

Saudi Reinsurance Co.

Solid GWP growth in Q2, turn Overweight

Overweight

Price Target (SAR): 36.0

CMP as of 4th August 2024: 31.2
Upside/Downside: 15.4% above current

Valuation Multiples	23	24E	25E
P/E (x)	22.3	24.9	22.6
P/B (x)	2.4	1.7	1.6
ROE (%)	11.5	9.0	7.4

Major Shareholders % Ownership

Currently there is no single shareholder with over 5% stake

Price Performance	1M	3M	YTD
Absolute	12.8%	13.5%	67.7%
Relative to TASI	11.6%	18.3%	69.5%

Earnings

	2023	2024E	2025E
GWP	1,597	2,156	2,424
Growth	14%	35%	12%
Insurance Revenue	627	952	1,067
Growth	-10%	52%	12%
Total Expenses	(507)	(785)	(912)
Insurance service result	120	167	155
Growth	43%	40%	-7%
Insurance service margin	19%	18%	15%
Net Profit	124	145	160
Growth	64%	17%	10%
ROE	11.5%	9.0%	7.4%
P/E	22.3x	24.9x	22.6x
P/B	2.4x	1.7x	1.6x

Source: Company data, Al Rajhi Capital

Saudi reinsurance is the primary beneficiary of the Kingdom's plan to create a national champion in the reinsurance industry. Given that the country is on the verge of an infrastructure boom, P&C business is expected to grow notably, which is the largest reinsurance market. Further, being the only homegrown reinsurer, it is a beneficiary of the local cession program, where primary insurance companies are mandated to cede business to local reinsurer than global. The cession program starts at 20%, will gradually increase to 25% in 2024, and 30% in 2025 for reinsurance treaties. The entry of PIF as a strategic investor could play a major role in Saudi Re's 2026 strategy to become one of the top global reinsurance company (among top 50), thus easing concerns over the need of capital to grow in the reinsurance business.

Saudi Re's Q2 2024 results were much better than our expectations, with the key highlight being the 74% y-o-y growth in the GWP. This is the second consecutive quarter where GWP growth has surprised us positively. In Q1 2024, despite the high base, GWP grew by 11% y-o-y to SAR 1.2 bn. We have been vocal about the strong growth that the company offers in the near to medium term led by multiple factors. However, we were expecting the growth to be skewed towards H2 2024 and 2025, once the PIF deal is finalized. Recently, the company announced that its deal with PIF has received the approval from the insurance authority, however, CMA approval is still pending. We expect the deal to be closed by the end of 2024. Post the transaction, the PIF will have a significant stake of 23.08% and will increase the capital of the company by almost SAR 428 mn. Moreover, the company's capital will also get a boost from the sale of 49.9% stake in Probitas Holdings for SAR 578mn (capital gains of SAR 367 mn). In addition to these two factors, the company is expected to make profits of SAR 145 mn in 2024, thus by the end of the year the company's equity base will increase by over 80% to SAR 2.1 bn from SAR 1.15 bn at the end of 2023.

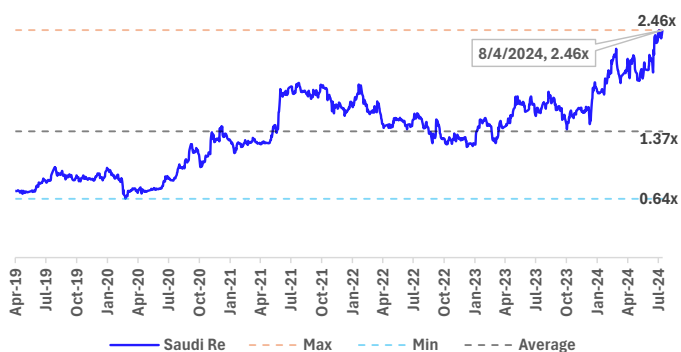
Given its sharp increase in the capital, the company can afford to underwrite and participate in big reinsurance deals, thus we turn more optimistic on the near-term growth and raise our expectations on GWP going forward. We expect the company to double its book (GWP) in the next 3-4 years. However, we consider normalized underwriting margins of 15% from 2025 onwards and see the current margins of 18% in H1 2024 and 19% in 2023 not entirely sustainable. Based on these assumptions, we expect bottom-line to grow by double digit in the near future. As the growth story has started to unfold, we raise our target multiple for the company to 2.0x from 1.5x and apply it on the proforma book value of SAR 2.1 bn. Considering the dilution impact from the PIF stake, the book value per share is around SAR 18/share (2024E). This yields a fair value of SAR 36/share, offering 15.4% upside from today's closing price. Thus, we turn Overweight on the stock from Neutral.

Figure 1 Summary of 2Q24 Earnings

(SAR mn)	2Q24	2Q23	1Q24	ARC Est.	y-o-y	q-o-q	vs ARC
Insurance Revenue	276	157	207	168	75%	33%	64%
Total Insurance & Reinsurance expenses	(220)	(95)	(176)	(134)	131%	25%	64%
Expense Ratio (includes claims)	79.7%	60.5%	85.0%	80.0%	19%	-5%	0%
Insurance service result	56	62	31	34	-10%	80%	67%
Insurance Margin	20%	39%	15%	20%			
Net Income	43	60	32	29	-27%	37%	48%
Net Income Margin	16%	38%	15%	17%			

Valuations: Saudi Re has an equity of SAR 1.2 bn as of H1 2024, implying currently it is trading at a trailing P/B of 2.5x. Over the past three years, the stock has consistently traded with a trailing P/B ratio of 1.5x and a forward P/B ratio of 1.3x. The historical discount compared to the insurance sector stems from its underwhelming operational performance prior to the onset of Covid-19. The company's book value for 2024 is expected to see a significant rise, primarily driven by the one-time gains from the stake sale in Probitas and PIF deal. With a pro forma 2024 book value per share of SAR 18.0, and a higher target multiple of 2.0x, our fair value now is SAR 36/share, that offers an upside of 15.4%. Thus, we turn Overweight on the stock from neutral.

Figure 2 **Saudi Re trading close to all-time high**



Source: Bloomberg, Al Rajhi Capital

Figure 3 **Valuations**

Relative Valuation (SAR mn unless specified)	Value
1H24 Shareholders Equity	1,216
2H24 Expected profit	70
Probitas Capital gains	367
PIF Stake	428
Shareholders Equity	2,081
Proforma Shares Out. (mn)	115.8
2024E BVPS (SAR/share)	18.0
P/B Multiple	2.0x
Fair Value (SAR/share)	36.0
CMP (SAR/share)	31.2
Upside/Downside	15.4%

Source: Company Data, Al Rajhi Capital

Financials

Figure 4 Income Statement

	2023	2024E	2025E
GWP	1,597	2,156	2,424
<i>Growth</i>	14%	35%	12%
Insurance Revenue	627	952	1,067
<i>as % of GWP</i>	39%	44%	44%
Insurance Expenses	(510)	(672)	(875)
Reinsurance Income/Expenses	2	(114)	(37)
Insurance service result	120	167	155
<i>Growth</i>	43%	39%	-7%
Net Investment Income	60	47	82
Net Finance Expenses/Income	(35)	(10)	(7)
Other operating expenses	(32)	(49)	(54)
Other Income	45	12	13
Profit Before Tax	159	167	188
<i>Growth</i>	74%	5%	13%
Zakat & taxes	(34)	(22)	(28)
Net Profit	124	145	160
<i>Growth</i>	64%	17%	10%
<i>Shares outstanding (mn)*</i>	89.1	115.8	115.8
EPS	1.4	1.3	1.4

Source: Al Rajhi Capital estimates, *Considered dilution from PIF stake

Figure 5 Balance sheet

	2023	2024E	2025E
Statutory deposit	89	89	89
Property and equipment, net	37	37	37
Investments	1,423	2,241	2,445
Prepaid expenses and other assets	304	203	203
Reinsurance contract assets	517	509	529
Cash and cash equivalents	88	100	120
Others	231	232	232
Total Assets	2,690	3,411	3,656
Accrued expenses and other liabilities	112	94	114
Insurance contract liabilities	1,288	1,085	1,137
Others	143	152	165
Total Liabilities	1,543	1,331	1,415
Total Equity	1,147	2,080	2,241
Total Liabilities & Equity	2,690	3,411	3,656

Source: Al Rajhi Capital estimates.

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by Al Rajhi Capital (Al Rajhi), a company authorized to engage in securities activities in Saudi Arabia. Al Rajhi is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act").

Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through Al Rajhi.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Additional Disclosures

This research report is for distribution only under such circumstances as may be permitted by applicable law. This research report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient, even if sent only to a single recipient. This research report is not guaranteed to be a complete statement or summary of any securities, markets, reports or developments referred to in this research report.

Neither Al Rajhi nor any of its directors, officers, employees or agents shall have any liability, however arising, for any error, inaccuracy or incompleteness of fact or opinion in this research report or lack of care in this research report's preparation or publication, or any losses or damages which may arise from the use of this research report.

Al Rajhi may rely on information barriers, such as "Chinese Walls" to control the flow of information within the areas, units, divisions, groups, or affiliates of Al Rajhi.

Investing in any non-U.S. securities or related financial instruments (including ADRs) discussed in this research report may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the U.S. Securities and Exchange Commission. Information on such non-U.S. securities or related financial instruments may be limited. Foreign companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect within the United States.

The value of any investment or income from any securities or related financial instruments discussed in this research report denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related financial instruments.

Past performance is not necessarily a guide to future performance and no representation or warranty, express or implied, is made by Al Rajhi with respect to future performance. Income from investments may fluctuate. The price or value of the investments to which this research report relates, either directly or indirectly, may fall or rise against the interest of investors. Any recommendation or opinion contained in this research report may become outdated as a consequence of changes in the environment in which the issuer of the securities under analysis operates, in addition to changes in the estimates and forecasts, assumptions and valuation methodology used herein.

No part of the content of this research report may be copied, forwarded or duplicated in any form or by any means without the prior consent of Al Rajhi and Al Rajhi accepts no liability whatsoever for the actions of third parties in this respect. This research document has been prepared by Al Rajhi Capital Company ("Al Rajhi Capital") of Riyadh, Saudi Arabia. It has been prepared for the general use of Al Rajhi Capital's clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of Al Rajhi Capital. Receipt and review of this research document constitute your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this document prior to public disclosure of such information by Al Rajhi Capital. The information contained was obtained from various public sources believed to be reliable but we do not guarantee its accuracy. Al Rajhi Capital makes no representations or warranties (express or implied) regarding the data and information provided and Al Rajhi Capital does not represent that the information content of this document is complete, or free from any error, not misleading, or fit for any particular purpose. This research document provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other investment products related to such securities or investments. It is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive this document.

Investors should seek financial, legal or tax advice regarding the appropriateness of investing in any securities, other investment or investment strategies discussed or recommended in this document and should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities or other investments, if any, may fluctuate and that the price or value of such securities and investments may rise or fall. Fluctuations in exchange rates could have adverse effects on the value of or price of, or income derived from, certain investments. Accordingly, investors may receive back less than originally invested. Al Rajhi Capital or its officers or one or more of its affiliates (including research analysts) may have a financial interest in securities of the issuer(s) or related investments, including long or short positions in securities, warrants, futures, options, derivatives, or other financial instruments. Al Rajhi Capital or its affiliates may from time to time perform investment banking or other services for, solicit investment banking or other business from, any company mentioned in this research document. Al Rajhi Capital, together with its affiliates and employees, shall not be liable for any direct, indirect or consequential loss or damages that may arise, directly or indirectly, from any use of the information contained in this research document.

This research document and any recommendations contained are subject to change without prior notice. Al Rajhi Capital assumes no responsibility to update the information in this research document. Neither the whole nor any part of this research document may be altered, duplicated, transmitted or distributed in any form or by any means. This research document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or which would subject Al Rajhi Capital or any of its affiliates to any registration or licensing requirement within such jurisdiction.

Disclaimer and additional disclosures for Equity Research

Disclaimer

This research document has been prepared by Al Rajhi Capital Company ("Al Rajhi Capital") of Riyadh, Saudi Arabia. It has been prepared for the general use of Al Rajhi Capital's clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of Al Rajhi Capital. Receipt and review of this research document constitute your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this document prior to public disclosure of such information by Al Rajhi Capital. The information contained was obtained from various public sources believed to be reliable but we do not guarantee its accuracy. Al Rajhi Capital makes no representations or warranties (express or implied) regarding the data and information provided and Al Rajhi Capital does not represent that the information content of this document is complete, or free from any error, not misleading, or fit for any particular purpose. This research document provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other investment products related to such securities or investments. It is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive this document.

Investors should seek financial, legal or tax advice regarding the appropriateness of investing in any securities, other investment or investment strategies discussed or recommended in this document and should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities or other investments, if any, may fluctuate and that the price or value of such securities and investments may rise or fall. Fluctuations in exchange rates could have adverse effects on the value of or price of, or income derived from, certain investments. Accordingly, investors may receive back less than originally invested. Al Rajhi Capital or its officers or one or more of its affiliates (including research analysts) may have a financial interest in securities of the issuer(s) or related investments, including long or short positions in securities, warrants, futures, options, derivatives, or other financial instruments. Al Rajhi Capital or its affiliates may from time to time perform investment banking or other services for, solicit investment banking or other business from, any company mentioned in this research document. Al Rajhi Capital, together with its affiliates and employees, shall not be liable for any direct, indirect or consequential loss or damages that may arise, directly or indirectly, from any use of the information contained in this research document.

This research document and any recommendations contained are subject to change without prior notice. Al Rajhi Capital assumes no responsibility to update the information in this research document. Neither the whole nor any part of this research document may be altered, duplicated, transmitted or distributed in any form or by any means. This research document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or which would subject Al Rajhi Capital or any of its affiliates to any registration or licensing requirement within such jurisdiction.

Explanation of Al Rajhi Capital's rating system

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.

Contact us

Al Rajhi Capital

Research Department

Head Office, King Fahad Road

P.O. Box 5561, Riyadh 11432

Kingdom of Saudi Arabia

Email: research@alrajhi-capital.com

Al Rajhi Capital is licensed by the Saudi Arabian Capital Market Authority, License No. 07068/37