الراجحي المالية
alrajhi capital

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Rasan Information Technology

Impressive growth story, Initiating with an Overweight

Overweight

Target Price (SAR): 45.0

Listing Price: 37.0
Upside/Downside: 21.6% above listing price

Valuation Multiples	24E	25E	26E
P/E at listing price (x)	43.8	31.5	23.6
P/E at target price (x)	53.2	38.3	28.7

IPO Details

Offered Price	SAR 37.0 per share
Offered Shares	22,740,000 shares
Use of IPO Proceeds	IPO proceeds to be distributed to selling shareholders and for company's expansion
Financial Advisors	Saudi Fransi Capital and Morgan Stanley Saudi Arabia

Post IPO	% Ownership
Impact Funds for FT Co.	13.06%
Theib Hudeiban Ghallab AlMutairi	9.91%
Muheideb Ali Mohammed AlMuheideb	8.58%
Samer Mohammed Raslan	6.60%

Earnings

(SAR mn)	2023	2024E	2025E
Revenue	256	352	448
YoY	*57.7%*	*37.3%*	*27.2%*
Gross Profit	148	202	260
GM Margin	*57.9%*	*57.5%*	*58.0%*
YoY	*45.6%*	*36.3%*	*28.3%*
EBITDA	65	90	123
EBITDA Margin	*25.2%*	*25.6%*	*27.4%*
Net Income (NI)	46	64	89
NI Margin	*17.9%*	*18.2%*	*19.9%*
YoY	*33.5%*	*39.5%*	*39.1%*
EPS*	0.61	0.85	1.18
RoE	47.0%	21.4%	16.7%

Source: Company data, Al Rajhi Capital. EPS based on 75.8mn share

We initiate coverage on Rasan Information Technology with an Overweight rating and fair value of SAR45/sh, offering an upside of 21.6% to the listing price. Rasan is the first and the largest insurance aggregator in the Kingdom, offering technology solutions across the Insurance and Fintech value chain. In the past few years, the company's management has been able to build strong brand equity and has used its IT infrastructure to capitalize on the growing demand for insurance within the KSA. Going forward we expect Rasan's topline to grow at a CAGR of 26% in the next 3 years. Our investment thesis and expectation of topline growth are premised on improving insurance penetration in the Kingdom on the back of favorable changes in government regulations. Furthermore, given the high internet and smartphone penetration in KSA, we believe the market is primed for higher penetration by Rasan through the launch of new products and by increasing the market share of its existing platforms.

Favourable Macro drivers to fuel growth: KSA's population of 32.2mn is projected to grow at a CAGR of 2.0% driven by expatriates relocating to the Kingdom attracted by employment opportunities. Furthermore, as part of Vision 2030, the government plans to increase the private sector's contribution to the GDP to 65% by 2030 from ~40% in 2022 and aims at increasing insurance penetration in the Kingdom from 2.1% in 2022 to 4.3% by 2030. In health insurance, the growing population and greater participation of the private sector in the economy should help in increasing the number of life insured (since health insurance is mandatory for all private sector employees). Similarly, the growing population, replacement of older vehicles, purchase of new vehicles by female drivers, and enforcement of mandatory motor insurance should contribute towards growth in demand for motor insurance.

Increasing penetration of existing products & launch of new products: Rasan is a market leader in its existing business segments and has a market share of ~47% in the retail motor insurance segment (in terms of GWP) and a market share of ~56% of the number of policies issued for leased vehicles (through aggregators). Through its marketing efforts and by simplifying/improving the customer journey, the company aims to grow its presence in its existing product segments. Additionally, the company aims to expand into adjacent verticals of life, general, and other insurance products. Furthermore, it plans to launch an auto loan platform and offer claims management solutions for insurance companies. We believe the launch of these new products should positively contribute towards both the topline and bottom-line of the company.

Recommendation and Valuation: We initiate coverage on Rasan Information Technology with an Overweight rating and fair value of SAR45/sh, offering an upside of 21.6% to the listing price. We value the company using the Discounted cashflow method. At the listing price, the stock trades at 2024/2025 forward P/E of 43.8/31.5x.

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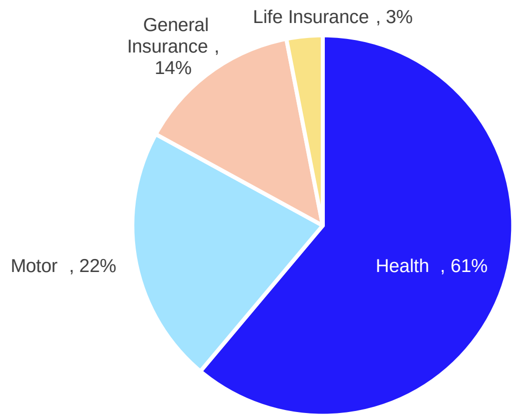
KSA Insurance Industry

The insurance sector in KSA has grown at a CAGR of 12% between 2019 and 2022, with over 70% of this growth coming in 2022. Similarly, in 9M23 total Gross Written Premiums (GWP) in KSA have grown by 22% YoY. The above growth in GWP has largely resulted from growth in the number of policies.

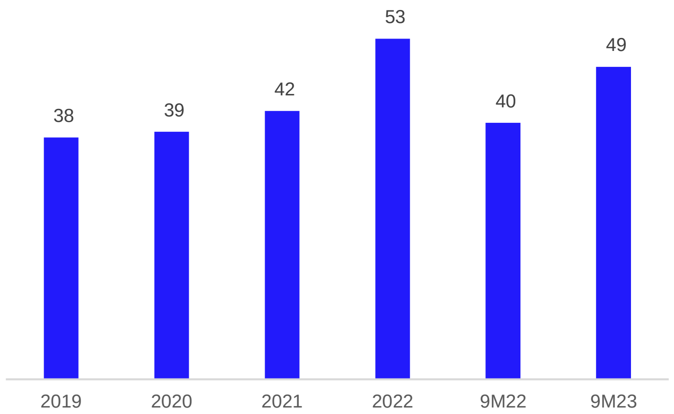
Health insurance is the largest segment of the insurance market in KSA, accounting for 61% of the total GWP in 9M23. This is followed by motor insurance which accounts for 22% of the GWP. Furthermore, general/life insurance accounts for 14%/3% of the GWP respectively.

Figure 1 **Insurance Segments**



Source: SAMA, Al Rajhi Capital

Figure 2 **Total Insurance GWP (SAR bn)**

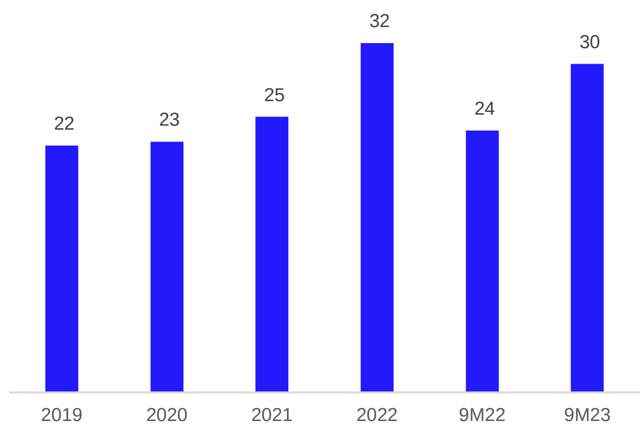


Source: SAMA, Al Rajhi Capital

Health insurance: After growing by 27% YoY in 2022, the health insurance segment's GWP has grown by 25% during 9M23 on the back of the rapid increase in the number of policies. Corporate and medium enterprises are the largest segments, comprising ~84% of the health insurance GWP.

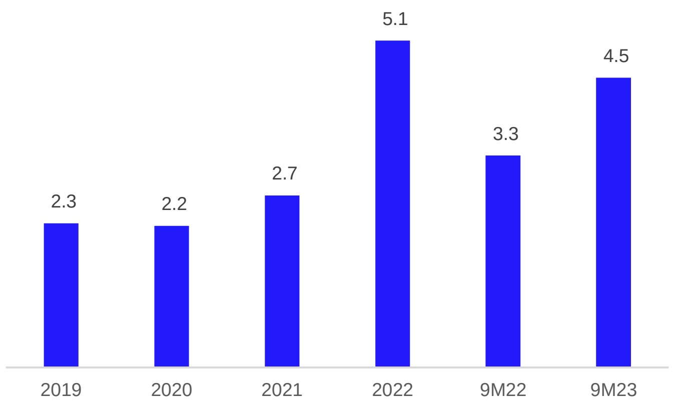
Direct sales dominate the distribution network for health insurance accounting for ~60% of the total health insurance premiums, while the market share of aggregators is ~2%. Aggregators entered the SME health insurance market in 2018 and differentiated themselves from conventional channels based on faster turnaround. Aggregators in KSA are now in the process of launching online price comparison platforms with additional functionalities for large corporates.

Figure 3 **Health Insurance GWP (SARbn)**



Source: SAMA, Al Rajhi Capital

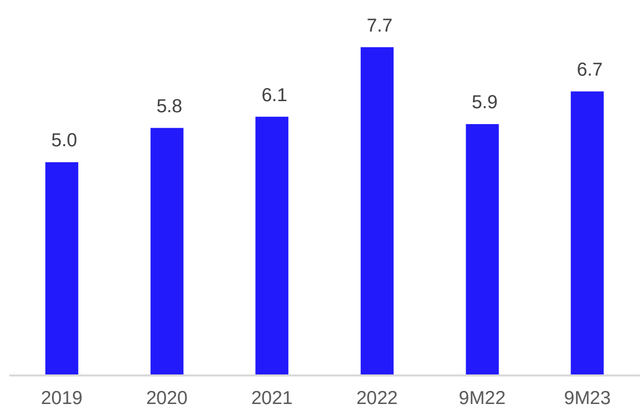
Figure 4 **No of Health Insurance Policies (mn policies)**



Source: SAMA, Al Rajhi Capital

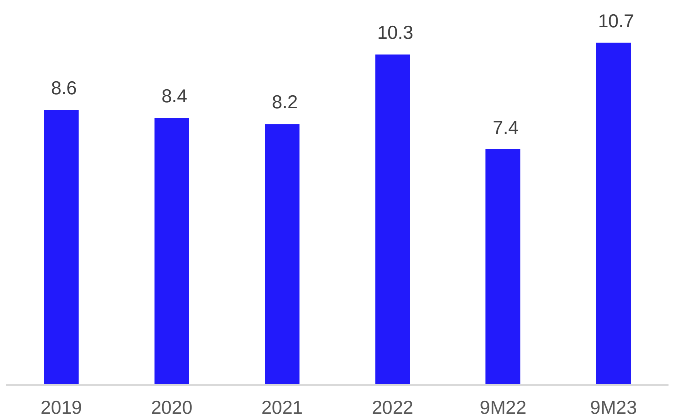
Motor insurance & allied: After growing by 27% YoY in 2022, the motor insurance segment's GWP has grown by 45% during 9M23. Along with an increase in volumes, higher average premium prices have also contributed to this recent growth in GWP. Historically (between 2017 and 2021), the GWP of motor insurance was in a consistent decline on account of declining premium pricing amid lower loss ratios. Loss ratios bottomed-out to 67% in 2020 in the backdrop of Covid-19 restrictions. Since then the premium prices have improved factoring in a higher number of accidents, a sharp increase in spare parts costs, and an increase in car servicing costs. More recently (in Oct-23), The Saudi General Traffic Department started electronic monitoring of violations related to motor insurance (Third-party insurance is mandatory for vehicles in KSA). This in-turn helped increase the number of motor insurance policies in KSA.

Figure 5 **No of Motor Insurance Policies (mn policies)**



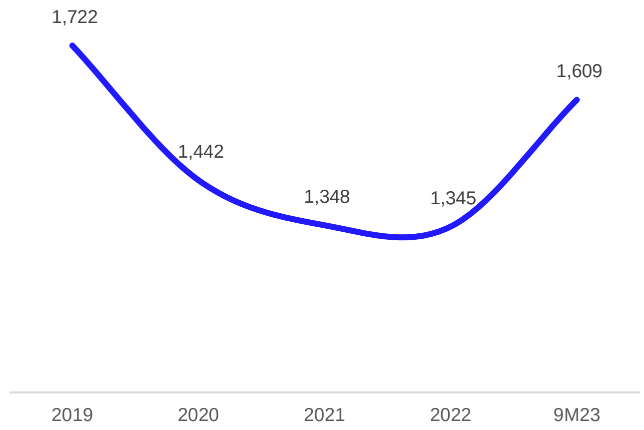
Source: SAMA, Al Rajhi Capital

Figure 6 **Motor Insurance GWP (SARbn)**



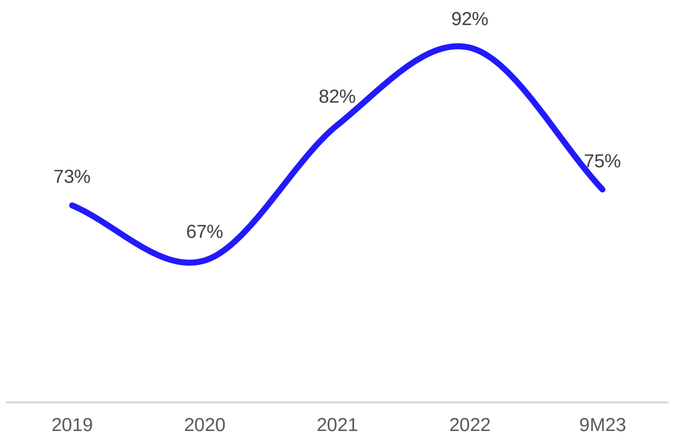
Source: SAMA, Al Rajhi Capital

Figure 7 **Average Price of Policy (SAR/policy)**



Source: SAMA, Al Rajhi Capital

Figure 8 **Loss Ratio**



Source: SAMA, Al Rajhi Capital

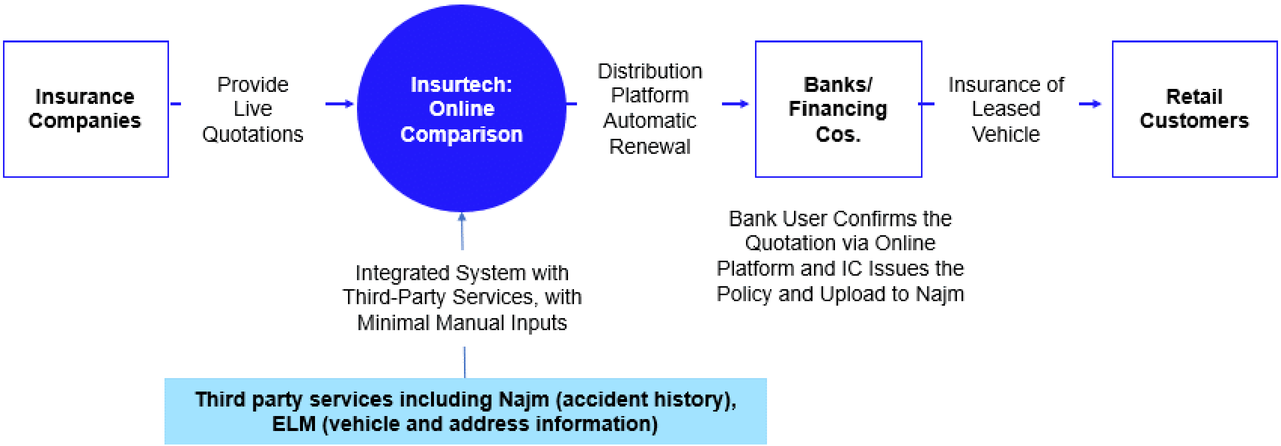
Motor insurance in KSA is further segmented into the retail segment (~53% of GWP), corporate and SME segments (~23% of GWP), and the car lease insurance segment (~24% of GWP). Retail customers are the target segment for Tameeni, while banks and finance leasing companies are the target segment for Treza (Rasan's leasing platform). Additionally, Rasan is also in the business of auctioning repossessed, salvaged, and used cars through its platform Awal Mazad.

In the **leasing segment**, banks and non-banking finance companies want to ensure maximum protection for the leased vehicles (through the purchase of comprehensive insurance) until such time they own the title to the vehicles. The model is referred as Business to Business to Consumer (B2B2C) whereby the policy quotations are referred by the insurance companies to the banks/financing companies which in turn provide the quotations to the end customer.

Aggregators entered this segment after SAMA announced new regulations in November 2020 that require banks and finance companies to obtain at-least three insurance policies' quotes for each of their finance leased vehicles. Aggregators provide an integrated platform to banks and leasing companies to assist them in procuring quotations from multiple insurance companies. The lender enters the required risk coverage in the aggregator's platform along with details of the vehicle and receives quotations on a real-time basis. The lenders pass on the options to the end customer to select the quotation that is most suitable for them.

In addition to the insurance companies, the aggregators are also integrated with service providers such as Elm (providing verification on Vehicle information) and Najm (providing insurance discount eligibility reports) to reduce operational procedures and provide a more seamless experience.

Figure 9 **Insurance of Leased Vehicle – Value chain**



Source: Company Prospectus, Al Rajhi Capital,

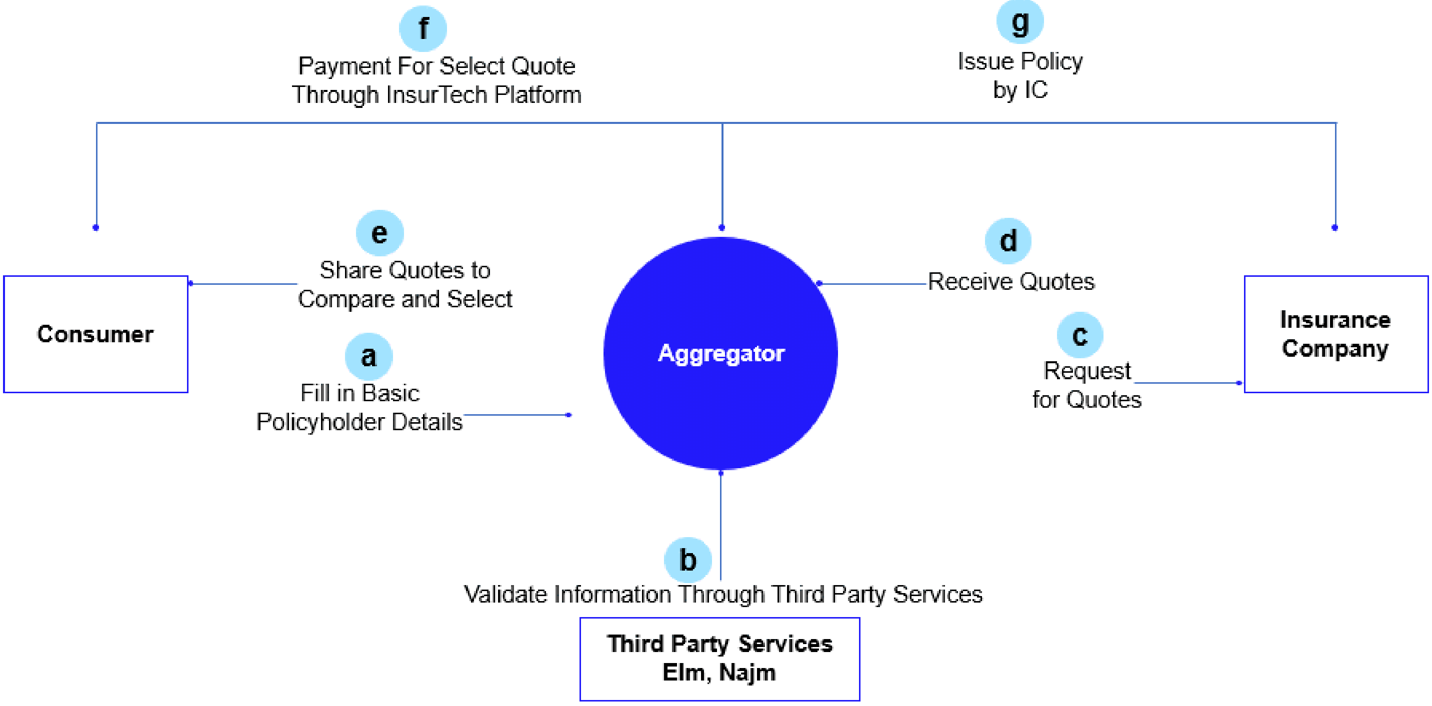
The auction of repossessed, salvaged, and used cars is done through various channels and platforms, both physical and online. Banks and leasing companies historically sold repossessed vehicles through auctions arranged by third parties such as brokers or used car dealers. Similarly, Insurance companies have traditionally auctioned salvaged vehicles through various distribution channels including yard auctions, sales to workshop owners or licensed scrap dealers. More recently online auction platforms have started to offer the benefit of convenience and a larger audience to sellers of repossessed, salvaged, and used cars.

Distribution channels: Direct sales by insurance companies are the largest distribution channel and account for over 52% of the GWP. Brokers & agents account for 40% of the sales while insurance aggregators account for 8% of the GWP.

Insurance aggregators are online distribution platforms that allow consumers to compare a wide range of insurance products from various insurance companies to arrive at an informed choice.

The aggregators charge a commission/fee on the products sold on their platform. From the perspective of a customer, insurance aggregators offer the benefit of quick turnaround time and transparent comparison of insurance policies. For insurance companies, aggregators provide access to a growing customer base, improved consumer insights resulting in better underwriting capabilities, marketing initiatives for various insurance products, and cross-selling and up-selling to existing customers.

Figure 10 **Value Chain for the Insurance Aggregator**

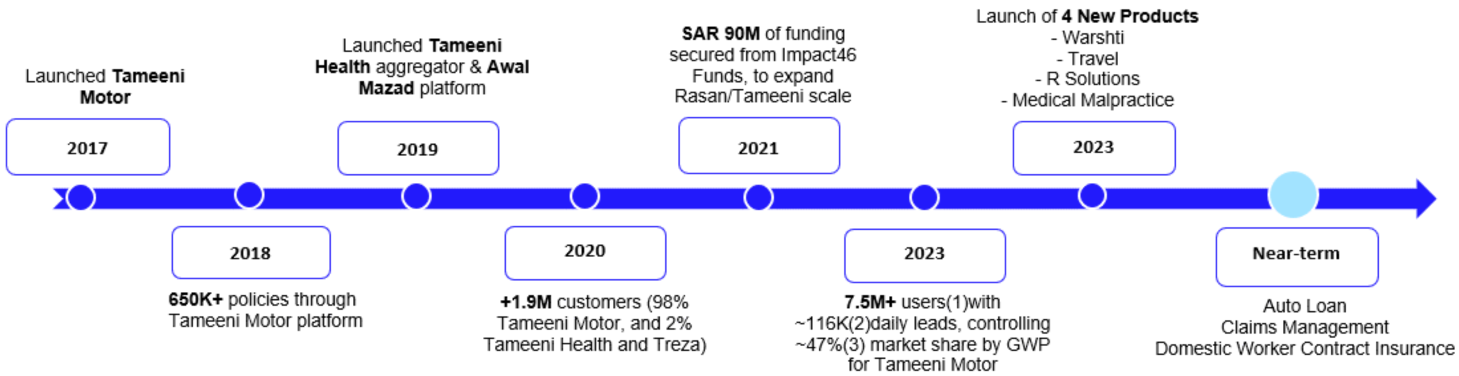


Source: Company Prospectus, Al Rajhi Capital,

Overview of Rasan Information Technology

Introduction: Rasan Information Technology is one of the leading FinTech players in the GCC and the largest insurance aggregator in KSA, offering technology solutions across the insurance value chain and Fintech value chain. The company currently has three main business segments, namely Tameeni Motor, Tameeni Health, and Treza which account for 98% of topline (as per 2023 company accounts). Tameeni Motor is an online motor insurance aggregation platform for individual customers. Tameeni Health is an online health insurance aggregation platform that currently targets SMEs. Treza is a software product that integrates the systems of banks and leasing companies with those of motor insurance companies allowing banks and leasing companies to receive motor insurance products for their leased vehicles. Going forward, the company plans to further expand its product offerings to include technology solutions for auto loans, general insurance, life insurance, claims management tools, corporate health insurance, and others.

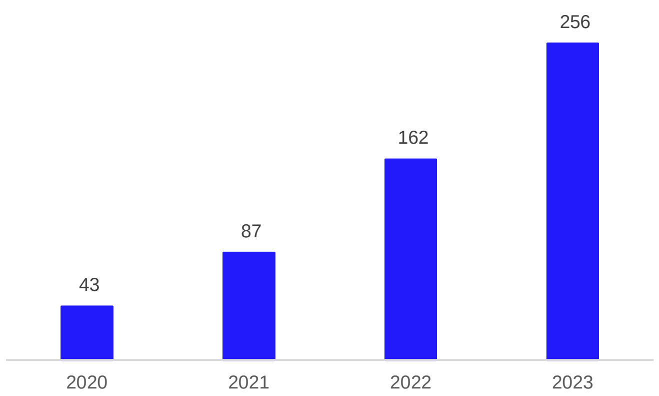
Figure 11 **Product Roll-outs**



Source: Company Prospectus, Al Rajhi Capital,

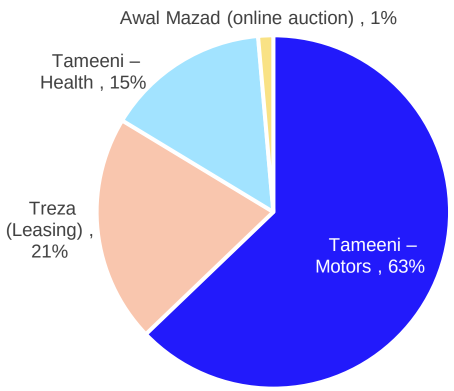
Current product offering/business segments: Rasan is a market leader in its existing business segments and has a market share of ~47% in the retail motor insurance segment (in terms of GWP) and a market share of ~56% of the number of policies issued for leased vehicles (through aggregators). Below are details of the existing business segments of the company and how the company plans to maintain/expand its leadership position in these segments.

Figure 12 **Rasan Revenue (SARmn)**



Source: Company Accounts, Al Rajhi Capital

Figure 13 **Rasan Revenue Segments 2023**



Source: Company Accounts, Al Rajhi Capital

Tameeni Motor (63% of the topline in 2023): Tameeni Motor is a business-to-customer online motor insurance aggregation platform that allows customers to compare quotes for motor insurance products from insurance companies, purchase their policy of choice by making online payments and renew their insurance policy. Since the platform is integrated with the systems of partnering insurance companies, payment gateways, and data providers it enables individual customers to purchase motor insurance policies in a seamless process.

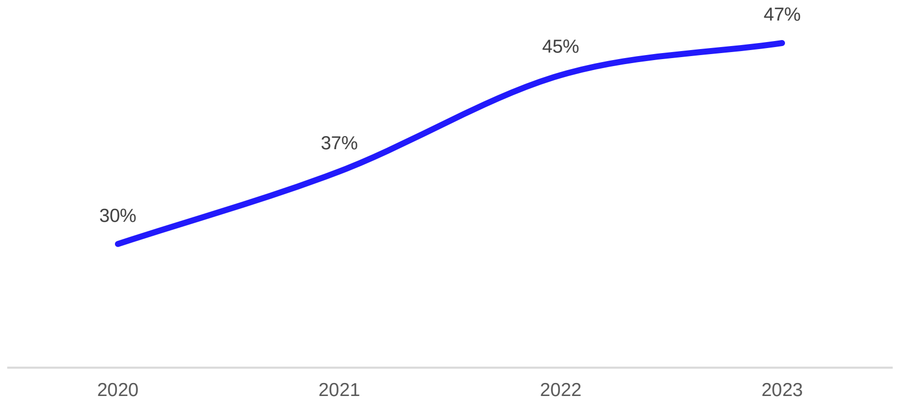
The two main products offered under Tameeni Motors are 1) Third-party liability (TPL) motor insurance, and 2) Comprehensive insurance. TPL motor insurance is a compulsory motor insurance policy that covers the damage caused by the insured party's vehicle to a third party and does not cover the damage inflicted on the insured party or their vehicle. It is the minimum required coverage to operate and drive vehicles in the Kingdom. For TPL motor insurance, Tameeni Motor charges a maximum commission of 2% of the GWP. Comprehensive motor insurance covers damages suffered by the insured party, the insured vehicle, and other passengers, in addition to damages suffered by a third party. Commissions for comprehensive motor insurance range from 10% to 15% of the GWP.

Issuance and purchase of insurance products via Tameeni Motor is done in the following steps:

- **Identification -** The process of issuing insurance policies on Tameeni Motor commences with individual customers providing their basic identification information. Customer and vehicle data are then verified relying on the infrastructure and databases of governmental portals, including Najm, and the databases of government portals affiliated with the Absher platform and Elm's Yakeen platform.
- **Pricing -** Partnering insurance companies automatically process the relevant information using their pricing engines, before immediately issuing quotes for individual customers to consider.
- **Selection of policy & payment -** After receiving several quotes provided by various insurance companies, customers may compare and select the most appropriate policy. After selecting their policies of choice, customers are required to make a payment directly through Tameeni Motor using any of the available methods of payment. Upon completing the online payment successfully, the customers' policies of choice are then issued by insurance companies and automatically submitted by such insurance companies to the databases of government portals affiliated with the Absher portal and Najm in compliance with the applicable regulatory requirements.

Through its marketing efforts and by simplifying/improving the customer journey, the company aims to grow its presence in the retail motor insurance segment by 1) trying to capture a higher percentage of the uninsured vehicles in the Kingdom (which represent ~36.0% of the total vehicles), 2) increasing the rate of customers renewing their insurance policies, and 3) converting TPL insurance policyholders to comprehensive motor insurance, which yields higher commissions.

Figure 14 **Tameeni Market Share of Motor Retail Segment**



Source: Company Prospectus, Al Rajhi Capital

Treza (21% of the topline in 2023): In 2020, SAMA introduced certain changes to its regulations which require banks and leasing companies to obtain at least three insurance policies' quotes for each of their finance leased vehicles. In response to these regulatory changes, Rasan launched its software Treza. Treza integrates the systems of banks and leasing companies with those of motor insurance companies allowing banks and leasing companies to compare, issue policies, and manage motor insurance for their leased vehicles. Treza is available through two channels: 1) the direct channel where Treza is available to banks and leasing companies directly, and 2) the broker channel, where Treza is made available to clients of brokers. Payments for insurance products purchased through either channel are settled directly between banks, leasing companies, and insurance companies and neither Rasan collects nor transfers any such payments. The revenue of Treza primarily consists of a fixed fee of SAR60 per policy in the case of the direct channel and a commission of 4% of the GWP of insurance policies purchased utilizing Treza in the case of the broker channel.

Within its leasing segment, the company aims at building new partnerships with banks and leasing companies and introducing add-on services including insurance claim tracking service, and after-sales services portal for leasing customers.

Tameeni Health (15% of the topline in 2023): Tameeni Health is a business-to-business online health insurance aggregation platform that currently enables SMEs to compare quotes for health insurance products, purchase their policy of choice by making an online payment, and renew or change their insurance policies. Since the platform is integrated with the systems of partnering insurance companies, payment gateways, and data providers it offers a convenient seamless experience to the end customer. The company charges a commission in the range of 8% to 10% on the GWP, which is included in the quotation price presented to the customers.

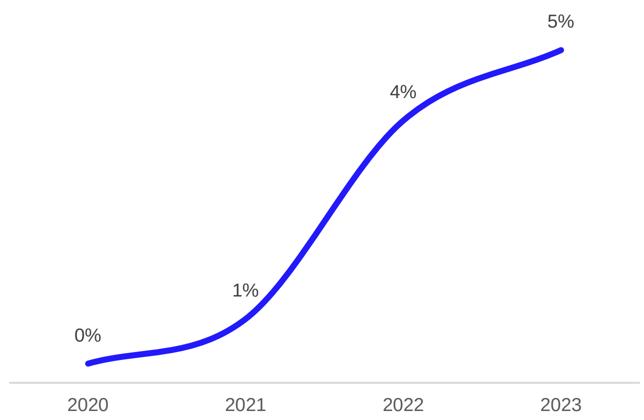
Issuance and purchase of insurance products via Tameeni Health is done in the following steps:

- **Identification -** The process of issuing insurance policies on Tameeni Health commences with SMEs providing basic identification information. Customer data, including employee and dependents data, are then verified by relying on databases of governmental portals. Next SMEs would specify the type of coverage and provide details of their employees.
- **Pricing -** Partnering insurance companies automatically process the relevant information using their pricing engines, before issuing quotes for SMEs to consider.
- **Selection of policy & payment -** After receiving several quotes provided by various insurance companies, customers may compare and select the most appropriate policy. Upon making the online payment, the customers' policy of choice is then issued by the insurance

company and automatically submitted by such insurance company to the databases of the government.

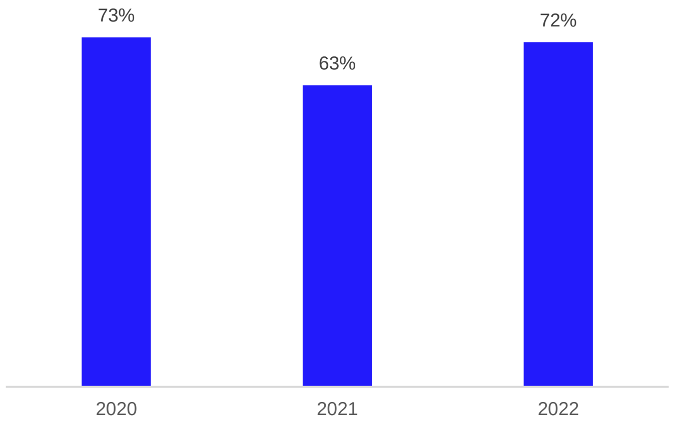
In addition to offering Tameeni Health to corporate customers, Rasan plans to expand its presence in the health insurance segment (through its marketing efforts) by 1) increasing its customer base, and 2) increasing the rate of customers renewing their insurance policies.

Figure 15 **Tameeni Market Share of SME Health**



Source: Company Prospectus, Al Rajhi Capital

Figure 16 **Market share of Tameeni in Aggregator Channel**



Source: Company Prospectus, Al Rajhi Capital. Health retail and SME aggregator channel

Awal Mazad (1.4% of the topline in 2023): The company's online auction platform, Awal Mazad, connects banks, leasing companies, rental companies, and insurance companies selling salvaged, repossessed, and used vehicles with potential buyers such as individuals, used vehicle dealers and licensed scrap traders. It allows buyers to submit online bids and participate in auctions for the vehicle and hence provides a user-friendly platform to its users, as an alternative to conventional means (via marketplaces or auction houses). The revenue of Awal Mazad consists of a fee of SAR1,300 to SAR5,000 per vehicle.

The process of selling vehicles on this platform includes the following steps:

- Vehicles are submitted to the platform for review and approval by the company. The vehicle is then towed to a storage location, after which the vehicle is cleaned, and its photos are taken in preparation for the auction.
- The vehicle is then made available on the platform for potential purchasers to make a bid after submitting a refundable deposit.
- Once the bids are finalized, the highest bidder is then required to pay the full purchase price and then take possession of the vehicle

R Solution (0.2% of the topline in 2023): Rasan offers two solutions for data analytics, business intelligence, portfolio performance monitoring, and building predictive pricing models. R2 targets insurance companies and combines the capabilities of a business intelligence platform with a price modeling program. R3 targets banks and financial institutions and provides data analysis, business intelligence, and predictive pricing model building.

Medical malpractice insurance: After the introduction of regulation by SAMA in 2022 which specifies that medical practitioners must obtain malpractice insurance, the company launched its medical malpractice aggregation platform. This platform shall allow health practitioners to obtain medical malpractice insurance after comparing the offers presented by a number of insurance companies.

Travel insurance: The platform allows users to compare products provided by a wide network of insurance companies, and subsequently purchase a product and renew it as needed. The company is ready to extend this product to Hajj/Umrah travel policies once allowed by the regulators.

Warshti: This is an app-based solution to compare vehicle repair services from multiple workshops (the company only works with trusted workshops that provide a warranty for the spare parts and the body works) and complete the repair transaction online.

Capitalizing on growth opportunities: Rasan aims to expand into adjacent verticals of life, general, and other insurance products. Additionally, the company plans to offer claims management solutions for insurance companies. Furthermore, it plans to launch an auto loan platform.

- **Life insurance:** The aggregation platform shall provide protection and savings solutions to individual customers.
- **General insurance:** This aggregation platform shall offer simple all-inclusive general insurance plans (fire and perils, general liability, workmen compensation, etc.) to SMEs.
- **Corporate health insurance:** This platform shall allow companies and insurance brokers to communicate directly with insurance companies to obtain and compare health insurance quotes.
- **Claim management:** The company plans to provide insurance companies with a solution to reduce their claim costs and improve operational efficiency and customer experience. This is done by supporting insurance companies in managing claim processes, including submitting claims, managing repairs, managing the workshop network, and communicating with customers, as well as managing settlements.
- **Auto loan:** The company plans to offer an aggregation platform for motor leasing. This product would initially be offered to dealers (where dealers would initiate the leasing application process by providing customer and car-related data) and subsequently to direct customers.

Rasan's total addressable market is expected to grow by ~4.5x by 2027 (as shown below), due to the combined impact of 1) company's plans to expand its product offering, and 2) expected growth in insurance premium volumes in the Kingdom. Growth in insurance premium volumes in the Kingdom is expected to be driven by 1) growing population, 2) supportive regulatory environment, and 3) rapid digitization of Insurtech and Fintech services.

Figure 17 **Rasan's Total Addressable Market as per Management**

GWP (SAR bn)	2022	2027P	CAGR 2022-27
Existing markets in which Rasan operates as of 31 December 2022			
SMEs health insurance	7.9	14.7	13.1%
Retail motor insurance	5.4	11.4	15.9%
Finance leased vehicles	2.5	4.4	12.1%
Salvaged, used rental and repossessed vehicles (*)	2.6	3.1	3.3%
Total existing markets	**18.5**	**33.6**	**12.7%**
Future markets addressable by Rasan			
Corporate health insurance	14.0	26.5	13.6%
General insurance	9.0	13.1	7.9%
SME motor insurance	2.4	4.7	14.3%
Life insurance	1.9	4.0	16.1%
Medical malpractice insurance	0.3	0.6	11.8%
Total future markets	**27.6**	**48.9**	**12.1%**
Total addressable existing and future markets	**46.1**	**82.5**	**12.3%**

Source: Company Prospectus, Al Rajhi Capital. * Expressed in estimated revenue

Company's Competitive Advantage:

- **Brand equity:** The biggest competitive advantage of the company is its brand equity built on 1) providing reliable convenient InsurTech and FinTech solutions to its customers, and 2) being the first insurance aggregator in the Kingdom. This brand equity is reflected through the company being a market leader in all of its core products as mentioned.
- **Scalable IT infrastructure:** Rasan has built its powerful proprietary tech platform in-house, using reliable technologies and software including the Microsoft technology stack and JavaScript. This enables the company to continuously expand its product portfolio while capitalizing on new opportunities in a rapid fashion. The scalability of the company's platforms is clearly demonstrated by the number of policies sold historically which increased from ~1.9 million policies in the year 2020 to ~3.4 million policies in the year 2022 and ~3.2 million policies in the 9M23.
- **Experienced & talented management:** The company is managed by a highly experienced team in the insurance and technology space having over 100 years of combined executive management experience. The management has strong local market knowledge and regulatory expertise.

Historical Financial Analysis:

Since 2020, Rasan's revenue has grown at a CAGR of 81% due to the combined impact of 1) growth in motor and health insurance in KSA, 2) regulatory changes (such as requiring banks and leasing companies to obtain at least three insurance policies' quotes), 3) increase in market share on the back of ongoing marketing efforts, and 4) a gradual tilt of its motor insurance aggregation business towards the higher commission earning segment of comprehensive insurance. This rapid growth in topline and operating leverage resulted in the company's bottom-line growing by 3.3x.

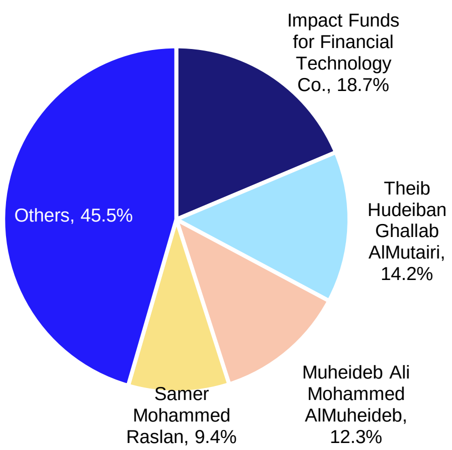
Due to the nature of its business, some costs of the company (namely manpower and other overhead costs) don't grow proportionally to increase in revenue, this in-turn becomes a source of operating leverage. However, some costs such as fees paid to service providers (such as Najm, Watheq, Mazaya, Qitaf, and others) are likely to grow in-line with growth in revenue.

The company has a lean balance sheet with long-term assets accounting for ~20% of the total assets of the company. The main components of the long-term assets are property, plant and equipment, and intangible assets. Property plants and equipment largely include servers, furniture, and computers. Intangible assets represent the capitalized cost of software development.

Shareholding Pre & Post Offering:

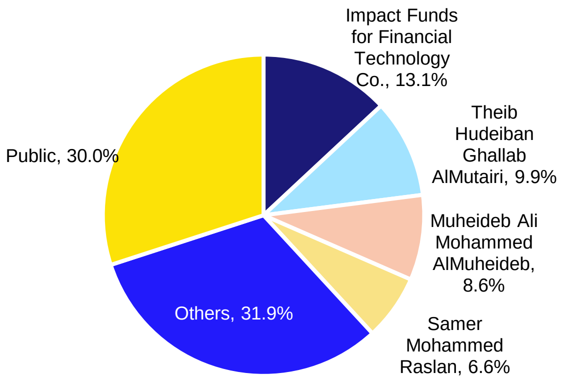
Currently, Rasan has 70.5mn shares which would increase to 75.8mn shares post IPO. The company intends to offer 22.74mn shares (30% of the outstanding share capital after issuance of new capital) which includes 1) 17.44mn existing shares, and 2) 5.3mn new shares. Additional share capital would be used to expand its current operations and products, market and develop new products, and finance the general purposes of the company and its subsidiaries (as shown below).

Figure 18 **Pre-IPO**



Source: Company Prospectus, Al Rajhi Capital

Figure 19 **Post-IPO**



Source: Company Prospectus, Al Rajhi Capital

Use of Proceeds:

At the listing price of SAR37/sh, the company shall be able to generate SAR196mn from issuing 5.3mn new shares. As per the management, this capital shall be deployed as follows:

Figure 20 **Use of Proceeds**

Use of Proceeds	Expected Use of Proceeds (%)	Description
Expanding existing operations and products	**10-20%**	Rasan intends to expand its existing operations by 1) developing technical infrastructure, 2) increasing its marketing activities (including digital marketing), and 3) improving customer service. In-order to achieve these goals, company has allocated 10%-20% of the amount that shall be raised by the issuance of new shares.
Marketing and developing new products	**40-50%**	Company plans to use 40%-50% of the proceeds to finance research and development of new products and to fund the marketing activities associated with new products.
General corporate purposes	**35-45%**	Finally, the Company plans to utilize 35%-45% of the total proceeds for 1) working capital requirements, 2) funding the general purpose of the group, and 3) financing potential acquisition opportunities.

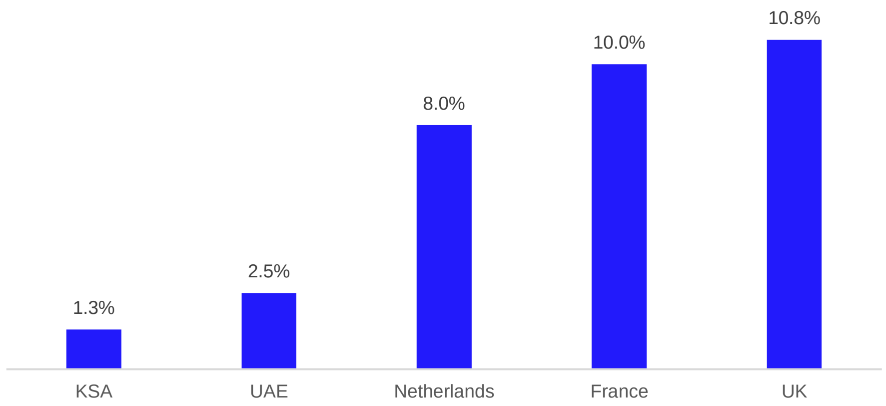
Source: Company Prospectus, Al Rajhi Capital.

Investment Thesis

Since 2020, Rasan's topline has grown at a CAGR of 81% as the company utilized its scalable technology infrastructure to increase its market presence in an already growing market. This significant growth in topline along with operational leverage allowed the company to increase its EBITDA by ~11x during the same period. Going forward, we expect Rasan's topline to grow at a CAGR of 26% in the next 3 years. Our investment thesis and expectation of topline growth are premised on improving insurance penetration on the back of favorable changes in government regulations. Furthermore, given the high internet and smartphone penetration in KSA, we believe the market is primed for higher penetration by Rasan through the launch of new products and by increasing the market share of its existing platforms.

Increasing insurance penetration: Insurance penetration in KSA as a percentage of GDP/non-oil GDP is ~1.3%/2.1% respectively. In comparison, the insurance penetration in the UAE is 2.5%. Furthermore, in Western economies such as the UK, Netherlands, and France the insurance penetration is between 8% and 11%. The Kingdom aspires to increase its insurance penetration as a percentage of non-oil GDP to 4.3% by 2030 through regulatory and technological reforms. Furthermore, a gradual shift in customer perception, raising awareness of the benefits of insurance products, and improving healthcare infrastructure can also be expected to positively contribute towards increasing insurance penetration in the Kingdom.

Figure 21 **Insurance Penetration (Gross Written Premium as % of GDP)**



Source: SAMA, GASTAT, Allianz Global Insurance Report, Al Rajhi Capital

Growing economy: KSA's population of 32.2mn is projected to grow at a CAGR of 2.0% driven by expatriates relocating to the Kingdom driven by employment opportunities. Furthermore, as part of Vision 2030, the government plans to increase the private sector's contribution to the GDP to 65% by 2030 from ~40% in 2022. Finally, the World Bank expects the Kingdom's economy to grow by 5.9%/3.2% in 2025/2026 respectively on the back of loose fiscal policy, lower interest rates, and strong growth in private sector consumption & investment.

In our opinion, the insurance sector in KSA can experience healthy growth in GWP due to the combined impact of the growing population, economic diversification, and an increase in per-capital income.

- In health insurance, the growing population and greater participation of the private sector in the economy can help in increasing the number of life insured (since health insurance is mandatory for all private sector employees).
- Similarly, growth in population, replacement of older vehicles, and purchase of new vehicles by female drivers should contribute towards growth in demand for motor insurance.

- Furthermore, demand for general insurance can be expected to be positively impacted by the development of new infrastructure including the construction of Giga projects, and economic diversification

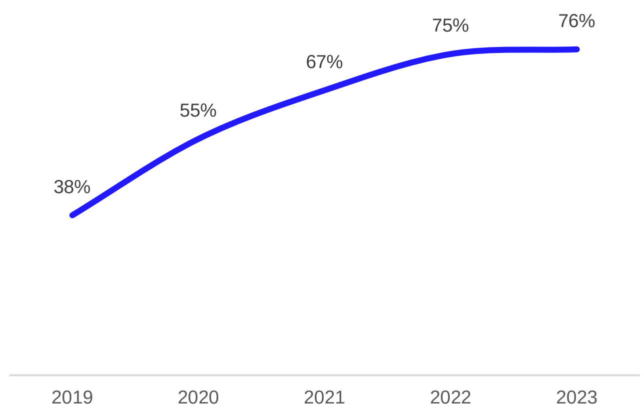
Favorable changes in regulations: A multitude of regulations have been enacted in the Kingdom over the years with the object of increasing insurance penetration and transparency.

- In the health insurance segment, the Council of Health Insurance made it mandatory in 2017 for all private-sector employees to be insured. This in-turn helped in increasing the penetration of health insurance over the years. Going forward, as part of Vision 2030 the government plans on achieving health insurance coverage for 88% of the population.
- Despite TPL insurance being mandatory, only ~55% of the vehicles in KSA were insured till 2022. Since the implementation of electronic monitoring of motor insurance from Oct-23 by the Saudi General Department of Traffic, the percentage of insured vehicles has increased to ~64% in 2023.
- In Nov-20, SAMA introduced certain changes to its regulations which require banks and leasing companies to obtain at least three insurance policies' quotes for each of their leased vehicles and pass on the options to the end user of the vehicle. This is a positive move for the sector as it increases transparency for customers.
- SAMA mandated minimum coverage to be obtained by medical practitioners to cover against claims of medical malpractice. This recent regulation is expected to drive growth in medical malpractice insurance.

Primed for InsurTech and Fintech: Given 99% internet penetration and 93% smartphone penetration, KSA is primed for higher penetration by Insurtech and Fintech. Due to convenient access to various insurance products, transparency, user-friendly processes, and quick turnaround, the market share of aggregators has increased by ~3x from 3% in 2019 to 8% in 2022.

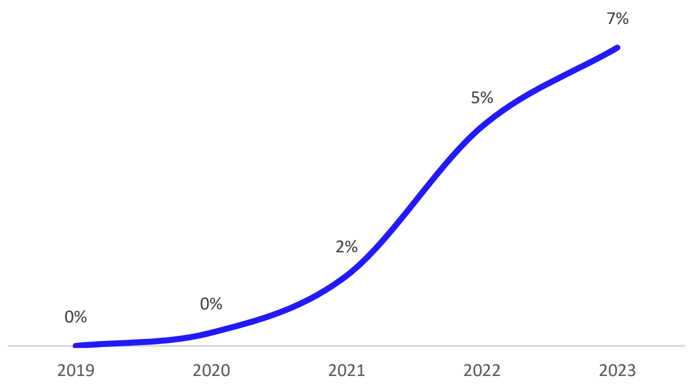
- Within motor insurance, the share of aggregators has significantly increased from 16% in 2019 to 40% in 2022. A key differentiating factor between conventional channels and online aggregators is the faster turnaround time by aggregators due to integration with core systems of insurance companies and the ability to extract information from government authorities for vehicle verification.
- Direct sales channels dominated the distribution network for health insurance in 2022, accounting for 60.0% of the total health insurance premiums. The market share of aggregators in health insurance premiums is projected to be around 2%. Increasing digitalization and easy access to information through digital channels like web aggregators have increased transparency and cost efficiency and have also increased customers' preference towards digital channels. Hence, we believe going forward, the digital distribution channel is expected to drive greater penetration in the health insurance market, especially in the retail and SME category.

Figure 22 **Aggregator Market Share of Retail Motor Insurance**



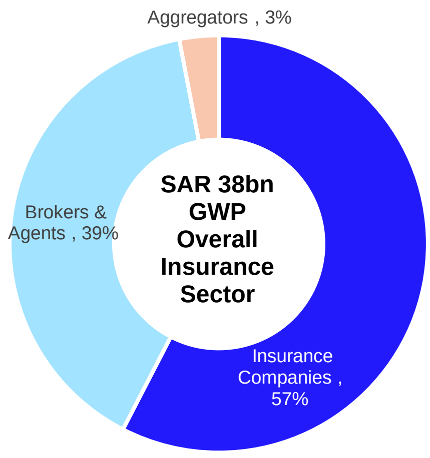
Source: Company Prospectus, Al Rajhi Capital

Figure 23 **Aggregator Market Share of Retail and SME Health Insurance**



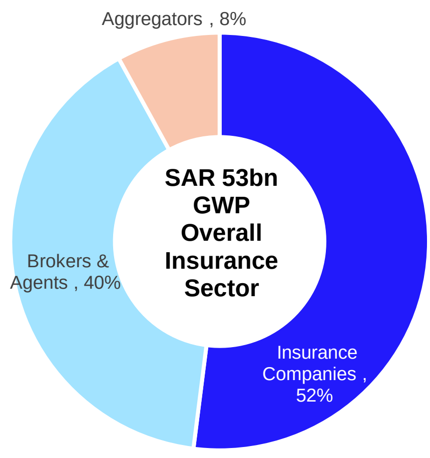
Source: Company Prospectus, Al Rajhi Capital

Figure 24 **Aggregators Market Share in 2019**



Source: Company Prospectus, Al Rajhi Capital

Figure 25 **Aggregators Market Share in 2022**



Source: Company Prospectus, Al Rajhi Capital

Increasing penetration of existing products & launch of new products: Rasan is a market leader in its existing business segments and has a market share of ~47% in the retail motor insurance segment (in terms of GWP) and a market share of ~56% of the number of policies issued for leased vehicles (through aggregators).

- Through its marketing efforts and by simplifying/improving the customer journey, the company aims to grow its presence in the retail motor insurance segment by 1) trying to capture a higher percentage of the uninsured vehicles in the Kingdom (which represent ~36.0% of the total vehicles), 2) increasing the rate of customers renewing their insurance policies, and 3) converting TPL insurance policyholders to comprehensive motor insurance, which yields higher commissions.
- Within its leasing segment the company aims at building new partnerships with banks and

leasing companies and introducing add-on services including insurance claim tracking service, and after-sales services portal for leasing customers.

- In addition to offering Tameeni Health to corporate customers going forward, Rasan plans to expand its presence in the health insurance segment (through its marketing efforts) by 1) increasing its customer base, and 2) increasing the rate of customers renewing their insurance policies.

In addition to expanding its presence in the existing product segments, Rasan aims to expand into adjacent verticals of life, general, and other insurance products. Additionally, the company plans to offer claims management solutions for insurance companies. Furthermore, it plans to launch an auto loan platform. Due to the combined impact of 1) the company expanding its product offering and increasing its presence in its existing product categories, and 2) expected growth in insurance premium volumes in the Kingdom, the management expects Rasan's total addressable market to grow by ~4.5x by 2027.

Figure 26 **New Product**

Life insurance	The aggregation platform shall provide protection and savings solutions to individual customers.
General insurance	This aggregation platform shall offer simple all-inclusive general insurance plans (fire and perils, general liability, workmen compensation, etc.) to SMEs.
Corporate health insurance	This platform shall allow companies and insurance brokers to communicate directly with insurance companies to obtain and compare health insurance quotes.
Claim management	The company plans to provide insurance companies with a solution to reduce their claim costs and improve operational efficiency and customer experience. This is done by supporting insurance companies in managing claim processes, including submitting claims, managing repairs, managing the workshop network, and communicating with customers, as well as managing settlements.
Auto loan	The company plans to offer an aggregation platform for motor leasing. This product would initially be offered to dealers (where dealers would initiate the leasing application process by providing customer and car-related data) and subsequently to direct customers.

Source: Company Prospectus, Al Rajhi Capital.

Recommendation, Valuation, and Risks

We initiate coverage on Rasan Information Technology with an Overweight rating and fair value of SAR45/sh, offering an upside of 21.6% to the listing price. We value the company using the Discounted Cashflow method, using a WACC of 9.8% (for all the years other than the terminal year, in the terminal year we use a WACC of 8.9%) and a terminal growth rate of 3.5%.

Our investment thesis is premised on improving insurance penetration in the Kingdom on the back of favorable changes in government regulations. Furthermore, given the high internet and smartphone penetration in KSA, we believe the market is primed for higher penetration by Rasan through the launch of new products and by increasing the market share of its existing platforms.

Figure 27 **Valuation Table**

DCF (SAR mn unless specified)	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E
NOPAT	**64.3**	**89.4**	**119.1**	**147.3**	**174.7**	**196.3**	**218.4**	**234.7**	**252.3**	**269.7**	**285.2**	**300.7**
Depreciation	20.2	25.5	33.3	40.0	46.0	51.7	57.6	61.3	65.9	70.5	74.6	78.6
Capex	(95.0)	(89.5)	(99.3)	(99.1)	(53.4)	(55.4)	(56.5)	(58.0)	(62.4)	(66.7)	(70.5)	(74.4)
Change in working capital	(41.9)	8.0	12.7	11.5	10.4	9.7	9.8	7.2	7.4	8.0	6.8	6.8
Lease Payments	(3.1)	(3.2)	(3.3)	(3.4)	(3.5)	(3.6)	(3.7)	(3.8)	(3.9)	(4.0)	(4.2)	(4.3)
FREE CASH FLOW TO FIRM	**(55.4)**	**30.3**	**62.5**	**96.4**	**174.2**	**198.7**	**225.5**	**241.4**	**259.4**	**277.5**	**291.9**	**307.5**
PV of Free Cash Flows	**(52.6)**	**26.1**	**49.2**	**69.0**	**113.5**	**117.9**	**121.8**	**118.7**	**116.0**	**113.0**	**108.2**	**115.2**

Sum of present values of FCFs	**1,016.0**
Present value of terminal value	**2,222.6**
Enterprise Value	**3,238.6**
Less: Debt minus cash	(146.9)
Fair Value	**3,385.5**
Shares Outstanding	75.8
Fair Value per share	**45.0**
IPO Price	37.0
Upside/(Downside)	**21.6%**

Source: Al Rajhi Capital estimates.

Key Risks:

- Growth in GWP of the insurance industry might be slower than expected
- Competition within the industry might be higher than expected due to the combined impact of 1) the entry of new aggregators and 2) insurance companies launching their own digital offerings
- Regulator may reduce the commissions that can be charged by an aggregator
- The company might not be able to maintain agreements with its partnering insurance companies, banks, and leasing companies
- There may be a delay in the launch of new products and/or new products might not be successful
- The company might not be able to attract and retain sufficient talent to facilitate the management in achieving its growth targets
- Data providers may increase their fees

Financials

Figure 28 **Income Statement**

SAR mn	2023	2024E	2025E	2026E	2027E
Revenue	**256**	**352**	**448**	**584**	**708**
y-o-y growth	*57.7%*	*37.3%*	*27.2%*	*30.5%*	*21.1%*
Cost of Sales	(108)	(150)	(188)	(245)	(297)
Gross Profit	**148**	**202**	**260**	**339**	**410**
y-o-y growth	*45.6%*	*36.3%*	*28.3%*	*30.5%*	*21.1%*
margins	*57.9%*	*57.5%*	*58.0%*	*58.0%*	*58.0%*
G&A expenses	(80)	(106)	(128)	(164)	(195)
Marketing expenses	(18)	(28)	(36)	(47)	(57)
Net other income	1	1	1	1	1
Operating Profit	**52**	**70**	**97**	**130**	**160**
y-o-y growth	*31.2%*	*35.7%*	*38.9%*	*33.2%*	*23.7%*
margins	*20.1%*	*19.9%*	*21.7%*	*22.2%*	*22.6%*
Finance costs	(0)	(0)	(0)	(0)	(0)
Net Income before Zakat	**51**	**70**	**97**	**129**	**160**
Zakat	(5)	(6)	(8)	(10)	(13)
Net Income	**46**	**64**	**89**	**119**	**147**
y-o-y growth	*33.5%*	*39.5%*	*39.1%*	*33.3%*	*23.7%*
margins	*17.9%*	*18.2%*	*19.9%*	*20.3%*	*20.8%*
EPS*	0.61	0.85	1.18	1.57	1.94

Source: Al Rajhi Capital estimates. EPS based on 75.8mn share

Figure 29 **Balance Sheet**

SAR mn	2023	2024E	2025E	2026E	2027E
Cash and cash equivalents	151	389	441	479	511
Trade and other receivables	37	48	61	80	97
Amount due from a related party	67	0	0	0	0
Current Assets	**255**	**437**	**503**	**560**	**608**
Property and equipment	17	38	56	73	95
Intangible assets	41	97	146	199	241
Right-of-use assets	5	5	5	5	5
Total Assets	**317**	**577**	**709**	**836**	**949**
Trade and other payables	177	82	103	134	163
Amounts due to related parties	3	0	0	0	0
Current Portion of Lease liabilities	2	1	2	2	3
Others	6	6	6	6	6
Current Liabilities	**187**	**89**	**110**	**142**	**171**
Lease liabilities	2	2	2	3	4
Others	7	7	7	7	7
Total liabilities	**196**	**98**	**119**	**152**	**182**
Share capital	71	76	76	76	76
Retained earnings	48	112	201	263	315
Others	3	194	194	194	194
Total equity	**121**	**479**	**590**	**684**	**767**

Source: Al Rajhi Capital estimates

Figure 30 **Ratios and Multiples**

	2023	2024E	2025E	2026E	2027E
Debt & Lease /Asset	1.2%	0.6%	0.6%	0.6%	0.7%
RoA	41.3%	36.2%	39.1%	38.0%	37.0%
RoE	47.0%	21.4%	16.7%	18.7%	20.3%
P/E	61.0x	43.8x	31.5x	23.6x	19.1x
P/BV	13.8x	3.5x	2.8x	2.4x	2.2x
Dividend Yield	0.0%	0.0%	0.0%	2.0%	3.4%

Source: Al Rajhi Capital estimates. RoA is cash adjusted.

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"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.

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