

Abu Dhabi National Insurance Co (ADNIC)

Cost control measures benefitted profitability

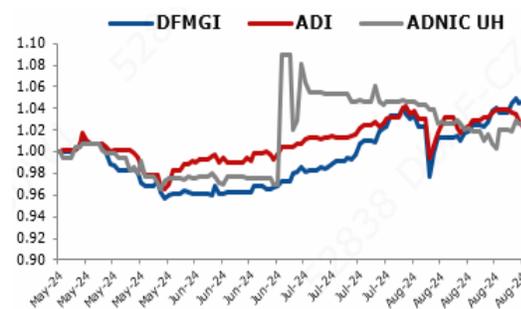
Current Price
AED 6.00

Target Price
AED 8.78

Upside/Downside (%)
+46%

Rating
BUY

- Completed acquisition of 51% stake in Allianz Saudi Fransi Cooperative Insurance Company (ASF) on 17 April 2024 for AED 489 Mn. The amount is paid using internal accruals.
- Gross Written Premium (GWP) grew 47% YOY to AED 4,406 Mn in 1H24.
- ADNIC's expense ratio fell 570 bps YOY to 17.7% in 1H24 owing to the company's continuous efforts to control expenses resulting in a lower-than-proportionate growth in operating expenses.
- Combined ratio rose from 87.5% in 1H23 to 92.2% in 1H24 due to higher net claims ratio partially offset by a decline in expenses.
- Premium retention ratio increased significantly from 31.9% in 1H23 to 38.6% in 1H24, owing to continued optimization of retention in the Commercial segment.



2Q24 Net Profit lower than our estimate

Abu Dhabi National Insurance Co PJSC (ADNIC/the Company) net profit fell marginally 0.9% YOY to AED 104 Mn in 2Q24, lower than our estimate of AED 110 Mn. The decline in net profit is mainly driven by a more than proportionate increase in insurance service expense, higher operating & finance expenses from reinsurance contracts and implementation of corporate tax in UAE in 2024 partially offset by a robust growth in insurance and reinsurance contracts revenue.

P&L Highlights

Total insurance revenue rose significantly from AED 1,135 Mn in 2Q23 to AED 1,738 Mn in 2Q24, driven by strong Commercial and Consumer Segment growth. The insurance revenue is also boosted by the consolidation of ASF, which was completed in 2Q24, and its ability to provide corporate insurance solutions for large-scale projects, supported by its extensive multi-channel capabilities, diverse product lines, and well-established territorial infrastructure. Gross written premium (GWP) rose 40.0% to AED 1,375 Mn in 2Q24. Revenue from both Consumer and Commercial segment insurance rose 53.1% YOY each to AED 806 Mn and AED 932 Mn, respectively in 2Q24. On the other hand, insurance service expenses grew significantly from AED 755 Mn in 2Q23 to AED 2,266 Mn in 2Q24, owing to a steep increase in insurance expenses in the Commercial Segment. ADNIC's income from reinsurance contracts increased from AED 340 Mn in 2Q23 to AED 1,501 Mn in 2Q24, whereas the reinsurance contract expenses grew from AED 637 Mn to AED 872 Mn in 2Q24. As a result, insurance service results increased 20.3% YOY to AED 101 Mn in 2Q24 attributable to strong underwriting and analytical discipline. Furthermore, ADNIC's net investment income rose marginally from AED 64 Mn in 2Q23 to AED 65 Mn in 2Q24 due to higher allocation to fixed income in a high-interest rate environment, coupled with gain

Stock Information

Market Cap (AED, Mn)	3,420.00
Paid Up Capital (Mn)	570.00
52 Week High	6.61
52 Week Low	5.30
3M Avg. daily value (AED)	254,506

2Q24 Result Review (AED, Mn)

Total Assets	10,869
Total Liabilities	7,637
Total Equity	3,232
Insurance Service Result	101
Net Profit	104

Financial Ratios

Dividend Yield (12m)	7.50
Dividend Pay-out (%)	0.00
Price-Earnings Ratio(x)	8.53
Price-to-Book Ratio (x)	1.20
Book Value (AED)	4.99
Return-on Equity (%)	14.39

Stock Performance

5 Days	0.84%
1 Months	-1.64%
3 Months	5.45%
6 Months	0.17%
1 Year	-0.99%
Month to Date (MTD%)	-1.64%
Quarter to Date (QTD%)	-5.51%
Year to Date (YTD%)	0.50%

from property income and dividends. ADNIC net finance income from insurance contracts stood at AED 31 Mn in 2Q24 compared to an expense of AED 10 Mn during 2Q23. Meanwhile, ADNIC recorded a finance expense from reinsurance contracts of AED 25 Mn in 2Q24 compared to an income of AED 5 Mn in 2Q23. In addition, other operating costs rose 52.4% YOY to AED 59 Mn in 2Q24 owing to the expenses incurred related to the consolidation of Allianz Saudi Fransi Cooperative Insurance Company and other ongoing projects. The cost growth was significantly lower than the premium growth despite continued investments. Tax expense amounted to AED 8 Mn in 2Q24 due to corporate tax's introduction in the UAE in 2024.

Balance Sheet Highlights

ADNIC's expense ratio fell 570 bps YOY to 17.7% in 1H24 owing to the Company's continued effort to control expenses resulting in a lower than proportionate growth in operating expenses. The combined ratio increased 470 bps YOY to 92.2% in 1H24 attributed to a higher claim ratio partially offset by a decline in expenses ratio. Moreover, the net claims ratio rose from 64.1% in 1H23 to 74.5% in 1H24. The premium retention ratio increased significantly from 31.9% in 1H23 to 38.6% in 1H24, owing to continued optimization of retention in the Commercial segment. ADNIC's solvency margin and capital requirement exceed the regulatory requirement. It recorded a solvency margin and minimum guarantee fund surplus of AED 773.9 Mn and AED 1.4 Bn, respectively as of 31 March 2024.

Target Price and Rating

We maintain our BUY rating on ADNIC with an unchanged target price of AED 8.78. The company demonstrated strong revenue performance attributed to offering corporate insurance solutions for large-scale projects, supported by its extensive multi-channel capabilities, diverse product lines, and well-established territorial infrastructure. ADNIC also experienced a 47% YOY growth in Gross Written Premium (GWP) to AED 4,406 Mn in 1H24. The Company also generated a robust investment income from a strategic asset allocation, reflecting its ability to generate income from its core and non-core business. ADNIC prioritizes effective cost management maintaining the expense growth lower than the premium growth and successfully controlled the rise in operating cost despite continuous investments. The Company's combined ratio benefitted from this effective cost management. Furthermore, ADNIC focuses on optimization of retention in the Commercial revenue segment as a result premium retention ratio rose from 31.9% in 1H23 to 38.6% in 1H24. It continues to introduce lifestyle-customizable products and uses behavioral predictive analytics to drive growth. ADNIC is poised to benefit from the ASF acquisition as it enabled access to the KSA insurance market which is one of the fastest growing insurance markets in the world. Thus, based on our analysis, we maintain our BUY rating on the stock.

ADNIC - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	11.9	9.1	8.4	9.0	8.4	7.9
PB	1.6	1.5	1.4	1.2	1.2	1.1
Dividend yield	5.1%	5.9%	6.7%	6.7%	7.5%	7.5%

FABS Estimates & Co Data

ADNIC – P&L

AED Mn	2Q23	1Q24	2Q24	2Q24F	Var.	YOY Ch	QOQ Ch	2023	2024F	Change
Insurance revenue	1,135	1,555	1,738	1,244	39.7%	53.1%	11.8%	4,641	6,484	39.7%
Insurance service expenses	-755	-1,159	-2,266	-871	NM	NM	95.5%	-3,615	-5,576	54.3%
Income from reinsurance contracts	340	619	1,501	544	NM	NM	NM	2,065	3,304	60.0%
Expenses from reinsurance contracts	-637	-912	-872	-817	6.8%	37.0%	-4.4%	-2,724	-3,800	39.5%
Insurance Service Result	84	103	101	101	0.1%	20.3%	-2.0%	367	412	12.4%
Net Investment Income	64	54	65	52	25.3%	0.5%	19.1%	207	227	10.0%
Finance income from insurance contracts, net	-10	0	31	6	NM	NM	NM	66	78	18.6%
Finance (exp.) / inc. from reinsurance contracts, net	5	4	-25	3	NM	NM	NM	-58	-53	NM
Net Finance Result	144	162	172	162	5.8%	19.6%	6.3%	581	664	14.4%
Other operating expense	-39	-50	-59	-41	43.8%	52.4%	18.9%	-180	-196	8.9%
Profit Before tax	105	112	113	121	-7.1%	7.5%	0.7%	401	469	16.8%
Tax expense	0	-11	-8	-11	-23.8%	NM	-23.3%	0	-42	NM
Profit for the period	105	101	104	110	-5.4%	-0.5%	3.3%	401	426	6.3%
Non-controlling interest	0	0	0	0	NM	NM	NM	0	2	NM
Profit attributable to shareholders	105	101	104	110	-5.8%	-0.9%	2.8%	401	425	5.9%

FABS estimate & Co Data

ADNIC - Margins

	1H2023	1H2024	Change	FY2023
Premium Retention	31.9%	38.6%	670	35.0%
Net claims ratio	64.1%	74.5%	1,040	67.1%
Expense ratio	23.4%	17.7%	-570	21.0%
Combined ratio	87.5%	92.2%	470	88.0%
ROE	14.1%	14.1%	2	13.7%

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	10.03	50.0%	5.02
Dividend Discount Method (DDM)	7.52	25.0%	1.88
Relative Valuation (RV)	7.52	25.0%	1.88
Weighted Average Valuation (AED)			8.78
Current market price (AED)			6.00
Upside/Downside (%)			+46%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 9.0%. Cost of equity is calculated by using 10-year government bond yield of 4.9%, beta of 0.93, and equity risk premium of 4.4%. Government bond yield is calculated after adding Abu Dhabi's 10-year spread over a 10-year US risk-free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	656
Terminal value (AED, Mn)	2,216
Shareholder's equity (As of June 2024)	2,847
FV to Common shareholders (AED, Mn)	5,719
No. of share (Mn)	570
Current Market Price (AED)	6.00
Fair Value per share (AED)	10.03

Residual Income Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net profit	425	449	466	493	555
Equity Charge	263	278	296	315	333
Excess Equity	161	169	169	176	219
Discounting Factor	0.97	0.89	0.82	0.75	0.69
Present Value of Excess Equity	79	152	140	133	152

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 9.0%.

Sum of PV (AED, Mn)	1,121
Terminal value (AED, Mn)	3,165
FV to Common shareholders (AED, Mn)	4,286
No. of share (Mn)	570
Current Market Price (AED)	5.94
Fair Value per share (AED)	7.52

DDM Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Dividend	257	256	266	281	316
Total Dividend	257	256	266	281	316
Discounting Factor	0.97	0.89	0.82	0.75	0.69
Present Value of Dividend	249	228	217	210	217

Source: FAB Securities

3) Relative Valuation:

We have used local as peers to value ADNIC and it is valued using the PB multiple. It is valued at PB multiple of 1.4x.

Company	Market (USD Mn)	P/B (x)		P/E (x)	
		2024F	2025F	2024F	2025F
GULF INSURANCE GROUP	476	NA	NA	17.9	16.2
BUPA	9,358	6.6	5.7	26.2	23.1
COMPANY FOR COOPERATIVE INSURANCE	6,735	6.1	5.4	28.3	24.7
Average		6.4x	5.5x	26.2x	23.1x
Median		6.4x	5.5x	24.1x	21.3x
Max		6.5x	5.6x	27.2x	23.9x
Min		6.2x	5.5x	22.0x	19.6x

Source: FAB Securities

