

3Q 2018 Results Update

November 26, 2018

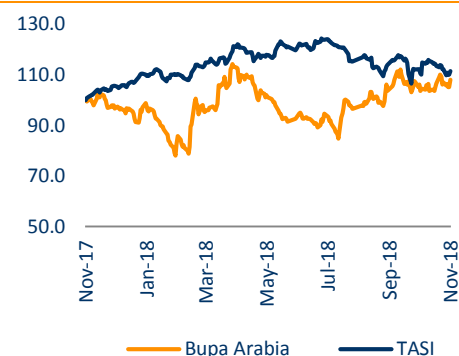
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	70.6
Target Price (SAR)	74.2
Upside/Downside (%)	5.1%

As of November 26th 2018

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	8.4
52 Wk High (SAR)	74.7
52 Wk Low (SAR)	50.4
Total Outstanding shares (in mn)	120
Free Float (%)	58.3%

Bupa Arabia vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	1.7%	2.3%
6m	5.9%	11.3%
12m	8.0%	(3.5%)

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 26th November 2018

Increase in net earned premium and investment income fuel growth in bottom line

Bupa Arabia reported a 12.8% YoY increase in net profit before zakat during the quarter to SAR 245mn, driven by an increase in net earned premium and a drop in operating expenses, including provision for doubtful receivables. Furthermore, investment income rose 39.5% to SAR 48mn in 3Q18 from SAR 35mn in 3Q17.

Bupa Arabia's strong performance was underpinned by an increase in the market share and expansion of its customer base. With its strong presence in the Kingdom, we expect Bupa Arabia to continue to capture the market and thus expand its top line. However, Saudi Ministry of Health has recently cancelled contracts with Bupa Arabia owing to complicated procedures for customers and delayed settlement of financial liabilities. Subsequently, Bupa Arabia has suspended its insurance coverage services for the bodies affiliated or owned by the Health ministry. Meanwhile, services provided to other institutional clients and their respective families are expected to continue as before. We expect the cancellation of the contract from the Saudi Ministry of Health and continuous departure of expatriates from the country to affect the company's top line in the coming quarters. As such, we maintain a 'Neutral' rating on the stock.

- Gross written premium (GWP) advanced 12.3% YoY and 40.2% QoQ to SAR 2,832mn. Net written premium (NWP) increased 12.7% YoY and 41.2% QoQ to SAR2,814mn. However, an unfavorable net movement in unearned premium restricted the rise in net earned premium. Thus, net earned premium grew 8.2% YoY and 6.2% QoQ to SAR 2,096mn.
- Net claims incurred increased 10.6% YoY and 6.1% QoQ to SAR1,632mn. As a result, the net underwriting result (excluding policy acquisition costs) rose only by 0.4% YoY and 6.3% QoQ to SAR 463mn.
- Allowance for doubtful receivables dropped to SAR4mn in 3Q18 from SAR 39mn, and selling and marketing expense declined 17.0% YoY to SAR 94mn. Investment and other income combined increased by SAR 9mn YoY to SAR 44mn. This was partially offset by a rise in general and administrative expenses (+9.2% YoY). Consequently, total operating income grew 12.3% YoY to SAR 270mn in 3Q18. On a sequential basis, operating income rose 38.3%.
- Net income attributable to shareholders increased 12.8% YoY and 36.9% QoQ to SAR245mn, as income attributable to insurance operations grew 7.9% YoY and 54.3% QoQ to SAR 25mn, supported by the rise in operating income.
- The combined ratio for the quarter came in at 87.3% from 86.9% in 3Q17 and 92.6% in 2Q18. This was ascribed to the increase in the loss ratio to 77.9% in 3Q18 from 76.2% in 3Q17, which more than offset a decline in the expense ratio (9.4%: 3Q18 and 10.7% in 3Q17).
- Bupa Arabia reported a retention ratio of 99.4% during the quarter, improving from 99.0% in 3Q17 and 98.7% in 2Q18.

Valuation: We have revised our target price upward, with a fair value of SAR 74.2 per share, incorporating strong 3Q18 performance. We maintain our 'Neutral' rating on the stock.

	3Q'18	3Q'17	% YoY	FY18E	FY17	% YoY
GWP (SAR mn)	2,832	2,523	12.3%	8,548	7,733	10.5%
NWP (SAR mn)	2,814	2,497	12.7%	8,472	7,665	10.5%
Net claims incurred (SAR mn)	1,632	1,475	10.6%	6,493	6,405	1.4%
Net profit before Zakat (SAR mn)	245	217	12.8%	565	501	12.9%
EPS (SAR)	3.07	2.72	12.8%	7.08	6.27	12.9%
Loss Ratio	77.9%	76.2%	1.7%	82.5%	83.5%	-1.0%
Expense Ratio	9.4%	10.7%	-1.3%	12.2%	11.2%	1.0%
Combined Ratio	87.3%	86.9%	0.4%	94.7%	94.7%	-0.1%

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.

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

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