

Abu Dhabi National Insurance Co (ADNIC)

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

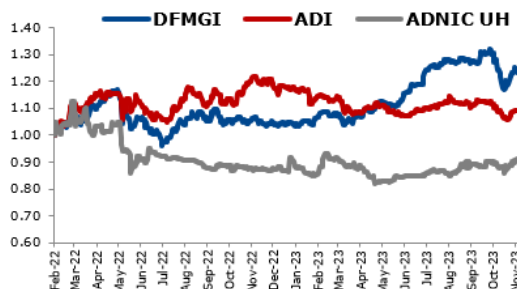
Current Price
AED 6.04

Target Price
AED 8.78

Upside/Downside (%)
+45%

Rating
BUY

- ADNIC's expense ratio rose 160 bps YOY and 340 bps QOQ to 21.6% in 3Q23 driven by investments in technology and digital infrastructure.
- ADNIC's net claims ratio increased 210 bps YOY and 220 bps QOQ to 66.3% in 3Q23.
- ADNIC's combined ratio grew 370 bps YOY and 30 bps QOQ to 87.9% in 3Q23.
- ADNIC signed an agreement to acquire a 51% stake in Allianz Saudi Fransi Cooperative Insurance Company (ASF) for a total consideration of USD 133 Mn. The acquisition will expand ADNIC's presence in the KSA market and boost its retail consumer portfolio.



Stock Information

Market Cap (AED, mm)	3,437.10
Paid Up Capital (mm)	570.00
52 Week High	6.40
52 Week Low	5.55
3M Avg. daily value (AED)	129,818

3Q23 Result Review (AED, mm)

Total Assets	7,381
Total Liabilities	4,559
Total Equity	2,822
Insurance Service Result	93
Net Profit	97

Financial Ratios

Dividend Yield (12m)	6.63
Dividend Pay-out (%)	60.33
Price-Earnings Ratio(x)	8.47
Price-to-Book Ratio (x)	1.22
Book Value (AED)	4.95
Return-on Equity (%)	15.24

Stock Performance

5 Days	0.17%
1 Months	-1.15%
3 Months	0.50%
6 Months	5.60%
1 Year	1.86%
Month to Date (MTD%)	0.00%
Quarter to Date (QTD%)	-1.15%
Year to Date (YTD%)	-2.74%

3Q23 Net Profit lower than our estimate

Abu Dhabi National Insurance Co PJSC (ADNIC/the Company) net profit rose 17.7% YOY to AED 97 Mn in 3Q23, lower than estimate of AED 109 Mn. The rise in net profit is mainly driven by solid underwriting performance, increase in retention, and rise in net investment income due to changes in asset allocation partially offset by increase in operating expenses due to investments in digital transformation and modern technology and rise in tax expense.

P&L Highlights

ADNIC's gross written premium declined 8.3% YOY to AED 3,935 Mn in 9M23 driven by a decline in both, life and non-life insurance premiums. Life insurance gross premium declined 44.1% YTD in 9M23 while non-life insurance gross premium fell 4.8% YTD. Total insurance revenue rose 2.1% YOY to AED 1,196 Mn in 3Q23 driven by a strong growth across the Consumer segment partially offset by a decline in revenue from the Commercial business. Moreover, Consumer segment revenue rose 8.8% YOY to AED 511 Mn in 3Q23 while Commercial business revenue fell 2.4% YOY to AED 685 Mn in 3Q23. On the other hand, insurance service expenses declined 20.4% YOY to AED 763 Mn in 3Q23. ADNIC's income from reinsurance contracts declined 41.9% YOY to AED 353 Mn in 3Q23 whereas reinsurance contract expenses decreased 4.5% YOY to AED 693 Mn in 3Q23. As a result, insurance service result marginally declined 1.8% YOY to AED 93 Mn in 3Q23. The Company's premium retention ratio rose 280 bps YOY and 10 bps QOQ to 32.0% in 3Q23. Furthermore, ADNIC's net investment income rose from AED 32 Mn in 3Q22 to AED 48 Mn in 3Q23 as the company changed its asset allocation from investments in equity instruments to fixed income securities. The growth in investment income was also supported by favorable market conditions. ADNIC's finance income from insurance contract declined 10.5% YOY to AED 4 Mn in 3Q23. Meanwhile, finance expense from

reinsurance contracts decreased to AED 2 Mn in 3Q23 from AED 5 Mn in 3Q22. In addition, other operating expenses rose 4.9% YOY to AED 46 Mn in 3Q23 driven by investment in technology and digital transformation. Thus, the Company's expense ratio rose 160 bps YOY to 21.6% in 3Q23. Tax expenses rose 17.7% YOY to AED 97 Mn in 3Q23 in line with growth in profitability.

Balance Sheet Highlights

ADNIC's expense ratio rose 160 bps YOY and 340 bps QOQ to 21.6% in 3Q23 owing to investments in digital transformation and technology. Net claims ratio grew 210 bps YOY and 330 bps QOQ to 66.3% in 3Q23. As a result, the combined ratio rose 370 bps YOY and 30 bps QOQ to 87.9% in 3Q23 Net profit ratio grew from 4.7% in 3Q22 to 6.3% in 3Q23.

Target Price and Rating

We maintain our BUY rating on ADNIC with a revised target price of AED 8.78. The Consumer segment's strong performance and healthy investment returns drove the Company's bottom line in 3Q23. Consumer segment revenue rose 8.8% YOY to AED 511 Mn in 3Q23. The Company made strategic changes in its asset allocation from investing in equity instruments to fixed-income securities, leading to solid returns on investment in 3Q23. ADNIC's combined ratio rose 370 bps YOY and 30 bps QOQ to 87.9% in 3Q23 but it is still under healthy levels reflecting the Company's effective risk selection and claims settlement. Furthermore, ADNIC signed an agreement to acquire a 51% stake in Allianz Saudi Fransi Cooperative Insurance Company (ASF) for a total consideration of USD 133 Mn. The acquisition will expand ADNIC's presence in the attractive KSA market and boost its retail consumer portfolio. Gross written premium in KSA grew at a CAGR of 8.8% from SAR 35.0 Bn in 2018 to SAR 53.4 Bn in 2022 driven by strong economic recovery, expansion of compulsory medical covers, and other supportive initiatives by the government. Meanwhile, the gross written premium in KSA increased 25.3% YOY to SAR 34.0 Bn in 1H23, out of which premiums of the general insurance segment increased 19.0% YOY to SAR 11.7 Bn in 1H23. Saudi witnessed solid growth in health insurance premiums during 2023 whereas ASF's major customer base comprises of consumer segment. According to S&P, the KSA's Gross written premium is expected to grow by more than 10% during 2023. As a result, ADNIC will witness strong growth in premium post-ASF acquisition. Moreover, the Company aims to fund the acquisition internally through its cash resources while ADNIC also has sufficient funding facilities to raise funds externally. ADNIC is actively investing in technology and digital transformation to boost operational efficiency. In addition, ADNIC trades at an attractive 2023 dividend yield of 6.9%. 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	14.38	12.11	9.28	8.57	9.11	8.66
PB	1.64	1.50	1.37	1.22	1.26	1.19
Dividend yield	5.0%	5.0%	5.8%	6.6%	6.6%	6.9%

FABS Estimates & Co Data

ADNIC – P&L

AED mm	3Q22	2Q23	3Q23	3Q23F	Var.	YOY Ch	QOQ Ch
Insurance revenue	1,172	1,135	1,196	1,147	4.3%	2.1%	5.3%
Insurance service expenses	-958	-755	-763	-791	-3.6%	-20.4%	1.1%
Income from reinsurance contracts	607	340	353	353	-0.2%	-41.9%	3.8%
Expenses from reinsurance contracts	-726	-637	-693	-633	9.5%	-4.5%	8.9%
Insurance Service Result	95	84	93	76	22.3%	-1.8%	11.0%
Net Investment Income	32	64	48	59	-18.7%	51.5%	-25.2%
Finance income from insurance contracts, net	5	-10	4	6	-26.4%	-10.5%	NM
Finance (expenses) / income from reinsurance contracts, net	-5	5	-2	6	NM	-59.2%	NM
Net Finance Result	127	144	144	147	-2.1%	13.3%	0.2%
Other operating expense	-44	-39	-46	-38	23.5%	4.9%	19.3%
Net Profit	83	105	97	109	-10.9%	17.7%	-6.9%

FABS estimate & Co Data

ADNIC - Margins

	3Q22	2Q23	3Q23	YOY Ch	QOQ Ch
Gross written premium (AED Mn)	1,083	982	932	-13.9%	-5.1%
Premium Retention	29.2%	31.9%	32.0%	280	10
Expense ratio	20.0%	18.2%	21.6%	160	340
Net claims ratio	64.2%	64.1%	66.3%	210	220
Combined ratio	84.2%	87.6%	87.9%	370	30
Net profit ratio	4.7%	7.1%	6.3%	164	-80

FABS estimate & Co Data

Valuation:

We use the Residual Income, Dividend Discount Method (DDM), and Relative Valuation (RV) method to value ADNIC. We have assigned 50% weight to Residual Income and 25% weight each to DDM and RV methods.

Valuation Method	Target	Weight	Weighted Value
Residual Income Method	9.56	50.0%	4.78
Dividend Discount Method (DDM)	7.56	25.0%	1.89
Relative Valuation (RV)	8.43	25.0%	2.11
Weighted Average Valuation (AED)			8.78
Current market price (AED)			6.04
Upside/Downside (%)			+45%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.2%. Cost of equity is calculated by using 10-year government bond yield of 5.3%, beta of 0.90, and equity risk premium of 3.3%. 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)	593
Terminal value (AED, Mn)	2,033
FV to Common shareholders (AED, Mn)	5,448
No. of share (Mn)	570
Current Market Price (AED)	6.04
Fair Value per share (AED)	9.56

Residual Income Method

(All Figures in AED Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
Net profit	397	423	431	439	454
Equity Charge	225	239	253	267	282
Excess Equity	173	184	178	172	172
Discounting Factor	0.99	0.92	0.85	0.78	0.72
Present Value of Excess Equity	14	169	151	135	124

Source: FAB Securities

2) DDM Method:

ADNIC dividend grew in line with profit and paid regular dividends to its shareholders. Thus, we have valued ADNIC using the DDM valuation method. The dividend is discounted at the cost of equity of 8.2%.

Sum of PV (AED, Mn)	1,092
Terminal value (AED, Mn)	3,218
FV to Common shareholders (AED, Mn)	4,310
No. of share (Mn)	570
Current Market Price (AED)	6.04
Fair Value per share (AED)	7.56

DDM Method

(All Figures in AED Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
Dividend Paid	238	254	258	264	272
Total Dividend	238	254	258	264	272
Discounting Factor	0.99	0.92	0.85	0.78	0.72
Present Value of Dividend	237	233	219	206	197

Source: FAB Securities

3) 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	359	1.3	1.1	11.8	9.7
BUPA	8,067	6.0	5.6	22.8	21.9
COMPANY FOR COOPERATIVE INSURANCE	4,834	4.7	4.1	24.3	24.3
Average		4.7x	4.1x	22.8x	21.9x
Median		4.0x	3.6x	19.6x	18.6x
Max		5.4x	4.9x	23.6x	23.1x
Min		3.0x	2.6x	17.3x	15.8x

Source: FAB Securities

