

2Q20 Results Update

October 16, 2020

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	122.0
Target Price (SAR)	113.0
Upside/Downside (%)	(7.4%)

As of September 22, 2020

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	14.6
52-Wk High (SAR)	128.0
52-Wk Low (SAR)	79.0
Total Outstanding shares (in mn)	119.0
Free Float (%)	47.8%

Bupa Arabia vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	(3.2%)	(8.3%)
6m	43.5%	9.9%
12m	15.1%	11.4%

Major Shareholders (%)

BUPA Investments Overseas Ltd.	43.25%
Nazer Holding Group Co.	9.00%

Gross Written Premium (SAR bn) and Loss Ratio



Source: Bloomberg, Company Financials, FALCOM Research; Data as of September 22, 2020

Higher net underwriting results boost bottom line in 2Q20

Bupa Arabia recorded an 8.0% YoY drop in gross written premium (GWP) to SAR 2.2bn in 2Q20 owing to decline in the demand for health insurance amid COVID-19 pandemic and resultant economic slowdown. Net earned premium scaled up 18.0% YoY to SAR 2.7bn, while net claims incurred inched up 1.0% YoY to SAR 1.8bn, leading to improvement in the loss ratio to 66.8% from 78.0% in 2Q19. Net underwriting results went up 49.0% YoY to SAR 669.3mn, leading to a 105.0% YoY surge in net income before Zakat and taxes to SAR 443.1mn in 2Q20.

In 2Q20, Bupa Arabia witnessed contraction in GWP contribution from all its consumer segments, with corporates and medium enterprises weighing the most on the company's top line. The decline in GWP growth could be attributed to challenges posed by the COVID-19 pandemic and the ensuing lockdown, which resulted in lower consumer spending during the quarter. The company benefitted from the government's decision to cover COVID-related healthcare costs for residents, which resulted in only a marginal increase in incurred claims in 2Q20. This improved underwriting results and led the company to report higher net profit for the quarter. However, several headwinds could arise in the near term for the overall Saudi insurance sector. The number of insured lives declined in 1H20 due to the ongoing exodus of expats; expectations of further departure of expats in 2H20 may impact the profitability of insurance companies. Additionally, increased VAT rates, which lead to lower consumer spending and increased competition within the insurance industry, could drag down the company's bottom line. Thus, in view of the factors mentioned above, we retain our "Neutral" rating on the stock.

- GWP decreased 8.0% YoY to SAR 2.2bn owing to a decline in GWP contribution from corporates, medium and small enterprises during the quarter. On quarterly basis, GWP dropped 35.4% from SAR 3.5bn in 1Q20.
- Net written premium (NWP) (down 7.3% YoY to SAR 2.2bn) fell at a slower pace than GWP due to the 65.1% YoY drop in ceded premiums to SAR 10.6mn. As a result, the company's retention ratio improved 77.5 bps to 99.5% in 2Q20 from 98.8% in 2Q19.
- Net earned premium rose 18.0% YoY to SAR 2.7bn, whereas net incurred claims increased just 1.0% YoY to SAR 1.8bn in 2Q20. Consequently, the loss ratio improved to 66.8% against 78.0% in 2Q19.
- Policy acquisition costs rose substantially by 324.7% YoY to SAR 227.1mn. Nonetheless, net underwriting results improved 49.0% YoY to SAR 669.3mn as higher net earned premium offset the decline in GWP and rise in incurred claims.
- Lower SG&A charges coupled with the factors mentioned above, led to the 105.0% growth in net income before Zakat and taxes to SAR 443.1mn in 2Q20.
- On June 30, the company's shareholders approved the Board of Directors' plan to buy back 220,000 Treasury shares worth SAR 14.3mn. Moreover, the shareholders authorized the Board to distribute interim dividends on a semi-annual or quarterly basis for FY20.
- On August 31, Bupa Investments Overseas Limited (BIOL) successfully acquired an additional 4.0% stake in Bupa Arabia from Nazer Group's Modern Computer Programs Company. BIOL purchased 4.8mn shares worth SAR 504mn and increased its stake to 43.25%.

Valuation: We revise our target price to a fair value of SAR 113.0 per share and retain our "Neutral" rating on the stock.

	2Q20	2Q19	% YoY	FY20E	FY19	% YoY
GWP (SAR bn)	2.2	2.4	(8.0%)	11.1	10.4	6.2%
NWP (SAR bn)	2.2	2.4	(7.3%)	11.0	10.3	6.3%
Net claims incurred (SAR bn)	1.8	1.8	1.0%	7.9	7.7	2.2%
Net profit before Zakat (SAR bn)	0.4	0.2	105.0%	0.9	0.7	32.6%
EPS (SAR)*	3.25	1.56	108.7%	6.72	4.97	35.3%
Loss Ratio	66.8%	78.0%	(11.2%)	79.0%	82.7%	(3.7%)
Expense Ratio	17.2%	14.6%	2.7%	13.3%	11.7%	1.6%
Combined Ratio	84.0%	92.6%	(8.6%)	92.3%	94.4%	(2.1%)

Source: Company Financials, FALCOM Research

*EPS is based on net income after Zakat and taxes

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FALCOM Financial Services uses its own evaluation structure, and its recommendations are based on quantitative and qualitative data collected by the analysts. Moreover, the evaluation system places covered shares under one of the next recommendation areas based on the closing price of the market, the fair value that we set and the possibility of ascent/descent.

Overweight: The Target share price exceeds the current share price by $\geq 10\%$.

Neutral: The Target share price is either more or less than the current share price by 10%.

Underweight: The Target share price is less than the current share price by $\geq 10\%$.

To be Revised: No target price had been set for one or more of the following reasons: (1) waiting for more analysis, (2) waiting for detailed financials, (3) waiting for more data to be updated, (4) major change in company's performance, (5) change in market conditions or (6) any other reason from FALCOM Financial Services.

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