

Saudi Reinsurance Co.

Target price raised but turn neutral after the rally

Neutral

Price Target (SAR): 27.4

Current: 26.0
Upside/Downside: 5.4% above current

Valuation Multiples	23	24E	25E
P/E (x)	18.6	18.7	15.8
P/B (x)	2.0	1.4	1.3
ROE (%)	11.5	9.0	8.6

Major Shareholders % Ownership

Price Performance	1M	3M	YTD
Absolute	-0.2%	13.5%	39.8%
Relative to TASI	3.0%	12.8%	37.4%

Saudi Re's Q4 2023 GWP and insurance revenues dipped on a y-o-y basis as the company decided to let go loss making contracts. However, it had a positive impact on the margins, insurance service margin improved by 100 bps y-o-y to 14%. In our view, the move to focus on profitable contracts eases pressure on the capital requirement and at the same time keeps the bottom line broadly intact. Moreover, given the nature of the business where claims can be lumpy, having a margin of safety by underwriting profitable contracts is paramount. The company has been shoring up its capital to capture the growth opportunities in the KSA. Recently, the company announced plans to sell its 49.9% stake in Probitas Holdings for GBP 120mn (SAR 568mn). In our view, the cash should help to boost its investment income further and the capital gain should boost the equity. Based on the detailed 2023 financials, this investment valued on the books was just SAR 209mn, thus the company will be making gains of almost SAR 355mn, which should boost its capital. Further, any loss from the contribution of Probitas should be offset by the boost in the investment income. In 2023, Probitas contributed SAR 40mn to the profits, at current fixed income yield of 6%, the sale proceeds of SAR 563mn should earn investment income of SAR 34mn.

For Q1 2024, we estimate insurance revenues to decline by 36% y-o-y, but insurance service result to decline by just 29% supported by margin improvement of almost 100 bps. Despite the weakness in topline, the bottom line is expected to grow notably to SAR 15mn from SAR 11mn in Q1 2023, mainly driven by high investment income. Higher interest rates as well as some gains on equity portfolio should support the investment income. The investment portfolio will further increase as the company receives the proceeds from the sale of stake in Probitas, thus it should be enough to offset the lack of contribution from Probitas to a large extent.

In the last three years, the stock has been trading at a trailing P/B of 1.5x and a forward P/B of 1.3x. The reason for discount to the insurance sector in the past is due to weak operating performance before Covid. Given the bright growth prospects and the monopoly in the local reinsurance market, we believe the stock should command a premium to its historical multiple. Saudi Reinsurance is the primary beneficiary of the Kingdom's plan to create a national champion in the reinsurance industry. 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 company's book value for 2024 should increase notably supported by the one-off gains on the stake sold in Probitas. On proforma 2024 book value per share of SAR 18.2, we apply a price to book of 1.5x to arrive at our new target price of SAR 27.4/share. At current market price, the upside is limited, thus we turn neutral on the name.

Earnings

	2023	2024E	2025E
GWP	1,597	1,326	1,811
Growth	14%	-17%	37%
Insurance Revenue	627	519	706
Insurance Expenses	(510)	(410)	(565)
Reinsurance Income/Expenses	2	16	21
Insurance service result	120	124	162
Growth	43%	3%	31%
Net insurance and investment results	146	191	231
Growth	56%	32%	21%
Profit Before Tax	159	166	197
Growth	74%	5%	18%
Net Profit	124	124	147
Growth	64%	0%	18%
ROE	11.5%	9.0%	8.6%
P/E	18.6x	18.7x	15.8x
P/B	2.0x	1.4x	1.3x

Source: Company data, Al Rajhi Capital

Valuations: Saudi Re has an equity of SAR 1.1bn as of FY23, implying currently it is trading at a trailing P/B of 2.0x. 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. With a pro forma 2024 book value per share of SAR 18.2, we employ a price-to-book ratio of 1.5x to derive our revised target price of SAR 27.4/share. Considering the current market price, the potential upside appears constrained, leading us to adopt a neutral stance on the stock.

Figure 1 Saudi Re trading close to all-time high (Trailing P/B) Figure 2 Valuations



Source: Bloomberg, Al Rajhi Capital

Relative Valuation	Value
P/B Multiple	1.5x
2024E BVPS	18.2
Fair Value	27.4
CMP	26.0
Upside/Downside	5.4%

Source: Company Data, Al Rajhi Capital

Financials

Figure 3 Income Statement

	2023	2024E	2025E
GWP	1,597	1,326	1,811
<i>Growth</i>	14%	-17%	37%
Insurance Revenue	627	519	706
<i>as % of GWP</i>	39%	39%	39%
Insurance Expenses	(510)	(410)	(565)
Reinsurance Income/Expenses	2	16	21
Insurance service result	120	124	162
<i>Growth</i>	43%	3%	31%
Net Investment Income	60	105	98
Net Finance Expenses/Income	(35)	(38)	(29)
Other operating expenses	(32)	(28)	(38)
Other Income	45	3	4
Profit Before Tax	159	166	197
<i>Growth</i>	74%	5%	18%
Zakat & taxes	(34)	(42)	(50)
Net Profit	124	124	147
<i>Growth</i>	64%	0%	18%
EPS	1.4	1.4	1.6

Source: Al Rajhi Capital estimates

Figure 4 Balance sheet

	2023	2024E	2025E
Statutory deposit	89	89	89
Property and equipment, net	37	38	39
Investments	1,423	1,541	1,668
Prepaid expenses and other assets	304	304	304
Reinsurance contract assets	517	671	697
Cash and cash equivalents	88	626	856
Others	231	22	22
Total Assets	2,690	3,291	3,675
Accrued expenses and other liabilities	112	128	170
Insurance contract liabilities	1,288	1,398	1,593
Others	143	140	141
Total Liabilities	1,543	1,666	1,903
Total Equity	1,147	1,625	1,772
Total Liabilities & Equity	2,690	3,291	3,675

Source: Al Rajhi Capital estimates

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