

2Q21 Results Update

October 4, 2021

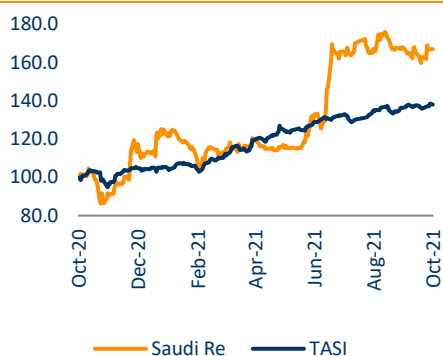
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	18.6
Target Price (SAR)	19.0
Upside/Downside (%)	2.2%

As of October 3, 2021

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	1.7
52-Wk High (SAR)	20.4
52-Wk Low (SAR)	9.0
Total Outstanding Shares (in mn)	89.1
Free Float (%)	94.5%

Saudi Re vs TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	(0.6%)	(1.8%)
6m	40.6%	25.6%
12m	67.0%	28.9%

Major Shareholders (%)

Al Qasabi Contracting Co. Ltd	5.00%
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Gross Written Premium (SAR mn) and Loss Ratio (%)



Source: Bloomberg, Company Financials, FALCOM Research; data as of October 3, 2021

Sharp rise in net underwriting result boosts bottom line in 2Q21

Saudi Reinsurance (Saudi Re)'s gross written premiums (GWP) fell by 8.0% YoY to SAR 120.8mn in 2Q21, mainly due to lower GWP premium from health, protection and specialty segments. Consequently, net written premiums (NWP) dipped by 7.0% YoY to SAR 76.2mn. However, retention ratio marginally improved by 71bps to 63.1% in 2Q21. The company's total revenue rose by 25.1% YoY to SAR 198.6mn in 2Q21, driven by a 61.2% YoY rise in net changes in unearned premium. Net claim incurred (NCI) advanced by 30.3% YoY to SAR 131.9mn in 2Q21, leading to Saudi Re's loss ratio increasing by 262bps YoY to 67.8% in 2Q21. Higher share of profit of equity accounted investee, coupled with lower foreign exchange translation losses, resulted in the company's net profit before zakat and taxes rising by 87.2% YoY to SAR 16.9mn in 2Q21 from SAR 9.0mn in 2Q20.

Saudi Re's bottom line improved in 2Q21, primarily driven by a 118.9% YoY increase in net underwriting results during the quarter. The company's GWP dipped during 2Q21, primarily due to a fall in GWP from the specialty (down to negative SAR 19.1mn), protection (down 69.0% YoY to SAR 4.8mn), and health insurance (down 91.1% YoY to SAR 0.6mn) segments. Geographically, the company recorded sharp growth in operations across Asia (up 31.5% YoY to SAR 88.5mn) and Africa (up 99.2% YoY to SAR 2.3mn), offset by lower contribution from KSA (down 27.1% YoY to SAR 48.0mn). Saudi Re's business is well diversified across geographies, with the company's insurance portfolio remaining diversified as it provides reinsurance coverage across several lines of business. The company has an A3 rating from Moody's and its shareholders approved a 10% increase in its capital base to SAR 891mn, implying capital adequacy. However, stringent pandemic-induced regulations and stiff competition in the Saudi insurance sector could create headwinds for the company. Furthermore, a deterioration in loss ratio remains a concern for the company in the near term. Considering these factors, we maintain our "Neutral" rating on the stock.

- GWP decreased by 8.0% YoY to SAR 120.8mn in 2Q21, owing to a fall in specialty, general accident, protection, and health segments, slightly offset by higher contribution from fire and marine segments. GWP dropped by 85.5% QoQ from SAR 834.3mn in 1Q21.
- Lower retroceded premiums and excess loss expenses offset the fall in top line, as the company's NWP dipped by 7.0% YoY to SAR 76.2mn in 2Q21. However, the company's retention ratio inched up to 63.1% in 2Q21 from 62.4% in 2Q20.
- A 61.2% YoY rise in net changes in unearned premium resulted in its net earned premium (NEP) surging by 25.3% YoY to SAR 194.7mn in 2Q21.
- NCI soared by 30.3% YoY to SAR 131.9mn in 2Q21. Subsequently, the loss ratio worsened to 67.8% in 2Q21 from 65.1% in 2Q20.
- Higher NCI was slightly offset by a fall in policy acquisition costs and other underwriting expenses which drove net underwriting result up 118.9% YoY to SAR 21.2mn in 2Q21.
- Net income before zakat and tax advanced by 87.2% YoY to SAR 16.9mn in 2Q21 on higher net underwriting income and share of profit from equity accounted investee. As a result, EPS increased to SAR 0.15 in the quarter from SAR 0.06 in 2Q20.
- On July 14, Saudi Re announced the completion of the sale of the fractional shares resulting from the increase in the company's capital, and depositing the sums in shareholders bank accounts, which was approved by the Extraordinary General Assembly.

Valuation: We revise our target price to a fair value of SAR 19.0 and maintain our "Neutral" rating on the stock.

	2Q21	2Q20	% YoY	FY21E	FY20	% YoY
GWP (SAR mn)	120.8	131.3	(8.0%)	1,272.6	935.1	36.1%
NWP (SAR mn)	76.2	81.9	(7.0%)	1,092.9	772.6	41.4%
NCI (SAR mn)	131.9	101.3	30.3%	518.6	392.0	32.3%
Net Profit before zakat (SAR mn)	16.9	9.0	87.2%	87.8	60.7	44.7%
EPS (SAR)	0.15	0.06	140.7%	0.70	0.57	23.6%
Loss Ratio (%)	67.8%	65.1%	2.6%	60.9%	60.6%	0.4%
Expense Ratio (%)	28.9%	33.9%	(5.0%)	31.7%	35.9%	(4.2%)
Combined Ratio (%)	96.7%	99.0%	(2.4%)	92.7%	96.5%	(3.8%)

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

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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.

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