

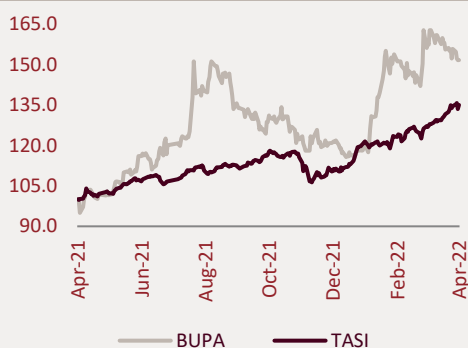
## FY21 Results Update

April 22, 2022

sssssRecommendation	Underweight
Previous Recommendation	Neutral
Current Price (SAR)	169.6
Target Price (SAR)	150.4
Upside/Downside (%)	(11.3)
<i>As of April 20, 2022</i>	
<b>Key Data (Source: Bloomberg)</b>	

Market Cap (SAR bn)	20.3
52-wk High (SAR)	184.4
52-wk Low (SAR)	106.2
Total Outstanding shares (in mn)	119.6
Free Float (%)	47.8%

### Bupa Arabia vs. TASI (Rebased)

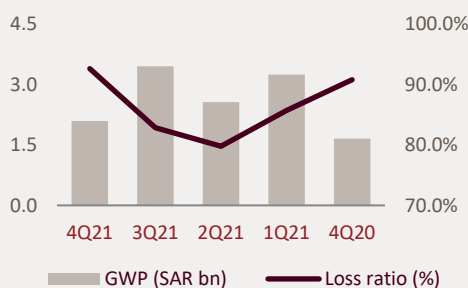


Price Performance (%)	Absolute	Relative
1m	(2.9%)	(9.0%)
6m	15.7%	0.9%
12m	51.7%	16.6%

### 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, Yaqeen Capital;  
Data as of April 20, 2022

### Higher net claims drag Bupa's bottom line in FY21

Bupa Arabia (Bupa)'s gross written premiums (GWPs) increased 8.9% YoY to SAR 11.4bn in FY21, driven by higher contribution from the Corporate (up 7.0% YoY to SAR 8.5bn), Medium Enterprise (up 14.1% YoY to SAR 2.0bn), and Small Enterprise (up 15.5% YoY to SAR 803.5mn) segments during the year. Consequently, net written premiums (NWP) climbed 8.8% YoY to SAR 11.3bn, while retention ratio narrowed 13bps YoY to 99.2% in FY21. As a result of decline in net movement in unearned premium, net earned premiums (NEPs) fell 1.1% YoY to SAR 10.6bn, while net claims incurred (NCIs) grew 3.7% YoY to SAR 9.0bn in FY21. Subsequently, Bupa's loss ratio deteriorated to 85.2% in FY21 from 81.2% in FY20. The rise in NCIs offset the fall in policy acquisition costs and resulted in 11.3% YoY decline in net underwriting income to SAR 1.2bn. Consequently, the net profit before zakat and taxes decreased 11.3% YoY to SAR 730.7mn in FY21.

Bupa reported a weak performance in FY21 as the company's bottom line fell, largely due to higher claims during the year. Deferred claims rebounded sharply after falling to abnormally low levels in 2020 during the COVID-19-induced lockdown. Operating expenses also increased during the year. Consequently, net underwriting results declined 11.3% YoY in FY21. However, Bupa established Premium Deficiency Reserve (PDR) in 2020 to write off certain deferred acquisition costs from the expected surge in claims after the COVID-19-induced lockdown and to reserve for the impact of the enforcement of Article 11 of the Cooperative Health Insurance Law. Lifting of travel restrictions and rising economic activities, driven by a steady vaccination roll out, are expected to boost the number of persons being insured; this, in turn, would drive growth in the insurance sector. However, the company faces several headwinds owing to stringent regulations and stiff competition in the Saudi insurance sector which could impact the company's performance in the near future. The stock recorded a strong rally of 32% YTD, and we believe that the current price fully reflects growth potential. Hence, we revise our rating on the stock to "Underweight."

- GWPs grew 8.9% YoY to SAR 11.4bn in FY21, led by higher contribution across all business segments.
- Higher GWP was slightly offset by increase in ceded premiums as NWP rose 8.8% YoY to SAR 11.3bn. Subsequently, Bupa's retention ratio marginally narrowed to 99.2% in FY21 from 99.4% in FY20.
- NEPs decreased 1.1% YoY to SAR 10.6bn in FY21 owing to a decline in net movement in unearned premiums.
- NCIs increased 3.7% YoY to SAR 9.0bn as deferred claims rebounded from abnormal low levels recorded during the COVID-19-induced lockdown last year. Consequently, loss ratio deteriorated to 85.2% from 81.2% in FY20.
- Policy acquisition costs dropped 45.6% YoY to SAR 343.4mn. However, net underwriting results declined 11.3% YoY to SAR 1.2bn in FY21.
- Net income before zakat and taxes fell 11.3% YoY to SAR 730.7mn in FY21, led by higher selling and marketing, and general and administrative expenses.

**Valuation:** We revise our target price to a fair value of SAR 150.4 per share and change our rating on the stock to "Underweight."

	4Q21	4Q20	% YoY	FY22E	FY21	%YoY
Revenues (SAR mn)	2.1	1.7	26.7%	12.3	11.4	8.1%
NWP (SAR bn)	2.1	1.6	27.0%	12.2	11.3	8.0%
Net claims incurred (SAR bn)	2.6	2.4	8.6%	9.5	9.0	5.1%
Net profit before Zakat (SAR bn)	0.0	0.1	(107.8%)	1.1	0.7	44.9%
EPS (SAR)*	0.17	0.58	(71.0%)	7.58	5.23	44.9%
Loss Ratio	92.6%	90.8%	1.8%	82.9%	85.2%	(2.3%)
Expense Ratio	10.7%	8.2%	2.5%	10.0%	10.0%	0.0%
Combined Ratio	103.4%	99.1%	4.3%	92.9%	95.2%	(2.3%)

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  $\geq 10\%$ .

**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 Yaqeen Capital.

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