INITIATION OF COVERAGE

Bupa Arabia for Cooperative Insurance Co.

Bupa Arabia for Cooperative Insurance Co.'s (BUPA) financial performance in recent years has been relatively muted, marred by a loss of market share to competition. However, we think the inherent strength Bupa carries cannot be ruled out in driving growth. It is still the largest medical insurance company with a strong foothold in key sub-segments, and it enjoys significant scale benefits thanks to its long operational history, vast infrastructure and reach, strong parent company backing, and robust capital buffers. Although there has been a delay, it is also expanding into healthcare operations to drive insurance volume growth through improved propositions and control claims costs. We think improved operational efficiencies and normalization of elevated claims would result in sharp margin expansion; we forecast Bupa's earnings to grow at a 16% CAGR over the next five years. However, despite the recent correction in share price, we still think valuations are stretched out at 2025e PBV of 4.5x for an average medium-term RoAE of 24%. Our target price of SR190/share offers only a limited upside, and hence, we initiate coverage with a Neutral rating.

Market share gains will likely be very limited, considering the tight competitive landscape and Bupa's recent performance, where it lost significant ground to competitors. It's no longer the largest insurance company and is estimated to have lost nearly 300bps in market share since its peak in 2019. Bupa has remained primarily focused on large corporations and not very active in market penetration into newer segments. Moreover, M&A activities, coupled with some insurers raising capital buffers, have brought more competition in the higher-end segment, which previously wasn't that tight.

That said, Bupa still enjoys vast scale benefits, allowing the insurer to drive growth and deliver on profitability. It is still the largest medical insurer, which accounts for 60% of the overall market in terms of GWP and also generates nearly 38% of the sector's profitability. Its scale, infrastructure, operational history of underwriting, strong parent company, and robust financial buffers are key factors that are placing Bupa in a sweet spot to deliver on growth. However, Bupa is also finally venturing into healthcare operations, which we think should offer insurance volume growth via an improved proposition and target lowering claims by internally managing them.

Net income to grow at a CAGR of 16% over the next five years. We expect this to be driven by GWP expansion, which would be in line with market growth without any market share recovery. We factor in margin expansion to continue as scale benefits and operational efficiencies coupled with normalization of factors that have kept claims costs abnormally elevated in the past couple of years.

Valuation: Despite the sharp share price correction (the stock is down 15% YTD), we still see valuation slightly stretched out at 2025e PBV of 4.5x for an average medium-term RoAE of 24%. Our target price of SR190/share currently offers a limited upside.

Risks: Competitive dynamics are quite challenging, resulting in a high execution risk, which could lead to growth and margin below expectations. Additionally, the risk of higher claims persists, whether due to regulatory factors or inflation, which could ultimately lead to earnings growth underperforming expectations.

Muhammad Adnan Afzal
Head of Sell Side Research
Muhammad.afzal@anbcapital.com.sa
+966 11 4062500 ext:4364

RATING SUMMARY	Neutral
Target Price (SR)	190.0
Upside/Downside	9.6%
Div. Yield (%)	2.5%
Total Exp. Return	12.1%

ISSUER INFORMATION	
Bloomberg Code	BUPA AB
Last Price (SR)	173.4
No. of Shares (mn)	150
Market Cap bn (SR/USD)	26.0/7.0
52-week High / Low (SR)	284.6/150.4
12-month ADTV (mn) (SR/USD)	34.1/9.1
Free Float (%)	52
Foreign Holdings (%)	17

Last price as of April 15th

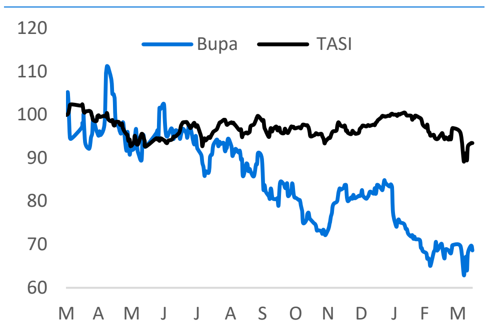
VALUATIONS

	2023	2024	2025F	2026F
EPS (SR)	6.3	7.8	8.7	10.3
PER (x)	27.7	22.3	19.8	16.8
PBV (x)	5.6	5.1	4.5	4.0
DPS (SR)	3.6	4.0	4.4	5.2
Div. Yield (%)	2.1	2.3	2.5	3.0
RoAE (%)	21.2	23.8	24.1	25.2
RoAA (%)	7.1	7.8	8.0	8.3

FINANCIALS (SRbn)

	2023	2024	2025F	2026F
GWP	16.7	18.4	20.2	22.9
Insurance result	0.9	1.0	1.2	1.6
Investment Income	0.5	0.7	0.7	0.6
Net Income	0.9	1.2	1.3	1.6
Investments	12.1	13.6	15.3	17.0
Insurance cont. liab.	8.3	9.0	10.1	11.9
Combined ratio (%)	96	96	96	95
Invest. Yield (%)	4.2	4.8	4.5	3.6
Net Ins. Serv. Mrg. (%)	5.4	5.5	6.0	7.0
Net Inc. margin (%)	5.9	6.4	6.6	6.9

RELATIVE PRICE PERFORMANCE



Source: Tadawul and anbc research

Financial Summary:

SR mn

Income Statement	2022	2023	2024	2025E	2026E	2027E	2028E	2029E	CAGR 2024-2029e
GWP	**13,897**	**16,689**	**18,394**	**20,205**	**22,866**	**25,471**	**29,057**	**32,561**	**12%**
Insurance service revenue	12,873	15,888	18,102	19,884	22,503	25,066	28,595	32,043	12%
Insurance service expense	(12,206)	(14,994)	(17,033)	(18,611)	(20,837)	(22,960)	(26,193)	(29,031)	11%
Net exp. from reinsurance contracts held	(29)	(28)	(70)	(77)	(87)	(97)	(111)	(124)	12%
Insurance service result	**638**	**865**	**998**	**1,196**	**1,578**	**2,009**	**2,292**	**2,888**	**24%**
Investment income	552	513	672	690	634	554	498	557	-4%
Other income/expenses	(221)	(262)	(298)	(342)	(387)	(431)	(492)	(551)	13%
Income before Zakat and Tax	969	1,117	1,373	1,544	1,825	2,131	2,298	2,894	16%
Net Income	**805**	**940**	**1,166**	**1,311**	**1,550**	**1,811**	**1,952**	**2,458**	**16%**
EPS	5.4	6.3	7.8	8.7	10.3	12.1	13.0	16.4	
DPS	4.5	3.6	4.0	4.4	5.2	6.0	6.5	8.2	
Balance Sheet									
Cash	1,288	1,256	925	1,006	1,867	1,559	1,877	1,792	14%
Investments	9,785	12,057	13,563	15,260	17,011	20,136	23,086	26,393	14%
Reinsurance contract assets	28	74	98	108	122	136	155	174	12%
Total Assets	**12,115**	**14,438**	**15,575**	**17,384**	**20,040**	**22,900**	**26,228**	**29,507**	**14%**
Insurance contract liabilities	6,699	8,267	9,005	10,094	11,880	13,743	15,968	17,894	15%
Total Liabilities	7,914	9,763	10,457	11,610	13,491	15,446	17,798	19,848	14%
Shareholders' Equity	4,201	4,676	5,118	5,774	6,549	7,454	8,430	9,659	**14%**
Total liabilities and equity	**12,115**	**14,438**	**15,575**	**17,384**	**20,040**	**22,900**	**26,228**	**29,507**	**14%**

Growth (Y/Y)								
GWP		20%	10%	10%	13%	11%	14%	12%
Insurance service revenue		23%	14%	10%	13%	11%	14%	12%
Insurance service expense		23%	14%	9%	12%	10%	14%	11%
Insurance service result		36%	15%	20%	32%	27%	14%	26%
Investment income		-7%	31%	3%	-8%	-13%	-10%	12%
Net Income		17%	24%	12%	18%	17%	8%	26%
Investments		20%	9%	12%	16%	15%	15%	13%
Total Assets		19%	8%	12%	15%	14%	15%	13%
Insurance contract liabilities		23%	9%	12%	18%	16%	16%	12%
Key Performance Indicator								
Net insurance service margin	5.0%	5.4%	5.5%	6.0%	7.0%	8.0%	8.0%	9.0%
Net insurance and investment margin	9.2%	8.7%	9.2%	9.5%	9.8%	10.2%	9.8%	10.8%
Combined ratio	96.8%	96.2%	96.1%	95.7%	94.7%	93.7%	93.7%	92.7%
Investment yield	5.3%	4.2%	4.8%	4.5%	3.6%	2.7%	2.1%	2.1%
Net Income margin	6.3%	5.9%	6.4%	6.6%	6.9%	7.2%	6.8%	7.7%
RoAA	7%	7%	8%	8%	8%	8%	8%	9%
RoAE	19%	21%	24%	24%	25%	25.9%	25%	27%
Assets to Equity (x)	2.6	2.9	3.1	3.0	3.0	3.1	3.1	3.1
Valuation								
BVPS	28.0	31.2	34.1	38.5	43.7	49.7	56.2	64.4
P/B	6.2	5.6	5.1	4.5	4.0	3.5	3.1	2.7
P/E	32.3	27.7	22.3	19.8	16.8	14.4	13.3	10.6
Dividend yield (%)	2.6	2.1	2.3	2.5	3.0	3.5	3.8	4.7

Source: Company financials and anbc research

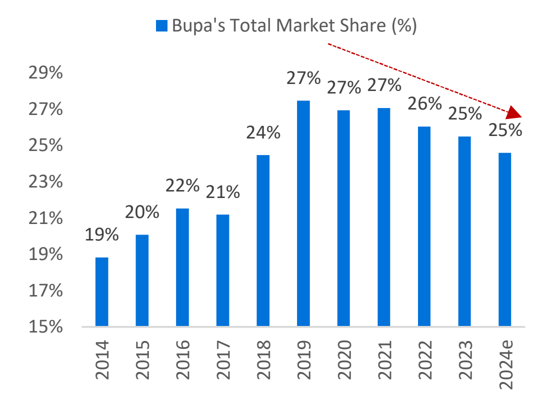
Investment Thesis

Market share gains are unlikely amidst tight competitive dynamics

Bupa used to be the largest insurance company in Saudi Arabia. Historically, it has been a mono-insurer that only offered medical insurance in the country without any license to sell any other insurance product. Bupa has remained in the top position for a long time, backed by its strong foothold within the medical segment, long operational history of underwriting, a focused play on a single segment (which is also the largest among all insurance lines), a vast infrastructure, and more importantly, it leveraged its relationship with its parent company, British United Provident Association Limited, which is an international health insurance and healthcare company with presence over 190 countries around the world and having over 370 clinics, 950 dental centers, and 26 hospitals worldwide that serves over 19.2mn patients annually.

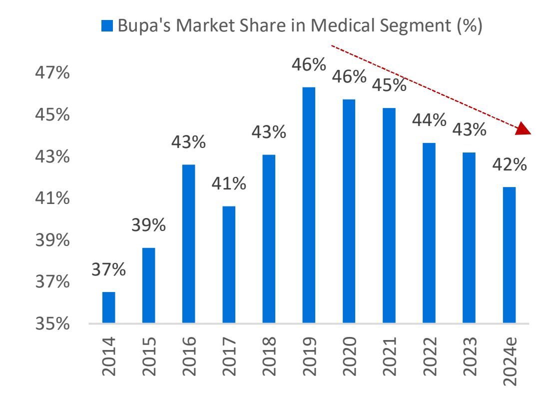
However, that has changed markedly in the past few years. Firstly, Bupa is no longer the largest insurance company in Saudi Arabia, with Tawuniya surpassing Bupa in total GWP to take the first spot in 2022. This happened as exposure within multiple segments allowed Tawuniya to enjoy the strong tailwinds of sector growth. Only in 2021, Bupa, the largest insurance company then, had over 300bps lead in terms of market share. In one year, Bupa's share declined while Tawuniya markedly gained to become the largest insurance company by GWP.

Chart 36: Bupa's market share has been on a declining trend since 2021…



Source: Company financials and anbc research

Chart 37: …and it is also losing share within the medical segment as well



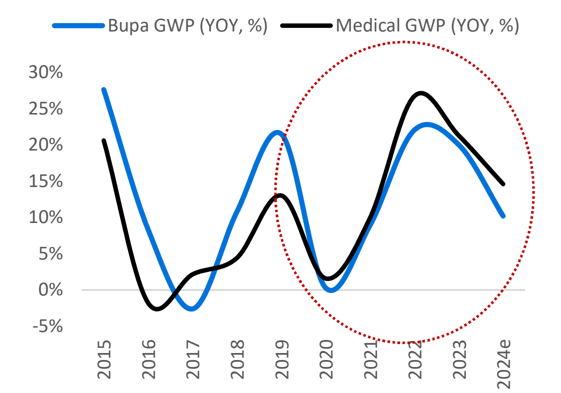
Source: Company financials and anbc research

However, it did not end there. Bupa continued to lose its market share to other insurers. This trend was quite prominent post-COVID when other insurers quickly adapted to market trends, and accelerated digitalization allowed more price transparency and ease in underwriting. Since its peak in 2019, Bupa has lost nearly 300bps in market share to an estimated 25% in 2024 (vs. a peak of 27% in 2019); Tawuniya is estimated to now have a market share of 27% in 2024.

One of the most interesting positions Bupa held was that it was still the largest medical insurance company in Saudi Arabia. That said, things have not been too favorable even there, with Bupa's market share also declining, coming down to an estimated 42%-43% in 2024 vs. 46% in 2019. In the past five years, Bupa GWP grew at a CAGR of 12% vs. a CAGR of 15% for the overall market GWP and medical sector GWP.

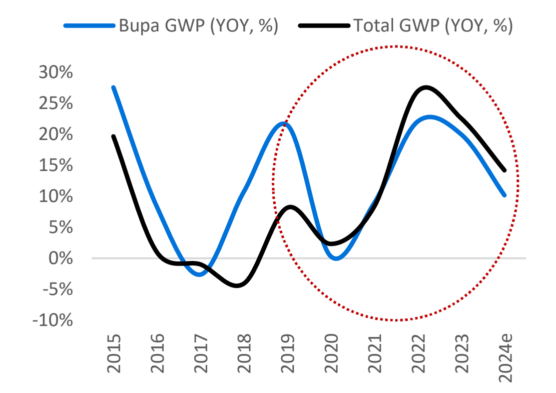
In the past few years, Bupa has not been competitive enough to sustain its position as the largest insurer in the sector. Competitors have been aggressive in securing contracts, especially some of its closest peers, who have been quite aggressive in securing some big wins, including some of the large corporate contracts. Another key contract Bupa couldn't underwrite was the comprehensive Hajj and Umrah insurance. Despite its scale and financial strength, it lacked a regulatory license then. It was only in 2024 that Bupa received its license to practice general insurance activity, which had been in-built into the comprehensive Hajj and Umrah policies.

Chart 38: Despite having a strong foothold in the fastest growing sector....



Source: Company financials and anbc research

Chart 39: ...Bupa's growth not only lagged the segment's growth but also the industry as well



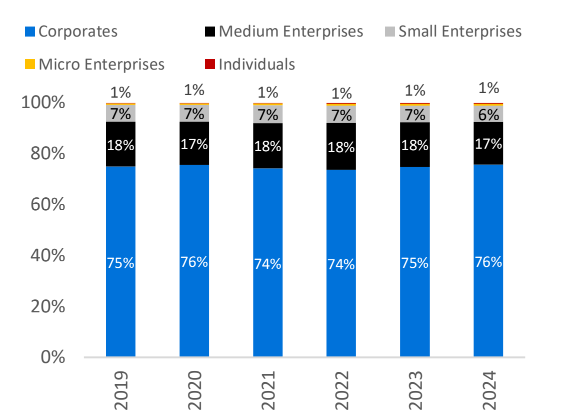
Source: Company financials and anbc research

We think Bupa's single-line exposure has been one of its key strengths, but at the same time, it also meant that Bupa lost the opportunities that arose within the other segments, cyclical, as well as those opportunities that were more structural and sustainable. Moreover, within the medical segment, Bupa has positioned itself at the higher end of the spectrum, with a very strong foothold in large and medium corporates in addition to small enterprises.

While these markets make up a big chunk of its overall medical segment, especially corporates, which constitute nearly 72% of total medical GWP, it also meant that Bupa had been isolated from the opportunities elsewhere, especially within the retail or individual segment where Bupa's presence had been very minimal.

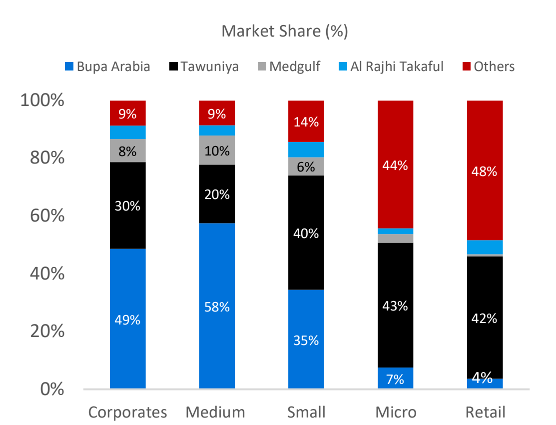
While these high-end sub-segments initially offered lower levels of competition since not many insurers had the financial capacity to underwrite for large corporates, that changed quickly with growing M&A activities within the sector. In addition, some insurers markedly raised their capital buffer, leading to significantly tight competitive dynamics within the higher end of the market.

Chart 40: Bupa's GWP is highly concentrated within the corporate segment



Source: Company financials and anbc research

Chart 41: It has the highest market share in corporates and SMEs



Source: Company financials and anbc research

However, we think rapid digitalization post-COVID was one of the key catalysts. It significantly changed the operating dynamics of the online aggregators and broker market and played a more pivotal role in selling and distributing insurance policies. It not only eased underwriting but also allowed customers better pricing transparency and access to insurance policies, two of the most essential factors in distribution.

This has been accompanied by value chain integration, a trend shared across different segments in recent years. Some insurers have even been quite proactive in their progress on value chain integration to drive growth and market penetration through significantly improved product propositions.

That said, Bupa's inherent strengths cannot be ruled out, especially its strong placement as the largest insurance company in the biggest insurance segments, offering a robust outlook. While competitive dynamics have become widely tight, recovering the lost ground won't be easy. However, we also don't expect pressures to persist and for Bupa to continue losing its market share, especially after the company has become more proactive and aggressive in underwriting activities. It announced and quickly progressed on its vertical integration into healthcare operations and is actively pursuing regulatory licenses for new insurance products.

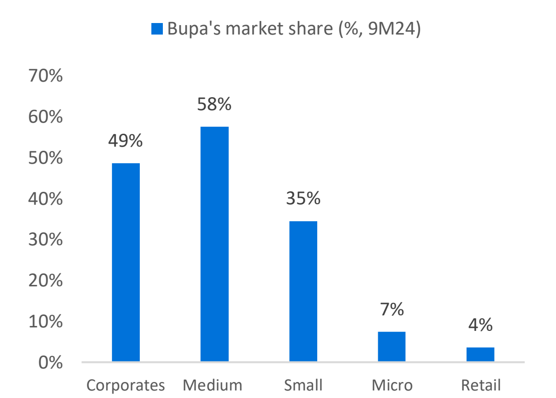
Scale benefit and Bupa CareConnect to support volumes outlook

Bupa still enjoys vast-scale benefits, which is one of the most pivotal factors in any insurance business. It is still the largest medical insurance company, with a market share of over 42% within the medical segment. Note that GWP generated from medical insurance policies in Saudi Arabia makes up nearly 60% of all the industry's GWP. This means that medical insurance is more than half of the country's underwriting, and Bupa is the largest insurance company within this segment.

Moreover, it is also the largest player among the medical insurance sub-segments. Bupa has a 49% market share within the corporate segment, which generates over 70% of the entire medical segment's GWP. The corporate, medium, and small enterprise segments combined generate over 90% of the whole medical segment's GWP, and Bupa has the largest market share in all three segments.

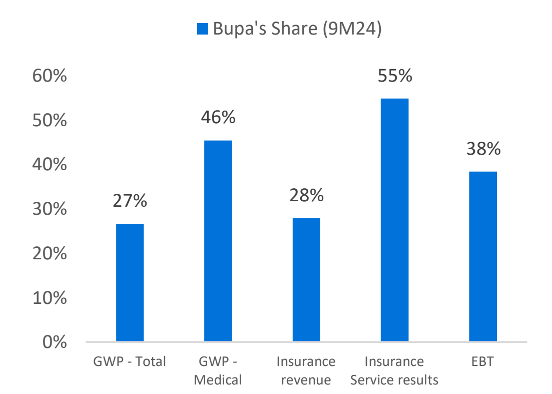
Bupa has the advantage of economies of scale, reflected in its market penetration and profitability. To put it into perspective, Bupa's underwriting margins are the highest among insurers. In 2024, Bupa's net insurance result margin was 5.5%, significantly higher than the sector average of 3.4% and among the highest alongside Tawuniya. Bupa also enjoys a significant concentration of the sector's profitability. This means that Bupa alone generates 55% of underwriting income and nearly 38% of the sector's EBIT (based on 9M24 numbers).

Chart 42: Bupa has a firm foothold in some of the key segments



Source: Company financials and anbc research

Chart 43: Also, Bupa enjoys vast scale benefits across business operations and profitability



Source: Company financials and anbc research

Bupa's footprint, expanded reach, and infrastructure should support a strong volume outlook amidst tight competitive dynamics. However, we think Bupa's vertical integration into healthcare operations also plays a vital role in the volume growth outlook, though the target is also to lower claims costs.

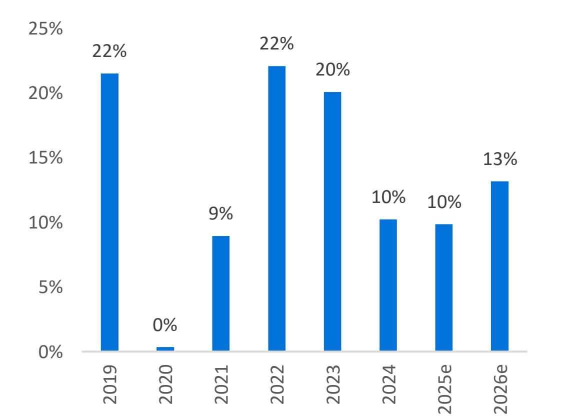
An improved proposition would allow Bupa to capture key accounts, especially within large corporate segments, supporting its volume outlook. Moreover, we believe there is also an opportunity for potential savings by re-channeling some of the claims back to the Bupa system, providing effective claim management, which could reduce claim fraud (according to anecdotal evidence, claim fraud accounts for 10-12% of overall claims) and drive efficiencies.

Bupa Care Connect is Bupa's vertical integration into healthcare operations to expand its value proposition. According to the official company guidance, the core corporate idea of this project is to deliver scalable value-based care through a digital-first integrated care model, elevating the customer experience with a one-stop outpatient experience coupled with physical smart clinics. It encompasses various areas, including family medicine, telemedicine, digital pharmacy, a network of labs, and smart clinics.

According to the management in the recent earnings call, the expected Capex could reach up to SR2bn with ambitious goals to establish itself as the largest virtual care provider in the Middle East by 2028, and a target to serve over 20mn patients during the period. Bupa Care Connect plans to set up over seven major primary care hubs across the country by 2028, with two scheduled to launch in 2025. By the end of 3Q24, it already had over 40 full-time doctors and over 29 special agreements with large healthcare providers.

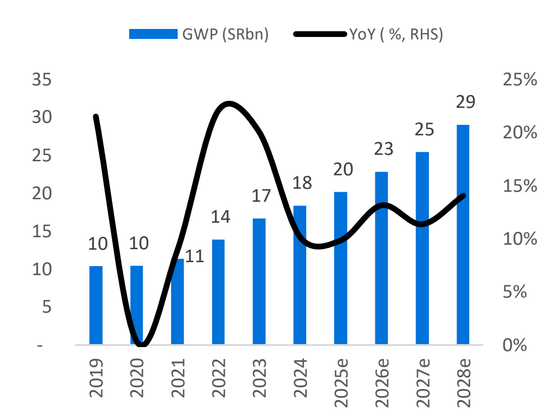
Initially, the strategic focus was solely on digital footprint and teleconsultations, but quickly, it turned into a complete healthcare ecosystem. While Tawuniya has also launched a similar project and has been the first mover in terms of infrastructure, we still think Bupa could leverage the experience and ecosystem of its parent company, which runs over 370 clinics, 950 dental centers, and 26 hospitals worldwide.

Chart 44: GWP growth should gradually recover in the medium term....



Source: Company financials and anbc research

Chart 45: ...driving revenue to grow at an 12% CAGR over 2024-29e



Source: Company financials and anbc research

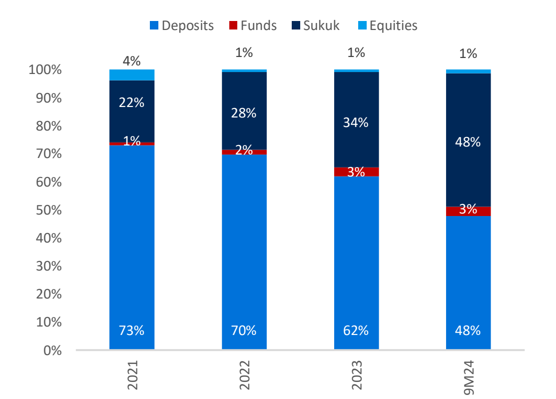
Net Income to grow at a five-year CAGR of 16%

We estimate Bupa's net income to grow at a CAGR of 16% between 2024-29e. We have factored an 12% CAGR over the same period for GWP, which should drive a similar pace of growth in insurance revenue. We have remained conservative in our assumptions, especially in the case of market share, which is unlikely to change materially in the medium to long term.

Like most insurers in Saudi Arabia, we think Bupa's profitability will be driven by underwriting income amidst declining investment income. While we expect the investment book (including cash) to grow by 14% CAGR over the same period, this strong growth is expected to be offset by lower yields amidst rate cuts. While nearly the entire investment portfolio is heavily invested in fixed income, a significant portion is invested in deposits, which are relatively the shortest duration instruments.

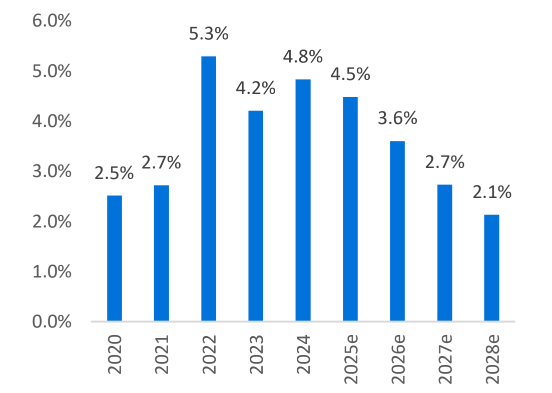
The elevated interest rate prompted Bupa to reposition part of its investment portfolio into more extended-duration instruments, with the contribution of sukuks increasing from 22% in 2021 to 48% in 9M24, nearly the same as the deposits. That said, with nearly half of the investment book still in deposits, investment yields are likely to readjust to lower interest rates.

Chart 46: Investment book balanced across deposits and sukuks



Source: Company financials and anbc research

Chart 47: Investment yield should decline as interest rates are cut



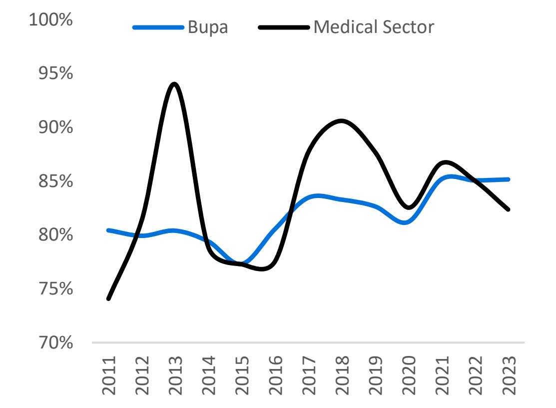
Source: Company financials and anbc research

Without much support from investment income, the entire profitability growth banks upon underwriting income where topline growth as business expansion filters into the bottom line even more strongly on the back of improved margins. We expect margin expansion to be a sector-wide phenomenon driven by the normalization of PMI, more stable claim trends, improved efficiencies, and the impact of the collective price increases done in the past.

That said, we think Bupa would lead the margin expansion across all companies and continue delivering the best-in-class profile. This view of ours filters down from empirical evidence, again suggesting the benefits of scale.

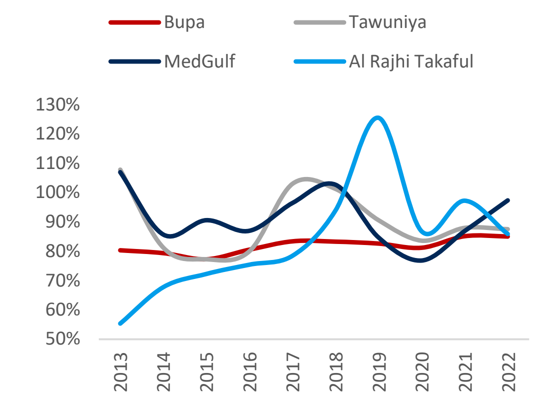
To put it into perspective, the second-largest medical insurer in the country is at least one-third smaller than the size of Bupa or 10ppt lower market share. That significant scale differential has always allowed Bupa to enjoy better underwriting margins and profitability.

Chart 48: Bupa historically had been better than the sector loss ratio



Source: Company financials and anbc research

Chart 49: And trends in Bupa's loss ratios have been more stable and consistent



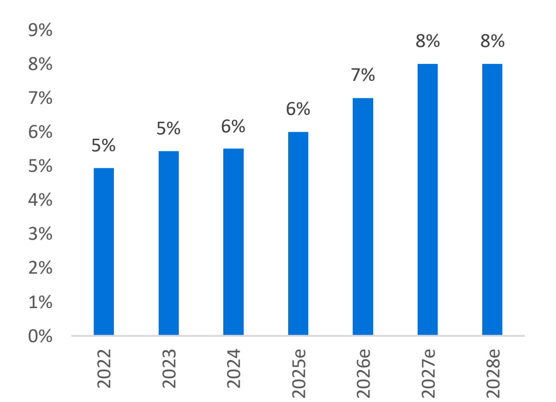
Source: Company financials and anbc research

If we take the pre-IFRS-17 numbers, Bupa has demonstrated periods of consistent outperformance. Between 2018-2022 Bupa's loss ratios had been far better than the entire sector's loss ratio. Similarly, Bupa did better between 2012-2014 as well. Overall, in the last 12 years, Bupa performed better than the sector average in nearly 10 years.

Moreover, compared to the loss ratios of some other insurance companies, Bupa has shown consistency and much lower volatility in managing its claims. In the last decade, Bupa's loss ratio ranged between 77% and 85%, while the other insurance companies reported loss ratios ranged between 55% and over 126%.

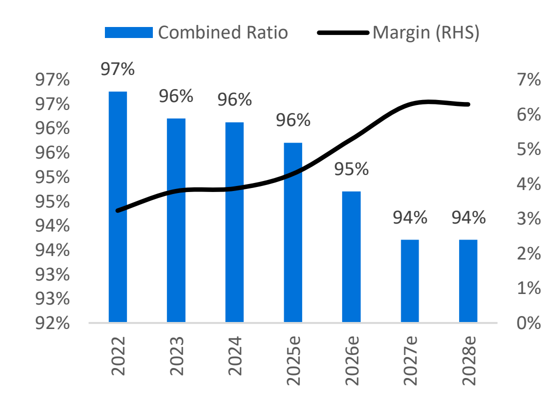
While it is no longer a prominent factor, Bupa's power on pricing coupled with placement in the large corporation allowed it to price its policies better and effectively drive better margins. While competition has increased significantly, Bupa is still in a better position, especially after the improved product proposition of vertical integration. The latter is also expected to reduce claim fraud and manage claims efficiently internally.

Chart 50: Underwriting margin should improve over time



Source: Company financials and anbc research

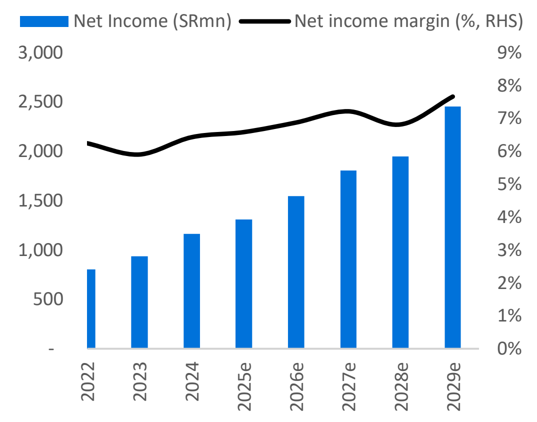
Chart 51: With scale benefits to filter down into improved combined ratio



Source: Company financials and anbc research

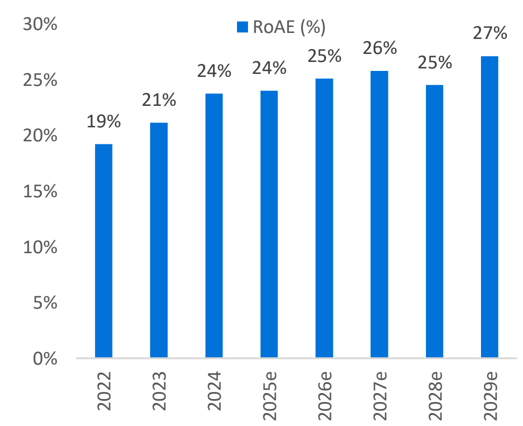
We expect insurance service margins and combined ratio to improve, which, coupled with business expansion, will drive a net income CAGR of 16% over the next five years. However, despite a strong earnings outlook, we don't expect a similar pace of RoAE expansion, the bulk of which is already behind us; RoAE will only likely see a marginal expansion in the near term.

Chart 52: Net income to grow at a five-year CAGR of 16%



Source: Company financials and anbc research

Chart 53: However, the bulk of RoAE expansion is behind us now



Source: Company financials and anbc research

Valuations:

We have used the residual income method with a cost of equity of 9.4% and a terminal growth rate of 2.0% to value Bupa at a target price of SR190/share. We have a neutral rating as our target price offers only a limited upside. The stock trades at a 2025e PER of 19.8x and PBV of 4.5x for a medium-term average RoAE of 25%. We see better value in Tawuniya, whose profitability returns have become at par with Bupa's and trades at a much-discounted valuation. We like Bupa's strong position within the medical insurance industry, offering a robust earnings outlook, but we see the current valuation slightly stretched out.

Valuation Table:

SRmn	2026e	2027e	2028e	2029e	Terminal
Beginning BV of equity	5,774	6,549	7,454	8,430	9,659
Cost of equity (%)	9.4%	9.4%	9.4%	9.4%	9.4%
Cost of equity	543	616	701	792	908
Net income	1,550	1,811	1,952	2,458	2,960
Excess equity return	1,007	1,195	1,251	1,666	2,052
Terminal excess equity return					28,283
Discount factor	1.094	1.197	1.310	1.433	1.567
Present value	921	998	955	1,163	19,353

Equity invested	5,118
PV of excess return on Equity	23,391
Value of equity	28,509
Number of shares (mn)	150
Target Price	**190**

Earnings Sensitivity:

		Growth rate				
		0%	**1%**	**2%**	**3%**	**4%**
CoE	**7%**	217	241	274	321	396
	8%	187	203	225	255	299
	9%	163	175	190	210	238
	10%	143	152	163	178	196
	11%	128	134	143	153	166

Source: Company financials and anbc research

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