

Key themes

2023 was the year of pricing, 2024 will be volume driven

Motor to see volume driven growth in 2024, enforcement could add in total 2.0 mn vehicles by 2023 end and another 1.0 mn in 2024

Property & casualty and protection & savings could unveil new growth opportunities

High investment income to offset rising operating costs and support higher sustainable margins

The overall insurance sector is expected to grow by 9.2% until 2030, with all the segments contributing to growth

Overweight on Bupa, Tawuniya and GIG

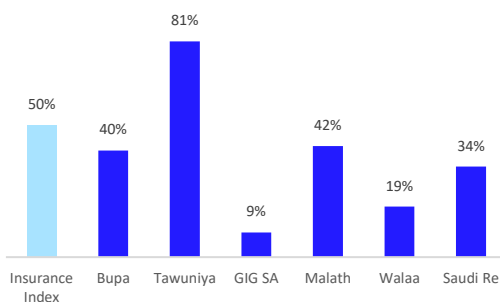
Initiate on Saudi Re and Walaa with overweight and neutral on Malath

Summary of our ratings

Stock	Current Rating	Previous Rating	Current TP	Old TP	CMP	Upside/Downside
Bupa	Overweight	Neutral	232.0	143.2	201.40	15.2%
Tawuniya	Overweight	Overweight	137.0	90.8	121.40	12.9%
GIG SA	Overweight	Overweight	30.0	33.4	25.60	17.2%
Malath	Neutral		16.3		15.64	4.2%
Walaa	Overweight		20.6		17.20	19.8%
Saudi Re	Overweight		21.3		18.36	16.0%

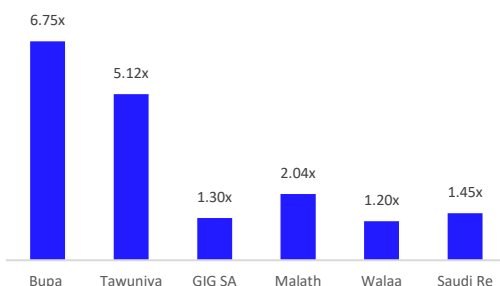
Source: Bloomberg, Al Rajhi Capital. Note: CMP is as of 29th November 2023

Insurance performance YTD



Source: Bloomberg, Al Rajhi Capital. Note: Performance calculated is as of 29th November 2023

Trailing P/B



Source: Bloomberg, Al Rajhi Capital Note: Stock price to calculate trailing P/B is as of 29th November 2023

Saudi Insurance

Multiyear growth theme, see further upside even after the YTD rally

The earnings in 2023 so far reiterated our view that this year will be a strong year in terms of profitability for the sector driven by price hikes in two of the largest segments of the industry. The motor insurance segment, that was a drag on the sector's profitability, has seen sharp growth in profits. In our initiation note of GIG SA, we highlighted that in the motor segment, the price hikes are significant and appear to be at the levels that can aid the sector to breakeven. Further, the price discipline appears to be broad based this time as after two years of high loss ratios (82% in 2021 and 97% in 9M 2022), the companies do not have the ability to indulge in price wars, at least in the near term. This has been proven correct so far, most of the companies maintained the pricing discipline until September. In September, the companies reduced their prices in order to capture the incremental market that was the result of regulatory action to improve enforcement. We have noticed a spike in accidents in September, but that can be due to the addition of new vehicles to the pool. Although the pricing has come down, the overall growth in the insured vehicles (expecting in total 3.0 mn vehicles to be added) should help the recovery rate and keep the profitability at decent levels, in our view.

Post the strong rally YTD, on a trailing basis, the valuations appear stretched for most of the companies. However, from a medium to long term earnings potential, we believe the rise in the stock price of many companies are justified and there are pockets of opportunities. The health segment should continue to drive the overall growth for the sector, while the recent decision to enforce motor insurance should notably improve the recovery rate. Further, we believe the market is underestimating the potential of property & casualty and protection & savings segments. Currently, the bulk of the P&C segment is reinsured, about 80%, implying retention of about 20%, lower than 25% average for GCC markets. If we assume that the retention ratio moves closer to levels of other GCC markets, a growth of 500 bps (the trends are already visible) to 25% retention, even without any growth in the overall P&C market, the segment's gross revenues will grow by 25%. With improving technical capabilities of the companies as well as a stronger equity base, this is very much possible. Moreover, the overall GWP growth could remain high for an extended period of time, mid-single to high-single digit growth led by strong non-oil economic activity. The other segment, that can be a dark horse, is P&S, which is in a very nascent stage currently. If the interest rates remain elevated around 4.5-5.5%, then the possibility of P&S segment gathering steam is very high. It will be relatively easier for the companies to market the product as the key attraction would be the implied profit rate. Further, as the government wants to boost the savings rate, there is a possibility that the general public could receive some subsidies/incentives in the future. Globally, investment in P&S products is eligible for tax deduction. With women workforce participation increasing and trend of secular families growing, the need for financial security will grow. With awareness and interest rates remaining high, this product can be a multi-year story.

We are factoring in the possibility of these trends happening in our forecasts and believe insurance is a structural story that can be catapulted by regulatory measures, high interest rates and growing awareness. We estimate the overall insurance sector to grow by 9.1% CAGR till 2030 with health growing by 10.6%, motor by 4.8%, P&C and P&S growing by 9.2% and 8.4%, respectively. We raise our target prices for Tawuniya, Bupa, but reduce the TP for GIG slightly on limited access to the management. We see GIG as a key beneficiary of the P&C segment, but given the lack of access to the management, we are reluctant to give it a premium over its historical multiple.

We upgrade Bupa to Overweight, and maintained our Overweight recommendation Tawuniya with higher target price and GIG with a lower target price. We initiate our coverage on Malath with a neutral recommendation, also our coverage on Walaa and Saudi Re with an Overweight recommendation on each of them.

Health insurance market

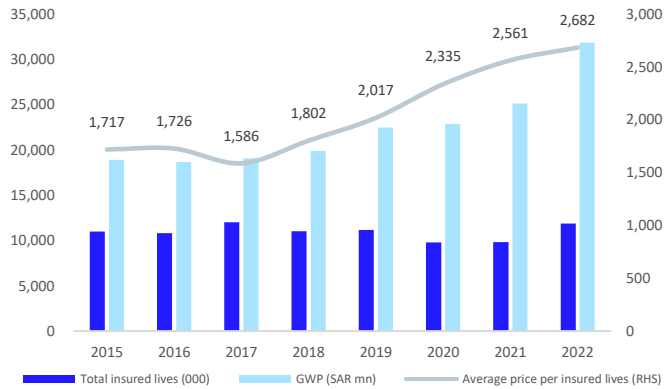
The optimism over the expected growth in the insured lives remains, but there is one significant development that could play a major role in setting the profitability going forward. One is the notable price hikes taken in the last two years, that has reset the pricing. The average medical insurance (GWP/insured life) policy rate increased to around SAR 2,700 in 2022 versus SAR 2,000/1,800 in 2019/2018, respectively. As the repricing of the policy continued into 2023 for the price hikes taken throughout the 2022 and the new table of benefits was implemented in August 2022, the average policy rate is expected to rise to SAR 3,200/policy. Thus, compared to pre-Covid levels, the pricing is up over 60-70%. There are multiple factors such as the new table of benefits, NPHIES, article 11, etc. that drove the pricing. However, given that the policy prices are sticky, and we have not seen any major rise in claims from new ToB and article 11, the medical insurance companies could continue to enjoy better profitability.

Going forward, the price growth could be limited around mid-single digits, but growth in the insured lives will continue to be a structural story. Despite the 67% rise in the GWP since 2017, the insured lives are still below the level of 2017 implying growth in the recent years is more of a recovery fueled by, return of expats and Saudization, rather than hitting the saturation level. The enforcement alone (gap between GOSI and CCHI) could add about 2.3 m insured lives to the current pool of 11.8 m insured lives, implying a growth of 20%. Moreover, the focus on privatization and the requirement of mandatory medical insurance in the private sector is expected to lend structural support to the medical insurance industry. At the same time, tourism and growth in the population (possibility of high-end expats migrating) due to initiatives under vision 2030 could support the growth in the insured lives. Recently, Saudi Arabia's Health Minister Fahad Al-Jalajel during a health forum highlighted the strong growth prospects of the health insurance market. As per the health minister, the private health insurance market to grow five-fold in the coming years and expects the private sector's share in providing health services to grow to 50% from the current 20%.

To quantify the growth coming from various initiatives and catalysts, we have used Bupa's estimates as the reference. As per Bupa, the initiatives under Vision 2030 and enforcement can add SAR 22 bn to the current industry size of SAR 40 bn (at the end of 2023E), implying a growth of more than 50%. We maintain a conservative stance and consider half of the incremental growth estimated by Bupa coming from vision 2030 initiatives and tourism. Additionally, we have considered base inflation of 5% (price growth) and a population growth of 2%. Based on these assumptions, we estimate the health insurance market to grow by a CAGR of 10.6% during 2023-2030. Our medium-term assumptions are slightly conservative compared to Allianz's (Allianz Global Insurance Report 2023) estimate of Saudi health insurance market growing by 12.2% CAGR between 2023-2033.

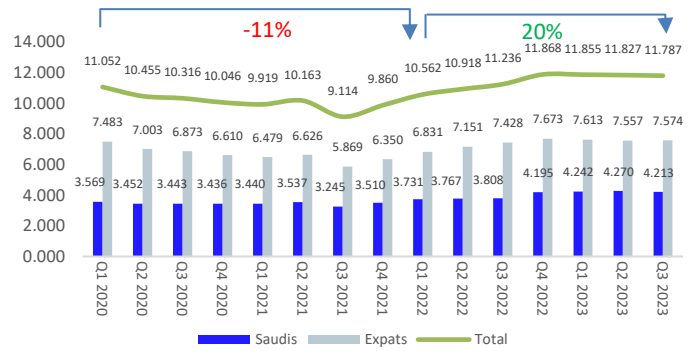
Thus, from a topline perspective, the health segment looks very attractive. From the point of profitability, at the start of the year we were skeptical about the impact of new table of benefits, implementation of NPHIES (high claims from government hospitals) as well article 11 on the loss ratio, however, so far, the impact has been manageable. We attribute this mainly to the timely repricing of the policy. Given the oligopoly nature of the industry (two players, Bupa and Tawuniya controlling almost 80% of the market), we are reasonably confident that in future if the need arises the companies can further increase the prices. Thus, despite the growing awareness of insurance benefits among the users (particularly Saudis), the loss ratio should be curtailed, and a phase of sustainable profitability could be witnessed.

Figure 1 Average price of policy per insured life



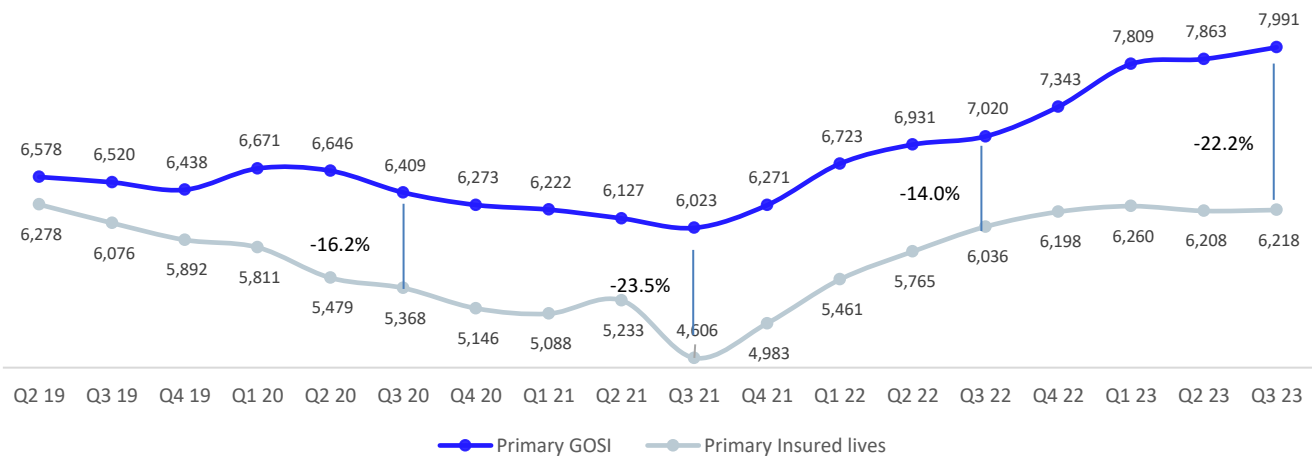
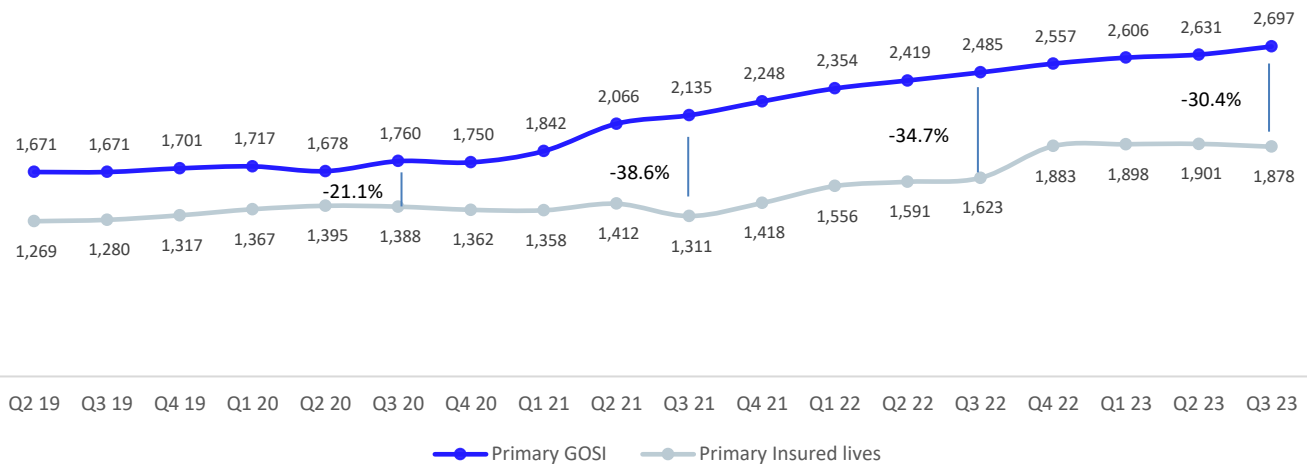
Source: Company Data, Al Rajhi Capital

Figure 2 Total Insured lives



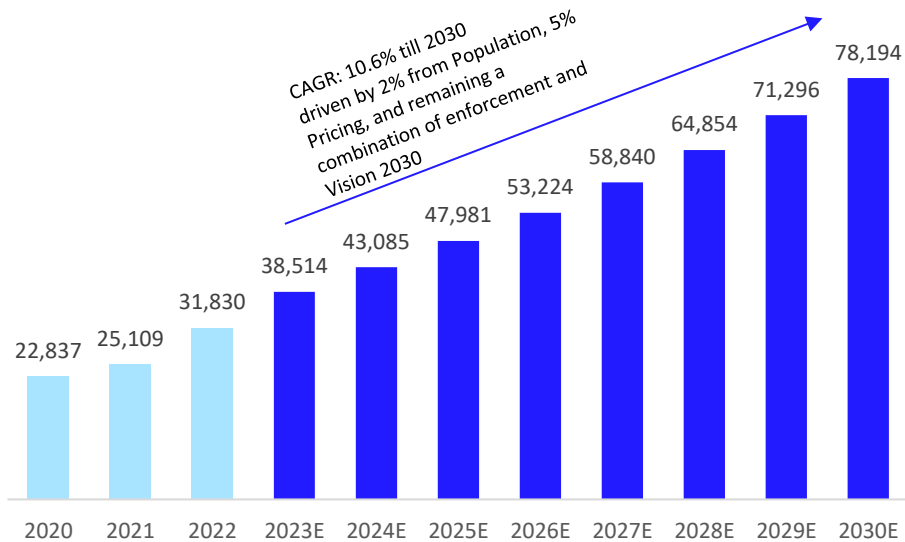
Source: Tawuniya Presentation, Al Rajhi Capital

Figure 3 Gap & Enforcement



Source: Tawuniya Presentation, Al Rajhi Capital

Figure 4 Health Insurance GWP and ARC estimates (SAR mn)

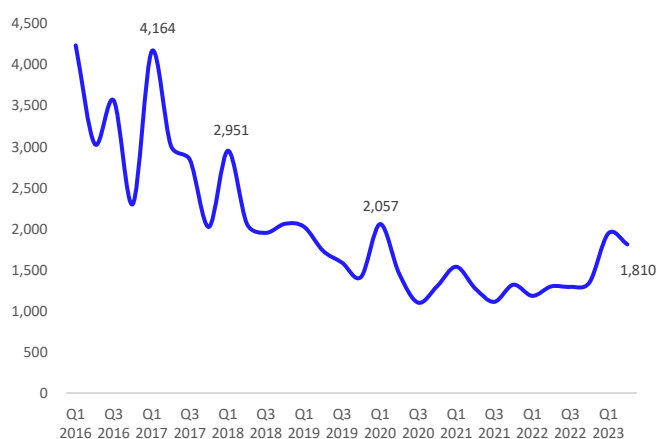


Source: SAMA, Al Rajhi capital estimates

Motor insurance market

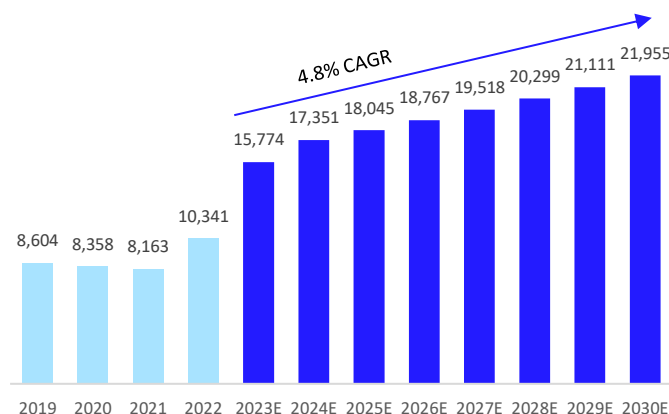
One of the biggest catalysts for the strong stock price performance this year has been the sharp improvement in profitability of the companies exposed to motor insurance, led by price hikes. As per our channel checks, the number of insured vehicles (12months till August) increased only low single digit (about 2-4%), while GWP in H1 2023 has increased by 41% after increasing 42% in H2 2022, implying average growth in pricing of about 40%. Based on our discussion with the insurance company, most of the companies have increased their pricing, mainly for TPL, in the range of 50-100%. Based on SAMA report, in Q2 2023 average price per policy was SAR 1,810, closer to pre Covid levels and much above the estimated breakeven price of about SAR 1000-1200/policy. We expect the pricing to be weaker in H2 2023 as the company’s target to capture the market growth unveiled by the recent enforcement measure.

Figure 5 Average motor policy value



Source: SAMA, Al Rajhi Capital

Figure 6 Motor GWP and estimates



Source: SAMA, Company Data, Al Rajhi Capital

In the last week of August, the Saudi General Department of Traffic, Muroor, announced to enact a motor enforcement law, that will mandate all the drivers in Saudi Arabia to have a valid motor insurance effective 1st October 2023. Automatic monitoring will be conducted once every 15 days and in case of non-compliance, the violators will be fined SAR 100-150. Thus, if the vehicle is caught every time, in total the maximum fine could range from SAR 2400-3600. However, if the violator is caught 1 out of 2 times, then the fine will be SAR 1200-1800. In our view, given that TPL policy price is around SAR 1000-1200 (before the discount), the fine will act as a deterrent only if the violator is caught at least 50% of the time. Thus, we will have to wait and watch if this rule results in 100% compliance. Nevertheless, it is a welcome move and is expected to boost the pool of insured vehicles. As per our channel checks, about 1.0 m vehicles were added to the pool in September over and above the normal run rate of 700-750k policies, boosting the total insured vehicles to 9.0 m. This strong addition to the pool was also supported by the discount scheme launched by many companies during the week of National Day celebrations. Some of the companies dropped their prices by 25-35% to about SAR 700-900 for TPL policies.

To understand the impact of this development, it is key to understand the potential growth in the insured vehicles, impact on the loss ratio due to lower pricing and the improvement in the recovery rate due to larger pool of insured vehicles. There are various accounts of the number of vehicles on the road, as per Tawuniya’s 2019 presentation, the number of vehicles on the road were 14.6 m as of Q3 2019. If we consider the number of vehicles sold since Q3 2019, then the total number of vehicles should increase to 16.7 mn (assuming in 2023 the growth is

2.5% in H1 2023). At the same time, based on our channel checks, the estimated total number of vehicles on the road is between 12-13 mn.

We prefer to be conservative and consider 13 mn for our analysis. If we assume 13 mn as the total number of vehicles registered and assume 20% of the incremental 5.0 m vehicles (13 mn less 8.0 m) to be scrapped/not used, government vehicles and vehicles located in the remote areas, then the target market size is about 4.0 m vehicles, of which 1.0 m has already been added in September. We estimate 50-60% of the target vehicles to come under the insurance pool, implying 2.0-2.2 m vehicles to be added of which another 1.0 m could get added in Q4 2023. Additionally, we expect the compliance to improve further in 2024 as the awareness grows and regulator becomes efficient in terms of implementing this enforcement. We estimate another 1.0 mn vehicles to be added over the course of 2024, implying volume growth of 10% in 2024.

However, the key point here is the pricing. We assume the incremental vehicles to be added at SAR 800/policy, implying GWP of SAR 1.6 bn (2.1 m vehicles). There is a possibility that this development can also weigh on the pricing of existing policies when they come up for renewal. Thus, we assume 20% lower pricing for TPL policies for the insured vehicles before the announcement. We keep the estimated pricing for comprehensive policies unchanged at SAR 2,750. Based on these assumptions, in a scenario of 50% compliance, the total GWP of the motor market will grow by 10% to SAR 15.8 bn compared to the market size of SAR 14.4 bn if we assume no decline in pricing for the 8m vehicles.

Figure 7 New motor policy to be accretive (immediate impact in 4 months of implementation)

	Before Enforcement	After Enforcement	Comments
Vehicles (mn)	8.0	10.1	2.1mn vehicles are expected to be added after enforcement
Pricing (SAR)	1,800	1,562	Pricing reduces as incremental TPL assumed to be priced at SAR 800 whereas existing TPL is price at SAR 960
GWP (SAR mn)	14,400	15,774	Combination of Comprehensive, Existing and New TPL coverage
NEP ratio	85%	85%	
Total Revenue (SAR mn)	12,240	13,408	
Average claim per accidents (SAR)	6,000	6,000	
Total accidents (Annual in mn)	1.47	1.62	Assumed 10% increase in accidents
Total Claims (SAR mn)	8,835	9,719	
Loss ratio	72.2%	72.5%	
Underwriting profits (SAR mn)	3,405	3,689	Increase of 8.4%

	Average Pricing	No. of Vehicles (mn)	GWP after Enforcement (SAR mn)
Comprehensive	2,750	3.6	9,900
Existing TPL	960	4.4	4,224
incremental TPL	800	2.1	1,650
	1,568	10.1	15,774

Source: Al Rajhi Capital estimates

But insurance business is not just about topline, the profitability largely depends on the underwriting standards and correct pricing. In a bid to chase the incremental market, the risk of undercutting pricing and pushing the sector back to an unprofitable path could arise. However, we believe the motor insurance companies have learnt the lessons after two years of huge losses in the TPL business and will be cognizant to not write TPL policies at any pricing. Moreover, the companies are employing data analytics tools to price the policies better and most

of them now link the pricing to number of accidents happening overall in the country rather than to specific cases. Thus, we believe the possibility of severe undercutting is limited.

Another important development that can happen in the near future is the support from the regulator. We believe that the decision to reduce pricing by the companies also comes on the back of assured support from the regulator. One of the loopholes that keep the claims elevated is the cash component paid during the accident. Currently, the insurance holder has an option to opt for cash compensation in case of an accident. If this rule gets changed and the insurance company is allowed to decide, then the claims can decline. For our analysis, we are not assuming any decline in the average claim per accident for now. If we assume that the accidents will rise by 10% and assume similar claims per accident of SAR 6,000, then the loss ratio would be around 72.5%, broadly similar levels pre-enforcement. Thus, in absolute terms, the underwriting profitability could go up by 8-9%.

For modelling purposes, we are estimating 10% growth in 2024 in the motor insurance market mainly driven by the enforcement. Beyond 2024, we expect the volumes to grow by just 3% and pricing by 1%. However, we anticipate the loss ratio to decline moderately as a larger pool of insured vehicles will improve the recovery rate and support the profitability.

Other key insurance market

Property & casualty

One of the top priorities of the Saudi government as part of Vision 2030 is to grow the mix of non-oil GDP in the economy to 50% by 2030 from the current level of about 43%. In this backdrop, it has identified the role of insurance to be paramount and has set clear target to grow the size of the insurance market, from 1.9% in 2019 (GWP as a % of non-oil GDP) to 2.4% by 2025 and 4.3% by 2030. To foster investments in the private sector and attract capital, the penetration of property & casualty needs to increase substantially. In 2022, P&C was just 0.52% of the non-oil GDP, compared to 0.70% for other GCC markets. We estimate non-oil GDP to grow by about 4.5% during 2022-2030, while the penetration of P&C to increase to 0.75% of the non-oil GDP from 0.52% in 2022. Based on these assumptions, we estimate P&C GWP to grow at a CAGR of 9.2% during 2023-2030, higher than Allianz's estimate of 6.3% for the next decade (2023-2033).

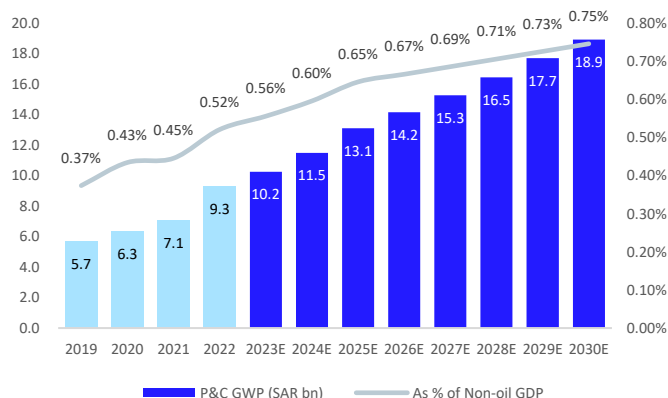
Another noticeable development could be the rise in retention levels by the insurance companies. Currently, about 20% of the P&C business (average of H1 2023 retention of 17% and 25^ retention in 2022) is retained as the companies lack the capital as well as technical capabilities. Given the lumpy nature of the business, P&C business can require high capital levels as one single claim can wipe out the equity. Thus, reinsurance plays a major role in the P&C business. Currently, due to involvement of multiple reinsurance companies, the premium for P&C are on the higher side versus other markets. As the penetration of the P&C improves, the pool grows (most of the parties are insured), the overall risk reduces in the system, which would reduce the premium but will improve the profitability. Post the improved profitability for most of the companies in 2023, the solvency levels have improved allowing companies to retain the P&C business, thus we believe the retention levels could go up in the system. In a scenario of 500 bps increase in retention, the P&C revenues could go up by 25% without any increase in the P&C market (details below).

Figure 8 **5% increase in Retention to grow gross revenues by 25%**

	GWP (SAR bn)	Retention Ratio	Gross Revenues (SAR bn)
2023E P&C	10.2	20%	2.04
		25%	2.55
Change		5%	25%

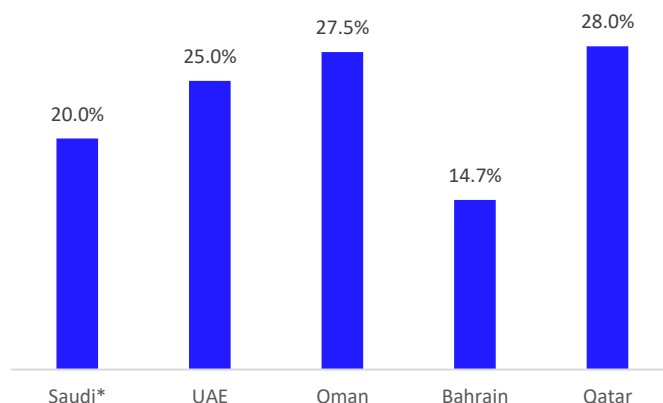
Source: Company Data, Al Rajhi Capital

Figure 9 P&C GWP and ARC estimates



Source: Company Data, Al Rajhi Capital

Figure 10 P&C Retention ratio among GCC



Source: Company Data, Al Rajhi Capital *Note: Average of 2022 and 1H23 taken for Saudi

Protection & savings

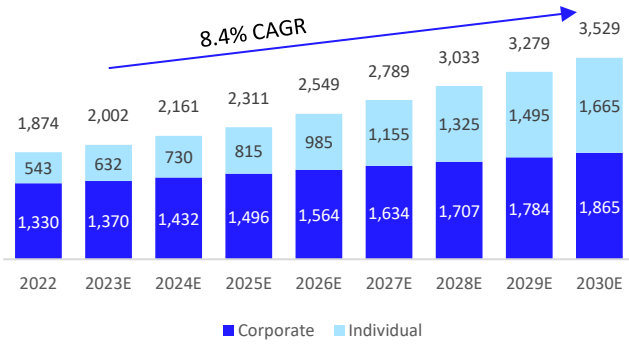
The protection & savings is a long-term structural story, which once gets traction will grow at high single to double digit for a fairly long period of time. At the moment, the mix is mostly dominated by the corporates (more than 70%), that buy insurance for their employees or the banks, that buy insurance for the retail loan borrowers, mainly mortgage loans. The penetration of individuals is negligible, as per our estimates less than 2% of the Saudi families have protection & savings plan versus more than 10% penetration globally. Currently awareness is very low, however, with new products being developed, insurance companies spending on marketing & promotional activities, the awareness is expected to improve. Globally this product gets support in the form of premiums paid eligible for tax deduction. As the government targets to improve the savings rate in the country, there is a possibility that in the medium term the government could provide some incentives/ subsidies to lower the premium amount.

In our view, there are enough catalysts for the development of P&S. One major factor is the possibility of interest rates remaining higher for longer, this can help companies in developing and promoting new products by offering more unit-linked products that can offer attractive profit rates embedded with insurance benefits. The higher interest rates also helps the company to lower the premium prices as they can generate sufficient returns to share between the policy holder and the company. Thus, high interest rates is an important factor for the growth of this product. Moreover, as Al Rajhi Takaful, the leading shariah compliant insurance company, is aggressively promoting this product, it should help in terms of awareness and also addressing the concerns from a religious point of view. Al Rajhi Takaful leverages the network of Al Rajhi Bank, the leading shariah compliant bank with a strong retail (13 mn customers) exposure. Thus, we are reasonably confident that the product could see traction from the individual category in the near future. Further, the growing participation of women in the workforce, the possibility of secular families going up, government's long-term focus on reducing social subsidies, could support the growth of P&S products in the medium to long term.

As per Allianz's 2023 report on global insurance, the P&S market is expected to grow at a rate of 6.0% for the next decade (2023-2033). However, we believe the estimate is conservative and we estimate a CAGR of 8.2% during 2022-2030 driven by growth in the individual segment (15% CAGR) and 5% CAGR in the corporate category. The workings behind our 15% CAGR growth for individuals are assumptions of penetration of Saudi families rising from about 1.6% in 2022 to 4.9% in 2030, on the pricing side we consider decline in the average pricing that could be driven by competition among the companies to attract the individuals as well as high interest rates allowing the companies to reduce the pricing. We consider a 2% decline in pricing every

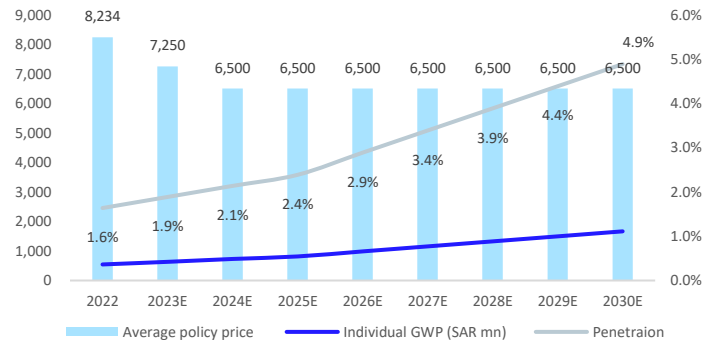
year on the base of SAR 9000/policy in 2022. For the corporate category, we have considered a CAGR of 4.5% during 2023-2030e, which is in line with the non-oil GDP growth expectations.

Figure 11 P&S GWP and ARC estimates



Source: Company Data, Al Rajhi Capital

Figure 12 P&S Penetration



Source: Company Data, Al Rajhi Capital

IFRS 17:

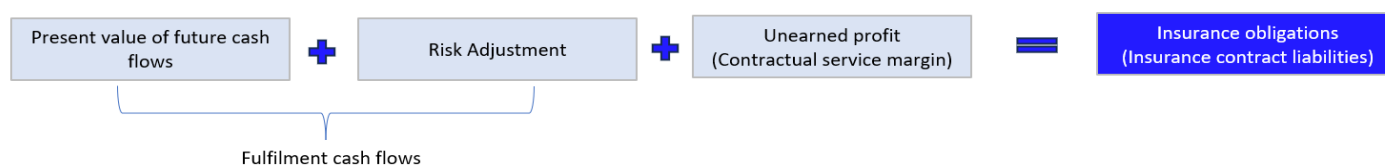
Among all the accounting changes, there are three major differences between IFRS 4 and 17 that are worth highlighting. One is the use of the different measurement models based on the tenure of the contract as well as the nature of the contract (participating non-life). In IFRS 4, only PAA approach was used irrespective of the tenure of the contract, whereas in IFRS 17, the short-term contracts, that is one year or less, have an option to be valued on the PAA approach, however, the contracts that are long term are mandated to be valued on the general measurement model. Most of the insurance companies we interacted with confirmed they are sticking to PAA for their health and motor business. In the PAA, there is no requirement of measuring the fulfilment cash flows and the initial recognition of the contractual service margin (CSM). On the other hand, the contracts that have feature of investments such as participating/unit linked insurance contract have to be compulsorily valued on the VFA approach.

In these contracts, the entity is promising an investment return based on underlying items, in effect providing an asset management service. The obligation to the policyholder can be regarded as a promise to return the underlying items to the policyholder, after deducting a variable fee. Compared to general measurement model and VFA, the requirements for the measurement of the fulfilment cash flows and the initial recognition of the CSM are the same for both types of contracts, and the differences are limited to the subsequent measurement of the contractual service margin. As the protection & savings market is expected to grow substantially going forward, we should see a sharp rise in the number of contracts valued on VFA.

The second major change in the discounting of the incurred claims and the frequent adjustment to the insurance contract obligations was based on changes in the discount rate and risk adjustment. IFRS 17 requires a company to measure insurance contracts using current estimates and assumptions that are updated (to be consistent with relevant market information), and that reflect the timing of cash flows and the uncertainty relating to the insurance contracts. The use of a measurement model with current inputs will provide current, updated information about the effect of insurance contracts on a company's financial position and risk exposure, and transparent reporting of changes in the insurance contract assets and liabilities. Consequently, IFRS 17 will enable investors, analysts, and others to make better economic decisions using transparent and timely information about the risks from, and variability in, obligations arising from insurance contracts.

The third important change is IFRS 17 requires a company to recognize profits as it delivers insurance services, rather than when it receives premiums, as well as to provide information about insurance contract profits that the company expects to recognize in the future. This information will provide additional metrics that can be used to evaluate the performance of insurers and how that performance changes over time. IFRS 17 is based on the concept that profit is only recognized when the associated service is provided. Consequently, unearned profit for insurance services —the contractual service margin—is presented as part of the insurance contract liability on the insurer's balance sheet. On the other hand, losses for insurance services will flow through the insurer's income statement as soon as expected by the insurer.

Figure 13 IFRS 17 Measurement Model



Source: IFRS, Al Rajhi Capital

Figure 14 IFRS Measurement Model

Measurement Model	CSM	Changes in	
		Financial Assumptions	Technical Assumptions
PAA or Simplified Model Optional model for short-term business → incl. 99% P&C and short-term Protection and health		OCI	P&L
BBA or General Model Compulsory model for long-term non-participating business → incl. non-participating Protection and	✓	OCI	CSM
VFA Model Compulsory model for long-term non-participating business → incl. G/A Savings, Unit-Linked and participating Protection and health	✓	CSM	CSM

Source: IFRS, Al Rajhi Capital

Figure 15 Long-term Insurance contracts

Long-term Insurance contracts	↑ Factors that are expected to increase reported Equity
	Acquisition costs are currently expensed as incurred
	Fees for insurance contracts with participation features are currently based on account balances and recognised when deducted, or when discretionary payments to policyholders
	Insurance contracts are currently measured using historical interest rates that are lower than market rates when first applying IFRS 17
	Risk margins currently used are higher than risk adjustments used to apply IFRS 17
	↓ Factors that are expected to decrease reported Equity
	Profits are currently recognised at contract inception
	Aggregation of onerous and profitable contracts is currently permitted
	Discount rates are currently based on assets backing insurance contract liabilities
	Value of guaranteed rates (both time and intrinsic value) is currently not fully included in measurement of insurance contract liabilities
	Insurance contracts are currently measured using historical interest rates that are higher than market rates when first applying IFRS 17
	Risk margins currently used are lower than risk adjustments used to apply IFRS 17

Source: IFRS, Al Rajhi Capital

Figure 16 IFRS Mapping

IFRS 4 Line items	Mapping
Gross written premium	1
Reinsurance premium	1
Reinsurance premium ceded	3
Excess of loss premiums	3
NET WRITTEN PREMIUMS	
Change in gross unearned premium	1
Change in ceded unearned premium	3
NET EARNED PREMIUMS	
Reinsurance commission received	3
Other underwriting income	1
UNDERWRITING REVENUE	
Gross claims paid	2
Surrenders and maturities	2
Expenses incurred related to claims	2
Reinsurers' share of claims paid	4
NET CLAIMS PAID	
Changes in outstanding claims. IBNR	2
Changes in reinsurance share of outstanding claims/IBNR	4
NET CLAIMS INCURRED	
Change in additional premium reserves	2
Change in other technical reserves	2
Changes in mathematical reserves	2
Changes in unit-linked reserves	2
Commissions received	2
Inspection and supervisory fees	2
Other direct and underwriting expenses	2
Net UNDERWRITING RESULT	5
Allowance/Reversal for doubtful debts	1
Operating and administrative salaries	2
General and Administrative expenses	2

Source: Walaa Presentation, Al Rajhi Capital

IFRS 17 Line items	Mapping
Insurance Revenue	1
Insurance service expenses	2
Insurance service results before reinsurance contracts	
Allocation of reinsurance premiums	3
Amounts recoverable from reinsurance	4
Net income/ expenses reinsurance contracts	
Insurance service result	5

US\$0.57bn Market Cap. 76.07% Free Float US\$5.29mn Avg. Daily Value traded

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Tawuniya

Raised TP to SAR 137/sh, remain Overweight

Overweight

Price Target (SAR): 137.0

Current: 121.4
Upside/Downside: 12.9% above current

Valuation Multiples	23E	24E	25E
P/E (x)	26.8	20.3	19.6
P/B (x)	4.9	4.2	3.7
ROE (%)	19.2	22.3	20.0

Major Shareholders % Ownership

GOSI	25.86
------	-------

Price Performance	1M	3M	YTD
Absolute	1.3%	5.5%	82.5%
Relative to TASI	-2.5%	8.9%	76.5%

Earnings

	2023E	2024E	2024E
GWP	18,447	20,773	22,855
<i>Growth</i>	29%	13%	10%
Insurance Revenue	15,319	17,181	18,937
Insurance Expenses	(14,445)	(15,950)	(17,559)
Reinsurance Income/Expenses	78	(76)	(136)
Net Insurance service result	952	1,155	1,241
<i>Growth</i>	-11%	21%	8%
Net insurance and investment results	1,057	1,344	1,394
<i>Growth</i>	-22%	27%	4%
Profit Before Tax	777	1,026	1,064
<i>Growth</i>	48%	32%	4%
Net Profit	679	897	930
<i>Growth</i>	74%	32%	4%
ROE	19.2%	22.3%	20.0%
P/E	26.8x	20.3x	19.6x
P/B	4.9x	4.2x	3.7x

Source: Company data, Al Rajhi Capital

Based on the above-mentioned trends in the industry section, Tawuniya being the largest multi-insurance company is on the forefront to benefit the most. We estimate revenues to grow by high single (9.5%) for the next 7 years, during 2023-2030E led by strong growth in medical, P&C and P&S. However, we expect the bottom-line to grow at a much faster rate of almost 14% CAGR led by lower insurance expense ratio, mainly in the motor insurance business (supported by better recoveries), digitization to lower the acquisition costs as well as improve the recovery rate, and higher investment income (led by high interest rates). In our view, the company's focus on digitization should help to capture the market share in both motor and medical. At the same time, the technical capabilities can be leveraged to grow in other lucrative businesses in P&S, mainly individual category of P&S (market expected to grow at 15%). Based on these solid prospects, we value the stock at 2024E P/B of 4.5x, a premium of about 20% versus its historical average, but at a discount of 21% to Bupa's 2024e P/B on current share price. We also account for the possibility of the company venturing into the clinics business; however, we consider only 50% of the potential value given that the competition is rising in this space and we would wait for more clarity and performance of this business. We raise our target price to SAR 137/share from 90.8/share, that offers an upside of 13% and implies an Overweight recommendation on the stock. Upside risks to our target price can come from strong growth in Tree (digital business), faster than expected ramp up of Meena.

Gained market share in the medical: Tawuniya has made great strides in the medical insurance business too in recent years. It has improved its market share in the medical business by 500 bps in the last 4 years, from 28% in H1 2019 to 33% as of H1 2023. During 2019-2023, the company gained bulk of the market share in the corporate segment, which is the largest segment accounting for 74% of the market. Tawuniya gained almost 400 bps, while Bupa lost 270 bps in the same segment during the same period. The other segment, which is very small currently but growing, is the individual segment, where the company grew 4x and now has almost 50% market share. Given the focus on digitization, the company can make great strides in the individual segment, in our view.

Diverse exposure in motor helps in managing the loss ratio: Tawuniya has one of the most diversified exposures in the motor business, with 40% comprehensive insurance, 21% corporate leasing and 34% third party coverage. On average, the loss ratio of ex-TPL is below 60%, while TPL is around 85-95%. On the back of a strong ex-TPL portfolio, the company can afford to grow its TPL coverage further, as the low loss ratio in ex-TPL is on the lower side and can offset the high loss ratio in the TPL portfolio. In the last one year, the retail motor portfolio has more than tripled, from GWP of SAR 340 m in H1 2022 to SAR 1.1 bn in H1 2023. Given that the pricing for TPL has improved substantially over the last one year, the impact on the aggregate loss ratio has been minimal so far (in 9M 2023: motor loss ratio as per IFRS 4 was 65% versus 73% in 9M 2022). There is a possibility that the loss ratio could increase going forward as the company's exposure to retail portfolio has increased, but the overall profitability should be notably higher led by the volume growth in TPL.

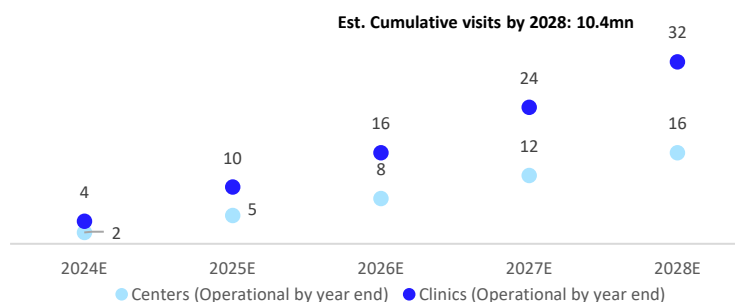
Digitization to further drive the motor portfolio: Tawuniya is a pioneer in digitization and data analytics. The company launched Tawuniya Drive that gives insurance policyholders the opportunity to get weekly rewards and renewal discount based on their driving behavior. As of H1 2023, it has over 200k plus registrations, a sharp growth from just 30k registrations in H1 2022. It helps the company in retaining the customers (90% renewal rates for Drive clients) as well as lower loss ratio (7% lower than the rest of the book). It also has a vitality program in the health segment that has over 300k registrations and promotes healthier habits through alerting and incentivizing the insurance holder to be more physically active and thus reducing the need for hospitalization. Further, the company has a fully digital insurance company, Tree, that provides end-to-end service digitally. It is a separate company, fully owned by Tawuniya, that is expected to have over 50k customers by the end of 2023. Currently, we do not have financial details about its venture. However, it looks very promising and if this gets traction, it can be promoted to the existing clients and over the long term should be beneficial in terms of reducing the G&A and policy acquisition costs substantially. We have not considered the notable contribution from Tree yet in our forecasts, as we await details around the traction.

Meena a new growth opportunity, but rising competition could weigh on the margins: Meena is the first integrated physical and digital patient-centered primary care model in KSA. Tawuniya plans to forward integrate by entering into primary healthcare space with its first clinic in Q4 2023 and ramping it to 32 clinics and 16 clusters over the next 5 years at an outlay of SAR 500 mn. The cluster will be a large format primary care center that will be fully equipped with onsite lab, imaging and other diagnostic equipments and supported by specialized outpatient services. At the same time, clinics would cater to walk ins/urgent care and will be located in easily accessible neighborhoods.

Based on the traction, the company could expand its clinics further (could go up to 100 clinics) and is inclined to invest further. In terms of patient flow, Tawuniya expects cumulative patients of 10.4 mn, implying daily patient flow of 125/clinic, and targets an IRR of 25-30%. We acknowledge the fact that the company can leverage its digital app and can offer shorter wait time and quicker pre-approvals compared to patients visiting the traditional hospitals. Further, the focus on preventative-centric care will be synergic benefits in terms of lower claims for its insurance business. However, in terms of patient and revenue potential, we prefer to be conservative and estimate daily patient flows around 100/clinic versus 125 patients/clinic targeted by the company. Based on this, the revenue potential estimated is SAR 720 mn and net income of SAR 72 mn (15% net income margins).

In the medium to long term, the market potential is substantial as there is a shortfall of 3000+ clinics in the Kingdom. However, many listed hospital operators have announced their plans to venture into medical centers or polyclinics such as Habib, Mouwasat and Dallah. Thus, despite the revenue potential, the current margins of 20-25% plus in this business could be at risk if the competition rises notably. Nevertheless, the pie is big enough for both the hospital operators as well as insurance companies. In terms of potential revenues, we estimate that the target market in the next five years could be around SAR 6.0 bn. Thus, in case the model is successful, the company can invest further to grow this business and reach up to 100 clinics.

Figure 17 **Projected centers and clinics**



Source: Company data, Al Rajhi Capital

P&C a dark horse for Tawuniya: Among the multi-line insurance companies, Tawuniya has the largest capital base, SAR 3.4 bn equity capital, more than double the capital base of the next largest multi-insurance company. The nature of the claims in the P&C business is lumpy, thus the risk is on the higher side, requiring larger equity capital to underwrite this business. There is immense growth potential in this segment given the strong non-oil GDP growth expectations over the next decade or so. Thus, given the high equity capital base, Tawuniya has an edge over the others to tap this potential. We have already noticed that the management is actively pursuing growth in this segment. In the last four quarters, the average growth in the P&C portfolio for Tawuniya has been around 45-50% y-o-y. Thus, we are optimistic and estimate mid to high teens growth in this segment over the next 4-5 years.

Valuations: Tawuniya has been one of the best performing stocks YTD with gains of over 80%. Currently, the stock is trading at a premium to its historical levels on both trailing and forward basis, trailing P/B of 5.0x and forward 2024 P/B of 4.2x, which is a premium of 28% on trailing and 35% premium on the forward basis. Compared to its key peer and the market's favorite way of comparing, which is Bupa, on both trailing (trailing multiple 6.8x) and forward basis (5.7x on 2024E) it trades at a discount of 25% compared to its historical discount of 15%.

In our view, compared to its own history, the high valuations are justified given the emerging leadership position in the P&C portfolio, price discipline in the motor business and exposure to high growth P&S business. However, we believe the stock could continue to trade at a discount to Bupa as the latter's business model is simpler thus less volatile earnings, has a proven track record, better investment portfolio that would benefit in the time of high interest rate environment. Moreover, Tawuniya is venturing into primary healthcare clinics, where the competition is rising from the listed hospital operators. This could keep the investors wary of the potential impact on the overall group's margins given the fixed cost nature of the clinics business.

We assign a forward P/B multiple of 4.5x on 2024 book value per share of SAR 28.9/share, that results in a fair value of SAR 130/share. Our residual income approach is also yielding similar level of fair value (around SAR 133/share) based on assumptions of sustainable ROE of 19.7%, cost of equity of 10.5% during the explicit forecast and 10% during the terminal year and a terminal growth rate of 5.0% (higher non-oil GDP growth potential and structural growth story). We also consider the value from the clinic's business (workings below), although we consider only 50% of the potential value from the clinics business as we prefer to wait for more details and signs of traction. Based on a combination of P/B and RI approach as well as including 50% of value from the healthcare business, our fair value for Tawuniya is SAR 137/share, implying an upside of 13% from the current levels. This implies an Overweight recommendation on the stock.

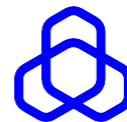


Figure 18 Valuation

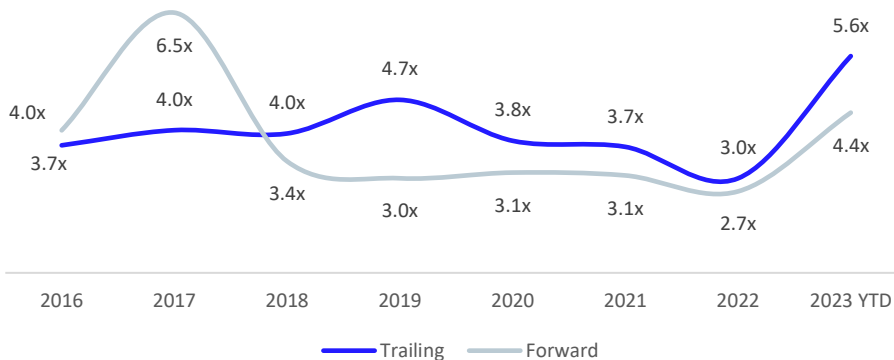
Relative Valuation	Value
P/B Multiple	4.5x
2024E BVPS / EPS	28.9
Fair Value	130

Hospital business (optional value)	Value
Clinics	48
Patient footfall per clinics	100
Number of patients in a day	4,800
Charges per patient (SAR)	500
Total revenues in a year (SAR mn)	720
Net income - Assumed 15% (SAR mn)	108
P/E	25.0x
Equity Value (SAR mn)	2,700
No. of shares	150,000
Fair Value	18
Discounted value (10% cost of equity)	11

Blended valuation	Fair value	Weight	Value/Sh.
RI approach	133	50%	66
Relative Valuation - P/B	130	50%	65
Hospital business (optional value)	11	50%	6
Target Price			137
CMP			121.4
Upside			12.9%

Source: Company data, Al Rajhi Capital. Note: Number of days considered for Hospital business revenues is 300 days

Figure 19 Price to book trend over the years

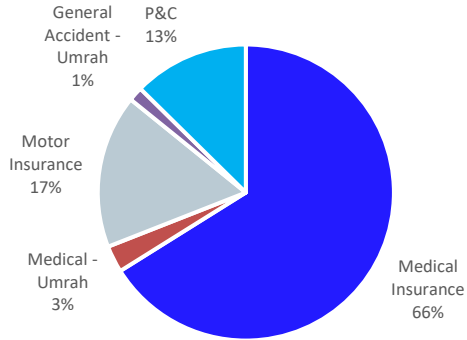


Source: Bloomberg, Company data, Al Rajhi Capital

Company Description: The Company for Cooperative Insurance (Tawuniya) is a Saudi joint-stock insurance company founded in 1986. It holds the distinction of being the first Saudi insurance company to receive a license to operate in Saudi Arabia under the cooperative venture legal framework. Tawuniya has a paid-up capital of SAR1,500 million, divided into 150 million shares, and it became publicly listed on the Tadawul (TASI) stock exchange in March 2005. The company primarily engages in offering a wide range of insurance services, including medical, motor, property, marine, engineering, and takaful insurance, covering various accidents. It operates through more than 45+ branches across Saudi Arabia and collaborates with over 1,500+ hospitals and medical centers within its network and handles more than 12mn+ claims in a year. Tawuniya provides a wide range of insurance options, catering to both individuals and corporate clients. These offerings span various sectors, including health, takaful, motor, and property and casualty, encompassing more than 60 distinct insurance categories.

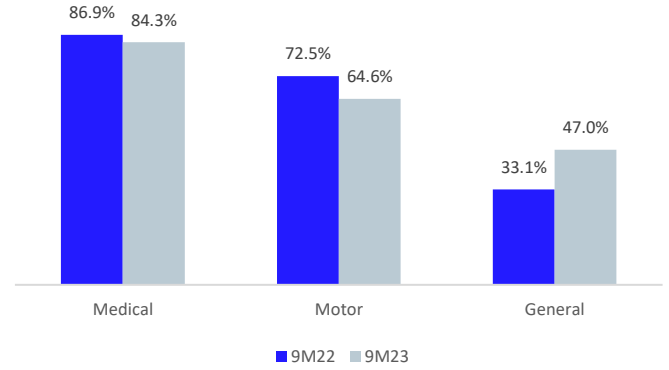
Financials in Charts

Figure 20 Tawuniya portfolio Mix as of 9M23 on GWP basis



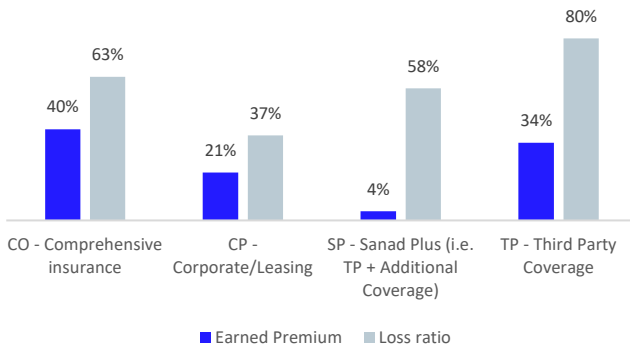
Source: Company Data, Al Rajhi Capital

Figure 21 Loss ratios for key segments



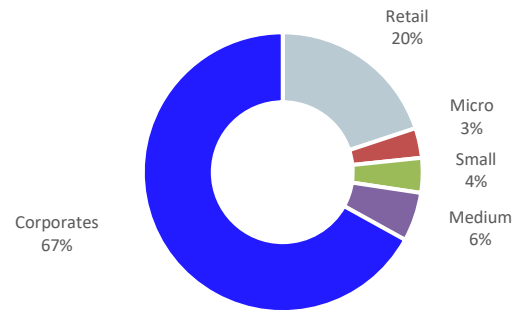
Source: Company Data, Al Rajhi Capital

Figure 22 Motor EP & LR by line of business as of 1H23



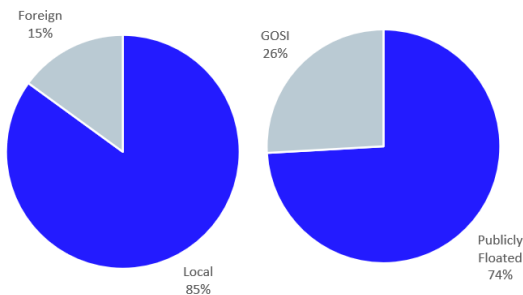
Source: Company Data, Al Rajhi Capital

Figure 23 Client Mix Breakup – 9M23



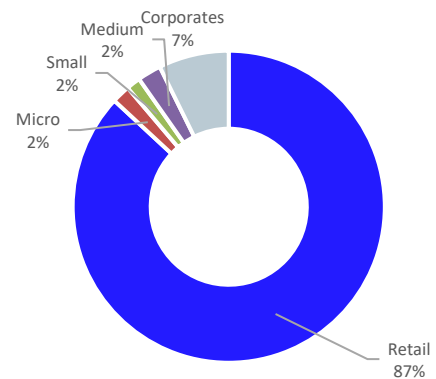
Source: Company Data, Al Rajhi Capital

Figure 24 Shareholder Structure as of October 30th 2023



Source: Company Data, Al Rajhi Capital

Figure 25 Motor Client mix breakup – 9M23



Source: Company Data, Al Rajhi Capital

Financials

Figure 26 Income Statement

	2023E	2024E	2025E
GWP	18,447	20,773	22,855
<i>Growth</i>	29%	13%	10%
Insurance Revenue	15,319	17,181	18,937
<i>as % of GWP</i>	83%	83%	83%
Insurance Expenses	(14,445)	(15,950)	(17,559)
Reinsurance Income/Expenses	78	(76)	(136)
Insurance service results	952	1,155	1,241
<i>Growth</i>	-11%	21%	8%
Other operating expenses	(362)	(407)	(428)
ECLs	(178)	(153)	(175)
Net Finance Expenses/Income	(132)	(119)	(95)
Investment Income and others	497	552	521
Profit Before Tax	777	1,026	1,064
<i>Growth</i>	48%	32%	4%
Zakat & taxes	(98)	(129)	(134)
Net Profit	679	897	930
<i>Growth</i>	74%	32%	4%
EPS	4.5	6.0	6.2
DPS	0.8	1.8	1.9

Source: Al Rajhi Capital estimates

Figure 27 Balance sheet

	2023E	2024E	2025E
Statutory deposit	150	150	150
Property and equipment, net	239	227	216
Investments	1,319	1,282	1,273
Murabaha deposits	6,396	6,396	6,396
Prepaid expenses and other assets	736	736	736
Reinsurance contract assets	3,969	4,309	4,341
Receivables, net	2,552	2,921	3,219
Cash and cash equivalents	3,305	3,719	4,507
Other	14	13	12
Total Assets	18,680	19,753	20,850
Accrued expenses and other liabilities	987	1,090	1,200
Insurance contract liabilities	13,505	13,843	14,175
Others	481	485	490
Total Liabilities	14,973	15,419	15,865
Total Equity	3,706	4,334	4,985
Total Liabilities & Equity	18,680	19,753	20,850

Source: Al Rajhi Capital estimates

US\$0.57bn Market Cap. 76.07% Free Float US\$5.29mn Avg. Daily Value traded

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Overweight

Price Target (SAR): 232.0

Current: 201.4

Upside/Downside: 15.2% above current

Valuation Multiples	23E	24E	25E
P/E (x)	27.0	22.4	21.1
P/B (x)	6.3	5.6	5.1
ROE (%)	24.7	26.6	25.2

Major Shareholders % Ownership

Bupa Investments Overseas Ltd.	43.25
Nazir Holding Group	5.01

Price Performance	1M	3M	YTD
Absolute	-4.6%	0.8%	41.3%
Relative to TASI	-8.4%	4.2%	35.3%

Earnings

Period End (SAR)	2023E	2024E	2025E
GWP	16,700	18,682	20,925
<i>Growth</i>	20%	12%	12%
Insurance Revenue	15,634	17,509	19,631
<i>Growth</i>	21%	12%	12%
Insurance Expenses	(14,591)	(16,336)	(18,316)
<i>Growth</i>	27%	12%	12%
Insurance service result	1,043	1,173	1,315
<i>Growth</i>	7%	7%	7%
Net insurance and investment result	1,555	1,834	1,946
<i>Growth</i>	-19%	18%	6%
Profit Before Tax	1,309	1,581	1,673
<i>Growth</i>	20%	21%	6%
Net Profit	1,102	1,332	1,409
<i>Growth</i>	28%	21%	6%
ROE	24.7%	26.6%	25.2%
P/E	27.0x	22.4x	21.1x
P/B	6.3x	5.6x	5.1x

Source: Company data, Al Rajhi Capital

Bupa Arabia

Upgrade to Overweight, target price of SAR 232/share

Bupa's unparallel moats in terms of leading market share, pricing power, robust client portfolio, etc. was evident in the recent cycle of price hikes. In addition to repricing of the policies, one major structural change which would be more prominently visible in the near term is the contribution of the investment income. Driven by solid topline growth and high investment income, we estimate net profit to grow at a rate of 11% CAGR over the next 7 years. We anticipate Bupa's ROE to improve from about 19% average levels in the last 3-4 years to 26% in 2024 and average 25% in the near future. In the past, the stock has traded closer to its justified P/B, thus we believe the concern over its high valuations relative to history is unwarranted. Given that the ROE levels are expected to remain elevated, and the overall growth story is intact, we value the stock at a multiple, which is closer to its justified P/B. At 25% ROE levels, we believe the stock should trade at a forward P/B of 6.5x, that yields a target price of SAR 232/share, providing 15% upside. Thus, we upgrade our recommendation to Overweight from neutral.

Superior pricing power: Bupa has unparallel moats in the insurance industry in terms of leading market share, pricing power, strong network of all leading hospitals, robust client portfolio, etc. This was evident in the recent cycle of price hikes, where the company, in anticipation of rising claims from the hospitals, raised the prices for its policies. Although, it did lose some market share in this process (43% at the end of Q1 2023, from 45% in Q1 2022 and 46% in FY 2020), but at the end the decision to protect the profitability has been proven correct. It has not only helped the company but also the medical insurance industry, as other players also followed Bupa. Thus, this gives enormous confidence in the sustainability of the company's profitability and provides assurance that if needed the company can resort to price hikes to manage unexpected rise in claims.

High Investment income: In addition to repricing of the policies, one major structural change which would be more prominently visible is the contribution of the investment income. In 2022, investment income more than doubled for Bupa from SAR 261 mn in 2021 to SAR 553 mn, and the trend in 2023 so far is similar (9M 2023: SAR 225 mn). Given that interest rates are expected to remain elevated in the near future, investment income could remain strong. Even if the rates decline next year, the possibility of Bupa locking in the current rates for the next 2-3 years exists as many banks are offering time deposits products that offer fixed rate for 2-3 years. Further, the claims for Bupa are largely short term, mostly settled within a year, thus in terms of accounting treatment Bupa is not affected by unwinding of discount rate (shown in investment income). At the same time, its peer Tawuniya, that has exposure to P&C where claims' settlement can extend beyond a year resulting in insurance liabilities which are more long term and is thus exposed to the treatment of discounting as per IFRS 17. Thus, Bupa's high investment yield would not be offset by unwinding of discount rate or by ECL provisions.

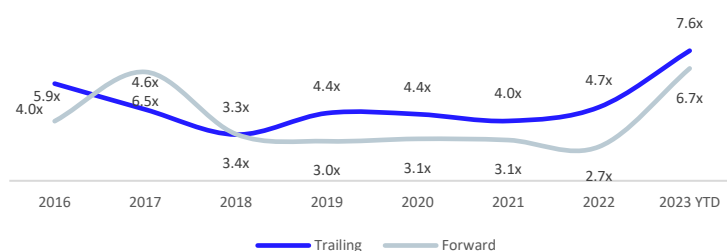
Duplicate policies negligible, long-term prospects strong: During the Q2 2023 call, Bupa highlighted that the regulator has identified 300k policies that are duplicate and plan to eliminate the same. However, in lieu of that, the regulator is expected to boost the enforcement level, 2.3mn insured lives opportunity. Even if the enforcement gap is not bridged immediately, the impact on Bupa could be just about 2-3%, in our view.

This is on conservative assumption of 50% of these duplicate policies are from Bupa and consider 43% market share in the current insured lives of 11.8 m. The longer-term prospects continue to be bright, as the company is largely done with the price hikes and the loss ratio is expected to be manageable, we expect Bupa to focus on regaining some of the lost market share in the next 2 years or so. We estimate Bupa's GWP to grow at a rate almost 11% during 2023-2030E, slightly higher than the 10.5% growth expectations for the market.

High valuations justified as it is entering a phase of strong profit generation: Driven by a high topline growth (CAGR: 11%), improved pricing and the focus on curtailing loss ratio, we estimate the underwriting profits to grow at a CAGR of over 12% over the next 7 years. At the same time, net profit is expected to grow at a similar rate supported by investment income that is expected to offset rising operating costs. Bupa currently trades at a multi-year high valuation level of price to book of 7.6x (trailing), way above its historical average of 4.7x (7-years average). However, if we compare it with the phase of 2014-2017, the median valuations were 5.7x with highs of 8.2x in 2015. During this phase, the company had seen sharp growth in profitability and book value (CAGR 34% during 2013-2017). We have a precedent of the market paying high valuations to the stock given its business moats, superior pricing power, lack of availability of high-quality pure play medical insurance company. We have noticed that the stock is rewarded by high valuation during phases of expansion in the ROE levels. Currently, we are witnessing such a phase, we anticipate Bupa's ROE to improve from about 19% average levels in the last 3-4 years to 27% in 2024 and average 25% ROE in the near future.

Valuations: In the past 7 years, when the stock traded at a forward P/B of 3.6x, the average ROEs were 20%, growth of about 5.5%. If we assume cost of equity of about 9.5%, then the stock traded in line with the justified P/B. Thus, it has a history of trading closer to the justified P/B. If we assume the same trend to continue and based on 25% expected ROE levels, higher growth rate of 7.5% and a cost of equity of 10.15%, then the justified P/B is around 6.7x. We are valuing the stock closer to its justified P/B at 6.5x on 2024E book value per share of SAR 35.7/share, that yields a fair value of SAR 232/share and implies an upside of almost 15%. Thus, we upgrade our recommendation to Overweight from neutral. For now, we are not considering any positive impact from the primary healthcare business yet as we await details. Thus, in case of any clarity on this business, we see further upside risk to our target price.

Figure 28 Price to book trend over the years



Source: Company Data, Al Rajhi Capital

Figure 29 Valuations

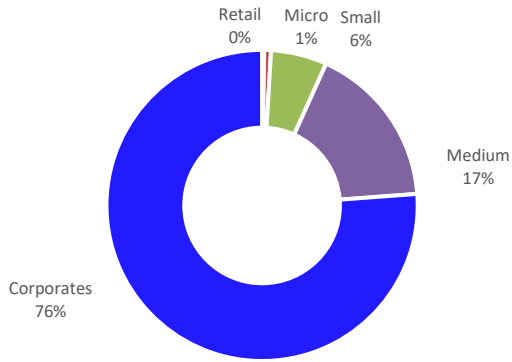
P/B Valuation	Multiple
RoE	25.2%
PB	6.50x
BVPS	35.7
Fair value	232.0
CMP	201.4
Upside	15.2%

Source: Company Data, Al Rajhi Capital

Company Description: Bupa Arabia is a prominent health insurance company that operates in the Kingdom of Saudi Arabia. The company is a joint venture between Bupa, a global leader in healthcare services and insurance, and the Nazer Group, a respected Saudi conglomerate. The JV was birthed in 1997. Bupa Arabia specializes in providing a wide range of health insurance products and healthcare services to individuals, families, and businesses throughout Saudi Arabia. The company's mission is to provide high-quality healthcare services and insurance coverage to its customers, helping them lead healthier and more fulfilling lives. Bupa Arabia has established itself as a trusted and respected healthcare and insurance provider in Saudi Arabia. The company's strong local presence, backed by Bupa's global expertise, has allowed them to cater to the healthcare needs of diverse segments of the population.

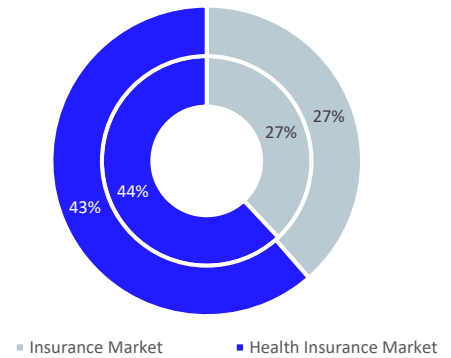
Financials in Charts

Figure 30 Bupa Client mix breakup as of 9M23



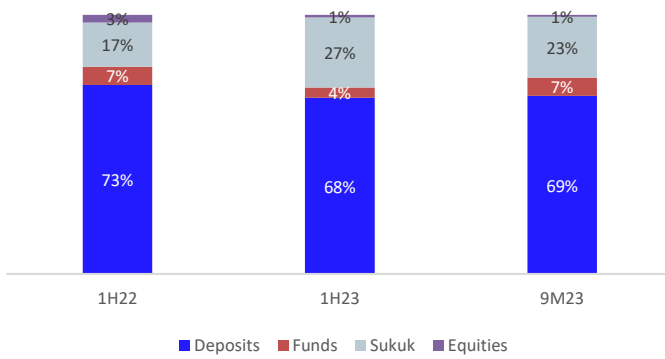
Source: Company Data, Al Rajhi Capital

Figure 31 Bupa Share as of GWP basis (Outside: Inside – 1H23:1H22)



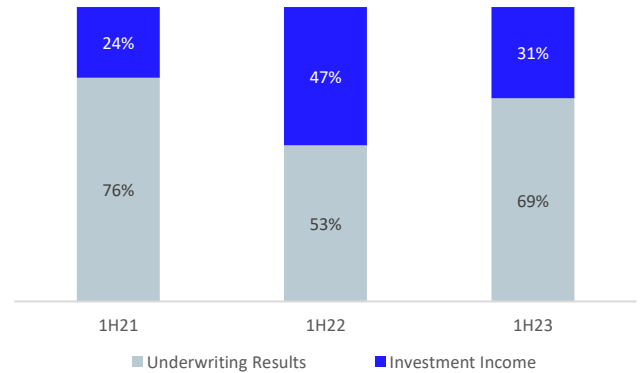
Source: Company Data, Al Rajhi Capital

Figure 32 Asset Allocation



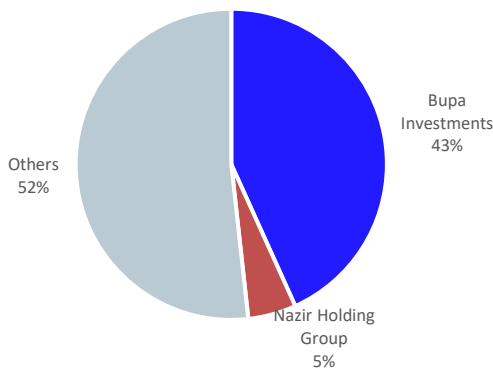
Source: Company Data, Al Rajhi Capital

Figure 33 Income breakdown



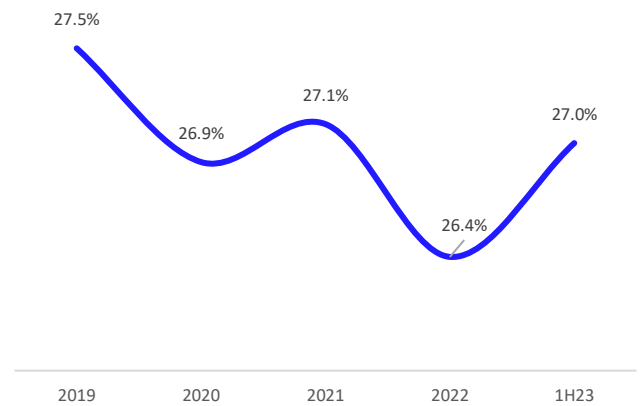
Source: Company presentation, Al Rajhi Capital

Figure 34 Shareholding Structure



Source: Company presentation, Al Rajhi Capital

Figure 35 Solvency ratio



Source: Company presentation, Al Rajhi Capital

Financials

Figure 36 Income Statement

	2023E	2024E	2025E
GWP	16,700	18,682	20,925
<i>Growth</i>	20%	12%	12%
Insurance Revenue	15,634	17,509	19,631
<i>Growth</i>	21%	12%	12%
Insurance Expenses	(14,591)	(16,336)	(18,316)
<i>Growth</i>	27%	12%	12%
Insurance service result	1,043	1,173	1,315
<i>Growth</i>	7%	7%	7%
Investment Income	512	661	631
<i>Growth</i>	-7%	29%	-5%
Net insurance and investment results	1,555	1,834	1,946
<i>Growth</i>	-19%	18%	6%
Other operating expenses	(300)	(318)	(345)
Other Income	54	64	72
Profit Before Tax	1,309	1,581	1,673
<i>Growth</i>	20%	21%	6%
Zakat & taxes	(206)	(249)	(264)
Net Profit	1,102	1,332	1,409
<i>Growth</i>	28%	21%	6%
EPS	7.4	9.0	9.5
DPS	4.4	5.3	5.7

Source: Al Rajhi Capital estimates

Figure 37 Balance sheet

	2023E	2024E	2025E
Cash & Cash Equivalents	1,719	2,647	2,628
Reinsurance contract assets	24	44	49
Investments	4,447	5,331	7,331
Prepayment and other assets	402	450	505
Term Deposits	6,695	6,695	6,695
Fixtures, Furniture and Right-of-use assets	212	175	145
Goodwill & Intangible assets	159	142	136
Statutory deposits	150	150	150
Other	49	49	49
Total Assets	13,856	15,682	17,687
Accrued expenses and other liabilities	551	617	692
Insurance contract liabilities	7,822	9,015	10,313
Others	743	768	781
Total Liabilities	9,116	10,400	11,786
Total Equity	4,740	5,282	5,900
Total Liabilities & Equity	13,856	15,682	17,687

Source: Al Rajhi Capital estimates

US\$0.57bn Market Cap. 76.07% Free Float US\$5.29mn Avg. Daily Value traded

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GIG SA

Beneficiary of P&C in the long term

Overweight

Price Target (SAR): 30.0

Current: 25.6

Upside/Downside: 17.2% above current

Valuation Multiples	23E	24E	25E
P/E (x)	10.1	12.8	10.6
P/B (x)	1.3	1.2	1.1
ROE (%)	15.0	10.4	11.3

Major Shareholders % Ownership

GIG Gulf BSC	50.00
--------------	-------

Price Performance	1M	3M	YTD
Absolute	-5.9%	-14.5%	12.5%
Relative to TASI	-9.8%	-11.1%	6.5%

Despite its strong exposure to the motor business, GIG's stock price has not benefitted notably from the improvement in the loss ratio in the motor business this year. This is primarily due to its P&C business, where the claims have been on the higher side and which are lumpier and difficult to forecast. Moreover, the focus from the management on profitable contracts has led to muted growth in GWP as it decided to let go of some of the contracts in the corporate motor business. Nevertheless, the company has generated profits of over SAR 100 mn in 9M 2023, implying profit margin of 9%, which is encouraging. Further, its equity has grown to over SAR 1.0 bn from SAR 940 mn in 9M 2022. On a trailing basis, the stock trades at just 1.3x, a discount of about 24% to its historical multiple of 1.7x and on a forward basis it trades at 1.2x (2024E), at a discount of 20% compared to its historical forward multiple of 1.5x. Given that the sector has rerated, and its peers are trading at notably higher than the historical multiples, the current valuations are very attractive. However, the key concern has been the lack of access to the management and not enough interactions with the investors. Thus, despite the growth potential, we value it at a slight discount to its historical multiples and assign a forward P/B of 1.4x to derive our target price of SAR 30/share. We maintain our Overweight recommendation on the stock.

Move towards retail should allow to capture the expected growth in the motor:

GIG SA is one of the top motor insurance companies with strong exposure to the corporate business in the past, implying higher exposure to the comprehensive motor insurance policies. This is one of the major reasons for GIG not being impacted notably in the past when the motor industry was struggling with high loss ratio. However, having high exposure to corporates limits the potential for repricing. Thus, when the accidents increased last year, the company was impacted relatively higher compared to the likes of Tawuniya, that had initiated the price hikes. Although the management has confirmed verbally that they raised prices for all its customers last year, in our view, GIG lagged in terms of raising the prices substantially versus the peers.

Given the inflexibility to raise prices for the corporate business, the company's financials reveal that its portfolio in the motor business has shifted towards retail in 9M 2023. As of 9M 2023, retail is now over 50%, while large and medium corporates are 37% versus 23% (retail) and 59% (large and medium) in 9M 2022. This is a notable shift in the mix, partly due to management's focus on profitability than growth, thus it is ready to let go of loss making contracts. The GWP in the motor business has declined 18% in 9M 2023, mainly in the corporate category. In our view, this is a prudent approach as the incidents of accidents have increased notably and price hikes are essential. Going forward in 2024, the company should benefit from the motor enforcement rule and the retail portfolio should grow notably in 2024. Although the aggregate loss ratio could be higher as the mix shifts towards the TPL, the overall portfolio should be profitable.

Earnings

	2023E	2024E	2025E
GWP	1,585	1,839	2,044
Growth	1%	16%	11%
Insurance Revenue	1,482	1,623	1,803
Insurance Expenses	(1,708)	(1,479)	(1,626)
Reinsurance Income/Expenses	347	(37)	(43)
Insurance service result	120	106	134
Growth	-32%	-11%	25%
Net insurance and investment results	163	150	189
Growth	-27%	-8%	26%
Profit Before Tax	155	122	147
Growth	56%	-21%	21%
Net Profit	127	100	121
Growth	68%	-21%	21%
ROE	15.0%	10.4%	11.3%
P/E	10.1x	12.8x	10.6x
P/B	1.3x	1.2x	1.1x

Source: Company data, Al Rajhi Capital.

P&C a key catalyst, Fairfax advantage underappreciated: GIG (before AXA SA) has been growing its P&C portfolio notably in recent years. In fact, it is the fastest growing segment for the company in the last 5 years or so. Since 2017, it has more than doubled its portfolio from SAR 163 mn to SAR 306 mn (as of 2022), growing at a CAGR of 13%. Despite the exit of AXA as a shareholder, we believe the P&C business can not only maintain a strong momentum, but also surpass the growth seen in the last 5 years. In our view, P&C is a highly technical business that requires appropriate underwriting skills due to the lumpy nature of the claims. Given that the new shareholder, Farifax Financial, the largest shareholder in GIG S.A., is a very strong player in the P&C business globally. Fairfax, that has a strong presence in the US and other developed insurance markets, is known for creating significant shareholder wealth over the years. In our view, once the integration is fully done, the systems and technical capabilities of GIG SA would be up to Fairfax standards, thus GIG SA has a notable edge over its peers to grow in the P&C business. Moreover, if Farifax identifies the potential growth in the Saudi market there is a possibility that it would infuse capital and position GIG SA to capture the P&C market.

Compelling valuations, lack of disclosures and access to management some concerns: We estimate GWP to grow at a 10% CAGR for the next 7 years led by its P&C business (CAGR: 11.8%). Despite the required investments in digitization, we estimate bottom line growth to surpass its topline growth of 9% CAGR (2023-2030e) and grow by 12% supported by strong investment yield and focus on underwriting profitable contracts even if it comes at an expense of growth. Despite the attractive growth prospects, the stock trades at an undemanding price to book of 1.3x on trailing basis and 1.2x on 2024E P/B. In comparison to Tawuniya and Al Rajhi Takaful, the trailing P/B is at a 71% discount whereas historically the discount has been around 50%. In relation to a narrower set of peers (Walaa, Medgulf and Malath), it is trading at a discount of 20%. In our view, although there are concerns around inadequate communication by the management with the investor community, the current discount is on the higher side. We are valuing the stock at a forward P/B of 1.4x, slightly at a discount to its historical average of around 1.5x. On the back of weak earnings in Q3 2023 and limited communication with the management, we reduce our target price to SAR 30/share from SAR 33/share before (adjusted for bonus issue). However, even on our reduced target price, the stock offers an upside of 17%, thus we maintain our Overweight recommendation. However, we highlight that the stock is most prone to upward revision as and when we get clarity around its P&C portfolio and its sustainable loss ratio.

Figure 38 Price to book over the years



Source: Bloomberg, Al Rajhi Capital

Figure 39 Valuation

Relative Valuation	Value
P/B Multiple	1.4x
2024E BVPS / EPS	21.0
Fair Value	29

Blended valuation	Fair Value	Weights	Value/Sh.
RI approach	31	50%	16
Relative Valuation - P/B	29	50%	15
Target Price			30
CMP			25.6
Upside			17.2%

Source: Al Rajhi Capital

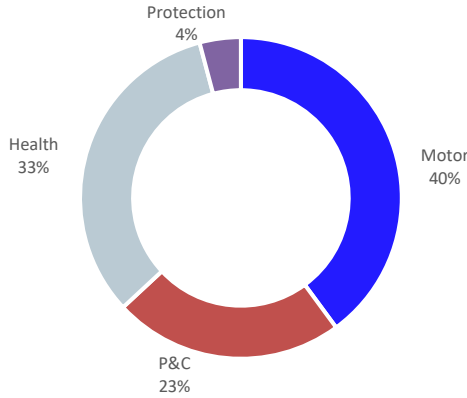
GIG SA

Insurance: Financials
GIG AB: Saudi Arabia
30 November 2023

Business Description: GIG Saudi Arabia (“GIG SA,” previously AXA Saudi Arabia) changed its name after the completion of deal between AXA and Gulf Insurance. Post this deal, Gulf Insurance (GIG) has become the leading shareholder and now holds 50% stake in GIG Saudi Arabia. GIG is a Kuwait based insurance company established in 1962 and is a top 5 MENA Insurer present in 13 countries with leading positions in Kuwait, Jordan, Bahrain, and Egypt. GIG is backed by 2 strong shareholders: Fairfax, a Canada based financial holding organization owning insurance companies in over 40 countries and KIPCO, one of the biggest diversified holding companies in MENA and backed by the ruling family of Kuwait. GIG Saudi Arabia is one of the leading diversified insurance players in Saudi Arabia with major exposure to the motor insurance business. In the motor segment, the company offers both comprehensive (called as Amen) and third-party liability (Ma’ak) insurance products. In the medical segment, that is the second largest segment of the company, GIG Saudi Arabia offers healthcare plans broadly under two categories, “GIG SME Healthcare” and “GIG Large Corporates. The other two segments of the company are Property & casualty (P&C) and Protection & Savings (P&S).

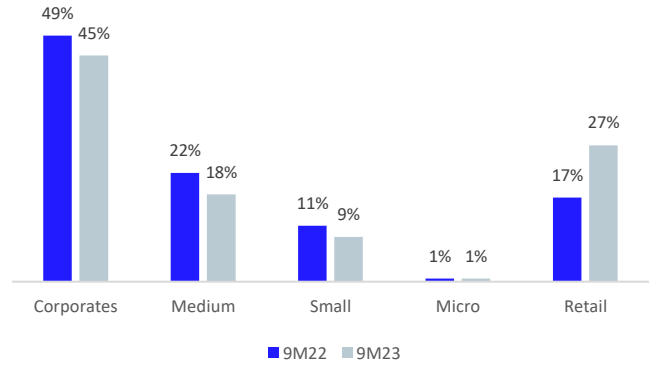
Financials in Charts

Figure 40 GIG portfolio mix on GWP basis (9M23)



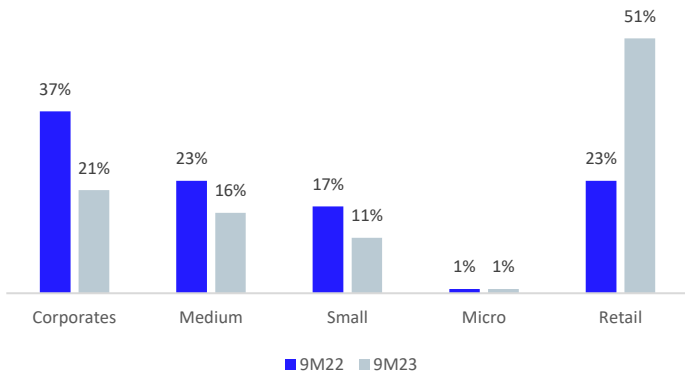
Source: Company Data, Al Rajhi Capital

Figure 41 Client Mix breakup on GWP basis



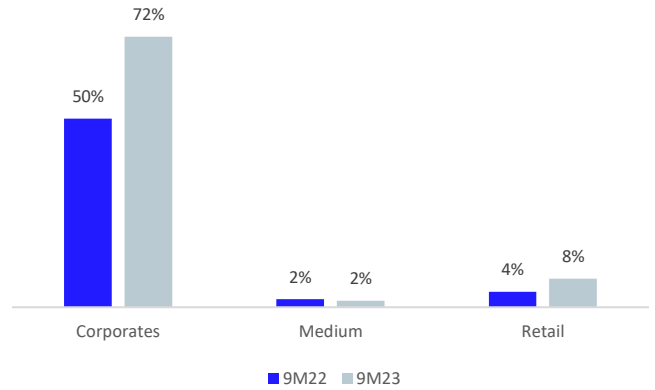
Source: Company Data, Al Rajhi Capital

Figure 42 Motor Client Mix breakup



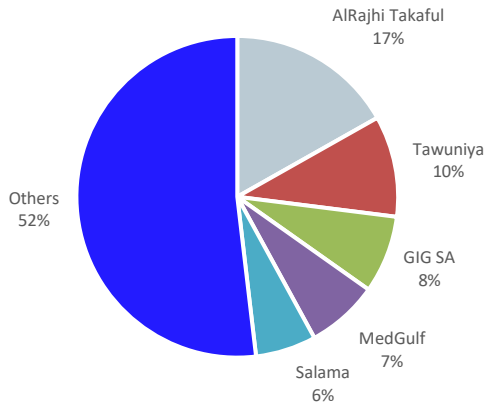
Source: Company Data, Al Rajhi Capital

Figure 43 Medical Client Mix breakup



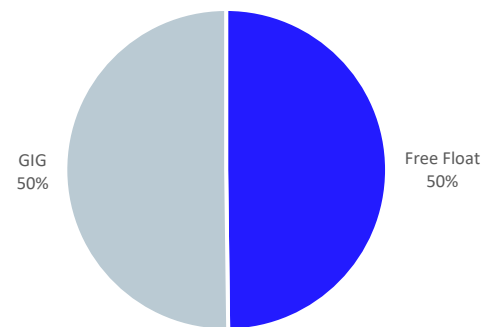
Source: Company Data, Al Rajhi Capital

Figure 44 Motor market share on GWP basis as of FY22



Source: Company presentation

Figure 45 Shareholding Structure



Source: Company presentation

Financials

Figure 46 Income Statement

	2023E	2024E	2025E
GWP	1,585	1,839	2,044
<i>Growth</i>	1%	16%	11%
Insurance Revenue	1,482	1,623	1,803
<i>as % of GWP</i>	93%	88%	88%
Insurance Expenses	(1,708)	(1,479)	(1,626)
Reinsurance Income/Expenses	347	(37)	(43)
Insurance service result	120	106	134
<i>Growth</i>	-32%	-11%	25%
Investment Income	93	101	92
Net Finance Expenses/Income	(47)	(58)	(48)
Other operating expenses	(36)	(37)	(40)
Other Income	25	10	10
Profit Before Tax	155	122	147
<i>Growth</i>	56%	-21%	21%
Zakat & taxes	(28)	(22)	(27)
Net Profit	127	100	121
<i>Growth</i>	68%	-21%	21%
EPS	2.5	2.0	2.4
DPS	0.8	0.7	0.8

Source: Al Rajhi Capital estimates

Figure 47 Balance sheet

	2023E	2024E	2025E
Statutory deposit	50	50	50
Property and equipment, net	9	9	10
Investments	1,395	1,444	1,495
Deposits	492	504	516
Prepaid expenses and other assets	65	65	65
Reinsurance contract assets	608	618	633
Goodwill & Intangibles	75	72	70
Cash and cash equivalents	351	357	365
Other	38	38	38
Total Assets	3,084	3,157	3,241
Accrued expenses and other liabilities	54	44	49
Insurance contract liabilities	1,820	1,841	1,859
Others	218	224	230
Total Liabilities	2,093	2,109	2,138
Total Equity	991	1,048	1,103
Total Liabilities & Equity	3,084	3,157	3,241

Source: Al Rajhi Capital estimates

Neutral

Price Target (SAR): 16.3/share

Current: 15.64
Upside/Downside: 4.4% above current

Valuation Multiples	23E	24E	25E
P/E (x)	19.5	11.6	10.3
P/B (x)	2.0	1.7	1.5
ROE (x)	10.7	15.8	15.2

Major Shareholders	% Ownership
Investment Advisor	90.66

Price Performance	1M	3M	YTD
Absolute	-12.2%	-23.6%	44.6%
Relative to TASI	-16.1%	-20.2%	38.6%

Earnings

	2023E	2024E	2025E
GWP	907	1,013	1,111
<i>Growth</i>	-4%	12%	10%
Insurance Revenue	929	948	1,040
Insurance Expenses	(813)	(805)	(871)
Reinsurance Income/Expenses	(76)	(57)	(65)
Insurance service result	39	87	104
<i>Growth</i>	-36%	121%	20%
Net insurance and investment results	27	74	86
<i>Growth</i>	-72%	168%	17%
Profit Before Tax	54	94	106
<i>Growth</i>	-402%	72%	13%
Net Profit	40	68	76
<i>Growth</i>	-242%	69%	13%
ROE	10.7%	15.8%	15.2%
P/E	19.5x	11.6x	10.3x
P/B	2.0x	1.7x	1.5x

Source: Company data, Al Rajhi Capital

Malath

Initiate with Neutral at SAR 16.3/sh TP

Malath has emerged as one of the top medical insurance companies in the last 2-3 years post its decision to diversify away from the volatile motor insurance business. As several corporates and SMEs are looking to diversify away from Bupa and Tawuniya, as the top two medical insurance providers get on a price hike spree, a group of second in the rank companies have emerged. Among these companies, Malath, due to its inhouse claim settlement capabilities, has managed to grab some market share. Further in motor, the company has decided to focus on profitability than volumes by growing its comprehensive portfolio than TPL. At the same time, Malath has an exclusive right to be the leader insurer in the mandatory inherent defects insurance (IDI). Given the 40% rally YTD, the stock is now trading at trailing price to book of 2.0x, 40% premium to its relevant peers (Walaa, GIG, Medgulf). Given that the company is a strong beneficiary of P&C segment and is an emerging player the growth is expected to be on the higher side versus its peers, however, the premium valuation reflects the same. We value the stock at a forward P/B of 1.75x on 2024E book value. Based on our blended method of valuation (residual income and P/B), our fair value for the stock is SAR 16.3/share, implying 4% upside from the current levels. Thus, we initiate our coverage with a 'neutral' rating.

IDI to have a positive impact: In 2019, Malath received SAMA's approval to become the leading firm to manage the IDI program on behalf of the insurance sector, and this exclusive right is valid till the mid of 2025. The IDI policy requires all contractors to obtain IDI for "qualifying projects" from 2 May 2020 onwards. SAMA's guidance confirms non-governmental, residential, and non-residential projects fall within the realm of qualifying projects. This includes high rise buildings (towers), warehouses, hospitals, hotels, buildings for gatherings (mosques, restaurants, sports facilities), education buildings, malls, telecommunication towers, industrial buildings and installations, buildings below 23 meters, and high-risk buildings as per the decision of the KSA Ministry of Municipal and Rural Affairs.

The product covers hidden defects in buildings, which may appear after the completion of construction, such as the building structure, water insulation, plumbing, electricity, mechanical works, and interior finishes. The policy is valued for 10 years and value of the premium, typically 1.0-1.5% of the total construction value, is made in two instalments. First, 30% of the insurance premium is paid upon the policy issuance and before the issuance of a construction license. The remaining 70% premium is paid after the completion of construction and before the issuance of the occupancy certificate, in addition to the technical inspection and value-added tax (VAT) charges. The IDI coverage includes any defect in structural works or the related envelope elements that undermine the stability of buildings, due to any error in the design, materials, geological investigation, or construction, provided that the defect is undiscovered on the issuance date of the occupancy certificate. Malath will compensate the insured for the costs of repairing, replacing, and strengthening of the premises against the damages arising from inherent defects, which were reported to the insurance firm throughout the policy term. The policy does not cover the cost of repairing, replacing and/or strengthening the premises following any physical damage or threat of imminent collapse throughout the policy term.

Despite the program being effective since May 2020, the enforcement was weak initially. However, the number of IDI policies have increased notably in the recent quarters. In 2021, about 1700 policies were written, while there was a sharp jump in 2022 to over 38,000 policies being written. Similarly, in H1 2023, the policies grew by 22% y-o-y and now in total over 55,000 policies. The country's Vision 2030 initiative, which aims to diversify the economy and reduce dependence on oil, is expected to drive demand for insurance services in various sectors, including building & construction. Thus, the potential for IDI product is very strong.

Motor insurance strategy: The motor segment of the company has experienced a significant improvement in performance. This was achieved through strategic measures, including tighter risk management, increased average pricing, and a focus on attracting comprehensive coverage policies. To control claims, the company is focussing on leveraging its past relationship with workshops/dealers. With some of the workshops, it has an arrangement where the cost of the repairs is fixed, but the company guarantees a certain volume of repairs in a year. Going forward, the company's strategy will be to focus on high pricing and less volumes and continue to increase the share of comprehensive policy. The company has launched a unique product, 'own damage insurance,' wherein an existing TPL policy holder can buy this product and effectively have a comprehensive insurance policy. Moreover, the efforts to promote e-solutions over aggregator channels have also contributed to the positive outcome. The company anticipates sustaining the positive trend of improving profitability to continue in the coming quarters and years. We estimate the motor insurance GWP to grow by just 6.3% during 2023e-2030e on it plans to shy away from the volume growth, but loss ratio (also includes direct costs related to the insurance activity) is expected to improve to 86% in the medium term from over 88% in 2023e.

Medical insurance: Among the very few companies that have inhouse claim management and settlement team, Malath is one of them. The company offers innovative e-solutions called 'Malathcare' services, which is a smart approval platform that processes the approval automatically and in a short period of time. Moreover, members of this services have access to ancillary facilities such as access to Malath doctors for detailed clarifications, second medical opinion and round the week call centre.

On the back of these capabilities, Malath managed to grab share in a market that is largely a duopoly controlled by Bupa and Medical. In the last year or so, both these market leaders started to raise the prices aggressively, which made its customers explore other players in the market. Malath now has a very strong client base that includes Al-Othaim, Mouwasat, National Water Company, Almunajem Group, etc. We believe the company will continue to grow atleast in line with the market going forward as it has a necessary capability such as kiosks in the hospitals, e-solutions for faster approval, focus from the management to grow its medical insurance business.

Valuations: We value the stock based on an equal weighted blended approach of residual income and relative valuation (price to book). Given the improving sentiment for the sector and the near-term earnings momentum, a higher weight to relative valuation is warranted. From a medium to long term point of view, we estimate the ROE levels to hover around 15% over the next three years before it stabilises at 14% post 2026e. Based on cost of equity of 11.8% during the explicit forecast period and 10.8% in the terminal year, our fair value through residual income approach is SAR 16.5/share. For relative valuation, we rely on price to book and assign the stock a P/B of 1.75x, that yields a fair value of SAR 16.1/share. Based on the blended mix method, our target price for the stock is SAR 16.3/share, implying 4% upside from the current market price. Thus, we initiate our coverage with a neutral rating.

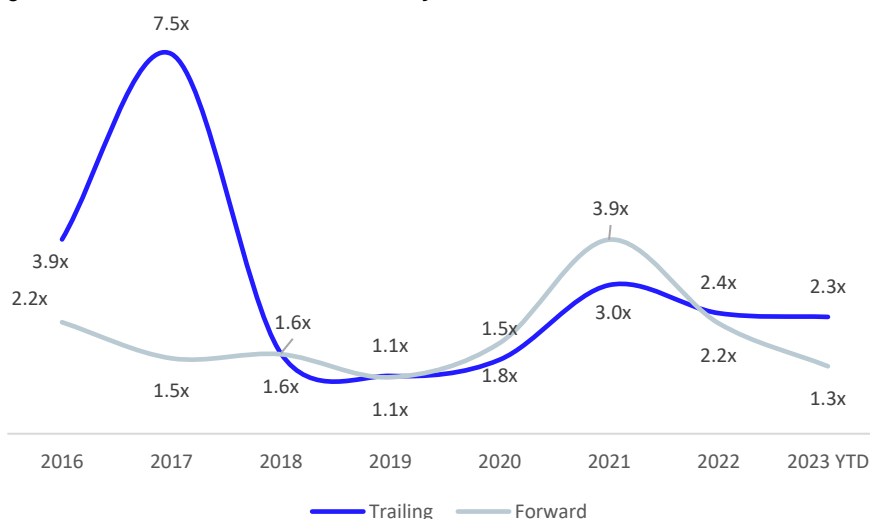
Figure 48 Valuation

Relative Valuation	Value
P/B Multiple	1.75x
2024E BVPS / EPS	9.2
Fair Value	16.1

Blended valuation	Fair Value	Weights	Value/Sh.
RI approach	16.5	50%	8.3
Relative Valuation - P/B	16.1	50%	8.1
Target Price			16.3
CMP			15.64
Upside			4.4%

Source: Al Rajhi Capital

Figure 49 Price to Book over the years

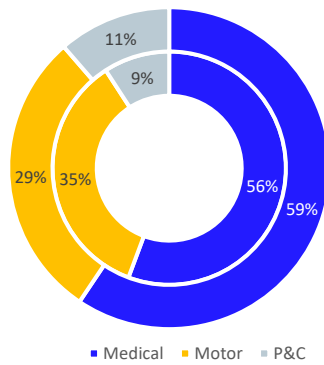


Source: Bloomberg, Al Rajhi Capital

Business Description: Malath Insurance is a prominent insurance provider based in Saudi Arabia. The company was established as a cooperative insurance company and is regulated by the Saudi Arabian Monetary Authority (SAMA). Malath is committed to offering a variety of insurance solutions to meet the diverse needs of its clients, including individuals, businesses, and organizations. Malath Insurance' core services include motor insurance, medical insurance along with P&C.

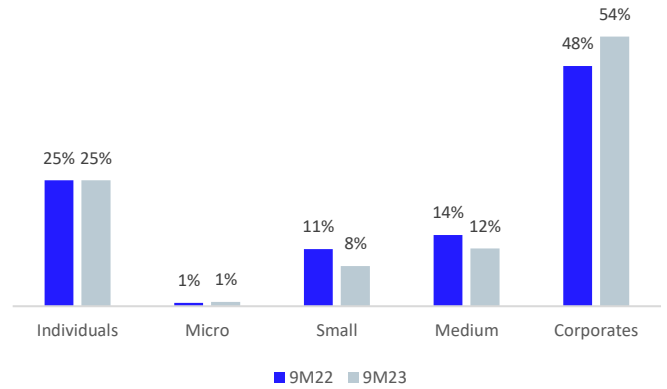
Financials in Charts

Figure 50 Portfolio mix on GWP basis (Outside: Inside – 9M23:9M22)



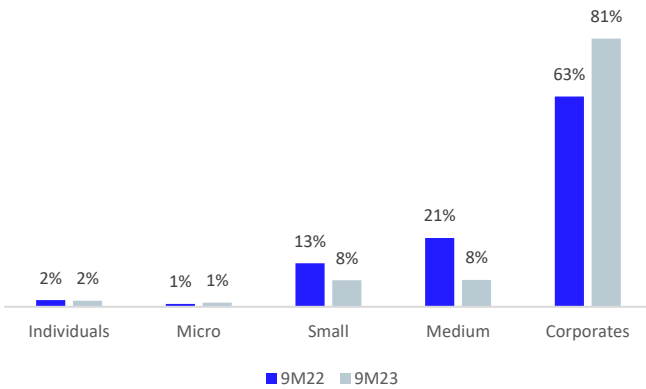
Source: Company Data, Al Rajhi Capital

Figure 51 Client Mix breakup on GWP basis



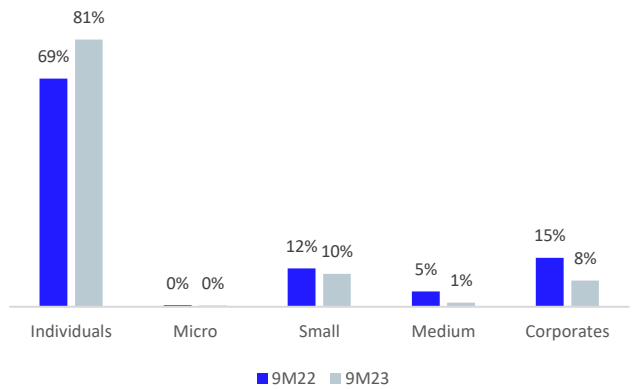
Source: Company Data, Al Rajhi Capital

Figure 52 Medical Client Mix breakup



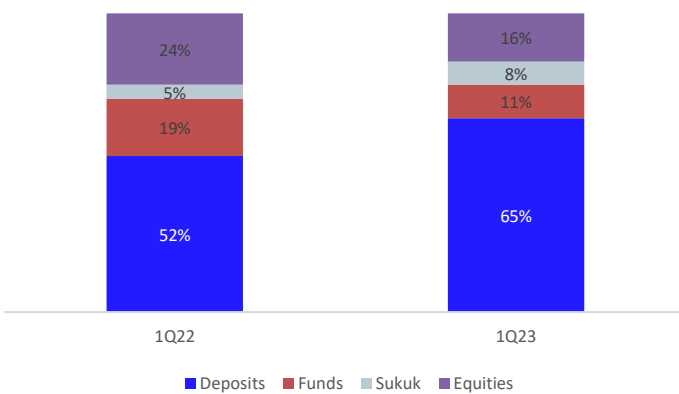
Source: Company Data, Al Rajhi Capital

Figure 53 Motor Client Mix breakup



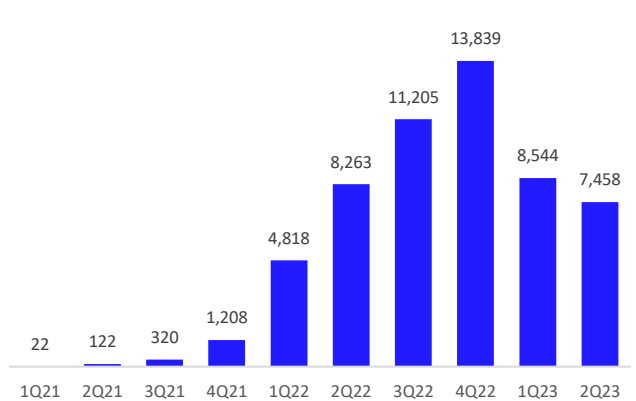
Source: Company Data, Al Rajhi Capital

Figure 54 Asset Allocation



Source: Company Data, Al Rajhi Capital

Figure 55 IDI policies from 2021 till date



Source: Company Data, Al Rajhi Capital

Financials

Figure 56 Income Statement

	2023E	2024E	2025E
GWP	907	1,013	1,111
<i>Growth</i>	-4%	12%	10%
Insurance Revenue	929	948	1,040
<i>as % of GWP</i>	102%	94%	94%
Insurance Expenses	(813)	(805)	(871)
Reinsurance Income/Expenses	(76)	(57)	(65)
Insurance service result	39	87	104
<i>Growth</i>	-36%	121%	20%
Investment Income	30	33	34
Net Finance Expenses/Income	(12)	(13)	(17)
Other operating expenses	(21)	(23)	(25)
Other Income	19	9	10
Profit Before Tax	(14)	(26)	(32)
<i>Growth</i>	-21%	86%	22%
Zakat & taxes	(9)	(17)	(19)
Net Profit	40	68	76
<i>Growth</i>	-242%	69%	13%
EPS	0.8	1.4	1.5

Source: Al Rajhi Capital estimates

Figure 57 Balance sheet

	2023E	2024E	2025E
Statutory deposit	75	75	75
Property and equipment, net	4	3	2
Investments	221	223	225
Deposits	281	287	293
Prepaid expenses and other assets	95	95	95
Reinsurance contract assets	121	96	59
Accrued income on Statutory deposit	3	3	3
Cash and cash equivalents	128	240	365
Total Assets	928	1,022	1,117
Accrued expenses and other liabilities	23	23	24
Insurance contract liabilities	459	484	501
Others	53	54	55
Total Liabilities	535	560	580
Total Equity	394	461	537
Total Liabilities & Equity	928	1,022	1,117

Source: Al Rajhi Capital estimates

US\$0.57bn Market Cap. 76.07% Free Float US\$5.29mn Avg. Daily Value traded

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Walaa

Overweight

Price Target (SAR): 20.6

Current: 17.2

Upside/Downside: 19.6% above current

Valuation Multiples	23E	24E	25E
P/E (x)	13.7	17.6	12.9
P/B (x)	1.2	1.1	1.0
ROE (%)	9.1	7.2	8.0

Major Shareholders % Ownership

Saudi Awwal Bank	15.60
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Price Performance	1M	3M	YTD
Absolute	-0.9%	-7.6%	19.5%
Relative to TASI	-4.8%	-4.2%	13.5%

Earnings

	2023E	2024E	2025E
GWP	3,221	3,523	3,792
<i>Growth</i>	22%	9%	8%
Insurance Revenue	2,773	2,982	3,217
Insurance Expenses	(1,542)	(1,776)	(1,902)
Reinsurance Income/Expenses	(1,220)	(1,148)	(1,210)
Insurance service result	11	58	106
<i>Growth</i>	-81%	426%	83%
Net insurance and investment results	130	148	192
<i>Growth</i>	0%	14%	29%
Profit Before Tax	121	126	171
<i>Growth</i>	-873%	4%	36%
Net Profit	106	107	146
<i>Growth</i>	-489%	1%	36%
ROE	9.1%	7.2%	8.0%
P/E	13.7x	17.6x	12.9x
P/B	1.2x	1.1x	1.0x

Source: Company data, Al Rajhi Capital

Initiate with Overweight at SAR 20.6/sh TP

Over the last few years, the company has moved from being a predominantly motor insurance player to a more diversified multi-line insurance company with strong exposure to property & casualty (P&C). Post the acquisition of SABB Takaful last year and the proposal to raise equity through rights issue, Walaa's capital adequacy position is expected to improve notably, positioning it well to capture the opportunities in KSA's insurance market. The company has identified P&C and P&S as the growth areas, while it plans to be selective in the motor insurance business. Both P&C and P&S businesses are low frequency but lumpy/high risk in terms of claims, thus having a strong equity base is important. Within motor, the company is a major beneficiary of the expected growth in the TPL business due to the enforcement. In the medical business, the company is investing in digitization and technical capabilities to improve claim management. In our view, the company's topline is expected to grow by around 10% CAGR over the next 7 years, and profits are expected to grow at a much faster rate supported by improving loss ratio as the rising exposure towards P&C and P&S should improve the aggregate loss ratio. The stock trades at a trailing P/B of 1.2x, relatively attractive versus its peers. We initiate our coverage on the stock with an Overweight recommendation and a target price of SAR 20.6/share.

Diversified player post acquisitions: With a market share of over 5% (2022 GWP), Walaa is the fifth largest insurer in the Saudi market. Post the acquisition of Metlife ANB Insurance Company in 2020 and more recently, the merger with SABB Takaful Company (SABB Takaful) in 2022, its overall portfolio is much more diverse with focus on general insurance, unlike the typical insurance company in the KSA that has a large share of motor and medical. Post the acquisitions, P&C along with energy and engineering has become the largest segment with almost 35% share (as of 9M 2023), while motor has reduced to 20% from a dominant share of 51% in 2019. Walaa's growth strategy is to retain more business in property/casualty (P/C) business line to reduce its exposure to the motor business, in which the company has struggled in the recent past, particularly in the leasing business. Although, it plans to grow in the TPL business, thus a major beneficiary of the enforcement law. The diversified exposure should not only help the company to improve its profitability but also provide a sustainable level of earnings aiding the company to focus on its growth plans.

Strong capital to support growth plans: Despite the sharp losses in 2021, Walaa's capital position is strong led by the company's decision to fund both its acquisitions through equity issuance of SAR 500 mn (SAR 191 mn for Metlife ANB and SAR 294 mn for SABB Takaful). Further, with improved profitability in 9M 2023, the equity base is now SAR 1.2 bn. Recently, Moody's rated the company as A3 with a stable outlook. Similarly, S&P Global Ratings also maintained its 'A-' rating with a stable outlook. The rating agency also mentioned that it expects the capital adequacy levels to be 'AAA' over the next two years. The credit rating is a key factor when underwriting Property and Casualty risks for large risk-averse establishments and companies that, and it is also of great importance in the operations of the reinsurance business (the company's business as re-insurer), which the company underwrites and plans to grow and develop. The company plans to further strengthen its capital by raising another SAR 425 mn through rights issues and that will take the equity to over SAR 1.7 bn.

This should support the company's growth ambitions in the short to medium term, as it follows a consistent strategy of raising capital to support its premium growth. It also demonstrates proactive management that would provide the company with sufficient capital resources to absorb any unexpected earnings volatility.

A major beneficiary of growth in underpenetrated P&S: Walaa got a license to write life insurance business from the acquisition of Metlife KS. Moreover, with acquisition of SABB Takaful, the company got access to the product. Thus, it is one of the few companies in the KSA that has license and product to capture the P&S market. As highlighted in our industry section, we see P&S as highly underpenetrated market with a scope to grow at a very strong rate in the future, especially in the individual business (15% CAGR estimates). We estimate the company's P&S business line to grow at a rate of 15% CAGR over the next 7 years and increase its exposure to the overall GWP to 15% by 2030E.

Profitability to improve going forward: Walaa's financial position weakened in the last two years, mainly in 2021 and 2022, as price war in the motor segment coupled with sharp rise in accidents weighed on the profitability of the company. Its combined ratio deteriorated to 111% and 106% for 2021 and 2022, respectively, from 88% in 2020 and 101% in 2019. Post the rationalisation of pricing in the motor insurance last year, the profitability for the sector as well as Walaa has improved notably. This was reflected in 9M 2023 numbers, the company reported profits of SAR 103 mn versus losses of SAR 57 mn. As the underwriting profits improve, bottom-line should grow at a much faster rate additionally supported by strong investment income. We estimate net income margin to reach average levels of 3.5 %-5.5% in the medium term.

Valuations: Walaa is currently trading at a trailing P/B of 1.2x (unadjusted for rights issue) and 0.9x on 2024E P/B (includes rights issue). Historically, the company's valuations have been very volatile given its dominant exposure to the motor insurance business, from 4.15x trailing P/B in 2017 to 1.2x currently. Given that the company has reduced its exposure to the motor insurance business, we believe the volatility in the earnings will reduce and it will become easier to forecast sustainable profits. Further, its presence in underpenetrated markets such as P&S positions it well to maintain a solid topline growth. However, the company's ROE levels are still weaker than its peers, thus we value it a slight discount to its closest peers at 1.3x on 2024E P/Bx. Our target price of SAR 20.6/share is derived through a combination of residual income as well as price to book. We initiate our coverage on the stock with an Overweight recommendation.

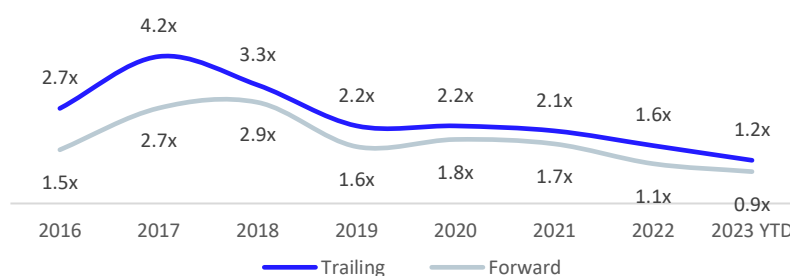
Figure 58 Valuation

Relative Valuation	Value
P/B Multiple	1.3x
2024E BVPS / EPS	16.0
Fair Value	20.8

Blended valuation	Fair Value	Weights	Value/Sh.
RI approach	20.3	50%	10.2
Relative Valuation - P/B	20.8	50%	10.4
Target Price			20.6
CMP			17.2
Upside			19.6%

Source: Company data, Al Rajhi Capital

Figure 59 Price to book over the years



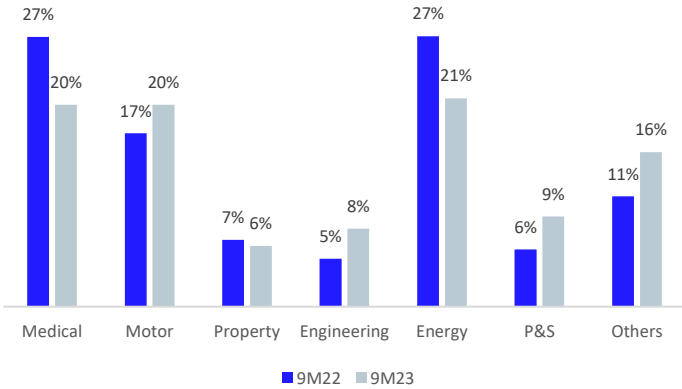
Source: Bloomberg, Company data, Al Rajhi Capital

Business Description: Walaa Insurance is a well-established cooperative insurance company operating in the Kingdom of Saudi Arabia. Walaa was established in 2007 and received operating license from SAMA in 2008. Walaa is headquartered in Al-Khobar - Eastern province, the oil hub of the Kingdom, serving clients all over the Kingdom through three regional offices and more than 70 retail offices. Walaa majorly caters to Energy, Medical, Motor and others.

Walaa Insurance has achieved notable credit ratings from renowned agencies. S&P Global Ratings has assigned an Insurance Financial Strength Rating (IFSR) of (A-) and a GCC regional scale financial strength credit rating of (AAA), both with a 'stable' outlook. In addition, Moody's Investors Service has awarded Walaa Insurance a financial strength rating of (A3).

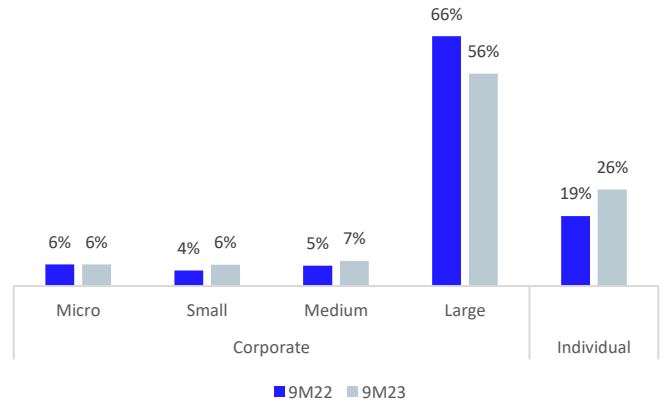
Financials in Charts

Figure 60 Portfolio mix on GWP basis as of 9M23



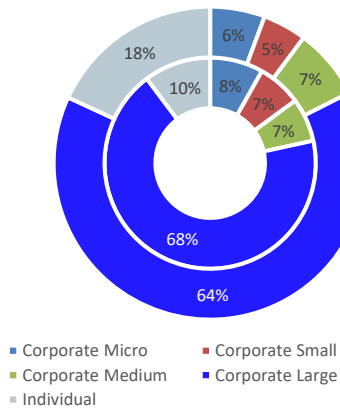
Source: Company Data, Al Rajhi Capital

Figure 61 Client Mix breakup on GWP basis



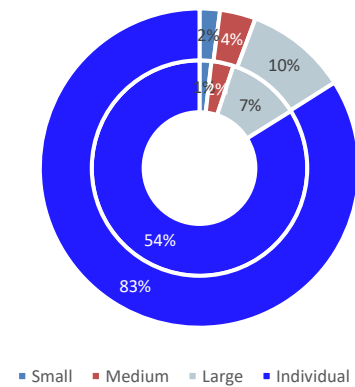
Source: Company Data, Al Rajhi Capital

Figure 62 Medical Client Mix breakup (Outside: Inside – 9M23:9M22)



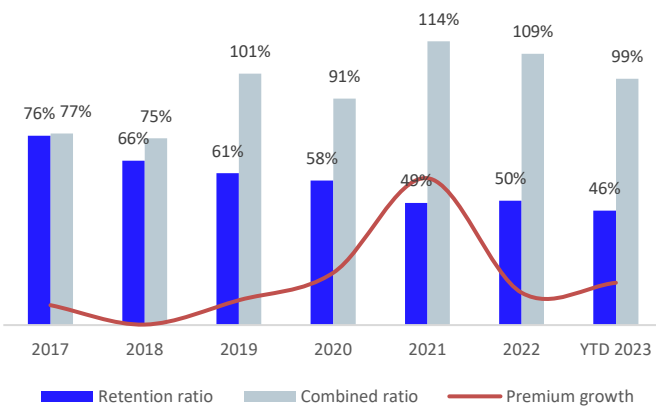
Source: Company Data, Al Rajhi Capital

Figure 63 Motor Client Mix breakup (Outside: Inside – 9M23:9M22)



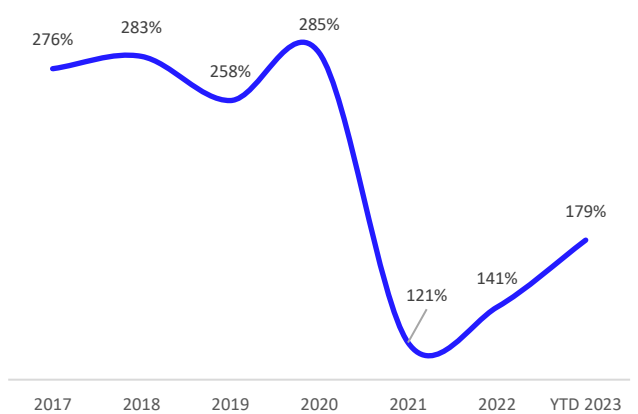
Source: Company Data, Al Rajhi Capital

Figure 64 Key KPIs



Source: Company Data, Al Rajhi Capital

Figure 65 Solvency trend over the years



Source: Company Data, Al Rajhi Capital

Financials

Figure 66 Income Statement

	2023E	2024E	2025E
GWP	3,221	3,523	3,792
<i>Growth</i>	22%	9%	8%
Insurance Revenue	2,773	2,982	3,217
<i>as % of GWP</i>	86%	85%	85%
Insurance Expenses	(1,542)	(1,776)	(1,902)
Reinsurance Income/Expenses	(1,220)	(1,148)	(1,210)
Insurance service result	11	58	106
<i>Growth</i>	-81%	426%	83%
Investment Income	146	132	127
Net Finance Expenses/Income	(27)	(42)	(41)
Other operating expenses	(22)	(36)	(35)
Other Income	13	14	15
Profit Before Tax	121	126	171
<i>Growth</i>	-873%	4%	36%
Zakat & taxes	(15)	(19)	(26)
Net Profit	106	107	146
<i>Growth</i>	-489%	1%	36%
EPS	1.3	1.0	1.3

Source: Al Rajhi Capital estimates

Figure 67 Balance sheet

	2023E	2024E	2025E
Statutory deposit	85	85	85
Property and equipment, net	34	40	45
Investments	1,543	1,599	1,657
Deposits	544	544	544
Prepaid expenses and other assets	54	54	54
Reinsurance contract assets	788	781	773
Goodwill & Intangibles	145	144	142
Cash and cash equivalents	555	1,028	1,167
Others	122	122	122
Total Assets	3,872	4,397	4,589
Accrued expenses and other liabilities	153	177	189
Insurance contract liabilities	2,307	2,273	2,303
Others	188	192	196
Total Liabilities	2,649	2,642	2,688
Total Equity	1,223	1,755	1,901
Total Liabilities & Equity	3,872	4,397	4,589

Source: Al Rajhi Capital estimates

Saudi Reinsurance Co.

Initiate with Overweight at SAR 21.3/sh TP

Overweight

Price Target (SAR): 21.3

Current: 18.36
Upside/Downside: 16% above current

Valuation Multiples	23E	24E	25E
P/E (x)	13.1	15.3	14.6
P/B (x)	1.4	1.3	1.2
ROE (%)	11.5	8.9	8.6

Major Shareholders % Ownership

Ahmed Al Qusaibi & Bros Co. 5.0

Price Performance	1M	3M	YTD
Absolute	6.3%	-8.5%	33.9%
Relative to TASI	2.4%	-5.1%	27.9%

Saudi Reinsurance is the primary beneficiary of the Kingdom's plan to create a national champion in the reinsurance industry. Given that the country is on the verge of an infrastructure boom, P&C business is expected to grow notably, which is the largest reinsurance market. Further, being the only homegrown reinsurer, it is a beneficiary of the local cession program, where primary insurance companies are mandated to cede business to local reinsurer than global. The cession program starts at 20%, will gradually increase to 25% in 2024, and 30% in 2025. The entry of PIF as a strategic investor could play major role in Saudi Re's 2026 strategy to become one of the top global reinsurance company (among top 50), thus easing concerns over the need of capital to grow in the reinsurance business. Given the bright growth prospects, we believe the stock should trade at at least 1.5x forward P/B, yielding a target price of SAR 21.3/share. At this TP, the implied upside is around 16%, thus, we initiate with an Overweight recommendation.

Sole local reinsurer and diversified globally: Saudi Reinsurance is the Saudi Reinsurance Company "Saudi Re" is a Saudi joint stock company, founded in Riyadh in 2008 as the first reinsurance company established in Saudi Arabia. The company has a strong underwriting expertise in Engineering, Property, Marine, Casualty, Motor, Retro, and Life & Medical. The company has a strong capital position, paid up capital of SAR 891 mn, 4 times the minimum capital requirement and is rated A- (Stable) and A3 (Stable) by S&P and Moody's, respectively. The rating agencies attribute the strong ratings to competitive position, diversification in local and international expansion, strong asset quality and capital adequacy level. Saudi Re has a diversified portfolio of facultative and treaty proportional and non-proportional business with presence in over 40 markets in the Middle East, Asia, and Africa. At present, the international business accounts for 44% of the portfolio and locally it is the exclusive reinsurer for IDI program.

2026 strategy: Saudi Re has a strategy to be among the top 50 global reinsurers, by solidifying its status as a national champion by pursuing two primary strategic objectives that facilitate growth both locally and internationally. In the local market, the company is expected to benefit from the local cession program. In return, the company plans to support the Kingdom's national agenda by increasing the penetration of insurance, avoiding outward forex flows by retaining reinsurance premiums, creating local employment, etc. Further, it is focusing on leading and managing local reinsurance pools in partnership with international reinsurers to effectively manage risks. The company plans to pursue its international ambition through its associate company, Probitas Holdings (Bermuda) a Lloyd's syndicate, in which Saudi Re has a 49.9%. This acquisition is one of the company's strategic tools to expand international business and tap into the Lloyd's market. Saudi Re is also eyeing other acquisition opportunities in the international markets. The company is expected to leverage existing presence and experience in the international markets and promote knowledge transfer for writing local business. At the same time, the company plans to achieve economies of scale through international expansion and diversification. The economies of scale would enable it to reduce volatility and absorb large losses more easily, benefit from higher interest rates by investing investment income from premium floats. On the back of strong brand name locally, the company plans to explore opportunities in high-growth markets in the Middle East and Asia. The strength of the Saudi Re brand and our cooperative model provide further advantages in these markets.

Earnings

	2023E	2024E	2025E
GWP	1,913	2,170	2,563
<i>Growth</i>	36%	13%	18%
Insurance Revenue	782	868	1,025
Insurance Expenses	(657)	(729)	(861)
Reinsurance Income/Expenses	(9)	(43)	(51)
Insurance service result	116	95	113
<i>Growth</i>	-9%	-17%	18%
Net insurance and investment results	132	115	127
<i>Growth</i>	-6%	-13%	11%
Profit Before Tax	152	130	136
<i>Growth</i>	144%	-14%	5%
Net Profit	125	107	112
<i>Growth</i>	201%	-14%	5%
ROE	11.5%	8.9%	8.6%
P/E	13.1x	15.3x	14.6x
P/B	1.4x	1.3x	1.2x

Source: Company data, Al Rajhi Capital

Local edge: Saudi Re has developed a range of reinsurance solutions which cater for the conventional and the Takaful and Re-takaful industry and very well positioned to offer first class security in treaty and facultative in both proportional and non-proportional businesses. Being the only homegrown reinsurer, Saudi Re enjoys professional relationships with almost all active insurance companies in Saudi Arabia. Saudi Re is exempt from withholding tax which is an advantage when dealing with a domestic reinsurer. Also, the close proximity and specific knowledge in the local risk profile are key factors which make Saudi Re a reinsurer of choice. SAMA introduced a new mechanism in October 2022 to improve enforcement of local retention of reinsurance premiums within the country. According to this mechanism, insurance companies are required to cede a share of all their reinsurance treaties, proportional and non-proportional, to the local reinsurance market with effect from 1 January 2023. The cession share which starts at 20% will gradually increase to 25% in 2024, and 30% in 2025. This increased retention of reinsurance premiums is expected to have a positive impact on the domestic insurance market, strengthen the financial stability of the sector, and enable the national reinsurance market to play a more active role.

PIF stake: Last month, the company announced that Saudi Re and PIF entered into a non-binding MoU wherein PIF will acquire a significant minority stake in the company for a price of SAR 16/share. The transaction is subject to the conclusion of the subscription agreement by Saudi Re and PIF. It is also conditional on the absence of any change in the CEO position or any other position in Saudi Re's executive management. In order to pursue its 2026 strategy to become among the top reinsurer company, the company has been pursuing capital increase for some time exploring different options such as rights issue. However, the decision to have a strategic investor such as PIF can have multiple benefits. PIF would aid the company in terms of not only raising capital (important to grow in reinsurance business) but boosts the possibility of Saudi Re getting some preference in winning PIF led construction projects. At the same time, this also supports KSA's ambition to promote and grow a national champion in the reinsurance business and reduce the reliance on global reinsurance companies.

Valuations: Saudi Re has an equity of SAR 1.1 bn as of 9M 2023, implying currently it is trading at a trailing P/B of 1.5x. In our view, the capital infusion from PIF could be around the quantum of rights issue (expired), in the range of SAR 400-500 mn. If we consider the low end of the range, then at SAR 1.5 bn proforma equity, the stock is trading at a trailing P/B of just 1.0x. In the past, Saudi Re has traded at a trailing P/B of 1.1x with improvement in the recent years. In the last three years, the stock has been trading at a trailing P/B of 1.5x and a forward P/B of 1.3x. The reason for discount to the insurance sector in the past is due to weak operating performance before Covid. Given the bright growth prospects and the monopoly in the local reinsurance market, we believe the stock should command a premium to its historical multiple and trade around 1.5x on the forward basis. We value the stock at a forward P/B of 1.5x to arrive at a fair value through relative valuation methodology of SAR 21/share. Our blended valuation approach (RI and P/B) yields a target price of SAR 21.3/share, that implies an upside of over 16% from the current levels. We initiate our coverage on the stock with an Overweight recommendation.

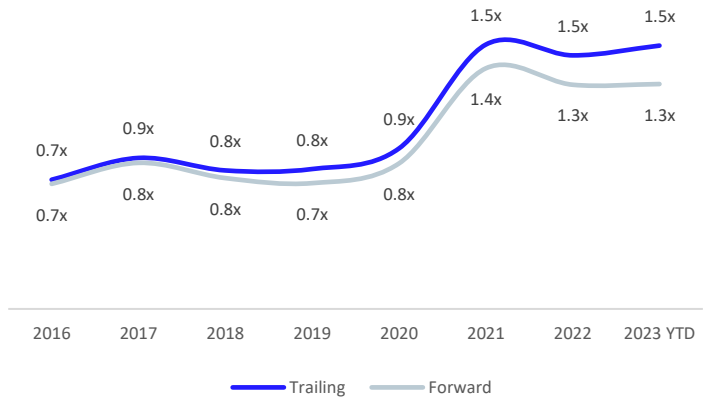
Company Description: Saudi Re is a leading reinsurance company based in Saudi Arabia. Established in 2008, it operates in the field of reinsurance, providing risk management solutions to clients in the Middle East and beyond. As a cooperative full-fledged reinsurer, it holds the distinction of being the first reinsurance company licensed by the Insurance Authority. Offering facultative and treaty solutions on both proportional and non-proportional bases, Saudi Re specializes in underwriting expertise across various sectors, including Engineering, Property, Marine, Casualty, Motor, Retro, and Life & Medical. With a paid-up capital of SR 891 million, the company holds A- (Stable) and A3 (Stable) ratings from S&P and Moody's.

Figure 68 Valuations

Relative Valuation	Value
P/B Multiple	1.5x
2024E BVPS / EPS	14.1
Fair Value	21

Blended valuation	Fair Value	Weights	Value/Sh.
RI approach	22	50%	11
Relative Valuation	21	50%	11
Target Price			21.3
CMP			18.4
Upside			16.0%

Figure 69 Price to book trend over the years

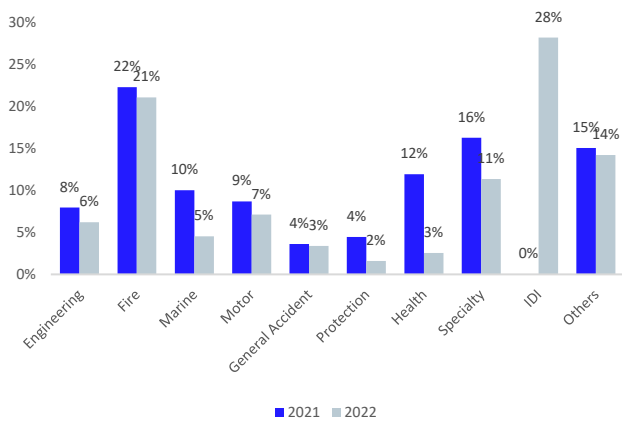


Source: Company Data, Al Rajhi Capital

Source: Company Data, Al Rajhi Capital

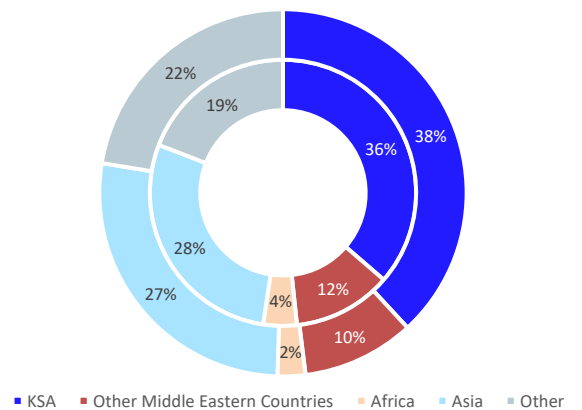
Financials in Charts

Figure 70 Portfolio Mix



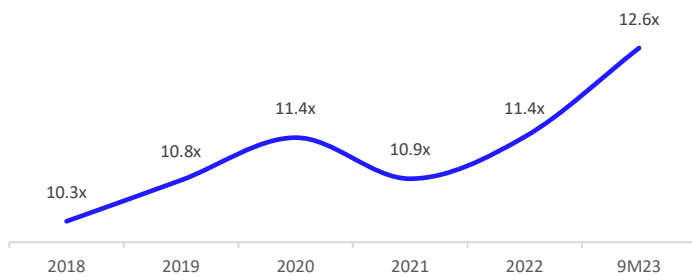
Source: Company Data, Al Rajhi Capital

Figure 71 Geographical Mix breakup (Outside: Inside – 9M23:9M22)



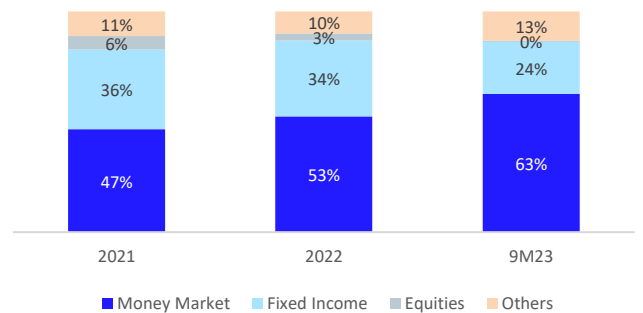
Source: Company Data, Al Rajhi Capital

Figure 72 Book value over the years



Source: Company Data, Al Rajhi Capital

Figure 73 Investment book mix



Source: Company Data, Al Rajhi Capital

Financials

Figure 74 Income Statement

	2023E	2024E	2025E
GWP	1,913	2,170	2,563
<i>Growth</i>	36%	13%	18%
Insurance Revenue	782	868	1,025
<i>as % of GWP</i>	41%	40%	40%
Insurance Expenses	(657)	(729)	(861)
Reinsurance Income/Expenses	(9)	(43)	(51)
Insurance service result	116	95	113
<i>Growth</i>	-9%	-17%	18%
Net Investment Income	58	69	64
Net Finance Expenses/Income	(41)	(49)	(49)
Other operating expenses	(39)	(43)	(51)
Other Income	58	58	60
Profit Before Tax	152	130	136
<i>Growth</i>	144%	-14%	5%
Zakat & taxes	(19)	(17)	(17)
Net Profit	125	107	112
<i>Growth</i>	201%	-14%	5%
EPS	1.4	1.2	1.3

Source: Al Rajhi Capital estimates

Figure 75 Balance sheet

	2023E	2024E	2025E
Statutory deposit	89	89	89
Property and equipment, net	37	39	40
Investments	1,358	1,384	1,411
Prepaid expenses and other assets	416	416	416
Reinsurance contract assets	398	446	495
Cash and cash equivalents	96	209	428
Others	223	223	223
Total Assets	2,617	2,806	3,102
Accrued expenses and other liabilities	250	182	207
Insurance contract liabilities	1,079	1,227	1,385
Others	143	144	146
Total Liabilities	1,472	1,553	1,737
Total Equity	1,145	1,252	1,365
Total Liabilities & Equity	2,617	2,806	3,102

Source: Al Rajhi Capital estimates

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"Neutral": We expect the share price to settle at a level between 10% below the current share price and 10% above the current share price on a 12 month time horizon.

"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.

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