Tawuniya
Insurance – Finance
TAWUNIYA AB: Saudi Arabia
10 November 2022

الراجحي المالية
Al Rajhi Capital

US$2.726bn	74.14%	US$5.950mn
Market cap	Free float	Avg. daily volume

Target price	92.00	11% above current
Current price	82.50	as at 09/11/2022

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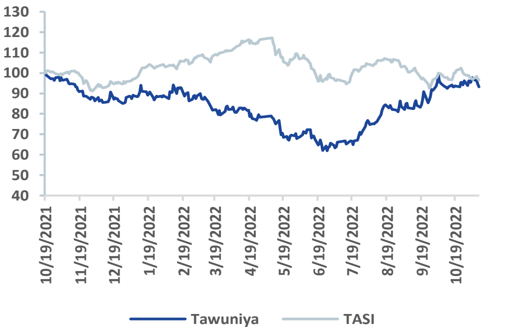
Existing rating

Underweight	Neutral	Overweight



Earnings

Period End (SARmn)	2021	2022E	2023E
GWP	**10,219**	**13,768**	**15,174**
Growth (%)	13%	35%	10%
NEP	**7,930**	**10,087**	**11,336**
Growth (%)	13%	27%	12%
NCI	**(6,660)**	**(8,215)**	**(8,922)**
Loss Ratio	84.0%	81.4%	78.7%
Net Underwriting income	**857**	**1,060**	**1,490**
Growth (%)	-16%	24%	41%
Pre-tax net profit	**350**	**440**	**773**
Growth (%)	-32%	26%	76%
EPS (SAR)	**2.1**	**2.9**	**5.1**
EPS Growth	-32%	35%	76%
P/E	38.7x	28.7x	16.3x
P/B	3.4x	3.2x	2.8x

Source: Company data, Al Rajhi Capital.

Tawuniya

Upgrade to Overweight, TP raised to SAR92/sh

The ongoing price hikes in the two major segments of the industry, medical as well as motor, has helped Tawuniya to manage its loss ratios despite rising pressure from the claims, especially in the medical side. We have been surprised by the level of growth witnessed in the motor segment and despite the price hikes the company has managed to protect its market share, supported by its product offerings and focus on developing a strong pricing mechanism. At the same time, the company has also managed to improve its market share in the medical segment as it benefits from both volume as well as pricing. Further, another lever of growth has been the pick up in Umrah & Hajj pilgrims. We remain cautious about the elevated level of claims in the medical segment and uncertainty related to claims resulting from new table of benefits and Article 11. However, we believe the diversified profile of the company positions it well to manage any uncertainty. We value the stock at a price/book multiple of 3.0x, slightly below its near term historical average of 3.2x, as we remain cautious about the medical segment. Further, in the motor segment, we would be watching if the renewed discipline in the motor segment stays and the companies in the industry do not resort back to price competition seen in the past. For now, we are quite optimistic that the loss ratio has peaked and the price hikes taken in both medical and motor should help the same to decline going forward. We raise our target price to SAR 92/share (from SAR67/share before), that implies an upside of 11% and upgrade the rating from neutral to Overweight.

Repricing in both medical and motor to stablise loss ratios going forward: *In the motor segment, the company has taken unprecedented price hikes, in the range of 40-50%, which has helped it to outperform its peers in terms of loss ratio in the motor segment (in H1 2022: slightly over 74% versus its key peers' average of 95%). In Q3 2022, the loss ratio in the motor segment fell further to 69%. In the motor segment, the GWP has grown by a strong 56% y-o-y in 9M 2022. Despite the higher prices and focus on protecting profitability, the company has not lost any meaningful market share highlighting its strong portfolio (bulk of the policies are comprehensive policies). Similarly, in the medical segment, the GWP has grown by 24% y-o-y in 9M 2022, even better than Bupa's 23% growth. The company has gained many key accounts in the medical segment in the recent past such as STC Group, National Water Company, Saudia, SNB, etc. In our view, the company has been gaining market share in medical without compromising on pricing. Overall, we estimate total GWP for 2022e to rise by 35% y-o-y in 2022e, 10% in 2023e, followed by a 6% growth in 2024e and 5% in 2025e. On the back of price hikes, we believe the loss ratio to continue to improve, we estimate 2022e loss ratio to be around 81% versus 84% in 2021, and further dropping to 79% and 78% in 2023e and 2024e, respectively, before stabilising at 77% for the years beyond 2024.*

Figure 1 Tawuniya Q3 2022 results

(SAR mn)	Q3 2022	Q3 2021	Q2 2022	Q3 2020	*ARC Est.*	*y-o-y*	*q-o-q*	*% chg vs 2020*	*vs ARC*
GWP	**2,921**	**1,865**	**3,223**	**1,320**	**2,409**	***56.6%***	***-9.4%***	***121.3%***	***21.2%***
Reinsurance ceded	*(760)*	*(406)*	*(661)*	*(330)*	*(465)*				
NWP	**2,160**	**1,459**	**2,561**	**990**	**1,944**	***48.1%***	***-15.7%***	***118.1%***	***11.1%***
NWP as a % of GWP	*74.0%*	*78.2%*	*79.5%*	*75.0%*	*80.7%*				
NEP	**2,626**	**2,022**	**2,553**	**1,726**	**2,213**	***29.8%***	***2.9%***	***52.1%***	***18.6%***
NEP as a % of GWP	*89.9%*	*108.4%*	*79.2%*	*130.8%*	*91.9%*				
NCI	**2,107**	**1,672**	**1,925**	**1,409**	**1,793**	***26.0%***	***9.4%***	***49.5%***	***17.5%***
Loss ratio	*80.2%*	*82.7%*	*75.4%*	*81.6%*	*81.0%*				
Net profit before zakat	**138**	**90**	**211**	**114**	**132**	***53.5%***	***-34.5%***	***21.3%***	***4.7%***
PBT margin	*4.7%*	*4.8%*	*6.5%*	*8.6%*	*5.5%*				

Source: Company data, Al Rajhi Capital

Results: GWP for 3Q22 increased 56.6% y-o-y to SAR 2,921mn, beating our estimate of SAR 2,409mn by 21.2%. The beat can be attributable to a recovery in total insured lives and strong pricing. Net claims incurred grew at 26.0% y-o-y, much higher than our expectations (+18.6% above our estimates) offsetting better than expected net earned premiums. However, the loss ratio of 80% was primarily driven by the medical segment (86%) as the motor segment saw a sharp decline in loss ratio to 69% from 74% in Q2 2022. Further, higher investment profits benefitted the bottom line with profit before zakat increasing to SAR 138mn, beating our estimate of SAR 132mn by 4.7%.

Valuations: The stock is currently trading at a price to book ratio of 2.8x on our estimated 2023 book value, lower than its near term historical average of around 3.2x. In light of price hikes in both medical and motor segments and the possibility of rationalisation in the motor segment, we believe the current valuations provide an attractive entry opportunity. We value the company using a mix of P/B and residual income approach. We apply a 3.0x targeted multiple to our revised 2023E BVPS, slightly lower than the historical multiple, as we remain cautious about the medical claims. Our residual income (RI) valuation approach is based on cost of equity of 11%, terminal growth of 3.0% and a sustainable ROE of 20%. Our new target price derived through equal weights to both P/B and RI method is around SAR 92/share (earlier TP SAR 67/share), implying an upside of almost 11%. We upgrade the stock to Overweight from neutral rating.

Figure 2 Valuations

Blended valuation	Target Price	Weight	Avg. TPs
RI approach	95	50%	47
Relative Valuation - P/B	89	50%	45
Target Price			**92**
CMP			83
Upside			11%

Source: Company data, Al Rajhi Capital

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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.

"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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