

3Q19 Results Update

December 16, 2019

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	102.0
Target Price (SAR)	106.0
Upside/Downside (%)	3.9%

As of December 16th 2019

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	12.2
52 Wk High (SAR)	112.4
52 Wk Low (SAR)	80.8
Total Outstanding shares (in mn)	120
Free Float (%)	57.9%

Bupa Arabia vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	(5.7%)	(6.0%)
6m	5.3%	17.1%
12m	26.7%	25.3%

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 16th December, 2019

Higher underwriting results and investment income lift Bupa's profit in 3Q19

Bupa Arabia's net income before Zakat increased 6.4% YoY to SAR 260mn owing to a 6.3% annual rise in the company's underwriting results to SAR 446.4mn following an increase in net earned premium and favorable movements to outstanding claims. Rise in investment and commission income also contributed to higher net profit. On a quarterly basis, net profit before Zakat jumped 20.5% owing to impressive gains in underwriting results over the comparable period (up 26.9%). Policyholders' share of surplus from insurance operations during the quarter increased 15.5% YoY and 12.0% QoQ to SAR 164mn.

Bupa has retained its leadership position in KSA's overall insurance and health insurance market. Consistent improvement in underwriting results and higher investment income helped Bupa expand profit in 3Q19. The company's revenues continue to grow on continued re-pricing and general rise in population. The company continues to benefit from mandatory insurance for nationals working in the private sector enforced by the Saudi government. The company also expects new segments such as domestic helpers, Umrah and tourism to contribute substantially to growth in health insurance by 2023. However, its future performance is highly contingent on rate of growth in the private sector employment. Besides, any irrational price competition, as seen in the past in the Saudi insurance market, may hurt the company's prospects. We retain our neutral rating on the stock.

- Gross written premium (GWP) increased 8.6% YoY to SAR 3,076mn, pushing net written premium (NWP) up 8.6% YoY to SAR 3,056mn. Net earned premium grew 12.7% YoY to SAR 2,361mn.
- Net claims incurred grew 14.0% YoY (to SAR 1,860mn) and 4.4% QoQ. The company incurred policy acquisition cost of SAR 54.4mn in 3Q19 vis-à-vis SAR 43.4mn in 3Q18. Consequently, net underwriting result improved 6.3% YoY to SAR 446.4mn.
- General and administrative expense rose 13.1% YoY to SAR 116mn. Investment and commission income rose 37.6% YoY to SAR 33mn.
- Combined ratio for the quarter was 88.2% vis-à-vis 87.3% in 3Q18. Expense ratio for 3Q19 stood at 9.4%, same as that a year earlier. Expense ratio was 12.1% for 2Q19.
- Bupa Arabia reported a retention ratio of 99.3% during the quarter compared to 99.4% in 3Q18 and 98.8% in 2Q19.
- Bupa Arabia for Cooperative Insurance Company announced that its Extraordinary General Assembly Meeting (EGM) approved the company's purchase of long-term incentive plan (LTIP) shares under which, it will buy a maximum of 210,000 shares worth SAR 15mn.
- Bupa Arabia for Cooperative Insurance Company received a confirmation from National Commercial Bank (NCB) to provide medical insurance services to the bank's employees and their families, with effect from January 1, 2020.

Valuation: We maintain our target at a fair value of SAR 106.0 per share and retain our "Neutral" rating on the stock.

	3Q'19	3Q'18	% YoY	FY19	FY18	% YoY
GWP (SAR mn)	3,076	2,832	8.6%	9,416	8,567	9.9%
NWP (SAR mn)	3,056	2,814	8.6%	9,327	8,486	9.9%
Net claims incurred (SAR mn)	1,860	1,632	14.0%	7,462	6,789	9.9%
Net profit before Zakat (SAR mn)	260	245	6.4%	634	525	20.7%
EPS (SAR)	1.89	1.89	0.1%	4.72	4.39	7.4%
Loss Ratio	78.8%	77.9%	0.9%	83.3%	83.3%	0.0%
Expense Ratio	9.4%	9.4%	0.0%	9.3%	9.5%	(0.2%)
Combined Ratio	88.2%	87.3%	0.9%	92.6%	92.8%	(0.2%)

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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