

Abu Dhabi National Insurance Co

Rise in investment income and decline in reserve boosted profitability

4Q22 Net Profit higher than our estimate

Abu Dhabi National Insurance Co PJSC (ADNIC/the Company) net profit rose 58.0% YOY to AED 110 Mn in 4Q22, higher than our estimate of AED 82 Mn. The rise in net profit is mainly due to a decline in mathematical reserve and an increase in operating expense partially offset by a decline in gross written premium, an increase in claims paid, and a hike in operating expenses.

P&L Highlights

ADNIC's gross premium declined 18.8% YOY to AED 832 Mn in 4Q22 driven by a 6.7% YOY decline in gross premium from Commercial Line to AED 465 Mn in 4Q22 and 30.4% YOY decrease in gross premium from Consumer Line to AED 367 Mn due to significant pricing pressure and a strong competition faced by the Company. On the other hand, reinsurers' share of premium declined 13.5% YOY to AED 426 Mn in 4Q22. Reinsurers' share of premium from commercial lines fell 13.6% YOY to AED 332 Mn in 4Q22 whereas the consumer line declined 13.1% YOY to AED 94 Mn. Thus, the net premium declined 23.8% YOY to AED 406 Mn in 4Q22. The premium retention ratio declined to 48.8% in 4Q22 as compared to 52.0% in 4Q21. Net change in unearned premium reserve stood negative at AED 11 Mn in 4Q22 as compared to negative AED 183 Mn in 4Q21. Thus, the net premium earned rose 13.2% YOY to AED 395 Mn in 4Q22. Commission earned declined 4.6% YOY to AED 54 Mn in 4Q22 whereas commission incurred inclined 29.9% YOY to AED 53 Mn in 4Q22. ADNIC's gross underwriting income recorded a healthy growth of AED 8.6% YOY to AED 397 Mn in 4Q22 while gross claims paid rose 13.4% YOY to AED 526 Mn. As a result, net claims paid rose 15.0% YOY to AED 284 Mn in 4Q22. Net claims incurred increased 8.6% YOY to AED 267 Mn in 4Q22 pulling profitability. Resultantly, net underwriting income increase 15.3% YOY to AED 121 Mn in 4Q22 which enhanced the Company's total income by 39.1% YOY to AED 171 Mn in 4Q22. Moreover, the Company's investment income was affected due to strong market volatility in 2022 but partially recovered in 4Q22. Furthermore, the Company's G&A expenses rose 13.3% YOY to AED 67 Mn in 4Q22 attributable to investments in technology for an enhanced customer experience.

Ratio highlights

ADNIC's expense ratio rose 341 bps to 19.7% in 2022 attributable to a rise in operating expenses. Claim loss ratio marginally declined from 65.0% in 2021 to 64.5% in 2022 leading to a combined ratio of 84.2% in 2022 as compared to 81.4% in 2021. The Company's financial position stood strong in 2022 with total deposits and cash worth AED 981 Mn while technical reserves stood of AED 5.2 Bn. Net cash generated from operating activities stood at AED 335 Mn in 2022. The Company incurred a capex of AED 19.4 Mn in 2022. It also continued to maintain a healthy capital level higher than the requirement.

Rating : BUY

First Look Note – 4Q22

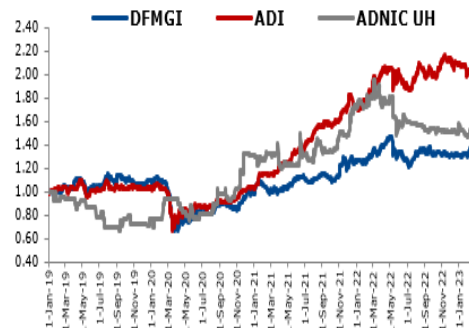
Sector: Insurance

Recommendation

Current Price (14-Mar-23)	6.09
Target Price (AED)	9.00
Upside/Downside (%)	+48%

Stock Information

Market Cap (mm)	3,471.30
Paid Up Capital (mm)	570.00
52 Week High	7.50
52 Week Low	5.73
3M Avg. daily value (AED)	282,925



Financial Ratios

Dividend Yield (12m)	6.57
Dividend Pay-out (%)	60.33
Price-Earnings Ratio (x)	9.18
Price-to-Book Ratio (x)	1.29
Book Value (AED)	4.72
Return-on Equity (%)	13.69
Earning Per Share (AED)	0.66
Beta	0.48

Stock Performance

5 Days	-0.98%
1 Months	-1.77%
3 Months	2.53%
6 Months	2.87%
1 Year	-14.59%
Month to Date (MTD)	-1.30%
Quarter to Date (QTD)	-1.77%
Year to Date (YTD)	-1.77%

Target price and rating

We maintain our BUY rating on ADNIC with an unchanged target price of AED 9.00. We expect the gross written premium to rise in the forecasted period due to the introduction of insurance mandatory schemes. In 2023, UAE will launch the mandatory Involuntary Loss of Employment (ILOE) scheme in UAE. Insurance companies in UAE are expected to benefit from this trend. ADNIC launched its app 'LiveWell' which will run health risk assessments and a health library for its customers. The Company partnered with XA on Addenda's blockchain-based digital solution that will run a motor-based recovery platform to automate motor recoverable between each other. It also developed new sales and service capabilities in digital distribution that will support its multiple business lines. In addition, ADNIC is also creating synergies to enhance its cross-selling opportunities. These developments will provide ADNIC with multiple sources of revenue and a wide range of product offerings. The Company's combined ratio stood at 84.2% in 2022, up from 81.4% in 2021 however, it is still below the pre-covid average of 89.3%. The Company incurred a capex of AED 19.4 Mn in 2022 investing in digital technology to provide an enhanced consumer experience. The Company focuses on customer satisfaction to boost its bottom line. The company launched alternative risk transfer solutions to monitor bad debts. Similarly, ADNIC is continuously maintaining cost discipline to optimize its efficiency. The Company's performance stood stable in spite of aggressive competition and pricing pressure in the sector. Moreover, the board members proposed a dividend of 40 fils per share with a dividend yield of 6.6%. Thus, based on our analysis, we assign a BUY rating on the stock.

ADNIC - Relative Valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
PE (x)	14.73	12.21	9.36	8.64	9.19	9.54
P/B (x)	1.65	1.51	1.38	1.23	1.29	1.23
Dividend Yield	4.9%	4.9%	5.7%	6.6%	6.6%	6.6%

FAB Estimates and Co Data

ADNIC - P&L

AED mm	4Q21	3Q22	4Q22	4Q22F	Var.	YOY Ch	QOQ Ch	2021	2022	Change
Gross premium	1,025	1,065	832	1,066	-22.0%	-18.8%	-21.8%	4,267	5,125	20.1%
Rein. share of ced prem	-493	-842	-426	-618	-31.1%	-13.5%	-49.4%	-2,649	-3,466	30.8%
Net premium	533	223	406	448	-9.4%	-23.8%	82.4%	1,403	1,475	5.1%
Net change in unearned premium reserve	-183	159	-11	-32	-65.6%	NM	NM	-215	-185	-14.0%
Net premium earned	349	381	395	413	-4.2%	13.2%	3.7%	1,403	1,475	5.1%
Commissions earned	57	52	54	53	1.8%	-4.6%	4.8%	212	220	3.7%
Commissions incurred	-41	-47	-53	-45	16.2%	29.9%	11.2%	-156	-200	27.7%
Gross underwriting income	366	386	397	421	-5.7%	8.6%	2.9%	1,459	1,495	2.4%
Gross claims paid	-464	-670	-526	-565	-6.9%	13.4%	-21.5%	-1,755	-2,072	18.1%
Net claims paid	-247	-233	-284	-283	0.6%	15.0%	22.1%	-969	-999	3.1%
Net claims incurred	-246	-255	-267	-293	-8.8%	8.6%	4.8%	-913	-951	4.3%
Underwriting Income	120	131	130	128	1.4%	8.4%	-0.7%	547	543	-0.6%
Net Underwriting Income	105	116	121	114	6.2%	15.3%	3.9%	497	492	-1.1%
Total income	123	148	171	147	16.1%	39.1%	15.6%	636	635	-0.1%
G&A expenses	-59	-67	-67	-64	5.2%	13.3%	-0.2%	-230	-259	12.5%
Profit attributable	70	81	110	82	34.9%	58.0%	36.8%	402	378	-5.9%

FABS estimate & Co Data

ADNIC - Ratios

	4Q21	3Q22	4Q22	YOY Ch	QOQ Ch	2021	2022	Change
Expense ratio	16.6%	20.4%	18.9%	315	83	16.3%	19.7%	341
Claims loss ratio	70.4%	66.8%	67.5%	-143	535	65.0%	64.5%	-50
Combined ratio	87.0%	87.2%	86.5%	172	618	81.3%	84.2%	291
Net profit ratio	20.0%	21.1%	27.9%	-328	-837	28.6%	25.6%	-300

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%

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