

### 1Q20 Results Update

June 30, 2020

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	70.0
Target Price (SAR)	72.5
Upside/Downside (%)	3.6%

As of June 24th, 2020

#### Key Data (Source: Bloomberg)

Market Cap (SAR bn)	8.8
52-Wk High (SAR)	81.9
52-Wk Low (SAR)	52.2
Total Outstanding Shares (in Mn)	125
Free Float (%)	63.0%

#### Tawuniya Versus TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	4.2%	(2.1%)
6m	(9.9%)	1.0%
12m	(6.2%)	12.1%

#### 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 June 24, 2020

#### Tawuniya's net profit swells on higher net underwriting results in 1Q20

The Company for Cooperative Insurance (Tawuniya) reported a net profit before Zakat of SAR 85.1mn in 1Q20 compared to SAR 46.0mn in 1Q19, up 84.8% YoY. The sharp rise in results can be attributed to an improvement in net underwriting income, which more than doubled to SAR 501mn in 1Q20. Net earned premiums also rose 16.4% YoY to SAR 1.9bn, further contributing to the improvement in net profit. The above factors offset the increase in total policy acquisition costs and other underwriting expenses and insurance share distribution due to the additional expenses for insurance portfolio of Umrah products.

Tawuniya continued to perform well in 2020 on the back of improvement in its underwriting results with the addition of Umrah portfolio products resulting from the deal with the Ministry of Hajj and Umrah. As per the deal, the company would provide insurance services to Umrah and Hajj pilgrims for four years. The COVID-19 outbreak is likely to have a moderate impact on the Saudi insurance industry as almost 97% of the industry's gross written premium exposure is in general and health insurance. With the government covering healthcare costs related to COVID-19 for all citizens and residents, pandemic-related claims would be relatively low. Besides, once the economic activity resumes post the lockdown, government's push to make insurance mandatory for Saudi nationals working in the private sector is expected to bode well for the industry. Though the company may suffer due to the suspension of Umrah and uncertainty over Hajj during the year, performance in other segments is expected to remain stable. On the other hand, intense price competition in the health insurance segment, which is the biggest revenue contributor, and the segment's high claims ratio remain a concern. Furthermore, in view of the ongoing macroeconomic uncertainty with the slump in oil prices, we remain cautious and retain our "Neutral" rating on the stock.

- GWPs increased 4.7% YoY to SAR 2.6bn in 1Q20 from SAR 2.5bn, with the addition of premiums from the Umrah products portfolio.
- Net written premiums advanced 8.7% YoY to SAR 2.4bn owing to lower premiums ceded over the comparable period.
- Net claims paid increased marginally 0.5% YoY to SAR 1.5bn in 1Q20, following a drop in gross claims paid and lower share of reinsurance.
- Policy acquisition costs for the year increased 19.2% to SAR 104mn, whereas the other underwriting expenses and Manafeth insurance share distribution rose manifold due to the additional costs for insurance portfolio of Umrah products.
- Net income before Zakat for the period surged 84.8% YoY to SAR 85mn in 1Q20 from SAR 46.0mn a year ago. Earnings per share (after Zakat) increased to SAR 0.53 in 1Q20 from SAR 0.23 in 1Q19.
- During the board meeting in March 2020, the company's board of directors approved the amendment of several bylaws and list of governance rules.

**Valuation:** We revise our target price to a fair value of SAR 72.5 and maintain our "Neutral" rating on the stock.

	1Q20	1Q19	% YoY	FY20E	FY19	% YoY
GWP (SAR Mn)	2,573	2,457	4.7%	8,967	8,376	7.1%
NWP (SAR Mn)	2,407	2,215	8.7%	7,333	6,712	9.2%
Net Claims Incurred (SAR Mn)	1,452	1,444	0.5%	6,852	5,813	17.9%
Net Profit Before Zakat (SAR Mn)	85.1	46.0	84.8%	434	328	32.6%
EPS (SAR)	0.53	0.23	130.2%	3.5	2.6	32.6%
Loss Ratio (%)	79.0%	91.5%	-12.4%	84.0%	82.5%	1.5%
Expense Ratio (%)	19.2%	15.6%	3.7%	16.1%	14.5%	1.5%
Combined Ratio (%)	98.3%	107.0%	-8.8%	100.1%	97.0%	3.1%

Source: Company Financials, FALCOM Research

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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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