

3Q19 Results Update

December 17, 2019

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	74.8
Target Price (SAR)	72.6
Upside/Downside (%)	(3.0%)

As of December 17th 2019

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	9.4
52 Wk High (SAR)	76.0
52 Wk Low (SAR)	56.7
Total Outstanding shares (in mn)	125
Free Float (%)	63.2%

Tawuniya vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	4.2%	1.5%
6m	2.8%	11.2%
12m	16.7%	13.8%

Major Shareholders (%)

Public Pension Agency	18.9%
General Organization for Social Insurance	17.9%

Gross Written Premium (SAR bn) and Loss Ratio



Source: Bloomberg, Company Financials, FALCOM Research; Data as of 17th December 2019

Tawuniya's earnings rise on higher net underwriting income and improved operating results

The Company for Cooperative Insurance (Tawuniya) swung to a net income of SAR 93.0mn in 3Q19 from a net loss of SAR 36.5mn in 3Q18. The net income was up 80.4% QoQ. On an annual basis, the company saw sharp improvements in net underwriting results for the quarter, aided by a rise in gross written premiums (GWPs) across all sectors and lower claims paid. In addition, the increase in general and administrative expense was partially offset by lower policy acquisition costs. The investment income for the quarter more than doubled to SAR 34.9mn. On the other hand, the allowance for doubtful debts stood at SAR 38.0mn compared with a reversal of doubtful debts of SAR 6.2mn in 3Q18.

Tawuniya is the second largest player in the Saudi Arabian insurance market in terms of market cap and enjoys several advantages over other smaller players in the industry. The company benefits from its balance sheet strength, economies of scale, and favorable business and customer mix. To improve its operational efficiency, the company continues to invest in information infrastructure development and enhancing cybersecurity and forging new business alliances. However, the future of the insurance business in KSA is contingent on growth in the private sector workforce and rise in tourism. Moreover, the intense price competition in the health insurance segment, the biggest revenue contributor, and the segment's high claims ratio remain a concern. We retain our Neutral rating on the stock.

- GWPs increased 17.8% YoY to SAR 1.4bn in 3Q19 from SAR 1.2bn, driven by gains across segments such as Medical, Motor, Property and Casualty, and Protection and Savings.
- Net written Premiums climbed 19.7% YoY to SAR 1.2bn in line with the increase in GWPs, but fell 23.0% QoQ.
- Net claims paid declined 26.3% YoY to SAR 1.2bn in 3Q19 from SAR 1.6bn, following a drop in gross claims paid and higher share of reinsurance.
- Policy acquisition costs declined 2.3% YoY to SAR 90.9mn in 3Q19, while net investment income increased 139.0% YoY to SAR 34.9mn.
- Net income for the period swung to a net profit of SAR 93.0mn in 3Q19 from a net loss of SAR 36.5mn in 3Q18. Earnings per share stood at SAR 0.74 in 3Q19 compared with loss per share of SAR 0.29 in 3Q18.
- The combined ratio stood at 80.3% in 3Q19 against 105.4% in 3Q18, as the loss ratio for the quarter fell to 66.2% in 3Q19 from 91.5% in 3Q18.
- The expense ratio for 3Q19 stood at 14.1% compared with 13.9% in 3Q18.
- Tawuniya recently signed a deal with the Ministry of Hajj and Umrah to provide insurance coverage to foreign pilgrims. The four-year contract is expected to generate revenue greater than 5% of the annual gross written premium of Tawuniya in 2018. The company also inked a SAR 115mn contract with Tahakom Investment.

Valuation: We revise our target price to a fair value of SAR 72.6 and maintain our "Neutral" rating on the stock.

	3Q'19	3Q'18	% YoY	FY19E	FY18	% YoY
GWP (SAR mn)	1,423	1,208	17.8%	8,359	7,641	9.4%
NWP (SAR mn)	1,181	987	19.7%	7,142	6,527	9.4%
Net Claims Incurred (SAR mn)	1,460	1,606	(9.1%)	6,765	6,572	2.9%
Net Profit (SAR mn)	93.0	(36.5)	NM	281	(213)	NM
EPS (SAR)	0.74	(0.29)	NM	2.3	(1.7)	NM
Loss Ratio	66.2%	91.5%	(25.3%)	85.5%	98.7%	(13.2%)
Expense Ratio	14.1%	13.9%	0.2%	15.0%	15.2%	(0.2%)
Combined Ratio	80.3%	105.4%	(25.2%)	100.5%	113.8%	(13.4%)

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

Disclaimer and Risks Warning:

The information in this report was compiled from various public sources believed to be reliable and whilst all reasonable care has been taken to ensure that the facts stated in this report are accurate and that the forecasts, opinions, future prices and expectations contained herein are fair and reasonable, FALCOM makes no representations or warranties whatsoever as to the accuracy of the data and information provided and, in particular, FALCOM does not represent that the information or expected future prices in this report is complete or free from any error. This report is not, and is not to be construed as, an offer to sell or solicitation of an offer to buy any financial securities. Accordingly, no reliance should be placed on the accuracy, fairness or completeness of the information or the expected prices contained in this report. FALCOM accepts no liability whatsoever for any loss arising from any use of this report or its contents, and FALCOM shall not be in any way responsible for the contents hereof. Opinions, forecasts or price projections contained in this report represent FALCOM's current opinions or judgment as at the date of this report only and are therefore subject to change without notice. There can be no assurance that future results, prices or events will match any such opinions, forecasts or prices projections which represent only one possible outcome and these price estimates may not occur in the future whatsoever. Further, such opinions, forecasts or price projections are subject to certain risks, uncertainties and assumptions that have not been verified and future actual results or events could differ materially. Any value or price, or income from, any investments referred to in this report may fluctuate and/or be affected by changes. Past performance is not necessarily an indicative of future performance. Accordingly, investors may receive back less than originally invested amount. This report provides information of a general nature and does not address the circumstances, objectives, and risk tolerance of any particular investor. Therefore, the person who obtain a copy of this report should understand that this report is not intended to provide personal investment advice and does not take into account his/her financial situation or any specific investment objectives or particular needs which he/she may have. Before making an investment decision the investors should seek advice from an independent financial, investment and/or other required advisers due to the investment in such kind of securities may not be suitable for all recipients. This research report might not be reproduced, nor distributed in whole or in part, and all information, opinions, forecasts and price estimates contained; are protected by the intellectual property laws, copyright and publishing rules and regulations applied in the Kingdom of Saudi Arabia.

All rights reserved.

FALCOM acquired the Saudi Capital Market Authority license number (37-06020) on 27/05/2006, and commenced providing its services to the investors in the Saudi Stock Exchange on 19/02/2007 with CR Number 1010226584 Issued on 04/12/1427H.