

2Q22 Results Update

October 10, 2022

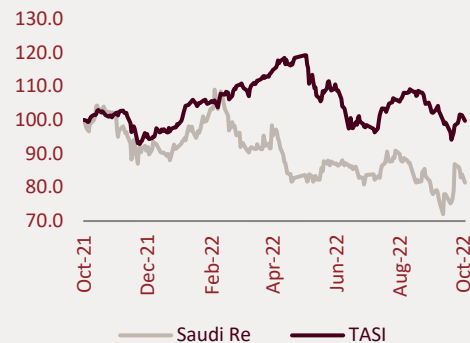
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	15.1
Target Price (SAR)	16.5
Upside/Downside (%)	8.9%

As of October 9, 2022

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	1.3
52-wk High (SAR)	20.5
52-wk Low (SAR)	13.4
Total Outstanding shares (in mn)	89.1
Free Float (%)	94.5%

Saudi Re vs. TASI (Rebased)

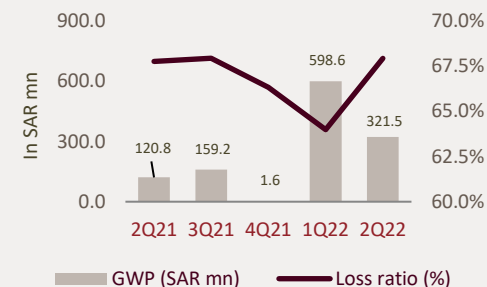


Price Performance (%)	Absolute	Relative
1m	4.4%	6.7%
6m	(14.7%)	(1.5%)
12m	(18.6%)	(18.4%)

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, Yaqaen Capital;
Data as of October 9, 2022

Losses from investments and FX drag bottom line in 2Q22

Saudi Reinsurance (Saudi Re)'s gross written premium (GWP) surged 166.1% YoY to SAR 321.5mn in 2Q22, mainly due to improved GWP contribution from the Engineering, Fire, General Accident, Others and Inherent Defects Insurance segments. The rise was, however, slightly offset by lower GWP contribution from the Marines, Motor, Protection and Specialty segments. Retroceded premium from the Foreign segment increased 496.4% YoY, while loss expense soared 48.8% YoY to SAR 8.6mn. Net written premium (NWP) increased 6.8% YoY to SAR 81.4mn in 2Q22. Nevertheless, the retention ratio deteriorated to 25.3% in 2Q22 from 63.1% in 2Q21. Increase in unearned premium led to a 11.9% YoY rise in total revenue to SAR 222.4mn in 2Q22. Saudi Re's net claims incurred (NCI) rose 13.1% YoY to SAR 149.3mn during the quarter. Consequently, the loss ratio marginally deteriorated to 67.9% in 2Q22 from 67.8% 2Q21. Increase in general and administrative expenses, foreign exchange transaction losses and unrealized losses on investments led to the company reporting net loss for the year before zakat and tax of SAR 4.8mn in 2Q22 as against net profit for the year before zakat and tax of SAR 16.9mn in 2Q21.

Saudi Re continued to report weak results in the second quarter of FY22 as its bottom line declined, primarily due to increase in NCI and losses on investment held at fair value during the quarter. The company's GWP rose 166.1% YoY, largely due to improved contribution from the Engineering (up 114.0% YoY to SAR 22.7mn), Fire (up 42.1% YoY to SAR 83.0mn), Health (up 692.0% YoY to SAR 4.9mn), and Other (up 54.5% YoY to SAR 35.5mn) segments. Moreover, the company reported an additional SAR 223.0mn GWP from Inherent Defect insurance, while GWP from the General Accident segment stood at SAR 13.0mn during the quarter. By geography, the company recorded improved revenues from operations across KSA (up 454.7% YoY to SAR 266.1mn), Asia (up 19.1% YoY to SAR 105.9mn), Other Middle East (up 651.1% YoY to SAR 8.4mn) and Africa (up 498.0% YoY to SAR 13.8mn). Unrealized losses from investments on systemic volatility caused by higher interest rates, in addition to the impact of FX weighed on earnings. The company recently increased its capital to support future expansion activities while strengthening its capital base. Moody's Investor Service recently affirmed its A3 Insurance Financial Strength Rating (IFSR) for the company. This reflects its sound asset quality as well as strong brand and market position in KSA. However, deterioration in loss ratio remains a concern. Additionally, intensifying competition in the domestic insurance sector could create headwinds for the company. Considering these factors, we maintain our "Neutral" rating on the stock.

- GWP advanced 166.1% YoY to SAR 321.5mn in 2Q22, primarily due to additional GWP from Inherent Defects Insurance segment during the quarter.
- Despite an increase in loss expense and retroceded premium, NWP rose 6.8% YoY to SAR 81.4mn in 2Q22. However, the retention ratio deteriorated to 25.3% in 2Q22 from 63.1% in 2Q21.
- Rise in unearned premium resulted in a 11.9% YoY surge in total revenue to SAR 222.4mn in 2Q22.
- The company's NCI rose 13.1% YoY to SAR 149.3mn in 2Q22. Subsequently, the loss ratio worsened to 67.9% in 2Q22 from 67.8% in 2Q21.
- The company's net underwriting expenses increased 8.9% YoY to SAR 193.2mn in 2Q22. However, net underwriting results grew 37.5% YoY to SAR 29.2mn during the quarter.
- Nevertheless, the company reported net loss before zakat and tax of SAR 4.8mn as against net profit before zakat and tax of SAR 16.9mn in 2Q21, mainly due to unrealized losses on investments.
- Loss per share stood at SAR 0.09 in 2Q22 as against EPS of SAR 0.15 in 2Q21.

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

	2Q22	2Q21	% YoY	FY22E	FY21	%YoY
GWP (SAR mn)	321.5	120.8	166.1%	1584.8	1115.9	42.0%
NWP (SAR mn)	81.4	76.2	6.8%	1307.5	959.0	36.3%
NCI (SAR mn)	149.3	131.9	13.1%	730.0	565.3	29.1%
Net Profit Before Zakat (SAR mn)	(4.8)	16.9	NM	58.3	53.3	9.4%
EPS (SAR)	(0.09)	0.15	NM	0.42	0.43	(3.4%)
Loss Ratio (%)	67.9%	67.8%	0.2%	63.5%	66.1%	(2.6%)
Expense Ratio (%)	26.0%	28.9%	(3.0%)	33.5%	32.6%	1.0%
Combined Ratio (%)	93.9%	96.7%	(2.8%)	97.1%	98.7%	(1.6%)

Source: Company Financials, Yaqaen Capital

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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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