

2Q20 Results Update

October 10, 2020

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	81.6
Target Price (SAR)	78.0
Upside/Downside (%)	(4.4%)

As of September 21, 2020

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	10.2
52-Wk High (SAR)	85.9
52-Wk Low (SAR)	52.2
Total Outstanding Shares (in mn)	125.0
Free Float (%)	63.2%

Tawuniya Versus TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	0.1%	(5.6%)
6m	36.0%	3.7%
12m	17.2%	12.6%

Major Shareholders (%)

Public Pension Agency	18.89%
General Organization for Social Insurance	17.88%

Gross Written Premium (SAR Bn) and Loss Ratio



Source: Bloomberg, Company Financials, FALCOM Research; data as of September 21, 2020

Higher net underwriting income boosts bottom line in 2Q20

The Company for Cooperative Insurance (Tawuniya) reported a 265.1% YoY surge in net profit to SAR 188.2mn in 2Q20 compared with SAR 51.5mn in 2Q19. Tawuniya recorded 23.5% YoY growth in gross written premiums (GWPs) to SAR 2.5bn in 2Q20 from SAR 2.0bn in 2Q19 owing to the sharp rise in the medical, motor, and property & casualty insurance segments during the quarter. Additionally, a 19.9% YoY decline in net claims incurred to SAR 1.1bn further boosted the bottom line. All these factors offset the increase in total policy acquisition costs and other underwriting expenses, resulting in a 71.7% YoY rise in net underwriting income to SAR 354.1mn. Tawuniya's loss ratio improved to 69.8% in 2Q20 against 82.1% in 2Q19.

Tawuniya's performance improved in 2Q20 owing to the improvement in its top line and sharp reduction in net claims incurred. GWP growth in 2Q20 was primarily supported by the 25.5% YoY and 23.4% YoY rise in medical and property & casualty insurance GWPs, respectively. Similar to its Saudi insurance counterparts, Tawuniya remained resilient to the COVID-19 pandemic, as the government announced its decision to cover healthcare costs related to COVID-19 for all citizens and residents. Besides, reduction in motor claims due to the lockdown measures imposed by the Saudi government further benefitted insurance companies in 2Q20. However, once the social distancing measures to restrict the spread of the pandemic are relaxed, motor and medical claims could rise, impacting the company's profitability. Moreover, decline in the number of travelers for the Umrah pilgrimage due to the travel restrictions may also hurt the bottom line. Furthermore, we believe higher VAT rates leading to lower disposable income, lower oil prices resulting in reduced government spending, and increased competition within the Saudi insurance sector would continue to be key headwinds for the company. Thus, considering all these factors, we retain our "Neutral" rating on the stock.

- GWPs increased 23.5% YoY to SAR 2.5bn in 2Q20 from SAR 2.0bn in 2Q19, supported by growth in medical, motor, and property & casualty insurance segments. However, on a quarterly basis, GWPs declined 4.0% from SAR 2.6bn in 1Q20.
- Net written premiums advanced 23.1% YoY to SAR 1.9bn, as the decline in premiums ceded was offset by a rise in the top line during the period. However, the company's retention ratio fell 26.8 bps to 76.4% in 2Q20 from 76.7% in 2Q19.
- Net claims incurred fell 19.9% YoY to SAR 1.1bn in 2Q20 due to higher share of reinsurance compared with 2Q19. As a result, Tawuniya's loss ratio improved to 69.8% against 82.1% in 2Q19.
- Policy acquisition costs for the year went up 7.7% to SAR 92.2mn, whereas other underwriting expenses scaled up 47.3% YoY to SAR 41.9mn. Irrespective of the rise in these costs, net underwriting income grew 71.7% YoY to SAR 354.1mn.
- Net income for the period zoomed 265.1% YoY to SAR 188.2mn in 2Q20 from SAR 51.5mn in 2Q19. As a result, earnings per share (after Zakat) increased to SAR 1.51 during the quarter from SAR 0.41 in 2Q19.

Valuation: We revise our target price to a fair value of SAR 78.0 and maintain our "Neutral" rating on the stock.

	2Q20	2Q19	% YoY	FY20E	FY19	% YoY
GWP (SAR mn)	2,470	2,000	23.5%	10,048	8,376	20.0%
NWP (SAR mn)	1,887	1,533	23.1%	8,169	6,712	21.7%
Net Claims Incurred (SAR mn)	1,124	1,402	(19.9%)	5,755	5,813	(1.0%)
Net Profit (SAR mn)	188	52	265.1%	495	328	51.0%
EPS (SAR)	1.51	0.41	265.1%	3.96	2.62	51.0%
Loss Ratio (%)	69.8%	82.1%	(12.3%)	80.3%	84.5%	(4.2%)
Expense Ratio (%)	17.6%	14.4%	3.2%	16.2%	14.5%	1.7%
Combined Ratio (%)	87.4%	96.5%	(9.1%)	96.6%	99.1%	(2.5%)

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, fair value that we set, and 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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