

FY20 Results Update

April 13, 2021

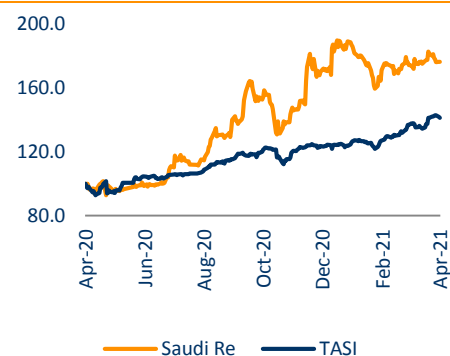
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	14.3
Target Price (SAR)	14.8
Upside/Downside (%)	4.1%

As of April 12, 2021

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	1.2
52-Wk High (SAR)	15.9
52-Wk Low (SAR)	7.2
Total Outstanding Shares (in mn)	81.0
Free Float (%)	94.4%

Saudi Re vs TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	1.1%	(2.2%)
6m	14.3%	(2.1%)
12m	76.5%	35.1%

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 April 12, 2021

Lower net claims incurred boosts bottom line in FY20

Saudi Reinsurance (Saudi Re)'s net profit before zakat and taxes rose 2.3% YoY to SAR 60.7mn in FY20 from SAR 59.3mn in FY19. Saudi Re's gross written premiums (GWP) soared up 17.9% YoY to SAR 935.1mn in FY20 primarily due to higher GWP contribution from the Engineering and Specialty Insurance segments. Additionally, net written premiums (NWP) were up 19.5% YoY to SAR 772.6mn, resulting in a 107.0 bps rise in the retention ratio to 82.6% in FY20. Net earned premiums (NEP) surged 0.7% YoY to SAR 647.1mn, while net claims incurred (NCI) declined 6.0% YoY to SAR 392.0mn. Consequently, Saudi Re's loss ratio improved 433.7 bps to 60.6% in FY20 from 64.9% in FY19.

The company recorded a steady rise in the top line during FY20, driven by robust growth in GWP from the Engineering (+111.4% YoY to SAR 167.3mn) and Specialty Insurance (+66.5% YoY to SAR 161.1mn) segments. Saudi Re maintains robust fundamentals, with a share capital of SAR 810.0mn. The company provides reinsurance coverage for several segments such as Engineering, Fire, Motor; the company's business is also diversified across geographies. Saudi Re is anticipated to benefit from being the sole provider of reinsurance coverage for the Inherent Defects Coinsurance Program. However, expat exodus and stiff competition in the Saudi insurance sector remain key risks for the company. Considering these factors, we maintain our "Neutral" rating on the stock.

- GWP increased 17.9% YoY to SAR 935.1mn in FY20 from SAR 729.8mn in FY19, owing to sharply higher GWP recorded by the Engineering and Specialty Insurance segments. However, GWP fell 33.7% YoY and 61.2% YoY to SAR 77.1mn in 4Q20.
- Higher top line offset the rise in retroceded premiums and excess loss expenses during FY20, resulting in a 19.5% YoY surge in NWP to SAR 772.6mn. Consequently, the company's retention ratio rose to 82.6% in FY20 from 81.6% in FY19.
- Higher NWP offset the sharp increase in unearned premiums, resulting in a 0.7% YoY rise in NEP to SAR 647.1mn in FY20.
- NCI fell 6.0% YoY to SAR 392.0mn in FY20 as the deterioration in outstanding claims during the period offset the decline in net claims paid. As a result, loss ratio improved to 60.6% in FY20 as against 64.9% in FY19.
- This improvement in loss ratio offset higher policy acquisition costs and other underwriting expenses and drove net underwriting result up 2.8% YoY to SAR 69.1mn in FY20.
- Net income before zakat and tax inched up 2.3% YoY to SAR 60.7mn in FY20 from SAR 59.3mn in FY19. As a result, EPS increased to SAR 0.57 during the year from SAR 0.56 in FY19.
- On January 1, Saudi Re inked a medical quota share reinsurance contract worth SAR 130.0mn with Mediterranean and Gulf Insurance and Reinsurance Co.
- On March 30, the company's Board recommended a 10% increase in share capital from SAR 810mn to SAR 891mn through a 1-for-10 bonus share issue. The Board asserted that the capital hike will assist in strengthening capital base and support future growth activities.

Valuation: We revise our target price upward to a fair value of SAR 14.8 and maintain our "Neutral" rating on the stock.

	4Q20	4Q19	% YoY	FY21E	FY20	% YoY
GWP (SAR mn)	77.1	116.4	(33.7%)	1067.5	935.1	14.2%
NWP (SAR mn)	32.2	75.0	(57.1%)	884.7	772.6	14.5%
Net Claims Incurred (SAR mn)	107.3	116.5	(7.9%)	446.2	392.0	13.8%
Net Profit before zakat and tax (SAR mn)	25.6	3.2	710.3%	65.3	60.7	7.6%
EPS (SAR)	0.26	(0.01)	NM	0.61	0.57	6.9%
Loss Ratio (%)	61.8%	66.8%	(5.1%)	60.7%	60.6%	0.1%
Expense Ratio (%)	34.8%	33.5%	1.4%	35.5%	35.9%	(0.4%)
Combined Ratio (%)	96.6%	100.3%	(3.7%)	96.2%	96.5%	(0.3%)

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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