

2Q 2018 Results Update

August 16, 2018

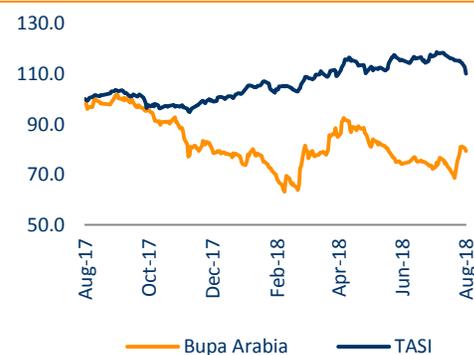
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	94.4
Target Price (SAR)	101.2
Upside/Downside (%)	7.2%

As of August 15th 2018

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	7.6
52 Wk High (SAR)	123.6
52 Wk Low (SAR)	75.5
Total Outstanding shares (in mn)	80
Free Float (%)	62.8%

Bupa Arabia vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	9.7%	15.6%
6m	16.6%	10.4%
12m	(20.7%)	(30.8%)

Major Shareholders (%)

Bupa Investments Overseas Co. Ltd.	39.25%
Nazer Holding Group Co.	9.00%

Gross Written Premium (SAR bn) and Loss Ratio



Source: Bloomberg, Company Financials, FALCOM Research; Data as of 15th August 2018

Higher net earned premium and investment income drives bottom line growth

Bupa Arabia reported a 22.7% YoY increase in net profit before zakat for 2Q18 to SAR 179mn, mainly due to an increase in net earned premium, partially offset by an increase in net claims incurred. Furthermore, investment income increased to SAR 45mn in 2Q18 from SAR 40mn in 2Q17, which was partially offset by an increase in operating expenses.

Bupa Arabia is one of the leading insurance providers in Saudi Arabia and is the largest player in health insurance segment. With health insurance being made compulsory in Saudi Arabia, 2.2mn Saudi nationals are expected to enrol for insurance in 2H18. However, its positive impact is expected to be washed away by the departure of expatriates from the country resulting from the introduction of dependents' fees and the crackdown on illegal immigrants. Given these countervailing factors, we maintain our 'Neutral' rating on the stock.

- Gross written premium (GWP) increased 9.3% YoY to SAR 2,020mn, while net written premiums (NWP) increased 8.8% YoY to SAR 1,992mn. However, this increase was partially offset by net negative movement in unearned premiums. Thus, net earned premiums increased 3.4% YoY to SAR 1,974mn.
- Net claims incurred increased 1.0% YoY to SAR 1,538mn. Consequently, net underwriting result (excluding policy acquisition costs) increased by 12.6% YoY to SAR 436mn. Policy acquisition costs increased 8.6% YoY to SAR 53mn.
- Allowance for doubtful receivables increased by SAR 50mn YoY to SAR 79mn in 2Q18, while general and administrative expenses increased by SAR 10mn YoY to SAR 101mn. Selling and marketing expense, on the other hand, declined by SAR 38mn YoY to SAR 98mn, while investment and other income combined increased by SAR 11mn YoY to SAR 51mn. Consequently, total operating income increased 21.6% YoY to SAR 195mn in 2Q18.
- Net income attributable to shareholders increased 22.7% YoY to SAR 179mn, as income attributable to insurance operations increased 10.3% YoY to SAR 16mn, along with an increase in operating income.
- In spite of a 15.0% YoY increase in operating expenses, the combined ratio reduced to 92.6% in 2Q18 from 101.6% in 1Q18 and 93.6% in 2Q17. This improvement was ascribed to the decline in loss ratio from 79.7% in 2Q17 to 77.9% in 2Q18. Expense ratio for 2Q18 stood at 14.7%, as compared to 13.9% in 2Q17.
- On 07-Aug-18, Bupa Arabia announced that Bupa Investment Overseas Limited acquired an additional 5% stake in the company for SAR 400mn (at SAR 100 per share) from the Nazer Group. Bupa Investment Overseas' stake in Bupa Arabia stands at 39.25% after this transaction. Additionally, Bupa Arabia announced that the Capital Market Authority (CMA) has approved its request to exceed the 49% foreign ownership restriction, and has permitted a maximum foreign ownership level of up to 60%. We believe that majority ownership by the Bupa group would prove to be a positive for Bupa Arabia in the long run.

Valuation: We have slightly revised our target price upwards, with a fair value of SAR 101.2 per share, incorporating healthy 2Q18 performance. We maintain our 'Neutral' rating on the stock.

	2Q'18	2Q'17	% YoY	FY18E	FY17	% YoY
GWP (SAR mn)	2,020	1,848	9.3%	8,359	7,733	8.1%
NWP (SAR mn)	1,992	1,832	8.8%	8,286	7,665	8.1%
Net claims incurred (SAR mn)	1,538	1,522	1.0%	6,350	6,405	-0.9%
Net profit before Zakat (SAR mn)	179	146	22.7%	533	501	6.4%
EPS (SAR)	2.24	1.83	22.8%	6.68	6.27	6.4%
Loss Ratio	77.9%	79.7%	-1.8%	82.5%	83.5%	-1.0%
Expense Ratio	14.7%	13.9%	0.8%	12.5%	11.2%	1.3%
Combined Ratio	92.6%	93.6%	-1.0%	95.0%	94.7%	0.2%

Source: Company Financials, FALCOM Research

FALCOM Rating Methodology

FALCOM Financial Services uses its own evaluation structure, and its recommendations are based on quantitative and qualitative data collected by the analysts. Moreover, the evaluation system places covered shares under one of the next recommendation areas based on the closing price of the market, the fair value that we set and the possibility of ascent/descent.

Overweight: The Target share price exceeds the current share price by $\geq 10\%$.

Neutral: The Target share price is either more or less than the current share price by 10%.

Underweight: The Target share price is less than the current share price by $\geq 10\%$.

To be Revised: No target price had been set for one or more of the following reasons: (1) waiting for more analysis, (2) waiting for detailed financials, (3) waiting for more data to be updated, (4) major change in company's performance, (5) change in market conditions or (6) any other reason from FALCOM Financial Services.

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