



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

Target price 102.00
Current price 103.00
0.1% below current as at 25/8/2019

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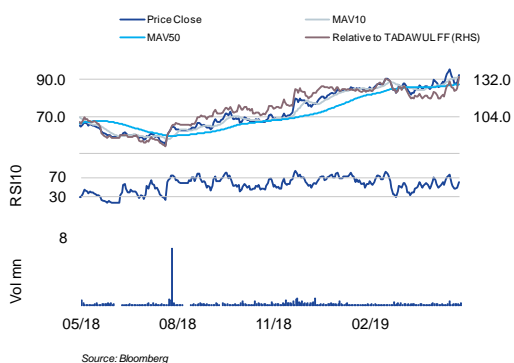
Existing rating

Underweight

Neutral

Overweight

Performance



Earnings

| Period End (SAR) | 2018A | 2019E | 2020E |
|-------------------------------|-------|-------|--------|
| GWP | 8,567 | 9,830 | 10,227 |
| GWP Growth | 11% | 15% | 4% |
| loss Ratio | 83.3% | 83.9% | 82.6% |
| Net Underlying results | 1,164 | 1,276 | 1,459 |
| EPS | 4.4 | 5.0 | 5.3 |
| EPS Growth | 4% | 14% | 7% |

Source: Company data, Al Rajhi Capital

BUPA Arabia

Q2: In-line results. New TP at SAR102 per share

Bupa Arabia reported a healthy Q2 2019 net profit before zakat of SAR216.07mn (20.8% y-o-y, 129.5% q-o-q) in line with our estimate of SAR208.9mn. Strong performance in the bottom-line was mainly driven by 20% y-o-y (-16% q-o-q) increase in GWP to SAR2.43bn. The rise in GWP was due to higher prices as a result of CCHI change in table of coverage benefits (effective July 2018). Additionally, support to the bottom-line came from increase in investment income to SAR61.716mn (45.2% y-o-y) and seasonally favourable Q2 for health insurance sectors as the loss ratio is low amid lower medical visits. Going forward, Bupa just signed an agreement to provide health insurance services to STC employees, and their families, for one year effective from 5 October 2019. The contract estimated value is around SAR450mn, we believe it will boost 2019 GWP growth to around 14.7%. For the 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. Further, Bupa's premium clients are generally 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 Q2 results, we change our TP to SAR102/sh on BUPA with a neutral recommendation.

Key catalyst: The increase in table of benefits such as obesity treatment, organ transplantation, Neo natal Early Screening dental issues and vaccines for children among others, for new/renewed policies mandated by the CCHI has compelled insurance companies to raise their policy prices which is the main reason for the jump in GWP for the first half of 2019. Meanwhile, Bupa has recently signed an agreement to provide health insurance services to the STC employees, and their families, for one year effective from 5 October 2019. We expect the contract value is around SAR450mn, which will increase Bupa's market share and boost 2019 GWP growth to around 14.7% to SAR9.83bn. For bottom line, the contract is expected to push the 2019 EPS to SAR5.06 (15.6% y-o-y).

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 its peers.



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Valuation: We change our TP to SAR102/sh on BUPA in the context of ~6.4% net income CAGR 2018-23e, and leadership position in a less fragmented health segment with stable clientele. Our TP of SAR102 per share is derived using the average of residual income method yielding fair value of SAR104.5 per share and the relative valuation method, resulting in SAR99.7 per share. Our forecasted terminal growth rate assumption stands at 3% and the cost of equity is 9.3%.

Figure 1 Bupa Arabia: Summary of Q2 2019 results

| (SAR mn) | Q2 2019 | Q2 2018 | Q1 2018 | % chg y-o-y | % chg q-o-q |
|--------------------------------|---------|---------|---------|-------------|-------------|
| Gross written premiums (GWP) | 2,439 | 2,020 | 2,905 | 21% | -16% |
| Net written premiums (NWP) | 2,408 | 1,992 | 2,885 | 21% | -17% |
| Net incurred claims | (1,782) | (1,538) | (1,911) | 16% | -7% |
| Net Profit (Loss) before Zakat | (216) | (179) | (94) | 21% | 130% |

Source: Company data, Al Rajhi Capital



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"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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