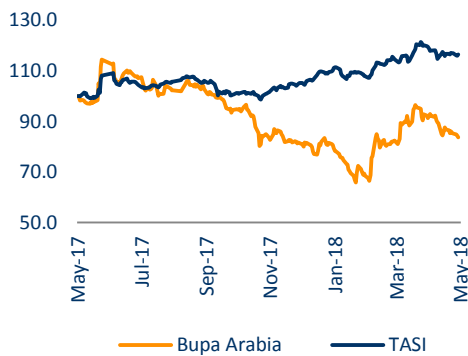


1Q 2018 Results Update
June 5, 2018

Recommendation	Neutral
Previous Recommendation	Overweight
Current Price (SAR)	92.0
Target Price (SAR)	97.4
Upside/Downside (%)	5.9%

As of June 4th 2018
Key Data (Source: Bloomberg)

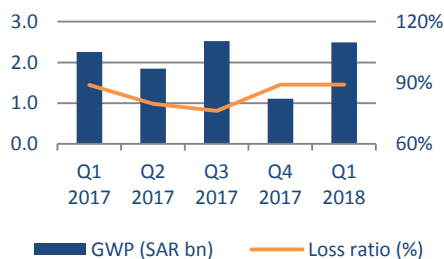
Market Cap (SAR bn)	7.4
52 Wk High (SAR)	136.2
52 Wk Low (SAR)	75.5
Total Outstanding shares (in mn)	80
Free Float (%)	62.8%

Bupa Arabia vs. TASI (Rebased)


Price Performance (%)	Absolute	Relative
1m	(8.3%)	(5.8%)
6m	(1.1%)	(16.4%)
12m	(16.3%)	(32.8%)

Major Shareholders (%)

Bupa Investments Overseas Co. Ltd.	34.25%
Modern Software Solutions for Computer Services Co.	9.00%
Nazer Holding Group Co.	9.00%

Gross Written Premium (SAR bn) and Loss Ratio


Source: Bloomberg, Company Financials, FALCOM Research; Data as of 4th June 2018

Higher operating expenses hurt 1Q18 bottom line

Bupa Arabia reported a 74.5% YoY drop in net profit before zakat for 1Q18 to SAR 9.3mn, mainly due to an increase in operating expense on account of provisioning for doubtful debts and higher general and administrative expenses. The company reported a SAR 8.5mn deficit from insurance operations in 1Q18 as compared to a SAR 30.0mn surplus in 1Q17.

Bupa Arabia is one of the leading insurance providers in Saudi Arabia and is the largest player in health insurance segment. With health insurance being made compulsory in Saudi Arabia, 2.2mn Saudi nationals are expected to enrol for insurance in 2H18. However, its positive impact is expected to be washed away by the departure of expatriates from the country resulting from the introduction of dependents' fees and the crackdown on illegal immigrants. Given these countervailing factors, we keep our target price unchanged, and revise our rating on the stock from 'Overweight' to 'Neutral'.

- Gross written premiums (GWP) increased to SAR 2,489.2mn in 1Q18, up 10.5% YoY.
- Net written premiums (NWP) increased by 10.6% YoY to SAR 2,472.5mn. However, this increase was partially reversed by net negative movement in unearned premiums. Thus, net earned premiums increased by 3.3% YoY to SAR 1,938.1mn.
- Net claims incurred increased to SAR 1,727.8mn, up 3.5% YoY. This was a result of net positive movement in outstanding claims partially offset by lower claims paid.
- Net underwriting result, therefore, increased by 1.4% YoY to SAR 210.3mn.
- Net profit before zakat decreased to SAR 9.3mn in 1Q18, down 75.5% YoY from SAR 36.7mn in 1Q17. This was mainly due to higher general and administrative expense and recognition of an allowance for doubtful debts.
- General and administrative expenses increased by 18.1% YoY to SAR 103.4mn in 1Q18
- Bupa Arabia recognized an allowance for doubtful debts in 1Q18 (as compared to a reversal of allowances in 1Q17) which increased operating expenses for 1Q18 by SAR 24.4mn YoY.
- Combined ratio for 1Q18 crossed the 100% mark to 101.6%. Investment and commission income from insurance operations remained insufficient to compensate for the high loss and expense ratios; resulting in a SAR 8.5mn net deficit from insurance operations.
- As part of shareholders' operations, investment and commission income of SAR 20.8mn, partially offset by an operating expense of SAR 2.9mn, helped the insurer report a net profit before zakat of SAR 9.3mn.

Valuation: We have revised our target price slightly downwards to fair value of SAR 97.4 per share. Our rating on the stock has been revised from 'Overweight' to 'Neutral', driven by the share price run-up since our last valuation date.

	1Q'18	1Q'17	% YoY	FY18E	FY17	% YoY
GWP (SAR mn)	2,489.2	2,252.8	10.5%	8,359.5	7,733.0	8.1%
NWP (SAR mn)	2,472.5	2,236.4	10.6%	8,285.6	7,664.6	8.1%
Net claims incurred (SAR mn)	1,727.8	1,669.0	3.5%	6,195.5	6,405.0	-3.3%
Net profit before Zakat (SAR mn)	9.3	36.7	-74.5%	722.5	500.6	44.3%
EPS (SAR)	0.12	0.46	-74.5%	9.06	6.27	44.3%
Loss Ratio	89.2%	88.9%	0.2%	80.5%	83.5%	-3.0%
Expense Ratio	12.5%	11.0%	1.4%	11.2%	11.2%	0.0%
Combined Ratio	101.6%	100.0%	1.7%	91.7%	94.7%	-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, 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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