

### 1Q19 Results Update

June 11, 2019

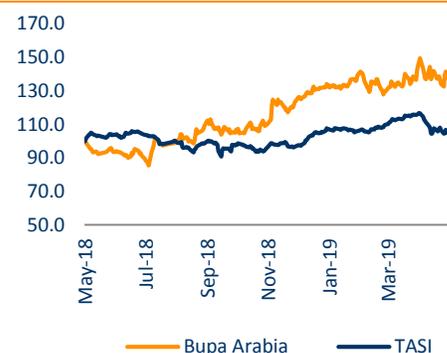
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	93.0
Target Price (SAR)	94.3
Upside/Downside (%)	1.4%

As of June 10<sup>th</sup> 2019

#### Key Data (Source: Bloomberg)

Market Cap (SAR bn)	11.3
52 Wk High (SAR)	96.0
52 Wk Low (SAR)	54.1
Total Outstanding shares (in mn)	120
Free Float (%)	57.9%

#### Bupa Arabia vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	(8.3%)	(5.8%)
6m	(1.1%)	(16.4%)
12m	(16.3%)	(32.8%)

#### 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 10<sup>th</sup> June 2019

#### Strong growth in GWP boosts 1Q19 results

Bupa Arabia reported a robust 906.9% YoY surge in net profit before zakat to SAR 94.1mn in 1Q19 from SAR 9.3mn during this quarter last year. This was primarily led by a 36.8% YoY increase in net underwriting results, in turn driven by a 16.7% YoY rise in gross written premiums to SAR 2,905mn. Growth in operating expenses was partially offset by a jump in investment and other income. Investment income advanced 30.0% YoY to SAR 56.8mn in 1Q19, from SAR 43.7mn in 1Q18, thereby strengthening the bottom line. However, policyholders' share of surplus from insurance operations during the quarter increased to SAR 7.3mn from nil in 1Q18.

Bupa Arabia's solid performance could be attributed to an increase in its market share to 24% in 1Q19 from 22% in 1Q18. The company has also retained its leadership position in the health insurance market with 42% market share. Moreover, mandatory insurance for nationals working in the private sector further boosted the bottom line. Going forward, we expect Bupa Arabia, being the market leader in healthcare insurance, to expand its market share. Additionally, SAMA approved the company's new insurance product "Bupa Munsha'at" which would further aid the company's performance. However, subdued growth in private sector employment and the exodus of expats from the country are likely to affect the company's performance in the upcoming quarters. Considering these countervailing factors, we maintain a "Neutral" rating on the stock.

- Gross written premium (GWP) surged 16.7% YoY to SAR 2,905mn. Net written premium (NWP) also increased 16.7% YoY to SAR 2,885mn. However, an unfavorable net movement in unearned premium restricted the rise in net earned premium. Consequently, net earned premium advanced 13.4% YoY to SAR 2,197mn in 1Q19 from SAR 1,938mn in 1Q18.
- Net claims incurred increased 10.6% YoY and 1.0% QoQ to SAR 1,911mn during the quarter. The company incurred policy acquisition cost of SAR 58mn in 1Q19. Subsequently, the net underwriting result rose 36.8% to SAR 228mn.
- Reversal of doubtful debt provisions amounted to SAR11mn during the quarter. General and administrative expense rose 2.8% YoY to SAR 109mn, while selling and marketing expense declined 9.3%YoY to SAR 92mn. Investment and other income together rose 45.2% YoY to SAR 62.6mn.
- Net profit before zakat surged 906.9% YoY and 1.8% QoQ to SAR 94.1mn. The bottom line was supported by an increase in net underwriting results.
- The combined ratio for the quarter came in at 95.5% from 99.4% in 1Q18. The expense ratio for 1Q19 stood at 8.5%, versus 10.2% posted in 1Q18.
- Bupa Arabia reported a retention ratio of 99.3% during the quarter, in line with the previous year. The retention ratio increased from 98.4%, as reported in 4Q18.
- In 1Q19, Bupa Arabia received a confirmation for renewing its contract with SABIC as a health insurance provider to its employees and their families. Revenue from the contract is expected to be more than 5% of the gross written premium for FY18.
- During the quarter, the company's foreign ownership limit increased remarkably to 60%, thereby allowing the inclusion of Bupa Arabia's stock in the Emerging Market indices.

**Valuation:** We revised our target price upward, with a fair value of SAR 94.3 per share, considering the company's robust quarterly performance. We maintain our "Neutral" rating on the stock.

	1Q'19	1Q'18	% YoY	FY19E	FY18	% YoY
GWP (SAR mn)	2,905	2,489	16.7%	9,324	8,567	8.8%
NWP (SAR mn)	2,885	2,472	16.7%	9,236	8,486	8.8%
Net claims incurred (SAR mn)	1,911	1,728	10.6%	7,389	6,789	8.8%
Net profit before Zakat (SAR mn)	94	9	906.9%	626	525	19.2%
EPS (SAR)	0.79	0.08	906.9%	5.23	4.39	19.2%
Loss Ratio	87.0%	89.2%	(2.2%)	83.3%	83.3%	0.0%
Expense Ratio	8.5%	10.2%	(1.7%)	9.0%	9.5%	(0.5%)
Combined Ratio	95.5%	99.4%	(3.9%)	92.3%	92.8%	(0.5%)

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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