

1Q22 Results Update

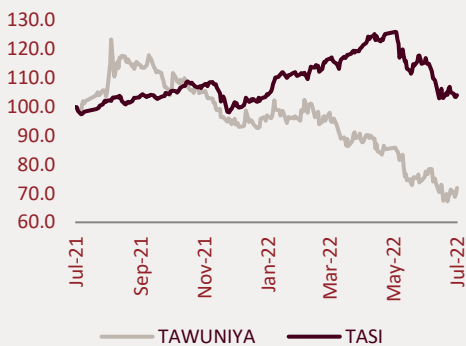
July 13, 2022

Recommendation	Overweight
Previous Recommendation	Overweight
Current Price (SAR)	58.2
Target Price (SAR)	70.0
Upside/Downside (%)	20.2%

As of July 6, 2022

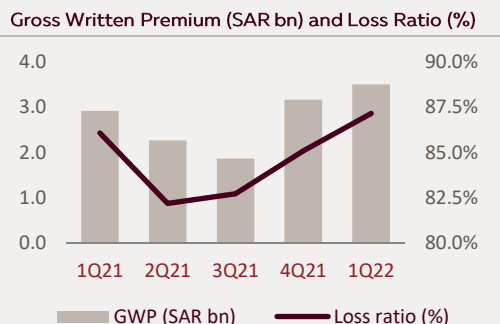
Key Data (Source: Bloomberg)	
Market Cap (SAR bn)	7.3
52-wk High (SAR)	99.8
52-wk Low (SAR)	53.3
Total Outstanding shares (in mn)	125.0
Free Float (%)	74.2%

TAWUNIYA vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	(7.2%)	3.8%
6m	(25.6%)	(25.5%)
12m	(28.1%)	(32.1%)

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



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

Surge in net claims, policy acquisition cost drags bottom line in 1Q22

The Company for Cooperative Insurance (Tawuniya)'s gross written premium (GWP) surged 20.1% YoY to SAR 3.5bn in 1Q22, primarily driven by higher contribution to GWP across business segments. Lower premium ceded resulted in a 24.6% YoY increase in net written premium (NWP) to SAR 3.2bn during the quarter. Consequently, the retention ratio improved 332 bps YoY to 91.9% in 1Q22. Tawuniya's net earned premium (NEP) increased 22.2% YoY to SAR 2.2bn, while net claims incurred (NCI) advanced 23.8% YoY to SAR 2.0bn in 1Q22. Consequently, the loss ratio worsened to 87.2% in 1Q22 from 86.1% in 1Q21. Higher policy acquisition cost and rise in general and administrative expense led to a 48.7% YoY decline in Tawuniya's net profit before zakat and taxes to SAR 41.5mn in 1Q22.

Tawuniya's GWP advanced in 1Q22, mainly due to higher GWP across business segments. The Medical Insurance segment grew 11.3% YoY to SAR 2.8bn, the Motor Insurance segment grew 66.8% YoY to SAR 243.5mn, and the Property and Casualty segment grew 13.8% to SAR 310.0mn during the quarter. Tawuniya reported additional revenue of SAR 37.2mn from the 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. Additionally, GWP from the Medical Umrah and General Accident Umrah segments rose to SAR 68.5mn and SAR 59.1mn, respectively. The rise in GWP was largely ascribed to greater revenue contribution from the Retail business, which grew 166.4% YoY to SAR 356.6bn and 10.7% YoY growth in the Corporate segment to SAR 2.8bn. The company's retention ratio improved to 91.9% during the quarter. Nevertheless, higher NCI, rise in policy acquisition cost, and surge in general and administrative expense weighed on Tawuniya's bottom line during the quarter. Recently, Standard & Poor's Global Ratings Agency assigned a credit rating of (A-) to Tawuniya with a stable outlook, highlighting its strong competitive position, capital adequacy, and strong financial performance. The company is expected to maintain strong operating performance and a market leading position and to improve its capital adequacy over the next couple of years. Ease of travel restrictions and pickup in economic activities could lead to an increase in the number of insured lives, which could boost the company's bottom line. In light of these factors, we retain our "Overweight" rating on the stock.

- GWP advanced 20.1% YoY to SAR 3.5bn in 1Q22 on higher contribution across business segments during the quarter. GWP increased 10.7% QoQ for SAR 3.5bn in 4Q21.
- Premiums ceded declined 14.8% to SAR 280.4mn during the quarter. Consequently, Tawuniya's NWP surged 24.6% YoY to SAR 3.2bn in 1Q22. Subsequently, the retention ratio expanded to 91.9% in 1Q22 from 88.7% in 1Q21.
- Despite the rise in changes in unearned premium, NEP rose 22.2% YoY to SAR 2.2bn during the quarter. Meanwhile, NCI gained 23.8% YoY to SAR 2.0bn in 1Q22. Consequently, the loss ratio deteriorated to 87.2% in 1Q22 from 86.1% in 1Q21.
- The rise in policy acquisition cost and higher insurance share distribution led to a 7.9% YoY decline in Tawuniya's net underwriting income to SAR 140.0mn during the quarter.
- Higher general and administrative expense resulted in a 48.7% YoY drop in the company's net income before zakat and taxes to SAR 41.5mn in 1Q22.
- EPS decreased to SAR 0.16 during the quarter from SAR 0.47 in 1Q21.

Valuation: We revise our target price to a fair value of SAR 70.0 but maintain our "Overweight" rating on the stock.

	1Q22	1Q21	% YoY	FY22E	FY21	%YoY
GWP (SAR mn)	3,507	2,921	20.1%	12,243	10,219	19.8%
NWP (SAR mn)	3,223	2,587	24.6%	10,875	8,608	26.3%
NCI (SAR mn)	1,953	1,578	23.8%	8,066	6,660	21.1%
Net Profit before Zakat (SAR mn)	41	81	(48.7%)	372	350	6.1%
EPS (SAR)	0.16	0.47	(66.1%)	2.08	2.13	(2.4%)
Loss Ratio (%)	87.2%	86.1%	1.1%	82.5%	84.0%	(1.5%)
Expense Ratio (%)	13.7%	15.1%	(1.4%)	14.9%	16.5%	(1.7%)
Combined Ratio (%)	100.9%	101.2%	(0.3%)	97.4%	100.5%	(3.1%)

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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