

Saudi Insurance Sector

15 Nov 2023

Company	Rating
Bupa Arabia (BUPA AB)	Hold (Previously UR)
Tawuniya (TAWUNIYA AB)	Accumulate (Previously Accumulate)

- **Top line expected to benefit from a growing population, increasing awareness, and reduced health premiums for umrah travels**
- **Improvement in the underwriting profits with likely lower reinsurance premiums, better claim management, and cost controls related to policy acquisition and G&A expenses.**
- **Increase in the bottom line with expected higher investment income, further leading to better dividend-paying policy.**

We update the investment case on the Insurance Sector comprised of the companies: **Bupa Arabia Cooperative Insurance (BUPA AB) and The Company for Cooperative Insurance (Tawuniya AB)**. Our overall stance on the sector is **Positive**, given multiple tailwinds for the sector including compulsory health insurance for Hajj pilgrims, expats and tourists and other government initiatives as a part of Vision 2030.

- **Resilience and Diversification: Saudi Arabia's Economic Triumphs Amid Global Challenges:** Despite global economic headwinds in 2022, Saudi Arabia outperformed with an impressive GDP growth rate of 8.7%, driven by surging oil prices and strong non-oil sectors. The country also defied global inflation trends with a rate of 2.47%, significantly lower than the global average. The Saudi Arabian economy has grown steadily in the first half of 2023, but the IMF has downgraded its growth forecast for the year to 1.9% due to implemented production cuts. The oil sector is still the main driver of the economy; however, the non-oil growth has been strong in recent years.
- **Low insurance penetration provides enough room for growth:** The insurance penetration in Saudi Arabia's non-oil GDP remained low at 2.09% in 2022, indicating significant growth potential. This potential arises from factors such as a growing population, increased awareness of medical insurance among citizens in the post-COVID-19 pandemic era, and the mandatory health insurance requirement for Hajj Pilgrims and expatriates. These factors are expected to contribute to improved penetration rates in the future.
- **Health Insurance's Strong Growth Prospects: Expats, Pilgrims, and Government Initiatives:** In 2022, health insurance constituted 60% of the total insurance GWP. This segment exhibits a promising outlook for premium growth, primarily attributed to the obligatory insurance requirements for expats and individuals embarking on hajj and umrah pilgrimages. Furthermore, the Saudi government's reduction in premiums to support umrah pilgrims also contributes significantly to the expansion of the health insurance sector.
- **BUPA downgraded to Hold; Tawuniya maintained to Accumulate:** Bupa, has the largest market share in the region and with increasing demand for health insurance driven by Hajj pilgrims and expat. However, considering the recent rally, we expect corrections in the near term, thus we assign a '**Hold**' rating to the stock with **TP SAR 213.13**. Tawuniya has a solid market presence in KSA and with growing demand we expect Tawuniya to benefit from forecast expansion in Saudi Insurance market. We assigned Tawuniya '**Accumulate**' rating with **TP SAR 133.21**.

Name	Last Px	Target Px	Upside/Dow nside (%)	P/B'23e (x)	P/E'23e (x)	ROA'23e (%)	ROE'23e (%)	Div Yield'23e (%)
Bupa Arabia Insurance	205.40	213.18	3.8%	6.6x	27.8x	8.8%	25.2%	2.7%
Tawuniya Insurance	115.80	133.24	15.1%	4.9x	19.5x	5.3%	26.7%	2.9%
Average				5.8x	23.7x	7.0%	26.0%	2.8%

Source: Bloomberg, U Capital Research; LC – Local Currency; Last price as on 15th November 2023

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KSA Insurance Sector

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Risks to Valuation

Key downside risks to our valuations include:

- Declining growth in the GWP, re-insuring higher premiums leading to lower underwriting profits.
- Segment-specific higher claims, and
- Lower investment income supported by weak market performance.

Key upside risks to our valuations include:

- Spike in the premium rates, and higher retention ratios to book better underwriting profits
- Huge improvement in the loss and combined ratios, and.
- Higher than expected dividend-paying policy.

Sensitivity Analysis

Our overall TP (DDM based) for BUPA is moderately sensitive to +/- 0.25% changes to terminal growth or in CoE assumptions (changes ~+/-4-6%). Our overall TP (P/B-based) is not sensitive to +/-0.10x changes in the target multiple, affecting our TP by +/-0.4% with every change.

Bupa Arabia

		Terminal growth rate					Book Value (SAR)						
		1.5%	1.8%	2.0%	2.3%	2.5%							
Cost of Equity	5.88%	195.5	207.1	217.8	227.8	237.0	P/B multiple	7.5	208.4	211.6	214.2	216.6	218.6
	6.13%	192.6	204.6	215.5	225.7	235.1		7.6	207.6	210.9	213.7	216.1	218.2
	6.38%	189.7	201.9	213.1	223.5	233.1		7.7	206.7	210.2	213.1	215.6	217.8
	6.63%	186.7	199.2	210.7	221.2	231.0		7.8	205.8	209.4	212.5	215.1	217.3
	6.88%	183.7	196.5	208.2	219.0	229.0		7.9	204.9	208.7	211.8	214.5	216.8

Our overall TP (DDM based) for TAWUNIYA is moderately sensitive to +/- 0.25% changes to terminal growth or in CoE assumptions (changes ~+/-3.5-5%). Our overall TP (P/B-based) is not sensitive to +/-0.10x changes in the target multiple, affecting our TP by +/- 0.6% with every change.

Tawuniya

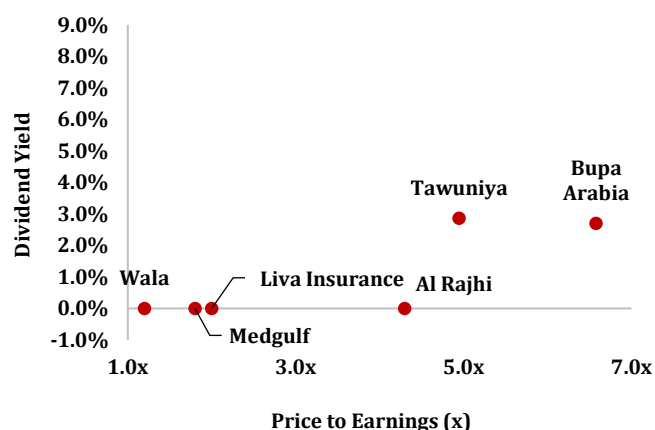
		Terminal growth rate					Book Value (SAR)						
		1.5%	1.8%	2.0%	2.3%	2.5%							
Cost of Equity	6.02%	122.2	129.4	129.3	142.4	118.4	P/B multiple	3.4	130.3	132.2	133.9	135.4	136.7
	6.27%	120.4	127.9	136.0	141.0	125.4		3.5	129.8	131.8	133.6	135.1	136.4
	6.52%	118.6	126.2	133.2	139.7	132.3		3.6	129.2	131.4	133.2	134.8	136.1
	6.77%	116.7	124.5	149.2	138.3	139.2		3.7	128.7	130.9	132.8	134.4	135.8
	7.02%	114.8	122.8	155.8	136.9	145.9		3.8	128.1	130.4	132.4	134.1	135.5

Peer Group Valuation Saudi Insurance Market

Name	Mkt Cap (SAR mn)	Last Px	Px Change 1M, %	Px Change 3M, %	Px Change YTD, %	P/BV'23e, (x)	P/E'23e, (x)	Div Yield' 23e, (%)	FCF Yield'23e (%)
BUPA ARABIA FOR COOPERATIVE	30,810.0	205.40	-6.6%	-0.8%	42.8%	6.6	27.8	2.7%	5.5%
CO FOR COOPERATIVE INSURANCI	17,370.0	115.80	-6.9%	-6.7%	72.6%	4.9	19.5	2.9%	6.7%
MEDITERRANEAN & GULF INSURA	1,581.3	15.06	11.9%	7.6%	74.7%	2.0	na	na	11.6%
LIVA INSURANCE CO	684.0	17.10	3.4%	0.5%	50.0%	1.8	na	na	5.3%
AL RAJHI CO FOR CO-OPERATIVE	6,608.0	165.20	11.6%	1.7%	84.6%	4.3	na	na	0.0%
WALAA COOPERATIVE INSURANCI	1,497.0	17.60	1.7%	-7.1%	21.7%	1.2	na	na	4.7%
Average						3.5	23.7	2.8%	5.6%
Median						3.2	23.7	2.8%	5.4%

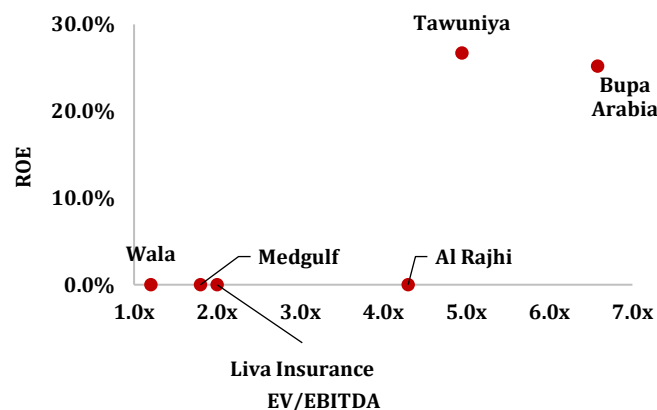
Source: Bloomberg, U Capital Research, na – not available, nm – not meaningful; *valued as of 15 November 2023 Market-cap weighted average multiples – EV/ EBITDA, and P/E

Price/Book Value & Dividend Yield



Source: Bloomberg, U Capital Research; As of 16 Nov 23

Price/Book Value & ROE



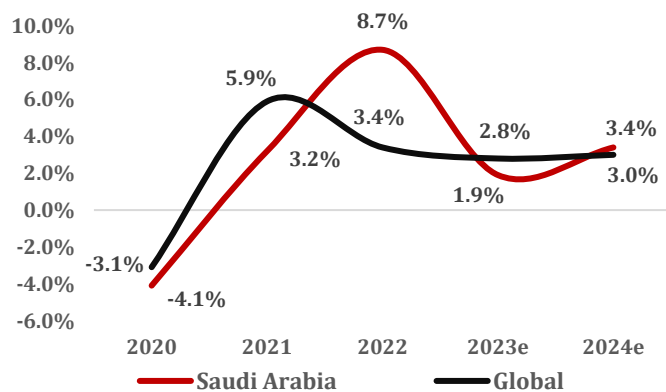
Source: Bloomberg, U Capital Research; As of 16 Nov 23

Macro-economic & Sector Overview

High GDP growth and low inflation rate outshining global trends

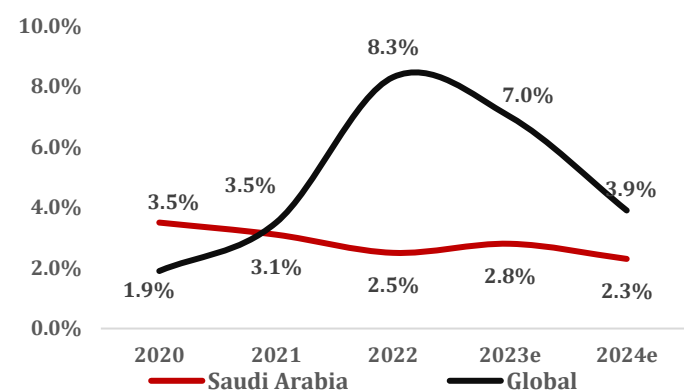
Saudi Arabia stood out both globally and within the GCC due to its remarkable performance achieving a GDP growth of 8.7% in 2022 driven by the rise in oil prices with Brent Crude Oil and WTI prices rising by 40% and 39% respectively. The country's GDP growth is anticipated to align with global and regional trends, with projected rates of 2.6% in 2023 and 3.4% in 2024. In terms of inflation, Saudi Arabia diverged from the global trend. Despite experiencing higher inflation in 2020 and 2021, the country's inflation rate was lower at 2.47% in 2022, well below the global average of 8.3%. This sustained lower inflation rate is expected to provide economic stability, which is a positive sign for potential investments.

GDP growth (KSA vs Global)



Source: World Bank, Statista

Inflation rate (KSA vs Global)

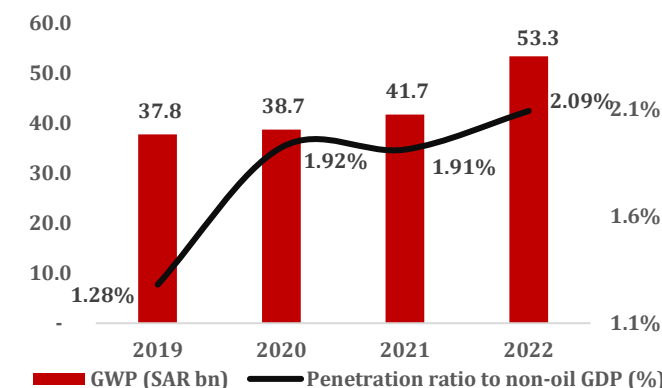


Source: World Bank, Statista

KSA Insurance Overview: Growth witnessed in insurance sector with low penetration and emerging opportunities

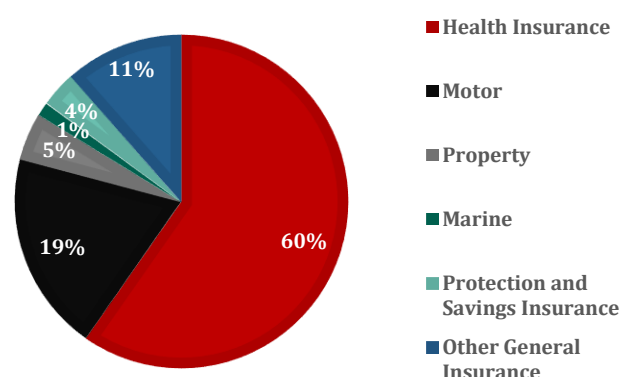
The Saudi insurance sector is among the MENA region's largest and fastest-growing markets with insurance penetration to non-oil GDP at low of 2.09% in 2022. Factors such as a growing population, compulsory health insurance, and a rising number of pilgrimages are expected to create substantial opportunities for insurance products in 2024 and beyond. Health insurance dominates the market, contributing 60% of total premiums in 2022, with motor insurance at 19%. The sector experienced significant premium growth in 2022, reaching SR 53.4 billion, with notable increases in GWP for health and motor insurance. Additionally, online sales through insurance platforms and aggregator channels increased from 7.5% in 2021 to 9.9% in 2022, indicating a growing trend towards digitalization.

KSA's GWP & Penetration rate to non-oil GDP



Source: Saudi Arabian Monetary Agency (SAMA)

KSA Insurance sector by business line

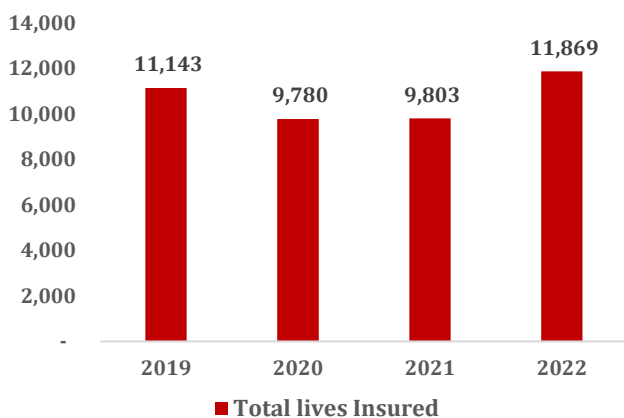


Source: Saudi Arabian Monetary Agency (SAMA)

Health insurance: Corporates lead the way in GWP contribution

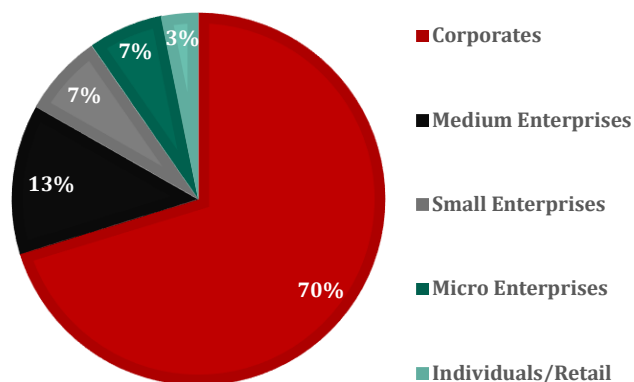
In 2022, health insurance emerged as the largest sector, with a remarkable 26.8% growth rate. It constituted 59.7% of the total GWP and 70.1% of NWP. Health insurance achieved a GWP of SAR 31.83 billion, boasting a 98.3% retention ratio, the highest in all business segments. The number of insured individuals increased to 11,869 in 2022, with a 6.7% CAGR in 2020. Corporate clients played a dominant role, contributing around 70% of the GWP, while retail clients made up only 3%.

Total lives insured every year in KSA



Source: BUPA Investor presentation, U Capital Research

GWP segmentation for health insurance

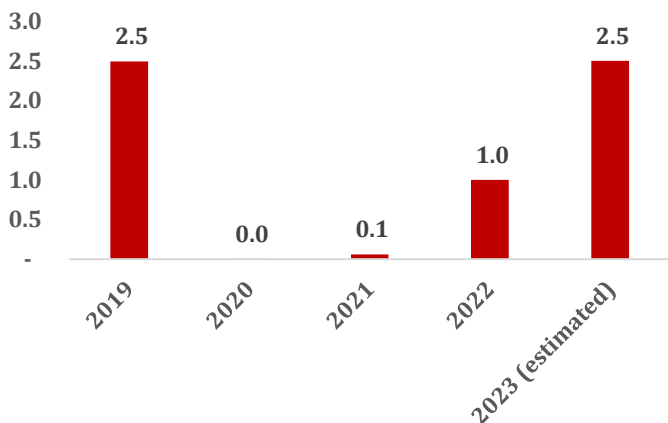


Source: BUPA Investor presentation, U Capital Research

Health insurance: Mandatory insurance requirements to boost health segment

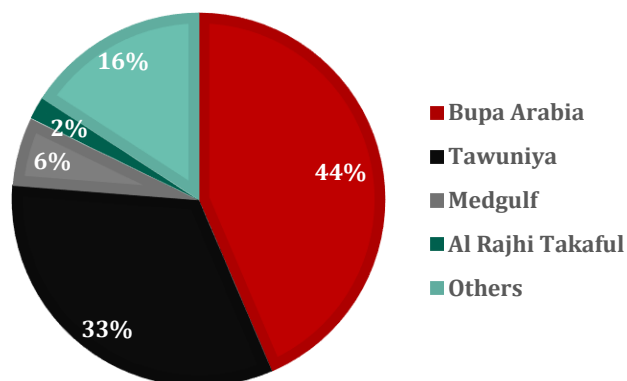
Health insurance is essential for Hajj pilgrims in Saudi Arabia due to the risks associated with large crowds and potential illnesses or injuries. The Saudi government mandates a minimum coverage of SAR 100,000 (USD 26,600) for all pilgrims and requires all expats in the region to have health insurance since 2014. The premium for hajj insurance in Saudi Arabia is currently SAR 29 (USD 7.7) for each pilgrim. This represents a 73% decrease from the previous premium of SAR 109 (approximately USD 29.00). This reduction in insurance premiums is a welcome relief for pilgrims and will make it more affordable for people to perform Hajj and Umrah. Further, with the increase in health premiums supported by compulsory health insurance for expat and their families, recovery in hajj and umrah pilgrimages and increased awareness among citizens for health insurance will lead to an increase in the health insurance sector. Bupa currently holds a significant market share at 43%, closely followed by Tawuniya at 33%.

Total pilgrims (millions) YoY



Source: Saudi Arabian Monetary Agency (SAMA)

KSA Health Insurance Market Share (2022)

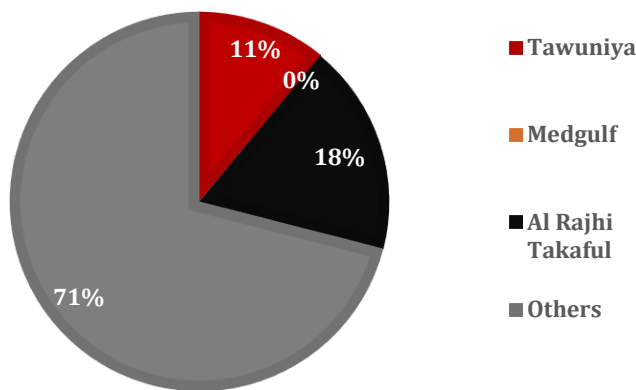


Source: BUPA Investor presentation, U Capital Research

Motor insurance: 19% of GWP in 2022 with fragmented market

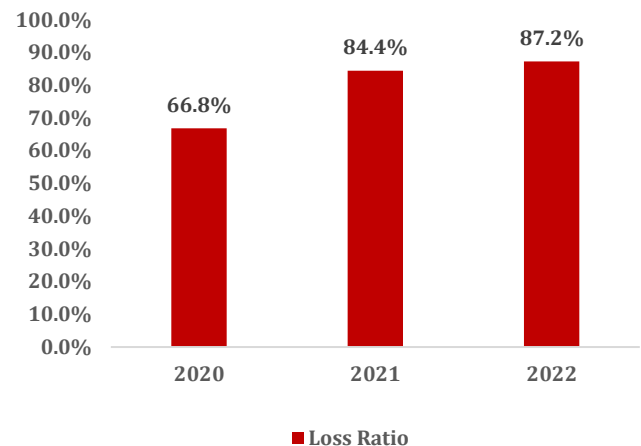
In 2022, health insurance remained the dominant sector, with motor insurance taking the second spot. Motor insurance generated a GWP of SR 10.34 bn, making up 19.4% of the total market's GWP. Insurance companies retained 95.4% of the premiums they underwrote for motor insurance, resulting in an NWP of SR 9.86 bn. Tawuniya established a strong presence in both Motor Insurance, holding 11% market share in the Kingdom. Nevertheless, the market remains fragmented, with various players competing for market share. The loss ratio for motor insurance has seen an increasing trend since the outbreak of covid-19 with Tawuniya having the lowest claims compared to its peers and industry average in the kingdom with 73.9% in 2022.

Motor Insurance Market Share (2022)



Source: BUPA Investor presentation, U Capital Research

Motor Insurance Loss Ratio (2022)

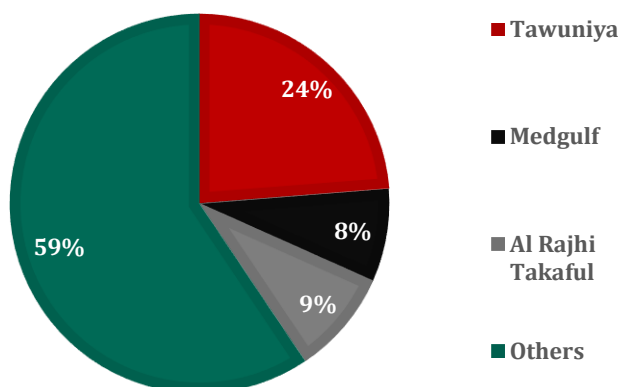


Source: BUPA Investor presentation, U Capital Research

All Others General insurance: Fragmented market with declining loss ratio

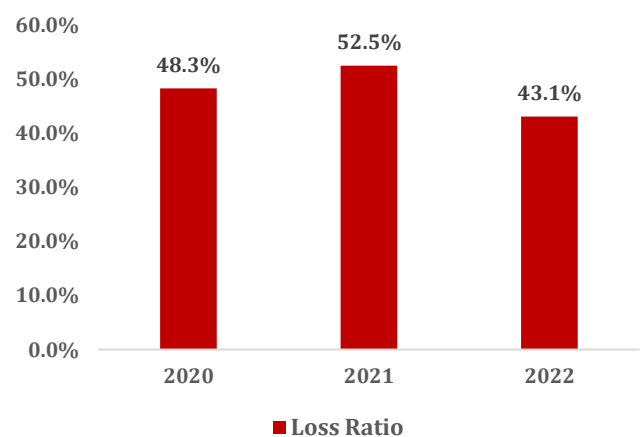
Tawuniya also hold a dominant market share in the other general insurance segment with 24% market share in 2022. Property, Marine, Protection & Savings are the key segments in other general insurance. Similar to motor insurance, even this segment remains fragmented, with various players competing for market share. The loss ratio for this segment has witnessed a reduction in 2022, falling to 43.1% from 52.5% in 2021. Tawuniya has the lowest claims ratio standing at 10.5% way below its peers and industry average.

Motor Insurance Market Share (2022)



Source: BUPA Investor presentation, U Capital Research

Motor Insurance Loss Ratio (2022)

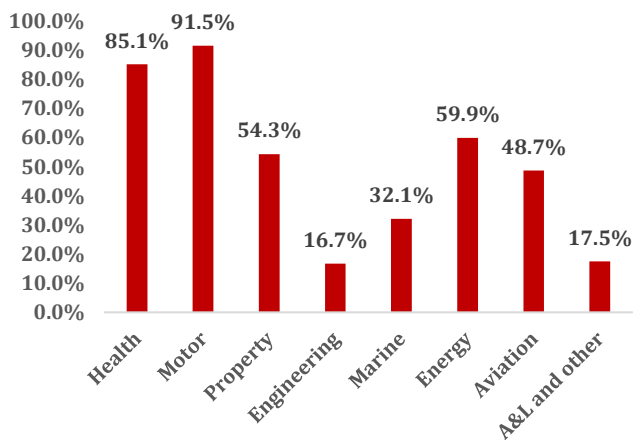


Source: BUPA Investor presentation, U Capital Research

Loss and Retention Ratios in the Saudi Insurance Market

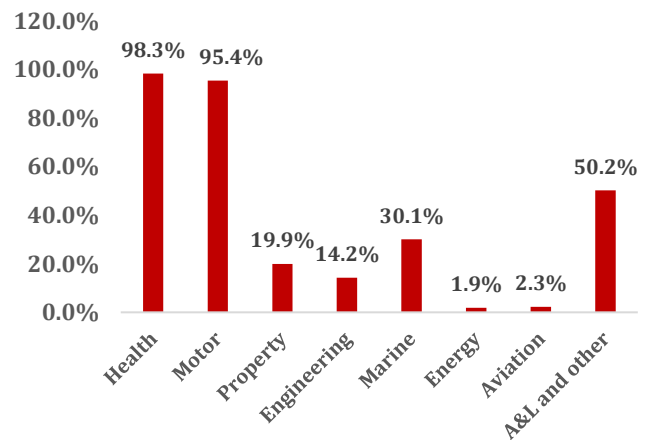
The Saudi Insurance market has experienced its highest loss ratio in Motor insurance, followed closely by Health Insurance. Specifically, the loss ratio, also known as the claim's ratio, is 91.5% for Motor insurance and 85.1% for Health insurance. In contrast, the loss ratios for other general insurance categories such as property, marine, energy, and aviation are considerably lower compared to Health and Motor insurance. This disparity can be attributed primarily to the lower likelihood of claims occurring in these other categories. Furthermore, in terms of retention ratios, Health, and Motor insurance exhibit the highest figures in the region, with rates of 98.3% and 95.4%, respectively. These high retention ratios indicate that insurance companies have retained a larger portion of the premiums they collected in comparison to other general insurance types.

Loss Ratio by business (KSA 2022)



Source: Company Reports, U Capital Research

Retention ratio by business (KSA 2022)

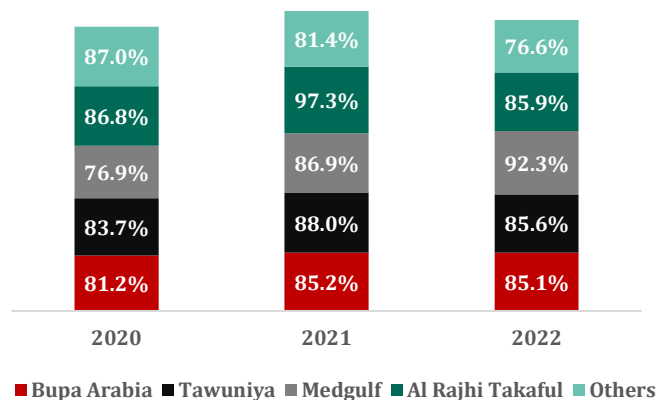


Source: Company Reports, U Capital Research

Claims trend in Saudi Arabia: Health vs Non-health

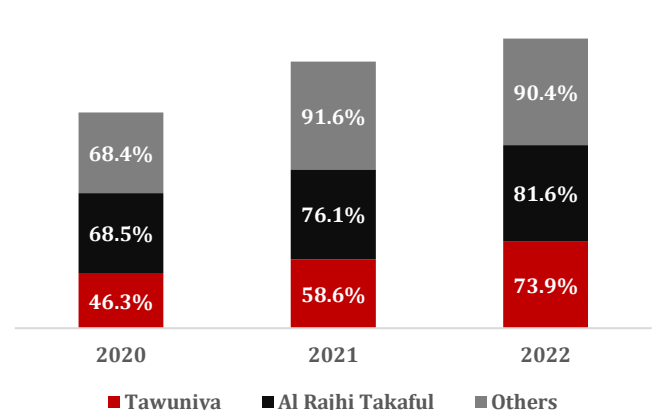
In the kingdom, health insurance holds the largest market share within the insurance segment, accounting for approximately 60% in 2022. The claims ratio (loss ratio) for the year 2022 in the kingdom's health insurance sector was 84.4%. Among the key players in the health insurance segment, Medgulf had the highest number of claims, with a loss ratio of 92.3% in 2022. Bupa Arabia and Tawuniya both slightly exceeded the industry average, with loss ratios of 85.1% and 85.6%, respectively, for 2022. In the non-health insurance segment, the overall loss ratio for Saudi Arabia in 2022 was 87.2%. Tawuniya boasted the lowest loss ratio in the kingdom, standing at 73.9%.

Health insurance loss ratio (FY'22)



Source: Company Reports, U Capital Research

Non-health insurance loss ratio (FY'22)



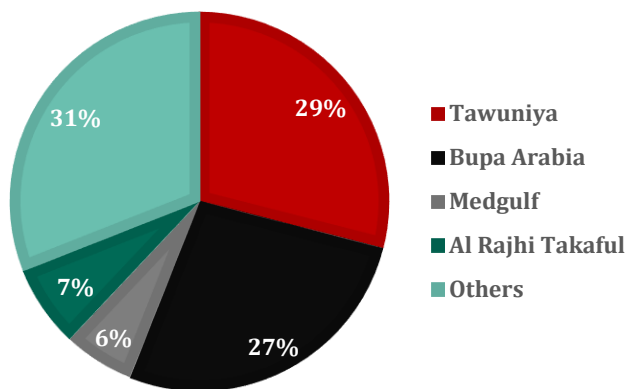
Source: Company Reports, U Capital Research

Insurance Market Share and Loss Ratios in Saudi Arabia

Overall, Tawuniya commands a larger share in the Saudi Arabian insurance segment, primarily because of its exposure to non-health insurance, in contrast to Bupa Arabia, which exclusively focuses on the health segment. As of 2022, Tawuniya boasts a market share of 29%, followed closely by Bupa Arabia with a market share of 27%.

The loss ratio for the total insurance market in Saudi Arabia was 81.9% in 2022, a decrease from 82.9% in 2021. Among the key players, Bupa Arabia exceeded the industry average with a loss ratio of 85.1% in 2022, a slight increase compared to the previous year, while Tawuniya had a loss ratio slightly below the average, standing at 80.1%, down from 84% in the previous year. Among other players, Medgulf had the highest claims in 2022 with a loss ratio of 97.7%, and Al Rajhi Takaful had the lowest claims ratio, standing at 74.4%.

Total insurance market share (FY'22)



Source: Company Reports, U Capital Research

Takaful Rules in Saudi Arabia

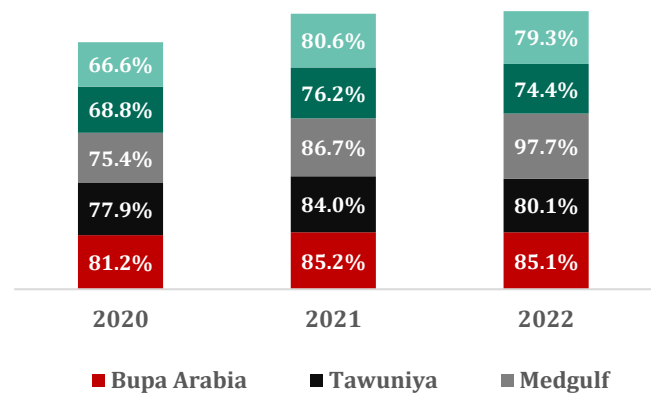
Takaful insurance is a type of Islamic insurance that is based on the principles of mutuality and cooperation. It is a form of mutual aid where policyholders contribute to a common fund, which is then used to pay out claims to those who have suffered losses. Takaful insurance is becoming increasingly popular in Saudi Arabia, as it is a way to obtain insurance coverage without violating Islamic law. Takaful insurance is regulated by the Saudi Arabian Monetary Authority (SAMA). SAMA requires takaful insurance companies to operate on a mutual basis and to invest their funds in accordance with Islamic law.

Takaful vs Conventional Insurance

- Under Takaful, capital is only invested in funds that are fully Shariah compliant
- Takaful ensures that no one member can gain an advantage at the expense of another creating a cooperation among policyholders for the common good of all members
- Conventional Insurance involves making investments that can incur risk and generate profits that will be retained by the company, while under Takaful, Investment profits are distributed among both participants and shareholders.
- Policyholders will not get back their contributions where there is no claim, while in a Takaful contract some of the money will be refunded to the participants in case no claims made.
- Surplus is distributed back to members as a renewal discount.

<https://takafulemarat.com/your-guide-takaful-versus-conventional-insurance/>

Total insurance loss ratio (FY'22)



Source: Company Reports, U Capital Research

Bupa Arabia Cooperative Insurance Co. (BUPA AB)

Target Price: SAR 213
Upside: 3.8%

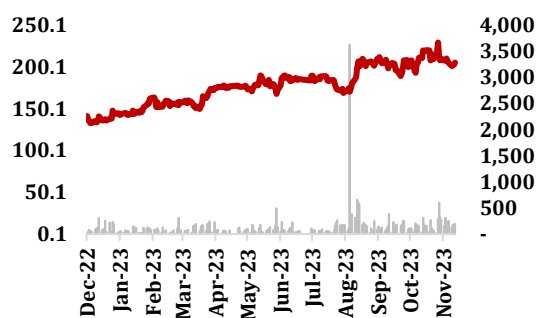
Recommendation	Hold
Bloomberg Ticker	BUPA AB
Current Market Price (SAR)	205.40
52wk High / Low (SAR)	237.000/129.280
12m Average Vol. (000)	127.7
Mkt. Cap. (USD/SAR mn)	8,389/30,810
Shares Outstanding (mn)	150.00
Free Float (%)	52%
3m Avg Daily Turnover (SAR'000)	37,197.2
6m Avg Daily Turnover (SAR'000)	33,111.0
P/E'23e (x)	27.8 x
P/BV'23e (x)	6.6 x
Dividend Yield '23e (%)	2.7%

Price Performance:

1 month (%)	-6.6%
3 month (%)	-0.8%
12 month (%)	43.1%

Source: Bloomberg

Price-Volume Performance



Vol, '000 (RHS) Px, SAR (LHS)

Source: Bloomberg as on 15th Nov 2023

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- **The health insurance sector on the rise in KSA with Bupa Arabia holding a dominant market share in terms of GWP.**
- **High retention ratio with declining combined ratio for the group.**
- **Margins to improve in the medium term driven by healthy contribution from investment and other income.**
- **Robust dividend payout policy.**

We review our coverage of Bupa Arabia Insurance Company (BUPA AB: Saudi Arabia) and upgrade our rating to **Hold** with target price to **SAR 213.13**, with an upside of 3.8% from the current levels. The stock is currently trading at a P/B of 6.6x based on our 2023 estimates, compared to its historical average 1-year forward P/B of 5.0x. Since its last update on 2nd August 2023, the stock has rallied 20%. Subsequently, we anticipate minor corrections and maintain a Hold rating provided the group's dominant market share in the health insurance sector with expected growth driven by increasing pilgrims and expats.

Investment Thesis

Bupa Arabia offers a promising investment prospect due to its resilient financial performance, dominant market share in the kingdom, growing health insurance segment with improving margins and dividend yield.

- Bupa is a market leader in the health segment of the industry, with a 44% share in FY'22, in terms of GWP.
- Growth in premiums is expected considering the lower health penetration rate and supported by compulsory insurance for expats and their families.
- Improvement in the combined ratios in the medium term amid declining expense ratios.
- Improvement in margins amid reduced combined ratio and improvement in investment income.
- Higher dividend yield supported by bottom-line growth in future periods.

Key indicators

Year (SAR mn)	FY21	FY22	FY23e	FY24e	FY25e
Gross Written Premium	11,382	13,897	15,410	18,907	19,743
Net Underwriting profit	1,228	1,360	1,081	1,661	1,734
Net Profit	626	863	1,131	1,704	1,780
Combined Ratio	94.3%	88.6%	94.9%	93.0%	93.0%
ROA	5.0%	7.3%	8.8%	11.7%	10.9%
ROE	14.9%	20.5%	25.2%	32.6%	28.8%
DPS	4.5	3.6	5.0	7.5	7.8
Dividend yield, %	3.4%	2.1%	2.7%	4.2%	4.4%
P/E(x)	25.1x	29.6x	27.8x	18.4x	17.7x
P/BV (x)	3.8x	4.9x	6.6x	5.5x	4.7x

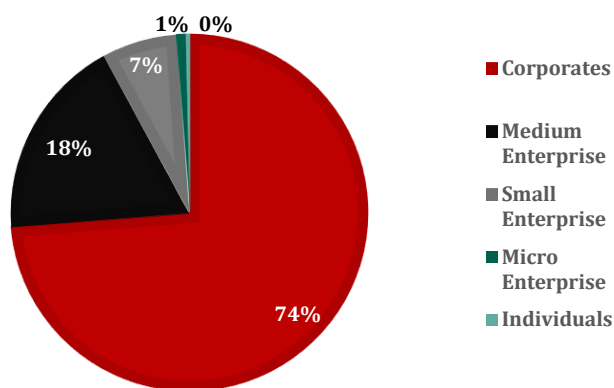
Source: Company Reports, U-Capital Research *P/E, EV/EBITDA and EV/Sales from 2023 onwards calculated on current price

Investment Rationale

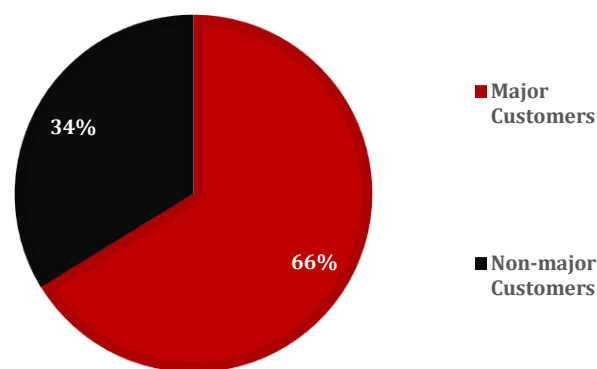
Bupa Arabia: Leading the cooperative health insurance sector in Saudi Arabia

Bupa Arabia for Cooperative Insurance Company, (BUPA AB), is a company headquartered in Saudi Arabia, primarily focused on cooperative health insurance services. The company's operations are divided into segments catering to Corporates, Medium-sized enterprises, Small and Micro Enterprises, and Individuals. Among these segments, Corporates make up the largest share, accounting for 74% of the total gross written premium, followed by Medium-sized enterprises at 18%. Additionally, the major customers contribute approximately 66% of the total gross written premium.

GWP by Segment (FY'22)



GWP by customers (FY'22)



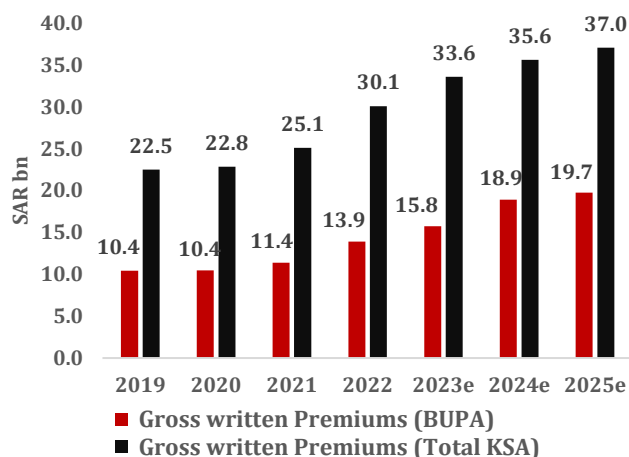
Source: Company Reports, U Capital Research

Source: Company Reports, U Capital Research

Bupa Arabia: Dominating the kingdom's health insurance market

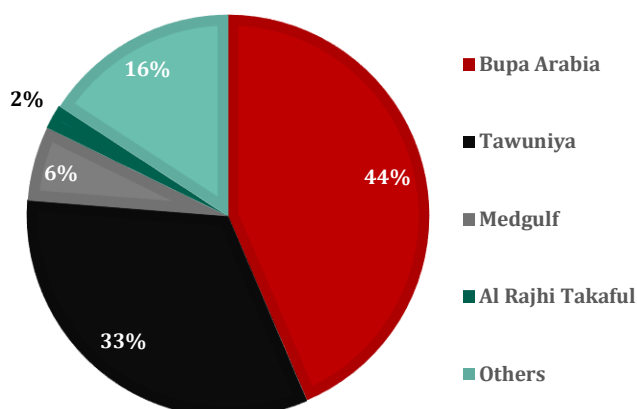
The company primarily operates in the healthcare sector and maintains its leading position as the largest health insurance provider in the kingdom, commanding a significant 44% market share as of FY'22 followed by Tawuniya with 33% market share. Bupa Arabia's GWP experienced a CAGR of 7.5% between the FY'19-22, reaching a total of 13.9 bn in FY'22. In total, the premiums generated within the kingdom for FY'22 amounted to 30.1 bn. We anticipate that the health insurance market will continue to expand in the upcoming years, driven by the increasing number of pilgrimages and compulsory health insurance for expat and their families, as well as increased awareness among citizens for health insurance. Bupa's dominant market position within this sector positions the group well to enhance their GWP post-FY'23.

GWP (Bupa vs Total KSA)



Source: Company Reports, U Capital Research

Health Insurance Market Share (KSA FY'22)

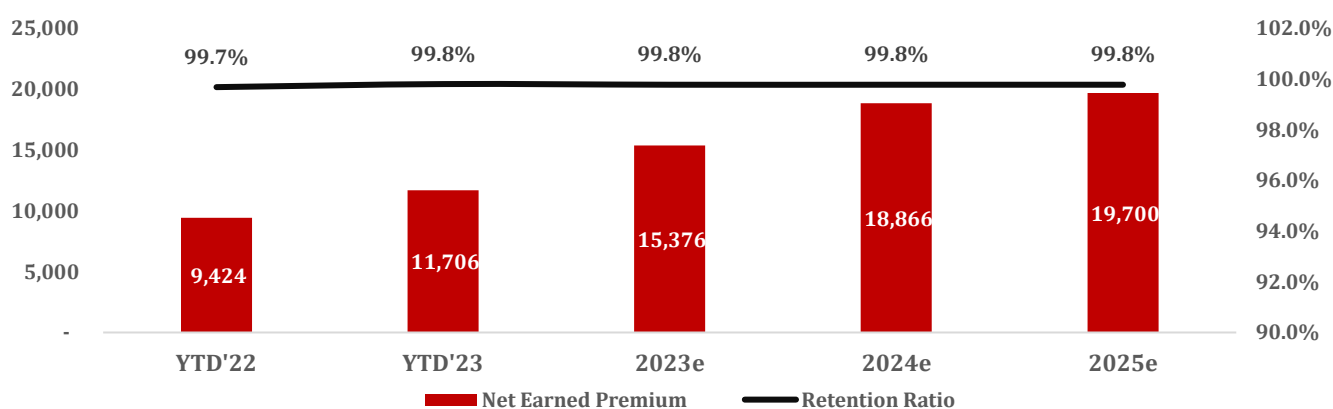


Source: Company Reports, U Capital Research

Bupa Arabia: Embracing IFRS Standards and achieving growth

Bupa Arabia has embraced the IFRS 9 and 17 accounting standards, initiating the reporting of financials in line with these standards from Q1'23. This move aims to enhance comparability, boost transparency, and furnish users of accounts with the necessary information to comprehensively grasp the insurer's financial position, performance, and risk exposure. In terms of revenue, Bupa Arabia experienced a 24% surge in the initial nine months of 2023, primarily attributable to a successful Hajj season and an uptick in the expatriate population. Similar patterns are anticipated for 2024, driven by mandatory health insurance requirements for Hajj and expatriates. Moreover, the company takes pride in its impressive retention rates, averaging 99.8% in the first three quarters of 2023, with an expectation to sustain this level until FY'25e. Despite achieving higher insurance revenue, Bupa Arabia strategically opts to transfer fewer premiums to its reinsurance partners. This strategic approach results in an augmented net earned revenue and, consequently, a heightened retention ratio.

High retention ratios

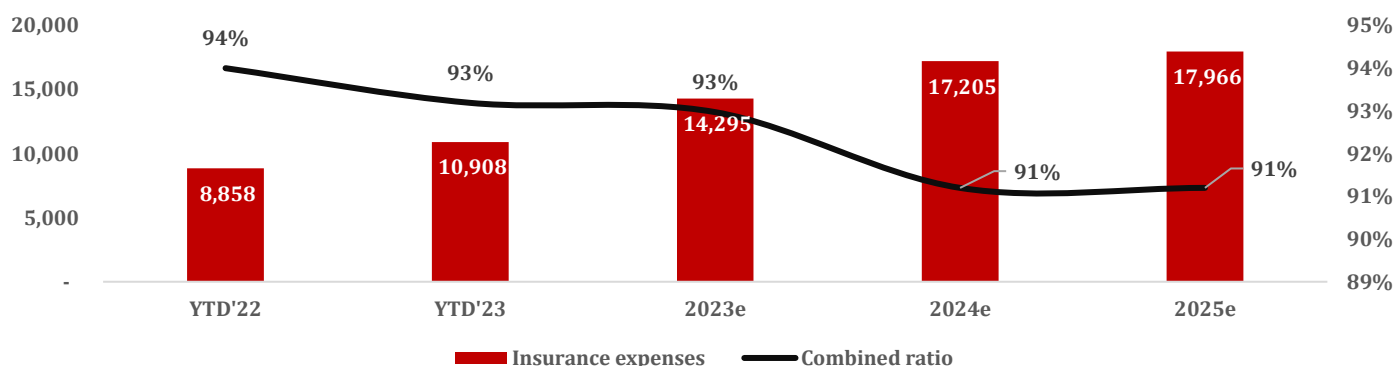


Source: Company Reports, U Capital Research

Bupa Arabia: Navigating Rising Costs Amidst Surging Demand

Insurance expenses include both claims and other general expenses. These costs experienced a 23% increase in the first nine months of 2023 compared to the preceding period due to a rise in both claims and expenses. The combined ratio reached 93% in the initial 9 months, and we anticipate it to persist in that range for the remaining period of FY'23e. With the surge in tourism in Saudi Arabia, a growing number of people participating in the Hajj pilgrimage, and an increasing expatriate population, we foresee a rise in claims and expenses in FY'24. Nevertheless, we expect the combined ratio to decrease, signaling improved management of claims and expenses by the group. In the long term, we project the combined ratio to stabilize around 91% until FY'25e.

Combined Ratio

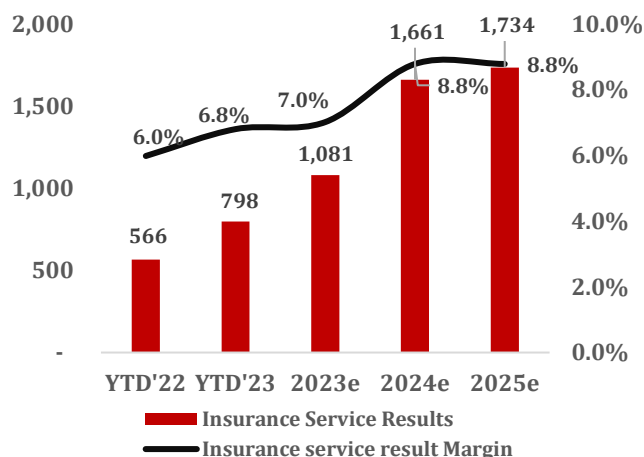


Source: Company Reports, U Capital Research

IFRS adoption enhances transparency, driving profitability

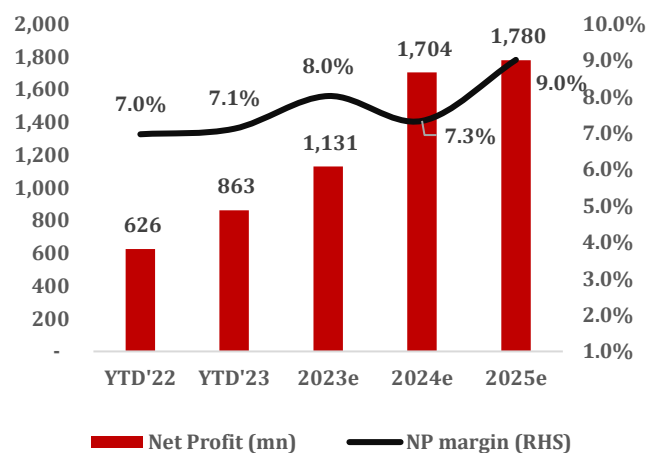
Starting Q1'23, Bupa Arabia has incorporated the IFRS 9 and 17 accounting standards, aiming to enhance the provision of streamlined and effective information to stakeholders. The initial 9 months of FY'23e witnessed a notable 41% increase in insurance service results, achieving a margin of 6.8%, a rate expected to persist for the remainder of FY'23e. Anticipating a rise in the service result margin for FY'24e due to increased insurance revenue from tourism, hajj, and a growing expat population, a parallel upswing in net profit margin is also projected for FY'24e. This anticipated growth is attributed to the robust performance of the group's investment portfolio and additional income sources. The outlook foresees an increase in net margins to 8% in FY'23, with a subsequent decline to 7.3% in FY'24e and is expected to increase to 9% in FY'25e.

Increasing underwriting margins



Source: Company Reports, U Capital Research

Improving net margins

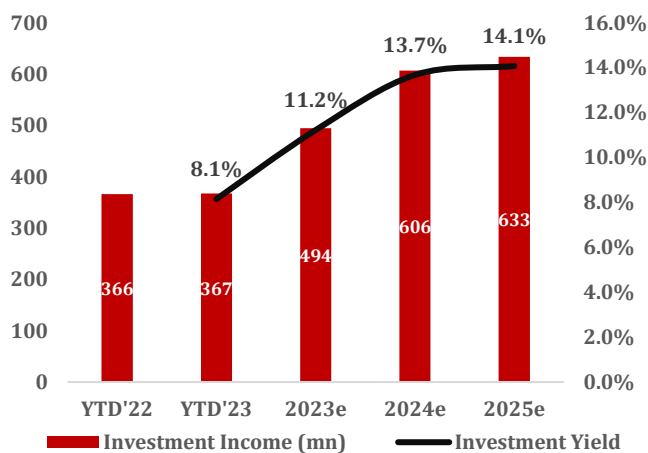


Source: Company Reports, U Capital Research

Prudent investment strategy drives robust investment yields

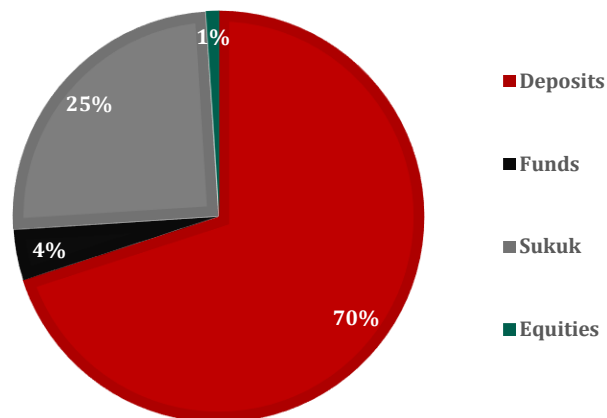
The company has efficiently overseen its investment portfolio, directing the majority of its surplus into diverse instruments, including Deposits, Funds, Sukuk, and Equities. As of FY'22, 70% of the investments were allocated to Deposits, while Sukuk accounted for 25%. The investment yield for the first nine months of 2023 stood at 8.1% and is anticipated to reach 11.2% for FY'23e. We expect it to further increase in FY'24e and FY'25e, indicating robust management of the investments.

Investment income to normalize post-FY'23e



Source: Company Reports, U Capital Research

Investment breakup (FY'22)

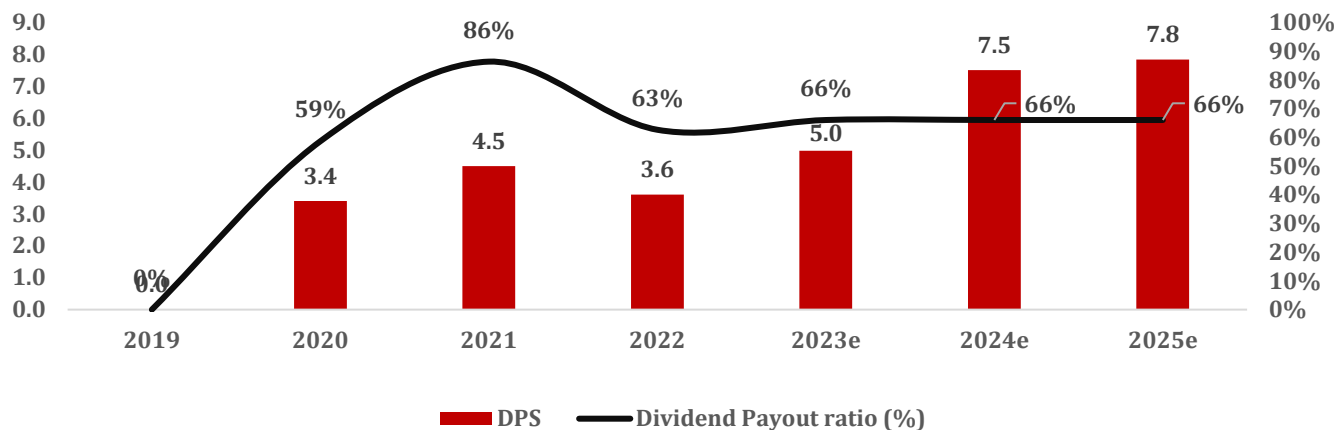


Source: Company Reports, U Capital Research

Robust dividend payout ratio

The company has a dividend payout ratio of 63% in FY'22 after peaking at 86% in FY'21 which was supported by growth in the bottom line. Being a market leader in health insurance, the company tries to provide better dividends to its shareholders, providing a dividend yield of 2.7% as of FY'22. Going forward, we anticipate the dividend payout ratio to be steady around 66% amid the group's solid bottom line in the mid-term.

Improving net earned premium amid solid retention ratios



Source: Company Reports, U Capital Research

Valuation

To value Bupa Arabia, we employed three valuation methods: the Dividend discount model (DDM), Residual value method and Relative Valuation (P/BV). In our DDM analysis, given a weight of 40%, we used a WACC of 6.4%, a cost of equity of 6.4%, a risk-free rate of 4.4%, a beta of 0.67, and a market return of 3.0%. This method yielded a fair value of approximately SAR 186.1 per share.

For our Residual value method, we have assigned a weight of 40% and have used a similar cost of equity to calculate present value thereby yielding a fair value of SAR 223.7 per share.

And for our Relative valuation (Price/Book Value) with a 20% weight. We derived this multiple based on industry median value, resulting in a P/BV multiple of 7.7x. We then applied this multiple to our forecasted BVPS of SAR 31.9, yielding fair values of SAR 246.3 per share.

Taking a weighted average of these valuations, we arrived at an overall fair value of **SAR 213.2 per share**.

Valuation

	Bupa Arabia
DDM (40% weight)	
PV of Free Cash Flow (SAR mn)	
Sum of all present values of dividend	4,823
PV of Terminal value	23,099
Total PV of Future Cashflows (Enterprise Value, SAR mn)	27,922
Assumptions	
Risk Free Rate (%)	4.4%
Adjusted Beta	0.67
Market Return (%)	3.0%
Terminal growth rate	2.0%
Cost of Equity (COE) (%)	6.4%
WACC (%)	6.4%
Equity value (SAR mn)	27,922
Outstanding Shares (mn)	150
Target Price (SAR)	186.1
Residual Income Method (40% weight)	
Total Discounted Value	4,711
Terminal value	31,807
Present value of terminal value	24,640
Current Book Value	4,201
Equity value (SAR mn)	33,552
Outstanding Shares (mn)	150
Target Price (SAR)	223.7
P/BV based Relative Valuation (20% weight)	
BVPS FY2023e (SAR)	31.9
Target P/BV Multiple for 2023E (x)	7.7x
Target Price (SAR)	246.3
Weighted Average Target Price (SAR)	
	213.2
<i>Current Market Price (SAR)</i>	<i>205.4</i>
Upside/(Downside), %	3.8%
Recommendation	Hold

Source: Company Financials, Bloomberg, U Capital Research

Financial tables

Key financials

In SAR mn, except stated otherwise	FY21	FY22	FY23e	FY24e	FY25e
Income Statement					
Gross written premiums (GWP)	11,382	13,897	15,410	18,907	19,743
Insurance premium ceded to reinsurers, earned	(86)	(94)	(33)	(41)	(43)
Net written premium	11,296	13,803	15,376	18,866	19,700
Net earned premium (NEP)	10,618	13,803	15,376	18,866	19,700
Claims paid	(9,074)	(10,565)	(14,295)	(17,205)	(17,966)
Net underwriting result	1,228	1,360	1,081	1,661	1,734
Investment income	260	553	467	481	496
General and administrative expenses	(599)	(667)	(289)	(345)	(351)
Profit before taxation	731	1,027	1,338	2,011	2,100
Income tax	(105)	(164)	(207)	(306)	(320)
Profit for the year	626	863	1,131	1,704	1,780
Balance Sheet					
Cash and cash equivalents	961	1,288	1,292	2,382	3,015
Term Deposits	3,094	6,407	6,704	7,674	8,334
Financial investments	5,704	2,852	3,832	3,858	3,915
Premiums and insurance balances receivable	1,761	3	4	4	4
Reinsurers' share of outstanding claims	7	28	85	85	85
Total Assets	12,399	12,115	13,484	15,577	16,937
Accrued and other liabilities	605	531	613	613	613
Total Liabilities	8,204	7,914	8,705	9,887	10,272
Share capital	1,200	1,500	1,500	1,500	1,500
Retained earnings	1,791	1,642	2,278	3,195	4,175
Total Equity	4,195	4,201	4,779	5,690	6,665
Total Liabilities and Shareholders' equity	12,399	12,115	13,484	15,577	16,937
Cash Flow Statement					
Net cash from operating activities	661	1,704	1,571	2,350	1,602
Net cash from investing activities	107	(778)	(650)	(843)	(529)
Net cash from financing activities	(441)	(598)	(578)	(852)	(890)
Cash & cash equivalent at period end	961	1,288	1,292	2,382	3,015
Key Ratios					
Net underwriting margin	11.6%	9.9%	7.0%	8.8%	8.8%
Pre-tax margin	6.9%	7.4%	8.7%	10.7%	10.7%
NP margin	5.9%	6.2%	7.4%	9.0%	9.0%
Loss Ratio	85.2%	79.1%	93.0%	91.2%	91.2%
Expenses Ratio	9.1%	9.4%	1.9%	1.8%	1.8%
Combined Ratio (COR)	94.3%	88.6%	94.9%	93.0%	93.0%
Retention ratios	99.2%	99.3%	99.8%	99.8%	99.8%
ROA	5.0%	7.3%	8.8%	11.7%	10.9%
ROE	14.9%	20.5%	25.2%	32.6%	28.8%
EPS (SAR)	5.23	5.75	7.54	11.36	11.87
BVPS (SAR)	34.96	35.01	31.86	37.93	44.43
DPS (SAR)	4.50	3.60	4.97	7.50	7.83
Dividend Yield (%)	3.42%	2.12%	2.70%	4.24%	4.42%
Cash Dividend payout (%)	86.3%	62.6%	66.0%	66.0%	66.0%
P/E (x)	25.11	29.60	27.81	18.45	17.67
P/BV (x)	3.76	4.86	6.58	5.53	4.72
Price as at period end*	131.40	170.20	209.60	209.60	209.60

Source: Company Reports, U Capital Research

*Current market price is used for the years forecasted

The Company for Cooperative Insurance (Tawuniya AB)

Target Price: SAR 133.2
Upside: 15.1%

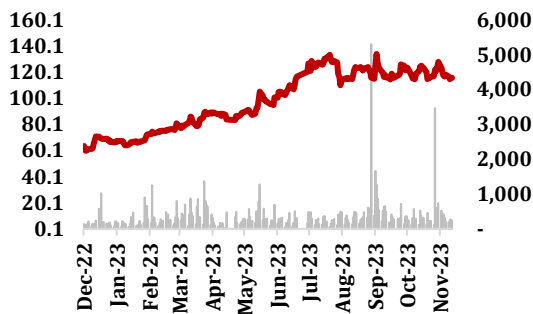
Recommendation	Accumulate
Bloomberg Ticker	TAWUNIYA AB
Current Market Price (SAR)	115.80
52wk High / Low (SAR)	139.000/58.830
12m Average Vol. ('000)	343.9
Mkt. Cap. (USD/SAR mn)	4,730/17,370
Shares Outstanding (mn)	150.00
Free Float (%)	74%
3m Avg Daily Turnover (SAR'000)	61,995.9
6m Avg Daily Turnover (SAR'000)	48,034.5
P/E'23e (x)	19.5 x
EV/EBITDA'23e (x)	4.9 x
Dividend Yield '23e (%)	2.9%

Price Performance:

1 month (%)	-6.9%
3 month (%)	-6.7%
12 month (%)	76.1%

Source: Bloomberg

Price-Volume Performance



■ Vol, '000 (RHS) ■ Px, SAR (LHS)

Source: Bloomberg as on 15 Nov 2023

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- **Solid growth in GWP driven by demand from health and motor segment.**
- **Increased underwriting profits amid lower expenses and higher growth in premiums**
- **Positive investment income to support bottom-line with increasing payout ratio and dividend yields**

We review our coverage of The Company for Cooperative Insurance (Tawuniya AB: Saudi Arabia) and maintain our rating to **Accumulate** with **target price to SAR 133.2**, with an upside of 15.1% from the current levels. The stock is currently trading at a P/B of 4.9x based on our 2023 estimates, compared to its historical average 1-year forward P/B of 3.9x. Since its last update on 8th August 2023, the stock remained largely unchanged and we expect an uptrend from here, considering the group is the largest insurance player overall and second largest in the health insurance segment. With growth expected in both health and motor, Tawuniya well placed to benefit from the recent developments in the kingdom with respect to health and motor insurance.

Investment Thesis

Tawuniya offers a promising investment prospect due to its resilient financial performance, solid market share in the kingdom, and the growing demand in both the health and non-health segments.

- The second major leader in health insurance in the kingdom supported by mandatory health insurance policies .
- GWP to further get a boost from the health segment due to increasing demand driven by rising pilgrims and expats.
- Effective claim management and higher GWPs lead to improvement in the underwriting profit.
- Higher dividend payout ratio in the medium term supported by a strong bottom line.

Key indicators

Year (SAR mn)	FY21	FY22	FY23e	FY24e	FY25e
Gross Written Premium	10,219	14,350	14,877	15,444	16,098
Net Underwriting profit	857	1,067	-1,234	-1,236	-1,284
Net Profit	267	391	891	966	1,003
Combined Ratio	100.3%	76.7%	95.6%	94.1%	94.1%
ROA	1.8%	2.6%	5.3%	4.9%	4.6%
ROE	9.1%	12.6%	26.7%	25.7%	23.9%
DPS	0.8	1.0	2.4	3.2	4.0
Dividend yield, %	1.0%	1.2%	2.9%	3.9%	4.8%
P/E(x)	36.3x	31.8x	19.5x	18.0x	17.3x
P/BV (x)	3.2x	3.9x	4.9x	4.3x	4.0x

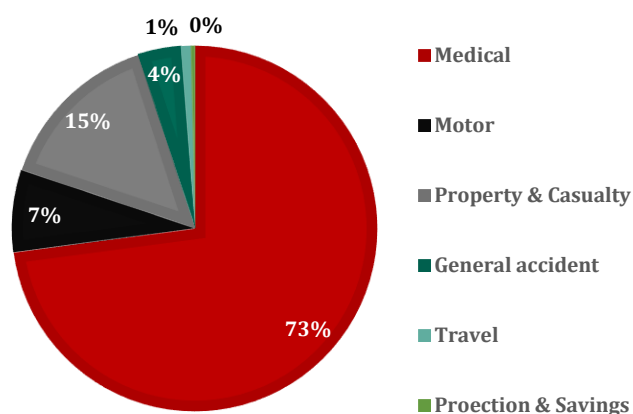
Source: Company Reports, U-Capital Research *P/E, EV/EBITDA and EV/Sales from 2023 onwards calculated on current price

Investment Rationale

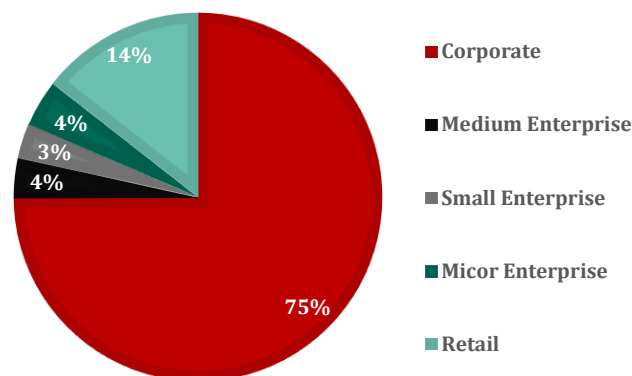
Tawuniya: Leading the insurance landscape in Saudi Arabia with diverse coverage

The Company for Cooperative Insurance SJS, (Tawuniya), operates in Saudi Arabia and offers a wide range of insurance and reinsurance solutions for both individuals and businesses. Tawuniya's primary areas of focus encompass medical, motor, property & casualty, general, travel, and protection & savings insurance. Among these, medical insurance is the most significant contributor to the company's GWP, accounting for approximately 73%, while property & casualty insurance follows with a 15% contribution. In terms of customer segments, corporate clients make up around 75% of the total GWP for the company, with retail customers constituting 14%. Additionally, Hajj & Umrah visitors accounted for 8% of the total written premium in FY'22 which forms a part of medical and general accident.

GWP by business line (FY'22)



GWP by Customer (FY'22)



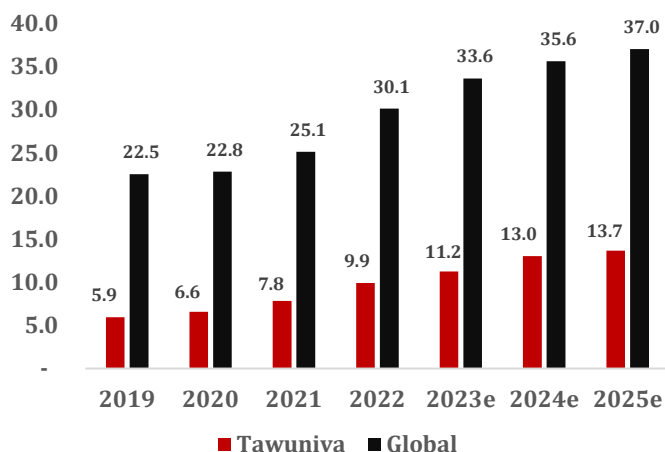
Source: Company Reports, U Capital Research

Source: Company Reports, U Capital Research

Tawuniya's Impressive Growth in the KSA Health Insurance Market

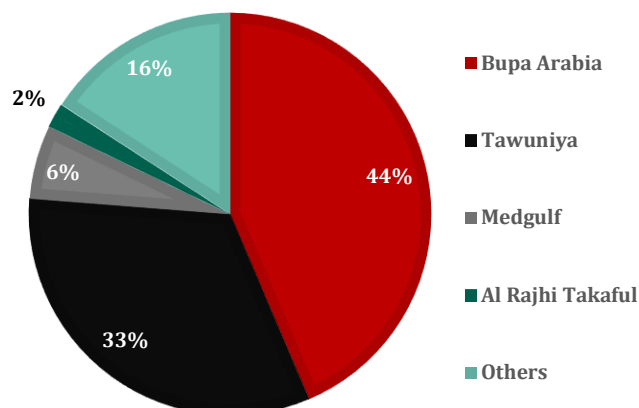
The health insurance market is the largest segment in the KSA insurance sector, representing 60% of the total insurance market. Tawuniya has a strong market presence in the kingdom, standing in second place with a 33% market share, only behind Bupa Arabia. Tawuniya's GWP increased at a CAGR of 14% between FY-19 and FY-22, and we anticipate it to increase at a CAGR of 8% from FY'22 to FY'25e, reaching a total GWP of 13.7 billion by FY'25e.

Medical GWP (Bupa vs Total KSA)



Source: Company Reports, U Capital Research

Health Insurance Market Share (FY'22)

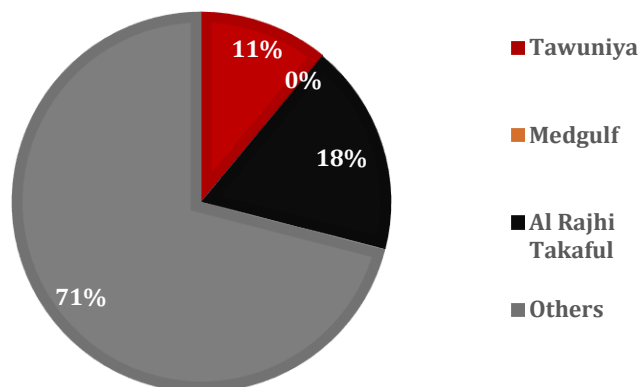


Source: Company Reports, U Capital Research

Tawuniya's notable presence in the fragmented non-health insurance market

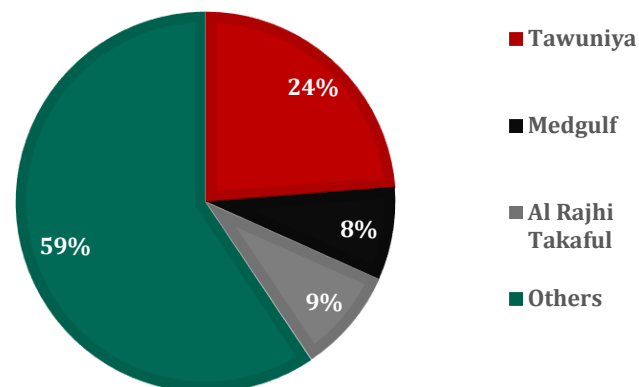
The motor insurance market is highly fragmented, with 71% controlled by other players. Tawuniya maintains a notable position in the kingdom's motor insurance sector, holding an 11% market share. Gross Written Premium (GWP) for motor insurance experienced a CAGR of 10% from FY'19-22 and is anticipated to continue at a CAGR of 15% from FY'22-25e. Tawuniya also commands a substantial market share in other general insurance segments, boasting a 24% share.

Motor insurance market share (FY'22)



Source: Company Reports, U Capital Research

Other general insurance market share (FY'22)

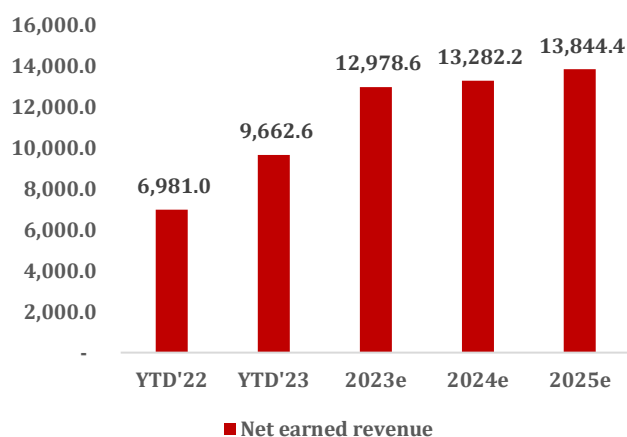


Source: Company Reports, U Capital Research

Navigating claims uncertainty while maintaining impressive retention

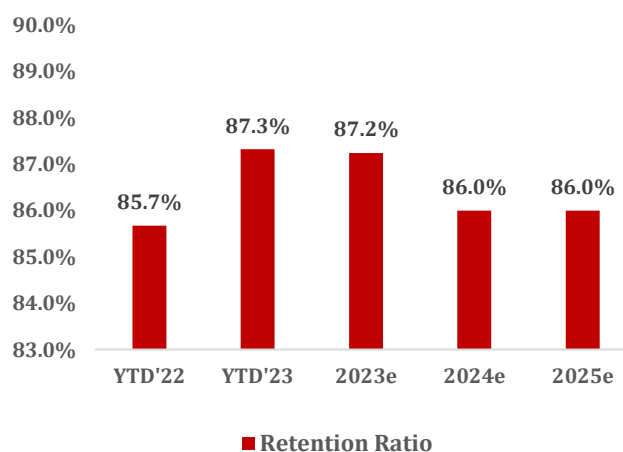
Tawuniya has embraced the IFRS 9 and 17 accounting standards, initiating the reporting of financials in line with these standards from Q1'23 to enhance comparability, transparency, and provide comprehensive information on its financial position, performance, and risk exposure. The company experienced a 36% surge in the initial nine months of 2023, attributed to a successful Hajj season, increased expatriate population, and heightened demand for property and casualty insurance. Similar growth patterns are expected in 2024, driven by mandatory health insurance requirements and government initiatives. Tawuniya maintains an impressive 87% retention ratio, but a decline is anticipated in FY'24 due to growing uncertainties in claims.

Increasing net earned revenues



Source: Company Reports, U Capital Research

Healthy retention ratio

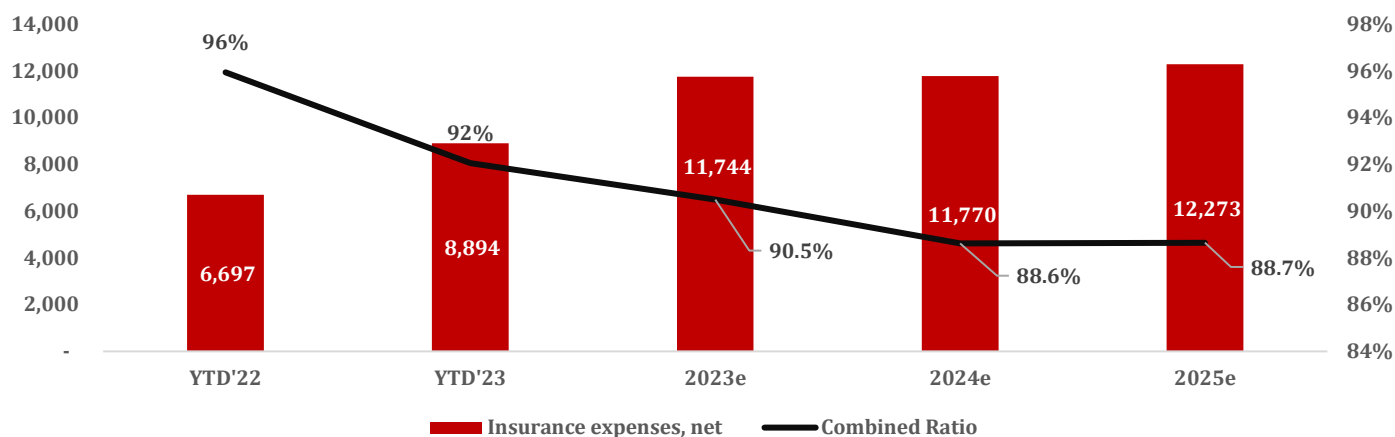


Source: Company Reports, U Capital Research

Tawuniya: Managing rising insurance expenses amidst growth

Tawuniya's insurance expenditures encompass both claims and general expenses, witnessing a 38% upturn in the initial nine months of 2023 compared to the previous period, driven by an escalation in both claims and overall expenses. The combined ratio reached 92% in the first nine months of FY'23e, and we project it to stabilize at 90.5% for the entire FY'23e. Moving forward, we anticipate a reduction in the combined ratio, settling around 88% in the medium term, indicative of the group's enhanced management of claims and expenses.

Steady Combined ratio

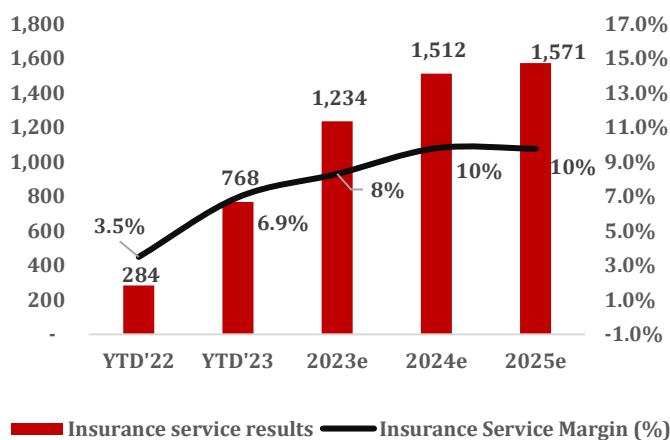


Source: Company Reports, U Capital Research

Robust financial performance boosted by IFRS standards and market opportunities

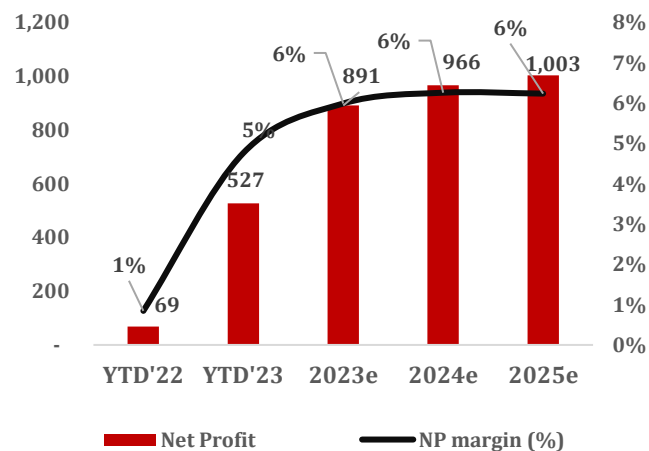
In Q1'23, Tawuniya adopted the IFRS 9 and 17 accounting standards. During the initial 9 months of FY'23e, the company experienced a significant 170% surge in insurance service results, influenced by changes in accounting standards, achieving a 6.9% margin. Anticipating a further increase, we project the margin to reach 8% for FY'23e and rise to 10% by FY'24e. This growth is attributed to the expanding revenue streams from tourism, hajj, and a growing expatriate population, coupled with heightened demand for property and casualty insurance. Furthermore, we expect robust growth in net income margins due to improved cost management efficiencies and solid investment income.

Increasing insurance service results



Source: Company Reports, U Capital Research

Improving net income margins

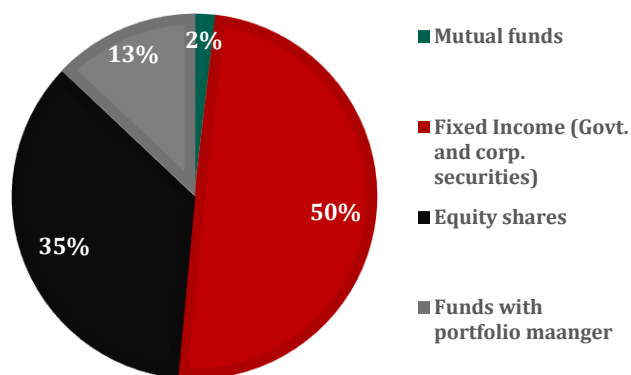


Source: Company Reports, U Capital Research

Tawuniya's investment portfolio: Expecting a correction in yields.

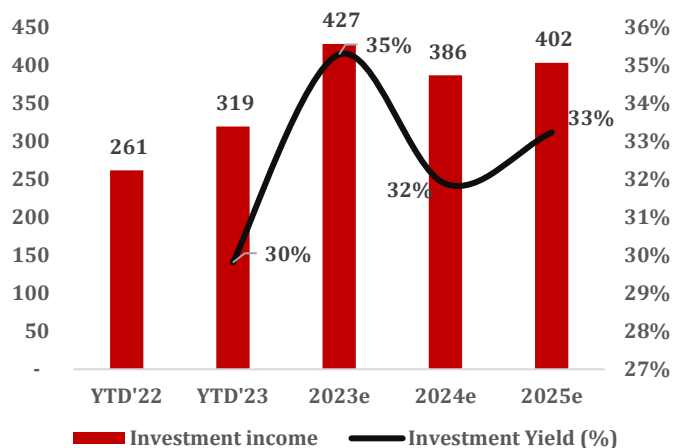
Tawuniya's investment portfolio is divided into roughly 50%, with half allocated to Fixed Income securities, encompassing both government and corporate securities. The remaining 50% is distributed among equity shares (35%), funds managed by portfolio managers (13%), and mutual funds (2%). The investment yield for the initial 9 months of 2023 reached 30%, experiencing a 22% growth due to elevated interest rates in FY'23. Looking ahead, as interest rates return to normal levels, we anticipate a correction in the yield, projecting it to reach 32% in FY'24e. Subsequently, we anticipate a further increase in FY'25e.

Investment portfolio (FY'22)



Source: Company Reports, U Capital Research

Improving investment yield post-FY'23e

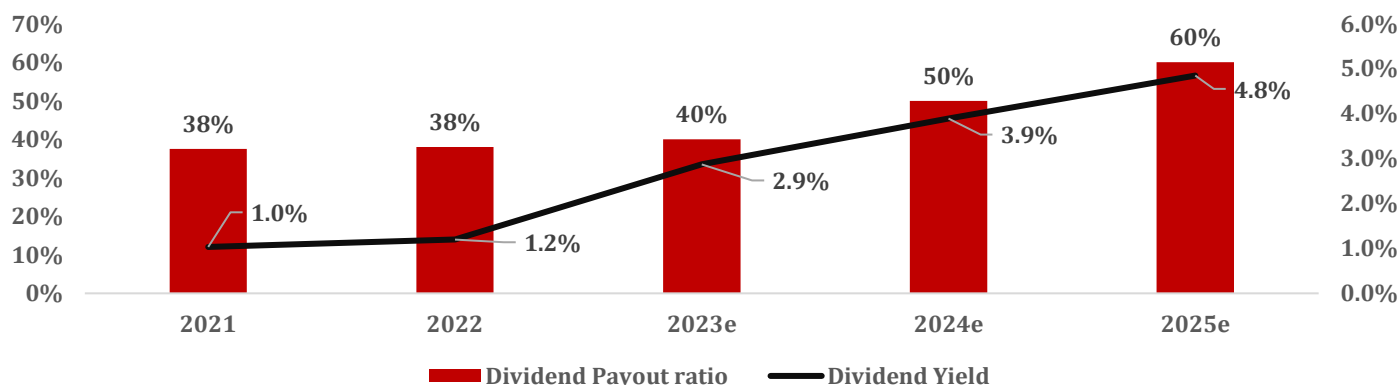


Source: Company Reports, U Capital Research

Dividend policy and outlook: Growing returns for shareholders

The company initiated its dividend payment policy starting from FY'21, maintaining a payout ratio of 38%, despite a decrease in net income compared to FY'20 levels. This same payout ratio remained consistent in FY'22, with the dividend payout remaining at 38% and a yield of 1%. Looking ahead, post-FY'23e, we anticipate an improvement in the bottom line, driven by increased underwriting profits, reduced G&A expenses, and robust investment income. As a result, we expect the company to deliver better returns to its shareholders. Consequently, we project the payout ratio to rise to 60% by FY'25e, supported by substantial bottom-line growth, leading to an estimated dividend yield of approximately 5% by FY'25e.

Increasing dividend payout ratio and yield



Source: Company Reports, U Capital Research

Valuation

To value Tawuniya, we employed three valuation methods: the Dividend discount model (DDM), Residual value method and Relative Valuation (P/BV). In our DDM analysis, given a weight of 40%, we used a WACC of 6.9%, a cost of equity of 6.9%, a risk-free rate of 4.4%, a beta of 0.72, and a market return of 3.0%. This method yielded a fair value of approximately SAR 131.9 per share.

For our Residual value method, we have assigned a weight of 40% and have used a similar cost of equity to calculate present value thereby yielding a fair value of SAR 132.7 per share.

And for our Relative valuation (Price/Book Value) with a 20% weight. We derived this multiple based on industry median value, resulting in a P/BV multiple of 3.6x. We then applied this multiple to our forecasted BVPS of SAR 23.4, yielding fair values of SAR 84.1 per share.

Taking a weighted average of these valuations, we arrived at an overall fair value of **SAR 133.2 per share**.

Valuation

	Tawuniya
DDM (40% weight)	
PV of Free Cash Flow (SAR mn)	
Sum of all present values of dividend	28,49,829
PV of Terminal value	1,69,31,063
Total PV of Future Cashflows (Enterprise Value, SAR mn)	1,97,80,892
Assumptions	
Risk Free Rate (%)	4.4%
Adjusted Beta	0.72
Market Return (%)	3.0%
Terminal growth rate	2.0%
Cost of Equity (COE) (%)	6.5%
WACC (%)	6.5%
Equity value (SAR mn)	1,97,80,892
Outstanding Shares (mn)	1,50,000
Target Price (SAR)	131.9
Residual Income Method (40% weight)	
Total Discounted Value	31,57,167.86
Terminal value	1,76,35,586.60
Present value of terminal value	1,35,89,121.42
Current Book Value	31,51,589.00
Equity value (SAR mn)	1,98,97,878
Outstanding Shares (mn)	1,50,000
Target Price (SAR)	132.7
P/BV based Relative Valuation (20% weight)	
BVPS FY2023e (SAR)	23.4x
Target P/BV Multiple for 2023E (x)	3.6x
Target Price (SAR)	84.1
Weighted Average Target Price (SAR)	
	133.2
<i>Current Market Price (SAR)</i>	<i>115.8</i>
Upside/(Downside), %	15.1%
Recommendation	Accumulate

Source: Company Financials, Bloomberg, U Capital Research

Financial tables

Key financials

In SAR mn, except stated otherwise	FY21	FY22e	FY23e	FY24e	FY25e
Income Statement					
Gross written premiums (GWP)	10,219	14,350	14,877	15,444	16,098
Insurance premium ceded to reinsurers, earned	(1,594)	(2,144)	(1,898)	(2,162)	(2,254)
Net written premium	8,608	12,165	12,979	13,282	13,844
Net earned premium (NEP)	7,930	12,206	12,979	13,282	13,844
Claims paid	6,751	8,108	13,963	14,672	15,293
Reinsurers' share of claims	(334)	(837)	(2,219)	(2,902)	(3,020)
Net underwriting result	857	1,067	-1,234	-1,236	-1,284
Investment income	284	281	487	572	554
General and administrative expenses	(746)	(901)	(491)	(513)	(535)
Profit before taxation	350	480	1,013	1,178	1,223
Income tax	(84)	(89)	(122)	(212)	(220)
Profit for the year	267	391	891	966	1,003
Balance Sheet					
Cash and cash equivalents	1,188	1,659	2,360	2,909	3,220
Premiums and insurance balances receivable	3,222	2,616	3,206	3,780	4,344
Reinsurers' share of outstanding claims	1,762	2,754	4,360	5,702	5,934
Total Assets	14,718	15,191	18,685	21,146	22,246
Accrued and other liabilities	1,071	610	884	923	962
Total Liabilities	11,679	12,040	15,174	17,153	17,851
Share capital	1,250	1,250	1,250	1,250	1,250
Retained earnings	459	635	986	1,469	1,870
Total Equity	3,039	3,152	3,511	3,994	4,395
Total Liabilities and Shareholders' equity	14,718	15,191	18,685	21,146	22,246
Cash Flow Statement					
Net cash from operating activities	923	1,204	1,110	(800)	401
Net cash from investing activities	330	(724)	(119)	264	255
Net cash from financing activities	(511)	(0)	(356)	(483)	(602)
Cash & cash equivalent at period end	1,188	1,669	2,360	2,909	3,220
Key Ratios					
Net underwriting margin	10.6%	8.6%	-9.5%	-9.3%	-9.3%
Pre-tax margin	4.3%	3.9%	7.8%	8.9%	8.8%
NP margin	3.3%	3.2%	6.9%	7.3%	7.2%
Loss Ratio	84.0%	59.6%	90.5%	88.6%	88.7%
Expenses Ratio	16.4%	17.1%	5.1%	5.5%	5.5%
Combined Ratio (COR)	100.3%	76.7%	95.6%	94.1%	94.1%
Retention ratios	84.4%	85.1%	87.2%	86.0%	86.0%
ROA	1.8%	2.6%	5.3%	4.9%	4.6%
ROE	9.1%	12.6%	26.7%	25.7%	23.9%
EPS (SAR)	2.13	2.61	5.94	6.44	6.69
BVPS (SAR)	24.31	21.01	23.40	26.62	29.30
DPS (SAR)	0.80	0.99	2.38	3.22	4.01
Dividend Yield (%)	1.0%	1.2%	2.9%	3.9%	4.8%
Cash Dividend payout (%)	37.5%	38.0%	40.0%	50.0%	60.0%
P/E (x)	36.34x	31.76x	19.50x	17.98x	17.31x
P/BV (x)	3.19x	3.94x	4.95x	4.35x	3.95x
Price as at period end*	77.50	82.80	115.80	115.80	115.80

Source: Company Reports, U Capital Research


*Current market price is used for the years forecasted


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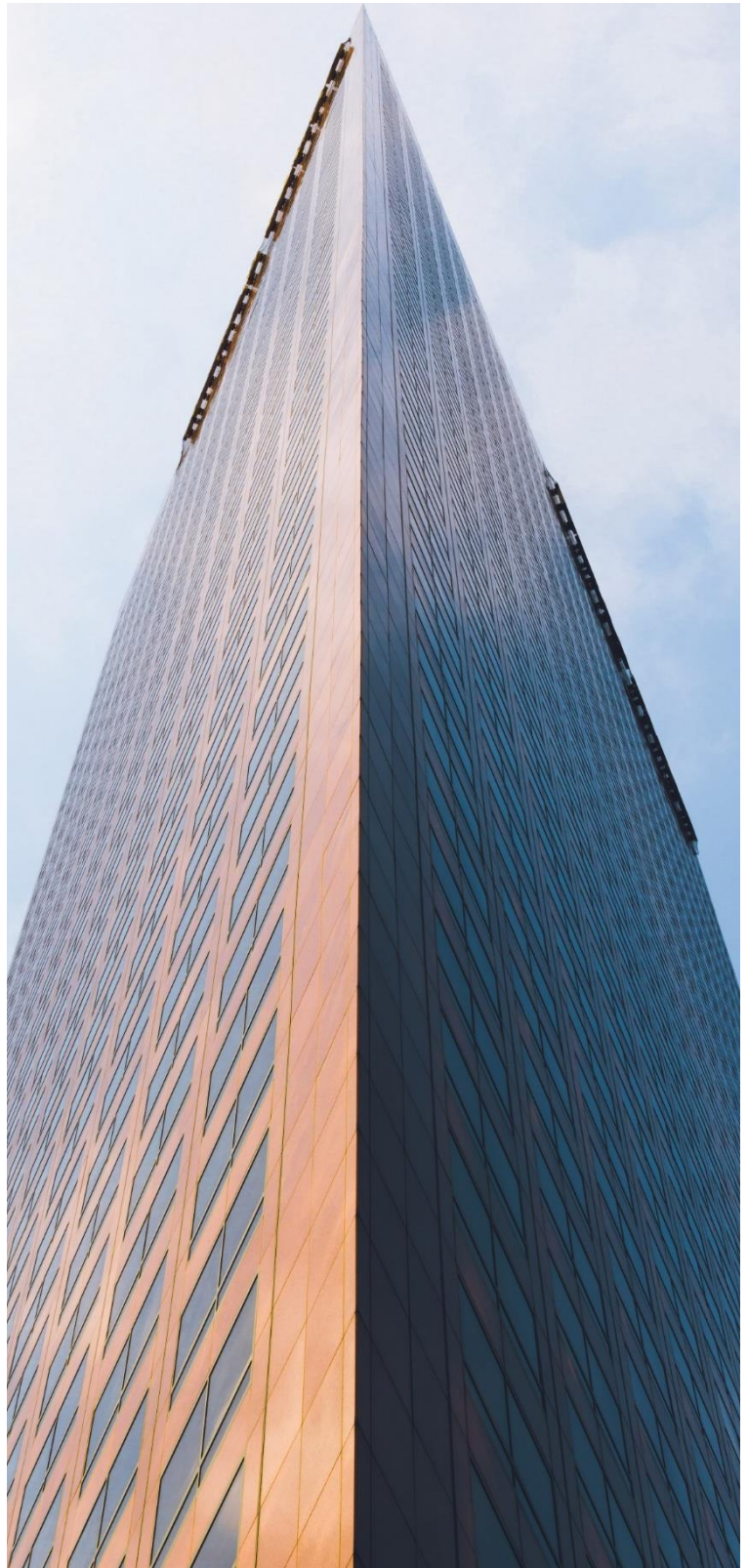
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Disclaimer

Recommendation

BUY	Greater than 20%
ACCUMULATE	Between +10% and +20%
HOLD	Between +10% and -10%
REDUCE	Between -10% and -20%
SELL	Lower than -20%

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