Gulf Insurance Group SA

Insurance
GIG AB: Saudi Arabia
19 March 2024

alrajhi capital

US$0.55bn	49.76%	US$3.2mn
Market Cap.	Free Float	Avg. Daily Value traded

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Neutral

Price Target (SAR): 37.0

Current (14th March 2024): 38.35
Upside/Downside: 3.5% below current

Valuation Multiples	23A	24E	25E
P/E (x)	15.7	20.4	18.0
P/B (x)	1.9	1.7	1.6

Major Shareholders	% Ownership
Gulf Insurance Group	50.0

Price Performance	1M	3M	YTD
Absolute	18.3%	44.7%	45.2%
Relative to TASI	16.0%	34.1%	38.5%

Earnings

	2023	2024E	2025E
GWP	1,542	1,598	1,725
Growth	*-2%*	*4%*	*8%*
Insurance Revenue	1,565	1,584	1,703
Insurance Expenses	(1,560)	(1,506)	(1,602)
Reinsurnace Income/Expenses	106	(0)	(0)
Insurance service result	110	78	101
Growth	*NM*	*-29%*	*29%*
Net insurance and investment results	178	149	175
Growth	*-1%*	*-16%*	*18%*
Profit Before Tax	155	126	143
Growth	*-54%*	*-19%*	*13%*
Net Profit	129	99	112
Growth	*NM*	*-23%*	*13%*
ROE	14.5%	9.8%	10.0%
P/E	15.7x	20.4x	18.0x
P/B	1.9x	1.7x	1.6x

Source: Company data, Al Rajhi Capital

GIG SA (Republished)

Key beneficiary of P&C, turn neutral after the recent rally

Q4 2023 results were broadly in line with the expectations as recoveries in the P&C business helped to offset higher than expected losses in the motor as well as health insurance business. Q4 is typically a weak quarter for motor as well as health insurance business. In terms of positives, the ongoing losses in the P&C appears to be largely behind us and going forward this business should support the overall profitability. P&C is a high margin business with loss ratios in the range of 40%-50% but can have phases of lumpy losses. 2023 was one such year, Q2 2023 in particular, when the company reported expenses of over SAR 550 mn. Although the company was supported by reinsurance recoveries, the operating performance for the year as a whole was very volatile. Now with settlement of claims in Q4 2023, that was lower than anticipated before, it appears that the issues are behind us. In terms of negatives, the GWP trajectory in the motor business continues to be a matter of concern as motor business continues to report decline in corporates business and growth in retail. On the one hand, it has improved the loss ratio compared to 2022, but still the loss ratio in the last two quarters has been elevated with Q4 being above 100%. As the retail portfolio is largely TPL products, the loss ratio tends to be higher. We would wait for more signs on pricing in the TPL business, until then we prefer to be conservative and consider loss ratio of over 90% in the motor business in both 2024 and 2025. However, with the new regulation of levying fines on vehicles with no insurance, the total pool of vehicles in the country is expected to go up (already over 1.5 mn vehicles added since the enforcement), thus recoveries could be improved.

For 2024, we estimate profits to be lower than profits of SAR 129mn in 2023 due to higher expected losses in the motor business and H1 2024 to be relatively weaker for healthcare on a y-o-y basis. In H1 2023, the health insurance business reported insurance service expense ratio of just about 70% much lower than the industry average of 85%-95%. We believe this was due to the implementation of IFRS 17 that caused release of reserves and masked the actual loss ratio in H1 2023. In H1 2024, we consider normalized insurance service expense ratio for health, however, at the same time we believe better profitability in the P&C business to offset the weakness in the motor as well as health business in 2024.

Fairfax could further increase its stake in GIG: In December 2023, Fairfax acquired an additional 46.3% interest in Gulf Insurance (parent company of GIG SA) for USD 756mn, which increased the company's interest to a controlling equity interest of 90%. The remaining 10% equity interest in Gulf Insurance not held by Fairfax is subject to a mandatory tender offer. Fairfax intends, in accordance with the regulations of the Capital Market Authority in Kuwait, to initiate the mandatory tender offer to all other holders of Gulf Insurance shares and expects the transaction will close in the second quarter of 2024.

Currently, GIG Kuwait holds 50% in GIG SA, which means Fairfax indirectly owns about 45%. Once the 100% acquisition of GIG Kuwait is completed, Fairfax would be holding 50% stake in GIG SA, thus gaining the direct control of the company. Fairfax has a strong equity base of over USD 20bn (>SAR 75bn) and as per the Q4 2023 conference call, the company sees long term prospects of its international business to be encouraging. Fairfax has now consolidated the assets and liabilities of Gulf Insurance.

The property and casualty operations are being consolidated in the international Insurer and Reinsurer reporting segment, and the life insurance operations will be consolidated within the life insurance and run-off reporting segment. Given that Fairfax is a key player in the P&C business globally and the company considers GIG as a core business, we believe the company will share its technological know-how and will focus on Saudi Arabia as a key growth market. The P&C market has huge growth potential in KSA and GIG can become one of the key players in this market. The factor of Fairfax is not priced in fully by the market, in our view.

Valuations: GIG (AXA) has traded in a band of 1.5x-2.2x over the last 5 years and in comparison, to its peers (Malath, Walaa, Saudi Re, Medgulf) it has traded at 10% premium to its peers. Currently, it trades at a trailing multiple of 1.9x versus its historical average of 1.8x and peers average multiple of 2.4x. Despite improvement in the fundamentals of the sector, GIG trading at a discount appears attractive. This could be due to lack of clarity after the exit of AXA and limited access to the company's management. Moreover, 2023 was a volatile year in terms of earnings and notable shift was witnessed in the motor portfolio towards the retail clients.

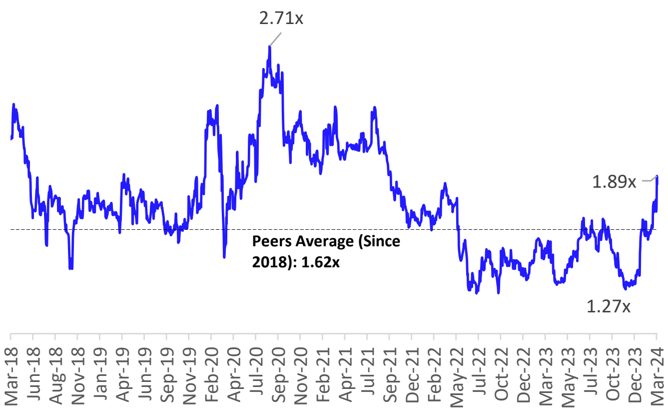
After a phase of consolidation last year, the stock has rallied over 45% year to date. As the company is expected to report better core earnings (adjusted for reinsurance recoveries) in 2024 and investment income is expected to remain robust, we believe the recent rally is justified to some extent in our view. However, we continue to refrain from giving a valuation premium over its peers given the lack of management access to the investors, limited disclosures and anticipated weakness in the motor & health business. Our fair value based on 2024 book value and 1.65x target multiple is SAR 37/share (old: SAR 30/share), that implies 3.5% downside from the current levels. We see notable upside risks to our target price as there is a very high chance of the multiple getting rerating and catching up with the peers if there are signs of improvement in the disclosures, recovery in GWP in the motor business and high profitability in the P&C business.

Figure 1 **Valuations**

Relative Valuation	Value
P/B Multiple	1.65x
2024E BVPS / EPS	22.2
Fair Value	**37**

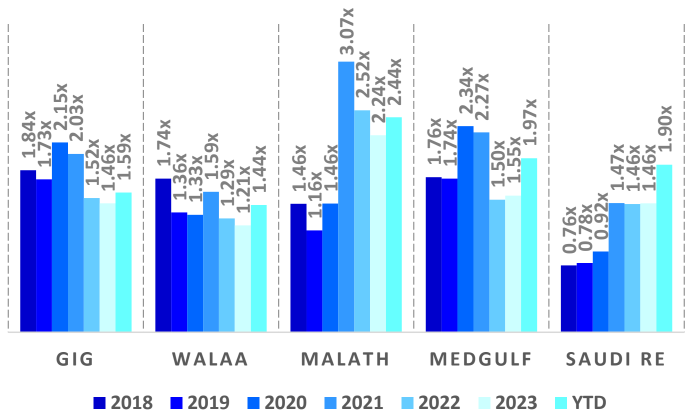
Source: Al Rajhi Capital estimates

Figure 2 **GIG trading at premium vs peers**



Source: Company Data, Al Rajhi Capital

Figure 3 **P/B (Period average) for GIG and its peers**



Source: Company Data, Al Rajhi Capital

Financials

Figure 4 **Income Statement**

	2023	2024E	2025E	2026E	2027E
GWP	**1,542**	**1,598**	**1,725**	**1,915**	**2,134**
Growth	*-1.6%*	*3.6%*	*7.9%*	*11.1%*	*11.4%*
Insurance Revenue	1,565	1,584	1,703	1,890	2,103
as % of GWP	*101.5%*	*99.1%*	*98.7%*	*98.6%*	*98.6%*
Insurance Expenses	(1,560)	(1,506)	(1,602)	(1,751)	(1,941)
Reinsurance Income/Expenses	106	(0)	(0)	(0)	(0)
Insurance service result	**110**	**78**	**101**	**138**	**161**
Growth	*NM*	*-29.4%*	*29.4%*	*36.9%*	*16.8%*
Investment Income	96	110	114	119	110
Net Finance Expenses/Income	(39)	(42)	(43)	(44)	(44)
Other operating expenses	(36)	(39)	(43)	(51)	(53)
Other Income	24	20	14	15	17
Profit Before Tax	**155**	**126**	**143**	**177**	**191**
Growth	*NM*	*-18.8%*	*13.1%*	*23.7%*	*8.5%*
Zakat & taxes	(27)	(27)	(30)	(38)	(41)
Net Profit	**129**	**99**	**112**	**139**	**151**
Growth	*NM*	*-22.7%*	*13.1%*	*23.7%*	*8.5%*
Net Profit Margin	*8.2%*	*6.3%*	*6.6%*	*7.4%*	*7.2%*
EPS	2.4	1.9	2.1	2.6	2.9

Source: Al Rajhi Capital estimates

Figure 5 **Balance sheet**

	2023	2024E	2025E	2026E	2027E
Statutory deposit	53	53	53	53	53
Property and equipment, net	9	8	8	8	8
Investments	1,617	1,576	1,764	1,975	2,080
Deposits	531	583	586	588	591
Prepaid expenses and other assets	55	55	55	55	55
Reinsurance contract assets	350	356	363	370	377
Goodwill & Intangibles	77	76	75	75	75
Cash and cash equivalents	229	376	286	197	221
Other	41	41	41	41	41
Total Assets	**2,960**	**3,125**	**3,231**	**3,362**	**3,501**
Accrued expenses and other liabilities	109	128	112	123	136
Insurance contract liabilities	1,637	1,680	1,714	1,729	1,739
Others	150	153	156	158	161
Total Liabilities	**1,896**	**1,961**	**1,982**	**2,010**	**2,035**
Total Equity	**1,065**	**1,164**	**1,248**	**1,353**	**1,466**
Total Liabilities & Equity	**2,960**	**3,125**	**3,231**	**3,362**	**3,501**

Source: Al Rajhi Capital estimates

Figure 6 **Drivers**

		2023	2024E	2025E	2026E	2027E
Motor	GWP	651	611	598	628	660
	Insurance Revenue	714	645	628	660	693
	Expense ratio	88%	93%	91%	90%	90%
P&C	GWP	359	403	483	580	696
	Insurance Revenue	358	400	480	576	691
	Expense ratio	64%	40%	45%	45%	48%
Health	GWP	461	507	558	614	675
	Insurance Revenue	423	465	513	564	621
	Expense ratio	92%	93%	92%	92%	91%
Protection	GWP	71	78	85	94	103
	Insurance Revenue	70	74	81	89	98
	Expense ratio	76%	70%	70%	70%	70%

Source: Al Rajhi Capital estimates

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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.

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