

1Q21 Results Update

June 21, 2021

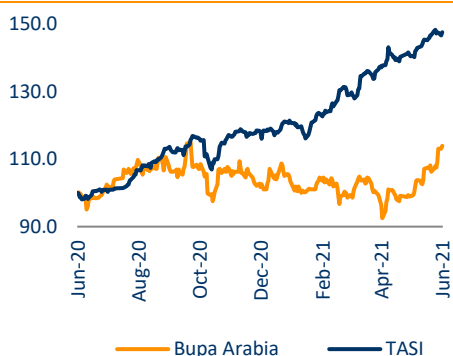
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	130.8
Target Price (SAR)	120.0
Upside/Downside (%)	(8.3%)

As of June 21, 2021

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	15.6
52-Wk High (SAR)	135.0
52-Wk Low (SAR)	106.2
Total Outstanding shares (in mn)	119.5
Free Float (%)	47.8%

Bupa Arabia vs. TASI (Rebased)

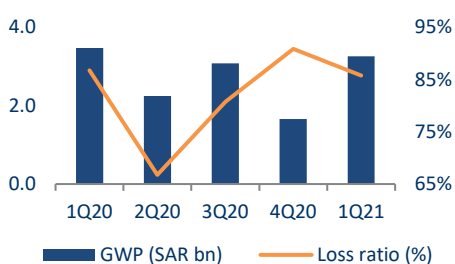


Price Performance (%)	Absolute	Relative
1m	15.1%	10.1%
6m	12.0%	(13.0%)
12m	13.9%	(33.7%)

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 June 21, 2021

Net underwriting income rises in 1Q21 on lower policy acquisition cost

Bupa Arabia (Bupa)'s net underwriting income soared 37.9% YoY to SAR 299.7mn in 1Q21 due to a sharp reduction in policy acquisition cost. This resulted in a 39.6% YoY surge in net profit before zakat and taxes to SAR 175.4mn. Gross written premiums (GWPs) dipped 6.3% YoY to SAR 3.3bn in 1Q21 due to lower revenue from Corporates (down 8.6% YoY to SAR 2.4bn) and Medium Enterprises (down 1.0% YoY to SAR 0.6bn) segments during the quarter. Additionally, net written premiums (NWP) edged lower by 6.5% YoY to SAR 3.2bn, resulting in a 25 bps YoY contraction in retention ratio to 99.2% in 1Q21. Net earned premiums (NEPs) declined 6.5% YoY to SAR 2.5bn, while net claims incurred (NCIs) decreased 7.6% YoY to SAR 2.1bn in 1Q21. Subsequently, Bupa's loss ratio improved 101 bps YoY to 85.7% in 1Q21.

Bupa recorded steady improvement in the bottom line in 1Q21 as provisions set up by the company in FY20 led to lower claims incurred and a significant drop in policy acquisition costs. The company had established a Premium Deficiency Reserve in FY20 to alleviate the impact of the anticipated rise in claims after the pandemic and cushion the effect of higher costs from the implementation of Article 11 of the Cooperative Health Insurance Law in the KSA. This law will incorporate all accredited government hospitals into the insurance network and require companies to abide by the mandated compensation structure; this is likely to increase future claim value and affect Bupa's profitability. Bupa's GWP dipped slightly in 1Q21 as rising competition in the sector likely resulted in pricing pressure. The company currently faces certain headwinds in the form of stringent regulations, stiff competition in the Saudi insurance sector, and limit on the count of Umrah and Hajj devotees due to the pandemic. However, pick-up in economic activity and easing of travel restrictions following the steady rollout of vaccines could result in 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 decreased 6.3% YoY to SAR 3.3bn in 1Q21. However, GWP retreated upward by 96.2% QoQ from SAR 1.7bn in 4Q20.
- NWPs fell 6.5% YoY to SAR 3.2bn due to the increase in ceded premiums, in addition to the drop in GWPs. Subsequently, Bupa's retention ratio shrank to 99.2% in 1Q21 from 99.5% in 1Q20.
- NEPs dipped 6.5% YoY to SAR 2.5bn, whereas NCIs decreased 7.6% YoY to SAR 2.1bn in 1Q21. Consequently, the loss ratio improved to 85.7% against 86.7% in 1Q20.
- Policy acquisition costs plunged 58.6% YoY to SAR 56.7mn, resulting in a 37.9% YoY surge in net underwriting result to SAR 299.7mn.
- Lower general and administrative expenses, combined with higher other income, led to a 39.6% YoY increase in net income before zakat and taxes to SAR 175.4mn in 1Q21.
- On a sequential basis, net income before zakat and taxes soared 106.7% QoQ from SAR 84.9mn in 4Q20 on higher GWPs recorded in 1Q21.
- On April 25, Bupa's Board recommended a SAR 3.4 per share cash dividend for FY20, equivalent to SAR 408mn or 34% of the company's share capital.

Valuation: We revise our target price upward to a fair value of SAR 120.0 per share and retain our "Neutral" rating on the stock.

	1Q21	1Q20	% YoY	FY21E	FY20	% YoY
GWP (SAR bn)	3.3	3.5	(6.3%)	10.9	10.4	4.6%
NWP (SAR bn)	3.2	3.5	(6.5%)	10.9	10.4	4.5%
Net claims incurred (SAR bn)	2.1	2.3	(7.6%)	8.6	8.7	(1.0%)
Net profit before Zakat (SAR bn)	0.2	0.1	39.6%	0.9	0.8	3.8%
EPS (SAR)*	1.17	0.88	33.0%	6.05	5.83	3.8%
Loss Ratio	85.7%	86.7%	(1.0%)	81.1%	81.2%	(0.2%)
Expense Ratio	8.8%	11.5%	(2.7%)	12.3%	12.3%	0.0%
Combined Ratio	94.5%	98.2%	(3.7%)	93.4%	93.6%	(0.2%)

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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