

3Q21 Results Update

December 30, 2021

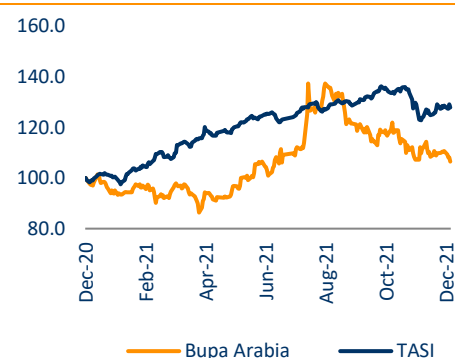
Recommendation	Neutral
Previous Recommendation	Underweight
Current Price (SAR)	131.4
Target Price (SAR)	143.7
Upside/Downside (%)	9.7%

As of December 29, 2021

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	15.7
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)

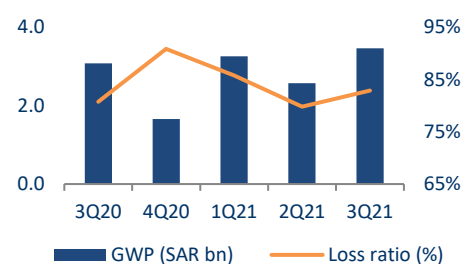


Price Performance (%)	Absolute	Relative
1m	(5.1%)	(8.7%)
6m	3.1%	1.3%
12m	6.5%	(21.3%)

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 December 29, 2021

Higher gross written premiums boost Bupa's bottom line in 3Q21

Bupa Arabia (Bupa)'s gross written premiums (GWPs) rose 12.4% YoY to SAR 3.5bn in 3Q21, primarily driven by higher contribution from the Corporate (up 11.1% YoY to SAR 2.9bn), Medium Enterprise (up 14.4% YoY to SAR 391.4mn), and Small Enterprise (up 26.2% YoY to SAR 188.8mn) segments during the quarter. Consequently, net written premiums (NWPs) increased by 12.3% YoY to SAR 3.4bn, while retention ratio contracted 9bps YoY to 99.6% in 3Q21. Net earned premiums (NEPs) increased 0.4% YoY to SAR 2.7bn, while net claims incurred (NCIs) grew 3.1% YoY to SAR 2.2bn in 3Q21. Subsequently, Bupa's loss ratio deteriorated to 82.9% in 3Q21 from 80.8% in 3Q20. The rise in NCIs was countervailed by the fall in policy acquisition costs and resulted in a 6.9% YoY rise in net underwriting income to SAR 343.1mn. In addition, lower total operating expenses resulted in a 34.2% YoY rise in net profit before zakat and taxes to SAR 228.3mn in 3Q21.

Bupa reported healthy performance in 3Q21 as bottom line expanded, driven by higher GWPs during the quarter. It recorded a sharp rebound in deferred claims in 3Q21 as the low levels in 2020 were countervailed by lower outstanding claims and policy acquisition costs in this quarter. Premium Deficiency Reserve (PDR) was established in 2020 to write-off certain deferred acquisition costs. This reserve offset the expected surge in claims post the COVID-19-induced lockdown. Consequently, net underwriting results improved 6.9% YoY in 3Q21. Stringent regulations and stiff competition in the Saudi insurance sector would create certain headwinds for the company, in our view. However, we think easing of travel restrictions and pick-up in economic activities following a steady vaccination roll out would result in a higher number of insured lives and, in turn, boost the insurance sector. Due to the reasons mentioned above, we revise our rating to "Neutral" on the stock.

- GWPs rose to SAR 3.5bn in 3Q21, up 12.4% YoY and 34.6% QoQ (SAR 2.6bn in 2Q21).
- NWPs increased 12.3% YoY to SAR 3.4bn, slightly offset by an increase in ceded premiums. Subsequently, Bupa's retention ratio marginally narrowed to 99.6% in 3Q21 from 99.7% in 3Q20.
- NEPs increased by 0.4% YoY to SAR 2.7bn in 3Q21.
- Deferred claims rebound, due to which NCIs rose 3.1% YoY to SAR 2.2bn in 3Q21. Consequently, loss ratio deteriorated to 82.9% from 80.8% in 3Q20.
- Policy acquisition costs dropped 38.8% YoY to SAR 121.5mn and led to a 6.9% YoY rise in net underwriting results to SAR 343.1mn in 3Q21.
- Higher investment and commission income offset the rise in general and administrative expenses. Subsequently, net income before zakat and taxes increased by 34.2% YoY to SAR 228.3mn in 3Q21.
- On a sequential basis, net income before zakat and taxes dropped 31.6% QoQ from SAR 333.6mn in 2Q21.

Valuation: We revise our target price to a fair value of SAR 143.7 per share and change our rating to "Neutral" on the stock.

	Q3'21	Q3'20	% YoY	FY21E	FY20	% YoY
GWP (SAR bn)	3.5	3.1	12.4%	12.4	10.4	18.5%
NWP (SAR bn)	3.4	3.1	12.3%	12.3	10.4	18.4%
Net claims incurred (SAR bn)	2.2	2.2	3.1%	8.6	8.7	(1.0%)
Net profit before Zakat (SAR bn)	0.2	0.2	34.2%	1.0	0.8	19.6%
EPS (SAR)*	1.49	1.17	27.1%	6.97	5.83	19.6%
Loss Ratio	82.9%	80.8%	2.1%	82.7%	81.2%	1.4%
Expense Ratio	11.2%	13.3%	(2.0%)	9.8%	12.3%	(2.5%)
Combined Ratio	94.1%	94.0%	0.1%	92.4%	93.6%	(1.1%)

Source: Company Financials, FALCOM Research

*EPS is based on net income after Zakat and taxes

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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, FALCOM Research.

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