الراجحي المالية
alrajhi capital

US$0.63bn	94.37%	US$4.10mn
Market Cap.	Free Float	Avg. Daily Value traded

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Walaa Cooperative Insurance Co.

Turn neutral; profits to improve, but rights issue to weigh on ROE

Neutral

Price Target (SAR): 25.3

Current: 27.7
Upside/Downside: 8.8% below current

Valuation Multiples	23	24E	25E
P/E (x)	15.9	22.3	21.5
P/B (x)	1.9	1.9	1.7
ROE (%)	12.4	10.0	8.3

Major Shareholders	% Ownership
Saudi Awwal Bank	15.60

Price Performance	1M	3M	YTD
Absolute	23.5%	43.8%	46.1%
Relative to TASI	21.9%	40.6%	42.3%

Walaa's Q4 2023 earnings were better than our expectations, supported by strong insurance revenues and investment income. The surprise in insurance revenue (+12%) came mainly from the motor insurance business. The GWP growth (+37% in Q4 and +27% in FY 2023) also was very solid led by the motor business (+217% y-o-y in Q4). However, core insurance results were slightly disappointing as despite the growth in the topline, the core insurance results were just about SAR 6.0mn hurt by continued deterioration in the medical portfolio. The insurance service expense in medical was over 130% of the revenue in Q4 2023, the negative impact of this was offset by motor business to some extent. The company is investing to build capabilities in the medical business to become one of the leading players in the medical segment, thus the expenses could stay elevated in the near future. Moreover, high claims witnessed across the industry in Q4 2023 weighed on the medical portfolio performance. From a medium to longer term point of view, the current investments in building in-house claim management should help the company to become a leading player in the growing medical insurance business.

The motor insurance business was a major surprise in Q4 2023, despite the sharp growth in the motor revenues, the insurance service expense ratio improved notably to about 90% in Q4 2023 from 108% in Q3 2023. In addition to solid topline growth, this could be due to the possibility of reversal of some of the loss component booked for onerous contracts in the recent past (last 4-6 quarters motor insurance exp. was elevated). Nevertheless, the improvement was solid compared to Q4 2022's expense ratio of 136%. Going forward in 2024, some improvement in the expense ratio in the motor is expected, but we remain skeptical and would not assume the business to turn notably profitable in 2024 as we have observed erosion in price discipline and rise in accidents. Further, the company's motor portfolio is skewed towards TPL product, where the loss ratio is the highest among the products.

In our view, investment income will continue to be solid and should support profitability in 2024. Further, some improvement in the medical and motor should also reduce the losses and improve the profitability. We estimate insurance revenues to grow by 18% y-o-y and bottom-line to grow by 7% y-o-y in 2024. In terms of concerns, we are worried about the notable dilution the rights issue can cause and it would weigh on the return on equity. The company's plan is to issue rights shares of SAR 467.5mn at a price of SAR 11/share, which is a notable discount to the current market price of SAR 27.7/share. The rights issue will add 42.5mn shares to its existing outstanding shares of 85.1mn, that is a notable dilution, in our view.

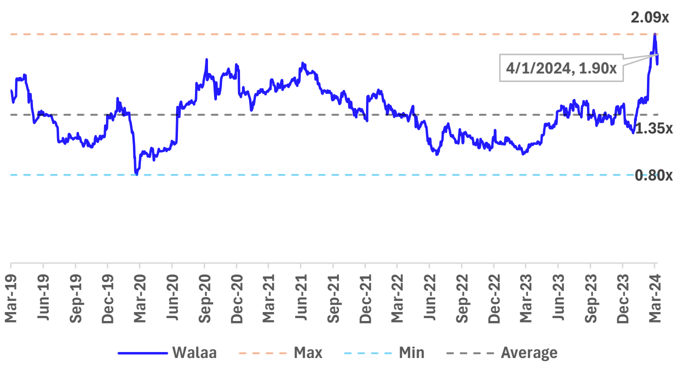
Earnings

	2023	2024E	2025E
GWP	3,346	3,747	4,127
Growth	*27%*	*12%*	*10%*
Insurance Revenue	2,888	3,413	3,692
Insurance Expenses	(1,679)	(2,052)	(2,248)
Reinsurnace Income/Expenses	(1,180)	(1,310)	(1,368)
Insurance service result	28	51	76
Growth	*NM*	*83%*	*48%*
Net insurance and investment results	189	219	238
Growth	*NM*	*16%*	*8%*
Profit Before Tax	163	179	194
Growth	*NM*	*10%*	*8%*
Net Profit	148	159	165
Growth	*NM*	*7%*	*4%*
ROE	12.4%	10.0%	8.3%
P/E	15.9x	22.3x	21.5x
P/B	1.9x	1.9x	1.7x

Source: Company data, Al Rajhi Capital

Valuations: The insurance industry is witnessing strong growth in the non-medical segments and the prospects are also solid for these segments, particularly in general insurance such as property & casualty, engineering, etc. The company's decision to raise capital should help to capture the market share in this growing segment. Further, the ongoing investments in the medical business should help the company to grab some market share from its peers in the medium term. As the growth prospects appear bright, we raise our target price to book multiple to 1.7x, but still at a notable discount to Rajhi and Tawuniya's multiples of 6.4x. Despite the strong growth, the reason for discount to peers such as Al Rajhi Takaful is mainly on concerns around the ROE levels. The decision to issue rights shares at such a steep discount will weigh on return on equity and offset the improvement coming from the operational performance. We estimate return on equity to hover around 8%-10% in the medium term, much lower than key peers ROEs of 18%-20% (Al Rajhi Takaful and Tawuniya). Based on 1.7x price to book applied on 2024 book value per share of SAR 14.9, our new target price if SAR 25.3/share, that indicates a downside of 8.8% from the current levels and implies Neutral rating on the stock.

Figure 1 **Walaa trading near all-time high**



Source: Company Data, Al Rajhi Capital

Figure 2 **Valuations**

Relative Valuation	Value
P/B Multiple	1.7x
2024E BVPS	14.9
Target Price	**25.3**
CMP	27.7
Upside/Downside	-8.8%

Source: Company Data, Al Rajhi Capital

Financials

Figure 3 **Income Statement**

	2023	2024E	2025E	2026E
GWP	**3,346**	**3,747**	**4,127**	**4,497**
Growth	*27%*	*12%*	*10%*	*9%*
Insurance Revenue	2,888	3,413	3,692	4,009
as % of GWP	*86%*	*91%*	*89%*	*89%*
Insurance Expenses	(1,679)	(2,052)	(2,248)	(2,442)
Reinsurnace Income/Expenses	(1,180)	(1,310)	(1,368)	(1,475)
Insurance service result	**28**	**51**	**76**	**92**
Growth	*NM*	*83%*	*48%*	*21%*
Investment Income & Finance Expenses	161	168	162	149
Net insurance and investment results	**189**	**219**	**238**	**241**
Other operating expenses	(37)	(44)	(48)	(52)
Other Income	11	3	4	4
Profit Before Tax	**163**	**179**	**194**	**193**
Growth	*NM*	*10%*	*8%*	*0%*
Zakat & taxes	(15)	(20)	(29)	(29)
Net Profit	**148**	**159**	**165**	**164**
Growth	*NM*	*7%*	*4%*	*0%*

Source: Al Rajhi Capital estimates

Figure 4 **Balance sheet**

	2023	2024E	2025E	2026E
Statutory deposit	85	85	85	85
Property and equipment, net	35	34	34	34
Investments	1,655	1,739	1,828	1,921
Deposits	776	776	776	776
Prepaid expenses and other assets	53	53	53	53
Reinsurance contract assets	790	738	717	693
Goodwill & Intangibles	146	145	145	144
Cash and cash equivalents	512	875	863	850
Others	55	55	55	55
Total Assets	**4,107**	**4,501**	**4,556**	**4,611**
Accrued expenses and other liabilities	170	177	194	210
Insurance contract liabilities	2,555	2,311	2,179	2,048
Others	114	118	124	129
Total Liabilities	**2,839**	**2,606**	**2,496**	**2,387**
Total Equity	**1,268**	**1,895**	**2,059**	**2,223**
Total Liabilities & Equity	**4,107**	**4,501**	**4,556**	**4,611**

Source: Al Rajhi Capital estimates

Figure 5 **Drivers**

		2023	2024E	2025E	2026E
Medical	GWP	680	761	837	921
	Insurance Revenue	668	745	820	902
	Expense ratio	109%	103%	101%	100%
Energy	GWP	578	584	595	607
	Insurance Revenue	634	633	643	656
	Expense ratio	5%	8%	10%	10%
Motor	GWP	795	898	988	1,067
	Insurance Revenue	513	725	810	875
	Expense ratio	103%	100%	99%	98%
Engineering	GWP	245	306	367	422
	Insurance Revenue	178	245	294	338
	Expense ratio	35%	35%	35%	35%
P&C	GWP	299	374	448	515
	Insurance Revenue	223	280	336	387
	Expense ratio	17%	25%	25%	25%
P&S	GWP	284	312	344	378
	Insurance Revenue	227	243	268	295
	Expense ratio	74%	70%	70%	70%
Others	GWP	465	512	548	586
	Insurance Revenue	445	541	520	557
	Expense ratio	28%	35%	35%	35%

Source: Al Rajhi Capital estimates

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

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