

<b>US\$3.163bn</b>	<b>74.14%</b>	<b>US\$5.13mn</b>
<b>Market Cap</b>	<b>Free Float</b>	<b>Avg. Daily Volume</b>

**Target price** 109.00 **15% above current**  
**Current price** 95.00 **as at 08/03/2023**

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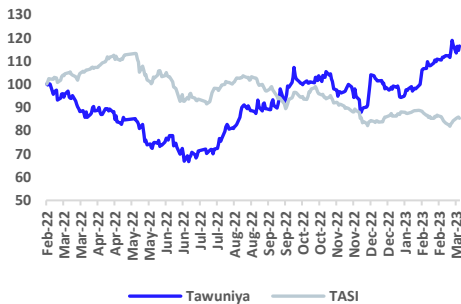
Existing rating

**Underweight**   **Neutral**   **Overweight**

# Tawuniya

## Target price raised to SAR109/sh

### Performance



### Earnings

Period End (SARmn)	2022A	2023E	2024E
<b>GWP</b>	<b>14,350</b>	<b>15,202</b>	<b>16,121</b>
Growth (%)	40%	6%	6%
<b>NEP</b>	<b>10,561</b>	<b>11,361</b>	<b>12,172</b>
Growth (%)	33%	8%	7%
<b>NCI</b>	<b>(8,455)</b>	<b>(8,931)</b>	<b>(9,441)</b>
Loss Ratio	80.1%	78.6%	77.6%
<b>Net Underwriting income</b>	<b>1,067</b>	<b>1,505</b>	<b>1,736</b>
Growth (%)	24%	41%	15%
<b>Pre-tax net profit</b>	<b>480</b>	<b>841</b>	<b>1,110</b>
Growth (%)	37%	75%	32%
<b>EPS (SAR)</b>	<b>3.1</b>	<b>5.5</b>	<b>7.3</b>
EPS Growth	47%	76%	32%
P/E	30.4x	17.3x	13.1x
P/B	3.5x	3.0x	2.4x

Source: Company data, Al Rajhi Capital.

Tawuniya's 2022 results (GWP: +40% y-o-y, loss ratio: 80.1%, a decline of almost 400 bps y-o-y) underscore our thesis that the company as well as motor insurance industry is on the verge of entering a phase of sustainable profitability after years of price wars. The loss ratio of 78.6% in Q4 2022 was the lowest loss ratio in the last five years, even lower than Q4 2020's 81.1%. The company is at the forefront of benefitting from this due to its strong position in the market, quality of management, product portfolio with high exposure to comprehensive insurance policies, etc. Moreover, the company's medical insurance segment should also witness notable growth in the topline supported by price hikes as well as ongoing growth in the insured lives. From a medium term perspective, some uncertainty around the loss ratio in the medical remain, however, in the near term, mainly the next few quarters, even in the medical segment loss ratio could be lower. This is due to the possibility of lag in higher claims arising from new table of benefits, article 11, etc. Another lever of growth for the company is the rise in Umrah & Hajj pilgrims as well as international tourism. In our view, the stock should command its pre Covid P/B multiple and the divergence in the current valuation multiple between Tawuniya and Bupa should contract. We raise the target price to SAR 109/share from SAR 92/share, and maintain our Overweight recommendation on the stock.

Figure 1 Tawuniya Q4 2022 Results

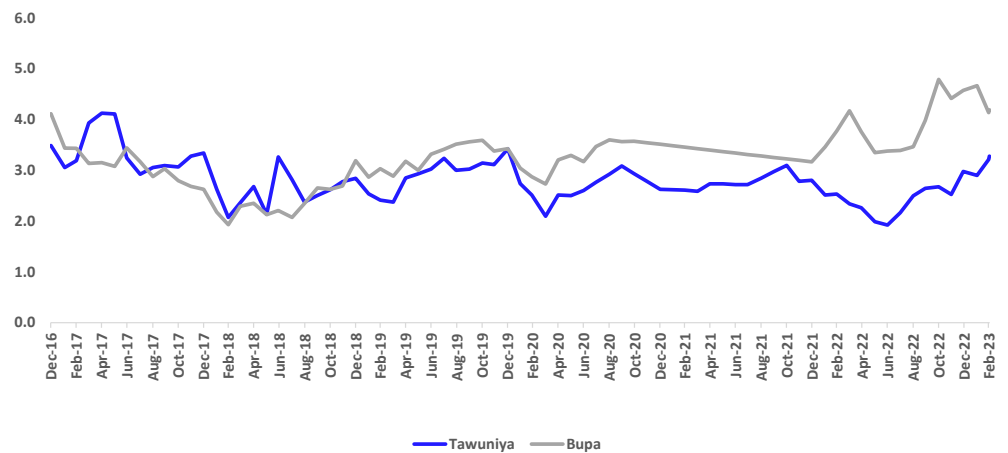
(SAR mn)	Q4 2022	Q4 2021	Q3 2022	Q4 2020	ARC Est.	y-o-y	q-o-q	% chg vs 2020	vs ARC
<b>GWP</b>	<b>4,699</b>	<b>3,168</b>	<b>2,921</b>	<b>2,699</b>	<b>4,117</b>	<b>48.3%</b>	<b>60.9%</b>	<b>74.1%</b>	<b>14.1%</b>
Reinsurance ceded	(479)	(383)	(760)	(416)	(492)				
<b>NWP</b>	<b>4,220</b>	<b>2,785</b>	<b>2,160</b>	<b>2,284</b>	<b>3,625</b>	<b>51.5%</b>	<b>95.4%</b>	<b>84.8%</b>	<b>16.4%</b>
NWP as a % of GWP	89.8%	87.9%	74.0%	84.6%	88.0%				
<b>NEP</b>	<b>3,142</b>	<b>2,116</b>	<b>2,626</b>	<b>1,788</b>	<b>2,668</b>	<b>48.5%</b>	<b>19.7%</b>	<b>75.7%</b>	<b>17.8%</b>
NEP as a % of GWP	66.9%	66.8%	89.9%	66.3%	64.8%				
<b>NCI</b>	<b>2,471</b>	<b>1,801</b>	<b>2,107</b>	<b>1,450</b>	<b>2,230</b>	<b>37.2%</b>	<b>17.3%</b>	<b>70.5%</b>	<b>10.8%</b>
Loss ratio	78.6%	85.1%	80.2%	81.0%	83.6%				
<b>Net Underwriting Income</b>	<b>237</b>	<b>177</b>	<b>321</b>	<b>235</b>	<b>231</b>	<b>33.8%</b>	<b>-26.0%</b>	<b>0.8%</b>	<b>2.9%</b>
Net Underwriting margin	7.6%	8.4%	12.2%	13.2%	8.6%				
<b>Net profit before zakat</b>	<b>90</b>	<b>13</b>	<b>138</b>	<b>105</b>	<b>45</b>	<b>568.7%</b>	<b>-34.7%</b>	<b>-14.5%</b>	<b>98.5%</b>
PBT margin	1.9%	0.4%	4.7%	3.9%	1.1%				

Source: Company data, Al Rajhi Capital. Note: Net profit before zakat denotes net income attributable to shareholders.

**Results:** GWP for 4Q22 increased 48.3% y-o-y to SAR 4,699mn, beating our estimate of SAR 4,117mn by 14.1%. The beat appears to be primarily due to higher number of policies sold in both medical as well as motor insurance. The company is benefitting from both higher volumes as well as pricing. Given that policies sold were higher than our expectations, in absolute terms net claims were higher than expected, however, the loss ratio of 78.6% was much lower than our expectations of 83.6%. 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 which saw an improvement both sequentially as well as on yearly basis. Further, higher investment profits benefitted the bottom line with profit before zakat increasing to SAR 90mn, almost doubled from our estimate of SAR 45mn by 98.5%.

**Valuations:** On our 2023E book value, the stock is currently trading at a price to book of 3.0x versus Bupa’s 2023e P/B of 5.0x. Based on Bloomberg consensus estimates, Tawuniya is trading at a 2023e price to book of 3.8x. We believe consensus are not pricing in the sharp recovery in loss ratio expected in 2023e that can substantially improve the profitability as well as book value (our 2023e book value per share: SAR 31.6 versus consensus: SAR 27.03). During 2018-2020 (Pre-Covid), Tawuniya and Bupa were commanding similar multiples of around 3.8x. Post Covid, the divergence has happened due to increased demand for healthcare insurance, while sharp increase in motor loss insurance. Now, with motor insurance segment poised to enter a phase of sustainable profitability, we believe the divergence between Tawuniya and Bupa should be lower. Although, we do not expect Tawuniya to achieve a multiple of 5.0x P/B, in our view, the stock should command its pre Covid multiple of 3.8x.

Figure 2 Price to Book seems converging



Source: Company data, Al Rajhi Capital

We value the company using a mix of P/B and residual income approach. We apply a 3.75x 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 14%. Our new target price derived through 60% weight from P/B and 40% weight from RI method is around SAR 109/share (earlier TP SAR 92/share), implying an upside of 15%. We maintain our “Overweight” rating on the stock.

Figure 3 Valuations

Blended valuation	Target Price	Weight	Avg. TPs
RI approach	95	40%	38
Relative Valuation - P/B	119	60%	71
<b>Target Price</b>	<b>109</b>		
CMP	95		
Upside	15%		

Source: Company data, Al Rajhi Capital

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