

3Q20 Results Update

December 24, 2020

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	80.9
Target Price (SAR)	78.0
Upside/Downside (%)	(3.6%)

As of December 23, 2020

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	10.1
52-Wk High (SAR)	90.5
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	(1.3%)	(2.6%)
6m	15.6%	(4.5%)
12m	3.3%	(0.3%)

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 December 23, 2020

Bottom line rises in 3Q20 supported by higher net underwriting income

The Company for Cooperative Insurance (Tawuniya)'s net profit rose 1.7% YoY to SAR 94.5mn in 3Q20 compared to SAR 93.0mn in 3Q19. Tawuniya's gross written premiums (GWPs) fell 7.2% YoY to SAR 1.3bn in 3Q20 from SAR 1.4bn in 3Q19 owing to a steep fall in medical and motor insurance segments during the quarter. Additionally, net written premiums (NWP) dropped 16.2% YoY to SAR 1.0bn, resulting in 799.3 bps contraction in retention ratio to 75.0% in 3Q20. Net premiums earned dipped 3.4% YoY to SAR 1.7bn in 3Q20, whereas net claims incurred dipped 3.5% YoY to SAR 1.4bn. Subsequently, Tawuniya's loss ratio improved to 81.6% in 3Q20 against 81.7% in 3Q19.

Tawuniya recorded a sharp rise in the bottom line during 9M20 owing to the improvement in its top line and steep reduction in net claims incurred. This was primarily attributed to the government's decision to cover COVID-19-related healthcare costs for all citizens and residents. GWP growth in 9M20 was primarily supported by 2.0% YoY and 24.6% YoY rise in medical, and property and casualty insurance GWPs, respectively. However, a slowdown in economic activity, lower consumer spending, and rising expat departure hurt the company's top line in 3Q20. Expectations of easing of travel restrictions may boost the bottom line as revenue in the Umrah segment may stabilize. Nevertheless, increased competition within the Saudi insurance sector would continue to be key headwind for the company. Thus, considering all these factors, we maintain our "Neutral" rating on the stock.

- GWPs decreased 7.2% YoY to SAR 1.3bn in 3Q20 from SAR 1.4bn in 3Q19, owing to the decline in GWP contribution primarily from medical and motor insurance segments. However, on a quarterly basis, GWPs declined 46.6% from SAR 2.5bn in 2Q20.
- A rise in premiums ceded, coupled with a lower top line, during the period led to 16.2% YoY fall in NWPs to SAR 1.0bn. Consequently, the company's retention ratio contracted 799.3 bps to 75.0% in 3Q20 from 83.0% in 3Q19.
- Lower NWP offset the increase in unearned premiums and resulted in a 3.4% YoY drop in net premiums earned to SAR 1.7bn in 3Q20.
- Net claims incurred dipped 3.5% YoY to SAR 1.4bn in 3Q20 due to the reversal in the outstanding claims and reserves during the period. As a result, Tawuniya's loss ratio improved to 81.6% in 3Q20 against 81.7% in 3Q19.
- Improvement in policy acquisition costs, other underwriting expenses, and Manefeth insurance share drove net underwriting income up by 111.1% YoY to SAR 465.8mn.
- Net income for the period inched up 1.7% YoY to SAR 94.5mn in 3Q20 from SAR 93.0mn in 3Q19. As a result, earnings per share increased to SAR 0.76 during the quarter from SAR 0.74 in 3Q19.

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

	3Q20	3Q19	% YoY	FY20E	FY19	% YoY
GWP (SAR mn)	1,320	1,423	(7.2%)	8,929	8,376	6.6%
NWP (SAR mn)	990	1,181	(16.2%)	7,270	6,712	8.3%
Net Claims Incurred (SAR mn)	1,409	1,460	(3.5%)	5,865	5,813	0.9%
Net Profit (SAR mn)	95	93	1.7%	527	328	60.9%
EPS (SAR)	0.76	0.74	1.7%	4.22	2.62	60.9%
Loss Ratio (%)	69.8%	82.1%	(12.3%)	79.7%	84.5%	(4.8%)
Expense Ratio (%)	17.6%	14.4%	3.2%	16.3%	14.5%	1.8%
Combined Ratio (%)	87.4%	96.5%	(9.1%)	96.0%	99.1%	(3.0%)

Source: Company Financials, FALCOM Research

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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