

2Q21 Results Update

September 30, 2021

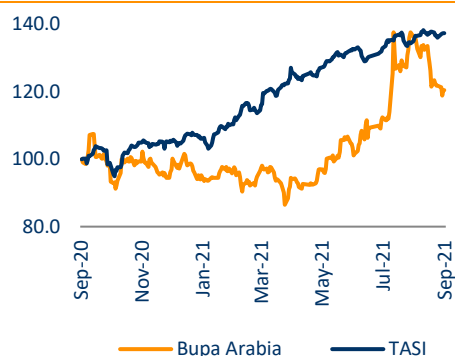
Recommendation	Underweight
Previous Recommendation	Neutral
Current Price (SAR)	148.0
Target Price (SAR)	131.0
Upside/Downside (%)	(11.5%)

As of September 29, 2021

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	17.7
52-Wk High (SAR)	178.2
52-Wk Low (SAR)	106.2
Total Outstanding shares (in mn)	119.6
Free Float (%)	47.8%

Bupa Arabia vs. TASI (Rebased)

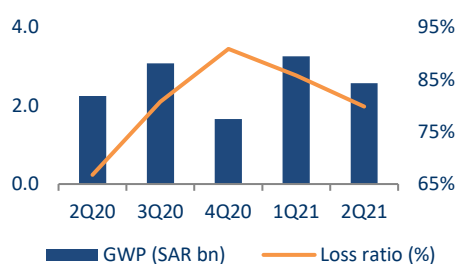


Price Performance (%)	Absolute	Relative
1m	(11.6%)	(13.4%)
6m	24.8%	4.7%
12m	20.5%	(16.9%)

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 September 29, 2021

Rise in net claim incurred impacted Bupa's bottom line in 2Q21

Bupa Arabia (Bupa)'s gross written premiums (GWPs) rose 14.6% YoY to SAR 2.6bn in 2Q21, mainly driven by higher contribution from the corporate (up 12.6% YoY to SAR 1.8bn) and medium enterprise (up 23.7% YoY to SAR 0.6bn) segments during the quarter. Consequently, net written premiums (NWP) climbed 14.3% YoY to SAR 2.6bn, while retention ratio contracted 18 bps YoY to 99.3% in 2Q21. Net earned premiums (NEPs) dropped 4.7% YoY to SAR 2.6bn, while net claims incurred (NCIs) increased 13.9% YoY to SAR 2.1bn in 2Q21. Subsequently, Bupa's loss ratio deteriorated to 79.8% in 2Q21 from 66.8% in 2Q20. The rise in NCI was slightly offset by lower policy acquisition cost, which resulted in a slower fall in net underwriting income (down 26.1% YoY to SAR 451.7mn). This resulted in a 24.7% YoY fall in net profit before zakat and taxes to SAR 333.6mn in 2Q21.

Bupa's bottom line fell significantly in 2Q21 mainly due to higher net claim incurred during the quarter. A sharp rebound in deferred claims were recorded in the current quarter compared with the low levels during the COVID-19 lockdown last year. Net underwriting results were also negatively impacted by a 4.7% YoY drop in net earned premiums to SAR 2.6bn in 2Q21. Gradual pick-up in economic activity and easing of travel restrictions following steady vaccinations could result in a higher number of insured lives and, in turn, boost the insurance sector. However, the company currently faces several headwinds in the form of stringent regulations and stiff competition in the Saudi insurance sector. Moreover, the notable increase in insurance claims is expected to continue in the forthcoming quarter, which could impact the company's bottom line. In our opinion, the positive factors for the company are reflected in its recent stock performance. As a result, we revise our rating to "Underweight" on the stock.

- GWPs increased 14.6% YoY to SAR 2.6bn in 2Q21 but fell 21.0% QoQ from SAR 3.2bn in 1Q21.
- NWPs rose 14.3% YoY to SAR 2.6bn, slightly offset by an increase in ceded premiums. Subsequently, Bupa's retention ratio shrank to 99.3% in 2Q21 from 99.5% in 2Q20.
- Lower net movement in unearned premiums resulted in NEPs to dip 4.7% YoY to SAR 2.6bn in 2Q21.
- NCIs increased 13.9% YoY to SAR 2.1bn in 2Q21 as a result of rebound in deferred claims from the abnormally low levels during the COVID-19 lockdown in the previous year. Consequently, the loss ratio deteriorated to 79.8% from 66.8% in 2Q20.
- Policy acquisition costs plunged 76.4% YoY to SAR 67.4mn, led a 26.1% YoY fall in net underwriting result to SAR 451.7mn in 2Q21.
- Higher investment and commission income offset the rise in general and administrative expenses. Nevertheless, net income before zakat and taxes dropped 24.7% YoY to SAR 333.6mn in 2Q21.
- On a sequential basis, net income before zakat and taxes soared 90.2% QoQ from SAR 175.4mn in 1Q21.
- In 2Q21, the company renewed its contract as health insurance provider for SABIC employees and families, which is expected to positively impact FY21 financials.

Valuation: We revise our target price to a fair value of SAR 131.0 per share and change our rating to "Underweight" on the stock.

	Q2'21	Q2'20	% YoY	FY21E	FY20	% YoY
GWP (SAR bn)	2.6	2.2	14.6%	10.9	10.4	4.6%
NWP (SAR bn)	2.6	2.2	14.3%	10.9	10.4	4.5%
Net claims incurred (SAR bn)	2.0	1.8	13.9%	8.6	8.7	(1.0%)
Net profit before Zakat (SAR bn)	0.3	0.4	(24.7%)	1.0	0.8	15.4%
EPS (SAR)*	2.41	3.25	(25.9%)	6.73	5.83	15.4%
Loss Ratio	79.8%	66.8%	13.0%	81.1%	81.2%	(0.2%)
Expense Ratio	8.9%	16.3%	(7.3%)	11.2%	12.3%	(1.2%)
Combined Ratio	88.7%	83.0%	5.7%	92.2%	93.6%	(1.3%)

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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