

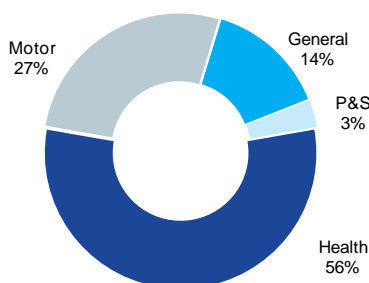


KSA Insurance sector quarterly performance

	Q3 2016	Q3 2017	
GWP (SAR 'bn)	8.2	8.3	↑
NWP (SAR 'bn)	7.1	6.9	↓
NEP (SAR 'bn)	7.5	7.7	↑
NCI (SAR 'bn)	5.5	5.7	↑
Retention ratio (%)	86.4%	83.6%	↓
Loss ratio (%)	73.4%	74.1%	↑
Combined ratio (%)	93.2%	94.5%	↑

Source: Company financials, Al Rajhi Capital

Segment contribution to GWP – Q3 2017



Source: Company financials, Al Rajhi Capital

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Note: We do not cover insurance stocks and this report is not intended to be read as investment advice.

Saudi Arabian Insurance sector
A non-consensus view

Even after a 10% decline in Saudi insurance index since Q3 2017 and near term uncertainties, insurance companies trade at higher PE multiples (avg. 2018E PE: 14.2x, Figure 1) than Saudi banks (avg. 10.8x). Past data of insurance companies shows inconsistency in dividend pay-out (only 5 to 7 insurance companies paid dividend out of 33 vs 11 out of 12 Banks**), high sensitivity to insurance premium prices, regulatory uncertainties and impact from Fed hikes relative to Saudi Banks, given large investment book in fixed income assets. Theoretically, at lower pay-out than banks (Figure 1) and higher cost of equity, current valuations imply much higher growth prospects. But, focus of insurance companies is increasingly shifting to “profitable” market share than growth and hence earnings growth may be weak for the near to medium term.

The investment case for the insurance sector in the Kingdom hinges on regulatory changes such as compulsory insurance for nationals in private companies, stricter implementation of third party motor insurance, allowing women to drive, higher private employment and public health insurance. Though these are all positive, the potential could be inflated and growth delayed. We believe growth rates would be at the best tepid or negative in the short to medium term as there are other challenges offsetting these benefits mainly in the form of no-claim/loyalty discounts, higher competition for motor and down trading in health segment.

As for latest quarterly numbers (Q3 2017), net profit declined by ~15%. Motor GWP decreased ~15% while Health segment GWP rose by ~7% (driven by mainly two companies). In a nutshell, we do believe in the long term story of Saudi insurance but one may have to employ a wait and watch approach in this macro till we begin to see stricter enforcement.

Valuation check : Given that only ~16% of the investment book was in equities/mutual funds as of Q3 2017 and rest of the investment in cash/bonds/Murabaha which generate low yield, valuation is practically driven less by reinvestment through its own book but more by future growth prospects. Thus our emphasis is on sustainable profitable growth more than return on book and hence we **focus more on P/E** than P/B. This is because for Saudi insurers unlike banks, an increase in book size may necessarily not increase profits but could lower RoE. It is worth noting that financial institutions trade at lower P/E as compared to non-financial sector, given their strict capital requirements. Within financials in Saudi, we expect banks to grow faster (US Fed hikes benefit banks significantly while could be neutral to the insurance sector) than insurance companies in the near to medium term along with paying higher dividend pay-outs. Thus P/E of 14.2x for 2018E as compared to 10.8x of banks may not be justified. Technically as per Gordon growth formula, even a 70% payout at 4% CAGR growth and cost of equity 11% would imply only a 10x multiple. We would need to revisit growth estimates only when we believe enforcement would become stricter.

Figure 1 Valuation comparison – Insurance vs. Banks

	Saudi insurance sector	Saudi banks
TTM PE	14.0x	12.1x
2018E PE*	14.2x	10.8x
2019E PE*	12.3x	10.0x
TTM PB	2.4x	1.2x
Payout ratio (%)**	31%	48%
No. of co. paying dividend	5 to 7 out of 33	11 out of 12

Source: Company data, Bloomberg, Al Rajhi Capital. * Based on available information. ** Considered the average of 2015 & 2016 payout ratio for insurance sector due to inconsistency in payout. For Banks, considered 2017 payout ratio.



Moreover, the growth expected in pockets of specific accounts (Govt cars, MoE etc.) may not come through immediately because most companies including Bupa, Tawuniya, Walaa etc. are focussing more on healthy profitability rather than growth, by not-renewing loss making accounts. We believe the focus on P/B and RoE may only be used to compare on a relative basis within the sector.

Market cap to embedded value: We also attempted to arrive at the market cap to embedded value (a commonly used metric for life insurance). For embedded value, we took the sum of the current profits continuing to perpetuity and the book value of equity. We found that most of the companies are trading at 1.5 times that of the global firms (Figure 2 and 3).

Figure 2 Saudi Insurance Companies - Market cap to embedded value

	Shareholders' equity (SAR 'mn)	Q3 shareholders net income (SAR 'mn)	Cost of equity	Embedded value (SAR 'mn)	Mcap (SAR 'mn)	Mcap / EV
Al Rajhi	555	59	12.0%	6,553	2,704	0.41x
Tawuniya	3,000	160	13.2%	27,652	11,225	0.41x
Al Alamiya	356	9	15.8%	2,471	962	0.39x
Allianz	243	8	14.0%	1,971	691	0.35x
Alinma Tokio	279	(3)	13.0%	2,040	695	0.34x
Bupa	2,242	217	13.8%	22,461	7,393	0.33x
Allied Coop	137	4	13.2%	1,156	371	0.32x
Saudi Enaya	161	1	13.4%	1,222	384	0.31x
Metlife	215	(10)	12.4%	1,395	429	0.31x
Aljazira	383	7	13.3%	3,075	936	0.30x
Wataniya	213	8	13.0%	1,894	556	0.29x
SABB Takaful	363	2	12.7%	2,932	823	0.28x
AXA	532	13	14.9%	3,918	1,094	0.28x
Salama	242	22	12.9%	2,558	709	0.28x
Amana	128	15	15.7%	1,187	320	0.27x
Solidarity	282	20	15.7%	2,289	578	0.25x
Alahli Takaful	232	9	12.1%	2,210	547	0.25x
Buruj	382	24	13.0%	3,686	880	0.24x
Arabian Shield	369	23	12.2%	3,779	902	0.24x
Saudi Indian	120	(4)	9.7%	1,086	259	0.24x
Gulf General	207	3	14.4%	1,538	349	0.23x
Arabia Insurance	254	4	13.1%	2,063	455	0.22x
Gulf Union	157	2	13.3%	1,238	263	0.21x
Walaa	546	44	11.0%	6,600	1,396	0.21x
Al Ahlia	110	3	13.8%	893	184	0.21x
UCA	446	(2)	13.3%	3,289	661	0.20x
Trade Union	348	17	14.0%	2,972	577	0.19x
Medgulf	474	60	11.7%	6,118	1,104	0.18x
Malath	110	11	13.3%	1,156	207	0.18x
Saudi Coop	330	16	13.4%	2,962	473	0.16x
Saudi Re	815	(0)	13.1%	6,193	928	0.15x
Al Sagr	469	8	11.4%	4,396	636	0.14x
CHUBB	248	8	12.6%	2,216	245	0.11x
Average						0.26x
Median						0.25x

Source: Company data, Bloomberg, Al Rajhi Capital



Figure 3 Global Insurance Companies

	Shareholders' equity (US\$ 'mn)	Q3 shareholders net income (US\$ 'mn)	Cost of equity	Embedded value (US\$ 'mn)	Mcap (US\$ 'mn)	Mcap / EV
China Life Insurance Co.	47,478	2,188	15.1%	373,314	124,184	0.33x
China Pacific Insurance	20,460	663	11.9%	194,423	56,278	0.29x
Allianz	76,751	1,840	10.7%	784,339	104,080	0.13x
Metlife Inc	54,614	(87)	13.9%	390,802	48,616	0.12x
Chubb Ltd	50,471	(70)	8.6%	584,243	67,664	0.12x
Prudential Financial Inc	50,373	2,211	13.5%	438,354	47,060	0.11x
American International Group	72,468	(1,739)	11.4%	576,429	54,171	0.09x
Average						0.17x
Median						0.12x

Source: Company data, Bloomberg, Al Rajhi Capital

Key downside risks to our view are faster than expected adoption of motor insurance given low penetration, upward revision in prices, consolidation of market and stronger enforcement of mandatory insurance.



Motor insurance theme – not broad based, but selective at low multiples:

1. Larger than expected impact from no-claims/loyalty discounts: While there is still uncertainty on this front, loyalty and no-claims discounts on motor could make the large companies larger. Though this helps companies to maintain/gain market share, it directly impacts profitability. For example, a discount of 15% may more than wipe out the whole profit associated with an account on an average. Revision of prices through actuarial revisions are only annual and so there could be short term strain on profits. Though discounts may not apply to all policy holders currently, the proportion of policies eligible for discounts will increase over time. 15% discount to 10% of motor accounts may mean only 1.5% of top-line, but could be 15% of net income, all other line items remaining the same. For example, one of the listed motor focussed healthy firms (Motor at ~87% of its total GWP) would need to improve its total loss ratio by at least 11.5% (70.6% as of Q3 to 59.1%) - adjusting for 15% discount to maintain its current net income, which looks difficult for any motor insurer, given the current challenging industry market dynamics. Discounts may be applicable only to retail motor insurance policies but the risk profile is also higher.

2. Weak metrics: In Q3, number of vehicles imports dropped over 22% y-o-y. In addition, car sales remain weak and could remain so going forward as other modes of travel such as Uber, metro etc. are likely to more used. Higher cost of gasoline and increased household expenses could also imply lower car sales growth. Exit of some expats could also weaken the motor insurance segment. Improvement in women unemployment will increase number of employed women by 50k per year which will be only marginal. Motor is mostly based on retail subscription and not institutional like health which shows that insurance pick-up will be more gradual.

3. Reduction in car registration period: With regard to recent move to issue spot fine on cars that do not have motor insurance, we certainly think it is positive for motor insurance but we are unlikely to see a dramatic upward shift in motor insurance penetration because of this. We are of the view that the current macro-economic situation with increased cost of living may not conducive for making annual car registration mandatory.

4. Be selective but only at lower multiples: Our view is to be selective about firms that have healthy balance sheets and deep pockets (for solvency) to gain more business, but also trading below 10x. This because a lot of smaller players that have abysmally low loss ratios may not be able to sustain these levels if they were to grow. Thus, they are likely to remain small and profits may not pick up. At best they would be able to maintain low loss ratios, no major increase in profits and could be prospective dividend plays.

Figure 4 Motor insurance indicators

	Q3 2016	Q2 2017	Q3 2017	Q-o-Q	Y-o-Y
Motor insurance policies	648,132	800,941	796,752	-0.5%	22.9%
Total no. of vehicle imports	160,788	130,421	125,148	-4.0%	-22.2%
Private sector motor imports financed through banks (SAR 'mn)	6,680	5,146	7,242	40.7%	8.4%
Total vehicle loans financed through banks (SAR 'mn)	32,968	33,929	34,202	0.8%	3.7%
Motor total GWP (SAR 'mn)	2,622	2,363	2,224	-5.9%	-15.2%
Motor loss ratio (%)	81.4%	72.4%	71.4%	-1.0%	-10.1%

Source: SAMA, GAS, Company data, Al Rajhi Capital

Health insurance: Unlikely to see a recovery soon:

1. Lower Expats: For health segment, we expect the insured population of expats, who are probably the more profitable clientele of the insurance companies, to continue seeing some decline which would erode the profitability of the insurance sector. As data on expats population is not accurately available, we observe other data such as telecom subscriber data (continuous topline decline of ~3-4% q-o-q), expat remittances etc. which were down mid-single digit ~5% y-o-y on aggregate in Q3 2017, implying the pressure on top-line for health insurance companies. On the other hand, there was 1% q-o-q increase in number of Saudi nationals employed (in Q3 2017). However given the low base, we believe this cannot offset the decrease in insured non-Saudis.



2. Case for mandatory insurance: In our view, the mandatory insurance for all Saudi nationals does not look realistic yet because a) the pricing for a Govt. subsidized insurance for Saudi nationals does not yet indicate a lucrative option for nationals in this current macro environment. b) the healthcare infrastructure needs to be expanded. There is also the case of adverse selection risk. On a positive note, expats leaving would free up some healthcare infrastructure which could be utilized as more Saudi nationals working in private sector take up insurance.

3. More benefits and down-trading: The CCHI is also looking to increase coverage of benefits for the insured, thereby leading to higher loss ratios. Also given the current macro, companies tend to down trade thereby impacting companies that provide at a premium. Given sensitivity to prices, the net profit might take a beating. We have already noticed this in Bupa's results, with the GWP declining 2.2% y-o-y in Q3 and stock nearing 52 week low.

Figure 5 Health insurance indicators

	Q3 2016	Q2 2017	Q3 2017	Q-o-Q	Y-o-Y
Private insurance mandate (mn)	14.7	15.7	16.4	4.8%	11.7%
Saudi insured (mn)	3.8	2.5	2.7	6.7%	-29.2%
Non Saudi insured (mn)	7.9	9.7	9.4	-3.4%	19.3%
Saudi penetration (%)	67.4%	50.1%	53.7%	3.6%	-13.7%
Expat penetration (%)	86.8%	91.3%	82.2%	-9.1%	-4.5%
Health total GWP (SAR 'mn)	4,281	4,734	4,585	-3.2%	7.1%
Health loss ratio (%)	73.4%	76.1%	74.1%	-1.9%	0.8%

Source: Company data, Bupa, Al Rajhi Capital

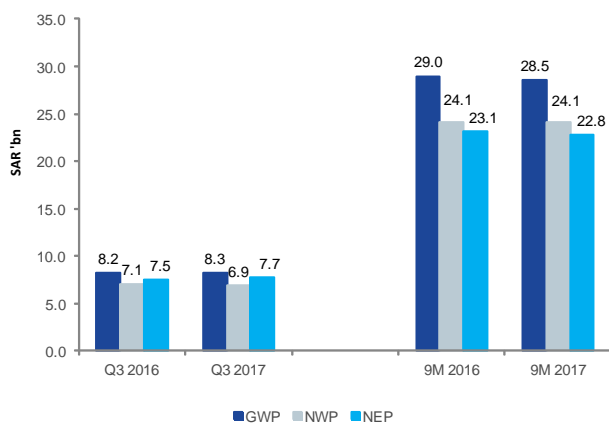


Figure 6 Q3 2017: Saudi Insurers' performance snapshot

Company	GWP (SAR 'mn)	Y-o-Y	GWP Mrkt share	Y-o-Y	Retention ratio	Y-o-Y	Loss ratio	Y-o-Y	Combined ratio	Y-o-Y	Ins. Margin	Y-o-Y	Inv. Yield	Y-o-Y	Net profit margin	Y-o-Y
Tawuniya	1,421	14.5%	17.2%	2.1%	81.7%	-5.1%	78.8%	8.9%	94.6%	8.0%	8.5%	-7.3%	2.0%	-2.4%	11.2%	-11.6%
Bupa	2,523	-2.2%	30.6%	-0.9%	99.0%	-0.6%	76.2%	4.0%	87.4%	3.5%	11.8%	-3.1%	2.6%	0.8%	8.6%	-1.5%
Al Rajhi	742	71.2%	9.0%	3.7%	95.7%	1.1%	82.4%	1.5%	93.2%	1.1%	8.6%	-0.6%	2.0%	1.6%	7.9%	1.1%
Medgulf	513	0.4%	6.2%	0.0%	82.9%	0.7%	81.3%	5.7%	113.5%	18.1%	10.2%	1.4%	1.3%	-1.2%	11.7%	0.0%
Wala	284	5.9%	3.4%	0.2%	61.2%	-10.5%	51.2%	-0.7%	76.5%	-0.5%	28.3%	1.5%	-0.3%	-2.4%	15.6%	0.7%
Al Alamiya	57	-11.0%	0.7%	-0.1%	37.5%	-4.7%	30.3%	-18.8%	80.7%	-7.9%	22.2%	-0.9%	1.6%	-0.7%	15.4%	-3.6%
Aljazira	28	-5.9%	0.3%	0.0%	47.5%	-20.5%	27.3%	4.6%	59.6%	4.1%	83.4%	1.6%	2.0%	0.1%	24.7%	3.0%
AXA	369	-4.6%	4.5%	-0.2%	90.5%	1.0%	79.2%	-2.7%	100.1%	-0.2%	3.6%	0.0%	2.5%	-0.6%	3.4%	0.5%
Arabian Shield	115	-24.5%	1.4%	-0.5%	68.5%	2.2%	58.0%	-6.5%	89.6%	-3.5%	24.1%	5.0%	1.4%	-1.3%	20.1%	7.8%
SABB Takaful	45	2.4%	0.5%	0.0%	86.0%	3.6%	70.3%	-3.4%	105.1%	-1.0%	3.1%	0.3%	1.2%	-0.5%	4.6%	-1.7%
Buruj	95	-12.8%	1.1%	-0.2%	85.3%	0.5%	59.5%	-5.0%	82.3%	-5.3%	19.7%	11.1%	1.9%	0.6%	25.3%	17.5%
Allianz	147	-18.0%	1.8%	-0.4%	69.5%	5.5%	77.7%	-0.8%	102.8%	-1.7%	4.6%	-0.3%	4.7%	6.8%	5.4%	1.9%
Malath	62	-88.3%	0.8%	-5.7%	88.8%	1.1%	76.2%	-58.2%	97.6%	-59.5%	5.6%	6.2%	1.0%	-1.3%	17.9%	17.9%
Saudi Re	303	267.0%	3.7%	2.7%	29.5%	-61.6%	76.1%	11.6%	110.5%	14.1%	-6.5%	-9.1%	4.7%	3.8%	-0.1%	-3.4%
UCA	116	82.5%	1.4%	0.6%	33.1%	-6.8%	41.3%	-25.7%	132.9%	41.3%	-9.3%	-29.0%	4.3%	1.2%	-1.9%	-42.9%
Salama	159	20.4%	1.9%	0.3%	93.3%	-1.2%	70.6%	-2.8%	80.8%	-4.9%	13.2%	3.5%	1.9%	1.5%	13.9%	7.2%
Al Sagr	61	380.1%	0.7%	0.6%	91.2%	159.1%	60.7%	17.4%	94.3%	16.0%	14.9%	-14.5%	1.4%	-1.3%	12.4%	NM
Alinma Tokio	51	7.8%	0.6%	0.0%	54.3%	17.4%	51.5%	-18.7%	90.7%	-44.9%	-12.1%	-10.8%	2.9%	3.4%	-6.4%	-4.1%
Metlife	103	185.4%	1.2%	0.8%	86.5%	14.2%	95.2%	9.9%	122.1%	-3.3%	-16.5%	-3.3%	2.5%	-0.2%	-10.1%	1.6%
Alahli Takaful	120	4.1%	1.5%	0.0%	56.8%	0.2%	-2.2%	-25.9%	63.8%	-0.1%	63.1%	11.6%	2.1%	-0.1%	7.3%	1.1%
Wataniya	152	2.4%	1.8%	0.0%	58.0%	-2.1%	67.2%	2.3%	114.9%	-2.3%	11.9%	-1.5%	0.8%	0.2%	5.4%	0.0%
Trade Union	103	-62.5%	1.2%	-2.1%	74.7%	-9.6%	65.9%	-13.0%	97.4%	5.6%	8.8%	-6.5%	3.3%	1.0%	16.3%	6.3%
Solidarity	37	-33.3%	0.4%	-0.2%	81.4%	-6.0%	14.3%	-20.8%	54.3%	-25.0%	50.8%	26.0%	1.9%	-1.2%	52.9%	27.6%
Arabia Insurance	59	-46.5%	0.7%	-0.6%	63.9%	-23.3%	49.8%	-3.0%	99.0%	-19.4%	7.0%	11.4%	1.0%	-1.0%	6.6%	8.1%
CHUBB	42	0.6%	0.5%	0.0%	34.0%	-7.1%	40.1%	-9.3%	93.9%	3.9%	33.3%	-6.8%	2.7%	0.4%	18.6%	-4.1%
Saudi Coop	157	-2.1%	1.9%	-0.1%	90.6%	23.2%	67.4%	7.1%	97.7%	3.4%	12.2%	-2.1%	1.9%	-1.0%	10.4%	0.8%
Saudi Enaya	59	178.0%	0.7%	0.5%	100.4%	40.4%	59.3%	14.3%	90.0%	-46.3%	0.8%	54.5%	1.6%	-2.4%	1.2%	30.5%
Amana	9	-18.4%	0.1%	0.0%	79.1%	41.6%	-73.4%	NM	27.6%	-68.1%	116.1%	103.1%	5.8%	3.6%	163.9%	91.7%
Gulf General	26	-29.9%	0.3%	-0.1%	41.8%	-3.6%	43.3%	-4.3%	103.5%	9.0%	24.1%	-7.7%	-0.2%	3.3%	13.4%	-5.0%
Allied Coop	113	-17.4%	1.4%	-0.3%	87.1%	3.2%	69.4%	-2.9%	102.1%	5.5%	4.7%	-1.3%	1.9%	3.2%	3.5%	-0.1%
Gulf Union	32	-29.4%	0.4%	-0.2%	52.9%	-4.7%	56.7%	5.3%	115.0%	-27.9%	5.7%	4.6%	2.4%	-1.0%	6.2%	6.7%
Saudi Indian	100	7.1%	1.2%	0.1%	61.9%	-21.8%	75.6%	0.8%	108.8%	10.7%	-3.6%	-10.6%	1.0%	-1.6%	-3.6%	-12.9%
Al Ahlia	53	23.0%	0.6%	0.1%	90.0%	1.5%	60.3%	-2.5%	100.1%	-5.1%	9.2%	11.1%	3.6%	19.9%	5.9%	25.9%
Consolidated	8,255	0.7%	100.0%	-	83.6%	-2.8%	74.1%	0.8%	94.5%	1.3%	10.1%	-2.6%	2.1%	-0.2%	9.2%	-1.7%

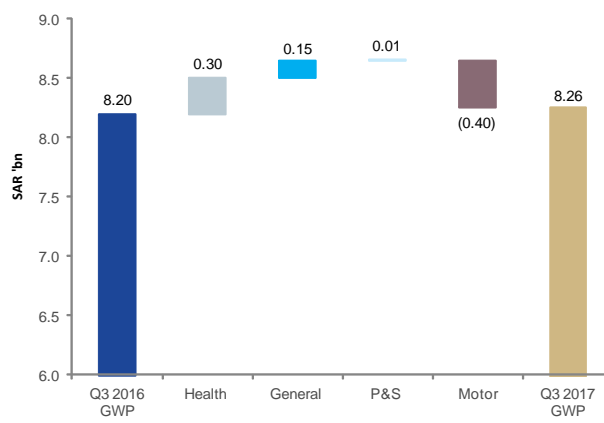
Source: Company data, Al Rajhi Capital

Figure 7 KSA Insurance Sector performance



Source: Company data, Al Rajhi Capital

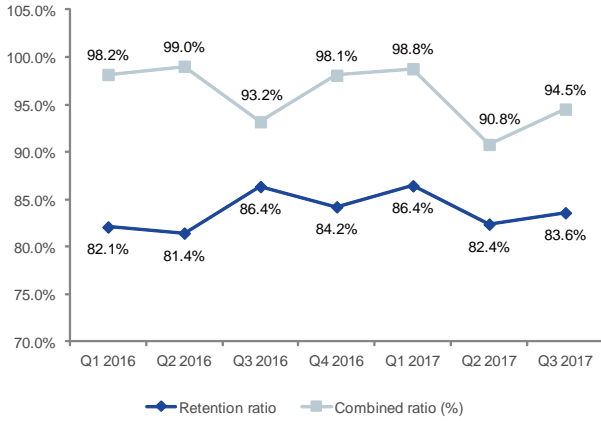
Figure 8 KSA Insurance GWP bridge - Q3 2017 vs. Q3 2016



Source: Company data, Al Rajhi Capital

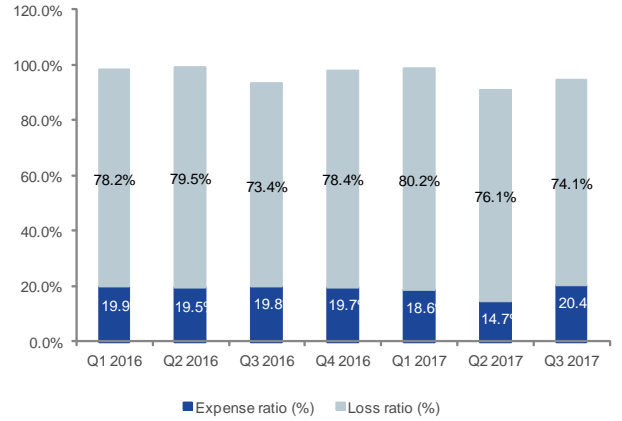


Figure 9 KSA Insurance sector retention and combined ratios



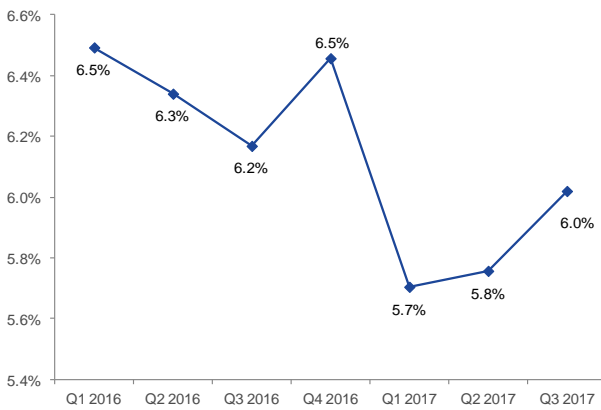
Source: Company data, Al Rajhi Capital

Figure 10 KSA Insurance sector combined ratios breakdown



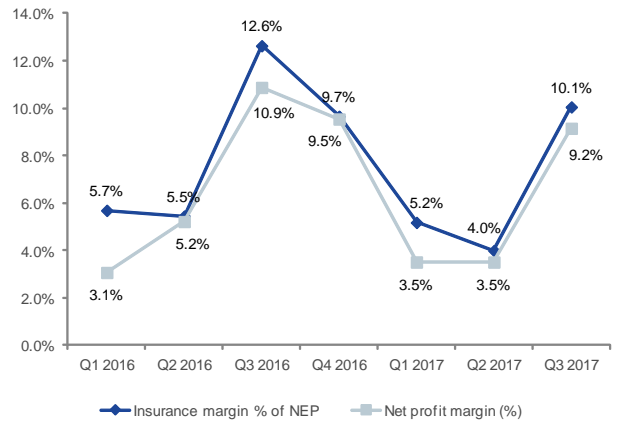
Source: Company data, Al Rajhi Capital

Figure 11 KSA Insurance sector' acquisition cost trend



Source: Company data, Al Rajhi Capital

Figure 12 KSA Insurance sector' margins trend

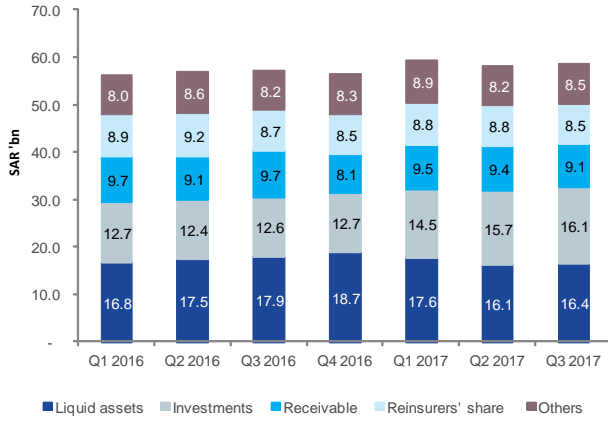


Source: Company data, Al Rajhi Capital



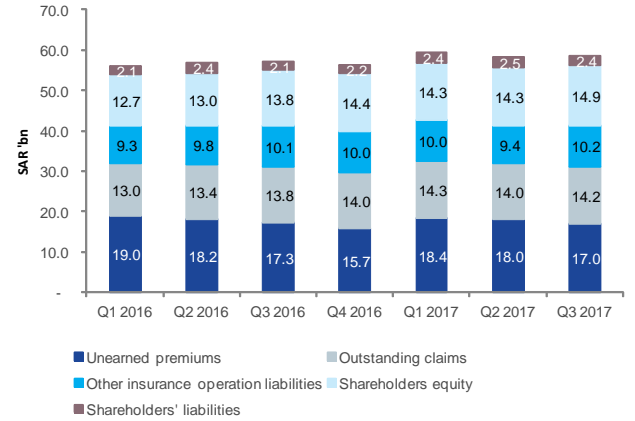
Balance Sheet update

Figure 13 Combined assets break-down for the sector



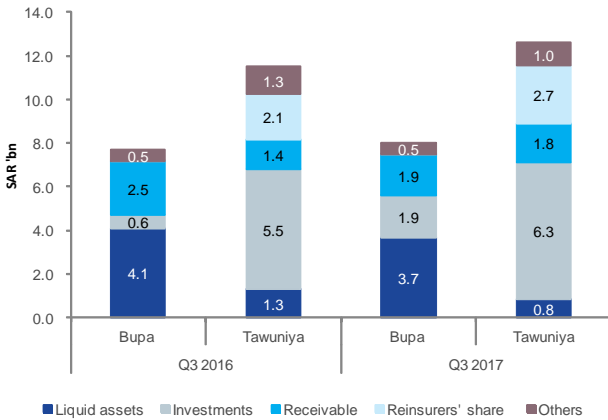
Source: Company data, Al Rajhi Capital

Figure 14 Combined liabilities break-down for the sector



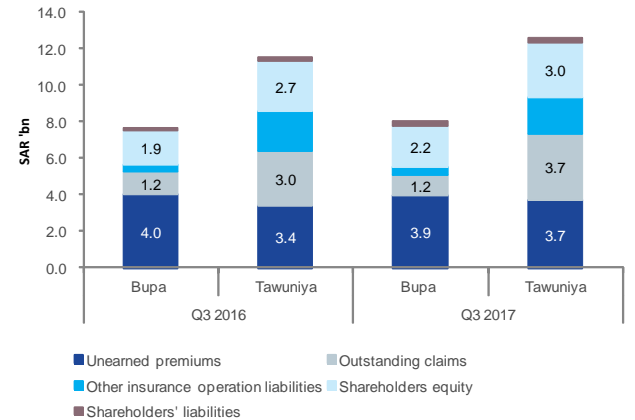
Source: Company data, Al Rajhi Capital

Figure 15 Bupa and Tawuniya's assets break-down



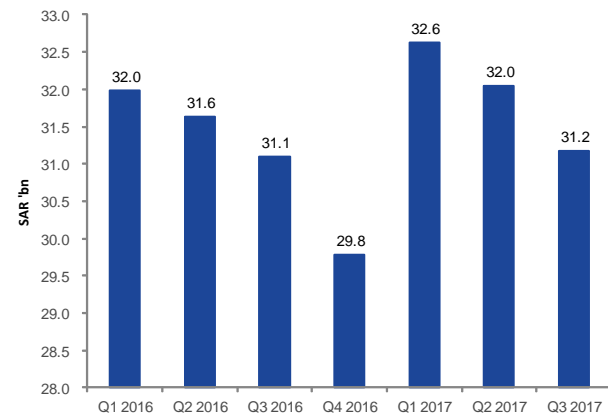
Source: Company data, Al Rajhi Capital

Figure 16 Bupa and Tawuniya's liabilities break-down



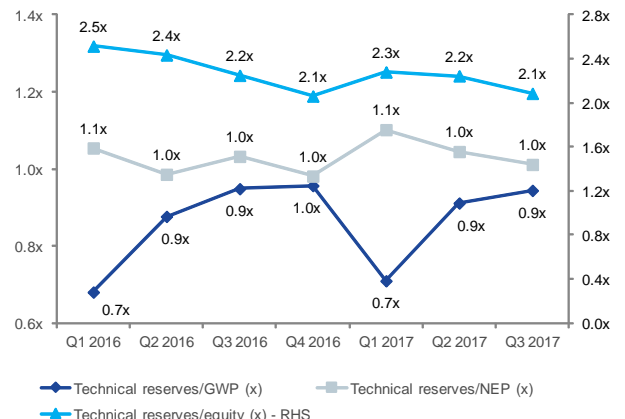
Source: Company data, Al Rajhi Capital

Figure 17 Technical reserves trend



Source: Company data, Al Rajhi Capital

Figure 18 KSA Insurance sector liquidity trend

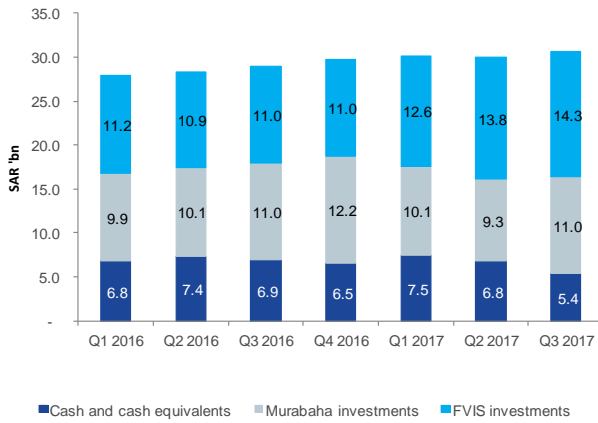


Source: Company data, Al Rajhi Capital



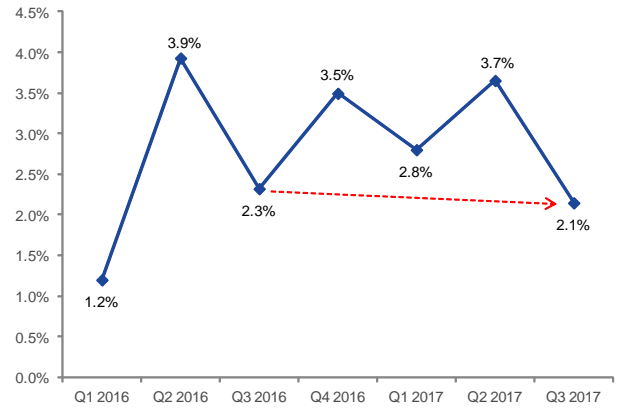
KSA Insurance Sector Investment Exposure

Figure 19 KSA sector investment mix trend



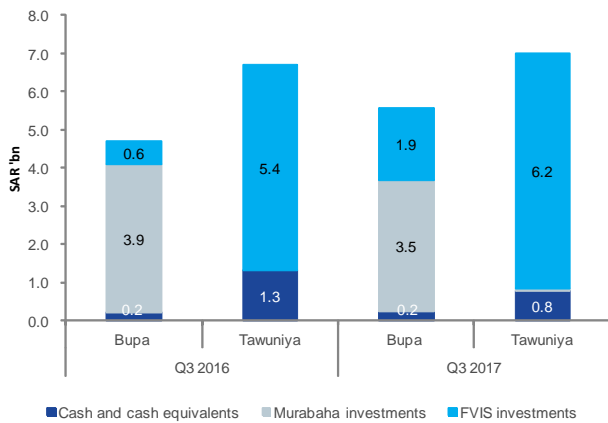
Source: Company data, Al Rajhi Capital

Figure 20 Average investment yield trend



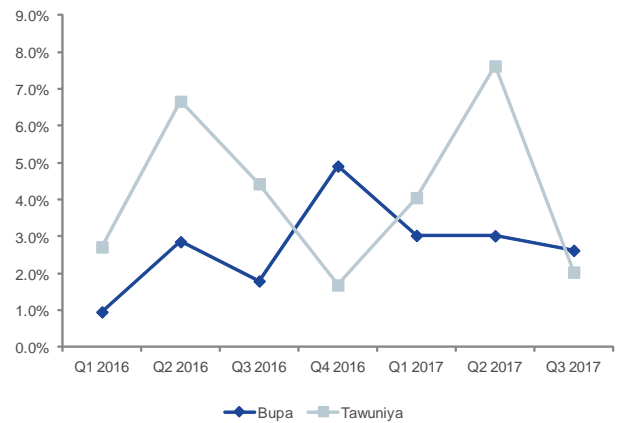
Source: Company data, Al Rajhi Capital

Figure 21 Bupa and Tawuniya's investment mix trend



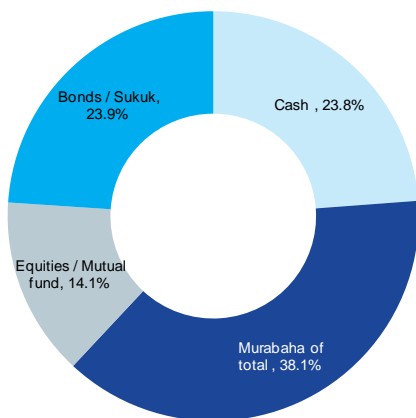
Source: Company data, Al Rajhi Capital

Figure 22 Bupa and Tawuniya's average investment yield



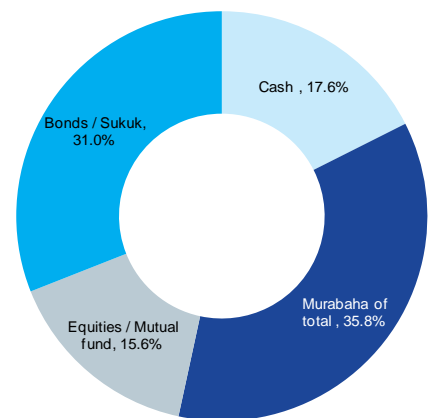
Source: Company data, Al Rajhi Capital

Figure 23 KSA Insurance sector investment breakdown - Q3 2016



Source: Company data, Al Rajhi Capital

Figure 24 KSA Insurance sector investment breakdown - Q3 2017



Source: Company data, Al Rajhi Capital

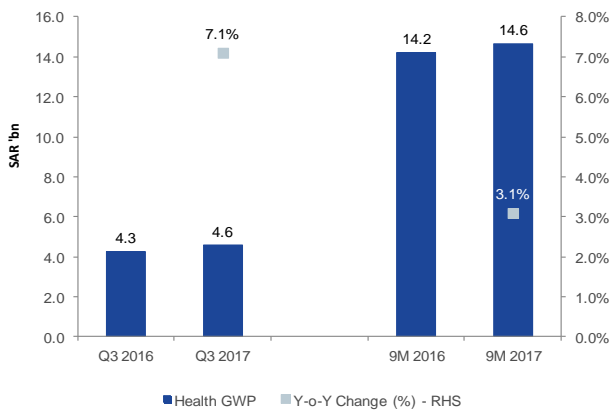


Health segment

Health insurance remains the largest insurance segment

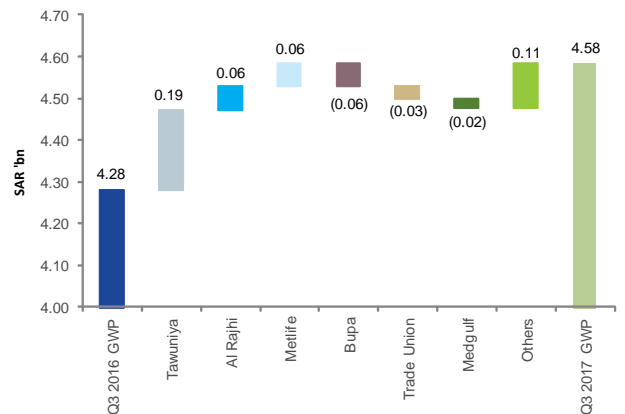
- The Health insurance segment, which accounted 55.5% of the insurance sector, witnessed a growth for the second consecutive quarter with GWP increasing 7.1% y-o-y in Q3. However, the growth was primarily driven by two companies Tawuniya and Al Rajhi Takaful. In addition, lifting of ban on few insurance companies, which were suspended last year, also pushed the GWP growth higher for the health segment.
- Meanwhile, total number of health insurance policies declined more than 50%, primarily on account of implementation of unified health insurance.
- The segment's loss ratio jumped in Q3, largely due to 11.8% rise in net claims on increased medical inflation in the Kingdom, which was not fully passed through. Top three health insurance providers, Bupa, Tawuniya and Medgulf (together accounted ~80% of the segment's GWP) too witnessed a pressure in their loss ratios.

Figure 25 Health GWP trend ...



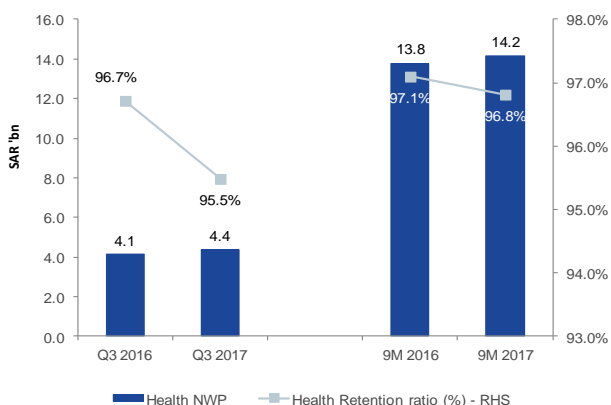
Source: Company data, Al Rajhi Capital

Figure 26 Health GWP bridge - Q3 2017 vs. Q3 2016



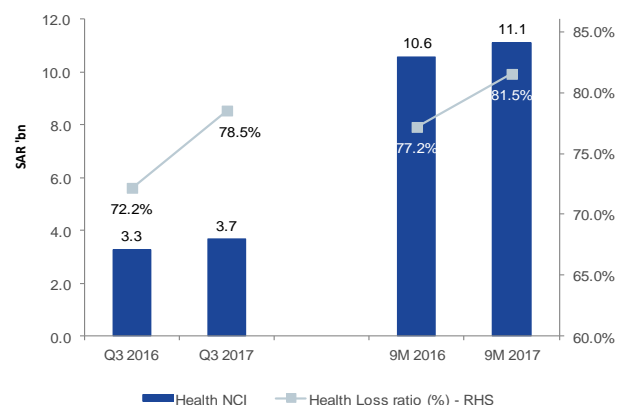
Source: Company data, Al Rajhi Capital

Figure 27 Health NWP and Retention ratio trend ...



Source: Company data, Al Rajhi Capital

Figure 28 Health Net Claim Incurred and Loss ratio trend ...



Source: Company data, Al Rajhi Capital

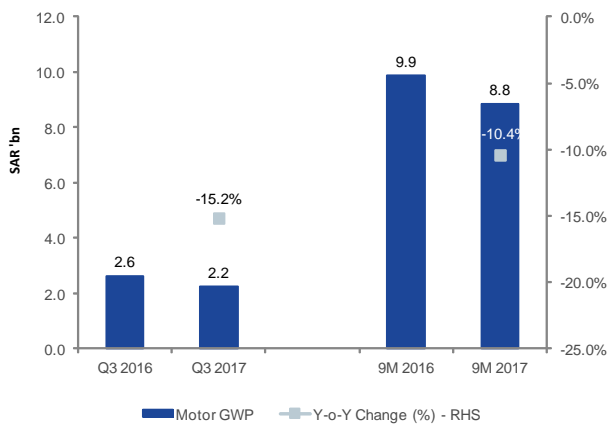


Motor segment

Motor insurance GWP remained under pressure

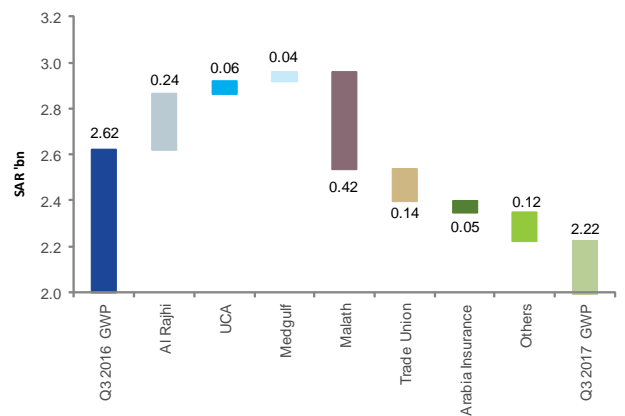
- The Motor insurance segment (contributed ~27% to combined GWP) remained under pressure in Q3 2017 as GWP declined by ~15% y-o-y, despite improvement in total motor insurance policies (+23%). The decline was driven by lower average premium (-31%) amid stiff price competition.
- The segment's loss ratio improved to 71.4% (+10pps y-o-y) in Q3 2017, largely on account of lower net claims incurred (-10.3% y-o-y decline). Among the major motor insurers, Salama and AXA witnessed an improvement in their total loss ratios during the quarter.

Figure 29 Motor GWP trend ...



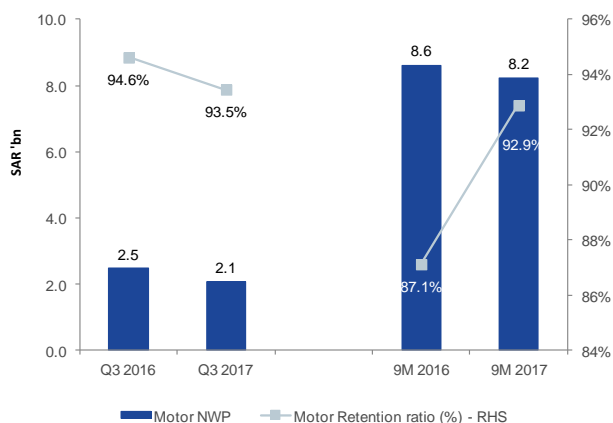
Source: Company data, Al Rajhi Capital

Figure 30 Motor GWP bridge - Q3 2017 vs. Q3 2016



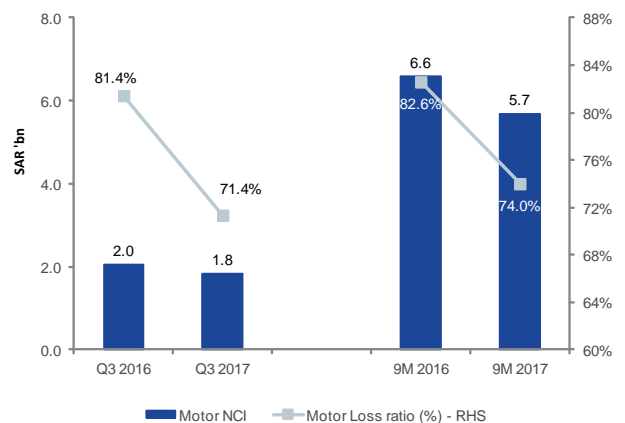
Source: Company data, Al Rajhi Capital

Figure 31 Motor NWP and Retention ratio trend ...



Source: Company data, Al Rajhi Capital

Figure 32 Motor Net Claim Incurred and Loss ratio trend ...

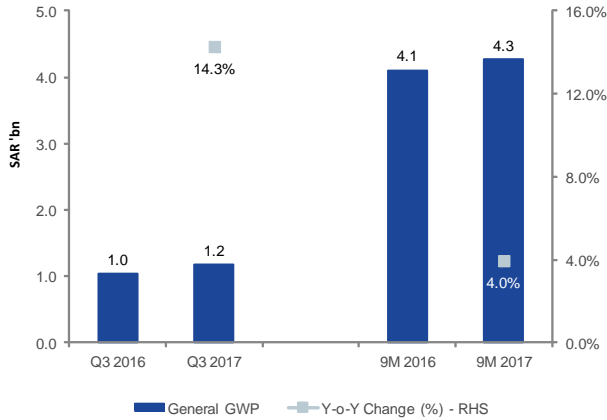


Source: Company data, Al Rajhi Capital



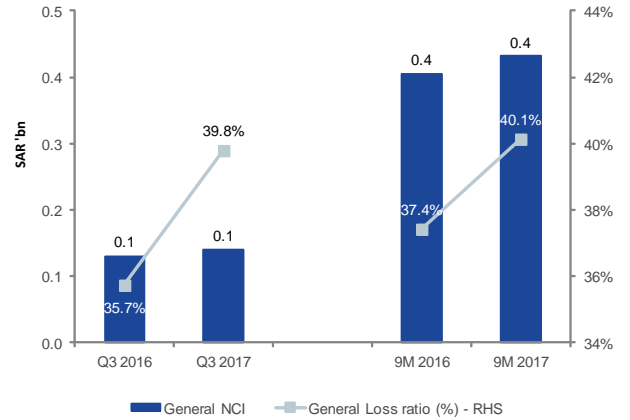
General / P&S Insurance segments

Figure 33 General GWP trend ...



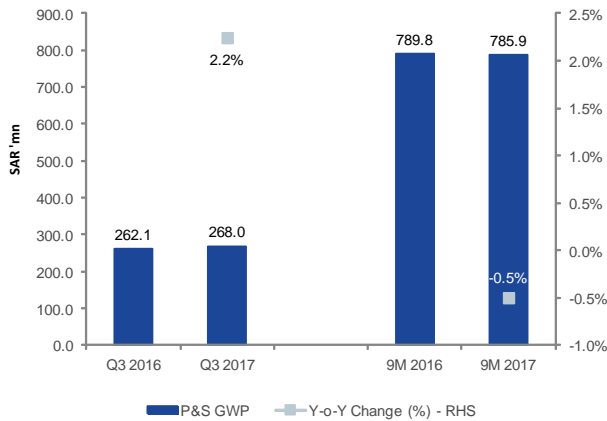
Source: Company data, Al Rajhi Capital

Figure 34 General Net Claim Incurred and Loss ratio trend ...



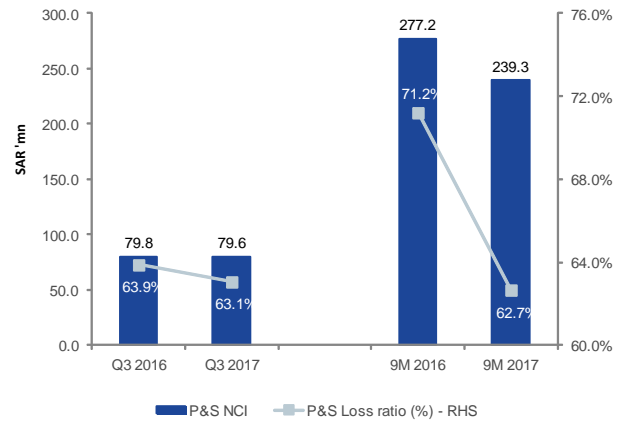
Source: Company data, Al Rajhi Capital

Figure 35 P&S GWP trend ...



Source: Company data, Al Rajhi Capital

Figure 36 P&S Net Claim Incurred and Loss ratio trend ...



Source: Company data, Al Rajhi Capital



KSA Insurers' market share summary

Figure 37 Health insurers market share (%)

	Q3 2016	Q3 2017	Y-O-Y Change
Bupa	60.2%	55.0%	↓ -5.2%
Tawuniya	15.5%	18.6%	↑ 3.1%
Medgulf	7.6%	6.6%	↓ -1.0%
Saudi Coop	2.1%	2.4%	↑ 0.4%
Al Rajhi	0.8%	2.0%	↑ 1.2%
Metlife	0.6%	1.7%	↑ 1.2%
AXA	2.1%	1.6%	↓ -0.5%
Saudi Enaya	0.5%	1.3%	↑ 0.8%
Arabian Shield	1.2%	1.3%	↑ 0.0%
Saudi Indian	0.7%	1.2%	↑ 0.5%
Al Sagr	0.1%	1.1%	↑ 1.1%
Trade Union	1.8%	1.1%	↓ -0.8%
Allied Coop	1.3%	0.8%	↓ -0.5%
Al Ahlia	0.6%	0.7%	↑ 0.2%
Buruj	0.6%	0.7%	↑ 0.1%
Walaa	0.8%	0.7%	↓ -0.1%
Allianz	0.6%	0.6%	↓ 0.0%
Arabia Insurance	0.7%	0.6%	↓ -0.1%
Malath	0.3%	0.5%	↑ 0.2%
Solidarity	0.9%	0.4%	↓ -0.5%
Salama	0.1%	0.3%	↑ 0.2%
Gulf Union	0.4%	0.2%	↓ -0.2%
UCA	0.4%	0.2%	↓ -0.2%
Amana	0.0%	0.1%	↑ 0.1%
Alinma Tokio	0.0%	0.1%	↑ 0.1%
Gulf General	0.1%	0.1%	↓ 0.0%
Al Alamiya	0.0%	0.0%	↑ 0.0%

Source: Company data, Al Rajhi Capital

Figure 38 Motor insurers market share (%)

	Q3 2016	Q3 2017	Y-O-Y Change
Al Rajhi	13.8%	27.2%	↑ 13.4%
Tawuniya	12.8%	15.5%	↑ 2.8%
AXA	9.1%	10.8%	↑ 1.7%
Medgulf	4.5%	6.9%	↑ 2.4%
Salama	4.7%	6.2%	↑ 1.5%
Walaa	5.6%	5.9%	↑ 0.3%
Wataniya	3.6%	4.2%	↑ 0.6%
Allied Coop	2.6%	3.2%	↑ 0.6%
UCA	0.2%	2.8%	↑ 2.6%
Allianz	2.2%	2.4%	↑ 0.1%
Buruj	2.5%	2.2%	↓ -0.4%
Trade Union	6.8%	1.7%	↓ -5.0%
Arabian Shield	3.4%	1.7%	↓ -1.7%
Saudi Indian	2.3%	1.7%	↓ -0.6%
Malath	17.2%	1.4%	↓ -15.8%
Saudi Coop	1.5%	1.1%	↓ -0.4%
Arabia Insurance	2.8%	0.9%	↓ -1.9%
Alinma Tokio	0.6%	0.7%	↑ 0.1%
Gulf Union	0.7%	0.6%	↓ -0.1%
Saudi Re	0.4%	0.5%	↑ 0.1%
Al Ahlia	0.4%	0.4%	↑ 0.0%
Metlife	0.0%	0.4%	↑ 0.3%
Gulf General	0.7%	0.4%	↓ -0.3%
Solidarity	0.2%	0.3%	↑ 0.1%
CHUBB	0.3%	0.3%	↓ 0.0%
Al Sagr	0.2%	0.3%	↑ 0.1%
Al Alamiya	0.5%	0.2%	↓ -0.2%
Amana	0.4%	0.1%	↓ -0.3%

Source: Company data, Al Rajhi Capital

Figure 39 General insurers market share (%)

	Q3 2016	Q3 2017	Y-O-Y Change
Saudi Re	6.0%	24.5%	↑ 18.5%
Tawuniya	23.5%	18.7%	↓ -4.8%
Walaa	8.6%	10.5%	↑ 1.9%
Medgulf	6.6%	4.8%	↓ -1.7%
AXA	5.7%	4.7%	↓ -0.9%
Wataniya	4.6%	4.1%	↓ -0.4%
UCA	3.9%	3.9%	↓ -0.1%
Al Alamiya	5.0%	3.7%	↓ -1.3%
Allianz	6.0%	3.1%	↓ -2.9%
CHUBB	3.2%	2.9%	↓ -0.2%
Al Rajhi	3.0%	2.7%	↓ -0.2%
Alinma Tokio	2.4%	1.8%	↓ -0.6%
Saudi Coop	3.2%	1.8%	↓ -1.4%
Arabian Shield	1.0%	1.6%	↑ 0.6%
Trade Union	1.8%	1.3%	↓ -0.5%
Gulf General	1.5%	1.3%	↓ -0.3%
Buruj	1.5%	1.1%	↓ -0.3%
Arabia Insurance	0.6%	1.0%	↑ 0.3%
Gulf Union	0.8%	0.8%	↑ 0.0%
Al Ahlia	0.8%	0.8%	↑ 0.0%
Malath	6.5%	0.8%	↓ -5.7%
Metlife	0.7%	0.8%	↑ 0.1%
Solidarity	0.3%	0.7%	↑ 0.4%
Saudi Indian	0.4%	0.7%	↑ 0.2%
Salama	0.4%	0.6%	↑ 0.2%
Allied Coop	1.2%	0.6%	↓ -0.6%
SABB Takaful	0.4%	0.4%	↓ 0.0%
Al Sagr	0.4%	0.2%	↓ -0.2%
Amana	0.1%	0.1%	↓ -0.1%

Source: Company data, Al Rajhi Capital

Figure 40 P&S insurers market share (%)

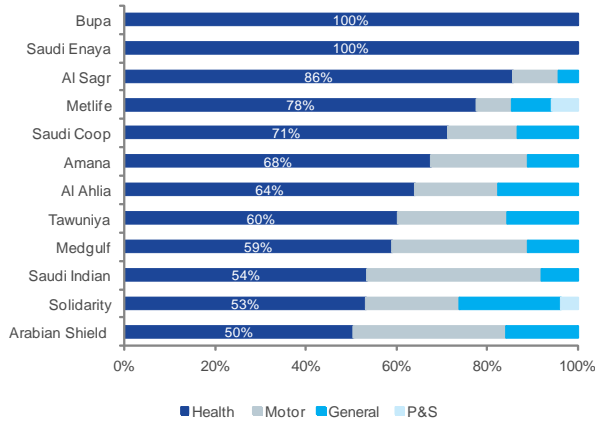
	Q3 2016	Q3 2017	Y-O-Y Change
Alahli Takaful	43.9%	44.7%	↑ 0.8%
SABB Takaful	15.2%	15.1%	↓ -0.1%
Allianz	12.1%	10.7%	↓ -1.3%
Aljazira	11.2%	10.3%	↓ -0.9%
Al Rajhi	2.7%	5.3%	↑ 2.6%
Wataniya	3.0%	3.6%	↑ 0.6%
Al Alamiya	0.0%	2.8%	↑ 2.8%
Alinma Tokio	2.6%	2.7%	↑ 0.1%
Metlife	1.6%	2.3%	↑ 0.7%
Saudi Re	3.9%	1.3%	↓ -2.6%
AXA	0.6%	0.7%	↑ 0.1%
Solidarity	3.2%	0.5%	↓ -2.7%

Source: Company data, Al Rajhi Capital



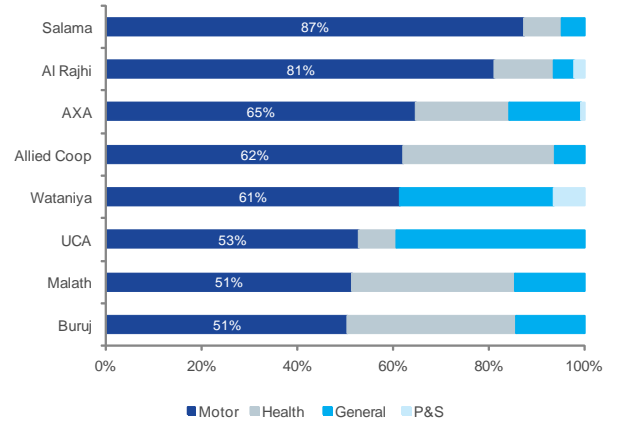
Q3 2017: Company-wise concentration by insurance segment

Figure 41 Q3 GWP: Major Health insurers



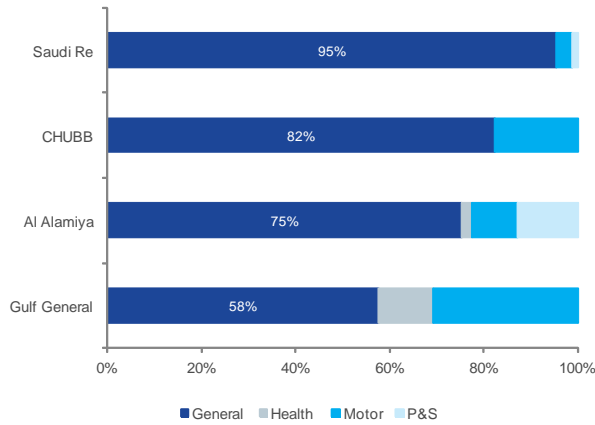
Source: Company data, Al Rajhi Capital

Figure 42 Q3 GWP: Major Motor insurers



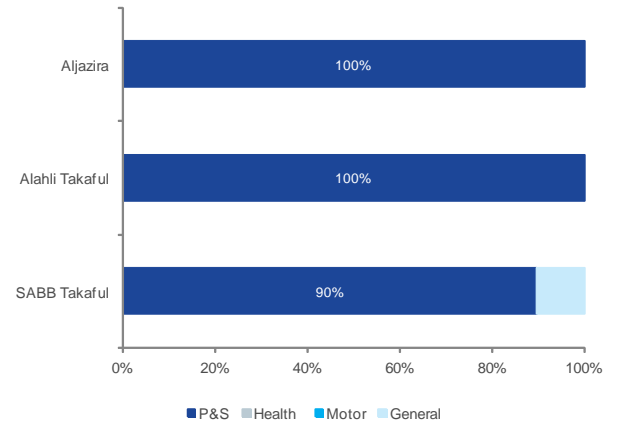
Source: Company data, Al Rajhi Capital

Figure 43 Q3 GWP: Major General insurers



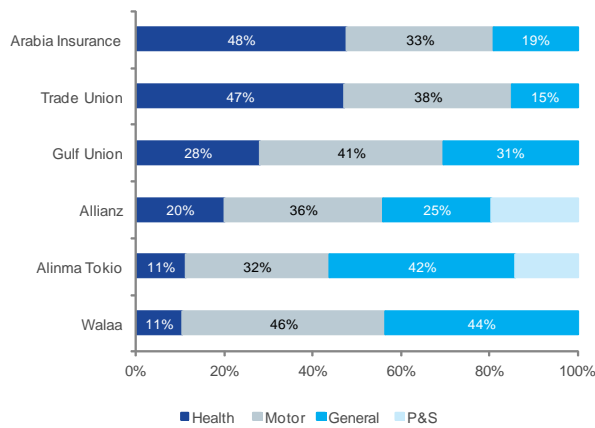
Source: Company data, Al Rajhi Capital

Figure 44 Q3 GWP: Major P&S insurers



Source: Company data, Al Rajhi Capital

Figure 45 Q3 GWP: Diversified insurance company



Source: Company data, Al Rajhi Capital



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Al Rajhi Capital uses a three-tier rating system based on absolute upside or downside potential for all stocks under its coverage except financial stocks and those few other companies not compliant with Islamic Shariah law:

"Overweight": Our target price is more than 10% above the current share price, and we expect the share price to reach the target on a 12 month time horizon.

"Neutral": We expect the share price to settle at a level between 10% below the current share price and 10% above the current share price on a 12 month time horizon.

"Underweight": Our target price is more than 10% below the current share price, and we expect the share price to reach the target on a 12 month time horizon.

"Target price": We estimate target value per share for every stock we cover. This is normally based on widely accepted methods appropriate to the stock or sector under consideration, e.g. DCF (discounted cash flow) or SoTP (sum of the parts) analysis.

Please note that the achievement of any price target may be impeded by general market and economic trends and other external factors, or if a company's profits or operating performance exceed or fall short of our expectations.

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