



**US\$3.64bn** Market cap  
**50%** Free float  
**US\$6.73mn** Avg. daily volume

Target price **126.00** +10.1% over current  
Current price **114.40** as at 02/11/2020

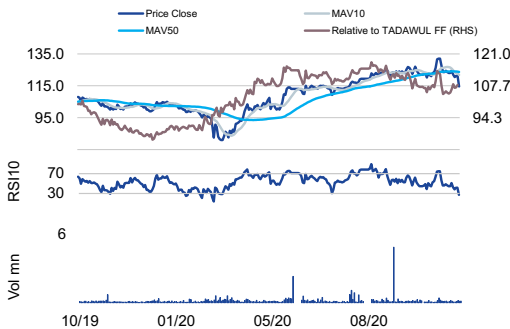
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Existing rating

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

Performance



Earnings

Period End (SAR)	2019A	2020E	2021E
GWP	10,411	10,780	11,427
GWP Growth	22%	4%	6%
NEP	9,371	10,850	11,500
NCI	(7,749)	(8,662)	(9,373)
Loss Ratio	82.7%	79.8%	81.5%
Net Underwriting income	1,398	1,714	1,880
Pre-zakat EPS (SAR)	5.96	7.56	8.79
Pre-zakat EPS Growth	36%	27%	16%
EPS (SAR)	4.97	6.34	7.38
EPS Growth	0.36	0.28	0.16
P/E	23.0x	18.0x	15.5x
P/B	4.5x	3.5x	3.0x

Source: Company data, Al Rajhi Capital

## Bupa Arabia

### Upgrade to OW. Raise TP to SAR126/sh

KSA insurance stocks have outperformed the market this year, gaining ~23% YTD compared to a 4.4% decline for TASI with Bupa shares up ~12% so far this year. The outperformance has been helped by lower claims in Q2 and passive stock inflows through higher weights in Global benchmark indices for Bupa. Though Q3 net profit came lower than our expectations, the GWP and net underwriting results (adjusting for likely one-off expenses mainly associated with acquisition costs) were broadly in line. Despite the 834k decline in insured lives in the year (as of early Oct) because of auto-extension of resident permits for expats, Bupa's GWP was flat y-o-y in Q3. Claims came in higher due to pent up demand for hospitals services, as expected. Overall, normalized combined underwriting margin for 2Q and 3Q was still stable (in-line with prior trends). As the economy returns back to normalcy, we expect GWP to gradually pick up as GOSI data suggests only a decline of ~29k jobs in the private sector during 9M 2020 which means the recovery in insured lives could drive growth. While there could be some pressure from down trading of packages, these could be margin accretive. As travel restrictions ease, hospital visits may also moderate helping margins as well. Longer term fundamental factors are intact, and we believe there is visibility for stable growth trajectory because of i) stricter enforcement of Saudi insurance, ii) likely improvement in its market share post expected consolidation in the sector. On better than expected top-line and better visibility, we raise our TP for the stock to SAR126 (from 105/share), implying an Overweight rating with an upside of 10.1%. Key factors to watch are market share gains and pick up in insured lives.

Figure 1 Bupa Q3 2020 results

SAR'mn	Q3 2020	Q3 2019	Y-o-Y	Q2 2020	Q-o-Q	ARC est.	vs ARC
<b>GWP</b>	<b>3,076</b>	<b>3,076</b>	<b>0.0%</b>	<b>2,243</b>	<b>37.1%</b>	<b>2,892</b>	<b>6.4%</b>
Reinsurance ceded	(9)	(20)		(11)		(14)	
<b>NWP</b>	<b>3,068</b>	<b>3,056</b>	<b>0.4%</b>	<b>2,233</b>	<b>37.4%</b>	<b>2,878</b>	<b>6.6%</b>
NWP as a % of GWP	99.7%	99.3%		99.5%		99.5%	
<b>NEP</b>	<b>2,700</b>	<b>2,361</b>	<b>14.3%</b>	<b>2,697</b>	<b>0.1%</b>	<b>2,645</b>	<b>2.1%</b>
NEP as a % of GWP	87.8%	76.8%		120.2%		91.4%	
<b>NCI</b>	<b>2,180</b>	<b>1,860</b>	<b>17.2%</b>	<b>1,800</b>	<b>21.1%</b>	<b>2,102</b>	<b>3.7%</b>
Loss ratio	80.8%	78.8%		66.8%		79.5%	
<b>Net profit before zakat</b>	<b>170</b>	<b>260</b>	<b>-34.7%</b>	<b>443</b>	<b>-61.6%</b>	<b>290</b>	<b>-41.3%</b>
PBT margin	5.5%	8.5%		19.8%		10.0%	

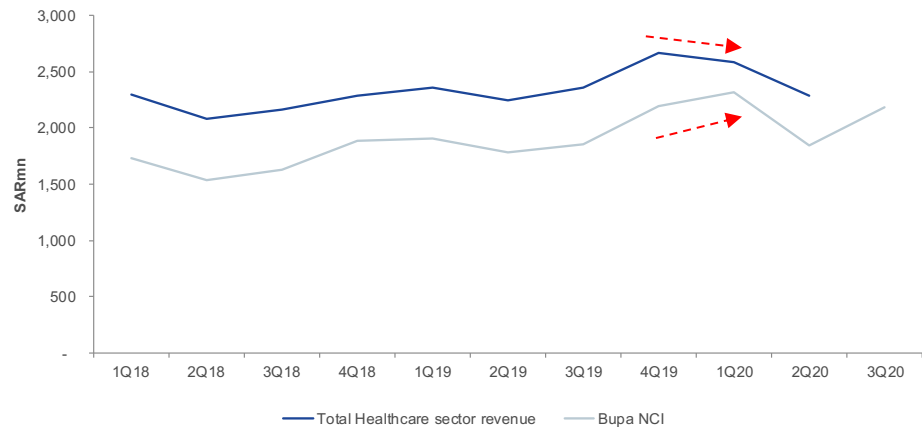
Source: Company data, Al Rajhi Capital

**Results:** Q3 GWP came at SAR3,076mn, almost flat on a yearly basis, although above our estimate of SAR2,892mn, which could be attributable to better economic recovery. Nonetheless, NEP came in largely in-line with expectation at SAR2,700mn (SAR2,645mn expected), up by ~14% y-o-y. As expected, the loss ratio increased by 2pps to 80.8% (vs. 66.8% in Q2 2020 and 79.5% expected) due to higher number of claims post COVID-19 imposed lockdown. Higher provisions for doubtful debt (~SAR42mn vs. SAR21mn expected vs. SAR17mn in Q3 2019) and increased operating expenses partially offset the better-than-expected investment and other income (SAR63mn vs. SAR47mn expected). Overall, these factors resulted in a sharp decline in pre-tax net profit (-34.7% y-o-y) to SAR170mn, missing our estimate of ~SAR290mn.



**Bupa's claims are highly correlated to Healthcare sector's revenues:** When we correlate hospital revenues and Bupa's claims, we see that they have moved with 95% correlation till Q2 2020 (quarterly basis). As the travel restrictions and pent up demand ease, hospital earnings may come back to normalized run-rate.

**Figure 2 Hospital revenues vs. Bupa NCI**



Source: Company data, Al Rajhi Capital

### Valuation & risks:

Our revised TP stands at SAR126 per share (earlier SAR105 per share) is derived based on the residual income method (3% terminal growth rate; 8.6% cost of equity). The stock is trading at a P/E of ~15.5x on 2021E EPS (which compares with a 2Y average of 16.1x and touching upto 19.6x -Bloomberg). Our target price suggests 2021 P/B multiple of 3.3x compared to 3.5x average in the past two years (3.9x max). Thus, our implied multiple is reasonable, given the management quality and past performance. We have factored only a moderately higher growth from expected industry consolidation in our model and hence is an upside risk factor to our estimates. With higher scale come higher economies of scale, leading to further bottom-line benefits in the sector. The other upside risks include quicker recovery in the economy, faster-than-anticipated enforcement on Saudis, major contract wins from big corporate houses, and higher-than-expected dividends, while downside risk factors are a steep rise in loss ratio due to unexpected market conditions, non-renewal of existing major contracts and pricing pressure due to stiff competition.

**Figure 3 Detailed income statement (need to update)**

Period End (SAR)	2018A	2019A	2020E	2021E	2022E
GWP	8,567	10,411	10,780	11,427	12,226
NEP	8,486	10,305	10,733	11,377	12,173
NEP	8,150	9,371	10,850	11,500	12,306
NCI	(6,789)	(7,749)	(8,662)	(9,373)	(10,017)
Loss Ratio	83.3%	82.7%	79.8%	81.5%	81.4%
Policy acquisition costs	(197)	(224)	(473)	(248)	(265)
Net Underwriting income	1,164	1,398	1,714	1,880	2,024
G&A expenses	(434)	(491)	(544)	(571)	(604)
S&D expenses	(322)	(349)	(357)	(372)	(392)
Investment income	184	235	212	243	314
Other income/expenses	(18)	(13)	(35)	(28)	(28)
Net profit	436	594	758	882	1,005
Pre-zakat EPS (SAR)	4.39	5.96	7.56	8.79	10.03
Pre-zakat EPS Growth	-33.8%	35.7%	26.8%	16.3%	14.0%
EPS (SAR)	3.65	4.97	6.34	7.38	8.41
EPS Growth	-35.3%	36.2%	27.7%	16.3%	14.0%

Source: Company data, Al Rajhi Capital



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