Gulf Insurance Group SA
Insurance-Finance
GIG AB: Saudi Arabia
30 January 2023

الراجحي المالية
Al Rajhi Capital

US$0.371bn	49.84%	US$0.84mn
Market cap	Free float	Avg. daily volume

Target price	**35.00**	**26.8% above current**
Current price	**27.70**	**as at 30/01/2023**

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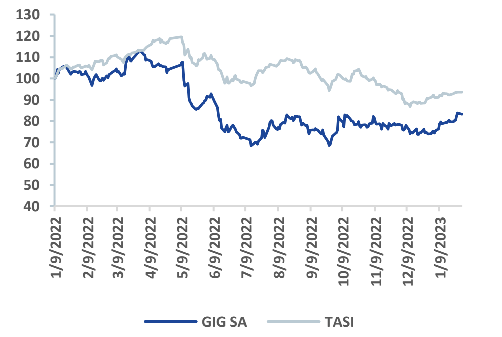
Existing rating

Underweight	Neutral	Overweight

Performance



Earnings

Period End (SARmn)	2022E	2023E	2024E
GWP	**1,543**	**1,641**	**1,704**
Growth (%)	6%	6%	4%
NEP	**1,343**	**1,433**	**1,494**
Growth (%)	5%	7%	4%
NCI	**(988)**	**(1,066)**	**(1,088)**
Loss Ratio	73.5%	74.4%	72.8%
Net Underwriting income	**225**	**236**	**274**
Growth (%)	-20%	5%	16%
Net profit	**99**	**114**	**139**
Growth (%)	-29%	16%	21%
EPS (SAR)	**2.0**	**2.3**	**2.8**
EPS Growth	-29%	16%	21%
P/E	13.4x	14.0x	12.1x
P/B	1.9x	1.5x	1.3x

Source: Company data, Al Rajhi Capital

GIG SA

Initiate with Overweight rating and a target price of SAR 35.0

For the first time in several years, the insurance sector has witnessed notable price hikes in two of its largest segments, health and motor. The developments in the motor insurance segment is interesting in particular. The motor segment's GWP has seen high teens growth (9M 2022), the first positive growth in the last six years. Some of the companies' have seen over 50% growth in GWP, mainly led by price hikes. Similarly, in the health segment, GWPs are up 26% y-o-y, the highest growth in more than a decade. The health segment's price hikes were mainly led by Bupa in the wake of multiple changes in the healthcare industry such as Article 11, new table of benefits and price inflation. The uncertainty in the healthcare around the loss ratio still persists. However, 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. Moreover, after two years of high loss ratios (82% in 2021 and 97% in 9M 2022), the companies do not have the ability to indulge into price wars, atleast in the near term. Despite, the expected improvement in the loss ratio for the motor segment industry wide, we remain cautious and have preference for companies that are known to not chase market share at the expense of loss ratio and have a superior track record of profitability. In terms of portfolio, our preference is for the ones with exposure to higher mix of comprehensive insurance policies, balanced mix of corporate accounts as well as individuals. In our view, GIG SA meets the criteria mentioned above. Further, the stock trades at just 1.3x 2023e P/B multiple, much lower than its peers. We initiate the company with an overweight rating and a target price of SAR 35.0/share.

Diversified player with a strong position in motor: GIG SA is one of the top insurance players in the KSA market with motor being its largest segment (49% share based on 9M 2022), followed by health (28% mix) as well as property & casualty (19%). In the motor segment, the company ranks among the top 3 players along with Al Rajhi Takaful and Tawuniya, with a market share of 8%.

Superior track record of profitability and capital level: Over the last decade or so, the company has not made losses even once, one of the best track records in the industry. Further, also in 2022, which was a very tough year for the motor in terms of loss ratio (industry: 97% in 9M 2022), GIG SA has managed to report profits. At the same time, it has a superior track record of capital ratios.

Backing of Fairfax: Based on our discussion with the management, the exit of AXA as a shareholder would not change the strategic objectives. Thus, despite the exit of AXA as a shareholder, we believe that GIG SA, which will be backed by Fairfax, would maintain the same strategic focus of regional growth, customer experience and digital transformation.

Valuations and risks: The stock trades at a 2023e P/B of 1.3x below its historical average of 1.6x. Given that the company will be entering a phase of sustainable earnings (before Zakat) growth (almost 12% CAGR between 2022-2027e), we believe the current valuation levels are attractive. We value the stock at SAR 35.0/share based on a combination of P/B and P/E methodology. Key risks include competition in motor, higher than expected loss ratios in the P&C.

Sector overview:

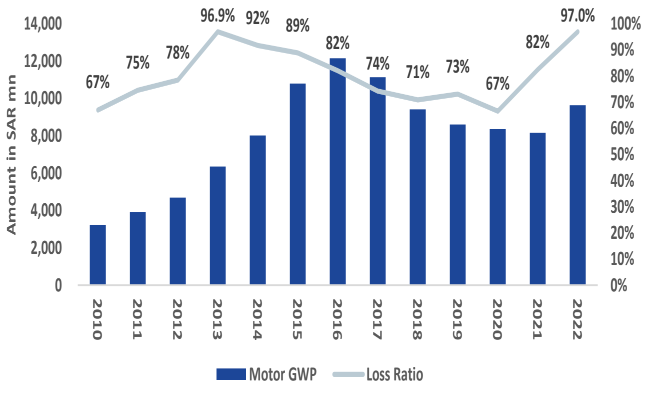
The insurance market in Saudi Arabia can be divided mainly into two major categories, health being the largest (58% as of Q3 2022) followed by motor (19% as of Q3 2022). The remaining categories such as property & casualty and protection & savings are still in the nascent stage of size. Health is primarily a duopoly with Bupa (48%) and Tawuniya (29%) accounting for 77% share of the market, followed by Medgulf and AlRajhi Takaful. However, the motor insurance segment is a very competitive space with the top three players having just 32% market with the largest player (Al Rajhi Takaful) having a market share of just 15.3%.

Currently, the insurance penetration rate (GWP to Total GDP) in Saudi Arabia is just around 1.26% as of Q3 2022 (SAMA), considered to be on the lower side. The penetration is expected to improve driven by both structural as well as non-structural factors that includes population growth, high prevalence of lifestyle diseases, females being allowed to drive, rising home ownership, rising awareness of different insurance products, etc. As per Bupa, the health insurance market is expected to grow at a CAGR of almost 13% during 2022e-2025e and reach a market of SAR 43.9 bn by 2025. The motor segment, on the other hand, would be mainly driven by a greater number of females driving vehicles, mandatary insurance for all the vehicles, as well as price hikes. The other categories of insurance such as property & casualty and protection & savings would be supported by regulatory push for greater compliance (enforcement of buying inherent defect policy) as well as awareness among the population (low awareness of life insurance product), respectively. Moreover, the Saudi Arabian government has been taking steps to develop and modernize the insurance industry, such as allowing foreign companies to enter the market and setting up regulations for Takaful (Islamic insurance) companies. These efforts are expected to further strengthen the market and increase the level of competition, which can bring benefits for the customers, and eventually increase the penetration rate of the insurance market in the country.

Motor segment:

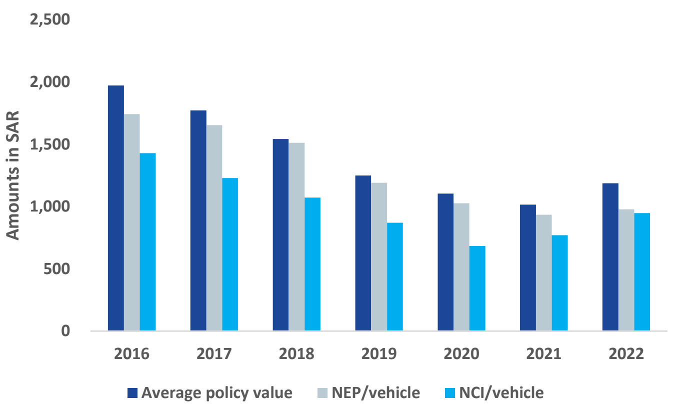
Given that GIG is primarily a motor insurance company, the focus of the report is to stress on the developments in the motor segment. Over the years, due to the structure of the motor insurance industry, we have witnessed steep competition among the players resulting in volatile earnings. The industry has seen intermittent phases of high profits followed by price wars/compromise on pricing causing capital erosion. If we look at the last decade or so, the best years for the industry were during 2017-2019 when the loss ratio averaged just 73%. Currently, as per the latest data the loss ratio in Q3 2022 was 97.0%, the highest in the last decade (in 2013 it was 96.9%). We are analyzing the pre-Covid and post-Covid phase to understand what went wrong in the industry.

Figure 1 **Motor Segment Indicators**



Source: Saudi Central Bank, Company filings, Al Rajhi Capital

Figure 2 **Motor segment policies sold**



Source: Saudi Central Bank, NAJM, Al Rajhi Capital.

Note: Average policy value is gross written premium per vehicle, NEP/vehicle is net earned premium per vehicle and NCI/vehicle is net claims per vehicle.

Pre Covid-era – Lower claims masked the impact of pricing compromise:

At the end of 2016, the regulation related to no-claim discount was released, wherein policyholders were required to be provided discounts during renewing the policies in case they do not make any claims in the previous year. This had negatively impacted the average pricing, however, the claims also declined as the drivers were incentivized to reduce claims. During 2017-2019, the claims per insured vehicles declined by an average 15%, while the pricing declined at a slightly lower rate of average 14% during the same period. Given that the decline in pricing was lower than the claims, this was healthy and the industry made high profits. However, during this phase an important development took place, women were allowed to drive in the second half of 2018. This created a new market and for the first time in many years the industry witnessed volume growth. As per our analysis, during 2018-2021, number of insured vehicles grew at a CAGR of almost 10% and an additional almost 2.0 m insured vehicles were added in these 3 years. In addition to female driving rule which was the key driver, increased awareness about the insurance product as well as higher fines on non-insured cars (in case of traffic violation) also aided the market.

To capture the volume growth, the insurance companies started to compromise on policy pricing. This was further aggravated by the emergence of third-party aggregators, which gained prominence in 2020. As consumers could compare the different policy prices on the aggregator website such as Tameeni, pricing became important to retain or gain market share. Moreover, it appears that the insurance companies assumed the lower claim/vehicle trend witnessed during 2017-2019 to continue.

Post Covid era- impact of compromise on pricing became prominent:

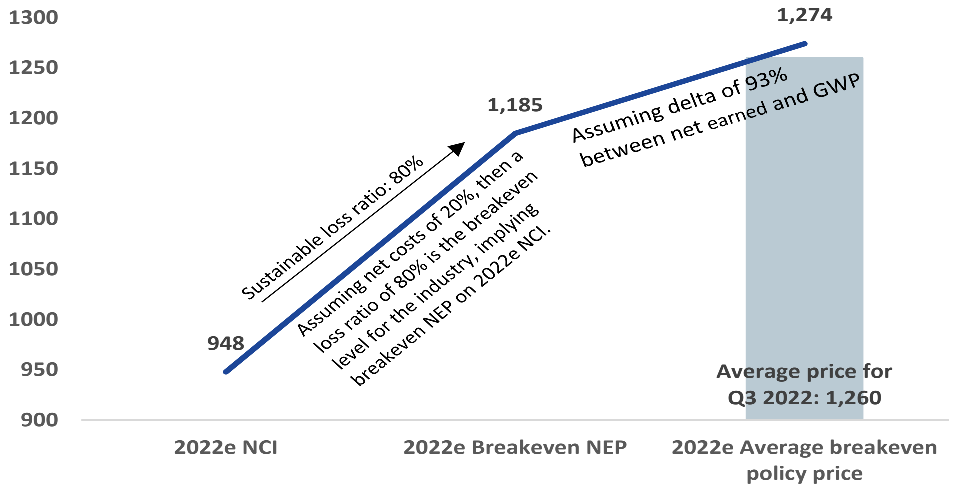
The post Covid phase, mainly 2021 and 2022, saw the impact of the improper pricing of the policies. In 2021, the claims per insured vehicles shot up 13%, while the average pricing was down 8%. Despite the spike in loss ratio in 2021, the industry was slow to increase the policy prices. The average increase in policy prices in Q1 2022 was just 4%, while claims/vehicles in Q1 2022 had further shot up by 19% y-o-y. This alarmed both the companies as well as investors in the insurance companies and the stock price of motor insurance companies started to plunge.

However, the course action has begun, and the industry has taken meaningful price hikes. As per our discussion with key insurance players, the prices hikes taken are in the range of 50-100% depending on the risk profile. So far as per the available data, the increase in average premium price in 9M 2022 was 17% with Q3 2022 seeing price hikes of 33%. In our view, the impact of the price hikes would be more noticeable in Q4 2022 and Q1 2023. Thus, we believe the loss ratio of 97% in Q3 2022 is the peak level and we should see improved profitability for the industry as a whole in 2023.

Is the price hike enough?

Now the key question arises is the price hike enough to put the industry on a sustainable profitability. As per our calculation the average estimated claim per insured vehicle for FY 2022 would be around SAR 948. If we assume G&A costs of 14% of net earned premium, policy acquisition costs of 10% and investment income of 4% of net earned premium, then a loss ratio of 80% is the breakeven level for the industry. This implies at our estimated 2022e net claim level, the net earned premium per vehicle should be around SAR 1185 and the GWP/vehicle, which is the gross policy price should be around SAR 1274/vehicle. We have assumed delta of 93% between net earned and GWP (average of 2019-2021). As per the data available and our calculations, the average premium policy price has already touched SAR 1260 in Q3 2022, not far away from the breakeven level. Further, as the full impact of price increases will be seen in Q4 2022 and Q1 2023, we believe the policy prices would be above the SAR 1274/level, which is the breakeven.

Figure 3 **Breakeven price to achieve sustainable loss ratio**

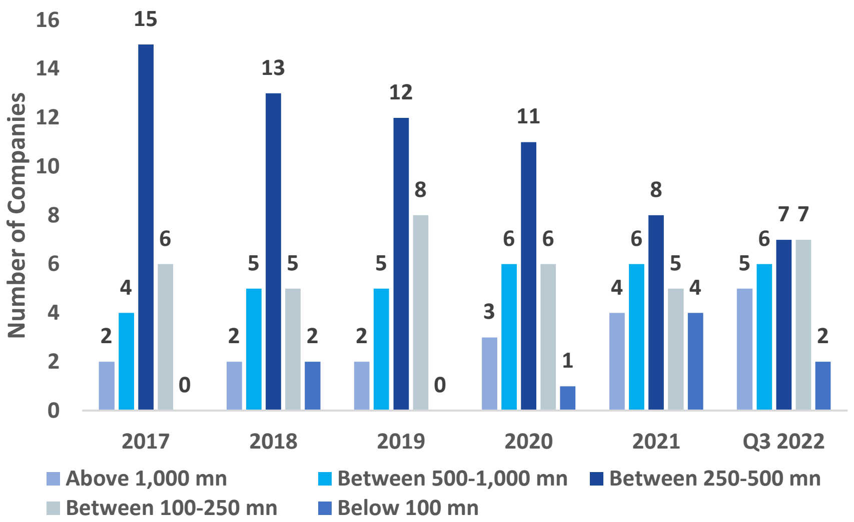


Source: SAMA, NAJM, Al Rajhi Capital estimates
Note: NCI is net claims per vehicle, NEP is net earned premium per vehicle and average breakeven policy price is gross written premium per vehicle

Phase of sustainable profits?

Another concern that often resurfaces for motor segment is the companies again getting into competitive pricing once they have healthy capital ratios. We do not rule out this risk, thus we prefer companies that have a strong track record of pricing discipline. However, given that many companies have seen notable capital erosion in the recent years, in our view this risk is low at-least in the short term. In 2017, about 15 companies had total equity in the range of SAR 250-500 mn, now that number has been reduced to just 7. Although, some upward migration happened due to issuance of additional capital, we believe the motor insurance companies have learnt the hard lesson about chasing the volumes while compromising on the pricing. Moreover, many companies are now investing significantly in developing risk analytics to price the policies better, thus we believe the worst is behind us and we could see the industry moving towards a phase of rationale pricing resulting in sustainable profits.

Figure 4 **Companies' bifurcation by capital levels**



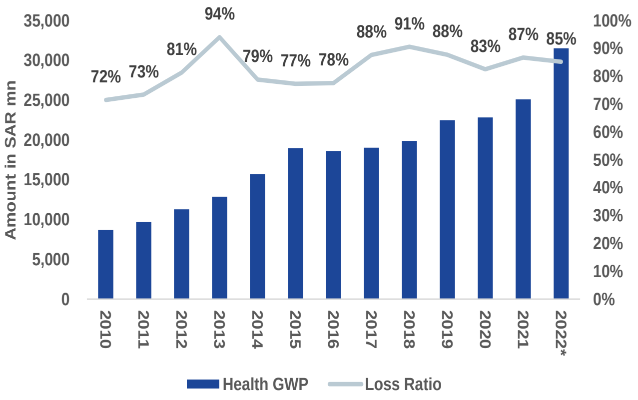
Source: Company filings, Al Rajhi Capital

Health segment:

The health insurance segment is benefitting on two fronts, both volumes and pricing. On the back of rising employment among the local population and return of expats, insured lives are up 14% in 2022 (from end of 2021 till 20 Oct 2022). At the same time, the insurance companies have taken double digit price hikes driven by various developments such as Article 11, NPHIES implementation and new table of benefits (ToB). In Q3 2022, total GWP in the sector grew by 27% y-o-y. We believe as the second phase of new table of benefits will be implemented in 2023 and medical inflation continues to be high, we would see another round of prices hikes in 2023, albeit at a lesser magnitude. Further, as the economy continues to be strong, the employment levels would further improve, aiding insured lives. Thus, from a topline perspective, the health segment looks attractive.

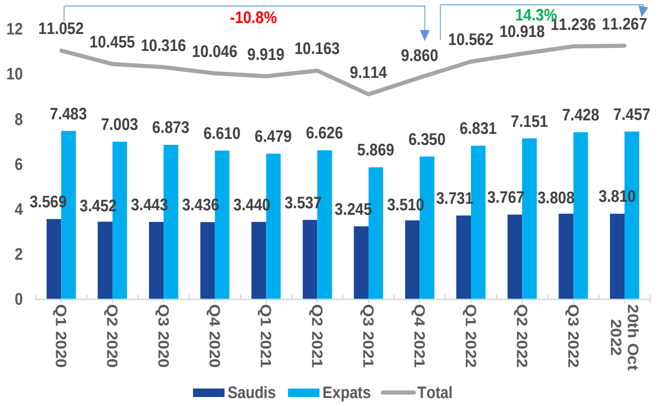
However, the loss ratios have been on the higher side in 2022 (9M) and could remain a concern in the near term. As the sector is dealing with too many developments, it is too early to judge the efficacy of price hikes. We are mainly cautious on the impact of Article 11, where a network of government hospitals are added to the insurance coverage. As NPHIES', the online mechanism for claim management, is streamlined, we could see higher claims from the government hospitals.

Figure 5 **Health Segment Indicators**



Source: Saudi Central Bank, Company filings, Al Rajhi Capital *: denotes estimated numbers calculated for 2022

Figure 6 **Total Insured lives**



Source: Tawuniya Q3'22 presentation, Al Rajhi Capital

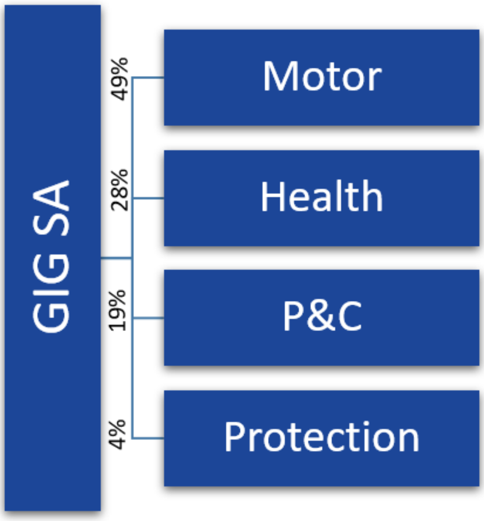
GIG Saudi Arabia business overview:

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. The company has a balanced exposure with 23% exposure to individuals, mainly auto-leasing customers, and remaining to the corporates that includes leasing companies as well as corporates with a fleet of cars. 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 SME plan is designed for small and medium group companies that include between 2 to 500 members, while the large corporates is for businesses having employees above 500. Its healthcare products are branded as Diamond, Platinum, Gold, and Silver, mentioned in the order of significance of the benefits/coverage provided.

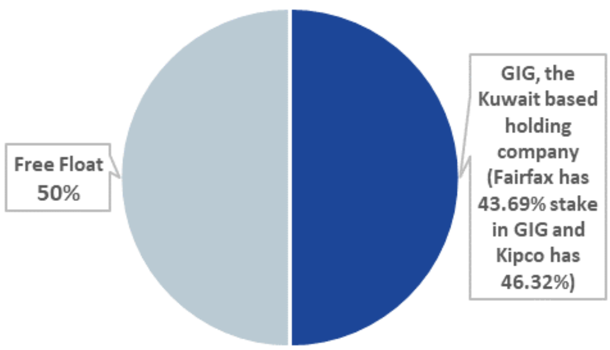
The other two segments of the company are Property & casualty (P&C) and Protection & Savings (P&S). P&C includes comprehensive insurance for property against fires, lighting, storms, hurricanes, earthquakes, floods, impact damages, etc. P&C also includes engineering as well as marine insurance. The property & casualty business is one of the focus areas for the company and unlike its peers that reinsure bulk of the business, GIG Saudi Arabia retains over 60% of the P&C's GWP. On the other hand, P&S includes mainly the life insurance wherein the nominee is paid the insured amount on death of the insured person.

Figure 7 **Business Segments**



Source: Company filings, Al Rajhi Capital

Figure 8 **Shareholding**

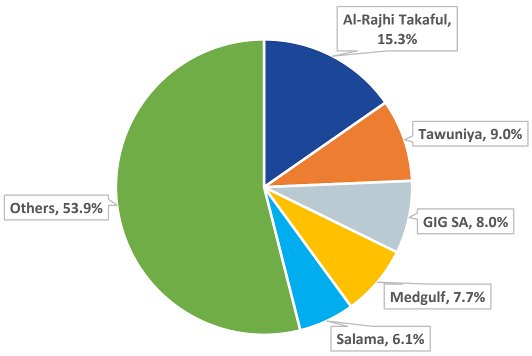


Source: Company Filings, Al Rajhi Capital

Investment rationale

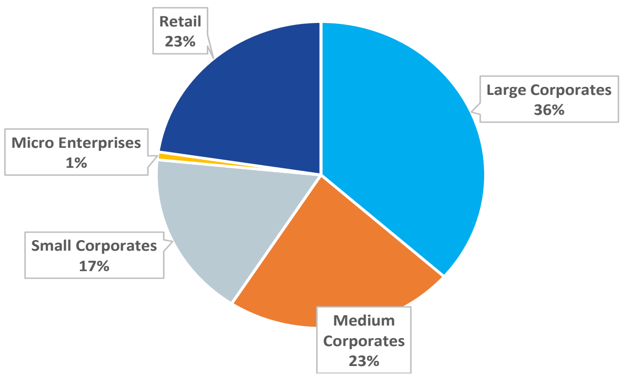
Diversified player with a strong position in motor: GIG SA is one of the top insurance players in the KSA market with motor being its largest segment (49% share based on 9M 2022). Further, it has notable exposure to other key segments such as health (28% mix) as well as property & casualty (19%). In the motor segment, the company ranks among the top 3 players along with Al Rajhi Takaful and Tawuniya, with a market share of 8%. The diversified profile helps the company to navigate through turbulent times. In the motor segment, the company has a right mix of exposures, with individuals accounting for 23% (as of 9M 2022), the remaining coming from the corporates. In the corporate motor business, the company offers solutions to both SME (fleet of less than 100 cars) and large corporates (more than 100 cars). As of 9M 2022, the large and medium corporates together account for 59% share, while the share in the small corporates has grown exponentially over the years, currently accounting for 17% of the total portfolio (as of 9M 2022) from less than 1% in 2017. In our view, having large exposure to corporates aid in lowering the policy acquisition costs as individual policies are mostly sold through the aggregators that charge 15% of the GWP. Further, most of the corporates buy comprehensive motor insurance that tends to be having lower loss ratios. Thus, the current exposure of the company is very attractive from the perspective of earning sustainable profits.

Figure 9 **Market Share (on GWP basis as of 9M22)**



Source: SAMA, Company filings, Al Rajhi Capital

Figure 10 **GIG SA Motor-Client Mix breakup**

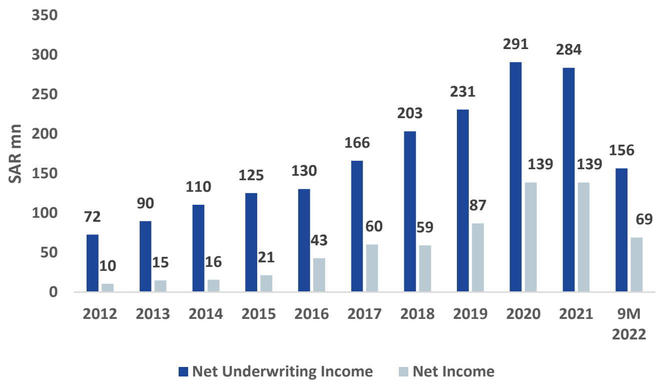


Source: Company filings, Al Rajhi Capital

Superior track record of profitability and capital level: Over the last decade or so, the company has not made losses even once, one of the best track records in the industry. The company made profits on both net underwriting level and net income. Even during 2021-2022, when the motor industry was struggling with high loss ratio (82% and 97% in 2021 and 9M 2022 resp.), the company managed to keep its loss ratio (73% and 87%) in the motor segment way below the industry. This is possible mainly due to its strategy to not chase topline at the expense of profitability. This can be confirmed from the movement in motor GWP in 9M 2022. Given that prices have increased notably in 2022, we have noticed sharp movement in motor portfolios between companies, that is customers (mainly individuals) moving from one company to another in the search of relatively prices. GIG SA's motor GWP just grew slightly over 1% in 9M 2022 as the company decided to let go some of the policies that are not meeting its profitability criteria.

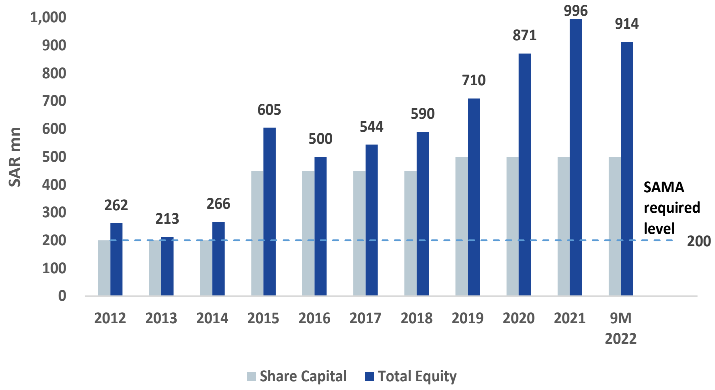
In addition to a strong track record of profitability, GIG SA also maintains a healthy equity base of SAR 914 mn as of 9M 2022, way above the required capital requirement of SAR 200 mn. In terms of solvency ratio, we believe GIG SA has always maintained the regulatory requirement of 100% solvency ratio. In our view, this is a very strong indicator of the company's prudent risk management. This gives us enough confidence to believe that even in the future GIG SA would follow its strategy of placing profitability ahead of topline growth. In an industry that is infamous for chasing growth, we believe the discipline to focus on profitability over growth should be an important parameter for the investor.

Figure 11 **Net underwriting Income and Net profit before Zakat**



Source: Company filings, Al Rajhi Capital

Figure 12 **GIG SA capital has always been above SAMA level**

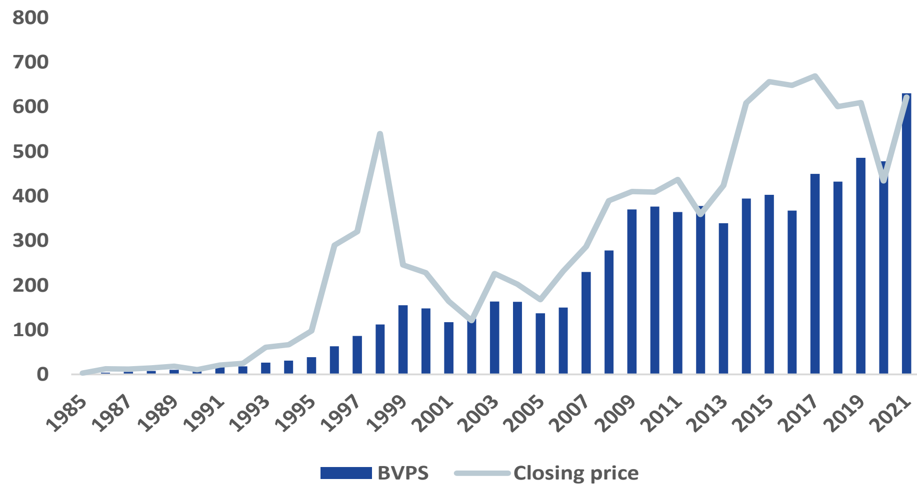


Source: Company filings, Al Rajhi Capital

Fairfax backing a key strategic advantage: Based on our discussion with the management, the exit of AXA as a shareholder would not change the strategic objectives, rather it plans to build on the AXA equity and aims to become a large regional insurance company. Thus, despite the exit of AXA as a shareholder, we believe that GIG Saudi Arabia, which will be backed by Fairfax, would maintain the same strategic focus of regional growth, customer experience and digital transformation.

Gulf Insurance Group, the key shareholder in GIG Saudi Arabia, is 43.81% owned by Fairfax. Farifax is a Canadian based financial holding organization owning insurance companies in over 40 countries. It has strong presence in the US and other developed insurance markets. Fairfax is known for creating significant shareholder wealth over the years, as per its 2021 annual report, the holding company has grown its book value per share at a CAGR of 18.2% between 1985-2021 and its share price has generated 15.7% CAGR during the same period.

Figure 13 **Fairfax BVPS and Stock price**



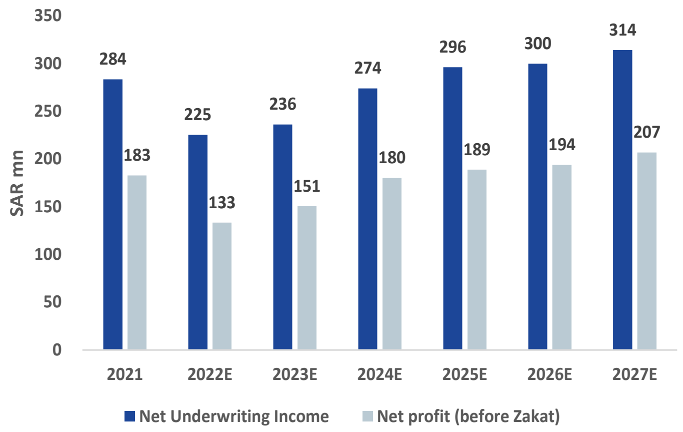
Source: Fairfax filings, Al Rajhi Capital

Healthy and sustainable net income growth potential: Given that the worst for the motor insurance industry as well as GIG Saudi Arabia appears to be behind us, we believe loss ratios to improve notably in 2023e and stabilise thereafter. We are estimating loss ratio for GIG SA's motor segment to drop to 80% in 2023e and 78% in 2024e from 86% in 2022e, in the medical segment we remain cautious and expect only marginal improvement from almost

90% in 2022e to 88% in 2023e and 87% in 2024e. In the P&C segment, where the company has benefitted from the reinsurance recoveries that has helped its loss ratio in the last two years or so (-2% estimated in 2022e and 8.5% in 2021), we expect return to normal levels and estimate 30% loss ratio in 2023e and thereafter it to range between 25-28% during 2024-2026e. Overall, for the group, we expect loss ratio around 74% in 2023e and thereafter to gradually reduce every year and end at 72% by 2027e.

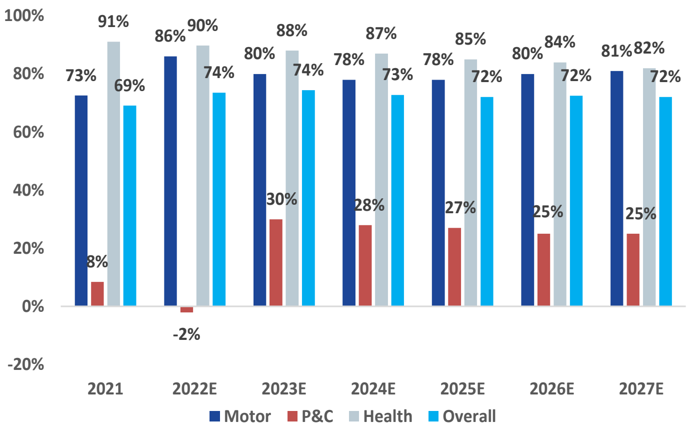
In our view, at 72-74% loss ratio and average policy acquisition costs of 9%, the company can make healthy net underwriting income of almost SAR 300 mn by 2026e. We estimate almost 7% CAGR in the net underwriting income between 2022e-2027e. Moreover, as the company maintains a very strong control over cost management, we believe G&A expense as a percentage of topline to maintain its downward trend. Additionally, investment income should improve further aided by higher interest rates. Thus, we believe GIG SA to post a solid net income (before Zakat) CAGR of almost 12% between 2022-2027e.

Figure 14 **Net underwriting income & Net profit (before Zakat) to continue growth**



Source: Company data, Al Rajhi Capital

Figure 15 **Loss ratios to see improvement**



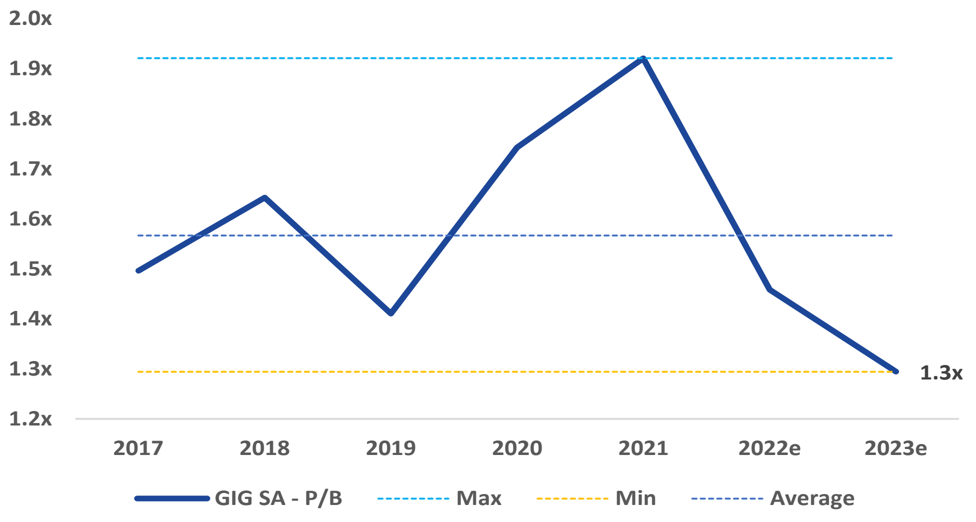
Source: Company data, Al Rajhi Capital

Valuations and risks:

The stock trades at an attractive level, trading at a 2023e P/B of 1.3x, lower than its historical average of 1.6x. On a trailing basis (book value as of Q3 2022), the stock trades at a P/B of 1.33x, much lower than the sector average (ex-Bupa) of 2.2x. Based on the P/E method (15x targeted multiple on our 2023E EPS) and the P/B method (1.7x targeted multiple on our 2023E BVPS), we arrive with a weighted average TP of SAR35.0/sh., implying an upside potential of 26.8% from the current level. Considering that the fundamentals for the motor segment are improving and GIG SA is one the key players in the segment with a superior track record, we believe the current valuations offer an attractive entry opportunity for the investors.

The key upside risks include better-than-expected loss ratio in the medical segment, further price hikes in the motor segment, and introduction of dividends. **The key downside risks** include another phase of competition from the motor companies and spike in loss ratio in the P&C segment, where it retains most of the business.

Figure 16 **Historical GIG SA P/B Trend (forward multiple)**



Source: Bloomberg, Al Rajhi Capital. Note: P/B is one year forward multiple: Average price for the year divided by average Book value of current year and forward year.

Figure 17 **Valuation Table**

Valuation Methodology	Multiple	2023E BVPS / EPS	Fair Value (SAR)	Weightage	Weighted value per share (SAR)
Relative Valuation - P/E	15.0x	2.3	34	50%	17
Relative Valuation - P/B	1.7x	21.2	36	50%	18
Target Price				**100%**	**35**
CMP (as on 30th January 2023)					28
Upside					**26.8%**

Source: Al Rajhi Capital

GIG SA financials

Figure 18 **Detailed income statement (SAR mn)**

	2021	2022E	2023E	2024E	2025E	2026E	2027E
GWP	1,454	1,543	1,641	1,704	1,752	1,781	1,810
NWP	1,310	1,405	1,496	1,554	1,598	1,623	1,648
NEP	1,282	1,343	1,433	1,494	1,542	1,572	1,609
NCI	(885)	(988)	(1,066)	(1,088)	(1,112)	(1,139)	(1,160)
Loss Ratio	69.1%	73.5%	74.4%	72.8%	72.1%	72.5%	72.1%
Policy acquisition costs	(129)	(146)	(148)	(150)	(152)	(151)	(154)
Net Underwriting income	**284**	**225**	**236**	**274**	**296**	**300**	**314**
G&A expenses	(169)	(180)	(184)	(189)	(193)	(194)	(197)
Investment income	-	-	-	-	-	-	-
Other income/expenses	68	88	102	102	96	105	114
Net profit before zakat	167	124	143	174	185	196	215
Zakat	(28)	(25)	(29)	(35)	(37)	(40)	(43)
Net profit	**139**	**99**	**114**	**139**	**148**	**156**	**172**
EPS (SAR)	2.77	1.98	2.28	2.77	2.95	3.13	3.43
BVPS (SAR)	19.92	18.87	21.15	23.93	26.88	30.00	33.43
P/E (curr.)	13.4x	14.0x	12.1x	10.0x	9.4x	8.9x	8.1x
P/E (target)	12.7x	17.8x	15.4x	12.7x	11.9x	11.2x	10.2x
P/B (curr.)	1.9x	1.5x	1.3x	1.2x	1.0x	0.9x	0.8x
P/B (target)	1.8x	1.9x	1.7x	1.5x	1.3x	1.2x	1.1x
ROAE	14.8%	10.2%	11.4%	12.3%	11.6%	11.0%	10.8%

Source: Company data, Al Rajhi Capital

Figure 19 **KPIs**

	2021	2022E	2023E	2024E	2025E	2026E	2027E
Growth Ratios (%)							
Gross written premiums (GWP)	2.6%	6.1%	6.3%	3.8%	2.9%	1.6%	1.6%
Net earned premium (NEP)	1.3%	4.8%	6.7%	4.2%	3.2%	1.9%	2.4%
Net underwriting profit	-2.4%	-20.5%	4.8%	16.0%	8.1%	1.3%	4.7%
Profit before tax	-0.3%	-27.1%	15.5%	21.3%	6.5%	6.0%	9.8%
Profit attributable to shareholders	0.0%	-28.6%	15.5%	21.3%	6.5%	6.0%	9.8%
Performance Metrics							
Loss Ratio	69.1%	73.5%	74.4%	72.8%	72.1%	72.5%	72.1%
Expenses Ratio	23.3%	24.2%	23.2%	22.7%	22.4%	22.0%	21.8%
Combined Ratio (COR)	92.3%	97.8%	97.5%	95.5%	94.5%	94.4%	93.9%
Retention ratios	90.1%	91.0%	91.2%	91.2%	91.2%	91.1%	91.0%
Underwriting profit margin	22.1%	16.8%	16.5%	18.3%	19.2%	19.1%	19.5%
Pre-tax margin	14.3%	9.9%	10.7%	12.5%	12.9%	13.4%	14.4%
Net margin	10.8%	7.4%	8.0%	9.3%	9.6%	9.9%	10.7%
ROA	5.5%	3.8%	3.9%	4.4%	4.3%	4.4%	4.4%
ROE	18.0%	12.9%	12.9%	13.4%	12.6%	12.8%	12.6%
Technical Reserves/Gross Premiums	0.9x	0.9x	0.9x	0.9x	0.9x	0.9x	0.9x
Technical Reserves/Net Earned Premiums	1.0x	1.0x	0.9x	0.9x	0.8x	0.8x	0.8x
Technical Reserves/Equity	1.3x	1.4x	1.4x	1.2x	1.1x	1.0x	0.9x
Valuation and Growth Ratios							
EPS (SAR)	2.8	2.0	2.3	2.8	3.0	3.1	3.4
BVPS (SAR)	19.9	18.9	21.2	23.9	26.9	30.0	33.4
P/E (x)	13.4x	14.0x	12.1x	10.0x	9.4x	8.9x	8.1x
P/BV (x)	1.9x	1.5x	1.3x	1.2x	1.0x	0.9x	0.8x

Source: Company data, Al Rajhi Capital. Note: Technical reserves includes gross and reinsurers' share of unearned premium, outstanding claims and claims incurred but not reported.

Figure 20 **Balance sheet (SAR mn)**

	2021	2022E	2023E	2024E	2025E	2026E	2027E
Statutory deposit	50,000	50,000	50,000	50,000	50,000	50,000	50,000
Accrued income on Statutory deposit	6,281	6,906	6,906	6,906	6,906	6,906	6,906
Property and equipment, net	19,518	14,578	15,115	14,790	13,863	13,213	12,757
Intangible assets	12,247	22,807	25,871	28,015	29,516	30,567	31,303
Investments	1,302,155	1,216,303	1,247,466	1,279,428	1,334,450	1,449,832	1,575,189
Deposits	860,542	822,328	898,393	981,494	1,072,282	1,171,468	1,279,829
Prepaid expenses and other assets	29,855	46,972	46,972	46,972	46,972	46,972	46,972
Deferred policy acquisition costs	49,307	65,922	65,922	65,922	65,922	65,922	65,922
Reinsurers' share of gross outstanding claims	120,273	186,578	227,180	269,499	313,190	357,711	403,282
Reinsurers' share of incurred but not reported claims	54,747	36,640	50,973	65,913	73,625	81,483	86,309
Reinsurers' share of unearned premiums	26,333	43,026	63,677	90,387	123,395	162,844	215,779
Receivables, net	299,811	326,257	348,103	362,832	374,591	381,713	390,714
Goodwill	50,000	50,000	50,000	50,000	50,000	50,000	50,000
Right-of-use asset	20,479	18,500	18,500	18,500	18,500	18,500	18,500
Deferred tax assets	-	4,183	4,183	4,183	4,183	4,183	4,183
Cash and cash equivalents	89,521	78,586	205,347	266,279	302,288	276,170	233,076
Total assets	**2,991,069**	**2,989,586**	**3,324,608**	**3,601,120**	**3,879,682**	**4,167,484**	**4,470,722**
Liabilities							
Accrued expenses and other liabilities	201,467	185,836	198,996	202,871	207,267	211,505	215,333
Gross outstanding claims	366,614	434,355	455,603	467,267	473,257	485,551	491,813
Incurred but not reported claim reserve	654,242	549,472	644,990	672,280	694,067	707,264	723,941
Unearned reinsurance commission	3,458	5,330	7,327	9,409	11,559	13,749	15,991
Gross unearned premium	517,829	596,088	679,300	765,709	854,582	944,886	1,036,665
Reinsurers' balance payable	68,929	80,211	80,211	80,211	80,211	80,211	80,211
Due to insurance/shareholders' operations	2,353	3,214	3,214	3,214	3,214	3,214	3,214
Employees' end of service benefits	31,633	32,242	37,917	44,590	52,438	61,667	72,521
Accrued commission income payable to SAMA	6,281	6,906	6,906	6,906	6,906	6,906	6,906
Surplus distribution payable	33,976	35,089	35,089	35,089	35,089	35,089	35,089
Zakat	58,806	62,607	62,607	62,607	62,607	62,607	62,607
Advance Premiums	30,055	37,917	37,917	37,917	37,917	37,917	37,917
Lease liability	19,407	16,781	16,781	16,781	16,781	16,781	16,781
Total Liabilities	**1,995,050**	**2,046,048**	**2,266,858**	**2,404,852**	**2,535,895**	**2,667,348**	**2,798,989**
Equity							
Share capital	500,000	500,000	500,000	500,000	500,000	500,000	500,000
Statutory reserve	107,216	118,481	118,481	118,481	118,481	118,481	118,481
Fair value reserve for investments	27,940	(71,840)	(71,840)	(71,840)	(71,840)	(71,840)	(71,840)
Remeasurement of defined benefit obligation	-	(1,579)	(1,579)	(1,579)	(1,579)	(1,579)	(1,579)
Retained earnings	360,863	398,475	512,688	651,206	798,725	955,075	1,126,671
Total Equity	**996,019**	**943,537**	**1,057,750**	**1,196,268**	**1,343,787**	**1,500,137**	**1,671,733**
Total Liabilities and equity	**2,991,069**	**2,989,586**	**3,324,608**	**3,601,120**	**3,879,682**	**4,167,484**	**4,470,722**

Source: Company data, Al Rajhi Capital

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