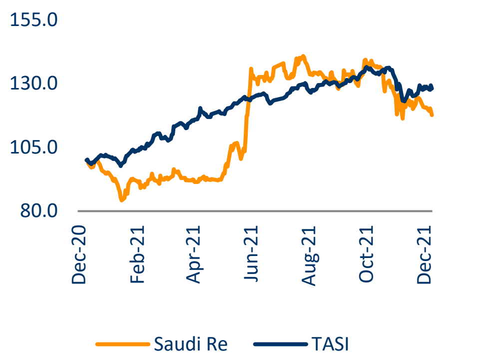
3Q21 Results Update | **December 30, 2021**

recommendation	**Neutral**
Previous Recommendation	Neutral
Current Price (SAR)	16.6
Target Price (SAR)	17.5
Upside/Downside (%)	6.6%

As of December 29, 2021

Key Data (Source: Bloomberg)	
Market Cap (SAR bn)	1.5
52-Wk High (SAR)	20.4
52-Wk Low (SAR)	11.3
Total Outstanding Shares (in mn)	89.1
Free Float (%)	94.5%

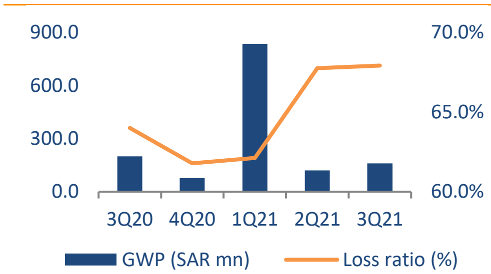
Saudi Re vs TASI (Rebased)



Price Performance (%)	**Absolute**	**Relative**
1m	(4.2%)	(8.3%)
6m	(11.2%)	(13.1%)
12m	17.7%	(10.4%)

Major Shareholders (%)	
Al Qasabi Contracting Co. Ltd	5.00%

Gross Written Premium (SAR mn) and Loss Ratio (%)



Source: Bloomberg, Company Financials, FALCOM Research; data as of December 29, 2021

Higher net claims incurred dent bottom line in 3Q21

Saudi Reinsurance (Saudi Re)'s gross written premiums (GWP) slipped 20.0% YoY to SAR 159.2mn in 3Q21, mainly due to lower GWP premium from Motor, Health, Protection, and Specialty segments. In addition, lower retroceded premium from the Foreign segment led to a 24.4% YoY drop in net written premiums (NWP) to SAR 128.0mn in 3Q21. Consequently, retention ratio narrowed by 467bps to 80.4% in the quarter. Rise in unearned premium and retroceded commission resulted in a 26.9% YoY increase in total revenue to SAR 250.0mn in 3Q21. Saudi Re's loss ratio increased by 391bps YoY, as net claims incurred (NCI) advanced by 32.4% YoY to SAR 165.4mn in 3Q21. The company incurred higher general and administration expenses and foreign exchange translation losses. This resulted in a 27.5% YoY fall in net profit before zakat and taxes to SAR 11.4mn in 3Q21 from SAR 15.8mn in 3Q20.

Saudi Re's bottom line declined in 3Q21, primarily due to a 17.6% YoY fall in net underwriting results during the quarter. Fall in GWP from Motor (down to (SAR 0.2mn)), General Accident (down 81.2% YoY to SAR 1.4mn), Protection (down 66.6% YoY to SAR 3.7mn), and Specialty (down 83.6% YoY to SAR 5.9mn) segments led to a 20.0% YoY drop in GWP to SAR 159.2mn. By geography, the company recorded lower revenue from operations across Africa (down 21.7% YoY to SAR 6.4mn) and Asia (down 15.6% YoY to SAR 39.9mn), Other Middle East (down 2.4% YoY to SAR 33.0mn) and Others (down 83.4% YoY to SAR 6.0mn); meanwhile, revenue from KSA inched up 0.4% YoY to SAR 74.0mn in 3Q21. Saudi Re announced that it maintained an AA+ Insurance Financial Strength Rating (IFSR) by SIMAH's Credit Rating Agency, Tassnief, which reflects its low-risk profile, strong balance sheet strength, improving operating performance, and diversified business profile. It also maintained an A3 IFSR from Moody's, reflecting its strong brand and market position in Saudi Arabia. Contracts with Probitas Corporate would have a positive impact on GWP, which will likely be reflected in FY22, in our view. However, we think deterioration in loss ratio remains a concern in the near term, while increasing competition in the Saudi insurance sector would create headwinds for the company. Considering these factors, we maintain our "Neutral" rating on the stock.

- GWP dropped 20.0% YoY to SAR 159.2mn in 3Q21, owing to the fall in Motor, Specialty, General Accident, Protection, and Health segments, slightly offset by higher contribution from the Marines segment. GWP rose by 31.8% QoQ from SAR 120.8mn in 2Q21.
- Lower retroceded premiums were offset by higher excess loss expenses, as the company's NWP dipped by 24.4% YoY to SAR 128.0mn in 3Q21. Consequently, retention ratio contracted to 80.4% in 3Q21 from 85.1% in 3Q20.
- Increase in net changes in unearned premium resulted in its net earned premium (NEP) surging by 24.8% YoY to SAR 243.5mn in 3Q21.
- Rise in claims incurred but not reported led the company's NCI to climb 32.4% YoY to SAR 165.4mn in 3Q21. Subsequently, loss ratio worsened to 67.9% in 3Q21 from 64.0% in 3Q20.
- Rise in policy acquisition costs and other underwriting expenses resulted in a 17.6% YoY decline in net underwriting results to SAR 14.5mn in 3Q21.
- Net income before zakat and tax dropped by 27.5% YoY to SAR 11.4mn in 3Q21 on higher general and administration expenses and foreign exchange translation losses. As a result, EPS fell to SAR 0.09 in the quarter from SAR 0.14 in 3Q20.
- On December 10, the company announced the signing of reinsurance contracts with Probitas Corporate Capital Ltd. with total written premiums worth SAR 217.7mn.

Valuation: We revise our target price to a fair value of SAR 17.5 and maintain our "Neutral" rating on the stock.

	3Q21	3Q20	% YoY	FY21E	FY20	% YoY
GWP (SAR mn)	159.2	198.9	(20.0%)	1222.2	935.1	30.7%
NWP (SAR mn)	128.0	169.2	(24.4%)	1055.3	772.6	36.6%
NCI (SAR mn)	165.4	124.9	32.4%	580.0	392.0	48.0%
Net Profit before zakat (SAR mn)	11.4	15.8	(27.5%)	70.5	60.7	16.2%
EPS (SAR)	0.09	0.14	(33.7%)	0.66	0.57	16.3%
Loss Ratio (%)	67.9%	64.0%	3.9%	66.5%	60.6%	5.9%
Expense Ratio (%)	33.5%	33.3%	0.3%	30.4%	35.9%	(5.6%)
Combined Ratio (%)	101.4%	97.3%	4.2%	96.9%	96.5%	0.4%

Source: Company Financials, FALCOM Research, *Territories other than Middle East, Africa and Asia

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 ≥ 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 ≥ 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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