

1Q 2018 Results Update

May 25, 2018

Recommendation	Overweight
Previous Recommendation	Overweight
Current Price (SAR)	64.8
Target Price (SAR)	79.5
Upside/Downside (%)	22.9%

 As of May 24th 2018

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	8.1
52 Wk High (SAR)	106.0
52 Wk Low (SAR)	62.2
Total Outstanding shares (in mn)	125
Free Float (%)	53.37%

Tawuniya vs. TASI (Rebased)


Price Performance (%)	Absolute	Relative
1m	(22.4%)	(19.1%)
6m	(29.1%)	(46.0%)
12m	(33.1%)	(49.0%)

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 24th May 2018

A rise in net claims incurred in 1Q18 hurts net profit

The Company for Cooperative Insurance (Tawuniya) reported a 73.8% YoY drop in net profit before zakat for Q1 2018 to SAR41.9mn, due to an increase in net claims incurred. Sequentially, the insurer turned profitable from its net loss before zakat of SAR 715.3mn in Q4 2017, driven by a substantial decline (-36% QoQ) in net claims incurred and a rise in technical reserves.

Tawuniya is one of the leading insurance providers in Saudi Arabia, with a stable outlook (S&P rating of A-). The company is the second largest player in the medical insurance and the motor insurance segments; both segments are expected to witness strong growth driven by the government reforms introduced in 2017. A strong competitive position and one of the largest distribution networks in the local market support our positive view on the stock. The stock price has plummeted 18.1% after reporting weak 1Q18 results; we expect limited downside from the current levels.

- Gross written premiums (GWP) increased to SAR 2,095.7mn in Q1 2018, up 3.3% YoY from SAR 2,028.4mn in Q1 2017. Sequentially, GWP declined 26.5% from SAR 2,852.9mn reported in 4Q 2017.
- Net written premiums (NWP) increased to SAR 1,903.2mn in Q1 2018, up 1.5% YoY from SAR 1,874.4mn in Q1 2017, while recording a QoQ decline of 23.8% from SAR 2,497.7mn reported in 4Q 2017.
- Net claims incurred increased to SAR 1,580.7mn in Q1 2018, up 11.9% YoY from SAR 1,412.8mn in Q1 2017. The claims dropped 35.8% QoQ from SAR 2,463.6mn in 4Q 2017.
- Net profit before zakat decreased to SAR41.9mn in Q1 2018, down 73.8% YoY from SAR160.3mn in Q1 2017. The growth in the total revenue (+2.4% YoY) was offset by higher increase in net claims incurred (+11.9%), coupled with an increase in underwriting and other expenses. The company, however, turned profitable from incurring losses of SAR 715.3mn in 4Q 2017. The sequential increase was due to the 35.8% decrease in net claims incurred and a rise in technical reserves.
- EPS for the quarter plunged 73.8% YoY to SAR 0.34 from SAR 1.28 in Q1 2017, mainly due to higher net claims paid and additional reserves requirements. However, the company turned profitable from the previous quarter, wherein the reported loss per share was SAR 5.72.
- The combined ratio improved to 122.3% in Q1 2018 compared to 95.0% recorded in the same quarter last year. The improvement can primarily be attributed to a decline in the expense ratio.
- The expense ratio for the quarter decreased to 13.5% in Q1 2018 vis-à-vis 14.8% in Q1 2017 driven by an increase in net written premium.

Valuation: We have revised our target price downwards with a fair value of SAR 79.5 per share, in line with the recent share price decline and incorporating the weak 1Q18 performance. We maintain our 'Overweight' rating on the stock.

	1Q'18	1Q'17	% YoY	FY18E	FY17	% YoY
GWP (SAR mn)	2,095.7	2,028.4	3.3%	8,507.7	8,406.7	1.2%
NWP (SAR mn)	1,903.2	1,874.4	1.5%	7,405.3	7,274.9	1.8%
Net claims incurred (SAR mn)	1,580.7	1,412.8	11.9%	6,539.2	6,796.1	-3.8%
Net profit before Zakat (SAR mn)	41.9	160.3	-73.8%	431.0	(-146.5)	NM
EPS (SAR)	0.3	1.3	-73.8%	3.5	-1.2	NM
Loss Ratio	108.7%	80.2%	28.5%	76.2%	79.8%	-3.6%
Expense Ratio	13.5%	14.8%	-1.3%	14.5%	16.7%	-2.1%
Combined Ratio	122.3%	95.0%	27.3%	90.8%	96.5%	-5.7%

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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