Tawuniya
Insurance
TAWUNIYA AB: Saudi Arabia
1 May 2025

alrajhi capital الراجحي المالية

US$5.55bn	74.13%	US$11.44mn
Market Cap.	Free Float	Avg. Daily Value traded

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Overweight

Price Target (SAR): 158.0

Current: 138.8
Upside/Downside: 13.8% above current

Valuation Multiples	24A	25E	26E
P/E (x)	20.4	18.6	17.2
P/B (x)	4.6	3.7	3.1
ROE (%)	25.2	22.2	19.4

Major Shareholders	% Ownership
GOSI	25.86

Price Performance	1M	3M	YTD
Absolute	-2.7%	-8.7%	-6.0%
Relative to TASI	0.3%	-2.7%	-2.9%

Earnings

SAR (mn)	2024	2025E	2026E	2027E
GWP	**19,822**	**23,900**	**26,631**	**29,351**
y-o-y	*8%*	*21%*	*11%*	*10%*
Insurance Revenue	**18,273**	**21,991**	**24,568**	**27,052**
Insurance Expenses	(15,434)	(18,591)	(20,968)	(22,949)
Reinsurnace Income/Expenses	(1,727)	(2,165)	(2,236)	(2,561)
Net Insurance Service result	**1,111**	**1,236**	**1,364**	**1,542**
Insurance margin	*6.1%*	*5.6%*	*5.6%*	*5.7%*
y-o-y	*63%*	*11%*	*10%*	*13%*
Net Insurance Financial result	**1,630**	**1,765**	**1,870**	**2,088**
y-o-y	*53%*	*8%*	*6%*	*12%*
Profit Before Tax	**1,145**	**1,256**	**1,351**	**1,543**
y-o-y	*60%*	*10%*	*8%*	*14%*
Net Profit	**1,022**	**1,121**	**1,206**	**1,377**
Net profit margin	*5.6%*	*5.1%*	*4.9%*	*5.1%*
y-o-y	*66%*	*10%*	*8%*	*14%*
EPS	**6.82**	**7.48**	**8.05**	**9.19**
ROE	**25.2%**	**22.2%**	**19.4%**	**18.4%**
P/E	**20.4x**	**18.6x**	**17.2x**	**15.1x**
P/B	**4.6x**	**3.7x**	**3.1x**	**2.5x**

Source: Company data, Al Rajhi Capital

Tawuniya

Macro risks priced in, turn Overweight

After a solid FY24, Tawuniya this morning reported its 1Q25 results, which were a beat compared to our expectations. We were anticipating normalization of insurance service margins compared to 1Q25, which were supported by the relatively elevated margins in the P&C business. Moreover, the spike in corporate medical clients in 1Q25 was also expected to weigh on the margins. Nevertheless, the insurance service margins were broadly flat compared to y-o-y, thus the topline growth translated to the bottom-line, resulting in a solid beat. The sharp growth in GWP, led by two major wins in the medical segment, reiterate the competitive ability of the company and the economic moat of having diversified businesses that can be offered as a one stop solution to the clients. In 2025, we are expecting solid growth in medical (due to large contracts) as well as another year of sharp growth in P&C. At the same time, the ongoing volume growth in motor and some rationality on pricing should lead to a low double-digit growth in motor. However, given the sharp drop in oil prices, concerns have increased over the medium-term growth prospects of P&C, especially construction related contracts.

Nevertheless, we expect overall GWP to grow by 21% y-o-y in 2025 and another 11% (average) in 2026 and 2027. However, we believe insurance service margins could taper off a bit compared to 2024, primarily due to normalization of margins in P&C. In 2024, risk events in P&C business were on the lower side (incurred claims ratio just 37% in FY24 versus average 60% in the preceding two years). We are assuming insurance service margins in P&C to be somewhere between last year's 10% and the 5% (below normal) in FY22 and FY23. Moreover, the expected growth in corporate clients in medical in 2025 and beyond could also weigh on the insurance service margins. However, the impact could be limited due to PHM (population health management), launch of Meena clinics (79,000 patient visits in FY 2024), vitality program (1.1mn active users), etc. In the motor insurance, we are assuming slightly better margins due to rationalization of price in the recent months.

On the back of these assumptions, we are assuming an insurance revenue growth of 20% in 2025, 12% in 2026 and about 10% in 2027. On insurance service margins, we are assuming around 5.6% during FY25-27 compared to 6.1% margins in FY24. On net profit margin, we assume margins of 5.0% during FY25-27 versus 5.6% in FY24, as we consider higher operating expenses (growing team, Meena expansion) and decline in investment income yield (weak equity markets, lower interest rates).

Although we increase our earnings estimates for FY25 and beyond versus our expectations before, we trim the valuation multiple for the stock. The slight pessimism is mainly on account of weaker equity market sentiments towards high growth stocks led by sharp decline in the oil prices. From a fundamental point of view, oil prices might not have hurt the growth prospects of medical and motor, however, it could hurt the medium- and long-term growth expectations for P&C. Thus, we value the company at a P/B of 4.25x, broadly in line with its historical multiple and a P/E of 21x. We modestly raise our target price to SAR 158/share (SAR 155/share before), but turn Overweight from neutral as the recent decline in the share price is pricing in bulk of the negatives in our view. At our target price of SAR 158/share, the upside is ~14%, implying Overweight recommendation on the stock.

1Q25 Earnings: Insurance revenue for Tawuniya for 1Q25 came in 17% higher y-o-y and 7% higher sequentially, coming 3% above our estimates. The y-o-y growth was driven by the strong performance of the main lines of business (Health, Motor, and General insurance). Insurance service result came in higher at SAR 290mn, growing 13% y-o-y and 32% sequentially and also coming 58% above our estimates owing to higher revenues and better management of claims resulting in improvement of loss ratios for them. The impact of a higher net insurance service coupled with higher investment income result flowed through, leading to a reported net income of SAR 262mn (+33% y-o-y, +56% q-o-q), exceeding our estimate of SAR 156mn.

Figure 1 **Summary of Earnings**

(SAR mn)	1Q25	1Q24	4Q24	ARC Est.	y-o-y	q-o-q	vs ARC
GWP	**6,552**	**4,573**	**5,458**	**6,216**	***43%***	***20%***	***5%***
Insurance Revenue	**5,121**	**4,386**	**4,779**	**4,973**	***17%***	***7%***	***3%***
Insurance service expenses	*(4,384)*	*(4,040)*	*(3,927)*	*(4,360)*	*8%*	*12%*	*1%*
Gross Insurance service result	**738**	**346**	**851**	**613**	*113%*	*-13%*	*20%*
Reinsurance expenses (B)	*(448)*	*(90)*	*(632)*	*(430)*	*397%*	*-29%*	*4%*
Total Insurance & Reinsurance expenses (A+B)	***(4,831)***	***(4,130)***	***(4,559)***	***(4,790)***	***17%***	***6%***	***1%***
Expense Ratio (includes claims)	*94.3%*	*94.2%*	*95.4%*	*96.3%*	*0%*	*-1%*	*-2%*
Net Insurance service result	**290**	**256**	**219**	**184**	***13%***	***32%***	***58%***
Insurance Margin	*5.7%*	*5.8%*	*4.6%*	*3.7%*			
Net investment income	*195*	*171*	*188*	*188*	*14%*	*4%*	*4%*
Profit before zakat and tax	**294**	**230**	**198**	**177**	***28%***	***49%***	***66%***
Net Income	**262**	**197**	**168**	**156**	***33%***	***56%***	***68%***
Net Income Margin	*5.1%*	*4.5%*	*3.5%*	*3.1%*			

Source: Company Data, Al Rajhi Capital estimates

Valuations: Despite a solid 2024, the valuation multiples have derated notably in the last six months or so. This is primarily on account of overall market weakness and the sharp drop in the oil prices, that have been negative particularly for growth stocks. At current price, the stock is trading at a trailing P/B of 4.7x versus the peak achieved in 2024 of 7.0x. Despite the improved medium growth prospects, valuations have moved towards historical average levels. On one hand, the macro situation has turned unfavourable, while on the other hand the valuations are pricing in the negatives to a large extent, in our view. We modestly raise our target price to SAR 158/share from SAR 155/share before. However, given the sharp decline in the share price in the recent months, the upside offered from the current level is ~14%. Thus, we upgrade our recommendation to Overweight from neutral before. We are valuing the stock through a mix of P/B and P/E approach. We assign a P/B of 4.25x and P/E of 21x to arrive at our target price.

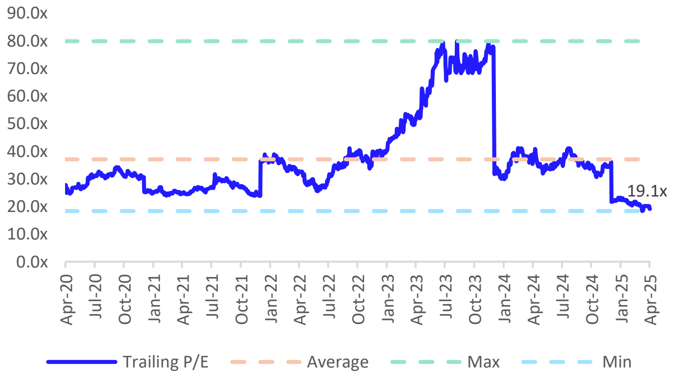
Figure 2 **Valuations**

Valuation	P/B	P/E
Target Multiple	4.25x	21.0x
2025E BVPS / EPS	37.4	7.5
Fair Value (SAR)	**159**	**157**

Blended Valuation	Fair value	Weight	Weighted. TPs
P/E	157	50%	79
P/B	159	50%	79
Target Price (SAR)			**158**
Current Price (SAR)			138.8
Upside			*13.8%*

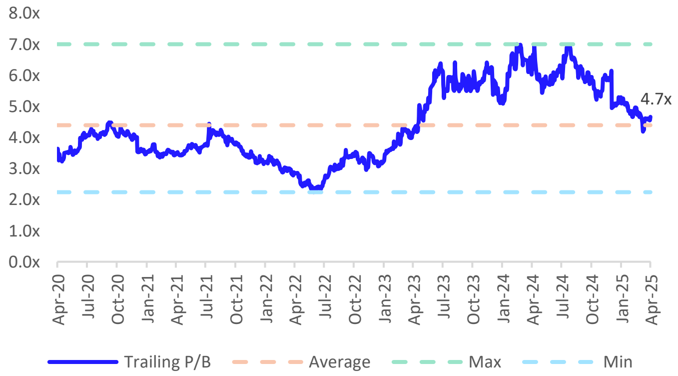
Source: Company Data, Al Rajhi Capital estimates

Figure 3 **Trailing P/E trading near 5yr low**



Source: Bloomberg, Al Rajhi Capital

Figure 4 **Trailing P/E trading near 5yr average**



Source: Company Data, Al Rajhi Capital

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