

US\$6.64bn Market Cap. 74.13% Free Float US\$10.86mn Avg. Daily Value traded

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Neutral

Price Target (SAR): 155.0

Current: 166.2
Upside/Downside: 6.7% below current

Valuation Multiples	23	24E	25E
P/E (x)	40.4	29.3	27.3
P/B (x)	6.9	5.6	4.6
ROE (%)	18.3	21.0	18.5

Major Shareholders % Ownership

GOSI	25.86
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Price Performance	1M	3M	YTD
Absolute	3.2%	27.8%	27.7%
Relative to TASI	3.2%	22.0%	22.5%

Earnings

	2023	2024E	2025E
GWP	18,470	20,874	23,387
Growth	29%	13%	12%
Insurance Revenue	15,265	18,833	21,055
Insurance Expenses	(14,067)	(16,668)	(18,602)
Reinsurance Income/Expenses	(517)	(1,130)	(1,244)
Insurance service result	681	1,035	1,209
Growth	115%	52%	17%
Net insurance and investment results	1,117	1,634	1,786
Growth	62%	46%	9%
Profit Before Tax	718	1,020	1,096
Growth	83%	42%	7%
Net Profit	616	850	913
Growth	104%	38%	7%
ROE	18.3%	21.0%	18.5%
P/E	40.4x	29.3x	27.3x
P/B	6.9x	5.6x	4.6x

Source: Company data, Al Rajhi Capital

Tawuniya

TP raised to SAR 155/sh, turn neutral after the rally

Post a strong 9M 2023 for the insurance sector, we have noticed weakness in the medical and motor business across the industry in Q4 2023, especially the claims in the medical business have been much higher than anticipated. Further, we have also noticed price discipline in the motor insurance industry eroding to some extent in the recent months. Similar trends were noticed in Tawuniya's Q4 2023 results, the operating performance was below expectations hurt by weakness in the medical as well as the motor business. However, reversal of claims in the P&C business offset the pressure in the other two businesses to some extent. Further, sharp jump in the other operating expenses also weighed on the profitability. Although, the sequential jump in the operating expenses should normalize as the company is largely done with the payroll revision and the growth spending related to organizational structure.

Despite the weak results, the stock price has gained further and is up almost 28% YTD. On the positive side, the GWP growth in Q4 2023 was encouraging (total: +17% vs. +10% in Q3), especially 18.5% y-o-y growth in the medical insurance, a notable recovery after a modest 6% y-o-y growth in Q3 2023. Further, positive news flows related to the industry such as the new insurance regulator, start of motor expo platform covering the uninsured government fleet, and Tawuniya being selected as the sole operator of the Hajj & Umrah program instead of a shared pool arrangement, have also helped the sentiments. The new insurance regulator, chaired by veterans from the insurance industry, should help in addressing concerns of the industry and help the industry to grow in a sustainable manner. The first major change could be reducing the number players in the industry, through increasing the minimum capital required, which currently is just SAR 100/200 mn. In motor, the key change to watch out should be the elimination of the cash compensation provided in case of accidents, which is considered to be one of the key drivers for false claims. At the same time, the enforcement in the motor business, compulsory TPL insurance, should also gain further traction.

Among all the news flow, the impactful news is Tawuniya being granted the Hajj and Umrah program. The medical and general accident coverage for Hajj and Umrah pilgrims generated GWP of SAR 810mn in 2023. However, the impact on profitability was minimal due to shared pool arrangement, the insurance service result contribution was just about SAR 36mn. If the company retains bulk of the business and on a conservative insurance service margin assumption of 10%-12%, then the profit contribution from this business alone would be SAR 80-100mn, an incremental addition of SAR 44-64mn to the profitability. Currently, it is not certain that Tawuniya will be the permanent operator of this program as it will be subject to the tendering process every year. However, given the expertise of the company and trust built over the years, we believe Tawuniya is in a better position to retain this program even in the coming years. There is a possibility that the product prices could decline further, thus we have assumed just about 12% margin on this product (in the past margins used to be very high). We keep our 2024 and 2025 earnings broadly unchanged as benefits from Hajj and Umrah could get offset by the expected rise in loss ratio for motor as well as medical. However, we become more confident on the medium-term growth story as the recent GWP numbers indicate that the company is gaining market share in all the key segments.

Valuations: Post the GWP growth in Q4 and the company's aggressive push to grow in P&C as well as motor, we are now factoring the prospects of strong growth in the medium term than before. Thus, we assign a forward P/B multiple of 5.0x (earlier 4.5x) on 2024 book value per share of SAR 30/share, that results in a value of SAR 149/share for the existing business. We also consider the value from the clinic's business (workings below), although we consider only 50% of the potential value from the clinics business as we prefer to wait for more details and signs of traction. Based on the P/B method and 50% of value from the healthcare business, our target price for Tawuniya is SAR 155/share, implying around 7% downside from the current levels and a Neutral recommendation on the stock.

Figure 1 Valuations

Relative Valuation	Value
P/B Multiple	5.0x
2024E BVPS	30
Fair Value	149

Hospital Business (optional value)	Value
Clinics & Centers	48
Patient footfall per clinic	100
Number of patients in a day	4,800
Charges per patient (SAR)	500
Total revenues in a year (SAR mn)	720
Net income - Assumed 15% (SAR mn)	108
P/E	25.0x
Equity Value (SAR mn)	2,700
No. of shares	150,000
Fair Value	18
Discounted value (10% cost of equity)	11

Blended Valuation	Fair Value	Weight	Value/Sh.
Relative Valuation - P/B	149	100%	149
Hospital Business (optional value)	11	50%	6
Target Price			155.0
CMP			166.2
Upside/Downside			-6.7%

Source: Company Data, Al Rajhi Capital estimates. Note: Number of days considered for Hospital business is 300 days

Figure 2 Tawuniya trading at all time high (P/B)



Source: Bloomberg, Al Rajhi Capital

Financials

Figure 3 Income Statement

	2023	2024E	2025E	2026E
GWP	18,470	20,874	23,387	25,911
<i>Growth</i>	29%	13%	12%	11%
Insurance Revenue	15,265	18,833	21,055	23,329
<i>as % of GWP</i>	83%	90%	90%	90%
Insurance Expenses	(14,067)	(16,668)	(18,602)	(20,577)
Reinsurance Income/Expenses	(517)	(1,130)	(1,244)	(1,332)
Insurance service result	681	1,035	1,209	1,420
<i>Growth</i>	115%	52%	17%	17%
Investment Income	436	600	577	592
ECL	16	(71)	(82)	(91)
Net financing expenses	(68)	(89)	(96)	(112)
Net insurance financial results	1,065	1,474	1,608	1,809
Other operating expenses	(427)	(551)	(617)	(684)
Other Income	81	97	105	105
Profit Before Tax	718	1,020	1,096	1,230
<i>Growth</i>	83%	42%	7%	12%
Zakat & taxes	(101)	(170)	(182)	(205)
Net Profit	616	850	913	1,025
<i>Growth</i>	104%	38%	7%	12%
EPS	4.1	5.7	6.1	6.8

Source: Company Data, Al Rajhi Capital estimates

Figure 4 Balance sheet

	2023	2024E	2025E	2026E
Statutory deposit	150	150	150	150
Property and equipment, net	311	288	315	344
Investments	1,271	1,314	1,386	1,491
Murabaha deposits	7,368	8,266	9,258	10,369
Prepaid expenses and other assets	792	792	792	792
Reinsurance contract assets	3,535	4,331	4,417	4,506
Receivables, net	2,894	3,195	3,790	3,966
Cash and cash equivalents	2,082	2,508	3,207	4,448
Other	14	14	10	9
Total Assets	18,417	20,859	23,325	26,074
Accrued expenses and other liabilities	858	1,195	1,333	1,475
Insurance contract liabilities	13,436	14,686	16,095	17,672
Others	500	506	511	517
Total Liabilities	14,795	16,386	17,940	19,663
Total Equity	3,622	4,472	5,385	6,411
Total Liabilities & Equity	18,417	20,859	23,325	26,074

Source: Company Data, Al Rajhi Capital estimates

Figure 5 Drivers

		2023	2024E	2025E	2026E
	GWP	12,516	14,018	15,330	17,005
Medical	Insurance Revenue	11,255	12,680	13,797	15,305
	Expense ratio	90%	89%	89%	89%
	GWP	550	529	840	931
Medical - Umrah	Insurance Revenue	23	452	756	838
	Expense ratio	NM	85%	85%	85%
	GWP	2,870	3,392	3,731	3,992
Motor	Insurance Revenue	1,855	3,076	3,384	3,621
	Expense ratio	75%	79%	78%	78%
	GWP	261	242	262	278
General Accident - Umrah	Insurance Revenue	13	194	209	222
	Expense ratio	NM	78%	78%	78%
	GWP	2,210	2,626	3,152	3,624
P&C	Insurance Revenue	2,062	2,364	2,836	3,262
	Expense ratio	65%	45%	50%	50%
	GWP	64	67	73	81
P&S	Insurance Revenue	58	67	73	81
	Expense ratio	87%	75%	75%	75%

Source: Company Data, Al Rajhi Capital estimates

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