

3Q 2018 Results Update

Nov 25, 2018

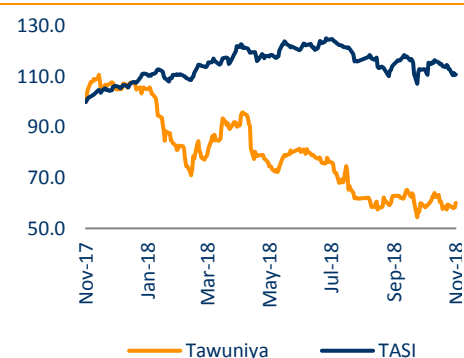
Recommendation	Neutral
Previous Recommendation	Overweight
Current Price (SAR)	54.6
Target Price (SAR)	55.0
Upside/Downside (%)	0.7%

As of Nov 25th 2018

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	6.8
52 Wk High (SAR)	98.2
52 Wk Low (SAR)	47.5
Total Outstanding shares (in mn)	125
Free Float (%)	53.4%

Tawuniya vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	2.5%	4.4%
6m	(19.3%)	(13.3%)
12m	(39.9%)	(50.7%)

Major Shareholders (%)

Public Pension Agency	23.79%
General Organization for Social Insurance	22.83%

Gross Written Premium (SAR bn) and Loss Ratio



Source: Bloomberg, Company Financials, FALCOM Research; Data as of 25th Nov 2018

Lower net earned premium and rising net claims weigh on 3Q18 results

The Company for Cooperative Insurance (Tawuniya) reported a net loss of SAR 23mn in 3Q18, compared to a SAR 160mn net profit in 3Q17. This was mainly due to 6.4% YoY decline in net earned premiums, coupled with 7.9% YoY increase in net claims incurred. Additionally, 13.4% YoY decline in net investment income also weighed on current quarter's results. Gross written premium (GWP) declined 15.0% YoY, mainly due to lower contributions from the Motor Insurance and Property & Casualty Insurance segments.

The Saudi Ministry of Health recently cancelled contracts with Bupa Arabia and Tawuniya, sighting complicated procedures for customers and delayed settlement of financial liabilities as reasons. We expect this cancellation to impact the company's top line in coming quarters, as health insurance segment contributes a large portion of Tawuniya's GWP. However, the company recently entered into a contract with Saudi Arabian Airlines to provide insurance coverage for its aircraft fleet and its affiliated airlines. It also signed a contract with Flynas to provide insurance coverage for its aircrafts. Tawuniya provides property insurance to local and international airports of the General Authority of Civil Aviation (GACA). These deals are expected to help the company contain the recent decline in GWP. Tawuniya recently won the Best Islamic Insurance Company Award for 2018 granted by World Finance (WF). However, we expect the company's top line to see some headwinds in coming quarters, following the loss of contract from the Saudi Ministry of Health. Given the countervailing factors, we change our rating on the stock from 'Overweight' to 'Neutral'.

- Gross written premiums (GWP) declined from SAR 1,421mn in 3Q17 to SAR 1,208mn, declining 15.0% YoY and 31.2% QoQ. The drop was mainly attributable to lower premiums from the motor insurance (-63.2% YoY) and property & casualty insurance (-16.7% YoY) segments.
- Net written premiums (NWP) declined 14.2% YoY and 29.4% QoQ to SAR 987mn, in-line with the fall in GWP in current quarter.
- Net claims incurred rose 7.9% YoY to SAR 1,606mn in 3Q18 from SAR 1,488mn in 3Q17. However, on a sequential basis, net claims incurred declined 2.5%.
- Benefits from lower general and administrative expenses were offset by lower investment income. Total general and administrative expenses declined 1.8% YoY to SAR 116mn, while total investment income declined 5.2% YoY to SAR 50mn.
- As a result, the company reported a net loss of SAR 23mn in 3Q18, as compared to a net profit of SAR 160mn in 3Q17. EPS for the quarter stood at a loss of SAR 0.18 in 3Q18, compared to SAR 1.28 profit in 3Q17.
- The combined ratio deteriorated to 105.4% in 3Q18, vis-à-vis 93.8% in 3Q17. However, on a sequential basis, the combined ratio improved 0.9% from 106.4% in 2Q18.
- The expense ratio improved from 15.8% in 3Q17 to 13.9% in 3Q18. On a sequential basis, the expense ratio widened 16bps from 13.8% in 2Q18.

Valuation: We have revised our target price downward, with a fair value of SAR 55.0 per share, considering three subsequent quarters of weak performance and the loss of contract from the Saudi health ministry. We revise our rating on the stock from 'Overweight' to 'Neutral'.

	3Q'18	3Q'17	% YoY	FY18E	FY17	% YoY
GWP (SAR mn)	1,208	1,421	-15.0%	7,765	8,407	-7.6%
NWP (SAR mn)	987	1,150	-14.2%	6,756	7,275	-7.1%
Net claims incurred (SAR mn)	1,606	1,488	7.9%	6,279	6,796	-7.6%
Net profit before Zakat (SAR mn)	-23	160	NM	189	-147	NM
EPS (SAR)	-0.2	1.3	NM	1.5	-1.2	NM
Loss Ratio	91.5%	78.0%	13.6%	80.8%	79.8%	1.0%
Expense Ratio	13.9%	15.8%	-1.9%	14.4%	16.7%	-2.3%
Combined Ratio	105.4%	93.8%	11.7%	95.2%	96.5%	-1.2%

Source: Company Financials, FALCOM Research

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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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