

FY20 Results Update

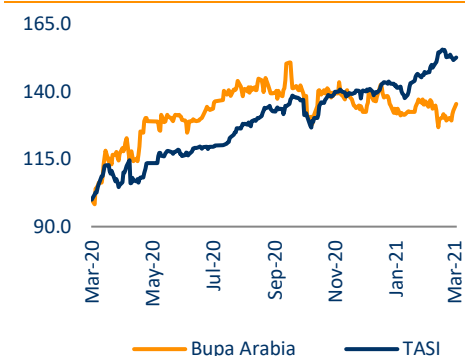
March 29, 2021

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	118.6
Target Price (SAR)	112.0
Upside/Downside (%)	(5.6%)
As of March 29, 2021	

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	14.2
52-Wk High (SAR)	135.0
52-Wk Low (SAR)	85.8
Total Outstanding shares (in mn)	119.0
Free Float (%)	47.8%

Bupa Arabia vs. TASI (Rebased)

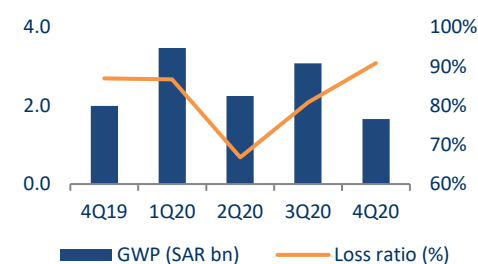


Price Performance (%)	Absolute	Relative
1m	0.9%	(2.8%)
6m	(3.4%)	(17.8%)
12m	35.5%	(17.2%)

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 March 29, 2021

Bottom line improves in FY20, but loss ratio widens in 4Q20

Bupa Arabia (Bupa)'s net profit before zakat and taxes rose 15.6% YoY to SAR 823.7mn in FY20 compared to SAR 712.7mn in FY19. Bupa's gross written premiums (GWPs) rose 0.4% YoY to SAR 10.4bn due to higher revenue from corporates and micro enterprises during FY20. Additionally, net written premiums (NWP) scaled up 0.7% YoY to SAR 10.4bn, resulting in a 39.2 bps expansion in retention ratio to 99.4% in FY20. Net earned premiums (NEPs) inched up 14.5% YoY to SAR 10.7bn in FY20 while net claims incurred (NCIs) increased 12.5% YoY to SAR 8.7bn in FY20. Subsequently, Bupa's loss ratio improved 145.9 bps to 81.6% in FY20.

Bupa recorded a steady improvement in bottom line during FY20 as the lockdown implemented during 2Q20 to limit the spread of the pandemic subdued the demand for healthcare services compared with FY19. Policy acquisition costs increased 36.1% YoY in FY20 as the company established a Premium Deficiency Reserve against an anticipated rise in claims after the pandemic and to cushion the effect of higher costs from the announcement of Article 11 of the Cooperative Health Insurance Law. This law, which requires insurance companies to incorporate all accredited government healthcare providers in their approved networks and follow the mandated compensation structure, is likely to result in higher future claim value and affect the company's profitability. Bupa recorded a decline in performance during 4Q20, with the loss ratio worsening to 90.8% compared with 86.9% in 4Q19. The company currently faces several headwinds such as fewer insured lives due to an exodus of expatriates, stiff competition in the Saudi insurance sector, and fewer pilgrimage visitors due to travel restrictions. However, expectations of improvement in economic activity and easing of travel restrictions following the steady rollout of vaccines could bring improvement in the number of insured lives and support the bottom line of Saudi insurance companies. In view of the factors mentioned, we maintain our "Neutral" rating on the stock.

- GWPs increased 0.4% YoY to SAR 10.4bn in FY20. However, GWP declined 16.7% YoY and 46.1% QoQ to SAR 1.7bn in 4Q20.
- NWPs inched up 0.7% YoY to SAR 10.4bn, supported by a 38.3% YoY drop in ceded premiums to SAR 65.2mn. Thus, the company's retention ratio improved to 99.4% in FY20 from 99.0% in FY19.
- NEPs rose 14.5% YoY to SAR 10.7bn, whereas NCIs increased 12.5% YoY to SAR 8.7bn in FY20. Consequently, the loss ratio improved to 81.2% against 82.7% in FY19.
- Policy acquisition costs rose 36.1% YoY to SAR 630.7mn. Nevertheless, net underwriting result rose 19.5% YoY to SAR 1.4bn, as the rise in incurred claims was offset by growth in NEPs.
- In addition to the factors mentioned, lower selling and marketing charges on insurance operations led to a 15.6% increase in net income before zakat and taxes to SAR 823.7mn in FY20.
- However, net income before zakat and taxes nosedived 40.2% YoY and 50.1% QoQ to SAR 84.9mn in 4Q20.
- On February 7, the company received approval for renewal of its health insurance services from the Secretary General of the Council of Cooperative Health Insurance for one year, effective from February 15.

Valuation: We revise our target price downward to a fair value of SAR 112.0 per share and retain our "Neutral" rating on the stock.

	4Q20	4Q19	% YoY	FY21E	FY20	% YoY
GWP (SAR bn)	1.7	2.0	(16.7%)	10.9	10.4	4.2%
NWP (SAR bn)	1.6	2.0	(16.7%)	10.8	10.4	4.1%
Net claims incurred (SAR bn)	2.4	2.2	10.3%	9.0	8.7	3.3%
Net profit before Zakat (SAR bn)	0.1	0.1	(40.2%)	1.0	0.8	18.4%
EPS (SAR)*	0.58	0.88	(34.5%)	6.90	5.83	18.4%
Loss Ratio	90.8%	86.9%	4.0%	80.6%	81.2%	(0.7%)
Expense Ratio	6.6%	8.1%	(1.5%)	12.1%	12.3%	(0.3%)
Combined Ratio	97.4%	94.9%	2.5%	92.6%	93.6%	(0.9%)

Source: Company Financials, FALCOM Research

*EPS is based on net income after Zakat and taxes

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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, 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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