

2Q21 Results Update

September 29, 2021

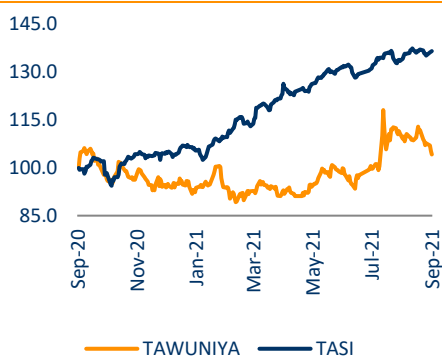
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	88.0
Target Price (SAR)	90.0
Upside/Downside (%)	2.3%

As of September 28, 2021

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	11.0
52-Wk High (SAR)	99.8
52-Wk Low (SAR)	74.6
Total Outstanding Shares (in mn)	125.0
Free Float (%)	63.2%

Tawuniya Versus TASI (Rebased)

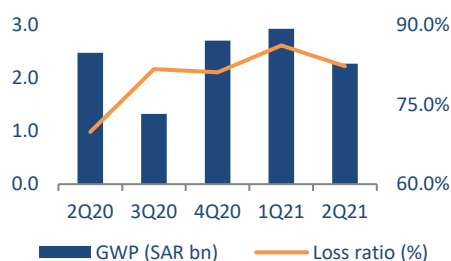


Price Performance (%)	Absolute	Relative
1m	(4.6%)	(6.4%)
6m	12.2%	(7.8%)
12m	1.3%	(36.1%)

Major Shareholders (%)

General Organization for Social Insurance	17.88%
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Gross Written Premium (SAR Bn) and Loss Ratio (%)



Source: Bloomberg, Company Financials, FALCOM Research; data as of September 28, 2021

Higher claims post-COVID-19 opening widen loss ratio in 2Q21

The Company for Cooperative Insurance (Tawuniya)'s gross written premium (GWP) declined 8.3% YoY to SAR 2.3bn in 2Q21 mainly due to a 7.5% YoY fall in GWP from the Medical Insurance segment during the quarter. Consequently, net written premium (NWP) dipped 5.8% YoY to SAR 1.8bn in 2Q21. However, the retention ratio rose by 204 bps YoY to 78.4% in 2Q21, due to a 15.8% YoY fall in premiums ceded. Net earned premium (NEP) climbed 21.6% YoY to SAR 2.0bn, while net claims incurred (NCI) rose by 43.1% YoY to SAR 1.6bn in 2Q21. As a result, Tawuniya's loss ratio significantly deteriorated to 82.2% in 2Q21 from 69.8% in 2Q20. Tawuniya's net profit before zakat and taxes declined 21.0% YoY to SAR 165.9mn in 2Q21.

Tawuniya's GWP dipped in 2Q21 due to lower GWP from medical insurance (down 7.5% YoY to SAR 1.6bn) and Property & Casualty Insurance (down 14.7% YoY to SAR 0.5bn) segments. Lower revenue contribution from the corporate business (down 10.7% YoY to SAR 1.9bn) was slightly offset by increased contribution from retail and micro enterprise segments. Tawuniya also reported additional revenue from travel and COVID-19 insurance segments after the company received SAMA's approval to provide compulsory COVID-related insurance cover to Saudi citizens traveling outside the Kingdom. Although the company's retention ratio improved in 2Q21, the bottom line slipped owing to a steady rise in NCI. Rise in NCI was mainly attributed to higher medical and motor claims after easing of COVID-19-related restrictions. Given the steady vaccination role out, we anticipate pickup in economic activity and easing of travel restrictions which would raise the number of insured lives and boost the company's bottom line. However, stringent pandemic-induced regulations and stiff competition in the insurance sector could create headwinds for the company. In light of these factors, we retain our "Neutral" rating on the stock.

- GWP dropped 8.3% YoY to SAR 2.3bn in 2Q21 mainly due to lower GWP from the Medical Insurance and Property & Casualty segments. The fall was slightly offset by an additional SAR 24.3mn from the travel and COVID insurance segment in 2Q21.
- NWP declined at a slower pace (5.8% YoY to SAR 1.8bn) as ceded premiums fell by 15.8% YoY in 2Q21. Consequently, the retention ratio expanded to 78.4% in 2Q21 from 76.4% in 2Q20.
- NEP increased by 21.6% YoY to SAR 2.0bn, while NCI rose by 43.1% YoY to SAR 1.6bn in 2Q21. The rise in NEP was driven by positive net changes in unearned premium in 2Q21. However, the loss ratio worsened to 82.2% from 69.2% in 2Q20.
- Higher loss ratio resulted in a 23.4% YoY decline in net underwriting income to SAR 271.2mn in 2Q21.
- Lower profit share from associates, coupled with the decline in net underwriting income, resulted in a 21.0% YoY dip in net income before zakat and taxes to SAR 165.9mn in 2Q21.
- EPS decreased to SAR 1.15 during the quarter from SAR 1.51 in 2Q20.

Valuation: We revise our target price upward to a fair value of SAR 90.0 but maintain "Neutral" rating on the stock.

	2Q'21	2Q'20	% YoY	FY21E	FY20	% YoY
GWP (SAR mn)	2,265	2,470	(8.3%)	9,877	9,062	9.0%
NWP (SAR mn)	1,777	1,887	(5.8%)	8,293	7,568	9.6%
NCI (SAR mn)	1,609	1,124	43.1%	6,237	5,488	13.7%
Net Profit Before Zakat (SAR mn)	166	210	(21.0%)	570	514	10.8%
EPS (SAR)	1.15	1.51	(23.7%)	3.65	3.15	15.9%
Loss Ratio (%)	82.2%	69.8%	12.4%	82.1%	77.9%	4.1%
Expense Ratio (%)	14.8%	17.6%	(2.8%)	15.1%	17.4%	(2.3%)
Combined Ratio (%)	97.0%	87.4%	9.6%	97.1%	95.4%	1.8%

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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