Tawuniya

Insurance – Finance
TAWUNIYA AB: Saudi Arabia
31 May 2022

الراجحي المالية
Al Rajhi Capital

US$2.063bn	74.00%	US$5.987mn
Market cap	Free float	Avg. daily volume

Target price	67.00	+8.2% over current
Current price	61.90	as at 30/05/2022

Existing rating

Underweight	Neutral	Overweight

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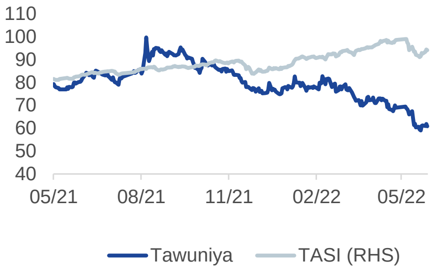
Performance



Source: Bloomberg

Earnings

Period End (SARmn)	2021	2022E	2023E
GWP	**10,219**	**12,218**	**13,224**
Growth (%)	13%	20%	8%
NEP	**7,930**	**9,701**	**10,636**
Growth (%)	13%	22%	10%
NCI	**(6,660)**	**(8,046)**	**(8,449)**
Loss Ratio	84.0%	82.9%	79.4%
Net Underwriting income	**857**	**1,034**	**1,503**
Growth (%)	-16%	21%	45%
Pre-tax net profit	**350**	**333**	**697**
Growth (%)	-32%	-5%	110%
EPS (SAR)	**2.1**	**1.9**	**4.0**
EPS Growth	-32%	-11%	110%
P/E	29.0x	32.5x	15.5x
P/B	2.5x	2.4x	2.2x

Source: Company data, Al Rajhi Capital

Tawuniya

Multiple near-term headwinds, TP cut to SAR67/sh.

Tawuniya's valuations have continuously derated in the recent time as the thesis of consolidation in the insurance sector and enforcement of motor insurance for the existing vehicles has not played out yet as expected. Moreover, fierce competition in the non-medical segment continues to cause mispricing of policies and growth at the expense of profitability. In the medical segment, the growth in GWP has remained strong and the company has also managed to improve its market share. However, higher frequency of medical claims and the medical inflation post Covid have pressurised the loss ratios in the recent quarters. Further, the new mandates such as inclusion of Covid coverage under insurance and new table of benefits have created uncertainty around the future loss ratios. Tawuniya has taken a price hike to mitigate these changes, however, the impact would be known only with time. We prefer to be conservative and expect loss ratios to remain elevated going forward, albeit lower from the current levels. In terms of near-term positives, the company is expected to benefit from the resumption of Hajj & Umrah, notable price increases initiated by its competitor, Bupa Arabia that would aid to further improve its market share in the medical segment. However, on the back of multiple headwinds, we reduce our target price to SAR 67/share from SAR 85/share and remain Neutral on the stock.

Figure 1 Tawuniya Q1 2022 results

(SAR mn)	Q1 2022	Q1 2021	Q4 2021	Q1 2020	ARC Est.	y-o-y	q-o-q	% chg vs 2020	vs ARC
GWP	**3,507**	**2,921**	**3,168**	**2,573**	**3,218**	***20.1%***	***10.7%***	***36.3%***	***9.0%***
Reinsurance ceded	*(284)*	*(333)*	*(383)*	*(166)*	*(289)*				
NWP	**3,223**	**2,587**	**2,785**	**2,407**	**2,929**	***24.6%***	***15.7%***	***33.9%***	***10.1%***
NWP as a % of GWP	*91.9%*	*88.6%*	*87.9%*	*93.6%*	*91.0%*				
NEP	**2,241**	**1,833**	**2,116**	**1,918**	**2,146**	***22.2%***	***5.9%***	***16.9%***	***4.4%***
NEP as a % of GWP	*63.9%*	*62.8%*	*66.8%*	*74.5%*	*66.7%*				
NCI	**1,953**	**1,578**	**1,801**	**1,506**	**1,819**	***23.8%***	***8.5%***	***29.7%***	***7.4%***
Loss ratio	*87.2%*	*86.1%*	*85.1%*	*78.5%*	*84.7%*				
Net profit before zakat	**41**	**81**	**13**	**85**	**84**	***-48.7%***	***207.8%***	***-51.2%***	***-50.4%***
PBT margin	*1.2%*	*2.8%*	*0.4%*	*3.3%*	*2.6%*				

Source: Company data, Al Rajhi Capital

Results: Q1 2022 GWP increased 20% y-o-y to SAR3,507mn, beating our estimate of SAR3,218mn. The beat can be attributable to a recovery in total insured lives (~1m insured lives added in Q1 from YE 2021 driven by Expats) and better pricing. NEP rose ~22% y-o-y to SAR2,241mn, largely in line with our estimate. However, net claims incurred increased at a relatively faster pace at ~24%% y-o-y, resulting in a loss ratio of 87.2%, above our estimate of 84.7%. Further, higher G&A expenses impacted the bottom line with profit before zakat dropping to SAR41mn, missing our estimate of SAR84mn.

Valuation & risks: The stock is currently trading at a price to book ratio of 2.3x on our 1 year forward blended average book value, notably lower than its 3-year historical average of around 3.5x. We value the company using the P/B method (2.5x targeted multiple on our revised 2022/23E BVPS average estimates, which is still lower than the historical average) and the Residual Income approach (CoE: 9.3%). This implies a weighted average TP of ~SAR67.0/sh. (SAR85/sh. earlier), implying a Neutral rating based on the current market prices. The key upside risks are sharp improvement in loss ratios in the medical segment, regulatory announcement on enforcement of motor insurance, and introduction of dividends. At the same time, downside risks are higher-than-expected loss ratio, non-renewal of major existing insurance contracts, zakat settlement, and pricing pressure amid the stiff competition.

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"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.

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