

2Q22 Results Update

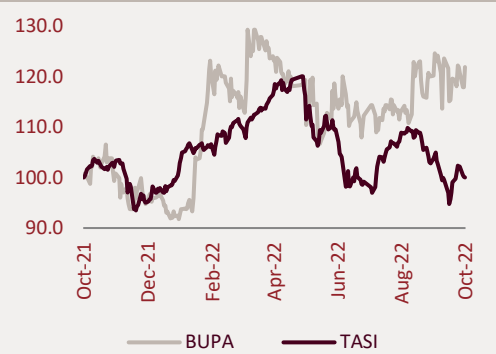
October 12, 2022

| | |
|-------------------------|----------------|
| Recommendation | Neutral |
| Previous Recommendation | Neutral |
| Current Price (SAR) | 171.6 |
| Target Price (SAR) | 177.0 |
| Upside/Downside (%) | 3.1% |

As of October 11, 2022

| | |
|-------------------------------------|-------|
| Key Data (Source: Bloomberg) | |
| Market Cap (SAR bn) | 20.5 |
| 52-wk High (SAR) | 184.4 |
| 52-wk Low (SAR) | 120.0 |
| Total Outstanding shares (in mn) | 119.5 |
| Free Float (%) | 47.8% |

Bupa Arabia vs. TASI (Rebased)

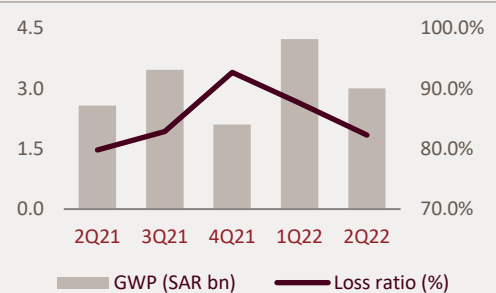


| Price Performance (%) | Absolute | Relative |
|-----------------------|----------|----------|
| 1m | 1.4% | 5.0% |
| 6m | (1.0%) | 13.6% |
| 12m | 21.9% | 21.9% |

Major Shareholders (%)

| | |
|------------------------------------|--------|
| BUPA Investments Overseas Co. Ltd. | 43.25% |
| Nazer Holding Group Co. | 7.34% |

Gross Written Premium (SAR bn) and Loss Ratio



Source: Bloomberg, Company Financials, Yaqeen Capital;
Data as of October 11, 2022

Bupa's bottom line lowered on higher claims

Bupa Arabia (Bupa)'s gross written premiums (GWPs) increased 16.8% YoY to SAR 3.0bn in 2Q22, mainly attributable to higher contribution from the Medium Enterprise (up 188.6% YoY to SAR 1.6bn) segment, slightly offset by the decline in contribution from Corporate (down 29.9% YoY to SAR 1.3bn), Small Enterprise (down 32.9% YoY to SAR 117.9mn) and Micro Enterprise (down 22.5% YoY to SAR 11.5mn) segments during the quarter. Net written premiums (NWP) rose 16.3% YoY to SAR 3.0bn, despite the rise in premiums ceded. However, retention ratio narrowed 39bps YoY to 99.0% in 2Q22. Positive movement in unearned premiums led to a 22.3% YoY surge in net earned premiums in 2Q22. Meanwhile, net claims incurred (NCIs) grew 26.1% YoY to SAR 2.6bn during the quarter. Subsequently, Bupa's loss ratio deteriorated to 82.3% in 2Q22 from 79.8% in 2Q21. The rise in NCIs and higher policy acquisition costs resulted in an 8.5% YoY decline in net underwriting results to SAR 413.4mn during the quarter. Consequently, net profit before zakat and taxes declined 12.8% YoY to SAR 291.0mn in 2Q22.

Bupa continue to report a weak performance in 2Q22 as the bottom line was dented due to rise in NCIs during the quarter. The rise in net claims incurred was primarily attributed to rebound in deferred claims from the abnormally low levels witnessed during the COVID-19-led lockdown period in the same quarter of last year. The company's GWPs increased during the quarter owing to the rise in insured lives. Consequently, NEP rose during the quarter, but offset by a surge in policy acquisition cost and NCIs, both of which rose in 2Q22 compared with 2Q21. Subsequently, net underwriting results dropped 8.5% YoY to SAR 413.4mn in 2Q22. Meanwhile, an increase in operating expenses offset the rise in investment and commission income and weighed on the company's bottom line during the quarter. Bupa received SAMA's approval to sell its new insurance product Bupa Policy Benefit Upgrade in KSA, which is expected to positively impact the company's FY22 financials. Based on the aforementioned factors, we maintain our "Neutral" rating on the stock.

- GWPs surged 16.8% YoY to SAR 3.0bn in 2Q22, mainly driven by higher contribution from medium enterprise segments.
- NWP climbed 16.3% YoY to SAR 3.0bn, as the surge in GWPs was slightly offset by the rise in premiums ceded. However, Bupa's retention ratio marginally deteriorated to 99.0% in 2Q22 from 99.3% in 2Q21.
- Rise in unearned premiums and higher GWPs led to a 22.3% YoY rise in NEPs to SAR 3.1bn in 2Q22.
- Higher claims paid resulted in a 26.1% YoY rise in NCIs to SAR 2.6bn. Consequently, loss ratio deteriorated to 82.3% from 79.8% in 2Q21.
- Policy acquisition costs soared 112.5% YoY to SAR 143.2mn. Consequently, net underwriting results declined 8.5% YoY to SAR 413.4mn in 2Q22.
- Net income before zakat and taxes dropped 12.8% YoY to SAR 291.0mn in 2Q22, owing to the rise in SG&A expenses.

Valuation: We revise our target price to a fair value of SAR 177.0 per share and maintain our "Neutral" rating on the stock.

| | 2Q22 | 2Q21 | % YoY | FY22E | FY21 | %YoY |
|----------------------------------|-------|-------|---------|-------|-------|-------|
| GWP (SAR bn) | 3.0 | 2.6 | 16.8% | 14.2 | 11.4 | 24.9% |
| NWP (SAR bn) | 3.0 | 2.6 | 16.3% | 14.1 | 11.3 | 24.8% |
| Net claims incurred (SAR bn) | 2.6 | 2.0 | 26.1% | 10.2 | 9.0 | 12.7% |
| Net profit before Zakat (SAR bn) | 0.3 | 0.3 | (12.8%) | 0.8 | 0.7 | 14.6% |
| EPS (SAR) | 2.15 | 2.41 | (10.9%) | 6.00 | 5.23 | 14.6% |
| Loss Ratio | 82.3% | 79.8% | 2.5% | 85.2% | 85.2% | 0.0% |
| Expense Ratio | 10.4% | 8.9% | 1.5% | 10.3% | 10.0% | 0.3% |
| Combined Ratio | 92.7% | 88.7% | 4.0% | 95.5% | 95.2% | 0.3% |

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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