

## Abu Dhabi National Insurance Co

Market volatility and hike in opex pressurized profitability

### 3Q22 Net Profit lower than our estimates

Abu Dhabi National Insurance Co PJSC (ADNIC/the Company) net profit declined 5.1% YOY to AED 81 Mn in 3Q22, lower than our estimate of AED 93 Mn. This is mainly due to a rise in G&A expense, increase in net claims paid, and decline in investment income partially offset by growth in net underwriting income.

### P&L Highlights

Gross premium recorded strong growth of 86.4% YOY to AED 1,065 Mn in 3Q22 driven by a strong growth in gross premium from the commercial line and stable growth in consumer line despite pricing pressure and strong competition. Gross premium from commercial lines more than doubled from AED 340 Mn in 3Q21 to AED 802 Mn in 3Q22. Gross premium across consumer lines grew at a stable growth rate of 13.7% YOY to AED 263 Mn in 3Q22. The stable growth is despite pricing pressure and strong competition. Reinsurance share of premium spiked from AED 401 Mn in 3Q21 to AED 842 Mn in 3Q22. Thus, the net premium recorded a healthy growth of 31.0% YOY to AED 223 Mn in 3Q22. The premium retention ratio declined from 29.8% in 3Q21 to 20.9% in 3Q22. Net change in unearned premium reserve declined 10.9% YOY to AED 159 Mn in 3Q22. Thus, net premium earned rose 9.6% YOY to AED 381 Mn in 3Q22. Commission earned declined marginally by 0.5% YOY to AED 52 Mn in 3Q22 whereas, commission incurred rose 15.1% YOY to AED 47 Mn. Gross underwriting income rose 7.5% YOY to AED 386 Mn in 3Q22 despite pricing pressure and competition. Net claims incurred rose 7.3% YOY to AED 255 Mn in 3Q22 dragging profitability. Thus, net underwriting income rose 7.1% YOY to AED 116 Mn in 3Q22 amidst the restoration of consumer behaviour to the pre-pandemic period. Resultantly, total income rose marginally by 0.6% YOY to AED 148 Mn in 3Q22 due to a diversified book that has given a solid performance. The company's investment income was affected adversely due to high volatility across the asset class along with timing differences in receipt of dividends. ADNIC's G&A expenses rose 8.5% YOY to AED 67 Mn in 3Q22 mainly due to the investments made towards technology and improving the digital capabilities of the business impacting profitability.

### Ratio highlights

Expense ratio rose 196 bps YOY and 35 bps QOQ to 20.3% in 3Q22 due increase in G&A expense partially offset by a decline in net commission. Claim loss ratio declined to 66.8% in 3Q22 as compared to 68.3% in 3Q21 but rose 535 bps QOQ. Resultantly, Combined ratio rose from 86.7% in 3Q21 to 87.2% in 3Q22. Net Profit ratio declined from 24.4% in 3Q21 to 21.1% in 3Q22. Solvency ratio remained well above the regulatory and rating agency minimum requirement.

### Target price and rating

We maintain our BUY rating on ADNIC with a target price of AED 9.00. During 9M22, the Company reported strong growth in gross written premium which rose 32.4% YOY to AED 4.3 Bn driven by strong in Commercial line and stable growth in Consumer line. It entered into new partnership with JAFZA to provide medical and property insurance at exclusive rates, developed new sales and

**Rating : BUY**

### First Look Note – 3Q22

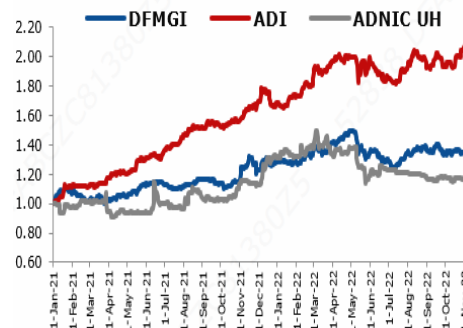
**Sector: Insurance**

#### Recommendation

Current Price (10-Nov-22)	5.90
Target Price (AED)	9.00
Upside/Downside (%)	+52.5%

#### Stock Information

Market Cap (mm)	3,363.00
Paid Up Capital (mm)	570.00
52 Week High	7.63
52 Week Low	5.70
3M Avg. daily value (AED)	1,911,749



#### Financial Ratios

Dividend Yield (12m)	6.78
Dividend Pay-out (%)	56.74
Price-Earnings Ratio (x)	10.01
Price-to-Book Ratio (x)	1.30
Book Value (AED)	4.53
Return-on Equity (%)	13.08
Earning Per Share (AED)	0.59
Beta	0.51

#### Stock Performance

5 Days	-0.51%
1 Months	0.17%
3 Months	-3.75%
6 Months	-9.51%
1 Year	-0.17%
Month to Date (MTD)	-1.34%
Quarter to Date (QTD)	-1.99%
Year to Date (YTD)	-11.94%

services capability in digital distribution to positively affect multiple line of businesses and creating synergies to enhance cross-selling opportunities. These developments will lend stable growth to gross written premium going forward. ADNIC is using blockchain to implement a motor-based recovery platform to automate motor recoveries this initiative will improve operational efficient and lead to cost saving. The Company reported a combined ratio of 83.9% in 9M22 compared to 81.6% in 2021. It continues to accelerate growth strategy in capital efficient products such as digital products for individual and SME segment at the same time strengthening of reinsurance partnership in the employee benefits space. Furthermore, ADNIC also launched alternative risk transfer solutions to keep the bad-debt portfolio in check. The company successfully maintained cost discipline and aims to further maintain stable pricing across all line of business. The company's balance sheet remains healthy to fund new business opportunities and maintain healthy solvency levels. Thus, based on our analysis, we assign a BUY rating on the stock.

#### ADNIC - Relative Valuation

(at CMP)	2018	2019	2020	2021	2022F
PE (x)	14.25	11.55	9.05	8.36	9.45
P/B (x)	1.60	1.46	1.34	1.19	1.19
Dividend Yield	5.1%	5.1%	5.9%	6.8%	5.9%

FAB Estimates and Co Data

#### ADNIC - P&L

AED mm	3Q21	2Q22	3Q22	3Q22F	Var.	YOY Ch	QOQ Ch	2021	2022F	Ch
Gross premium	571	947	1,065	1,042	-2.2%	86.4%	12.4%	4,267	5,337	25.1%
Rein. share of ced prem	-401	-489	-842	-781	-7.2%	109.9%	72.4%	-2,649	-3,697	39.6%
<b>Net premium</b>	<b>170</b>	<b>458</b>	<b>223</b>	<b>260</b>	<b>16.9%</b>	<b>31.0%</b>	<b>-51.4%</b>	<b>1,403</b>	<b>1,418</b>	<b>1.0%</b>
Net change in unearned premium reserve	178	-112	159	134	-15.4%	-10.9%	NA	-215	-222	3.1%
Net premium earned	348	347	381	395	3.5%	9.6%	10.0%	1,403	1,418	1.0%
Commissions earned	52	62	52	52	0.5%	-0.5%	-16.6%	212	218	2.7%
Commissions incurred	-41	-52	-47	-57	21.3%	15.1%	-9.3%	-156	-193	23.7%
Gross underwrit. inc.	359	356	386	389	0.9%	7.5%	8.2%	1,459	1,442	-1.2%
Gross claims paid	-404	-440	-670	-454	-32.2%	65.6%	52.1%	-1,755	-1,969	12.2%
<b>Net claims paid</b>	<b>-223</b>	<b>-242</b>	<b>-233</b>	<b>-250</b>	<b>7.3%</b>	<b>4.3%</b>	<b>-4.0%</b>	<b>-969</b>	<b>-935</b>	<b>-3.6%</b>
Net claims incurred	-238	-213	-255	-251	-1.6%	7.3%	19.6%	-913	-897	-1.7%
Underwriting Income	121	143	131	139	5.8%	7.9%	-8.7%	547	545	-0.3%
Net Underwriting Income	109	128	116	123	6.0%	7.1%	-9.2%	497	492	-1.1%
<b>Total income</b>	<b>147</b>	<b>166</b>	<b>148</b>	<b>162</b>	<b>9.6%</b>	<b>0.6%</b>	<b>-10.9%</b>	<b>636</b>	<b>618</b>	<b>-2.8%</b>
G&A expenses	-62	-64	-67	-70	3.6%	8.5%	5.5%	-234	-263	12.1%
<b>Profit attributable</b>	<b>85</b>	<b>102</b>	<b>81</b>	<b>93</b>	<b>14.7%</b>	<b>-5.1%</b>	<b>-21.2%</b>	<b>402</b>	<b>355</b>	<b>-11.6%</b>

FABS estimate & Co Data

#### ADNIC - Ratios

	3Q21	2Q22	3Q22	YOY Ch	QOQ Ch	2021	2022	Change
Expense ratio	18.4%	20.0%	20.3%	196	35	16.6%	20.9%	427
Claims loss ratio	68.3%	61.5%	66.8%	-143	535	65.0%	63.3%	-175
Combined ratio	86.7%	81.5%	87.2%	53	570	81.6%	84.2%	252
Net profit ratio	24.4%	29.5%	21.1%	-328	-837	28.6%	25.1%	-356

FAB Estimates and Co Data

**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%

**FAB Securities Contacts:**
**Research Analysts**

Ahmad Banihani                      +971-2-6161629                      [ahmad.banihani@Bankfab.com](mailto:ahmad.banihani@Bankfab.com)

**Sales & Execution**

Abu Dhabi Head Office

Trading Desk                      +971-2-6161700/1                      [Online Trading Link](#)  
    +971-2-6161777

Institutional Desk                      +971-4-4245765

Sales and Marketing                      +971-2-6161703

**DISCLAIMER**

This report has been prepared by FAB Securities (FABS), which is authorised by the UAE Securities and Commodities Authority, licensing registration number 604002, and is a member of the Abu Dhabi Securities Exchange and Dubai Financial Market. The information, opinions and materials contained in this report are provided for information purposes only and are not to be used, construed, or considered as an offer or the solicitation of an offer or recommendation to sell or to buy or to subscribe for any investment security or other financial instrument. The information, opinions and material in this report have been obtained and derived from publicly available information and other sources considered reliable without being independently verified for their accuracy or completeness. FABS gives no representation or warranty, express or implied, as to the accuracy and completeness of information and opinions expressed in this report. Opinions expressed are current as of the original publication date appearing on the report only and the information, including the opinions contained herein, are subject to change without notice. FABS is under no obligation to update this report. The investments referred to in this report might not be suitable for all recipients. Recipients should not base their investment decisions on this report and should make their own investigations, and obtain independent advice, as appropriate. Any loss or other consequences arising from the uses of material contained in this report shall be the sole and exclusive responsibility of the recipient and FABS accepts no liability for any such loss or consequence. The value of any investment could fall as well as rise and the investor may receive less than the original amount invested. Some investments mentioned in this report might not be liquid investments, which could be difficult to realise in cash. Some investments discussed in this report could be characterised by high level of volatility, which might result in loss. FABS owns the intellectual property rights and any other material contained in this report. No part of this report may be reproduced, utilised or modified in any form either in whole or in part or by any electronic, mechanical or other means, now known or hereafter invented, including photocopying and recording, or stored in any retrieval system without the prior consent of FABS in writing. While utmost care has been taken to ensure that the information provided is accurate and correct, neither FABS, nor its employees shall, in any way, be responsible for the contents. By accepting this document, the recipient agrees he/she has read the above disclaimer and to be bound by the foregoing limitations/restrictions.

## FAB Securities Awards



Best Brokerage House  
in UAE 2016 & 2017  
by "Banker Middle East"



Best Brokerage House in UAE  
2016, 2017, 2019 and 2020  
by "IFA"



Best Brokerage in the UAE  
2016 By "Global Investor/  
ISF ME Awards"



Best Research House  
in UAE 2016 and 2020  
by "IFA"



Best New Mobile Application  
in UAE 2016  
by "IFA"



Best Equity Finance Company  
in UAE 2016  
by "IFA"