

FY19 Results Update

March 30, 2020

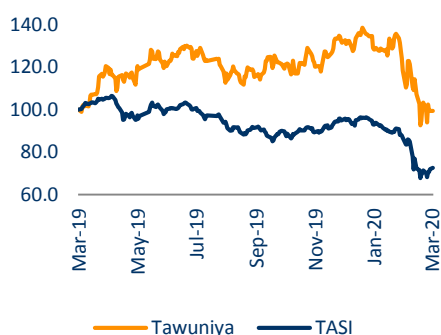
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	57.7
Target Price (SAR)	60.7
Upside/Downside (%)	5.1%

As of March 29th, 2020

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	7.2
52-Wk High (SAR)	81.9
52-Wk Low (SAR)	52.2
Total Outstanding Shares (in mn)	125
Free Float (%)	63.2%

Tawuniya vs. TASI (Rebased)

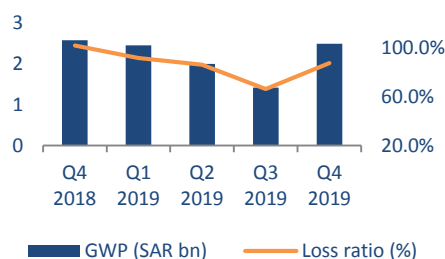


Price Performance (%)	Absolute	Relative
1m	(16.1%)	0.3%
6m	(14.5%)	6.3%
12m	(0.7%)	26.8%

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 March 29th, 2020

Higher net underwriting results help Tawuniya swing to net profit in FY19

The Company for Cooperative Insurance (Tawuniya) reported a net profit before Zakat of SAR 402.17mn compared to a net loss before zakat of SAR 213.34mn in FY18. The improvement in overall results was aided by a sharp rise in net underwriting results and improved operating performance. The company's gross written premium increased 9.6% YoY to SAR 8.4bn, whereas net claims paid declined 18.6% YoY to SAR 5.7bn from SAR 7.0bn in FY18. The company also managed to contain its policy acquisitions costs and other underwriting expenses while maintaining its administrative expenses.

Tawuniya is an important player in the Saudi Arabian insurance market and benefits from its balance sheet strength, economies of scale, and favorable business and customer mix. Besides, the company gained from favorable policies of the government that mandated insurance for Saudi nationals in the private sector. Tawuniya also signed an agreement with the Ministry of Hajj and Umrah to provide insurance services to Umrah and Haj pilgrims for four years. Fitch points out that the Saudi health insurance market is expected to grow about 8% in 2020 as the low insurance coverage offers scope for such a growth. KSA's central bank, the regulator for financial industries, aims to raise capital requirement to encourage industry consolidation. However, the future of insurance business in KSA is contingent on growth in the private sector workforce and rise in tourism. Intense price competition in the health insurance segment, the biggest revenue contributor, and the segment's high claims ratio remain a concern. Furthermore, in view of the ongoing macroeconomic uncertainty following the COVID-19 pandemic outbreak and escalation of the oil price war, we remain cautious and retain our 'Neutral' rating on the stock.

- Gross written premiums (GWPs) increased 9.6% YoY to SAR 8.4bn in FY19 from SAR 7.6bn, driven by gains across segments such as medical, motor, property and casualty, and protection and savings.
- Net written premiums advanced 2.8% YoY to SAR 6.7bn, as the gains from increase in GWPs were contained by the higher premiums ceded.
- Net claims paid declined 18.6% YoY to SAR 5.7bn in FY19 from SAR 7.0bn in FY18, following a drop in gross claims paid.
- Policy acquisition costs for the year stood at SAR 360mn, down 7.8% YoY from SAR 391mn in FY18, while other net underwriting expenses slumped to SAR 13.7mn from SAR 137.9mn.
- Net income before Zakat for the period swung to SAR 402.1mn in FY19 from a net loss before Zakat of SAR 213.3mn in FY18. Earnings per share stood at SAR 2.62 in FY19 compared with loss per share of SAR 2.23 in FY18.
- In February 2020, Tawuniya renewed a health insurance contract with Saudi Arabian Airlines to provide health insurance to the latter's employees and their dependents. The contract value exceeds 5% of the company's GWPs for 2018. The deal is expected to impact the financial results in 2020.
- The company also signed a contract with Abdulaziz Alhokair Co. to provide health insurance coverage for the latter's 15,000 employees and their families.
- In March 2020, Tawuniya appointed Rania Al-Turki as its Vice Chief Operating Officer.

Valuation: We revise our target price to a fair value of SAR 60.7 and maintain our "Neutral" rating on the stock.

	4Q'19	4Q'18	% YoY	FY20E	FY19	% YoY
GWP (SAR mn)	2,497	2,582	(3.3%)	8,967	8,376	7.1%
NWP (SAR mn)	1,783	2,239	(20.4%)	7,665	6,712	14.2%
Net Claims Incurred (SAR mn)	1,506	1,738	(13.3%)	7,115	5,813	22.4%
Net Profit before Zakat (SAR mn)	176.6	(270.7)	NM	471	328	43.8%
EPS (SAR)	1.23	(2.17)	NM	3.8	2.6	43.8%
Loss Ratio (%)	87.4%	101.9%	(14.5%)	83.8%	82.5%	1.3%
Expense Ratio (%)	14.2%	19.7%	(5.5%)	16.2%	14.5%	1.6%
Combined Ratio (%)	101.5%	121.5%	(20.0%)	99.9%	97.0%	2.9%

Source: Company Financials, FALCOM Research

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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, fair value that we set, and 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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