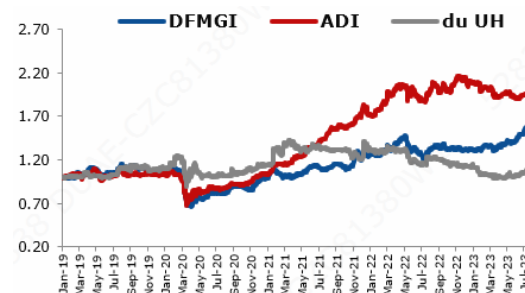


## Abu Dhabi National Insurance Co

Solid underwriting performance and robust growth in investment income drove the bottom line

Current Price	Target Price	Upside/Downside (%)	Rating
AED 6.10	AED 9.00	+47.5%	BUY

- ADNIC's expense ratio declined 160 bps YOY and 310 bps QOQ to 18.2% in 2Q23 driven by a well-maintained cost base
- ADNIC's net claims ratio increased 40 bps YOY to 64.1% in 2Q23 however declined 50 bps on QOQ basis
- ADNIC's combined ratio remained unchanged at 87.6% in 2Q23 as against 2Q22 and increased on QOQ basis by 170 bps
- ADNIC launched a streamlined motor insurance renewal solution through the UAE Pass digital vault. This enables quick online policy renewal without manual data entry or document uploads. Integration with ADNIC's database via UAE Pass enhances data accuracy and security, simplifying the process for customers



### 2Q23 Net Profit in line with our estimate

Abu Dhabi National Insurance Co PJSC (ADNIC/the Company) net profit rose 13.9% YOY to AED 105 Mn in 2Q23, in line with our estimate of AED 106 Mn. The rise in net profit is mainly driven by strong underwriting performance and a decline in expense ratio along with a significant growth in investment income partially offset by an increase in tax expenses.

### P&L Highlights

ADNIC's gross written premium declined 7.0% YOY to AED 3,003 Mn in 2Q23. Total insurance revenue rose 1.1% YOY to AED 1,135 Mn in 2Q23 mainly driven by strong growth in the consumer segment. Consumer segment revenue grew 14.5% YOY to AED 526 Mn in 2Q23 whereas commercial business revenue declined 8.2% YOY to AED 609 Mn. On the other hand, insurance services expenses rose significantly 25.1% YOY to AED 755 Mn in 2Q23. Similarly, income from reinsurance contracts increased 25.1% YOY to AED 340 Mn in 2Q23 while reinsurance contracts expenses declined 8.2% YOY to AED 637 Mn in 2Q23. As a result, insurance services revenue fell 14.4% YOY to AED 84 Mn in 2Q23. The Company's premium retention ratio stood unchanged at 31.9% in 2Q23 as compared to 2Q22. ADNIC's net investment income rose significantly from AED 38 Mn in 2Q22 to AED 64 Mn in 2Q23 mainly driven by high interest rates and a strategic asset allocation coupled with strong returns generated from the trading portfolio. Finance expenses from insurance contracts increased 5.0% YOY to AED 10 Mn in 2Q23. Likewise, finance income from reinsurance contracts rose 24.9% YOY to AED 5 Mn in 2Q23. Other operating expenses rose marginally 0.1% YOY to AED 39 Mn in 2Q23. However, The Company's expenses ratio declined 160 bps YOY to 18.2% in 2Q23 driven by a well-maintained cost base.

### Stock Information

Market Cap (AED, mm)	3,442.80
Paid Up Capital (mm)	570.00
52 Week High	6.40
52 Week Low	5.55
3M Avg. daily value (AED)	120,680

### 2Q23 Result Review (AED, mm)

Total Assets	7,055
Total Liabilities	4,323
Total Equity	2,733
Insurance Service Result	84
Net Profit	105

### Financial Ratios

Dividend Yield (12m)	6.62
Dividend Pay-out (%)	60.33
Price-Earnings Ratio(x)	8.84
Price-to-Book Ratio (x)	1.26
Book Value (AED)	4.79
Return-on Equity (%)	14.87

### Stock Performance

5 Days	-0.98%
1 Months	0.17%
3 Months	3.60%
6 Months	1.51%
1 Year	2.55%
Month to Date (MTD%)	-0.98%
Quarter to Date (QTD%)	-0.98%
Year to Date (YTD%)	-2.58%

## Balance Sheet Highlights

ADNIC's expense ratio declined 160 bps YOY and 310 bps QOQ to 18.2% in 2Q23 owing to a strong cost well-maintained cost base. Net claims ratio grew 40 bps YOY to 64.1% In 2Q23 but declined by 50 bps on QOQ basis. As a result, the combined ratio remained unchanged on YOY basis in 2Q23 but inched higher on QOQ basis by 170 bps to 87.6%. Net profit ratio improved from 6.6% in 2Q22 to 7.1% in 2Q23.

## Target Price and Rating

We maintain our BUY rating on ADNIC with a target price of AED 9.00. The Company's revenue is driven by a strong performance in the consumer segment coupled with a robust growth in investment income. ADNIC's well-maintained cost base resulted in a 310 bps QOQ decline in expense ratio to 18.2% in 2Q23. ADNIC made strategic changes in the asset allocation during the previous year which led to a solid growth in investment income in 2Q23. The Company's combined ratio rose 170 bps QOQ to 87.6% in 2Q23 but stood unchanged as compared to 2Q22. ADNIC incurred a capex of AED 3.9 Mn in 2Q23 as compared to AED 1 Mn in 1Q23. Furthermore, ADNIC launched a streamlined motor insurance renewal solution through the UAE Pass digital vault. This enables quick online policy renewal without manual data entry or document uploads. Integration with ADNIC's database via UAE Pass enhances data accuracy and security, simplifying the process for customers. In addition, ADNIC's partnership with AUD to provide technical insurance training for UAE nationals will enhance their underwriting and claims skills and also result in workforce development. Moreover, the Company's return on equity improved from 6.5% in 2Q22 to 7.5% in 2Q23. Thus, based on our analysis, we maintain our BUY rating on the stock.

### ADNIC - Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
PE	14.76	12.23	9.37	8.65	9.20	8.46
PB	1.65	1.51	1.39	1.23	1.27	1.19
Dividend yield	4.9%	4.9%	5.7%	6.6%	6.6%	6.6%

FABS Estimates & Co Data

### ADNIC - P&L

AED mm	2Q22	1Q23	2Q23	2023F	Var.	YOY Ch.	QOQ Ch	2022	2023F	Change
Insurance revenue	1123	1003	1135	1063	6.8%	1.1%	13.2%	NA	4,443	NA
Insurance service expenses	-603	-752	-755	-744	1.4%	25.1%	0.3%	NA	-3,120	NA
Income from reinsurance contracts	272	454	340	481	-29.3%	25.1%	-25.1%	NA	1,536	NA
Expenses from reinsurance contracts	-694	-611	-637	-702	-9.3%	-8.2%	4.2%	NA	-2,572	NA
<b>Insurance Service Result</b>	<b>98</b>	<b>94</b>	<b>84</b>	<b>98</b>	<b>-14.1%</b>	<b>-14.4%</b>	<b>-10.6%</b>	<b>NA</b>	<b>287</b>	<b>NA</b>
Net Investment Income	38	46	64	54	19.2%	68.9%	39.1%	NA	249	NA
Finance income from insurance contracts, net	-10	10	-10	-10	2.8%	5.0%	NM	NA	22	NA
Finance (expenses) / income from reinsurance contracts, net	4	-8	5	-5	NM	24.9%	NM	NA	9	NA
<b>Net Finance Result</b>	<b>131</b>	<b>142</b>	<b>144</b>	<b>137</b>	<b>5.0%</b>	<b>9.8%</b>	<b>0.8%</b>	<b>NA</b>	<b>568</b>	<b>NA</b>
Other operating expense	-39	-43	-39	-31	24.8%	0.1%	-9.2%	NA	-39	NA
<b>Net Profit</b>	<b>92</b>	<b>100</b>	<b>105</b>	<b>106</b>	<b>-0.9%</b>	<b>13.9%</b>	<b>5.1%</b>	<b>NA</b>	<b>530</b>	<b>NA</b>

FABS estimate & Co Data

### ADNIC - Margins

	2Q22	1Q23	2Q23	YOY Ch	QOQ Ch
Expense ratio	19.8%	21.3%	18.2%	-160	-310
Net claims ratio	63.7%	64.6%	64.1%	40	-50
Combined ratio	87.6%	85.9%	87.6%	0	170
Net profit ratio	6.6%	6.8%	7.1%	50	26

FABS estimate & Co Data

## Valuation:

We use Residual Income and Relative Valuation (RV) method to value ADNIC. We have assigned equal weight to Residual Income and RV method.

Valuation Method	Target	Weight	Weighted Value
Residual Income Method	9.21	50.0%	4.60
Relative Valuation (RV)	8.79	50.0%	4.40
<b>Weighted Average Valuation (AED)</b>			<b>9.00</b>
Current market price (AED)			6.10
Upside/Downside (%)			+47.54%

### 1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.1%. Cost of equity is calculated by using 10-year government bond yield of 4.5%, beta of 0.90, and equity risk premium of 4.0%. Government bond yield is calculated after adding Abu Dhabi 10-year spread over 10-year US risk-free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	704
Terminal value (AED, Mn)	1,813
<b>FV to Common shareholders (AED, Mn)</b>	<b>5,250</b>
No. of share (Mn)	570
Current Market Price (AED)	6.04
<b>Fair Value per share (AED)</b>	<b>9.89</b>

### Residual Income Method

(All Figures in AED Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
Net profit	411	411	407	416	426
Equity Charge	221	236	248	261	274
<b>Excess Equity</b>	<b>190</b>	<b>175</b>	<b>159</b>	<b>156</b>	<b>152</b>
Discounting Factor	0.97	0.90	0.83	0.77	0.71
<b>Present Value of Excess Equity</b>	<b>185</b>	<b>158</b>	<b>132</b>	<b>120</b>	<b>108</b>

Source: FAB Securities

## 2) Relative Valuation:

We have used local as well as international peers to value ADNIC and it is valued using the PB multiple. It is valued at PB multiple of 1.7x.

Company	Market (USD Mn)	P/B (x)		P/E (x)	
		2023F	2024F	2023F	2024F
GULF INSURANCE GROUP	405	1.4	1.3	13.3	11.0
BUPA	8,212	6.4	5.7	30.9	25.9
COMPANY FOR COOPERATIVE INSURANCE	4,898	4.9	4.2	31.2	26.0
<b>Average</b>		<b>4.9x</b>	<b>4.2x</b>	<b>30.9</b>	<b>25.9</b>
<b>Median</b>		<b>4.2x</b>	<b>3.7x</b>	<b>25.1</b>	<b>21.0</b>
<b>Max</b>		<b>5.6x</b>	<b>5.0x</b>	<b>31.1</b>	<b>26.0</b>
<b>Min</b>		<b>3.2x</b>	<b>2.8x</b>	<b>22.1</b>	<b>18.5</b>

Source: FAB Securities

## Research Rating Methodology:

Rating	Upside/Downside potential
BUY	Higher than +15%
ACCUMULATE	Between +10% to +15%
HOLD	Lower than +10% to -5%
REDUCE	Between -5% to -15%
SELL	Lower than -15%

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