Earnings Review

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Qatar Insurance Company

Slight improvement in Q4, but underwriting profits remains limited. High growth continues.

- **Net claim ratio remains elevated, increasing to 79.2% in FY 17, +10.2 ppt y/y, though NLR in Q4 improved 3.7ppt y/y and 29.4 ppt q/q to 71.6%. (Q3 was hit by NatCat claims of 7.4% of NEP FY 17 and 28.8% Q3).**
- **Combined ratio fell to 100.3% in Q4 from 120.9% in Q3, taking the FY CR to 106.4% vs. 98.6% in FY 16, the highest in its history. Ex NatCat losses of USD 174m, combined ratio would still have been 99.2%.**
- **GWPs +23.8% y/y, -11.5% q/q, taking FY 17 growth to +17.7%. The purchase of a UK motor insurance company would up GWP by 1/3.**
- **QIC continues to trade at elevated valuation ratios (P/tNAV 18e of 1.7x, P/E 17A of 35.0x, and RoE 17e of 5.1%.) Core Sell maintained.**

Combined ratios under upward pressure even without NatCat losses. Loss ratio has improved 29.1ppt q/q and 3.7 ppt y/y to 71.6%. This was not enough to counter the worsening in NLR from 69.0% in FY 16 to 79.2% in FY 17. NatCat losses of USD 174m accounted for 7.4ppt in NLR, and therefore underlying NLR remains under upward pressure, increasing from 69.0% to 71.8%. CR increased to 106.4% for FY 17A and 100.3% for Q4 17 vs. a 5 year AVG of 97.7%.

Growth continued unabated, further helped by M&A despite pressure on underwriting margins. GWPs were up +23.9% y/y in Q4 with full year up by +17.7% y/y, but net earned premium in Q4 increased 12.1 q/q and -0.7% y/y, taking the FY 17 growth to 6.8% y/y. The company signed an SPA to buy Markerstudy's, which underwrites more than 5% of the UK motor insurance market, generating premiums of about GBP 750m (33.3% of QIC's total current GWPs as of FY 17). QIC has raised USD 450m subordinated T2 debt, which could be earmarked for this acquisition, in our view.

Net investment yield declined to 3.8% from 4.2%, while investment income for Q4 fell -26.9% q/q and -3.8% y/y, even though the investment portfolio increased +5.8% q/q and +19.4% y/y to QAR 13.6bn**.** Investment income now contributes 90.0% of total income in FY 17 (a record high) vs. 53.0% in FY 16A.

QIC no longer meets FTSE's liquidity requirements which might lead to its exclusion. This is due to its turnover ratio, which meets the minimum 0.04% turnover ratio only 7 out of 12 months.

DPS sits at QAR 1.5, with dividends paid at QAR 415m, 98.1% of net profits for the year, resulting in limited capital generation for the insurer.

We maintain our Core Sell recommendation (10.0% weight). We pencil in a return to RoE of 12.9% in FY 18e and combined ratio of 99.6% (and though EPS is likely to increase by 2.5x). This means valuation multiples remain rich at a P/tNAV18e of 1.7x, P/E 18e of 13.2x, and RoE 18e of 12.9%.

HOLD* QAR 55.6

Insurance / Qatar

Bloomberg code	QATI QD
Market index	Qatar
Target Price	55.6
Upside (%)	4.0

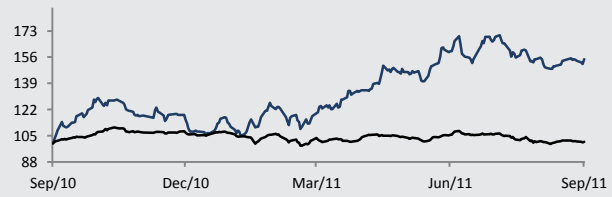
Market data 23/01/2018

Last closing price	53.5
52 Week range	36.9-77.4
Market cap (QAR m)	14,836
Market cap (USD m)	4,043
Average Daily Traded Value (QAR m)	4.7
Average Daily Traded Value (USD m)	1.3
Free float (%)	100%

Year-end (local m)	2016	2017e	2018e	2019e
Gross Written Premiums	9,901	11,659	12,553	13,716
Underwriting Profit	844	115	828	1,048
EPS	4.48	1.53	3.97	4.96
P/E (x) (market price)	14.7	35.0	13.2	10.6
BVPS	36.67	29.84	33.39	37.12
Tangible BVPS	36.67	29.84	33.39	37.12
P/B (x) (market price)	1.8	1.8	1.6	1.4
P/TBVPS (x) (market price)	1.8	1.9	1.7	1.5
DPS	1.5	1.5	0.6	1.6
Div. yield (%)	2.8	2.8	1.1	2.9
RoAA (%)	3.5	1.2	3.0	3.3
RoAE (%)	12.4	5.1	12.9	14.4
Investments/Assets (%)	60.4	52.6	56.1	57.9
Investment Yield (%)	4.2	3.8	3.5	3.4
Net Loss Ratio	69.0	79.2	73.4	72.0
Combined Ratio	98.6	106.4	99.6	98.0
Underwriting Profit Margin	8.5	0.1	6.6	7.6
Net Profit Margin	10.2	3.6	9.0	10.2
Policy Reserves/Equity	164.9	221.0	219.8	228.5

* *included in Core Sell portfolio with a 10% weight*

Price Performance



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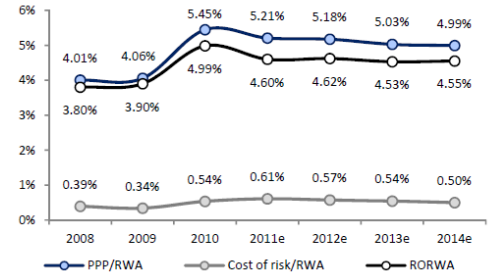
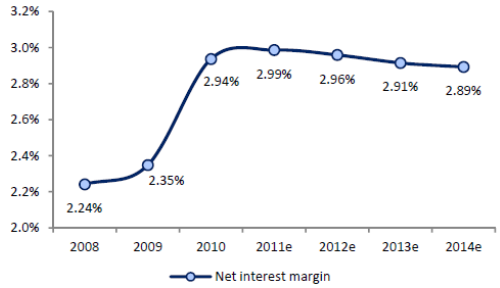
Abacus *Arqaam Capital Fundamental Data*

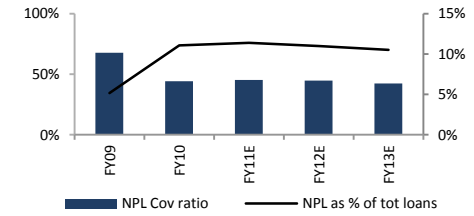
Profitability



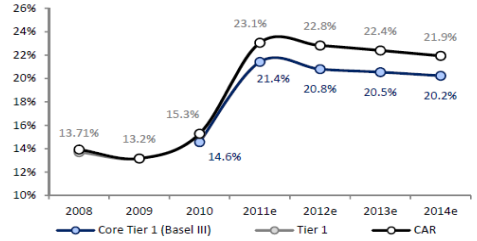
Investment Yield



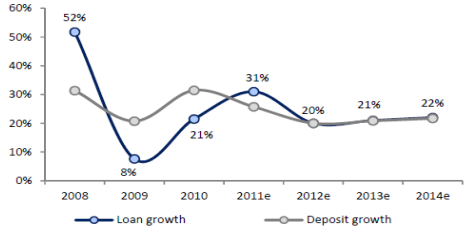
Investment Exposure



Solvency ratios & reserve adequacy



Growth



Qatar Insurance Company

Year-end	2015	2016	2017e	2018e	2019e	2020e
Performance analysis						
Cession Ratio	14.3	13.4	16.7	16.1	16.0	15.8
Net Loss Ratio	66.9	69.0	79.2	73.4	72.0	70.3
Expense Ratio	30.4	29.5	27.2	26.2	26.0	25.9
Combined Ratio	97.3	98.6	106.4	99.6	98.0	96.2
Underwriting Profit Margin	11.1	8.5	0.1	6.6	7.6	8.9
Investment Yield	5.5	4.2	3.8	3.5	3.4	3.1
Net Margin	7.1	10.2	3.6	9.0	10.2	11.2
RoAE	17.8	12.4	5.1	12.9	14.4	15.3
RoAA	2.5	3.5	1.2	3.0	3.3	3.5
Net Premiums/Equity	1.0	1.0	1.1	1.1	1.1	1.1
Gross Premiums/Equity	1.4	1.2	1.5	1.4	1.4	1.3
Claims Reserve/NPE	0.8	0.9	1.0	1.1	1.2	1.2
Investment Income/Total Income	49.6	53.0	90.0	58.0	54.2	48.8

Year-end	2015	2016	2017e	2018e	2019e	2020e
Investment Exposure						
Investments/Assets	56.2	60.4	52.6	56.1	57.9	59.7
Equities/Investments	40.6	30.9	16.2	15.7	15.4	15.8
Equity/Assets (%)	25.3	29.5	23.8	24.3	24.3	24.6

Year-end	2015	2016	2017e	2018e	2019e	2020e
Liquidity/Leverage						
Policy Reserves/Gross Premiums	1.4	1.4	1.5	1.6	1.7	1.7
Policy Reserves/Net Earned Premiums	1.7	1.3	1.6	1.7	1.7	1.8
Policy Reserves/Equity	2.0	1.6	2.2	2.2	2.3	2.3
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	0.6	0.5

Year-end	2015	2016	2017e	2018e	2019e	2020e
Growth						
Gross Premiums	48.7	18.6	16.1	9.2	9.3	9.3
Net Earned Premiums	57.3	44.5	7.9	10.1	9.5	9.5
Investments	63.8	7.9	19.4	(8.7)	8.3	9.8
Assets	47.1	21.3	21.0	9.6	11.5	11.1
Total Reserves	41.3	15.4	30.4	11.4	15.6	13.7
Equity	1.9	41.7	(2.7)	12.0	11.2	12.8

Year-end	2015	2016	2017e	2018e	2019e	2020e
Valuation						
P/B(x) (current price)	2.5	1.8	1.8	1.6	1.4	1.3
P/B(x) (target price)	2.6	1.8	1.9	1.7	1.5	1.3
P/E(x) (current price)	25.0	14.7	35.0	13.2	10.6	8.9
P/E(x) (target price)	26.0	15.3	36.4	13.7	11.0	9.2

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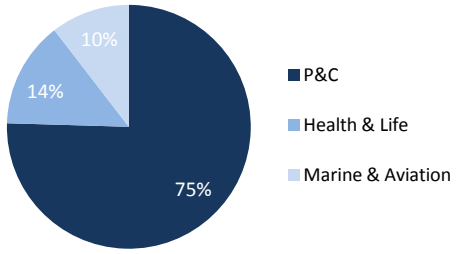
Abacus *Arqaam Capital Fundamental Data*

Investment thesis

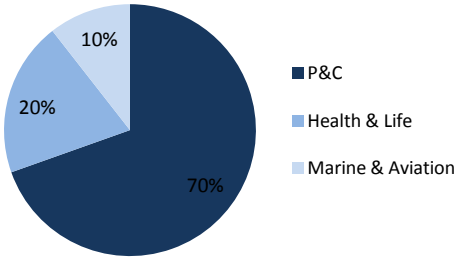
QIC invests (re)insurance premiums into its Asset Management business supporting overall RoE. However, as it grows, we expect it to start transforming into a diversified insurance company with a two-tier growth strategy across the insurance and reinsurance businesses.

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.

GWP Breakdown (latest reported Q2 17A):



Claims Breakdown (latest reported Q2 17A):



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

Qatar Insurance Company

Year-end	2015	2016	2017e	2018e	2019e	2020e
Income statement (mn)						
Gross Written Premiums	**8,347.2**	**9,901.4**	**11,658.7**	**12,553.5**	**13,716.0**	**14,990.1**
Ceded Premiums	1,189.8	1,323.3	2,108.8	2,026.4	2,191.9	2,372.1
Retained Premiums	7,157.4	8,578.1	9,549.9	10,527.1	11,524.1	12,618.0
Movement in Unearned Premiums	1,370.3	218.2	621.3	596.1	650.7	708.6
Net Premiums Earned	**5,787.2**	**8,359.9**	**8,928.6**	**9,931.0**	**10,873.4**	**11,909.4**
Commissions paid	-	-	-	-	-	-
Net commissions	(999.3)	(1,754.7)	(1,751.7)	(1,816.3)	(1,996.5)	(2,194.7)
Other underwriting expenses	(9.4)	(7.5)	(12.6)	(1.9)	(1.9)	(2.0)
Changes in technical reserves	(1,606.2)	(1,764.9)	(2,343.1)	(1,855.8)	(1,887.9)	(1,875.3)
Net Claims	3,871.5	5,769.0	7,074.6	7,289.0	7,830.4	8,376.4
Underwriting Profit	**925.7**	**843.7**	**115.0**	**827.5**	**1,048.4**	**1,340.4**
Investment Income	739.5	856.3	970.6	1,028.6	1,119.0	1,151.2
Other operating income	171.9	95.1	67.6	115.5	121.7	125.4
Investment & other income	**-**	**-**	**-**	**-**	**-**	**-**
Interest Expense	27.4	46.2	67.9	86.7	87.5	87.5
General & Administrative	760.4	715.5	677.4	782.0	825.9	886.4
Operating Profit	**1,049.4**	**1,033.3**	**408.0**	**1,102.9**	**1,375.8**	**1,643.2**
Distribution of surplus	-	-	-	-	-	-
Other income/(loss)	14.6	18.3	15.6	24.9	27.2	29.5
Tax	-	-	-	-	-	-
Minority Interest	20.4	(17.6)	-	25.6	28.2	31.0
Net Income	**1,064.0**	**1,051.6**	**423.6**	**1,127.9**	**1,403.0**	**1,672.7**
Reported EPS	4.84	4.48	1.53	3.97	4.96	5.92

Year-end	2015	2016	2017e	2018e	2019e	2020e
Balance sheet (mn)						
Cash	3,518.8	6,962.3	7,914.1	10,863.4	13,320.2	15,862.3
Intangible Assets	1,167.7	1,038.9	415.7	1,055.2	1,086.1	1,122.3
Reinsurance Contract Assets	2,128.4	2,493.4	3,774.9	3,300.8	3,837.8	4,377.5
Investment Properties	408.0	575.8	585.8	650.0	675.9	681.1
Investments	10,593.6	11,435.1	13,654.5	12,462.6	13,493.4	14,812.5
Associates	83.1	138.8	142.5	160.0	179.0	199.7
Insurance Receivables	5,732.3	6,030.8	8,194.3	9,526.7	9,787.6	10,019.3
Fixed Assets	41.4	40.3	52.5	48.8	53.6	59.0
Other Assets	-	-	-	-	-	-
Total Assets	**23,673.3**	**28,715.5**	**34,734.3**	**38,067.5**	**42,433.7**	**47,133.6**
Short-term Insurance Contract Liabilities	11,768.1	13,583.3	17,718.0	19,733.8	22,809.4	25,932.9
Long-term Policyholder Liabilities	-	-	-	-	-	1.0
Debt	3,543.2	4,192.5	5,729.8	5,830.5	5,830.5	5,830.5
Insurance Payables	2,367.9	2,471.5	3,012.9	3,243.0	3,500.0	3,765.0
Other Liabilities	-	-	-	-	-	-
Total Liabilities	**17,679.3**	**20,247.2**	**26,460.7**	**28,807.3**	**32,139.9**	**35,528.4**
Shareholders Equity	**5,812.3**	**8,236.1**	**8,017.3**	**8,978.3**	**9,983.7**	**11,264.0**
Minority Interest	20.4	(17.6)	-	25.6	28.2	31.0
Total Equity	**5,994.1**	**8,468.2**	**8,273.6**	**9,260.2**	**10,293.9**	**11,605.2**
BVPS	27.81	36.67	29.84	33.39	37.12	41.85

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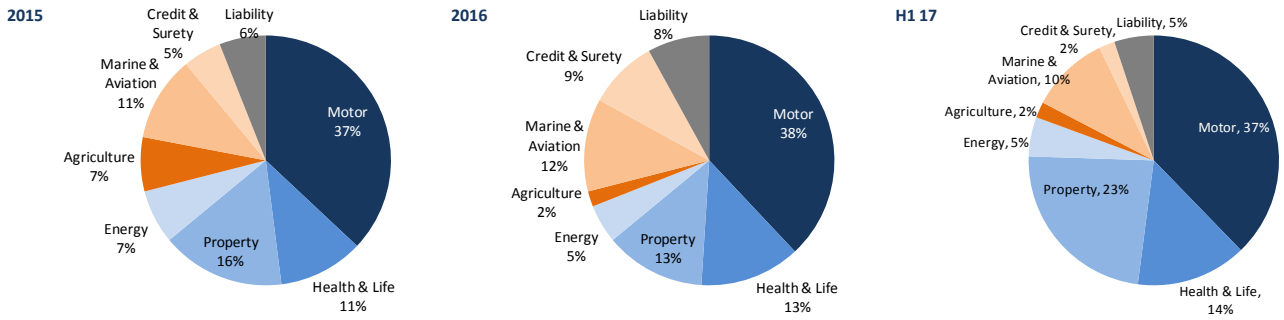
Exhibit 1: QIC Q4 17A Review

QIC (QARm)	Q4 17A	AC Q4 17e	vs. AC	Q3 17A	q/q	Q4 16A	Q3 16A	q/q 16	y/y Q4	y/y Q3	12M 17A	12M 16A	12M y/y
Gross Written Premiums	**2,690.0**	**2,524.0**	**6.6%**	**2,729.5**	**(1.4%)**	**2,248.4**	**2,783.3**	**(19.2%)**	**19.6%**	**(1.9%)**	**11,658.7**	**9,901.4**	**17.7%**
Net earned premiums	**2,561.5**	**2,654.5**	**(3.5%)**	**2,285.6**	**12.1%**	**1,873.4**	**2,201.5**	**(14.9%)**	**36.7%**	**3.8%**	**8,928.6**	**8,359.9**	**6.8%**
Net claims	(1,835.1)	(2,040.6)	(10.1%)	(2,310.3)	(20.6%)	(1,407.8)	(1,489.2)	(5.5%)	30.4%	55.1%	(7,074.6)	(5,769.0)	22.6%
Claims ratio	71.6%	76.9%	(6.8%)	101.1%	(29.1%)	75.1%	67.6%	11.1%	(4.7%)	49.4%	79.2%	69.0%	14.8%
Reinsurance Income	322.3	204.7	57.4%	263.7	22.2%	201.6	215.5	(6.5%)	59.9%	22.4%	1,200.9	813.6	47.6%
Net Commissions	(512.4)	(489.0)	4.8%	(346.3)	48.0%	(356.2)	(553.5)	(35.6%)	43.9%	(37.4%)	(1,751.7)	(1,754.7)	(0.2%)
Underwriting Income	**217.5**	**117.5**	**85.1%**	**(365.4)**	**(159.5%)**	**111.5**	**160.7**	**(30.6%)**	**95.1%**	**(327.3%)**	**115.0**	**843.7**	**(86.4%)**
Investment income	**172.2**	**216.9**	**(20.6%)**	**235.5**	**(26.9%)**	**152.1**	**294.2**	**(48.3%)**	**13.2%**	**(20.0%)**	**970.6**	**856.3**	**13.4%**
Comprehensive Income	**346.8**	**390.7**	**(11.2%)**	**(210.5)**	**(264.7%)**	**108.7**	**264.4**	**(58.9%)**	**219.1%**	**(179.6%)**	**423.6**	**1,009.7**	**(58.0%)**
Net Income	**115.4**	**159.3**	**(27.6%)**	**(211.1)**	**(154.6%)**	**112.6**	**285.0**	**(60.5%)**	**2.4%**	**(174.1%)**	**423.6**	**1,051.6**	**(59.7%)**
Expense Ratio	28.7%	24.8%	15.7%	19.9%	44.4%	28.5%	33.6%	(15.2%)	0.8%	(40.9%)	27.2%	29.5%	(7.9%)
Combined Ratio	100.3%	101.7%	(1.3%)	120.9%	(17.0%)	103.6%	101.2%	2.4%	(3.2%)	19.5%	106.4%	98.6%	8.0%

Source: Company Data, Arqaam Capital Research

Exhibit 2: GWP composition evolution



Source: Company Data, Arqaam Capital Research

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Exhibit 3: QIC EVA Valuation (QARm)

	2014A	2015A	2016A	2017A	2018e	2019e	2020e	2025e	perp	subtotal	% of total
1 DCF											
Net profit	872	594	1,010	424	1,128	1,403	1,673	3,106	3,199		
Other adjustments	--	--	--	--	--	--	--	--			
Minus: excess return excess capital	49	(59)	1	25	2	1	4	107	110		
Return on excess capital	3.5%	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%	0.0%		
Adjusted net profit	824	653	1,009	398	1,126	1,402	1,669	2,999	3,089		
Capital requirements	3,679	6,509	7,403	7,130	8,145	9,180	10,364	18,173	18,718		
RoEcC	22.4%	10.0%	13.6%	5.6%	13.8%	15.3%	16.1%	16.5%	16.5%		
Cost of capital	11.8%	11.8%	11.8%	11.8%	11.8%	11.8%	11.8%	11.8%	11.8%		
Capital charge	436	771	876	844	964	1,087	1,227	2,151	2,216		
Economic profit	388	(118)	132	(446)	161	315	442	847	873		
Discount factor	0.00	0.00	0.00	0.00	1.00	0.89	0.80	0.46	0.41		
NPV of Economic Profit	--	--	--	--	161	282	353	387	873		
DCF EVA Forecast period										2,773	
Perpetual growth rate (GDP)									3.0%		
Terminal Value									9,872		
Terminal value discounted										4,033	
Required Capital										8,145	
Value of the insurance operations										**14,951**	**96.9%**
2 Capital surplus/deficit											
Available capital:											
Shareholders equity	5,924	5,994	8,468	8,274	9,260	10,294	11,605	22,732			
Less Goodwill & intangibles	854	1,168	1,039	416	1,055	1,086	1,122	1,495			
Less dividends	--	--	--	--	--	--	--	--			
Tangible equity	5,069	4,826	7,429	7,858	8,205	9,208	10,483	21,237			
Capital needs											
Net Written Premium (NWP)	4,340	7,157	8,578	9,570	10,527	11,524	12,618	19,911			
Claims reserves	2,857	5,441	6,851	9,194	11,050	12,938	14,813	26,535			
Equity investments	2,667	5,238	5,188	2,777	3,161	3,560	4,211	8,802			
Investment properties	375	408	576	586	650	676	681	689			
Associates	77	83	139	143	160	179	200	329			
Equity as % NWP	33.0%	32.0%	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%	26.0%			
Equity as % of investments	50.0%	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%	25.0%			
Equity as % of associates	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%			
Capital Requirements	3,679	6,509	7,403	7,130	8,145	9,180	10,364	18,173			
Surplus capital	**1,390**	**(1,683)**	**26**	**728**	**60**	**28**	**118**	**3,064**		**60**	**0.4%**
3 Other adjustments											
Investment properties											
Capital increase											
Total adjustments			--	--	--	--	--	--		**--**	**0.0%**
4. Dividends										416	**2.7%**
Total Fair Value YE 2011										**15,427**	
Number of shares										277	
Fully diluted number of shares										277	
Fair value per share										**55.6**	
Current share price										53.5	
Upside										**4.0%**	
Implied P/E	15.0x	14.5x	14.7x	36.4x	13.7x						
Implied P/B	2.6x	2.6x	1.8x	1.9x	1.7x						
Implied P/tNAV	2.8x	2.8x	1.9x	2.0x	1.7x						
Coverage ratio	138%	74%	100%	110%	101%	100%	101%	117%			

Source: Company Data, Arqaam Capital Research

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