

2Q19 Results Update

September 22, 2019

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	68.9
Target Price (SAR)	68.1
Upside/Downside (%)	(1.2%)

As of September 22nd 2019

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	8.6
52 Wk High (SAR)	76.0
52 Wk Low (SAR)	47.5
Total Outstanding shares (in mn)	125
Free Float (%)	63.2%

Tawuniya vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	(6.3%)	2.8%
6m	8.4%	17.7%
12m	27.9%	25.8%

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 22nd September 2019

Gains in net written premium and lower net claims paid boost Tawuniya's earnings

The Company for Cooperative Insurance (Tawuniya)'s net income rose 119.7% YoY and 77.5% QoQ to SAR 51.5mn in 2Q19 from SAR 23.5mn in 2Q18, aided by improvements in net written premium and lower net claims paid. In addition, the rise in the general and administrative expenses was offset by lower policy acquisition costs and other underwriting expenses. Most significant gains in the net written premiums came from Medical segment that offset the decline in the Motor and Property & Casual segments. The investment income for the quarter more than doubled to SAR 39.3mn. On the other hand, though the company did not record any impairment of available-for-sale investments, the allowance for doubtful debts grew manifold to SAR 76.1mn for the quarter.

Being the market challenger in the insurance market of Saudi Arabia, Tawuniya enjoys several advantages over smaller players in the industry and stands to gain from its balance sheet strength, economies of scale, and favorable business and customer mix. In addition, the company is forging important partnerships to expand its business in the Middle East and North Africa. Recently, the company was awarded "Best Insurance Company Offering Electronic Services" in Saudi Arabia for the year 2019; a testimony to the company's continuous development of its information infrastructure and improved cybersecurity. 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 13.9% YoY to SAR 2.0bn in 2Q19 from SAR 1.8bn in 2Q18, primarily driven by gains in the Medical segment that overran declines in the Motor, Property and Casual segments.
- NWP's increased 9.7% YoY to SAR 1.5bn, in line with the increase in GWPs; however, on a quarterly basis, the NWP fell 30.8%.
- Net claims paid fell 12.2% YoY to SAR 1.5bn in 2Q19 from SAR 1.7bn in 2Q18 following a drop in the gross claims paid and reinsurance share.
- Policy acquisition costs declined 15.6% YoY to SAR 85.6mn in 2Q19, while total investment income increased 132.2% YoY to SAR 39.3mn.
- Net income for the period grew 119.7% YoY to SAR 51.5mn. Earnings per share stood at SAR 0.41 in 2Q19 compared with SAR 0.19 in 2Q18.
- The combined ratio was 100.3% in 2Q19 against 106.4% in 2Q18 as the loss ratio for the quarter fell to 85.9% in 2Q19 from 92.6% in 2Q18 and 91.5% in 1Q19.
- The expense ratio for 2Q19 stood at 14.4% compared with 13.8% in 2Q18.
- Tawuniya recently signed a deal with the Ministry of Hajj and Umrah to provide insurance coverage to foreign pilgrims. The four year contract is expected to generate revenue greater than 5% of the annual gross written premium of Tawuniya in 2018.

Valuation: We revise our target price to a fair value of SAR 68.1 and maintain our "Neutral" rating on the stock.

	2Q'19	2Q'18	% YoY	FY19E	FY18	% YoY
GWP (SAR mn)	2,000	1,756	13.9%	8,359	7,641	9.4%
NWP (SAR mn)	1,533	1,397	9.7%	7,142	6,527	9.4%
Net claims incurred (SAR mn)	1,402	1,647	(14.9%)	6,765	6,572	2.9%
Net profit (SAR mn)	51.5	23.5	119.7%	281	(213)	NM
EPS (SAR)	0.41	0.19	119.7%	2.3	(1.7)	NM
Loss Ratio	85.9%	92.6%	(6.7%)	85.5%	98.7%	(13.2%)
Expense Ratio	14.4%	13.8%	0.7%	15.0%	15.2%	(0.2%)
Combined Ratio	100.3%	106.4%	(6.0%)	100.5%	113.8%	(13.4%)

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, 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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