

2Q 2018 Results Update

Aug 28, 2018

Recommendation	Overweight
Previous Recommendation	Overweight
Current Price (SAR)	54.9
Target Price (SAR)	64.3
Upside/Downside (%)	17.4%
<i>As of Aug 27th 2018</i>	

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	6.9
52 Wk High (SAR)	106.0
52 Wk Low (SAR)	53.7
Total Outstanding shares (in mn)	125
Free Float (%)	53.37%

Tawuniya vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	(17.8%)	(11.4%)
6m	(25.8%)	(30.5%)
12m	(39.7%)	(50.4%)

Major Shareholders (%)

Public Pension Agency	23.79%
General Organization for Social Insurance	22.83%

Gross Written Premium (SAR bn) and Loss Ratio



Source: Bloomberg, Company Financials, FALCOM Research; Data as of 27th August 2018

Rising net claims weigh on 2Q18 bottom line

The Company for Cooperative Insurance (Tawuniya)'s net profit declined 84.6% YoY to SAR 38.3mn in 2Q18. This was largely due to 20.5% YoY decline in net written premiums, coupled with a 13.7% YoY increase in net claims incurred. Additionally, 20.0% YoY decline in net investment income weighed on the current quarter's results.

Of the total gross written premiums (GWP), Medical (67.3%) and Property & Casualty (21.3%) contributed the most in the current quarter, followed by Motor (9.5%). The Medical segment's contribution increased to 67.3% in 2Q18 from 62.6% in 2Q17, driven by a 250% YoY rise in changes in unearned premiums to SAR 286mn. Meanwhile, the Motor segment lost the most: its contribution to the total GWP declined 790bps YoY to 9.5% in 2Q18 (2Q17: 17.4%). This was ascribed to a YoY fall in gross premiums from three segments: Retail (35.8%), Small & Medium Enterprise (36.5%), and Corporate (97.0%). Nevertheless, going forward, we believe the Motor segment would benefit from the recent lifting of the driving ban on women and we expect Tawuniya, a leading player in the industry, to witness a rise in market share from an uptick in new car sales.

In June 2018, S&P affirmed its A- rating on Tawuniya, with a stable outlook, reflecting the firm's strong financial position. Expected robust growth in the Motor segment, coupled with the company's strong competitive position, reiterates our positive view on the stock.

- Gross written premiums (GWP) fell to SAR 1,756mn in 2Q18, against SAR 2,104mn in 2Q17, reflecting decline of 16.6% YoY. On a sequential basis, GWP fell 16.2% from SAR 2,096mn.
- Net written premiums (NWP) witnessed a 20.5% YoY and 26.6% QoQ drop to SAR 1,397mn, dragged down by a fall in GWP in the current quarter.
- Net claims incurred rose 13.7% YoY to SAR 1,647mn in 2Q18 from SAR 1,449mn in 2Q17. On a sequential basis, net claims incurred grew 4.2%.
- Net profit before zakat decreased 84.6% YoY to SAR 38.3mn in 2Q18 from SAR 249mn in 2Q17. Despite a fall in G&A and other expenses, simultaneous decline in NWP (20.5% YoY) and higher net claims incurred (13.7% YoY) contributed to the negative performance in this quarter. However, loss decreased on a sequential basis, supported by decline in net claims paid (14.3% QoQ) and a rise in investment income (165% QoQ).
- EPS for the quarter plunged 84.6% YoY to SAR 0.31 from SAR 1.99 in 2Q17, primarily due to higher net claims paid and additional reserve requirements.
- The combined ratio deteriorated to 106.5% in 2Q18, vis-à-vis 93.3% during this quarter a year ago. However, on a sequential basis, the combined ratio improved 15.8% to 106.5% from 122.3%.
- The expense ratio for 2Q18 decreased to 13.9%, against 14.8% in the corresponding quarter last year. On a sequential basis, the expense ratio widened 4bps.

Valuation: We have revised our target price downward, with a fair value of SAR 64.3 per share, considering two subsequent quarters of weak performance. The stock is trading close to its 52-week low, providing a good entry point for long-term investors. We maintain our 'Overweight' rating on the stock.

	2Q'18	2Q'17	% YoY	FY18E	FY17	% YoY
GWP (SAR mn)	1,755.9	2,104.2	-16.6%	8,507.7	8,406.7	1.2%
NWP (SAR mn)	1,397.5	1,758.5	-20.5%	7,405.3	7,274.9	1.8%
Net claims incurred (SAR mn)	1,647.5	1,449.0	13.7%	6,539.2	6,796.1	-3.8%
Net profit before Zakat (SAR mn)	38.3	248.8	-84.6%	451.1	-146.5	NM
EPS (SAR)	0.3	2.0	-84.6%	3.6	-1.2	NM
Loss Ratio	92.6%	78.5%	14.1%	76.2%	79.8%	-3.6%
Expense Ratio	13.9%	14.8%	-0.9%	14.3%	16.7%	-2.3%
Combined Ratio	106.5%	93.3%	13.2%	90.6%	96.5%	-5.9%

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, 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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