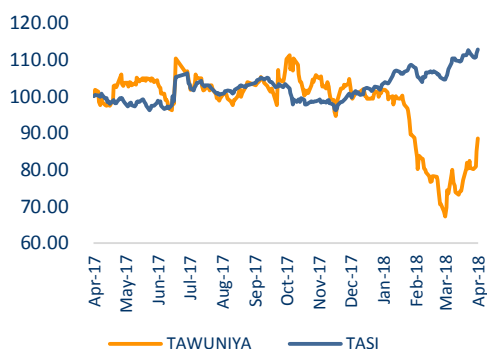



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Recommendation	Overweight
Current Price (SAR)	82.60
Target Price (SAR)	101.13
Upside/Downside (%)	22.4%

As of April 5, 2018
Key Data (Source: Bloomberg)

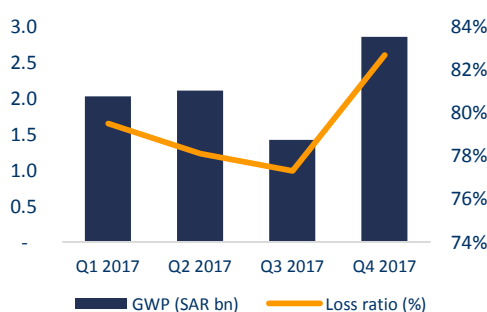
Market Cap (SAR bn)	10.3
52 Wk High (SAR)	106.0
52 Wk Low (SAR)	62.2
Total Outstanding Shares (in bn)	0.13
Free Float (%)	53.4%

Tawuniya vs. TASI (Rebased)


Price Performance (%)	Absolute	Relative
1m	31.7	23.7
6m	-19.7	-29.3
12m	-11.6	-24.4

Major Shareholders (%)

General Organization for Retirement	23.79%
General Organization for Social Insurance	22.83%

GWP (SAR bn) and Loss ratio


Source: Bloomberg, Company Financials, FALCOM Research; Data as of April 5, 2018

The Company for Cooperative Insurance (Tawuniya) reported weak results for FY 2017 with a net loss of SAR 147mn compared to a net profit of SAR 733mn a year ago. The performance can be ascribed to a decline in underwriting results, driven by a 33.2% YoY surge in net claims incurred. Furthermore, an increase in total expenses (up 6.1% YoY) impacted annual results negatively.

Tawuniya is one of the leading insurance providers in the country. S&P assigned it an “A-” rating, with a stable outlook, the highest among all insurance companies operational in Saudi Arabia. The company continues to focus on expanding its market share by entering into group insurance contracts. Furthermore, insurance penetration in Saudi Arabia is expected to gradually increase, thereby driving the company’s top-line growth. Tawuniya’s stock price declined 19.7% over the last six months. Hence, we give the stock an “overweight” rating with a target price of SAR 101.1.

Loss ratio to drop on efficient claims management

Tawuniya achieved higher operational efficiency by rationalizing its claims management process, due to which its loss ratio declined to 79.4% in 2017 from 85.7% in 2013. Even though the loss ratio increased in 2017 (2016: 72.9%), driven by higher net claims (up 43.8% YoY) in the medical insurance segment, we believe this is a one-time spike and the loss ratio will stabilize to an average of 72.5% over the forecast period, led by Tawuniya’s efficient claims management and growth in premiums earned.

End to women’s driving ban to boost Tawuniya’s motor segment

In September 2017, the Saudi Arabian government announced its decision to allow its women to drive. Tawuniya, the second largest player in motor insurance in Saudi Arabia (market share: 12%), is expected to benefit from this decision due to a rise in car sales. According to United Nations Department of Economic and Social Affairs, there are nearly 15 million females in Saudi Arabia, and this decision makes them a potential new source of revenue for Tawuniya. We expect the gross written premiums (GWPs) of Tawuniya’s motor segment to expand at a CAGR of 9.0% over 2017-21. Overall, GWPs for the company are anticipated to expand at 6.5% over 2017–21.

Enforcement of one-contract health insurance to drive medical insurance segment

The Council of Cooperative Health (CCHI)’s program to provide compulsory insurance cover to all employees (be it the public or private sector) will be a key growth driver for Tawuniya’s medical segment (68.4% of its total GWP) from 2018. In line with the program, Tawuniya announced that it won two major contracts to provide health insurance to the employees and families of Saudi Arabian Airlines and Yanbu Aramco Sinopec Refining Co. (Yasref). Even though the deal values were not disclosed, the company terms these contracts as one of the biggest health insurance deals in Saudi Arabia. These contracts will have a positive impact on Tawuniya’s GWP.

Despite tough market conditions, Tawuniya retained its market position

Despite the intense competition in Saudi Arabia’s insurance sector, Tawuniya remained the second largest player in 2017. With the expected increase in insurance penetration and market consolidation, we expect Tawuniya to benefit and further grow its market share in the coming years.

Valuation: We valued Tawuniya using the residual income approach to arrive at a fair value of SAR 101.1 per share. We estimated COE at 11.0% and considered a terminal growth rate of 2.0%.

	2017	2018E	2019E	2020E
GWP (SAR bn)	8.4	8.9	9.5	10.1
NEP (SAR bn)	7.3	7.8	8.3	8.9
EPS (SAR)	NM*	4.1	6.3	8.9
RoE (%)	NM	20.9%	27.4%	32.4%
P/E (x)	NM	20.0	13.2	9.3
Price/BV (x)	5.3	4.2	3.6	3.0
DPS (SAR)	4.0	2.1	3.1	4.4

Source: Company Financials, FALCOM Research

Note: NM*- Not Meaningful



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Valuation Summary

Explanation of valuation methodology and assumptions

We valued Tawuniya using the residual income approach to arrive at a fair value of SAR 101.1 per share. We estimated COE at 11.0%, with a terminal growth rate of 2.0%. In relative terms, Tawuniya is trading at a one-year forward P/BV of 4.2x, showing a premium of 118.7% to its sector peers and nearly 150.2% to the Tadawul All Share Index.

SAR Mn	FY 2017A	FY 2018E	FY 2019E	FY 2020E	FY 2021E
Net income	(147)	517	784	1,107	1,471
Beginning equity value	2,928	2,213	2,471	2,863	3,417
Equity value	322	243	271	314	375
Residual Income	(468)	274	512	793	1,096
Discount factor		0.9	0.8	0.8	0.7
PV of Residual Income		254	427	596	742
Net Present Value (A)					2,019
Terminal Value					12,423
PV Terminal Value (B)					8,410
Assumed Terminal Growth Rate					2.0%
Discount Rate					11.0%
Enterprise Value (A+B)	10,429	COE Assumptions			
Shareholder's equity	2,213				
Equity value in SAR mn	12,642				
Number of shares in mn	125	Risk-free rate			2.6%
Target price in SAR per share	101.13	Market returns			7.9%
CMP in SAR as on April 5, 2018	82.6	Beta			1.1x
Upside/(downside) to current market price	22.4%	Cost of equity			11.0%

Source: Company Financials, FALCOM Research Estimates

Risks

Upside risks:

- The Saudi insurance industry is likely to consolidate over the next few years, easing pressure on margins.
- Other regulatory reforms encouraging higher health insurance sales could support GWP growth.

Downside risks

- There is intense competition in the insurance market which currently consists of 33 players. Failure to compete with smaller competitors could result in contraction in market share.
- Trend of higher and increasing claims may adversely impact the company's profitability outlook.

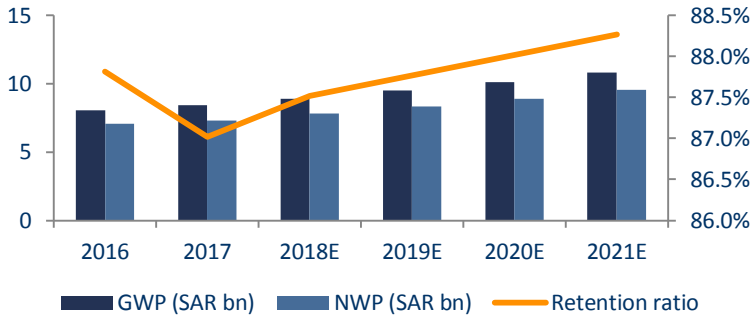


Initiation Coverage

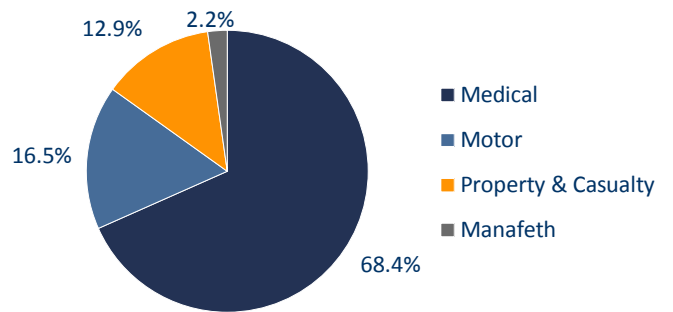
April 11, 2018

Key Charts

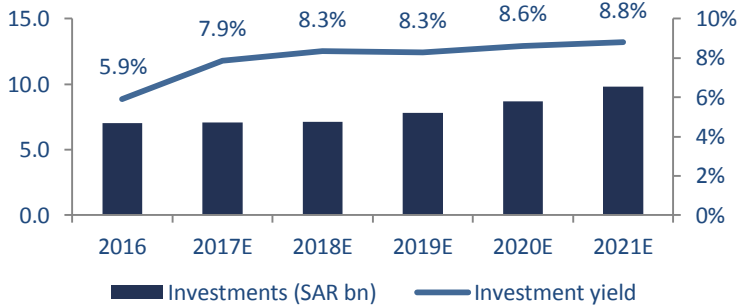
GWP vs NWP



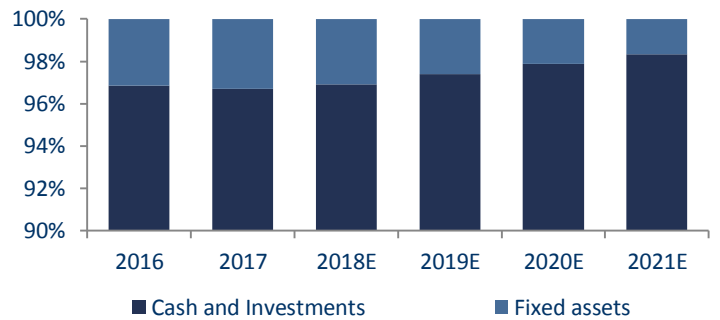
GWP Split (2017)



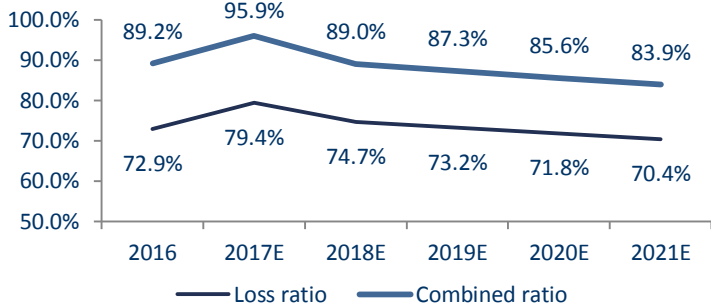
Investments & Yield



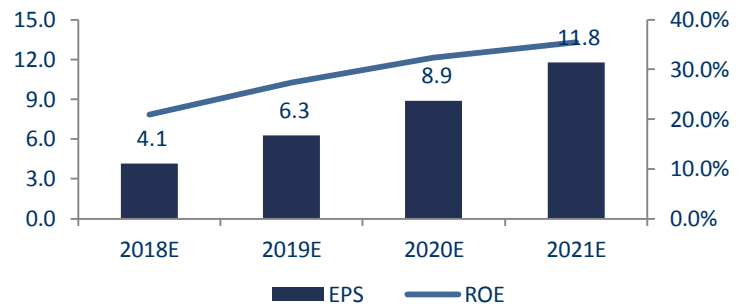
Asset Breakup



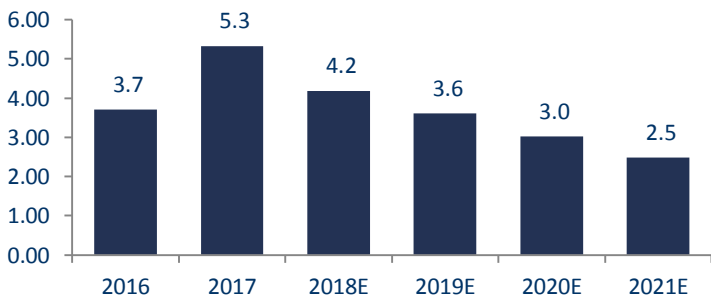
Loss & Combined ratio (%)



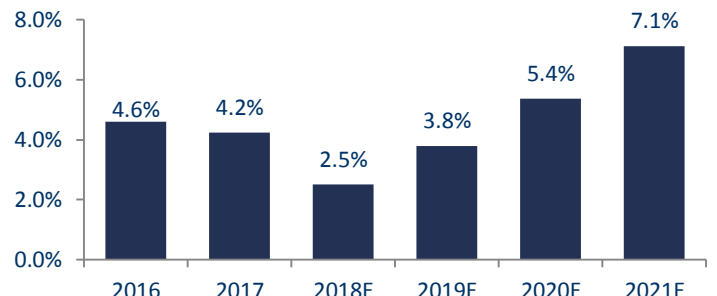
EPS & ROE (%)



PB



Dividend Yield



Source: FALCOM Research Estimates



Initiation Coverage

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Summary Financials

P&L (SAR mn)	2017	2018E	2019E	2020E
Gross written premium	8,407	8,910	9,483	10,111
Net written premium	7,315	7,798	8,323	8,900
Net earned premium	7,338	7,822	8,349	8,927
Net claims incurred	6,796	6,759	6,970	7,192
Surplus (Share.) from insurance Operations	368	(273)	(543)	(853)
Net income	(147)	517	784	1,107
EPS	(1.2)	4.1	6.3	8.9
DPS	4.0	2.1	3.1	4.4

BS (SAR mn)	2017	2018E	2019E	2020E
Investments	7,100	7,145	7,813	8,695
Insurance Operations assets	10,212	10,089	10,609	11,204
Shareholders' assets	3,232	3,491	3,883	4,437
Total assets	13,444	13,581	14,492	15,640
Insurance Operations Liabilities and surplus	10,212	10,089	10,609	11,204
Shareholders' liabilities	1,020	1,020	1,020	1,020
Shareholders Equities	2,213	2,471	2,863	3,417
Total Liabilities	13,444	13,581	14,492	15,640

CF (SAR mn)	2017	2018E	2019E	2020E
Cash Flow from Operating Activities	(271)	495	758	1,077
Capex	(4)	(4)	(5)	(5)
Cash Flow from Investing Activities	(1,282)	25	(224)	(164)
Dividends	(500)	(259)	(392)	(554)
Cash Flow from Financing Activities	814	(259)	(392)	(554)

Source: Bloomberg, Company Financials, FALCOM Research

Growth	2017	2018E	2019E	2020E
Gross written Premium	4.4%	6.0%	6.4%	6.6%
Net earned Premium	7.3%	6.6%	6.7%	6.9%
EPS	NA	NA	51.5%	41.3%
Total Investments	22.9%	1.4%	6.9%	6.2%

Ratios (%)	2017	2018E	2019E	2020E
Retention ratio	87.0%	87.5%	87.8%	88.0%
Loss ratio	79.4%	74.7%	73.2%	71.8%
Expense ratio	16.6%	14.4%	14.1%	13.8%
Combined ratio	95.9%	89.0%	87.3%	85.6%
Investment yield	7.9%	8.3%	8.3%	8.6%
Dividend payout ratio	-	50.0%	50.0%	50.0%
ROE	-6.6%	20.9%	27.4%	32.4%
ROA	-1.1%	3.8%	5.4%	7.1%
Dividend Yield	4.2%	2.5%	3.8%	5.4%

Valuation	2017	2018E	2019E	2020E
PE	-	20.0	13.2	9.3
PB	5.3	4.2	3.6	3.0

Peer Valuations	12M Fwd PE	12m Fwd PB
Bupa Arabia	14.0	2.9
Al Rajhi Takaful	19.2	4.0
Walaa Co-operative	8.9	1.8
Buruj Co-operative	9.2	1.9
Malath Insurance	13.9	1.4
Tawuniya	20.0	4.2
Sector Median	13.9	1.9
TASI	14.6	1.7



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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.

FALCOM Financial Services**Contact us on the below phone numbers:****Customer Services: 8004298888****Brokerage Services: 920004711****Fax or Email us at the below number:****Fax: +966 11 2032546****Email: addingvalue@falcom.com.sa****Mail us at the following address:****P.O. Box 884****Riyadh 11421****Kingdom of Saudi Arabia****Disclaimer and Risks Warning:**

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