

3Q20 Results Update

December 27, 2020

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	116.0
Target Price (SAR)	120.0
Upside/Downside (%)	3.4%

As of December 24, 2020

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	13.9
52-Wk High (SAR)	135.0
52-Wk Low (SAR)	79.0
Total Outstanding shares (in mn)	119.0
Free Float (%)	47.8%

Bupa Arabia vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	(4.3%)	(5.1%)
6m	1.4%	(19.2%)
12m	10.9%	7.5%

Major Shareholders (%)

BUPA Investments Overseas Co. Ltd.	43.25%
Nazer Holding Group Co.	9.00%

Gross Written Premium (SAR bn) and Loss Ratio



Source: Bloomberg, Company Financials, FALCOM Research; Data as of December 24, 2020

Higher net underwriting results boost bottom line in 3Q20

Bupa Arabia recorded a flat YoY gross written premium (GWP) of SAR 3.1bn in 3Q20, despite the decline in insured lives. The GWP was supported by the auto-extension of resident permits for expats. The net earned premium scaled up 14.3% YoY to SAR 2.7bn, while net claims incurred inched up 17.2% YoY to SAR 2.2bn due to the increased demand for hospital services. The loss ratio stood at 80.8% against 78.8% in 3Q19. Net underwriting results declined 13.1% YoY to SAR 387.9mn, leading to a 34.7% YoY decrease in net income before zakat and taxes to SAR 170.1mn in 3Q20.

During 9M20, the GWP rose 4.4% YoY to SAR 8.8bn. The combined ratio improved; the loss ratio improved to 78.1% during 9M20 from 81.2% during the same period last year, while the expense ratio increased to 14.9% compared with 13.1% in 9M19. The number of insured lives declined in 9M20 due to the ongoing exodus of expats; expectations of further departure of expats may impact the profitability of insurance companies. However, as the KSA's economy returns to normalcy, we expect healthy recovery in insured lives, which would drive the growth. There could be some pressure from down trading of packages. However, these could be margin accretive. Thus, in view of the factors mentioned above, we maintain our "Neutral" rating on the stock.

- The GWP remained largely flat at SAR 3.1bn YoY. On a quarterly basis, the GWP rose 37.1% from SAR 2.2bn in 2Q20.
- The net written premium (NWP) inched up marginally (up 0.4% YoY to SAR 3.1bn), supported by a 57.9% YoY drop in ceded premiums to SAR 8.6mn. As a result, the company's retention ratio improved 38.3 bps to 99.7% in 3Q20 from 99.3% in 3Q19.
- The net earned premium gained 14.3% YoY to SAR 2.7bn, whereas net incurred claims increased 17.2% YoY to SAR 2.2bn in 3Q20. However, the loss ratio deteriorated to 80.8% against 78.8% in 3Q19.
- Policy acquisition costs rose significantly by 142.2% YoY to SAR 131.7mn. Net underwriting results fell 13.1% YoY to SAR 387.9mn, as the rise in incurred claims outpaced the growth in the net earned premium and GWP.
- Higher SG&A charges coupled with the factors mentioned above led to a 34.7% decline in net income before zakat and taxes to SAR 170.1mn in 3Q20.
- On December 6, the company signed an insurance agreement with the National Commercial Bank (NCB) to provide health insurance services to the bank's staff and their dependents for one-year, effective January 1, 2021. The contract would likely have a positive impact on the company's FY21 financials, as the initial value of the contract exceeds Bupa Arabia's FY19 annual GWP by 1%.

Valuation: We revise our target price to a fair value of SAR 120.0 per share and retain our "Neutral" rating on the stock.

	3Q20	3Q19	% YoY	FY20E	FY19	% YoY
GWP (SAR bn)	3.1	3.1	(0.0%)	10.8	10.4	3.9%
NWP (SAR bn)	3.1	3.1	0.4%	10.8	10.3	4.5%
Net claims incurred (SAR bn)	2.2	1.9	17.2%	8.7	7.7	12.8%
Net profit before Zakat (SAR bn)	0.2	0.3	(34.7%)	0.9	0.7	24.8%
EPS (SAR)*	1.17	1.89	(38.3%)	6.32	4.97	27.3%
Loss Ratio	80.8%	78.8%	2.0%	84.6%	82.7%	1.9%
Expense Ratio	14.7%	11.8%	2.9%	13.8%	11.7%	2.1%
Combined Ratio	95.5%	90.6%	4.9%	98.4%	94.4%	4.1%

Source: Company Financials, FALCOM Research

*EPS is based on net income after Zakat and taxes

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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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