

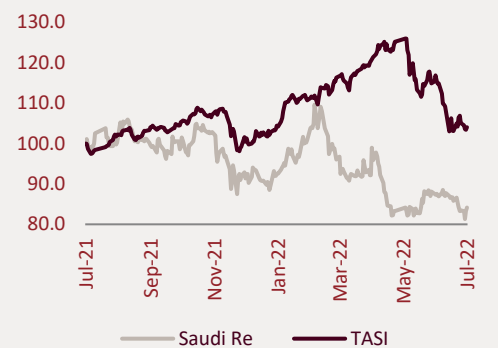
## 1Q22 Results Update

July 13, 2022

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	15.56
Target Price (SAR)	16.5
Upside/Downside (%)	6.3%
<i>As of July 6, 2022</i>	

Key Data (Source: Bloomberg)	
Market Cap (SAR bn)	1.4
52-wk High (SAR)	20.5
52-wk Low (SAR)	14.8
Total Outstanding shares (in mn)	89.1
Free Float (%)	94.5%

### Saudi Re vs. TASI (Rebased)

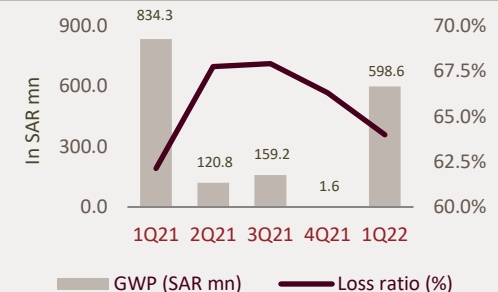


Price Performance (%)	Absolute	Relative
1m	(3.7%)	7.2%
6m	(9.1%)	(9.0%)
12m	(15.9%)	(20.0%)

### 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, Yaqeen Capital; Data as of July 6, 2022

### Rise in claims and policy acquisition cost drags bottom line in 1Q22

Saudi Reinsurance (Saudi Re)'s gross written premium (GWP) decreased 28.2% YoY to SAR 598.6mn in 1Q22, mainly due to lower GWP from the Engineering, Marines, Motor, General Accident, Protection, Health, and Others segments. The decline in GWP was slightly offset by the rise in contribution from the Fire and Specialty segments. Retroceded premium from the foreign segment dropped 81.1% YoY, while loss expense declined 26.7% YoY to SAR 6.0mn. However, net written premium (NWP) decreased 26.0% YoY to SAR 586.3mn in 1Q22. Nevertheless, the retention ratio rose 296 bps to 97.9% during the quarter. A 47.6% YoY reduction in unearned premium led to a 39.3% YoY increase in total revenue to SAR 277.5mn in 1Q22. Saudi Re's net claims incurred (NCI) surged 44.2% YoY to SAR 175.1mn during the quarter. Consequently, the loss ratio deteriorated to 64.0% from 62.1% 1Q22. However, the increase in policy acquisition cost, coupled with higher operating expense, led to a 3.8% YoY fall in the company's net income for the year before zakat and tax to SAR 18.8mn in 1Q22.

Saudi Re posted a weak result in the first quarter of FY22 as its bottom line slipped, primarily due to a 44.2% YoY increase in NCI during the quarter. The company's GWP dropped 28.2% YoY, largely due to lower contribution from the Engineering (down 9.7% YoY to SAR 37.1mn), Health (down 78.7% YoY to SAR 38.9mn), Marine (down 25.3% YoY to SAR 33.0mn), Motor (down 40.3% YoY to SAR 57.2mn), General Accidents (down 48.0% YoY to SAR 21.1mn), and Others (down 12.1% YoY to SAR 70.5mn) segments during the quarter. By geography, the company recorded lower revenue from operations across KSA (down 52.6% YoY to SAR 176.9mn) and Asia (down 43.2% YoY to SAR 106.7mn). The decline was slight offset by higher contribution from Other Middle East (up 49.4% YoY to SAR 79.5mn), Africa (up 1.9% YoY to SAR 27.9mn), and Others (up 6.9% YoY to SAR 207.6mn). On 25 May 2022, Saudi Re got SAMA's approval to raise its company's capital through a SAR 445.5mn rights issue to support its future expansion activities while strengthening its capital base. Moody's Investor Service recently affirmed its A3 Insurance Financial Strength Rating (IFSR) to the company, which reflects its sound asset quality, strong brand and market position in KSA. However, deterioration in the loss ratio remains a concern, while intensifying competition in the Saudi insurance sector could create headwinds for the company. Considering these factors, we maintain our "Neutral" rating on the stock.

- GWP slipped 28.2% YoY to SAR 598.6mn in 1Q22, primarily attributable to higher GWP from the almost all segments, except Fire and Specialty.
- Despite a fall in loss expense and retroceded premium, NWP dropped 26.0% YoY to SAR 586.3mn in 1Q22. However, the retention ratio expanded to 97.9% in 1Q22 from 95.0% in 1Q21.
- Lower unearned premium offset the fall in retroceded commissions and translated to a 39.3% YoY surge in Saudi Re's total revenue to SAR 277.5mn in 1Q22.
- The company's NCI soared 44.2% YoY to SAR 175.2mn in 1Q22. Subsequently, the loss ratio worsened to 64.0% in 1Q22 from 62.1% in 1Q21.
- The company's net underwriting result surged 26.8% YoY to SAR 32.2mn in 1Q22 as the rise in total underwriting expense was offset by increased revenue.
- Nevertheless, net income before zakat and tax dropped 3.8% YoY to SAR 18.8mn in 1Q22, primarily due to higher operating expense and policy acquisition cost.
- EPS fell to SAR 0.17 in 1Q22 from SAR 0.18 in 1Q21.

**Valuation:** We revise our target price to a fair value of SAR 16.5 and maintain our "Neutral" rating on the stock.

	1Q22	1Q21	% YoY	FY22E	FY21	%YoY
GWP (SAR mn)	598.6	834.3	(28.2%)	1284.8	1115.9	15.1%
NWP (SAR mn)	586.3	792.4	(26.0%)	1117.8	959.0	16.6%
NCI (SAR mn)	175.2	121.4	44.2%	624.0	565.3	10.4%
Net Profit Before Zakat (SAR mn)	18.8	19.6	(3.8%)	92.2	53.3	73.0%
EPS (SAR)	0.17	0.18	(6.3%)	0.65	0.43	51.6%
Loss Ratio (%)	64.0%	62.1%	1.9%	63.1%	66.1%	(3.1%)
Expense Ratio (%)	29.3%	31.5%	(2.2%)	31.5%	32.6%	(1.1%)
Combined Ratio (%)	93.3%	93.6%	(0.3%)	94.6%	98.7%	(4.1%)

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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