

### FY19 Results Update

March 22, 2020

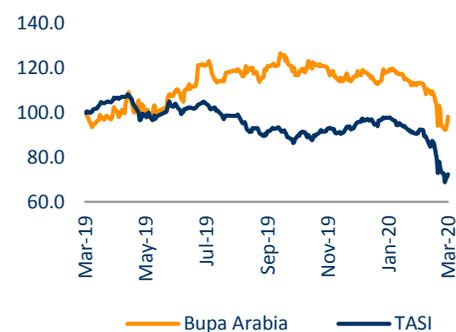
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	85.0
Target Price (SAR)	90.0
Upside/Downside (%)	5.9%

As of March 22<sup>nd</sup> 2020

#### Key Data (Source: Bloomberg)

Market Cap (SAR bn)	10.2
52 Wk High (SAR)	112.4
52 Wk Low (SAR)	79.0
Total Outstanding shares (in mn)	120
Free Float (%)	57.8%

#### Bupa Arabia vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	(13.4%)	8.0%
6m	(18.7%)	2.3%
12m	(1.8%)	25.8%

#### 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 22<sup>nd</sup> March, 2020

#### Improved underwriting results help lift Bupa's net profit in FY19

Bupa Arabia's net income before Zakat jumped 35.6% YoY to SAR 713mn. This surge was aided by a 20.1% rise of the company's underwriting results to SAR 1.4bn following an increase in net earned premium despite higher net claims paid. Surplus from insurance operations was up 37.2% YoY to SAR 668mn despite a rise in operating expenses. Policyholders' share of surplus from insurance operations for the year also jumped 37.2% YoY to SAR 67mn in FY19.

During 2019, Bupa reported consistent improvement in underwriting results and higher investment income aided by continued re-pricing and general population increase. Furthermore, favorable policies by the government that mandated insurance for nationals working in the private sector benefitted the company. Fitch expects the health insurance market in Saudi Arabia to grow about 8% in 2020, as the medical coverage ratio in the country currently stands at only about one-third of the population, offering a much broader scope for growth. KSA's central bank, the regulator for financial industries, aims to raise capital requirement to encourage industry consolidation. Bupa, being a market leader and a profitable company, stands to benefit from this move. However, any irrational price competition, as seen in the past in the Saudi insurance market, may hurt the company's prospects. Furthermore, in view of the ongoing macroeconomic uncertainty following the outbreak of Covid 19 pandemic and the escalation of oil price war, we remain cautious and retain our 'Neutral' rating on the stock.

- Gross written premium (GWP) increased 21.5% YoY to SAR 10.4bn, pushing net written premium (NWP) up 21.4% YoY to SAR 10.3bn. Net earned premium grew 15.0% YoY to SAR 9.4bn.
- Net claims incurred increased 14.1% YoY to SAR 7.7bn. The company incurred policy acquisition cost of SAR 244.4mn in FY19 against SAR 197.4mn in FY18. Consequently, net underwriting results improved 20.1% YoY to SAR 1.4bn.
- General and administrative expenses were up 13.5% YoY to SAR 480mn in FY19, whereas investment and commission income advanced 36.8% YoY to SAR 137mn.
- Net income before Zakat and taxes was up 35.6% to SAR 713mn in FY19.
- Combined ratio for the year was 91.9% against 92.8% in FY18. Expense ratio for FY19 declined to 9.2% compared with 9.5% in FY18.
- Bupa Arabia reported a retention ratio of 99.0% in FY19, marginally lesser than the 99.1% reported in FY18.
- In February 2020, the Saudi Council of Cooperative Health Insurance (CCHI) approved the renewal of Bupa's health insurance license for three years.

**Valuation:** We revise our target to a fair value of SAR 90.0 per share and retain our "Neutral" rating on the stock.

	4Q'19	4Q'18	% YoY	FY20E	FY19	% YoY
GWP (SAR mn)	1,990	1,226	62.3%	10,801	10,411	3.8%
NWP (SAR mn)	1,956	1,207	62.1%	10,692	10,305	3.8%
Net claims incurred (SAR mn)	2,196	1,891	16.1%	8,099	7,749	4.5%
Net profit before Zakat (SAR mn)	142	92	53.7%	726	713	1.8%
EPS (SAR)*	0.88	0.60	46.3%	5.16	4.97	3.9%
Loss Ratio	86.9%	88.3%	(1.4%)	83.3%	82.7%	0.6%
Expense Ratio	6.9%	6.8%	0.1%	9.1%	9.2%	(0.1%)
Combined Ratio	93.7%	95.1%	(1.3%)	92.4%	91.9%	0.5%

Source: Company Financials, FALCOM Research

\*EPS is based on net income after Zakat and taxes

## 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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