

## 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.

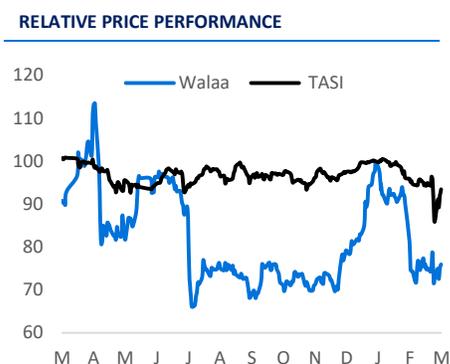
| RATING SUMMARY    |  | OVERWEIGHT |
|-------------------|--|------------|
| Target Price (SR) |  | 24         |
| Upside/Downside   |  | 23.3%      |
| Div. Yield (%)    |  | -          |
| Total Exp. Return |  | 23.3%      |

| 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   |



## 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%             |
| <b>Total Assets</b>                          | <b>3,588</b> | <b>4,107</b> | <b>4,766</b> | <b>5,377</b> | <b>6,108</b> | <b>6,886</b> | <b>7,707</b> | <b>8,576</b> | <b>12%</b>      |
| Insurance contract liabilities               | 2,111        | 2,555        | 2,674        | 3,135        | 3,648        | 4,202        | 4,771        | 5,373        | 15%             |
| <b>Total Liabilities</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>      |
| 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

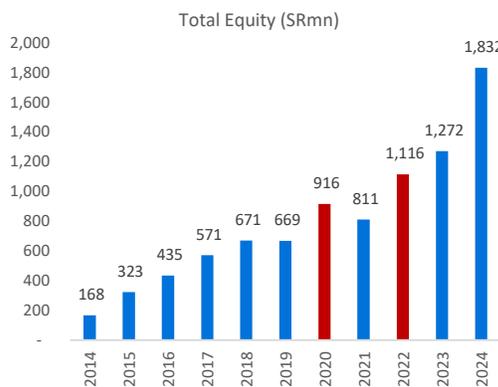
### Shifting gears to growth

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.

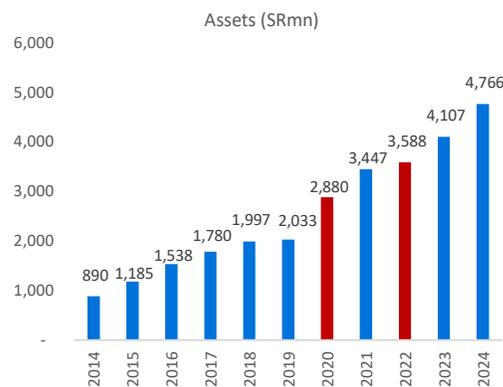
**Chart 71: Walaa issued additional equity for its merger deal**



\*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.

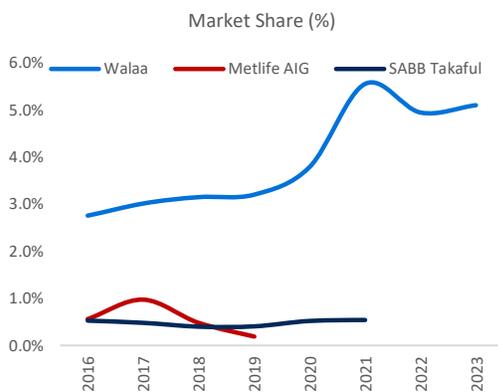
Interestingly, Walaa's inorganic strategy did not target growth at all. This is suggested by the fact that both insurers that were merged into Walaa contributed less than 10% to its GWP at the time of consolidation.

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.

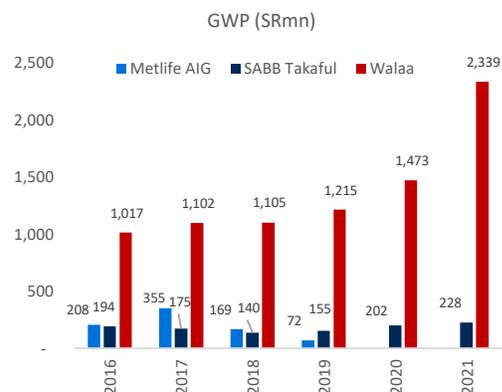
Growth did not make sense in these merger deals, as it would have added negligible business expansion for Walaa. Ironically, both insurers lacked scale and were loss-making entities at the time of the merger. Metlife AIG made a loss of over SR12mn in 9M19 and reported negative bottom lines consecutively 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

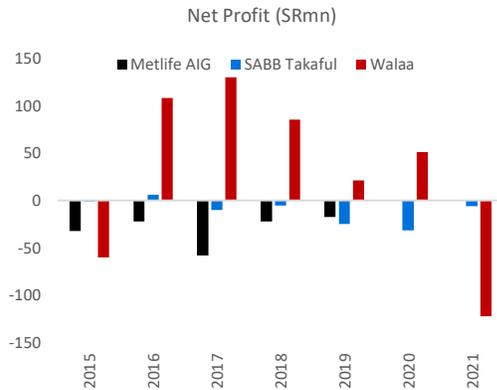
Without an expansion and profitability boost, mergers appeared to quickly become a liability for Walaa, but they are vital to its growth story. Both offered growth levers to Walaa, which we believe is now even more equipped for aggressive market penetration.

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.

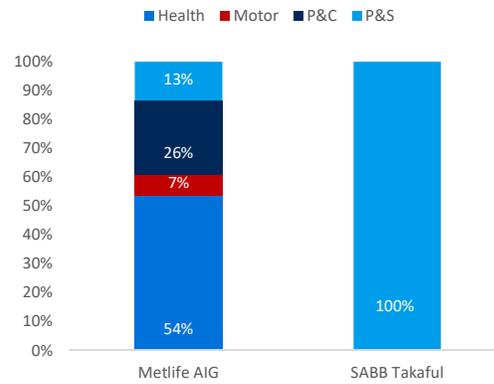
A relationship with a banking institute offered a strong runway for growth, considering the physical presence and correlated offering. This is precisely what was also achieved with the second merger with SABB Takaful, opening relationships with Saudi Awal Bank (SABB AB), that owned 15% of Walaa. Apart 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**



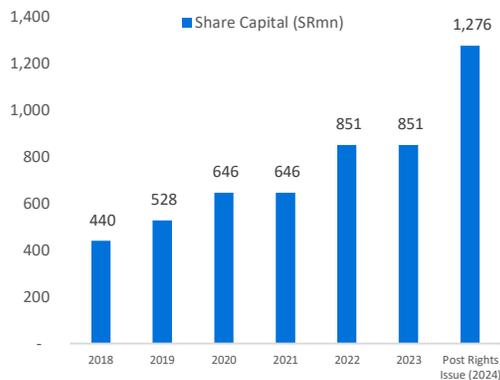
Source: Company financials and anbc research

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.

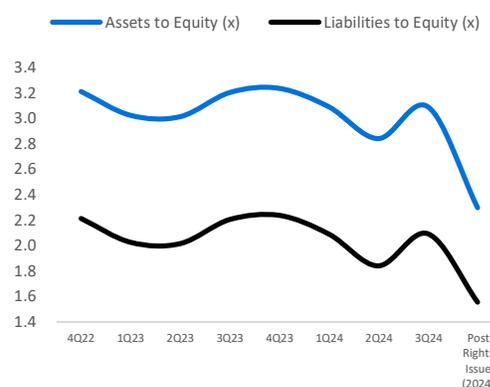
The increased share capital is crucial for Walaa's growth. It not only offers a better balance sheet structure but also increases the insurer's potency to retain more risk on its balance sheet. Solvency will decline drastically, allowing room for expansion for Walaa as it deploys additional capital to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

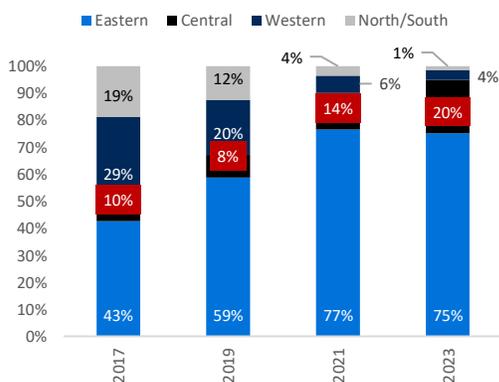
We think Walaa now has all the right levers to pursue its goals of aggressive market penetration underpinned by market share gains. Barring the inorganic growth, which added only a relatively meager increase in market share, Walaa's delivery of a nearly 200bps increase in market share (2023 vs. 2019) 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.

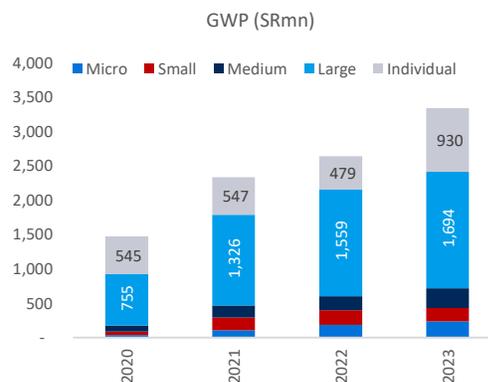
Other key pillars of the strategy included i) expansion vertically and geographically, ii) increased risk-taking capacity to obtain a higher retention rate, iii) becoming an active reinsurance company, iv) vertical value chain integration, and v) digitalization. Walaa, though initially centered around 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

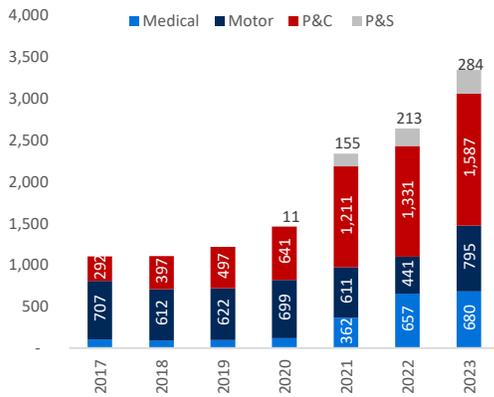
Capital would be deployed in nearly all segments to drive growth. Walaa already has a strong foothold, especially in P&C and motor, where the most focus would be, closely followed by the medical segment. Life is still a long-term play, though Walaa would try to expand from savings products to other protection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

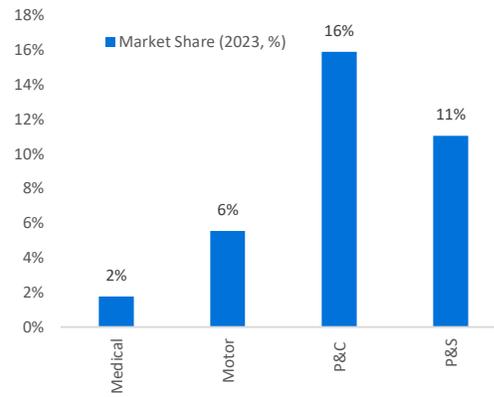
However, Walaa will target regaining the lost ground in the motor segment. The more proactive strategy would focus on realigning Walaa's positioning in the sector and expanding vertically across the entire chain, emphasizing corporate positioning coupled with retail expansion with a different proposition, 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**

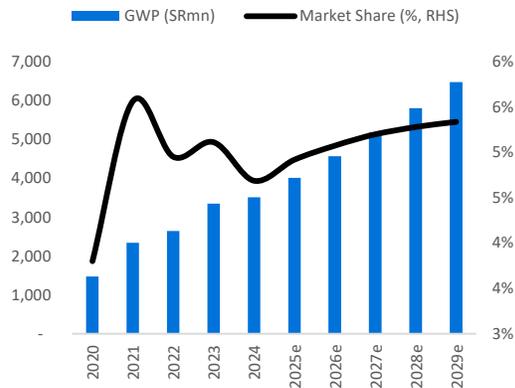


Source: Company financials and anbc research

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.

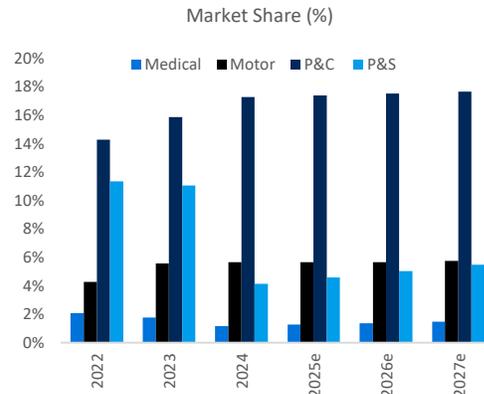
In our estimates, we have factored in approximately 1 ppt market share gain over the next five years, which would drive a 13% GWP CAGR over 2024-29e. Medical is likely to deliver the most robust growth among all sectors in terms of percentage growth since it comes from a small base. This should be followed 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**

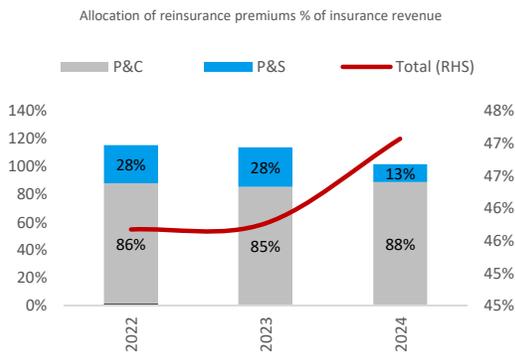


Source: Company financials and anbc research

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.

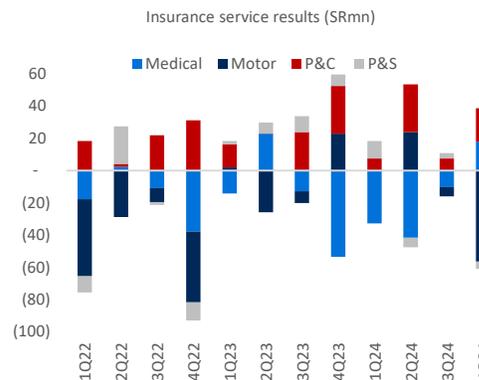
Walaa would aim to increase it over time and grow and develop its business in the inward reinsurance portfolio. The reinsurance business would be a longer-term play, though Walaa has the regulatory license to practice reinsurance services. That said, a strong credit rating would also be quite supportive 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**



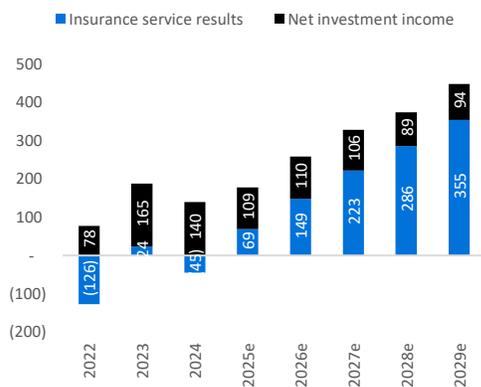
Source: Company financials and anbc research

### 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.

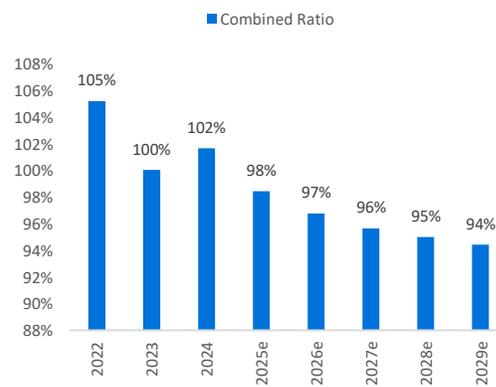
Like other insurers, underwriting income is expected to be the core driver of profitability contribution in contrast to the trend seen in the recent past. In the past two years, abnormally elevated claims pressures across nearly all segments have led to relatively weak underwriting performance. While 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.

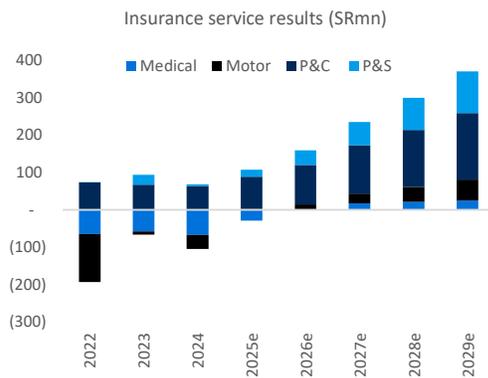
This is changing, and one of the key priorities is to build in-house claim management systems, other technical capabilities, and the necessary infrastructure. This comes when loss ratios are expected to normalize from elevated levels. We think underwriting income could turn at break-even levels next 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

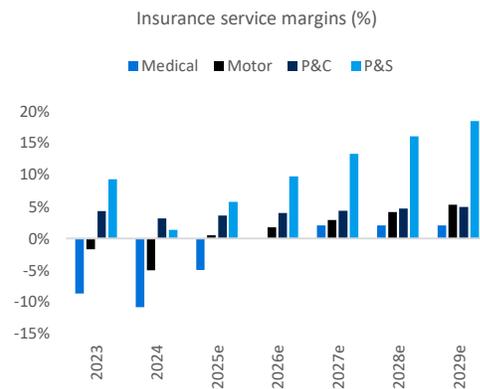
quite high without any major changes in loss ratios, at least in the short term. Savings are longer-term products, which means that finance expenses would be negligible since they are amortized over a very long period.

**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**

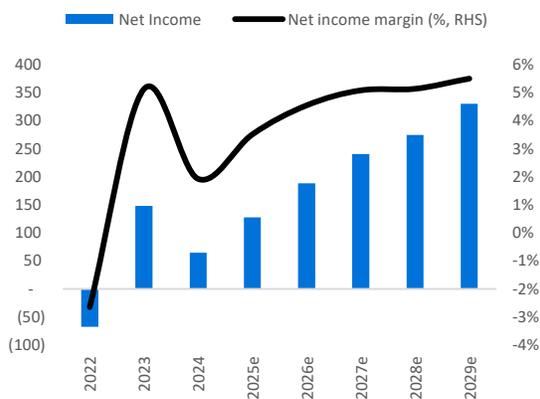


Source: Company financials and anbc research

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.

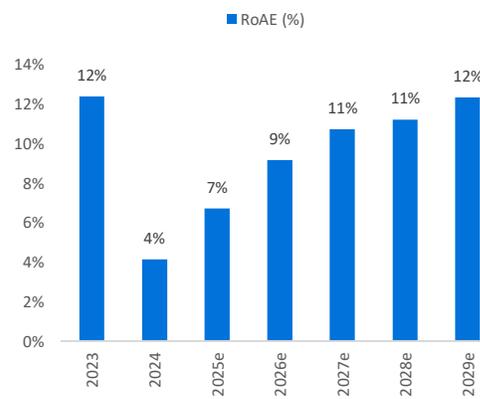
However, RoAE expansion will take slightly longer since the recent rights issues, which, combined with a hit on profitability on weak operating dynamics and tight competition, especially in 2H24, had been quite dilutive for RoAE. That said, we think that this growth from additional capital would take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

|     |     | Growth rate |    |    |    |    |
|-----|-----|-------------|----|----|----|----|
|     |     | 1%          | 2% | 3% | 4% | 5% |
| CoE | 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

## Disclaimer

anb capital is a Saudi Closed Joint Stock Company with paid up capital of SAR 1,000 million and is licensed by the Capital Market Authority of Saudi Arabia under license number 07072-37 and Unified Number 7001548267, with its head office at 3581 Al Mouyyad Al Jadid, Al Murabba, PO Box 220009, Riyadh 11311, Saudi Arabia, telephone number 800 124 0055.

This report is prepared by anb capital, a full-fledged investment bank providing investment banking, asset management, securities brokerage and research services. anb capital and its affiliates, may have or seek investment banking or other business relationships for which it will receive compensation from the companies that are the subject of this report. Also, anb capital (or its officers, directors or employees) may have a position in the securities that are the subject of this report.

This report has been prepared on the basis of information believed to be reliable, but anb capital makes no guarantee, representation or warranty, express or implied, as to the accuracy, correctness or completeness of such information, nor do they accept any responsibility for loss or damage arising in any way (including by negligence) from errors in, or omissions from the information.

This report is intended only for the recipient to whom the same is delivered by anb capital and should not be reproduced, redistributed, forwarded or relied on by any other person. The distribution of this report in some jurisdictions may be restricted by law, and persons into whose possession this report comes should inform themselves about, and observe, any such restriction.

This report has been prepared by anb capital for information purposes only and is not and does not form part of nor should be considered advice, recommendation, offer for sale or solicitation of any offer to subscribe for, purchase or sell any securities, nor shall it or any part of it form the basis of or be relied on in connection with any contract or commitment whatsoever, and any views or opinions expressed herein are subject to change without notice.

This report and information contained herein, are provided for informational purpose only and does not take into consideration any investment objective, financial situation or particular needs of any recipient and are not designed with the objective of providing information to any particular recipient and only provides general information. anb capital assumes that each recipient would make its own assessment and seek professional advice, including but not limited to, professional legal, financial and accounting advice, before taking any decision in relation to the information provided in the report. Recipients should consider their own investment objectives and financial situation and seek professional advice before making any investment decisions.

Under no circumstance will anb capital nor any of its respective directors, officers or employees be responsible or liable, directly or indirectly, for any damage or loss caused or alleged to be caused by or in connection with the use of or reliance on the information contained in this report.

All opinions, estimates, valuations or projections contained in this report constitute anb capital's current opinions, assumptions or judgment as at the date of this report only and are therefore subject to change without notice. There can be no guarantee that future results or events will be consistent with any such opinions, estimates, valuations or projections. Further, such opinions, forecasts or projections are subject to certain risks, uncertainties and assumptions and future actual outcomes and returns could differ materially from what is forecasted.

Past performance is not necessarily indicative of future performance and the value of an investment may fluctuate. Accordingly, any investment made pursuant to this report in any security is neither capital protected nor guaranteed. The value of the investment and the income from it can fall as well as rise as the investment products are subject to several investment risks, including the possible loss of the principal amount invested. No part of the research analysts' compensation is related to the specific recommendations or views in the research report.

By accepting this report, the recipient agrees to be bound by the foregoing limitations.

## Ratings Guidelines

anb capital's investment research is based on the analysis of economic, sector and company fundamentals with the objective of providing a long term (12 month) fair value target for a company.

| OVERWEIGHT                        | NEUTRAL                                | UNDERWEIGHT                        |
|-----------------------------------|--|------------------------------------|
| Expected return is more than +15% | Expected return is between +15% & -10% | Expected return is lower than -10% |

## Analyst Certification:

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.