Company Update

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Jaap Meijer, MBA, CFA
jaap.meijer@arqaamcapital.com
+971 4 507 1744

Karim Kekhia
jaap.meijer@arqaamcapital.com
+971 4 507 1744

SAUDI RE

Hockey-stick growth from IDI coverage

BUY | **SAR 14.7**

- **Saudi Re will act as the exclusive-lead reinsurer for inherent defect insurance (*link*), through a proportional treaty reinsurance agreement with Malath (90% cession ratio) for five years.**
- **GWPs to increase 2x by FY 23e and > 3x by FY 26e, lifting GWP/equity to 1.8x by FY 26e from 0.9x in FY 19A and sust. RoE to 14% by FY 26e (pvs. 5.0%) on UW margins of 6.1% and investment yields of 2.4%.**
- **We lift our TP from SAR 11.0 to SAR 14.7, providing 47% upside.**

Growth opportunities shift back to Saudi Re's home market. Although Saudi Re's local market share is relatively low at c.5% (vs. 30% mandatory cession, thanks to the right of first refusal), the new proportional treaty agreement with Malath should automatically transfer a predetermined share (90%, ACe) of ceded premiums to Saudi Re; We expect GWPs to surge by 35% through FY 20-21e (or to SAR 1.1bn) and reach SAR 2.8bn by FY 26e (vs. 793m in FY 19A). However, GWPs in the first three years will be deemed unearned, but rather will be used for retrocession income and investments.

Inherent defect insurance risks to be mitigated through retrocessionaires. We expect Saudi Re's retrocession ratio to increase 40% by FY 26e (vs. 22% avg FY 14-19A), reducing underwriting risks as the company will assess i) the evolution of rates/premium and ii) quality of TIS oversight, before further to increasing retention rates. Further, Saudi Re will have underwriting influence on large/complex projects through separate facultative treaty contracts.

Underwriting income has continued to improve as growth picks up. Saudi Re continued to record double-digit premium growth, registering 30.1% y/y growth in H1, benefiting from both its increased credit rating (A3) and the woes of its struggling competitors (*link*, p.30). Combined ratios also improved by 2.3ppts y/y to 95.4%, primarily driven by a lower claim ratio (-8.8ppts y/y to 57.4%), whic more than offset the worsening OpEx ratio (+6.5ppts to 38.0%). Investment income fell by -54.2% y/y to an annualized yield of 4.4% (we estimate a yield of 2.4% based on its current investment mix), mainly due to realized HFVTIS losses of SAR 0.9m in H1 20 vs. gains of SAR 1.3m in H1 19A.

Attractive valuation, compelling growth prospects despite low near-term RoE. Saudi Re's share price performance is broadly flat YtD and has yet to fully reflect the opportunities from IDI insurance, as the market remains concerned about the challenging reinsurance market, in-line with the likes of QATI (*link*), in our view. However, the company has low exposure to North America and zero NatCat exposure, unlike QATI. The stock is trading at P/tNAV 20e of 1.0x (in line with historical average and QATI). We expect RoTE to gradually improve from 3.9% in FY 20e to 5.0% by FY 23e, and then jump to 12.7% by FY 24e (once coverage kicks in) and to 16.0% by FY 26e.

Insurance / KSA

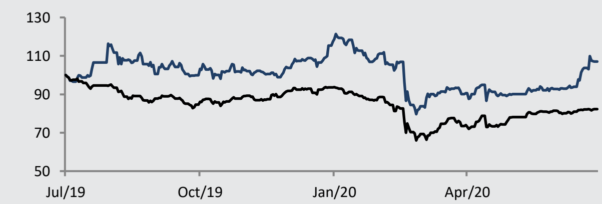
Bloomberg code	SAUDIRE AB
Market index	KSA
Target Price	14.7
Upside (%)	46.9

Market data	**8/18/2020**
Last closing price	10.0
52 Week range	6.8-10.6
Market cap (SAR m)	812
Market cap (USD m)	216
Average Daily Traded Value (SAR m)	12.0
Average Daily Traded Value (USD m)	3.3
Free float (%)	94%

Year-end (local m)	**2019**	**2020e**	**2021e**	**2022e**
Gross Written Premiums	793	952	1,095	1,384
Underwriting Profit	67	81	81	102
EPS	0.52	0.37	0.34	0.46
P/E (x) (market price)	19.1	27.1	29.1	22.0
BVPS	10.80	11.17	11.52	11.97
Tangible BVPS	9.49	9.78	10.07	10.46
P/B (x) (market price)	0.9	0.9	0.9	0.8
P/TBVPS (x) (market price)	1.1	1.0	1.0	1.0
DPS	-	-	-	-
Div. yield (%)	-	-	-	-
RoAA (%)	1.7	1.1	0.9	1.1
RoAE (%)	5.0	3.4	3.0	3.9
Investments/Assets (%)	17.8	22.8	24.2	29.0
Investment Yield (%)	4.8	2.6	2.5	2.6
Net Loss Ratio	64.9	62.1	66.7	66.3
Combined Ratio	97.2	97.3	98.7	98.5
Underwriting Profit Margin	2.1	2.3	1.2	1.2
Net Profit Margin	5.4	3.2	2.5	2.7
Policy Reserves/Equity	170.8	188.7	195.0	198.6

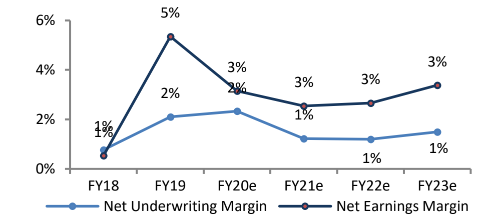
*important disclosure in the disclaimer, refer to clause 7.5

Price Performance

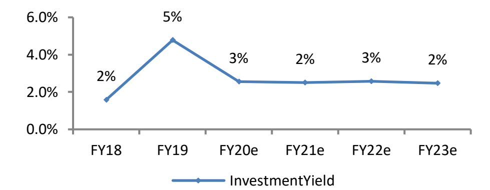


Abacus *Arqaam Capital Fundamental Data*

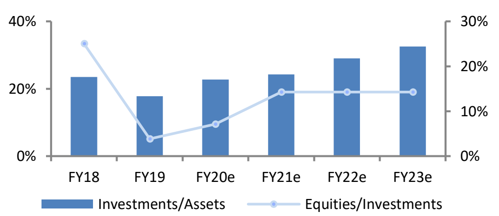
Profitability



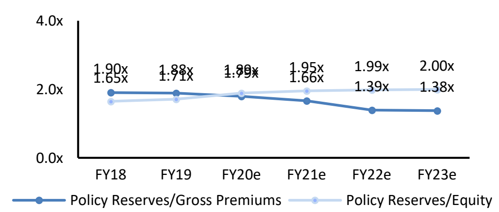
Investment Yield



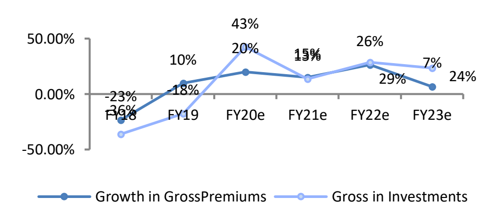
Investment Exposure



Solvency ratios & reserve adequacy



Growth



SAUDI RE

Year-end	2018	2019	2020e	2021e	2022e	2023e
Performance analysis						
Cession Ratio	10.1	16.1	13.9	15.7	18.6	29.0
Net Loss Ratio	65.8	64.9	62.1	66.7	66.3	67.3
Expense Ratio	34.5	32.2	35.2	32.0	32.2	30.6
Combined Ratio	100.4	97.2	97.3	98.7	98.5	97.9
Underwriting Profit Margin	0.8	2.1	2.3	1.2	1.2	1.5
Investment Yield	1.6	4.8	2.6	2.5	2.6	2.5
Net Margin	0.5	5.4	3.2	2.5	2.7	3.4
RoAE	0.5	5.0	3.4	3.0	3.9	5.0
RoAA	0.2	1.7	1.1	0.9	1.1	1.4
Net Premiums/Equity	0.7	0.7	0.7	0.8	0.8	0.8
Gross Premiums/Equity	0.9	0.9	1.1	1.2	1.4	1.4
Claims Reserve/NPE	1.6	1.7	1.6	1.5	1.4	1.4
Investment Income/Total Income	19.8	30.0	17.1	19.8	19.5	20.8

Year-end	2018	2019	2020e	2021e	2022e	2023e
Investment Exposure						
Investments/Assets	23.5	17.8	22.8	24.2	29.0	32.6
Equities/Investments	25.0	3.8	7.1	14.3	14.3	14.3
Equity/Assets (%)	35.5	34.1	31.7	30.7	29.7	28.4

Year-end	2018	2019	2020e	2021e	2022e	2023e
Liquidity/Leverage						
Policy Reserves/Gross Premiums	1.9	1.9	1.8	1.7	1.4	1.4
Policy Reserves/Net Earned Premiums	2.2	2.3	2.6	2.4	2.4	2.5
Policy Reserves/Equity	1.6	1.7	1.9	2.0	2.0	2.0
Debt/Capital	-	-	-	-	-	-
Debt/Equity (x)	-	-	-	-	-	-

Year-end	2018	2019	2020e	2021e	2022e	2023e
Growth						
Gross Premiums	(23.4)	9.9	20.0	15.1	26.4	6.8
Net Earned Premiums	3.0	4.7	4.1	14.1	6.5	0.5
Investments	(36.1)	(17.6)	42.6	13.5	28.6	23.5
Assets	(5.5)	9.2	11.3	6.5	7.5	10.0
Total Reserves	3.8	8.8	14.3	6.6	5.8	5.7
Equity	0.5	5.1	3.4	3.1	4.0	5.2

Year-end	2018	2019	2020e	2021e	2022e	2023e
Valuation						
P/B(x) (current price)	1.0	0.9	0.9	0.9	0.8	0.8
P/B(x) (target price)	1.4	1.4	1.3	1.3	1.2	1.2
P/E(x) (current price)	210.5	19.1	27.1	29.1	22.0	16.2
P/E(x) (target price)	309.2	28.1	39.7	42.7	32.3	23.9

Abacus *Arqaam Capital Fundamental Data*

Investment thesis

Saudi Re was established in Riyadh in 2008 and is currently the only Saudi Arabia-based reinsurer, and it is regulated by the Saudi Arabian Monetary Agency (SAMA) in Riyadh. The company is listed on the Riyadh stock exchange with a diversified investor base. It writes most lines of general, life, and health inwards reinsurance on a predominantly proportional treaty basis, with some non-proportional and facultative business.

Saudi Re has an A3 rating from Moody's and AA rating from Tasneef (local rating agency). Its portfolio is now well diversified geographically and across all lines of business.

Key Drivers:

- Growth opportunities in Inherent Defect Insurance of buildings, a new line of business.
- Strong brand and market position in Saudi Arabia as the sole Saudi professional reinsurer as well as a growing presence in its target markets of Asia, Africa and Lloyd's
- Preferential position in the Saudi market due to a right of first refusal on a portion of premiums ceded by primary carriers in the Saudi market,
- Strong asset quality exemplified by its conservative investment portfolio
- Good capital adequacy, both in terms of capital levels, with gross underwriting leverage (GUL) of 2.2x, and relatively modest exposure to natural catastrophe risk
- Strong financial flexibility with no leverage and good access to capital markets in Saudi Arabia given its listing on the Saudi stock exchange, and broad investor base.

Key Shareholder's	
Ahmad H Al Qusaibi	5.0%
Sate Street Global Advisors	0.5%
Acadian Asset Management	0.3%

SAUDI RE

Year-end	2018	2019	2020e	2021e	2022e	2023e
Income statement (mn)						
Gross Written Premiums	**721.6**	**792.8**	**951.6**	**1,095.0**	**1,384.2**	**1,477.7**
Ceded Premiums	104.7	146.2	164.1	209.4	306.9	481.0
Retained Premiums	616.9	646.6	787.5	885.6	1,077.2	996.7
Movement in Unearned Premiums	3.3	4.1	101.2	55.5	50.0	51.3
Net Premiums Earned	**613.6**	**642.5**	**668.8**	**762.9**	**812.2**	**816.0**
Commissions paid	172.5	172.8	182.1	188.9	197.5	199.1
Net commissions	(156.0)	(154.6)	(166.7)	(168.7)	(167.0)	(150.3)
Other underwriting expenses	2.0	3.6	5.2	4.1	5.1	5.4
Changes in technical reserves	-	-	-	-	-	-
Net Claims	404.1	417.1	415.6	509.0	538.5	549.3
Underwriting Profit	**51.6**	**67.2**	**81.4**	**81.2**	**101.6**	**111.0**
Investment Income	18.6	47.2	33.5	38.8	47.5	57.9
Other operating income	0.9	1.0	1.0	1.1	1.1	1.1
Investment & other income	-	-	-	-	-	-
Interest Expense	-	-	-	-	-	-
General & Administrative	46.0	50.5	59.2	67.7	85.0	89.0
Operating Profit	**25.0**	**64.9**	**56.7**	**53.3**	**65.3**	**81.0**
Distribution of surplus	(1.4)	(3.5)	(2.8)	(2.7)	(3.3)	(4.1)
Other income/(loss)	(9.9)	(2.1)	(9.5)	(7.7)	(9.4)	(10.6)
Tax	12.9	13.9	14.4	15.1	15.6	16.4
Minority Interest	-	-	-	-	-	-
Net Income	**0.8**	**45.4**	**30.0**	**27.9**	**36.9**	**49.9**
Reported EPS	0.05	0.52	0.37	0.34	0.46	0.62

Year-end	2018	2019	2020e	2021e	2022e	2023e
Balance sheet (mn)						
Cash	31.9	13.2	124.6	41.8	(223.4)	(340.6)
Intangible Assets	-	-	-	-	-	-
Reinsurance Contract Assets	291.5	368.4	459.5	490.6	520.0	550.1
Investment Properties	-	-	-	-	-	-
Investments	552.6	455.3	649.2	736.6	947.2	1,169.8
Associates	97.3	101.4	106.5	111.8	117.4	123.3
Insurance Receivables	721.1	818.5	904.1	992.2	1,108.6	1,189.2
Fixed Assets	32.6	33.6	32.4	30.8	29.3	27.9
Other Assets	620.9	772.9	576.5	635.2	768.6	874.1
Total Assets	**2,347.8**	**2,563.3**	**2,852.7**	**3,039.0**	**3,267.7**	**3,593.8**
Short-term Insurance Contract Liabilities	992.9	1,092.5	1,074.2	1,108.6	1,144.9	1,182.0
Long-term Policyholder Liabilities	380.2	402.0	633.3	711.1	781.1	852.9
Debt	-	-	-	-	-	-
Insurance Payables	69.1	123.8	170.1	216.4	301.8	469.1
Other Liabilities	72.9	70.0	70.0	70.0	70.0	70.0
Total Liabilities	**1,515.2**	**1,688.3**	**1,947.6**	**2,106.0**	**2,297.8**	**2,573.9**
Shareholders Equity	**832.6**	**875.1**	**905.1**	**933.0**	**969.9**	**1,019.8**
Minority Interest	-	-	-	-	-	-
Total Equity	**832.6**	**875.1**	**905.1**	**933.0**	**969.9**	**1,019.8**
BVPS	10.28	10.80	11.17	11.52	11.97	12.59

Jaap Meijer, MBA, CFA
jaap.meijer@arqaamcapital.com
+971 4 507 1744

Karim Kekhia

IDI insurance – Introducing methodology for quantifying GWPs

- **Ministry of Municipalities and Rural Affairs (MoMRA) launched a new mandatory LoB for Inherent Defect Insurance (IDI). Coverage rollout is set over four stages, and enforcement is now tied to the issuance of new building permits.**
- **We expect GWPs to remain low through FY 21-24e at SAR 171-413m, primarily due to our revised expectations over the deposit premium, until construction has been completed. However, GWP should surge to SAR 2.1bn by FY 26e.**
- **Uncertainty bogs the medium-term outlook, with contractors/developers likely to challenge the current pricing model (1% ACe), while lessons from developed markets reveal that estimates on ultimate losses take time to be accurately estimated.**

MoMRA mandates IDI coverage to all new private-sector projects (*link*). IDI or latent defect insurance offers building owners a long-term warranty against material damage caused by structural defects (10-year). Inherent defects to load-bearing elements can impair structural integrity and give rise to partial or total collapse. Loadbearing elements, such as foundations, columns, walls, beams, and slabs, are essential to the stability and strength of the insured property. The causes of inherent defects are numerous and can be attributed to a combination of many factors including deficiencies in design and construction, defective material and workmanship, and problems associated with foundations or unforeseen ground (*inherent defects insurance*). Dedicated decennial liability policies are part of the broader specialty-engineering market, and popular in only a few, mainly European countries, with France (mandatory since FY 16A) generating over 90% of IDI premiums (Exhibit 1:). As such, the market is relatively small (USD 21bn, FY 17A) accounting for just c.3% of total commercial insurance globally, with the share of IDI being even less pronounced at just c.15% of total (or c.USD 3.2m).

Enforcement will cover all private sector projects going forward, as building permits are now contingent on a valid IDI policy. A deposit premium will be first estimated for the total sum insured, and payable upon issuance of the policy. Thereafter, a "Certificate of Approval" will be required from the Technical Inspection Service (TIS) provider to determine the final premium. The insurer should pay the balance of final premium minus deposit premium, before the issuance of the "Occupancy Certificate", and within 30 days.

MoMRA targets enforcement the roll-out over four stages, extending from May FY 20A to July FY 23e. Further, the ministry plans for a pilot launch period in the first six months, focusing on enforcement only in Riyadh city. Thereafter, it will rollout enforcement across the five major municipalities (MECCA, Medina, Riyadh, Jeddah, and the Eastern Province) contingent on SAMA's approval. Consequently, a review period will take hold before rollout is applied to all of KSA's governates:

- **Phase 1:** May – Aug. FY 20e: high rise towers, warehouses, hospitals, hotels, mosques, industrial facilities, educational and sports facilities, malls, and buildings < 23 meters.
- **Phase 2:** Aug FY 20e – Aug FY 21e: additions of cinemas, theatres, medical facilities, furnished hotel apartments, housing units, and entertainment facilities
- **Phase 3:** Aug FY 21e – July FY 22e: airports, banking branches, TV stations, post offices.
- **Phase 4:** July FY 22e – July FY 23e: coverage to extend to all private RE properties.

Exhibit 1: Application of mandatory decennial coverage in developed markets

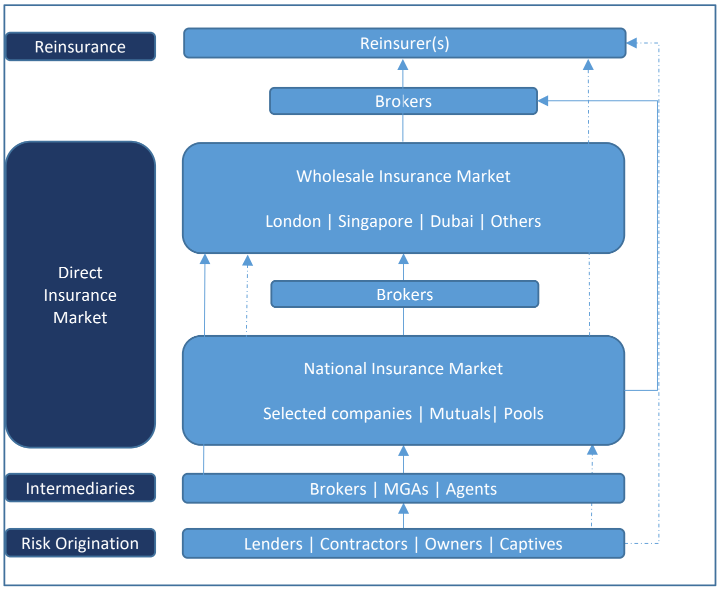
	Decennial Liability
France	Decennial liability offers building owners a 10-year warranty starting from the day construction is complete and covering defects that could be traced back to the design or construction phase.
	Types of decennial liability
Spain	First 10 years: Compensation for material damages due to an error or defect in the building that may affect basement, beams, walls, or other structural elements, as well as those directly affecting the mechanical resistance or stability of the building
Italy	Loss and/or damage to the insured for 10 years from the date of the temporary receipt of the building, and that the loss and/or damage is a result of a defect in the building and construction or a mistake resulting from: 1. Total and/or partial collapse 2. Important structural defects that may affect the structural elements for a long time and the defect is due to an error In implementation or design.
Canada	a) Defects in material and/or labor efficiency for all components within two years after the date of the warranty commencement b) Defects in the construction envelope, including faults in waterproofing, for 5 years after the date of commencement of the warranty (defects Structural hidden structure for 10 years after the start date of the guarantee
USA	The guarantee is as follows: 1. For one year from the date of guarantee for each new home and be free from the following defects: defects in finishing, defects in mechanical and electrical systems - defects of hardware and equipment, major structural defects 2. For two years from the date of the guarantee, it shall be free from defects in hardware, fixtures, and equipment only 3. Ten-year warranty: for 10 years from the date of guarantee for each new home and is free from structural defects Only major structural
	Type of IDI in the GCC
UAE	1. If the subject of the contracting contract was the erection of buildings or other fixed facilities, the engineer puts its design, provided that the contractor will implement them under his supervision, they are jointly responsible for compensation to the employer for what happens within ten years of the total or partial demolition of the buildings he constructed or erected from the facilities and for every defect threatening The durability and safety of the building and if the contract does not include a longer period. Unless the contractor wants the guarantee for these facilities to remain for less than ten years. 2. The obligation remains in the aforementioned compensation even if the defect or demolition arises from a defect in the same land or the employer's consent to erect the defective buildings or facilities. 3. The ten-year period starts from the time the work is delivered.
Kuwait	1. The contractor and the engineer shall guarantee the complete or partial demolition or defect of the buildings he constructed or erected from fixed facilities during construction, taking into account the requirements of the following articles, ten years from the time of completion of the construction or not. 2. Nevertheless, if it is proven that the contractors intended buildings or installations to remain within them. 3. The warranty includes demolition even if it arises from a defect in the land itself, or if the employer has permitted the erection of buildings or installations from defects that would threaten their durability and safety.

Source: Arqaam Capital Research

A simplified market structure leaves room for cost optimization. Generally, global specialty engineering lines are associated with higher intermediary costs, arising from the multilayered risk-sharing structure of the market. Conversely, direct placements dominate the current structure of the KSA distribution market, which reduces underwriting expenses. Primarily, distribution in KSA will follow:

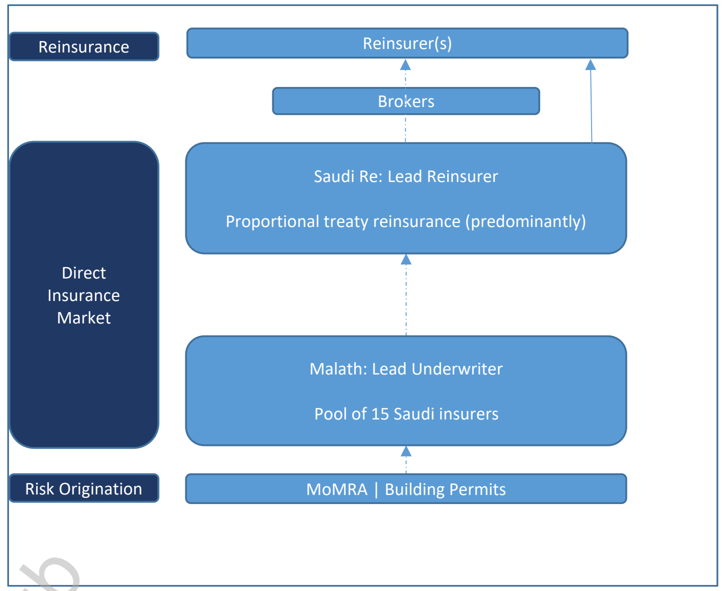
- **Step 1:** All contractor/developers need to acquire an IDI policy from Malath, before collecting their building permits.
- **Step 2:** Malath allocates the retained risks amongst the 15 participating insurers, and cedes the rest of premiums to Saudi Re, under proportional treaty reinsurance.
- **Step 3:** Saudi Re acts as the lead reinsurer and retrocedes the risk to foreign reinsurers.

Exhibit 2: Structure of engineering insurance markets



**Dashed lines: Direct placement | Solid line: Intermediated placement*
Source: Swiss Re Institute (link), Arqaam Capital Research

Exhibit 3: Structure of Saudi IDI market

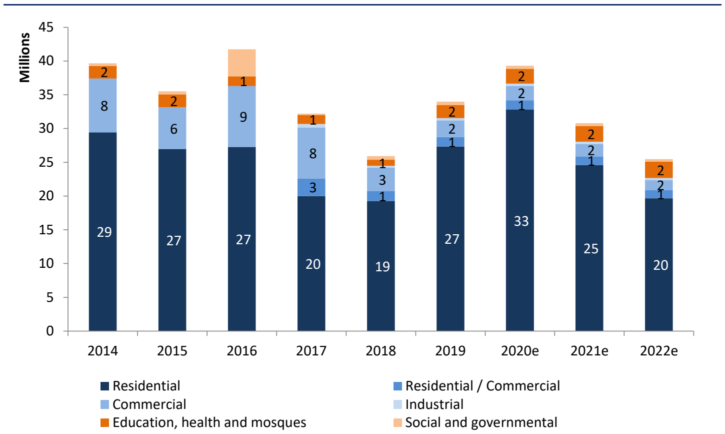


** Dashed lines: Direct placement | Solid line: Intermediated placement*
Source: MoMRA, SAMA, Arqaam Capital Research

Quantifying growth potential: Introducing the IDI valuation screen

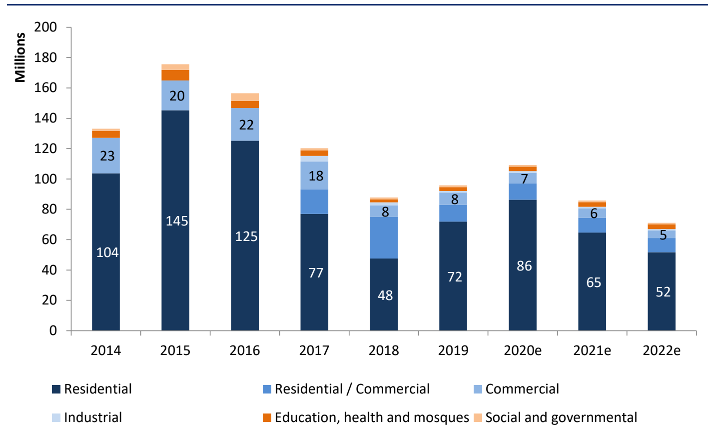
Fiscal consolidation and project delays are potential headwinds to growth opportunities; we model for just 19m (m2) of insurable space in FY 21e. According to MoMRA c.103k building permits were issued in FY 19A, covering a total space of 128.7m (m^2) – o/w c.33k permits were issued in Riyadh (phase 1) encompassing an area of 34m (m^2). However, we exclude permits under the Sakani (MoH) program (c.220k units or 61% of total residential permits) as they adhere to a separate IDI program. Further, we expect austerity measures to reduce project spend in FY 21/22e and building permits by -22%/-17%, respectively, following a contraction of -23% and -20% FY 17/18A in building space, despite the successful launch of the Sakani program.

Exhibit 4: Annual insurable building space – Riyad (m^2)



Source: MoMRA Annual building permits, Arqaam Capital Research

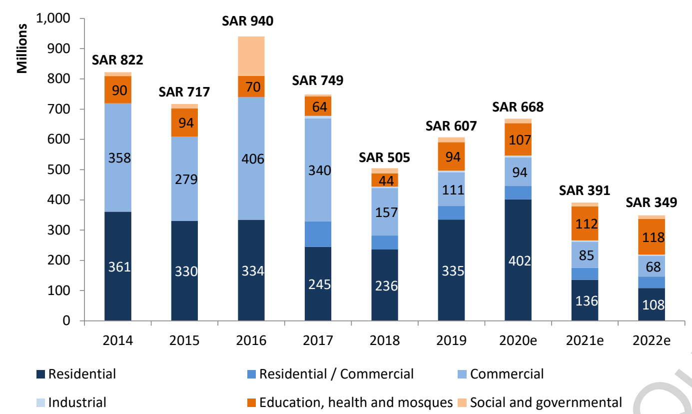
Exhibit 5: Annual insurable building space – 5 key cities* (m^2)



**Riyadh, Mecca, Medina, Qassim, Eastern Province*
Source: Taqeem RE valuation survey, Arqaam Capital Research

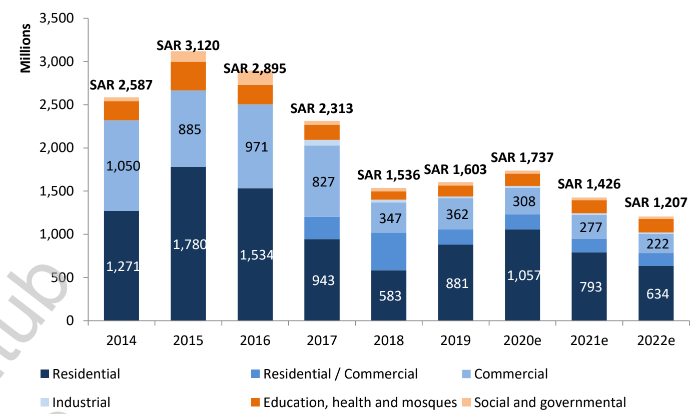
Hockey stick growth ahead. We expect limited opportunities in FY 21-23e, estimating GWP of SAR 97-352m, as we incorporate a deposit premium share of just 25% *final-estimated* premiums following discussions with Malath and Saudi Re, as, i) coverage does not commence until construction is complete, ii) developers/contractors generally operate on tight cashflows during the construction period. Following a slow growth, we expect GWPs to jump to SAR 683m in FY 24e, and SAR 1.5bn by FY 26e, as coverage begins to kick in and enforcement is rolled out to the rest of the Kingdom.

Exhibit 6: Expected GWPs – Riyad (m^2)



Source: MoMRA Annual building permits, Arqaam Capital Research

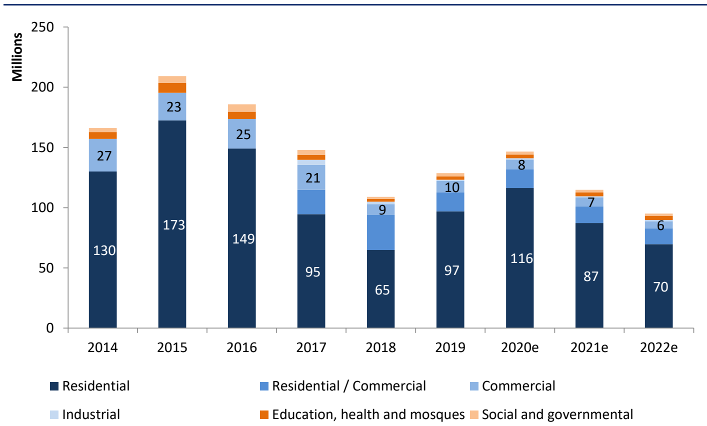
Exhibit 7: Expected GWPs – 5 key cities* (m^2)



**Riyadh, Mecca, Medina, Qassim, Eastern Province*
Source: Taqeem RE valuation survey, Arqaam Capital Research

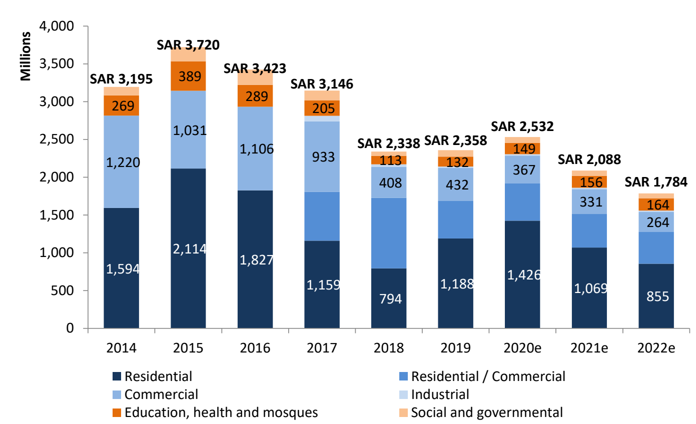
We apply conservative growth assumptions. Given the high level of uncertainty regarding the implementation of IDI, we only consider insurable areas in KSA's top 5 cities. However, to note, MoMRA already identified a review period after three years, where the program's profitability will be assessed, and then followed by a full rollout to the rest of the kingdom. Furthermore, we haven't considered any of KSA's flagship projects within our forecast horizon, although they remain on track for developments (for more details, please check appendix).

Exhibit 8: Annual insurable building space – Total KSA (m^2)



Source: MoMRA Annual building permits, Arqaam Capital Research

Exhibit 9: Expected GWPs – Total KSA (m^2)



Source: Taqeem RE valuation survey, Arqaam Capital Research

Exhibit 10: IDI Valuation Screen: FY 19A illustrative scenario (part I)

Region	Type of Building	# of bldg permits	# of units	Total land area "M^2"	Total floor area & ground annexes "M^2"	Total # of floors	Total floor space "M^2"	The length of the fences "meters"	TSI / Permit	Rates (%)	Avg Cost / M^2 (SAR)	GWP
Riyadh	Residential	30,891	146,777	18,517,011	8,000,025	84,947	19,335,795	2,978,461	27,335,820	1.00	2450	669,727,583
	Residential / Commercial	493	6,483	714,353	296,923	1,663	1,112,996	49,072	1,409,919	1.00	3200	45,117,398
	Commercial	907	8,026	2,575,146	844,206	1,990	1,624,993	127,949	2,469,199	1.00	4500	111,113,947
	Industrial	195	302	360,091	134,098	229	184,679	32,900	318,777	1.00	1750	5,578,591
	Education, health, and mosques	205	1,021	709,600	350,435	622	1,602,031	49,446	1,952,466	1.00	4833	94,362,680
	Social and governmental	268	768	834,393	199,673	445	293,904	67,451	493,578	1.00	3250	16,041,271
	Total	**32,959**	**163,377**	**23,710,594**	**9,825,360**	**89,896**	**24,154,398**	**3,305,279**	**33,979,757**			**941,941,470**
Mecca	Residential	9,544	47,349	13,303,988	3,519,393	193,622	15,492,154	921,092	19,011,547	1.00	2450	465,782,903
	Residential / Commercial	2,882	21,384	5,089,793	1,556,108	23,495	5,818,653	510,488	7,374,761	1.00	3200	235,992,355
	Commercial	395	7,470	106,125,705	576,741	20,159	2,141,486	119,526	2,718,227	1.00	4500	122,320,235
	Industrial	9	55	318,596	119,311	9	120,165	9,100	239,476	1.00	1750	4,190,836
	Education, health, and mosques	127	353	304,429	109,957	8,749	394,686	16,134	504,643	1.00	4833	24,389,397
	Social and governmental	15	66	210,977	92,232	25	99,590	7,551	191,822	1.00	3250	6,234,212
	Total	**12,972**	**76,677**	**125,353,489**	**5,973,741**	**246,059**	**24,066,736**	**1,583,891**	**30,040,477**			**858,909,939**
Medina	Residential	3,810	15,375	2,218,076	1,187,699	7,835	2,465,533	375,697	3,653,233	1.00	2450	89,504,202
	Residential / Commercial	235	1,944	305,088	109,578	749	317,682	24,284	427,260	1.00	3200	13,672,327
	Commercial	186	1,407	319,499	113,603	474	277,832	51,108	391,435	1.00	4500	17,614,567
	Industrial	1	1	3,000	299	1	299	260	598	1.00	1750	10,469
	Education, health, and mosques	11	19	19,084	7,711	17	13,654	1,788	21,364	1.00	4833	1,032,530
	Social and governmental	156	185	524,255	50,727	250	120,906	144,296	171,633	1.00	3250	5,578,082
	Total	**4,399**	**18,931**	**3,389,002**	**1,469,617**	**9,326**	**3,195,906**	**597,433**	**4,665,524**			**127,412,178**
Qassim	Residential	11,198	37,727	9,270,601	3,152,596	20,573	5,130,784	1,304,092	8,283,380	1.00	2450	202,942,810
	Residential / Commercial	65	613	81,126	36,129	160	85,036	6,702	121,165	1.00	3200	3,877,271
	Commercial	227	1,804	5,209,871	229,185	385	343,923	179,274	573,108	1.00	4500	25,789,879
	Industrial	7	7	4,160	315	7	330	558	645	1.00	1750	11,288
	Education, health, and mosques	8	14	21,554	3,441	9	3,605	1,355	7,047	1.00	4833	340,560
	Social and governmental	251	398	14,380,395	106,508	390	163,271	33,074	269,779	1.00	3250	8,767,820
	Total	**11,756**	**40,563**	**28,967,708**	**3,528,174**	**21,524**	**5,726,949**	**1,525,055**	**9,255,124**			**241,729,627**

Source: Ministry of Municipal & Rural Affairs, Arqaam Capital Research

Exhibit 11: IDI Valuation Screen: FY 19A illustrative scenario (part II)

Region	Type of Building	# of bldg permits	# of units	Total land area "M²"	Total floor area & ground annexes "M²"	Total # of floors	Total floor space "M²"	The length of the fences "meters"	TSI / Permit	Rates %	Avg Cost / M² (SAR)	GWP
Eastern Province	Residential	10,901	26,958	9,623,013	7,459,689	20,706	6,159,406	2,930,948	13,619,095	1.00	2450	333,667,820
	Residential / Commercial	400	5,814	1,672,085	612,656	1,581	1,123,013	123,863	1,735,669	1.00	3200	55,541,398
	Commercial	346	4,615	1,716,902	850,802	1,148	1,051,778	812,749	1,902,580	1.00	4500	85,616,119
	Industrial	89	339	539,036	196,587	180	259,701	191,662	456,288	1.00	1750	7,985,044
	Education, health and mosques	42	11,394	142,500	53,409	144	79,521	56,926	132,931	1.00	4833	6,424,550
	Social and governmental	13	47	45,956	21,892	50	32,181	79,441	54,074		3250	-
	Total	**11,791**	**49,167**	**13,739,493**	**9,195,036**	**23,809**	**8,705,601**	**4,195,589**	**17,900,637**			**489,234,931**
Total 5 cities	Residential	66,344	274,186	52,932,690	23,319,402	327,683	48,583,672	8,510,290	71,903,074	1.00	2450	1,761,625,317
	Residential / Commercial	4,075	36,238	7,862,445	2,611,393	27,648	8,457,380	714,409	11,068,773	1.00	3200	354,200,750
	Commercial	2,061	23,322	115,947,123	2,614,537	24,156	5,440,013	1,290,606	8,054,550	1.00	4500	362,454,748
	Industrial	301	704	1,224,883	450,610	426	565,175	234,480	1,015,784	1.00	1750	17,776,228
	Education, health and mosques	393	12,801	1,197,168	524,953	9,541	2,093,497	125,649	2,618,451	1.00	4833	126,549,718
	Social and governmental	703	1,464	15,995,977	471,032	1,160	709,853	331,813	1,180,886	1.00	3250	38,378,782
	Total	**73,877**	**348,715**	**195,160,285**	**29,991,928**	**390,614**	**65,849,590**	**11,207,247**	**95,841,518**			**2,660,985,542**
Gross total	Residential	93,543	361,139	82,523,329	32,484,040	375,306	64,496,881	11,940,686	96,980,920	1.00	2450	2,376,032,552
	Residential / Commercial	5,029	47,337	20,894,753	5,797,896	30,377	9,887,728	1,183,648	15,685,624	1.00	3200	501,939,959
	Commercial	3,076	28,261	120,191,400	3,272,698	25,530	6,329,573	1,460,840	9,602,271	1.00	4500	432,102,215
	Industrial	313	723	1,234,210	452,708	438	567,272	235,821	1,019,980	1.00	1750	17,849,654
	Education, health and mosques	490	12,944	1,360,882	573,374	9,644	2,150,820	141,941	2,724,194	1.00	4833	131,660,284
	Social and governmental	1,034	5,499	35,329,562	987,177	1,555	1,660,790	712,771	2,647,967	1.00	3250	86,058,926
	Total	**103,485**	**455,903**	**261,534,137**	**43,567,892**	**442,850**	**85,093,064**	**15,675,707**	**128,660,957**			**3,545,643,591**

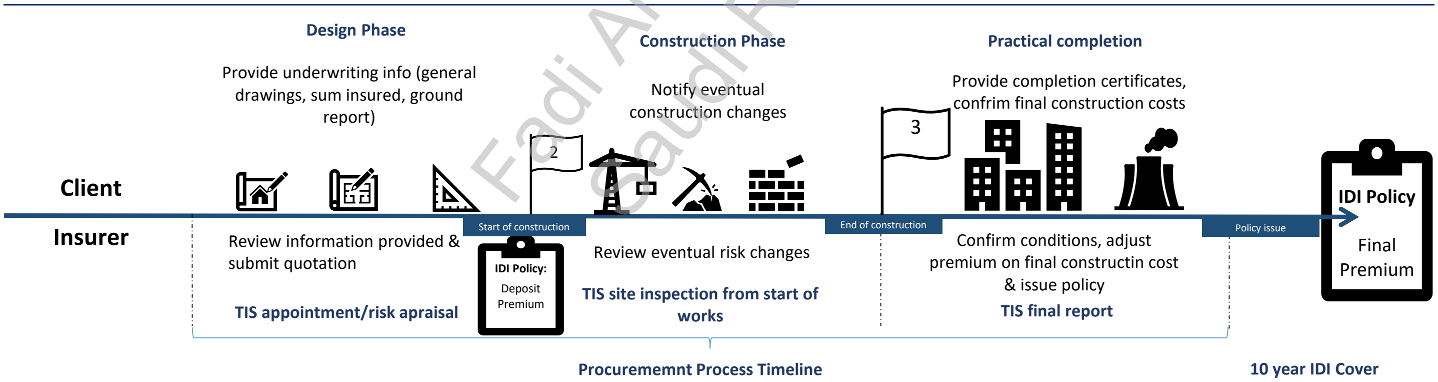
Source: Ministry of Municipal & Rural Affairs, Arqaam Capital Research

Underwriting profitability: Hinges on quality of the TIS

TIS chief determinant of contract profitability. The TIS (Technical Inspection Supervisor) is an engineering company solely dedicated to technical inspection. The role of the TIS is to conduct design reviews and on-site construction inspections, to detect defects early on, so they can be rectified before practical completion and commencement of coverage. As such, the TIS is fully integrated within each construction phase and is liable to any future claims arising.

- **Initial design/review phase:** The TIS conducts compliance checks to design standards and assesses structural adequacy. Then, the TIS prepares an initial risk appraisal report called the "RD0 report" which must be provided to the insurer for issuing the deposit premium.
- **Construction phase:** The TIS conducts onsite inspections of works to check design compliance, and to review the quality control of supervision, materials, and workmanship (a visit to the suppliers may be necessary for special items, i.e. preformed cladding units).
- **Practical completion phase:** The TIS will issue a final report called the "RD6 report", which contains any observations and a final appraisal of the completed works. When applicable, the TIS will conduct a post-construction waterproofing inspection and issue a supplementary report called "RD3 report".

Exhibit 12: Key evolution of construction phases

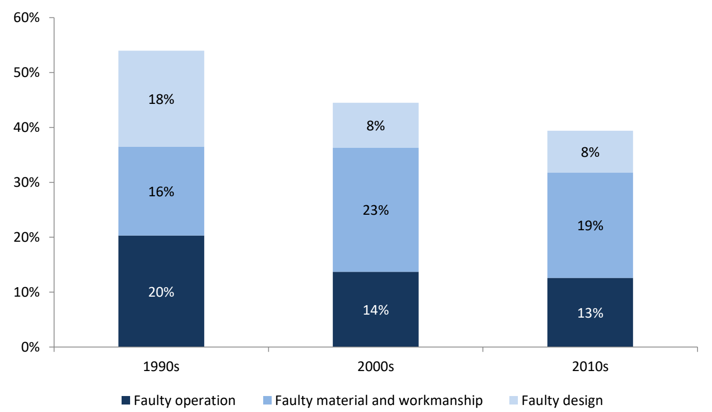


Source: Score Global P&C, Arqaam Capital Research

Improved construction practices in KSA, coupled with foreign TIS operators bode well for the segment's profitability. In-line with the enhanced building codes and construction technology, the share of IDI claims have materially improved globally. Further, SAMA has mandated all large and complex projects to be handled by international (well-established) TIS companies (i.e. TUV Nord). SAMA also requested international TIS companies to set up workshops for Saudis, paving the way for local TIS companies to eventually handle recurring/standardized projects.

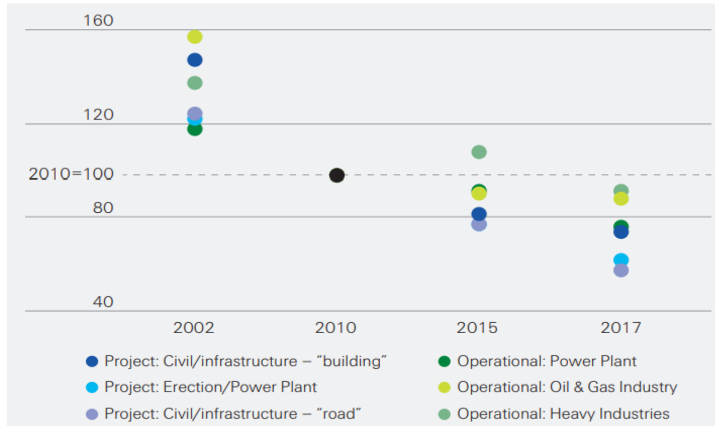
MoMRA's interests are aligned with full enforcement, but we caution against softening prices. MoMRA's ultimate objective is to enforce the Saudi Building Code; all projects in KSA would be under the direct oversight of international/local TIS companies. Given that the ultimate loss experience takes time to be fully developed, we caution against negative pressure from contractors/developers on premiums (1% ACe), similar to more advanced European markets.

Exhibit 13: Share of large claims by proximate cause (%)



Source: IMIA, Swiss Re Institute, Arqaam Capital Research

Exhibit 14: Breakdown of premium rates for engineering LoB



Source: IMIA, Swiss Re Institute, Arqaam Capital Research

Exhibit 15: Saudi Re's Valuation Table:

	2017A	2018A	2019e	2020e	2021e	2022e	2023e	2024e	2025e	2026e	perp	subtotal	% of total
1. DCF													
Net profit	23,565	3,855	42,423	30,001	27,892	36,908	49,949	116,765	189,416	192,882	192,882		
Other adjustments (comprehensive income)	--	--	--	--	--	--	--	--	--	--			
Minus: excess return excess capital	12,305	12,337	15,033	14,604	14,124	14,437	15,702	16,270	18,641	23,076	23,076		
Return on excess capital	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%		
Tax shelter	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%		
Adjusted net profit	11,261	(8,482)	27,390	15,397	13,768	22,471	34,247	100,494	170,776	169,806	169,806		
Capital requirements	352,143	342,203	298,295	354,169	402,090	433,840	454,665	551,940	658,313	697,949	697,949		
RoEcC	3.2%	-2.5%	9.2%	4.3%	3.4%	5.2%	7.5%	18.2%	25.9%	24.3%	24.3%		
Cost of capital	10.5%	12.7%	12.7%	12.7%	12.7%	12.7%	12.7%	12.7%	12.7%	12.7%	12.7%		
Capital charge	36,799	43,562	37,973	45,086	51,186	55,228	57,879	70,262	83,803	88,849	88,849		
Economic profit	(25,538)	(52,044)	(10,583)	(29,689)	(37,418)	(32,757)	(23,632)	30,232	86,972	80,957	80,957		
Discount factor	0.00	0.00	0.00	1.00	0.89	0.79	0.70	0.62	0.55	0.49	0.43		
NPV of Economic Profit	--	--	--	(29,689)	(33,193)	(25,776)	(16,496)	18,720	47,773	39,447	80,957		
DCF EVA Forecast period											787		
Perpetual growth rate (GDP)											3.5%		
Terminal Value											877,104		
Terminal value discounted												379,118	
Required Capital												298,295	
Value of the bank operations												**678,199**	**56.9%**
2. Capital surplus/deficit													
Available capital:													
Shareholders equity	828,793	832,648	875,071	905,072	932,964	969,871	1,019,820	1,136,585	1,326,001	1,518,883			
Less Goodwill & intangibles	55,975	68,675	62,816	51,620	48,000	42,473	28,339	28,401	30,392	32,000			
Less dividends													
Tangible equity	772,817	763,973	812,255	853,452	884,964	927,398	991,481	1,108,184	1,295,609	1,486,883			
Capital needs													
Net Written Premium (NWP)	582,629	572,550	597,548	720,313	771,713	809,689	811,718	1,099,825	1,410,539	1,497,341			
Technical reserves	24,971	28,795	31,682	31,153	32,149	33,203	34,279	35,679	37,432	39,296			
Equity investments	160,595	138,270	17,461	46,369	105,225	135,311	167,118	177,469	192,073	207,180			
Claims provision	695,213	734,578	774,953	795,732	821,180	848,105	875,570	911,349	956,109	1,003,737			
Associates	91,954	97,294	101,446	106,518	111,844	117,436	123,308	129,473	135,947	142,744			
Equity as % NEP	32.9%	33.5%	35.2%	35.7%	35.6%	35.3%	34.8%	35.4%	35.8%	35.7%			
Equity as % Technical reserves	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%			
Equity as % of investments	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%			
Equity as % of claims reserves	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%			
Equity as % of associates	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%			
Capital Requirements	352,143	342,203	298,295	354,169	402,090	433,840	454,665	551,940	658,313	697,949			
Surplus capital	**420,675**	**421,771**	**513,961**	**499,283**	**482,874**	**493,558**	**536,816**	**556,243**	**637,296**	**788,934**		**513,961**	**43.1%**
3. Other adjustments													
Total adjustments													
4. Dividends												--	**0.0%**
Total Fair Value												**1,192,160**	
Fair value per share												**14.7**	
Current share price												10.0	
Upside												**46.9%**	
Implied P/E	50.6x	309.2x	28.1x	39.7x	42.7x	32.3x	23.9x	10.2x	6.3x	6.2x			
Implied P/B	1.4x	1.4x	1.4x	1.3x	1.3x	1.2x	1.2x	1.0x	0.9x	0.8x			

Source: Company Data, Arqaam Capital Research

Appendix: Future Growth Project

Forging ahead with flagship projects

KSA's flagship giga-projects forge ahead despite sweeping austerity measures. Executives at flagship developments reaffirm the Kingdom's commitment to the Vision 2030 timeline. Sighting multiple project awards despite the ongoing fiscal consolidation (link). Further, following discussions with Malath and Saudi Re, we expect the Public-Private Partnership projects under the Vision 2030 program to fall under IDI coverage, while Public only institutions (municipalities, dams, and ministries) to be exempt from IDI coverage. As such, we take a closer look at the progression of the top three giga-projects.

Neom: USD 500bn futuristic city

NEOM a USD 500bn futuristic city stretching across the Egyptian and Jordanian borders. Announced in FY 17A and located on the Red Sea, NEOM is expected to focus on luxurious living, and will include high-end hotels and villas. Moreover, homes in the development will be marketed to both regional and international buyers.

Material progress has been made. In July 2020, Neom signed a $5bn agreement with Air Products, a US company, and Acwa Power, a Saudi company that is 40% owned by the Public Investment Fund, the kingdom's sovereign wealth fund, to develop a renewable energy project.

Qiddiya Entertainment City: USD 15bn development

Qiddiya was earmarked as the destination for entertainment. Qiddiya, an important hub planned in the Saudi capital to fulfill the recreational and entertainment needs of the people. In FY 19A Qiddiya moved from the planning and design phase to the construction phase. The site is 40 kilometers from the center of Riyadh city.

The first phase is expected to complete by FY 23e. Qiddiya will include a Formula One motor racing track, a 20,000-seat stadium, and Six Flags theme park, last month Qiddiya awarded a USD 187m contract for roads and bridges, as part of USD 2.6bn in "near-term" contracts it plans to allocate this year.

The Red Sea Project: A tourism hub

A touristic project that includes more than 90 unspoiled islands located between the cities of Umluj and Al-Wajh. It covers many of the Red Sea's untouched islands and a nature reserve containing regional flora and fauna.

The first phase expected completion by FY 22e. The first phase of the project, scheduled for completion in 2022, includes 14 luxury and hyper-luxury hotels providing 3,000 rooms across five islands and two inland resorts on the Kingdom's west coast, an airport to serve the destination, and marinas, along with residential properties and recreational facilities. The Red Sea Development Company awarded its biggest contract to date, signing up Saudi companies to build an airport by Foste + Partners, and expects to award USD 1bn in other contracts in FY 20.

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