

Saudi Reinsurance Co. (Saudi Re)

Target Price: SAR 26.0/share

Downside: 36.1%

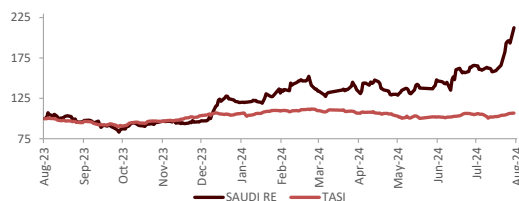
Recommendation

Sell

Current Market Price (SAR)	40.6
52wk High / Low (SAR)	41.1/15.7
Mkt. Cap. (USD/SAR Mn)	938/3,519
Shares Outstanding (mn)	89.1
Free Float (%)	98.5%
3m Average Vol. (000)	1,667.9
3m Avg Daily Turnover (SAR'000)	52637.9
P/E'24e (x)	24.2
P/B'24e (x)	2.79

Source: Bloomberg

Relative Price Performance



Key Indicators

SAR (mn)	2022	2023	2024e	2025e
Reinsurance revenue	697	627	803	883
Reinsurance service expenses	(591)	(510)	(651)	(714)
Reinsurance service result	84	120	154	171
Reinsurance service result Margin (%)	12%	19%	19%	19%
Net financial results	10	26	12	12
Net reinsurance and investment results	93	146	166	183
Net Income	76	124	150	160
Net margin (%)	11%	20%	19%	18%
EPS (SAR)	0.85	1.40	1.68	1.79
ROE (%)	8%	11%	12%	12%

Source: Company Reports, Yaqeen Capital

Major Shareholders (%)

Abdulatif Ali Abdulatif AlFozan	0.65%
Ahmed Mohammed Ahmed Sabbagh	0.40%

Source: Bloomberg, Yaqeen Capital

Earnings improved QoQ amid higher reinsurance revenue

- Saudi Re's net income declined by 27.5% YoY to SAR 43mn in 2Q2024. The decline in net profit is attributed to the previous year's quarter benefiting from a SAR 21mn share of profit from the equity-accounted investee (Probitas), which is absent this quarter due to Probitas's sale. On a QoQ basis, net income rose by 36.8%, driven by a rise in net insurance service results and business growth. The net margin dropped 22.3ppts YoY to 15.8%, though it improved by 0.4ppts QoQ.
- Reinsurance revenue surged by 75.3% YoY and 33.2% QoQ to SAR 276mn in 2Q2024, driven primarily by business expansion aligned with the company's strategic plan.
- The reinsurance service result fell by 9.9% YoY to SAR 56mn due to increased reinsurance service expenses. However, it improved by 80.1% QoQ due to higher reinsurance revenue and reduced retrocession contract expenses. The reinsurance results margin declined by 19.2ppts YoY but rose by 5.3ppts QoQ to 20.3% in 2Q2024.
- Net investment income dropped by 39.3% YoY and 49.6% QoQ to SAR 9mn in 2Q2024, reflecting higher reinsurance service expenses, with the margin decreasing by 6.3ppts YoY and 5.5ppts QoQ to 3.4% in 2Q2024.
- In 1H2024, net income improved by 5.8% YoY to SAR 75mn, supported by growth in the net insurance service result, business expansion, and higher net investment results. However, the corresponding margin declined by 9.2ppts YoY to 15.6%.
- Reinsurance revenue in 1H2024 increased by 68.4% YoY to SAR 483mn, driven by business growth in line with the company's strategy and business plan.

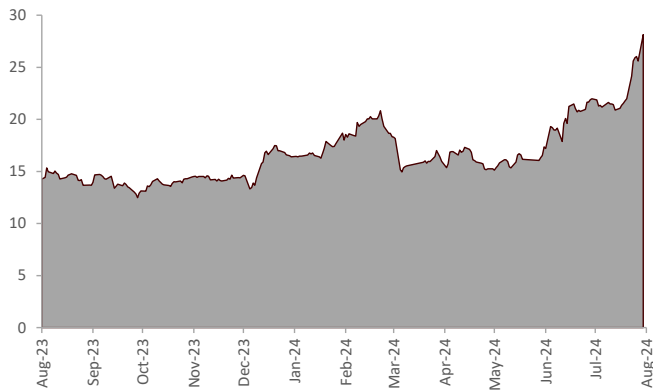
Outlook & Valuation: The reinsurance market in Saudi Arabia has seen significant growth, fueled by ongoing regulatory reforms. Key initiatives include the effective rollout of the local cession mechanism and the gradual enforcement of a minimum 30% local cession by FY25, which are expected to drive medium-term growth in the reinsurance sector. Furthermore, the introduction of mandatory third-party motor liability coverage is enhancing opportunities in the domestic reinsurance market. As a leading reinsurer, Saudi Re is well-positioned to benefit from increased premium growth over the medium to long term. The stock is currently trading at a P/B ratio of 2.79x and has seen a substantial gain of more than 95% over the past year. This sharp increase, combined with its premium valuation, indicates that the stock may have exceeded its underlying fundamentals. Based on the Residual income valuation, we arrive at a fair value of SAR 26.0/share, offering a downside of 36.1% from the current level. Hence, we recommend a Sell rating on the stock.

Financial Summary

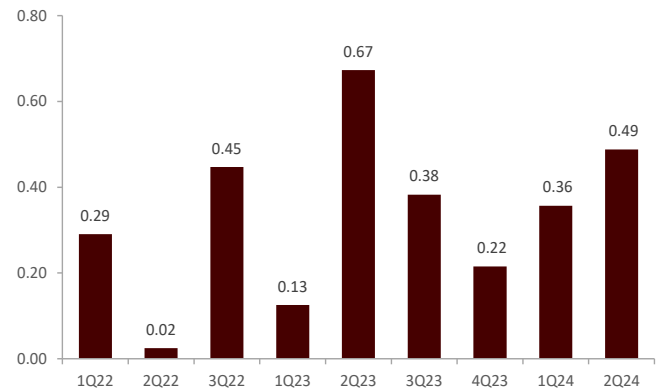
SAR (mn)	2Q2024	2Q2023	YoY	1Q2024	QoQ
Reinsurance revenue	276	157	75%	207	33%
Reinsurance service expense	(177)	(49)	261%	(119)	48%
Reinsurance service result	56	62	-10%	31	80%
Reinsurance service result Margin (%)	20%	39%		15%	
Net financial results	5	(3)	-265%	11	-59%
Net reinsurance and investment results	61	59	2%	43	43%
Net Income	43	60	-27%	32	37%
Net margin (%)	16%	38%		15%	
EPS (SAR)	0.49	0.67	-27%	0.36	37%

Source: Company Reports, Yaqeen Capital

Price to Earnings Ratio Trend



EPS (SAR) Trend



Rating Methodology

Buy: The Target share price exceeds the current share price by $\geq 10\%$

Hold: The Target share price is either more or less than the current share price by 10%

Sell: The Target share price is less than the current share price by $\geq 10\%$

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