

FY18 Results Update

March 25, 2019

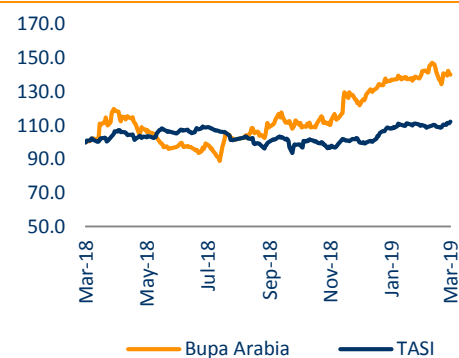
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	83.9
Target Price (SAR)	89.5
Upside/Downside (%)	6.7%

As of March 24th 2019

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	10.0
52 Wk High (SAR)	90.8
52 Wk Low (SAR)	54.2
Total Outstanding shares (in mn)	120
Free Float (%)	57.9%

Bupa Arabia vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	(1.5%)	(3.4%)
6m	28.8%	16.7%
12m	40.2%	28.0%

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 24th March 2019

Increase in net underwriting result and investment income drive growth in bottom line

Bupa Arabia reported a 5.0% YoY increase in net profit before zakat during the year to SAR 525.4mn. This was driven by an increase in net underwriting results, which advanced 7.2% annually. The increase in net underwriting result was supported by growth in net earned premiums. The rise in operating expenses was partially offset by the jump in investment and other income. Investment income rose 16.4% YoY to SAR 184.2mn in FY18 from SAR 158.2mn in FY17. However, the company reported a significant increase in bad debt provision in 2018. The allowance for doubtful receivables jumped nine times to SAR 32.3mn FY18 versus SAR 3.7mn in FY17, which resulted in limiting bottom-line growth.

Bupa Arabia's strong performance was aided by its improving market share and its widening customer base. With its strong presence in the kingdom, we expect Bupa Arabia to continue to capture the Saudi insurance market and thus expand its top line. However, slow growth in private sector employment and the steady departure of expatriates from the country are likely to affect the company's performance in the upcoming quarters. Given the countervailing factors, we maintain a 'Neutral' rating on the stock.

- Gross written premium (GWP) advanced 10.8% YoY to SAR 8,567mn. Net written premium (NWP) increased 10.7% YoY to SAR 8,486mn. However, an unfavorable net movement in unearned premium restricted the rise in net earned premium. Thus, net earned premium grew 6.2% YoY to SAR 8,150mn. During the quarter, net earned premium increased 9.9% YoY to SAR 2,143mn supported by growth in net written premium.
- Net claims incurred increased 6.0% YoY to SAR 6,789mn during the year. Consequently, the net underwriting result rose by 7.2% to SAR 1,164mn. In 4Q18, net claims incurred grew 8.8% YoY to SAR 1,891mn and net underwriting result surged 10.6% YoY to SAR 193mn.
- Allowance for doubtful receivables for the year rose significantly to SAR 32.3mn in FY18 from SAR 3.7mn in FY17. General and administration grew 14.7% YoY to SAR 423mn, while investment and other income combined, grew 1.3% YoY to SAR 101mn.
- Net income attributable to shareholders surged 5.0% YoY to SAR 525.4mn. For 4Q18, net income fell 8.6% YoY and 62.2% QoQ to SAR 92mn, as net claims incurred rose to SAR 1,891mn from SAR 1,738mn reported in 4Q17.
- The combined ratio for the year came in at 92.8%, from 92.4% in FY17. Expense ratio for FY18 stood at 9.5%, as compared to 8.9% in FY17.
- Bupa Arabia reported a retention ratio of 99.1% during the year, the same as last year. For the quarter 4Q18, retention ratio was 98.4%, declining from 99.1% in 4Q17 and 99.4% in 3Q18.
- During the quarter 4Q18, Bupa Arabia signed a contract with National Commercial Bank (NCB) to provide health insurance services to the bank's employees and their families for one year, starting from January 2019.
- In Feb 2019, the company renewed its license with the kingdom's Council of Cooperative Health Insurance (CCHI) for one year.

Valuation: We revise our target price upward, with a fair value of SAR 89.5 per share, incorporating the company's strong FY18 performance. We maintain our 'Neutral' rating on the stock.

	4Q'18	4Q'17	% YoY	FY19E	FY18	% YoY
GWP (SAR mn)	1,226	1,110	10.5%	9,322	8,567	8.8%
NWP (SAR mn)	1,207	1,100	9.8%	9,235	8,486	8.8%
Net claims incurred (SAR mn)	1,891	1,738	8.8%	7,300	6,789	7.5%
Net profit before Zakat (SAR mn)	92	101	(8.6%)	731	525	39.0%
EPS (SAR)	1.16	1.27	(8.6%)	6.10	4.39	39.0%
Loss Ratio	88.3%	89.2%	(0.9%)	82.3%	83.3%	-1.0%
Expense Ratio	2.3%	0.1%	2.2%	9.0%	9.5%	-0.5%
Combined Ratio	90.6%	89.3%	1.3%	91.3%	92.8%	-1.5%

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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