

The Company for Cooperative Insurance (Tawuniya)

Compulsory Health insurance supported Tawuniya's GWP to recover during 2019. In addition, the company successfully decreased its Net Claims Incurred, which allowed Tawuniya to turn its net loss during 2018 to impressive growth during 9m 2019.

02 February 2020

Recommendation	BUY
Current Price (30-01-2020)	SAR75.0
Target Price (52 Weeks)	SAR90.3
Upside/ (Downside)	20.3%
Shariah Compliance	PASS

Key Points

We initiate our coverage for Tawuniya with a BUY recommendation and 52 weeks target price at SAR90.3; this represents an upside potential of 20.3%.

- During Q3 2019, Tawuniya's bottom line showed an impressive increase by 354.6% Y-o-Y, thanks to the improvement in the company's total Gross Written Premium (GWP) by 17.8% Y-o-Y, and decrease in Net Claims Incurred by 9.1% Y-o-Y.
- The boost in the Medical Insurance segment by 19.1% Y-o-Y was the key contributing factor to Tawuniya's top line growth. The segment's improvement comes in line with a compulsory health insurance program, which was obligated by the Saudi Council of Cooperative Health Insurance.
- We expect that Tawuniya profitability will continue its recovery, supported by compulsory health insurance, especially the aim of the Saudi government to increase the number of tourists arrivals through establishing different entertainment programs in the Kingdom such as Riyadh Season. In addition, the expected increase in the population in the Kingdom either Saudis or Non-Saudis.
- As a result, we believe that the Tawuniya share price is below its target price, and we expect the company EPS will reach 4.7 in 2020 compared to 1.9 in 2019.

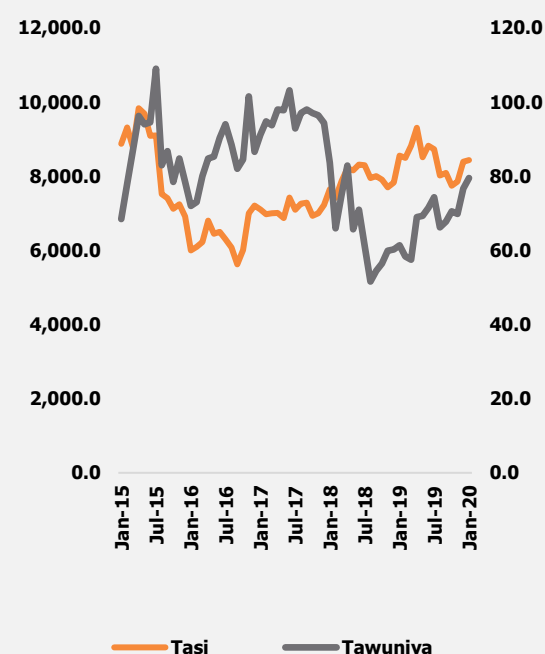
Key Growth Catalysts

- Compulsory health insurance
- Significantly diversified service offering

Key Risk Factors

- Deterioration in motor insurance segment
- Decline in investment income

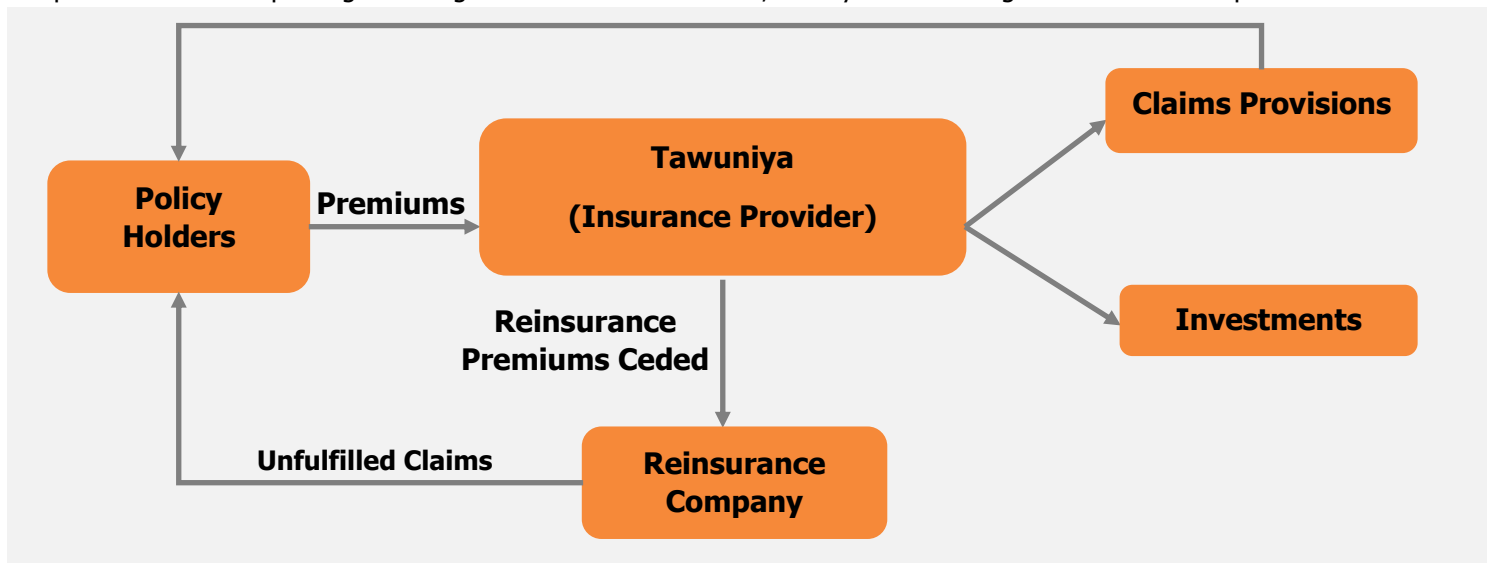
Reuters Code	8010.SE
Bloomberg Code	TAWUNIYA:AB
52 Weeks High	SAR81.9
52 Weeks Low	SAR56.7
Market Cap	SAR9.4bn
P/E	N/A
EPS	SAR (-0.8)
Last Dividend (2017)	SAR5.0
AVG Value Traded	SAR0.3bn



Company Analysis

Insurance Industry Overview

- Insurance companies are in continuous pursuit of reducing their risks, especially health insurance providers, given that health insurance is claimed more often than life and motor insurance. The majority of insurance companies generate their profit by charging premiums from policyholders (clients), then deploy the premiums in three main areas. The first part goes to the reinsurance company, which is responsible for covering any claims to the policyholders if the insurance company fails to fulfill the claim. Insurance companies are always engaged with reinsurance companies to reduce their risks, as reinsurance is an integrated component to keep them solvent. The second part is dedicated to building provisions to pay the claims submitted by policyholders during the policy duration in exchange for insurance coverage. The third part is invested in profit generating assets or low-risk assets, mostly investment grade fixed income portfolios.



Insurance Industry Outlook

- Over the past two years, the Saudi insurance sector faced many challenges, mainly evident in the fierce competition in the market, which decreased the sector's contribution to total Saudi GDP by 0.2% Y-o-Y to reach 1.2% in 2018 compared to 1.4% in 2017¹. The competition in the insurance sector was divided into two main parts among each of small market share and large market share companies. Saudi insurance sector consists of 33 companies; however, only three companies dominated 57.0% of the total market share in terms of GWP by the end of Q3 2019. Bupa Arabia is the market leader with a 33.0% market share, followed by Tawuniya and Medgulf which accounted for 14.0% and 10.0% of the market, respectively. It is worth mentioning that Tawuniya's market share increased from 14.0% in Q3 2018 to 16.0% in Q3 2019.

¹ Source: Saudi Arabia Monetary Authority (SAMA)

Company Analysis

Tawuniya Establishment

- The Company for Cooperative Insurance (Tawuniya) is a Saudi joint-stock company established in 1986 as the first Saudi insurance company licensed in Saudi Arabia in accordance with the cooperative venture legally authorized. Tawuniya's paid-up capital is SAR1,250mn, divided into 125mn shares. The company was listed on TASI in March 2005.
- The main activity of the company is the provision of medical, motor, property, marine, engineering, and takaful insurance of various accidents through 115 branches among Saudi Arabia, and through more than 1,500 hospitals and medical centers within its network. Tawuniya provides its services through more than 60 types of insurance divided into three main segments; Medical, Motors, and Property & Casualty.
- In 2016, Tawuniya expanded its operations by providing Manafeth services through contracting with 25 insurance companies with a commitment to provide insurance on foreign cars (as a third party) entering Saudi. Tawuniya will receive its return through a percentage of the total fees.

Key Shareholders

Name	Ownership (%)
Public Pension Agency	18.9%
General Organization for Social Insurance	17.9%
Free Float	63.0%

Source: Tadawul

Tawuniya Gross Written Premium (GWP) at Glimpse

Medical Segment

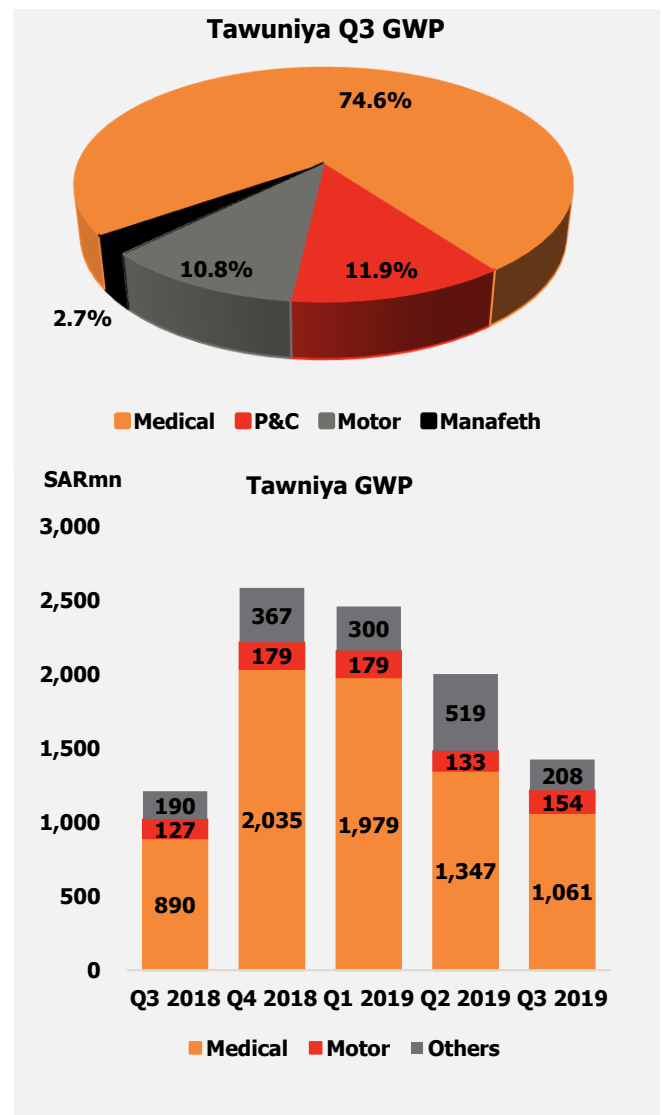
- Tawuniya's Medical insurance contribution to total GWP increased during Q3 2019 to become 74.6% compared to 73.7% in Q3 2018. This shift in segment contribution comes in line with the insurance industry's trend in Saudi Arabia in general, where total Medical GWP in the Kingdom during the first nine months increased by 14.1% YTD. As a result, Tawuniya's Total GWP increased by 17.8% Y-o-Y to reach SAR1,423mn in Q3 2019 compared to SAR1,208mn in Q3 2018. On the other hand, it is worth noting that Tawuniya is highly dependent on medical insurance as a primary source of income, which subjects the company's results to high risk in the event of volatility in the medical insurance sector.

Motor Insurance Segment

- Tawuniya's motor insurance segment continued its low performance YTD in 2019, where GWP decreased by 5.5% YTD to reach SAR466mn in 9m 2019 compared to SAR493mn in 9m 2018. The drop in motor GWP lowered its contribution to total revenues to 7.9% in 9m 2019 compared to 9.7% in 9m 2018. On the other hand, Motor segment GWP increased by 21.1% Y-o-Y to reach SAR154mn in Q3 2019 compared to SAR127mn in Q3 2018, yet this is mainly due to low base effect in Q3 2018.

Property & Casualty Insurance Segment

- During Q3 2019 Property & Casualty (P&C) insurance segment boosted by 11.0% Y-o-Y to reach SAR170mn in Q3 2019 compared to SAR153mn in Q3 2018. For 9m 2019, the segment's GWP witnessed 23.7% growth YTD to reach SAR911mn compared to SAR736mn in 9m 2018.

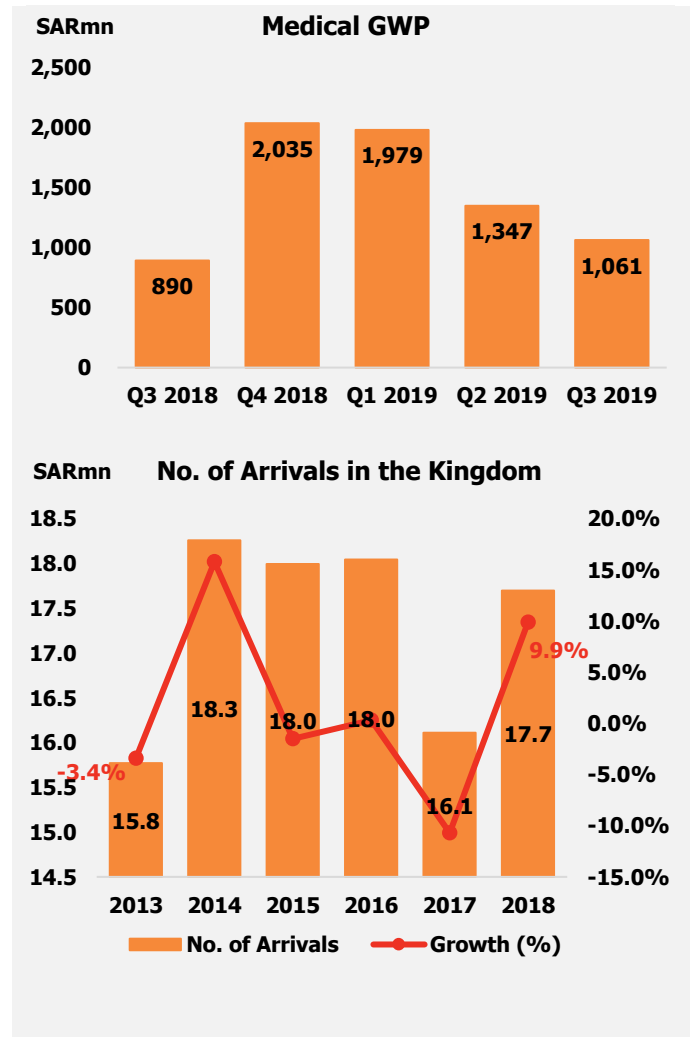


Company Analysis

Key Growth Catalysts

Compulsory Health Insurance

- Saudi health insurance segment started to reap the benefits of compulsory insurance, which was obligated by the Saudi government. The Saudi Council of Cooperative Health Insurance obligated all companies operating in the Kingdom to provide health insurance for their employees and their families. In addition, it required all applicants entering Saudi Arabia to have health insurance, whether for visiting purposes or traveling through the Kingdom.
- As a result, Tawuniya's GWP medical insurance segment increased by 19.1% Y-o-Y to reach SAR1,061mn in Q3 2019 compared to SAR890mn in Q3 2018. Meanwhile, during 9m 2019, medical insurance GWP increased by 17.9% YTD to reach SAR4,387mn compared to SAR3,721mn in 9m 2018.
- Saudi Arabia witnessed an increase in international arrivals during 2018 by 9.9% compared to 2017²; however, Saudi Arabia showed a significant increase in the number of visitors during Riyadh Season to reached 6.5mn visitors. We expect strong growth in Tawuniya's medical insurance segment during 2020, driven by compulsory health insurance coupled with the Saudi General Authority for Entertainment efforts to expand tourism projects in the Kingdom, such as Riyadh Season, as well as the expected increase in population in the Kingdom.



Significantly Diversified Service Offering

- During 2019, Tawuniya continued the implementation of its growth plan to diversify its insurance portfolio through contracting with different Saudi ministries and major companies in the Kingdom to provide them with insurance services matching their needs.
- In August 2019, The Saudi Ministry of Hajj and Umrah signed a contract with Tawuniya to provide insurance services for foreign pilgrims for the next 4 years, with an increase in the total GWP by 5.0% each year. Furthermore, during February 2019, Tawuniya announced the renewal of its health insurance contract with Saudi Airlines for the company's employees and their families. This renewal came after the expiration of the contract concluded between them last year. The value of the contract was one of the most significant medical insurance contracts in Saudi Arabia and the Middle East. At the aviation insurance level, Tawuniya also agreed with all units of Saudi Airlines fleet and its subsidiaries, under this agreement, Tawuniya has successfully issued insurance contracts on the Flynas fleet and its properties at local and international airports of the General Authority of Civil Aviation. This contract can be classified as the largest contract for aircraft insurance in Saudi Arabia.

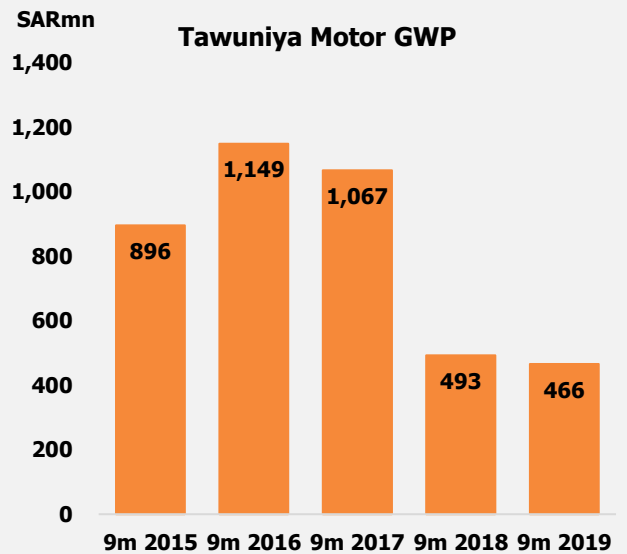
² Source: World Bank

Company Analysis

Key Risk Factors

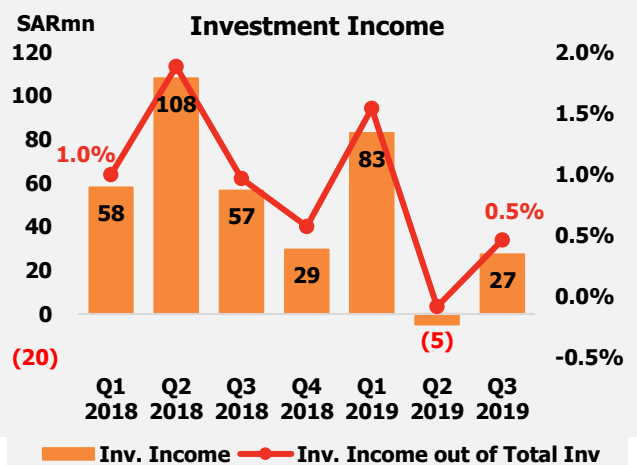
Deterioration in Motor Insurance Segment

- Following the end of Saudi Arabia's ban on women driving in June 2018, Tawuniya launched several insurance programs supporting its motor insurance segment such as the special offers on "SANAD PLUS" which includes the launch of the emergency service, providing dedicated services for women by helping them in car accidents that require urgent assistance.
- Despite Tawuniya's efforts to capitalize on the driving ban, which was expected to represent the addition of a new customer base to automobile and vehicle insurance sectors in the Kingdom, Tawuniya's motor insurance segment deteriorated in 2018. The descent in Tawuniya's motor insurance sales came in line with the decline in automobile sales in the Kingdom, which decreased by 23.2% Y-o-Y in 2018 compared to 2017. Market contraction is a result of several factors, including the implementation of value-added tax (VAT) and surges in gasoline prices.
- Tawuniya's Motor Insurance segment subdued performance persisted through 2019, where its GWP decreased by 5.5% YTD to reach SAR466mn in 9m 2019 compared to SAR493mn in 9m 2018.



Decline in Investment Income

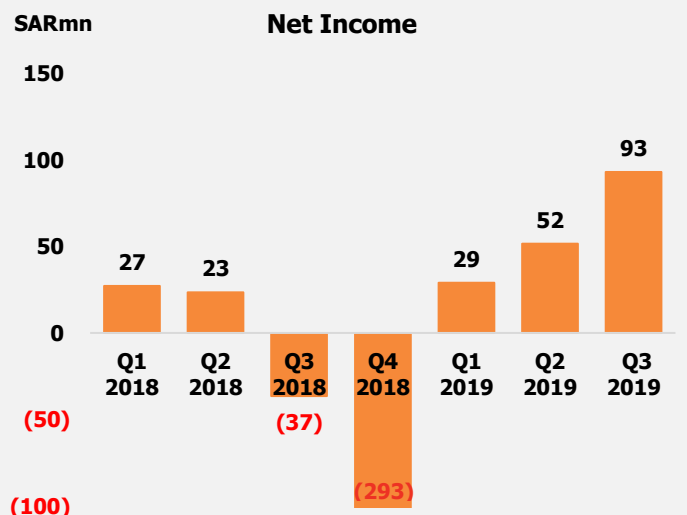
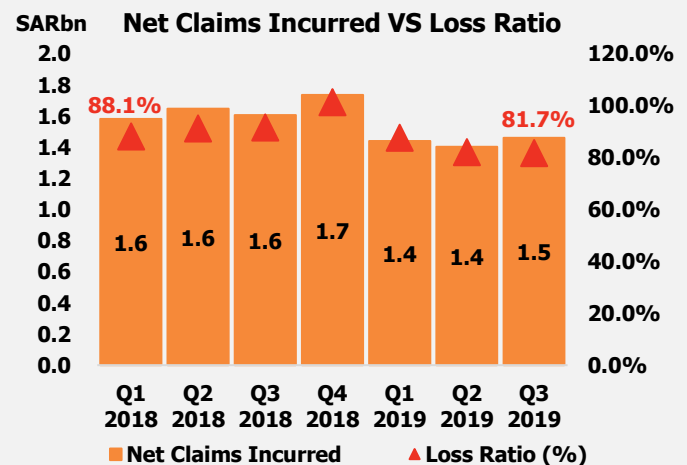
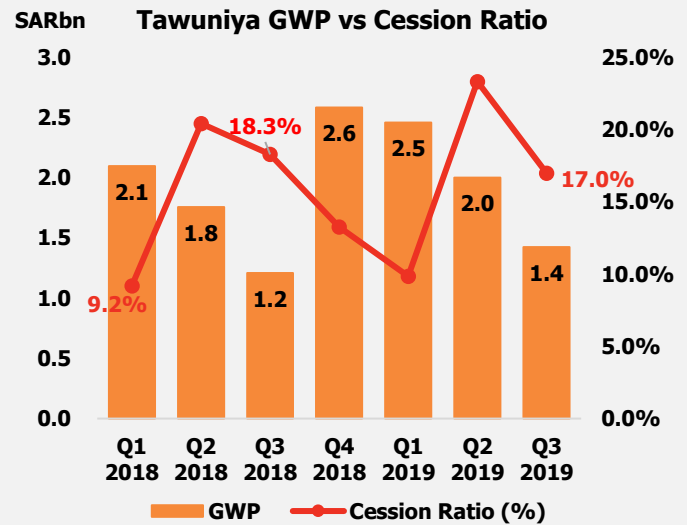
- Despite the noticeable reallocation of the majority of Tawuniya's portfolio investments in Mudarba Deposits, which is known by its low risk and yield on average financial incomes of 3.26%, Tawuniya's investment income decreased by 51.7% Y-o-Y to reach SAR27mn in Q3 2019 compared to SAR57mn in Q3 2018. Investment income also reported a decline of 52.7% YTD to reach SAR105mn in 9m 2019 compared to SAR233mn in 9m 2018. It is worth mentioning that Tawuniya Total Investments increased by 0.9% Y-o-Y to reach SAR5,901mn in Q3 2019 compared to SAR5,848mn in Q3 2018.



Company Analysis

Financial Results

- Tawuniya reported growth in all segments during Q3 2019; the company's Total GWP increased by 17.8% Y-o-Y to reach SAR1,423mn in Q3 2019 compared to SAR1,208mn in Q3 2018. GWP growth was driven by the boost in the medical insurance segment of 19.1% Y-o-Y, which currently contributes 74.6% to Tawuniya's total GWP.
- During Q3 2019, Tawuniya successfully decreased its Reinsurance Ceded in all segments except P&C segment, which increased by 17.5% Y-o-Y. Consequently, total Reinsurance Ceded increased by 9.4% Y-o-Y to reach SAR242mn in Q3 2019 compared to SAR221mn in Q3 2018. However, the company's Cession Ratio successfully decreased by 1.3% Y-o-Y to reach 17.0% in Q3 2019 compared to 18.3% in Q3 2018.
- As a result, Tawuniya Total Revenue increased by 2.1% Y-o-Y to reach SAR1,818mn in Q3 2019 compared to SAR1,780mn in Q3 2018.
- Supported by a decrease in all insurance segments, Tawuniya's Net Claims Incurred decreased by 9.1% Y-o-Y to reach SAR1,460mn in Q3 2019 compared to SAR1,606mn in Q3 2018, which supported the company's loss ratio to reduce by 9.9% Y-o-Y to reach 81.7% in Q3 2019 compared to 91.6% in Q3 2018. Moreover, Net Claims Incurred reduced by 10.9% YTD to reach SAR4,307mn in 9m 2019 compared to SAR4,834mn in 9m 2018.
- Despite the decrease in Tawuniya's investment income by 51.7% Y-o-Y, in addition to an increase in general & administrative expense by 11.7% Y-o-Y, operating profit increased to reach SAR118mn in Q3 2019 after recording a loss of SAR23mn in Q3 2018.
- Tawuniya's net income showed an impressive increase thanks to improvement in GWP and decreased in its Net Claims Incurred. Tawuniya's Net Income increased to SAR93mn in Q3 2019 after recording a net loss of SAR37mn in Q3 2018. Net Income stood at SAR174mn in 9m 2019 compared to only SAR14mn in 9m 2018.



Valuation Rational

Residual Income Valuation

	2019 E	2020 F	2021 F	2022 F	2023 F	2024 F
Net Profit	233	586	672	813	936	1,052
Excess Return for Excess Capital	18	32	53	78	106	139
Adjusted Net Profit	215	554	620	735	830	914
Capital Requirements	1,344	1,391	1,431	1,467	1,499	1,531
Capital Charge	141	146	150	154	157	160
Economic Profit	74	408	470	582	673	753
Discount factor	0.98	0.88	0.80	0.72	0.65	0.59
NPV of EVA	18	360	376	421	441	447
EVA Forecast period	2,062	We have valued Tawuniya using Residual Income, and Multiples approaches, considering a cost of equity of 10.5% (based on a risk-free rate of 4.4%, market risk premium 6.0%, and a beta of 1.01.				
Terminal Value	10,385					
Terminal Value Discounted	6,157	Based on the residual income valuation, the fair price of the Tawuniya share price is SAR81.0, which is higher than the traded value of 8.0%.				
Surplus Capital	465					
Total Fair Value	10,129					
Numbers of Shares	125.00					
Fair value per share	81.0					
Current Market Price (30-01-2020)	75.0					
Upside	8.0%					

Comparable Valuation – Local Peers

Name	Country	P/E
Bupa Arabia for Cooperative Insurance Co.	KSA	21.2
Al-Rajhi Company for Cooperative Insurance	KSA	23.2
AXA Cooperative Insurance Co.	KSA	17.4
Walaa Cooperative Insurance Co.	KSA	52.7
Saudi Re for Cooperative Reinsurance Co.	KSA	23.4
Al Alamiya for Cooperative Insurance Co.	KSA	38.2
Aljazira Takaful Taawuni Co.	KSA	18.2
Al-Etihad Cooperative Insurance Co.	KSA	13.3
Median		22.2
EPS Forecasted (2020)		4.7
Value Per Share		104.1

**We excluded Tawuniya, and Medgulf because they have negative PE*

Weighted Valuation

Based on a weighted valuation approach, where the Residual Income is weighed 60%, and Multiples valuation is weighed 40%, we value Tawuniya share price at SAR90.3.

Valuation Approach	Weight	Value
Residual Income	60%	81.0
P/E	40%	104.1
Valuation	100%	90.3

Financial Projection

Local Peers	Country	Code	Market Price (SR)	Market Cap (SRBN)	P/E	GWP (SRMN)	Net Income (SRMN)
Tawuniya	KSA	8010	75.0	9.4	N/A	6,993	(97)
Bupa Arabia	KSA	8210	102.8	12.3	21.2	8,925	581
Al-Rajhi Takaful	KSA	8230	65.0	2.6	23.2	2,797	112
AXA	KSA	8250	33.1	1.7	17.4	1,309	95
Medgulf	KSA	8030	22.9	1.8	N/A	2,115	(86)
Walaa	KSA	8060	18.2	1.0	52.7	928	18
Saudi Re	KSA	8200	10.2	0.8	23.4	672	36
Al Alamiya	KSA	8280	19.6	0.8	38.2	143	21
Aljazira Takaful	KSA	8012	18.7	0.7	18.2	109	36
Al-Etihad	KSA	8170	14.9	0.6	13.3	854	45

Financial Ratios	2018 A	2019 E	2020 F	2021 F	2022 F	2023 F	2024 F
Cession Ratio	14.6%	14.7%	15.0%	15.1%	15.4%	15.6%	15.9%
Net Loss Ratio	93.0%	83.3%	79.7%	79.6%	79.0%	78.6%	78.5%
Expense Ratio	15.5%	15.8%	15.2%	15.1%	15.0%	14.9%	14.8%
Claims Reserve / Premium Income	70.1%	79.3%	78.6%	77.0%	69.9%	68.1%	66.4%
Cash to Reserves	18.2%	19.8%	25.2%	27.4%	30.0%	31.3%	32.5%

Income Statement	2018 A	2019 E	2020 F	2021 F	2022 F	2023 F	2024 F
Gross Written Premiums	7,641	8,483	8,735	9,017	9,305	9,541	9,784
Reinsurance Ceded	(1,114)	(1,246)	(1,310)	(1,364)	(1,435)	(1,493)	(1,553)
Net Written Premium	6,527	7,237	7,425	7,652	7,870	8,049	8,232
Total Revenue	7,242	7,016	7,467	7,678	7,911	8,112	8,299
Operating Profit	(208)	325	765	862	1,024	1,180	1,330
Net Income	(279)	233	586	672	813	936	1,052

Balance Sheet	2018 A	2019 E	2020 F	2021 F	2022 F	2023 F	2024 F
Cash and Cash Equivalents	1,600	1,887	2,496	2,752	2,929	3,083	3,228
Investments	5,144	5,630	5,932	6,469	7,077	7,813	8,673
Receivables, net	1,518	1,627	1,556	1,482	1,530	1,568	1,608
Total Assets	12,628	14,126	15,012	15,784	16,232	17,198	18,277
Gross Out Standing Claims	4,955	5,463	5,767	5,806	5,430	5,423	5,407
Gross UPR	3,820	4,058	4,122	4,252	4,326	4,431	4,539
Total Liabilities	10,819	11,736	12,161	12,386	12,145	12,301	12,452
Total Equity	1,808	2,389	2,850	3,398	4,086	4,897	5,825
Total Liabilities & Equity	12,628	14,126	15,012	15,784	16,232	17,198	18,277

Guide to Ratings and Disclaimer

Guide to Ratings

Buy	An upside potential of more than 20% in 52-week period
Overweight	An upside Potential of more than 10% in 52-week period
Neutral	Will stay in the range of its value (up/down 10%) in a 52-week period
Underweight	A downside potential of more than 10% in 52-week period
Sell	A downside potential of more than 20% in 52-week period

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