7%. Moreover, compulsory health insurance for the expats population and their families along with additional benefits to be added to the coverage under health insurance will drive policy growth for the health segment. Also, the increase in population leading to demand in vehicle sales will lead to an increase in motor policies going ahead in 2022-23.

Fig. 17: Increase in policies historically



Source: SAMA, U Capital Research

Fig. 18: Breakdown of policies issued in 2021



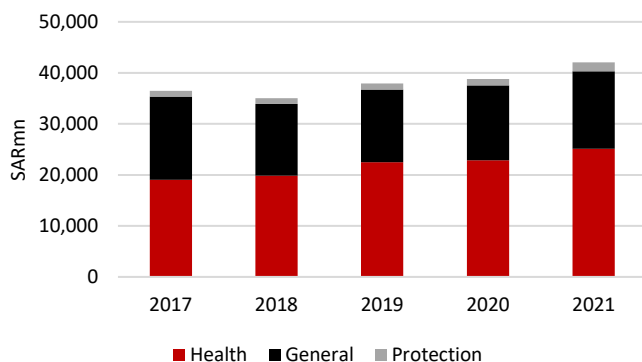
Source: SAMA, U Capital Research

Health segment in KSA & Property segment in Qatar to boost the GWP

Gross written premium (GWP) of the Insurance sector in Saudi Arabia increased by 8.4% to SAR 42,030mn in 2021 from SAR 38,778mn in 2020. The increase in GWP was majorly supported by an increase in the health segment GWP to SAR 25,109mn in 2021 from SAR 22,836mn in 2020. The second major segment supporting the GWP was the increase in the General segment (Motor, Property, Engineering, etc.) to SAR 15,213mn in 2021 from SAR 14,678mn in 2020. Going forward, with compulsory health insurance for Hajj and Umrah pilgrimages, compulsory health insurance for expat and their families, new additions to health insurance policies which include obesity operations, kidney transplantation, and an increase in mental health coverage to SAR 50,000 (previously SAR 15,000) will drive the growth in health segment GWP. Meanwhile, the rise in economic activities supported by higher oil prices and increased population will boost the demand for General segment GWP. Also, the forecasted medical trend rate for 2022 for Saudi Arabia is at 10% followed by higher healthcare costs and an increase in the claims activity. To avoid higher medical costs, the purchase of health policies is expected by the people in Saudi Arabia in future periods.

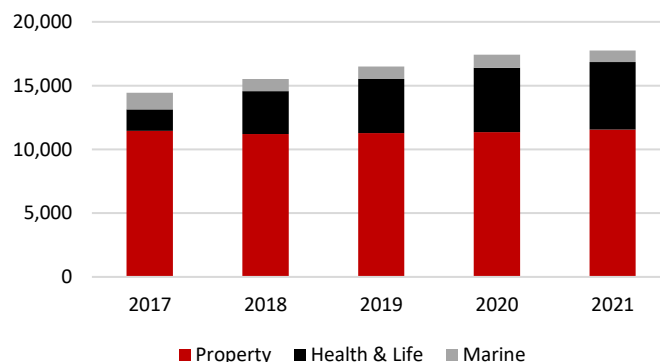
However, in Qatar, the GWP of the Insurance sector increased to QAR 17,750mn in 2021 from QAR 17,414mn in 2020. Though the increase was not much, it was supported by the increase in the Property segment to QAR 11,566mn in 2021 from QAR 11,348mn in 2020. The second major segment driving the GWP is Health & Life which increased to QAR 5,277mn in 2021 from QAR 5,039mn in 2020. Further, Qatar hosting up FIFA World Cup 2022 which will have a lot of Construction projects in the pipeline will drive the demand for Property Insurance going ahead. Also, Qatar has recently revamped its mandatory health insurance scheme by issuing a new law that has taken effect in May 2022. The new compulsory health insurance scheme will apply to all expatriates and visitors to Qatar which will boost the Health & Life GWP in future periods. Also in October 2022, Qatar's new regulation, effective immediately, requires employers to obtain minimum basic health insurance from an approved Qatari insurer for all employees, including their eligible dependent family members will also support the growth in the Health & Life premiums.

Fig. 19: Health segment majorly driving Saudi Arabia's GWP



Source: SAMA, U Capital Research

Fig. 20: Qatar GWP supported by an increase in the Property segment

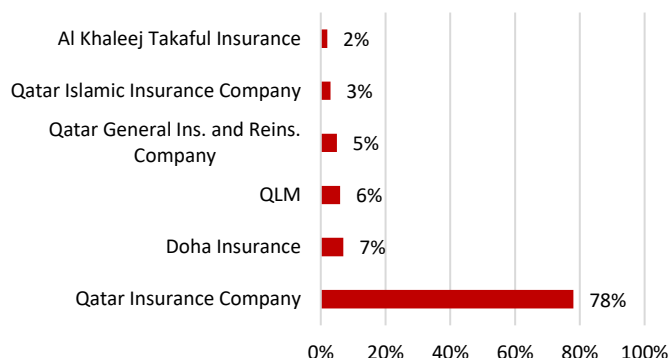


Source: QCB Gov, U Capital Research

Qatar Insurance Company (QIC) is the market leader in Qatar and a dominant insurer in the GCC and MENA region holding a market share of 78% in terms of GWP as of 2021 supported by higher demand in the property segment. It recorded a GWP of QAR 12,646mn as of 2021.

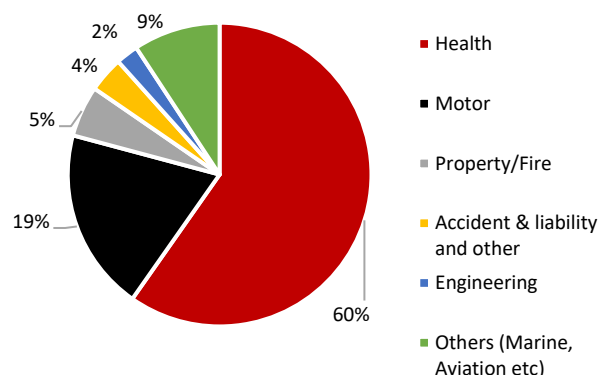
Coming to Saudi Arabia, the Health segment dominates the GWP with a share of 60%, followed by motor insurance at 19%, Property/Fire at 5%, Accident & Liability at 4%, Engineering at 2%, and others at 9%, respectively.

Fig. 21: QIC holds the major share in total GWP



Source: SHMA Consulting, U Capital Research

Fig. 22: Breakdown of Saudi Arabia's GWP for 2021

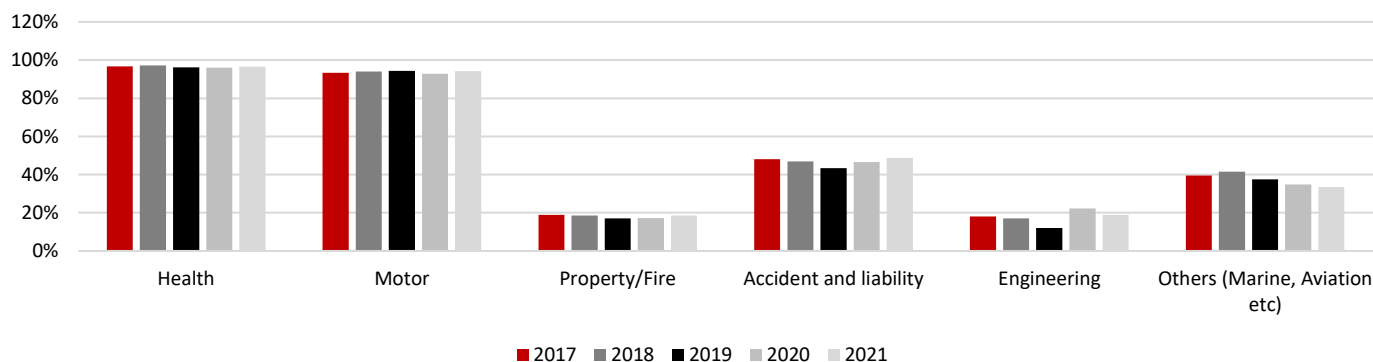


Source: SAMA, U Capital Research

Well-maintained retention ratio to book better NWP

All licensed companies are required to adhere to a minimum retention ratio of 30% of their total insurance premiums as per Saudi Regulations. Health and Motor which holds the major market share in terms of GWP have a retention ratio of 96% and 94% as of 2021. The sector's higher retention ratio depicts that the Insurance companies have a much higher risk-taking capacity, especially in the Health and Motor segment. However, a lower retention ratio is seen in Accident & Liability Insurance at 49%, Property Insurance at 19%, and other Insurance segments at 34% in 2021 which shows that the companies are not willing to take many risks in these segments by increasing their ceded portion to the reinsurer companies. Most of the companies that have higher retention ratios can book higher NWP (Net written premiums) which results in an increase in the Revenue for the Insurance companies. Going ahead we expect the Insurance companies to book better NWP with ceding lower premiums to reinsurance companies hence resulting in better retention ratios.

Fig. 23: Higher Retention Ratio in Health and Motor Segment



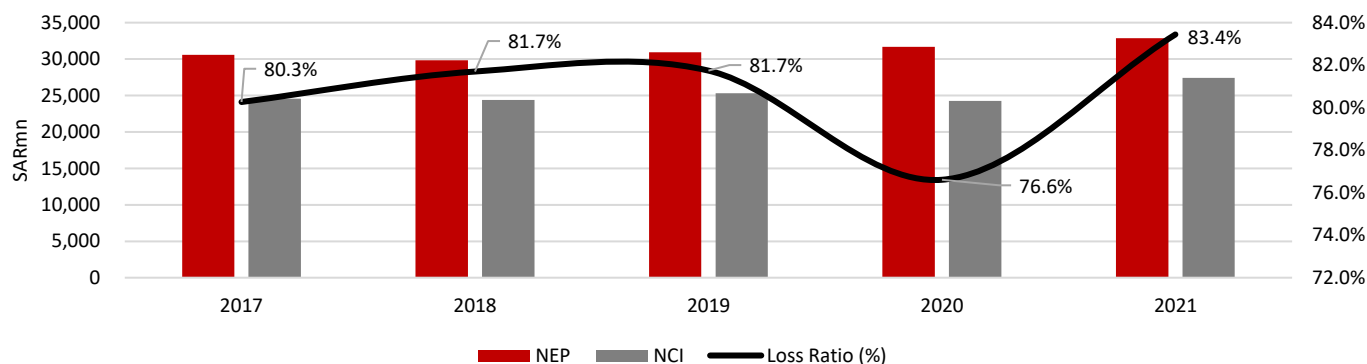
Source: SAMA, U Capital Research

Loss ratios returned to the pre-pandemic level in 2021

Saudi Arabia's Insurance sector loss ratios declined in 2020 with the Impact of covid-19 which led to fewer people movements amid travel restrictions and restrictions on economic activities. The sector loss ratio declined to 76.6% in 2020 from 81.7% in 2019. Further, the ease of the covid-19 restrictions due to the first phase of vaccine roll-out led to rising economic activities with an increase in the loss ratio to 83.4% in 2021 from 76.7% in 2020 as the volume of claims returned to the pre-pandemic level. In 2021, the increase in people's movements and the rebound in covid-19 cases supported higher claims, especially in the Motor and Health Insurance segment. Going ahead, the Insurance company's decisions of better claim management and actions on writing bad policies will lead to improvement in the sector's loss ratio.

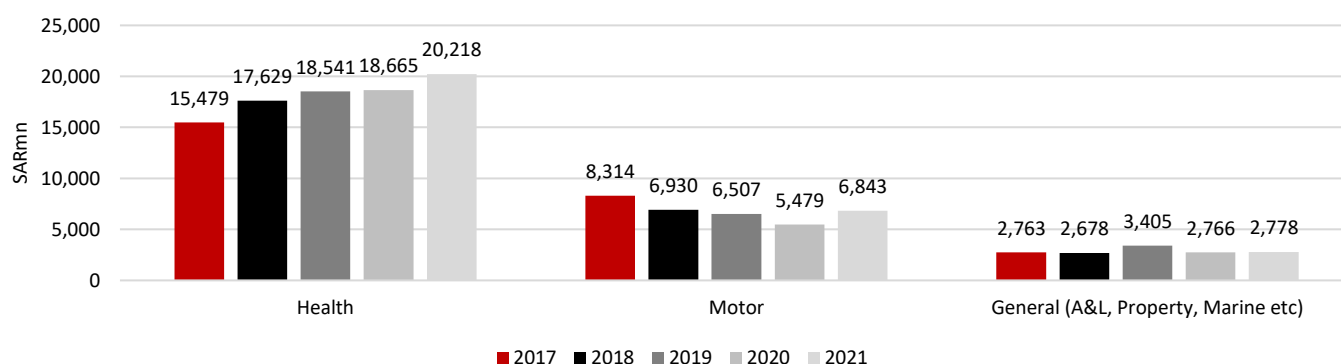
As Motor and Health Insurance holds the major market share in terms of GWP in Saudi Arabia, there is accordingly an increase in gross claims paid seen in the Motor and Health segment in 2021 supported by increased people movement and higher covid-19 related claims. The Gross claims paid under Health Insurance increased to SAR 20,218mn in 2021 from SAR 18,665mn in 2020 and the Motor segment increased to SAR 6,843mn in 2021 from SAR 5,479mn in 2020.

Fig. 24: Loss ratios back to pre-pandemic level



Source: SAMA, U Capital Research

Fig. 25: Motor and Health Gross claims paid increased in 2021



Source: SAMA, U Capital Research

Insurance sector consolidation

With a wide base of insurers and fewer companies owning a sizable portion of the market, there is a general consensus that consolidation is necessary. The eight biggest insurers in 2021 underwrote 77.2% of GWP, leaving the remaining 22.8% to 21 smaller rivals in Saudi Arabia.

As a fragmented market has a higher likelihood of instability, this presents a concern mentioned in the nation's Vision 2030 economic vision. A smaller group of sizable insurers with the cash needed to face difficulties and manage to ensure significant projects are envisioned in Vision 2030. SAMA announced an increase in paid-up capital requirements for three years starting in 2021, going from a minimum of SAR 100mn (\$ 26.7m) to SAR 500mn (\$ 133.3mn). Only eight businesses could fulfill that requirement as of 2021, a warning of impending upheaval. However, this is anticipated to get more challenging to manage, especially at the size required to fulfill the higher requirements. Insurers could sell additional shares in rights offerings. Mergers are therefore anticipated, and some have already started. The first arrangement was made public in 2020 when general insurance expert Walaa Insurance revealed plans to acquire Metlife Insurance in a stock transaction in which Metlife Insurance shareholders received 1.52 Walaa Insurance shares for each share of Metlife Insurance. With the acquisition, Walaa Insurance was able to enter the P&S insurance market, where it was previously absent. Walaa Insurance has shown interest in purchasing smaller competitors. As of 2021, Walaa Insurance had SAR 646mn (\$ 172.2mn) in paid-up capital.

Gulf Union Cooperative Insurance bought Al-Ahlia Insurance in December 2020 in a second stock-based transaction. Al-Sagr Insurance and the new company, Gulf Union Al-Ahlia Cooperative Insurance, revealed they were in merger talks in December 2021. According to Gulf Union, the new business would have advantages like adequate capital to compete in the market, along with better service delivery, enhanced financial capabilities, increased market share, and lower expenses. Aljazira Takaful Taawuni bought Solidarity Saudi Takaful in a comparable transaction in 2022, increasing its paid-up capital from SAR 350mn (\$ 93.3mn) to SAR 470.7mn (\$ 125.5mn).

Consolidation should continue in the upcoming years, as SAMA has made plain.

Reinsurance cessation

The Saudi Central Bank (SAMA) has issued a circular directing the implementation of a new reinsurance cession mechanism in the local market capturing 30% of local reinsured premiums by insurers in the kingdom. This move will lead to support growth in the reinsurance company's premiums with the effect of local cessation. Saudi Re is one of the leaders in Saudi Arabia in the reinsurance business and it expects more than a 5% increase in business from new reinsurance cession requirements.

Because Middle East insurers rely largely on reinsurance protection than do insurers in other parts of the world, reinsurers are crucial strategic allies. Reinsurance cessations in Arab countries range from 35% to 65%, depending on the portfolio structure in each country, capital base, the volume of premiums paid by insurers, appetite for risk, and the sizes of the covered risks.

Further, going ahead with the expected increase in GWP due to mandatory line of business and increase in economic activities will lead to an increase in the reinsurance premiums considering the company risk parameter.

Bupa Arabia Insurance (BUPA)

Target Price: SAR 195.78

Upside/ (Downside): 15.0%

Recommendation

Accumulate

Bloomberg Ticker	BUPA AB
Current Market Price (SAR)	170.20
52wk High / Low (SAR)	198.200/126.600
12m Average Vol. (000)	122.7
Mkt. Cap. (USD/SAR Mn)	53,102/20,424
Shares Outstanding (mn)	120.00
Free Float (%)	49%
3m Avg Daily Turnover (SAR Mn)	15.4
6m Avg Daily Turnover (SAR Mn)	19.9
P/B'23e (x)	4.9
Dividend Yield '23e (%)	2.8%

Price Performance:

1 month (%)	(7)
3 month (%)	(2)
12 month (%)	26

Source: Bloomberg, valued as of 22 December 2022

Price-Volume Performance



Source: Bloomberg

- Increase in market share with a focus on health insurance
- Health claims to remain higher in the medium term
- Strong underwriting profits with reinsuring lower premiums
- Robust dividend-payout policy

We initiate coverage on Bupa Arabia Insurance with an **Accumulate** rating and a target price of SAR 195.78 per share, implying an upside of 15.0%. Currently, the stock trades at 4.9x P/B, based on our FY23e BVPS. The company provides a dividend yield of 2.8%. Being the market leader in health insurance, we believe it will maintain its position by further increasing its market share by booking huge premiums supported by compulsory health insurance for expat and their families along with ongoing growth in insured lives (+19% YTD). Bupa has superior pricing power given its dominant position among medical insurers as compared to an overcrowded motor insurance segment. Saudi Arabia's health insurance penetration is 0.8% (as per SAMA data) as of 2021, so there is enough room to grow, and Bupa being a leader is expected to capture major health premiums. The growth in insured lives would continue as enforcement (a gap between employees in GOSI records and insured lives should ideally shrink) paces up and the job additions continue led by expats. Going forward, Bupa would ideally benefit from this along with the price hikes (15-20% YoY) keeping its loss ratio healthy.

Investment Thesis

Valuation and risks: Our target price is based on blended valuation methodologies – (i) DDM Valuation (ii) Residual Income Valuation and (ii) Relative Valuation (using P/B multiple). The downside risks to our valuation include (i) declining growth in the GWP, (ii) re-insuring higher premiums leading to lower underwriting profits, (iii) segment-specific higher claims, (iv) and lower investment income supported by weak market performance. Key upside risks to our valuation include (i) a spike in the premium rates, (ii) higher retention ratios to book better underwriting profits, (iii) a huge improvement in the loss and combined ratios, and (iv) higher than expected dividend-paying policy.

Strong fundamentals: (i) Bupa is a market leader in the health segment of the industry, with a 27.1% share in FY21, in terms of GWP. (ii) Growth in premiums is expected considering the lower health penetration rate and supported by compulsory insurance for expat and their families, a huge increase in medical costs, and additional benefits to the insurance coverage as advised by CHI. (iii) Higher retention ratios with taking higher risks for health premiums to book better underwriting profits. (iv) Improvement in the loss and combined ratios in the medium term. (v) Higher dividend yield supported by bottom-line growth in future periods.

Financials & valuation summary:

	FY19	FY20	FY21	FY22e	FY23e	FY24e
Gross Written Premiums (SAR mn)	10,410.9	10,447.4	11,382.2	13,929.3	15,553.8	16,566.0
Net Underwriting (SAR mn)	1,158.5	1,383.8	1,227.7	1,244.6	1,398.2	1,799.1
Net Profit (SAR mn)	593.8	696.1	625.6	666.5	623.7	866.8
Combined Ratio	93.2%	92.8%	94.3%	95.9%	95.7%	93.6%
ROA	5.8%	6.1%	5.0%	4.5%	4.0%	5.0%
ROE	19.5%	17.8%	14.9%	16.1%	15.0%	20.4%
DPS (SAR/share)	0.00	3.40	4.50	4.74	4.70	6.53
Dividend Yield	0.0%	2.8%	3.4%	2.8%	2.8%	3.8%
P/E (x)	20.62x	20.96x	25.11x	30.51x	32.60x	23.46x
P/BV (x)	4.0x	3.8x	3.8x	4.9x	4.9x	4.8x

Source: Company Reports, U Capital Research

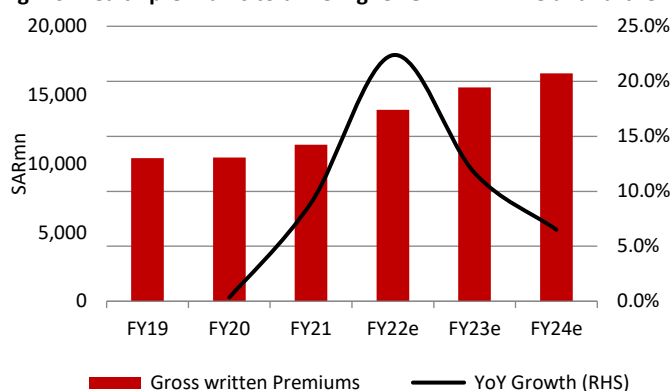
*P/E and P/B from 2022 onwards calculated on price of 22 December 2022

Strong GWP with demand from health insurance...

The Gross written premium (GWP) of Bupa grew at a CAGR of 10% during 2017-21 and reached SAR 11,382.1mn by FY 2021 with the impact of demand from the health segment. The company is majorly in the health segment with two divisions major and non-major out of which major customer represents members of large corporations, and all others are considered non-major. BUPA Arabia continues to be the single largest health insurer with a dominant market share. The company has consistently maintained its market share over the past several years despite the disruptions in market dynamics, owing to various challenges faced which have put breaks in the overall growth of the industry. In 2021 the demand for health insurance started picking up with ongoing covid-19 variants. The company also manages its premiums for larger businesses, corporations, and small to medium business corporations with product coverage based on the CHI.

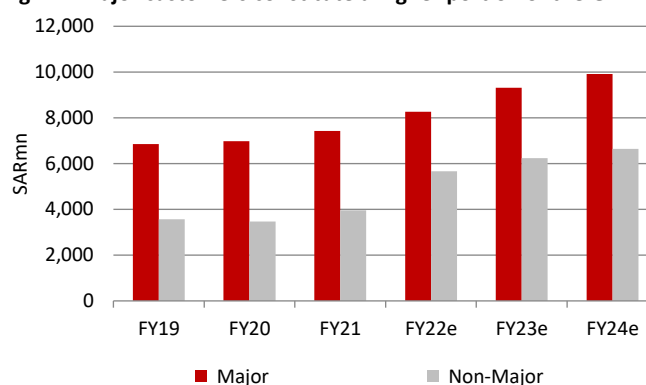
In Saudi Arabia, demand for health insurance arises with mandatory health insurance for expat and their families which adds majorly to the Saudi population. In 2021, due to covid-19 and Saudi localization policy, many of the expats left the country which led to a gap of 20%, further with the ease in policies and recovery in the economy, there is a rise in the expats population to 7.02mn in 3Q22 from 6.02mn in 4Q22 which has led to declining gap to 12%. Going further, with the increase in the expats population we expect an increase in health premiums in 2022 and going forward. Also, the government has mandated health insurance for Umrah and hajj pilgrimages which will impact the increase in health premiums as there is a rise in pilgrimages with the removal of travel restrictions. The company has also renewed its contract for SABIC to provide health insurance for its employees and their families for one year starting in 2022, accordingly, we expect these premiums to impact the GWP growth positively in 2023. We expect the GWP to grow at a CAGR of 10% during 2022e-2026e.

Fig. 26: Health premiums to drive higher GWP in FY22e and further



Source: Company Reports, U Capital Research

Fig. 27: Major customers constitute a higher portion of the GWP



Source: Company Reports, U Capital Research

...health premiums further supported by hajj and umrah pilgrimages

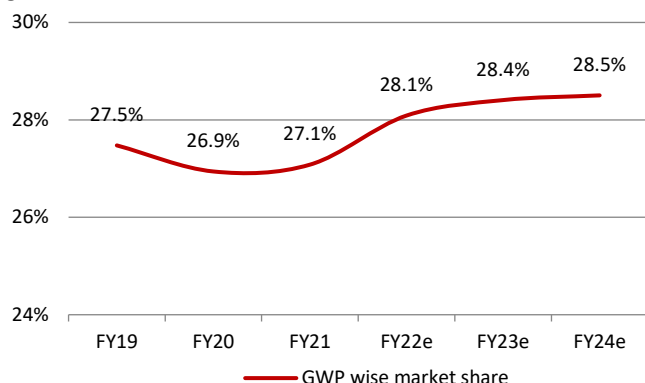
The government of Saudi Arabia has mandated health insurance for Umrah and hajj pilgrimages which will impact the increase in health premiums for the company. Umrah pilgrimages declined to 5.8mn in 2020 from 19.1mn in 2019 with the travel restrictions due to covid-19 pandemic, whereas the Hajj pilgrimage declined to 0.001mn in 2020 from 2.48mn in 2019. Further, with an increase in domestic Umrah pilgrimages, there was a recovery to 6.49mn in 2021 from 5.82mn in 2020. There is an increase in pilgrimages expected in 2022 with the removal of travel restrictions which will lead to an increase in the health premiums of the company.

Highest market share in KSA

Bupa Arabia holds a market share of 27.1% in terms of total GWP as of FY 2021. We expect the market share to increase to 28.1% in FY 2022e supported by the increase in health insurance. As, the CHI has added the covid-19 coverage and a table of benefits in which the first phase has rolled out in October 2022, and the second phase will take place in July 2023 will create demand for health policies. Also, the baseline medical inflation has increased to 16.5% which is expected to increase further considering the global inflationary scenario. Hence, increased medical costs will likely increase health premiums going ahead.

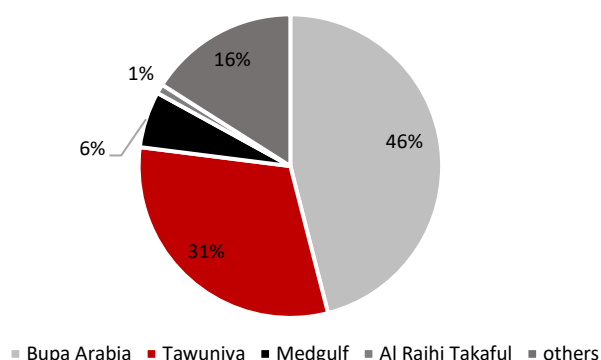
Bupa holds the highest health insurance market share with 46% as of 2021. Further, likely increase in the penetration rate from current levels of 0.7-1% indicating enough room to grow will increase the market share of the company and maintain its top position in KSA.

Fig. 28: Increase in market share between 2022e-2024e



Source: Company Reports, U Capital Research

Fig. 29: Bupa holds the highest health insurance market share in 2021

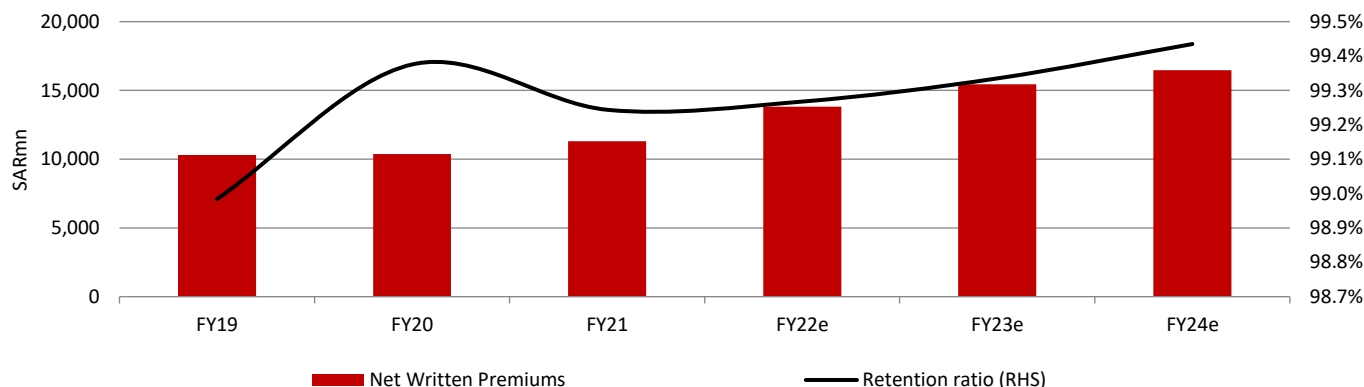


Source: Company Reports, U Capital Research

One of the highest retention ratios in the industry

Bupa Arabia has one of the highest retention ratios amongst its peers with 99.2% in FY21, as it has major exposure in the health segment. The company books higher GWP but as a part of its strategy, it cedes very less premiums to its reinsurance companies which leads to higher NWP and leads to a higher retention ratio. Going forward, given the expected higher growth in the medical segment along with the company's likely focus on lowering its ceded premiums will lead to an increase in the retention ratio to 99.3% in FY 2023e and may improve going ahead.

Fig. 30: Increased retention ratio



Source: Company Reports, U Capital Research

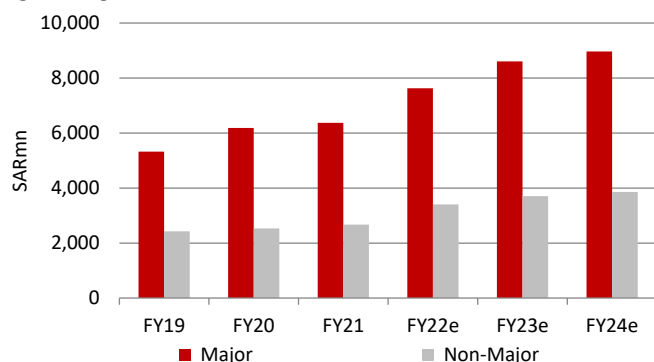
Increase in net claims incurred, amidst higher health premiums

Bupa Arabia's net claims incurred have increased in FY20 and FY21 with the increase in claims arising due to covid-19 pandemic. Further, with the increase in health premiums supported by compulsory health insurance for expat and their families, recovery in hajj and umrah pilgrimages and increased awareness among citizens for health insurance will lead to an increase in the claims in FY22e and FY23e. Thus, it will also lead to an increase in the loss ratio to 86.1% in FY22e from 85.2% in FY21.

However, the claims are expected to normalize with less impact of covid-19 leading to an improvement in the loss ratios to remain at 84.1% in FY 24e and 83.1% in FY 25e. This will also lead to an improvement in the combined ratio to 92.1% in FY26e from 95.9% in FY22e.

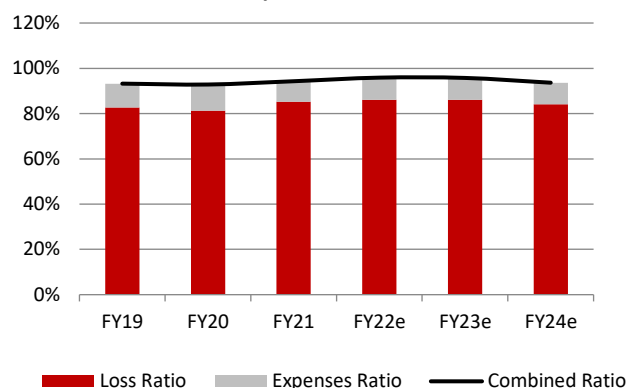
Meanwhile, the expense ratio declined in FY21 by 9.1% with a decline in the selling and marketing expenses. Going ahead with the expected increase in the health premiums the company is also expected to increase its expense ratio to 9.7% in FY22e with an increase in policy acquisition costs and G&A expenses. Further, the company is likely taking measures to control expenses will lead to a decline in the expense ratio to 9.5% by FY 24e.

Fig. 31: Higher health claims in FY22e and FY23e



Source: Company Reports, U Capital Research

Fig. 32: Combined ratio to improve in FY24e and further

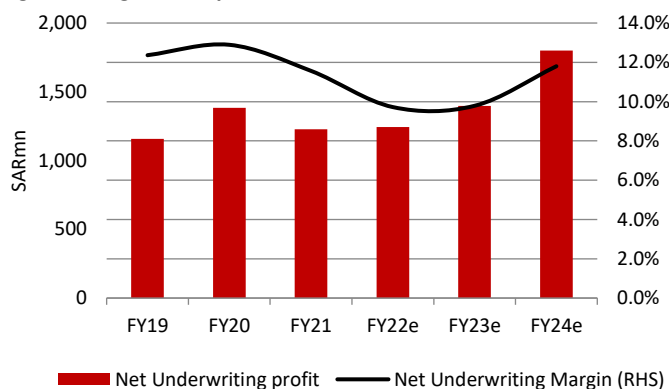


Source: Company Reports, U Capital Research

Margins to improve in the medium term

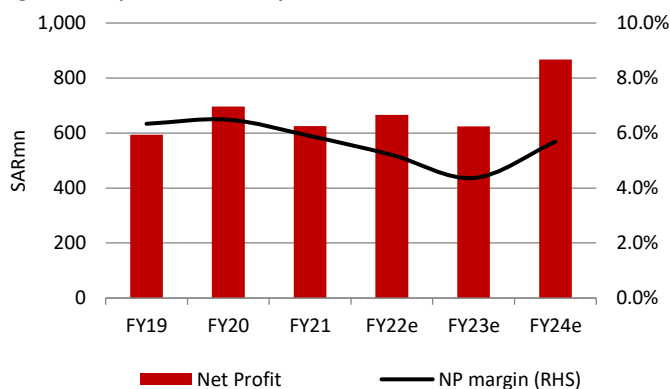
Bupa Arabia's underwriting profit margins declined to 11.6% in FY21 from 12.9% in FY20 supported by an increase in the health segment claims with covid-19 impact. However, despite higher premiums, we expect the underwriting margins to decline in FY22e and FY23e in the medium term with the expected increase in claims. Going ahead with claims to normalize we expect the margins to increase to 11.8% by FY24e. Meanwhile, we expect the underwriting profit to grow at a CAGR of 12% from 2021-26e compared to a CAGR of 3% over 2017-21. This would translate to higher net profit in the medium term, resulting in a CAGR of 12% from 2021-26e compared to a CAGR of 6% over 2017-21.

Fig. 33: Margins to improve in FY24e



Source: Company Reports, U Capital Research

Fig. 34: Net profit should improve over the near term

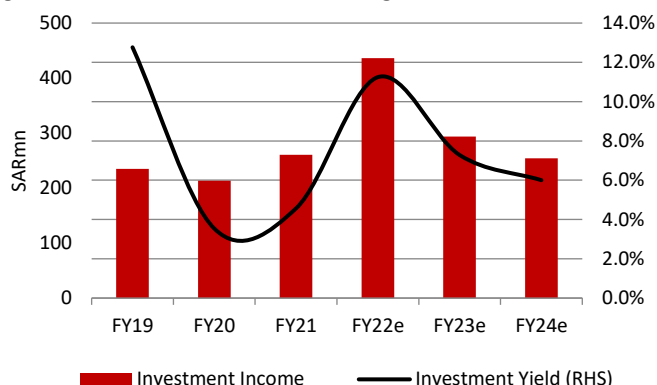


Source: Company Reports, U Capital Research

Investment income to support the bottom line in FY22e

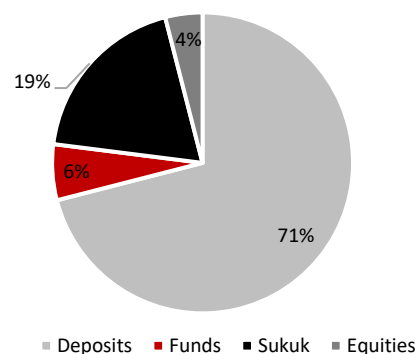
The company has managed its investment portfolio with most of the surplus in several instruments, like Deposits, Funds, Sukuk, and Equities. As of FY21, the company's major investments were parked in deposits and Sukuk. This has resulted in higher investment income (CAGR of 13% over 2017-21), owing to the appreciation of the market value of securities. We expect the Investment income to increase in FY22e with the better market performance of securities further supporting the bottom-line growth. Going ahead with likely pressure in the securities the yield is likely to decline in the medium term.

Fig. 35: Investment income to remain higher in FY22e



Source: Company Reports, U Capital Research

Fig. 36: Investment bifurcation in FY21

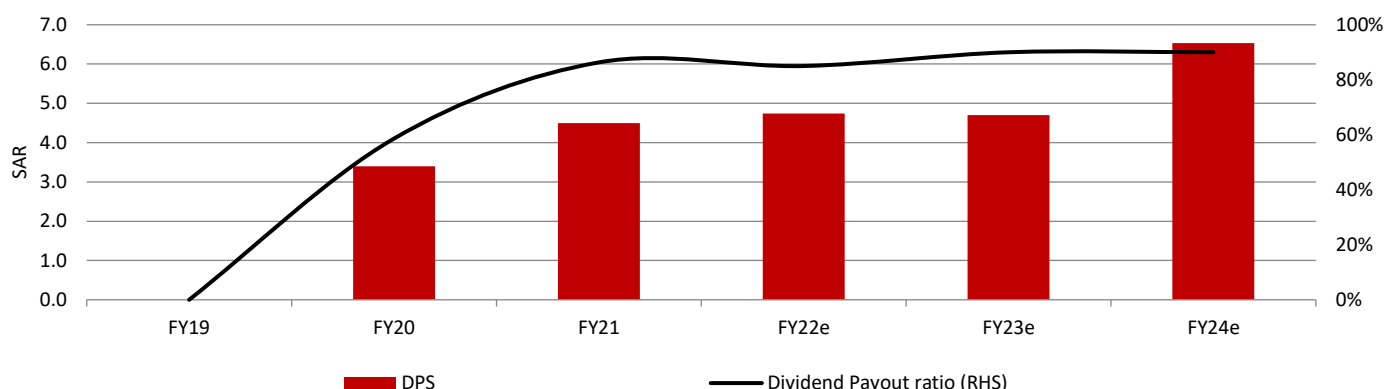


Source: Company Reports, U Capital Research

Robust dividend payout ratio

The company has a dividend payout ratio of 86% in 2021 supported by growth in the bottom line. Being a market leader in health insurance the company tries to provide better dividends to its shareholders providing a dividend yield of 3.4% as of FY21. Going forward, with the increase in the market share with the impact of higher health premiums supporting the bottom-line growth we expect the dividend payout ratio to remain in the range of 90% from FY24e onwards and further lead to an increase in the dividend yield to 4.8% by FY26e.

Fig. 37: Payout ratio to increase in FY23e onwards



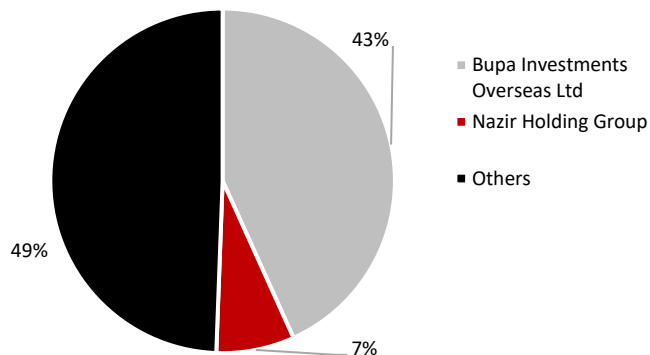
Assigning Accumulate rating with a higher dividend payout ratio

Being the leader in health insurance with 46% of the market share, we believe that Bupa's GWP is expected to get an increase supported by mandatory health insurance for expat and their families by Saudi employers. This will help the company to continue maintaining its dominating position in Saudi Arabia. The company also expects the health insurance premiums to get a boost from the recovery in hajj and umrah pilgrimages with ease in travel restrictions. The underwriting profit is expected to increase with the company strategy of reinsuring lower premiums. The company has maintained a lower expense ratio compared to its peers. Further, the loss ratio is expected to decline with managing claims efficiently and hence impacting the improvement in the combined ratio along with the cost control under expenses. The company is also providing one of the best dividend payout ratios in the industry with 85%. Accordingly, we provide an ACCUMULATE rating on the stock with a fair value of SAR 195.78 per share, with an upside of 15.0%. The stock is currently trading at a P/B of 4.9x, based on our FY23 estimates, offering a healthy dividend yield of 2.8%.

About Bupa Insurance

Bupa Arabia Insurance (Bupa) is a part of the Bupa Group. The company majorly operates in Saudi Arabia. Bupa provides insurance majorly in the health segment with a focus on major and non-major customers. The company is the leader in the Insurance market with a market share of 27% as of FY21.

Fig. 38: Bupa's Shareholding Structure



Source: Bloomberg, 22 December 2022

Key financials

In SAR'000, except stated otherwise	FY19	FY20	FY21	FY22e	FY23e	FY24e
Income Statement						
Gross written premiums (GWP)	10,411	10,447	11,382	13,929	15,554	16,566
Insurance premium ceded to reinsurers, earned	(106)	(65)	(86)	(102)	(103)	(94)
Net written premium	10,305	10,382	11,296	13,827	15,450	16,472
Change in unearned premium	(934)	352	(678)	(1,023)	(1,163)	(1,226)
Net earned premium (NEP)	9,371	10,734	10,618	12,804	14,287	15,247
Claims paid	(7,655)	(8,262)	(9,074)	(10,275)	(11,599)	(12,090)
Reinsurers' share of claims	59	21	22	15	18	19
Net underwriting result	1,158	1,384	1,228	1,245	1,398	1,799
Investment income	235	213	260	436	294	254
General and administrative expenses	(491)	(586)	(599)	(651)	(721)	(760)
Profit before taxation	713	824	731	802	734	1,020
Income tax	(119)	(128)	(105)	(136)	(110)	(153)
Profit for the year	594	696	626	666	624	867
Balance Sheet						
Cash and cash equivalents	666	633	961	847	899	916
Term Deposits	5,064	2,797	3,094	6,918	8,606	9,897
Financial investments	1,841	6,029	5,704	3,878	4,033	4,235
Premiums and insurance balances receivable	1,689	1,320	1,761	2,125	2,195	2,193
Reinsurers' share of unearned premiums	21	20	28	30	30	28
Reinsurers' share of outstanding claims	1	1	7	8	9	11
Total Assets	10,181	11,496	12,399	14,726	16,736	18,246
Accrued and other liabilities	449	540	605	607	627	627
Unearned premiums	4,376	4,023	4,710	5,733	6,896	8,122
Outstanding claims	452	447	601	658	753	802
Total Liabilities	7,136	7,594	8,204	10,585	12,535	13,962
Share capital	1,200	1,200	1,200	1,500	1,500	1,500
Retained earnings	1,129	1,684	1,791	1,670	1,605	1,515
Total Equity	3,045	3,903	4,195	4,141	4,201	4,284
Total Liabilities and Shareholders' equity	10,181	11,496	12,399	14,726	16,736	18,246
Cash Flow Statement						
Net cash from operating activities	1,141	1,556	661	2,475	2,512	2,360
Net cash from investing activities	(526)	(1,575)	107	(1,966)	(1,883)	(1,540)
Net cash from financing activities	(240)	(14)	(441)	(622)	(577)	(803)
Cash & cash equivalent at period end	666	633	961	847	899	916
Key Ratios						
Net underwriting margin	12.4%	12.9%	11.6%	9.7%	9.8%	11.8%
Pre-tax margin	7.6%	7.7%	6.9%	6.3%	5.1%	6.7%
NP margin	6.3%	6.5%	5.9%	5.2%	4.4%	5.7%
Loss Ratio	82.7%	81.2%	85.2%	86.1%	86.1%	84.1%
Expenses Ratio	10.5%	11.6%	9.1%	9.7%	9.6%	9.5%
Combined Ratio (COR)	93.2%	92.8%	94.3%	95.9%	95.7%	93.6%
Retention ratios	99.0%	99.4%	99.2%	99.3%	99.3%	99.4%
ROA	5.8%	6.1%	5.0%	4.5%	4.0%	5.0%
ROE	19.5%	17.8%	14.9%	16.1%	15.0%	20.4%
EPS (SAR)	4.97	5.83	5.23	5.58	5.22	7.26
BVPS (SAR)	25.37	32.52	34.96	34.51	35.01	35.70
DPS (SAR)	-	3.40	4.50	4.74	4.70	6.53
Dividend Yield (%)	0.00%	2.78%	3.42%	2.79%	2.76%	3.84%
Cash Dividend payout (%)	0.0%	58.6%	86.3%	85.0%	90.0%	90.0%
P/E (x)	20.62	20.96	25.11	30.51	32.60	23.46
P/BV (x)	4.04	3.76	3.76	4.93	4.86	4.77
Price as at period end*	102.40	122.20	131.40	170.20	170.20	170.20

Source: Company Reports, U Capital Research

*Current market price is used for the years forecasted

Tawuniya Insurance (TAWUNIYA)

Target Price: SAR 95.43

Upside: 15.3%

Recommendation

Bloomberg Ticker	TAWUNIYA AB
Current Market Price (SAR)	82.80
52wk High / Low (SAR)	88.400/53.300
12m Average Vol. (000)	267.2
Mkt. Cap. (USD/SAR Mn)	26,910/10,350
Shares Outstanding (mn)	125.00
Free Float (%)	74%
3m Avg Daily Turnover (SAR Mn)	15.5
6m Avg Daily Turnover (SAR Mn)	14.2
P/B'23e (x)	3.1
Dividend Yield '23e (%)	1.7%

Price Performance:

1 month (%)	3
3 month (%)	4
12 month (%)	8

Source: Bloomberg, valued as of 22 December 2022

Price-Volume Performance



Source: Bloomberg

- Strong focus on GWP with demand from the medical and motor segment
- Increased underwriting profit with better claim management and lower reinsurance premiums
- Improvement in the combined ratio with cost control under G&A expenses
- Positive Investment income with better-fixed securities performance to support the bottom-line growth

We initiate coverage on Tawuniya Insurance (Tawuniya) and assign an **Accumulate** rating with a target price of SAR 95.43 per share, offering an upside of 15.3%. The stock trades at a P/B of 3.1x, based on our FY23 estimates, offering a dividend yield of 1.7%. Being the second largest leader in the health insurance segment, we believe that the company is well placed to benefit from the likely mandatory medical insurance for expat and their families, rising medical costs, and additional benefits being added to the medical coverage as per CCHI. Tawuniya also has a presence in the high-margin Hajj/Umrah portfolio (lower loss ratio) which gives it an added advantage. GWP growth is further expected to be supported by the motor and P&C segments. The company is expected to increase its overall market share to 27% by FY22e. Further, with no huge reinsurance premiums, better claim management, initiatives for G&A expenses, and recovery in the investment income will support the earnings of the company in the medium term.

Investment Thesis

Valuation and risks: Our target price is based on blended valuation methodologies – (i) DDM Valuation (ii) Residual Income Valuation and (ii) Relative Valuation (using P/B multiple). The downside risks to our valuation include (i) declining growth in the GWP, (ii) re-insuring higher premiums leading to lower underwriting profits, (iii) segment-specific higher claims, (iv) and lower investment income supported by weak market performance. Key upside risks to our valuation include (i) a spike in the premium rates, (ii) higher retention ratios to book better underwriting profits, (iii) a huge improvement in the loss and combined ratios, and (iv) higher than expected dividend-paying policy.

Strong fundamentals: (i) Second major leader in health insurance in the kingdom supported by mandatory health insurance policies (ii) GWP to further get a boost from the motor and P&C segment with new smart pricing technology. (iii) Effective claim management and higher GWPs leading to improvement in the underwriting profit. (iii) focus on digitalization will lead to improvement in the G&A expenses and further lead to an increase in the combined ratios (iv) Likely better performance in fixed securities and mutual funds will lead to an increase in the Investment income in the near term and positively impact the bottom line. (v) Higher dividend payout ratio in the medium term supported by a strong bottom line.

Financials & valuation summary:

	FY19	FY20	FY21	FY22e	FY23e	FY24e
Gross Written Premiums (SAR mn)	8,375.9	9,061.8	10,218.6	13,461.3	14,992.6	16,034.0
Net Underwriting (SAR mn)	770.0	1,016.6	857.5	1,049.2	1,235.8	1,306.1
Net Profit (SAR mn)	327.6	393.3	266.6	348.1	427.1	483.6
Combined Ratio	99.1%	96.2%	100.3%	99.6%	98.6%	98.0%
ROA	2.3%	2.7%	1.8%	1.9%	2.2%	2.2%
ROE	13.1%	14.0%	8.8%	11.1%	12.6%	13.8%
DPS (SAR/share)	-	-	0.80	1.06	1.37	1.93
Dividend Yield	0.0%	0.0%	1.0%	1.3%	1.7%	2.3%
P/E (x)	29.3x	25.3x	36.3x	29.7x	24.2x	21.4x
P/BV (x)	3.8x	3.5x	3.2x	3.3x	3.1x	2.9x

Source: Company Reports, U Capital Research

*P/E and P/B from 2022 onwards calculated on the price of 22 December 2022

Higher focus on medical segment to boost GWP...

Tawuniya Insurance is the second largest leader in medical insurance with a 24.3% market share in Saudi Arabia based on the GWP. The company's GWP grew at a CAGR of 5% to SAR 10,218.6mn during FY17-21, majorly driven by the medical insurance segment which constitutes 76% of total GWP as of FY21. The growth is further supported by the Property and casualty segment which constitutes 16% of the total GWP as of FY21.

The medical segment going forward is expected to boost with the compulsory medical insurance for expat and their families. The recovery in the economy leading to a rise in the expats population will give birth to new medical premiums. Also, the medical inflation costs have increased hugely with 7% base inflation, 4% Article 11, 2% NPHIES, and 2% covid-19 coverage which will create awareness among people in the kingdom to purchase a medical policy. Further CCHI's new benefits added to coverage which has been implemented in October 2022, will drive more demand for the medical policies. Going forward with the increase in premiums we expect the market share in the medical segment to increase to 32% by 2023e.

The company has a separate medical segment for Hajj and Umrah pilgrimages which declined in 2021 to SAR 35mn with the impact of covid-19 pandemic leading to travel restrictions. Further, the recovery in Hajj and Umrah pilgrimages supported by the ease in the travel restrictions has led to an increase in the premiums to SAR 210.8mn in 3Q22. Going ahead with the increase in pilgrimages we expect the growth in this segment to lead to an increase in premiums to 893.8mn by FY23e.

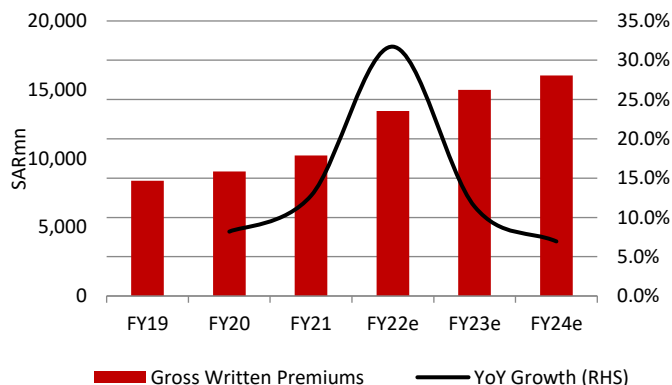
...further supported by growth in P&C and motor segment

On Property and casualty insurance, the company holds a 31% market share as of 2021. P&C increased to SAR 782.4mn in 3Q22 resulting in YoY growth of 79% with the increase in construction activities in Saudi Arabia with an increase in building permits. The increase in population leading to demand for new homes has driven the premiums. Further, the rise in oil prices supporting the construction activities in the kingdom as a part of various vision programs will lead to growth in the P&C segment for the company.

On the motor insurance side, the company holds a market share of 7.6% as of 2021. Motor insurance premiums increased to SAR 223.6mn in 3Q22 resulting in YoY growth of 59% with the increase in vehicle sales supported by the rise in the population in the kingdom and smart pricing technology implemented by the company. The company seeks maximum demand from its Al-Shamel cover for Private Motor Insurance by providing basic covers such as loss or damage to the car, natural disasters, liability to third parties, and emergency medical expenses. Additional extension of this program includes a waiver of the depreciation clause, a hire car facility, agency repairs, and geographical extension. Considering, the company's lower market share in motor insurance it's expected that there is enough room for the segment to grow supported by the increased expats population and further leading to an increase in the market share to 10% by FY22e. Also, SAMA has introduced new regulations governing comprehensive motor insurance coverage with new provisions outlining the compulsory and optional coverages in the segment which will positively impact the motor insurance players and accordingly increase the premiums of the company in future periods.

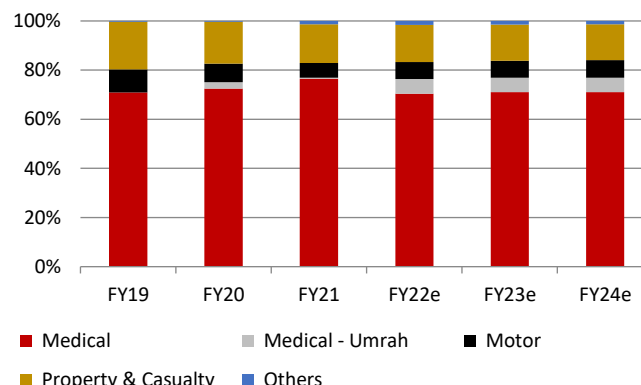
Overall, we expect the GWP to show a CAGR growth of 12% during FY21-26e supported mainly by the medical, motor, and P&C segments.

Fig. 39: GWP growth supported by medical segment in FY22e



Source: Company Reports, U Capital Research

Fig. 40: GWP breakdown by major segments

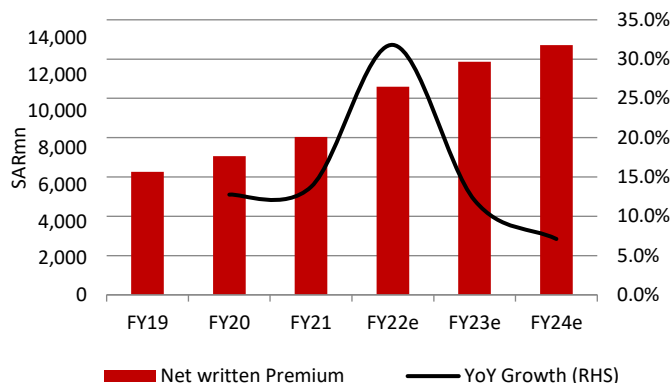


Source: Company Reports, U Capital Research

Well-maintained retention ratios

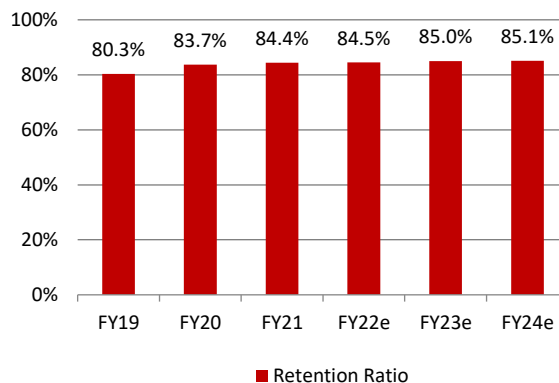
The company is efficiently maintaining its retention ratios at the level of 80-84% during FY19-FY21. Part of its strategy to reinsure lower medical premiums has led to maintaining its retention ratio effectively. Through maintaining better retention ratios, the company is also able to book higher Net written premiums. Going ahead, with the company taking major risks under the medical segment by lowering its ceded premiums we expect the retention ratio to increase to 85% in the medium term.

Fig. 41: NWP to increase in FY22e and further



Source: Company Reports, U Capital Research

Fig. 42: Healthy retention ratios

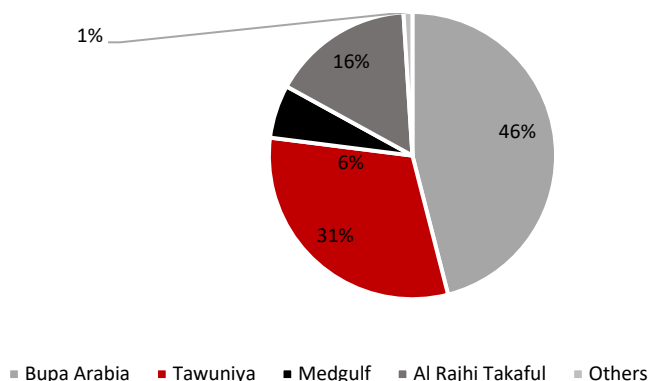


Source: Company Reports, U Capital Research

2nd Highest market share in KSA

With the increased focus on the medical segment (contributing 70% to GWP as of 2021), the company holds the second-highest market share in the kingdom of Saudi Arabia with 21% on the GWP basis as of 2021. Saudi Arabia's health insurance penetration rate is below 1%, so there is enough room for the segment to expand. Considering, the compulsory medical insurance for expat and their families and the increase in awareness among citizens post covid-19 will lead to growth in the premiums going ahead and the company is expected to maintain its market share in further periods.

Fig. 43: Tawuniya holds the highest health insurance market share



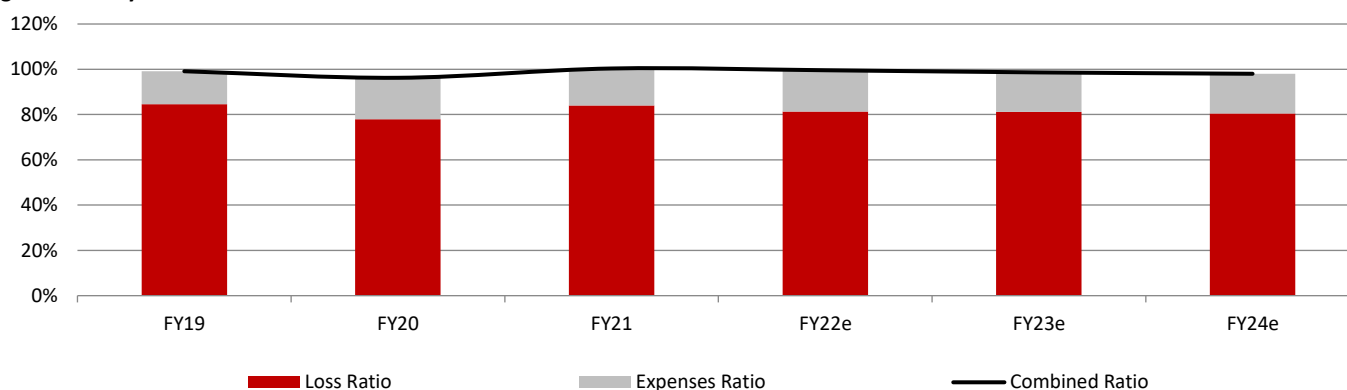
Source: Company Reports, U Capital Research

Combined ratios to improve in the medium term

The company holds a combined ratio of 100% supported by a loss ratio of 84% and an expense ratio of 16% as of FY 21 with the increase in medical claims supported by higher covid-19 cases, motor claims supported with ease in travel restrictions leading to many people movement, Property and casualty claims with the increase in incidents. However, there was a decline in the hajj and umrah claims with a decline in the number of pilgrimages. Historically, the combined ratio was 96% supported by a loss ratio of 78% and an expense ratio of 18% as of 2020 due to lower economic activities with the impact of covid-19 pandemic leading to lower claims for various segments of the company.

Going ahead in the medium term, with the mass vaccination programs in the kingdom, we feel there will less covid-19 related claims. Medical claims will also decline considering the increase in awareness among people related to health post-covid-19 pandemic. Considering the increase in expats population the govt has taken various measures to control the accidents such as awareness programs, better road standards, and speed cameras which will lower the accidents and lead to lower motor claims. Also, the company has come up with Motor Drive in which there are weekly rewards and discounts based on improved driving behavior, and impact alert technology will also support lower claims under the motor segment. The Property and casualty claims are expected to be lower considering likely lesser damages from natural calamities. Meanwhile, Hajj and Umrah pilgrimages getting back to normal in 2022 with the ease in travel restrictions which might lead to an increase in the medical claims, but the segment holds a lower portion, so it won't impact the overall claims of the company. The company is also focusing on digital technologies which may lower the G&A expenses and further lead to improvement in the expense ratios in the medium term. Accordingly, we expect the combined ratio to improve in FY24e by 98% with a loss ratio of 80% and an expense ratio of 18%.

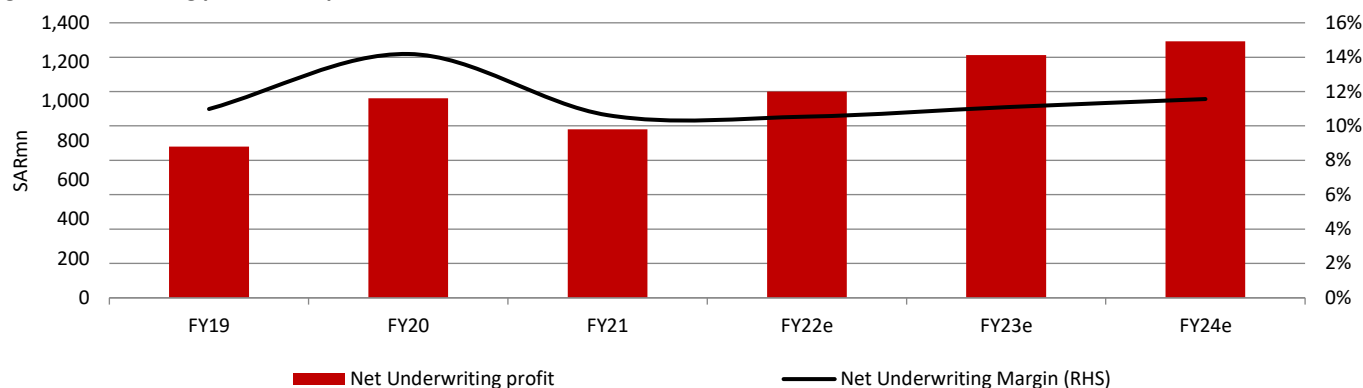
Fig. 44: Healthy combined ratio



Source: Company Reports, U Capital Research

Increased Underwriting profit supported by Higher GWP and better claims

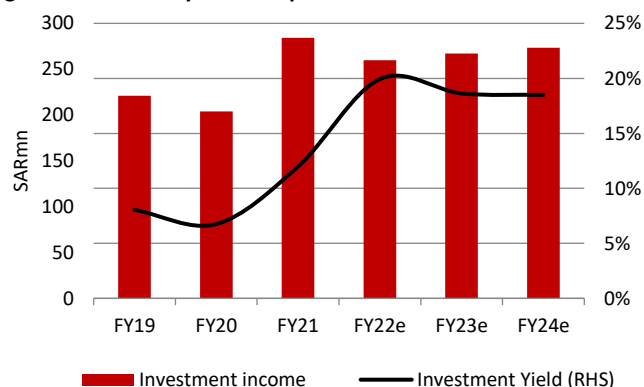
Tawuniya reported a decline in the underwriting profit by 10.6% YoY to SAR 857.4mn in FY21, majorly due to medical and motor claims led by an increase in covid-19 cases and ease in travel restrictions with increased people movement. However, historically the underwriting profit was SAR 1,017mn in FY20 with lower claims under the medical and motor segment supported by restrictions in the economic activities with the covid-19 pandemic. Going ahead, with an increase in GWP supported by demand in the medical, motor, and property segments, no higher reinsuring premiums with risk-taking appetite along with effective claim management supported by likely lower claims under medical and motor segments with increased awareness among the citizens in the kingdom will lead to better underwriting profits. Accordingly, we expect the underwriting profit to grow at a CAGR of 14% during FY21-26e to reach SAR 1,661.7mn by FY26e and the net underwriting margins to increase to 11.6% by 24e with improvement from the historical level of 10.6% in FY21.

Fig. 45: Underwriting profits to improve from historical levels


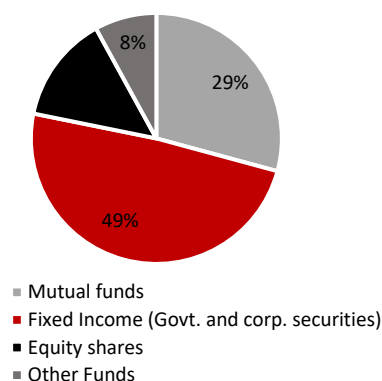
Source: Company Reports, U Capital Research

Investment yield to improve from pre-pandemic level

Investment income increased to SAR 284.1mn in FY21 with better market performance in Fixed securities. Investment income declined in FY20 with lower market performance due to covid-19 pandemic. The company has an investment mix of Mutual funds at 29%, Fixed Income at 49%, Equity shares at 14%, and funds at 8% as of FY21. The company has been majorly focusing on fixed securities and mutual funds rather than equity shares as a part of its strategy. Going ahead with improved market conditions supported by better economic growth, and an increase in interest rates we expect the fixed securities and mutual funds to have better growth and support the Investment income of the company. Accordingly, we expect the Investment income to increase to SAR 267.3mn by FY23e. The Investment yield was majorly impacted by the covid-19 pandemic in FY20, further with the increase in the Investment income we also expect the yield to improve from the pre-pandemic level and reach 19% by FY23e.

Fig. 46: Investment yield to improve in the medium term


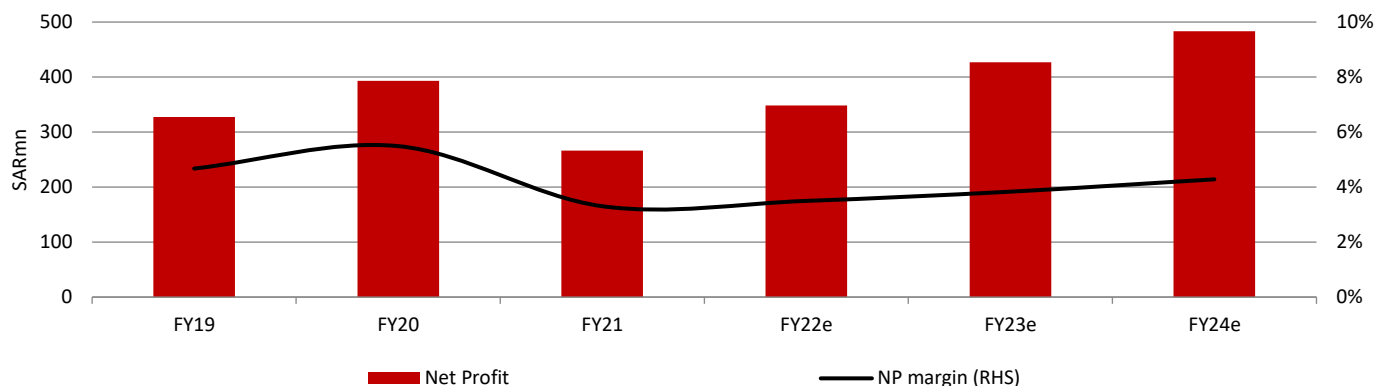
Source: Company Reports, U Capital Research

Fig. 47: Fixed Income constitutes a major part of Investments


Source: Company Reports, U Capital Research

Healthy Net Income with better underwriting profits

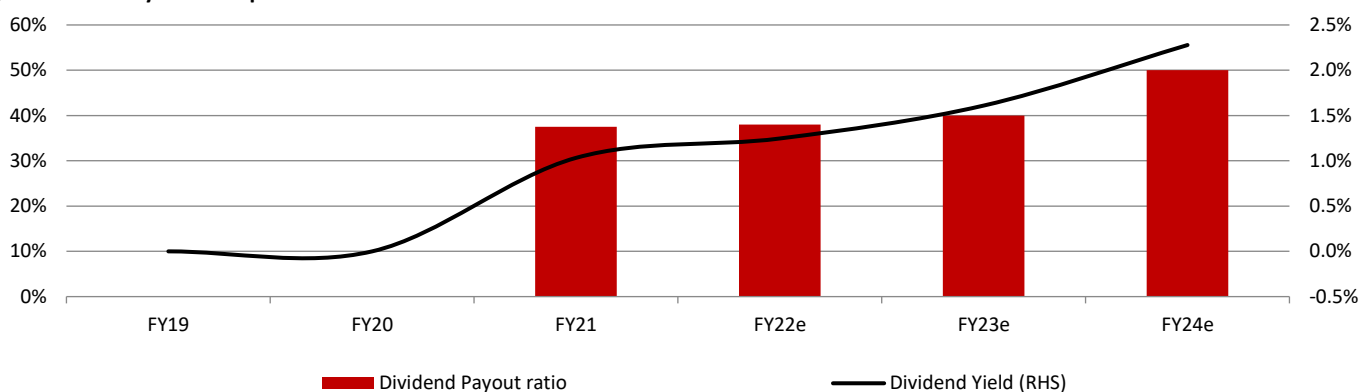
The bottom line has declined to SAR 266.5mn by 32% YoY in FY21 with higher G&A expenses and lower underwriting profit with the increase in the claim expenses under the medical and motor segment despite higher GWP. Going ahead, with the boost in premiums supported by medical, motor, and P&C segments, better claim management, lower G&A expenses leading to improvement in combined ratio and higher investment income supported by better performance of the fixed securities and mutual funds will lead to healthy net income for the company in the near term. Accordingly, we expect the net income to grow at a CAGR of 23% over FY21-26e and reach SAR 758.33mn and net margins to improve and reach 4% in the medium term.

Fig. 48: NP margin to increase in the medium term


Source: Company Reports, U Capital Research

Increase in Dividend payout ratio in FY24e

The company started its dividend-paying policy from FY21 onwards with a payout ratio of 38% despite a decline in the net income compared to FY20 levels. Going forward, with the increase in the bottom line supported by higher underwriting profit, lower G&A expenses, and higher investment income we assume the company to provide a better return to its shareholders. Accordingly, we expect the payout ratio to increase to 50% by FY24e supported by higher bottom-line growth and further leading to an increase in the dividend yield to 2.3% by FY24e.

Fig. 49: Dividend yield to improve in the medium term


Source: Company Reports, U Capital Research

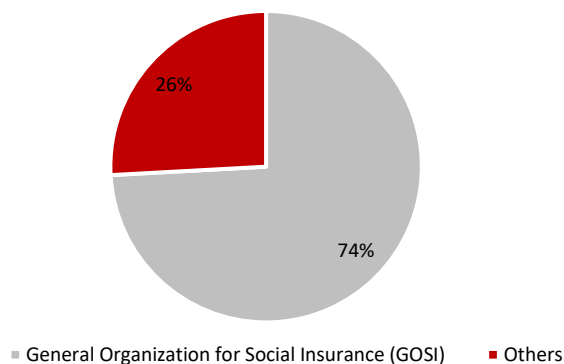
Assign ACCUMULATE rating with a strong focus on GWP

Tawuniya is the second major leader in health insurance in the kingdom of Saudi Arabia. Going forward, we expect the GWP to get a boost from the medical, motor, and P&C segments supported by mandatory health insurance for expat and their families, rising medical costs, new benefits being added to the medical insurance coverage as per CCHI, increasing vehicle sales with the rise in the population, increase in the construction activities and recovery in hajj and umrah pilgrimages. The increase in the GWP will the company to increase its market share and maintain its position in the country. The company reinsures lower premiums by taking higher risks for medical premiums to book higher NWP with maintaining higher retention ratios. The company is also focusing to book higher underwriting profits in the medium term by efficiently managing its claim and G&A expenses to improve its claims and combined ratio. However, we believe the investment income is likely to support the bottom line with growth in the mutual funds and fixed securities with raising interest rates pertaining in the environment. Accordingly, we assign an Accumulate rating on the stock with a fair value of SAR 95.43 per share with an upside of 15.3%. The stock is currently trading at a P/B of 3.1x, based on our FY23 estimates.

About Tawuniya Insurance

The Company for Cooperative Insurance Tawuniya is a Saudi joint stock company that was founded in 1986 and was the first national insurance company authorized to provide all types of insurance in the Kingdom of Saudi Arabia in accordance with the cooperative principle's officially recognized legal basis. More than 60 different forms of insurance, including medical, liability, auto, fire, property, engineering, casualty, marine, and aviation, are offered to Tawuniya's clients.

Fig. 50: Tawuniya's Shareholding Structure



Source: Bloomberg, 22 December 2022

Key financials

In SAR'000, except stated otherwise	FY19	FY20	FY21	FY22e	FY23e	FY24e
Income Statement						
Gross written premiums (GWP)	83,75,860	90,61,768	1,02,18,606	1,34,61,310	1,49,92,590	1,60,33,972
Insurance premium ceded to reinsurers, earned	(16,50,188)	(14,78,346)	(15,94,488)	(21,40,954)	(22,74,751)	(23,24,926)
Net written premium	67,12,024	75,67,905	86,07,865	1,13,45,961	1,27,09,737	1,36,12,951
Change in unearned premium	1,65,294	(5,25,520)	(6,78,203)	(15,34,359)	(17,19,332)	(24,73,788)
Net earned premium (NEP)	68,77,318	70,42,385	79,29,662	98,11,601	1,09,90,405	1,11,39,163
Claims paid	69,55,833	68,76,704	67,50,880	73,22,357	86,00,385	89,27,778
Reinsurers' share of claims	(12,83,017)	(10,69,645)	(3,34,235)	(3,84,018)	(4,05,366)	(4,09,658)
Net underwriting result	7,69,955	10,16,614	8,57,456	10,49,225	12,35,814	13,06,115
Investment income	2,21,033	2,03,980	2,84,185	2,59,951	2,67,272	2,73,329
General and administrative expenses	(5,77,253)	(6,28,162)	(7,46,268)	(8,65,407)	(9,32,496)	(9,30,772)
Profit before taxation	4,02,165	5,14,459	3,50,138	4,22,422	5,33,859	6,04,490
Income tax	(74,579)	(1,21,129)	(83,578)	(74,352)	(1,06,772)	(1,20,898)
Profit for the year	3,27,586	3,93,330	2,66,560	3,48,069	4,27,087	4,83,592
Balance Sheet						
Cash and cash equivalents	13,06,550	4,45,794	11,88,266	27,99,340	42,34,227	62,36,169
Term deposits	35,39,376	31,34,932	37,80,598	60,16,979	61,38,224	62,60,989
Financial investments	27,46,748	30,18,566	23,70,943	13,04,019	14,34,421	14,77,453
Premiums and insurance balances receivable	14,95,894	34,80,553	32,22,001	38,10,812	42,36,965	44,09,342
Reinsurers' share of unearned premiums	7,15,959	6,83,698	7,17,382	10,46,254	13,04,154	16,75,222
Reinsurers' share of outstanding claims	31,00,446	2,89,784	17,62,324	17,07,244	18,38,843	19,10,450
Total Assets	1,41,14,485	1,44,16,794	1,47,18,253	1,84,34,150	2,10,10,829	2,37,71,698
Accrued and other liabilities	11,74,982	17,29,527	10,70,631	13,71,892	15,25,307	16,31,255
Unearned premiums	38,26,119	43,19,378	50,31,265	69,75,029	86,94,361	1,11,68,149
Outstanding claims	36,84,891	25,16,652	24,00,729	24,38,920	26,26,918	27,29,214
Total Liabilities	1,16,14,796	1,16,07,432	1,16,79,189	1,53,11,216	1,76,31,642	2,01,50,716
Share capital	12,50,000	12,50,000	12,50,000	12,50,000	12,50,000	12,50,000
Retained earnings	31,240	3,45,904	4,59,152	6,69,804	8,40,639	9,85,717
Total Equity	24,99,689	28,09,362	30,39,064	31,22,934	33,79,186	36,20,982
Total Liabilities and Shareholders' equity	1,41,14,485	1,44,16,794	1,47,18,253	1,84,34,150	2,10,10,829	2,37,71,698
Cash Flow Statement						
Net cash from operating activities	2,63,536	(15,44,979)	9,23,440	29,46,870	19,14,564	24,67,502
Net cash from investing activities	(5,57,226)	2,84,223	3,29,953	(11,99,994)	(3,08,843)	(2,23,764)
Net cash from financing activities	-	4,00,000	(5,10,921)	(1,35,801)	(1,70,835)	(2,41,796)
Cash & cash equivalent at period end	13,06,550	4,45,794	11,88,266	27,99,340	42,34,227	62,36,169
Key Ratios						
Net underwriting margin	11.0%	14.2%	10.6%	10.5%	11.1%	11.6%
Pre-tax margin	5.7%	7.2%	4.3%	4.2%	4.8%	5.4%
NP margin	4.7%	5.5%	3.3%	3.5%	3.8%	4.3%
Loss Ratio	84.5%	77.9%	84.0%	81.4%	81.1%	80.5%
Expenses Ratio	14.6%	18.3%	16.4%	18.2%	17.5%	17.5%
Combined Ratio (COR)	99.1%	96.2%	100.3%	99.6%	98.6%	98.0%
Retention ratios	80.3%	83.7%	84.4%	84.5%	85.0%	85.1%
ROA	2.3%	2.7%	1.8%	1.9%	2.2%	2.2%
ROE	13.1%	14.0%	8.8%	11.1%	12.6%	13.8%
EPS (SAR)	2.62	3.15	2.13	2.78	3.42	3.87
BVPS (SAR)	20.00	22.47	24.31	24.98	27.03	28.97
DPS (SAR)	-	-	0.80	1.06	1.37	1.93
Dividend Yield (%)	0.0%	0.0%	1.0%	1.3%	1.7%	2.3%
Cash Dividend payout (%)	0.0%	0.0%	37.5%	38.0%	40.0%	50.0%
P/E (x)	29.27x	25.33x	36.34x	29.74x	24.23x	21.40x
P/BV (x)	3.84x	3.55x	3.19x	3.31x	3.06x	2.86x
Price as at period end*	76.70	79.70	77.50	82.80	82.80	82.80

Source: Company Reports, U Capital Research

*Current market price is used for the years forecasted

Saudi Reinsurane (SAUDIRE)

Target Price: SAR 15.64

Upside/ (Downside): 11.2%

Recommendation

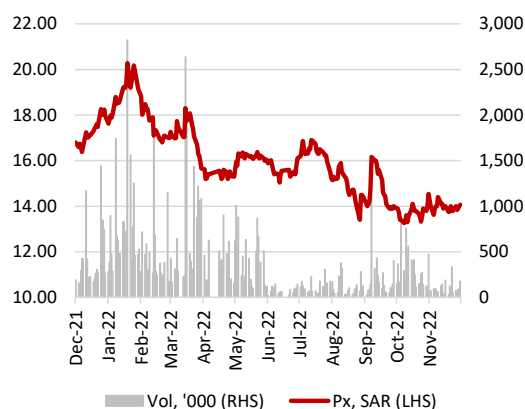
Bloomberg Ticker	SAUDIRE AB
Current Market Price (SAR)	14.06
52wk High / Low (SAR)	20.480/13.000
12m Average Vol. (000)	343.2
Mkt. Cap. (USD/SAR Mn)	3,257/1,253
Shares Outstanding (mn)	89.10
Free Float (%)	95%
3m Avg Daily Turnover (SAR Mn)	2.9
6m Avg Daily Turnover (SAR Mn)	2.3
P/B'23e (x)	1.2

Price Performance:

1 month (%)	(3)
3 month (%)	(2)
12 month (%)	(16)

Source: Bloomberg, valued as of 22 December 2022

Price-Volume Performance



Source: Bloomberg

- Increased focus on the IDI segment to result in higher GWP
- Local cession program and plans for geographical expansion to support top-line growth
- Declining retention ratios with higher reinsurance premiums under the IDI segment
- Better claim management, cost control measures, and growth in Investment income supported by money market funds to improve the bottom line going ahead

We initiate coverage on Saudi Reinsurance (Saudi Re) and assign an **Accumulate** rating with a target price of SAR 15.64 per share, offering an upside of 11.2%. The stock trades at a P/B of 1.2x, based on our FY23 estimates. Supporting the local cession program of 30% by SAMA, the company is likely to benefit as it's the major reinsurance player in the kingdom. Further, a strong focus on IDI (Inherent Defect Insurance) considering the SAMA mandatory rules for construction activities and plans for geographical expansion will lead to growth in GWP with a CAGR growth of 9.1% over FY21-26e. The Fire, Engineering, and specialty segments are also expected to get a boost from a rise in economic activities, and demand from the worldwide property which will further support the overall GWP growth. Going ahead with improvement in the claims and combined ratio, higher investment income will support the bottom line of the company in the medium term.

Investment Thesis

Valuation and risks: Our target price is based on blended valuation methodologies – (i) Residual Income Valuation and (ii) Relative Valuation (using P/B multiple). The downside risks to our valuation include (i) declining growth in the GWP, (ii) re-insuring higher premiums leading to lower underwriting profits, (iii) segment-specific higher claims, (iv) and lower investment income supported by weak market performance. Key upside risks to our valuation include (i) a spike in the premium rates, (ii) higher retention ratios to book better underwriting profits, and (iii) a huge improvement in the loss and combined ratios.

Strong fundamentals: (i) major reinsurance player in Saudi Arabia to get a boost in premiums from 30% local cession program (ii) Focus on the IDI segment to further support the top line. (iii) Geographical expansion with new casualty and health schemes to increase its international business. (iv) Better claims management and likely lower policy acquisition costs and cost control under G&A expenses to improve the combined ratio in the medium term (v) Improvement in underwriting profit and increase in Investment income with better money market funds performance supported by rising interest rates will lead to better bottom-line growth in the future periods.

Financials & valuation summary:

	FY19	FY20	FY21	FY22e	FY23e	FY24e
Gross Written Premiums (SAR mn)	792.8	935.1	1,115.9	1,323.4	1,455.0	1,549.7
Net Underwriting (SAR mn)	67.2	69.1	71.6	126.3	132.3	149.9
Net Profit (SAR mn)	45.4	45.9	38.3	42.0	56.5	70.7
Combined Ratio	100.7%	99.3%	101.0%	95.9%	96.3%	94.9%
ROA	1.8%	1.6%	1.2%	1.1%	1.4%	1.7%
ROE	5.2%	5.0%	4.0%	4.2%	5.3%	6.4%
DPS (SAR/share)	0.00	0.00	0.00	0.00	0.00	0.00
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
P/E (x)	16.6x	26.7x	38.6x	29.8x	22.2x	17.7x
P/BV (x)	0.9x	1.3x	1.5x	1.2x	1.2x	1.1x

Source: Company Reports, U Capital Research

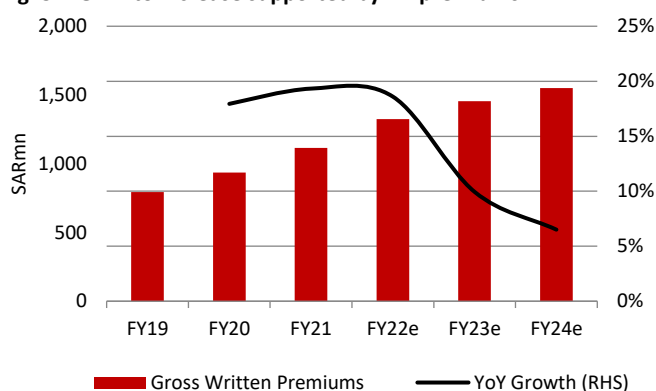
*P/E and P/B from 2022 onwards calculated on price of 22 December 2022

Sustainable growth in the IDI segment to strongly benefit the GWP...

Saudi Re is the first reinsurance company in the kingdom of Saudi Arabia with serving clients in 40+ countries in MENA, Asia, and Africa region. The company is majorly in the reinsurance business with various segments such as Motor, health, Accident & liability, Marine, Engineering, Fire, and IDI (Inherent Defects Insurance). The company GWP has increased to SAR 1,115.8mn showing a CAGR growth of 4.3% during FY17-21 majorly supported by the growth in the Health, Fire, Marine, and speciality segments.

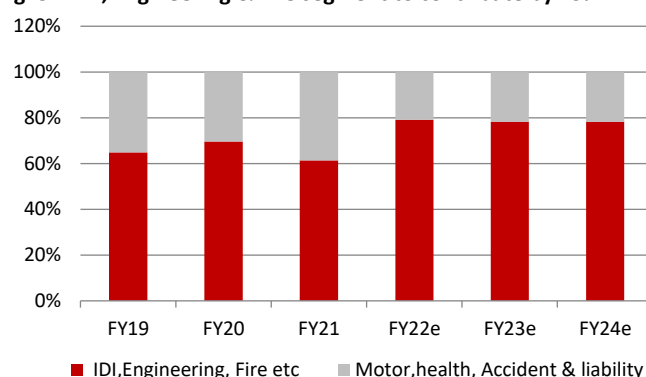
The health segment comprises 12% of GWP as of 2021, growth in this segment is expected considering the mandatory health insurance for expat and their population with rising population, new healthcare benefits added to the coverage by CCHI, higher medical costs, mandatory health insurance for hajj and umrah pilgrimages with pilgrimages numbers back to normal. The motor segment comprises 9% of GWP as of 2021, growth in this segment is supported by an increase in vehicle sales with an increase in population and ease in travel restrictions. Marine insurance comprises 10% of GWP as of 2021, further growth is assumed with the rise in economic activities leading to higher export and imports with few impacts of covid-19. The engineering and Fire segment comprises 30% of GWP as of 2021, going ahead premium will increase considering the increase in industrial and construction activities supported by higher government expenditure with rising oil prices. Also, the Saudi Reinsurance market

Fig. 51: GWP to increase supported by IDI premiums



Source: Company Reports, U Capital Research

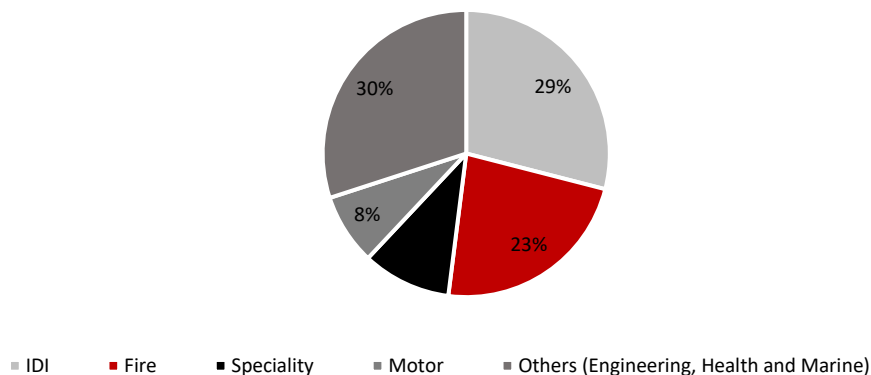
Fig. 52: IDI, Engineering & Fire segment to contribute by 79% in FY22e



Source: Company Reports, U Capital Research

In 2022, the company started a new segment i.e IDI (Inherent Defects Insurance). It was mandated by the council of ministers on June 2018, requiring all contractors involved in private-sector construction projects to obtain an IDI policy. The company was assigned to exclusively provide reinsurance protection to the program for a period of 5 years. IDI premiums have contributed 29% to the GWP as of 9M 2022 with the rise in the construction activities in the region. Going ahead, considering the company's recent focus on the IDI segment we expect this segment to grow supported by the mandatory construction insurance in the kingdom, increase in building permits, rise in construction activities considering Saudi Vision plans, and increasing oil prices. Accordingly, we expect the overall GWP to increase to OMR 1,727.5mn by FY26e showing a CAGR growth of 9.1% over FY21-26e.

Fig. 53: IDI segment contributing 29% to GWP as of 9M2022

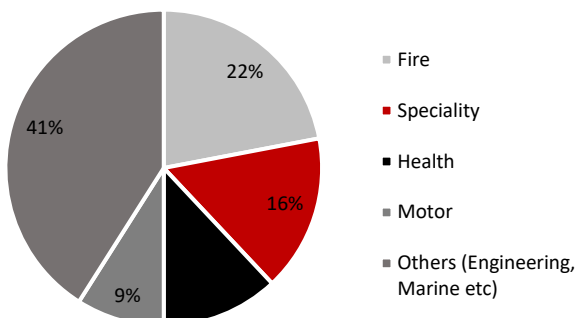


Source: Company Reports, U Capital Research

.... further supported by specialty segment

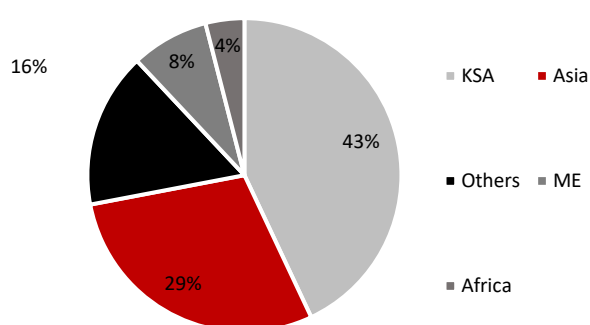
In 2017, the company acquired PHBL (Probitas Holdings Bermuda Ltd), which is a syndicate at Lloyds of London to expand its business under the Speciality segment. Speciality segment includes property, construction, and casualty. Through this acquisition, the company is able to write premiums that contribute 16% of GWP as of 2021. Going ahead, with the ease in restrictions globally leading to an increase in construction activities, higher property demand with the rise in population will drive the premium growth for the company. Meanwhile, with a focus on other geographical regions, KSA contributes 43% to the total GWP as of FY21.

Fig. 54: Speciality is the second major in terms of FY21 GWP



Source: Company Reports, U Capital Research

Fig. 55: KSA is the highest contributor to GWP as of FY21



Source: Company Reports, U Capital Research

Local Cession programs to strongly benefit the GWP

Reinsurance cession to the regional reinsurance market was recently implemented by SAMA (Saudi Arabian Monetary Authority). One of the top reinsurance companies in the area, Saudi Re is most likely to gain from this deployment. Up to 30% of the total reinsured premiums paid by the insured parties in the kingdom are being captured by the corporation as part of the local cession scheme. Additionally, it oversees regional reinsurance pools that work with worldwide reinsurers to mitigate risks. Insurance companies are required to offer a portion of their reinsurance treaties to the local reinsurance market, either directly or through reinsurance brokerage firms, as detailed below, during the negotiation of concluding reinsurance treaties (proportional and non-proportional) for all classes of business:

- 20% at least commencing on 1st January 2023, and thereafter.
- 25% at least commencing on 1st January 2024, and thereafter.
- 30% at least commencing on 1st January 2025 and thereafter.

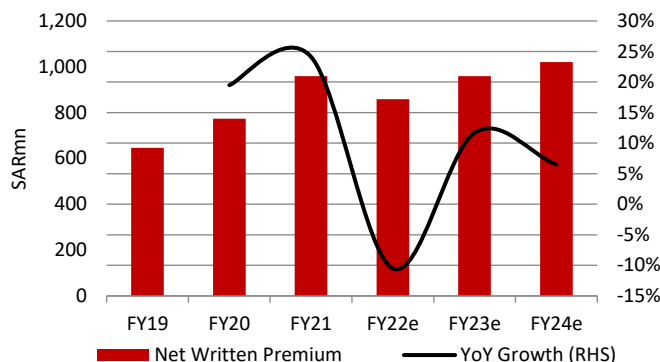
Focus on the geographical expansion

The company is already serving 40+ markets including MENA, Asia, and Africa with their reinsurance products mainly in the Motor, Health, Engineering, Speciality, P&C, etc. The company has a 45% international business. Going ahead with the focus on international expansion into global markets for business, geographical diversification, and for capturing benefits of scale will lead to an increase in the GWP in the future periods. The company is planning a new casualty line of business with some schemes and has a medical expansion scheme which will further lead to an increase in the reinsurance premiums in the international markets. The company also has the potential to acquire companies, further if any right opportunity arrives it will support the growth for geographical expansion.

Retention ratios to decline with increased focus in the IDI segment

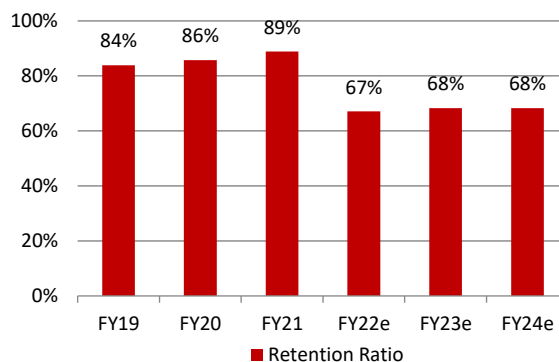
The company booked a retention of 89% in FY21 supported by reinsuring lower premiums under the Fire, health, motor, engineering, and speciality segment. The higher retention ratio has led to the improvement in the NWP historically. However, in 2022 with the start of a new segment i.e IDI, the company has transferred risk considering the construction sector and the retention ratio has declined to 67% as of 9M 2022. Going forward, the company's plan for increasing retention in 2023 will lead to a retention ratio of 67-68% in the medium term and further lead to a decline in the NWP in the medium term with a high amount of reinsurance premiums under the IDI segment.

Fig. 56: NWP to decline in FY22e



Source: Company Reports, U Capital Research

Fig. 57: Retention ratios to decline in the near term

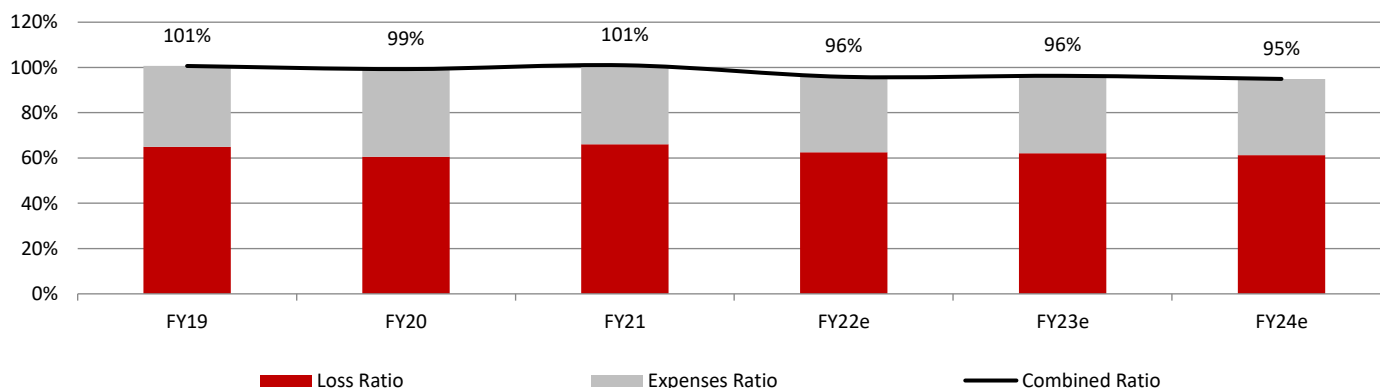


Source: Company Reports, U Capital Research

Well-maintained combined ratio

In FY21, the combined ratio increased to 101% compared to 99% in FY20 with a loss ratio of 66% and an expense ratio of 35% supported by higher claims with a resume in economic activities and covid-19 related cases. Going ahead, with the lower claims paid under the specific segments with the currency fluctuations, lower fx losses, likely lower policy acquisition, giving up writing bad contracts, and other actions are taken to keep the costs under control will lead to improvement in the combined ratio to 96% in FY22e supported by improvement in loss ratio to 63% and improvement in expense ratio to 33% in FY22e. Improvement in the combined ratio will further lead to better underwriting profit for the company in the medium term.

Fig. 58: Combined ratio to improve in the near term

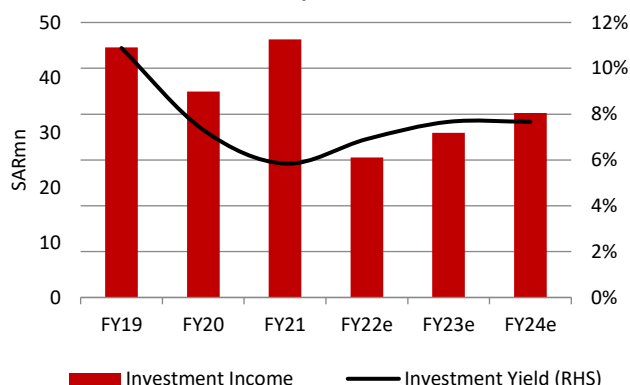


Source: Company Reports, U Capital Research

Investment income supported by likely better market performance

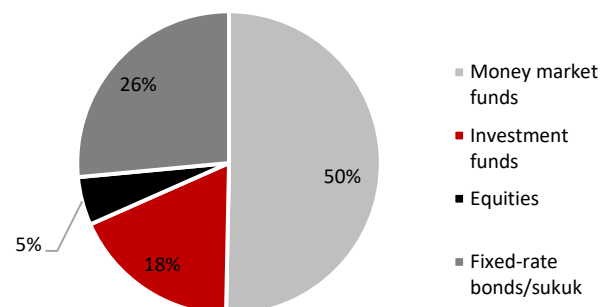
In FY21, the Investment income of the company increased to SAR 46.9mn with better money market funds performance compared to FY20 of SAR 37.4mn which was affected by weak market performance due to covid-19. The company efficiently manages its investment portfolio mix with Money market funds of 50%, Fixed rate bonds/Sukuk of 26%, Investment funds of 18%, and Equities of 5% as of FY21. In the near term, the interest rate volatility in 2Q 22 has impacted the Investment income of the company, and accordingly, we have assumed lower Investment income in FY22e. Going forward, the likely higher interest rate scenario considering inflation will likely result in the better performance of the money market funds and fixed-rate bonds further impacting the investment income positively to SAR 33.5mn by FY24e.

Fig. 59: Investment income to improve in the medium term



Source: Company Reports, U Capital Research

Fig. 60: Money market funds majorly contribute as of FY21

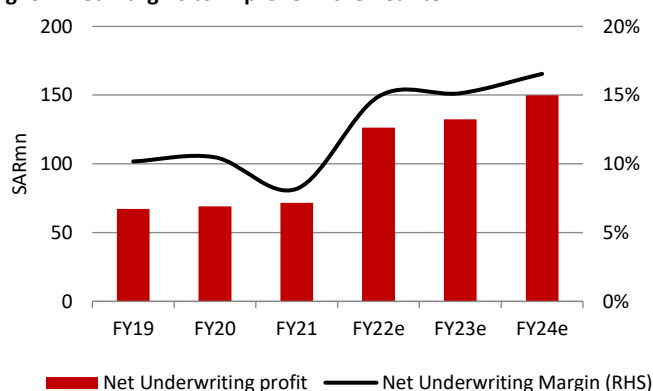


Source: Company Reports, U Capital Research

Better underwriting profit to support a higher bottom line

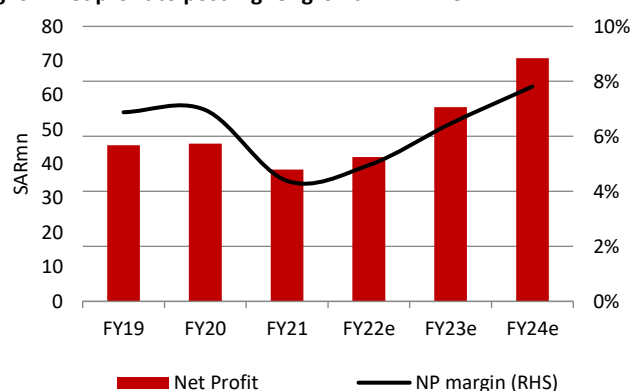
Better underwriting profit is expected with an increase in GWP supported by the IDI segment, likely lower claims, and cost control measures under policy acquisition costs. Accordingly, we expect the underwriting profits to positively impact the bottom line further supported by growth in the Investment income with better money market instruments performance and grow at a CAGR of 23% over FY21-26e and reach SAR 106.0mn by FY26e. However, the Net underwriting margins and Net profit margins are expected to show an increasing trend in the medium term.

Fig. 61: Net margins to improve in the near term



Source: Bloomberg, U Capital Research

Fig. 62: Net profit to post higher growth in FY24e



Source: Bloomberg, U Capital Research

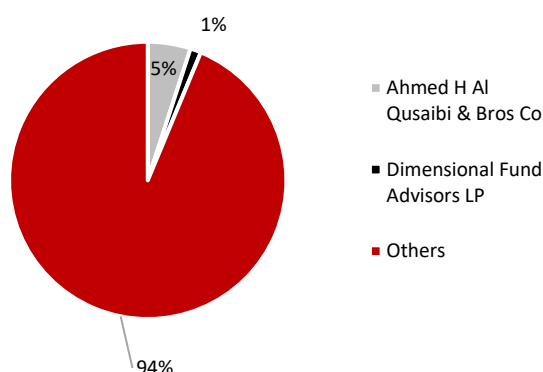
Assign Accumulate rating with a focus on the IDI segment

Saudi Re is the first reinsurance company in the kingdom of Saudi Arabia. It has a presence in 40+ markets in MENA, Asia, and Africa region. The company is planning for geographical expansion to increase its portfolio in international business with new casualty schemes and health schemes added to the reinsurance products. Going ahead, with the reinforcement of 30% compulsory cession and sustainable growth in the IDI segment considering the increase in the construction activities will drive the top line for the company. Meanwhile, the other major segments such as Motor, Speciality, and Fire are likely to benefit from the increased vehicle sales, new compulsory lines by SAMA, increased worldwide property demand, and rise in economic activities. Further, despite lower retention ratios, with better claim management, cost control under policy acquisition costs, and G&A expense, better investment income supported by improvement in the money market funds will lead to growth in the bottom line in future periods. Accordingly, we assign an Accumulate rating on the stock with a fair value of SAR 15.64 per share with an upside of 11.2%. The stock is currently trading at a P/B of 1.2x, based on our FY23 estimates.

About Saudi Re

Saudi Reinsurance Company "Saudi Re" is a Saudi joint stock company, founded in Riyadh in 2008 as the first reinsurance company established in Saudi Arabia. It is the first reinsurance company licensed by the SAMA. The company has a strong presence in 40+ markets including MENA, Asia, and Africa with 45% of business from International. The company offers various products such as IDI, Motor, Health, Fire, Engineering, Speciality, etc.

Fig. 63: Saudi Re's Shareholding Structure



Source: Bloomberg, 22 December 2022.

Key financials

In SAR'000, except stated otherwise	FY19	FY20	FY21	FY22e	FY23e	FY24e
Income Statement						
Gross written premiums (GWP)	7,92,848	9,35,114	11,15,880	13,23,425	14,54,980	15,49,676
Insurance premium ceded to reinsurers	(1,27,844)	(1,32,993)	(1,23,898)	(4,35,269)	(4,61,794)	(4,92,101)
Net written premium	6,46,605	7,72,639	9,58,968	8,58,109	9,58,479	10,20,611
Change in unearned premium	(4,070)	(1,25,519)	(1,04,238)	(22,294)	(96,868)	(1,28,309)
Net earned premium (NEP)	6,42,535	6,47,121	8,54,730	8,35,815	8,61,611	8,92,301
Claims paid	(4,36,701)	(4,81,191)	(4,71,216)	(5,04,785)	(5,13,635)	(5,37,732)
Reinsurers' share of claims	60,006	1,81,476	61,707	80,668	82,002	83,657
Net underwriting result	67,244	69,149	71,626	1,26,276	1,32,337	1,49,856
Investment income	45,479	37,439	46,944	25,473	29,913	33,541
General and administrative expenses	(50,717)	(49,572)	(55,459)	(76,402)	(83,682)	(86,782)
Profit before taxation	59,318	60,692	53,315	53,044	70,655	88,433
Income tax	(13,873)	(14,774)	(15,006)	(11,052)	(14,131)	(17,687)
Profit for the year	45,444	45,918	38,309	41,991	56,524	70,746
Balance Sheet						
Cash and cash equivalents	13,169	13,157	27,807	2,02,261	2,36,687	3,63,136
Time deposits	3,78,031	1,93,460	2,43,382	7,30,014	7,35,695	7,37,742
Financial investments	4,17,848	5,12,081	8,03,585	3,68,464	3,90,256	4,37,593
Reinsurance receivables	2,33,392	2,93,755	2,42,230	2,51,123	3,01,724	3,09,935
Reinsurers' share of unearned premiums	50,837	71,862	67,953	3,66,508	3,65,090	3,61,367
Reinsurers' share of outstanding claims	2,82,719	1,54,674	1,49,333	1,58,751	1,55,178	1,59,594
Total Assets	25,63,323	28,08,210	31,17,469	37,60,122	40,82,402	43,19,534
Accrued and other liabilities	19,421	23,861	29,897	61,653	66,970	68,393
Unearned premiums	4,01,998	5,48,541	6,48,869	9,79,380	10,76,248	12,04,557
Outstanding claims	7,37,229	7,16,947	7,82,991	7,53,368	7,54,310	7,74,838
Total Liabilities	16,88,252	18,85,031	21,53,473	27,52,753	30,17,190	31,83,376
Share capital	8,10,000	8,10,000	8,91,000	8,91,000	8,91,000	8,91,000
Retained earnings	49,113	85,848	35,495	76,949	1,22,168	1,78,765
Total Equity	8,75,071	9,23,179	9,63,996	10,07,368	10,65,211	11,36,158
Total Liabilities and Shareholders' equity	25,63,323	28,08,210	31,17,469	37,60,122	40,82,402	43,19,534
Cash Flow Statement						
Net cash from operating activities	(21,156)	15,002	2,39,700	3,45,920	84,193	1,87,091
Net cash from investing activities	(12,646)	(72,786)	(2,58,298)	(1,70,658)	(49,767)	(60,642)
Net cash from financing activities	-	23,107	33,248	(808)	-	-
Cash & cash equivalent at period end	13,169	13,157	27,807	2,02,261	2,36,687	3,63,136
Key Ratios						
Net underwriting margin	10%	10%	8%	15%	15%	17%
Pre-tax margin	9%	9%	6%	6%	8%	10%
NP margin	7%	7%	4%	5%	6%	8%
Loss Ratio	64.9%	60.6%	66.1%	62.6%	62.1%	61.3%
Expenses Ratio	35.7%	38.7%	34.8%	33.3%	34.2%	33.6%
Combined Ratio (COR)	100.7%	99.3%	101.0%	95.9%	96.3%	94.9%
Retention ratios	83.9%	85.8%	88.9%	67.1%	68.3%	68.2%
ROA	1.8%	1.6%	1.2%	1.1%	1.4%	1.7%
ROE	5.2%	5.0%	4.0%	4.2%	5.3%	6.4%
EPS (SAR)	0.51	0.52	0.43	0.47	0.63	0.79
BVPS (SAR)	9.82	10.36	10.82	11.31	11.96	12.75
DPS (SAR)	0.00	0.00	0.00	0.00	0.00	0.00
Dividend Yield (%)	0%	0%	0%	0%	0%	0%
Cash Dividend payout (%)	0%	0%	0%	0%	0%	0%
P/E (x)	16.58x	26.67x	38.61x	29.83x	22.16x	17.71x
P/BV (x)	0.86x	1.33x	1.53x	1.24x	1.18x	1.10x
Price as at period end*	8.45	13.75	16.60	14.06	14.06	14.06

Source: Company Reports, U Capital Research

*Current market price is used for the years forecasted

Qatar Insurance Co (QATI)

Target Price: QAR 2.29

Upside/ (Downside): 13.7%

Recommendation

Accumulate

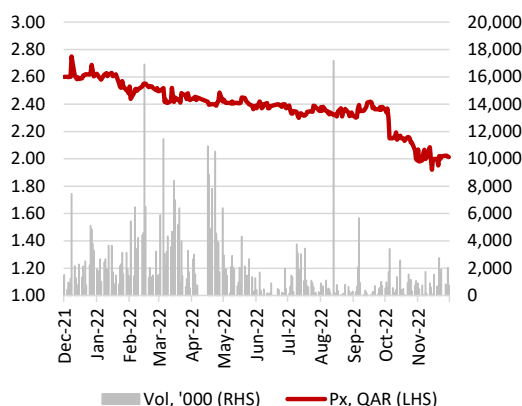
Bloomberg Ticker	QATI QD
Current Market Price (QAR)	2.01
52wk High / Low (QAR)	2.750/1.860
12m Average Vol. ('000)	1,872.2
Mkt. Cap. (USD/QAR Mn)	17,103/6,578
Shares Outstanding (mn)	3,266.10
Free Float (%)	100%
3m Avg Daily Turnover (QAR Mn)	1.8
6m Avg Daily Turnover (QAR Mn)	2.0
P/B'23e (x)	0.7
Dividend Yield '23e (%)	6.0%

Price Performance:

1 month (%)	1
3 month (%)	(13)
12 month (%)	(22)

Source: Bloomberg, valued as of 22 December 2022

Price-Volume Performance



Source: Bloomberg

- P&C segment to boost the GWP with maintaining the market share of the company
- Likely lower claims under P&C and lower reinsurance premiums to improve the underwriting profit in the medium term
- Higher Investment income and likely lower administrative expenses to support the bottom-line growth
- Higher dividend yield by FY24e supported by an increase in the bottom line

We initiate coverage on Qatar Insurance Company (QATI) and assign an **Accumulate** rating with a target price of QAR 2.29 per share, offering an upside of 13.7%. The stock trades at a P/B of 0.65x, based on our FY23 estimates. A strong focus on the P&C segment will boost the top-line growth and further increase the market share of the company in the region. However compulsory health insurance for visitors and expats will support the growth of the premium under the Health and Life segment. The top line is expected to grow at a CAGR of 5.1% over FY21-26e and reach QAR 16,231.5mn by FY26e. Going ahead, with lower reinsurance premiums under the P&C segment, likely better claims management, improvement in combined ratio, and higher investment income with better debt instruments performance will lead to bottom-line growth in the future periods.

Investment Thesis

Valuation and risks: Our target price is based on blended valuation methodologies – (i) DDM Valuation (ii) Residual Income Valuation and (ii) Relative Valuation (using P/B multiple). The downside risks to our valuation include (i) declining growth in the GWP, (ii) re-insuring higher premiums leading to lower underwriting profits, (iii) segment-specific higher claims, (iv) and lower investment income supported by weak market performance. Key upside risks to our valuation include (i) a spike in the premium rates, (ii) higher retention ratios to book better underwriting profits, (iii) a huge improvement in the loss and combined ratios, and (iv) higher than expected dividend-paying policy.

Strong fundamentals: (i) major leader in Qatar with a market share of 78% as of 2021 (ii) Strong focus on the P&C segment to boost the GWP growth. (iii) likely lower reinsurance premiums to improve underwriting profit (iv) likely lower administrative expense and lower claims paid under the P&C segment to improve the combined ratio in the future periods (v) Improvement in underwriting profit and likely increase in Investment income with better debt instruments performance will lead to strong bottom-line growth and improve the net margins in the medium term.

Financials & valuation summary:

	FY19	FY20	FY21	FY22e	FY23e	FY24e
Gross Written Premiums (QAR mn)	12,059.9	12,201.7	12,647.0	12,886.6	13,658.5	14,596.3
Net Underwriting (QAR mn)	282.2	(594.9)	350.4	483.2	452.9	569.0
Net Profit (QAR mn)	650.9	101.0	615.9	151.8	720.8	833.6
Combined Ratio	106.6%	99.8%	108.8%	105.2%	104.5%	101.5%
ROA	1.7%	0.2%	1.4%	0.3%	1.3%	1.4%
ROE	6.6%	1.0%	5.5%	1.5%	7.3%	8.0%
DPS (QAR/share)	0.15	-	0.10	0.03	0.12	0.14
Dividend Yield	5%	0%	4%	1%	6%	7%
P/E (x)	18.11x	(540.0x)	19.26x	43.32x	9.13x	7.89x
P/BV (x)	1.01x	0.70x	0.80x	0.69x	0.65x	0.62x

Source: Company Reports, U Capital Research

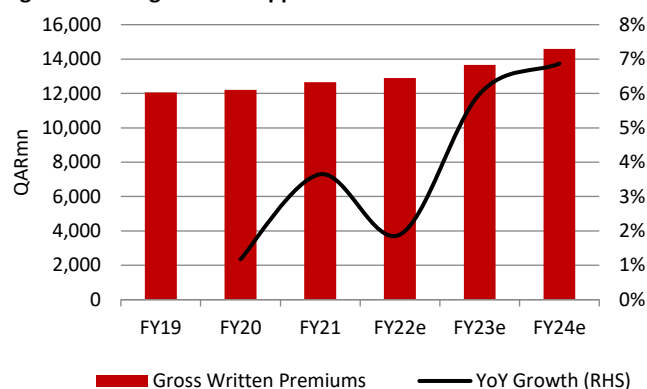
*P/E and P/B from 2022 onwards calculated on price of 22 December 2022

Strong focus on P&C to maintain GWP growth....

Qatar Insurance company is the major leader in P&C (property and casualty) insurance with a market share of 85% as of 2021. The company manages three segments such as P&C, Marine and Aviation, and Health and Life. The overall GWP increased to QAR 12,646.9mn in FY21 showing a YoY growth of 3.6%. The growth in GWP was majorly supported by the P&C segment which contributes 88% to overall GWP. The P&C segment increased to QAR 11,347mn in FY21 showing a YoY growth of 5.6%. The growth in the P&C segment was supported by an increase in the construction activities in Qatar considering the FIFA World Cup 2022, with the likely addition of hotels, new homes, and new infrastructure to attract tourists. However, rise in the construction activities in Qatar is majorly supported by higher gas prices. As 88% of Qatar's population is surrounded by expats, accordingly the increase in expats relocating to the country with wide job opportunities has created a demand for new property and rented houses and has led to growth in the P&C segment over the years. Going ahead, with the likely demand for the property supported by an increase in expats with wide employment opportunities in Qatar, the addition of tourists post-FIFA World Cup will lead to growth in the P&C segment and reach QAR 13,947.4mn by FY26e showing a CAGR growth of 4% over FY21-26e. The increased focus on the P&C segment by the company will further lead to GWP growth and increase the market share to 90-95% during FY22e-FY26e compared to the 85% market share of 2021.

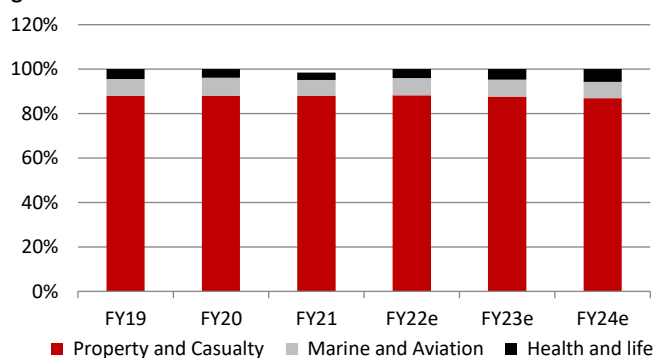
The second segment of the company is Marine and Aviation which contributes 7% to the GWP. Going ahead this segment is expected to grow with a resume in economic activities leading to huge imports and exports. The FIFA world cup 2022, with a lot of visitors flying to the country, will create a demand for the Aviation segment and further lead to premium growth, especially in FY22e.

Fig. 64: P&C segment to support the GWP in the near term



Source: Company Reports, U Capital Research

Fig. 65: P&C contributes 88% to the GWP as of 2021



Source: Company Reports, U Capital Research

Further supported by health and life....

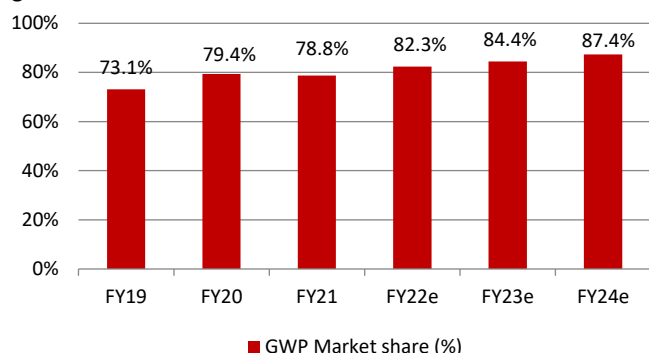
Health and Life contribute 3% to the GWP as of FY21. Currently, Qatar's Insurance industry is growing and has a penetration rate below 2% which provides enough room for this segment to grow. Health and life segment is expected to get a boost in FY22e from FIFA World Cup 2022, as the government has mandated health insurance for all the visitors coming to the country. Qatar is expecting 1.2mn visitors during the World Cup, which will provide wide huge growth in the health segment. Going ahead, with Qatar recently passing a new law mandating that all foreign nationals visiting, residing, or working in Qatar have health coverage for the entire duration of their stay, Qatar employers to provide health insurance for all employees and mandatory insurance for visitors will likely lead to growth in the health and life segment. We expect this segment to grow at a CARG of 22% over FY21-26e and reach QAR 1,117.6mn by FY26e.

Accordingly, we expect the overall GWP to grow at a CAGR of 5.1% over FY21-26e and reach QAR 16,231.5mn by FY26e majorly supported by likely growth in the P&C segment and health and life segment.

Leading player in the region with the highest market share

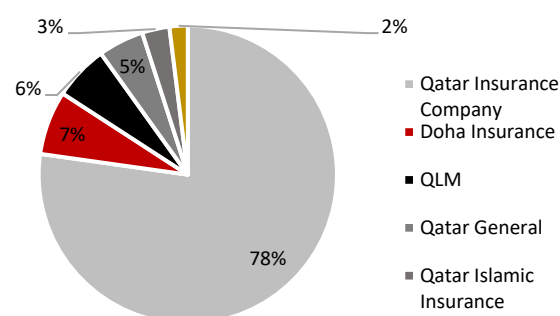
Qatar Insurance Company is the leading player in Qatar with a market share of 78% as of FY21 in terms of GWP, supported by a higher focus on the P&C segment. Considering the growth in the P&C segment supported by a likely increase in property demand with a higher expat population will lead to the overall GWP growth and further lead to an increase in the market share to 87.4% by FY24e.

Fig. 66: Market share to increase in the medium term



Source: Company Reports, U Capital Research

Fig. 67: Highest market share of 78% as of FY21

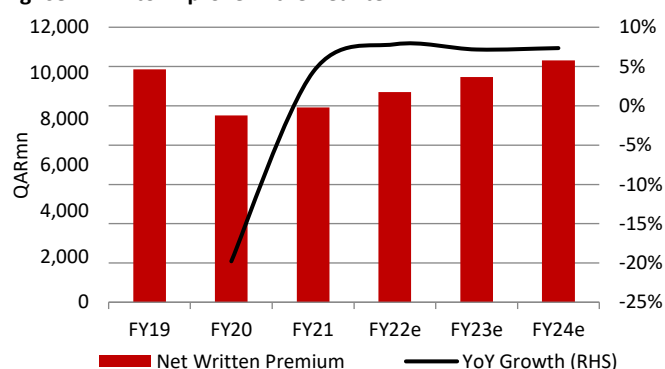


Source: Company Reports, U Capital Research

Improvement in the retention ratios to book better NWP

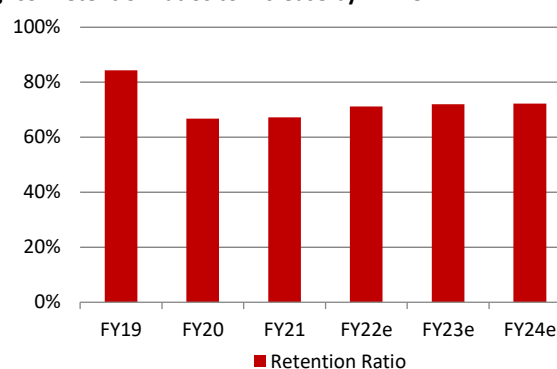
The company has a retention ratio of 67% as of FY21 with an increase in reinsuring premiums under the P&C segments. Going ahead with the company likely taking measures to reinsure lower premiums under the P&C segment by taking a higher risk for premiums under this segment will lead to an improvement in the NWP in the near term. Improvement in NWP in the near term will likely support the underwriting profit for the company. We expect the NWP to grow at a CAGR of 7% over FY21-26e and reach QAR 11,777.9mn by FY26e. Accordingly, with the likely lower reinsurance premiums, the retention ratio is expected to increase to 72.3% by FY24e.

Fig. 68: NWP to improve in the near term



Source: Company Reports, U Capital Research

Fig. 69: Retention ratios to increase by FY24e

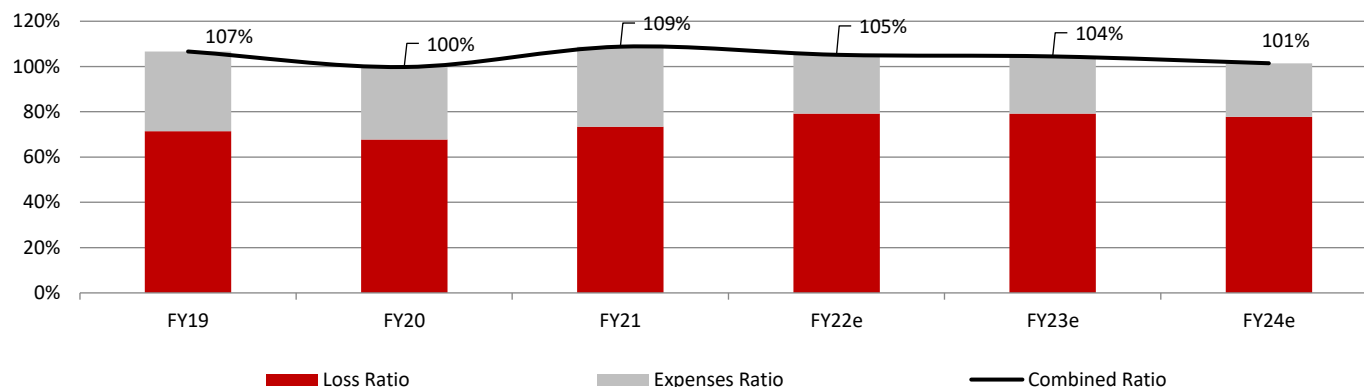


Source: Company Reports, U Capital Research

Improvement in combined ratio with likely better claim management

In FY20, the combined ratio declined to 100% with a decline in the loss ratio to 68% and expense ratio to 32% with the impact of lower claims paid under the P&C segment with restrictions in the economic activities arising from the covid-19 pandemic. However, in FY21 with the ease of restrictions and resuming of economic activities has led to higher claims paid under the P&C segment and led to an increase in the combined ratio to 109% with a loss ratio of 73% and an expense ratio of 35%. Going ahead with the likely better claim management and likely lower claims arising from accidental damages will improve the loss ratio to 77.7% in the medium term. Further, the expense ratio is also expected to decline to 23.7% in the medium term with the company likely taking measures for operating and administrative expenses and commission expenses. Accordingly, we expect the combined ratio to improve to 101.5% by FY24e.

Fig. 70: Combined ratio to improve in the medium term

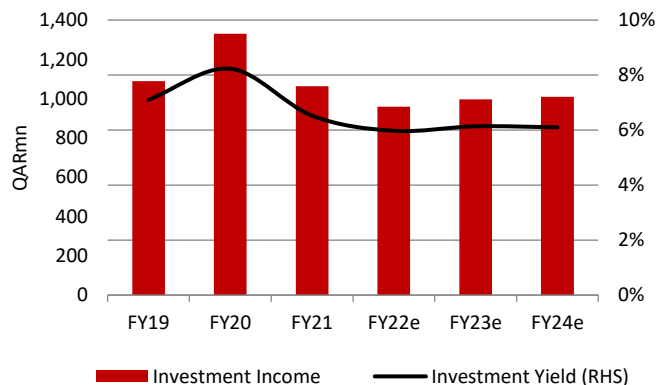


Source: Company Reports, U Capital Research

Investment income to improve with likely better Debt instrument performance

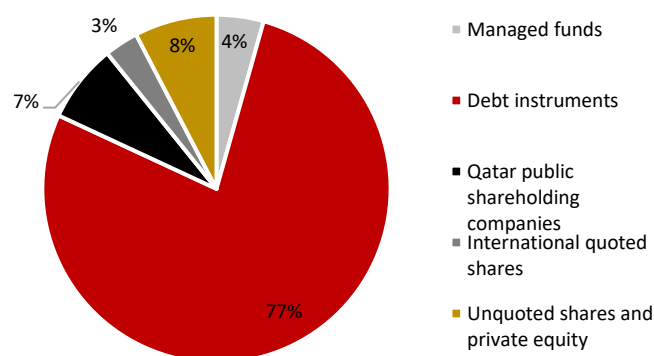
The Investment income of the company declined to QAR 1,064mn in FY21 with a lower interest rate scenario leading to weak debt instruments performance compared to QAR 1,331mn in FY20. The company holds an investment mix with 77% from Debt instruments and the remaining others from Managed funds, Qatar public shareholding companies, International quoted shares, and private equity. We expect a lower Investment income in FY22e considering the volatility of instruments performance in Q2 22. However, going ahead with the likely higher interest rates we assume the debt instruments to provide a better return and hence lead to an increase in the investment income of the company in the medium term. Accordingly, we expect the investment income to reach QAR 1,009mn by FY24e with an investment yield of 6%.

Fig. 71: Investment income to improve in FY23e and further



Source: Company Reports, U Capital Research

Fig. 72: Debt instruments support Investments (FVTPL & FVOCI)

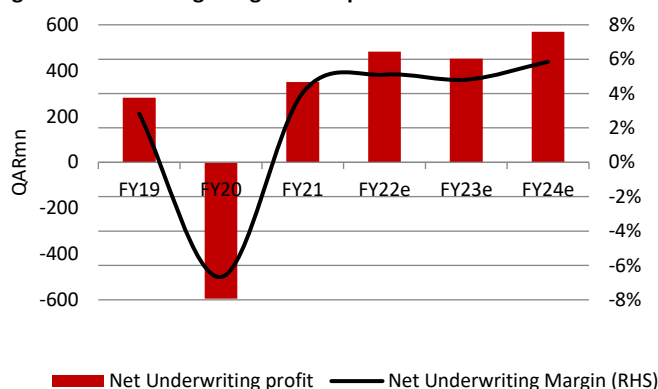


Source: Company Reports, U Capital Research

Improvement in underwriting profit to support the bottom line in the medium term

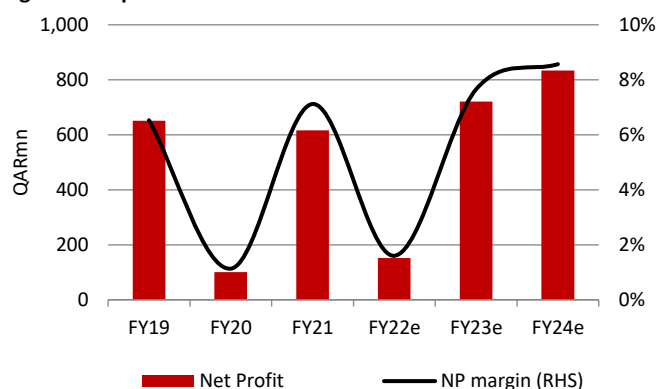
The company's underwriting profit declined in FY20 majorly due to higher reinsurance premiums under the P&C segment. In FY21 the underwriting profit recovered due to higher GWP resulting from the P&C segment. Going ahead with the expected increase in GWP premiums, likely lower reinsurance premiums and likely better claim management will improve the underwriting profit of the company in the medium term and further lead to an increase in the underwriting margins. The bottom line is expected to decline in FY22e considering the discontinued operations which majorly impacted the Q322 performance. However, with likely no further discontinued operations which is usually a one-off, improvement in underwriting profit, increase in investment income with likely better debt instruments performance, and cost control under operating & administrative expenses and commission expenses will support the bottom line in the medium term. Accordingly, we expect the net profit to grow at a CAGR of 7% over FY21-26e and reach QAR 880.3mn by FY26e. The increase in the bottom line will further lead to an increase in the net profit margins compared to the historical levels.

Fig. 73: Underwriting margins to improve in the medium term



Source: Bloomberg, U Capital Research

Fig. 74: Net profit to increase in FY23e and further

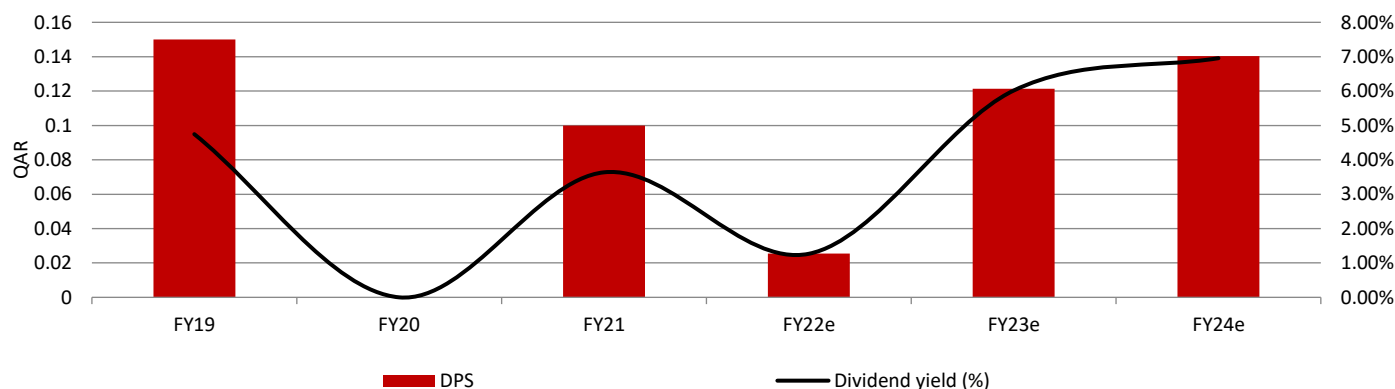


Source: Bloomberg, U Capital Research

Huge Increase in Dividend yield by FY24e

The company has a better dividend-paying policy. However, the bottom line declined hugely in FY2020 to QAR 101mn compared to QAR 650.8mn has led to the company not paying any dividends. In FY21 with the increase in the bottom line to QAR 615.8 led the company to pay dividends of QAR 0.1 to its shareholders. Further, with a likely lower bottom line in FY22e due to a huge decline in Q322 performance, we expect the company to pay a dividend of QAR 0.03. Going ahead, considering the dividend payout ratio of 55% and higher bottom-line growth we expect the DPS to be QAR 0.14 for FY24e providing a dividend yield of 7%.

Fig. 75: DPS supported by bottom-line growth in the medium term



Source: Company Reports, U Capital Research

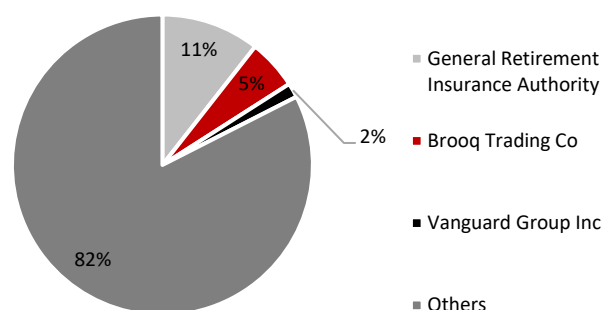
Assign Accumulate rating with Improvement in the bottom line

Qatar Insurance Company is the leader in Qatar with a market share of 78% in terms of 2021 GWP with a strong focus on the P&C segment. Going ahead with the increase in property demand supported by a huge expats population, likely an increase in tourism Post-FIFA World Cup 2022, and developments considering Vision 2030 will allow growth in the P&C segment impacting the overall GWP positively and further lead to maintaining the market share of the company. However, the Health and life segment which holds a small portion of the GWP is also likely to grow in the near term with mandatory health insurance for visitors, compulsory health insurance for expats, and compulsory health insurance for employees by employers in Qatar. The strong focus on the P&C segment, likely lower reinsurance premiums, and better claim management under the P&C segment will improve the underwriting profit of the company in the medium term. Further, an increase in Investment income supported by debt instruments performance and likely lower operating & administrative expenses, and likely lower commission expenses will lead to strong bottom-line growth in future periods. Accordingly, we assign an Accumulate rating on the stock with a fair value of QAR 2.29 per share with an upside of 13.7%. The stock is currently trading at a P/B of 0.65x, based on our FY23 estimates.

About Qatar Insurance

Qatar Insurance company is the first domestic insurance company in the state of Qatar. It was founded in 1964, and the company specializes in the Property and casualty segment with a market share of 78% as of 2021 in terms of GWP. Currently, the company is the market leader in Qatar. The company has 2 other segments Marine & Aviation and Health & Life which constitute 13% of the GWP.

Fig. 76: QIC's Shareholding Structure



Source: Bloomberg, 22 December 2022.

Key financials

In QAR'000, except stated otherwise	FY19	FY20	FY21	FY22e	FY23e	FY24e
Income Statement						
Gross written premiums (GWP)	1,20,59,943	1,22,01,733	1,26,46,967	1,28,86,628	1,36,58,486	1,45,96,259
Insurance premium ceded to reinsurers	(18,94,518)	(40,47,574)	(41,41,336)	(37,14,388)	(38,28,831)	(40,44,228)
Net written premium	1,01,65,425	81,54,159	85,05,631	91,72,240	98,29,655	1,05,52,031
Change in unearned premium	(1,98,850)	7,64,146	1,44,333	3,03,503	(4,11,913)	(8,23,613)
Net earned premium (NEP)	99,66,575	89,18,305	86,49,964	94,75,743	94,17,742	97,28,418
Claims paid	(91,21,778)	(81,29,629)	(87,36,546)	(97,63,457)	(93,62,489)	(89,23,600)
Reinsurers' share of claims	19,97,342	20,82,660	23,87,988	22,58,940	19,04,803	13,61,979
Net underwriting result	2,82,198	(5,94,896)	3,50,400	4,83,158	4,52,881	5,69,031
Investment income	10,88,968	13,31,063	10,63,950	9,59,303	9,95,640	10,09,276
Operating and administrative expenses	(6,27,001)	(6,52,084)	(7,39,712)	(6,11,391)	(5,99,626)	(5,89,709)
Profit before taxation	6,09,501	43,267	6,66,088	8,05,158	8,08,178	9,34,694
Income tax	(25,464)	(15,242)	(35,787)	(72,916)	(67,394)	(77,945)
Discontinued operations	86,878	98,048	-	(5,66,185)	-	-
Profit for the year	6,50,874	1,01,017	6,15,881	1,51,829	7,20,789	8,33,625
Balance Sheet						
Cash and cash equivalents	85,44,700	82,12,111	95,98,999	1,08,66,577	1,31,30,417	1,48,99,837
Financial investments	1,57,88,492	1,65,57,924	1,60,60,488	1,60,60,488	1,63,81,698	1,67,09,332
Insurance receivables	84,52,858	90,04,400	85,16,579	1,08,63,858	1,16,97,850	1,25,01,008
Reinsurance contract assets	50,99,804	73,02,864	79,09,619	1,03,43,246	1,02,54,542	1,05,92,822
Total Assets	3,94,15,314	4,27,40,933	4,36,81,877	5,53,82,788	5,86,85,858	6,19,01,021
Insurance contract liabilities	2,04,99,218	2,30,80,985	2,36,89,463	3,02,18,586	3,25,38,393	3,47,72,432
Provisions, reinsurance and other Payables	39,95,183	43,74,022	41,66,084	54,47,902	54,01,181	55,79,357
Total Liabilities	2,91,99,120	3,17,51,028	3,24,66,769	4,58,68,721	4,85,14,513	5,13,31,420
Share capital	32,66,101	32,66,101	32,66,101	32,66,101	32,66,101	32,66,101
Retained earnings	13,35,692	8,05,512	12,13,589	8,79,264	14,44,468	17,36,237
Total Equity	1,02,16,194	1,09,89,905	1,12,15,108	95,14,067	1,01,71,344	1,05,69,600
Total Liabilities and Shareholders' equity	3,94,15,314	4,27,40,933	4,36,81,877	5,53,82,788	5,86,85,858	6,19,01,020
Cash Flow Statement						
Net cash from operating activities	6,60,545	(6,35,692)	(42,319)	39,59,006	23,51,518	22,13,417
Net cash from investing activities	7,21,383	1,99,709	12,91,374	(15,87,200)	(3,76,879)	(3,90,193)
Net cash from financing activities	(8,67,695)	51,758	1,66,089	(2,44,612)	2,89,201	(53,803)
Cash & cash equivalent at period end	85,44,700	82,12,111	95,98,999	1,08,66,577	1,31,30,417	1,48,99,837
Key Ratios						
Net underwriting margin	3%	-7%	4%	5%	5%	6%
Pre-tax margin	6%	0%	8%	8%	9%	10%
NP margin	7%	1%	7%	2%	8%	9%
Loss Ratio	71%	68%	73%	79%	79%	78%
Expenses Ratio	35%	32%	35%	26%	25%	24%
Combined Ratio (COR)	107%	100%	109%	105%	104%	101%
Retention ratios	84%	67%	67%	71%	72%	72%
ROA	2%	0%	1%	0%	1%	1%
ROE	7%	1%	6%	1%	7%	8%
EPS (QAR)	0.174	(0.004)	0.143	0.046	0.221	0.255
BVPS (QAR)	3.13	3.36	3.43	2.91	3.11	3.24
DPS (QAR)	0.15	-	0.10	0.03	0.12	0.14
Dividend Yield (%)	5%	0%	4%	1%	6%	7%
Cash Dividend payout (%)	75%	0%	53%	55%	55%	55%
P/E (x)	18.1x	(540.0x)	19.3x	43.3x	9.1x	7.9x
P/BV (x)	1.0x	0.7x	0.8x	0.7x	0.6x	0.6x
Price as at period end*	3.16	2.36	2.75	2.01	2.01	2.01

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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