

### 1Q21 Results Update

June 24, 2021

Recommendation	Neutral
Previous Recommendation	Overweight
Current Price (SAR)	83.9
Target Price (SAR)	85.0
Upside/Downside (%)	1.3%

As of June 23, 2021

#### Key Data (Source: Bloomberg)

Market Cap (SAR bn)	10.5
52-Wk High (SAR)	90.5
52-Wk Low (SAR)	69.5
Total Outstanding Shares (in mn)	125.0
Free Float (%)	63.2%

#### Tawuniya Versus TASI (Rebased)

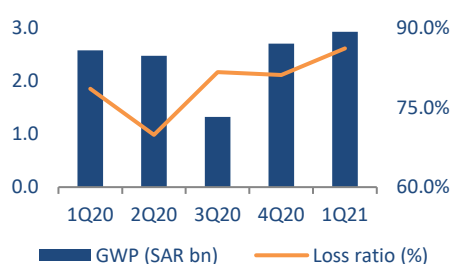


Price Performance (%)	Absolute	Relative
1m	7.7%	2.4%
6m	3.7%	(21.8%)
12m	19.9%	(30.2%)

#### 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 June 23, 2021

#### Loss ratio widens in 1Q21 on higher claims incurred

The Company for Cooperative Insurance (Tawuniya)'s net profit before zakat and taxes declined 5.0% YoY to SAR 80.8mn in 1Q21. Tawuniya's gross written premium (GWP) rose 13.5% YoY to SAR 2.9bn in 1Q21 due to higher revenue from the Medical Insurance segment during the year. Additionally, net written premium (NWP) went up 7.5% YoY to SAR 2.6bn, resulting in a 497 bps YoY contraction in the retention ratio to 88.6% in 1Q21. Net earned premium (NEP) dipped 4.4% YoY to SAR 1.8bn, while net claims incurred (NCI) inched up 4.8% YoY to SAR 1.6bn in 1Q21. As a result, Tawuniya's loss ratio worsened 757 bps YoY to 86.1% in 1Q21.

Tawuniya's GWP surged in 1Q21 on higher GWP from Medical Insurance (up 27.2% YoY to SAR 2.5bn) and Property & Casualty Insurance (up 50.2% YoY to SAR 0.3bn) segments. Greater revenue contribution from the corporate business (up 35.0% YoY to SAR 2.5bn) also supported the top line. However, the bottom line slipped in 1Q21 owing to a fall in the retention ratio and a steady rise in NCI. The company has recently received SAMA's approval to provide compulsory COVID-related insurance cover to Saudi citizens traveling outside the Kingdom. This will provide the company an additional segment to serve as well as a stable stream of income. Tawuniya also renewed health insurance contracts for some of its major clients in 1Q21, which is expected to improve top line visibility in the near term. We anticipate the pickup in economic activity and easing of travel restrictions on steady vaccine rollout to result in improvement in the number of insured lives and boost the company's bottom line. However, stringent regulations, stiff competition in the insurance sector, and restrictions on the count of Umrah and Hajj devotees due to the pandemic continue to cause headwinds for the company. In light of these factors, we revise our rating to "Neutral" on the stock.

- GWP increased 13.5% YoY to SAR 2.9bn in 1Q21 on higher GWP from the Medical Insurance segment. Moreover, GWP scaled up 8.2% QoQ from SAR 2.7bn in 4Q20.
- NWP rose 7.5% YoY to SAR 2.6bn as increased GWP offset the surge in ceded premiums. However, the retention ratio narrowed to 88.6% in 1Q21 from 93.6% in 1Q20.
- NEP dipped 4.4% YoY to SAR 1.8bn, while NCI edged up 4.8% YoY to SAR 1.6bn in 1Q21. Consequently, the loss ratio worsened to 86.1% from 78.5% in 1Q20.
- Lower net underwriting result, on account of the wider loss ratio, led to a 21.5% YoY drop in net underwriting income to SAR 152.1mn.
- Lower profit share from associates and other income, coupled with the decline in net underwriting income, resulted in a 5.0% YoY dip in net income before zakat and taxes to SAR 80.8mn in 1Q21.
- Subsequently, EPS decreased to SAR 0.47 during the quarter from SAR 0.53 in 1Q20.
- On April 29, Tawuniya's shareholders approved the Board's recommendation of a SAR 0.8 per share cash dividend for FY20, equivalent to SAR 100.0mn (8% of share capital).
- On May 3, Tawuniya announced that it received a nod from SAMA to provide insurance products covering COVID-related risks to citizens traveling out of the country. Twelve KSA-based insurance companies are expected to create an insurance pool, under the management of Tawuniya, to provide such insurance products in the Kingdom.

**Valuation:** We revise our target price downward to a fair value of SAR 85.0 and update our rating to "Neutral" on the stock.

	1Q21	1Q20	% YoY	FY21E	FY20	% YoY
GWP (SAR mn)	2,921	2,573	13.5%	9,877	9,062	9.0%
NWP (SAR mn)	2,587	2,407	7.5%	8,441	7,568	11.5%
NCI (SAR mn)	1,578	1,506	4.8%	6,391	5,488	16.4%
Net Profit Before Zakat (SAR mn)	81	85	(5.0%)	526	514	2.3%
EPS (SAR)	0.47	0.53	(11.5%)	3.37	3.15	7.1%
Loss Ratio (%)	86.1%	78.5%	7.6%	82.5%	77.9%	4.5%
Expense Ratio (%)	15.1%	16.4%	(1.3%)	15.8%	17.4%	(1.7%)
Combined Ratio (%)	101.2%	94.9%	6.3%	98.2%	95.4%	2.9%

Source: Company Financials, FALCOM Research

1Q21 Results Update

June 24, 2021

## 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.

## FALCOM Financial Services

Contact us on the below phone numbers:

Customer Services: **8004298888**

Brokerage Services: **920004711**

Fax or Email us at the below number:

Fax: **+966 11 2032546**

Email: **addingvalue@falcom.com.sa**

Mail us at the following address:

P.O. Box 884

Riyadh 11421

Kingdom of Saudi Arabia

## Disclaimer and Risks Warning:

The information in this report was compiled from various public sources believed to be reliable and whilst all reasonable care has been taken to ensure that the facts stated in this report are accurate and that the forecasts, opinions, future prices and expectations contained herein are fair and reasonable, FALCOM makes no representations or warranties whatsoever as to the accuracy of the data and information provided and, in particular, FALCOM does not represent that the information or expected future prices in this report is complete or free from any error. This report is not, and is not to be construed as, an offer to sell or solicitation of an offer to buy any financial securities. Accordingly, no reliance should be placed on the accuracy, fairness or completeness of the information or the expected prices contained in this report. FALCOM accepts no liability whatsoever for any loss arising from any use of this report or its contents, and FALCOM shall not be in any way responsible for the contents hereof. Opinions, forecasts or price projections contained in this report represent FALCOM's current opinions or judgment as at the date of this report only and are therefore subject to change without notice. There can be no assurance that future results, prices or events will match any such opinions, forecasts or prices projections which represent only one possible outcome and these price estimates may not occur in the future whatsoever. Further, such opinions, forecasts or price projections are subject to certain risks, uncertainties and assumptions that have not been verified and future actual results or events could differ materially. Any value or price, or income from, any investments referred to in this report may fluctuate and/or be affected by changes. Past performance is not necessarily an indicative of future performance. Accordingly, investors may receive back less than originally invested amount. This report provides information of a general nature and does not address the circumstances, objectives, and risk tolerance of any particular investor. Therefore, the person who obtain a copy of this report should understand that this report is not intended to provide personal investment advice and does not take into account his/her financial situation or any specific investment objectives or particular needs which he/she may have. Before making an investment decision the investors should seek advice from an independent financial, investment and/or other required advisers due to the investment in such kind of securities may not be suitable for all recipients. This research report might not be reproduced, nor distributed in whole or in part, and all information, opinions, forecasts and price estimates contained; are protected by the intellectual property laws, copyright and publishing rules and regulations applied in the Kingdom of Saudi Arabia.

All rights reserved.

FALCOM acquired the Saudi Capital Market Authority license number (37-06020) on 27/05/2006, and commenced providing its services to the investors in the Saudi Stock Exchange on 19/02/2007 with CR Number 1010226584 Issued on 04/12/1427H.