

# Saudi Insurance Sector

16 April 2025

Positive outlook as cyclicality normalizes

The insurance sector growth outlook remains markedly positive as cyclicality normalizes amidst a stable pricing environment. Volumes would drive overall growth, underpinned by a strong macroeconomic backdrop, growing population, and favorable regulatory environment. Moreover, structural opportunities for growth also exist from narrowing down the enforcement gap on compulsory insurance lines, a trend we expect will continue in the coming years. Insurers would benefit from these tailwinds to deliver strong underwriting performance across nearly all segments amidst declining investment yields. We initiate coverage on three insurance companies with overweight ratings on Tawuniya and Walaa. We also initiate coverage on Rasan, an Insurtech with an overweight rating.

**Strong structural opportunity for growth** as insurance penetration at 1.6% significantly lags behind global benchmarks. We think four main key themes shape the sector's positive outlook: i) a favorable macroeconomic backdrop underpinned by commitments to Vision 2030 reforms, resilient domestic demand, ii) growth in employment opportunities driving population uptick, iii) a significantly improved regulatory environment with an enhanced willingness to tighten the enforcement of mandatory lines, and iv) increased awareness and cultural acceptance of insurance & saving products. We forecast sector GWP to grow at a 5-year CAGR of 10%.

**The medical motor and P&C segments offer robust growth prospects.** Tailwinds remain favorable for strong volume growth prospects amidst a stable pricing environment. Improving mandatory insurance policy enforcement provides one of the most substantial growth opportunities in medical and motor, as over 26% of employed people without valid medical insurance and 32% of registered vehicles are still uninsured. Similar opportunities also exist in the P&C segment as well, which also benefits from accelerated infrastructure development, renewed investment drive, and progress toward Vision 2030 reforms.

**Sector consolidation** will continue, considering the sector remains highly concentrated among the top few players. Moreover, relatively weak underwriting performance as the pricing environment has not been too favorable recently, coupled with declining investment yields ahead, insufficient scale benefits, and regulatory requirements for minimum capital and liquidity levels, would push small insurers to opt for M&A activities.

**Valuation:** Saudi Arabia's insurance sector index underperformed the market in the last twelve months; TASI declined by 9% while the insurance sector index fell 12%. We believe this provides attractive entry points with companies under our coverage trading at an average forward P/E and P/B of 24.3x and 5.2x.

**Risks:** One of the key downside risks is the continuation of the recent disruptive pricing environment in the motor segment, which could significantly pressure the underwriting margins. On the upside, there is still a lot of uncertainty about the interest rate outlook, and if rate cuts are delayed, investment yields will be better than expected.

## SECTOR COVERAGE

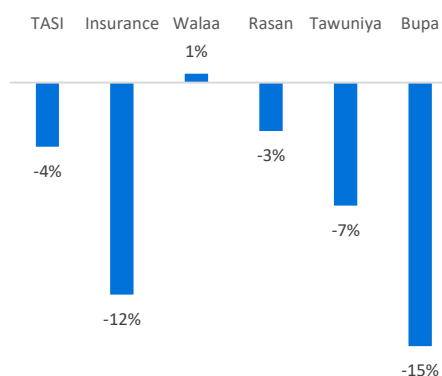
	Bloomberg Code	Rating	Target Price (SR)
Bupa	BUPA AB	Neutral	190.0
Tawuniya	TAWUNIYA AB	Overweight	180.0
Walaa	WALAA AB	Overweight	24.0
Rasan	RASAN AB	Overweight	105.0

## VALUATIONS (2025e)

	Last Price (SR)	PBV (x)	PER (x)	RoAE (%)	Div. Yld (%)
Bupa	173.4	4.5	19.8	24.1	2.5
Tawuniya	137.2	3.9	18.0	23.4	1.7
Walaa	19.5	1.3	19.5	6.7	-
Rasan	84.0	11.2	39.7	33.0	-

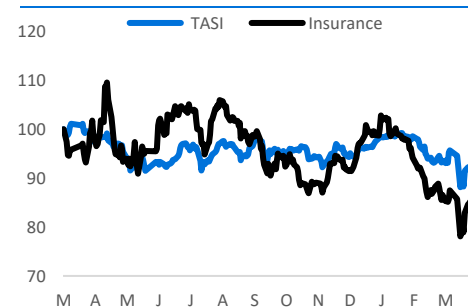
Last price as of April 15<sup>th</sup>, 2025

## RELATIVE PERFORMANCE (YTD)



Source: Company financials, Bloomberg and anbc research

## RELATIVE PRICE PERFORMANCE



Source: Tadawul and anbc research

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## Executive Summary

- **Structural headroom for growth amidst a favorable economic backdrop:** Structural growth opportunities within Saudi Arabia's insurance market remain vast as penetration lags, and the runway is wide ahead. Despite improving to 1.6% in 2023, Saudi Arabia's insurance penetration rate is still far lower than the global benchmarks. We believe four main key themes shape the sector's positive outlook: i) a favorable macroeconomic backdrop underpinned by commitments to Vision 2030 reforms and resilient domestic demand, ii) growth in employment opportunities driving population uptick, iii) a significantly improved regulatory environment with an enhanced willingness to tighten the enforcement of mandatory lines, and iv) increased awareness and cultural acceptance of insurance & saving products. We forecast total Gross Written Premium (GWP) to grow at a 5-year CAGR of 10% between 2024-29e to reach SR121bn.
- **Medical, Motor, and P&C segments offer robust growth prospects:** While the sector's tailwinds from a strong macroeconomic backdrop offer strong volume growth prospects, we believe the pricing environment would also become more stable as underwriting performance becomes increasingly more important amidst a decline in investment yields. While this means there won't be much impetus from pricing as seen in the recent past, we believe volume would chiefly drive overall growth with significant opportunities from improving structural impediments. In this regard, improving mandatory insurance policy enforcement offers one of the most substantial growth opportunities in medical and motor, as over 26% of employed people are still without valid medical insurance, and 32% of registered vehicles are still uninsured. Similar opportunities also exist in the P&C segment, benefiting from accelerated infrastructure development, renewed investment drive, and progress toward Vision 2030 reforms. Life insurance is more of a longer-term play considering the cultural beliefs driving consumer behavior and a low appetite for saving products. We forecast total insurance GWP to grow at a 5-year CAGR of 10% between 2024-29e to reach SR121bn.
- **The sector consolidation theme remains intact:** Sector consolidation will continue, considering the sector remains highly concentrated among the top few players. Moreover, relatively weak underwriting performance as the pricing environment has not been too favorable, coupled with declining investment yields, insufficient scale benefits, and regulatory requirements for minimum capital and liquidity levels, would push small insurers to opt for M&A activities. Regulators have also supported such a trend in the recent past as a way to strengthen the overall financial sector.
- **Investment income to decline:** Bottom-line growth across all insurers is expected to be chiefly driven by improved underwriting income backed by business expansion and improved margin. We see the underlying factors that have kept claims stubbornly elevated as temporal rather than structural change, which should normalize in the medium term and drive the margin higher. Meanwhile, amid much uncertainty, lower benchmark interest rates (Fed delivered a 100bps rate cut in 2024) would mean lower investment yields. Though some insurers made considerable efforts in recent years to lengthen the duration, shorter tail policies (medical and motor are one-year policies) would require a short duration of investment book. Overall, across the board, we expect the proportion of underwriting income to profitability to increase markedly.

- **Bupa Arabia for Cooperative Insurance Co (Neutral, Target Price: SR190/share):** Bupa's performance in recent years has been relatively muted, marred by market share loss. While this came at the expense of robust profitability, Bupa is no longer the largest insurance player in the country. That said, Bupa 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 strong parent company backing, and robust capital buffers. Albeit with a delay, Bupa is also expanding into healthcare operations to drive volume growth through improved propositions coupled with generating efficiency through internally managing claims. We think the negatives have already been incorporated in the share price underperformance, and valuations are attractive elsewhere – Bupa trades at 2025e PBV of 4.5x for an average medium-term RoAE of 25%.
- **The Company for Cooperative Insurance (Overweight, Target Price: SR180/share):** Tawuniya has been aggressive on organic growth underpinned by significant market share gains to become the country's largest insurance company. We think Tawuniya can sustain such performance and deliver on growth considering its scale benefit, key positioning in major segments (it's the largest insurer in motor and P&C while expanding in medical), operational history, and track record of better-than-sector underwriting performance, coupled with its value chain integration in both medical and motor segment. We estimate its GWP to grow at a five-year CAGR of 11%, while improved combined ratios in the medium term should filter into robust earnings growth, which we estimate at 2024-29e CAGR of 19%. Valuations are compelling at 2025e PBV of 3.9x for an average medium-term RoAE of 24%.
- **Walaa Cooperative Insurance Co (Overweight, Target Price: SR24/share):** Walaa is a mid-scale insurer that has grown to become the fifth largest insurance company offering diversified exposure across all major segments. We think that post its two mergers and recent rights issue, Walaa is all set to pursue an aggressive growth strategy. Walaa holds the right levers to deliver growth, including past track record and execution of penetration, strategic partnerships, geographical footprint, enhanced capabilities, and a firm position in some of the key segments (second largest insurers in P&C). Moreover, increased capital buffers would also support Walaa's growth plans - we forecast a 13% GWP CAGR over the next five years. With the rights issue overhang on valuation behind us and capital deployment offering a robust growth outlook and a strong RoAE expansion potential in the medium term, making valuations attractive at 2025e PBV of 1.3x.
- **Rasan Information Technology Co (Overweight, Target Price: SR105/share):** Rasan is the country's largest insurance aggregator, disrupting the traditional insurance distribution channel through its digital offerings. Rasan has successfully executed market penetration amidst the growing demand for digitalization among the country's large and technologically savvy young population. Growth opportunities are vast, considering the still lower penetration of aggregators in the market and a large addressable market. We think Rasan would drive growth by strengthening its existing portfolio, expanding current offerings, and entering new service verticals, in addition to an M&A strategy. We estimate earnings to grow at a 2024-29e CAGR of 39%, and we see the current valuation as compelling at as the stock trades at a 2025e PER of 39.7x and PBV of 11.2x.

**Valuation Table:**

	Rating	Last Price (SR)	Target Price (SR)	PBV (x)			PER (x)			Dividend yield (%)			RoAE (%)			Growth (2024-29e)		
				2024	2025e	2026e	2024	2025e	2026e	2024	2025e	2026e	2024	2025e	2026e	Revenue	Earnings	Equity
Bupa	Neutral	173.4	190.0	5.1	4.5	4.0	22.3	19.8	16.8	2.3	2.5	3.0	23.8	24.1	25.2	12.1%	16.1%	13.5%
Tawuniya	Overweight	137.2	180.0	4.6	3.9	3.3	20.2	18.0	13.8	1.2	1.7	2.9	25.2	23.4	26.2	11.7%	19.1%	15.8%
Walaa	Overweight	19.5	24.0	1.4	1.3	1.2	38.6	19.5	13.2	-	-	-	4.1	6.7	9.2	13.1%	38.7%	8.8%
Rasan	Overweight	84.0	105.0	15.7	11.2	8.3	68.7	39.7	31.8	-	-	-	35.4	33.0	30.1	31.1%	40.3%	35.8%

Source: Company financials, and anbc research

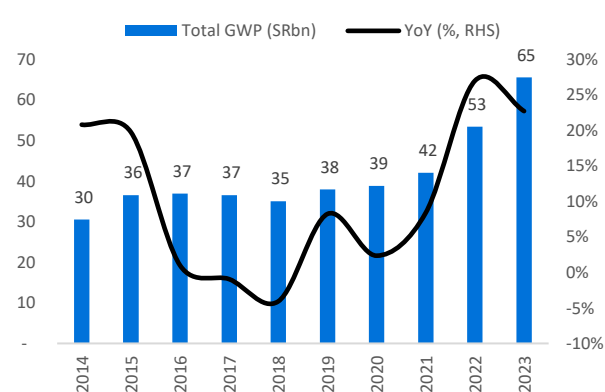
## Structural headroom for growth amidst a favorable economic backdrop

### (a) There is still room for structural growth in the medium term.

The Insurance sector witnessed a robust recovery, especially post-COVID, as the underlying factors became favorable for the industry, coupled with tailwinds of the supportive macroeconomic backdrop. This started in 2022, and the momentum has surprisingly continued to sustain for the third consecutive year, albeit at a slower pace now. Total Gross Written Premium (GWP) for the sector grew by double digits for the past 33 months, up 27% YoY in 2022, followed by a 23% YoY growth in 2023, and the growth remained in double digits even in 2024, with the latest data showing that GWP was up 19% YoY in 9M24.

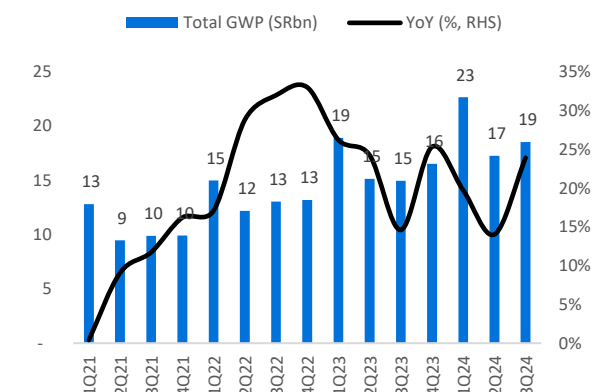
To put this robust recovery into perspective, GWP grew by a cumulative 56% in 2023 compared to 2021, which is two years, while it took nearly 8 years between 2013 and 2020 for a similar level of growth.

**Chart 1: GWP rose by double digits for the second consecutive year in 2023...**



Source: Insurance Authority and anbc research

**Chart 2: ...and the momentum has largely been sustained throughout in 9M24 as well**



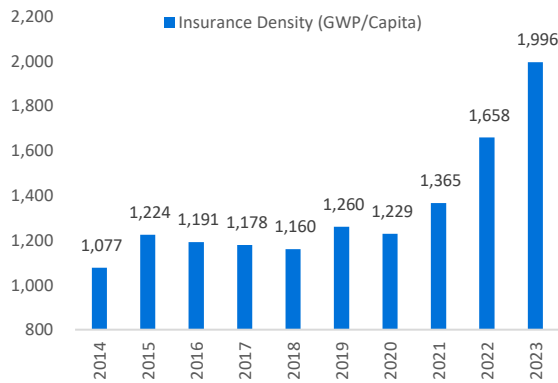
Source: Insurance Authority and anbc research

Several factors supported this growth, which were a combination of structural and cyclical in nature. These include: i) a strong macroeconomic recovery, especially within the non-oil sector, ii) a reversal in expat depopulation, iii) rising income levels and accelerated adoption of insurance in general, and iv) tighter enforcement of mandatory insurance regulations. However, by far, pricing was the most important catalyst to this marked recovery.

Improved premiums across all major segments played a pivotal role in not only driving the GWP growth but also leading to improved underwriting performance. This improved pricing came on the back of high claims pressures weighing on insurers' margins, leading to a collective adjustment across all major companies in raising the premiums, especially within the medical and motor segment; meanwhile, upward adjustments in global reinsurance premiums had positive spillover within the Property and Casualty (P&C) sector in Saudi Arabia.

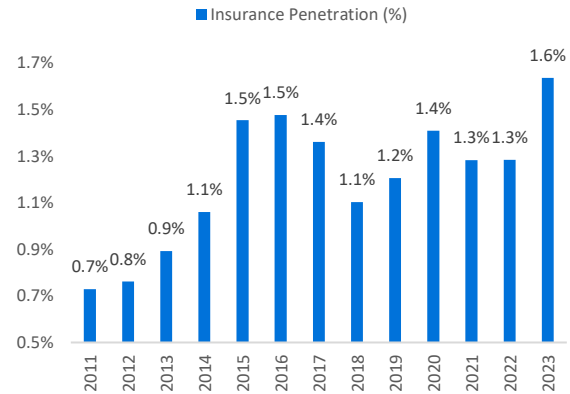
Resultantly, the insurance matrices for the country significantly improved. Insurance density, defined as GWP per capita, increased to SR2.0K in 2023 vs. SR1.7K/capita in 2022. This improvement becomes even more apparent compared to the period between 2015 and 2020, which remained close to the SR1.2k/capita mark. Similarly, insurance penetration, which is GWP as a percentage of GDP for the first time at least in the last decade, crossed the 1.5% mark to reach 1.6% in 2023. Based on non-oil GDP, we estimate that insurance penetration expanded to 2.6%.

**Chart 3: Insurance density markedly picked up close to SR2000/capita in 2023**



Source: Insurance Authority and anbc research

**Chart 4: Penetration also improved, crossing the 1.5% mark for the first time**

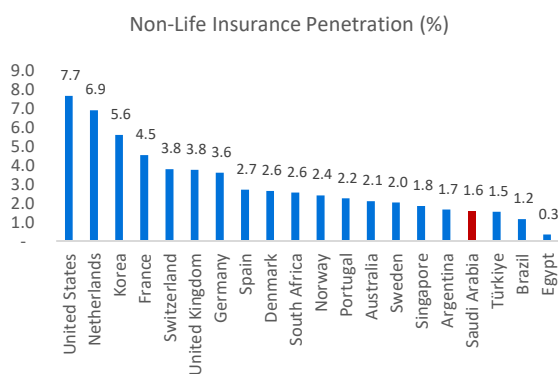


Source: Insurance Authority and anbc research

However, we think the structural story of Saudi Arabia’s insurance market remains quite compelling, considering that penetration still lags behind and the runway remains long ahead. Despite improving from 1.1% in 2018 to 1.6% in 2023, Saudi Arabia’s insurance penetration rate still lagged the global benchmarks. Taking the insurance penetration data of selective members of the OECD, it averaged out at 5.2%, with some developed countries, including Sweden, the US, and the UK, having a total penetration rate of over 10% in 2023. While life insurance penetration has been negligible in Saudi Arabia, which is less than 0.1% of GDP, non-life insurance penetration is also relatively low.

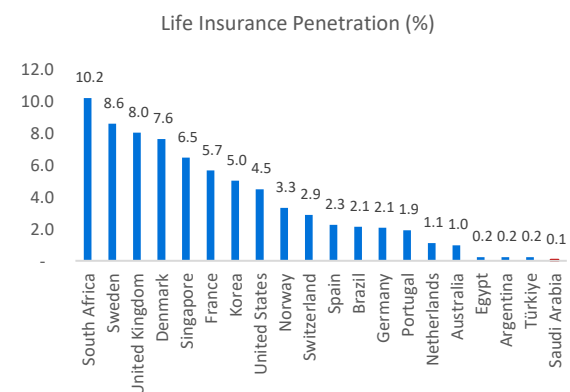
Even on non-oil GDP, we still estimate that Saudi Arabia’s insurance penetration of 2.6% is still relatively low. Improving penetration, which would necessitate underlying structural improvement, offers one of the biggest opportunities for the sector’s growth. On our back-of-the-envelope calculations based on 2023 non-oil GDP, even if insurance penetration catches up to the average of 5.2%, that implies a near doubling of GWP from 2023 levels and a nearly 75% increase from our estimates of 2024e levels.

**Chart 5: Saudi Arabia's non-life insurance penetration of 1.6% is among the lowest**



Source: OECD Global Insurance Statistics and anbc research

**Chart 6: While life insurance penetration has been negligible**



Source: OECD Global Insurance Statistics and anbc research

While it will still take time, the sector is progressing positively. There have been some structural improvements, the foremost of which is the positive development in the regulatory environment, which offers some assurance that there will be improved insurance penetration in the economy and drive growth for the sector.

In our opinion, the key underlying factors driving the sector’s growth will be less cyclical and more structural from now onwards. We believe the sector’s positive outlook is shaped by four main key themes, including i) a favorable

macroeconomic backdrop, ii) growth in employment opportunities driving population growth, iii) a significantly improved regulatory environment with an enhanced willingness to tighten the enforcement of mandatory lines, and iv) increased awareness and acceptance of insurance & saving products. However, we don't expect pricing to offer much impetus to growth going forward, and hence, there should be lower cyclicity with volumes in the driving seat.

### (b) The regulatory environment has turned markedly positive.

In August 2023, the Saudi Cabinet approved the creation of a new, unified, and independent regulatory body called the Insurance Authority (IA) to oversee the country's insurance sector. Prior to this decision, the regulation and supervision of insurance had been shared between the Central Bank of Saudi Arabia (SAMA) and the Council of Health Insurance (CHI). With the transfer of regulatory responsibilities from the CHI in March 2024, the IA has now fully assumed control over all insurance-related functions previously managed by SAMA and CHI.

This strategic move aims to strengthen the regulation and oversight of the insurance market and ensure its alignment with Saudi Arabia's Vision 2030 goals, which include diversifying the economy, fostering private sector growth, and enhancing consumer protection within the insurance industry.

Historically, the regulatory environment has not been very supportive of the industry. This is evident from the fact that full enforcement lagged markedly despite making some insurance policies mandatory in the country. Both motor insurance for all vehicles on the road and medical insurance for all employed people are compulsory, and despite being binding by law, there continued to remain a gap.

However, we see the creation of a unified regulatory authority as a significant development and a positive step. This should provide uniformity to policies and regulations, which would help encourage insurance activities and achieve the Vision 2030 targets. It has been reported that the Insurance Authority is in the process of preparing a detailed and comprehensive framework for the sector, which would be used as a key roadmap and focus on promoting insurance and saving products while further anchoring the sector's developments.

Post the transfer of responsibility to the new regulatory body, there have been some major changes in regulations, which provides some assurance that the regulatory environment has turned markedly positive for the sector. Some of these include i) mandatory insurance for domestic workers registered with an employer employing more than four individuals effective from Jul'24, ii) fines for violation of not having a valid motor insurance policy in Oct'23, and iii) reportedly progress being made on the implementation of DRG (Diagnosis-Related Group) billing system. Both the former changes led to improved enforcement of mandatory policies, driving very robust growth in volumes, particularly in the case of motor insurance.

While we await further clarity on the sector's framework, taking clues from the recent development, we think the overall environment has turned favorable for the sector's growth. These developments also highlight enhanced willingness from the regulator, which, coupled with accelerated access to technology and digital systems, should result in better enforcement and increase the sector's penetration in the country. We think better regulations would be one of the key catalysts for growth in the industry over the medium term, albeit with some risk of continued intervention, as seen in the most recent case of the regulator suspending Al Sagr Cooperative Insurance Co.'s right to sell the motor insurance product due to inefficient governance procedures.



**Table 1: FSDP Insurance Sector Targets**

Objective	Baseline	Target	Description
GWP penetration as % of non-oil GDP	1.9%	4.3% by 2030	Improving insurance penetration to be in line with the global standard and managing risks through insurance channels
Coverage ratio of health insurance schemes	33%	45% by 2025	Ensure compulsory health insurance and further development through tighter supervision.
Coverage ratio of motor insurance schemes	39.6%	77% by 2025	Imposition of mandatory motor insurance and develop the sector through better enforcement

\*Baseline readings for 2019 as per the FSDP Program Charter

Source: FSDP Program Charter and anbc research

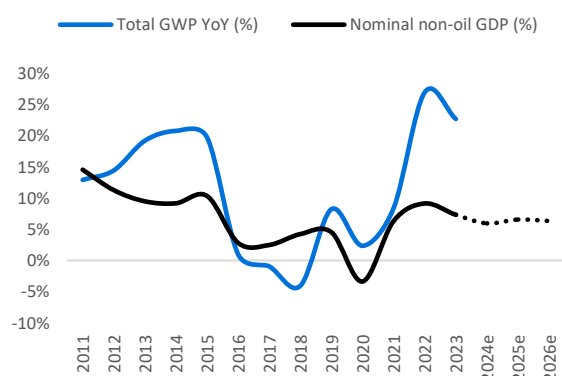
**(c) Total GWP to grow at 10% CAGR over the next five years**

Improved macroeconomic dynamics under the Vision 2030 developments are one of the key factors supporting the financial sector's growth and the insurance sector. Opportunities are vast and expanding as implementation accelerates towards the goals under Vision 2030. The foremost has been the transition away from the oil economy, driving robust expansion in all other sectors, which meant that the insurance sector's opportunities have been growing at an equal pace.

Progress on the Giga projects picked up pace, and several additions, including large global events, further anchored the country's drive towards its goals and investment spending. High-frequency data show sustained expansion momentum in the non-oil sector, driving the country's overall growth. The Purchasing Managers' Index (PMI) has consistently remained above the 50 mark, which indicated expansion in business activity, and despite some moderation during 1H24, PMI markedly recovered to levels that have been near the highest levels in the last decade. The survey showed that, predominately, this had come on the back of improved demand and general optimism in the economic outlook.

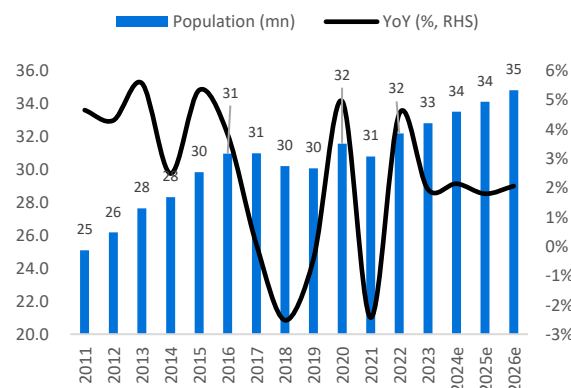
Moreover, data on the national account showed that growth in Domestic Demand (DD) has consecutively outpaced the growth in real GDP in the post-COVID era. Growth in DD primarily benefited from the robust uptick in consumption coupled with decent support from investments, though increased consumption has mainly come from the public sector, investment continued to be driven by the private sector.

**Chart 7: Sustained momentum in non-oil GDP growth would support growth in GWP**



Source: Insurance Authority, IMF, and anbc research

**Chart 8: IMF expects Saudi Arabia's population to grow 2mn in every three years**



Source: IMF and anbc research

In our opinion, insurance will inevitably continue to benefit from sustained growth in the non-oil economy as the country transitions away from oil activities and diversifies its economic base to several new sectors. Historically, a strong correlation has been witnessed between underwriting and non-oil economic growth, where periods of subdued economic activity led to muted growth in insurance activities. Recent years have been an exception, as the

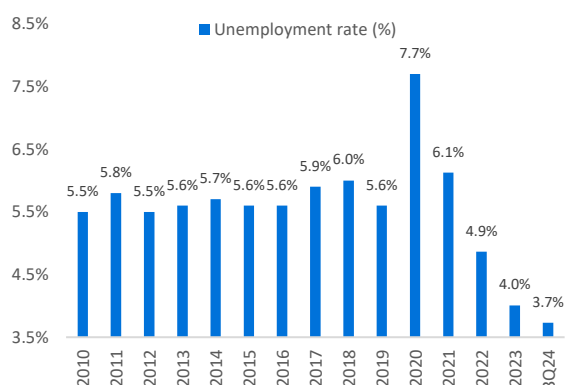
pace of growth in GWP significantly outpaced the real GDP growth since upward revisions in policy premiums drove that.

However, a buoyant economic outlook, thanks to the government’s commitment to Vision 2030 reforms, resilient domestic demand, continued momentum in consumption, accelerated civil works on the Giga projects, and a potential further pick-up in investments as monetary policies globally become less restrictive, would filter into increased underwriting activities and higher volumes.

The Vision 2030 initiatives and significant investments in the country’s Giga projects are driving noticeable opportunities for population growth. The trend in depopulation, especially for expats, evident between 2016 and 2021, has reversed chiefly, with a population estimated to have surpassed the peak of the pre-COVID period in 2019. To put this into perspective, the IMF expects Saudi Arabia's population to grow by at least 2mn every three years; that is nearly 6% of the current population.

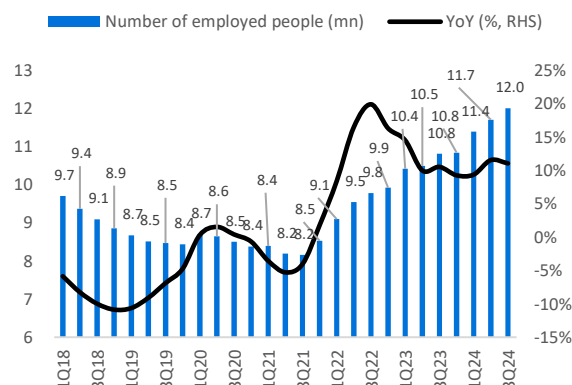
Moreover, the demand for employment is massive amidst favorable labor market dynamics. Unemployment reached a historic low of 3.7% in 3Q24, and the employment-to-population ratio improved to over 64%. Moreover, the labor force participation rate has consistently remained above 65% since the start of 2022.

**Chart 9: The unemployment rate remains relatively low**



Source: IMF, GASTAT, and anbc research

**Chart 10: With a growing labor force coupled with higher participation rates**



\*Number of employed people are those subject to regulations of insurance  
Source: GASTAT and anbc research

Medical and motor insurance, both compulsory under the country’s regulations, have benefitted most from the population growth. The data from GASTAT shows that the number of employed people subject to this mandatory medical insurance has grown by 46% from its recent cyclical low of 8.2mn in 3Q21 to over 12mn in 3Q24. These levels are at record high levels according to the available data and are primarily supported by employment opportunities driving a pickup in the expat population and increased labor force among the Saudi Nationals.

While enforcement continues to lag, leaving significant opportunities, even if we consider the increased lives, there have been over 3.8mn potential insurance policies over twelve quarters. On SR3.5k premium per insured lives, this implies a potential GWP of SR13.4bn, which is over 30% of the current TTM medical GWP.

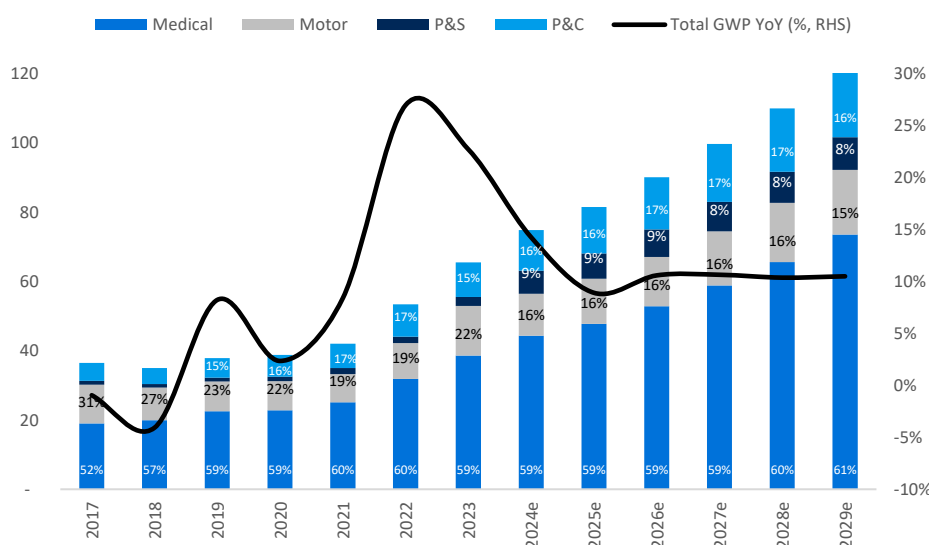
For our assumptions, we forecast total insurance GWP to grow at a 5-year CAGR of 10% between 2024-29e to reach SR121bn. However, this is a slight moderation from a 15% CAGR over the past 5 years, but it is broadly in line with more historical trends as we expect a more normalized pricing environment that is largely driven by volume upticks. Alongside this, we estimate insurance penetration to increase nearly 50bps from estimated 2024e levels and nearly 70bps from 2023 levels, catching up to some of the more developed countries. We expect this improvement to be even more pronounced in non-oil GDP and is estimated to reach 3.4% by 2030e. While this is slightly below the 2030 targets, we highlight even slightly more impetus from a favorable pricing environment, upside from better-

than-expected enforcement, and structural improvements from accelerated adoption; these targets should not be too challenging to envision by 2030e.

We expect this growth in overall GWP to be led by the Property and Casualty (P&C), medical, and motor segments, followed by the Protection and Savings (P&S) segment. For the latter, we still think there needs to be a structural shift in underlying acceptance and adoption despite the significant increase in life insurance density, which we calculate has increased to over SR163/capita in 9M24, 3.5x from the levels in the same period during 2023.

We don't expect a significant shift in the overall sector's structure, albeit a slightly higher share for P&C, considering the opportunities from the vast infrastructure projects. The medical segment would continue to account for the largest segment of the overall sector, followed by motor. Apart from the macro tailwinds supporting the growth in motor and medical, both segments also offer room for even further growth from better enforcement of mandatory policy and, in the case of the motor, from the conversion to comprehensive policies from third-policy liability (TPL) policies, an area where we see many opportunities for relative improvement.

**Chart 11: Insurance GWP to grow at a 5-year CAGR of 10% between 2024-29e**



Source: Insurance Authority and anbc research

## Medical motor and P&C segments offer robust growth prospects

### (a) Enforcement is one of the biggest opportunities for volumetric growth

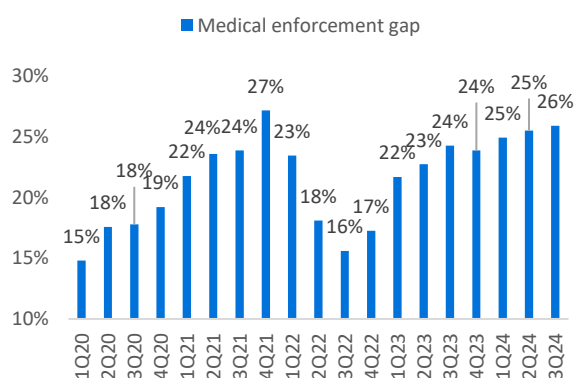
Closing the compulsory enforcement gap is perhaps one of the biggest structural opportunities for robust volume growth. The issue of full compliance with mandatory insurance exists in both the medical and motor segments and has lingered for several years. Despite making it mandatory to have medical and motor vehicle insurance, the willingness and the necessary tech-related infrastructure to tighten the enforcement fell short. Moreover, the implementation of VAT back in 2018, followed by the COVID-19 shock, dampened enthusiasm for enforcement as household budgets were already strained.

However, we now think things are progressing quickly, especially with the top authorities opting for a more proactive approach towards structural issues. In this regard, a more conducive regulatory environment through creating a unified regulatory body mandated for the sector’s development is one of the biggest catalysts. Moreover, recent policy changes have been a welcoming indication, including introducing fines/penalties for not having a valid motor insurance policy, encouraging medical insurance enforcement by making domestic household helpers' insurance mandatory by law, and introducing uniform Umrah and Hajj insurance.

This success is clearly seen in the massive growth in the motor insurance segment, which, despite facing very unfavorable pricing environment challenges, still recorded an increase of 1% on a TTM basis at the end of 3Q24. The sharp decline in policy premiums was offset by volume growth, which primarily resulted from improved compliance, estimated to have increased from 51% in 2022 to nearly 68% in 3Q24.

While efforts have been made in the past, they either lacked any meaningful impact or remained insignificant to increase compliance. For instance, back in 2017, the Saudi police fined drivers who committed any traffic violation, with some minor additional charges if they did not have valid motor insurance, but the fines were quite minute. However, this time around, in Oct'23, the General Department of Traffic started electronic monitoring of vehicle insurance violations, which will be conducted every fifteen days. The violation will be monitored independently without being linked to another traffic violation. Vehicles without valid insurance will be fined SAR100-150, nearly 15% of the TPL premiums at that time. After implementing this motor compliance ratio, defined as the number of vehicles insured against a total number of registered vehicles, it markedly increased to 65% at the end of 2023 vs. 51% in 2022.

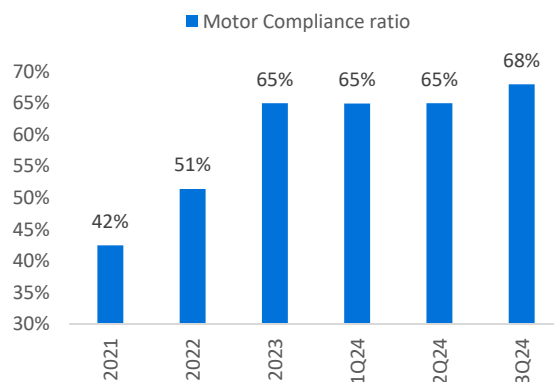
**Chart 12: There are still over 26% of employed people without valid medical insurance**



\*Enforcement gap defined as the percentage of uninsured employed people

Source: Insurance Authority, Bupa’s Earnings Presentation and anbc research

**Chart 13: Albeit some meaningful progress in the last year, there is still room for further improvement**



\*Compliance ratio is defined as the number of vehicles insured against the total number of registered vehicles in the country

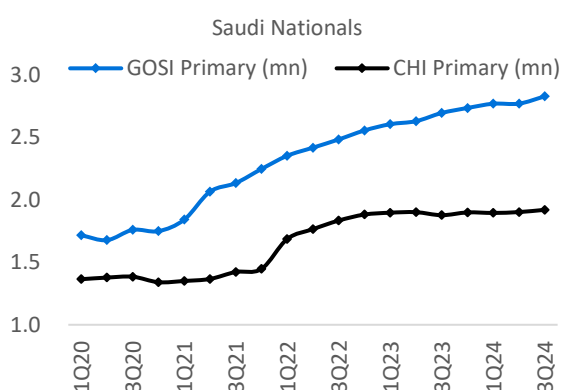
Source: Insurance Authority, GASTAT and anbc research

While considerable efforts have been made to bridge the enforcement gap, much room remains for further improvement. For instance, in the motor segment alone, the ultimate target is 90% by 2030 (FSDP) vs. 68% currently. To put this opportunity into perspective, according to GASTAT, the total number of registered vehicles in the country was around 15.1mn, with a motor insurance compliance ratio estimated at 68%. Had it been 90%, it would mean 3.8mn additional motor insurance policies, which, at an average premium of SR1,000/policy, would increase annual total motor GWP by nearly 30% (SR3.8bn).

Similarly, opportunities exist in the medical insurance segment, where, combined, there is a 26% gap between the number of employed people in Saudi Arabia and the number of insured lives. However, it is slightly more difficult within the medical segment due to complications from public sector enterprises, domestic household helpers, and limited enforcement, especially in the case of Saudi Nationals.

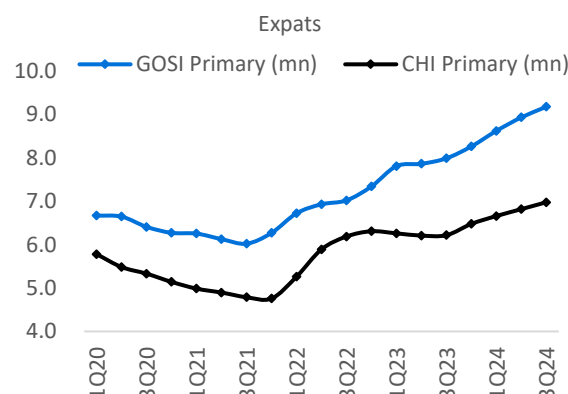
That said, it has been estimated that over 3.1mn employed people are uninsured but under compulsory medical insurance. This is nearly 26% of the total insured lives in Saudi Arabia as of 3Q24. The majority of this comes from the expat population with nearly 2.2mn uninsured lives while at least 0.9mn Saudi Nationals are uninsured. Using a similar calculation as in the case of motor insurance, if all these uninsured lives translate into insurance policies, at a current average GWP/lives of SR3,500, this would add SR10.9bn to medical insurance GWP, which is 26% of the current TTM medical insurance GWP of SR42bn.

**Chart 14: There are estimated nearly 0.91mn possible insured lives for Saudi Nationals**



Source: Bupa's Earnings Presentation and anbc research

**Chart 15: Meanwhile, for expats, the gap is even bigger at 2.2mn possible lives**



Source: Bupa's Earnings Presentation and anbc research

**(b) We expect the price environment to remain largely stable**

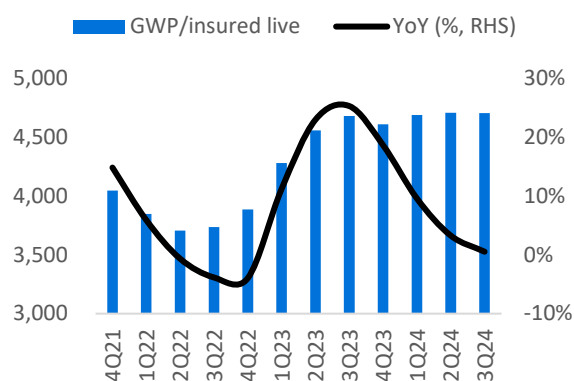
Sizable upward adjustments in the policy premiums had been one of the key drivers for the strong cyclical growth the insurance sector witnessed between 2022-2023. This cyclical upturn has been one of the most substantial recoveries since 2015, with two consecutive years of double-digit growth in GWP above the 20% mark.

More importantly, price increases have been a pervasive trend across nearly all insurance sub-segments, from motor to health and general insurance. Coinciding with the volume recovery, this offered the much-needed impetus to support the strong recovery momentum for two straight years.

Surprisingly, while the upward adjustments in the premiums across different sectors resulted from unrelated factors, the timing of these had been crucial to not only allow a substantial expansion in the GWP but also improve profitability across the industry. In our view, one of the most crucial factors had been insurers' focus on profitability, especially post-COVID, where most insurers' balance sheets had been stained, leaving collective efforts on the prices to improve profitability. General insurers passed on the impact of higher prices by the international reinsurers. In

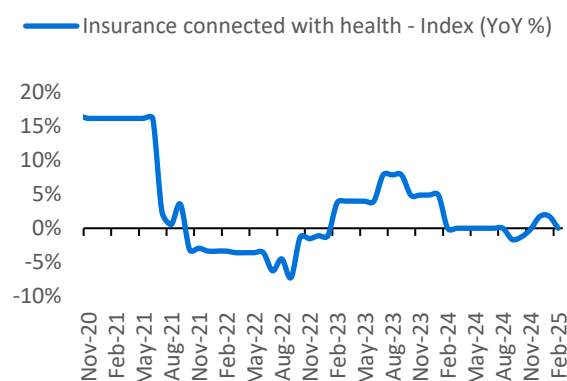
contrast, medical insurers reeled through elevated PMI (Private Medical Inflation), weighing on their loss ratios and, consequently, on their profitability.

**Chart 16: The sizeable medical insurance premium increases have largely normalized**



Source: Insurance Authority and anbc research

**Chart 17: This is even evident in the CPI sub-indices with YoY increases flattish since 1Q24**



Source: GASTAT and anbc research

However, we don't expect this trend to be sustained going forward, with the pricing environment largely remaining stable. This was evident in 2024, when the sector saw considerable pressure on prices, especially in the case of medical and motor. While we think some pressures remain cyclical in nature and are likely to reverse in other cases, we expect a more fundamental shift towards normalization. Important to note is that historically, the regulatory environment has remained quite volatile, and risks of price pressures from any new policy shift would continue to remain.

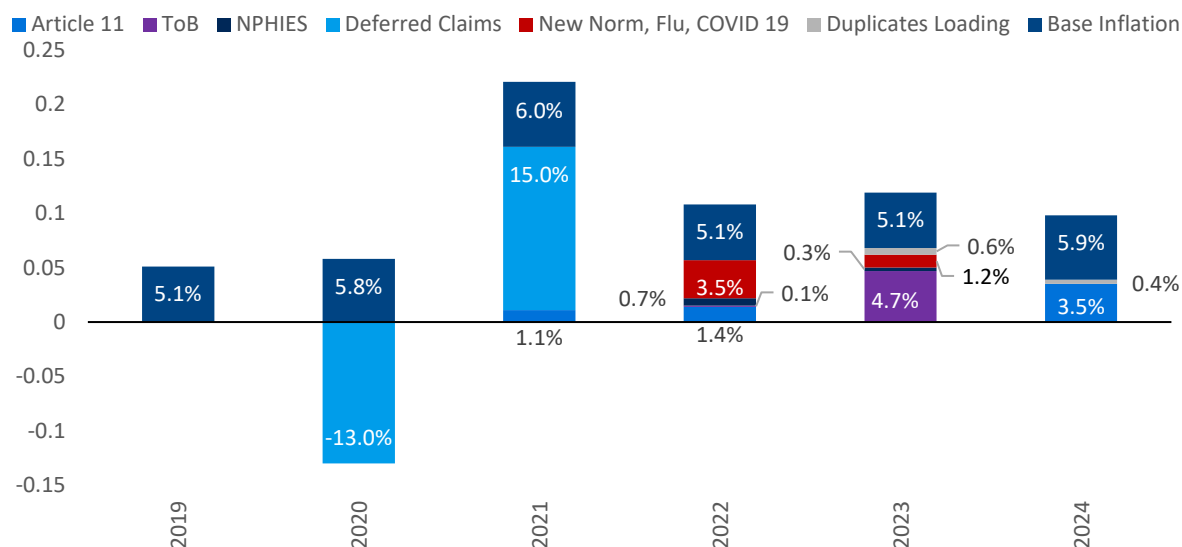
Within the medical segment, high-frequency data from the CPI show that the index related to medical insurance has been relatively flat since the start of 2024 and only marginally increased at the beginning of 2025. Post-weak pricing dynamics in 2022, elevated medical inflation, and pressures on underwriting margins drove a collection response from the insurers to pass on the pressures to the customers, resulting in strong price increases throughout the year. According to some insurers' management at the time, medical policy pricing, on average, increased by 30-40% compared to last year.

Since 2020, medical inflation has stubbornly remained quite elevated, fueled by various factors, including long COVID-19 flu trends and regulatory changes, namely the impact of Nphies (a digital platform through which all claims transition between providers and insurers), a crackdown on duplicate policies, and the implementation of new ToB (Table of Benefits). These were in addition to baseline medical inflation, which has historically been estimated at around 5-6%.

However, pressures continue to subside for the second year in a row as the impact of some factors abates, leaving trends in medical inflation to normalize. According to Bupa's last earnings presentation, while still considerably elevated, 2024's medical inflation was fueled by the effect of Article 11 (which allows public-sector hospitals to bill insurers for claims of private-sector insured people). Even if it filters through into 2025, we think the impact would be less moderate than the previous year, considering the readiness of the insurers and operators and their past experience. Moreover, while there are still some ongoing discussions on more changes in the ToB, we think its impact on medical inflation won't necessarily be the same as seen previously, though usually, a new ToB consists of costly treatments and procedures that eventually result in medical insurers passing on the higher costs to customers. Apart from normalized medical inflation, we think the collective power to raise prices has also diminished significantly after two cumulative years of substantial adjustments already delivered. Room for further price hikes,

in our view, has become considerably limited, with lower consumer appetites and an increasing risk of policy downtrading, a trend that has been picked up in 2H24 amidst tight competitive dynamics.

**Chart 18: PMI, though, continues to remain elevated**



Source: Bupa's Earnings Presentation and anbc research

Meanwhile, the cyclicity within the motor premiums had been even sharper and more intense than in any other segment. Not only did the premiums increase at one of the fastest paces, but the magnitude of the adjustment was also quite strong. This was followed by significant price decreases and downward adjustments in a time frame of only a few months.

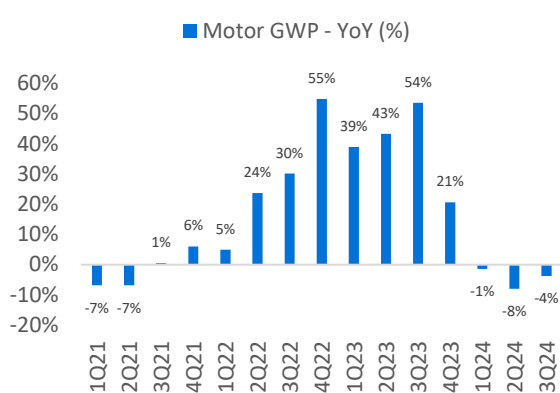
As seen in the high-frequency data from CPI, transport-linked insurance prices first started to increase in mid-2022, and by 2023, they were, on average, up over 20% YoY. According to anecdotal evidence, some contracts' price adjustments almost doubled from their levels in 2021. Again, a collective effort to improve underwriting margins came following high loss ratios, and spare parts prices increased due to supply chain disruptions and some regulatory changes.

However, this was not sustained for very long. By the end of 2023, especially as the regulator-imposed violation fines for vehicles not having proper motor insurance to improve compliance with the mandatory law, price pressures started to build up. This coincided with very elevated interest rates, which allowed insurers some room for price adjustments to gain the significant volume coming in at the expense of the margins. Consequently, the pricing dynamics became quite challenging, leading to a price war among insurers for market share gains.

However, the latest data shows that the trend is also normalizing to some extent, and there have been some price increases in 4Q24. The GWP YoY decline on a quarterly basis also moderated, while the CPI index for motor premiums increased by nearly 8% MoM in November '24, followed by positive adjustments continuing in December and January as well.

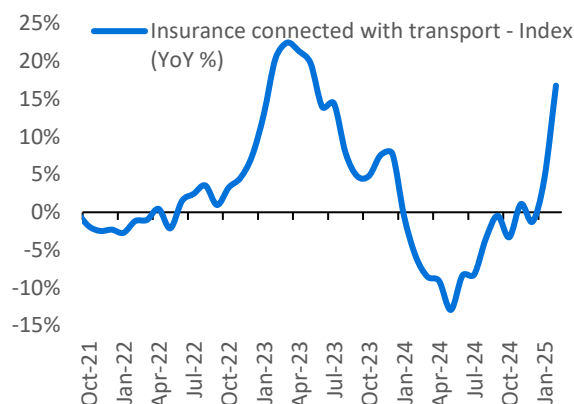
We think this largely reflects prices normalizing at levels of acceptable underwriting margins as interest rate cuts are filtered through lower profitability for insurers. With the rate likely to continue declining in the medium term, we think insurers would focus on underwriting margins to manage their profitability amidst a challenging competitive environment within the motor segment. This should leave with largely stable prices, or even if there are some price adjustments, they would unlikely be of the same magnitude as those seen in the past.

**Chart 19: Motor premiums witnessed marked decline during 2024**



Source: Insurance Authority and anbc research

**Chart 20: However, high-frequency CPI readings show signs of sharp normalization of prices**



Source: GASTAT and anbc research

With a normalized pricing environment, we note that volumes would be more pivotal in driving growth over the medium term. Both structural developments through better penetration and improved enforcement of compulsory policies amidst a strong macroeconomic backdrop with a rising population, higher income levels, a pickup in tourism, and low unemployment are all the right levers for strong business expansion. Moreover, in this context, a more conducive regulatory environment under the ambit of the Insurance Authority offers favorable fields for sector development and growth.

**(c) DRG offers room for improved efficiencies in the long run, benefiting medical segment**

One of the fundamental shifts within the medical segment is the transition to DRG (Diagnosis Related Groups) payment models. While the regulator has been making ongoing progress on this for some time, there still remains little clarity on the implementation timeline. Various industry participants have indicated that while it was initially targeted to be implemented in 2025, it is likely to be delayed by another year and likely to be completed in 2026. We think the readiness of the hospital operators would be necessary to shift from the current Fee-For-Service (FFS) payment towards the DRG. Within the first phase, the DRG would only be applicable for in-patient treatment and services, followed by gradual progression towards the entire healthcare chain.

Under the current FFS payment system, hospital operators receive a fixed amount based on the number of services offered. Meanwhile, insurers incur further costs for any additional services offered. Various studies suggest that this results in the overutilization of resources, leading to higher claims costs for insurers. Generally, FFS is considered a less efficient approach to reducing costs and improving efficiency in the entire ecosystem since it lacks an incentive to be cost-efficient.

On the other hand, a DRG is a patient classification system that standardizes payment to hospitals based on each patient’s clinical profile and the resources used for patient care. Under DRG, healthcare providers receive a fixed amount for treating a specific case based on the final diagnosis. Rather than paying the operator for each particular service provided, an insurer pays a predetermined amount based upon a patient’s Diagnostic Related Group. This DRG is determined using various metrics, including patient diagnosis, prognosis, and other factors.

In a nutshell, this transition is a shift from volume-based payment systems towards a value-based framework. It ensures the quality of services by requiring clinical justification for additional services and effectively controls costs, particularly for insurers that bear the financial strain of rising claims costs. Meanwhile, hospital operators would have no further incentive to overutilize resources, driving the necessary cost efficiency within the system.

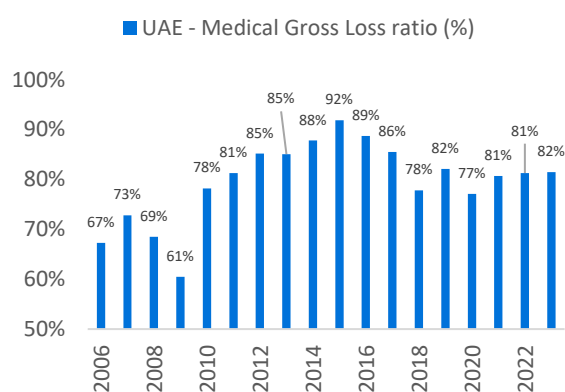


DRG has been deployed in several countries globally, including Canada, Germany, the UK, the Netherlands, and Hong Kong. More recently, this transition has also been seen within the GCC region, with Abu Dhabi implementing DRG in 2011 and Dubai implementing it in 2020.

However, the underlying question remains: What does this transition mean for the medical insurance sector? It has been welcomed by both insurers and hospital operators. Some insurers have claimed that this should allow improvement in claim costs as it would constrain overutilization and fraud in the system. On the contrary, health operators expect better reimbursements and timely payments.

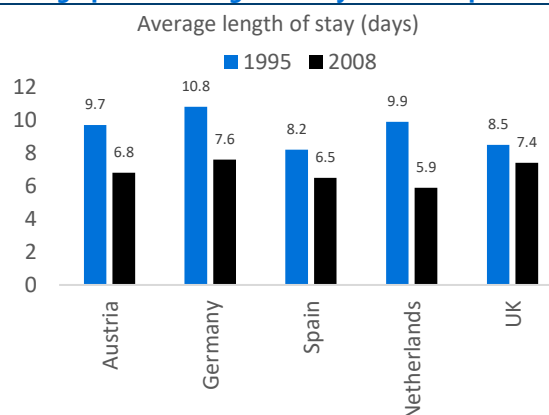
We think assessing any improvement in the loss ratio in the short term would be highly unlikely, though improved efficiencies within the entire ecosystem would achieve it in the medium to long run. Dubai's implementation of DRG has been the most recent case, and the subsequent impact on loss ratios is not clearly visible since several factors are in play as well. However, studies have shown that implementing DRG has improved hospital operations and efficiency in patients' length of stay at the hospital, which declined on average by 27%.

**Chart 21: Impact on UAE's insurers from DRG is not clearly visible in the short term**



Source: UAE Central Bank and anbc research

**Chart 22: Studies show an apparent reduction in the average patient's length of stay at the hospital**



Source: CCHI and anbc research

#### (d) Transition from TPL to comprehensive

Meanwhile, within the motor segment, we highlight another key theme where a lot of recent focus has been developed and is likely to generate a strong impetus to growth in the medium term. Saudi Arabia's motor insurance market has been marred by the high contribution of third-party liability (TPL) policies. According to Tawuniya's last earnings presentation, only 30% of total insurance policies are comprehensive, while the rest are classified as TPL. This is relatively very low compared to some advanced economies, where news articles suggest 90% of policies are comprehensive in the UK. In comparison, up to 80% of all policies are comprehensive policies in the US. We note that a relatively lower penetration of this offers a long runway for some structural growth if the TPL policies are converted into comprehensive policies.

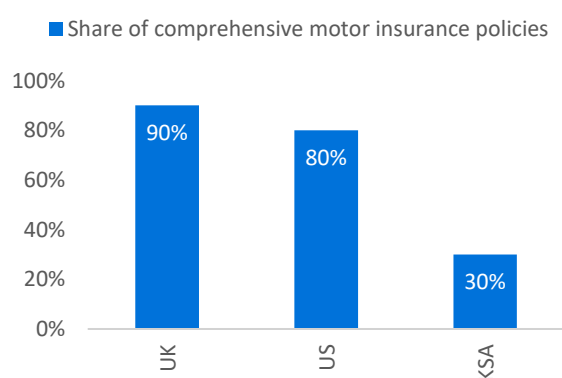
Under the current regulations, only a TPL motor policy is compulsory for all vehicles on the road. The most basic TPL policies cover the insured's liability towards third parties for injuries and damage caused by the insured vehicle. Meanwhile, comprehensive insurance policies cover damage to insured vehicles and third-party vehicles in the event of an accident, in addition to other coverage for theft and fire.

Since only TPL is mandatory under the law, this has partially explained why comprehensive penetration is low. Another key factor is pricing, where, on average, comprehensive policy premiums are nearly double the amount of the most basic TPL policies.

However, anecdotal evidence suggests that this has been changing, especially with consumers becoming more aware of the benefits of comprehensive policies and industry participants' collective efforts to promote conversion through value-added services, more personalized offerings, and a complete mobility ecosystem.

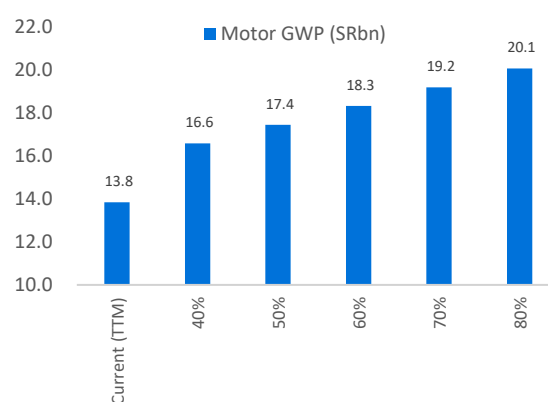
While these developments have been encouraging, we think the conversion would be more apparent in the medium term, which would filter into higher GWP generations within the motor segment. To illustrate this opportunity, based on our back-of-the-envelope calculations assuming the current TPL policy premium of SR1.2K and a comprehensive policy premium of SR2K (based on Tameeni prices quote), if the share of comprehensive policies increases to 80%, motor GWP would have been at least 45% higher than the current levels; at 60% which is nearly the doubled from current 30%, by our calculations motor GWP would have been over 30% higher.

**Chart 23: The share of comprehensive policies is significantly higher in developed countries**



Source: Insurance Authority, various news reports, and anbc research

**Chart 24: If the share of comprehensive policies rises to 80%, motor GWP would be up at least 45%**



Source: Insurance Authority and anbc research

### (e) P&C offers better prospects than life insurance

We think the property and casualty (P&C) segments offer better growth prospects than life insurance in the short term, while life insurance is more of a longer-term play despite vast room for some structural improvement. In our view, Saudi Arabia's P&C benefits from tailwinds of strong macroeconomic growth thanks to the renewed capex cycle led by the government. Despite the short-term challenges, especially with slower growth in 2023 and a sharp increase in loss ratios, the segment recovered in 2024, and the momentum remains positive.

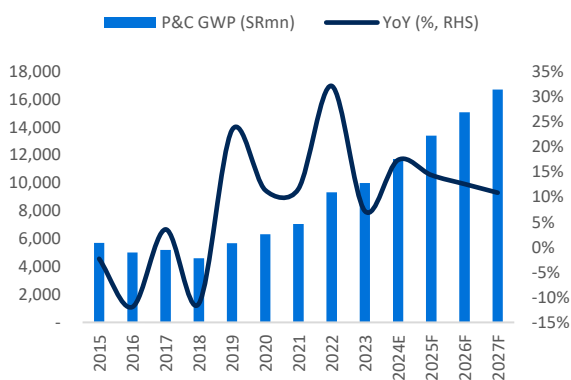
After growth in the P&C GWP markedly slowed to 7% YoY in 2023 from 32% YoY in 2022, it has since recovered, which we estimate is around 17% YoY in 2024. The growth primarily comes from the property and engineering subsegments and some of the smaller segments, including marine and fire.

We think a strong macro backdrop supported by the substantial expansion of non-oil activities and the government's supportive policies bodes well for the P&C sector, particularly allowing insurers to improve pricing. In our view, the government's push to increase infrastructure capacity with mega projects, along with Vision 2030's drive for increasing housing and trade, will positively impact P&C premium growth. Lower interest rates have led to improved mortgage originations, indicating improved activity in the real estate market, which has been recently marred by low supply. Moreover, the government's push to increase infrastructure capacity with mega projects, along with Vision 2030's drive for increasing housing and trade, will positively impact P&C premium growth. Meanwhile, other factors that would positively support P&C premiums include the Hajj & Umrah comprehensive insurance program, compulsory Inherent defects insurance, and the robust growth outlook for the SME segment.

However, we think the life insurance segment will remain slightly challenging, especially in driving any meaningful increase in penetration. We note that low penetration offers room for robust improvement, but this would remain

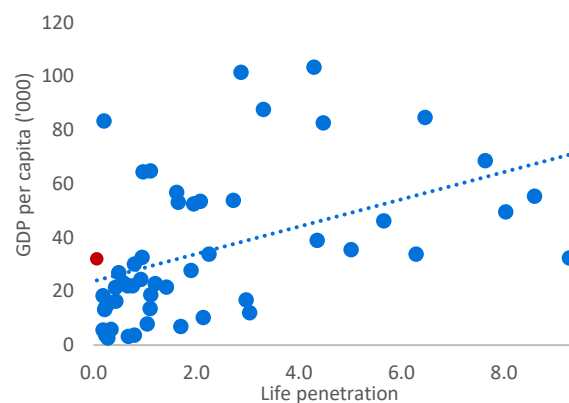
challenging considering cultural and religious beliefs driving consumer behavior in the region and a low appetite towards the savings product. The recent sharp increase in life insurance GWP has predominately been driven by a single insurer, which, too, we suspect comes from an in-built protection scheme offered alongside other products. Ultimately, the sector’s development hinges upon creating awareness and issuing new products by insurers that better suit the market, which would also necessitate regulatory support. That said, to illustrate the potential opportunity based on our calculations using the OECD insurance data set for 2023, assuming a linear relation between life insurance penetration and GDP per capita, at the current rate, Saudi Arabia's life insurance penetration should have been at least over 1.5% of GDP vs. 0.1% currently implying nearly 25x higher than the current levels.

**Chart 25: The P&C GWP is expected to continue to grow in double digits**



Source: Insurance Authority, various news reports, and anbc research

**Chart 26: Life insurance is still a long-term play**



The red dot represents Saudi Arabia with a 2023 life insurance penetration of 0.06% and a GDP per capita of USD32.1K

Source: Insurance Authority and anbc research

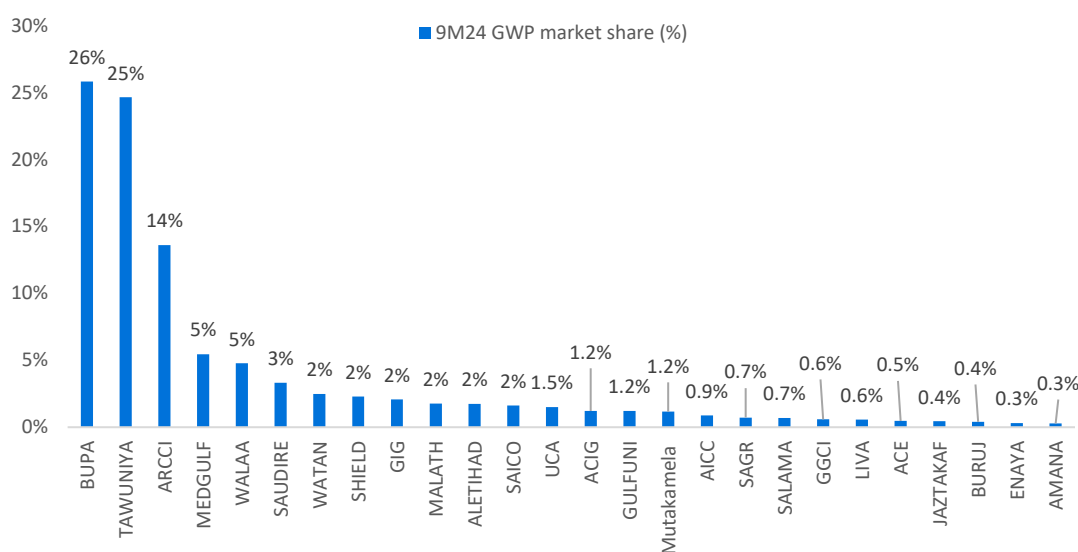
## The sector consolidation theme remains intact

### (a) The sector remains highly concentrated among the top few players

The consolidation theme within the insurance sector will likely persist in the coming period, considering the sector remains highly concentrated among the top few players. Moreover, other key supporting factors include relatively weak underwriting performance as the pricing environment has not been too favorable, insufficient scale among the issuers, and regulatory requirements for minimum capital and liquidity levels. The top authorities have used regulatory thresholds to strengthen the sector financially and push for sector consolidation. It remains a top priority since the regulator prefers solid underlying risk migration to withstand economic shocks. This is evident from the regulator’s stance, where, in several instances, they indicated M&A activities as the key strategic option for long-term operational sustainability for medium- and small-scale insurers.

There continues to be a sharp disparity in size, market share, and profitability concentration among insurers, with much concentrated among the top few insurers. In 9M24, the top 5 insurers accounted for over 78% of the entire sector GWP, with the top 2 companies accounting for 50%. Meanwhile, the top 45% of insurance companies (12 insurers) have a market share of nearly 90% in the sector’s GWP. Only three insurers have a GWP over SR10bn on an annualized basis, while almost 13 companies, which is nearly half of all the listed companies, have a GWP of less than SR1bn.

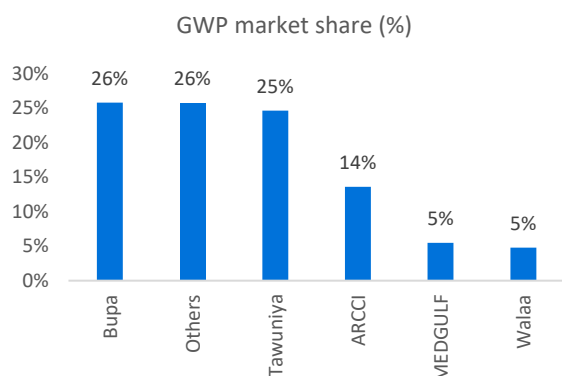
**Chart 27: Top five insurers account for 74% of total market GWP.**



Source: Company Financials, Bloomberg, and anbc research

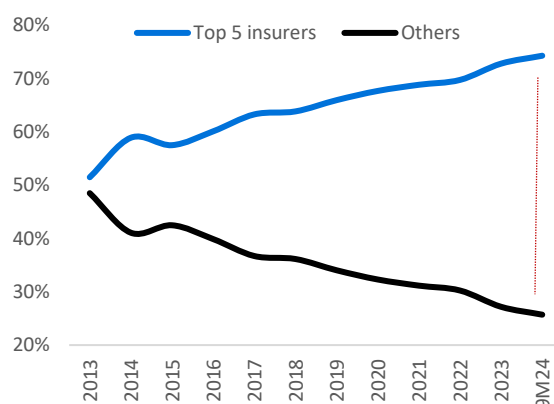
Scalability is a crucial factor in the insurance business, allowing a very strong competitive advantage in terms of pricing power, customer base, and infrastructure. Meanwhile, smaller insurers often find it difficult to achieve economies of scale, making it harder to compete with stronger peers. It is evident that, over time, the sector’s concentration has tightened while the discrepancy with the larger insurers has widened. A decade ago, the top 5 insurers had nearly the same market share as the rest of the companies, but over time, they continued to grow faster than the sector, resulting in their market share exceeding 70%.

**Chart 28: The largest insurer has the same market share as the bottom 23 insurance companies**



Source: Insurance Authority, various news reports, and anbc research

**Chart 29: The concentration has widened over the year as the share of the top 5 continued to increase**

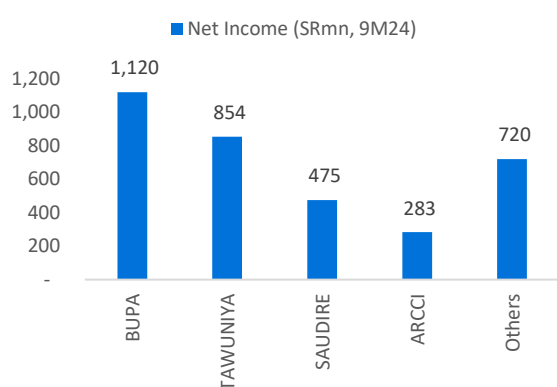


Source: Insurance Authority and anbc research

The scale benefit is also evident in the profitability and underwriting performance, which, too, is highly concentrated among the top insurance companies. In 9M24, the top five insurance companies accounted for nearly 80% of the entire sector’s profitability, with the top two making up 57%. Two companies were in losses despite the favorable tailwinds of elevated interest rates, and 20 insurance companies had a bottom line of less than SR100mn, which was only 9% of the bottom line for the most profitable insurance company in 9M24.

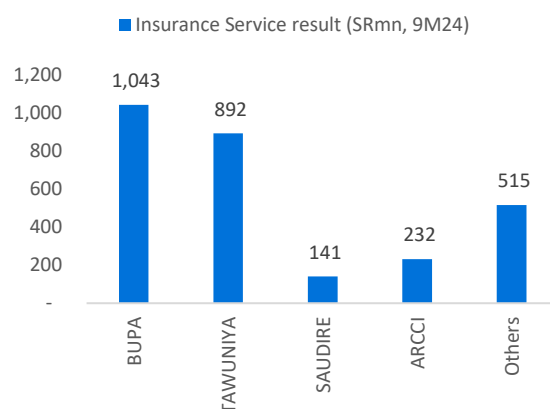
Even if we exclude the impact of the vast investment portfolios of larger insurance companies that benefited markedly from elevated interest rates, the case remains quite similar for insurance underwriting performance. The top two insurers account for nearly 70% of the entire sector's underwriting income.

**Chart 30: Top four insurers account for nearly 80% of the profitability of the sector**



Source: Insurance Authority, various news reports, and anbc research

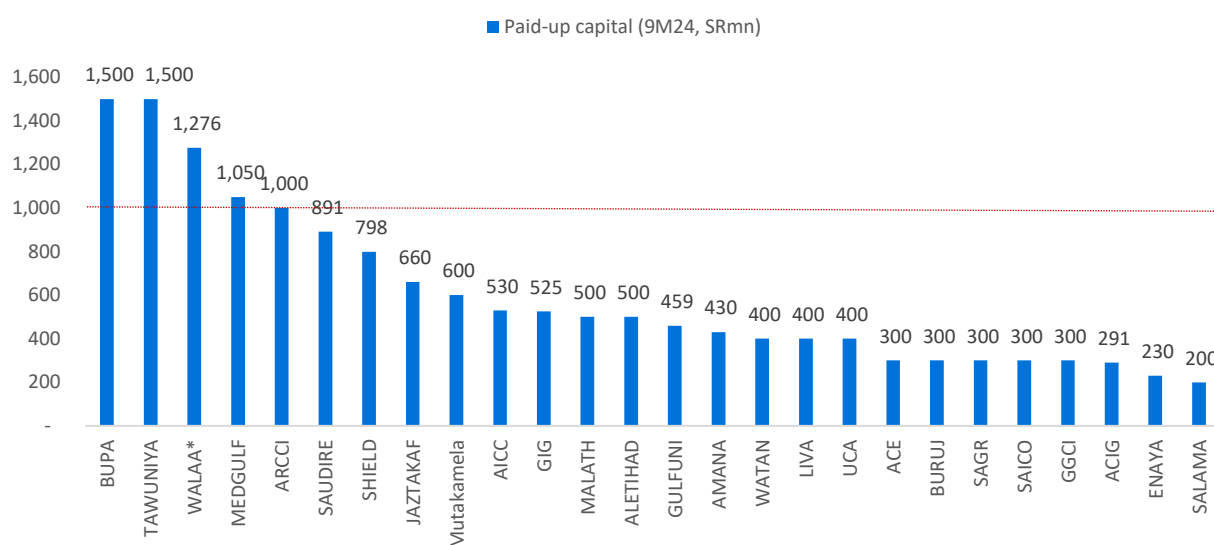
**Chart 31: as the share of the underwriting income is dominated by them**



Source: Insurance Authority and anbc research

Capital buffers are critical determinants of the sector’s sustainability to withstand any adverse shock and also define the ability to grow by securing larger contracts. Only four companies, BUPA, TAWUNIYA, MEDGULF, and Walaa, have paid-up capital exceeding SR1bn, while Walaa only executed rights issues in Dec’24. In contrast, 13 out of 26 insurance companies operate with paid-up capital below SR500mn, while only eight insurers have paid-up capital higher than SR500mn but less than SR1bn.

Chart 32: Only four insurers have capital of over SR1bn.



\*Walaa paid-up Capital adjusted for rights issues for better representation

Source: Company Financials, Bloomberg, and anbc research

Since 2020, thirteen mergers have been under discussion, of which only six have been completed. These included the merger between i) Arabian Shield Cooperative Insurance Co. and Alinma Tokio Marine Co., ii) Walaa Cooperative Insurance Co. and SABB Takaful Co., iii) Arabian Shield Cooperative Insurance Co. and AlAhli Takaful Co., iv) Aljazira Takaful Taawuni Co. and Solidarity Saudi Takaful Co., v) Gulf Union Cooperative Insurance Co. and Al Ahlia for Cooperative Insurance, and vi) lastly the merger between Walaa Cooperative Insurance Co. and MetLife AIG ANB.

Currently, two merger discussions are ongoing. The first is between Buruj Cooperative Insurance Co. (BURUJ AB) and Mediterranean and Gulf Insurance and Reinsurance Co. (MEDGULF AB), where both companies have entered into a non-binding memorandum of understanding (MoU). Should the MoU move forward, the merger would see MedGulf as the acquiring entity, with Buruj being absorbed into the larger firm. The merger would be executed through a capital increase by MedGulf, which would issue new shares to Buruj’s shareholders in exchange for their current holdings.

The second is between Salama Cooperative Insurance Co. (SALAMA AB) and Saudi Enaya Cooperative Insurance Company (ENAYA AB), where both signed a non-binding MoU to evaluate a potential merger. Should the proposed transaction proceed, SALAMA will be the merging company, and ENAYA will be the merged company through a share exchange offer by increasing SALAMA’s capital and issuing new shares to ENAYA’s shareholders.

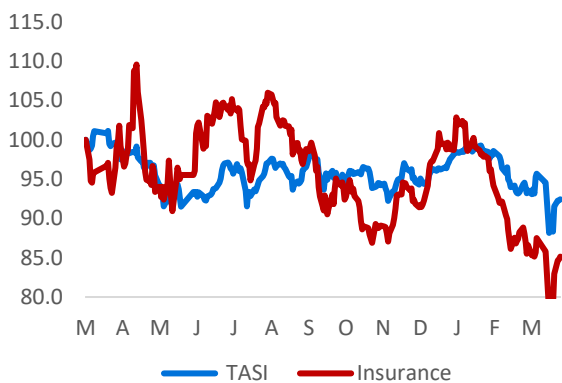
Another one was under discussion between Gulf General Cooperative Insurance Co. (GGCI AB) and Gulf Union Alahlia Cooperative Insurance Co. (GULFUNI AB), but in March’25, the deal was canceled just a day before the EGM was scheduled, and the proposed offer had already been made. According to the announcement, the cancellation resulted from certain terms of the contract that stimulated a more than 15% decline in the value of Gulf General Cooperative, upon which the board decided to terminate the merger deal.

## Valuation

Saudi Arabia's insurance sector index underperformed the market in the last twelve months; TASI declined by 9% while the insurance sector index fell by 12%. However, it has been a volatile year with periods of strong outperformance followed by a decline. Notably, the bulk of this underperformance occurred in the last six months when the insurance sector index corrected 9% downwards, or, to be even more precise, the correction had been far more dominant in YTD since the end of January.

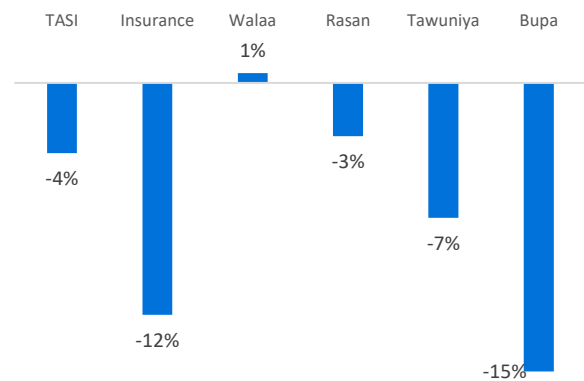
In YTD, the insurance sector index fell 12% vs TASI, declining by 3%. Within our coverage and by large, the key catalyst for the sector index correction was the massive decline in the share price of Bupa, which fell 16% YTD (29% over twelve months). Compared to some of its closest peers in YTD, Tawuniya recorded a decline of 7%, while Walaa fared better with a 1% rise. Rasan fell 1% (relatively has a lower weight in the index).

**Chart 33: The insurance sector underperformed TASI by a wide margin**



Source: Tadawul and anbc research

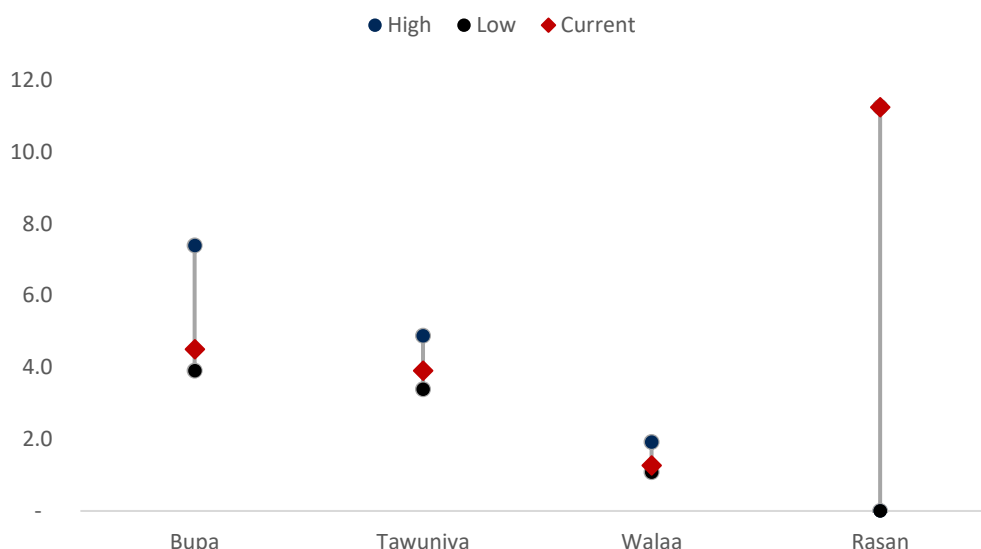
**Chart 34: Barring Walaa, the performance of the rest of the companies under coverage is negative YTD**



Source: Tadawul and anbc research

However, we map the current valuation (2025e PBV) relative to the last twelve months' high and low share prices. Bupa, Walaa, and Tawuniya trade at the lower end of their last 12-month valuations. Meanwhile, Rasan is the only company under our coverage that trades close to the upper end of the range.

**Chart 35: Barring Rasan, insurers mainly trade at the lower end of the 12-month P/B.**



Source: Bloomberg and anbc research

**Valuation Table:**

		Bupa	Tawuniya	Walaa	Rasan
Last price (SR)		173.4	137.2	19.5	84.0
<b>Rating</b>		<b>Neutral</b>	<b>Overweight</b>	<b>Overweight</b>	<b>Overweight</b>
<b>Target Price (SR)</b>		<b>190.0</b>	<b>180.0</b>	<b>24.0</b>	<b>105.0</b>
Upside/Downside (%)		9.6%	31.2%	23.3%	25.0%
Dividend Yield (%)		2.5%	1.7%	-	-
Total Return (%)		12.1%	33.0%	23.3%	25.0%
Growth (2024-29e)	Revenue	12%	12%	13%	31%
	Earnings	16%	19%	39%	40%
	Equity	14%	16%	9%	36%
ROAEs (%)	2023	21.2	18.3	12.4	47.5
	2024	23.8	25.2	4.1	35.4
	2025e	24.1	23.4	6.7	33.0
	2026e	25.2	26.2	9.2	30.1
ROAAs (%)	2023	7.1	3.7	3.8	20.6
	2024	7.8	5.2	1.4	15.2
	2025e	8.0	5.1	2.5	18.3
	2026e	8.3	5.8	3.3	21.2
P/B	2023	5.6	5.7	2.0	-
	2024	5.1	4.6	1.4	15.7
	2025e	4.5	3.9	1.3	11.2
	2026e	4.0	3.3	1.2	8.3
P/E	2023	27.7	33.4	16.8	0.0
	2024	22.3	20.2	38.6	68.7
	2025e	19.8	18.0	19.5	39.7
	2026e	16.8	13.8	13.2	31.8
Dividend yield (%)	2023	2.1	0.7	-	-
	2024	2.3	1.2	-	-
	2025e	2.5	1.7	-	-
	2026e	3.0	2.9	-	-

Source: Company financials, and anbc research



## 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.

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

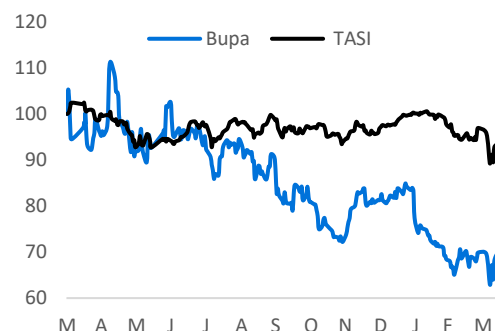
ISSUER INFORMATION	
Bloomberg Code	BUPA AB
Last Price (SR)	173.4
No. of Shares (mn)	150
Market Cap bn (SR/USD)	26.0/7.0
52-week High / Low (SR)	284.6/150.4
12-month ADTV (mn) (SR/USD)	34.1/9.1
Free Float (%)	52
Foreign Holdings (%)	17

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



## Financial Summary:

SR mn

Income Statement	2022	2023	2024	2025E	2026E	2027E	2028E	2029E	CAGR 2024-2029e
<b>GWP</b>	<b>13,897</b>	<b>16,689</b>	<b>18,394</b>	<b>20,205</b>	<b>22,866</b>	<b>25,471</b>	<b>29,057</b>	<b>32,561</b>	<b>12%</b>
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%
<b>Insurance service result</b>	<b>638</b>	<b>865</b>	<b>998</b>	<b>1,196</b>	<b>1,578</b>	<b>2,009</b>	<b>2,292</b>	<b>2,888</b>	<b>24%</b>
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%
<b>Net Income</b>	<b>805</b>	<b>940</b>	<b>1,166</b>	<b>1,311</b>	<b>1,550</b>	<b>1,811</b>	<b>1,952</b>	<b>2,458</b>	<b>16%</b>
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	
<b>Balance Sheet</b>									
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%
<b>Total Assets</b>	<b>12,115</b>	<b>14,438</b>	<b>15,575</b>	<b>17,384</b>	<b>20,040</b>	<b>22,900</b>	<b>26,228</b>	<b>29,507</b>	<b>14%</b>
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%
<b>Total liabilities and equity</b>	<b>12,115</b>	<b>14,438</b>	<b>15,575</b>	<b>17,384</b>	<b>20,040</b>	<b>22,900</b>	<b>26,228</b>	<b>29,507</b>	<b>14%</b>

### 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

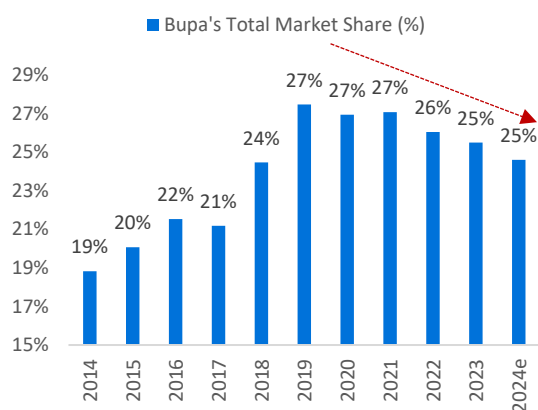
## Investment Thesis

### 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.

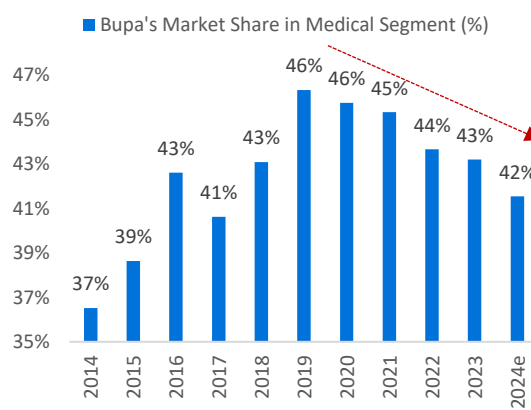
However, that has changed markedly in the past few years. Firstly, Bupa is no longer the largest insurance company in Saudi Arabia, with Tawuniya surpassing Bupa in total GWP to take the first spot in 2022. This happened as exposure within multiple segments allowed Tawuniya to enjoy the strong tailwinds 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

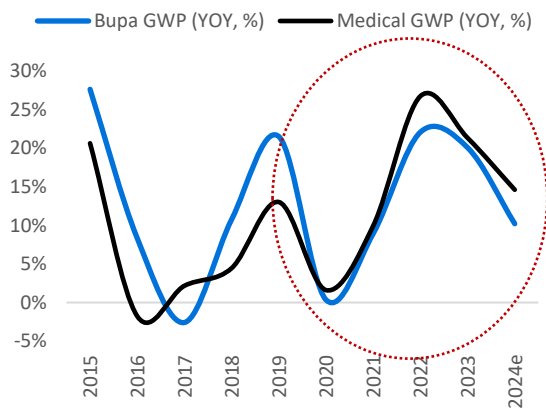
However, it did not end there. Bupa continued to lose its market share to other insurers. This trend was quite prominent post-COVID when other insurers quickly adapted to market trends, and accelerated digitalization allowed more price transparency and ease in underwriting. Since its peak in 2019, Bupa 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

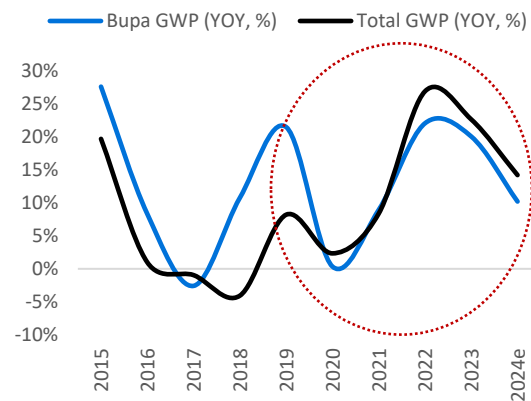
contract Bupa couldn't underwrite was the comprehensive Hajj and Umrah insurance. Despite its scale and financial strength, it lacked a regulatory license then. It was only in 2024 that Bupa received its license to practice general insurance activity, which had been in-built into the comprehensive Hajj 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**



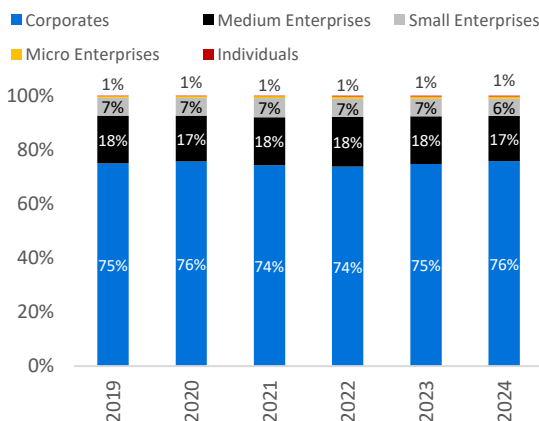
Source: Company financials and anbc research

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.

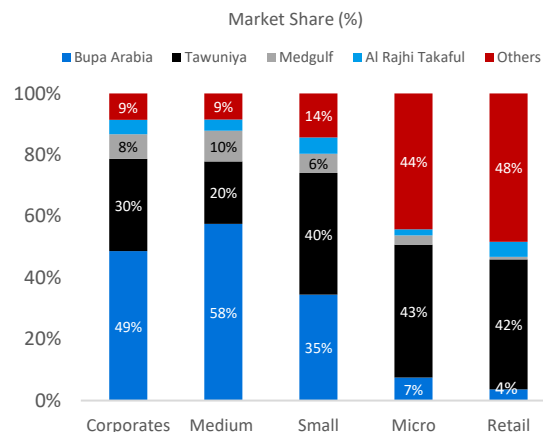
While these high-end sub-segments initially offered lower levels of competition since not many insurers had the financial capacity to underwrite for large corporates, that changed quickly with growing M&A activities within the sector. In addition, some insurers markedly raised their capital buffer, leading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

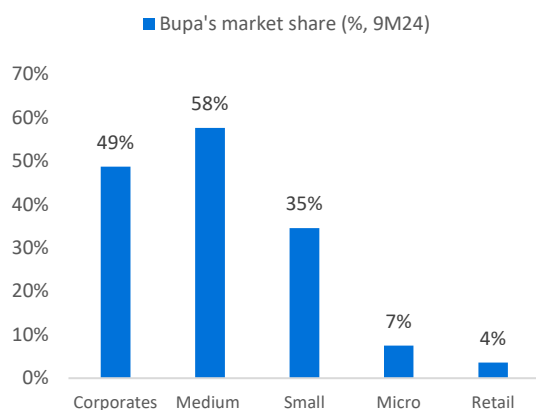
### Scale benefit and Bupa CareConnect to support volumes outlook

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.

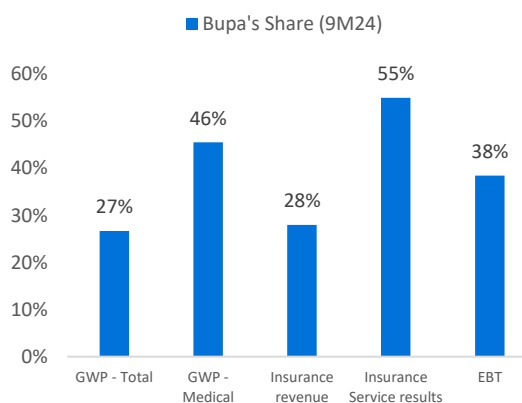
Bupa has the advantage of economies of scale, reflected in its market penetration and profitability. To put it into perspective, Bupa’s underwriting margins are the highest among insurers. In 2024, Bupa’s net insurance result margin was 5.5%, significantly higher than the sector average of 3.4% and among 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.

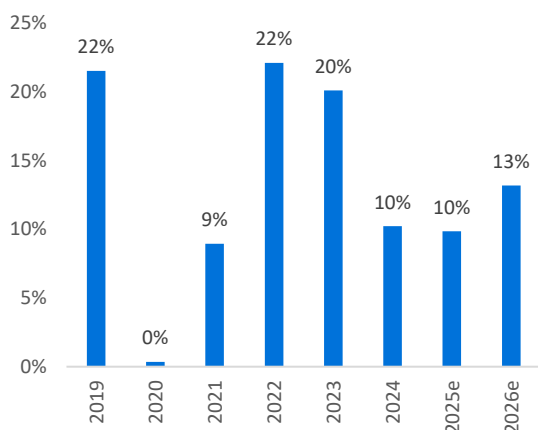
An improved proposition would allow Bupa to capture key accounts, especially within large corporate segments, supporting its volume outlook. Moreover, we believe there is also an opportunity for potential savings by re-channeling some of the claims back to the Bupa system, providing effective claim management, 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.

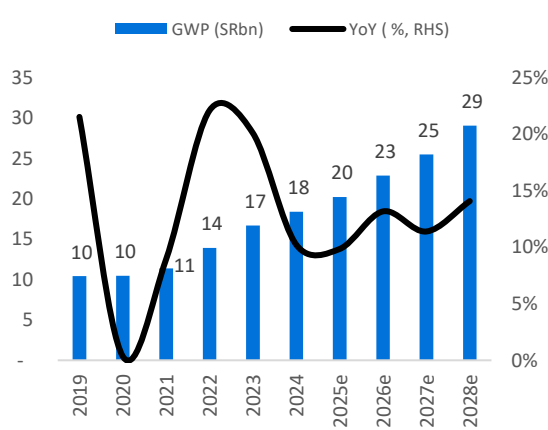
Initially, the strategic focus was solely on digital footprint and teleconsultations, but quickly, it turned into a complete healthcare ecosystem. While Tawuniya has also launched a similar project and has been the first mover in terms of infrastructure, we still think Bupa could leverage the experience 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

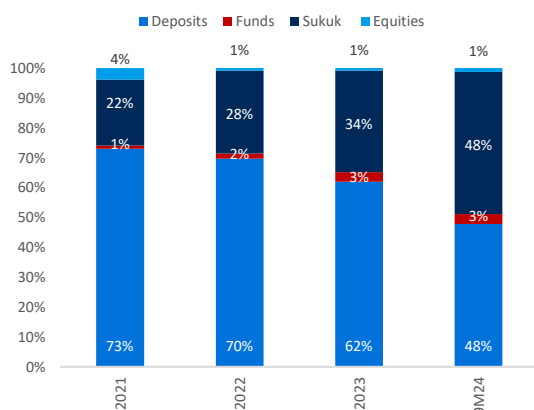
### Net Income to grow at a five-year CAGR of 16%

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.

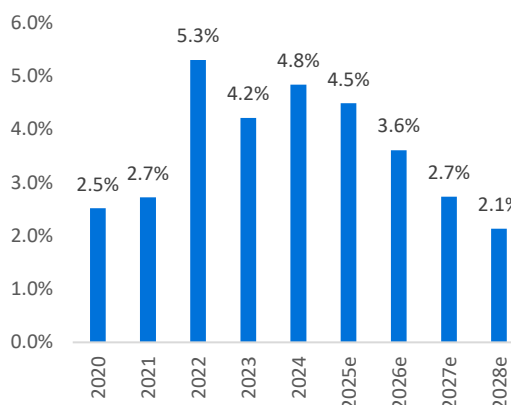
The elevated interest rate prompted Bupa to reposition part of its investment portfolio into more extended-duration instruments, with the contribution of sukus increasing from 22% in 2021 to 48% in 9M24, nearly the same as the deposits. That said, with nearly half of the investment book still in deposits,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

**Chart 46: Investment book balanced across deposits and sukus**



Source: Company financials and anbc research

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



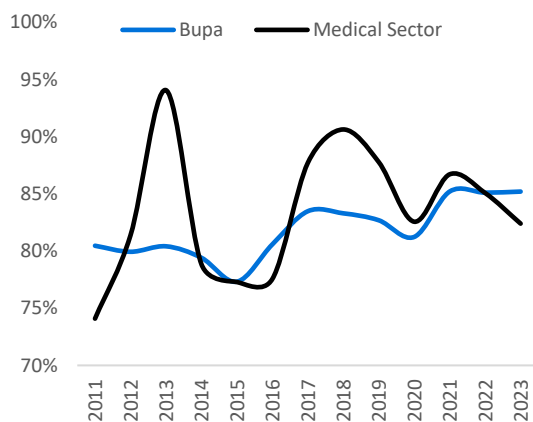
Source: Company financials and anbc research

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.

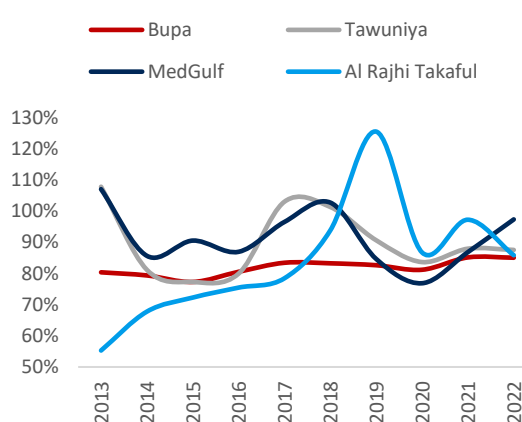
To put it into perspective, the second-largest medical insurer in the country is at least one-third smaller than the size of Bupa or 10ppt lower market share. That significant scale differential has always allowed Bupa to enjoy better underwriting margins and profitability.

**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**



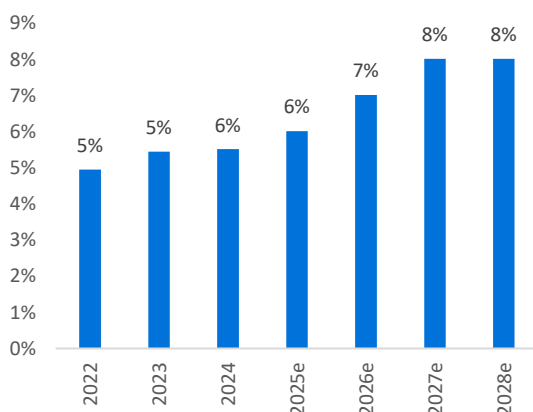
Source: Company financials and anbc research

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%.

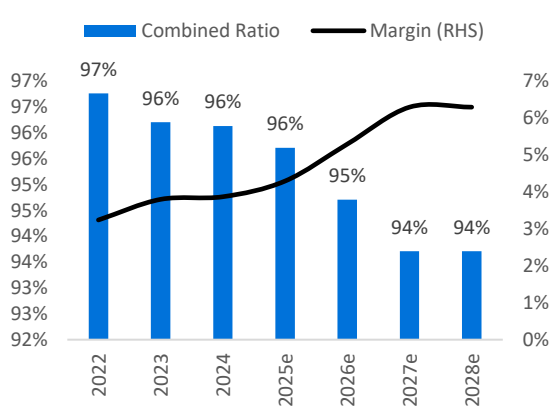
While it is no longer a prominent factor, Bupa's power on pricing coupled with placement in the large corporation allowed it to price its policies better and effectively drive better margins. While competition has increased significantly, Bupa is still in a better position, especially after the improved 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**

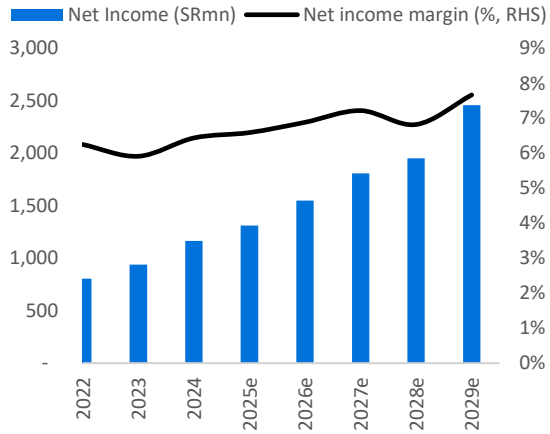


Source: Company financials and anbc research

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.

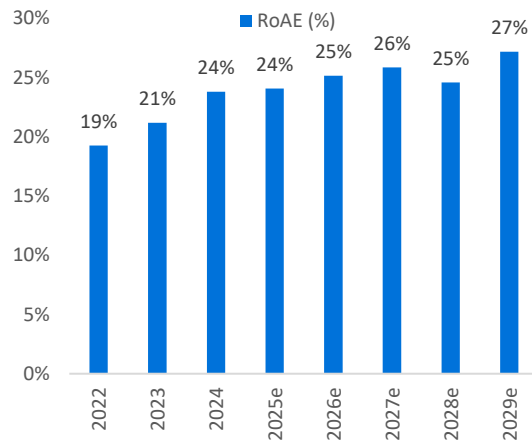


**Chart 52: Net income to grow at a five-year CAGR of 16%**



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				
<b>Target Price</b>	<b>190</b>				

### Earnings Sensitivity:

CoE	Growth rate					
	0%	1%	2%	3%	4%	
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

## The Company for Cooperative Insurance

We initiate coverage on The Company for Cooperative Insurance (Tawuniya) with an overweight rating and a target price of SR180/share. Tawuniya is the country's largest insurer, pursuing an aggressive organic growth strategy underpinned by market share gains. We think Tawuniya holds all the right levers to deliver growth. Tawuniya's vast economies of scale, key positioning in major segments (it's the largest insurer in motor and P&C while expanding in medical), operational history, and track record of better-than-sector underwriting performance coupled with its expansion into newer segments and value chain integration in both medical and motor are some of the strengths that would support further market share gains. We estimate its GWP to grow at a five-year CAGR of 12%, while improved combined ratios in the medium term should filter into robust earnings growth, which we estimate at 2024-29e CAGR of 19%. That said, we think Tawuniya is relatively undervalued despite being the largest insurer, returning profitability nearly to par and offering a better earnings outlook compared to Bupa. Valuations are attractive at 2025e PBV of 3.9x for an average RoAE of 23%.

**Strategy focused on growth:** Tawuniya's core strategy has been aggressively focused on growth and profitability, and the execution has been notable; it achieved its commitments two years ahead of targets. This strategy focused on gaining market share to become the largest insurer in the country and reaching a bottom line exceeding SR1bn; both have been delivered ahead of management's targets, driven by aggressive penetration, particularly in motor, while improved margins coupled with elevated investment yields drove profitability.

**Tawuniya has the right levers.** Despite the tight competitive dynamics and unfavorable operating environment, Tawuniya continues to deliver on growth. We think Tawuniya's vast scale, being the largest insurer, key multi-liner positioning (dominant in motor and P&C while a serious player in medical), digital competitive edge, proactive value chain integrations, and dynamic underwriting culture backed by its long operational history are some of the key strengths that should support further market share gains and substantial market expansion. We expect Tawuniya's GWP to grow at a CAGR of 12% over the next five years.

**Improved underwriting margins to drive profitability growth:** Apart from the business expansion, we think underwriting income margins are set to strengthen as operating dynamics become favorable with the normalization of claims in most segments. Tawuniya has a track record of delivering better than the sector average margins in some key segments, including motor. While the contribution of investment income would decline, underwriting income margin expansion would drive profitability growth; we estimate net income to grow at a CAGR of 19% between 2024-29e.

**Valuation:** Tawuniya, despite being the largest insurer and profitability return nearly at par, still trades at a discount to Bupa. We think its current valuation does not fully reflect Tawuniya's scale benefits and positioning, which should enable it to continue to gain market share from competitors in an environment where the sector outlook has been positive. Tawuniya is trading at a 2025e PER of 18.0x and a PBV of 3.9x.

**Risks:** Growth and margin expansion can be below expectations, especially with higher-than-expected combined ratios, due to competition, customer appetite deterioration, or unfavorable regulations. This would result in earnings growth being lower than expected.

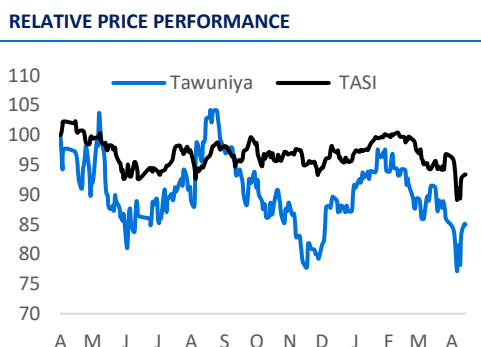
RATING SUMMARY	OVERWEIGHT
Target Price (SR)	180.0
Upside/Downside	31.2%
Div. Yield (%)	1.7%
Total Exp. Return	33.0%

ISSUER INFORMATION	
Bloomberg Code	TAWUNIYA AB
Last Price (SR)	137.2
No. of Shares (mn)	150
Market Cap bn (SR/USD)	20.6/5.5
52-week High / Low (SR)	171.4/119
12-month ADTV (mn) (SR/USD)	89.2/23.8
Free Float (%)	74
Foreign Holdings (%)	19

Last price as of April 15<sup>th</sup>

VALUATIONS	2023	2024	2025F	2026F
EPS (SR)	4.1	6.8	7.6	10.0
PER (x)	33.4	20.2	18.0	13.8
PBV (x)	5.7	4.6	3.9	3.3
DPS (SR)	1.0	1.7	2.3	4.0
Div. Yield (%)	0.7	1.2	1.7	2.9
RoAE (%)	18.3	25.2	23.4	26.2
RoAA (%)	3.7	5.2	5.1	5.8

FINANCIALS (SRbn)	2023	2024	2025F	2026F
GWP	18.5	19.8	21.9	24.6
Insurance result	0.7	1.1	1.4	1.8
Investment Income	0.5	0.6	0.5	0.6
Net Income	0.6	1.0	1.1	1.5
Investments	8.4	11.4	14.1	17.1
Insurance cont. liab.	13.4	14.4	16.6	18.6
Combined ratio (%)	98.3	97.0	96.2	95.2
Invest. Yield (%)	4.0	5.7	6.5	7.5
Net Ins. Serv. Mrg. (%)	4.7	4.9	3.4	3.4
Net Inc. margin (%)	4.0	5.6	5.7	6.6



INITIATION OF COVERAGE

## Financial Summary:

SR mn

Income Statement	2022	2023	2024	2025E	2026E	2027E	2028E	2029E	CAGR 2024-2029e
<b>GWP</b>	<b>14,356</b>	<b>18,470</b>	<b>19,822</b>	<b>21,884</b>	<b>24,620</b>	<b>27,754</b>	<b>30,901</b>	<b>34,425</b>	<b>12%</b>
Insurance service revenue	11,408	15,265	18,273	20,159	22,663	25,538	28,429	31,665	12%
Insurance service expense	(10,485)	(14,067)	(15,434)	(16,949)	(18,962)	(21,307)	(23,650)	(26,512)	11%
Net expenses from reinsurance contracts held	(606)	(517)	(1,727)	(1,830)	(1,930)	(1,995)	(2,027)	(2,027)	3%
<b>Insurance service result</b>	<b>317</b>	<b>681</b>	<b>1,111</b>	<b>1,379</b>	<b>1,771</b>	<b>2,236</b>	<b>2,752</b>	<b>3,126</b>	<b>23%</b>
Investment income	231	452	589	503	579	479	505	548	-1%
Net finance exp/income	(6)	(68)	(70)	(66)	(78)	(94)	(110)	(129)	13%
Other income/expenses	(150)	(347)	(488)	(538)	(596)	(661)	(728)	(803)	10%
Income before Zakat and Tax	392	718	1,142	1,278	1,676	1,960	2,419	2,742	19%
<b>Net Income</b>	<b>302</b>	<b>616</b>	<b>1,022</b>	<b>1,141</b>	<b>1,496</b>	<b>1,749</b>	<b>2,159</b>	<b>2,447</b>	<b>19%</b>
EPS	2.0	4.1	6.8	7.6	10.0	11.7	14.4	16.3	
DPS	0.8	1.0	1.7	2.3	4.0	5.8	7.2	8.2	
<b>Balance Sheet</b>									
Cash	1,659	2,082	2,077	1,774	986	1,102	1,260	1,767	-3%
Investments	7,044	8,388	11,449	14,122	17,062	19,243	21,577	23,832	16%
Reinsurance contract assets	2,754	3,535	3,012	3,438	3,873	4,302	4,719	5,135	11%
<b>Total Assets</b>	<b>15,260</b>	<b>18,417</b>	<b>20,996</b>	<b>24,184</b>	<b>27,294</b>	<b>30,618</b>	<b>34,127</b>	<b>37,977</b>	<b>13%</b>
Insurance contract liabilities	11,101	13,436	14,385	16,619	18,625	20,837	23,029	25,389	12%
<b>Total Liabilities</b>	<b>12,128</b>	<b>14,795</b>	<b>16,517</b>	<b>18,907</b>	<b>21,119</b>	<b>23,568</b>	<b>25,999</b>	<b>28,625</b>	<b>12%</b>
Shareholders' Equity	3,133	3,622	4,478	5,268	6,166	7,040	8,120	9,344	16%
<b>Total liabilities and equity</b>	<b>12,128</b>	<b>14,795</b>	<b>16,517</b>	<b>18,907</b>	<b>21,119</b>	<b>23,568</b>	<b>25,999</b>	<b>28,625</b>	<b>12%</b>
<b>Growth (Y/Y)</b>									
GWP	29%	7%	10%	13%	13%	11%	11%		
Insurance service revenue	34%	20%	10%	12%	13%	11%	11%		
Insurance service expense	34%	10%	10%	12%	12%	11%	12%		
Insurance service result	115%	63%	24%	28%	26%	23%	14%		
Investment income	96%	30%	-15%	15%	-17%	5%	8%		
Net Income	104%	66%	12%	31%	17%	23%	13%		
Investments	20%	29%	18%	14%	13%	12%	12%		
Total Assets	21%	14%	15%	13%	12%	11%	11%		
Insurance contract liabilities	21%	7%	16%	12%	12%	11%	10%		
<b>Key Performance Indicator</b>									
Net insurance service margin	2.7%	4.0%	5.7%	6.5%	7.5%	8.4%	9.3%	9.5%	
Net insurance and investment margin	4.8%	7.0%	8.9%	9.0%	10.0%	10.3%	11.1%	11.2%	
Combined ratio	98.6%	98.3%	97.0%	96.2%	95.2%	94.2%	93.3%	93.1%	
Net Income margin	2.6%	4.0%	5.6%	5.7%	6.6%	6.9%	7.6%	7.7%	
Investment Yield (%)	2.6%	4.7%	4.9%	3.4%	3.4%	2.5%	2.3%	2.3%	
RoA (%)	2%	4%	5%	5%	6%	6%	7%	7%	
RoE (%)	10%	18%	25%	23%	26%	26%	28%	28%	
Assets to Equity (x)	4.9	5.1	4.7	4.6	4.4	4.3	4.2	4.1	
<b>Valuation</b>									
BVPS	20.9	24.1	29.9	35.1	41.1	46.9	54.1	62.3	
P/B	6.6	5.7	4.6	3.9	3.3	2.9	2.5	2.2	
P/E	68.1	33.4	20.2	18.0	13.8	11.8	9.5	8.4	
Dividend yield (%)	0.6	0.7	1.2	1.7	2.9	4.3	5.2	5.9	

Source: Company financials and anbc research

## Investment Thesis

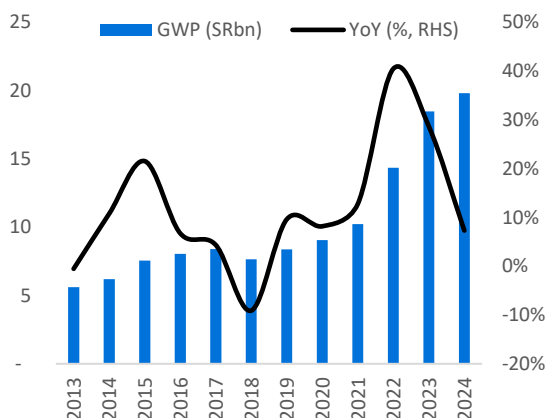
### An aggressive growth strategy focusing on market share gains

Under its five-year strategy launched in 2021, Tawuniya became quite aggressive on growth levers. The core focus of the strategy was to gain market share to become the largest insurer in the region. Surprisingly, while this coincided with a period of consolidation within the sector, Tawuniya's strategic aim had been purely organic, without any merger or acquisition activities.

This strategy focused on four key pillars with the overall goal of pursuing aggressive growth. When the plan was launched in 2021, Tawuniya was the third-largest insurer in the region. It aspired to be the leader by 2025e, which targeted topline expansion and emphasized profitability (a target of over SR1bn's bottom line). The latter had been one of its key pillars, followed by customer experience through product proposition, operational excellence through digitalization, and lastly, human talent.

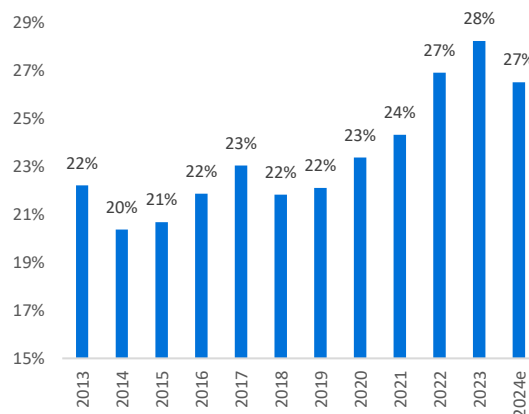
The success and robust execution of its strategy are quite notable, as it surpassed some of its key milestones two years ahead of its target. This included GWP reaching nearly SR18.5bn in 2023 vs. the 2025 target of SR17bn and a market share of 28% in 2023 vs. the 2025 target of 26%. RoAE expanded to over 25% in 2024 vs. the target levels of 20%, and a bottom line of SR1bn was reached in 2024, a full year ahead of the targeted levels.

**Chart 54: GWP grew at a four-year CAGR of 22% over 2020-2024**



Source: Company financials and anbc research

**Chart 55: As Tawuniya gained a significant market share since COVID**

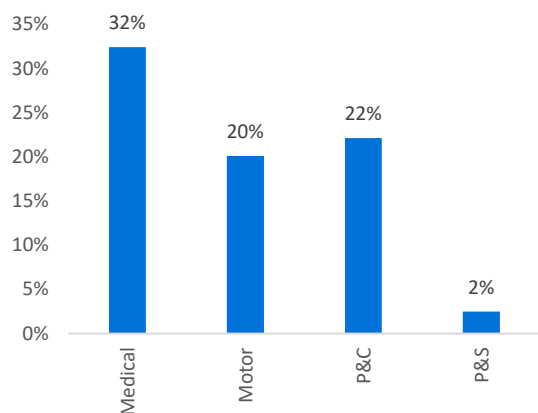


Source: Company financials and anbc research

We note that these markedly ambitious achievements have been supported by the company's dynamic approach to its product proposition, which leverages its operational history, digital innovation, and vast infrastructure, coupled with a favorable sector backdrop. While the latter resulted in favorable operating dynamics across nearly all sectors, Tawuniya's delivery on gaining market share without conceding profitability has been notable in recent years.

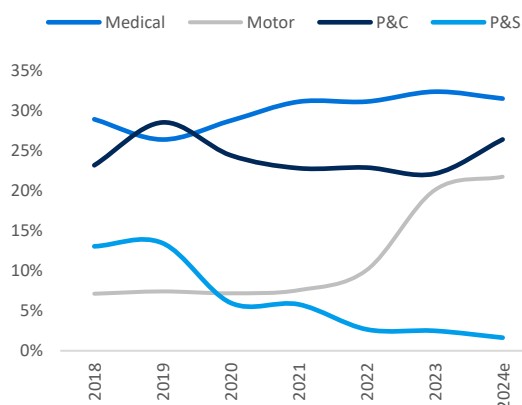
Tawuniya enjoyed key leadership positions across all major segments, barring P&S. In 2023, Tawuniya was the largest insurer in the P&C and motor segments, with a 22% market share, followed by a leading position in medical insurance after Bupa, with a 32% market share. The extent of their leadership is evident from market concentration. If we combine the market share of Bupa and Tawuniya, these two insurers account for nearly 78% of the entire medical insurance market. Similarly, in the motor segment, it shares its firm footing with Al Rajhi Takaful, and both combined make up nearly 40% of the entire segment.

**Chart 56: The insurer has a leading position in most segments (as per 2023)**



Source: Company financials and anbc research

**Chart 57: In some sectors, its leadership continues to remain intact**



Source: Company financials and anbc research

However, the execution in market penetration within the motor segment had been the key focus for Tawuniya, considering it historically had a very strong position across P&C and medical. Between 2017 and 2021, the insurer had been losing its motor market share to some other insurers in the industry as it prioritized profits over growth. This also coincided with very tight competitive dynamics and unfavorable operating environments. However, that changed significantly after 2021, and the remarkable execution is evident, as Tawuniya nearly doubled its market share from 10% to 20% in 2023.

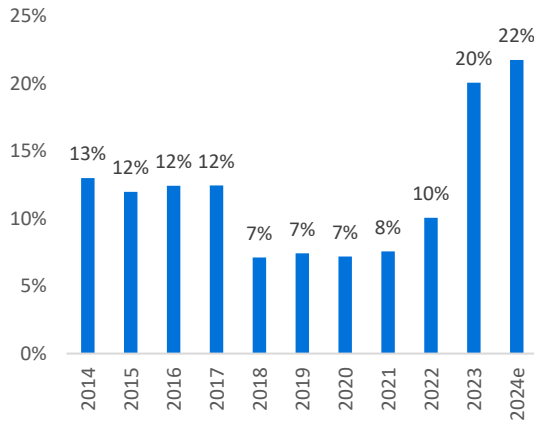
This aggressive penetration comes after the insurer repositioned itself within the segment while improving its offering through mobility ecosystem solutions. This included fleet solutions, breakdown recovery, maintenance solutions, and other value-added services, including digital offerings. With the accelerated pick-up in the enforcement of mandatory policies, Tawuniya had been ahead of the curve with the right footing to capture the significant volume coming in. Its product proposition placed Tawuniya in a sweet spot for these gains.

Meanwhile, the company has recently become a serious player in the medical segment, successfully expanded into the SME segment, and even secured some of the big corporate contracts. While we note that the retention rate is relatively low among some corporates that tend to rotate among larger insurers, some of these have recently been big wins. These include medical insurance for the employee and their family of Saudi Arabian Airlines, which, according to the official company announcement, is a contract exceeding 5% of gross written premiums in 2023. This specific contract was re-awarded to Tawuniya after nearly four years when it was lost in 2021 to other insurers. Similarly, another big win was medical insurance for STC’s employees and their families, which the company secured back in 2022 and has retained the contract successfully for the second consecutive time.

We highlight another key area where Tawuniya's execution and success in being the first insurer to secure its foothold has been exceptional. This was being selected as the lead underwriter of comprehensive Umrah and Hajj insurance. While it was a shared agreement among the 28 insurers, Tawuniya is the lead underwriter and sole insurance provider to foreign pilgrims.

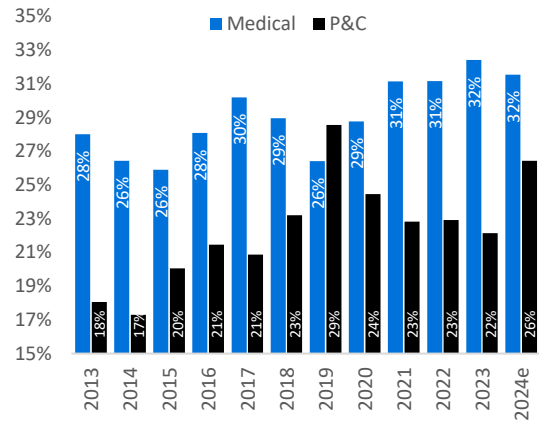
Duplication of Tawuniya's success in this has been even more surprising, as recently, it was awarded by the Insurance Authority to lead the insurance pool against the inherent defects on behalf of the insurance sector, effective for three years. This augmented Tawuniya’s footprint in the P&C segment and placed it in a leading position for shared insurance products, especially those offered by government authorities, providing room for further growth.

**Chart 58: In Motor, Tawuniya market share nearly doubled**



Source: Company financials and anbc research

**Chart 59: While in Medical and P&C, it already had a strong foothold**



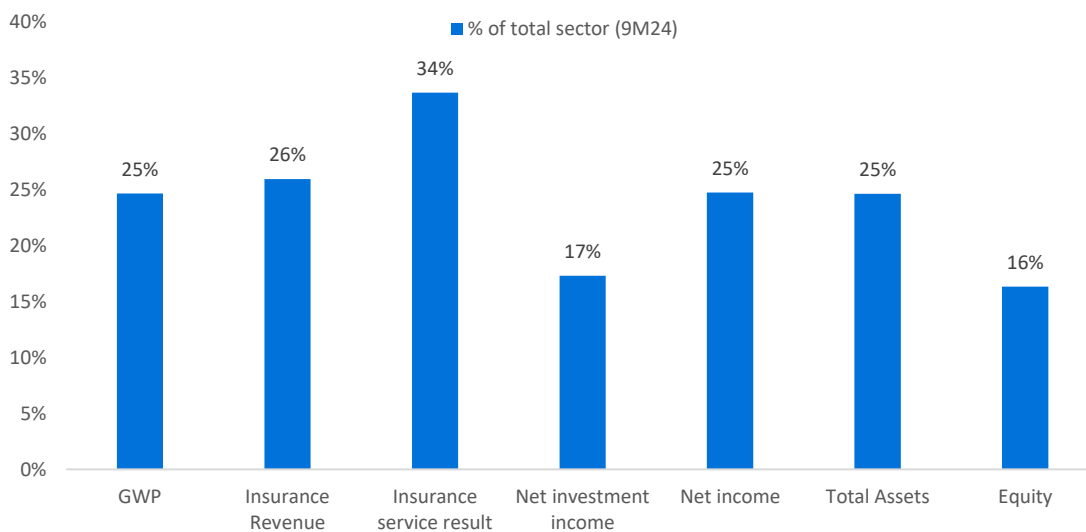
Source: Company financials and anbc research

### All the right levers for growth

Tawuniya has all the right levers to deliver on growth. With favorable operating dynamics, including a robust volumetric growth outlook sector-wide, Tawuniya is in a strong position to capture additional business volumes and gain further market share. In our view, Tawuniya’s multi-line positioning (dominant in motor, P&C, challenging in medical), scale benefit, vast infrastructure, operational history and track record to underwrite large contracts, capital buffers accompanied by strong ratings, immense focus on digitalization and its strategic vertical integration are some of the key factors that support its robust growth outlook.

Tawuniya enjoys vast scale benefits. Not only is Tawuniya the largest insurer in the country with the largest market share, but the insurer’s leadership position is visible across all financial matrices. This is more predominant within the underwriting performance, with Tawuniya’s insurance service results for 9M24 making up 34% of the results of the entire sector. Meanwhile, regarding the bottom line, Tawuniya’s net income contributed nearly a fourth of the whole industry’s profits.

**Chart 60: Its scale benefit is evident across all levels, accounting for the bulk of the industry**



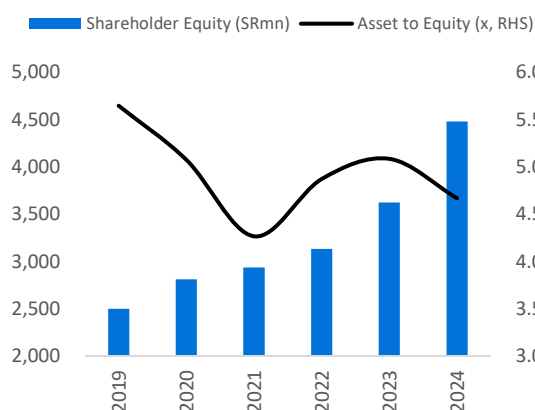
Source: Insurance Authority and anbc research

In addition to scale, Tawuniya has robust capital buffers and a firm ratings profile, two crucial factors for any insurer pursuing growth. Both should allow Tawuniya to secure additional business without restraining its books too much. While Tawuniya does not retain much P&C business on its book, with the bulk of the underwriting transferred to reinsurance, there is always room for improved retention of a more profitable segment as capital buffers further strengthen.

However, one of the real differentiators had been Tawuniya's strategic decision on vertical integration in the case of medical and digitalization, which has been a disruptor. In a recent interview, the company's CTO, Abdullah Al Shargi, indicated that Tawuniya's digital technology sales stand at over 25%, positioning the company as a leader among peers in business-to-consumer (B2C) and business-to-business (B2B). This digitalization comes from disruption created by Insurtech companies within the sector. While they made a real disruption, large insurers have increasingly been more directly involved in digitalization.

Tawuniya's digital focus has been across all layers, from application development to infrastructure enhancement and integrated solutions, leading to sustainable growth and operational efficiencies. One such product offering was Tree, a digital insurance platform initially launched for the retail motor segment but later scaled to SMEs and other insurance products, including travel and pet insurance. While small for now, it could disrupt traditional distribution channels. Since its launch at the end of 2023, there has been over 141K insurance policies underwritten through the platform with an average policy issue time of less than 2 minutes. Moreover, Tawuniya has also been using AI models in its motor underwriting to provide the right products at the right price to market, increase channel penetration, and attract more clients.

**Chart 61: Capital buffers remain robust**



Source: Company financials and anbc research

**Chart 62: with strong ratings profile**

	S&P		Fitch	
	Rating	Outlook	Rating	Outlook
2021	BBB+	Positive	A-	Stable
2022	A-	Stable	A-	Positive
2023	A	Stable	A	Stable
2024	A	Stable	A	Positive

Source: Company Presentation and anbc research

However, the biggest lever had been its vertical integration through Meena, though it's not the only insurer pursuing the same integration. After the regulator removed the restrictions on insurance companies regarding integrations, Tawuniya was the first to announce its plans for expanding into the healthcare space.

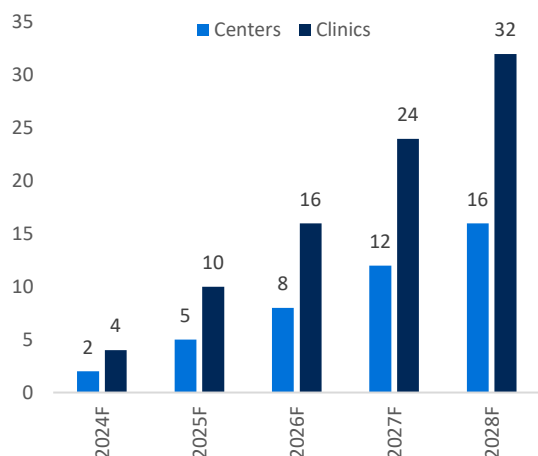
Meena aims to be a fully integrated physical and digital primary healthcare provider with over 16 clusters of healthcare centers of 48 facilities by 2028 across Riyadh, Dammam, Makkah, Jeddah, and Madinah. In this regard, since the launch, there have been six fully functional clinics and one center. The focus has been on preventive care with an entire ecosystem of clinical services, including private home healthcare service fleets.

While Meena has been an exciting value chain integration project, we don't expect any positive profitability contribution in the medium term. Healthcare operators, especially those in Saudi Arabia, tend to have very strong profitability profiles. Still, in the case of Meena, the focus is not on profits but rather on enhancing the



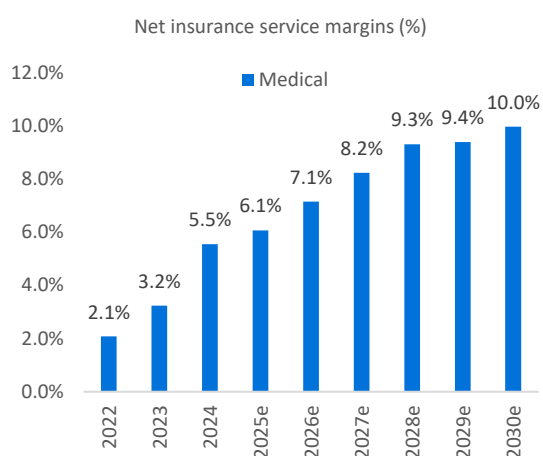
product proposition to drive sustainable growth and deliver operational efficiencies by managing claims internally. The latter, coupled with normalization of PMI, should lead to improved margins. The bottom-line contribution from Meena should be negligible, but this should be reflected in market share gains for Tawuniya, acquisition of customers, and better margins through improved claim processing.

**Chart 63: Meena targeting over 48 primary healthcare centers and clinics across the country**



Source: Company Presentation and anbc research

**Chart 64: The impact should be more visible on margins rather than profitability contribution**



Source: Company Presentation and anbc research

### Net Income to grow at a CAGR of 19% between 2024-29e

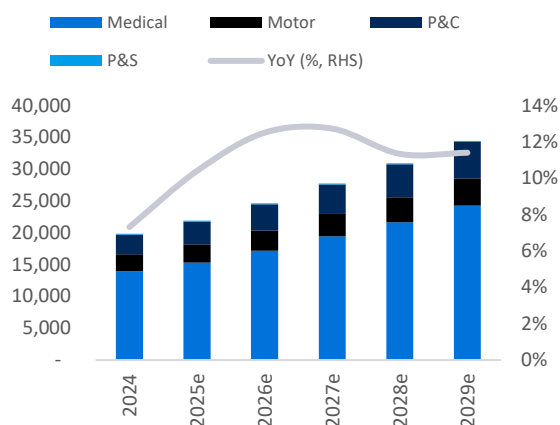
We think Tawuniya’s financial performance is set to be driven by topline expansion and relatively improved underwriting performance. We factor in a five-year CAGR of 12% for GWP growth between 2024-29e. While we note this is lower than the 19% CAGR delivered in the last five years, we don’t think delivering a similar pace and magnitude of market share gains would be easy. Operating dynamics have changed drastically and have become far more competitive than ever. Many insurers have become more proactive and are competing aggressively on growth while smaller scale players have more recently been more disruptors since elevated interest rates provided insurers room for adjustments on underwriting margin.

That said, Tawuniya is still best positioned to lead the sector, and hence, we only factor in a 197bps increase in market share from estimated 2024e levels within the next five years. This is less than a half of the gains Tawuniya delivered in between 2020-2023 and that too within a relatively short period. Moreover, this market share gain of 197bps is from the 2024e base, which we estimate has been slightly lower than 2023, as we suspect that Tawuniya’s market share has been marginally under pressure, especially within the medical and life insurance segments.

That said, we expect Tawuniya to continue challenging mono-insurers’ dominance within the medical segment and leverage its strategic initiatives, including Meena, for aggressive customer acquisition. Moreover, as mentioned previously, the company’s recent track record has been impressive in customer acquisition and retention, particularly in the large corporation segment. Similarly, while the track record within motor has been remarkable, the recent shift toward profitable growth at a time of marked price pressure across the segment indicates a slightly less proactive stance. That said, scale and strong brand recognition cannot be discounted.

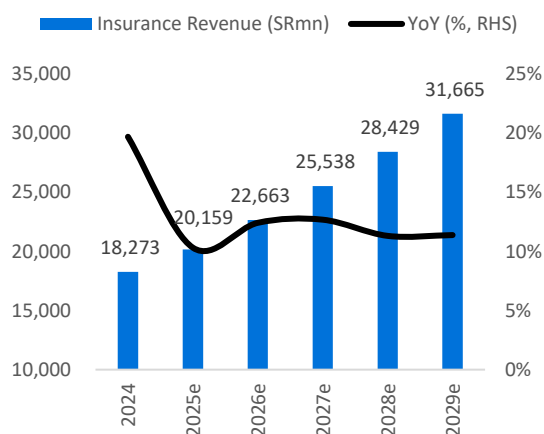
However, while medical and motor would be key contributors to revenue growth, in terms of GWP, Tawuniya’s most substantial foothold is in P&C, where we expect growth to exceed the other sector considering the strong tailwinds and Tawuniya’s best positioned to capture the additional business due to its strong capital buffers coupled with firm ratings profile.

**Chart 65: Gross written premiums to grow at a five-year CAGR of 12%**



Source: Company financials and anbc research

**Chart 66: Supporting growth in revenue expected to more than double from 2023 levels**



Source: Company financials and anbc research

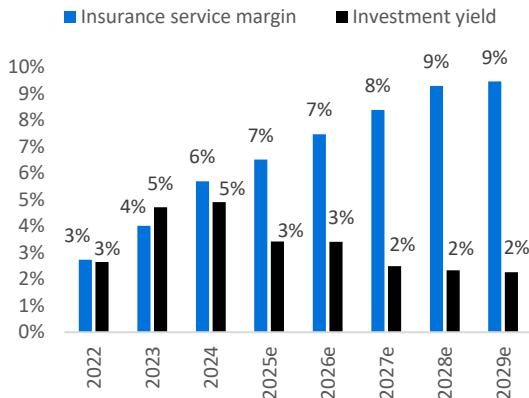
Secondly, underwriting income would be in the driving seat for profitability growth. Underwriting performance would drive profits amidst declining investment yields, with the share of investment income continuing to decline due to interest rate cuts. While the bulk of the investment book has been secured under term deposits with longer durations, as lower interest rates filter into lower yields, these deposits would be repriced at lower rates. We forecast that the share of investment income will decline from 36% in 2024 to less than 18% by 2027e, with the underwriting income contribution increasing to over 82%.

Nearly all sectors will continue to witness improved underwriting margins. This is supported by favorable sector-wide trends, resulting from normalization of claims, lower private medical inflation, and a slightly more favorable pricing environment. Moreover, the upward price adjustments that have collectively passed on over the last nearly two years would also filter into improved margins as they previously had been equally matched by pressures from higher claims.

However, Tawuniya had a historical track record that was better than the sector average loss ratio (pre-IFRS 4), particularly within the motor and P&C sectors. The latter is relatively stable over the cycles and far better than the sector average. However, the risk of a one-off sharp increase cannot be ruled out. Meanwhile, in motor, the preference towards growth without ceding profits resulted in a strategy that did not allow room for much margin pressures and consistently performed better-than-sector average as its brand recognition and value chain integration allowed Tawuniya to compete without adjusting premium to the extent some of the insurers had been doing.

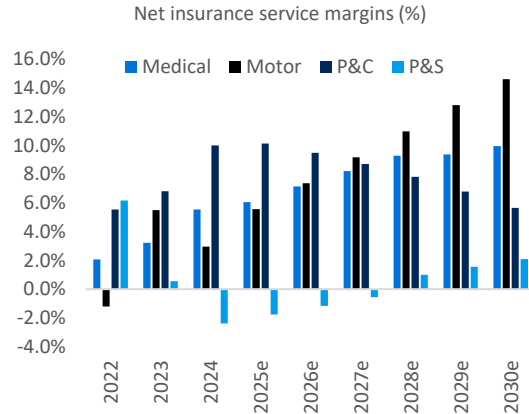
However, in medical, there is still room for further improvement, especially compared to Bupa, the largest medical insurer. Relatively differentiated positioning within the sector partially led to a relatively higher than the peer's claim ratio, but the increasing contribution of large corporates and higher margin SMEs to the portfolio, coupled with better oversight, are some of the factors leading to improved margins.

**Chart 67: Underwriting margins are expected to improve, more than offsetting lower yields**



\*Net insurance service margin net of finance cost  
Source: Company financials and anbc research

**Chart 68: Improvement should be across all sectors but predominately in medical and motor**

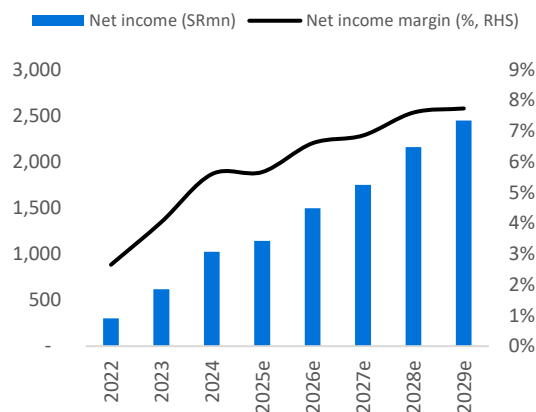


Source: Company financials and anbc research

However, the performance has been even more remarkable in recent years. Despite the price war in the motor segment, elevated medical inflation and claims within medical, and exceptionally higher claims in P&C, Tawuniya’s underwriting margin improved in 2024 to 5.7%. The combined ratio improved over 130bps to 97%, with the margin increasing to 3.0% vs. 1.7% in 2023. Looking at core underwriting income, the insurance service margin net of finance cost increased by c170bps in 2024, which came in addition to 130bps in 2023, making it a second consecutive year with robust margin expansion.

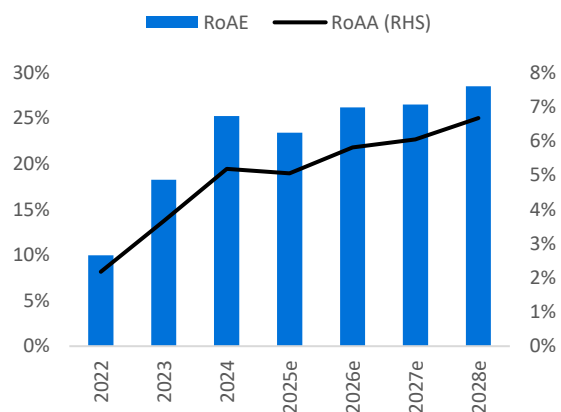
Tawuniya’s business expansion would filter in even more strongly into profitability expansion due to improved underwriting margins, though lower investment yields would slightly offset these. Overall, we expected net income to grow at a CAGR of 19% between 2024-29e. While we penciled in a revenue CAGR of 12% between the same period and broadly stable net investment income, the rest of profitability expansion predominantly comes from better underwriting margins. However, we think the bulk of the RoAE expansion is already behind us, and Tawuniya has exceeded its strategic delivery of profitability returns.

**Chart 69: Net income to grow at a five-year CAGR of 20%**



Source: Company financials and anbc research

**Chart 70: Though bulk of RoAE expansion is likely behind us now**



Source: Company Financials and anbc research

### Valuations:

We have used the residual income method with a cost of equity of 9.6% to value Tawuniya at a target price of SR180/share. The stock trades at a 2025e PER of 18.1x and PBV of 3.9x. While we don't expect any significant RoAE expansion, considering most has been delivered in 2024, we still think the current valuation discounts Tawuniya's large scale, brand, strong foothold, and robust earnings outlook. Moreover, despite Tawuniya becoming the largest insurer and profitability return reaching at par with its peers, it is still trading at a discount, especially compared to Bupa Arabia. We have an overweight rating on Tawuniya, and our target price values the stock at a 2025e PBV of 3.9x for an average RoAE of 26% between 2024-28e.

#### Valuation Table:

SRmn	2026e	2027e	2028e	2029e	Terminal
Beginning BV of equity	5,268	6,166	7,040	8,120	9,344
Cost of equity (%)	9.6%	9.6%	9.6%	9.6%	9.6%
Cost of equity	504	590	674	777	894
Net income	1,496	1,749	2,159	2,447	2,816
Excess equity return	992	1,159	1,485	1,670	1,922
Terminal excess equity return					27,858
Discount factor	1.1	1.2	1.3	1.4	1.6
Present value	905	966	1,129	1,158	18,852

Equity invested	4,478
PV of excess return on Equity	23,010
Value of equity	27,488
Number of shares (mn)	150
<b>Target Price</b>	<b>180</b>

#### Earnings Sensitivity:

CoE	Growth rate					
	8%	1%	2%	3%	4%	5%
8%	210	230	270	320	400	
9%	180	200	220	250	300	
10%	160	170	<b>180</b>	200	230	
11%	140	150	160	170	190	
12%	120	130	140	150	160	

Source: Company financials and anbc research

## Walaa Cooperative Insurance Co

Walaa Cooperative Insurance Co (Walaa) is the fifth largest insurer in Saudi Arabia with a GWP market share of 5.1% (as of 2023) and offers diversified exposure across all major segments. Over the years, the insurer has grown organically and through its two mergers. Now that the company has raised additional capital through recent rights issues, it can pursue an aggressive growth strategy underpinned by market share gains. Considering past track record and execution of penetration, strategic partnerships, geographical footprint, increased capabilities, and a firm position in some of the key segments (second largest in P&C) places Walaa in a relatively strong position to deliver growth - we forecast a 13% GWP CAGR over the next five years. Margins should expand as retention improves, scale benefits filter through, elevated claims normalize, and on enhanced operational efficiency - we expect EPS to grow at a five-year CAGR of 39%. At 2025e PBV of 1.3x, valuations have become attractive, post recent correction after weak 4Q24 earnings print. We believe the rights issue overhang is behind us, and capital deployment offers a robust growth outlook and a strong RoAE expansion potential in the medium term. We initiate coverage with an overweight rating and a target price of SR24/share.

**Shifting gears for growth:** Over the last four years, Walaa has re-positioned itself entirely. During this period, Walaa acquired and merged with two different insurers and, more recently, raised capital through rights issues. With additional capabilities, segment exposure, infrastructure, strategic partnership, enhanced scale, and expanded footprint geographically, Walaa is all set to pursue an even more aggressive growth strategy focusing on market share gains in addition to delivering improved profitability and return profiles.

**Ambitious growth targets.** Walaa aspires to be the third-largest insurer in the country. It has already become the third largest in terms of capital but fifth in terms of GWP. Walaa would deploy capital across all segments, prioritizing growth and improved profitability. In motor, the focus is on regaining its leadership positioning, though with a different proposition, while in P&C, Walaa would increase its scale and increase retention to support profitability. However, in the medical segment, the short-term focus is to build on the technical capabilities and infrastructure.

**Offering robust earnings outlook:** Even if Walaa is able to deliver a 1ppt gain in market share (conservative considering past performance), we estimate GWP would nearly double. We expect Walaa to deliver a 13% GWP CAGR over the next five years, which, coupled with a lower combined ratio as scale benefits and normalization of elevated claims result in improved margins, would filter into a robust earnings outlook. We expect net income to grow at a CAGR of 39% between 2024-29e.

**Valuations** have become attractive post the recent share price correction after weak 4Q24 earnings print. RoAE dilution from the rights issues had been a key overhang, which we think is behind us, with capital deployment offering a robust outlook amidst favorable sector tailwinds. Walaa currently trades at a 2025e PER of 19.5x and PBV of 1.3x, which we believe does not reflect the growth outlook and RoAE potential in the long term, supported by a diversified exposure across all segments and ambitious growth plans.

**Risks:** Execution risks are high for Walaa, where tight competitive dynamics and regulations would restrict growth. However, there are risks for margins and resulting profits if the insurer fails to deliver on its strategy or if market dynamics remain unfavorable longer than expected.

RATING SUMMARY	OVERWEIGHT
Target Price (SR)	24
Upside/Downside	23.3%
Div. Yield (%)	-
Total Exp. Return	23.3%

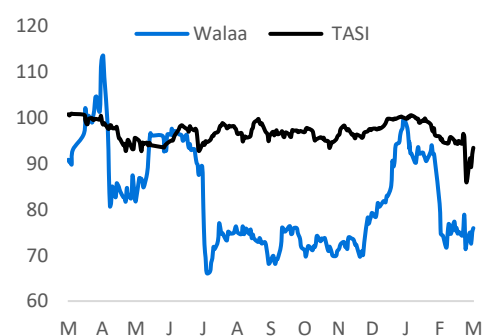
ISSUER INFORMATION	
Bloomberg Code	WALAA AB
Last Price (SR)	19.5
No. of Shares (mn)	128
Market Cap bn (SR/USD)	2.5/0.7
52-week High / Low (SR)	28.6/16.7
12-month ADTV (mn) (SR/USD)	18.3/4.9
Free Float (%)	94
Foreign Holdings (%)	3

Last price as of April 15<sup>th</sup>

VALUATIONS	2023	2024	2025F	2026F
EPS (SR)	1.2	0.5	1.0	1.5
PER (x)	16.8	38.6	19.5	13.2
PBV (x)	2.0	1.4	1.3	1.2
DPS (SR)	-	-	-	-
Div. Yield (%)	-	-	-	-
RoAE (%)	12.4	4.1	6.7	9.2
RoAA (%)	3.8	1.4	2.5	3.3

FINANCIALS (SRmn)	2023	2024	2025F	2026F
GWP	3,346	3,505	4,005	4,568
Insurance result	28	(36)	79	160
Investment Income	165	140	109	110
Net Income	148	64	127	189
Investments	776	706	783	861
Insurance cont. liab.	2,555	2,674	3,135	3,648
Combined ratio (%)	100.1	101.7	98.5	96.8
Invest. Yield (%)	0.8	(1.3)	1.9	3.6
Net Ins. Serv. Mrg. (%)	7.7	5.1	3.3	2.9
Net Inc. margin (%)	5.1	1.9	3.5	4.5

### RELATIVE PRICE PERFORMANCE



## Financial Summary:

SR mn

Income Statement	2022	2023	2024	2025E	2026E	2027E	2028E	2029E	CAGR 2024-2029e
<b>GWP</b>	<b>2,642</b>	<b>3,346</b>	<b>3,505</b>	<b>4,005</b>	<b>4,568</b>	<b>5,177</b>	<b>5,803</b>	<b>6,480</b>	<b>13%</b>
Insurance service revenue	2,572	2,888	3,345	3,617	4,150	4,737	5,345	6,000	12%
Insurance service expense	(1,670)	(1,679)	(1,989)	(2,090)	(2,531)	(3,073)	(3,690)	(4,389)	17%
Net expenses from reinsurance contracts held	(1,023)	(1,180)	(1,392)	(1,448)	(1,459)	(1,428)	(1,356)	(1,240)	-2%
<b>Insurance service result</b>	<b>(120)</b>	<b>28</b>	<b>(36)</b>	<b>79</b>	<b>160</b>	<b>235</b>	<b>300</b>	<b>370</b>	
Investment income	78	165	140	109	110	106	89	94	-8%
Net finance exp/income	(6)	(4)	(9)	(10)	(11)	(12)	(14)	(16)	13%
Other income/expenses	(8)	(26)	(12)	(14)	(16)	(18)	(20)	(22)	13%
Income before Zakat and Tax	<b>(56)</b>	<b>163</b>	<b>83</b>	<b>164</b>	<b>243</b>	<b>311</b>	<b>355</b>	<b>427</b>	<b>39%</b>
<b>Net Income</b>	<b>(68)</b>	<b>148</b>	<b>64</b>	<b>127</b>	<b>189</b>	<b>241</b>	<b>275</b>	<b>330</b>	<b>39%</b>
EPS	(0.5)	1.2	0.5	1.0	1.5	1.9	2.2	2.6	
DPS	-	-	-	-	-	0.4	0.4	0.8	
<b>Balance Sheet</b>									
Cash	534	512	962	1,202	1,660	2,166	2,716	3,323	28%
Investments	405	776	706	783	861	930	1,005	1,059	8%
Reinsurance contract assets	801	790	741	860	982	1,105	1,232	1,361	13%
Total Assets	3,588	4,107	4,766	5,377	6,108	6,886	7,707	8,576	12%
Insurance contract liabilities	2,111	2,555	2,674	3,135	3,648	4,202	4,771	5,373	15%
Total Liabilities	2,471	2,839	2,942	3,425	3,968	4,554	5,155	5,792	15%
Shareholders' Equity	1,116	1,272	1,832	1,959	2,147	2,340	2,560	2,791	9%
<b>Total liabilities and equity</b>	<b>2,471</b>	<b>2,839</b>	<b>2,942</b>	<b>3,425</b>	<b>3,968</b>	<b>4,554</b>	<b>5,155</b>	<b>5,792</b>	<b>15%</b>
<b>Growth (Y/Y)</b>									
GWP	27%	5%	14%	14%	13%	12%	12%		
Insurance service revenue	12%	16%	8%	15%	14%	13%	12%		
Insurance service expense	1%	18%	5%	21%	21%	20%	19%		
Insurance service result	-123%	-228%	-319%	102%	47%	28%	23%		
Investment income	111%	-15%	-22%	1%	-4%	-16%	6%		
Net Income	-317%	-57%	98%	48%	28%	14%	20%		
Investments	37%	30%	19%	27%	23%	20%	18%		
Total Assets	14%	16%	13%	14%	13%	12%	11%		
Insurance contract liabilities	21%	5%	17%	16%	15%	14%	13%		
<b>Key Performance Indicator</b>									
Net insurance service margin	-4.9%	0.8%	-1.3%	1.9%	3.6%	4.7%	5.4%	5.9%	
Net insurance and investment margin	-1.9%	6.5%	2.8%	4.9%	6.2%	6.9%	7.0%	7.5%	
Combined ratio	105.2%	100.1%	101.7%	98.5%	96.8%	95.7%	95.0%	94.5%	
Net Income margin	-2.6%	5.1%	1.9%	3.5%	4.5%	5.1%	5.1%	5.5%	
Investment Yield (%)	5.0%	7.7%	5.1%	3.3%	2.9%	2.4%	1.7%	1.6%	
RoA (%)	-2%	4%	1%	3%	3%	4%	4%	4%	
RoE (%)	-6%	12%	4%	7%	9%	11%	11%	12%	
Assets to Equity (x)	3.2	3.2	2.6	2.7	2.8	2.9	3.0	3.1	
<b>Valuation</b>									
BVPS	8.8	10.0	14.4	15.4	16.8	18.3	20.1	21.9	
P/B	2.2	2.0	1.4	1.3	1.2	1.1	1.0	0.9	
P/E	0.2	16.8	38.6	19.5	13.2	10.3	9.0	7.5	
Dividend yield (%)	-	-	-	-	-	1.9	2.2	4.0	

Source: Company financials and anbc research

## Investment Thesis

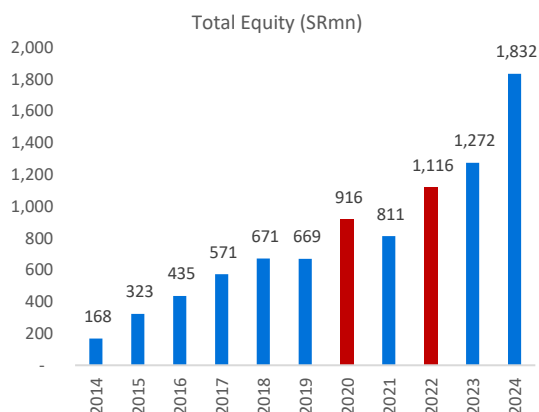
### Shifting gears to growth

Developments over the last four years have finally placed Walaa in a position to be more aggressive on growth levers. Through its two mergers (Metlife AIG in 2020, followed by SABB Takaful in 2022) and, more recently, the capital raised through its rights issue, Walaa should be able to push forward on growth. We note that these three developments have been integral to Walaa's story, marred by integration costs and challenging operating dynamics. Despite that, it has grown to be the fifth-largest insurer in the country by GWP.

Walaa concluded what is said to be Saudi Arabia's insurance industry's first merger deal in 2020. This was Walaa's merger with MetLife AIG ANB Cooperative Insurance Company (MetLife AIG). The deal was announced in June'19 when both companies signed an MoU for a potential merger, leading to the winding up of the transaction in March '20 when MetLife AIG was delisted.

While the merger was still in the early stages of integration, which was initially delayed due to COVID-19, what came as a surprise was that Walaa entered into another merger deal. This was just over a year in Jul'21, when WALAA and SABB Takaful Co. signed a non-binding memorandum of understanding (MoU) to evaluate the possibility of a merger, which eventually materialized in Oct'22.

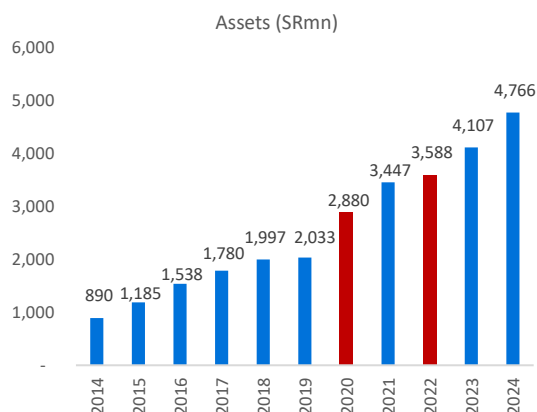
**Chart 71: Walaa issued additional equity for its merger deal**



\*The red column indicates the year the merger took place

Source: Company financials and anbc research

**Chart 72: Walaa's assets doubled from SR2bn to over SR4.1bn between 2019-2023**



\*The red column indicates the year the merger took place

Source: Company financials and anbc research

What was even more surprising was that Walaa, without any considerable cash reserves or financial support, was pursuing an aggressive M&A strategy. In both deals, Walaa ended up increasing its capital. In the case of Metlife AIG, it issued 11.84mn new shares, while in the case of SABB Takaful, Walaa issued 20.41mn new shares. As a result, Walaa's share capital increased from SR528mn in 2019 to SR851mn at the end of 2022. Meanwhile, Walaa's asset base increased from SR2bn in 2019 to over SR3.6bn in 2022.

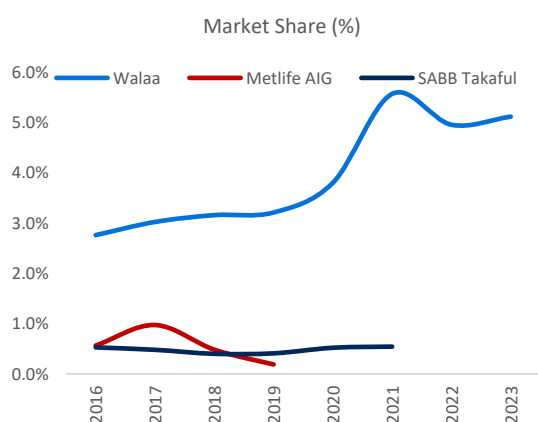
Interestingly, Walaa's inorganic strategy did not target growth at all. This is suggested by the fact that both insurers that were merged into Walaa contributed less than 10% to its GWP at the time of consolidation.

Walaa had a significantly higher market share than both companies, being a much larger insurer in scale and capital. In the case of Metlife AIG in 2019, Walaa had a GWP of SR1.2bn (with over 3.2% market share), while it is estimated that Metlife AIG had an annualized GWP of less than SR100mn and less than 0.2 ppt of market share.

SABB Takaful was slightly bigger than Metlife but significantly smaller than Walaa. In 2021, when merger discussions were ongoing, SABB Takaful had a market share of 0.5% vs. Walaa’s share, which had increased to 5.6% then, with a GWP of nearly SR2.4bn.

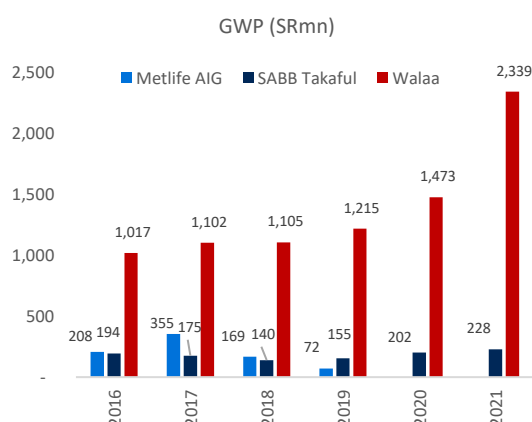
Growth did not make sense in these merger deals, as it would have added negligible business expansion for Walaa. Ironically, both insurers lacked scale and were loss-making entities at the time of the merger. Metlife AIG made a loss of over SR12mn in 9M19 and reported negative bottom lines consecutively for the previous four years (at least since 2015, from which data is publicly available). Similarly, for five straight years into the merger with Walaa, SABB Takaful also recorded net losses between 2017 and 2021.

**Chart 73: However, the motivation behind mergers was hardly gaining market share**



Source: Company financials and anbc research

**Chart 74: At the time of the merger, both added less than 10% to Walaa’s GWP**



Source: Company financials and anbc research

Without an expansion and profitability boost, mergers appeared to quickly become a liability for Walaa, but they are vital to its growth story. Both offered growth levers to Walaa, which we believe is now even more equipped for aggressive market penetration.

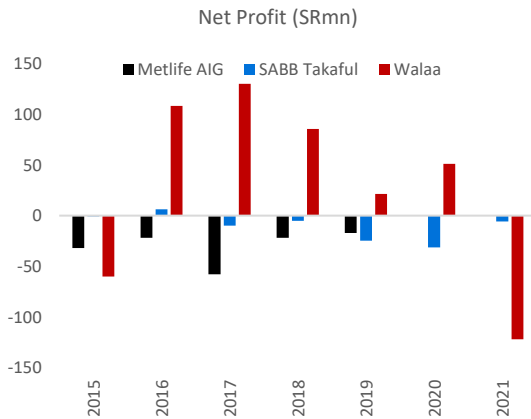
While Metlife AIG had been in a relatively weaker financial position, we think Walaa gained the most through that merger, which included i) an increased product portfolio, including a license to sell P&S insurance products, and ii) an expanded and diversified customer base in addition to geographical expansion since Walaa was predominantly based in the Eastern Province.

However, one of the biggest benefits of this arrangement for Walaa was the addition of the Arab National Bank (ANB) as a strategic shareholder (since it owned Metlife AIG). This offered much-needed reach and infrastructure expansion.

A relationship with a banking institute offered a strong runway for growth, considering the physical presence and correlated offering. This is precisely what was also achieved with the second merger with SABB Takaful, opening relationships with Saudi Awal Bank (SABB AB), that owned 15% of Walaa. Apart from that, Walaa gained a combination of administrative, technical, and infrastructure capabilities, especially for the insurance products within the P&S segment.

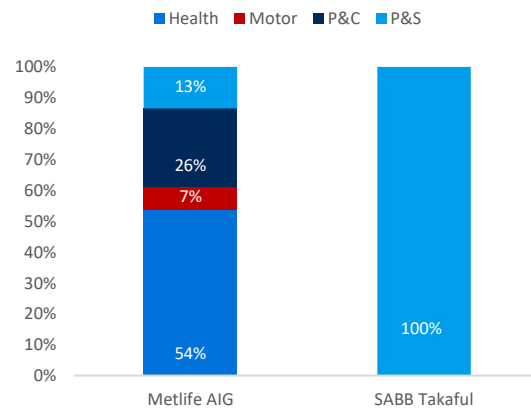


**Chart 75: Moreover, both were loss-making entities when the mergers happened**



Source: Company financials and anbc research

**Chart 76: However, it allowed the expansion of vertical and geographical presence**



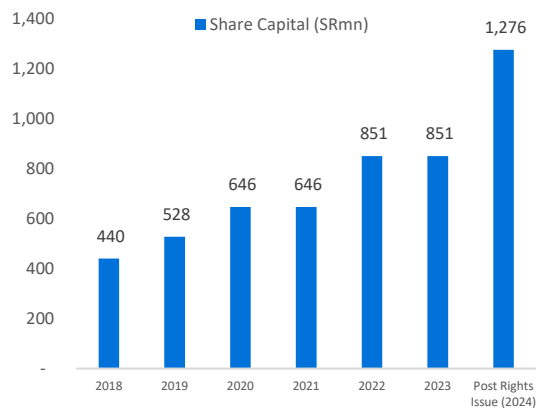
Source: Company financials and anbc research

After the merger, Walaa enhanced its product portfolio, expanded its reach, and created strategic partnerships to pursue aggressive growth strategies underpinned by market share gains. However, the last lever left was strengthening its balance sheet to support the additional volume and increase buffers so that the company could deliver on the expansion plans.

In this regard, Walaa issued a rights issue to raise its capital, which shareholders approved during the extraordinary general meeting (EGM) held on November 26'24. The 49.97% rights issues, reflected in 2024 financials, increased the share capital by SR425mn. The new share capital is estimated to be SR1.3bn, placing Walaa among the top three insurers in the country after Bupa and Tawuniya, with the highest share capital. Walaa has entered among the only five insurers with share capital exceeding SR1bn.

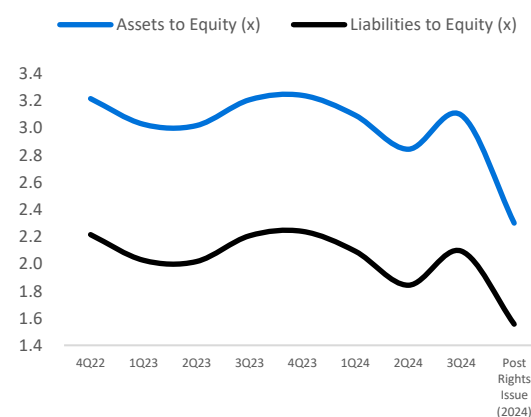
The increased share capital is crucial for Walaa's growth. It not only offers a better balance sheet structure but also increases the insurer's potency to retain more risk on its balance sheet. Solvency will decline drastically, allowing room for expansion for Walaa as it deploys additional capital to pursue what we expect to be an aggressive and ambitious growth plan.

**Chart 77: Share Capital exceeds SR1.2bn, placing it third largest in the sector in 2024**



Source: Company financials and anbc research

**Chart 78: Offering a significant boost to the balance sheet to pursue growth**



Source: Company financials and anbc research

### Capital deployment targets ambitious expansion

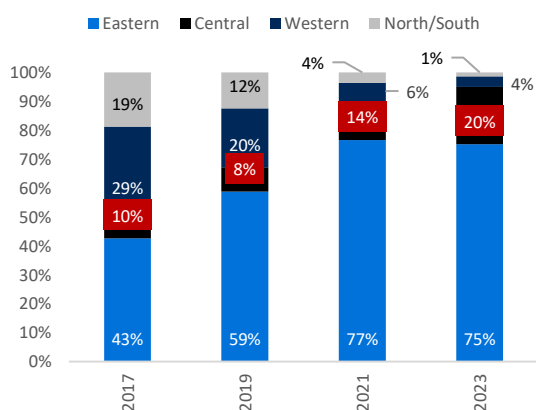
We think Walaa now has all the right levers to pursue its goals of aggressive market penetration underpinned by market share gains. Barring the inorganic growth, which added only a relatively meager increase in market share, Walaa's delivery of a nearly 200bps increase in market share (2023 vs. 2019) is quite impressive with notable execution. However, it plans not to stop there but to push ahead.

In the latest prospectus issued for the rights issue, Walaa management outlined its core corporate strategy. One of the key pillars is growth, with the ambitious target of becoming the third-largest insurer in the country. Currently, Walaa is the fifth largest insurer in terms of GWP and third largest in share capital, implying that the new capital deployment is primarily focused on gaining market share and increasing GWP growth.

Based on our calculation and 9M24 GWP numbers, Walaa needs to take another 900bps market share to become the third largest insurer in Saudi Arabia. This is nearly over SR5bn in GWP on top of its current portfolio; in other words, to achieve its target, Walaa would require growing its current GWP by almost 3x.

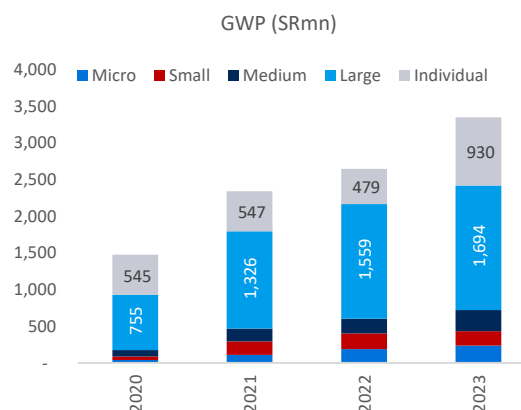
Other key pillars of the strategy included i) expansion vertically and geographically, ii) increased risk-taking capacity to obtain a higher retention rate, iii) becoming an active reinsurance company, iv) vertical value chain integration, and v) digitalization. Walaa, though initially centered around the Eastern Province, the country's largest region and oil hub, has expanded its footprint across the entire country, especially with the mergers. However, the higher contribution of the P&C business, especially some of the energy contracts, means that the GWP is highly concentrated within the Eastern Province.

**Chart 79: The Eastern hub continues to remain a key contributor**



Source: Company financials and anbc research

**Chart 80: Increasing presence in SMEs, though large corporate is the biggest contributor**



Source: Company financials and anbc research

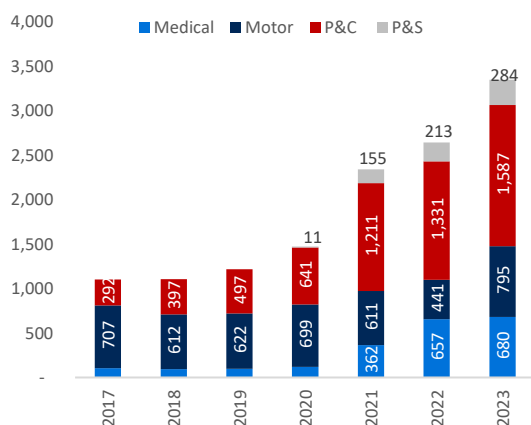
Capital would be deployed in nearly all segments to drive growth. Walaa already has a strong foothold, especially in P&C and motor, where the most focus would be, closely followed by the medical segment. Life is still a long-term play, though Walaa would try to expand from savings products to other protection products, especially in collaboration with its strategic financial partners.

Walaa is the second largest insurer in P&C after Tawuniya and has a firm base in the country's largest oil hub. In energy alone, Walaa contributes nearly 45% of the entire sector's GWP and also has a stronghold within property and engineering. The focus is to grab a larger share of the growing pie, which is benefiting from the tails of a strong CAPX cycle led by the quasi-public sector. Walaa will leverage its relationship with Aramco (operational history and track record of underwriting for Aramco), and particularly with enhanced capital buffers, it is set to underwrite even bigger contracts within the P&C.

In the Motor segment, Walaa was the leading insurer, especially in Third-Party liability (TPL retail) insurance. However, during the merger integration phase, Walaa scaled back its business significantly, as the challenging operating environment undermined profitability returns in the sector. Walaa opted for a more prudent approach. Its market share declined from 8% in 2020 to a low of 4% in 2022, though it slightly increased to 5.6% in 2023.

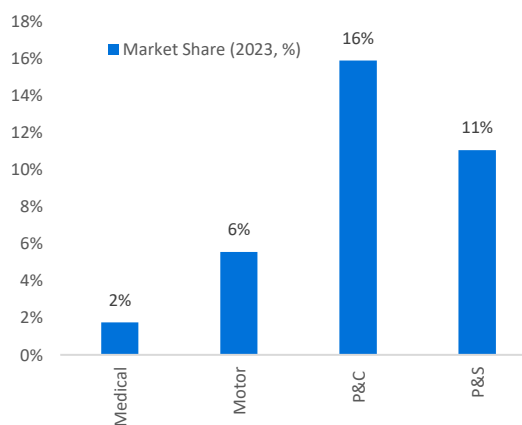
However, Walaa will target regaining the lost ground in the motor segment. The more proactive strategy would focus on realigning Walaa's positioning in the sector and expanding vertically across the entire chain, emphasizing corporate positioning coupled with retail expansion with a different proposition, including digital integration. Walaa would aggressively gain market share through improved underwriting services amidst a slightly challenging operating environment where prices have been under pressure. However, once the operating environment becomes more favorable as the price environment normalizes, Walaa could go full throttle on growth.

**Chart 81: P&C and Medical supported growth in GWP (SRmn)**



Source: Company financials and anbc research

**Chart 82: Walaa is the second-largest insurer in the P&C segment and among the leading in motor**

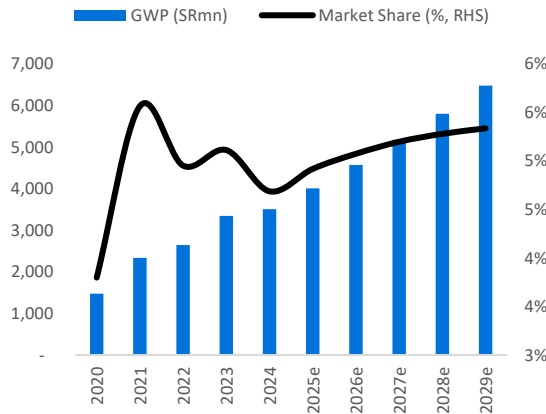


Source: Company financials and anbc research

Walaa is a very small-scale insurer in the medical segment with less than 2% market share. That said, it aspires to grow big with this segment, but before growth, the key priority in the medical segment is building on in-house claim management systems and other capabilities, including salesforce before the company can pursue meaningful growth and establish a better footprint within the largest insurance segment that is set lead the sector growth. Hence, any increase would be gradual within the medical segment. That said, room for growth remains vast as we estimate that even if Walaa takes another 1ppt market share, its medical GWP would more than double over the next five years.

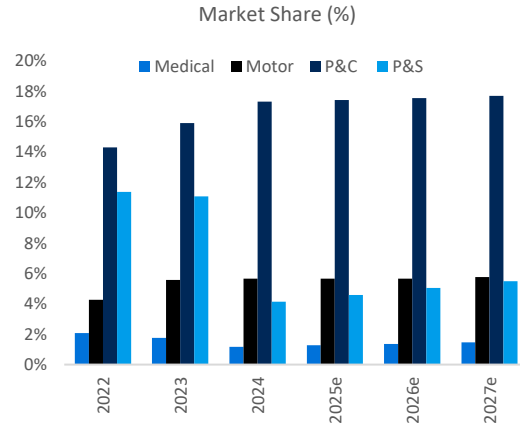
In our estimates, we have factored in approximately 1 ppt market share gain over the next five years, which would drive a 13% GWP CAGR over 2024-29e. Medical is likely to deliver the most robust growth among all sectors in terms of percentage growth since it comes from a small base. This should be followed by motor and P&C. The latter would continue to be the key contributor to Walaa's overall GWP, which is unlikely to change materially.

**Chart 83: We estimate GWP to grow at a five-year CAGR of 13% over 2024-2029**



Source: Company financials and anbc research

**Chart 84: We factor in only 1 ppt gain in market share vs. nearly 2 ppt in the last five years**

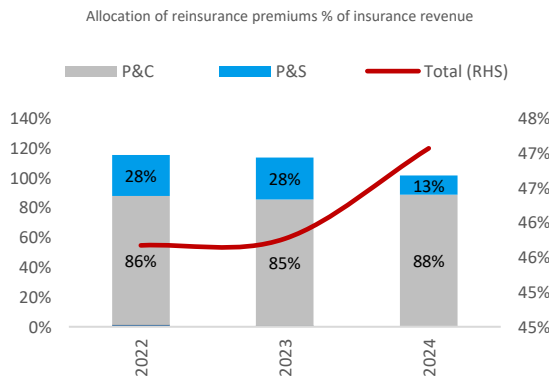


Source: Company financials and anbc research

We note another key area for capital deployment that would drive improved margins and profitability. Low retention remained one of the biggest challenges since a firm foothold, especially within the higher-margin P&C segment, does not filter into profits as the bulk of the business is sold to the reinsurer. Looking at the Allocation of reinsurance premiums as a percentage of insurance revenue, nearly 85-90% of P&C revenue is allocated to reinsurers, with only negligible business being retained on the book.

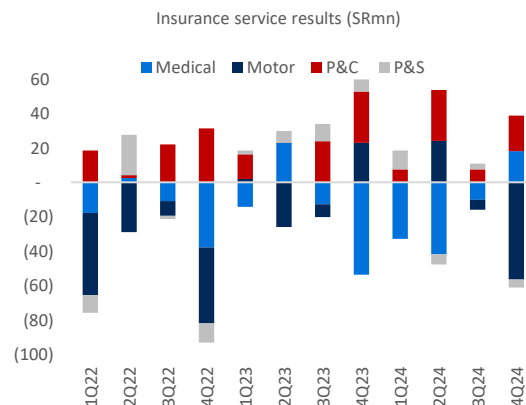
Walaa would aim to increase it over time and grow and develop its business in the inward reinsurance portfolio. The reinsurance business would be a longer-term play, though Walaa has the regulatory license to practice reinsurance services. That said, a strong credit rating would also be quite supportive of this growth in the P&C business and improved retention as well, with a Moody's rating of A3 and an S&P rating of A-. With improved balance sheet strengths, Walaa is set to retain more risk on its own balance sheet, which would drive the margin higher and filter into profitability growth.

**Chart 85: Retention remains low, particularly within the P&C segment**



Source: Company financials and anbc research

**Chart 86: Despite the segment being among the most profitable consistently**



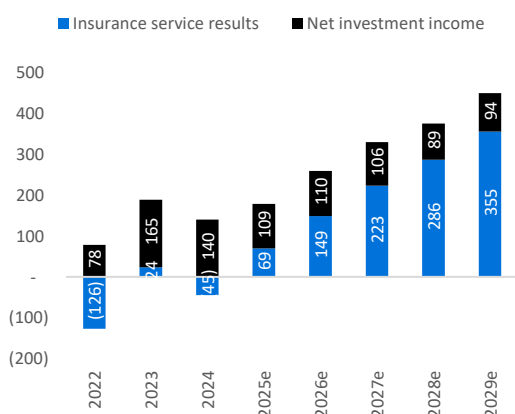
Source: Company financials and anbc research

### Walaa offers a strong earnings growth outlook

We believe Walaa is set to deliver the most robust earnings growth among the coverage. Despite being a mid-scale insurer, Walaa now has all the right levers to pursue an aggressive growth strategy underpinned by market share gains. While headroom for business growth remains vast, we think the operating environment would also be more favorable regarding profitability, a trend we expect sector-wide. Moreover, it would also form a low base of 2024 earnings where challenging operating environments in the motor industry (price war) weighed on underwriting margins and profitability, leaving recovery headroom even more substantial than before.

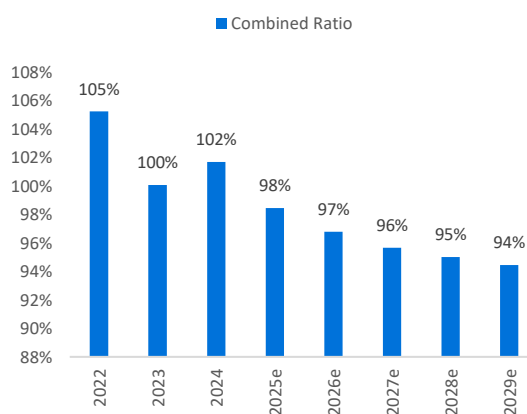
Like other insurers, underwriting income is expected to be the core driver of profitability contribution in contrast to the trend seen in the recent past. In the past two years, abnormally elevated claims pressures across nearly all segments have led to relatively weak underwriting performance. While it has impacted other insurers as well, the magnitude of it for Walaa has been bigger since these motor and P&C contributed the most to its bottom line, and they have been most under pressure – P&C witnessed a one-off spike in claims, while in the motor segment, elevated claims from supply disruptions led to weakening policy premiums.

**Chart 87: Profitability growth to be driven by underwriting income amidst flat investment income**



Source: Company financials and anbc research

**Chart 88: Business expansion coupled with improved margins to support underwriting performance**



Source: Company financials and anbc research

Moreover, one of the most profitable segments in the sector, the medical segment, has been weighing on Walaa's profitability. We think a lack of scalability in the segment, coupled with a lack of technical capabilities, is one of the key reasons. Walaa does not have an internal claim management system and relies predominantly on third-party administrators (TPAs), who have historically been anemic when generating profitability. This, too, if put on a low scale, highlights the insurer's vulnerability.

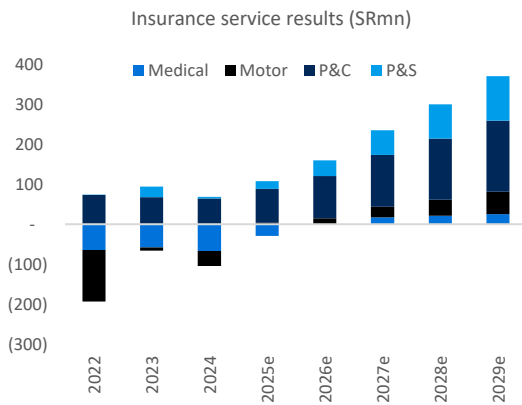
This is changing, and one of the key priorities is to build in-house claim management systems, other technical capabilities, and the necessary infrastructure. This comes when loss ratios are expected to normalize from elevated levels. We think underwriting income could turn at break-even levels next year once these capabilities have been established, with profitability contribution accelerating very sharply post-2026e.

A similar trajectory is also expected in P&C, which would deliver an increased profit contribution with improved scale and business penetration coupled with higher retention in the coming period. Overall, over the next five years, we expect nearly 65% of profits to be generated in the P&C segment, while by the end of 2029e, we expect nearly 55% of annual profits to be generated from the medical and P&C segment.

Meanwhile, motor recovery will be slightly gradual as Walaa repositions itself within the sector with a fresh product proposition and a more favorable operating environment. In contrast, P&S margins typically tend to be

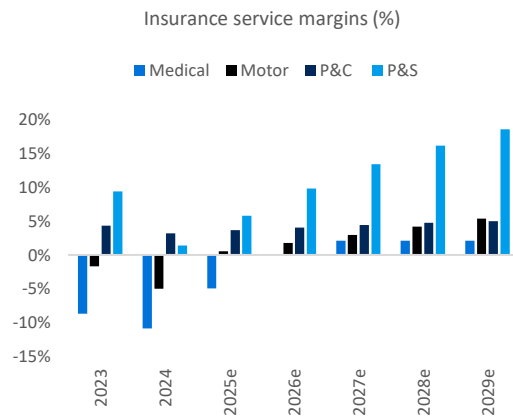
quite high without any major changes in loss ratios, at least in the short term. Savings are longer-term products, which means that finance expenses would be negligible since they are amortized over a very long period.

**Chart 89: P&C and medical to be leading contributors to profitability**



Source: Company financials and anbc research

**Chart 90: Margin expansion across all sectors, albeit at a gradual pace in some**

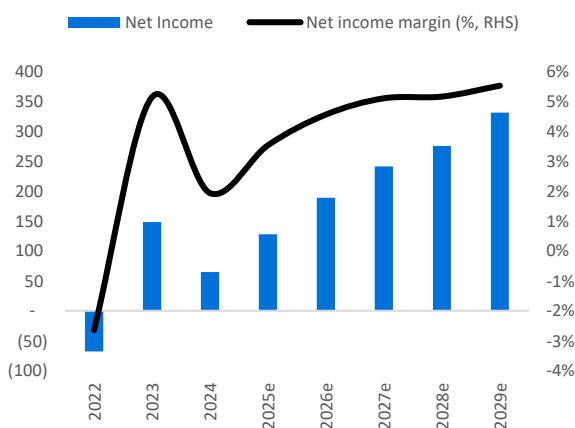


Source: Company financials and anbc research

Improved margins, whether through operational efficiency, enhanced capabilities, or better retention, would filter the business expansion very sharply into profitability growth, which we expect to grow at a CAGR of 39% between 2024-29e. Enhanced scale benefits are also likely to support better profitability returns over time. Investment income is likely to decline as lower rates translate into significantly lower yields underwriting income, which would be the key driver for profitability.

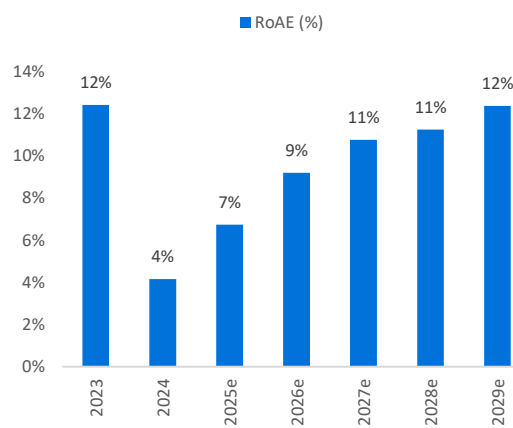
However, RoAE expansion will take slightly longer since the recent rights issues, which, combined with a hit on profitability on weak operating dynamics and tight competition, especially in 2H24, had been quite dilutive for RoAE. That said, we think that this growth from additional capital would take time to filter into the financials but remains accretive for RoAE in the medium term.

**Chart 91: We estimate net income to grow at a five-year CAGR of 39%**



Source: Company financials and anbc research

**Chart 92: While dilutive in the short term, rights issue to support RoAE expansion**



Source: Company financials and anbc research

### Valuations:

We have used the residual income method with a cost of equity of 10.2% and a terminal growth rate of 2.5% to value Walaa at a target price of SR24/share. The stock trades at a 2025e PER of 19.5x and PBV of 1.3x. While RoAE dilution from the rights issues had been a key overhang on the valuation, we think it's clearly behind with capital deployment to result in a substantial business expansion and robust profitability. Moreover, valuations have become attractive, especially after the weak underperformance post 4Q24 result, which does not reflect the earnings growth outlook (expected to be strongest among coverage) and RoAE potential in the medium term, supported by a diversified exposure across all segments, ambitious growth plans, reduction in combined ratio, the contribution from high margin segment, and the obvious benefits of scale.

#### Valuation Table:

SRmn	2026e	2027e	2028e	2029e	Terminal
Beginning BV of equity	1,959	2,147	2,340	2,560	2,791
Cost of equity (%)	10.2%	10.2%	10.2%	10.2%	10.2%
Cost of equity	199	218	238	260	284
Net income	189	241	275	330	417
Excess equity return	(11)	22	37	70	134
Terminal excess equity return					1,785
Discount factor	1.1	1.2	1.3	1.5	1.6
Present value	(10)	19	28	47	1,182

Equity invested	1,832
PV of excess return on Equity	1,266
Value of equity	3,097
Number of shares (mn)	128
<b>Target Price</b>	<b>24</b>

#### Earnings Sensitivity:

CoE	Growth rate					
	1%	2%	3%	4%	5%	
8%	30	32	35	39	46	
9%	26	27	29	31	35	
10%	22	23	24	26	28	
11%	20	20	21	22	23	
12%	17	18	18	18	19	

Source: Company financials and anbc research

## Rasan Information Technology Co

We initiate coverage on Rasan Information Technology Co (Rasan) with an Overweight rating and a target price of SR 105/share. Rasan is Saudi Arabia's first and largest insurance aggregator, and it is disrupting the traditional insurance distribution channel through its digital proposition. The company has established a firm foothold with significant market share gains leveraging tailwinds of growing demand for digitalization and the technologically savvy young population in the country. Rasan has a track record of successful expansion execution and exceptionally strong market penetration. The company is driving growth by strengthening its existing portfolio, expanding current offerings, and entering new service verticals. It is also pursuing an M&A strategy to target growth. We estimate earnings to grow at a 2024-29e CAGR of 40%, driven by strong revenue generation amid growing contributions from the company's existing as well as upcoming products in addition to margin expansion. The stock trades at a 2025e PER of 39.7x and PBV of 11.2x with a medium-term average RoAE of 30%.

**A strong market position:** A pioneer in digital insurance distribution in Saudi Arabia, Rasan has a very strong market position, particularly within the motor retail and leasing segment, through its two core products, Tameeni Motor and Treza. The company also dominates in the medical segment among the aggregators through its platform, Tameeni Health, although the overall presence of aggregators in the segment remains limited, presenting significant market opportunity.

**Strategy centered around growth:** Rasan is driving growth through both organic and inorganic strategies. Organically, the company plans to strengthen its existing portfolio further and expand its service offerings. The latter involves enhancing the total addressable market by tapping into newer segments and diversifying into adjacent market opportunities by leveraging its existing digital stacks and infrastructure. The company is also pursuing an M&A strategy aimed at the expansion of its product portfolio and market outreach. As the company's addressable market grows and the new products see an accelerated pick-up in revenue generation, we expect Rasan to deliver a 31% revenue CAGR over the next five years.

**A 40% net income CAGR over 2024-29e:** Apart from topline expansion, we think Rasan is also positioned to increase its take rates supported by an improved product mix, opportunities for cross-selling, and change in Treza's business model with lucrative pricing. Beyond the impact of the latter, we think margin expansion would likely be gradual. We forecast net income to grow at a CAGR of 40% over the next five years, with EBITDA margins likely to expand by 13ppt.

**Valuation:** Rasan trades at a 2025e PER of 39.7x and PBV of 11.2x. We continue to see room for valuation re-rating despite a rally of 2.2x since its IPO in Jun'24 as we believe valuations are still compelling with a robust earnings outlook backed by growth in its existing and upcoming business lines and a medium-term average RoAE of over 30%.

**Risks:** Key downside risks include: i) Delay in execution of product pipeline due to regulatory approvals, ii) Increase in competition in the insurance sector, specifically the motor segment, and iii) Increase in competition from other aggregators or direct distribution channels of insurers.

RATING SUMMARY	Overweight
Target Price (SR)	105.0
Upside/Downside	25.0%
Div. Yield (%)	-
Total Exp. Return	25.0%

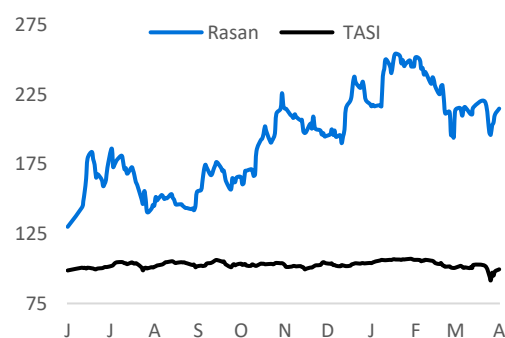
ISSUER INFORMATION	
Bloomberg Code	RASAN AB
Last Price (SR)	84.0
No. of Shares (mn)	78
Market Cap bn (SR/USD)	6.5/1.7
52-week High / Low (SR)	96.0/39.81
12-month ADTV (mn) (SR/USD)	89.2/23.8
Free Float (%)	62
Foreign Holdings (%)	17

Last price as of April 15<sup>th</sup>

VALUATIONS	2023	2024	2025F	2026F
EPS (SR)	0.6	1.2	2.1	2.6
PER (x)	-	68.7	39.7	31.8
PBV (x)	-	15.7	11.2	8.3
DPS (SR)	-	-	-	-
Div. Yield (%)	-	-	-	-
RoAE (%)	47.5	35.4	33.0	30.1
RoAA (%)	20.6	15.2	18.3	21.2

FINANCIALS (SRmn)	2023	2024	2025F	2026F
GWP	256	358	561	705
Insurance result	148	238	373	475
Investment Income	51	99	178	230
Net Income	64	114	191	247
Investments	46	95	164	205
Insurance cont. liab.	57.9	66.5	66.5	67.5
Combined ratio (%)	19.7	27.6	31.7	32.7
Invest. Yield (%)	24.8	31.7	34.0	35.1
Net Ins. Serv. Mrg.(%)	18.1	26.4	29.2	29.1

### RELATIVE PRICE PERFORMANCE





## Financial Summary:

SR mn

Income Statement	2022	2023	2024	2025E	2026E	2027E	2028E	2029E	CAGR 2024-2029e
Revenues	162	256	358	561	705	891	1,125	1,387	31%
Direct Costs	(61)	(108)	(120)	(188)	(229)	(281)	(332)	(382)	26%
<b>Gross Profit</b>	<b>102</b>	<b>148</b>	<b>238</b>	<b>373</b>	<b>475</b>	<b>610</b>	<b>793</b>	<b>1,005</b>	<b>33%</b>
General and administrative	(48)	(80)	(92)	(142)	(175)	(216)	(262)	(309)	27%
Selling and marketing	(12)	(18)	(47)	(53)	(70)	(89)	(101)	(111)	19%
<b>Income from operations</b>	<b>42</b>	<b>51</b>	<b>99</b>	<b>178</b>	<b>230</b>	<b>305</b>	<b>430</b>	<b>585</b>	<b>43%</b>
Other operating (expenses)/income	(2)	1	12	14	9	9	12	16	5%
Financial (charges)/ income	(2)	(0)	(1)	(1)	(1)	(1)	(2)	(2)	31%
Zakat provision	(3)	(5)	(16)	(27)	(34)	(44)	(63)	(85)	40%
<b>Net Income</b>	<b>34</b>	<b>46</b>	<b>95</b>	<b>164</b>	<b>205</b>	<b>268</b>	<b>378</b>	<b>514</b>	<b>40%</b>
EPS	0.4	0.6	1.2	2.1	2.6	3.5	4.9	6.6	
DPS	-	-	-	-	-	-	-	-	
<b>Balance Sheet</b>									
Cash and cash equivalents	77	151	474	412	584	831	1,049	1,569	27%
Trade and other receivables, Net	15	37	351	308	290	244	308	285	-4%
<b>Total current assets</b>	<b>92</b>	<b>255</b>	<b>851</b>	<b>746</b>	<b>900</b>	<b>1,101</b>	<b>1,384</b>	<b>1,881</b>	<b>17%</b>
Property, plant and equipment	9	17	16	22	28	33	37	40	20%
Intangible Assets	29	41	60	93	129	167	207	244	32%
Right-of-use assets	4	5	4	5	7	10	13	17	32%
<b>Total assets</b>	<b>134</b>	<b>317</b>	<b>932</b>	<b>866</b>	<b>1,064</b>	<b>1,312</b>	<b>1,641</b>	<b>2,182</b>	<b>19%</b>
Trade and other liabilities	42	177	484	258	251	231	182	209	-15%
Other liabilities	18	19	32	29	29	29	29	29	-2%
<b>Total liabilities</b>	<b>59</b>	<b>196</b>	<b>517</b>	<b>287</b>	<b>280</b>	<b>260</b>	<b>211</b>	<b>238</b>	<b>-14%</b>
<b>Total Shareholder's equity</b>	<b>74</b>	<b>121</b>	<b>415</b>	<b>579</b>	<b>784</b>	<b>1,052</b>	<b>1,430</b>	<b>1,944</b>	<b>36%</b>

### Growth (Y/Y)

Sales	87%	58%	40%	57%	26%	26%	26%	23%
Gross profit	67%	46%	60%	57%	27%	28%	30%	27%
EBITDA	31%	24%	78%	68%	29%	32%	40%	35%
EBIT	26%	21%	96%	80%	30%	32%	41%	36%
Net profit	-2%	35%	104%	73%	25%	31%	41%	36%

### Ratios

Gross Profit	63%	58%	66%	66%	67%	68%	70%	72%
EBITDA	31%	25%	32%	34%	35%	37%	41%	45%
EBIT	26%	20%	28%	32%	33%	34%	38%	42%
Net Profit	21%	18%	26%	29%	29%	30%	34%	37%
ROAE	60%	47%	35%	33%	30%	29%	30%	30%
ROAA	31%	21%	15%	18%	21%	22%	26%	27%

### Valuation

P/E	-	-	68.7	39.7	31.8	24.3	17.2	12.7
EV/EBITDA	-	-	61.5	36.3	28.7	22.5	16.5	13.0
EV/Sales	-	-	19.5	12.3	10.1	8.2	6.7	5.8
P/S	-	-	18.2	11.6	9.2	7.3	5.8	4.7
P/B	-	-	15.7	11.2	8.3	6.2	4.6	3.3
Dividend yield (%)	-	-	-	-	-	-	-	-

Source: Company financials and anbc research

## Investment Thesis

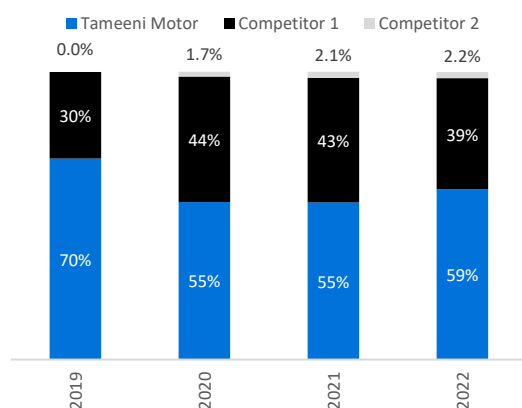
### Dominating the insurance distribution market in Saudi Arabia

Rasan Information Technology Co. (Rasan) established itself as the first and largest insurance aggregator within the Saudi insurance market. The company had disrupted the traditional insurance distribution channel through its digital and online proposition. Established in 2016, Rasan launched its first product, Tameeni Motor, a digital platform for motor insurance, in 2017.

While the company had been in the market, the real disruption only happened in years after COVID-19, when accelerated digital adoption allowed Rasan to leverage its already established position and seize the opportunity to not only become the largest insurance aggregator but, in some segments, even surpass the long-established position of brokers and agent in the market. Rasan, in a nutshell, changed the market structure of insurance with the distribution channels by digitalizing underwriting activities.

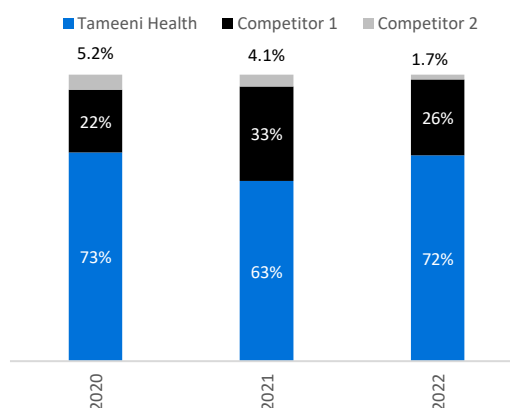
Through its flagship product, Rasan quickly leveraged its first-mover advantage to capture a sizable portion of the market in a short span of time, becoming one of the leading motor distributors in the country and anchoring itself as the largest aggregator. In 2019, the company had a market share of nearly 70% in the motor retail segment within the aggregator channel, and despite the increasing pressure from competition, even by 2022, Rasan still controlled the bulk of the market with nearly 60% market share. Similarly, it has established a firm foothold in the medical segment (in the retail and SME segment alone), with over 70% market share among the aggregators.

**Chart 93: Tameeni Motor remains dominant within the aggregator channel (motor retail)**



Source: Company prospectus and anbc research

**Chart 94: Tameeni is also the leading in the aggregator channel for Health (retail/SME)**

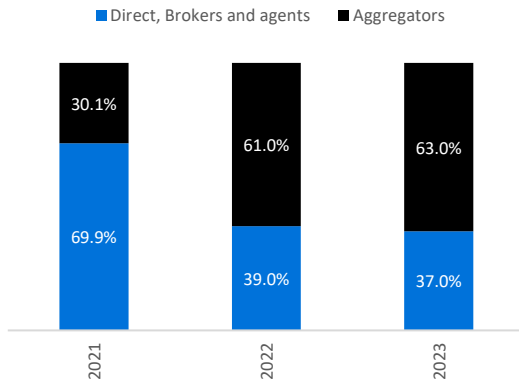


Source: Company prospectus and anbc research

In another segment, Rasan not only successfully executed and expanded its footprint but very quickly disrupted the market to take a large chunk of it. This has been the case with insurance for the leased vehicle market. It started in 2020 after a regulation change opened up market opportunities for brokers and aggregators to distribute insurance products for leased vehicles.

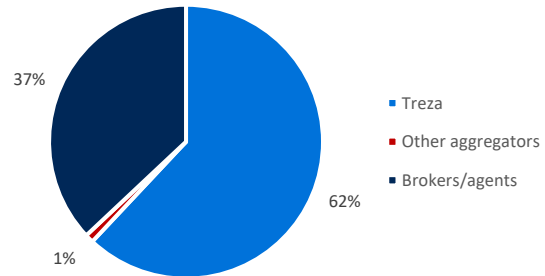
However, while initially the market had been dominated by brokers, it quickly changed with Rasan’s product Treza, which rapidly became a preferred distribution channel for leasing insurance vs. the traditional channels. Treza is estimated to have a market share of 62% by 2023, placing it ahead of the competition and alternative brokers/agents.

**Chart 95: Aggregators quickly controlled nearly 63% of the overall leasing market**



Source: Company prospectus and anbc research

**Chart 96: But that reflected the dominant position of Treza alone**



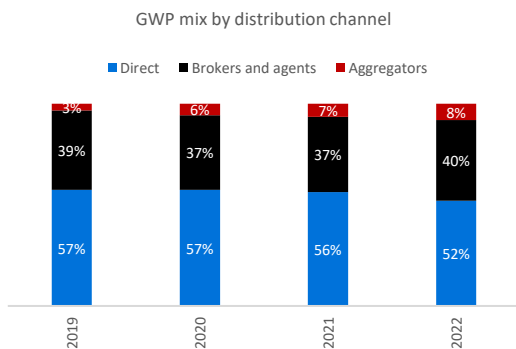
Source: Company prospectus and anbc research

Rasan has a proven track record of successful execution and exceptionally strong market penetration. We note that Treza had been a complete exception where, within only three years, it became the largest insurance distributor for leased vehicles. It is a very short time before any new entrant could capture such a significant market share where an already traditional distribution channel with all the necessary infrastructure already existed.

From 2020 to 2023, Treza's market share increased from less than 1% to over 62%. It not only penetrated the market but also nearly replaced the traditional distribution channel. While Treza's business model initially relied upon the broker channel itself, where Rasan contracted with brokers to serve its customers, including banks and leasing companies, this allowed it to garner business volume on its own platforms.

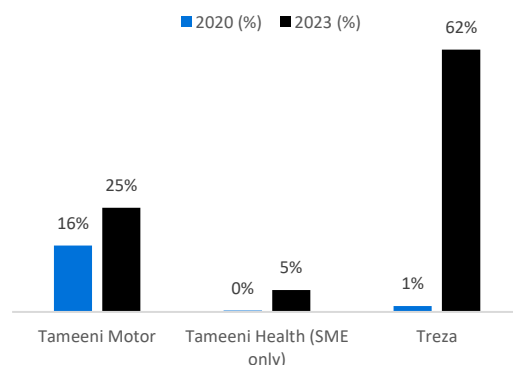
While Treza had been a later addition to Rasan's portfolio, its initial flagship product, Tameeni, more particularly the Tameeni Motor, had one of the strongest market penetrations. To put it into perspective, if we take the entire motor segment GWP (though Tameeni is more focused on retail motor insurance policies), nearly one-fourth of the market underwriting is processed on the Tameeni platform. If we take only the retail motor insurance policies, over 60% of the underwriting is processed through the platform alone. That is a significant volume being handled by a single distributor, especially if we consider that the largest insurer in the segment has nearly 20-21% market share, which implies that Rasan processes more motor insurance policies than the largest insurer in the market.

**Chart 97: The share of aggregators has increased from 3% to nearly 8% in 2022**



Source: Company prospectus and anbc research

**Chart 98: Rasan holds dominant positioning across key segments**



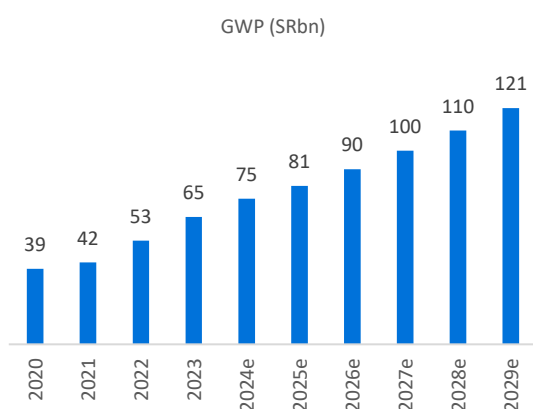
Source: Company prospectus and anbc research

We think the market opportunity for Rasan is still quite vast. Many segments have not yet been tapped (though they are in the pipeline), and Saudi Arabia's insurance market is the largest and one of the fastest-growing markets in the region. We estimate that the Rasan platforms process only 8-9% of the total GWP across all market segments, leaving a vast runway for market penetration and growth. We forecast the total addressable market, which in our view is the total insurance market GWP, to grow at a CAGR of 10% over the next five years. However, opportunities for Rasan are far bigger from new segment penetration and from increasing its market share in the already-established segments.

Moreover, we think Rasan's would continue to benefit from tailwinds of favorable operating dynamics supported by growing employment, demographic trends, and a tech-savvy population. Internet penetration in Saudi Arabia's population stands at 99%, whereas a recent survey indicated that over 60% of users' activities are dedicated to purchasing goods and services.

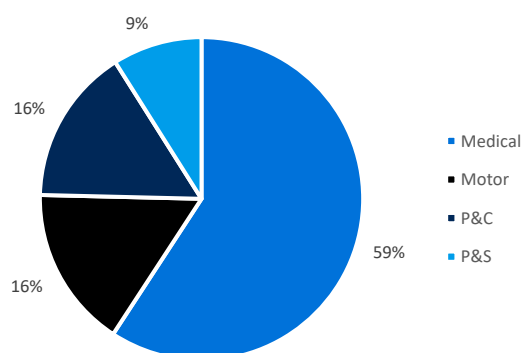
Saudi Arabia is rapidly embracing digital transformation, driven by government initiatives and increasing technology adoption under its Vision 2030. There are significant investments being made in digital infrastructure driven by i) an accelerated demand for digital connectivity, ii) smart infrastructure city projects (i.e., NEOM, Red Sea, Qiddiya, etc.), iii) enhanced public sector spending on E-government transformation initiatives and iv) rapid adoption of emerging technologies.

**Chart 99: Total addressable market to grow at a CAGR of 10% over 2024-2029**



Source: Company financials and anbc research

**Chart 100: The medical segment remains the largest market, accounting for 59% of the total**



Source: Company financials and anbc research

While we remain optimistic about Rasan's growth prospectus and the opportunities, we highlight that the competitive landscape has also changed markedly in recent years. With the success of Rasan's products, competition has significantly increased by some of the other brokers, other insurtech companies, and even directly from insurance companies as well.

However, one key downside risk is the competition from insurance companies, which have increasingly embraced digitalization and are expanding their digital footprints. Some insurers have progressed quickly on value chain integration and their own digital stakes to improve their product proposition markedly.

While we note Rasan still has some levers that insurers would continue to lack, especially price transparency and bulk underwriting capabilities, because of its relationship with multiple insurers at a time, we think more competition means sharp market penetration, as seen in the case of Treza would be slightly more challenging to achieve.

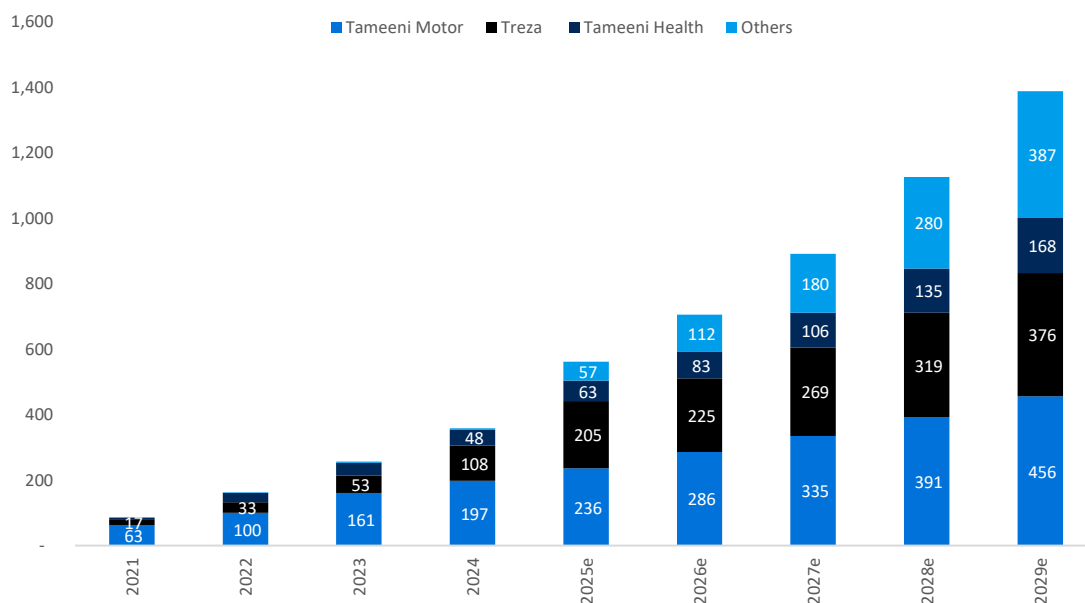
### Growth across existing products and new offerings

Rasan is on track to record strong topline growth in the coming years. We think topline growth will be achieved through a combination of strengthening the existing product portfolio and launching new product offerings. The latter is supported by a strong pipeline that would drive growth by leveraging its already strong positioning in the market and its relationships with insurers and customers.

The growth strategy for existing products encompasses increasing business volumes through better market penetration and achieving better take rates. In this regard, Rasan is heavily investing in advertising campaigns and various promotions to stay ahead of the competition curve. Increasing the take rates has also been a key focus recently, supported by improved product mix, some regulation changes (in the case of Treza), cross-selling, and value chain enhancement.

Overall, we forecast revenue to grow by 31% CAGR between 2024-2029e. We think the two core products, Tameeni (including both motor and health) and Treza, would deliver a 28% revenue CAGR while we pencil revenue growth from all the other products at 155%, coming from a low base.

**Chart 101: Revenue to grow at a CAGR of 31% between 2024-2029e**



Source: Company financials and anbc research

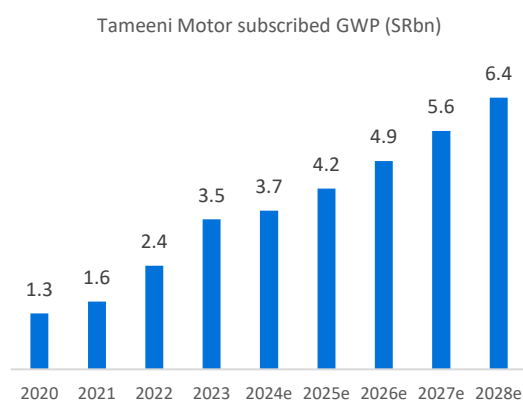
We expect revenue contribution from new products to reach SR500mn by 2030e, accounting for nearly 30% of the total, while the contribution from the existing portfolio is expected to cross SR1.2bn during the same period. Tameeni Motor is expected to remain the largest contributing product, accounting for 35% of revenue by 2028, followed by Treza with a 28% contribution and Tameeni Health with a 12% contribution.

Tameeni Motor was established in 2017 as an online motor insurance aggregator. One of its key competitive advantages over the legacy traditional distribution channel was price transparency and the ability to make real-time motor retail insurance price comparisons. It also offered customers a quick way to purchase motor insurance policies, making it convenient through its automated process. According to management, Tameeni Motor reduced the time to buy and activate an insurance policy from two days to ninety minutes with only thirteen clicks. Moreover, the platform has been linked with nearly all 24 insurance companies and integrated with payment gateways, data providers, and centralized government databases.

We expect revenues from Tameeni Motor to grow at a 18% CAGR over the next five years. This growth would be delivered as a combination of increased business volumes and improved commission rates. We expect subscribed GWP on the platforms to grow at a CAGR of 14% to cross SR6bn by 2028e. We expect further market share gains in the retail motor segment, though we don't see a similar pace and magnitude of penetration.

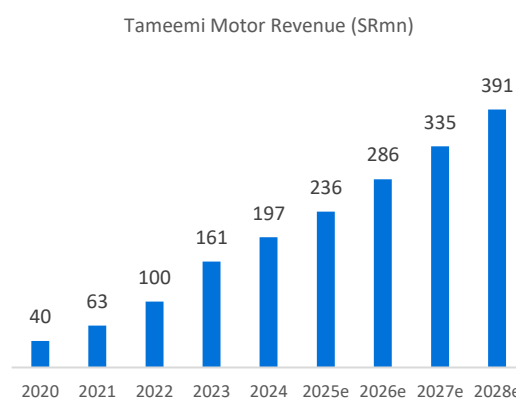
In addition to the volume growth, the take rate is also expected to increase over time, mainly on the back of an improved product mix. Rasan currently charges a 2% commission on the value of each TPL policy sold and 10-15% on each comprehensive motor insurance policy. That said, efforts are increasingly being made to convert TPL to comprehensive policies with improved renewal rates. This, too, is being delivered through collaboration with the insurance partners, and the results of this are evident in higher take rates in the past few years – we estimate the take rate has increased from 3.1% in 2020 to close to 4.5% in 2023.

**Chart 102: Subscribed GWP for Tameeni Motor to reach SR6.4bn by 2028e**



Source: Company financials and anbc research

**Chart 103: Revenue for Tameeni Motor to grow at a CAGR of 18% over 2024-2028**



Source: Company financials and anbc research

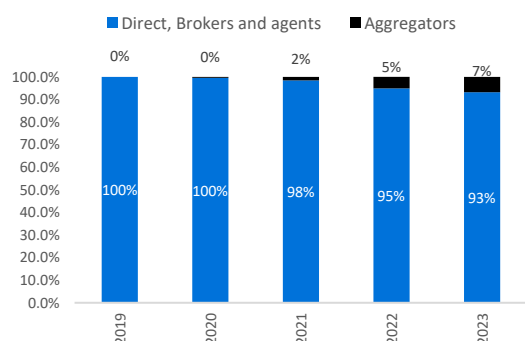
Tameeni Health, perhaps, offers the most runway for growth, considering health is the largest insurance market, and it has been a relatively newer penetration for Rasan. Tameeni Health was launched in 2019 as an online B2B medical insurance aggregator. In its first phase, the platform targeted the SME, retail, and micro-enterprise segments only, with the target of expanding into corporate over time.

Tameeni Health, similar to the motor platform, allows businesses to generate and compare quotes instantly from insurers. It started with a small partner network initially, but over the years, more insurers have been integrated into the platform. As a leading platform for insurance distribution within the SME sector, Monsha'at, the country's SME General Authority, has also encouraged and supported such digital initiatives.

There is vast room for expansion in Tameeni Health. Aggregators are estimated to have a market share of less than 7%, though this has increased markedly in the past few years. Digital penetration could grow even further. Interestingly, of the total share of the aggregators, Tameeni holds over 70%, making it the leading platform within the health sector.

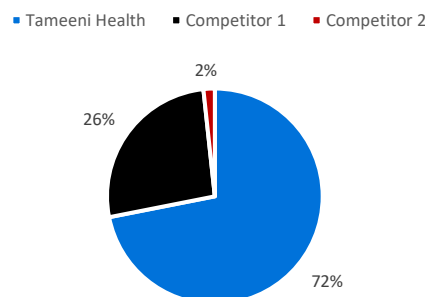
The health segment was slightly more complicated than the motor due to the regulations and necessary documentation required before underwriting an insurance policy. Despite that, Rasan's success in delivering and executing has been remarkable, not only in penetrating the market but also in tackling the regulatory headwind and operational challenges.

**Chart 104: Aggregators' market share in the health retail and SME insurance segment**



Source: Company financials and anbc research

**Chart 105: Tameeni had over 70% market share among aggregators in 2022**

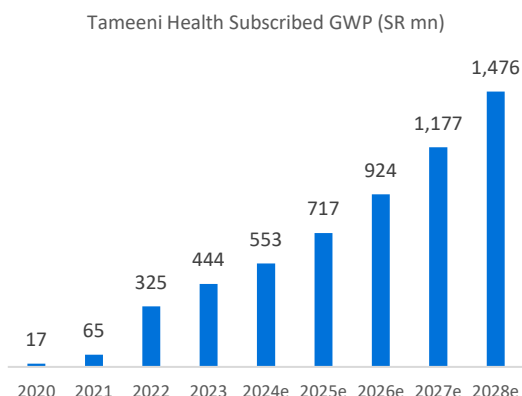


Source: Company financials and anbc research

The total addressable market in Health insurance is growing rapidly. It is the largest insurance segment, accounting for nearly 60% of the total GWP generated (estimated to be nearly SR45bn in 2024e). That is a vast opportunity for penetration, and even a 10% market share would imply a GWP generation of nearly SR4.5bn, more than the size of GWP subscribed through Tameeni Motor. Moreover, Rasan has yet to penetrate the medium and large corporate sub-segments of the health insurance market, which generates the bulk of health insurance GWP.

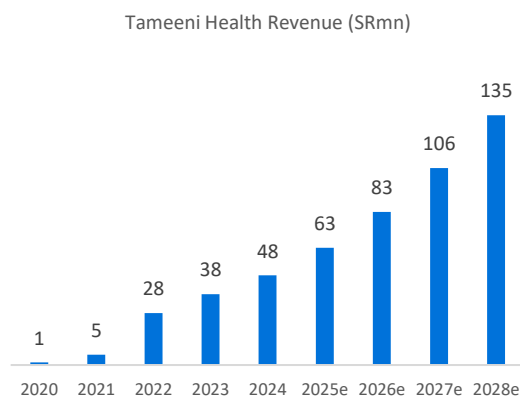
Considering the sector's positive outlook, market opportunity, and Rasan's execution, especially in the case of SMEs, we expect Tameeni Health to deliver the fastest-paced revenue growth as Rasan aggressively increases its market share and expands into other verticals, including corporates. For our modeling, we have only assumed a 3ppt increase in market share over the next five years from the estimated 1% at present. This would imply a revenue CAGR of 29% over 2024-28e.

**Chart 106: Subscribed GWP for Tameeni Health to reach SR1.5bn by 2028**



Source: Company financials and anbc research

**Chart 107: Revenue for Tameeni Health to grow at a CAGR of 29% over 2024-2028**



Source: Company financials and anbc research

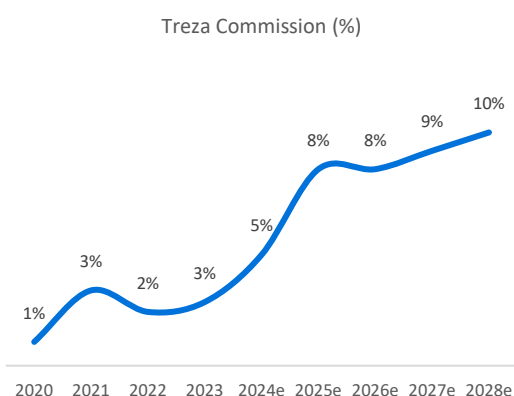
Treza Leasing is an online SaaS motor leasing insurance platform that operates on a B2B2C business model. The platform connects banks and leasing companies with motor insurers. Banks and leasing companies on the platform can electronically generate and compare motor insurance quotations on behalf of customers.

This platform was launched in 2020 to provide bulk motor insurance for banks and leasing companies after the introduction of the regulation that required banks and leasing companies to obtain at least three insurance

policy quotes for each of the financed leased vehicles. This regulatory change was implemented in Nov'2020, requiring lessors to offer their customers at least three insurance policy options and allow them to choose the policy of their choice. This prompted the launch of Treza by Rasan in 2020, where the platform managed to onboard Saudi National Bank (SNB) as its first client through its direct channel leasing distribution in 2020 and Al Rajhi Bank in 2021, two of the largest banks in the country and anchoring its position within the market with a market share of over 60%.

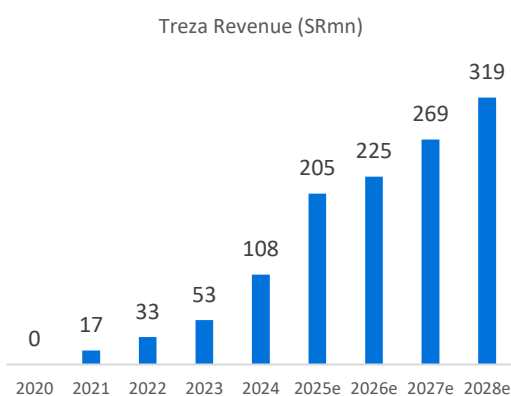
From a revenue perspective, another very important development took place last year: approval from regulatory authorities to distribute motor leasing insurance directly without needing a broker channel. This led to Rasan completely dismantling its broker channels (through which most revenue was generated) and moving towards a direct intermediation model with the banks, offering significantly higher take rates. While we still think that direct SaaS distribution for a fixed fee would also continue, as more businesses shift towards the higher commission model, we expect commission rates to more than double in the next three years. This, coupled with the volume uptick, should deliver a 31% revenue CAGR over 2024-28e from Treza.

**Chart 108: Treza Commission rates to markedly improve post-regulatory change**



Source: Company financials and anbc research

**Chart 109: Treza's revenue to grow at a CAGR of 31% over 2024-2028**



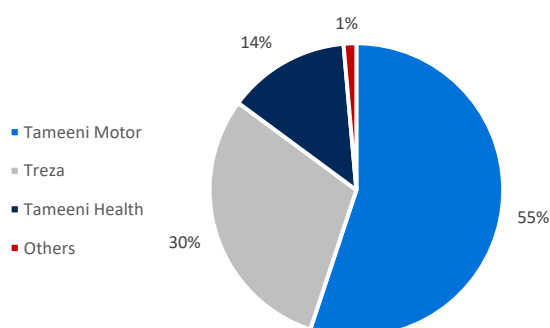
Source: Company financials and anbc research

While Rasan has already positioned itself as a market leader in some key segments, the target is to replicate similar success in other products. The company aggregator platform can be deployed into different market segments, and the company has already initiated a solid product pipeline targeting to enter other insurance lines and other services as well.

Through the launch of its product pipeline, Rasan is targeting the provision of comprehensive end-to-end services to customers. Launching these products will complement the existing product portfolio and provide potential buyers and service providers with a single platform for several insurtech and complementary products (i.e., auto leases). This is in addition to benefits from increased scale of business such as efficiency in operating expenses.

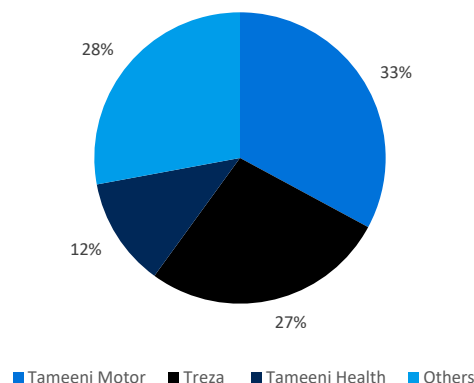


**Chart 110: Tameeni Motor was the highest revenue contributor in 2024, followed by Treza**



Source: Company financials and anbc research

**Chart 111: New products are expected to account for 28% of revenue by 2029**



Source: Company financials and anbc research

Of the 15 products in the pipeline, Rasan launched one new product in 2023 and five in 2024. Nearly all new products are generating revenue, and by 2029e, we expect the revenue contribution from all these products to reach 28%. The launch of these products will increase Rasan’s total addressable market.

We briefly discuss some of these products below:

- R Solutions:** R Solutions was launched in 2023 as a platform that allows customers to perform data analytics, portfolio performance monitoring, and predictive pricing modeling. R Solutions offers its services through two key products: i) R2: software that serves insurers and offers data analytics, data, and portfolio performance monitoring, and ii) R3: software that provides data analysis, business intelligence, and predictive pricing modeling to banks and financial institutions. Like Awal Mazad, R Solutions aims to expand Rasan’s presence beyond distribution and as a value chain integration that leverages a vast data set.
- Value-Added Services (VAS)** was launched in 3Q24. It is a marketplace offering products and services from different suppliers and is automatically linked to Rasan platforms. The goal of VAS is to increase the take rate per customer through add-on services and cross-selling propositions. Rasan is currently targeting the expansion of the product range of VAS from 10 to 100 in the medium term.
- Warshati:** This product was also launched in 3Q24. It is a vehicle repair price comparison portal that enables customers to generate multiple repair quotations from various workshops online. Warshati currently operates only in Riyadh, although Rasan aims to expand its reach countrywide.
- Medical malpractice:** This platform was launched in 1Q24 and provides coverage against any injuries, illnesses, or deaths of any patient caused by any negligent act, error, or omission committed by the healthcare professional. The coverage limit ranges from SR100k to SR1mn for any single claim or annual aggregate, depending on the chosen coverage.
- Life insurance:** Rasan received a license for life insurance in 4Q24, and the company aims to introduce an electronic platform to distribute protection and savings products to retail customers, including retirement pensions.
- Marine insurance:** Rasan received the license for this product in 4Q24 and the green light to start distributing marine insurance policies. The Central Bank, in collaboration with the Transport General Authority, launched marine insurance coverage in October '23. Marine insurance covers the liability to

the third party for costs, losses, and damages sustained by the insured due to operating the insured marine unit.

- **Domestic helpers' general and medical insurance:** Rasan launched this distribution of domestic helpers' insurance products as regulatory changes opened up a market opportunity. In Feb'24, mandatory coverage of newly employed domestic helpers' work contracts during the first two years of employment was enacted in the country. The insurance covers domestic workers against total or partial permanent disability or if the sponsor fails to pay their compensation.
- **SME general insurance:** Rasan expects to receive the license for SME general insurance by the end of 2025. The company plans to develop a core minimum P&C bundle to target SMEs. The bundle will combine a general protection package (with fundamental coverages) with a variety of modules. The management is confident that SMEs will demand the product strongly and is working with insurers to build an aggregated P&C insurance pack.
- **Travel insurance:** Rasan launched travel insurance for outbound travelers in 2024. The company is also working on obtaining approvals to sell travel insurance for inbound travelers into the country. Travel insurance typically includes protection against medical emergencies or personal accidents, flight cancellations/delays, and lost/stolen luggage. Saudi Arabia is expected to host a number of global events, including the 2029 Asian Winter Games, the 2030 Expo, and the 2034 World Cup, which is expected to drive tourism and a strong sector tailwinds of business expansion.
- **Financial service distribution:** This product is expected to launch in 2H26. The plan is to launch online distribution solutions for consumer lending, which management has also indicated as a key area of focus. Under the platform, the company targets all retail lending avenues, such as auto loans, personal loans, credit cards, and mortgages. Rasan is already well positioned in the motor ecosystem with a solid network, including banks. The company plans to use these relationships to launch auto-loan distribution, a new online solution that allows customers, showroom sales agents, and banking sales agents to submit auto-leasing requests and receive approvals for loans to be disbursed digitally.

We highlight another key catalyst for driving growth: an inorganic strategy involving potential M&A activities. At the time of its IPO, the company disclosed plans to allocate 35%-45% of the IPO proceeds to finance potential merger and acquisition opportunities. Rasan already has a net cash position of SR470mn, which is 51% of its total assets, 1.1x the size of its total shareholder equity, and nearly 8% of its current market capitalization. The focus of this M&A strategy is to deliver growth through the expansion of service verticals, diversification of product portfolio, and geographical expansion.

In this regard, the company has been actively pursuing such opportunities within the financial services distribution industry. In February '25, Rasan signed an MoU with Holoul Financing for Financial Technology to acquire a 55% stake in the company. Holoul Financing for Financial Technology is an early-stage real estate financing distributor that is working on preparing product offerings for the distribution of real estate financing.

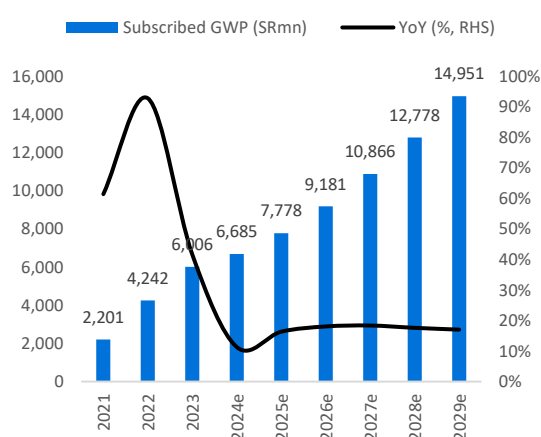
### Net income to grow at a five-year CAGR of 40%

Rasan has an attractive growth profile marked by robust revenue growth across all segments. Revenue is expected to reach SR1.4bn by 2029, growing at a CAGR of 31% over 2024-2029e. The company's existing portfolio is set to headline this growth (in value terms) led by the company's core products, Tameeni and Treza. Revenue from existing business is expected to grow by 23% CAGR over 2024-2029e to reach SR1.0bn, while the company's product pipeline is expected to gain momentum post-2025, growing at a 230% CAGR over 2024-2029e.

New and upcoming products are expected to account for 28% of total revenue, whereas Warshti, general insurance, financial service distribution, and claims management, together accounting for 24% of total revenue by 2029e, are expected to be the top three contributing segments.

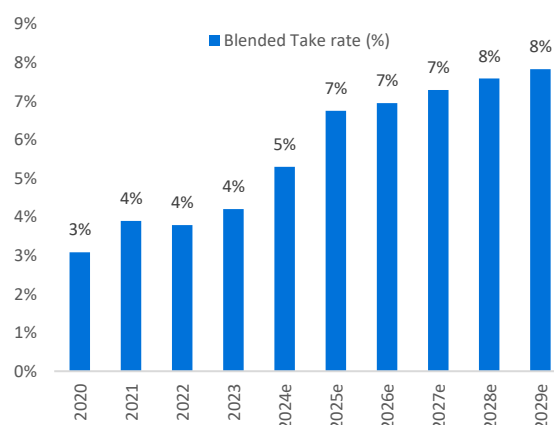
From the company’s existing business, Tameeni Motor is expected to lead as the largest contributing product, accounting for 33% of revenue by 2029e, followed by Treza with a 28% contribution and Tameeni Health with a 12% contribution.

**Chart 112: Subscribed GWP on Rasan platforms to reach nearly SR17bn by 2029e**



Source: Company financials and anbc research

**Chart 113: With blended take rate to gradually improve**

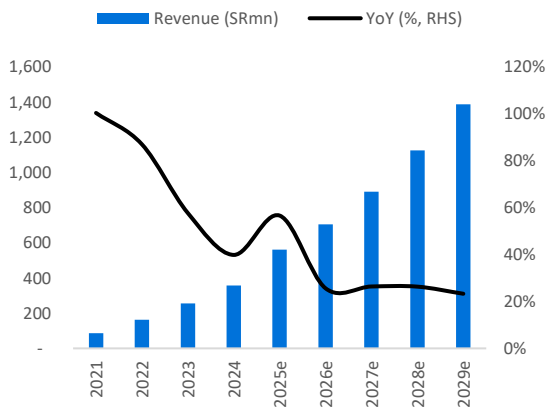


Source: Company financials and anbc research

Moreover, we estimate that the subscribed GWP on the company’s platform (only for products related to insurance underwriting) would grow at a five-year CAGR of 17.4%, mainly as the company expands its market share in some of the new products while strengthening its position in the existing portfolio. Moreover, as the company expands into newer segments, its runway in terms of addressable market would become quite substantial.

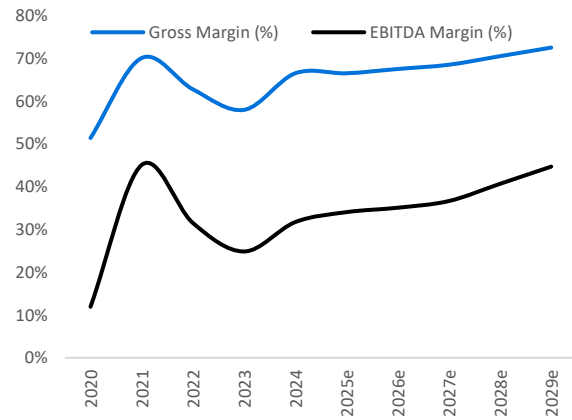
Alongside this, we also expect Rasan to continue to deliver on improved commission rates. Improved take rates in 2025e would predominantly be driven by a change in the Treza business model, which allows significantly higher rates. However, we are also likely to see a gradual improvement in blended take rates in the case of other verticals, which is supported by an improved product mix, opportunities for cross-selling, and vertical expansion. For instance, within the largest revenue-contributing segment, Tameeni Motor Rasan has a chance to up-sell comprehensive motor insurance policies against simple TPL (a key theme that we think is likely to play out in the coming years) and offers better pricing through a change in product mix.

**Chart 114: Revenue to grow at a 31% CAGR over 2024-29e**



Source: Company financials and anbc research

**Chart 115: Room for further expansion in gross margins**

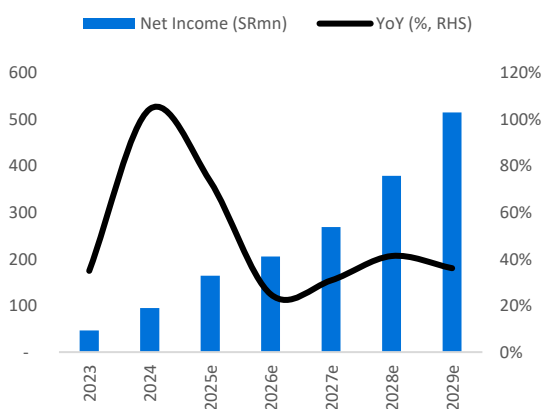


Source: Company financials and anbc research

With improved commission rates, margins will likely gradually uplift over the next five years. The impact of the change in Treza’s business model is already evident in 4Q24 financial results, where we calculate that gross margin sharply expanded to 79% from an average of 60% in 9M24 and 58% in 2023. While this would keep margin expansion slightly more prominent in 2025, beyond that, we think expansion would only be gradual as take rates improve and scale benefits filter down as investments in the newer products mature with a pickup in revenue generation.

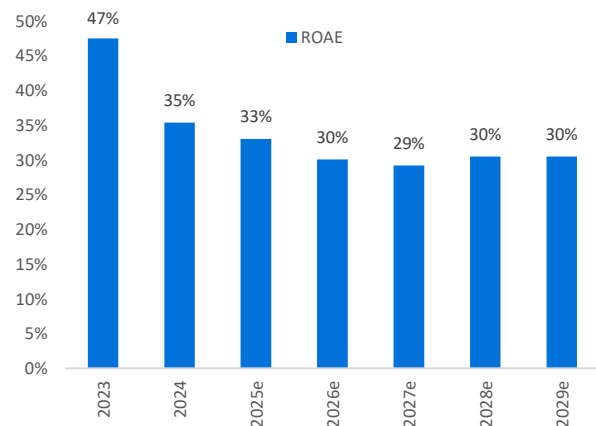
We project net income to grow at a CAGR of 40% over 2024-2029e, slightly outpacing the growth on the gross level with 43% CAGR in operating profits as the company benefits from economies of scale in operating expenses along with normalized marketing expenses following the execution of its product pipeline. Net income margin will likely increase to 37% in 2029e. However, with growth mainly normalizing, we don’t see RoAEs expanding from these levels but are likely to sustain around current levels. We don’t expect the company to pay dividends anytime soon, as the core focus is growth.

**Chart 116: Net profit to reach SR514mn by 2029**



Source: Company financials and anbc research

**Chart 117: However, ROAE expansion is unlikely**



Source: Company financials and anbc research

## Valuation:

We have used the DCF method with a cost of equity of 10.5% to value Rasan at a target price of SR105/share. We like the stock given its strong earnings trajectory (40% CAGR over 2024-2029e) driven by Rasan's strong market positioning along with its aggressive product diversification drive, which we think justifies the stock trading at a high multiple. Rasan trades at a 2025e PER of 39.7x and PBV of 11.2x.

### Valuation Table:

SRmn	2026e	2027e	2028e	2029e	Terminal
EBIT (1-z)	212	280	392	532	681
Dep and amort	17	22	27	34	42
CAPX	(61)	(68)	(74)	(78)	(80)
WC	11	25	(113)	50	(11)
FCFF	179	259	232	538	633

NPV of cash flows	1,426
NPV of terminal value	6,274
Value of the firm	7,700
Add: net cash	412
Value of equity	8,112
Number of shares (mn)	78
<b>Target Price</b>	<b>105</b>

### Earnings Sensitivity:

		Growth rate				
		2%	3%	4%	5%	6%
CoE	9%	110	125	146	178	232
	10%	96	107	122	143	174
	11%	85	94	105	119	139
	12%	77	83	92	102	116
	13%	70	75	82	89	100

Source: Company financials and anbc research

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