

FY 2018 Results Update

Apr 11, 2019

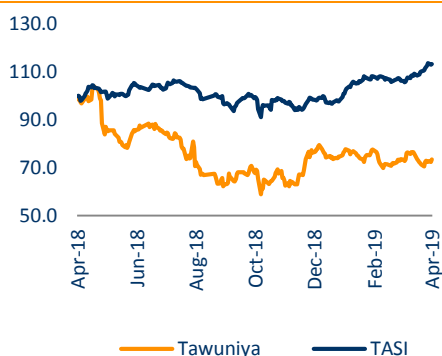
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	62.2
Target Price (SAR)	61.6
Upside/Downside (%)	-1.0%

As of Apr 10th 2019

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	7.8
52 Wk High (SAR)	86.0
52 Wk Low (SAR)	47.5
Total Outstanding shares (in mn)	125
Free Float (%)	53.4%

Tawuniya vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	(0.2%)	(6.8%)
6m	8.3%	(5.5%)
12m	(26.6%)	(40.0%)

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 10th Apr 2019

Lower net earned premium and rising net claims widen FY18 loss for Tawuniya

The Company for Cooperative Insurance (Tawuniya)'s net loss widened to SAR 213mn in FY18 from SAR 147mn in FY17, primarily due to lower net written premium and higher claim settlement. Net written premium declined 10.3% YoY to SAR 6,527mn, while net claims paid increased 19.4% YoY to SAR 6,972mn. The Motor segment witnessed the highest decline in gross written premiums (GWP) (down 51.6% YoY), followed by Manafeth (-23.2% YoY) and Property & Casual (-1.4% YoY). Besides, investment income fell 43.2% YoY to SAR 272mn, deepening the losses. Among all the quarters of the year, the company recorded the highest gross premium in 4Q18, although it was lower than that in 4Q17.

Saudi insurance industry focuses largely on the Health and Motor segments (over 85%) and decline in demand from these two segments or higher claims can have a major impact on the company's earnings, as was seen in the Motor segment during FY18. The intense price competition in the health insurance coupled with medical cost inflation lately has impacted the company's performance. Tawuniya is the second largest insurance provider in Saudi Arabia, with a stable outlook (S&P rating of A-). Going forward, we expect the company to gain some market share over smaller insurers, considering its balance sheet strength, economies of scale and favorable business and customer mix. Given these countervailing factors, we maintain our Neutral stance on the stock.

- GWP declined 9.1% YoY to SAR 7,641mn in FY18 from SAR 8,407mn in FY17 mainly due to lower premiums from the Motor insurance (-51.6% YoY) and Manafeth (-23.3% YoY) segments.
- Net written premiums (NWP) declined 10.3% YoY to SAR 6,527mn, in line with the fall in GWP in the current year. In 4Q18, NWP fell 10.3% YoY to SAR 2,239mn.
- Net claims incurred fell 3.5% YoY to SAR 6,572mn in FY18 from SAR 6,814mn in FY17 even though net claims paid increased 19.4% YoY to SAR 6,972mn.
- Benefits from lower policy acquisition costs and other underwriting expenses were offset by lower investment income. Policy acquisition costs declined 20.7% YoY to SAR 391mn in FY18, while total investment income declined 43.2% YoY to SAR 272mn.
- As a result, the company reported a net loss of SAR 213mn in FY18 compared to SAR 147mn in FY17. Loss per share for the year stood at SAR 1.71 in FY18 compared to SAR 1.17 in FY17.
- The combined ratio deteriorated to 113.8% in FY18 from 96.5% in FY17 as the loss ratio for the year jumped to 98.7% from 80% from the previous fiscal.
- The Expense ratio for FY18 stood at 15.2%, as compared to 16.5% in FY17.
- The company renewed its health insurance contract with the Saudi Arabian Airlines for an undisclosed amount for the year starting March 1. The value of health insurance deal accounted for 5% of Tawuniya's total annual premiums for FY17—the financial impact is expected to be recorded in FY19.

Valuation: We revise our target price to a fair value of SAR 61.6 and maintain our "Neutral" rating on the stock.

	4Q'18	4Q'17	% YoY	FY19E	FY18	% YoY
GWP (SAR mn)	2,582	2,853	-9.5%	8,159	7,641	6.8%
NWP (SAR mn)	2,239	2,498	-10.3%	6,970	6,527	6.8%
Net claims incurred (SAR mn)	1,738	2,459	-29.3%	6,603	6,572	0.5%
Net profit (SAR mn)	-271	-664	NM	234	-213	NM
EPS (SAR)	-2.2	-5.3	NM	1.9	-1.7	NM
Loss Ratio	101.9%	83.0%	18.8%	85.5%	98.7%	-13.2%
Expense Ratio	19.7%	21.3%	-1.7%	15.7%	15.2%	0.5%
Combined Ratio	121.5%	104.3%	17.2%	101.2%	113.8%	-12.7%

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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