

### 2Q19 Results Update

September 17, 2019

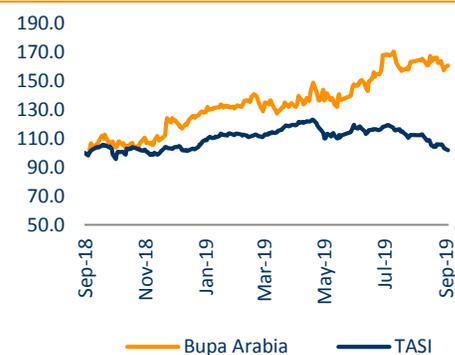
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	104.8
Target Price (SAR)	106.0
Upside/Downside (%)	1.1%

As of September 17<sup>th</sup> 2019

#### Key Data (Source: Bloomberg)

Market Cap (SAR bn)	12.6
52 Wk High (SAR)	109.8
52 Wk Low (SAR)	65.03
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 17<sup>th</sup> September 2019

#### Continued improvement in net underwriting results boosts Bupa's net profits for 2Q19

Bupa Arabia's net profit before Zakat jumped 20.8% YoY to SAR 216.1mn owing to a 17.2% YoY increase in the company's underwriting results to SAR 449.3mn. Rise in Investment and commission income also contributed to higher net profit. The increase was partially offset by a rise in the provision for doubtful receivables and increase in operating expenses over the comparable period. On quarterly basis, net profit before Zakat more than doubled owing to impressive gains in underwriting results. In addition, policyholders' share of surplus from insurance operations during the quarter increased 24.3% YoY and 178.4% QoQ to SAR 20.4mn.

Bupa Arabia's net profit continued to expand in 2Q19 amid sustained improvement in underwriting results led by higher net earned premiums. Besides, Bupa has retained its leadership position in KSA's overall insurance and health insurance market. Currently, growth in the health insurance market is driven by Saudi enforcement measures and general rise in population. The company also expects new segments such as domestic helpers, Umrah and tourism to contribute substantially to growth in health insurance by 2023. The company continues to benefit from mandatory insurance for nationals working in the private sector enforced by the Saudi government. However, subdued growth in private sector employment remains a concern for Bupa's overall wellbeing. In the light of these countervailing factors, we maintain our "Neutral" rating on the stock.

- Gross written premium (GWP) grew 20.8% YoY to SAR 2,439mn, pushing net written premium (NWP) up 20.9% YoY to SAR 2,408mn. Net earned premium grew just 15.8% YoY to SAR 2,285mn due to a negative movement in unearned premiums.
- Net claims incurred increased 15.9% YoY to SAR 1,782mn but declined 6.8% QoQ. The company incurred policy acquisition cost of SAR 53.5mn in 2Q19 compared to SAR 52.5mn in 2Q18. Consequently, net underwriting result improved 17.2% YoY to SAR 449.3mn.
- General and administrative expense rose 12.1% YoY to SAR 110mn. Investment and other income together rose 52.2% YoY to SAR 34mn.
- Combined ratio for the quarter came in at 90.1% vis-à-vis 89.9% in 2Q18. Expense ratio for 2Q19 stood at 12.1% (12.0% in 2Q18).
- Bupa Arabia reported a retention ratio of 98.8% during the quarter compared to 98.7% in 2Q18 and 99.3% in 1Q19.
- On July 14, Bupa Arabia paid out a 15% dividend of SAR 1.50 per share to its 120 million shareholders, totaling SAR 180mn.
- In September, Bupa bought a total of 169,460 shares worth SAR17.74mn, at an average price of SAR 104.71 per share, as part of its employee incentive program.
- Bupa has signed a one year contract with STC to provide health insurance services to its employees and has also received a confirmation to renew its contract as the health insurance provider for SABIC's employees and their families.
- Bupa Arabia has updated its accounting policy to account for zakat and income taxes in the income statement based on the recent instructions issued by SAMA.

**Valuation:** We have revised our target price upward, with a fair value of SAR 106 per share, considering the company's robust quarterly performance. We maintain our "Neutral" rating on the stock.

	2Q'19	2Q'18	% YoY	FY19	FY18	% YoY
GWP (SAR mn)	2,439	2,020	20.8%	9,324	8,567	8.8%
NWP (SAR mn)	2,408	1,992	20.9%	9,236	8,486	8.8%
Net claims incurred (SAR mn)	1,782	1,538	15.9%	7,389	6,789	8.8%
Net profit before Zakat (SAR mn)	216	179	20.8%	626	525	19.2%
EPS (SAR)	1.56	1.32	18.2%	5.23	4.39	19.2%
Loss Ratio	78.0%	77.9%	0.1%	83.3%	83.3%	0.0%
Expense Ratio	12.1%	12.0%	0.1%	9.0%	9.5%	-0.5%
Combined Ratio	90.1%	89.9%	0.2%	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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