

FY20 Results Update

April 7, 2021

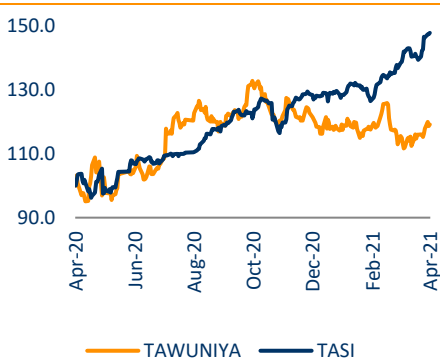
Recommendation	Overweight
Previous Recommendation	Neutral
Current Price (SAR)	80.5
Target Price (SAR)	90.0
Upside/Downside (%)	11.8%

As of April 6, 2021

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	10.1
52-Wk High (SAR)	90.5
52-Wk Low (SAR)	63.6
Total Outstanding Shares (in mn)	125.0
Free Float (%)	63.2%

Tawuniya Versus TASI (Rebased)

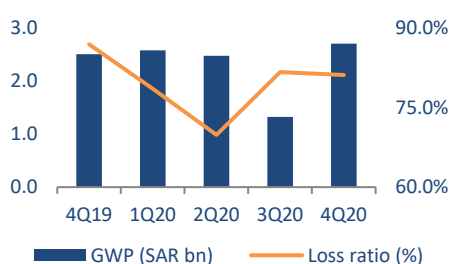


Price Performance (%)	Absolute	Relative
1m	5.5%	(2.6%)
6m	(9.3%)	(30.3%)
12m	19.3%	(28.7%)

Major Shareholders (%)

Public Pension Agency	18.89%
General Organization for Social Insurance	17.88%

Gross Written Premium (SAR Bn) and Loss Ratio



Source: Bloomberg, Company Financials, FALCOM Research; data as of April 6, 2021

Bottom line rises in FY20 supported by higher net underwriting income

The Company for Cooperative Insurance (Tawuniya)'s net profit before zakat and taxes rose 27.9% YoY to SAR 514.5mn in FY20 from SAR 402.2mn in FY19. Tawuniya's gross written premiums (GWP) rose 8.2% YoY to SAR 9.1bn due to higher revenue from the Medical Insurance segment during the year. Additionally, net written premiums (NWP) scaled up 12.8% YoY to SAR 7.6bn, resulting in a 337.9 bps expansion in the retention ratio to 83.5% in FY20. Net earned premiums (NEP) increased 2.4% YoY to SAR 7.0bn in FY20, while net claims incurred (NCI) decreased 5.6% YoY to SAR 5.5bn in FY20. As a result, Tawuniya's loss ratio improved 659.6 bps to 77.9% in FY20.

Tawuniya's bottom line rose steadily during FY20 owing to higher top line and modest decline in NCIs. The reduction in claims incurred could primarily be attributed to the government's decision to cover COVID-19-related healthcare costs for citizens and residents in the year. The growth in GWPs in FY20 was primarily supported by a 10.7% YoY rise in Medical Insurance GWP. Growth in GWP in the Retail, Micro Enterprises and Corporates segments also aided Tawuniya's top line in FY20. The company renewed health insurance contracts for some of its major clients for FY21; this is expected to support its top line in the near term. Although the company faces headwinds in the form of expat departure and increased competition in the Saudi insurance sector, its bottom line may benefit from stabilization of revenues in the Umrah segment, considering the anticipated easing of travel restrictions following the steady rollout of vaccines. Moreover, a well-diversified portfolio and healthy balance sheet bode well for the company's long-term plans. Considering these factors, we revise our rating to "Overweight" on the stock.

- GWP increased 8.2% YoY to SAR 9.1bn in FY20 owing to the rise in contribution to total GWP, primarily from the Medical Insurance segment. Moreover, GWP scaled up 8.1% YoY and 104.5% QoQ to SAR 2.7bn in 4Q20.
- NWP soared 12.8% YoY to SAR 7.6bn, supported by a 10.4% YoY drop in ceded premiums to SAR 1.5bn. Thus, the company's retention ratio improved to 83.5% in FY20 from 80.1% in FY19.
- NEP inched up 2.4% YoY to SAR 7.0bn, while NCI decreased 5.6% YoY to SAR 5.5bn in FY20. Consequently, the loss ratio improved to 77.9% from 84.5% in FY19.
- Policy acquisition costs rose 10.7% YoY to SAR 398.6mn. Nevertheless, net underwriting income rose 31.0% YoY to SAR 1.0bn, aided by lower loss ratio.
- The factors mentioned above helped the company offset the lower share of profit from associates and resulted in a 27.9% YoY increase in net income before zakat and taxes to SAR 514.5mn in FY20.
- Subsequently, earnings per share increased to SAR 3.15 during the year from SAR 2.62 in FY19.
- On December 30, Tawuniya renewed its health insurance services contract with Tahakom Investment Company. The contract value is expected to have accounted for more than 1% of the company's total revenue in FY19.
- On February 28, Tawuniya renewed its health insurance services contract with Saudi Arabian Airlines. The contract value is expected to have accounted for more than 5% of the company's total GWP in FY19.
- On April 6, Tawuniya's Board recommended a cash dividend of SAR 0.8 per share, equivalent to SAR 100.0mn or 8% of the insurance company's share capital.

Valuation: We revise our target price upward to a fair value of SAR 90.0 and update our rating to "Overweight" on the stock.

	4Q20	4Q19	% YoY	FY21E	FY20	% YoY
GWP (SAR mn)	2,699	2,497	8.1%	9,645	9,062	6.4%
NWP (SAR mn)	2,284	1,783	28.1%	8,080	7,568	6.8%
Net Claims Incurred (SAR mn)	1,450	1,506	(3.8%)	6,354	5,488	15.8%
Net Profit (SAR mn)	44	154	(71.6%)	509	393	29.4%
EPS (SAR)	0.35	1.23	(71.6%)	4.07	3.15	29.4%
Loss Ratio (%)	81.0%	86.8%	(5.8%)	80.6%	77.9%	2.6%
Expense Ratio (%)	21.6%	14.2%	7.5%	16.1%	17.4%	(1.4%)
Combined Ratio (%)	102.7%	101.0%	1.7%	96.6%	95.4%	1.3%

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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