

SaudiRe

IDI implementation delayed, but growth opportunities remain significant

- IDI implementation is deferred as the Saudi Building Code had hindered new developments. We cut our GWP for IDI to SAR 10m in FY22e, reaching SAR 1.6bn by FY30e. But the local growth remains supported by a compulsory cession rate of 30% for primary insurers, higher reinsurance rates, and project spend pickup.
- Higher SAIB3M to sustain investment yields at 4% and EPS contribution at 60%.
- It has a call option until YE 23e to buy the remaining 50.1% of Probitas, the most profitable JV, which if exercised would boost GWPs by 73% and UW income by 124%. Alternatively, it could book a large capital gain of SAR 478m-565m (49-58% of NAV, and 30-35% of Market Cap).
- Reiterate our Buy and increase our TP to SAR 23.5. The stock is trading at P/E 23e of 13.6x and P/tNAV 22e of 1.6x, offering an attractive entry point considering growth from IDI (despite the delay), M/S gains, and upside risk from Probitas.

Saudi Re's local market share should increase by 10ppt to 24% by FY 25e. This is driven by i) reinforced compulsory cessations rates (set at 30%) (Exhibit 1:). SAMA requested primary insurers this year to gradually decrease their cessations to international reinsurers and adhere to the 30% compulsory cessation rates by FY 25e (+5ppts/year starting at 15% in FY 22e, [link](#)). ii) higher reinsurance rates (yet to be reflected, Exhibit 5:Exhibit 8:), iii) significant changes to regional reinsurance capacity, and iv) increased project spending. Accordingly, we raise Saudi Re's GWP CAGR in KSA to 26% (+10ppts), and local market share to 24% by FY 25e up from 14% in FY22e.

Ministry of Municipality and Rural Affairs (MoMRA) scales back the stringent requirements for building permits and delayed the issuance of IDI policies until the start of the construction (Exhibit 9:). New issuances came to a complete halt after i) the update of the Saudi Building Code ([SBC](#)) in July-21A, and ii) MoMRA's request to transition all new submissions to its portal ([Balady](#)). MoMRA has now delayed the requirement for IDI policies, and to be aligned with the construction period instead of the building permit. We, therefore, trim our estimates of the IDI market size to SAR 10m in FY22e, and SAR 1.6bn in FY 22-30e (vs. SAR 70m-3.2bn, previously), as we expect new enforcement challenges, penciling in compliance rates of 70% (vs. 92% previously). However, we rule out the possibility of MoMRA scrapping the IDI program, given its significance as the sole reinforcer of the updated SBC (a Vision 2030 target for MoMRA), and the requirement to create the ranking scheme for all contractors/developers on its portal.

Saudi Re's investment yields should benefit from higher local interest rates. We expect a blended investment yield of 4.0%, only slightly below the yield of 4.4% in FY21, contributing over half of the earnings (vs. 110% in FY 21e). Saudi Re's investment book is locally domiciled, with the lion's share allocated to money market funds (41%), investment funds (12.9%), and Probitas (11.5%). Nonetheless, we expect long-tail IDI premiums to be allocated to LT deposits, yielding 3.4% per annum (vs. 1.1% currently), as we expect the duration of Saudi Re's investment portfolio to increase to 1.7 years by FY 24e.

Probitas remains a key catalyst for Saudi Re with the potential of either i) boosting GWPs by SAR 871m if consolidated, or ii) generating a capital gain of SAR 478-565 if divested, or iii) sustaining an investment yield of +15% (our base case). Saudi Re's call option expires at YE 23e, and the reinsurer will have to decide on whether to i) acquire the remainder of the 50.1% stake, ii) divest its current investment, iii) or partner with a new MGA (our base case).

We reiterate our Buy rating and increase our TP to SAR 23.5 (+4.4%) as we factor in higher investment returns and increased local M/S supported by new SAMA regulation, more than offsetting the slower growth from IDI. The stock is currently trading at a P/E 23e of 13.6x and P/tNAV 22e of 1.6x, with RoE expanding to 13.7% by FY 30e from 4.8% currently.

BUY

SAR 23.5

Insurance / KSA

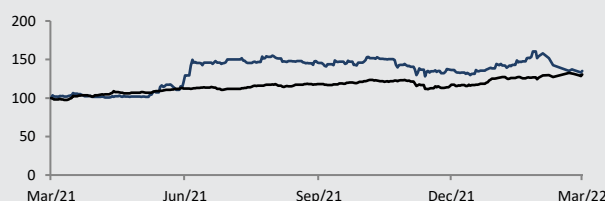
Bloomberg code	SAUDIRE AB
Market index	KSA
Target Price	23.5
Upside (%)	37.9

Market data 3/20/2022

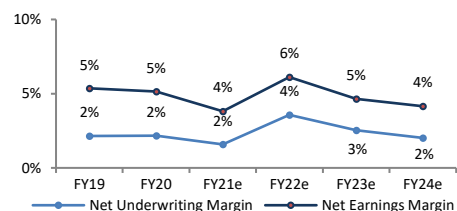
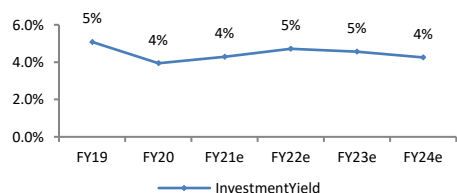
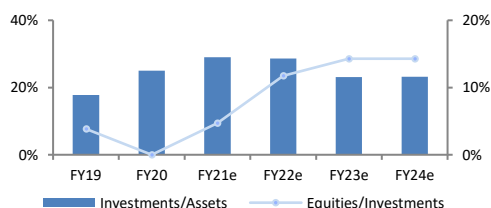
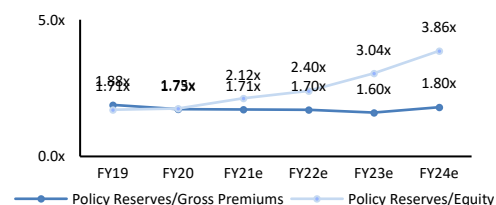
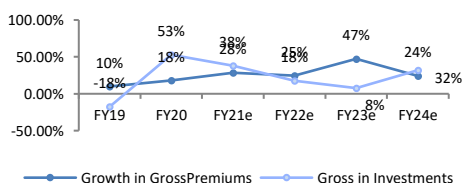
Last closing price	17.0
52 Week range	12.7-20.5
Market cap (SAR m)	1,516
Market cap (USD m)	404
Average Daily Traded Value (SAR m)	11.0
Average Daily Traded Value (USD m)	3.0
Free float (%)	95%

Year-end (local m)	2020	2021e	2022e	2023e
Gross Written Premiums	935	1,200	1,494	2,201
Underwriting Profit	69	81	124	143
EPS	0.54	0.51	1.03	1.15
P/E (x) (market price)	33.7	35.4	17.7	15.8
BVPS	10.36	10.87	11.90	13.05
Tangible BVPS	8.68	9.31	10.48	11.38
P/B (x) (market price)	1.8	1.7	1.5	1.4
P/TBVPS (x) (market price)	2.1	2.0	1.7	1.6
DPS	-	-	-	-
Div. yield (%)	-	-	-	-
RoAA (%)	1.7	1.4	2.3	1.9
RoAE (%)	5.4	4.8	9.0	9.2
Investments/Assets (%)	25.1	29.0	28.6	23.1
Investment Yield (%)	3.9	4.3	4.7	4.6
Net Loss Ratio	60.6	66.3	66.4	66.4
Combined Ratio	96.4	97.6	94.0	94.5
Underwriting Profit Margin	2.2	1.6	3.6	2.5
Net Profit Margin	5.1	3.8	6.1	4.7
Policy Reserves/Equity	175.1	212.3	240.1	303.6

Price Performance



Abacus Arqaam Capital Fundamental Data

Profitability

Investment Yield

Investment Exposure

Solvency ratios & reserve adequacy

Growth

SAUDI RE

Year-end	2019	2020	2021e	2022e	2023e	2024e
Performance analysis						
Cession Ratio	16.1	14.2	14.2	15.1	20.7	22.8
Net Loss Ratio	64.9	60.6	66.3	66.4	66.4	65.9
Expense Ratio	32.2	35.9	31.2	27.6	28.1	29.0
Combined Ratio	97.2	96.4	97.6	94.0	94.5	94.9
Underwriting Profit Margin	2.1	2.2	1.6	3.6	2.5	2.0
Investment Yield	5.1	3.9	4.3	4.7	4.6	4.2
Net Margin	5.4	5.1	3.8	6.1	4.7	4.2
RoAE	5.0	5.4	4.8	9.0	9.2	9.3
RoAA	1.7	1.7	1.4	2.3	1.9	1.6
Net Premiums/Equity	0.7	0.7	0.9	0.9	0.9	0.9
Gross Premiums/Equity	0.9	1.0	1.2	1.4	1.9	2.1
Claims Reserve/NPE	1.7	1.6	1.4	1.4	1.3	1.3
Investment Income/Total Income	30.0	28.5	34.8	28.2	26.5	27.2

Year-end	2019	2020	2021e	2022e	2023e	2024e
Investment Exposure						
Investments/Assets	17.8	25.1	29.0	28.6	23.1	23.2
Equities/Investments	3.8	-	4.7	11.8	14.3	14.3
Equity/Assets (%)	34.1	33.2	29.2	26.8	22.1	18.4

Year-end	2019	2020	2021e	2022e	2023e	2024e
Liquidity/Leverage						
Policy Reserves/Gross Premiums	1.9	1.7	1.7	1.7	1.6	1.8
Policy Reserves/Net Earned Premiums	2.3	2.5	2.4	2.7	3.3	4.3
Policy Reserves/Equity	1.7	1.8	2.1	2.4	3.0	3.9
Debt/Capital	-	-	-	-	-	-
Debt/Equity (x)	-	-	-	-	-	-

Year-end	2019	2020	2021e	2022e	2023e	2024e
Growth						
Gross Premiums	9.9	17.9	28.3	24.5	47.3	24.0
Net Earned Premiums	4.7	0.7	33.6	7.9	14.2	6.8
Investments	(17.6)	52.9	38.2	17.7	7.6	32.1
Assets	9.2	8.4	19.4	19.2	33.2	31.6
Total Reserves	8.8	8.1	27.2	23.8	38.7	39.4
Equity	5.1	5.5	5.0	9.4	9.7	9.7

Year-end	2019	2020	2021e	2022e	2023e	2024e
Valuation						
P/B(x) (current price)	1.9	1.8	1.7	1.5	1.4	1.3
P/B(x) (target price)	2.4	2.3	2.2	2.0	1.8	1.6
P/E(x) (current price)	38.2	33.7	35.4	17.7	15.8	14.3
P/E(x) (target price)	49.3	43.5	45.7	22.9	20.4	18.5

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 investors 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 an AA rating from Tasneef (local rating agency). Its portfolio is now well diversified geographically and across all lines of business.

Key Drivers:

- 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 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 non-existent 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	2019	2020	2021e	2022e	2023e	2024e
Income statement (mn)						
Gross Written Premiums	792.8	935.1	1,199.9	1,493.9	2,200.9	2,728.9
Ceded Premiums	146.2	162.5	197.9	255.5	486.6	654.1
Retained Premiums	646.6	772.6	1,002.0	1,238.4	1,714.3	2,074.9
Movement in Unearned Premiums	4.1	125.5	137.3	299.9	642.6	930.1
Net Premiums Earned	642.5	647.1	864.7	933.3	1,065.8	1,137.7
Commissions paid	172.8	194.7	225.4	203.9	240.7	262.4
Net commissions	(154.6)	(182.0)	(205.6)	(183.3)	(206.7)	(218.5)
Other underwriting expenses	3.6	4.0	4.7	5.7	7.9	9.5
Changes in technical reserves	-	-	-	-	-	-
Net Claims	417.1	392.0	573.7	620.1	707.9	749.9
Underwriting Profit	67.2	69.1	80.7	124.2	143.3	159.8
Investment Income	47.2	38.3	48.0	63.5	76.4	91.9
Other operating income	1.0	6.7	1.0	1.0	1.1	1.1
Investment & other income	-	-	-	-	-	-
Interest Expense	-	-	-	-	-	-
General & Administrative	50.2	48.9	61.7	70.9	87.7	104.5
Operating Profit	65.2	65.3	68.0	117.9	133.1	148.3
Distribution of surplus	(3.5)	(3.4)	(3.4)	(5.9)	(6.7)	(7.4)
Other income/(loss)	(2.4)	(1.1)	(2.6)	(3.4)	(5.0)	(6.5)
Tax	13.9	14.8	16.2	17.2	19.0	21.1
Minority Interest	-	-	-	-	-	-
Net Income	45.4	45.9	45.8	91.4	102.4	113.3
Reported EPS	0.48	0.54	0.51	1.03	1.15	1.27

Year-end	2019	2020	2021e	2022e	2023e	2024e
Balance sheet (mn)						
Cash	13.2	13.2	245.3	398.5	735.8	1,182.3
Intangible Assets	-	-	-	-	-	-
Reinsurance Contract Assets	368.4	272.3	449.2	576.6	847.8	1,234.9
Investment Properties	-	-	-	-	-	-
Investments	455.3	696.1	962.3	1,132.8	1,218.4	1,609.9
Associates	101.4	120.1	126.1	132.5	139.1	146.0
Insurance Receivables	818.5	1,050.2	1,095.2	1,196.5	1,444.5	1,670.1
Fixed Assets	33.6	33.6	32.0	30.4	28.9	27.5
Other Assets	772.9	593.1	408.7	487.6	852.0	1,061.8
Total Assets	2,563.3	2,778.7	3,318.7	3,955.0	5,266.6	6,932.4
Short-term Insurance Contract Liabilities	1,092.5	1,067.7	1,197.1	1,266.5	1,351.5	1,441.5
Long-term Policyholder Liabilities	402.0	548.5	859.5	1,279.4	2,179.0	3,481.1
Debt	-	-	-	-	-	-
Insurance Payables	123.8	146.3	223.2	278.8	503.4	663.8
Other Liabilities	70.0	93.0	69.9	69.9	69.9	69.9
Total Liabilities	1,688.3	1,855.5	2,349.7	2,894.6	4,103.8	5,656.3
Shareholders Equity	875.1	923.2	968.9	1,060.3	1,162.8	1,276.1
Minority Interest	-	-	-	-	-	-
Total Equity	875.1	923.2	968.9	1,060.3	1,162.8	1,276.1
BVPS	9.82	10.36	10.87	11.90	13.05	14.32

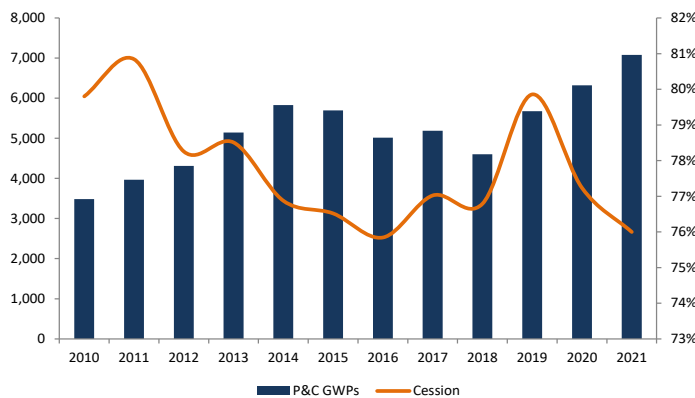
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Deep value play on IDI, with rising interest rate environment acting as the key ST catalyst

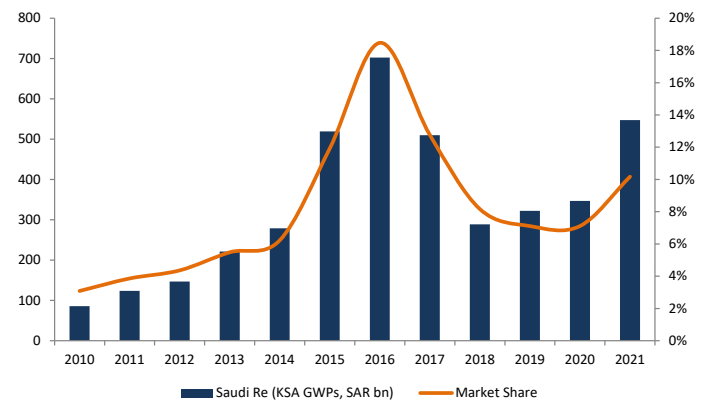
SAMA cracks down on international ceded capital, and requests insurers to gradually increase compulsory cessation rates to 30% by FY 25e (+5ppts/year). We increase Saudi Re's home M/S to 24% by FY 25e (from 14% in FY 22e) and raise our GWP CAGR in KSA by 10ppts to 26% through FY 22-30e. Saudi Re's local M/S significantly improved to 10.2% in FY 21e (vs. 7.1% in FY 18-19A), as the reinsurer benefited from the global hardening of reinsurance prices and reduced reinsurance capacity in the region. SAMA's enhanced oversight should overcome two key obstacles (in our view): i) the inability for insurers to selectively offer the less attractive policies to Saudi Re, and the ii) concentration of contract offers within a specific risk pool.

Exhibit 1: KSA – P&C Ceded Premiums vs NLR



Source: Company Data, Arqaam Capital Research

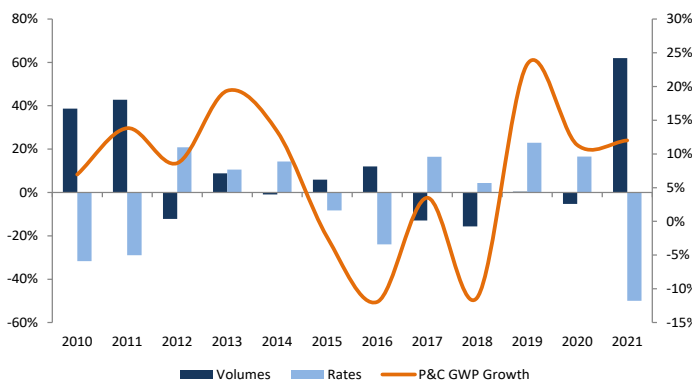
Exhibit 2: KSA – P&C ceded premiums vs. Saudi Re M/S



Source: Company Data, Arqaam Capital Research

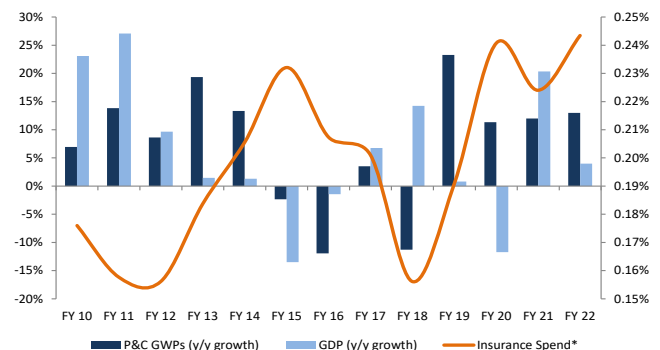
Brightening underwriting outlook for Saudi Re in FY 22-23e, driven by i) the spillover of higher reinsurance rates (yet to be reflected), ii) reinforced compulsory cessations rates (30%) by SAMA, iii) high profile changes to regional reinsurance capacity, and iv) enhanced risk screening procedures. MENA regional reinsurers typically act as "followers" in reinsurance structures, and as such are likely set to benefit from higher lead terms dictated by international participants. Moreover, and since FY 18A, there has been an ongoing reduction of reinsurance capacity in the MENA region, with Trust International Insurance and Reinsurance Company (TRUST RE) and Arab Insurance Group (ARIG) being the latest high profiles to enter run-off as of Aug-18A.

Exhibit 3: KSA – P&C policies vs rate/policies



Source: Company Data, Arqaam Capital Research

Exhibit 4: KSA – P&C vs. GDP y/y growth vs. Insurance Spend



*Insurance spend = P&C GWPs (ex. motor) / GDP

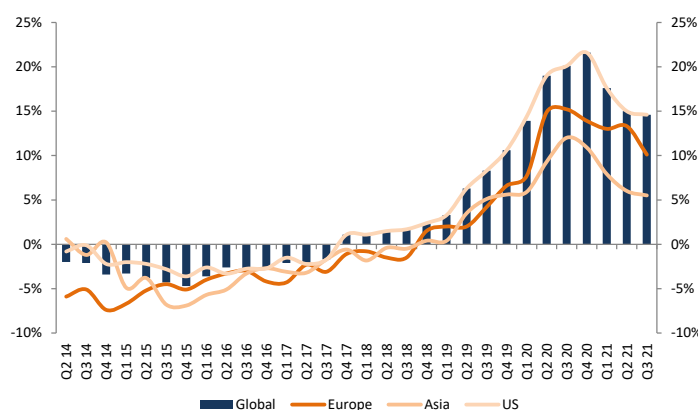
Source: Company Data, Arqaam Capital Research

Hardening reinsurance prices and heightened regulatory oversight to act as tailwinds for UW income in FY 22e and beyond

We expect the global tightening of UW cycles to be sustained through FY 22e, driven by i) rising loss cost inflation (i.e., social/global economic inflation), ii) lower investment returns, iii) rising frequency of catastrophic events, iv) increased cession rates by primary insurers (ex-MENA), and v) heightened prudence by third-party capital providers (i.e. NatCat bonds) – following 5 years of significant catastrophic events.

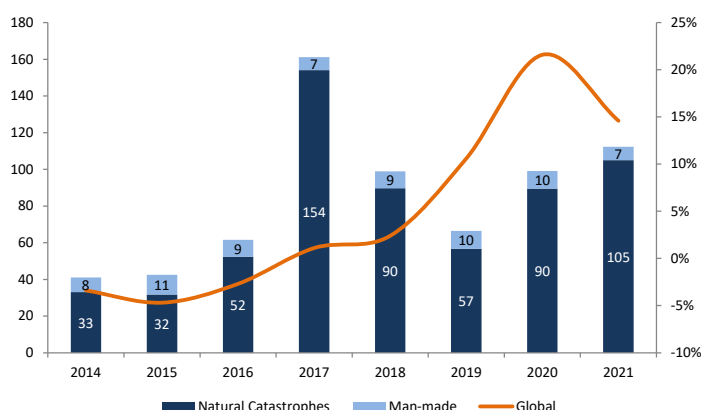
We see a confluence of structural events that have triggered the hardening of reinsurance prices. Primarily, i) insurable losses (NatCats) are on the rise post-FY 17A (USD 99bn avg FY 17-21A vs. USD 39bn avg FY 12-16A) – (Exhibit 6:), ii) worsening economic inflation (Exhibit 7:), and iii) reduced attractiveness of insurance-Linked Securities (ILS). Concomitantly, NatCat bond issuance is on the decline with investors requesting higher loss multiples (Exhibit 8:).

Exhibit 5: Global reinsurance pricing index



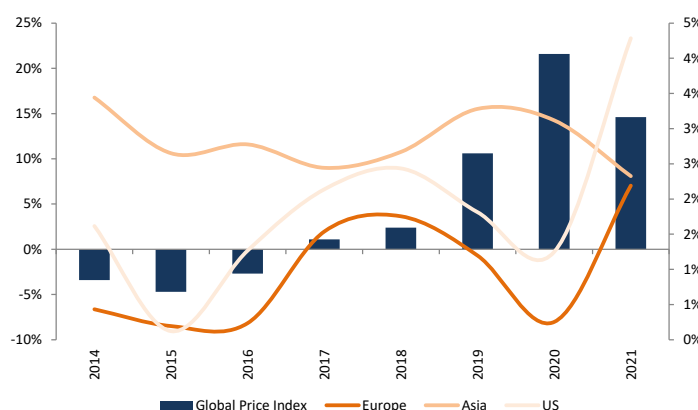
Source: Marsh, Arqaam Capital Research

Exhibit 6: Insurable losses vs Global reinsurance pricing index



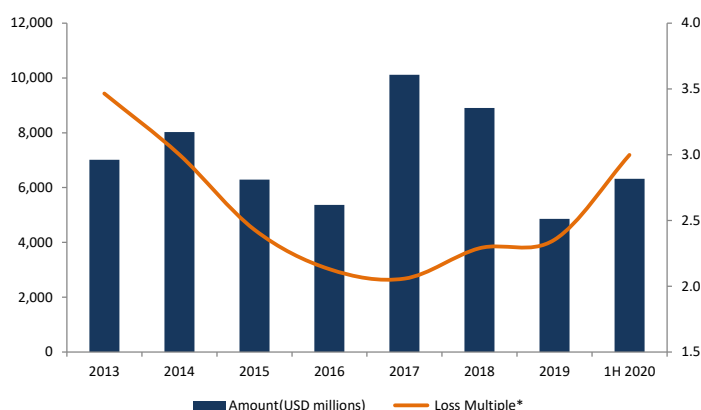
Source: Sigma-SwissRe, Marsh, Arqaam Capital Research

Exhibit 7: Global reinsurance pricing index vs inflation



Source: Marsh, IMF, Arqaam Capital Research

Exhibit 8: NatCat bond issuances vs. Loss multiples



*Loss Multiple = (Bond Spread – Expected Losses)/Expected Losses

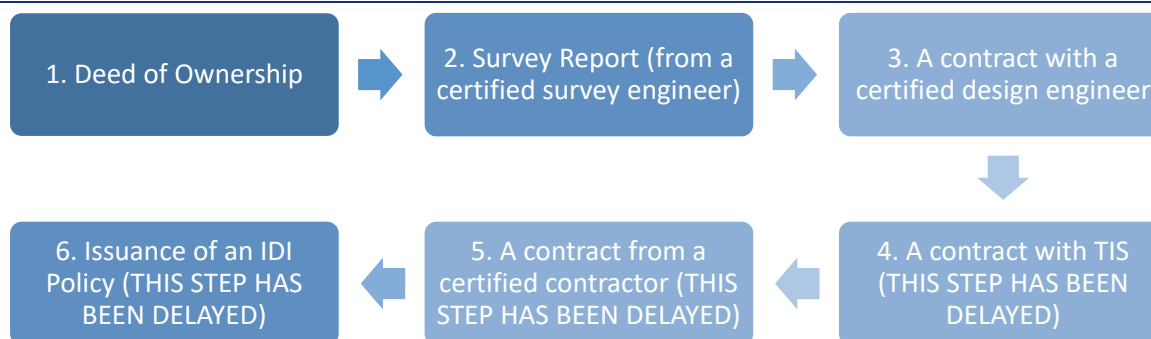
Source: AM Best data and research, Arqaam Capital Research

IDI is off to a slow start as contractors/developers are overwhelmed by the new Saudi Building Code (SBG) requirements

Ministry of Municipality and Rural Affairs (MoMRA) temporarily rolls back the stringent requirements for building permits, as new issuances post July-21A come to a complete halt ([link](#)). Following the SBG promulgation in July-21A ([link](#)), MoMRA launched its portal (Balady – [link](#)) as the new centralized submission platform for all building permit requests (vs. the traditional filing of paperwork at municipalities). Furthermore, MoMRA preordained a list of 6 additional requirements ([link](#)) to be present before submission (i.e. a certificate for clean energy from MoE, earthquake and fire certificates, etc.) and planned on utilizing IDI and the Technical Inspection Supervisors (TIS) as the enforcement mechanism for the updated SBG (for more details on TIS and IDI, please check [link](#) p.10).

MoMRA revisited its decisions after the ramifications whipsawed across multiple sectors (i.e. construction, cement, housing, etc. - [link](#)), and public backlash noticeably increased on social media. Concomitantly, MoMRA minimized the prerequisites for building permits to just i) a survey report, ii) a deed of ownership, and iii) the presence of a certified contractor/developer ([link](#)). Moreover, MoMRA delayed the application for an active IDI policy till after the issuance of the building permits, and to be aligned with the construction period instead.

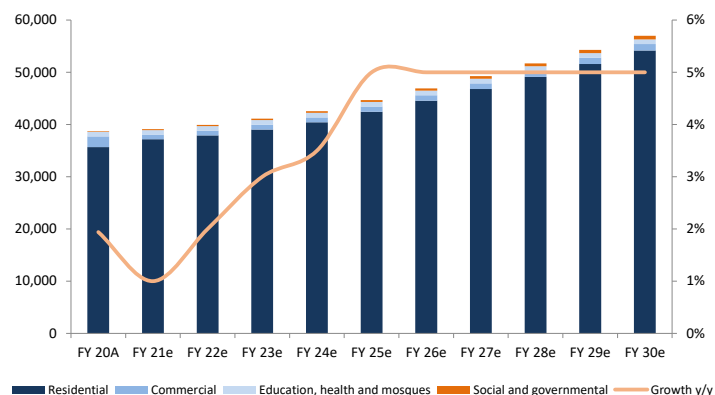
Exhibit 9: MoMRA's updated building permit requirements



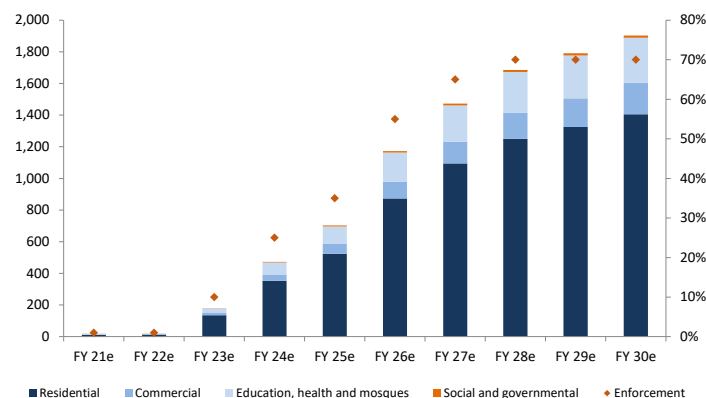
Source: Balady.gov.sa, Company Data, Arqaam Capital Research

We trim our estimates of the IDI market to just SAR 10m-1.6bn in FY 22-30e (vs. SAR 70m-3.2bn previously). We now see additional enforcement challenges under the new mechanism and expect compliance rates to drop to 70% (vs. 92% previously). However, we rule out the possibility for MoMRA scrapping the entire IDI program, given its necessity for implementing the SBG as the primary Vision 2030 target, and the high sunk costs incurred.

We stress-test Saudi Re's valuations against a smaller IDI market size and find current valuations as justified even under an LT value of SAR 475m by FY 30e, (or 25% of our base estimates). Nonetheless, we would expect Saudi Re to deploy some of its freed-up capital in the local market (increasing its M/S to +32% by FY 25e vs. 24% currently - Exhibit 12:).

Exhibit 10: Breakdown of Building Permit issuances


Source: MoMRA, Company Data, Arqaam Capital Research

Exhibit 11: IDI market size vs Enforcement Rates


Source: Company Data, Arqaam Capital Research

Exhibit 12: Stress testing the IDI market at 25%, 50%, and 80% of our base case

SAR 000's	Scenario 1	Scenario 2	Scenario 3	Base Case
IDI Market Size FY 30e	472,294	944,588	1,511,340	1,889,175
Saudi Re FY 30e GWPs	2,518,908	3,018,908	3,518,908	3,908,083
GWP FY 22-30e CAGR	8.9%	11.4%	13.6%	15.1%
UW income	298,597	344,638	389,870	424,746
% of total	68.6%	68.0%	68.9%	70.1%
Investment Income	136,976	162,512	175,648	180,810
% of total	31.4%	32.0%	31.1%	29.9%
TP	19	20	21	23
ROE 30e	10.1%	11.5%	12.6%	13.5%

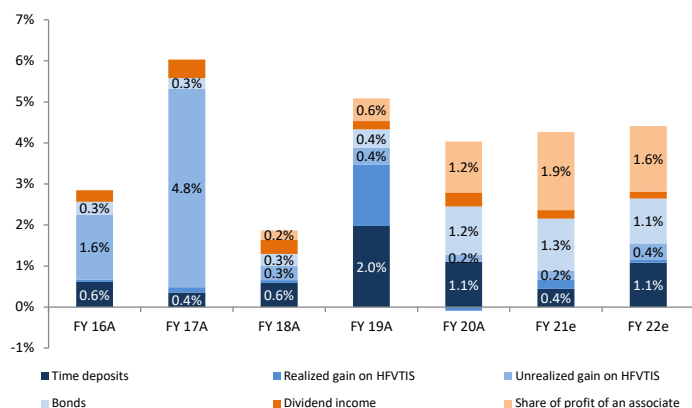
Source: Company Data, Arqaam Capital Research

Reinsurance float back in the limelight as investment yields are now driven by higher interest rates and long-tail IDI premiums

We expect Saudi Re's investment yields to gradually level off to 4.0% by FY 30e (vs. 4.4% currently), while contribution to RoE 30e normalizes to 57% (vs. 110% in FY 21e). Saudi Re's investment book is locally domiciled, with the lion's share allocated to money market funds (41%), investment funds (12.9%), and Probitas (11.5%). Saudi Re gradually reduced its reliance on time deposits to 13.0% in FY 21e (vs. 33.3% avg FY 18-20A), as it mitigated the impact of lower Saibor.

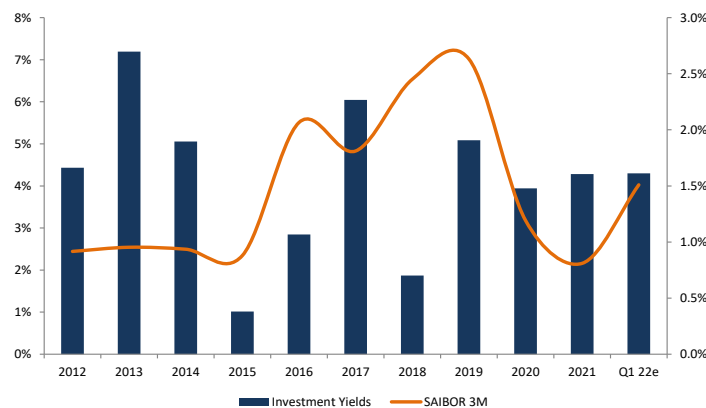
We expect the duration of Saudi Re's investment portfolio to increase to 1.7 years through FY 24e (vs. 0.9 years currently), with long-tail IDI premiums yielding 3.7% per annum, in our view. Saudi Re can benefit from IDI's long tail business to extend the maturity of its time deposits, especially during the construction period where risk coverage is absent (2-3 years). Concomitantly, we expect Saudi Re's IDI deposit yields to increase to 3.7% in FY 22e and beyond (vs. 0.9% in FY 21e), as it locks in deposits for 2-3 years. We note, that despite Saudi Re's effective deposit rate of 3.11% per annum (FY 20A), it could only realize a yield of 1.1%.

Exhibit 13: Breakdown of Saudi Re's Investment Yields



Source: Millerman, IMF, Arqaam Capital Research

Exhibit 14: Investment yields vs. Saibor



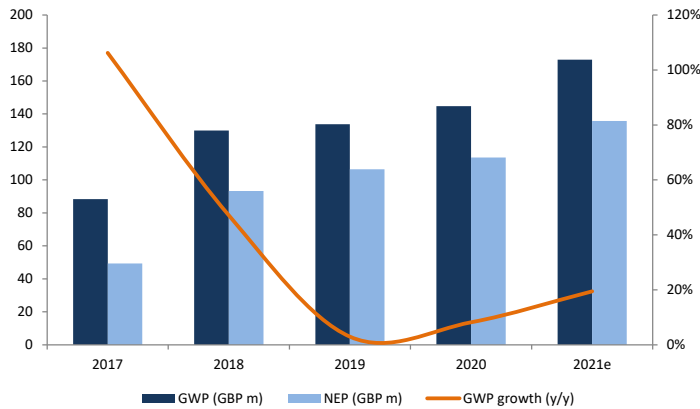
Source: Company Data, Arqaam Capital Research

Probitas (Lloyd's syndicate 1492) – Saudi Re's most profitable venture

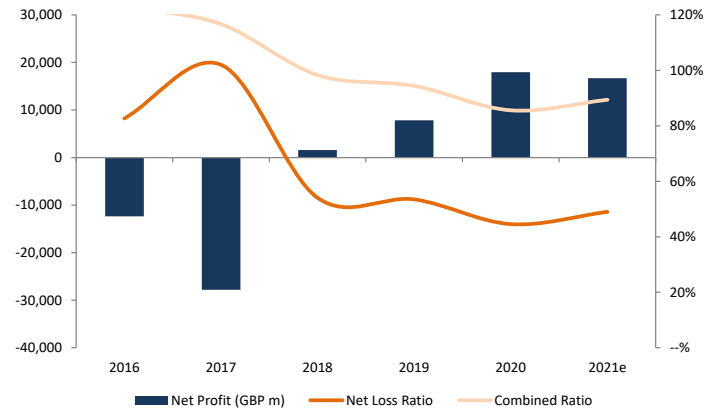
Probitas remains a key catalyst for Saudi Re with the potential of boosting GWPs by SAR 870.5m if consolidated. Saudi Re's initial stake in Probitas 49.9% (SAR 94m - Oct-17A) has already contributed SAR 41m in associate income, while the reinsurer has also benefited from related party transactions to UW specialty premiums of SAR 218m in FY 21e (up from SAR 115m in FY 20A). Nonetheless, Saudi Re's call option expires at YE 23e, and the reinsurer will have to decide on whether to i) acquire the remainder of the 51.1% stake, ii) divest its current investment, iii) or partner with a new MGA.

The acquisition of the remaining stake (51.1%) could boost Saudi Re's GWPs by SAR 870.5m (72.9% of FY 21e GWPs, Exhibit 15:) and UW income by SAR 84.0m (127% of FY 21e UW, Exhibit 16:) as it consolidates its financials.

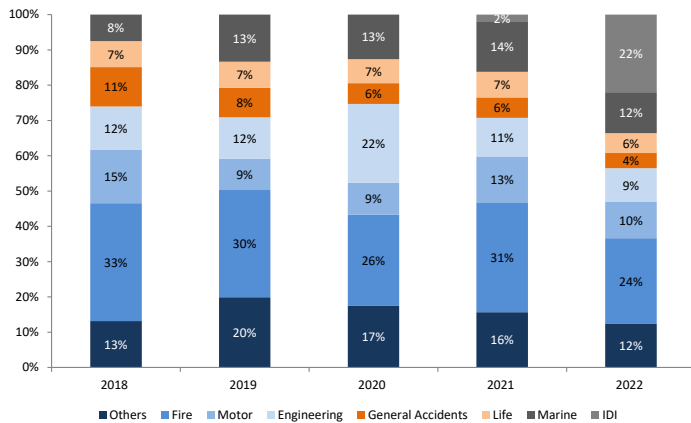
We expect realized investment gains of SAR 478-565m if Saudi Re divests its 49.9% stake in Probitas, in our view. Lloyd's syndicates are generally valued at multiple of their GWPs, while Probitas managed to grow its portfolio by 95.9% since Saudi Re's acquisition in FY 17A. Nonetheless, we do not expect a full sale, due to benefits from i) international footprint in both Lloyd's and Bermuda markets, ii) and technical UW support for specialty P&C policies.

Exhibit 15: Probitas GWPs – CAGR of 32% in FY 16-21e


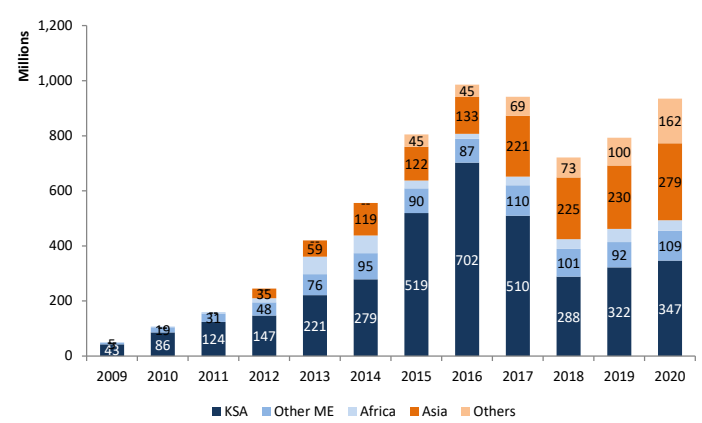
Source: Probitas Syndicate 1492, Company Data, Arqaam Capital Research

Exhibit 16: Probitas UW income – CR improved 37ppts to 89%


Source: Company Data, Arqaam Capital Research

Exhibit 17: Breakdown of GWPs – LT growth driven by IDI


Source: Probitas Syndicate 1492, Company Data, Arqaam Capital Research

Exhibit 18: Breakdown of GWPs – Growth to be locally driven


Source: Company Data, Arqaam Capital Research

Exhibit 19: Saudi Re changes of estimates table:

	FY 21e			FY 22e			FY 23e			FY 24e		
	New	Old		New	Old		New	Old		New	Old	
Gross Written Premiums	1,200	1,217	(1.4%)	1,494	1,483	0.8%	2,201	2,184	0.8%	2,729	2,706	0.9%
Net Premiums Earned	865	786	10.0%	933	922	1.3%	1,066	1,050	1.5%	1,138	1,118	1.7%
Net commissions	(206)	(185)	11.0%	(183)	(181)	1.1%	(207)	(205)	1.0%	(218)	(217)	0.8%
Net claims incurred	574	522	10.0%	620	613	1.1%	708	692	2.2%	750	732	2.5%
Underwriting Income	81	74	8.8%	125	122	2.3%	143	145	(1.4%)	160	160	(0.3%)
Investment & other income	49	49	(0.9%)	68	58	18.5%	78	62	24.7%	93	66	40.1%
Operating Profit	68	66	3.0%	122	111	10.3%	133	129	2.9%	148	143	3.5%
NP before Z&T	62	60	3.2%	113	102	10.6%	122	118	2.8%	134	130	3.2%
Net Income	46	44	4.4%	96	85	12.7%	102	99	3.1%	113	109	3.5%
	0.4	0.4		0.8	0.7		0.8	0.8		0.9	0.9	
Ratios												
Net Claims Ratio	66.3%	66.4%	(0.0%)	66.4%	66.5%	(0.1%)	66.4%	65.9%	0.5%	65.9%	65.4%	0.5%
Expense Ratio	31.2%	31.2%	(0.0%)	27.5%	27.4%	0.1%	28.1%	27.4%	0.7%	29.0%	27.4%	1.6%
Net Profit Margin	3.8%	3.6%	0.2%	6.4%	5.7%	0.7%	4.7%	4.5%	0.1%	4.2%	4.0%	0.1%
GWP/Equity	1.2x	1.3x	(2.1%)	1.4x	1.4x	(0.6%)	1.9x	1.9x	(1.1%)	2.1x	2.1x	(1.5%)
RoAE	4.8%	4.6%	0.2%	9.4%	8.4%	1.0%	9.2%	9.0%	0.2%	9.3%	9.1%	0.2%
Growth												
Gross Premiums	28%	30%	(1.9%)	25%	22%	2.7%	47%	47%	0.0%	24%	24%	0.1%
Net Earned Premiums	34%	21%	12.2%	8%	17%	(9.4%)	14%	14%	0.3%	7%	6%	0.3%
TP	27.5	22.5	22.6%									

Source: Company Data, Arqaam Capital Research

Exhibit 20: Saudi Re's Valuation Table:

	2019A	2020e	2021e	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	perp	subtotal	% of total
1. DCF															
Net profit	42,423	48,109	45,767	91,388	102,449	113,284	106,111	122,842	157,700	291,203	377,778	406,952	406,952		
Other adjustments (comprehensive income)	--	--	--	--	--	--	--	--	--	--	--	--	--		
Minus: excess return excess capital	12,464	12,489	11,572	11,064	9,537	8,845	2,315	2,365	3,789	8,542	15,342	22,739	22,739		
Return on excess capital	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%		
Tax shelter	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%		
Adjusted net profit	29,960	35,619	34,195	80,325	92,912	104,439	103,795	120,478	153,911	282,661	362,436	384,212	384,212		
Capital requirements	298,295	345,335	439,138	558,265	727,300	869,465	1,237,315	1,355,068	1,452,232	1,545,510	1,640,879	1,740,682	1,740,682		
RoTEC	10.0%	10.3%	7.8%	14.4%	12.8%	12.0%	8.4%	8.9%	10.6%	18.3%	22.1%	22.1%	22.1%		
Cost of capital	10.1%	10.1%	10.1%	10.1%	10.1%	10.1%	10.1%	10.1%	10.1%	10.1%	10.1%	10.1%	10.1%		
Capital charge	30,247	35,017	44,529	56,608	73,748	88,164	125,464	137,404	147,256	156,715	166,385	176,505	176,505		
Economic profit	(288)	602	(10,334)	23,716	19,164	16,276	(21,668)	(16,926)	6,655	125,946	196,051	207,707	207,707		
Discount factor			1.00	0.91	0.82	0.75	0.68	0.62	0.56	0.51	0.46	0.42	0.38		
NPV of Economic Profit			(10,334)	21,533	15,798	12,182	(14,725)	(10,443)	3,728	64,057	90,533	87,086	87,086		
DCF EVA Forecast period															
Perpetual growth rate (GDP)														259,415	2.0%
Terminal Value														2,551,687	
Terminal value discounted															971,352
Required Capital															345,335
Value of the bank operations														1,576,103	75.4%
2. Capital surplus/deficit															
Available capital:															
Shareholders equity	875,071	923,179	968,947	1,060,335	1,162,784	1,276,068	1,382,179	1,505,021	1,662,721	1,953,924	2,331,702	2,738,654	2,738,654		
Less Goodwill & intangibles	62,816	62,816	52,598	45,841	42,210	41,869	49,385	52,444	54,252	56,155	58,158	60,270	60,270		
Less dividends															
Tangible equity	812,255	860,364	916,349	1,014,494	1,120,574	1,234,199	1,332,794	1,452,577	1,608,469	1,897,770	2,273,544	2,678,384	2,678,384		
Capital needs															
Net Written Premium (NWP)	597,548	722,834	944,896	1,174,421	1,647,855	2,005,444	3,035,234	3,222,230	3,339,851	3,464,452	3,596,549	3,736,400	3,736,400		
Technical reserves	31,682	30,963	34,716	36,730	39,193	41,803	44,540	47,477	50,666	54,983	59,796	64,825	64,825		
Equity investments	17,461	--	45,348	133,269	174,062	229,979	333,278	441,355	549,140	644,189	738,113	835,398	835,398		
Claims provision	774,953	867,218	993,439	1,055,452	1,126,246	1,201,238	1,279,883	1,364,273	1,455,915	1,579,970	1,718,278	1,862,776	1,862,776		
Associates	101,446	120,141	126,148	132,456	139,078	146,032	153,334	161,001	169,051	177,503	186,378	195,697	195,697		
Equity as % NEP	35.2%	35.9%	35.7%	36.1%	36.6%	36.8%	37.2%	37.2%	37.2%	37.2%	37.2%	37.2%	37.2%		
Equity as % Technical reserves	4.0%	4.0%	4.0%	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%	50.0%	50.0%	50.0%		
Equity as % of claims reserves	35.2%	35.2%	35.2%	35.2%	35.2%	35.2%	35.2%	35.2%	35.2%	35.2%	35.2%	35.2%	35.2%		
Equity as % of associates	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%		
Capital Requirements	298,295	345,335	439,138	558,265	727,300	869,465	1,237,315	1,355,068	1,452,232	1,545,510	1,640,879	1,740,682	1,740,682		
Surplus capital	513,961	515,028	477,211	456,229	393,274	364,735	95,479	97,509	156,237	352,260	632,665	937,702	937,702	515,028	24.6%
3. Other adjustments															
Total adjustments															
4. Dividends															
Total Fair Value															2,091,131
Number of shares															89,100
Conversion mandatory convertibles															--
Fully diluted number of shares															89,100
Fair value per share															23.5
Current share price															18.2
Upside															29.0%
Implied P/E	49.3x	43.5x	45.7x	22.9x	20.4x	18.5x	19.7x	17.0x	13.3x	7.2x	5.5x	5.1x	5.1x		
Implied P/B	2.4x	2.3x	2.2x	2.0x	1.8x	1.6x	1.5x	1.4x	1.3x	1.1x	0.9x	0.8x	0.8x		

Source: Company Data, Arqaam Capital Research

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