

Abu Dhabi National Insurance Co (ADNIC)

Strong underwriting performance drove the bottom-line

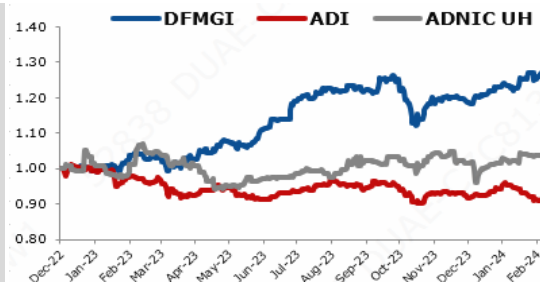
Current Price
AED 5.95

Target Price
AED 8.78

Upside/Downside (%)
+48%

Rating
BUY

- ADNIC's expense ratio rose 110 bps to 21.0% in 2023 driven by investments in technology and digital infrastructure.
- ADNIC's net claims ratio increased 160 bps to 67.1% in 2023.
- ADNIC's combined ratio grew 260 bps to 88.0% in 2023.
- 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)	3,380.10
Paid Up Capital (mm)	570.00
52 Week High	6.19
52 Week Low	5.55
3M Avg. daily value (AED)	152,771

4Q23 Result Review (AED, mm)

Total Assets	7,716
Total Liabilities	4,797
Total Equity	2,919
Insurance Service Result	95
Net Profit	99

Financial Ratios

Dividend Yield (12m)	6.75
Dividend Pay-out (%)	0.00
Price-Earnings Ratio(x)	8.54
Price-to-Book Ratio (x)	1.16
Book Value (AED)	5.12
Return-on Equity (%)	14.31

Stock Performance

5 Days	-2.47%
1 Months	-3.42%
3 Months	-1.00%
6 Months	-1.82%
1 Year	-3.89%
Month to Date (MTD%)	-3.58%
Quarter to Date (QTD%)	-0.67%
Year to Date (YTD%)	-0.67%

4Q23 Net Profit in line with our estimate

Abu Dhabi National Insurance Co PJSC (ADNIC/the Company) net profit rose 1.5% YOY to AED 99 Mn in 4Q23, in line with our estimate of AED 99 Mn. The rise in net profit is mainly driven by strong underwriting performance, and an increase in retention partially offset by an increase in operating expenses due to investments in digital transformation and modern technology.

P&L Highlights

Total insurance revenue rose 4.4% YOY to AED 1,306 Mn in 4Q23 driven by strong growth in the Commercial segment and a marginal increase in revenue from the Consumer business. Moreover, Consumer segment revenue rose marginally 2.0% YOY to AED 479 Mn in 4Q23 while Commercial business revenue grew 17.9% YOY to AED 828 Mn in 4Q23. On the other hand, insurance service expenses grew 77.6% YOY to AED 1,346 Mn in 4Q23 mainly due to a significant rise in claims incurred and other expenses within the Commercial segment. ADNIC's income from reinsurance contracts more than doubled from AED 379 Mn in 4Q22 to AED 919 Mn in 4Q23 due to higher claims recovered in the Commercial segment whereas the reinsurance contract expenses marginally grew 0.4% YOY to AED 784 Mn in 4Q23. As a result, insurance service increased 4.5% YOY to AED 95 Mn in 4Q23. Furthermore, ADNIC's net investment income declined 5.3% YOY to AED 48 Mn in 4Q23 due to a decline in dividend income, however, the Company changed its asset allocation from investments in equity instruments to fixed-income securities to generate stable returns. ADNIC recorded AED 62 Mn in finance income from insurance contracts during 4Q23 compared to a finance cost of AED 0.2 Mn in 4Q22. Meanwhile, finance expense from reinsurance contracts stood at AED 54 Mn in 4Q23 as against finance income of AED 0.01 Mn in 4Q22. In addition, other operating expenses rose 19.1% YOY to AED 52 Mn in 4Q23 driven by investment in technology, digital transformation, and geographic expansion.

Balance Sheet Highlights

ADNIC's expense ratio rose 110 bps to 21.0% in 2023 owing to investments in digital transformation and technology. Net claims ratio grew 160 bps to 67.1% in 2023. As a result, the combined ratio increased 260 bps to 88.0% in 2023. In addition, the net profit ratio grew 22 bps to 6.0% in 2023.

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 in the Commercial segment and marginal revenue growth from the Consumer business drove the bottom line in 4Q23. The Company made strategic changes in its asset allocation from investing in equity instruments to fixed-income securities which led to solid returns on investment in 2023. ADNIC prioritizes effective cost management maintaining the expense growth lower than the premium growth and successfully controlled the rise in operating cost despite investing towards digital advancements, enhancing customer satisfaction, regional expansion, and implementation of corporate tax. ADNIC's combined ratio rose 260 bps to 88.0% in 2023 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 which is expected to be final in early 2024. The acquisition will expand ADNIC's presence in the attractive KSA market boost its retail consumer portfolio and emerge as a leading composite insurer in GCC. Saudi Arabia witnessed solid growth in health insurance premiums during 2023 whereas ASF's major customer base comprises of consumer segment. We expect KSA's gross written premium to witness healthy growth in 2024. As a result, ADNIC will experience 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 maintains a healthy capital of AED 570 Mn in 2023 compared to the minimum capital requirement of AED 100 Mn. The Company will shortly announce dividends to shareholders after the Central Bank's approval. In addition, ADNIC trades at an attractive 2023 dividend yield of 6.7%. Thus, based on our analysis, we maintain our BUY rating on the stock.

ADNIC - Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023	2024F
PE	14.48	12.19	9.34	8.62	9.17	8.64	7.52
PB	1.65	1.65	1.51	1.38	1.27	1.19	1.11
Dividend yield	5.0%	5.0%	5.9%	6.7%	6.7%	6.7%	7.6%

FABS Estimates & Co Data

ADNIC - P&L

AED mm	4Q22	3Q23	4Q23	4Q23F	Var	YOY Ch.	QOQ Ch	2022	2023	Change
Insurance revenue	1,252	1,196	1,306	1,234	5.9%	4.4%	9.2%	4663	4,641	-0.5%
Insurance service expenses	-758	-763	-1,346	-802	67.8%	77.6%	76.4%	-2951	-3,615	22.5%
Income from reinsurance contracts	379	353	919	369	149.2%	142.7%	160.4%	1542	2,065	33.9%
Exp. from reinsurance contracts	-781	-693	-784	-708	10.8%	0.4%	13.2%	-2871	-2,724	-5.1%
Insurance Service Result	91	93	95	93	2.9%	4.5%	2.1%	383	367	-4.2%
Net Investment Income	50	48	48	49	-1.9%	-5.3%	-0.9%	144	207	43.3%
Finance income from insurance contracts, net	0	4	62	6	NM	NM	NM	-5	66	NM
Finance (expenses) / income from reinsurance contracts, net	0	-2	-54	-4	NM	NM	NM	1	-58	NM
Net Finance Result	141	144	151	144	5.3%	7.0%	5.2%	523	581	11.1%
Other operating expense	-44	-46	-52	-48	8.1%	19.1%	12.3%	-165	-180	8.7%
Net Profit	98	97	99	96	3.8%	1.5%	1.8%	358	401	12.2%

FABS estimate & Co Data

ADNIC - Margins

	2022	2023	Change (BPS)
Premium Retention	32.4%	35.0%	260
Expense ratio	19.9%	21.0%	110
Net claims ratio	65.5%	67.1%	160
Combined ratio	85.4%	88.0%	260
Net profit ratio	5.8%	6.0%	22

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	9.87	50.0%	4.93
Dividend Discount Method (DDM)	7.27	25.0%	1.82
Relative Valuation (RV)	8.12	25.0%	2.03
Weighted Average Valuation (AED)			8.78
Current market price (AED)			5.95
Upside/Downside (%)			+44%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.6%. Cost of equity is calculated by using 10-year government bond yield of 4.7%, beta of 0.90, and equity risk premium of 4.4%. 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)	769
Terminal value (AED, Mn)	1,935
FV to Common shareholders (AED, Mn)	5,623
No. of share (Mn)	570
Current Market Price (AED)	5.95
Fair Value per share (AED)	9.87

Residual Income Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net profit	461	461	471	480	496
Equity Charge	252	252	270	288	308
Excess Equity	209	209	201	192	189
Discounting Factor	0.93	0.86	0.79	0.73	0.67
Present Value of Excess Equity	167	179	158	139	126

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 8.6%.

Sum of PV (AED, Mn)	1,091
Terminal value (AED, Mn)	3,054
FV to Common shareholders (AED, Mn)	4,146
No. of share (Mn)	570
Current Market Price (AED)	6.08
Fair Value per share (AED)	7.27

DDM Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Dividend	241	277	282	288	298
Total Dividend	241	277	282	288	298
Discounting Factor	0.93	0.86	0.79	0.73	0.67
Present Value of Dividend	224	237	223	209	199

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 a discounted PB multiple of 1.5x compared to peer multiple of 5.9x as ADNIC generates a lower ROE compared to the peers.

Company	Market (USD Mn)	P/B (x)		P/E (x)	
		2024F	2025F	2024F	2025F
GULF INSURANCE GROUP	457	1.4	1.3	12.4	11.6
BUPA	9,250	6.5	5.8	25.2	22.6
COMPANY FOR COOPERATIVE INSURANCE	5,840	5.9	4.2	27.0	22.6
ICICI LOMBARD GENERAL INSURANCE COMPANY	10,260	7.2	6.3	43.8	35.9
THE NEW INDIA ASSURANCE COMPANY LIMITED	5,410	1.0	0.9	27.6	20.2
Average		5.9x	4.2x	27.0x	22.6x
Median		4.4x	3.7x	27.2x	22.6x
Max		6.5x	5.8x	27.6x	22.6x
Min		1.4x	1.3x	25.2x	20.2x

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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