Earnings Review

April 25 2017

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Qatar–Insurance

Qatar Insurance Company – Growth story continues, but claims and commissions are rising, with underwriting profits under pressure

- **GWP continues to grow at double digits in Q1 17A, +14.5% y/y and 42.3% q/q.**
- **Loss ratio heavily impacted from the rise in net claims during the period, reaching 69.0% in Q1 17A increasing 324bps y/y, despite substantially lower additions to reserves on higher claims paid.**
- **Expense ratio increases by 400bps y/y, mostly on commissions paid, while also admin costs rose.**
- **Investment income improved thanks to larger book and improved yield.**
- **We maintain our HOLD, with key downside risks being lower investment yields and further tightening in underwriting margins, with the stock trading at a P/E 18e of 15.5x and P/tNAV 17e of 1.9x.**

GWPs continue their strong growth in Q1 17 reaching QAR 3.0bn and increasing 14.5% y/y (42.3% q/q), mostly on reinsurance, we think. Health care, now 12% of GWPs, should be bolstered due to the QFCRA's recent implementation of mandatory medical insurance for Qatari Nationals (YE 17e), followed by expats (YE 18e). NEP increased by 11.5% y/y and declined by -26.4% q/q, due to increased ceded premiums (up from 18.3% in Q1 16A to 24.6% in Q1 17A).

Net loss ratio rose to 69.0% from 65.7% on the back of a surge in net claims incurred. Claims paid rose from 32.2% to 59.0% of NEP, while additions to reserves fell from 33.6% to 10.0% of NEP. Expense ratio increased sharply (+400bps y/y) mostly because of commissions paid, but also SG&A costs rose 30bps.

Investment income continues to outperform our estimates, increasing 53.1% y/y and +59.3% q/q, with QIC benefiting from a bigger net investment book (up QAR 1bn YtD to 12.4bn), with annualized net yield of 9.2%. However, below the net profit line it incurred a FV loss of QAR 81m, and adjusted for that we still calculate a respectable net yield of 6.6%.

Numbers continue to support our cautious view with strong growth in GWP counterbalanced by tighter underwriting margins and continued high reliance on investment income (92% of net income, 89% of comprehensive income in Q1), and lofty multiples at P/E 18e of 15.5x and P/tNAV 17e of 1.9x.

HOLD QAR 80.8

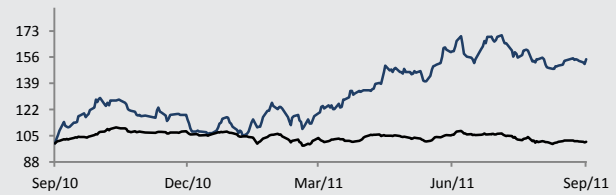
Insurance / Qatar

Bloomberg code	QATI QD
Market index	Qatar
Target Price	80.8
Upside (%)	15.3

Market data 19/04/2017	
Last closing price	70.1
52 Week range	60.9-79.7
Market cap (QAR m)	19,439
Market cap (USD m)	5,338
Average Daily Traded Value (QAR m)	7.8
Average Daily Traded Value (USD m)	2.1
Free float (%)	95%

Year-end (local m)	2016	2017e	2018e	2019e
Gross Written Premiums	9,901	11,749	13,733	15,690
Underwriting Profit	844	681	879	1,167
EPS	4.48	4.17	4.39	5.64
P/E (x) (market price)	16.7	16.4	15.5	12.1
BVPS	36.67	37.96	41.03	45.37
Tangible BVPS	36.67	37.96	41.03	45.37
P/B (x) (market price)	2.0	1.8	1.7	1.5
P/TBVPS (x) (market price)	2.1	1.9	1.8	1.6
DPS	1.5	1.5	1.5	1.5
Div. yield (%)	2.1	2.1	2.1	2.1
RoAA (%)	3.5	2.6	2.5	2.9
RoAE (%)	12.4	11.7	11.4	13.4
Investments/Assets (%)	60.4	53.7	52.8	51.9
Investment Yield (%)	4.2	4.6	4.3	4.3
Net Loss Ratio	69.0	70.3	70.8	70.9
Combined Ratio	98.6	102.1	100.9	99.2
Underwriting Profit Margin	8.5	5.8	6.4	7.4
Net Profit Margin	10.2	8.8	7.9	8.9
Policy Reserves/Equity	164.9	229.1	242.7	244.7

Price Performance



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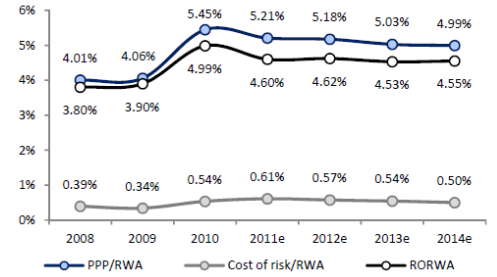
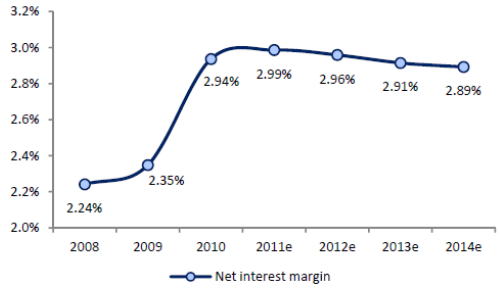
Abacus *Arqaam Capital Fundamental Data*

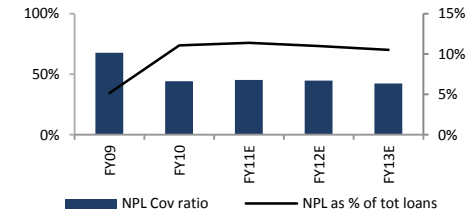
Profitability



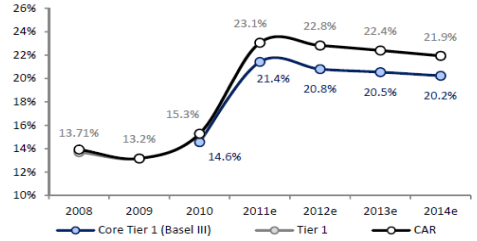
Investment Yield



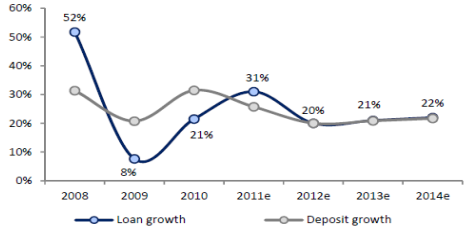
Investment Exposure



Solvency ratios & reserve adequacy



Growth



Qatar Insurance Company

Year-end	2015	2016	2017e	2018e	2019e	2020e
Performance analysis						
Cession Ratio	14.3	13.4	12.1	12.7	15.1	11.4
Net Loss Ratio	66.9	69.0	70.3	70.8	70.9	67.5
Expense Ratio	30.4	29.5	31.7	30.0	28.2	27.3
Combined Ratio	97.3	98.6	102.1	100.9	99.2	94.7
Underwriting Profit Margin	11.1	8.5	5.8	6.4	7.4	11.0
Investment Yield	5.5	4.2	4.6	4.3	4.3	4.5
Net Margin	7.1	10.2	8.8	7.9	8.9	13.3
RoAE	17.8	12.4	11.7	11.4	13.4	19.1
RoAA	2.5	3.5	2.6	2.5	2.9	4.3
Net Premiums/Equity	1.0	1.0	1.0	1.1	1.2	1.1
Gross Premiums/Equity	1.4	1.2	1.3	1.4	1.5	1.4
Claims Reserve/NPE	0.8	0.9	1.0	1.0	1.0	1.0
Investment Income/Total Income	49.6	53.0	67.5	63.9	58.8	49.5

Year-end	2015	2016	2017e	2018e	2019e	2020e
Investment Exposure						
Investments/Assets	56.2	60.4	53.7	52.8	51.9	52.3
Equities/Investments	40.6	30.9	14.6	15.7	16.5	18.4
Equity/Assets (%)	25.3	29.5	23.0	22.4	22.5	24.5

Year-end	2015	2016	2017e	2018e	2019e	2020e
Liquidity/Leverage						
Policy Reserves/Gross Premiums	1.4	1.4	1.7	1.7	1.7	1.6
Policy Reserves/Net Earned Premiums	1.7	1.3	1.5	1.5	1.5	1.4
Policy Reserves/Equity	2.0	1.6	2.3	2.4	2.4	2.2
Debt/Capital	0.4	0.3	0.4	0.4	0.4	0.3
Debt/Equity (x)	0.6	0.5	0.7	0.6	0.5	0.4

Year-end	2015	2016	2017e	2018e	2019e	2020e
Growth						
Gross Premiums	48.7	18.6	18.7	16.9	14.2	10.6
Net Earned Premiums	57.3	44.5	8.1	20.2	15.7	14.2
Investments	63.8	7.9	9.2	8.6	9.6	15.3
Assets	47.1	21.3	38.3	11.4	10.0	11.5
Total Reserves	41.3	15.4	50.0	14.4	11.4	11.1
Equity	1.9	41.7	8.0	8.0	10.5	18.1

Year-end	2015	2016	2017e	2018e	2019e	2020e
Valuation						
P/B(x) (current price)	2.8	2.0	1.8	1.7	1.5	1.2
P/B(x) (target price)	3.3	2.3	2.1	2.0	1.8	1.3
P/E(x) (current price)	28.4	16.7	16.4	15.5	12.1	6.5
P/E(x) (target price)	32.8	19.3	18.9	17.9	14.0	7.5

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Abacus *Arqaam Capital Fundamental Data*

Investment thesis

QIC invests (re)insurance premiums into its Asset Management business supporting overall RoE. However, as it grows, we expect it to start transforming into a diversified insurance company with a two-tier growth strategy across the insurance and reinsurance businesses. We expect the growth of its Antares reinsurance business to continue to parallel Lloyds's growth profile. We expect its Qatar Re label to continue building on its fortress in Energy, Marine and Aviation. QIC's insurance activity is shifting towards Life & Health, and we expect acquisitive growth in the next 12 months targeting Saudi Arabia or, less likely, Turkey.

We consider QIC to be fully valued, on a 2017e PB of 2.4x vs. 1.9x for its peers, which we attribute to its strong (top-line) growth profile.

Opportunities

- QIC will introduce new products boosting GWP but also cross-sell new products as reinsuring Fixed Annuities, COLI/BOLI reinsurance (CAGR 7-9%) and Terrorism (CAGR 14%) and growth in life & health, with wider margins and boosting AuMs.
- Acquisitive growth (most likely in KSA),
- Antares as its platform to grow in Marine & Energy
- Consensus underestimates top line growth

Key risks

- Reinsurers are highly geared to global macro and 80% of the time individual reinsurers underperform all other asset categories during a crisis and is less diversified than perceived
- Further tightening in underwriting margins
- Equity risk (23% of investment portfolio and 31% of NAV), with further de-risking of its portfolio.
- Concentrated reinsurance exposure skewed to London and Bermuda based on reinsurance business.

Shareholder distribution (Top 5)

Shareholder breakdown	%
Gen Retirement & Soc Ins.	10.09
Kamal Yousuf Hussain	6.33
Brooq Trading Co.	5.05
Blackrock	1.07
CADDEP	0.11
Vanguard	0.11

Consensus recommendations:

Firm	Analyst	QATI QD
AlphaMena	Imen Yahia	Sell
EVA Dimensions	Neil Fonseca	Sell
EFG-Hermes	Elena Sanchez-Cabezudo	Buy
Arqaam Capital Limited	Jaap Meijer	Hold

Qatar Insurance Company

Year-end	2015	2016	2017e	2018e	2019e	2020e
Income statement (mn)						
Gross Written Premiums	**8,347.2**	**9,901.4**	**11,748.8**	**13,733.4**	**15,690.2**	**19,505.1**
Ceded Premiums	1,189.8	1,323.3	1,417.6	1,738.7	2,361.8	2,220.9
Retained Premiums	7,157.4	8,578.1	10,331.2	11,994.7	13,328.4	17,284.2
Movement in Unearned Premiums	1,370.3	218.2	1,298.3	1,132.8	761.8	935.2
Net Premiums Earned	**5,787.2**	**8,359.9**	**9,032.9**	**10,861.9**	**12,566.6**	**16,349.1**
Commissions paid	-	-	-	-	-	-
Net commissions	(999.3)	(1,754.7)	(2,002.1)	(2,292.2)	(2,489.9)	(3,179.6)
Other underwriting expenses	(9.4)	(7.5)	(1.9)	(2.1)	(2.3)	(2.7)
Changes in technical reserves	(1,606.2)	(1,764.9)	(1,292.4)	(1,315.7)	(1,209.6)	(1,462.0)
Net Claims	3,871.5	5,769.0	6,351.9	7,693.1	8,911.6	11,027.6
Underwriting Profit	**925.7**	**843.7**	**680.8**	**878.7**	**1,167.3**	**2,144.6**
Investment Income	739.5	856.3	1,299.4	1,423.9	1,512.8	1,915.3
Other operating income	171.9	95.1	117.2	134.1	151.6	186.0
Investment & other income	**-**	**-**	**-**	**-**	**-**	**-**
Interest Expense	27.4	46.2	225.1	406.2	406.2	406.2
General & Administrative	760.4	715.5	865.1	969.1	1,059.6	1,278.1
Operating Profit	**1,049.4**	**1,033.3**	**1,007.3**	**1,061.4**	**1,366.0**	**2,561.5**
Distribution of surplus	-	-	-	-	-	2.0
Other income/(loss)	14.6	18.3	25.0	27.4	29.8	35.0
Tax	-	-	-	-	-	-
Minority Interest	20.4	(17.6)	27.9	31.2	34.9	43.8
Net Income	**1,064.0**	**1,051.6**	**1,032.3**	**1,088.7**	**1,395.8**	**2,596.5**
Reported EPS	4.84	4.48	4.17	4.39	5.64	10.59

Year-end	2015	2016	2017e	2018e	2019e	2020e
Balance sheet (mn)						
Cash	3,518.8	6,962.3	10,924.2	11,937.4	12,511.6	14,219.5
Intangible Assets	1,167.7	1,038.9	1,564.2	2,097.2	2,605.8	3,636.3
Reinsurance Contract Assets	2,128.4	2,493.4	6,522.0	7,002.1	7,691.8	9,135.6
Investment Properties	408.0	575.8	738.9	896.6	1,049.1	1,339.2
Investments	10,593.6	11,435.1	12,481.5	13,558.2	14,865.3	19,204.7
Associates	83.1	138.8	156.3	175.5	196.4	243.6
Insurance Receivables	5,732.3	6,030.8	7,281.9	8,516.0	9,702.8	12,036.0
Fixed Assets	41.4	40.3	44.3	48.8	53.6	64.9
Other Assets	-	-	-	-	-	-
Total Assets	**23,673.3**	**28,715.5**	**39,713.5**	**44,231.8**	**48,676.4**	**59,879.9**
Short-term Insurance Contract Liabilities	11,768.1	13,583.3	20,380.4	23,308.9	25,970.0	31,974.7
Long-term Policyholder Liabilities	-	-	-	-	-	2.0
Debt	3,543.2	4,192.5	5,830.5	5,830.5	5,830.5	5,830.5
Insurance Payables	2,367.9	2,471.5	4,348.6	5,197.8	5,935.0	7,395.5
Other Liabilities	-	-	-	-	-	-
Total Liabilities	**17,679.3**	**20,247.2**	**30,559.6**	**34,337.3**	**37,735.5**	**45,200.8**
Shareholders Equity	**5,812.3**	**8,236.1**	**8,893.9**	**9,603.4**	**10,614.8**	**14,270.1**
Minority Interest	20.4	(17.6)	27.9	31.2	34.9	43.8
Total Equity	**5,994.1**	**8,468.2**	**9,153.9**	**9,894.6**	**10,940.9**	**14,679.1**
BVPS	27.81	36.67	37.96	41.03	45.37	60.87

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Exhibit 1: QIC Q1 17A review

QIC (QARm)	Q1 17A	AC Q1 17e	vs. AC	Q4 16A	q/q	Q1 16A	Q4 15A	q/q 16	y/y Q1	y/y Q4	FY17e	FY16	y/y
Gross Written Premiums	**3,090.5**	**3,201.8**	**(3.5%)**	**2,171.3**	**42.3%**	**2,698.4**	**2,971.5**	**(9.2%)**	**14.5%**	**(26.9%)**	**11,748.8**	**9,901.4**	**18.7%**
Net earned premiums	1,900.4	1,841.7	3.2%	2,580.6	(26.4%)	1,704.5	2,382.2	(28.5%)	11.5%	8.3%	9,032.9	8,359.9	**8.1%**
Net claims	(1,721.3)	(1,571.6)	9.5%	(2,286.2)	(24.7%)	(1,427.4)	(2,093.7)	(31.8%)	20.6%	9.2%	(6,351.9)	(7,516.2)	**(15.5%)**
Claims ratio	**90.6%**	**85.3%**	**6.1%**	**88.6%**	**2.2%**	**83.7%**	**87.9%**	**(4.7%)**	**8.2%**	**0.8%**	**70.3%**	**89.9%**	**(21.8%)**
Underwriting Income	**179.1**	**223.6**	**(19.9%)**	**294.4**	**(39.2%)**	**277.1**	**288.5**	**(4.0%)**	**(35.4%)**	**2.0%**	**680.8**	**843.7**	**(19.3%)**
Investment income	**285.0**	**282.4**	**0.9%**	**179.0**	**59.3%**	**186.1**	**254.7**	**(26.9%)**	**53.1%**	**(29.7%)**	**1,416.6**	**811.5**	**74.6%**
Net Income	**309.2**	**322.4**	**(4.1%)**	**325.4**	**(5.0%)**	**328.5**	**349.3**	**(5.9%)**	**(5.9%)**	**(6.8%)**	**1,032.3**	**1,051.6**	**(1.8%)**

Source: Company Data, Arqaam Capital Research

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Exhibit 2: QIC Valuation (QARm)

	2014A	2015A	2016A	2017e	2018e	2019e	2025e	perp	subtotal	% of total
1 DCF										
Net profit	872	594	1,010	1,032	1,089	1,396	4,334	4,508		
Other adjustments	--	--	--	--	--	--	--			
Minus: excess return excess capital	49	(59)	1	13	(22)	(40)	62	65		
Return on excess capital	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%		
Tax shelter	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%		
Adjusted net profit	824	653	1,009	1,020	1,111	1,436	4,272	4,443		
Capital requirements	3,679	6,509	7,403	7,229	8,426	9,470	19,875	20,670		
RoEcC	22.4%	10.0%	13.6%	14.1%	13.2%	15.2%	21.5%	21.5%		
Cost of capital	11.8%	11.8%	11.8%	11.8%	11.8%	11.8%	11.8%	11.8%		
Capital charge	436	771	876	856	998	1,121	2,353	2,447		
Economic profit	388	(118)	132	164	113	314	1,919	1,996		
Discount factor	0.00	0.00	0.00	1.00	0.80	0.71	0.37	0.33		
NPV of Economic Profit	--	--	--	164	90	225	701	1,996		
DCF EVA Forecast period									4,278	
Perpetual growth rate (GDP)								4.0%		
Terminal Value								25,463		
Terminal value discounted									8,317	
Required Capital									6,509	
Value of the insurance operations									**19,104**	**98.0%**
2 Capital surplus/deficit										
Available capital:										
Shareholders equity	5,924	5,994	8,468	9,154	9,895	10,941	27,628			
Less Goodwill & intangibles	854	1,168	1,039	1,564	2,097	2,606	5,980			
Less dividends	--	--	--	--	--	--	--			
Tangible equity	5,069	4,826	7,429	7,590	7,797	8,335	21,648			
Capital needs										
Net Written Premium (NWP)	4,340	7,157	8,578	10,331	11,995	13,328	24,595			
Claims reserves	2,857	5,441	6,851	8,144	9,459	10,669	20,905			
Equity investments	2,667	5,238	5,188	2,930	3,457	3,944	11,486			
Investment properties	375	408	576	739	897	1,049	1,864			
Associates	77	83	139	156	175	196	361			
Equity as % NWP	33.0%	32.0%	32.0%	32.0%	32.0%	32.0%	32.0%			
Equity as % claims reserves	26.0%	26.0%	26.0%	26.0%	26.0%	26.0%	26.0%			
Equity as % of investments	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%			
Equity as % of investment properties	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%			
Equity as % of associates	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%			
Capital Requirements	3,679	6,509	7,403	7,229	8,426	9,470	19,875			
Surplus capital	**1,390**	**(1,683)**	**26**	**360**	**(629)**	**(1,135)**	**1,772**		**26**	**0.1%**
3 Other adjustments										
Investment properties										
Capital increase										
Total adjustments			--	--	--	--	--		**--**	**0.0%**
4. Dividends									362	**1.9%**
Total Fair Value YE 2011									**19,492**	
Number of shares									241	
Fully diluted number of shares									241	
Fair value per share									**80.8**	
Current share price									70.1	
Upside									**15.3%**	
Implied P/E	19.0x	18.3x	18.5x	18.9x	17.9x					
Implied P/B	3.3x	3.3x	2.3x	2.1x	2.0x					
Implied P/tNAV	3.5x	3.5x	2.4x	2.2x	2.1x					
Coverage ratio	138%	74%	100%	105%	93%	88%	109%			

Source: Company Data, Arqaam Capital Research

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