

### 1Q19 Results Update

May 29, 2019

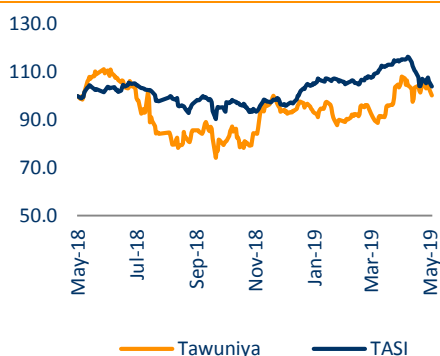
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	70.0
Target Price (SAR)	66.1
Upside/Downside (%)	-5.6%

As of May 28<sup>th</sup> 2019

#### Key Data (Source: Bloomberg)

Market Cap (SAR bn)	8.8
52 Wk High (SAR)	72.6
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	(7.3%)	2.6%
6m	19.1%	8.0%
12m	0.2%	(3.8%)

#### 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 28<sup>th</sup> May 2019

#### Higher net earned premium and lower costs lift net earnings for Tawuniya in 1Q19

The Company for Cooperative Insurance (Tawuniya)'s net profit increased 9.8% YoY to SAR 46.0mn in 1Q19 from SAR 41.9mn in 1Q18, driven by higher net written premiums (NWP), lower claim settlement and lower insurance policy subscription costs. The maximum gains in net written premiums were from the Medical and Property & Casual segments, which overran the decline in the Motor segment. The net other income for the period was up 35.4% YoY to SAR 5.9mn. Conversely, income from dividend and realized gains on investment fell 20.7% YoY to SAR 31.0mn.

Tawuniya is the second largest insurance provider in Saudi Arabia with a stable outlook (S&P rating of A-). The company is expected to gain market shares over smaller insurers considering its balance sheet strength, economies of scale, and favorable business and customer mix. Tawuniya's recent partnership with the Vitality Group is likely to open new doors for business expansion into the Middle East and North Africa. However, the company faces certain challenges in the domestic market in terms of flat demand for insurance products and intense price competition in the health insurance segment coupled with medical cost inflation. Given these countervailing factors, we maintain our Neutral stance on the company's stock.

- GWPs increased 17.2% YoY to SAR 2.5bn in 1Q19 from SAR 2.1bn in 1Q18, primarily driven by gains in the Medical, Property and Casual, and Manafeth insurance segments that offset the decline in the Motor and Protection and Savings segments.
- NWPs increased 16.4% YoY to SAR 2.2bn, in line with the rise in GWPs in the current quarter but fell 1.1% QoQ compared with 4Q18.
- Net claims incurred fell 8.6% YoY to SAR 1.4bn in 1Q19 from SAR 1.6bn in 1Q18 although net claims paid declined 22.8% YoY to SAR 1.5bn.
- Higher net subscription income, lower incurred claims, and lower subscription costs of insurance policies led to net profit rise of 9.8% YoY to SAR 46.0mn. Earnings per share stood at SAR 0.37 in 1Q19 compared with SAR 0.34 in 1Q18.
- Policy acquisition costs declined 13.4% YoY to SAR 87mn in 1Q19.
- The combined ratio improved to 106.0% in 1Q19 from 122.7% in 1Q18 as the loss ratio for the year fell to 91.5% in 1Q19 from 108.7% in 1Q18 and 101.9% in 4Q18.
- The expense ratio for 1Q19 stood at 14.5% compared with 13.9% in 1Q18.
- Tawuniya signed an agreement with Vitality Group, the global leader in the integration of wellness benefits with insurance products. This agreement is the first of its kind in Saudi as Vitality caters to more than 10 million clients worldwide and its wellness program presents rewards as incentives to encourage healthy behavior.

**Valuation:** We revise our target price to a fair value of SAR 66.1 and maintain our "Neutral" rating on the stock.

	1Q'19	1Q'18	% YoY	FY19E	FY18	% YoY
GWP (SAR mn)	2,457	2,096	17.2%	8,159	7,641	6.8%
NWP (SAR mn)	2,215	1,903	16.4%	6,970	6,527	6.8%
Net claims incurred (SAR mn)	1,444	1,581	-8.6%	6,603	6,572	0.5%
Net profit (SAR mn)	46	42	9.8%	234	(213)	NM
EPS (SAR)	0.4	0.3	9.8%	1.9	(1.7)	NM
Loss Ratio	91.5%	108.7%	(17.3%)	85.5%	98.7%	(13.2%)
Expense Ratio	14.5%	13.9%	0.6%	15.7%	15.2%	0.5%
Combined Ratio	106.0%	122.7%	(16.7%)	101.2%	113.8%	(12.7%)

Source: Company Financials, FALCOM Research

1Q19 Results Update

May 29, 2019

## 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.

## FALCOM Financial Services

Contact us on the below phone numbers:

Customer Services: **8004298888**

Brokerage Services: **920004711**

Fax or Email us at the below number:

Fax: **+966 11 2032546**

Email: **addingvalue@falcom.com.sa**

Mail us at the following address:

P.O. Box 884

Riyadh 11421

Kingdom of Saudi Arabia

## Disclaimer and Risks Warning:

The information in this report was compiled from various public sources believed to be reliable and whilst all reasonable care has been taken to ensure that the facts stated in this report are accurate and that the forecasts, opinions, future prices and expectations contained herein are fair and reasonable, FALCOM makes no representations or warranties whatsoever as to the accuracy of the data and information provided and, in particular, FALCOM does not represent that the information or expected future prices in this report is complete or free from any error. This report is not, and is not to be construed as, an offer to sell or solicitation of an offer to buy any financial securities. Accordingly, no reliance should be placed on the accuracy, fairness or completeness of the information or the expected prices contained in this report. FALCOM accepts no liability whatsoever for any loss arising from any use of this report or its contents, and FALCOM shall not be in any way responsible for the contents hereof. Opinions, forecasts or price projections contained in this report represent FALCOM's current opinions or judgment as at the date of this report only and are therefore subject to change without notice. There can be no assurance that future results, prices or events will match any such opinions, forecasts or prices projections which represent only one possible outcome and these price estimates may not occur in the future whatsoever. Further, such opinions, forecasts or price projections are subject to certain risks, uncertainties and assumptions that have not been verified and future actual results or events could differ materially. Any value or price, or income from, any investments referred to in this report may fluctuate and/or be affected by changes. Past performance is not necessarily an indicative of future performance. Accordingly, investors may receive back less than originally invested amount. This report provides information of a general nature and does not address the circumstances, objectives, and risk tolerance of any particular investor. Therefore, the person who obtain a copy of this report should understand that this report is not intended to provide personal investment advice and does not take into account his/her financial situation or any specific investment objectives or particular needs which he/she may have. Before making an investment decision the investors should seek advice from an independent financial, investment and/or other required advisers due to the investment in such kind of securities may not be suitable for all recipients. This research report might not be reproduced, nor distributed in whole or in part, and all information, opinions, forecasts and price estimates contained; are protected by the intellectual property laws, copyright and publishing rules and regulations applied in the Kingdom of Saudi Arabia.

All rights reserved.

FALCOM acquired the Saudi Capital Market Authority license number (37-06020) on 27/05/2006, and commenced providing its services to the investors in the Saudi Stock Exchange on 19/02/2007 with CR Number 1010226584 Issued on 04/12/1427H.