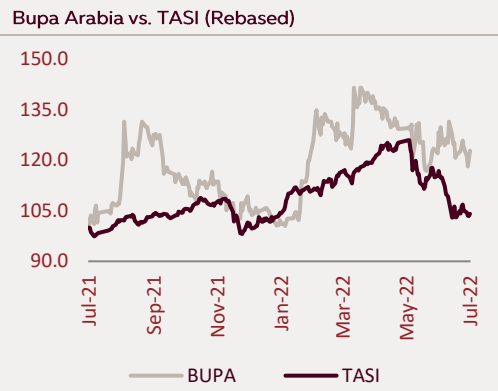


1Q22 Results Update

July 13, 2022

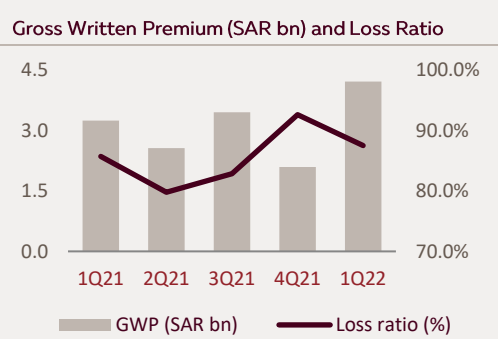
Recommendation	Neutral
Previous Recommendation	Underweight
Current Price (SAR)	158.0
Target Price (SAR)	156.0
Upside/Downside (%)	(1.3%)
<i>As of July 6, 2022</i>	

Key Data (Source: Bloomberg)	
Market Cap (SAR bn)	18.9
52-wk High (SAR)	184.4
52-wk Low (SAR)	120.0
Total Outstanding shares (in mn)	119.5
Free Float (%)	47.8%



Price Performance (%)	Absolute	Relative
1m	(4.2%)	6.7%
6m	21.5%	21.7%
12m	22.9%	18.8%
Major Shareholders (%)		
BUPA Investments Overseas Co. Ltd.	43.25%	
Nazer Holding Group Co.	9.00%	

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Nazer Holding Group Co.	9.00%



Source: Bloomberg, Company Financials, Yaqaen Capital; Data as of July 6, 2022

Rise in net claims, policy acquisition cost drags Bupa's bottom line in 1Q22

Bupa Arabia (Bupa)'s gross written premiums (GWPs) surged 29.8% YoY to SAR 4.2bn in 1Q22, mainly attributable to higher contribution from the corporate (up 33.2% YoY to SAR 3.2bn), medium enterprise (up 21.3% YoY to SAR 752.8mn), and small enterprise (up 14.9% YoY to SAR 251.0mn) segments during the quarter. Despite a rise in premiums ceded, net written premiums (NWP) climbed 29.9% YoY to SAR 4.2bn. Consequently, the retention ratio expanded 11bps YoY to 99.3% in 1Q22. Net earned premiums (NEPs) climbed 17.9% YoY to SAR 2.9bn, despite a 71.1% YoY rise in net movement in unearned premium. Meanwhile, net claims incurred (NCIs) grew 20.4% YoY to SAR 2.6bn during the quarter. Subsequently, Bupa's loss ratio deteriorated to 87.5% in 1Q22 from 85.7% in 1Q21. The rise in NCIs and higher policy acquisition costs resulted in an 18.0% YoY decline in net underwriting result to SAR 245.9mn during the quarter. Consequently, net profit before zakat and taxes declined 21.4% YoY to SAR 138.0mn in 1Q22. Bupa reported weak performance in 1Q22 as rise in net claims dragged the company's bottom line during the quarter. The company's GWP surged during the year mostly owing to bulk deals and increase in insured lives. However, this rise was offset by a surge in policy acquisition cost and net claims incurred, as both rose in the current quarter compared with the same quarter last year from the premium deficiency reserve established in 2020 to countervail the expected rise in claims following the COVID-19 lockdown. The surge was partially offset by a 17.9% YoY rise in net earned premiums during the quarter. However, net underwriting results declined 18.0% YoY to SAR 245.9mn in 1Q22. Increase in operating expenses and rise in provision for doubtful receivables weighed on the company's bottom line during the quarter. However, the number of insured individuals are expected to rise, largely due to lifting of travel restrictions and resumption of regular economic activities, which, in turn, would drive growth in the insurance sector. Premiums may rise in the upcoming quarters on newly booked policies, which potentially integrate higher pricing for COVID-19-related services. However, margins are expected to remain pressurized due to the launch of the new CCHI table of benefits in July 2022. Based on the abovementioned factors, we revise our rating on the stock to "Neutral."

- GWPs climbed 29.8% YoY to SAR 4.2bn in 1Q22, mainly driven by higher contribution across business segments.
- Higher GWP was slightly offset by a rise in ceded premiums as NWP surged 29.9% YoY to SAR 4.2bn. Consequently, Bupa's retention ratio marginally improved to 99.3% in 1Q22 from 99.2% in 1Q21.
- Despite a rise in unearned premium, NEPs soared 17.9% YoY to SAR 2.9bn during the quarter on higher GWP.
- NCIs increased 20.4% YoY to SAR 2.6bn, primarily driven by higher outstanding claims. Consequently, loss ratio deteriorated to 87.5% from 85.7% in 1Q21.
- Policy acquisition costs surged 113.3% YoY to SAR 120.9mn. Consequently, net underwriting results dropped 18.0% YoY to SAR 245.9mn in 1Q22.
- Net income before zakat and taxes fell 21.4% YoY to SAR 138.0mn in 1Q22, despite a rise in investment and commission income and other income.

Valuation: We revise our target price to a fair value of SAR 156.0 per share and change our rating on the stock to "Neutral."

	1Q22	1Q21	% YoY	FY22E	FY21	%YoY
GWP (SAR bn)	4.2	3.3	29.8%	15.3	11.4	34.3%
NWP (SAR bn)	4.2	3.2	29.9%	15.2	11.3	34.2%
Net claims incurred (SAR bn)	2.6	2.1	20.4%	11.1	9.0	23.0%
Net profit before Zakat (SAR bn)	0.1	0.2	(21.4%)	0.8	0.7	4.4%
EPS (SAR)	0.79	1.17	(32.8%)	5.46	5.23	4.4%
Loss Ratio	87.5%	85.7%	1.8%	86.5%	85.2%	1.3%
Expense Ratio	9.7%	8.8%	0.9%	10.0%	10.0%	0.0%
Combined Ratio	97.3%	94.5%	2.8%	96.4%	95.2%	1.3%

Source: Company Financials, Yaqaen 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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