FY21 Results Update

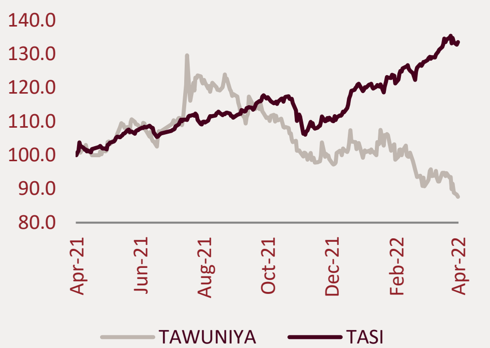
April 26, 2022

Recommendation	Overweight
Previous Recommendation	Overweight
Current Price (SAR)	67.5
Target Price (SAR)	84.6
Upside/Downside (%)	25.3%

As of April 25, 2022

Key Data (Source: Bloomberg)	
Market Cap (SAR bn)	8.4
52-wk High (SAR)	99.8
52-wk Low (SAR)	67.5
Total Outstanding shares (in mn)	125.0
Free Float (%)	74.2%

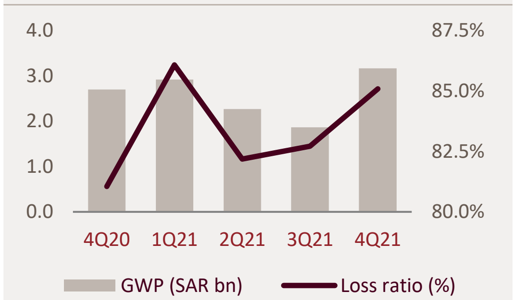
TAWUNIYA vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	(3.4%)	(8.0%)
6m	(21.1%)	(35.1%)
12m	(12.3%)	(45.9%)

Major Shareholders (%)	
General Organization for Social Insurance	25.85%

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



Source: Bloomberg, Company Financials, Yaqeen Capital; Data as of April 25, 2022

Higher net claims during the year drags bottom line in FY21

The Company for Cooperative Insurance (Tawuniya)'s gross written premium (GWP) increased 12.8% YoY to SAR 10.2bn in FY21, primarily driven by higher contribution to GWP from the Medical and Property and Casualty segments, slightly offset by lower contribution from the Motor and Umrah segments during the year. Net written premium (NWP) rose 13.7% YoY to SAR 8.6bn in FY21. Consequently, the retention ratio was up 72 bps YoY to 84.2% in FY21. Tawuniya's loss ratio worsened to 84.0% in FY21 from 77.9% in FY20 as the company's net earned premium (NEP) increased 12.6% YoY to SAR 7.9bn, while net claims incurred (NCI) grew 21.4% YoY to SAR 6.7bn in FY21. As a result, Tawuniya's net profit before zakat and taxes declined 31.9% YoY to SAR 350.1mn in FY21.

Tawuniya's GWP increased in FY21, primarily driven by higher GWP from medical insurance (up 19.0% YoY to SAR 7.8bn) and Property & Casualty Insurance (up 4.1% YoY to SAR 1.6bn) segments. The growth in GWP was offset by lower contribution from the Motor and Umrah segments. After receiving SAMA's approval to provide compulsory COVID-19-related insurance cover to Saudi citizens traveling outside the Kingdom, Tawuniya reported additional revenue of SAR 99.1mn from the Travel and COVID-19 Insurance segments. The rise in GWP was also supported by improved revenue contribution from the corporate business (up 18.0% YoY to SAR 8.5bn), the Medium Enterprise segment (up 11.7% YoY to SAR 386.6mn), and Small Enterprise segment (up 2.4% YoY to SAR 287.3mn). However, the Retail segment declined 20.8% YoY to SAR 679.0mn. The company's retention ratio improved to 84.2% during the year. Nevertheless, higher net claim incurred during the year led to a decline in Tawuniya's bottom line. Recently, Tawuniya was awarded a contract from Tahakom Investments Co. (TICOM) and its subsidiaries to provide health insurance services for its employees and their families. Additionally, on March 3, the company announced the renewal of the insurance policy of Saudi Arabian Airlines for one year, which will positively impact its GWPS and FY22 results. The number of insured lives are expected to increase, led by easing of travel restrictions and pickup in economic activities, which could boost the company's bottom line. In light of these factors, we retain our "Overweight" rating on the stock.

- GWP grew 12.8% YoY to SAR 10.2bn in FY21, attributable to higher contribution from the Medical and Property and Casualty segments during the year. The rise was slightly offset by lower contribution from the Motor and Umrah segments.
- Premiums ceded grew slower than GWP, which led to a 13.7% YoY increase in NWP to SAR 8.6bn in FY21. Consequently, the retention ratio expanded to 84.2% in FY21 from 83.5% in FY20.
- NEP rose 12.6% YoY to SAR 7.9bn, while NCI gained 21.4% YoY to SAR 6.7bn in FY21. The loss ratio deteriorated to 84.0% in FY21 from 77.9% in FY20.
- Consequently, Tawuniya's net underwriting income declined 16.5% YoY to SAR 842.5bn during the year.
- The company reported a 31.9% YoY decline in net income before zakat and taxes to SAR 350.1mn in FY21 owing to rise in general and administration expenses and higher net other operating expenses.
- EPS decreased to SAR 2.13 during the year from SAR 3.15 in FY21.

Valuation: We revise our target price to a fair value of SAR 84.6 but maintain our "Overweight" rating on the stock.

	4Q21	4Q20	% YoY	FY22E	FY21	%YoY
GWP (SAR mn)	3,168	2,699	17.4%	11,660	10,219	14.1%
NWP (SAR mn)	2,785	2,284	21.9%	9,878	8,608	14.8%
NCI (SAR mn)	1,801	1,450	24.2%	7,564	6,660	13.6%
Net Profit before zakat (SAR mn)	13	105	(87.2%)	492	350	40.4%
EPS (SAR)	0.00	0.35	(101.4%)	2.95	2.13	38.4%
Loss Ratio (%)	85.1%	81.0%	4.0%	83.0%	84.0%	(1.0%)
Expense Ratio (%)	19.2%	21.6%	(2.4%)	15.9%	16.5%	(0.6%)
Combined Ratio (%)	104.3%	102.7%	1.6%	98.9%	100.5%	(1.6%)

Source: Company Financials, Yaqeen Capital

Yaqeen Capital Rating Methodology

Yaqeen Capital 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 ≥ 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 Yaqeen Capital.

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