Oman Insurance Sector

11 Oct 2023

Company	Rating
Oman Qatar Insurance (OQIC)	Hold
National Life & General Insurance (NLIF)	Accumulate
Oman United Insurance (OUIC)	Accumulate
Al Madina Takaful (AMAT)	Accumulate

- **Low insurance penetration rate provides huge growth opportunities**
- **Gross Written Premiums (GWP) are expected to grow, driven by mandatory health insurance, amid favorable demographics**
- **Hardening of the reinsurance market may encourage insurers for higher retentions**
- **Loss ratio likely to normalize on lower claims and growing GWP**
- **Investment income, a major earnings contributor, continues to improve on decent investment yield and growing increasing investment book**

We review our coverage of Oman Insurance Sector with four names in focus: Oman Qatar Insurance, National Life Insurance, Oman United Insurance, and Al Madina Takaful. The insurance sector has seen a recovery in 2022 driven by growth in GWP, better loss ratio, and growing investment income. The much-needed regulatory enforcement (mandatory health insurance for private-sector employees as well as tourists) will likely play an important role in the sector's recovery. In addition, rising general awareness about insurance products post-pandemic gives a favorable outlook for the sector. We have used a combination of three valuation methodologies (DDM (40% weightage), Residual Income (40% Weightage) and relative P/B (20% weightage)

- **Low insurance penetration is a strong tailwind for the sector.** The Omani Insurance market has one of the lowest penetration rates, which provides for a huge growth potential. Government initiatives, growing population, and likely improvement in disposable income for locals due to Omanization can increase the penetration rate in the sector. Further, rising awareness about the importance of insurance after COVID-19, and the growing digitalization of insurance products would drive the penetration higher.
- **Mandatory health insurance can boost sector growth in future.** The Omani government has announced compulsory health insurance (Dhamani scheme) for all the employees (including dependents) working in the private sector, as well as for inbound tourists. This will likely cover over 5mn people (including ~2mn private sector employees and their family members) in a phased manner. Adoption of the scheme should fuel the growth of the medical insurance segment significantly, and drive the sector's top-line going forward, given its healthy GWP share.
- **Consistent growth of investment income and better claim management to drive bottom line.** The sector is expected to see decent growth in investment income led by diversified investment book. For few companies under our coverage investment portfolio has increased led by acquisitions which will boost investment income in future. Sector has also witnessed a recovery in earnings with the loss ratio normalizing gradually near its pre-pandemic year driven-by lower claims.

Name	Last Px (SAR)	Target Price (SAR)	Upside / (Downside) (%)	P/E'23e, (x)	P/B'23e, (x)	ROE'23e, (%)	Cash Div Yield, %
NLIF	0.335	**0.380**	13.4%	15.3	1.0	3.3%	0.0%
OQIC	0.170	**0.183**	7.5%	6.8	0.7	13.3%	3.0%
OUIC	0.270	**0.310**	15.0%	8.4	0.9	10.7%	7.2%
Al Madina Takaful	0.087	**0.097**	11.3%	9.2	0.7	7.2%	8.6%
Average				**9.9**	**0.8**	**8.6%**	**4.7%**

Source: Bloomberg, U Capital Research, valued as of 11 October 2023

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Oman Insurance Sector

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Valuation

We have used DDM (40% weightage), residual Income (40% weightage) and P/B multiple (20% weightage). For DDM and Residual Income, we have used a 5-year explicit forecast period (2023-27) and afterward have assumed a 2% terminal growth rate. We then calculated the present value of future cash flows/dividends (Enterprise Value/Fair Value) using the cost of equity (Ke).

For the relative valuation, we have taken the median of P/B, TTM multiples of relevant peers and then the multiples are multiplied by the forecasted FY23e BVPS.

Valuation

	NLIF	OQIC	OUIC	AMAT
(Currency)	OMR	OMR	OMR	OMR
DDM (40% Weight)				
PV of Dividends (mn)				
Sum of PV of Dividends (Year 1 to 5)	10,243	4,510	8,172	5,634
Terminal	155,054	26,027	30,770	17,503
Total PV of Excess Returns	121,628	18,442	21,340	11,925
Equity Value (mn)	131,871	22,952	29,512	17,559
Target Price	0.442	0.142	0.295	0.100
Residual Income (40% Weight)				
PV of Residual Income (mn)				
Sum of PV of Residual Income (Year 1 to 5)	-10,695	2,781	1,453	-1,683
Terminal	26,393	10,321	4,619	-4,227
Total PV of Terminal Value	20,703	7,313	3,203	-2,880
Equity Value (mn)	120,415	30,869	32,509	16,807
Target Price	0.302	0.191	0.325	0.096
Assumptions				
Risk Free Rate (%)	6.17%	6.17%	6.17%	6.17%
Adj. Beta	0.41	0.589	0.725	0.842
Risk Premium (%)	3.90%	3.90%	3.90%	3.90%
Cost of Equity (COE) (%)	7.77%	8.48%	9.01%	9.47%
Outstanding Shares (mn)	398	161	100	175
P/B Based Relative Valution (20% weight)				
Target multiple for 2023e	1.41	1.05	1.04	0.72
BVPS 2023e	0.291	0.235	0.301	0.128
Target Price	0.41	0.246	0.312	0.092
Weighted Average Target Price	0.380	0.183	0.310	0.097
Current Market Price	0.335	0.170	0.27	0.087
Upside/(Downside), %	13.4%	7.5%	15.0%	11.3%
Recommendation	Accumulate	Hold	Accumulate	Accumulate

Source: Company Financials, Bloomberg, U Capital Research

Sensitivity Analysis

Our DDM TP for **OQIC** is not sensitive to +/- 0.25% changes to terminal growth or in CoE assumptions. Our P/B-based TP is slightly sensitive to +/-0.10x changes in the target multiple, affecting our TP by ~+/-2.6% with every change.

OQIC

		Terminal Growth Rate				
		1.50%	**1.75%**	**2.00%**	**2.25%**	**2.50%**
	7.98%	0.193	0.196	0.200	0.203	0.207
	8.23%	0.185	0.188	0.191	0.194	0.197
CoE	**8.48%**	0.178	0.180	**0.183**	0.185	0.188
	8.73%	0.171	0.173	0.175	0.178	0.180
	8.98%	0.164	0.166	0.168	0.170	0.172

		Book Value				
		0.04	**0.14**	**0.24**	**0.34**	**0.44**
	0.85x	0.140	0.156	0.173	0.190	0.207
	0.95x	0.140	0.159	0.178	0.197	0.216
P/B Multiple	**1.05x**	0.141	0.162	**0.183**	0.204	0.225
	1.15x	0.142	0.165	0.187	0.210	0.233
	1.25x	0.142	0.167	0.192	0.217	0.242

Our DDM TP for **NLIF** is not sensitive to +/- 0.25% changes to terminal growth or in CoE assumptions. Our P/B-based TP is slightly sensitive to +/-0.10x changes in the target multiple, affecting our TP by +/-1.5% with every change.

NLIF

		Terminal Growth Rate				
		1.50%	**1.75%**	**2.00%**	**2.25%**	**2.50%**
	7.27%	0.395	0.404	0.414	0.425	0.438
	7.52%	0.379	0.387	0.396	0.406	0.417
CoE	**7.77%**	0.364	0.372	**0.380**	0.389	0.398
	8.02%	0.351	0.358	0.365	0.373	0.381
	8.27%	0.338	0.344	0.351	0.358	0.365

		Book Value				
		0.09	**0.19**	**0.29**	**0.39**	**0.49**
	1.21x	0.320	0.344	0.368	0.392	0.417
	1.31x	0.322	0.348	0.374	0.400	0.426
P/B Multiple	**1.41x**	0.323	0.352	**0.380**	0.408	0.436
	1.51x	0.325	0.355	0.386	0.416	0.446
	1.61x	0.327	0.359	0.391	0.424	0.456

Our DDM TP for **OUIC** is not sensitive to +/- 0.25% changes to terminal growth or in CoE assumptions. Our P/B-based TP is slightly sensitive to +/-0.10x changes in the target multiple, affecting our TP by +/-1.9% with every change.

OUIC

		Terminal Growth Rate				
		1.50%	**1.75%**	**2.00%**	**2.25%**	**2.50%**
	8.51%	0.322	0.327	0.331	0.336	0.341
	8.76%	0.313	0.316	0.320	0.325	0.329
CoE	**9.01%**	0.303	0.307	**0.310**	0.314	0.319
	9.26%	0.295	0.298	0.301	0.305	0.308
	9.51%	0.287	0.290	0.293	0.296	0.299

		Book Value				
		0.10	**0.20**	**0.30**	**0.40**	**0.50**
	0.84x	0.265	0.282	0.298	0.315	0.332
	0.94x	0.267	0.286	0.304	0.323	0.342
P/B Multiple	**1.04x**	0.269	0.290	**0.310**	0.331	0.352
	1.14x	0.271	0.294	0.316	0.339	0.362
	1.24x	0.273	0.298	0.322	0.347	0.372

Our DDM TP for **Al Madina** is not sensitive to +/- 0.25% changes to terminal growth or in CoE assumptions. Our P/B-based TP is slightly sensitive to +/-0.10x changes in the target multiple, affecting our TP by +/-0.5% with every change.

Al Madina

		Terminal Growth Rate				
		1.50%	**1.75%**	**2.00%**	**2.25%**	**2.50%**
	8.97%	0.101	0.102	0.103	0.104	0.105
	9.22%	0.098	0.099	0.100	0.101	0.102
CoE	**9.47%**	0.095	0.096	**0.097**	0.098	0.098
	9.72%	0.093	0.094	0.094	0.095	0.096
	9.97%	0.091	0.091	0.092	0.092	0.093

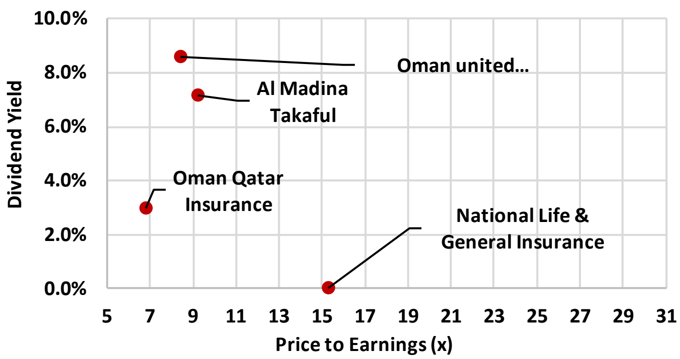
		Book Value				
		0.09	**0.11**	**0.13**	**0.15**	**0.17**
	0.68x	0.090	0.093	0.096	0.099	0.101
	0.70x	0.091	0.094	0.096	0.099	0.102
P/B Multiple	**0.72x**	0.091	0.094	**0.097**	0.100	0.103
	0.74x	0.091	0.094	0.097	0.100	0.103
	0.76x	0.092	0.095	0.098	0.101	0.104

Peer Group Valuation

Name	Mkt Cap (LC mn)	Last Px (LC)	Px Change 1M, %	Px Change 3M, %	Px Change YTD, %	P/B'23e, (x)	P/E'23e, (x)	ROE'23e, (%)	Div Yield' 23e, (%)	FCF Yield'22 (%)
Insurance										
QATAR ISLAMIC INSURANCE GROUP	149	0.930	-0.5%	3.4%	1.1%	NA	NA	NA	NA	12.4%
TAKAFUL OMAN	124	0.051	0.0%	-5.6%	4.1%	NA	NA	NA	NA	-28.4%
DHOFAR INSURANCE	180	0.185	0.0%	-7.5%	-11.5%	NA	NA	NA	NA	50.1%
NATIONAL LIFE & GENERAL INSU	1,300	0.335	-1.5%	-1.5%	-1.5%	1.0	15.3	3.3%	0.0%	13.2%
OMAN QATAR INSURANCE CO	267	0.170	6.3%	-4.0%	-15.0%	0.7	6.8	13.3%	3.0%	5.9%
AL MADINA TAKAFUL CO SAOC	145	0.087	2.4%	2.4%	-5.4%	0.7	9.2	7.2%	7.2%	39.0%
OMAN UNITED INSURANCE CO	263	0.270	0.0%	2.3%	-10.0%	0.9	8.4	10.7%	8.6%	-0.4%
Average						**0.8**	**9.9**	**8.6%**	**4.7%**	**13.1%**
Median						**0.8**	**8.8**	**9.0%**	**5.1%**	**12.4%**

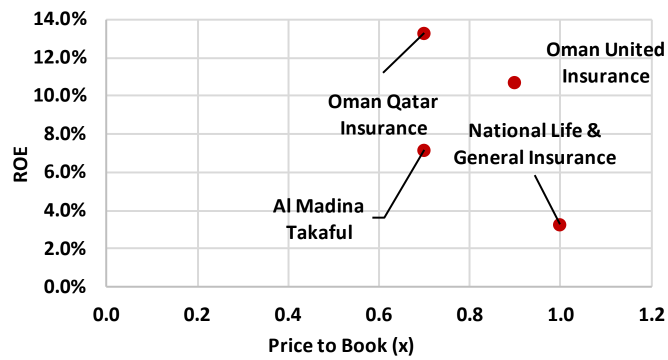
Source: Bloomberg, U Capital Research, NA – not available

Fig. 1: Insurance - Price to EPS & Dividend Yield



Source: Bloomberg, U Capital Research,

Fig. 2: Insurance - Price to Book & RoE



Source: Bloomberg, U Capital Research,

Risks to Valuation

Key downside risks to our valuations include:

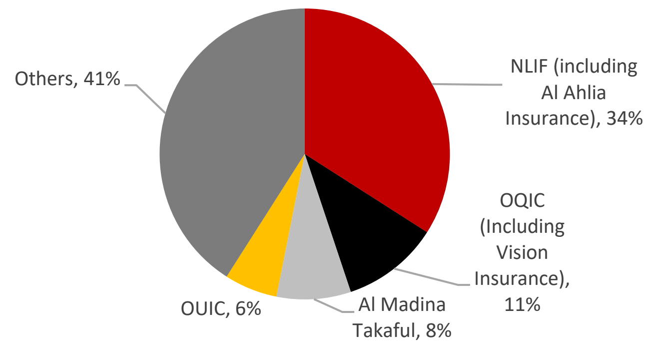
- Slower growth in market share, gross written premiums, or decline in premium rates or stringent regulatory framework.
- Higher-than-expected loss ratio and weaker-than-expected dividend payment may impact our forward-looking estimates and rating.

Key upside risks to our valuations include:

- Unexpected rise in premium rates, faster-than-expected gain in market share, lower-than-expected loss ratio, better underwriting, and above-expected dividends.
- Better-than-expected improvement in operating efficiencies.

Current Omani Insurance market landscape

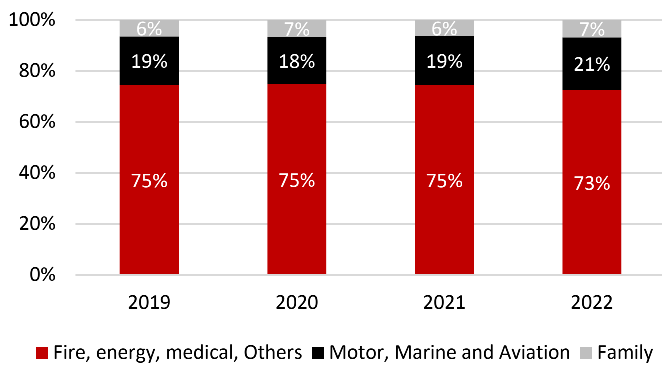
Fig. 3: Market share of companies under coverage (post-merger), as of FY22



Source: CMA, Company reports, U Capital Research, *NLIF includes market share of Al Ahlia Insurance and OQIC includes market share of Vision Insurance

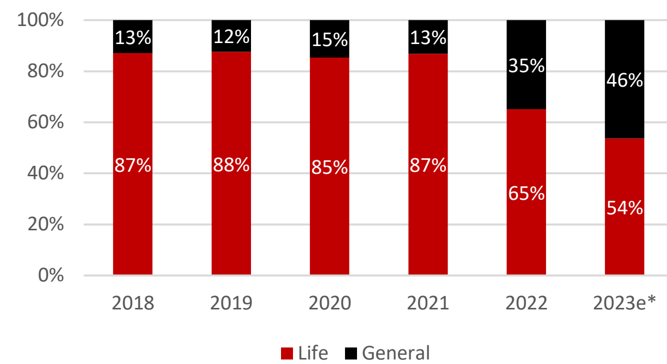
Revenue Exposure by Segment

Fig. 4: Al Madina GWP by Segment



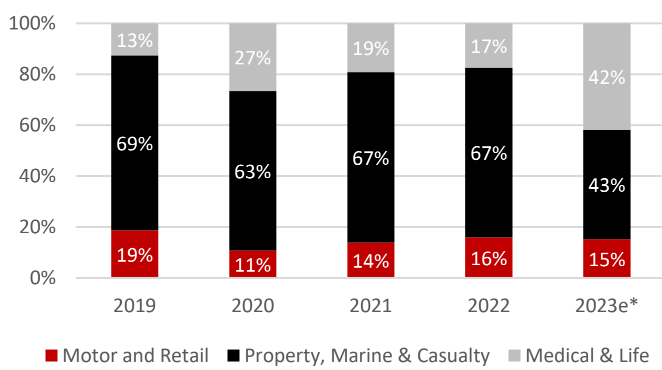
Source: Company Reports, U Capital Research

Fig. 5: NLIF GWP by segment



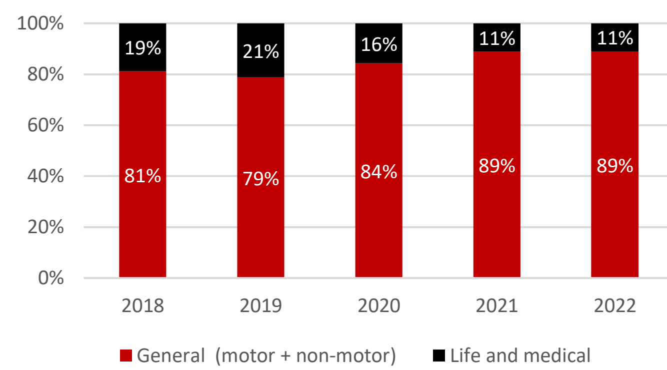
Source: Company Reports, U Capital Research,*expected revenue contribution after the acquisition of RSA Middle East

Fig. 6: OQIC GWP by segment



Source: Company Reports, U Capital Research, *expected revenue contribution after the merger with Vision Insurance

Fig. 7: OUIC GWP by segment



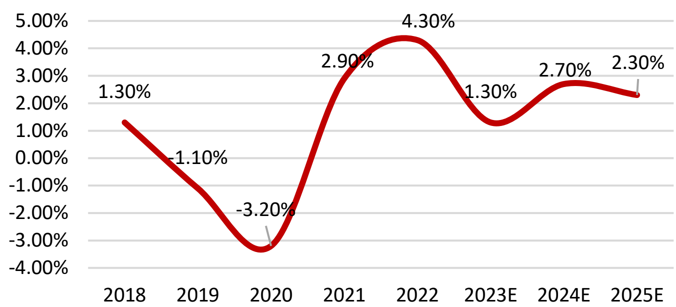
Source: Company Reports, U Capital Research

Macro-economic & Sector Overview

Oman's economy recovered driven by higher oil prices; moderate growth expected in 2023

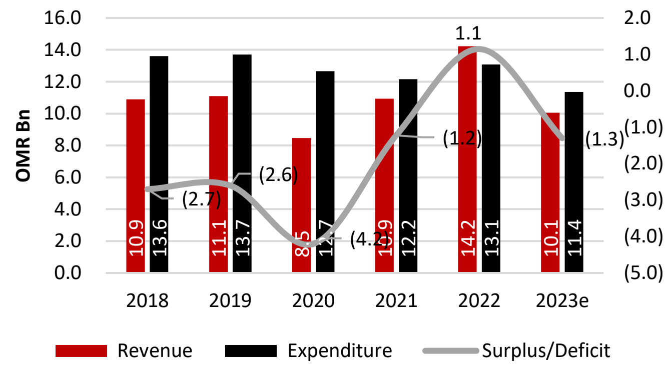
After experiencing a sharp decline due to the pandemic, Oman's economy made a strong recovery in 2021 and 2022. The recovery was driven by the rise in oil prices and the implementation of supportive fiscal and monetary policies. The economy grew by 2.9% and 4.3% respectively during these years. However, the IMF expects Oman's economic growth to slow down to 1.3% in 2023 due to the impact of OPEC+ oil production cuts and moderate growth in the non-oil economy given the sluggish activity in the local construction sector, weakness in the global economy, and monetary tightening.

Fig. 8: Oman GDP likely to continue its growth trajectory



Source: IMF, U Capital Research

Fig. 9: Oman fiscal budget



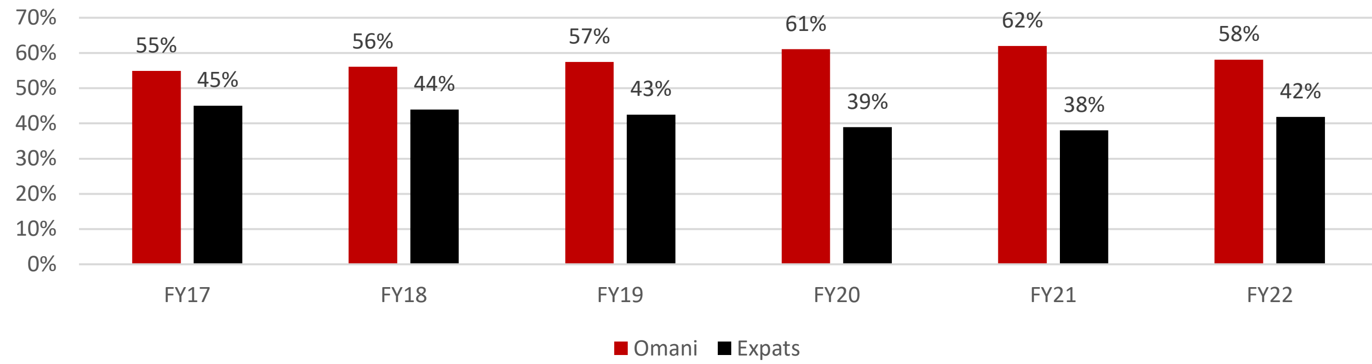
Source: Ministry of Finance Oman, U Capital Research

The insurance industry plays a vital role in fostering sustainable economic growth by channeling accumulated capital into productive investments. In Oman, as the economy seeks to diversify away from the oil sector and expand into non-oil sectors, the growth in these allied sectors will likely increase the demand for insurance services, as the employment rate increases thereby leading to higher purchasing power for the citizens. Consequently, we anticipate a steady increase in insurance penetration as a percentage of Oman's GDP. The growth of the insurance sector will be further supported by mandatory health insurance, increased awareness of insurance products, and rising disposable income among the population.

Increasing Population and disposable income to Drive Insurance Demand in Oman

Oman has a favorable demographic profile characterized by a rising population. In recent years, Oman has experienced a decline in its total population, largely due to expat migration caused by challenging economic conditions resulting from weak oil prices. However, in FY22, the economic situation improved significantly due to a sharp rebound in oil prices. This led to increased employment opportunities in Oman, resulting in a rise in the expat population, increasing their proportion from 39% in FY20 to 42% in FY22. According to the IMF, Oman's population is expected to rise at an average annual rate of 3% from 2023 to 2028.

Fig. 10: Growing number of expatriates in Oman



Source: NCSI, U Capital Research

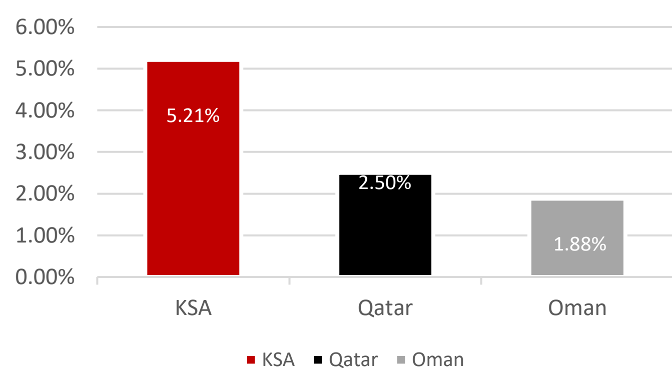
As Oman has set specific quotas for various industries to achieve its ongoing Omanization goals, we believe this will create employment opportunities for the citizens; thus, will lead to higher disposable income for the locals. Hence, in our opinion, Omanization shall help to improve the local population's disposable income. Accordingly, higher disposable income for locals coupled with likely improvement in the total population should drive the demand for insurance products.

Unlocking Growth: Low insurance penetration presents ample opportunities

While there has been some improvement in the insurance penetration rate (GWP/GDP) in Oman, it remains one of the lowest among emerging countries. In 2020, the penetration rate saw a surge to ~1.9%, up from around 1.7% in 2019. This growth was primarily driven by the general insurance sector, which recorded a notable increase of 1.7% in 2020 compared to 1.5% in 2019. On the other hand, the life insurance segment showed limited progress, with a marginal increase of 0.2% in both 2020 and 2019. Looking ahead, we anticipate further improvements in the insurance penetration rate through various structural changes. Mandatory health insurance, increased awareness and recognition of the importance of insurance products, rising disposable income, and overall economic improvements are expected to drive this progress.

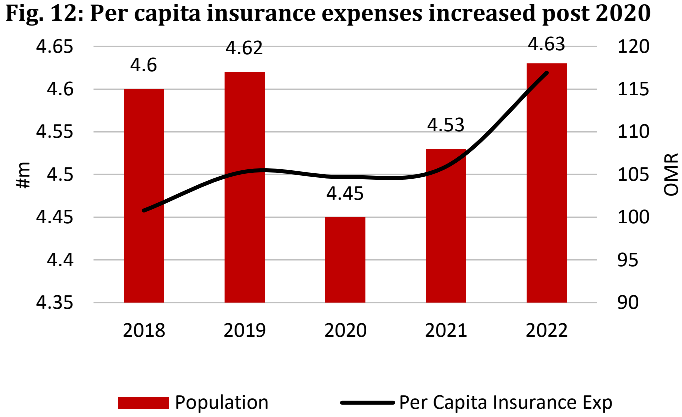
Furthermore, low insurance penetration can be viewed as an opportunity for insurance players to capitalize on. With an improved local population and increased disposable income, per capita insurance expenses in Oman have also witnessed an upward trend. As the penetration rates are expected to improve, we anticipate a further rise in per capita insurance expenses.

Fig. 11: Insurance penetration rate of major GCC countries



Source: CMA, U Capital Research (Unavailability of latest data)

Fig. 12: Per capita insurance expenses increased post 2020



Source: CMA, U Capital Research

Mandatory health insurance – a strong tailwind for the domestic insurance sector

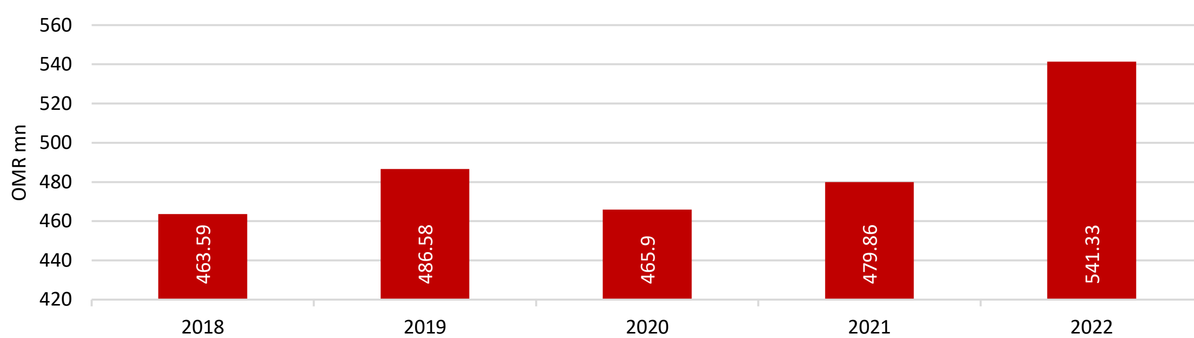
The implementation of mandatory health insurance for employees in the private sector is a significant driver for future growth in Oman's insurance industry. In line with the government's comprehensive reform plan, the Capital Market Authority (CMA) introduced the first phase of the mandatory health insurance system, known as Dhamani, in July 2021. Under this scheme, private sector employers are required to provide health insurance coverage for their employees, including both local and expatriate workers and their dependents. Additionally, tourists visiting Oman will also be mandated to have health insurance coverage. The CMA officials have indicated that the Dhamani scheme will be gradually rolled out across the country in the coming years. The Dhamani scheme aims to provide health insurance coverage to over five million individuals, with the private sector expected to cover nearly two million employees and their family members. Additionally, the scheme is projected to extend coverage to millions of tourists and visitors to Oman in the medium term.

GWP likely to improve on economic recovery and much-needed regulatory push

The insurance sector in Oman experienced a 13% YoY increase in gross written premiums (GWP) in 2022, reaching OMR 541mn (compared to OMR 480 million in 2021). This growth was primarily driven by the health insurance segment, which saw a 17% YoY increase to OMR 191.5mn (35% of total GWP). The general insurance segment also exhibited growth, albeit at a slower pace of 9% YoY, reaching OMR 282.5mn. In terms of the overall GWP composition, general insurance accounted for 52%, life insurance contributed 12%, and health insurance constituted 35% in 2022. During 2018-22, the general insurance and life insurance segments witnessed a CAGR of 3% in GWP, while health insurance demonstrated a CAGR of 6%. Overall, the insurance sector's GWP experienced a 4% CAGR, supported by factors such as population growth, economic expansion, and strong regulatory push.

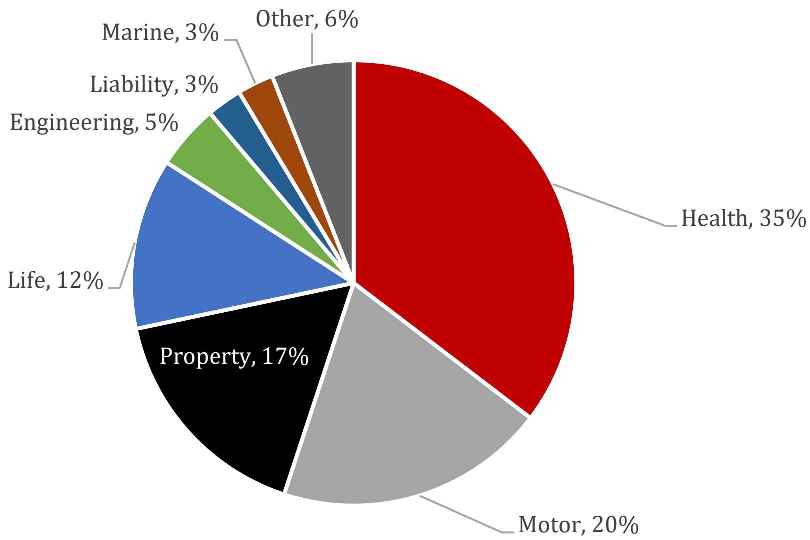
Looking ahead, the sector's outlook appears promising, underpinned by anticipated economic growth leading to increased employment levels and disposable income. These factors are expected to drive demand for discretionary products like insurance. Furthermore, the likelihood of an improved penetration rate through regulatory enforcement, including mandatory health insurance and travel insurance, along with enhanced awareness of insurance products, is expected to contribute to a sustainable recovery in GWP. We estimate GWPs for the companies under coverage to grow at 7% from FY23e to FY27e.

Fig. 13: Strong growth in GWP in FY22



Source: CMA, U Capital Research

Fig. 14: GWP breakup by segment; FY22 growth was driven by Health segment



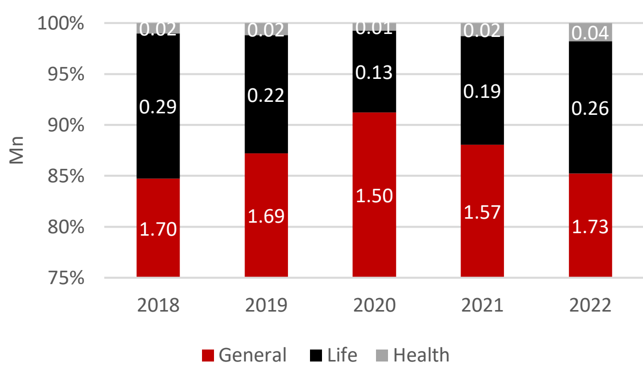
Source: CMA, U Capital Research

The number of policies issued is set to continue increasing

The number of policies issued surged in 2021 and 2022 after a decline in 2020. The total number of policies increased by 14% YoY to reach 2.02mn (compared to 1.78mn in 2021). This growth was primarily driven by a 10% increase in general insurance policies. Additionally, life insurance policies saw a significant rise of 39% YoY to reach 0.26mn in 2022. The health insurance segment demonstrated the fastest growth, with a 58% YoY increase to 0.036mn (vs. 0.02mn in 2021).

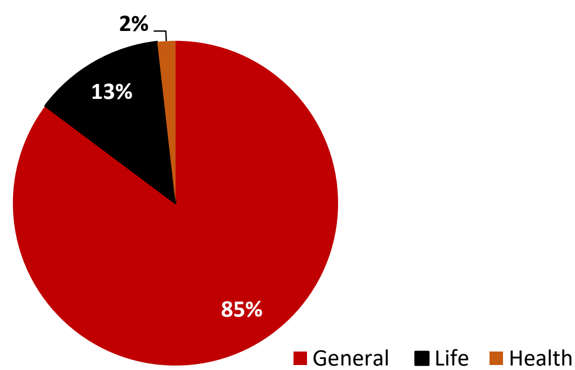
After facing challenges and experiencing a decline in various business segments due to the impact of the COVID-19 pandemic, we expect the volume of policies issued to continue an upward trajectory, similar to the trend observed in 2022. Factors such as the implementation of mandatory health insurance, recovery in the tourism sector, and a likely increase in demand for automobiles will serve as key drivers for policy volume in the insurance sector.

Fig. 15: Policies issued increased after FY20



Source: CMA, U Capital Research

Fig. 16: Breakdown of policies issued in 2022

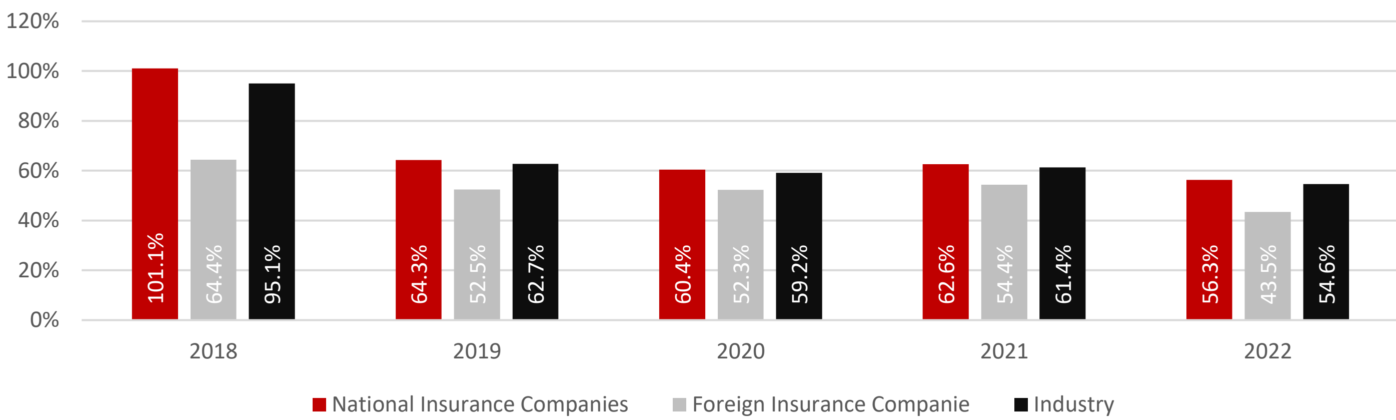


Source: CMA, U Capital Research

Loss ratio likely to improve further on lower claims

The sector's combined loss ratio started normalizing in 2022 aided by lower claims and growth in premiums. In 2021, the loss ratio increased to 61.4% as COVID-19-related death claims in the life insurance portfolio surged significantly. Furthermore, medical and motor claims also increased amid the lifting of restrictions on movement which further led to an increase in loss ratio. However, loss ratio had improved significantly to 59.2% in FY20 from 95.1% in FY18, on the back of lower claims due to i) fewer motor insurance claims amid the travel restriction, ii) deferral medical claims.

Fig. 17: Loss ratio started normalizing in 2022

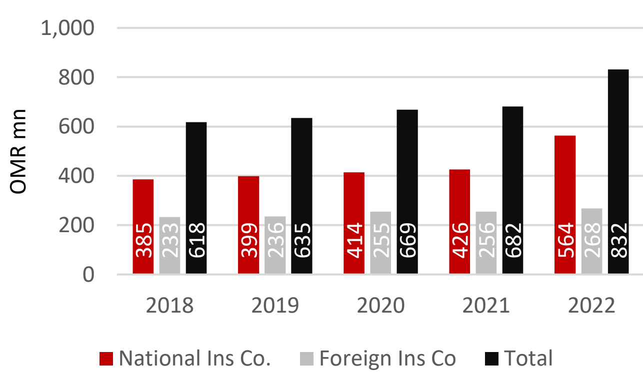


Source: CMA, U Capital Research

Steady growth in investment income bolsters bottom-line

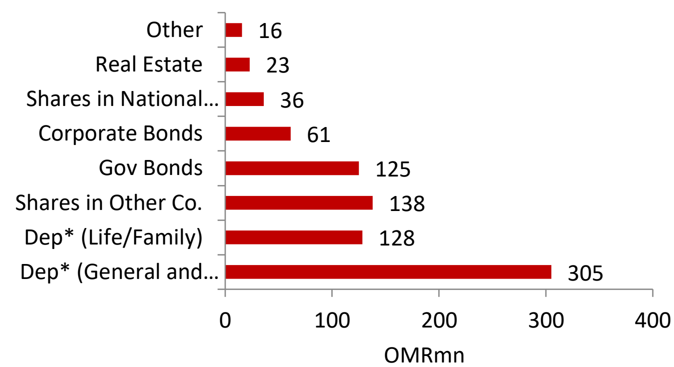
In 2022, the sector's investments predominantly focused on conservative assets, with 52.09% of the investment book allocated to banking deposits in both the general and life insurance segments. In terms of investment income, Insurance companies in Oman have witnessed consistent improvement in their investment portfolios since 2018, driven by well-executed investment strategies. Looking ahead, the insurance sector's investment book is anticipated to expand further, supported by the expected normalization of the loss ratio.

Fig. 18: Investment of insurance companies



Source: CMA, U Capital Research

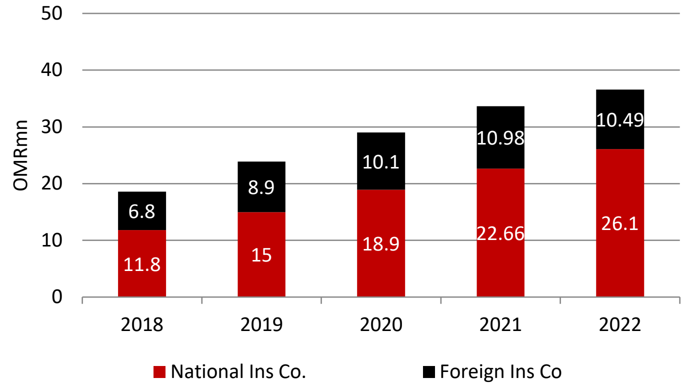
Fig. 19: Breakdown of investments – 2022



Source: CMA, U Capital Research, *Deposits

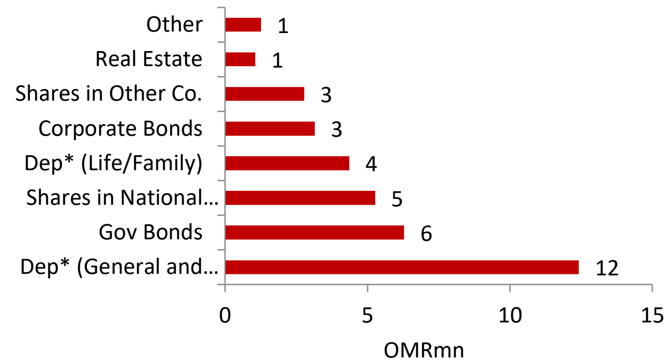
The investment performance of the insurance sector in Oman has been highly encouraging as the return from these investments grew at a CAGR of 19% from 2018 to 2022. Local insurance players have particularly excelled, outpacing foreign companies and achieving a strong CAGR of 22% in investment income during the same period. Going forward, the trend of improving investment income is expected to continue. This will be supported by an expanded investment portfolio and potentially better investment yields as the interest rate environment rises. As a result, the insurance sector's earnings are anticipated to be positively influenced, presenting promising prospects for the industry's future.

Fig. 20: Investment returns



Source: CMA, U Capital Research

Fig. 21: Elements of Investment Income - 2022

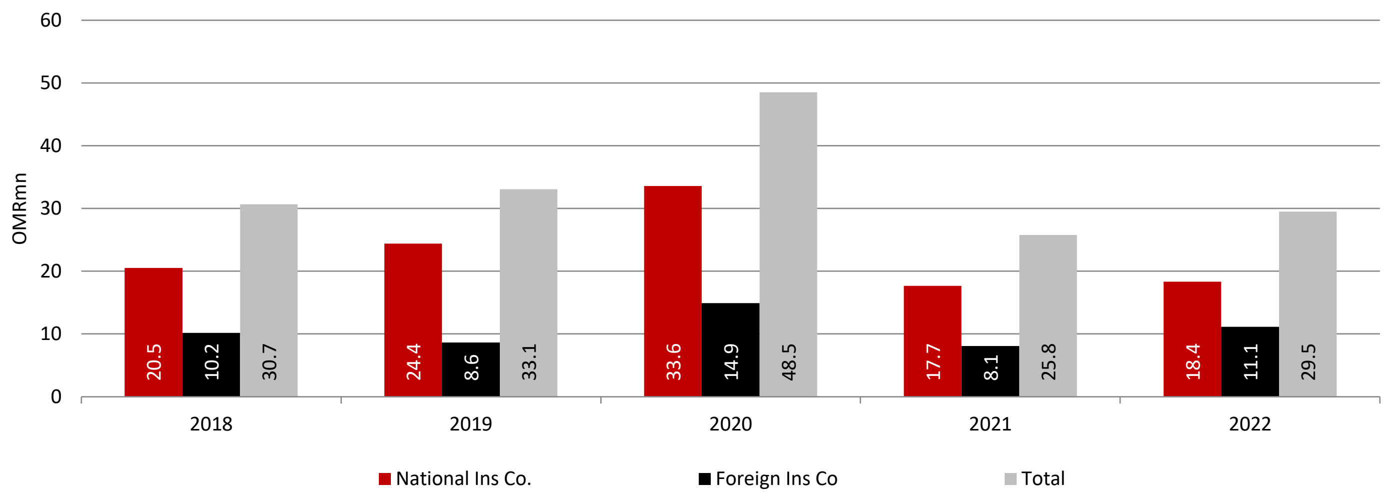


Source: CMA, U Capital Research, *Deposits

Continued upward trend: Profitability set to strengthen in the future

Historically, the insurance sector in Oman has maintained a robust level of profitability, with 2020 standing out as an exceptionally strong year primarily due to lower claims. However, in 2021, many companies faced earnings pressure due to higher claims. In 2022, the sector's earning performance improved significantly, driven by (i) healthy GWP growth, (ii) normalization of the loss ratio, (iii) enhanced cost efficiencies, and (iv) better investment returns. As a result, the sector experienced a notable 15% YoY growth in net profit, reaching OMR 29.49mn in FY22.

Fig. 22: Net Profit continued to improve over the years



Source: CMA, U Capital Research

Impact of IFRS 17 on insurance companies

IRFS 17 came into effect on 1st January 2023. The new standard will be replacing IFRS4. The objective behind the implementation of IFRS17 is to have a unified accounting standard for all insurance contracts so that it is comparable for the benefit of investors and insurers. The new standard will help in understanding the accounting treatment of insurance contracts, the risks insurance companies are exposed to, and their impact on the profitability and financials of the companies. IFRS 4 doesn't address how to measure insurance contracts issued by insurance companies. IFRS 17 will change the way insurance contracts are accounted for. The new standard will also give more transparent and clear information about the profitability of new and existing businesses, thereby giving investors more insight into the company's financial health.

According to IFRS 17, the recognition of profit from insurance contracts is structured around two key components:

i. the contractual service margin, which represents profit recognized as services are provided over the coverage period, and
ii. the risk adjustment, which is recognized in profit or loss as the company is relieved of risk exposure during both the coverage and settlement periods.

It's important to note that while IFRS 17 does not alter the total profit or loss over the life of the insurance contracts, it does change the way these profits are distributed across reporting periods and how the various elements of contract profitability are presented in the statement of comprehensive income. FY23 results will be in IFRS 17.

Takaful Rules in Oman

In a Takaful arrangement, all participants or policyholders mutually commit to guarantee one another's financial security by making contributions to a shared pool or mutual fund, rather than paying traditional insurance premiums. This collective pool of contributions forms what is known as the takaful fund. The amount each participant contributes is determined based on the type of coverage they need and their individual circumstances. Similar to conventional insurance, a takaful contract outlines the specifics of the coverage, including the nature of the risks covered and the duration of the policy.

The takaful fund is overseen and managed on behalf of the participants by a takaful operator, who charges a predetermined fee to cover operational expenses. Any claims made by participants are paid from the takaful fund, and any surplus remaining in the fund, after provisions are made for anticipated future claims and other reserves, is owned by the participants themselves, and not the takaful operator. These surplus funds can be distributed to participants as cash dividends, distributions, or used to reduce future contributions, ensuring that the benefits of the takaful arrangement directly benefit those who participate in the fund.

The Takaful insurance is based on Shariah law which follows Islamic principles on Interest, gambling, and uncertainty.
Core principles related to Islamic Shariah law-

- Prohibited from investing in conventional interest-bearing securities.
- Prohibited from investing in equities/companies in sectors whose activities are considered Haram such as alcohol and tobacco-related products, casinos, hotel and gambling, and weapons-related products among others.
- Prohibited from investing in higher leveraged companies as well.
- Investments made in mutual funds should also be Shariah-compliant.

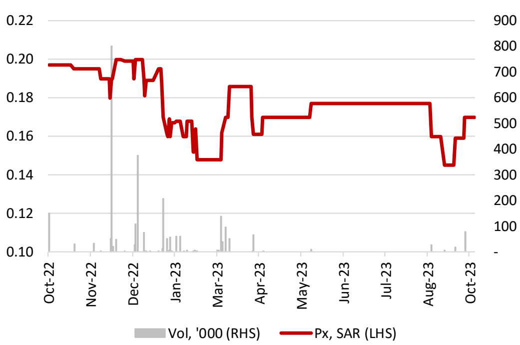
Oman Qatar Insurance (OQIC)

Target Price: OMR 0.183
Upside/ (Downside): 7.5%

Recommendation	**Hold**
Bloomberg Ticker	OQIC OM
Current Market Price (OMR)	0.170
52wk High / Low (OMR)	0.200/0.140
12m Average Vol. (000)	11.5
Mkt. Cap. (USD/OMR Mn)	71/27
Shares Outstanding (mn)	161.2
Free Float (%)	54%
3m Avg Daily Turnover (SAR'000)	0.3
6m Avg Daily Turnover (SAR'000)	0.3
P/E'23e (x)	6.75
P/B'23e (x)	0.72
Dividend Yield '23e (%)	3.0%
Price Performance:	
1 month (%)	6.25
3 month (%)	(3.95)
12 month (%)	(12.37)

Source: Bloomberg, valued as of 11 October 2023

Price-Volume Performance



Source: Bloomberg

- **The medical segment is expected to drive GWP growth driven by a merger with Vision Insurance**
- **Shift in GWP mix towards the Medical segment will likely improve the retention ratio**
- **Underwriting profit to increase while margins to decline in the near term before gradually improving**
- **Investment income likely to increase led by growth in portfolio thereby positively impacting the bottom line**

We review our coverage on Oman Qatar Insurance Company with an **Accumulate** rating and a target price of OMR 0.183 per share, implying an **upside of 7.5%.** Currently, the stock trades at 0.72x P/B, based on our FY23e BVPS. The merger of Vision Insurance will help the company to grow its GWP. Oman's insurance sector is bound to do well and so is the company given its decent GWP market share of ~7% which is further likely to strengthen around 11.6% by FY27e. Further, the company's strong underwriting policy will help in increasing underwriting profit while margins decline in near term before gradually improving driven by the normalization of the loss ratio as well as expenses.

Investment Thesis

Good fundamentals: (i) The merger with Vision Insurance will increase the GWP of the medical segment thereby benefiting the total GWP. The company is also a market leader in the engineering segment of the industry and will likely continue to lead in this segment by focusing more on a higher retention ratio thus registering higher growth. (ii) underwriting profit is expected to increase supported by higher GWP while margins will be under pressure in the near term; (iii) Growth in Investment income will result in higher net profit.

2Q23 performance - The company's GWP grew 31% YoY to OMR 14.3mn, in line with our estimates. The growth was driven by the medical insurance segment. Investment income came in at OMR 1mn, growing substantially on YoY basis and it beat our expectations by 43%. The company reported a net profit of OMR 0.6mn, missed our expectations. Net profit was impacted by higher claims in Motor and medical segments for the combined book.

Financials & valuation summary:

	2020	2021	2022	2023E	2024E	2025E
Gross Written Premiums (OMR mn)	31.3	31.4	37.7	68.3	70.2	74.3
Net Underwriting (OMR mn)	2.8	2.8	2.9	4.2	4.5	4.7
Net Profit (OMR mn)	2.1	3.1	2.9	4.1	4.2	4.4
Combined Ratio	94.8%	98.2%	99.2%	105.3%	102.3%	102.4%
ROA	2.3%	4.2%	3.9%	3.5%	2.7%	2.7%
ROE	11.7%	15.1%	12.6%	13.3%	10.6%	10.2%
DPS (OMR/share)	0.5%	0.7%	0.4%	0.5%	0.5%	0.5%
Dividend Yield	5.3%	3.3%	2.0%	3.0%	3.1%	3.2%
P/E (x)	4.5x	6.8x	6.9x	6.7x	6.5x	6.3x
P/BV (x)	0.5x	1.0x	0.9x	0.7x	0.7x	0.6x

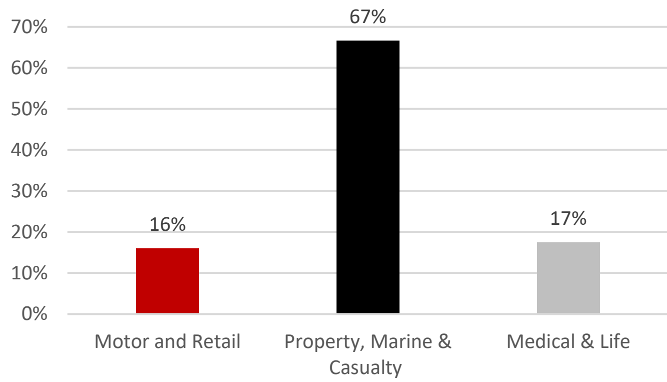
Source: Company Reports, U Capital Research

Medical Segment is expected to drive GWP growth in future

Gross written premium (GWP) of OQIC grew at a CAGR of 10% during 2017-22 and reached OMR 37.65mn by FY22, led by the engineering division (Property, Marine & Casualty). The company has the highest GWP market share in the engineering business in the industry. However, with the merger of Vision Insurance, the contribution of the medical and life segments to the total GWP will increase and will likely drive GWP growth in the future. In 1Q FY23, the Medical and life segment contributed 51% to total GWP compared to 15% in a year ago period. The two companies announced the merger in FY22, and it has not only increased the asset base of OQIC to OMR 106mn from OMR 74mn but will also position the company as a leader in terms of GWP in Oman driven by its strong branch network.

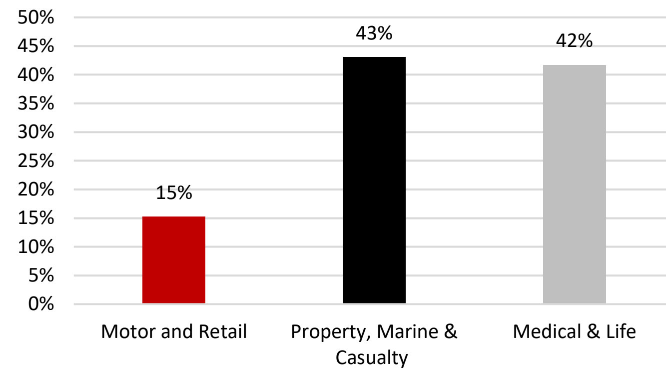
A merger with Vision Insurance coupled with OQIC's strength in writing energy and construction accounts of large ticket sizes will led to strong growth in GWP. Accordingly, we expect GWP to have a CAGR of 17% from FY22-FY27.

Fig. 23: GWP by segment before the merger of Vision Insurance (FY22)



Source: Company Reports, U Capital Research

Fig. 24: GWP by segment after the merger of Vision Insurance (FY23e)

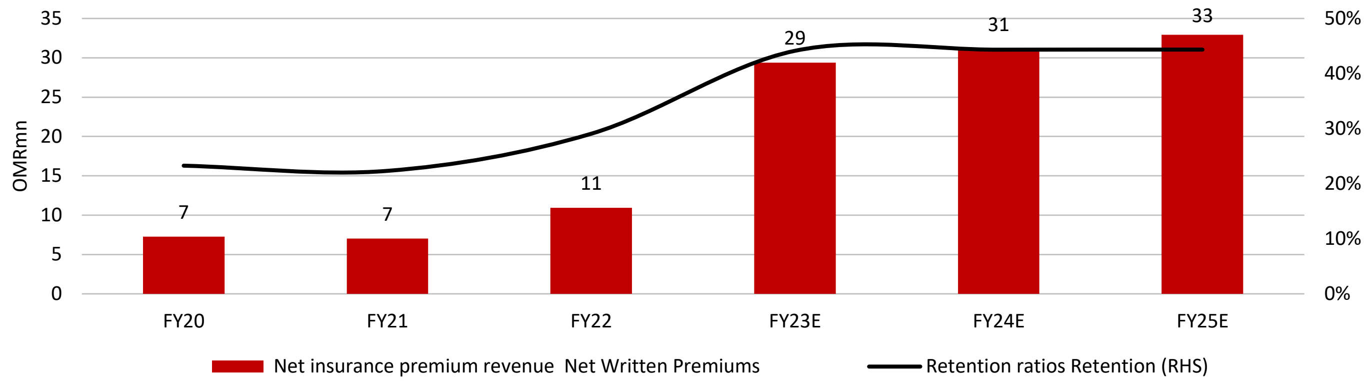


Source: Company Reports, U Capital Research

Retention rate to increase significantly from FY23e due to shift in GWP mix

OQIC currently possesses one of the lowest retention ratios compared to its peers, standing at ~29% in FY22. This can be attributed to its substantial exposure to the property and construction division, which typically exhibits a low retention rate. However, a significant shift in the Gross Written Premium (GWP) mix is anticipated from FY23e onwards, primarily driven by the consolidation of Vision Insurance, resulting in an expected contribution of around 56-57% from motor and medical lines. It is worth noting that motor and medical insurance portfolios generally enjoy higher retention rates. With this favorable GWP realignment towards lines with enhanced retention, combined with the company's focus on maintaining a significant presence in the engineering sector, we anticipate a substantial increase in OQIC's retention ratio from 29.1% in FY22 to 44.5% by FY27e. This projected improvement in retention could pave the way for stronger growth in the coming years.

Fig. 25: Improving retention ratio



Source: Company Reports, U Capital Research

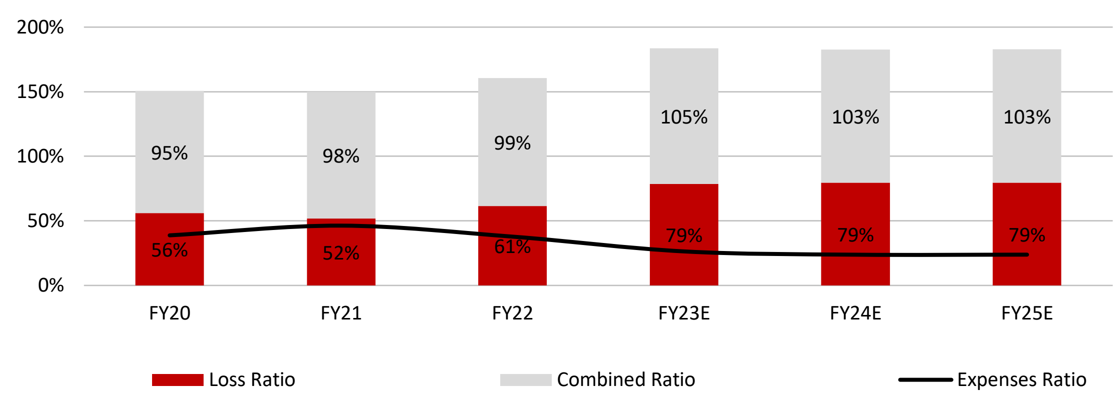
Increased exposure towards Motor & Medical segments post-acquisition to push loss ratio higher

In FY22, the loss ratio returned to approximately pre-pandemic levels, reaching around 61% compared to 62% in FY19. This was due to the reopening of the economy and an uptick in the completion of underdeveloped projects. During FY20 and FY21, the company had experienced a significant improvement in the loss ratio, primarily due to a reduction in claims in the motor and property segment, although there was an increase in claims within the medical and life division, owing to the Covid-19 pandemic.

Looking ahead, we anticipate an increase in the company's loss ratio as a result of its heightened exposure to insurance lines with higher claims, particularly in the Medical and Motor segments, following the consolidation of the Vision Insurance business from FY23e onwards. We have projected the company's loss ratio to increase to 72-74%, with the Medical segment expected to have the highest loss ratio at 85-88%, followed by Motor at 74-76%, and Engineering at ~5% during the FY23-27e period.

On the other hand, the expense ratio showed improvement, reaching approximately 38% in FY22 compared to 46% in FY21, aligning with the numbers observed in FY19-20. Looking ahead, we anticipate a expense ratio to be around 30% in FY23e due to synergies from the acquisition on the technical side of the business.

Fig. 26: Healthy combined ratio consistently



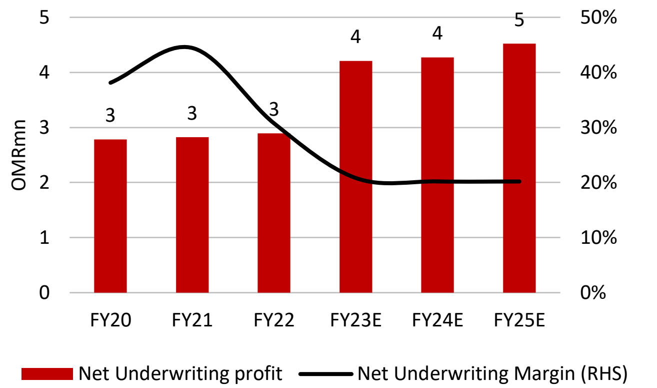
Source: Company Reports, U Capital Research

Underwriting profit to increase while margins to decline going forward

OQIC's underwriting margins declined steeply to ~31% in FY22 (vs. ~44% in FY21) on account of higher claims from the low base of earlier years. Looking ahead, underwriting margins are projected to further decrease due to the anticipated higher loss ratio resulting from the changed GWP mix starting from FY23e onwards. According to our projections, underwriting margins are estimated to decline to around 20% in FY23e and will remain in the same range until estimated period i.e., FY27e.

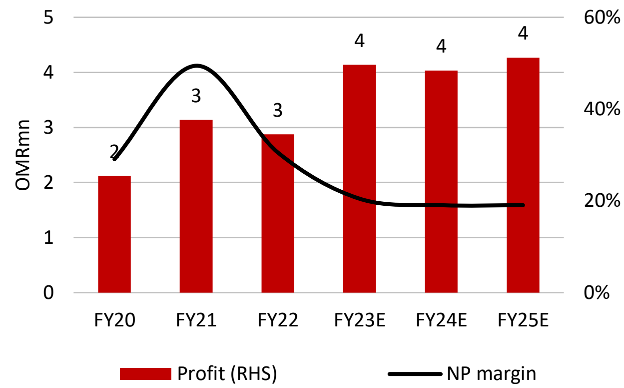
Despite the decline in underwriting margins from historical levels, the company's underwriting profit is expected to grow steadily. This growth will be supported by higher GWP resulting from the consolidation that takes place from FY23e onwards. Therefore, while margins may experience a decline, the overall underwriting profit is expected to demonstrate positive growth for OQIC.

Fig. 27: Underwriting profit to increase while margin to decline



Source: Company Reports, U Capital Research

Fig.28: Net profit is expected to improve over the medium term

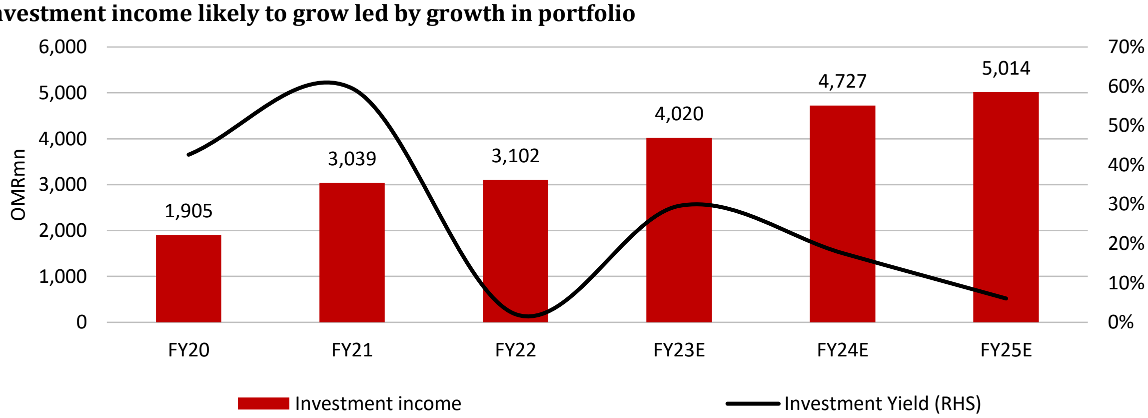


Source: Company Reports, U Capital Research

Investment income likely to grow led by growth in investment portfolio post the merger

The company has been efficiently managing its investment portfolio over the past couple of years with the majority of the surplus funds resulting from a decrease in claims parked in several instruments, like Bank Deposits, Equities, and Bonds. The company's investment income has grown at a CAGR of 13% from FY17-FY22. Going forward we expect investment income to grow at a CAGR of 11% from FY22-FY27e as the portfolio size has increased after the merger with Vision Insurance. For example, bank deposit has almost doubled to OMR 23.35mn in 1Q23 from OMR 12.37mn in FY22.

Fig. 29: Investment income likely to grow led by growth in portfolio

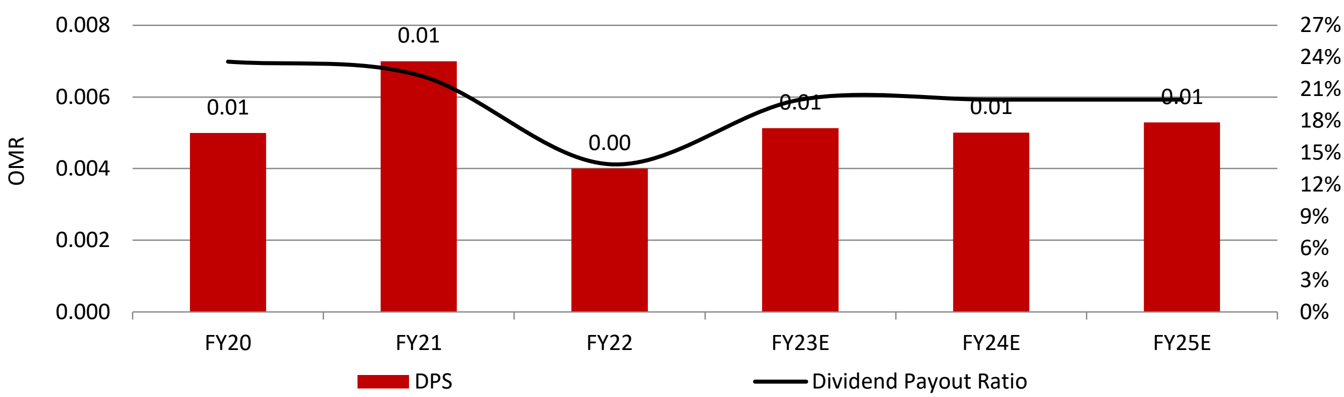


Source: Company Reports, U Capital Research

The company has consistently paid dividends, but payout ratio has been low

OQIC has consistently paid dividends in the past ranging from OMR 0.005-0.01. However, the payout ratio has been low in the range of 14% - 24% in the past three years. Going forward, we expect the company to maintain payout ratio of 20% from FY23e-FY27e.

Fig. 30: Expected to continue to pay dividends in future

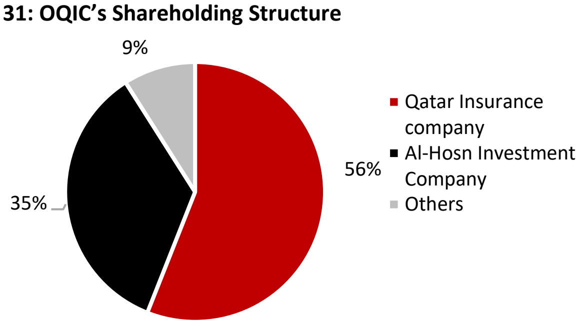


Source: Company Reports, U Capital Research

About OQIC

Established in 2004, Oman Qatar Insurance Company (OQIC), is a subsidiary of Qatar Insurance Company. The company operates in the Sultanate of Oman. OQIC provides insurance services, such as personal, car, travel, home, life, health, marine, corporate travel, fleet, and other insurance products and services. The company operates in majorly 3 divisions (Q2FY23): Medical and Life (28.2% of GWP); Property, marine, and casualty (56% of total GWP); and Motor and retail (15.8% of total GWP).

Fig. 31: OQIC's Shareholding Structure



Source- MCD

Valuation and risks: Our target price is based on blended valuation methodologies – (i) DDM Valuation (ii) Residual Income and (iii)Relative Valuation (using P/B multiples). The downside risks to our valuation include less-than-expected growth in GWP, loss of any major accounts amid the pandemic, a decline in premium rates, higher-than-expected claims, and regulatory investment limits in various products. Key upside risks to our valuation include an unexpected rise in premium rates, faster than expected gain in market share, lower than expected loss ratio, better underwriting, and above-expected dividends.

Key financials

In OMR'000, except stated otherwise	FY20	FY21	FY22	FY23e	FY24e	FY25e
Income Statement						
Gross written premiums (GWP)	31,281	31,394	37,655	68,282	70,223	74,265
Insurance premium ceded to reinsurers, earned	(24,002)	(24,384)	(26,709)	(38,456)	(38,789)	(41,010)
Net written premium	7,279	7,010	10,946	29,826	31,434	33,255
Net earned premium (NEP)	**7,293**	**6,348**	**9,412**	**20,649**	**21,433**	**22,678**
Claims paid	(10,797)	(17,920)	(12,944)	(18,382)	(19,017)	(20,117)
Reinsurers' share of claims	5,975	13,185	8,056	8,642	8,921	9,432
Net underwriting result	**2,780**	**2,821**	**2,893**	**4,232**	**4,471**	**4,726**
Investment income	1,905	3,039	3,102	4,020	4,721	4,952
General and administrative expenses	(2,024)	(2,256)	(2,464)	(4,621)	(4,213)	(4,456)
Profit before taxation	**2,369**	**3,315**	**3,257**	**4,205**	**4,668**	**4,885**
Income tax	(249)	(176)	(383)	(145)	(467)	(513)
Profit for the year	**2,120**	**3,139**	**2,874**	**4,060**	**4,201**	**4,372**
Balance Sheet						
Cash and cash equivalents	3,554	2,511	3,813	10,076	28,287	32,565
Bank deposits	17,040	15,687	-	-	-	-
Financial investments	12,751	15,063	31,362	51,721	52,866	54,242
Premiums and insurance balances receivable	5,637	7,034	9,968	33,957	16,854	17,824
Reinsurers' share of insurance contract liabilities	50,618	34,615	28,819	62,153	58,643	61,929
Other receivables and prepayments	449	357	372	512	527	557
Total Assets	**90,430**	**75,508**	**74,596**	**158,792**	**157,864**	**168,132**
Liabilities arising from insurance contract	58,419	41,635	38,268	89,183	84,268	89,118
Due to reinsurers	5,009	7,284	8,116	16,819	16,887	17,772
Other liabilities and accruals	8,860	5,815	4,697	14,842	15,405	16,440
Total Liabilities	**72,288**	**54,734**	**51,711**	**120,844**	**116,560**	**123,330**
Share capital	10,000	10,000	10,000	21,999	21,999	21,999
Retained earnings	1,802	3,774	5,216	7,819	10,756	13,816
Total Equity	**18,142**	**20,774**	**22,885**	**37,948**	**41,304**	**44,802**
Total Liabilities and Shareholders' equity	**90,430**	**75,508**	**74,596**	**158,792**	**157,864**	**168,132**
Cash Flow Statement						
Net cash from operating activities	4,068	(2,357)	109	(12,637)	16,105	2,241
Net cash from investing activities	(693)	2,018	2,080	6,327	2,947	2,911
Net cash from financing activities	(719)	(705)	(887)	12,573	(840)	(874)
Cash & cash equivalent at period end	**3,554**	**2,511**	**3,813**	**10,076**	**28,287**	**32,565**
Key Ratios						
Net underwriting margin	38.1%	44.4%	30.7%	20.5%	20.9%	20.8%
Pre-tax margin	32.5%	52.2%	34.6%	20.4%	21.8%	21.5%
NP margin	29.1%	49.4%	30.5%	19.7%	19.6%	19.3%
Loss Ratio	56.0%	51.8%	61.4%	78.7%	78.5%	78.5%
Expenses Ratio	38.8%	46.3%	37.8%	26.6%	23.8%	23.8%
Combined Ratio (COR)	94.8%	98.2%	99.2%	105.3%	102.3%	102.4%
Retention ratios	23.3%	22.3%	29.1%	43.7%	44.8%	44.8%
ROA	2.3%	4.2%	3.9%	3.5%	2.7%	2.7%
ROE	11.7%	15.1%	12.6%	13.3%	10.6%	10.2%
EPS (OMR)	0.021	0.031	0.029	0.025	0.026	0.027
BVPS (OMR)	0.181	0.208	0.229	0.235	0.256	0.278
DPS (OMR)	0.005	0.007	0.004	0.005	0.005	0.005
Dividend Yield (%)	5.3%	3.3%	2.0%	3.0%	3.1%	3.2%
Cash Dividend payout (%)	23.6%	22.3%	13.9%	20.0%	20.0%	20.0%
P/E (x)	4.48x	6.82x	6.85x	6.75x	6.52x	6.27x
P/BV (x)	0.52x	1.03x	0.86x	0.72x	0.66x	0.61x
Price as at period end*	0.095	0.214	0.197	0.170	0.170	0.170

Source: Company Reports, U Capital Research *Current market price is used for the years forecasted

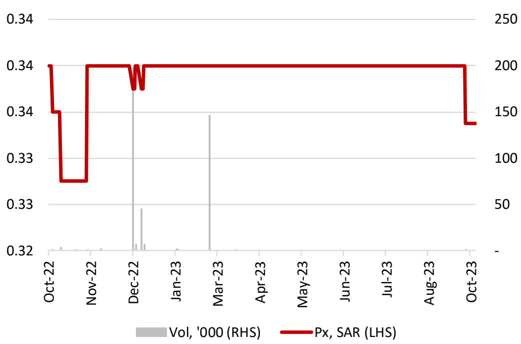
National Life & General Insurance (NLIF)

Target Price: OMR 0.380/share
Upside: 13.4%

Recommendation	**Accumulate**
Bloomberg Ticker	NLIF OM
Current Market Price (OMR)	0.335
52wk High / Low (OMR)	0.340/0.330
12m Average Vol. (000)	1.7
Mkt. Cap. (USD/OMR Mn)	347/133
Shares Outstanding (mn)	398.4
Free Float (%)	57%
3m Avg Daily Turnover (SAR'000)	0.0
6m Avg Daily Turnover (SAR'000)	0.0
P/E'23e (x)	-
P/B'23e (x)	1.15
Dividend Yield '23e (%)	0.0%
Price Performance:	
1 month (%)	(1.47)
3 month (%)	(1.47)
12 month (%)	(1.47)

Source: Bloomberg, valued as of 11 October 2023

Price-Volume Performance



Source: Bloomberg

- **Mandatory health insurance will be a strong tailwind for NLIF given its market leadership in Oman**
- **Steady loss ratio along with one of the lowest expense ratio will improve the underwriting margin from the current level**
- **Geographical expansion led by acquisition of RSA middle east**
- **Strong growth in investment income to continue to drive the bottom-line**
- **We expect company to resume dividends from FY26e**

We re-view our coverage on National Life and General Insurance (NLIF) and assign an **Accumulate** rating with a target price of **OMR 0.380 per share**, offering an upside of 13.4%. The stock trades at a P/B of 1.15x, based on our FY23 estimates. NLIF and RSA Middle East rebranded itself to Liva creating a multi-line and multi-country Insurance group. The company is well placed to benefit from the likely mandatory health insurance, starting in 2023. Along with inorganic growth, the company is also expanding in other GCC countries such as the UAE, and Kuwait, which may provide further growth opportunities. Overall, robust underwriting operations, along with a healthy investment income are expected to drive earnings growth in the future.

Investment Thesis

Strong fundamentals: (i) The Company has leading to a strong market position in the markets it operates in which can help it to further gain market share in both medical and motor segments (ii) steadily expanded the GWP with the help of a strong broker network and customer relationships. Mandatory health insurance is likely to drive the GWP growth further (iii) Expansion in other key GCC countries led by the acquisition of RSA Middle East (iv) focus on digitalization to help cross-sell and reduce operating cost thereby driving the profitability (v) steadily growing investment income backed by a prudent investment allocation strategy.

2Q23 performance - GWP grew 123% YoY to OMR 72.4mn, above our expectations of OMR 42.2mn, driven by the acquisition of the RSA businesss. Investment income grew 177% YoY and 14% QoQ to OMR 3.1mn, which beat our expectations by 167%. Net profit came in at OMR 1.15mn (+7%), missing our expectations by 26%. Strong price competition in the medical and motor portfolio impacted net profit during the quarter.

	FY20	FY21	FY22	FY23e	FY24e	FY25e
Gross Written Premiums (OMR mn)	134.0	146.5	231.1	329.2	348.5	366.6
Net Underwriting (OMR mn)	26.5	16.4	27.8	38.1	39.5	44.2
Net Profit (OMR mn)	15.0	7.5	3.1	1.8	5.1	8.2
Combined Ratio (COR)	91.7%	100.8%	103.6%	103.8%	101.6%	100.6%
ROA	8.2%	4.0%	0.9%	0.4%	1.0%	1.6%
ROE	23.8%	11.2%	3.5%	1.6%	4.3%	6.6%
DPS (OMR/share)	0.035	-	-	-	-	-
Dividend Yield	9.9%	0.0%	0.0%	0.0%	0.0%	0.0%
P/E (x)	6.3x	12.1x	32.6x	74.7x	26.3x	16.2x
P/BV (x)	1.4x	1.4x	0.9x	1.2x	1.1x	1.0x

Source: Company Reports, U Capital Research

Rebranding to LIVA with a wider product portfolio and market presence

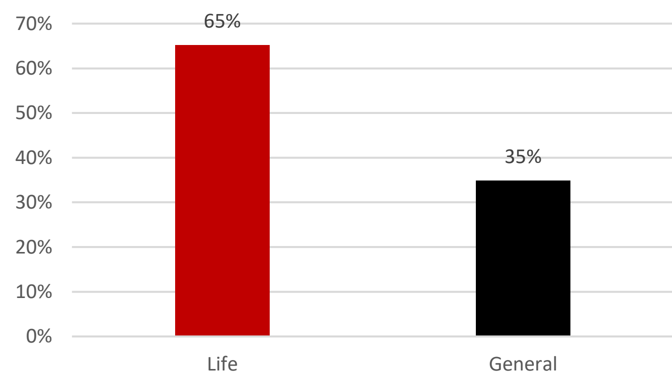
The acquisition of RSA Middle East has resulted in the company expanding its presence and business operations across GCC. The company has now penetrated new markets like KSA and increased revenue contribution from the UAE. NLIF along with RSA Middle East Insurance rebranded itself as "Liva" to drive its insurance business. The new brand aims to diversify its offering and expand its reach even further thereby creating a Multi-line and multi-country Insurance group. NLIF is the largest insurance company in Oman specializing in Health and life insurance with a wide sales network while RSA Middle East has a strong presence in general Insurance, which will make Liva a strong brand going forward. We expect the company to be profitable in FY23e and resume paying dividends from FY26e as the company will be making enough profits while maintaining solid capital ratios.

Mandatory health insurance in Oman and the acquisition of RSA will likely fuel GWP growth

The company's GWP grew at a CAGR of 15.1% to OMR 231.07mn during FY17-22, mainly due to the consolidation of the acquisition of Royal and Sun Alliance (RSA) Insurance (Middle East). In 2022 the company acquired Royal and Sun Alliance (RSA) Insurance Middle East, from RSA Insurance group Limited. The acquisition not only increased the asset base for the company but also increased its customer base by 1.5mn customers across GCC markets. The acquisition also expanded NLIF's regional footprint across the GCC, where the company now serves customers in five core GCC markets, with a plan to expand it further in 2023. Strong growth in GWP was seen in 1Q23 as well with GWP growing 76% YoY and hence we expect a strong jump in GWP in FY23 before it stabilizes in the future. We expect GWP to grow at a CAGR of 12% from FY22-FY27e.

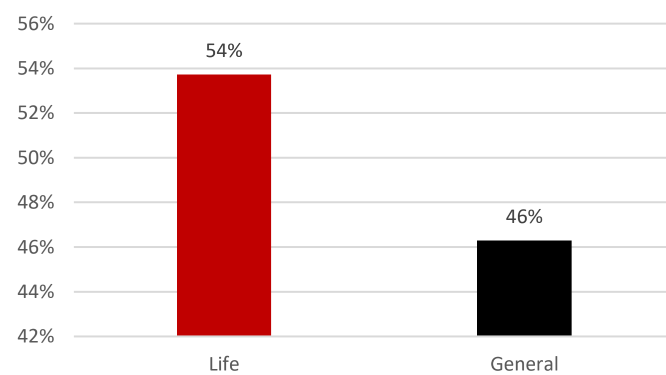
Also from FY23, the implementation of mandatory health insurance for all private-sector employees and their dependents, and in-bound tourists will benefit NLIF significantly, as it is the market leader in the medical insurance market. The company is also a well-established player in the UAE insurance market with a market share of ~4% in the health insurance segment, which should further push the GWP higher. GWP growth will also likely be fueled by motor insurance segment (~15% market share). The company has taken initiatives such as revising motor insurance prices higher and using a loyalty program to retain customers should increase the GWP for the motor segment higher.

Fig. 32: GWP by segment before the Acquisition of RSA middle east (FY22)



Source: Company Reports, U Capital Research

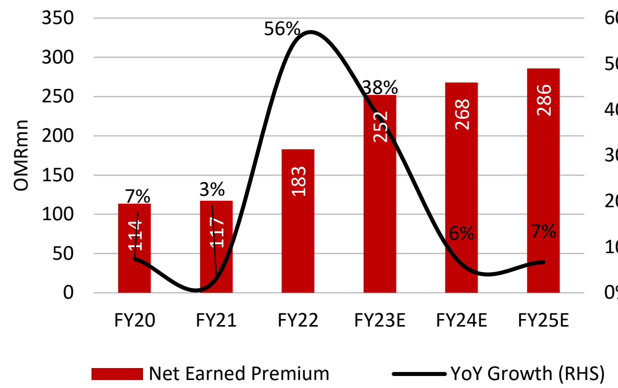
Fig. 33: GWP by segment after the Acquisition of RSA middle east (FY23e)



Source: Company Reports, U Capital Research

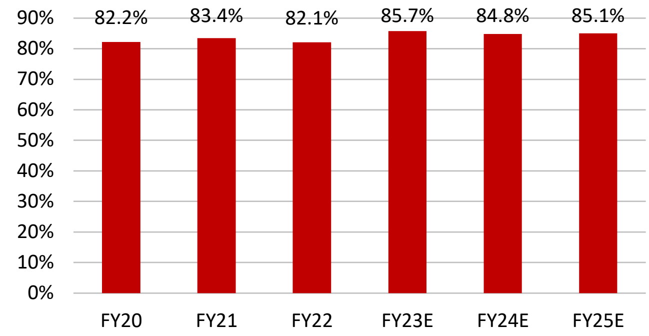
In FY22, the retention ratio increased to 82.1% compared to 61.3% in FY18. Since FY18, the company has reported a significant improvement in the retention ratio due to the hardening of the reinsurance market. We expect the retention ratio to be in a similar range ensuring the company's healthy growth in net earned premium.

Fig. 34: Net earned premium to grow consistently



Source: Company Reports, U Capital Research

Fig. 35: Retention ratio is healthy



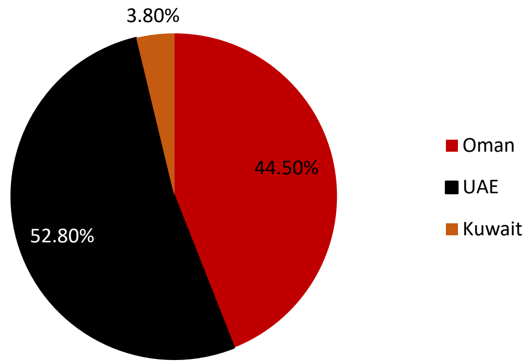
Source: Company Reports, U Capital Research

Growth across segments led by geographical expansion

The acquisition of RSA middle east will help the company in increasing its product portfolio and expand into other GCC markets, thereby reducing the concentration risk for the company. NLIF has a strong presence in health insurance while RSA middle east has a strong footprint in Property & Casualty (P&C) and Motor Insurance. Health and Motor Insurance is expected to drive growth in the future across geographies. The company has three major markets including UAE (52% of total GWP as of FY22), Oman (32%), and KSA (13%), while expanding into other GCC markets like Qatar, Bahrain among others.

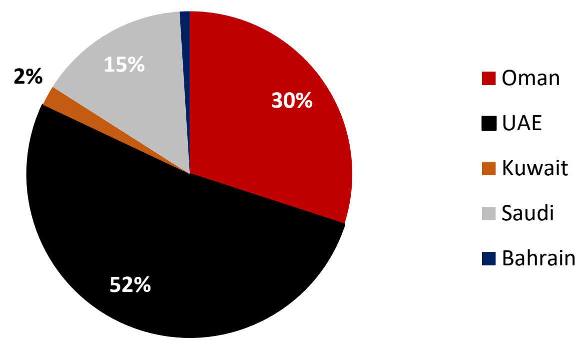
- Health Insurance - The key markets for the company are expected to grow at a good pace from FY22-FY26. UAE is the largest market for the company in terms of GWP and is expected to grow at a CAGR of 4% driven by mandatory health insurance for citizens and expats. While Oman and KSA are also expected to grow due to similar reasons but at a faster rate of 8-14% for Oman and 8% for KSA.
- Motor insurance- The growth for Motor Insurance is expected to be slower compared to Health insurance registering a CAGR of 2-6% from FY22-FY26 driven by factors like slow growth in the auto sector in the region and while growth will come from a rise in the expat population as the economy grows. KSA is expected to grow the fastest driven by low penetration of 1.3%.
- P&C insurance - The key markets for P&C segment is expected to grow led by growth in infrastructure projects and the introduction of mandatory insurance regulations by the government. Key markets are expected to grow in the range of 3-4%, with UAE growing the fastest.
- Life insurance - Life Insurance is a growing segment led by government initiatives in terms of creating awareness for life insurance. The company's key markets like UAE and KSA are expected to grow at a CAGR of 3.6% and 4.1% respectively from FY22-FY26.

Fig. 36: GWP breakup by geography before the acquisition



Source: Company Reports, U Capital Research

Fig. 37: GWP breakup by geography post-acquisition



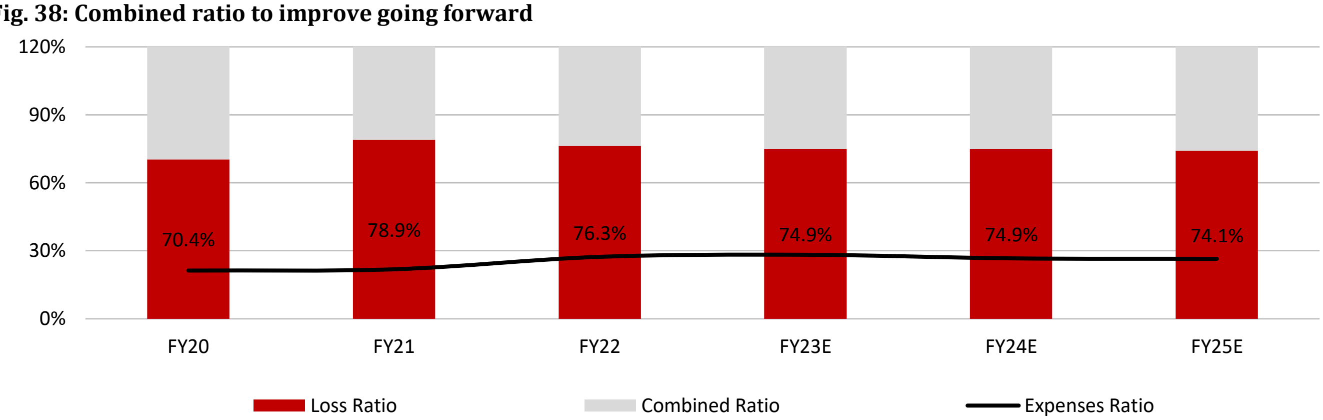
Source: Company Reports, U Capital Research

Loss ratio is expected to reach near its historical levels

In FY22, the net loss ratio increased to 76.3% due to higher claims. However, before FY20, the loss ratio of NLIF used to be ~75%, which improved to 70.4% in FY20 due to significantly lower claims on postponed hospital visits and lesser vehicles on the road amid the COVID restrictions. We expect the loss ratio will gradually improve and reach its historical levels led by better awareness and the importance of a healthy lifestyle to benefit the medical loss ratio going forward. Also, a change in preference for online shopping can reduce traffic on the road, resulting in fewer accidents and a reduction in motor insurance claims. NLIF also aims to increase the re-insurance rate in the health segment which shall help it to lessen the death claims impact.

In the domestic market, NLIF has one of the lowest expense ratio which we expect to improve further backed by efficient claim management. In the last few years, the company has invested in digital technologies which will help the company to reduce operating expenses further. Overall, likely improvement in loss ratio and controlled expense ratio should drive the underwriting profits in future.

Fig. 38: Combined ratio to improve going forward

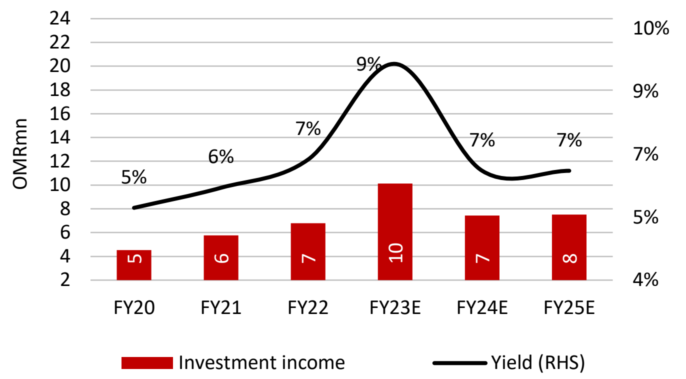


Source: Company Reports, U Capital Research

Investment income likely to grow at a stable rate

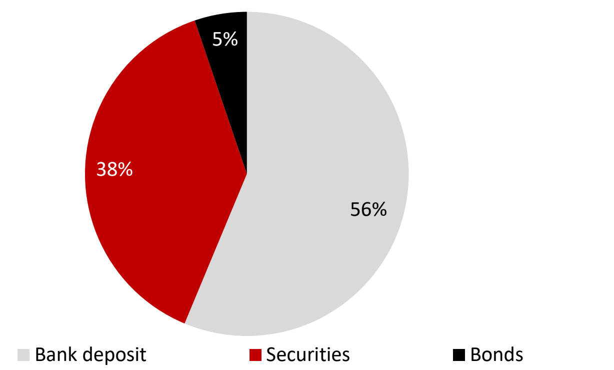
Investment income contributes a major portion to the company's profitability. Investment income has grown at a CAGR of 21.5% from FY17-FY22, to reach 6.77mn. The company's portfolio size increased after the acquisition of RSA which has also led to strong growth in investment income in FY22. Bank deposits increased 210% YoY in FY22 to OMR 147.48mn while Equity increased 99% YoY to 100.83mn. Hence, going forward we expect investment income to grow at a decent pace led by strong security market performance which contributes ~38% of the mix. Bank deposits contribute 56% of the total mix which helps the company generate steady investment income, even during challenging times as seen in FY20. Also, in the future, investment income will likely benefit from the expected increase in interest rates globally. Hence, we expect Investment income to grow at a CAGR of 2.6% from FY22-FY27e.

Fig. 39: Investment income expected to grow stably



Source: Company Reports, U Capital Research investment

Fig. 40: FY22 investment breakdown

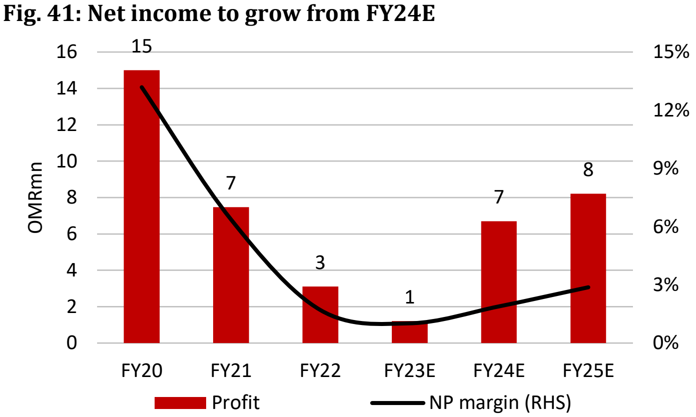


Source: Company Reports, U Capital Research, *FVOCI & FVTPL

Net income is expected to grow benefitted by strong topline and cost control measures

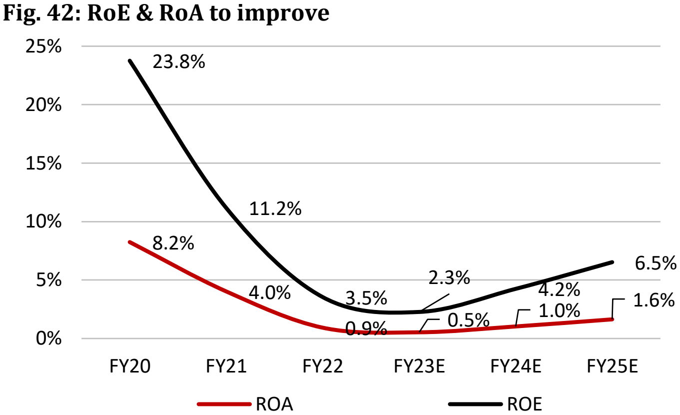
A combination of higher GWP, healthy loss ratio, and stable growth in investment income should result in strong growth in net income in the future. Overall, we expect net income to grow at a CAGR of 31.8% over FY22-27e to reach OMR 12.37mn.

Fig. 41: Net income to grow from FY24E



Source: Company Reports, U Capital Research

Fig. 42: RoE & RoA to improve

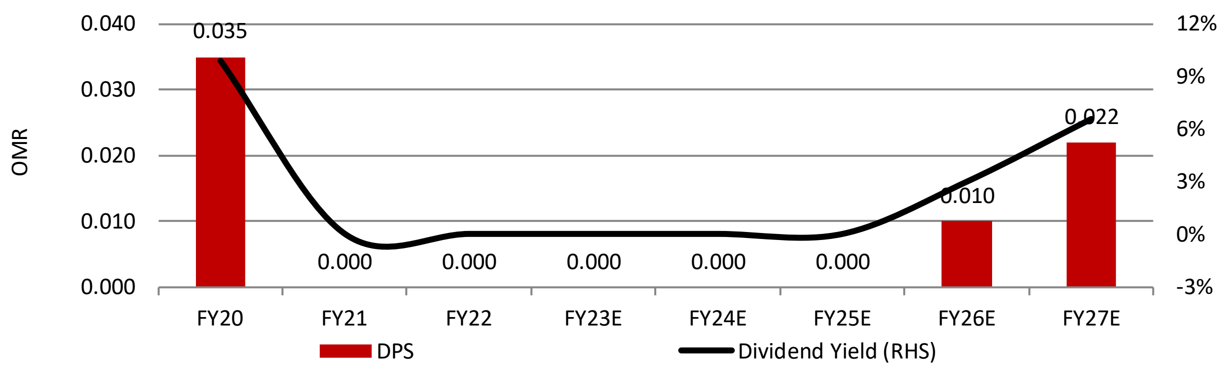


Source: Company Reports, U Capital Research

Expect the company to resume dividends from FY26e driven by sufficient profitability

The company didn't pay dividends in FY21 and FY22 as the company wanted to retain profits to strengthen its capital position. We expect the company to resume paying dividends from FY26e driven by higher profitability along with strong capital ratios.

Fig. 43: Expected to resume dividends from FY26e

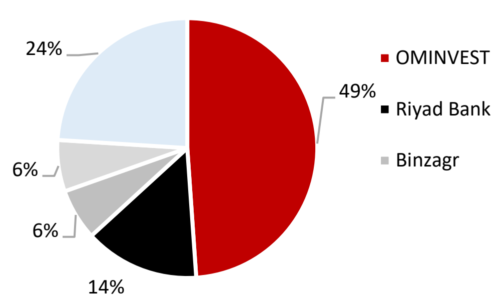


Source: Company Reports, U Capital Research

About National Life and General Insurance

Founded in 1983, National Life & General Insurance Company is Oman based Insurance Company that provides insurance products and services. The company offers life and General insurance products. NLIF acquired RSA Middle East in 2022 and rebranded the company to LIVA, creating a multi-line and multi-country Insurance group.

Fig. 44: NLIF's Shareholding Structure



Source: MCD

Valuation and risks: Our target price is based on blended valuation methodologies – (i) DDM Valuation (ii) Residual Income and (iii)Relative Valuation (using P/B multiples). The downside risks to our valuation include less-than-expected growth in GWP, loss of any major accounts amid the pandemic, a decline in premium rates, higher-than-expected claims, and regulatory investment limits in various products. Key upside risks to our valuation include an unexpected rise in premium rates, faster than expected gain in market share, lower than expected loss ratio, better underwriting, and above-expected dividends

Key financials

In OMR'000, except stated otherwise	FY20	FY21	FY22	FY23e	FY24e	FY25e	FY26e
Income Statement							
Gross written premiums (GWP)	134,028	146,459	231,076	329,228	348,529	366,580	387,299
Insurance premium ceded to reinsurers	(23,851)	(24,295)	(41,362)	(47,020)	(53,084)	(54,791)	(56,965)
Net insurance premium revenue	110,177	122,164	189,714	282,208	295,445	311,789	330,334
Movement in unexpired premium (UPR)	3,625	(4,787)	(7,013)	(29,951)	(27,442)	(25,864)	(24,135)
Net earned premium (NEP)	**113,802**	**117,377**	**182,701**	**252,257**	**268,003**	**285,924**	**306,199**
Claims paid	(104,778)	(116,929)	(166,264)	(222,030)	(234,772)	(247,049)	(261,615)
Reinsurers' share of claims	24,700	24,312	26,906	33,103	33,974	35,066	37,027
Net underwriting result	**26,485**	**16,362**	**27,814**	**38,076**	**39,521**	**44,185**	**49,634**
Investment income	4,516	5,766	6,776	10,117	7,428	7,519	7,615
General and administrative expenses	(12,388)	(12,400)	(27,574)	(38,921)	(34,853)	(36,658)	(38,730)
Profit before taxation	**17,531**	**8,646**	**4,029**	**3,226**	**5,959**	**9,669**	**13,233**
Income tax	(2,525)	(1,173)	(921)	(1,439)	(894)	(1,450)	(1,985)
Profit for the year	**15,006**	**7,474**	**3,108**	**1,788**	**5,065**	**8,218**	**11,248**
Balance Sheet							
Cash and cash equivalents	10,234	14,431	47,914	21,641	24,275	31,051	42,663
Bank deposits	41,596	47,393	-	-	-	-	-
Investments carried at fair value through OCI	37,034	38,111	-	-	-	-	-
Premiums and insurance balances receivable	43,156	49,383	81,114	103,108	106,035	106,606	112,631
Total Assets	**175,826**	**195,417**	**478,462**	**497,378**	**507,091**	**517,982**	**539,570**
Gross outstanding claims	74,713	85,969	181,300	230,460	237,000	238,277	251,744
Short term loan	-	7,500	77,094	74,732	72,490	70,315	66,799
Total Liabilities	**108,405**	**128,989**	**351,980**	**381,410**	**386,058**	**388,730**	**403,054**
Share capital	26,500	26,500	39,837	39,837	39,837	39,837	39,837
Retained earnings	18,826	15,357	13,789	17,980	20,761	26,370	30,622
Total Equity	**67,420**	**66,427**	**109,213**	**115,969**	**121,034**	**129,252**	**136,516**
Total Liabilities and Shareholders' equity	**175,826**	**195,417**	**478,462**	**497,378**	**507,091**	**517,982**	**539,570**
Cash Flow Statement							
Net cash from operating activities	18,128	5,049	18,888	(32,971)	4,014	7,312	17,369
Net cash from investing activities	(18,151)	994	(53,227)	16,507	5,212	5,154	5,083
Net cash from financing activities	(8,733)	(1,852)	67,849	(9,732)	(6,591)	(5,690)	(10,839)
Cash & cash equivalent at period end	**10,234**	**14,432**	**47,914**	**21,641**	**24,275**	**31,051**	**42,663**
Key Ratios							
Net underwriting result	23.3%	13.9%	15.2%	15.1%	14.7%	15.5%	16.2%
Profit before taxation	15.4%	7.4%	2.2%	1.3%	2.2%	3.4%	4.3%
NP margin	13.2%	6.4%	1.7%	0.7%	1.9%	2.9%	3.7%
Loss Ratio	70.4%	78.9%	76.3%	74.9%	74.9%	74.1%	73.3%
Expenses Ratio	21.3%	21.9%	27.4%	28.9%	26.7%	26.5%	26.3%
Combined Ratio (COR)	91.7%	100.8%	103.6%	103.8%	101.6%	100.6%	99.6%
Retention ratios	82.2%	83.4%	82.1%	85.7%	84.8%	85.1%	85.3%
ROA	8.2%	4.0%	0.9%	0.4%	1.0%	1.6%	2.1%
ROE	23.8%	11.2%	3.5%	1.6%	4.3%	6.6%	8.5%
EPS (RO)	0.057	0.028	0.010	0.004	0.013	0.021	0.028
BVPS (RO)	0.254	0.251	0.366	0.291	0.304	0.324	0.343
DPS (RO)	0.035	-	-	-	-	-	0.010
Dividend Yield (%)	9.9%	0.0%	0.0%	0.0%	0.0%	0.0%	3.0%
Cash Dividend payout (%)	61.8%	0.0%	0.0%	0.0%	0.0%	0.0%	35.4%
P/E (x)	6.25x	12.06x	32.64x	74.66x	26.35x	16.24x	11.86x
P/BV (x)	1.39x	1.36x	0.93x	1.15x	1.10x	1.03x	0.98x
Price as at period end*	0.354	0.340	0.340	0.335	0.335	0.335	0.335

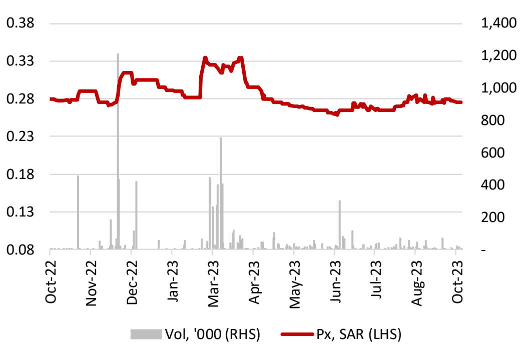
Oman United Insurance Company

Target Price: OMR 0.310
Upside/ (Downside): 15.0%

Recommendation	**Accumulate**
Bloomberg Ticker	OUIC OM
Current Market Price (OMR)	0.27
52wk High / Low (OMR)	0.330/0.250
12m Average Vol. (000)	35.5
Mkt. Cap. (USD/OMR Mn)	70/27
Shares Outstanding (mn)	100.0
Free Float (%)	65%
3m Avg Daily Turnover (SAR'000)	3.4
6m Avg Daily Turnover (SAR'000)	4.9
P/E'23e (x)	8.38
P/B'23e (x)	0.90
Dividend Yield '23e (%)	7.16%
Price Performance:	
1 month (%)	-
3 month (%)	0.4
12 month (%)	(4.9)

Source: Bloomberg, valued as of 11 October 2023

Price-Volume Performance



Source: Bloomberg

- **Steady GWP growth prioritizing quality over market share expansion**
- **Motor segment is facing challenges currently**
- **Continued growth in investment income driving bottom-line**
- **We expect a stable dividend yield going forward**

We review our coverage on Oman United Insurance Company (OUIC) and assign an **Accumulate** rating with a target price of OMR 0.310 per share, offering an upside of **15.0%**. The stock trades at a P/B of 0.9x, offering a healthy dividend yield of over 7.2%. Oman's insurance sector shows promising prospects, and the company is well-positioned with a GWP market share of ~6%, expected to stabilize going forward. Emphasizing quality growth, the company aims to sustain profitability through a conservative approach. The company is facing challenges in the Motor segment and is addressing them by focusing on the pricing and distribution side of the business. It has also taken up the strategy to change its product mix. Given these challenges and healthy investment income, as it has one of the highest investment yields in the industry, earnings growth is anticipated from FY24e.

Investment Thesis

Strong fundamentals: The company has shown a strong and consistent track record of rewarding shareholders through dividends, driven by (i) favorable earnings performance despite a decline in market share, given prudent underwriting (ii) phased shift to equity investments to boost investment income (iii) navigating the tightening reinsurance market through prudent risk selection (iv) ability to retain key clients even during a challenging environment. Going forward, we expect the company to maintain a stable dividend yield of ~7% during our forecasted period.

2Q23 performance - The company's GWP grew 7% YoY to OMR 7.7mn, in line with our expectations. The investment & other income came in at OMR 1.1mn in 2Q23, signifying an increase of 157% on a YoY basis. Strong growth in Investment income led net profit to grow YoY. The bottom line came in at OMR 0.1mn compared to a loss of OMR 0.2mn in a year ago period, below our expectations of OMR 0.5mn.

Financials & valuation summary:

	2020	2021	2022	2023E	2024E	2025E
Gross Written Premiums (OMR mn)	30.9	30.5	32.2	28.6	31.5	33.4
Net Underwriting (OMR mn)	8.1	6.4	5.7	3.1	2.9	3.2
Net Profit (OMR mn)	4.3	4.0	4.3	3.2	3.1	3.2
Combined Ratio	82.8%	94.6%	96.8%	112.4%	112.5%	110.9%
ROA	4.0%	3.6%	4.0%	3.1%	2.9%	2.9%
ROE	14.0%	12.8%	14.3%	10.7%	10.1%	10.2%
DPS (OMR/share)	3.5%	3.5%	3.5%	1.9%	1.9%	1.9%
Dividend Yield	8.8%	9.3%	13.0%	7.2%	6.9%	7.2%
P/E (x)	9.4x	9.5x	6.3x	8.4x	8.7x	8.3x
P/BV (x)	1.3x	1.2x	0.9x	0.9x	0.9x	0.8x

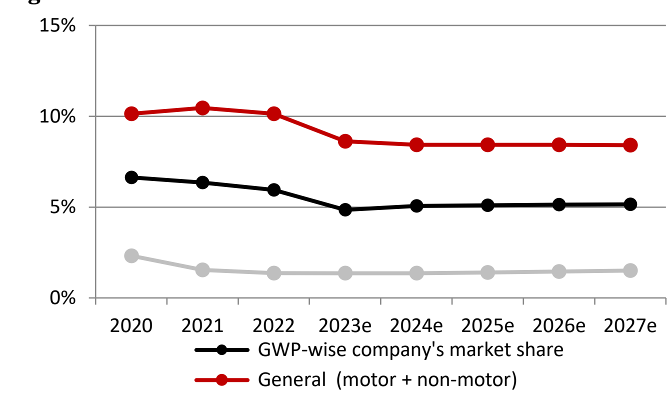
Source: Company Reports, U Capital Research

Balanced premium composition and retail expansion to propel growth

OUIC's GWP has shown a CAGR of -3.2% during FY18-22, performing below the industry average, which grew at a CAGR of ~4% during the same period. Consequently, the company's overall market share declined from 7.9% in FY18 to 5.9% in FY22, primarily due to challenges faced in Life and Medical segments. However, this decline can be attributed to the company's prudent underwriting strategies, where it selectively retains and renews accounts to improve its underwriting performance.

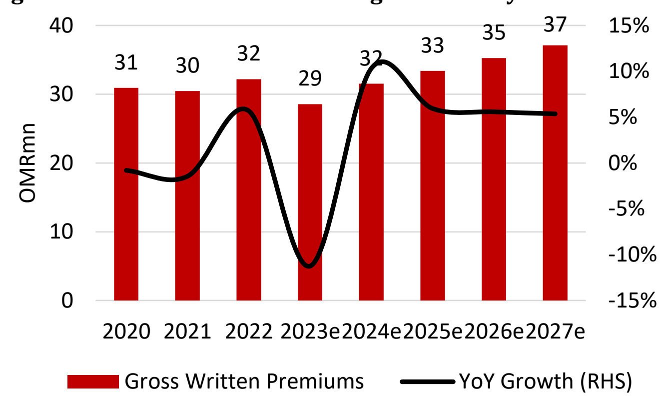
In FY'22, the company's GWP reached OMR 32.2mn, marking a 6% YoY increase. This growth was driven by the further expansion of profitable business segments. The premium composition was well-balanced, with 42% for motor, 47% for non-motor, and 11% for medical and life, representing a favorable and diversified distribution mix for a composite company. However, the company is facing some challenges in its motor segment due to rising claims, which is 30% more compared to COVID-19. There were also concerns regarding the potential non-renewal of crucial project policies, which could adversely affect the company's GWP performance in the future. Despite this, we believe that the company's selective and conservative approach will prove beneficial in enhancing its core underwriting operations in the future.

Fig. 45: Market share to stabilize in the future



Source: Company Reports, U Capital Research

Fig. 46: Gross Written Premium to grow steadily



Source: Company Reports, U Capital Research

In the coming years, OUIC aims to change its product mix, foster growth in its retail business by expanding its branch network and harnessing modern technologies to serve customers more efficiently. The company also expects to benefit from recent regulatory reforms, such as the introduction of mandatory health insurance in 2023. As a result, the company's top line is expected to grow at a CAGR of ~3% over 2022-27e

Adapting to a tightening reinsurance market

The reinsurance market is currently witnessing tightening terms and reduced capacity for reinsurance contracts due to numerous catastrophic losses worldwide. As a result, there have been various restrictions put in place. Major reinsurers are operating with combined ratios that exceed 100%, necessitating the implementation of corrective measures to address the challenging market conditions. Moreover, facultative reinsurers have imposed stricter terms in 2022, leading to a reduction in capacities and coverage specifically for Oman. The Sultanate has also been grappling with changing climatic conditions and repeated exposure to natural disasters, which are expected to increase reinsurance expenses. In light of these circumstances, we anticipate that the company will prioritize prudent risk selection in terms of being more selective in choosing risks to underwrite, focusing on those with lower potential for catastrophic losses or those that align with the company's risk appetite and expertise. In addition, the company may choose to retain more of its business, gradually reducing its reliance on reinsurance and thereby decreasing reinsurance expenses. By retaining a larger portion of the risk, the company aims to improve its underwriting margin over time, mitigating the impact of the tightening reinsurance market.

Fig. 47: Steady growth in Net Written Premium

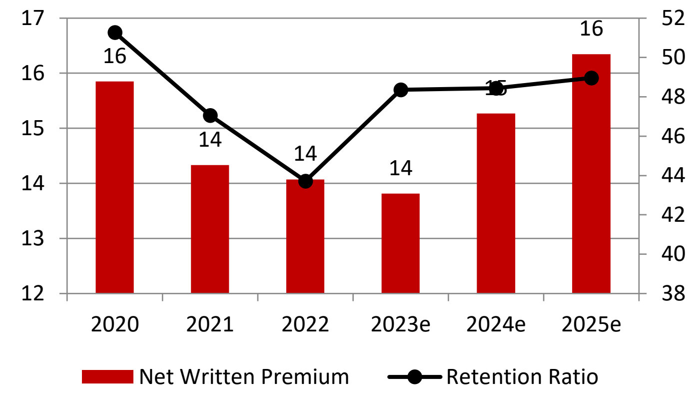
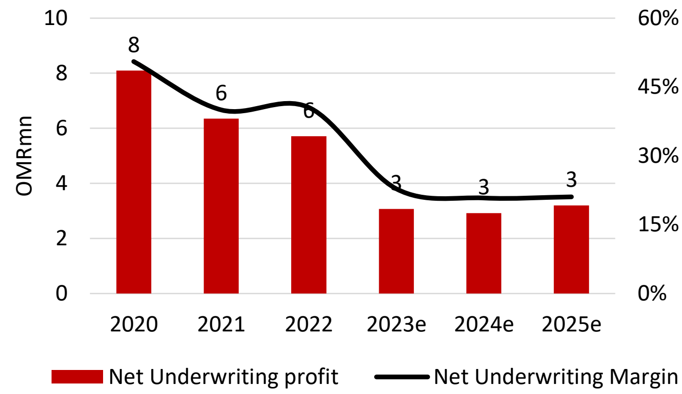


Fig. 48: Net underwriting profit to recover in future



Source: Company Reports, U Capital Research

Source: Company Reports, U Capital Research

Capturing growth through a phased shift to equity investments

OUIC is optimistic about the potential performance of Omani stock market and foresees the emergence of additional investment opportunities. In response, the company has formulated a gradual realignment of its investment portfolio, transitioning from fixed-income instruments to equity investments. This phased approach allows the company to capitalize on potential growth in the equity market while effectively managing risk. This strategic shift is evident from the company's increased share of equity investments in the overall investment portfolio, which rose from 5.4% in FY20 to 9.5% in FY22.

Furthermore, the company's investment portfolio mix is constituted in a way that over 86% of its surplus is allocated to less risky and liquid fixed investments. Despite adopting a conservative investment approach and operating in an unfavorable macroeconomic environment, the company managed to increase its investment income at a CAGR of ~62% over FY18-22.

Fig. 49: Growing investment income

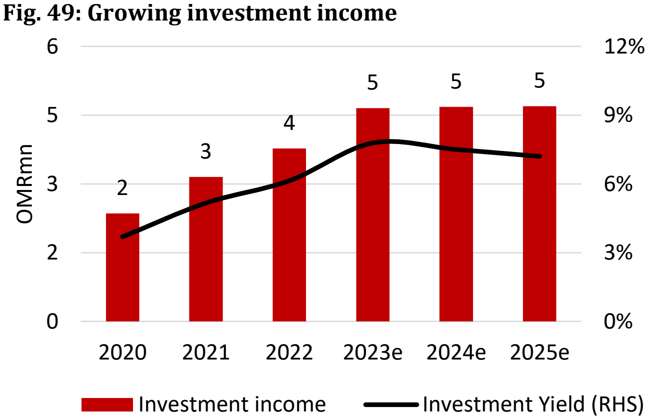
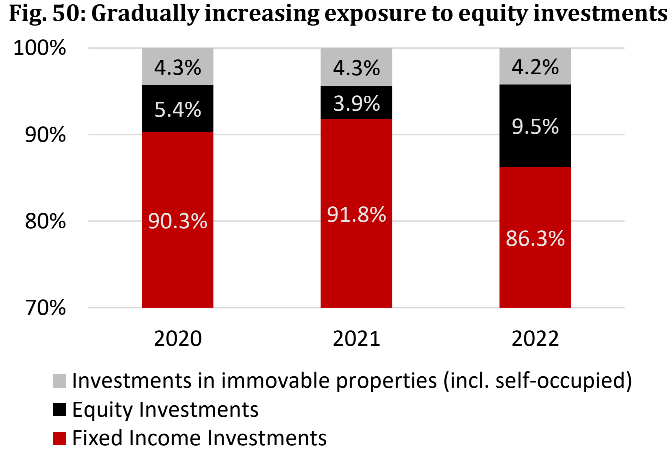


Fig. 50: Gradually increasing exposure to equity investments



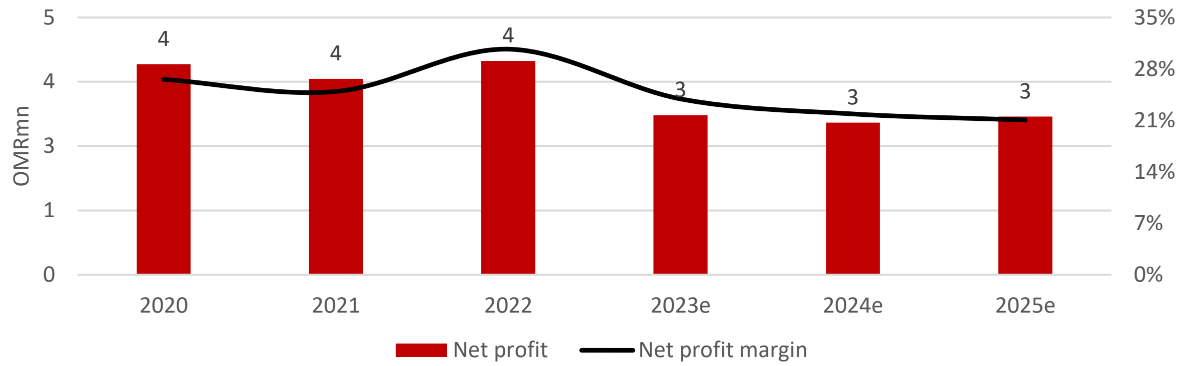
Source: Company Reports, U Capital Research

Looking ahead, due to increased investment in equities. This emphasizes the importance of adopting a selective investment approach and exercising prudent risk management. In line with its strategy, the company may cautiously increase its allocation towards the local equity market, aiming to generate higher investment income and drive earnings upward.

Anticipating Improved Profitability

Based on our projections, we expect moderate top-line growth along with robust investment income, leading to a net profit growth rate of 3.1% CAGR over our forecasted period 2023-27e, compared to a CAGR of 8% during 2018-22, highlighting challenges in its motor segment and concerns around the potential non-renewal of policies. Given these challenges, we expect the ROA to reach 2.9% and the ROE to reach 10.4% in FY27e.

Fig. 51: Net profit and margins to recover in the coming years

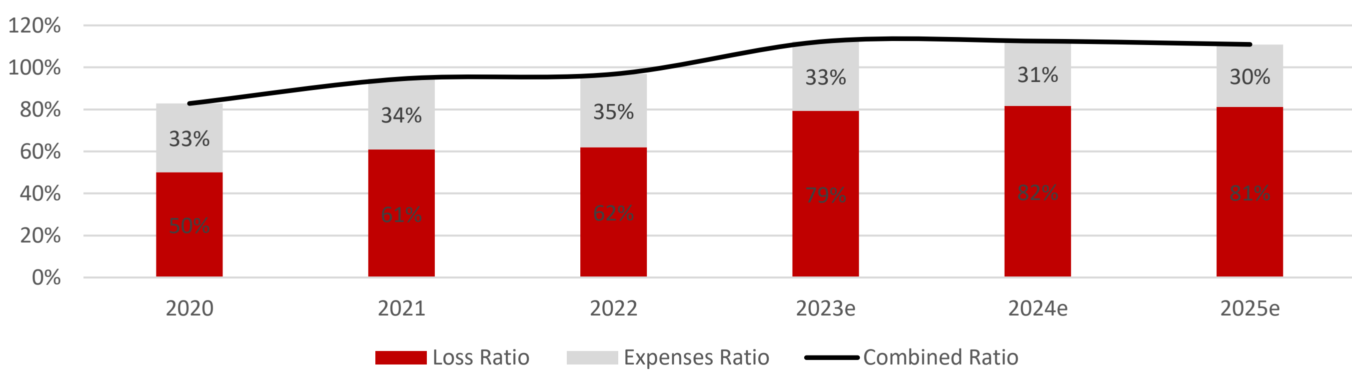


Source: Company Reports, U Capital Research

Underwriting strength to shield the combined ratio

In FY22, the combined ratio was 96.8% compared to 82.8% in FY20. However, from FY17-FY20, the company has demonstrated a declining trend in its combined ratio. This trend reflects the company's robust underwriting policies and its ability to generate sufficient cash from its underwriting business. However, an increase in claims in the motor segment has resulted in rise in the loss ratio. As a result, the combined ratio increased as well.

Fig. 52: Combined ratio to improve with the decline in loss and expense ratio



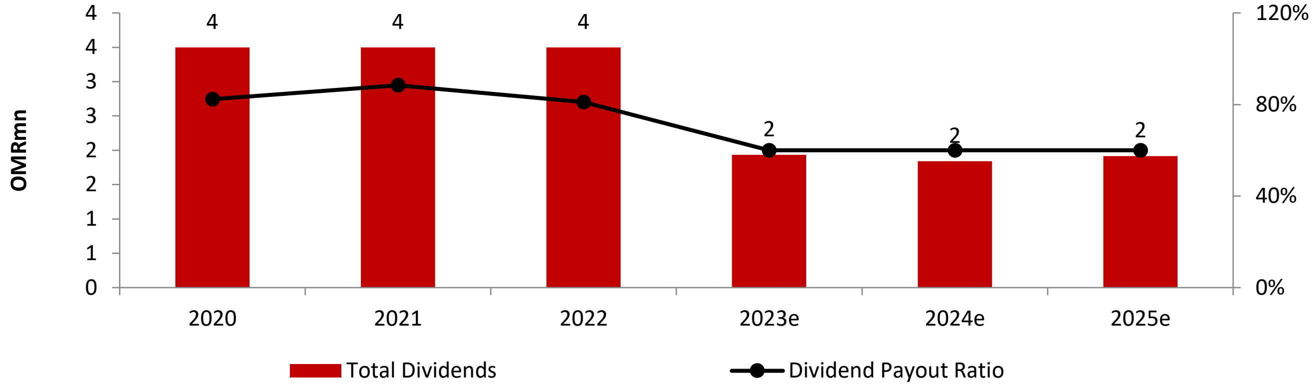
Source: Company Reports, U Capital Research

Looking ahead, we anticipate the loss ratio to increase to 82% in FY24e, but gradually improving to 80% by FY'27e. Additionally, the expense ratio is expected to improve from 31% in FY24e to 27% by FY27e. Consequently, the combined ratio is projected to decrease from 112.5% in FY24e to 107.8% by FY'27e. These projections highlight the company's commitment to efficient claims management, reducing losses over time, and enhancing its underwriting performance.

Steady shareholder returns amid pressure of net profit in short term

OUIC has followed a prudent approach to dividend distribution and has consistently rewarded its shareholders with regular dividends in the past. In the past five years, the company's dividend yield has been in the range of ~8-13%. However, due to pressure on net income in the near term, we expect a dividend yield of 7% going forward.

Fig. 53: Continued dividend payment in future



Source: Company Reports, U Capital Research

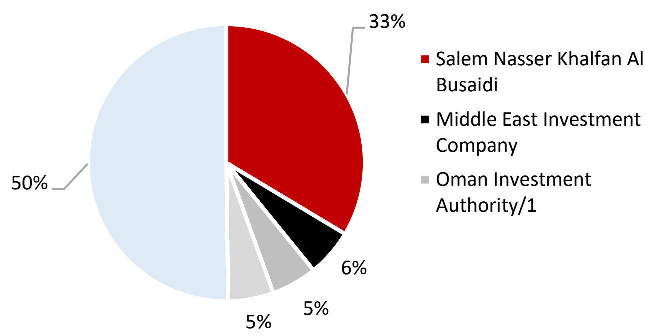
Focus on quality growth and investment income to drive the upside

Over the years, OUIC's GWP market share has experienced a decline, reducing from 8.5% in FY’17 to approximately 6.0% in FY’22, which can be attributed to its strategic focus on quality-based growth rather than simply pursuing top-line expansion. This approach has proven beneficial, enabling the company to retain its customer base even during challenging periods like the pandemic. We expect near-term pressure on GWP driven by challenges in the motor segment due to higher claims. The company has also implemented a strategy to change its portfolio mix to equity investments to capture higher returns, thereby giving support to net profit growth. Furthermore, we expect the company to continue to pay dividends with a dividend payout of ~7%. Overall, OUIC's focus on quality growth, shift to more investments in equity, and commitment to dividend distribution make it an attractive proposition for income-seeking investors.

About OUIC

Oman United Insurance Company (OUIC) is incorporated in the Sultanate of Oman. The company is mainly engaged in the underwriting of the general and life and medical insurance business and the repair and maintenance of motor vehicles within the Sultanate of Oman.

Fig. 54: OUIC's Shareholding Structure



Source: MCD

Valuation and risks: Our target price is based on blended valuation methodologies – (i) DDM Valuation (ii) Residual Income and (iii)Relative Valuation (using P/B multiples). The downside risks to our valuation include less-than-expected growth in GWP, loss of any major accounts amid the pandemic, a decline in premium rates, higher-than-expected claims, and regulatory investment limits in various products. Key upside risks to our valuation include an unexpected rise in premium rates, faster than expected gain in market share, lower than expected loss ratio, better underwriting, and above-expected dividends.

Key financials

In OMR'000, except stated otherwise	FY20	FY21	FY22	FY23e	FY24e	FY25e
Income Statement						
Gross written premiums (GWP)	30,908	30,458	32,187	28,565	31,513	33,383
Insurance premium ceded to reinsurers, earned	(15,059)	(16,127)	(18,115)	(14,749)	(16,246)	(17,036)
Net written premium	15,849	14,332	14,072	13,816	15,267	16,347
Net earned premium (NEP)	**16,009**	**15,886**	**14,077**	**13,477**	**14,044**	**15,184**
Claims paid	(18,100)	(17,047)	(21,215)	(13,816)	(14,862)	(16,051)
Reinsurers' share of claims	10,240	7,628	9,341	652	881	1,009
Net underwriting result	**8,093**	**6,356**	**5,707**	**3,075**	**2,924**	**3,198**
Investment income	2,355	3,149	3,774	4,656	4,716	4,753
General and administrative expenses	(5,158)	(5,366)	(5,109)	(4,648)	(4,569)	(4,740)
Profit before taxation	**5,222**	**4,671**	**4,645**	**3,360**	**3,336**	**3,493**
Income tax	(967)	(711)	(325)	(134)	(234)	(244)
Profit for the year	4,254	3,960	4,320	3,226	3,102	3,248
Balance Sheet						
Cash and bank balances	1,937	773	519	(3,568)	2,306	1,980
Investment property	2,142	2,076	2,021	1,361	1,438	1,457
Financial investments	63,827	60,964	61,473	59,879	62,873	66,017
Insurance and other receivables	7,212	9,077	6,272	9,152	10,096	10,269
Reinsurers' share of insurance contract liabilities	30,588	34,399	36,948	33,025	33,397	33,967
Total Assets	**107,310**	**108,784**	**108,580**	**101,137**	**111,327**	**114,867**
Liabilities arising from insurance contract	56,663	59,177	60,294	55,042	60,722	61,759
Trade and other payables	16,318	17,573	17,113	15,555	18,908	20,030
Income tax payable	976	753	448	45	45	45
Total Liabilities	**76,850**	**77,954**	**78,419**	**71,019**	**80,043**	**82,196**
Share capital	10,000	10,000	10,000	10,000	10,000	10,000
Retained earnings	5,899	6,359	5,617	5,343	6,510	7,897
Total Equity	**30,459**	**30,830**	**30,162**	**30,118**	**31,284**	**32,671**
Total Liabilities and Shareholders' equity	**107,310**	**108,784**	**108,580**	**101,137**	**111,327**	**114,867**
Cash Flow Statement						
Net cash from operating activities	5,029	(688)	84	(4,955)	11,130	4,964
Net cash from investing activities	(2,973)	5,431	2,980	4,560	(3,312)	(3,423)
Net cash from financing activities	(3,000)	(3,500)	(3,500)	(3,511)	(1,945)	(1,867)
Cash & cash equivalent at period end	**1,937**	**773**	**519**	**(3,568)**	**2,306**	**1,980**
Key Ratios						
Net underwriting margin	50.6%	40.0%	40.5%	22.8%	20.8%	21.1%
Pre-tax margin	32.6%	29.4%	33.0%	24.9%	23.8%	23.0%
NP margin	26.6%	24.9%	30.7%	23.9%	22.1%	21.4%
Loss Ratio	50.1%	60.9%	62.1%	79.3%	81.6%	81.2%
Expenses Ratio	32.7%	33.6%	34.8%	33.1%	30.9%	29.7%
Combined Ratio (COR)	82.8%	94.6%	96.8%	112.4%	112.5%	110.9%
Retention ratios	51.3%	47.1%	43.7%	48.4%	48.4%	49.0%
ROA	4.0%	3.6%	4.0%	3.1%	2.9%	2.9%
ROE	14.0%	12.8%	14.3%	10.7%	10.1%	10.2%
EPS (OMR)	0.043	0.040	0.043	0.032	0.031	0.032
BVPS (OMR)	0.305	0.308	0.302	0.301	0.313	0.327
DPS (OMR)	0.035	0.035	0.035	0.019	0.019	0.019
Dividend Yield (%)	8.8%	9.3%	13.0%	7.2%	6.9%	7.2%
Cash Dividend payout (%)	82.3%	88.4%	81.0%	60.0%	60.0%	60.0%
P/E (x)	9.40x	9.50x	6.25x	8.37x	8.70x	8.31x
P/BV (x)	1.31x	1.22x	0.90x	0.90x	0.86x	0.83x
Price as at period end*	0.400	0.376	0.270	0.270	0.270	0.270

Source: Company Reports, U Capital Research

*Current market price is used for the years forecasted

Al Madina Takaful Insurance

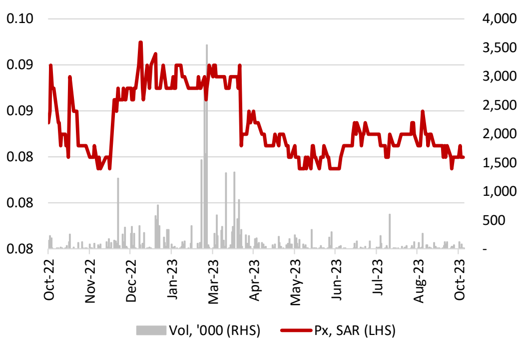
Target Price: OMR 0.097
Upside/ (Downside): 11.3%

Recommendation	**Accumulate**
Bloomberg Ticker	AMAT OM
Current Market Price (OMR)	0.087
52wk High / Low (OMR)	0.090/0.080
12m Average Vol. (000)	151.7
Mkt. Cap. (USD/OMR Mn)	38/15
Shares Outstanding (mn)	175.0
Free Float (%)	74%
3m Avg Daily Turnover (SAR'000)	4.5
6m Avg Daily Turnover (SAR'000)	5.4
P/E'23e (x)	9.17
P/B'23e (x)	0.66
Dividend Yield '23e (%)	8.73%

Price Performance:	
1 month (%)	2.40
3 month (%)	2.40
12 month (%)	(5.40)

Source: Bloomberg, valued as of 11 October 2023

Price-Volume Performance



Source: Bloomberg

- **Continues to expand its market share, reached 8.3% in FY22**
- **GWP is likely to grow led by volume and premium growth**
- **Consistent growth in investment income, Efficient underwriting and operational efficiencies to benefit bottom line**
- **Consistent distribution policy and attractive dividend yield**

We review our coverage of Al Madina Takaful Insurance Company with an **Accumulate** rating and a target price of OMR 0.097 per share, implying an upside of 11.3%. Our target price is based on blended valuation methodologies – (i) DDM Valuation, (ii)Residual Income method and (iii) Relative Valuation (using P/B multiple). Currently, the stock trades at 0.67x P/B, based on our FY23e book value.

Al Madina has exhibited remarkable resilience in the face of challenging conditions over the past few years. Despite the difficulties, the company achieved consistent and steady top-line growth, along with remarkable expansion in investment income. As a result, the company managed to achieve impressive double-digit bottom-line growth within the insurance industry during the FY17-22 period. Looking ahead to 2023 and beyond, the Insurance industry in Oman is expected to experience a phase of stable growth, with an overall positive outlook due to increased stability in oil prices within the markets. Consequently, we anticipate the company will continue to strengthen its market position across various business segments by enhancing distribution channels and supply chains.

Investment Thesis

Strong fundamentals: (i) Among top five largest insurance company with robust underwriting performance, underpinned by continued market share gains even during challenging times (ii) Growing investment income backed by a prudent investment strategy to aid earnings (iii) Consistent dividend payouts are a key investment positive.

2Q23 performance - The company's GWP grew 14% YoY to OMR 9.7mn, above our expectations of OMR 9.1mn. Investment Income was down 34% YoY to OMR 0.1mn in 2Q23 compared to our forecast of OMR 0.4mn. Profit after tax grew 17% YoY to OMR 0.5mn and missed our expectation by 36%. Net profit missing our estimates was due to lower Investment income.

Financials & valuation summary:

	2020	2021	2022	2023E	2024E	2025E
Gross Written Premiums (OMR mn)	39.6	44.1	44.7	47.2	50.6	54.1
Net Underwriting (OMR mn)	6.1	6.6	7.0	7.9	8.7	9.2
Net Profit (OMR mn)	0.7	1.0	1.1	1.6	1.7	1.8
Combined Ratio	92.0%	96.0%	98.2%	92.9%	92.1%	92.2%
ROA	0.7%	0.8%	0.9%	1.4%	1.3%	1.2%
ROE	3.1%	4.2%	4.8%	7.2%	7.6%	7.9%
DPS (OMR/share)	0.01	0.01	0.01	0.01	0.01	0.01
Dividend Yield	12.8%	7.9%	7.6%	8.4%	9.0%	9.5%
P/E (x)	19.1x	17.4x	15.2x	9.5x	8.9x	8.5x
P/BV (x)	0.6x	0.7x	0.7x	0.7x	0.7x	0.7x

Source: Company Reports, U Capital Research

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Takaful Insurance Industry to witness stable growth

The takaful insurance industry witnessed a growth of 7.7% YoY in GWP in 2022, reaching OMR 76.3mn. This accounted for ~14% of the total insurance GWP. In terms of categories, the growth was primarily driven by Family insurance (OMR 18.5mn; +37.4% YoY) and Health Insurance (OMR ~14.0mn; +6.1%), which more than offset weakness in General Insurance (OMR 43.8mn; -0.8%).

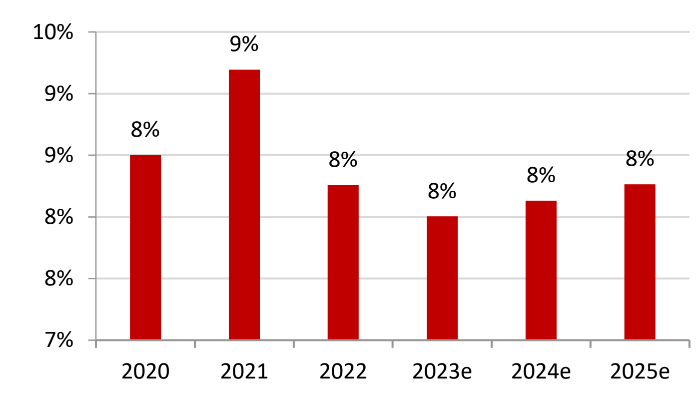
Within the takaful realm, Family (group) insurance represented the highest share of industry-wide category premiums (2022: 36.1%), followed by Motor (Comprehensive: 14%) and Motor (Third Party: 13.6%). On the other hand, the share of Other category increased to 41.2% in 2022 (2019: 32%).

Going forward, we expect Takaful GWP to surge to OMR 106.5mn by 2027e (+6.9% CAGR during 2022-27e). This growth is expected to be driven by broad-based share gains across all segments, including Motor, Health, Life, Property, Marine and Others. As a result, the takaful insurance industry's share is projected to increase to 14.6% of the total industry.

Al Madina leading the insurance market in Oman amidst challenges

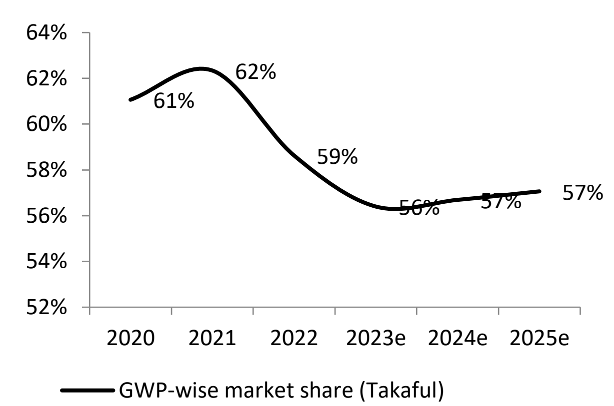
Amidst persistent challenges faced by insurance industry and growing concerns about a global recession, Al Madina managed to expand its market share to 8.3% in FY22 (compared to 6.6% in FY17). Moreover, the company has established dominance among Takaful players in Oman, capturing a significant market share of 58.6% in FY22. This stems from the company's supremacy in Takaful energy and infrastructure risks, where it holds a remarkable market share of 76.2% in Takaful Fire, energy, medical, engineering, liability, and general accident insurance. Additionally, the company achieved a market share of 60.4% in Motor, marine, and aviation insurance and 16.7% in Family insurance.

Fig. 55: Continuously increasing its total market share ...



Source: Company Reports, U Capital Research

Fig. 56: ... to further strengthen its Takaful market share



Source: Company Reports, U Capital Research

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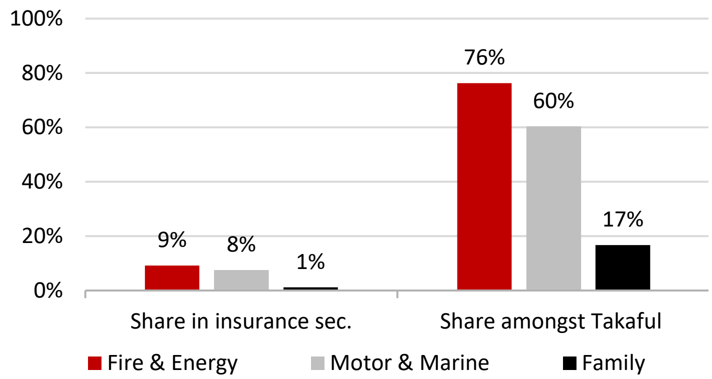
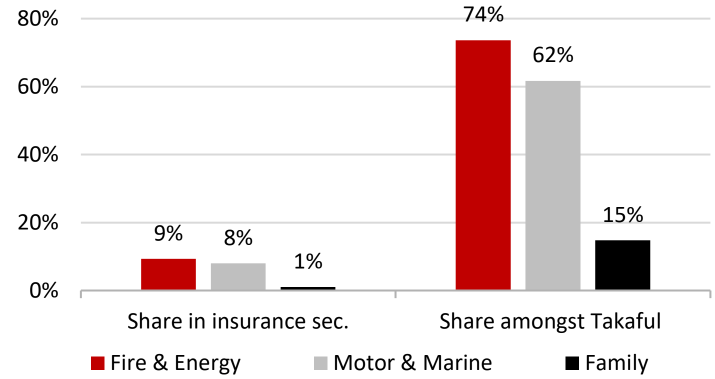
Fig. 57: AMAT's business-wise market share – FY22



Source: Company Reports, U Capital Research

Fig. 58: AMAT's business-wise market share – FY27e



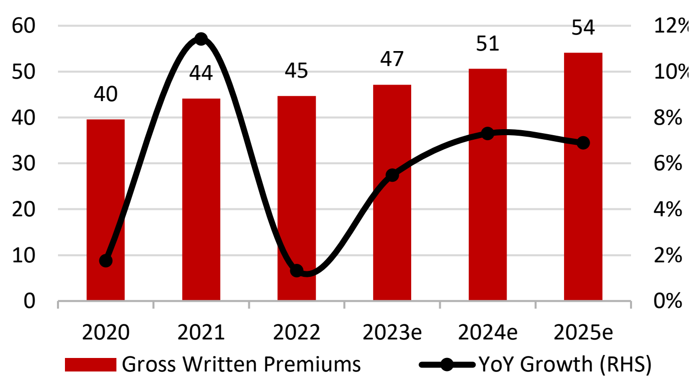
Source: Company Reports, U Capital Research

In FY23e, Al Madina aims to maintain its market share by strengthening its distribution channels and supply chain. Further impetus is expected from the imminent implementation of mandatory health insurance, wherein Al Madina has completed the licensing requirement and awaits approval from the Capital Market Authority. We expect the company to retain its dominance in Takaful insurance, with an expected market share of 57.8% by 2027e, driven by gains in Motor, marine and aviation category. As a result, with the continued opening of new agencies, Al Madina's overall market share within the insurance industry is likely to expand as well.

Volume growth and premium strength to drive top-line

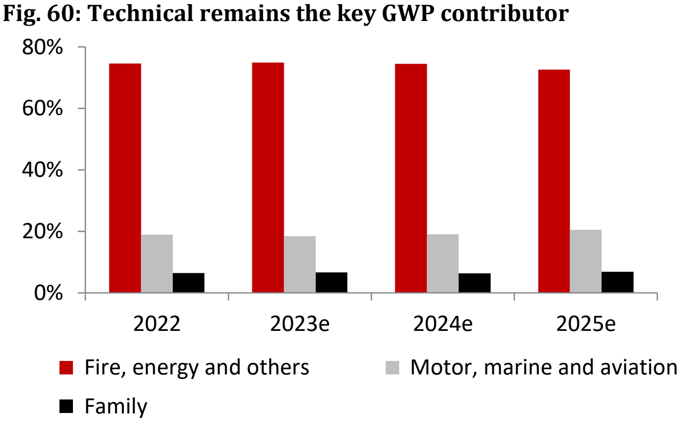
Al Madina's gross contribution grew at 8.4% CAGR during FY17-22 to OMR 44.7mn. This growth has been driven by broad-based momentum across all segments, including Family takaful (OMR 3.1mn; FY19-22 CAGR: +7%), Motor, marine and aviation (OMR 9.2mn; +7%) and specialized risk (OMR 32.4mn; +4%).

Fig. 59: GWP expected to sustain growth



Source: Company Reports, U Capital Research

Fig. 60: Technical remains the key GWP contributor



Source: Company Reports, U Capital Research

The company focuses on achieving stability and fostering sustainable growth, with a strong emphasis on key drivers such as enhancing customer service, introducing new products, embracing technological innovations, and adapting to regulatory changes. Looking ahead, we expect Al Madina's gross contributions to reach OMR 61.5mn by FY27e (FY22-27 CAGR: +7%), led by motor segment (FY22-27 CAGR: +7.8%) on the back of the company's focus to grow retail motor business. Further support would be rendered by specialized risk (+6.5%) and Family divisions (+3.5%).

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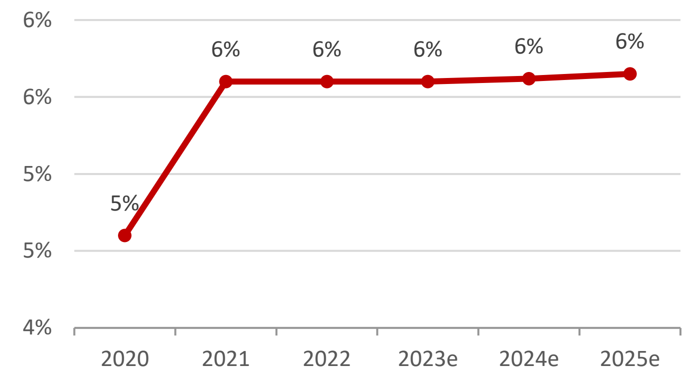
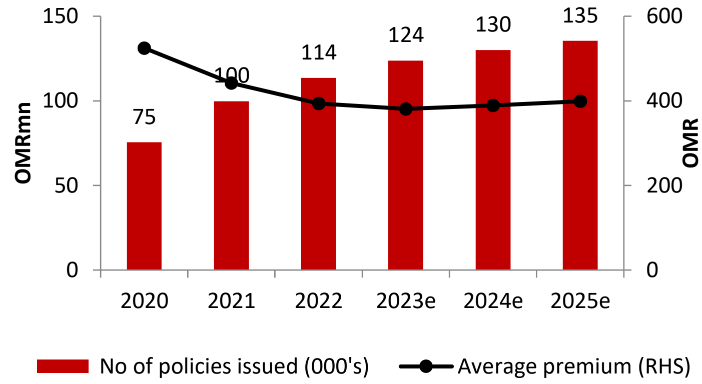
Fig. 61: Al Madina's volume-based strategy to help in gaining share



Source: Company Reports, U Capital Research

Fig. 62: Avg. premium rates to stabilize after a continuous pressure



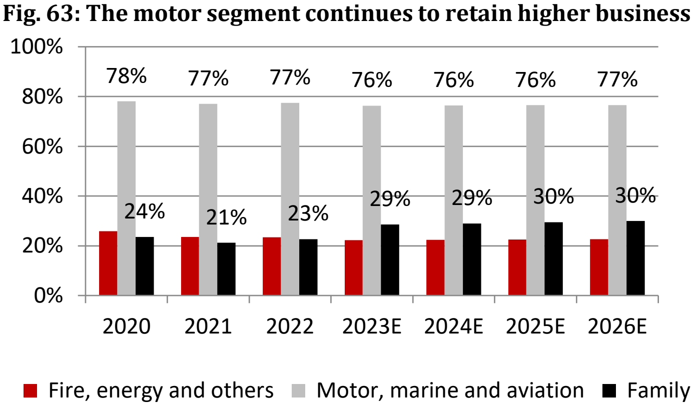
Source: Company Reports, U Capital Research

We believe that Al Madina can leverage its strong market positioning and focused sales strategy to drive volume growth (FY22-27 CAGR: +5.7%). Al Madina's strategic decision to reinforce staff in key locations, in a bid to tap into more retail-based market segments, should aid further momentum. Growth in new business is likely to augmented by stabilization in average premium rates, which are presently witnessing pressure from intense competition. Strength in oil prices, effectiveness of mandatory health insurance products and inflation-driven increase in insurance claims, instate our positive outlook for the company.

Retention ratio remains low despite headwinds in the reinsurance market

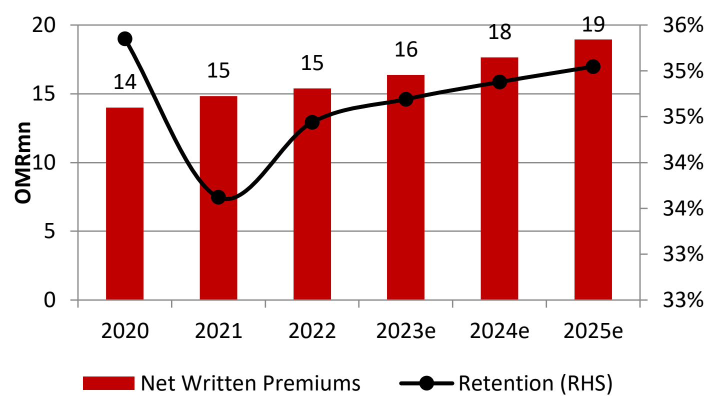
The reinsurance market has been facing pressures due to tightening terms and reduced appetite to take risks amid the increased frequency of natural catastrophic events in Oman and the exit of reinsurance capacities. Despite the headwinds in the reinsurance market, Al Madina has been successful in maintaining a retention ratio of 34.4% in FY22. Going forward, we expect the company's retention ratio to increase slightly to 35.4% by FY27e.

Fig. 63: The motor segment continues to retain higher business



Source: Company Reports, U Capital Research

Fig. 64: Retained contributions should steadily increase from FY23e



Source: Company Reports, U Capital Research

Stringent underwriting practice and operational efficiencies to drive earnings

The rebound in economic activity following pandemic lows resulted in a rise in Motor-related claims, reaching a five-year high. Additionally, an increase in Health insurance claims added further headwinds. This propelled loss ratio to 56.9% in FY22 (FY20: 47.8%). However, Al Madina has defied pricing pressures and increased claims, to exhibit profitability growth, through stringent underwriting practices. In 1Q23, the company deliberately chose not to renew certain loss-

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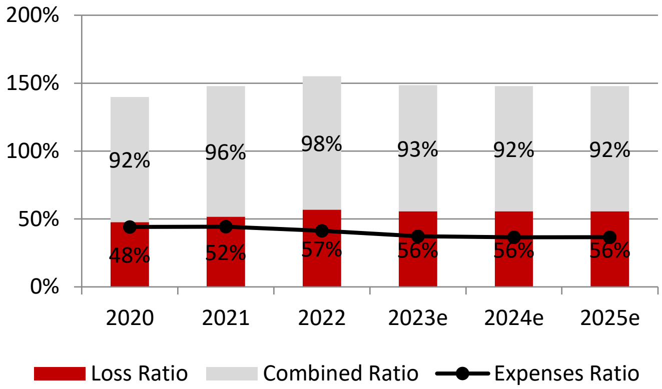
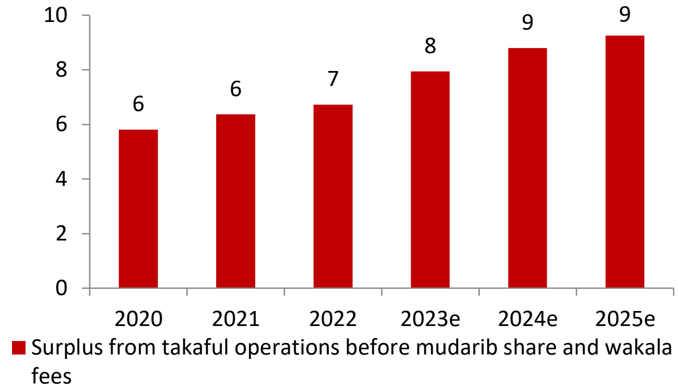
making accounts in order to protect profitability. These measures are expected to contribute to some moderation in the loss ratio going forward.

Fig. 65: Combined ratio likely to improve on digitalization



Source: Bloomberg, U Capital Research

Fig. 66: Continued strength expected in profitability



Source: Bloomberg, U Capital Research

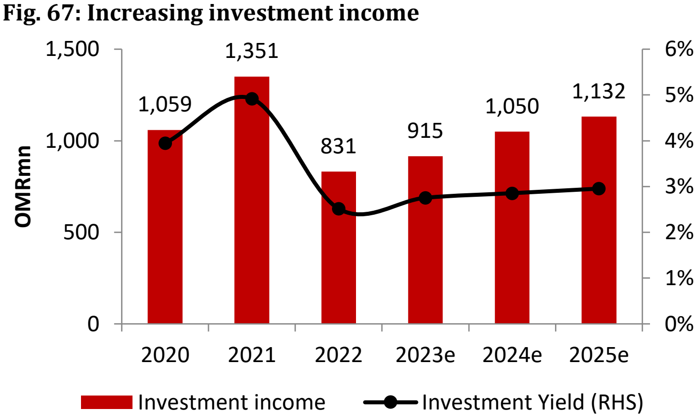
To drive operational efficiencies, Al Madina is investing in digitalization and automation of insurance processes. This strategic focus aims to streamline operations and reduce costs. Furthermore, the company is strengthening its direct sales channel by increasing workforce hiring and leveraging mobile apps, interactive websites, and secured payment gateways. While these investments have led to an increase in the expense ratio (FY22: 41.3%; FY17: 37.8%), they are expected to contribute to long-term growth.

Al Madina's ambitions to increase market share in profitable business segments and retain maximum premium are expected to drive earnings growth. We anticipate that the surplus from takaful operations before mudarib share and wakala fees will grow at a CAGR of 7.1% during FY22-26e, reaching over OMR 8.8 million.

Resilient investment income to aide earnings growth

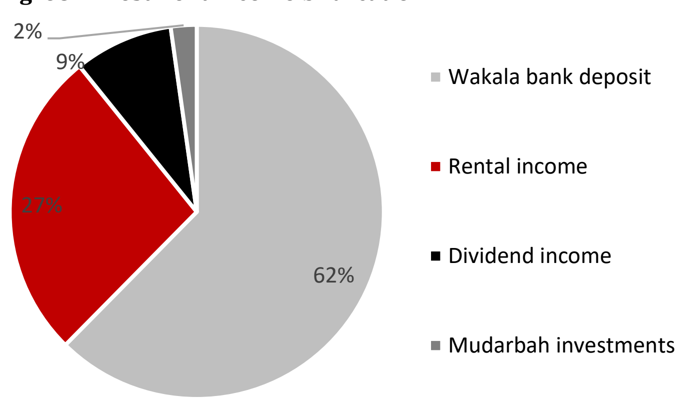
Al Madina has garnered further support from resilient investment income (FY22: ~OMR 1.4mn; FY17: OMR 0.3mn) by reshaping its investment portfolio. This is reflected in a surge in investment yield to 4.1% in FY22 (FY17: 1.4%). Going forward, Al Madina seeks to focus on defensive assets, skewed towards fixed income yielding Wakala deposits and sukuks. This, coupled with plans to tap the growing Islamic finance realm and adherence to Shari'ah compliance, should drive stable yields.

Fig. 67: Increasing investment income



Source: Company Reports, U Capital Research

Fig. 68: Investment Income bifurcation in FY22



Source: Company Reports, U Capital Research

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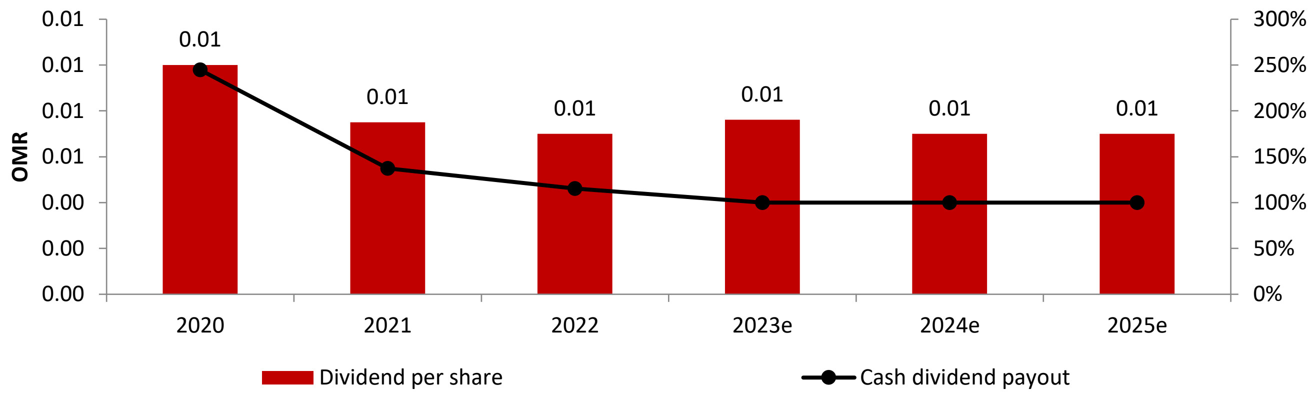
Consistent Shareholder Returns

Al Madina has consistently paid dividends for the last six years, with one of the highest dividend payout ratios in the industry (>100% average dividend payout ratio in the last 5 years). Going ahead, we believe the company will continue with its strong dividend payout policy, with dividend yield of 8-10%. This should appeal to fixed-income-seeking investors.

Fig. 69: Company has been paying dividend consistently

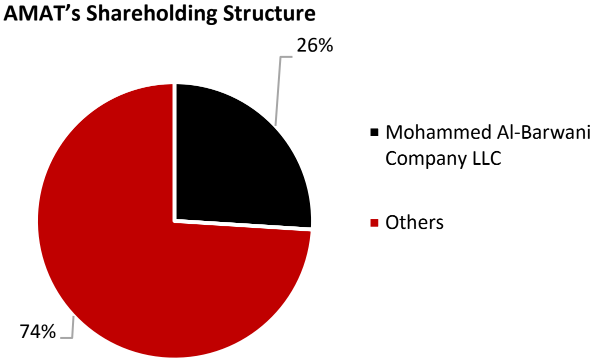


Source: Company Reports, U Capital Research

About AMAT

Al Madina Insurance Company was incorporated in the year 2006 and became Oman's first takaful company in the year 2004. The company is amongst the top 10 insurance companies in Oman. The company offers insurance services such as a motor vehicle, marine cargo, life, medical, engineering, general accident, liability, fire, and property, and solely operates in the Oman region currently.

Fig. 70: AMAT's Shareholding Structure



Source: MCD

Valuation and risks: Our target price is based on blended valuation methodologies – (i) DDM Valuation (ii) Residual Income and (iii)Relative Valuation (using P/B multiples). The downside risks to our valuation include less-than-expected growth in GWP, loss of any major accounts amid the pandemic, a decline in premium rates, higher-than-expected claims, and regulatory investment limits in various products. Key upside risks to our valuation include an unexpected rise in premium rates, faster than expected gain in market share, lower than expected loss ratio, better underwriting, and above-expected dividends.

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Key financials

In OMR'000, except stated otherwise	FY20	FY21	FY22	FY23e	FY24e	FY25e
Income Statement						
Gross written premiums (gross contributions)	39,599	44,124	44,708	47,160	50,603	54,094
Insurance premium ceded to reinsurers, earned	(25,600)	(29,289)	(29,311)	(30,800)	(32,954)	(35,136)
Net written premium	13,999	14,835	15,397	16,360	17,649	18,958
Net earned premium (NEP)	**14,307**	**14,341**	**15,215**	**16,679**	**18,544**	**19,444**
Claims paid	(17,568)	(17,264)	(18,408)	(15,137)	(16,877)	(17,804)
Reinsurers' share of claims	10,583	10,025	9,254	6,327	6,770	7,218
Net underwriting result	**6,089**	**6,568**	**6,975**	**7,873**	**8,725**	**9,170**
Investment income	1,013	1,059	1,351	831	915	1,050
General and administrative expenses	(4,470)	(4,651)	(4,680)	(4,750)	(5,313)	(5,680)
Profit before taxation	**992**	**1,148**	**1,313**	**1,804**	**2,010**	**2,118**
Income tax	(277)	(193)	(252)	(201)	(302)	(318)
Profit for the year	**715**	**955**	**1,061**	**1,604**	**1,709**	**1,801**
Balance Sheet						
Cash and cash equivalents	7,260	7,266	6,671	6,989	6,674	8,130
Bank deposits	11,700	12,450	18,673	19,793	20,782	21,822
Financial investments	8,852	9,668	9,848	9,197	9,500	9,934
Premiums and insurance balances receivable	13,374	12,496	17,139	19,076	18,755	21,792
Reinsurers' share of insurance contract liabilities	44,766	62,312	55,289	50,428	66,829	73,513
Other receivables and prepayments	1,943	2,271	3,384	3,657	3,975	4,303
Total Assets	**97,023**	**122,364**	**122,606**	**118,305**	**142,878**	**155,491**
Liabilities arising from insurance contract	57,153	75,373	68,033	62,925	83,495	91,961
Due to reinsurers	9,473	12,815	18,343	16,929	18,216	19,527
Other liabilities and accruals	5,140	6,946	10,295	9,851	10,519	11,191
Total Liabilities	**74,528**	**100,105**	**100,822**	**95,757**	**119,006**	**130,228**
Share capital	17,500	17,500	17,500	17,500	17,500	17,500
Retained earnings	2,708	1,818	1,460	1,621	1,791	1,972
Total Equity	**23,402**	**22,729**	**21,930**	**22,330**	**22,672**	**23,032**
Total Liabilities and Shareholders' equity	**97,023**	**122,364**	**122,606**	**118,305**	**142,878**	**155,491**
Cash Flow Statement						
Net cash from operating activities	1,697	553	857	4,658	4,924	4,476
Net cash from investing activities	640	1,203	383	(3,057)	(3,872)	(1,579)
Net cash from financing activities	(1,050)	(1,750)	(1,313)	(1,283)	(1,367)	(1,441)
Cash & cash equivalent at period end	**7,260**	**7,266**	**6,671**	**6,989**	**6,674**	**8,130**
Key Ratios						
Net underwriting margin	42.6%	45.8%	45.8%	47.2%	47.0%	47.2%
Pre-tax margin	6.9%	8.0%	8.6%	10.8%	10.8%	10.9%
NP margin	5.0%	6.7%	7.0%	9.6%	9.2%	9.3%
Loss Ratio	47.8%	51.7%	56.9%	55.6%	55.6%	55.6%
Expenses Ratio	44.2%	44.3%	41.3%	37.3%	36.5%	36.6%
Combined Ratio (COR)	92.0%	96.0%	98.2%	92.9%	92.1%	92.2%
Retention ratios	35.4%	33.6%	34.4%	34.7%	34.9%	35.0%
ROA	0.7%	0.8%	0.9%	1.4%	1.3%	1.2%
ROE	3.1%	4.2%	4.8%	7.2%	7.6%	7.9%
EPS (OMR)	0.004	0.005	0.006	0.009	0.010	0.010
BVPS (OMR)	0.134	0.130	0.125	0.128	0.130	0.132
DPS (OMR)	0.010	0.008	0.007	0.007	0.008	0.008
Dividend Yield (%)	12.8%	7.9%	7.6%	8.4%	9.0%	9.5%
Cash Dividend payout (%)	244.7%	137.5%	115.4%	80.0%	80.0%	80.0%
P/E (x)	19.09x	17.41x	15.17x	9.49x	8.91x	8.46x
P/BV (x)	0.58x	0.73x	0.73x	0.68x	0.67x	0.66x
Price as at period end*	0.078	0.095	0.092	0.087	0.087	0.087

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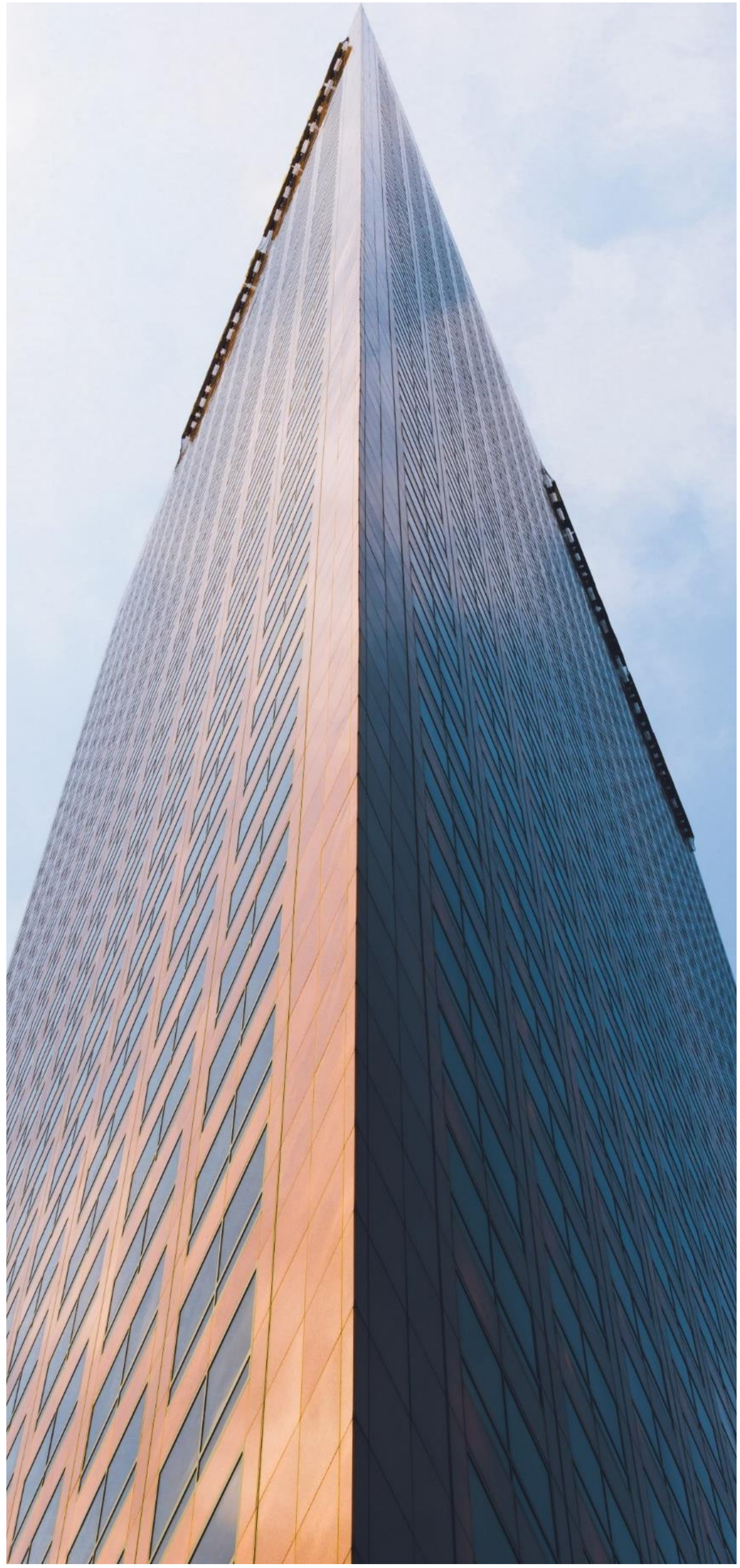

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Disclaimer

Recommendation

BUY	Greater than 20%
ACCUMULATE	Between +10% and +20%
HOLD	Between +10% and -10%
REDUCE	Between -10% and -20%
SELL	Lower than -20%

Additional Disclaimer: NLIF discussed in this report is a sister concern of U Capital.

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