



**US\$5.716bn** Market cap  
**49.40%** Free float  
**US\$5.92mn** Avg. daily volume

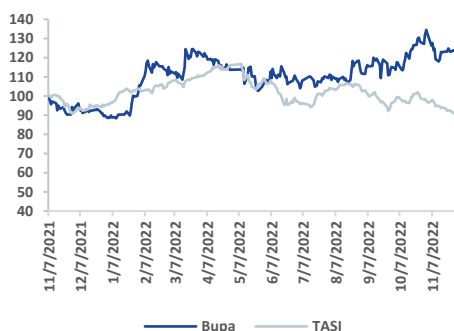
Target price **179.00** at par  
Current price **179.00** as at 29/11/2022

**Research Department**  
Madhu Appissa, CFA

Tel + +966 11 834 5486, Appissam@alrajhi-capital.com

Existing rating

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



**Earnings**

Period End (SAR)	2021A	2022E	2023E	2024E
GWP	11,382	13,921	16,009	17,770
Growth	9%	22%	15%	11%
NEP	10,618	12,911	14,927	16,657
Growth	-1%	22%	16%	12%
NCI	(9,047)	(11,041)	(12,464)	(13,825)
Loss Ratio	85.2%	85.5%	83.5%	83.0%
Net Underwriting income	1,228	1,303	1,850	2,195
ROE	15.5%	17.1%	21.7%	22.2%
P/E	25.1x	27.3x	22.0x	19.4x
P/B	3.7x	4.6x	4.6x	4.1x

Source: Company data, Al Rajhi Capital.

## Bupa Arabia

### Target price raised, but rating revised to neutral

Bupa Arabia, being the largest health insurance player in KSA, is at the forefront of benefitting from the ongoing growth in insured lives (+19% YTD). We believe the growth in insured lives would continue as the insurance coverage enforcement (gap between employees in GOSI records and insured lives should ideally shrink) picks up and the job additions continue led by return of expats (as per Bupa 3Q22 presentation, about 1.0 m jobs added this year). The other catalyst for the industry in general and for Bupa in particular is the price hikes (15-20% y-o-y). Although, the price hikes are mainly on the back of higher medical inflation in 2022 as well as various other developments such as Article 11, NPHIES implementation and new table of benefits (ToB). We believe the price hikes indicate the bargaining power of Bupa, indicating strong business moat. GWP for Bupa this year is up over 20% y-o-y on an average, we believe the strong GWP growth (+15%) to continue in 2023 as well. However, we remain cautious about the elevated level of loss ratios, about 84% in 9M 2022, higher than the ideal level of 80-82%. Despite the price hikes, we estimate loss ratio to be around 83.5% in 2023 and 83% in 2024. In our view, the uncertainty remains around the impact of new ToB on loss ratio as the first phase of new ToB has been implemented in October, thus the industry has not seen the impact yet. Further, once the NPHIES implementation is streamlined, there would be more clarity on the loss ratio. On the positive, Bupa has been conservative and accounted for higher IBNR (incurred but not received) reserves this year. We raise our target price to SAR 179/share from SAR 155/share before. However, we downgrade the rating to neutral as our new target price is at par with the current market price.

**Figure 1 Bupa 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	4,176	3,459	3,001	3,076	4,081	20.7%	39.2%	35.8%	2.3%
Reinsurance ceded	(11)	(13)	(31)	(9)	(15)				
NWP	4,165	3,446	2,970	3,068	4,066	20.9%	40.2%	35.8%	2.4%
NWP as a % of GWP	99.7%	99.6%	99.0%	99.7%	99.6%				
NEP	3,361	2,712	3,141	2,700	3,200	23.9%	7.0%	24.5%	5.0%
NEP as a % of GWP	80.5%	78.4%	104.7%	87.8%	78.4%				
NCI	2,761	2,247	2,584	2,180	2,688	22.9%	6.8%	26.6%	2.7%
Loss ratio	82.1%	82.9%	82.3%	80.8%	84.0%				
Net profit before zakat	375	228	291	170	241	64.4%	NM	120.7%	55.5%
PBT margin	9.0%	6.6%	9.7%	5.5%	5.9%				

Source: Company data, Al Rajhi Capital

**Results:** GWP for 3Q22 increased 20.7% y-o-y to SAR 4,176mn (2.3% above our estimate), due to a recovery in total insured lives coupled with higher pricing. NEP rose relatively at a faster pace at 23.9% y-o-y (+5% above our estimates), mainly due to favorable changes in unearned premiums. During the quarter, net claims incurred surged by 22.9% y-o-y (higher than our estimates), resulting in a loss ratio of 82.1% flat q-o-q, but below our estimate of 84.0%. Further, higher investment profits (+132% y-o-y) benefitted the bottom line, with profit before zakat increasing 64% y-o-y to SAR 375mn.



**Valuations:** The stock is currently trading at a price to book ratio of 4.6x on our estimated 2023 book value, higher than its recent historical average of 3.5x. In terms of P/E multiple, it trades around 22x on 2023e. We are valuing the stock using a mix of P/B, P/E as well as residual income (RI) method. We are using a 2023e P/B multiple of 4.0x, higher than its historical average considering the sharp growth in GWP and a forward P/E multiple of 25x. The key inputs for RI are cost of equity of 10.5%, terminal growth of 4.0% and a 14% CAGR growth in net income during 2030e-2022e. Our new target price derived through equal weights to each valuation methodology is SAR 179/share, at par with the current market price.

**Figure 2 Valuations**

Method	Target Price	Weight	Avg. TPs
P/B	156	33%	52
P/E	202	33%	67
RI	179	33%	60
<b>Target Price</b>			<b>179</b>
CMP			179
Upside			0%

Source: Company data, Al Rajhi Capital



## IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by Al Rajhi Capital (Al Rajhi), a company authorized to engage in securities activities in Saudi Arabia. Al Rajhi is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act").

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through Rosenblatt Securities Inc, 40 Wall Street 59th Floor, New York NY 10005, a registered broker dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through Al Rajhi. Rosenblatt Securities Inc. accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of Rosenblatt Securities Inc. and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

### Ownership and Material Conflicts of Interest

Rosenblatt Securities Inc. or its affiliates does not "beneficially own," as determined in accordance with Section 13(d) of the Exchange Act, 1% or more of any of the equity securities mentioned in the report. Rosenblatt Securities Inc, its affiliates and/or their respective officers, directors or employees may have interests, or long or short positions, and may at any time make purchases or sales as a principal or agent of the securities referred to herein. Rosenblatt Securities Inc. is not aware of any material conflict of interest as of the date of this publication.

### Compensation and Investment Banking Activities

Rosenblatt Securities Inc. or any affiliate has not managed or co-managed a public offering of securities for the subject company in the past 12 months, nor received compensation for investment banking services from the subject company in the past 12 months, neither does it or any affiliate expect to receive, or intends to seek compensation for investment banking services from the subject company in the next 3 months.

### Additional Disclosures

This research report is for distribution only under such circumstances as may be permitted by applicable law. This research report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient, even if sent only to a single recipient. This research report is not guaranteed to be a complete statement or summary of any securities, markets, reports or developments referred to in this research report. Neither Al Rajhi nor any of its directors, officers, employees or agents shall have any liability, however arising, for any error, inaccuracy or incompleteness of fact or opinion in this research report or lack of care in this research report's preparation or publication, or any losses or damages which may arise from the use of this research report.

Al Rajhi may rely on information barriers, such as "Chinese Walls" to control the flow of information within the areas, units, divisions, groups, or affiliates of Al Rajhi.

Investing in any non-U.S. securities or related financial instruments (including ADRs) discussed in this research report may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the U.S. Securities and Exchange Commission. Information on such non-U.S. securities or related financial instruments may be limited. Foreign companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect within the United States.

The value of any investment or income from any securities or related financial instruments discussed in this research report denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related financial instruments.

Past performance is not necessarily a guide to future performance and no representation or warranty, express or implied, is made by Al Rajhi with respect to future performance. Income from investments may fluctuate. The price or value of the investments to which this research report relates, either directly or indirectly, may fall or rise against the interest of investors. Any recommendation or opinion contained in this research report may become outdated as a consequence of changes in the environment in which the issuer of the securities under analysis operates, in addition to changes in the estimates and forecasts, assumptions and valuation methodology used herein.

No part of the content of this research report may be copied, forwarded or duplicated in any form or by any means without the prior consent of Al Rajhi and Al Rajhi accepts no liability whatsoever for the actions of third parties in this respect. This research document has been prepared by Al Rajhi Capital Company ("Al Rajhi Capital") of Riyadh, Saudi Arabia. It has been prepared for the general use of Al Rajhi Capital's clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of Al Rajhi Capital. Receipt and review of this research document constitute your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this document prior to public disclosure of such information by Al Rajhi Capital. The information contained was obtained from various public sources believed to be reliable but we do not guarantee its accuracy. Al Rajhi Capital makes no representations or warranties (express or implied) regarding the data and information provided and Al Rajhi Capital does not represent that the information content of this document is complete, or free from any error, nor misleading, or fit for any particular purpose. This research document provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other investment products related to such securities or investments. It is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive this document.

Investors should seek financial, legal or tax advice regarding the appropriateness of investing in any securities, other investment or investment strategies discussed or recommended in this document and should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities or other investments, if any, may fluctuate and that the price or value of such securities and investments may rise or fall. Fluctuations in exchange rates could have adverse effects on the value of or price of, or income derived from, certain investments. Accordingly, investors may receive back less than originally invested. Al Rajhi Capital or its officers or one or more of its affiliates (including research analysts) may have a financial interest in securities of the issuer(s) or related investments, including long or short positions in securities, warrants, futures, options, derivatives, or other financial instruments. Al Rajhi Capital or its affiliates may from time to time perform investment banking or other services for, solicit investment banking or other business from, any company mentioned in this research document. Al Rajhi Capital, together with its affiliates and employees, shall not be liable for any direct, indirect or consequential loss or damages that may arise, directly or indirectly, from any use of the information contained in this research document.

This research document and any recommendations contained are subject to change without prior notice. Al Rajhi Capital assumes no responsibility to update the information in this research document. Neither the whole nor any part of this research document may be altered, duplicated, transmitted or distributed in any form or by any means. This research document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or which would subject Al Rajhi Capital or any of its affiliates to any registration or licensing requirement within such jurisdiction.



## Disclaimer and additional disclosures for Equity Research

### Disclaimer

This research document has been prepared by Al Rajhi Capital Company ("Al Rajhi Capital") of Riyadh, Saudi Arabia. It has been prepared for the general use of Al Rajhi Capital's clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of Al Rajhi Capital. Receipt and review of this research document constitute your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this document prior to public disclosure of such information by Al Rajhi Capital. The information contained was obtained from various public sources believed to be reliable but we do not guarantee its accuracy. Al Rajhi Capital makes no representations or warranties (express or implied) regarding the data and information provided and Al Rajhi Capital does not represent that the information content of this document is complete, or free from any error, not misleading, or fit for any particular purpose. This research document provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other investment products related to such securities or investments. It is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive this document.

Investors should seek financial, legal or tax advice regarding the appropriateness of investing in any securities, other investment or investment strategies discussed or recommended in this document and should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities or other investments, if any, may fluctuate and that the price or value of such securities and investments may rise or fall. Fluctuations in exchange rates could have adverse effects on the value of or price of, or income derived from, certain investments. Accordingly, investors may receive back less than originally invested. Al Rajhi Capital or its officers or one or more of its affiliates (including research analysts) may have a financial interest in securities of the issuer(s) or related investments, including long or short positions in securities, warrants, futures, options, derivatives, or other financial instruments. Al Rajhi Capital or its affiliates may from time to time perform investment banking or other services for, solicit investment banking or other business from, any company mentioned in this research document. Al Rajhi Capital, together with its affiliates and employees, shall not be liable for any direct, indirect or consequential loss or damages that may arise, directly or indirectly, from any use of the information contained in this research document.

This research document and any recommendations contained are subject to change without prior notice. Al Rajhi Capital assumes no responsibility to update the information in this research document. Neither the whole nor any part of this research document may be altered, duplicated, transmitted or distributed in any form or by any means. This research document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or which would subject Al Rajhi Capital or any of its affiliates to any registration or licensing requirement within such jurisdiction.

### Explanation of Al Rajhi Capital's rating system

Al Rajhi Capital uses a three-tier rating system based on absolute upside or downside potential for all stocks under its coverage except financial stocks and those few other companies not compliant with Islamic Shariah law:

"Overweight": Our target price is more than 10% above the current share price, and we expect the share price to reach the target on a 12 month time horizon.

"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.

### Contact us

**Mazen AlSudairi**  
Head of Research  
Tel: +966 11 836 5468  
Email: [alsudairim@alrajhi-capital.com](mailto:alsudairim@alrajhi-capital.com)

**Al Rajhi Capital**  
Research Department  
Head Office, King Fahad Road  
P.O. Box 5561, Riyadh 11432  
Kingdom of Saudi Arabia  
Email: [research@alrajhi-capital.com](mailto:research@alrajhi-capital.com)

**Al Rajhi Capital is licensed by the Saudi Arabian Capital Market Authority, License No. 07068/37.**