

Abu Dhabi National Insurance Co (ADNIC)

Solid underwriting performance drove top-line

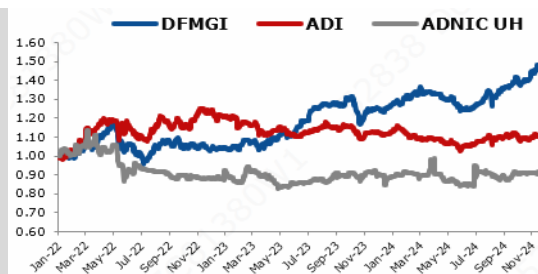
Current Price
AED 6.07

Target Price
AED 8.78

Upside/Downside (%)
+45%

Rating
BUY

- Gross Written Premium (GWP) rose 56% YOY to record high level at 6.1 Bn in 3Q24.
- Expense ratio declined 120 bps YOY to 20.0% in 3Q24 while net claims ratio increased from 66.3% in 3Q23 to 73.2% in 3Q24.
- Combined ratio rose from 87.5% in 3Q23 to 93.2% in 3Q24 due to higher net claims ratio over expenses ratio.
- Net investment income grew 48 Mn in 3Q23 to 83 Mn in 3Q24 due to effective assets allocation strategy towards emerging markets.
- Plans to establish an AI-specific data management unit to ensure ideal risk-reward returns.



3Q24 Net Profit in line with our estimate

Abu Dhabi National Insurance Co PJSC (ADNIC/the Company) net profit grew 3.0% YOY to AED 100 Mn in 3Q24, in line with our estimate of AED 104 Mn. The growth in net profit is mainly driven by an increase in insurance revenue and income from reinsurance contracts along with higher net investment income partially offset by a rise in insurance and reinsurance expenses coupled with growth in other operating expenses and tax expense.

P&L Highlights

ADNIC's total insurance revenue rose 62.9% YOY to AED 1,948 Mn in 3Q24 driven by strong growth in the Commercial and Consumer Segment. The Company witnessed a record GWP of AED 6.1 Bn in 3Q24, up 56% compared to 3Q23. Commercial insurance segment revenue grew 46.5% YOY to AED 1,004 Mn in 3Q24 while the Consumer segment revenue increased 84.8% YOY to AED 944 in 3Q24. On the other hand, the Company's insurance service expenses rose substantially from AED 763 Mn in 3Q23 to AED 2,649 Mn in 3Q24, owing to considerable growth in commercial insurance service expenses. Moreover, ADNIC's income from reinsurance contracts rose from AED 353 Mn in 3Q23 to AED 1,867 Mn in 3Q24, owing to a sharp rise in income from Commercial reinsurance contracts. Furthermore, reinsurance contract expenses grew 53.2% YOY to AED 1,062 in 3Q24, due to floods resulting in increased claims which led to the transfer of risk to the reinsurance market. Thus, ADNIC's insurance service result grew 11.7% YOY to AED 104 Mn in 3Q24 due to strong underwriting performance. Net investment income rose 72.5% YOY to AED 83 Mn in 3Q24 due to an effective asset allocation mix towards emerging markets. Other operating expenses grew 23.7% YOY to AED 57 Mn in 3Q24. The Company reported tax expense of AED 16 Mn in 3Q24 while the share of profit attributable to non-controlling interest holders stood at AED 2 Mn in 3Q24 compared to nil in 3Q23.

Stock Information

Market Cap (AED, Mn)	3,482.70
Paid Up Capital (Mn)	570.00
52 Week High	6.61
52 Week Low	5.30
3M Avg. daily value (AED)	620,640

3Q24 Result Review (AED, Mn)

Total Assets	12,005
Total Liabilities	8,616
Total Equity	3,389
Insurance Service Result	104
Net Profit	100

Financial Ratios

Dividend Yield (12m)	7.40
Dividend Pay-out (%)	0.00
Price-Earnings Ratio(x)	8.52
Price-to-Book Ratio (x)	1.15
Book Value (AED)	5.26
Return-on Equity (%)	13.89

Stock Performance

5 Days	1.66%
1 Months	0.16%
3 Months	2.17%
6 Months	7.76%
1 Year	1.33%
Month to Date (MTD%)	0.16%
Quarter to Date (QTD%)	-0.16%
Year to Date (YTD%)	2.35%

Balance Sheet Highlights

ADNIC's expense ratio fell 160 bps YOY to 20.0% in 3Q24, owing to the Company's continued effort to control expenses. On the other hand, the net claim ratio increased 690 bps YOY to 73.2% in 3Q24. Thus, the combined ratio grew 570 bps YOY to 93.2% in 3Q24, which shows the Company's efficiency in underwriting operations by earning high premiums over claims and expenses. The premium retention ratio rose significantly from 32.0% in 3Q23 to 38.3% in 3Q24.

Target Price and Rating

We maintain our BUY rating on ADNIC with an unchanged target price of AED 8.78. ADNIC's GWP increased 56% YOY to a record high level at AED 6.1 Bn in 3Q24. Solid underwriting performance drove the Company's profitability in 3Q24. The Company witnessed strong growth in net investment income driven by a strategic allocation mix to the emerging markets. Furthermore, the acquisition of Allianz Saudi Arabia Cooperative Insurance Company (ASF) will allow ADNIC to deliver solutions across all major insurance lines. The Combined ratio of 93.2% in 3Q24, demonstrates the Company's strong underwriting efficiency by keeping claims and expenses lower than premiums. Additionally, ADNIC is involved in many projects and initiatives to maintain sustainability by investing in high-end Enterprise Risk Management frameworks and market-leading comprehensive Reinsurance Risk Transfer programs. Furthermore, the Company plans to establish an AI-specific data management unit to ensure ideal risk-reward returns. UAE's government aims to diversify its economy in non-oil sector by transforming Abu Dhabi and Dubai as regional hub for construction, retail, finance, and tourism which will be supported by developments across the energy sector and investments in natural gas. ADNIC aims to support UAE's economic development by providing insurance across all the sectors which will drive the Company's top-line. The company has distributed a cash dividend of 45% of the Share Nominal Value (AED 0.45 per Share), amounting to AED 256.5 Mn for the year of 2023. Thus, based on our analysis, we assign a BUY rating on the stock.

ADNIC - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	12.2	9.3	8.6	9.2	8.6	8.5
PB	1.6	1.5	1.4	1.3	1.2	1.1
Dividend yield	4.9%	5.8%	6.6%	6.6%	7.4%	7.4%

FABS Estimates & Co Data

ADNIC – P&L

AED Mn	3Q23	2Q24	3Q24	3Q24F	Var.	YOY Ch.	QOQ Ch	2023	2024F	Change
Insurance revenue	1,196	1,738	1,948	1,651	18.0%	62.9%	12.1%	4,641	7,307	57.5%
Insurance service expenses	-763	-2,266	-2,649	-1,321	100.5%	247.4%	16.9%	-3,615	-8,769	142.6%
Income from reinsurance contracts	353	1,501	1,867	750	NM	429.2%	24.4%	2,065	5,885	185.0%
Reinsurance contracts expenses	-693	-872	-1,062	-976	8.8%	53.2%	21.8%	-2,724	-3,984	46.2%
Insurance Service Result	93	101	104	105	-0.9%	11.7%	3.0%	367	440	19.9%
Net Investment Income	48	65	83	58	42.6%	72.5%	28.4%	207	293	42.0%
Finance income from insurance contracts, net	4	31	0	17	NM	-99.9%	-100.0%	66	73	11.4%
Finance (exp.) / inc. from reinsurance contracts, net	-2	-25	-12	-8	57.6%	NM	-52.3%	-58	-94	NM
Net Finance Result	144	172	176	172	1.8%	22.1%	2.2%	581	712	22.5%
Other operating expense	-46	-59	-57	-58	-0.9%	23.7%	-3.2%	-180	-264	46.8%
Profit Before tax	97	113	118	115	3.1%	21.3%	5.1%	401	448	11.7%
Tax expense	0	-8	-16	-10	51.4%	NM	88.3%	0	-40	NM
Profit for the period	97	104	103	104	-1.6%	5.3%	-1.5%	401	408	1.6%
Non-controlling interest	0	0	2	0	NM	NM	NM	0	1	NM
Profit attributable	97	104	100	104	-3.3%	3.0%	-3.2%	401	407	1.3%

FABS estimate & Co Data

ADNIC - Margins

	3Q23	3Q24	Change	FY2023
Premium Retention	38.6%	38.3%	630	35.0%
Net claims ratio	74.5%	73.2%	690	67.1%
Expense ratio	17.7%	20.0%	-120	21.0%
Combined ratio	92.2%	93.2%	570	88.0%
ROE	9.8%	11.1%	-870	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	10.49	50.0%	5.24
Dividend Discount Method (DDM)	7.81	25.0%	1.95
Relative Valuation (RV)	6.33	25.0%	1.58
Weighted Average Valuation (AED)			8.78
Current market price (AED)			6.07
Upside/Downside (%)			+45%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.8%. Cost of equity is calculated by using 10-year government bond yield of 4.9%, beta of 0.93, and equity risk premium of 4.2%. 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)	631
Terminal value (AED, Mn)	2,345
Shareholder's equity (As of June 2024)	3,001
FV to Common shareholders (AED, Mn)	5,977
No. of share (Mn)	570
Current Market Price (AED)	6.07
Fair Value per share (AED)	10.49

Residual Income Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net profit	407	452	467	498	549
Equity Charge	258	271	289	307	326
Excess Equity	149	181	178	191	222
Discounting Factor	0.99	0.91	0.84	0.77	0.71
Present Value of Excess Equity	12	165	149	147	157

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 8.8%.

Sum of PV (AED, Mn)	1,152
Terminal value (AED, Mn)	3,298
FV to Common shareholders (AED, Mn)	4,450
No. of share (Mn)	570
Current Market Price (AED)	6.07
Fair Value per share (AED)	7.81

DDM Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Dividend	257	258	266	284	313
Total Dividend	257	258	266	284	313
Discounting Factor	0.99	0.91	0.84	0.77	0.71
Present Value of Dividend	255	235	223	218	221

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 1.2x.

Company	Market (USD Mn)	P/B (x)		P/E (x)	
		2024F	2025F	2024F	2025F
GULF INSURANCE GROUP	410	NA	NA	35.2	31.8
BUPA	7,250	5.1	4.6	46.5	41.3
COMPANY FOR COOPERATIVE INSURANCE	5,155	4.3	3.8	46.5	42.8
Average		4.7x	4.2x	46.5x	41.3x
Median		4.7x	4.2x	42.7x	38.6x
Max		4.9x	4.4x	46.5x	42.1x
Min		4.5x	4.0x	40.8x	36.6x

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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