

3Q20 Results Update

December 28, 2020

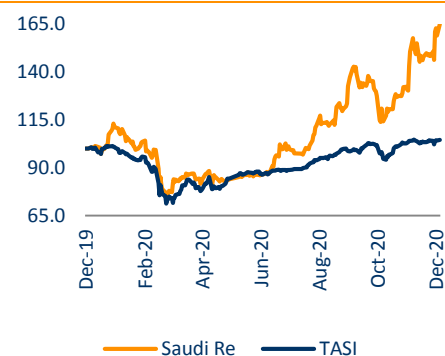
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	15.3
Target Price (SAR)	14.0
Upside/Downside (%)	(8.7%)

As of December 27, 2020

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	1.2
52-Wk High (SAR)	15.9
52-Wk Low (SAR)	6.8
Total Outstanding Shares (in mn)	81.0
Free Float (%)	94.4%

Saudi Re vs TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	9.6%	9.0%
6m	91.0%	70.2%
12m	65.1%	60.5%

Major Shareholders (%)

Al Qasabi Contracting Co. Ltd	5.00%
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Gross Written Premium (SAR mn) and Loss Ratio (%)



Source: Bloomberg, Company Financials, FALCOM Research; data as of December 27, 2020

Sharp rise in shareholders' net income from investments boosts bottom line in 3Q20

Saudi Reinsurance (Saudi Re)'s net profit rose 18.1% YoY to SAR 12.2mn in 3Q20 compared with SAR 10.3mn in 3Q19; this was supported by the significant increase in net income from investments for shareholders. Saudi Re's gross written premiums (GWP) scaled up 17.0% YoY to SAR 198.9mn in 3Q20 due to higher GWP contribution from engineering, fire, and specialty insurance segments. Additionally, net written premiums (NWP) were up 31.4% YoY to SAR 169.2mn, resulting in 930.9 bps expansion in retention ratio to 85.1% in 3Q20. Net premiums earned surged 27.0% YoY to SAR 195.2mn in 3Q20, whereas net claims incurred zoomed 35.5% YoY to SAR 124.9mn. Subsequently, Saudi Re's loss ratio stood at 64.0% in 3Q20 as against 60.0% in 3Q19.

The company recorded a 26.8% YoY rise in the top line to SAR 858.0mn during 9M20, ascribed to the robust growth in GWPs for engineering, fire, marine, and specialty insurance segments. The company's business is well-diversified across several geographies, and it provides reinsurance coverage for numerous insurance segments. Saudi Re maintains strong fundamentals, with a share capital of SAR 810.0mn. The company is also anticipated to benefit in the long term from being the exclusive reinsurer for the Inherent Defects Coinsurance Program. Nevertheless, slowdown in economic activity and higher exposure to investment performance remain key risks for the company. Thus, considering these factors, we maintain our "Neutral" rating on the stock.

- GWP increased 17.0% YoY to SAR 198.9mn in 3Q20 from SAR 170.0mn in 3Q19, owing to higher GWPs recorded by engineering, fire, and specialty insurance segments.
- A decline in retroceded premiums, coupled with a higher top line, during 3Q20 led to 31.4% YoY surge in NWPs to SAR 169.2mn. Consequently, the company's retention ratio expanded to 85.1% in 3Q20 from 75.7% in 3Q19.
- Higher NWP, combined with an increase in unearned premiums, resulted in a 27.0% YoY rise in net premiums earned to SAR 195.2mn in 3Q20.
- Net claims incurred zoomed 35.5% YoY to SAR 124.9mn in 3Q20 due to higher gross claims paid and reversal in the outstanding claims during the period. As a result, loss ratio worsened to 64.0% in 3Q20 as against 60.0% in 3Q19.
- Higher policy acquisition costs offset the improvement in other underwriting expenses and drove net underwriting result down 32.8% YoY to SAR 17.6mn in 3Q20.
- Net income for the period scaled up 18.1% YoY to SAR 12.2mn in 3Q20 from SAR 10.3mn in 3Q19. As a result, EPS increased to SAR 0.15 during the quarter from SAR 0.13 in 3Q19.
- On November 9, credit rating agency Tassnief maintained an AA+ rating with stable outlook for Saudi Re, based on the company's strong presence, business practices, and sound fundamentals.
- On November 24, the company signed a 1-year reinsurance contract with Probitas Corporate Capital Ltd. The contract will be effective from January 1, 2021 and is estimated to generate an additional GWP of SAR 177mn for Saudi Re.

Valuation: We retain our target price at a fair value of SAR 14.0 and maintain our "Neutral" rating on the stock.

	3Q20	3Q19	% YoY	FY20E	FY19	% YoY
GWP (SAR mn)	198.9	170.0	17.0%	1,062.4	792.8	34.0%
NWP (SAR mn)	169.2	128.7	31.4%	907.1	646.6	40.3%
Net Claims Incurred (SAR mn)	(124.9)	(92.2)	35.5%	(451.5)	(417.1)	8.3%
Net Profit (SAR mn)	12.2	10.3	18.1%	37.3	45.4	(17.9%)
EPS (SAR)	0.15	0.13	18.1%	0.46	0.56	(17.9%)
Loss Ratio (%)	64.0%	60.0%	4.0%	63.1%	64.9%	(1.8%)
Expense Ratio (%)	5.3%	6.4%	(1.2%)	33.9%	32.3%	1.6%
Combined Ratio (%)	69.3%	66.4%	2.8%	97.0%	97.2%	(0.2%)

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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