

1Q21 Results Update

June 28, 2021

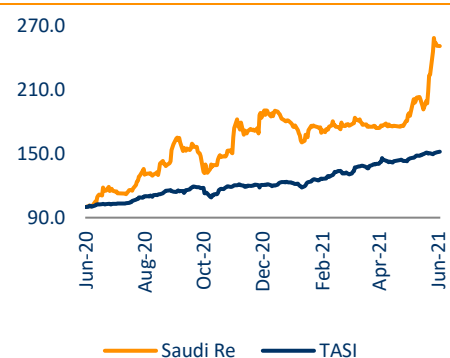
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	20.2
Target Price (SAR)	20.0
Upside/Downside (%)	(0.9%)

As of June 27, 2021

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	1.6
52-Wk High (SAR)	21.3
52-Wk Low (SAR)	8.0
Total Outstanding Shares (in mn)	81.0
Free Float (%)	94.4%

Saudi Re vs TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	35.3%	31.0%
6m	31.6%	5.5%
12m	151.3%	99.3%

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 June 27, 2021

Sharp rise in GWP boosts bottom line in 1Q21

Saudi Reinsurance (Saudi Re)'s net profit before zakat and taxes rose 90.3% YoY to SAR 19.6mn in 1Q21 from SAR 10.3mn in 1Q20. This was driven by a 58.1% YoY surge in gross written premiums (GWP) to SAR 834.3mn in 1Q21 primarily due to higher GWP contribution from the Health Insurance and Speciality Insurance segments. Additionally, net written premiums (NWP) soared 61.9% YoY to SAR 792.4mn, resulting in a 225 bps YoY rise in the retention ratio to 95.0% in 1Q21. Net earned premiums (NEP) advanced 59.3% YoY to SAR 195.5mn in 1Q21, while net claims incurred (NCI) surged 107.7% YoY to SAR 121.4mn. Consequently, Saudi Re's loss ratio increased 1,450 bps YoY to 62.1% in 1Q21.

The company recorded a steep rise in the top line during 1Q21, primarily driven by robust growth in GWP from the Speciality Insurance (up 68.0% YoY to SAR 192.9mn), Health Insurance (up 1,193.7% YoY to SAR 182.2mn), Fire Insurance (up 44.8% YoY SAR 119.6mn), and Motor Insurance (up 76.8% YoY to SAR 95.9mn) segments. Geographically, the company recorded sharp growth in operations across KSA (up 137.3% YoY to SAR 371.8mn), Asia (up 20.8% YoY to SAR 187.7mn), and Other Territories* (up 67.4% YoY to SAR 194.1mn). Saudi Re's insurance portfolio remains diversified as it provides reinsurance coverage across several lines of business; the company's business is also well diversified across geographies. The company recently inked two reinsurance contracts with a combined value of SAR 307mn, which is expected to boost its top line in the near term. Moreover, Saudi Re's long-term growth prospects appear to be positive, with premiums from Moody's and recently received approval from Saudi regulators for 10% increase in its capital base to SAR 891mn, implying capital adequacy. However, stiff competition in the Saudi insurance sector is a key risk for the company. Furthermore, deterioration in loss ratio remains a concern for the company in the near term. Considering these factors, we maintain our "Neutral" rating on the stock.

- GWP increased 58.1% YoY to SAR 834.3mn in 1Q21 owing to a sharp rise in GWP across the Health Insurance and Speciality Insurance segments. GWP surged 981.6% QoQ from SAR 77.1mn in 4Q20.
- Higher top line offset the rise in retroceded premiums and excess loss expenses during the quarter, resulting in a 61.9% YoY surge in NWP to SAR 792.4mn. Consequently, the company's retention ratio rose to 95.0% in 1Q21 from 92.7% in 1Q20.
- NEP surged 59.3% YoY to SAR 195.5mn in 1Q21, while NCI soared 107.7% YoY to SAR 121.4mn in 1Q21. Subsequently, the loss ratio worsened to 62.1% in 1Q21 as against 47.6% in 1Q20.
- Higher NEP offset the rise in policy acquisition costs and other underwriting expenses and drove net underwriting result up 29.7% YoY to SAR 25.4mn in 1Q21.
- Net income before zakat and tax advanced 90.3% YoY to SAR 19.6mn in 1Q21 on higher net underwriting income and net investment income. As a result, EPS increased to SAR 0.20 in the quarter from SAR 0.09 in 1Q20.
- On April 13, Saudi Re received the SAMA's approval for a 10% hike in share capital from SAR 810mn to SAR 891mn through a 1-for-10 bonus share issue. The shares outstanding will increase from 81.0 mn to 89.1mn, and the incremental SAR 81.0mn will be transferred from retained earnings to share capital.
- On June 2, the company announced that it had received the nod from the CMA to increase share capital from SAR 810mn to SAR 891mn through a 1-for-10 bonus share issue. Saudi Re will utilize the funds from the capital hike to strengthen capital base and support future growth activities.

Valuation: We revise our target price upward to a fair value of SAR 20.0 and maintain our "Neutral" rating on the stock.

	1Q21	1Q20	% YoY	FY21E	FY20	% YoY
GWP (SAR mn)	834.3	527.7	58.1%	1,275.8	935.1	36.4%
NWP (SAR mn)	792.4	489.3	61.9%	1,054.2	772.6	36.4%
NCI (SAR mn)	121.4	58.5	107.7%	513.5	392.0	31.0%
Net Profit before zakat (SAR mn)	19.6	10.3	90.3%	79.0	60.7	30.2%
EPS (SAR)	0.20	0.09	120.4%	0.67	0.57	19.0%
Loss Ratio (%)	62.1%	47.6%	14.5%	63.3%	60.6%	2.7%
Expense Ratio (%)	31.5%	44.3%	(12.8%)	31.3%	35.9%	(4.7%)
Combined Ratio (%)	93.6%	92.0%	1.6%	94.5%	96.5%	(2.0%)

Source: Company Financials, FALCOM Research, *Territories other than Middle East, Africa and Asia

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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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