

## Abu Dhabi National Insurance Co

Higher Net claims incurred reduced profitability

### 3Q21 Net profit misses our estimate

Abu Dhabi National Insurance Company (ADNIC) reported a decline by 8.8% YOY in Net Profit to AED85 Mn in 3Q21, as compared to AED93 Mn in 3Q20, missing our estimate by 35.5%. This was mainly driven by Net claims incurred and higher G&A expenses.

### P&L highlights

Gross Premium decreased by 5.4% YOY to AED571 Mn in 3Q21 as compared to AED604 Mn in 3Q20. Reinsurance share of gross premiums written decreased by 10.4% YOY to AED401 Mn in 3Q21, down from AED448 Mn in 3Q20. Resultantly, the Net Premium increased by 8.8% YOY to AED170 Mn in 3Q21, up from AED156 Mn in 3Q20. The Net change in unearned premium reserve increased by 5.2% YOY to AED178 Mn in 3Q21, up from AED169 Mn in 3Q20. Subsequently, the Net premium earned increased by 6.9% YOY to AED348 Mn in 3Q21, up from AED326 Mn in 3Q20. The company's Commissions earned increased by 17.9% YOY to AED52 Mn in 3Q21. Gross underwriting income increased by 7.9% YOY to AED359 Mn in 3Q21, and the Net claims incurred increased by 17.2% YOY to AED238 Mn in 3Q21, up from AED203 Mn in 3Q20. Nevertheless, the Underwriting Income decreased by 6.7% YOY to AED121 Mn in 3Q21, compared to AED130 Mn in 3Q20. The Total Income slightly decreased by 0.8% YOY to AED147 Mn in 3Q21, down from AED148 Mn in 3Q20. The General & Administrative expenses increased by 5.3% YOY to AED58 Mn in 3Q21, up from AED55 Mn in 3Q20, reducing the Net Profit.

### Balance sheet highlights

Total Assets increased by 3.9% YOY to AED8.48 Bn in 3Q21, up from AED8.16 Bn in 3Q20. The Total Technical Reserves decreased by 4.2% YOY to AED4.28 Bn in 3Q21, compared to AED4.47 Bn in 3Q20. Total Liabilities slightly decreased by 0.4% to AED5.76 Bn in 3Q21, down from AED5.78 Bn in 3Q20. While, the Total equity increased by 14.3% YOY to AED2.72 Bn in 3Q21 from AED2.38 Bn in 3Q20.

### Target price and rating

We maintain our BUY Rating on the stock with a revised target price of AED7.00. Abu Dhabi National Insurance Company PJSC mainly operates in Transaction of Insurance and Reinsurance business of all classes and is headquartered in UAE. The Company's Net Profit rebounded by 18% YOY to AED334 Mn in 9M21, as compared to AED283 Mn in 9M20. This increase was mainly driven by better operational efficiency leading to reduced costs and an increase in both Gross Premiums Income and Investment Income. The Company mainly operates via two segments – Commercial & Consumer. The Commercial segment contributes up to

**Rating : BUY**

### First Look Note – 3Q21

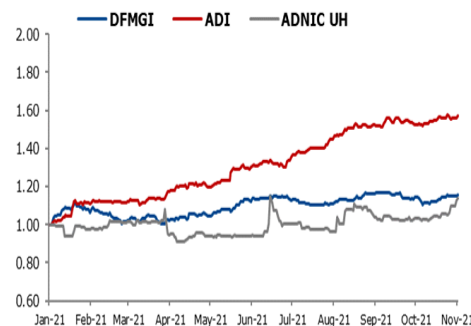
**Sector: Insurance**

#### Recommendation

Current Price (28-Nov)	5.71
Target Price (AED)	7.00
Upside/(Downside) (%)	22.6%

#### Stock Information

Market Cap (mm)	3,254.70
Paid Up Capital (mm)	570.00
52 Week High	5.93
52 Week Low	4.63
3M Avg. daily value (AED)	859,518



#### Financial Ratios

Dividend Yield (12m)	6.13
Dividend Pay-out (%)	53.77
Price-Earnings Ratio (x)	7.77
Price-to-Book Ratio (x)	1.20
Book Value (AED)	4.76
Return-on Equity (%)	16.57
Earning Per Share (AED)	0.73
Beta	0.36

#### Stock Performance

5 Days	-1.72%
1 Months	1.96%
3 Months	4.20%
6 Months	19.21%
1 Year	10.44%
Month to Date (MTD)	-0.70%
Quarter to Date (QTD)	8.56%
Year to Date (YTD)	11.96%

55% of the Total Gross Premiums earned. Similarly, the Consumer segment contributes 45%. The Gross Premiums earned by the Commercial segment fell by 6.51% YOY to AED1.78 Bn in 9M21, as compared to AED1.90 Bn in 9M20, whereas the Consumer segment increased by 15.9% YOY reaching AED1.46 Bn in 9M21 up from AED1.26 Bn in 9M20. The Gross Written Premiums increased by 2.4% for the first nine month of 2021, reaching AED3.24 Bn up from AED3.17 Bn same period last year. This increase was mainly driven by the increase in consumer line divisions which recorded an increase by 15.9% YOY in 9M21 due to new initiatives taken to enhance operations by the Company. Nevertheless, the overall Premium Retention increasing to 33.5% in 9M21 compared to 32.7% in 9M20. The Net claims incurred increased by 2.18% YOY mainly driven by the Consumer segment. The Net claims paid by the Consumer segment increased by 12.27% YOY to AED591 Mn in 9M21, up from AED526 Mn in 9M20. The increase is in line with the initiatives undertaken by the Company to increase the Consumer segment profitability. On the other hand, the Commercial segment decreased by 27.25% YOY to AED131 Mn in 9M21, down from AED180 Mn in 9M20. Therefore, the Claims loss ratio surged to 63.1% in 9M21, up from 60.3% in 9M20. Thus, the Net Underwriting Income decreased YOY standing at AED389 Mn in 9M21 down from AED395 Mn in 9M20, a decrease by 1.49% YOY. The decline was driven by the Consumer segment, with a 9.07% YOY decrease to AED183 Mn in 9M21, as compared to AED201 Mn in 9M20. On the contrary, the Commercial segment increased by 6.37% YOY AED206 Mn in 9M21, up from AED194 Mn in 9M20. The General & Administrative expenses declined slightly by 0.9% YOY to AED170.6 Mn in 9M21, down from AED172.1 Mn in 9M20. It was mainly due ADNIC's optimization program and efficiency initiatives. As a result, the Expense ratios on net earned premium and gross written premium decreased to 16.2% and 5.3%, respectively in 9M21, down from 17.1% and 5.4% respectively in 9M20. The combined ratio remained stable in 9M21 at 80.3% similarly to 9M20. The Net Investment and Other Income increased robustly by 48% YOY to AED125.8 Mn in 9M21, up from AED85 Mn in 9M20. The robust performance mainly supported the 2Q21 profitability. The Company reported strong rebound in its investment portfolio that aided the growth in the Net Investment and Other Income. The EPS grew by 18% YOY to AED0.59 in 9M21, up from AED0.5 in 9M20, despite the challenging business conditions. The Company's Asset base increased by 1.75% YOY to AED8.47 Bn in 3Q21, up from AED8.33 Bn in 3Q20. It has demonstrated strong Cash & Deposits balance at AED768.6 Mn in 3Q20. The Technical reserves stands at AED4.28 Bn in 3Q21, down from AED4.36 Bn in 3Q20, a decrease by 1.83% YOY. It was mainly due to decline in Outstanding Claims and the Claims incurred but not reported reserves. The Shareholder's Equity boosted by 8.33% YOY to AED2.71 Bn in 3Q21, up from AED2.5 Bn in 3Q20, supported by strong profitability levels. The Cash generated from Operating Activity demonstrated resilience and stood at AED155.87 Mn in 3Q21, up by 4.2% from AED149.58 Mn in 3Q20. A cash dividend of AED0.35 per share, amounting to AED199.5 Mn for FY2020, was approved in 1H21. The 2021 outlook is in general positive for the Company but depends on the continuous improvement in the economy. However, it is anticipated that the UAE economy will grow by 2.1% in 2021 and a further increase by 4.2% to be recorded in 2022 post-covid recovery. ADNIC has a competitive advantage over its competitors given it follows a clear strategy and follows a structural procedure to maintain its diversified investment portfolio ADNIX shows appetite to digitalize its services and adapt the latest technologies to cope with the post-pandemic changes. Based on our analysis, we assign a BUY Rating.

**ADNIC—Relative Valuation**

AED mm	2017	2018	2019	2020	2021E
PE (x)	14.28	13.60	11.42	8.78	7.37
P/B (x)	1.08	1.02	1.42	1.30	1.24
Dividend yield	7.0%	5.3%	5.3%	6.1%	7.0%

FABS forecast & Co Data

**ADNIC - P&L**

AED mm	3Q20	2Q21	3Q21	3Q21F	Var.	YOY Ch	QOQ Ch	2020	2021F	YOY
Gross premium	604	773	571	797	-28.4%	-5.4%	-26.2%	4,012	3,956	-1.4%
Rein. share of ced prem	-448	-481	-401	-508	-21.0%	-10.4%	-16.6%	-2,664	-2,672	0.3%
<b>Net premium</b>	<b>156</b>	<b>292</b>	<b>170</b>	<b>289</b>	<b>-41.3%</b>	<b>8.8%</b>	<b>-41.8%</b>	<b>1,348</b>	<b>1,284</b>	<b>-4.8%</b>
Net change in unearned premium reserve	169	61	178	74	NM	5.2%	NM	-16	48	NM
<b>Net premium earned</b>	<b>326</b>	<b>354</b>	<b>348</b>	<b>363</b>	<b>-4.2%</b>	<b>6.9%</b>	<b>-1.6%</b>	<b>1,333</b>	<b>1,333</b>	<b>0.0%</b>
Commissions earned	44	47	52	51	1.4%	17.9%	10.7%	183	209	14.0%
Commissions incurred	-37	-37	-41	-39	5.5%	11.2%	10.7%	-138	-153	10.9%
<b>Gross underwriting income (A)</b>	<b>333</b>	<b>363</b>	<b>359</b>	<b>375</b>	<b>-4.4%</b>	<b>7.9%</b>	<b>-1.2%</b>	<b>1,378</b>	<b>1,388</b>	<b>0.8%</b>
Gross claims paid	-394	-435	-404	-425	-4.7%	2.7%	-7.0%	-1,817	-1,706	-6.1%
Net claims paid	-204	-257	-223	-251	-11.2%	9.2%	-13.3%	-921	-955	3.6%
<b>Net claims incurred (B)</b>	<b>-203</b>	<b>-247</b>	<b>-238</b>	<b>-226</b>	<b>5.1%</b>	<b>17.2%</b>	<b>-3.9%</b>	<b>-831</b>	<b>-837</b>	<b>0.6%</b>
<b>Underwriting Income (A+B)</b>	<b>130</b>	<b>116</b>	<b>121</b>	<b>149</b>	<b>-18.8%</b>	<b>-6.7%</b>	<b>4.4%</b>	<b>546</b>	<b>552</b>	<b>1.0%</b>
Net Underwriting Income	118	103	109	134	-19.2%	-8.3%	5.2%	497	499	0.3%
<b>Total income</b>	<b>148</b>	<b>152</b>	<b>147</b>	<b>175</b>	<b>-16.1%</b>	<b>-0.8%</b>	<b>-3.5%</b>	<b>612</b>	<b>675</b>	<b>10.2%</b>
G&A expenses	-55	-37	-58	-43	33.4%	5.3%	55.2%	-241	-229	-4.9%
<b>Profit attributable</b>	<b>93</b>	<b>115</b>	<b>85</b>	<b>132</b>	<b>-35.5%</b>	<b>-8.8%</b>	<b>-26.1%</b>	<b>371</b>	<b>441</b>	<b>19.0%</b>

*FABS estimate and Co Data*
**ADNIC - Ratios**

AED mm	3Q20	2Q21	3Q21	YOY Ch	QOQ Ch	2020	2021F	Change
Expense ratio	18.3%	11.5%	17.2%	-109	574	18.4%	17.0%	-140
Claims loss ratio	62.3%	69.9%	68.3%	602	-166	62.4%	62.8%	40
Combined ratio	80.5%	81.4%	85.5%	493	408	80.8%	79.8%	-100
Net profit ratio	28.6%	32.5%	24.4%	-420	-812	27.8%	33.1%	528

*FABS estimate and Co Data*

## Research Rating Methodology:

Rating	Upside/Downside potential
BUY	Higher than +15%
ACCUMULATE	Between +10% to +15%
HOLD	Lower than +10% to -5%
REDUCE	Between -5% to -15%
SELL	Lower than -15%

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