

3Q21 Results Update

December 30, 2021

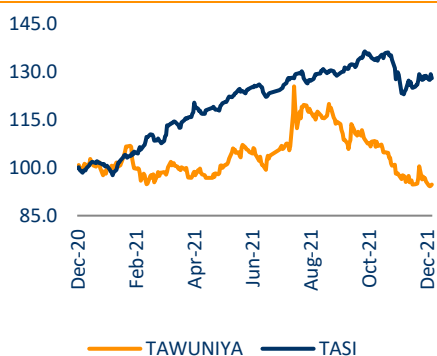
Recommendation	Overweight
Previous Recommendation	Neutral
Current Price (SAR)	77.5
Target Price (SAR)	90.0
Upside/Downside (%)	19.6%

As of December 29, 2021

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	9.4
52-Wk High (SAR)	99.8
52-Wk Low (SAR)	73.5
Total Outstanding Shares (in mn)	125.0
Free Float (%)	63.2%

Tawuniya Versus TASI (Rebased)

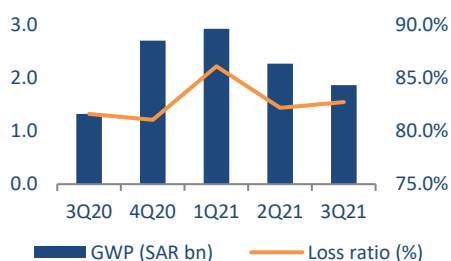


Price Performance (%)	Absolute	Relative
1m	(3.0%)	(6.6%)
6m	(10.6%)	(12.4%)
12m	(5.3%)	(33.3%)

Major Shareholders (%)

General Organization for Social Insurance	36.77%
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Gross Written Premium (SAR Bn) and Loss Ratio (%)



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

Higher other operating expenses dent bottom line in 3Q21

The Company for Cooperative Insurance (Tawuniya)'s gross written premium (GWP) climbed 41.3% YoY to SAR 1.9bn in 3Q21, mainly driven by higher contribution to GWP from the Medical Insurance and Property and casualty segments during the quarter. Consequently, net written premium (NWP) increased 47.3% YoY to SAR 1.5bn in 3Q21. The retention ratio rose 321 bps YoY to 78.2% in 3Q21. Tawuniya's loss ratio worsened to 82.7% in 3Q21 from 81.6% in 3Q20 as the company's net earned premium (NEP) rose 17.1% YoY to SAR 2.0bn, while net claims incurred (NCI) increased 18.7% YoY to SAR 1.7bn in 3Q21. As a result, Tawuniya's net profit before zakat and taxes declined 21.0% YoY to SAR 89.9mn in 3Q21.

Tawuniya's GWP increased in 3Q21, primarily driven by higher GWP from medical insurance (up 51.6% YoY to SAR 1.2bn) and Property & Casualty Insurance (up 27.6% YoY to SAR 435.2mn) segments. Tawuniya also reported additional revenue from travel and COVID-19 insurance segments after receiving SAMA's approval to provide compulsory COVID-related insurance cover to Saudi citizens traveling outside the Kingdom. The rise in GWP was also supported by improved revenue contribution from the corporate business (up 52.5% YoY to SAR 1.5bn), retail segment (up 21.4% YoY to SAR 170.4mn), and medium enterprise segment (up 22.4% YoY to SAR 90.3mn). The bottom line slipped owing to a steady rise in NCI, despite improved retention ratio in 3Q21. On December 6, Tawuniya was awarded a contract by Saudi National Bank (SNB) to provide health insurance services for the bank's employees and their families. The contract value exceeds 1% of the total revenue of the bank and is expected to positively impact its revenue in FY22. Easing of travel restrictions and pickup in economic activities on steady vaccination roll-out would raise the number of insured lives and boost the company's bottom line. In light of these factors, we revise our rating to "Overweight" on the stock.

- GWP rose 41.3% YoY to SAR 1.9bn in 3Q21, mainly ascribed to higher GWP from the corporate, retail, and medium enterprise segments. The rise was slightly offset by a lower contribution from the micro enterprise segment.
- Higher GWP counterbalanced the rise in premiums ceded, as NWP increased 47.3% YoY to SAR 1.5bn in 3Q21. Consequently, the retention ratio expanded to 78.2% in 3Q21 from 75.0% in 3Q20.
- NEP increased 17.1% YoY to SAR 2.0bn, while NCI gained 18.7% YoY to SAR 1.7bn in 3Q21. The loss ratio deteriorated to 82.7% from 81.6% in 3Q20.
- Despite higher loss ratio, Tawuniya's net underwriting income increased 5.4% YoY to SAR 245.9mn in 3Q21.
- Increase in general and administration expenses resulted in a 21.0% YoY dip in net income before zakat and taxes to SAR 89.9mn in 3Q21.
- EPS decreased to SAR 0.51 during the quarter from SAR 0.76 in 3Q20.

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

	3Q'21	3Q'20	% YoY	FY21E	FY20	% YoY
GWP (SAR mn)	1,865	1,320	41.3%	9,421	9,062	4.0%
NWP (SAR mn)	1,459	990	47.3%	7,862	7,568	3.9%
NCI (SAR mn)	1,672	1,409	18.7%	6,643	5,488	21.0%
Net Profit Before Zakat (SAR mn)	90	114	(21.0%)	480	514	(6.7%)
EPS (SAR)	0.51	0.76	(31.9%)	3.07	3.15	(2.3%)
Loss Ratio (%)	82.7%	81.6%	1.1%	83.7%	77.9%	5.8%
Expense Ratio (%)	16.6%	14.1%	2.5%	14.8%	17.4%	(2.7%)
Combined Ratio (%)	99.3%	95.7%	3.6%	98.5%	95.4%	3.2%

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, FALCOM Research.

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