

Bupa Arabia Cooperative Insurance Co. (BUPA AB)

Target Price: SAR 272.2/share
Upside: 10.7%

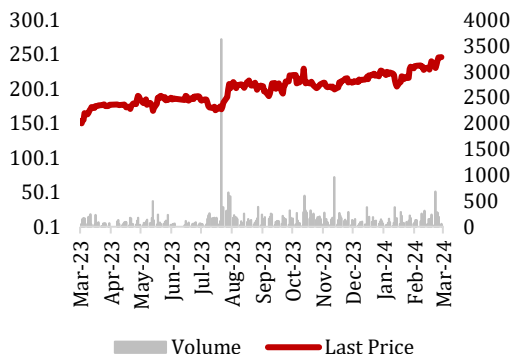
Recommendation	Accumulate
Bloomberg Ticker	BUPA AB EQUITY
Current Share Price (SAR)	246.0
52wk High/Low (SAR)	248/149.6
12m Average Vol. (000)	1,49,920
Mkt. Cap. (USD/SAR mn)	10,048/36,900
Shares Outstanding (mn)	150
Free Float (%)	52%
3m Avg Daily Turnover (SAR'000)	30,300
6m Avg Daily Turnover (SAR'000)	33,300
P/E'24e (x)	24.6 x
P/BV'24e (x)	5.5 x
Dividend Yield '24e (%)	2.7%

Price Performance:

1 month (%)	7.0%
3 month (%)	9.6%
12 month (%)	60.8%

Source: Bloomberg, values as of 17 March 2024

Price-Volume Performance



Source: Bloomberg

- **The mandatory health insurance regulation is driving the health insurance segment in the kingdom**
- **Bupa Arabia holds a dominant share in the health insurance sector in terms of GWP (46% as of Sep 2023)**
- **Margins set to improve in the medium term driven by healthy contribution from investment amid strategic asset allocation**
- **Robust dividend payout policy**

We have reviewed our coverage of Bupa Arabia Insurance Company (BUPA AB: Saudi Arabia) and have upgraded our rating to **Accumulate**, setting a target price of **SAR 272.1**, indicating an upside potential of 10.7% from the current levels. Since our last investment update on November 16th, 2023, the share price has appreciated by 19%, surpassing our previous target price of SAR 213.18. This growth has been driven by expansion in the health insurance segment, particularly due to mandatory health insurance regulations. Bupa Arabi's share price appreciated 60.8% YoY, outperforming the Tadawul All Share Index YoY growth of 25%. The stock is currently trading at a P/BV of 5.5x based on our 2024 estimates, compared to its historical average 1-year forward P/B of 5.7x and peer average of 4.5x.

Investment Thesis

Bupa Arabia offers a promising investment prospect due to its resilient financial performance, dominant market share in the kingdom, growing health insurance segment with improving margins and dividend yield.

- Bupa is a market leader in the health segment of the industry, with a 46% share as of September 2023, in terms of GWP.
- Growth in premiums is expected considering the mandatory health insurance for expats and their families coupled with contracts with Saudi Ground Services and SABIC to provide medical insurance for the company employees and their families. We expect more new contracts in future which will drive revenue for Bupa Arabia going ahead.
- Improvement in the combined ratios in the medium term amid efficient management of claims.
- Expected higher dividend yield supported by bottom-line growth in future periods.

Year (SAR mn)	FY22	FY23	FY24e	FY25e	FY26e
Gross Written Premium	13,897	16,669	19,439	22,354	25,708
Insurance Revenue	12,873	15,888	18,388	21,146	24,318
Insurance Expenses	12,206	14,994	16,960	19,504	22,429
Combined Ratio	94.8%	94.4%	92.2%	92.2%	92.2%
Net Investment results	552	513	578	657	749
ROA	6.6%	7.1%	9.5%	10.1%	9.1%
ROE	19.2%	21.2%	26.5%	26.5%	24.4%
DPS	3.6	3.6	6.6	8.2	8.4
Dividend yield, %	2.1%	2.7%	2.7%	3.3%	3.4%
P/E(x)	31.7x	33.4x	24.6x	19.7x	19.3x
P/BV (x)	6.1x	6.7x	5.5x	5.0x	4.5x

Source: Company Reports, U-Capital Research *P/E, EV/EBITDA and EV/Sales from 2024 onwards calculated on current price

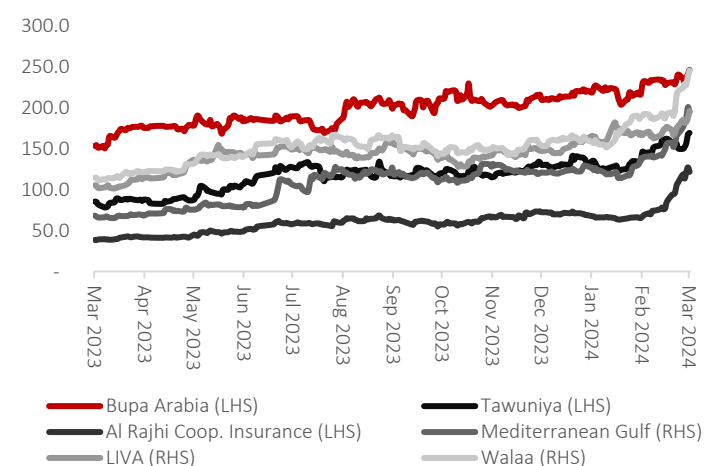
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Saudi Insurance sector price performance

Mandatory health insurance fuels market growth

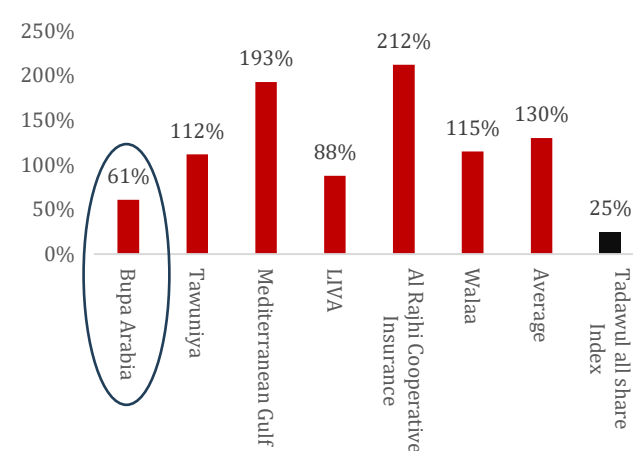
Since March 2023, Saudi insurance companies have been experiencing growth, with all major companies witnessing double-digit increases in their share prices on a YoY basis. Bupa Arabia observed a 60% increase in its share price; however, this growth falls below the average growth of major insurance companies, including Tawuniya, Mediterranean Gulf, LIVA, Al Rajhi, and Wala. The average growth stands at 127% YoY, with Al Rajhi's share price increasing by 215% in one year. This average growth surpasses that of the Tadawul All Share Index, indicating solid growth in the insurance segment in the kingdom. The growth is attributed to an increase in gross written premiums resulting from mandatory health insurance and a growing number of insured individuals in 2023.

Share price performance YoY since March'22



Source: Bloomberg, U Capital Research

Share price growth YoY (since Mar'22)



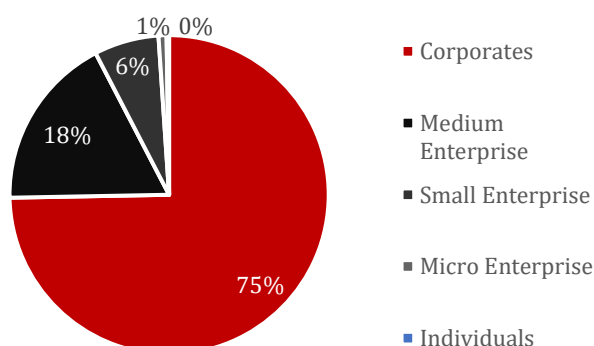
Source: Bloomberg, U Capital Research

Bupa Arabia: Investment Rationale

Corporates drive revenue for Bupa Arabia's health insurance business

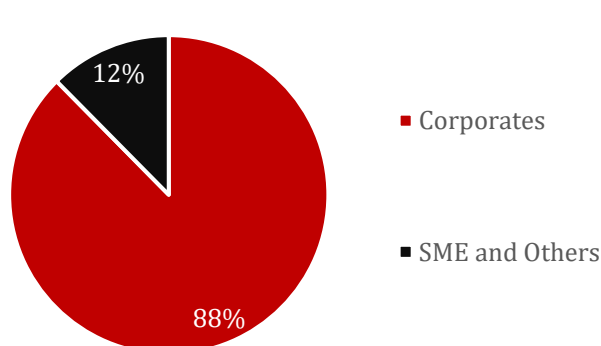
Bupa Arabia for Cooperative Insurance Company, also known as BUPA AB, is headquartered in Saudi Arabia and primarily concentrates on providing cooperative health insurance services. The company's operations are segmented to serve Corporates, Medium-sized Enterprises, Small and Micro Enterprises, and Individuals. Among these segments, Corporates constitute the largest share, representing 75% of the total gross written premium, followed by Medium-sized Enterprises at 18%. Moreover, Corporates contributed approximately 88% of the total insurance revenue generated in FY23, with SMEs and other sectors contributing the remainder.

GWP by Segment (FY23)



Source: Company Reports, U Capital Research

Insurance revenue customers (FY23)

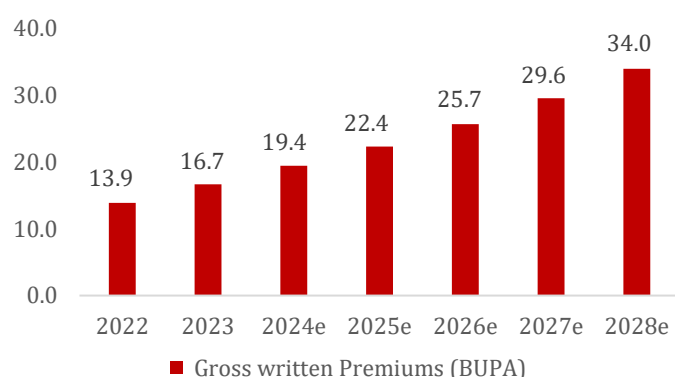


Source: Company Reports, U Capital Research

Bupa Arabia: Leading growth in the Saudi healthcare insurance sector

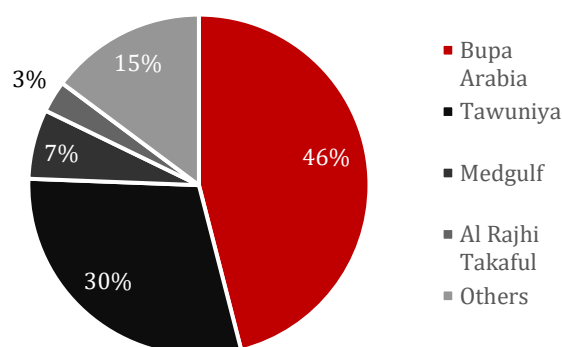
The company primarily operates in the healthcare sector and maintains its leading position as the largest health insurance provider in the kingdom, commanding a significant 46% market share as of September 2023, an increase of 2% since FY22. Tawuniya ranks second with a 30% market share (33% in FY22). Bupa Arabia experienced a 20% YoY in GWP in FY23 compared to FY22. We anticipate that the health insurance market will continue to expand in the upcoming years, driven by the increasing number of pilgrimages and compulsory health insurance for expats and their families, as well as increased awareness among citizens for health insurance. Additionally, Bupa Arabia was awarded contracts with Saudi Ground Services and SABIC to provide medical insurance for the company employees and their families. These contracts, combined with the increasing number of pilgrimages and compulsory health insurance, further solidify Bupa's dominant market position within this sector, positioning the group well to enhance its GWP post-FY'23.

Gross Written Premium (SAR bn)



Source: Company Reports, U Capital Research

KSA Health Insurance Market Share (Sep'23)

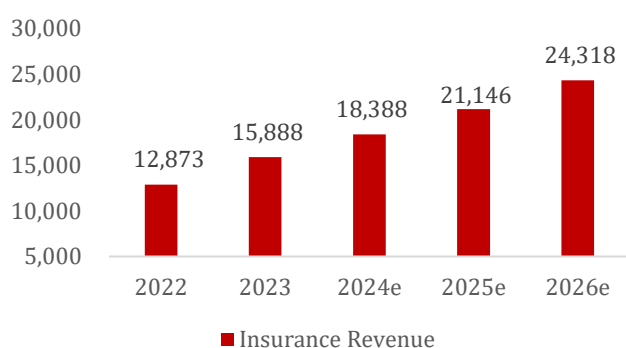


Source: Company Presentation, U Capital Research

Bupa Arabia: Capitalizing on pilgrimage boom and mandatory expat coverage

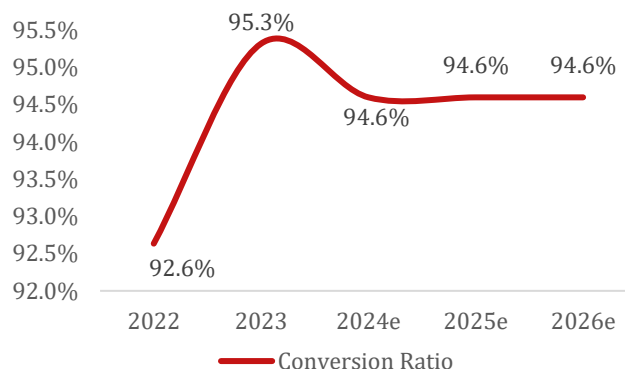
Bupa Arabia experienced a 23% YoY increase in revenue in FY23, with 95.3% of its Gross Written Premium (GWP) translating into revenue. The company boasts a robust conversion rate, which improved from 92.6% in FY22 to 95.3% in FY23. We anticipate the conversion ratio to hover around 94%-95% from FY24 to FY26. With GWP expected to grow during FY24-26, we project revenue to follow suit over the same period. This growth trajectory is fuelled by a rising number of pilgrimages and the mandatory health insurance for expatriates and their families. According to the Saudi Arabian Monetary Agency, approximately 2.5 million pilgrims were expected in 2023, with projections indicating further increases from 2024 onwards, thereby stimulating growth in the health insurance sector within the kingdom. Moreover, increased awareness among citizens regarding health insurance in the kingdom is also contributing to the segment's growth.

Insurance Revenue (SAR mn)



Source: Company Reports, U Capital Research

Solid Conversion Ratio

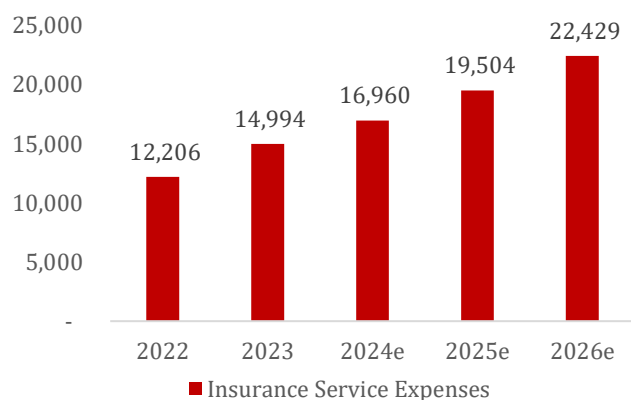


Source: Company Reports, U Capital Research

Efficient claim management offsets rising insurance costs

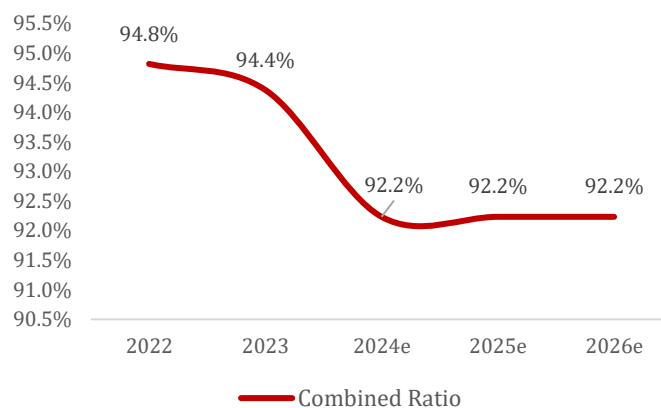
Insurance service expenses encompass claims, insurance acquisition costs, and other directly attributable expenses. These expenses increased proportionally to revenue, experiencing a 23% year-over-year growth in FY23, resulting in a combined ratio of 94.5%. However, the combined ratio declined by 50 basis points in FY23 compared to FY22. We anticipate a further decline in the combined ratio moving forward into FY24e, hovering around 92%-93%, supported by Bupa Arabia's efficient management. Additionally, we expect insurance service expenses to grow between FY24-26e due to increase in pilgrims and expats along with new contracts signed with Saudi Ground Services and SABIC which could likely increase claims in the future.

Insurance Service Expenses (SAR mn)



Source: Company Reports, U Capital Research

Combined Ratio

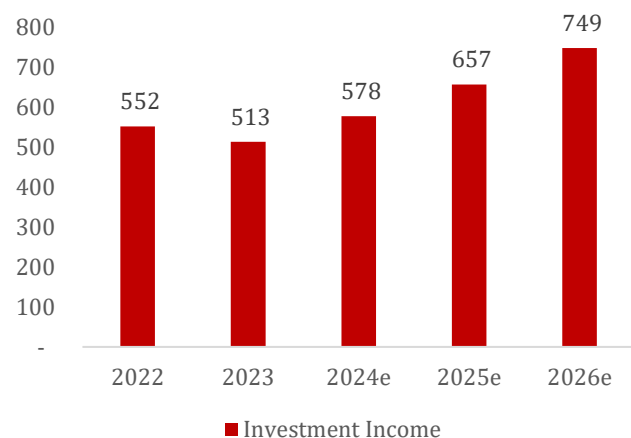


Source: Company Reports, U Capital Research

Strategic asset allocation to drive investment income growth

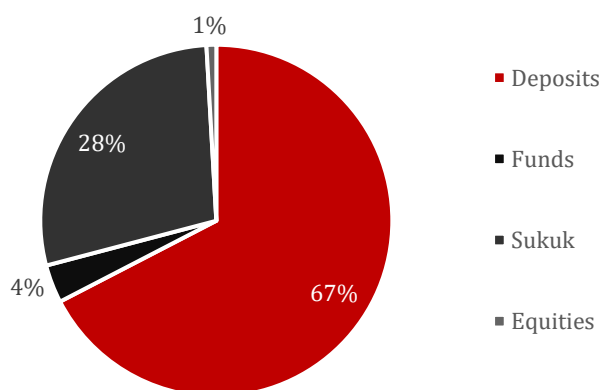
Bupa Arabia experienced a 7% decrease in its investment income for FY23 compared to FY22, attributed to non-recurring gains in FY22. Looking ahead, we anticipate a gradual improvement in investment income, driven by asset growth allocated between FY24-26e. As of September 2023, the group has allocated SAR 11.9 billion in assets, and we expect this figure to increase in the future. Of the total assets allocated, Deposits account for 67%, followed by Sukuk at 28%, with 4% in funds and 1% in equity. Bupa Arabia adheres to Takaful rules, in contrast to conventional insurance. Takaful insurance is a type of Islamic insurance based on the principles of mutuality and cooperation. Under Takaful, capital is only invested in funds that are fully Shariah-compliant.

Investment Income (SAR mn)



Source: Company Reports, U Capital Research

Asset allocation as of Sep'23

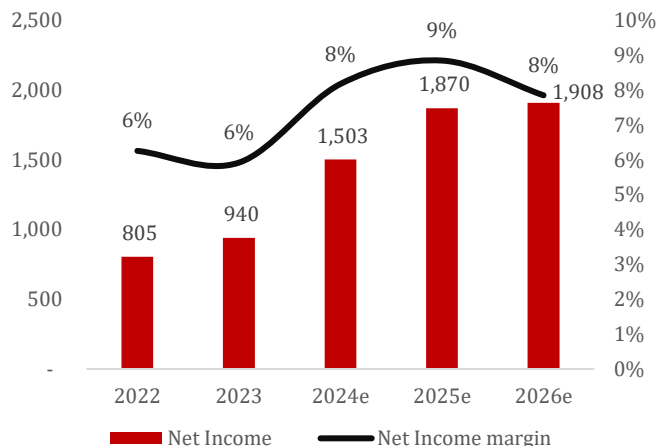


Source: Company Reports, U Capital Research

Net Income poised for growth amid strong topline

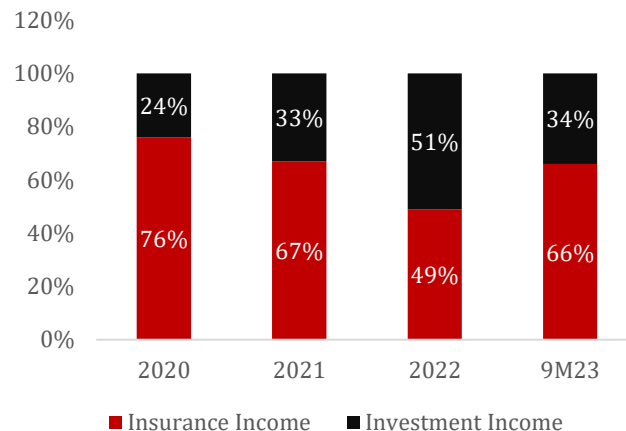
In FY23, Bupa Arabia's net income reached SAR 940mn, marking a 17% YoY growth compared to FY22. Between FY20-21, insurance accounted for a significant portion of Bupa Arabia's net income. However, this contribution saw a shift in FY22, with investment income comprising 51% of the total net income. As of September 2023, insurance income constitutes 66% of the total net income. With a robust topline driven by an increase in pilgrimages, mandatory health insurance for expatriates, growing awareness, new contracts, and efficient management of claims, we anticipate continued growth in net income from FY24 onwards.

Net Income and margin



Source: Company Reports, U Capital Research

Net Income Breakdown

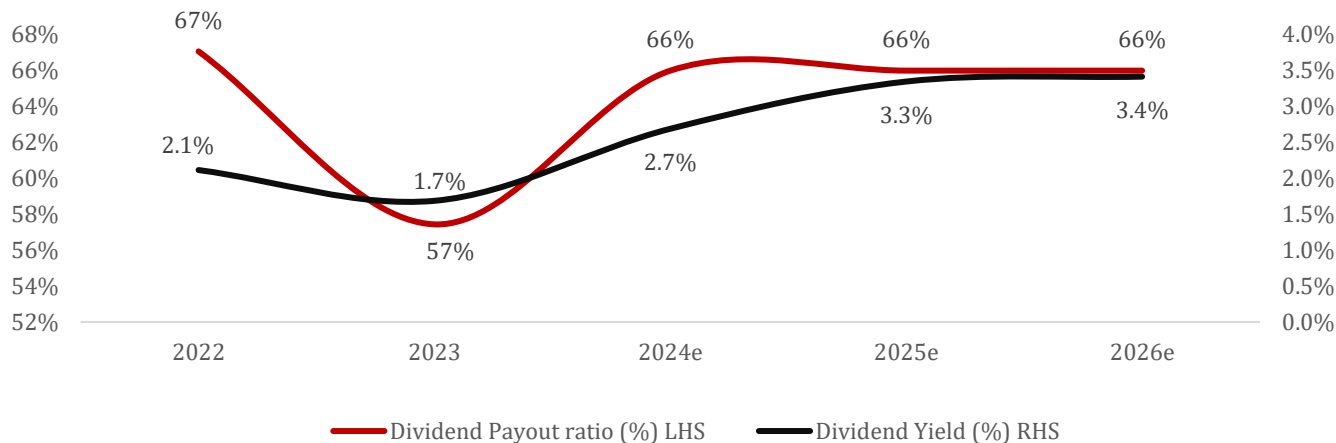


Source: Company Reports, U Capital Research

Dividend payout ratio expected to surge despite flat FY23 payout

The total dividend paid remained unchanged at SAR 540 million to shareholders in FY23. The dividend per share stood at SAR 3.6 for both FY22 and FY23, resulting in a decrease in the payout ratio from 67% in FY22 to 57% in FY23. Additionally, the dividend yield witnessed a decline from 2.1% in FY22 to 1.7% in FY23. Looking ahead from FY24 onwards, we anticipate a higher payout, assuming strong bottom-line growth for Bupa Arabia. Thus, we expect the payout to hover around 66% between FY24-26e, with the dividend yield rising to 3.5% in FY26e.

Improving dividend payout ratio and yield



Source: Company Reports, U Capital Research

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 Arabia

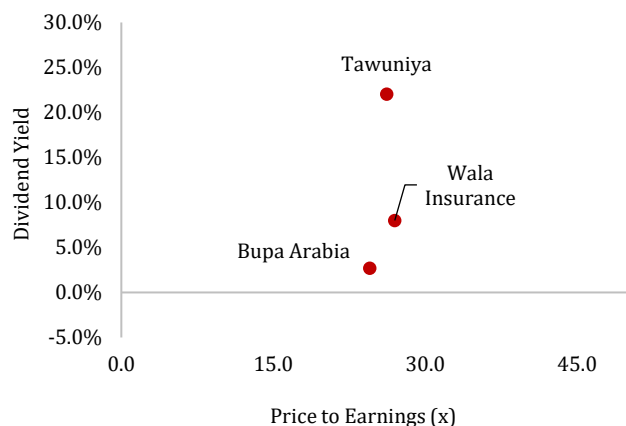
Terminal growth rate							Book Value (SAR)						
Cost of Equity		1.5%	1.8%	2.0%	2.3%	2.5%	P/B multiple		44.3	44.4	44.5	44.6	44.7
	6.27%	249.6	264.4	278.1	290.8	302.6		6.7	266.1	270.1	273.6	276.5	279.1
	6.52%	246.0	261.2	275.2	288.1	300.1		6.8	265.0	269.3	272.8	275.9	278.6
	6.77%	242.2	257.8	272.2	285.3	297.6		6.9	264.0	268.4	272.2	275.3	278.0
	7.02%	238.4	254.4	269.0	282.5	295.0		7.0	262.8	267.4	271.3	274.6	277.5
	7.27%	234.5	250.8	265.8	279.5	292.3		7.1	261.6	266.4	270.5	273.9	276.9

Peer Group Valuation

Name	Mkt Cap (SAR mn)	Last Px	Px Change 1M, %	Px Change 3M, %	Px Change 12M, %	P/BV'24e (x)	P/E'24e (x)	Div Yield' 24e, (%)	FCF Yield'24e (%)
Bupa Arabia	36,900.0	246.0	7%	18%	61%	5.5	24.6	2.7%	5.5%
Tawuniya	25,050.0	167.0	15%	30%	112%	6.9	25.9	3.9%	6.7%
Mediterranean Gulf	2,364.0	22.5	38%	59%	193%	2.8	NA	NA	11.6%
Liva Insurance	894.4	22.4	12%	29%	88%	2.4	NA	NA	5.3%
Al Rajhi	12,240.0	122.4	72%	71%	212%	7.6	NA	NA	0.0%
Wala Insurance	2,398.6	28.2	26%	53%	115%	2.0	27.0	8.0%	4.7%
Average						4.5	25.8	4.9%	5.6%
Median						4.2	25.9	3.9%	5.4%

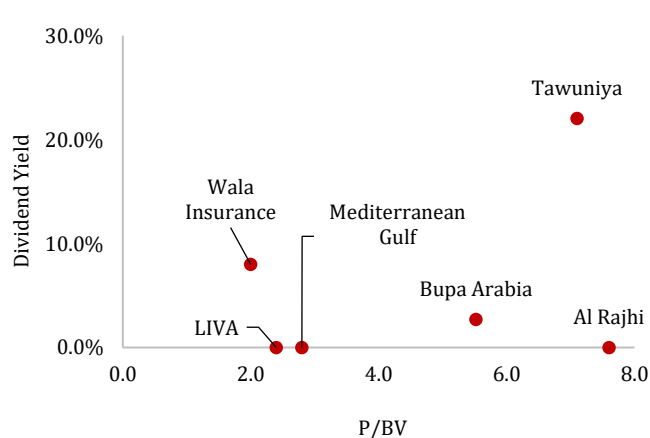
Source: Bloomberg, U Capital Research, na – not available, nm – not meaningful; *valued as of 17 March 2024 Market-cap weighted average multiples – EV/ EBITDA, and P/E

Price/Book Value & Dividend Yield



Source: Bloomberg, U Capital Research; As of 17 Mar 23

Price/Book Value & Dividend Yield



Source: Bloomberg, U Capital Research; As of 17 Mar 24

Valuation

To value Bupa Arabia, we employed three valuation methods: the Dividend discount model (DDM), Residual value method and Relative Valuation (P/BV). In our DDM analysis, given a weight of 40%, we used a WACC of 6.8%, a cost of equity of 6.8%, a risk-free rate of 4.2%, a beta of 0.74, and a market return of 3.6%. This method yielded a fair value of approximately SAR 232.4 per share.

For our Residual value method, we have assigned a weight of 40% and have used a similar cost of equity to calculate present value thereby yielding a fair value of SAR 294.7 per share.

And for our Relative valuation (Price/Book Value) with a 20% weight. We derived this multiple based on industry median value, resulting in a P/BV multiple of 6.9x. We then applied this multiple to our forecasted BVPS of SAR 44.5, yielding fair values of SAR 306.5 per share.

Taking a weighted average of these valuations, we arrived at an overall fair value of **SAR 272.2 per share**.

Valuation

	Bupa Arabia
DDM (40% weight)	
PV of Free Cash Flow (SAR mn)	
Sum of all present values of dividend	5,587
PV of Terminal value	29,291
Total PV of Future Cashflows (Enterprise Value, SAR mn)	34,878
Assumptions	
Risk Free Rate (%)	4.2%
Adjusted Beta	0.74
Market Return (%)	3.6%
Terminal growth rate	2.0%
Cost of Equity (COE) (%)	6.8%
WACC (%)	6.8%
Equity value (SAR mn)	34,878
Outstanding Shares (mn)	150
Target Price (SAR)	232.5
Residual Income Method (40% weight)	
Total Discounted Value	6,126
Terminal value	45,764
Present value of terminal value	33,429
Current Book Value	4,676
Equity value (SAR mn)	44,231
Outstanding Shares (mn)	150
Target Price (SAR)	294.9
P/BV based Relative Valuation (20% weight)	
BVPS FY2023e (SAR)	44.5
Target P/BV Multiple for 2023E (x)	6.9x
Target Price (SAR)	306.5
Weighted Average Target Price (SAR)	272.2
<i>Current Market Price (SAR)</i>	<i>246.0</i>
Upside/(Downside), %	10.7%
Recommendation	Accumulate

Source: Company Financials, Bloomberg, U Capital Research

Financial tables

Key financials

In SAR mn, except stated otherwise	FY22	FY23	Prev. FY24e	FY24e	Prev. FY25e	FY25e	FY26e
Income Statement							
Gross written premiums (GWP)	13,897	16,669	18,907	19,439	19,743	22,354	25,708
Insurance Revenue	12,873	15,888	18,907	18,388	19,743	21,146	24,318
Insurance Expenses	12,206	14,994	17,205	16,960	17,966	19,504	22,429
Insurance Service Results	667	893	1,702	1,428	1,777	1,642	1,889
Net Investment income	552	513	606	578	633	657	749
Other expenses	-221	-262	-256	-190	-268	-43	-330
Profit before taxation	969	1,117	2,011	1,783	2,100	2,219	2,264
Income tax	(164)	(177)	(306)	(280)	(320)	(349)	(356)
Profit for the year	805	940	1,704	1,503	1,780	1,870	1,908
Balance Sheet							
Cash and cash equivalents	1,288	1,256	2,382	2,379	3,015	2,281	2,056
Term Deposits	6,407	7,223	7,674	8,694	8,334	10,405	12,391
Financial investments	2,852	4,247	3,858	4,521	3,915	5,140	5,856
Premiums and insurance balances receivable	3	-	4	-	4	-	-
Reinsurers' share of outstanding claims	28	74	85	74	85	74	74
Total Assets	12,115	14,438	15,577	17,336	16,937	19,656	22,236
Accrued and other liabilities	531	735	613	735	613	735	735
Total Liabilities	7,914	9,763	9,887	10,659	10,272	12,226	14,007
Share capital	1,500	1,500	1,500	1,500	1,500	1,500	1,500
Retained earnings	1,642	1,854	3,195	2,715	4,175	3,472	4,277
Total Equity	4,201	4,676	5,690	6,677	6,665	7,430	8,230
Total Liabilities and Shareholders' equity	12,115	14,438	15,577	17,336	16,937	19,656	22,236
Cash Flow Statement							
Net cash from operating activities	1,705	2,277	2,350	2,697	1,602	2,673	2,832
Net cash from investing activities	(780)	(1,726)	(843)	(582)	(529)	(1,044)	(1,194)
Net cash from financing activities	(598)	(584)	(852)	(993)	(890)	(1,727)	(1,865)
Cash & cash equivalent at period end	1,288	1,256	2,382	2,379	3,015	2,281	2,056
Key Ratios							
Conversion ratio	92.6%	95.3%	100.0%	94.6%	100.0%	94.6%	94.6%
Combined Ratio	94.8%	94.4%	91.0%	92.2%	91.0%	92.2%	92.2%
Insurance service result margin	5.2%	5.6%	9.0%	7.8%	9.0%	7.8%	7.8%
Pre-tax margin	7.5%	7.0%	10.7%	9.7%	10.7%	10.5%	9.3%
NP margin	6.3%	5.9%	9.0%	8.2%	9.0%	8.9%	7.9%
ROA	6.6%	7.1%	11.7%	9.5%	10.9%	10.1%	9.1%
ROE	19.2%	21.2%	32.6%	26.5%	28.8%	26.5%	24.4%
EPS (SAR)	5.37	6.27	11.36	10.02	11.87	12.47	12.72
BVPS (SAR)	28.01	31.17	37.93	44.51	44.43	49.53	54.86
DPS (SAR)	3.60	3.60	7.50	6.61	7.83	8.23	8.40
Dividend Yield (%)	2.1%	2.7%	4.2%	2.7%	4.4%	3.3%	3.4%
Cash Dividend payout (%)	67.1%	57.4%	66.0%	66.0%	66.0%	66.0%	66.0%
P/E (x)	31.71	33.44	18.45	24.55	17.67	19.73	19.34
P/BV (x)	6.08	6.72	5.53	5.53	4.72	4.97	4.48


Source: Company Reports, U Capital Research

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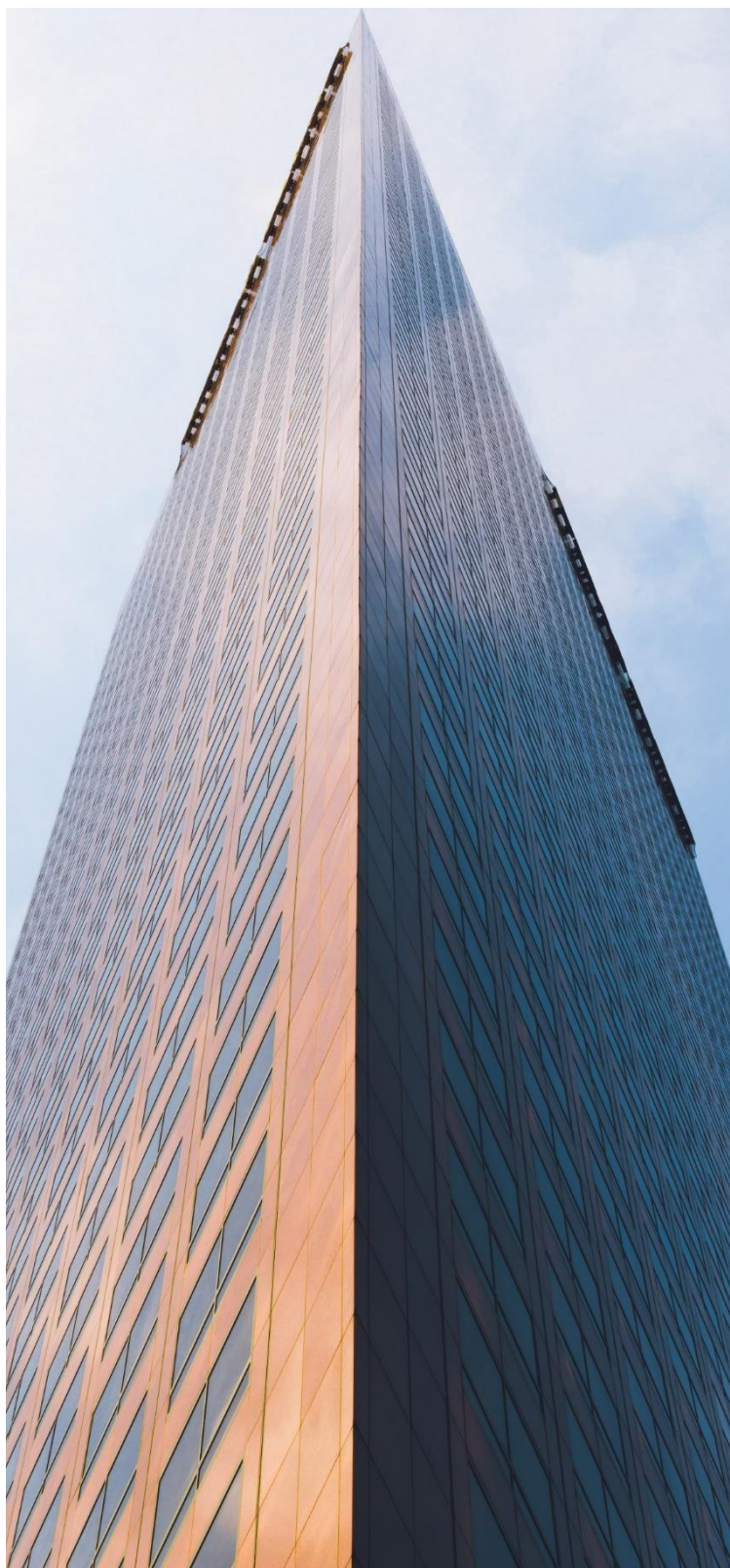
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Recommendation

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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