



**US\$2.963bn** Market cap  
**50%** Free float  
**US\$3.351mn** Avg. daily volume

**Target price** 93.00 0.6% over current  
**Current price** 92.60 as at 12/5/2019

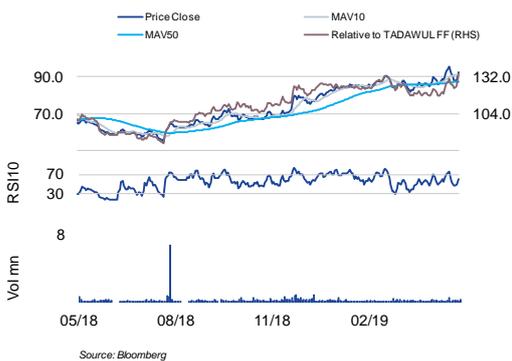
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Existing rating

**Underweight** **Neutral** **Overweight**

Performance



Earnings

Period End (SAR)	2018A	2019E	2020E
<b>GWP</b>	8,567	9,088	9,547
<b>GWP Growth</b>	11%	6%	5%
<b>loss Ratio</b>	83.3%	83.1%	82.9%
<b>Net Underlying results</b>	1,164	1,277	1,352
<b>EPS</b>	4.4	4.8	5.1
<b>EPS Growth</b>	4%	9%	7%

Source: Company data, Al Rajhi Capital

## BUPA Arabia

### Q1: Strong set of results

Bupa Arabia reported a healthy Q1 2019 net profit of SAR94.1mn (906% y-o-y, 1.8% q-o-q). Strong performance in the bottom-line was mainly driven by 16% y-o-y (137% q-o-q) increase in GWP to SAR2.9bn mainly due to higher prices which started in H2 2018 as a result of CCHI change in table of coverage benefits (effective July 2018). Also, first quarter is seasonally a strong quarter, particularly for health insurance. Additionally, support to the bottom-line came from: 1) increase in investment and other income to SAR19.5mn (45.2% y-o-y) and 2) decrease in the provision for doubtful receivables to SAR21.9mn (-201.8% y-o-y). Going forward, for short term we expect increase in policy prices to continue driving GWP growth till the end of H1 2019. For longer run Bupa is set to benefit from structural factors such as mandatory insurance for Saudis working in private sector and higher participation of private sector in the economy. Additionally, Bupa's premium client are sticky in nature (less likely to switch) which enables the company to command significant pricing power over its peers. We expect Bupa to continue gaining the market share given its leadership position the health insurance market. Post Q1 results, we keep our TP at SAR93/sh on BUPA which factors in ~7% net income CAGR 2018-23e, considering leadership position in less fragmented health segment with stable clientele.

**Key catalyst:** The recent (as of July 2018) increase in table of benefits such as obesity treatment, organ transplantation, Al Alzheimer's disease, Autism, Neo natal Early Screening dental issues and vaccines for children among others, for new/renewed policies mandated by the CCHI forced insurance companies to raise their policy prices which is the main reason for the jump in GWP.

**Dividends:** On 30 April 2019, the company's Board of directors recommended a cash dividend of SAR1.5 per share (15% of share face value) for the fiscal year 2018, amounting to SAR180mn. This represents a 31% pay-out ratio which is below our expectations as it seems that the company is more focussed towards enlarging its investment portfolio.

**Outlook:** BUPA being the market leader should benefit from the structural tailwinds that should continue to support the industry. These are: 1) rise in Saudisation, 2) improved macroeconomic environment translating into higher insurance spending 3) mandatory insurance for Saudis working in private sector and higher participation expected from private sector in the economy 4) government's focus on increasing religious tourism, 5) dwindling effect of expat exodus. In addition, BUPA should continue to gain market share as the industry consolidates with weak players disappearing in a highly fragmented market. This is likely to result in a more favorable competitive landscape for the company that will enable higher pricing power over the peers.

**Valuation:** We set a TP of SAR93/sh on BUPA in the context of ~7% net income CAGR 2018-23e, and leadership position in less fragmented health segment with stable clientele. Our TP of SAR93 per share is derived using the average of residual income method yielding fair value of SAR96.7 per share and the relative valuation method, resulting in SAR90 per share. Our forecasted terminal growth rate assumption stands at 3% and we used 9.3% as cost of equity.



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**Figure 1 Bupa Arabia: Summary of Q1 2019 results**

(SAR mn)	Q1 2019	Q1 2018	Q4 2018	% chg y-o-y	% chg q-o-q
Gross written premiums (GWP)	2,905,447	2,489,157	1,225,999	17%	137%
Net written premiums (NWP)	2,884,778	2,472,493	1,206,884	17%	139%
Net incurred claims	1,911,022	1,727,838	1,891,174	11%	1%
Net Profit (Loss) before Zakat	94,122	9,348	92,440	907%	2%

Source: Company data, Al Rajhi Capital



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"Neutral": We expect the share price to settle at a level between 10% below the current share price and 10% above the current share price on a 12 month time horizon.

"Underweight": Our target price is more than 10% below the current share price, and we expect the share price to reach the target on a 12 month time horizon.

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Please note that the achievement of any price target may be impeded by general market and economic trends and other external factors, or if a company's profits or operating performance exceed or fall short of our expectations.

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