Company Update

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Qatar Insurance

Strong recovery play on dislocated valuation – reiterate Core Buy

- **QIC should recover from its annus horribilis, thanks to i) hardening reinsurance market (pricing +2% y/y), ii) continued growth in risk pools, iii) opportunities in growth markets, iv) growth in direct insurance in GCC, v) growth in life & medical, vi) gradually higher yield on its investment portfolio despite MtM losses affecting OCI and vii) lower NatCat losses.**
- **Combined ratios peaked in FY 17 at 106.4% on NatCat claims (6.8ppt) and Ogden reserving (1.6ppt). QIC outperformed Swiss Re and Munich Re on selective underwriting and lower CRs in direct insurance.**
- **Inorganic growth should fuel GWP in FY 18e, with the insurer signing an SPA to acquire Markerstudy's (direct UK motor, 32.6% of FY 17 GWPs) and additional QLM underwriting in Russia (network of 700 service providers).**
- **Compelling valuation – stock has de-rated 37% in the past 12M, oversold on FTSE EM exclusion (42 days of trading, still included in MSCI EM), and currently trading at a significant discount (>50% below historical) – P/tNAV 18e of 1.4x and P/E 19e of 8.5x.**

FY 18e GWP growth of 26.7% after FY 08-17A CAGR of 19.4%. This is driven by i) higher reinsurance pricing (to reach 2% y/y), ii) growing risk pools in reinsurance, iii) growth in direct insurance, iv) additional underwriting from QLM and v) the SPA signed with Markerstudy's.

Underwriting margins to rebound from current levels of just 1.0% to 7.8% in FY 18e, as NatCat losses are likely to be more contained in FY 18e. We forecast underwriting margin of 7.8% for FY 18e, still below the 5-year historical average of 9.2%. We pencil in underwriting margins of 4.6% for Qatar Re (54.7% of GWPs) and 7.0% for Antares (18.2% of GWPs, Lloyds syndicate) vs. 4.3% and 6.4%, respectively, historically. Further, life & health (11.5% of GWPs) yield 8.5%, and direct insurance (79.3% of GWP) 8.7% in FY 18e, on our forecasts. As a result, we expect combined ratio to improve to 97.3% in FY 18e, down 6.8ppt from last year on lower NatCat losses, hardening reinsurance market (price +2.1%) and change in business mix (+0.9%).

Play on higher investment yields, though only gradually due to the long duration of the book, improving the contribution to RoE from 10.6ppt in FY 17A to 11.0ppt in FY 18e. We increase our investment yields on QIC's fixed income book to 3.4% in FY 18e vs. 3.3% in FY 17 and pencil in an average of 3.7% over our forecast period, on increasing interest rates. Fixed income makes up the majority of QIC's investment book at 59% of total, with held for trading at QAR 3.16m and the bulk as AFS at QAR 10.48bn (split as follows: QAR 1.4bn <1 yr, QAR 2.2bn 1-5yr and QAR 4.9bn >5yr), with a blended maturity of 5.24 years (assuming 1, 3 and 7.5 years respectively for each bucket) and an average duration of 4 years. We estimate every additional 1% increase in interest rate likely would result in an equity loss of QAR 348.4m or 4.3% of shareholders equity of which only 1% or QAR 81m will hit the income statement, with the rest taken to comprehensive income.

We increase our TP to QAR 51.4 from QAR 43.6, offering +37.2% upside to CMP with multiples still looking attractive, P/tNAV 18e of 1.4x (vs. historical avg. of 2.8x), P/E 19e of 8.5x (vs. historical avg. of 16.8x), and RoE 18e of 14.5%.

CORE BUY QAR 51.4

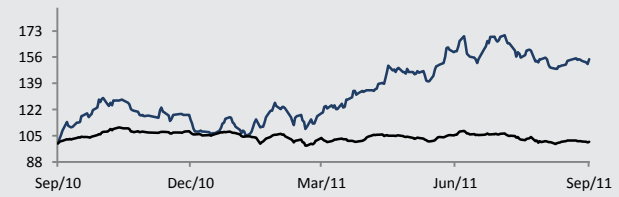
Insurance / Qatar

Bloomberg code	QATI QD
Market index	Qatar
Target Price	51.4
Upside (%)	37.2

Market data 11/04/2018	
Last closing price	37.5
52 Week range	32.1-63.5
Market cap (QAR m)	11,946
Market cap (USD m)	3,263
Average Daily Traded Value (QAR m)	11.4
Average Daily Traded Value (USD m)	3.1
Free float (%)	100%

Year-end (local m)	2017	2018e	2019e	2020e
Gross Written Premiums	11,659	14,774	17,099	18,738
Underwriting Profit	115	1,155	1,310	1,399
EPS	1.31	4.07	4.49	4.94
P/E (x) (market price)	52.6	9.6	8.5	7.3
BVPS	26.02	28.08	30.41	33.12
Tangible BVPS	26.02	28.08	30.41	33.12
P/B (x) (market price)	1.4	1.3	1.2	1.1
P/TBVPS (x) (market price)	1.5	1.4	1.3	1.2
DPS	1.3	1.8	2.0	2.3
Div. yield (%)	3.5	4.7	5.3	6.1
RoAA (%)	0.7	3.3	3.3	3.5
RoAE (%)	2.7	14.5	15.0	16.1
Investments/Assets (%)	58.7	55.8	54.5	56.2
Investment Yield (%)	5.1	5.0	5.0	5.0
Net Loss Ratio	79.2	71.3	71.6	71.8
Combined Ratio	106.4	97.3	97.2	97.3
Underwriting Profit Margin	1.0	7.8	7.7	7.5
Net Profit Margin	1.9	8.4	8.2	8.7
Policy Reserves/Equity	221.0	220.5	238.9	255.3

Price Performance



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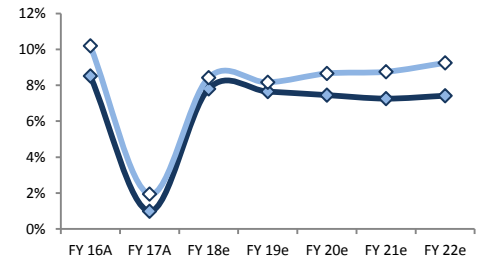
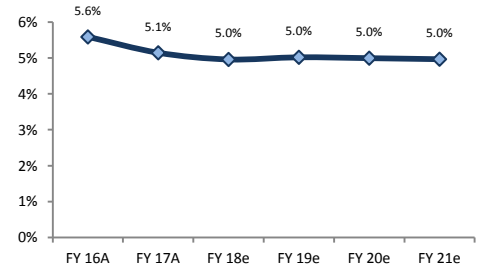
Abacus *Arqaam Capital Fundamental Data*

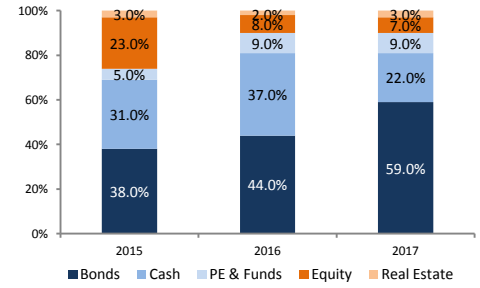
Profitability



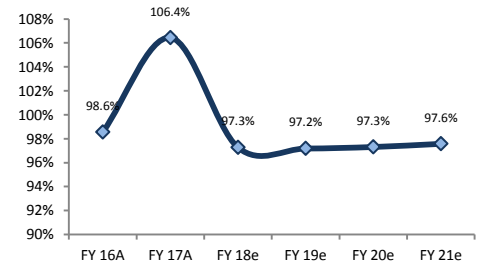
Investment Yield



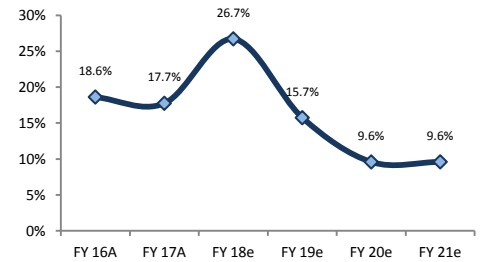
Investment Exposure



Combined Ratio



Growth



Qatar Insurance Company

Year-end	2016	2017	2018e	2019e	2020e	2021e
Performance analysis						
Cession Ratio	13.4	18.1	17.6	17.5	17.0	16.5
Net Loss Ratio	69.0	79.2	71.3	71.6	71.8	72.1
Expense Ratio	29.5	27.2	25.9	25.6	25.5	25.5
Combined Ratio	98.6	106.4	97.3	97.2	97.3	97.6
Underwriting Profit Margin	8.5	1.0	7.8	7.7	7.5	7.3
Investment Yield	5.6	5.1	5.0	5.0	5.0	5.0
Net Margin	10.2	1.9	8.4	8.2	8.7	8.8
RoAE	14.0	2.7	14.5	15.0	16.1	16.3
RoAA	3.5	0.7	3.3	3.3	3.5	3.4
Net Premiums/Equity	1.0	1.1	1.3	1.4	1.4	1.4
Gross Premiums/Equity	1.4	1.4	1.8	1.9	1.9	1.9
Claims Reserve/NPE	0.9	1.0	0.9	0.9	0.9	1.0
Investment Income/Total Income	53.0	90.0	48.6	47.1	48.2	49.7

Year-end	2016	2017	2018e	2019e	2020e	2021e
Investment Exposure						
Investments/Assets	60.4	58.7	55.8	54.5	56.2	57.6
Equities/Investments	30.9	24.7	18.6	15.9	12.3	11.3
Equity/Assets (%)	29.5	23.8	23.8	23.0	22.4	21.8

Year-end	2016	2017	2018e	2019e	2020e	2021e
Liquidity/Leverage						
Policy Reserves/Gross Premiums	1.4	1.5	1.3	1.3	1.4	1.5
Policy Reserves/Net Earned Premiums	1.3	1.5	1.4	1.4	1.5	1.5
Policy Reserves/Equity	1.6	2.2	2.2	2.4	2.6	2.7
Debt/Capital	0.3	0.4	0.4	0.4	0.4	0.3
Debt/Equity (x)	0.5	0.7	0.7	0.6	0.6	0.5

Year-end	2016	2017	2018e	2019e	2020e	2021e
Growth						
Gross Premiums	18.6	17.7	26.7	15.7	9.6	9.6
Net Earned Premiums	44.5	6.8	27.8	16.6	10.3	10.3
Investments	7.9	19.4	5.4	5.8	6.3	6.6
Assets	21.3	21.0	7.8	12.3	11.7	12.4
Total Reserves	15.4	30.4	7.5	17.1	16.1	15.4
Equity	41.7	(2.7)	7.7	8.0	8.7	8.9

Year-end	2016	2017	2018e	2019e	2020e	2021e
Valuation						
P/B(x) (current price)	1.4	1.4	1.3	1.2	1.1	1.0
P/B(x) (target price)	1.9	2.0	1.8	1.7	1.6	1.4
P/E(x) (current price)	11.8	52.6	9.6	8.5	7.3	6.6
P/E(x) (target price)	16.2	72.1	13.1	11.7	10.1	9.1

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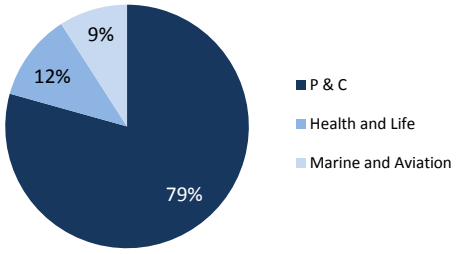
Abacus *Arqaam Capital Fundamental Data*

Investment thesis

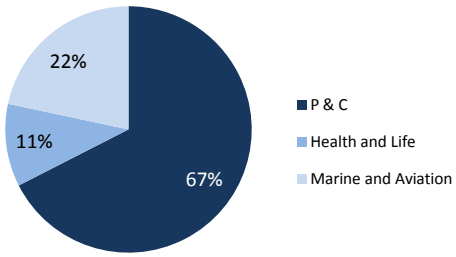
QIC invests (re)insurance premiums into its Asset Management business supporting overall RoE. However, as it grows, we expect it to start transforming into a diversified insurance company with a two-tier growth strategy across the insurance and reinsurance businesses.

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 strengths in Energy, Marine and Aviation.

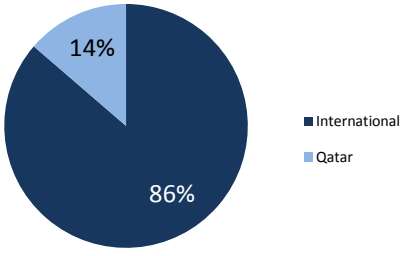
GWP Breakdown by business line:



Claims Breakdown:



GWP Breakdown by Region:



Qatar Insurance Company

Year-end	2016	2017	2018e	2019e	2020e	2021e
Income statement (mn)						
Gross Written Premiums	**9,901.4**	**11,658.7**	**14,773.7**	**17,099.3**	**18,737.6**	**20,535.4**
Ceded Premiums	1,323.3	2,108.8	2,600.4	2,986.7	3,179.6	3,382.2
Retained Premiums	8,578.1	9,549.9	12,173.3	14,112.7	15,558.0	17,153.2
Movement in Unearned Premiums	218.2	621.3	761.9	810.2	889.4	976.5
Net Premiums Earned	**8,359.9**	**8,928.6**	**11,411.5**	**13,302.5**	**14,668.6**	**16,176.8**
Commissions paid	-	-	-	-	-	-
Net commissions	(1,754.7)	(1,751.7)	(2,117.7)	(2,474.5)	(2,736.7)	(3,026.6)
Other underwriting expenses	(7.5)	(12.6)	(1.7)	(1.8)	(1.9)	(2.0)
Changes in technical reserves	(1,764.9)	(1,720.0)	(1,601.7)	(1,887.5)	(2,094.8)	(2,324.7)
Net Claims	5,769.0	7,074.6	8,140.9	9,519.6	10,535.1	11,659.5
Underwriting Profit	**843.7**	**115.0**	**1,154.5**	**1,310.1**	**1,398.6**	**1,492.6**
Investment Income	856.3	970.6	1,023.9	1,099.6	1,231.1	1,410.2
Other operating income	95.1	67.6	69.2	69.2	68.3	66.5
Investment & other income	**-**	**-**	**-**	**-**	**-**	**-**
Interest Expense	46.2	67.9	86.7	87.5	87.5	87.5
General & Administrative	715.5	677.4	841.7	934.3	1,003.0	1,099.3
Operating Profit	**1,033.3**	**408.0**	**1,319.3**	**1,457.1**	**1,607.6**	**1,782.5**
Distribution of surplus	-	-	-	-	-	-
Other income/(loss)	18.3	15.6	14.9	15.2	15.5	15.6
Tax	-	-	-	-	-	-
Minority Interest	(17.6)	(6.0)	38.5	44.2	50.9	58.5
Net Income	**1,051.6**	**423.6**	**1,334.2**	**1,472.4**	**1,623.0**	**1,798.2**
Reported EPS	2.82	1.31	4.07	4.49	4.94	5.47

Year-end	2016	2017	2018e	2019e	2020e	2021e
Balance sheet (mn)						
Cash	6,962.3	7,914.1	6,857.5	9,039.3	12,005.6	15,474.8
Intangible Assets	1,038.9	1,316.9	1,194.4	1,243.8	1,295.2	1,348.2
Reinsurance Contract Assets	2,493.4	4,496.8	3,118.1	3,671.0	4,283.6	4,962.5
Investment Properties	575.8	585.8	578.9	572.2	545.7	517.1
Investments	11,435.1	13,654.5	14,390.7	15,220.3	16,181.0	17,245.2
Associates	138.8	142.5	153.0	163.6	174.5	185.4
Insurance Receivables	6,030.8	7,293.1	11,104.0	12,088.1	12,420.6	13,009.8
Fixed Assets	40.3	52.5	57.8	63.6	69.9	76.9
Other Assets	-	-	-	-	-	-
Total Assets	**28,715.5**	**34,734.3**	**37,454.3**	**42,061.9**	**46,976.2**	**52,819.9**
Short-term Insurance Contract Liabilities	13,583.3	17,718.0	19,040.0	22,290.5	25,887.4	29,867.4
Long-term Policyholder Liabilities	-	-	-	-	1.0	2.0
Debt	4,192.5	5,729.8	5,830.5	5,830.5	5,830.5	5,830.5
Insurance Payables	2,471.5	3,012.9	3,653.7	4,271.9	4,727.0	5,633.0
Other Liabilities	-	-	-	-	-	-
Total Liabilities	**20,247.2**	**26,460.7**	**28,524.2**	**32,392.9**	**36,444.8**	**41,331.0**
Shareholders Equity	**8,236.1**	**8,017.3**	**8,635.3**	**9,330.0**	**10,141.5**	**11,040.6**
Minority Interest	(17.6)	(6.0)	38.5	44.2	50.9	58.5
Total Equity	**8,468.2**	**8,273.6**	**8,930.0**	**9,669.0**	**10,531.3**	**11,488.9**
BVPS	23.09	26.02	28.08	30.41	33.12	36.13

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Turning the page after QIC's worst year

- **GWP growth should be driven by i) acquisitions (Markerstudy, funding not yet announced, +32% growth in GWPs), ii) positive price trend in reinsurance market (+2%) and iii) growth in life & health (+7.2% y/y).**
- **Combined ratios should improve on higher reinsurance pricing (+2ppt), lower NatCat losses (-6.8ppt), lower reserving (-1.6 ppt) and slightly higher margins of Markerstudy's.**
- **Investment yields offer room for improvement, thanks to rising rates with limited MtM losses affecting comprehensive income and NAV growth (contribution to RoE to increase from 10.6ppt in FY 17A to 11.0ppt in FY 18e).**
- **RoE should remain slightly ahead of Swiss Re and Munich Re on structurally higher net underwriting margins and higher investment yields, mainly reflecting a higher equity allocation.**

QIC's RoE should be slightly higher than global peers Swiss Re and Munich Re

- Better underwriting profitability (9ppt higher) due to its niche approach and higher contribution from direct insurance.
- Higher investment yields due to higher fixed income portfolio skewed towards GCC, although equity allocation in line with peers (8.2% vs. 9.3% for Swiss Re and 8.9% for Munich Re).

Exhibit 1: Breakdown of RoE contribution

	Underwriting income as % of NEP			NEP as % of Equity			Contribution to RoE		
	2016	2017	2018e	2016	2017	2018e	2016	2017	2018e
QIC	1.5%	(6.3%)	2.7%	98.7%	107.9%	127.8%	1.51%	(6.80%)	3.5%
Swiss Re	(4.0%)	(15.5%)	(5.0%)	91.5%	97.1%	95.0%	(3.65%)	(15.01%)	(4.8%)
Munich Re	(9.8%)	(16.1%)	(7.0%)	148.2%	167.3%	160.0%	(14.51%)	(26.92%)	(11.2%)

	Investment yields			Direct yield			Capital gains		
	2016	2017	2018e	2016	2017	2018e	2016	2017	2018e
QIC	5.6%	5.1%	5.0%	3.2%	3.3%	3.4%	2.4%	1.9%	1.6%
Swiss Re	3.5%	3.4%	3.5%	2.6%	2.7%	2.7%	0.9%	0.7%	0.7%
Munich Re	3.4%	3.5%	3.5%	2.7%	2.5%	2.7%	0.7%	1.0%	1.0%

	Investments/Equity			Contribution to RoE			NatCat impact % of Total Equity		
	2016	2017	2018e	2016	2017	2018e	2016	2017	2018e
QIC	223.4%	269.0%	246.1%	12.48%	13.84%	12.21%	n/a	(7.28%)	n/a
Swiss Re	435.0%	474.4%	450.0%	15.23%	16.13%	15.75%	n/a	(26.61%)	n/a
Munich Re	697.7%	771.9%	750.0%	23.81%	27.00%	26.25%	n/a	(36.80%)	n/a

Source: Bloomberg, Company Data, Arqaam Capital Research

Returns dipped in FY 17, although we pencil in a rebound to mid double-digits in FY 18e on improving net profit margins and higher asset turnover as shown in Exhibit 1. Swiss Re, Munich Re and QIC's RoE declined to 1.0%, 1.3%, and 2.7% in FY 17 from 10.6%, 8.1% and 12.4% in FY 16A, respectively. We have penciled in RoE levels of 14.5% in FY 18e, on improving underwriting margins, back to 7.9% from 1.0% in FY 17, vs. 5 year historic average of 9.2%, with investment income contributing 49% of total income in FY 18e.

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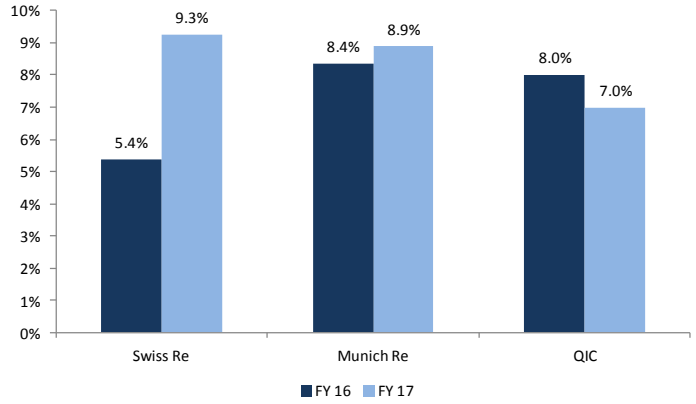
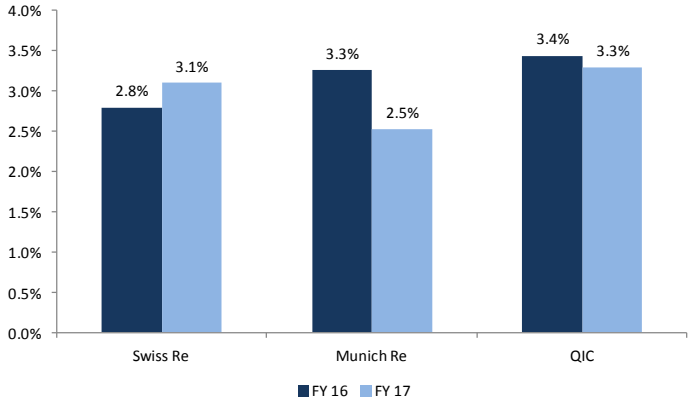
Exhibit 2: Equity investments as % of total investment book



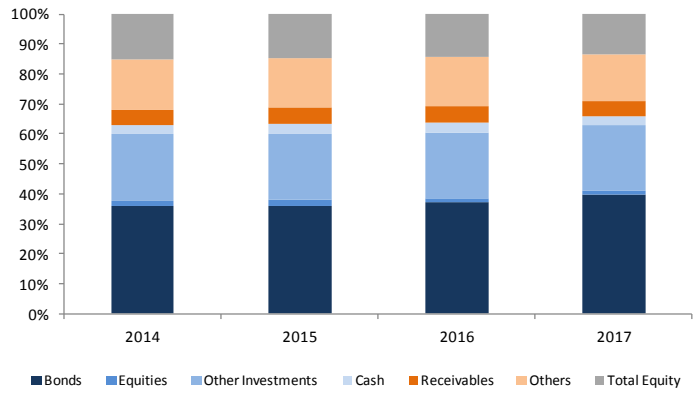
Source: Company Data, Arqaam Capital Research

Exhibit 3: Fixed income yield – QIC slightly ahead of peers



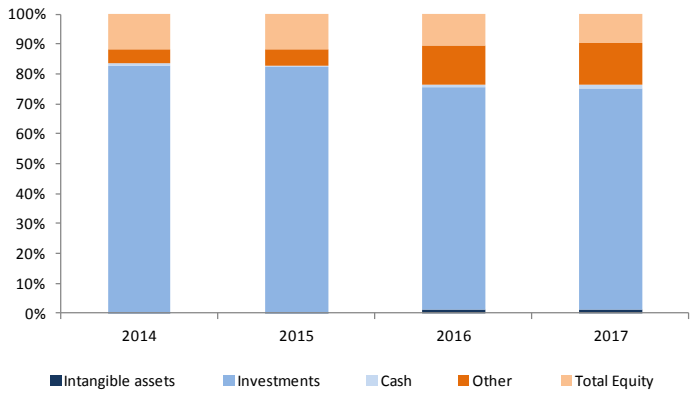
Source: Hannover Re, Arqaam Capital Research

Exhibit 4: Total assets and equity breakdown for Swiss Re



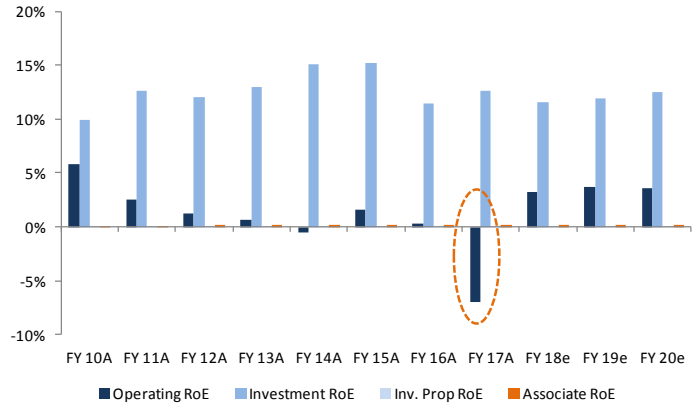
Source: Company Data, Arqaam Capital Research

Exhibit 5: Total Assets and equity breakdown for Munich Re



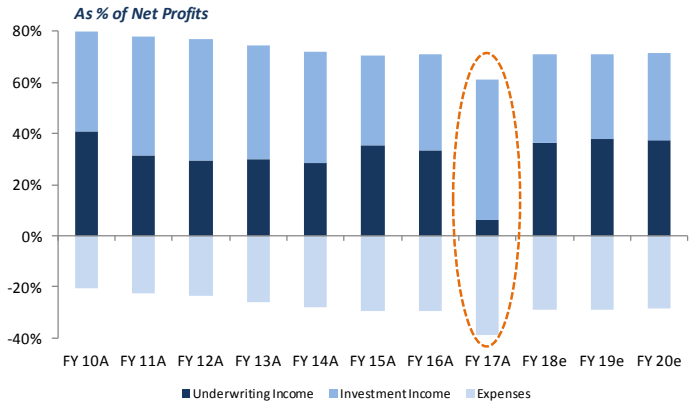
Source: Hannover Re, Arqaam Capital Research

Exhibit 6: QIC RoE Breakdown, operating RoE taking a hit in FY 17 due to NatCat claims



Source: Company Data, Arqaam Capital Research

Exhibit 7: Core business contribution to bottom line shrinking in FY 17 reaching 27.1%, although we expect a return to historic levels of around 83.4% in FY 18e



Source: Company Data, Arqaam Capital Research

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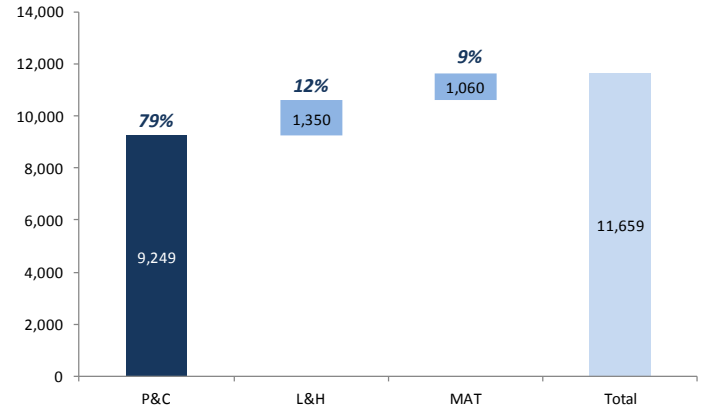
Strong growth in top line boosted by M&A

- We forecast strong GWP growth of 26.7% in FY 18e driven by inorganic and organic growth.
- Acquisitions (Markerstudy, funding not yet announced, +32% growth in GWPs)
- Positive re-pricing of +2% in reinsurance
- 6-8% growth in direct insurance (27.0% of total GWPs, stemming from the GCC)
- 10-12% growth in life & health (+7.2% y/y)

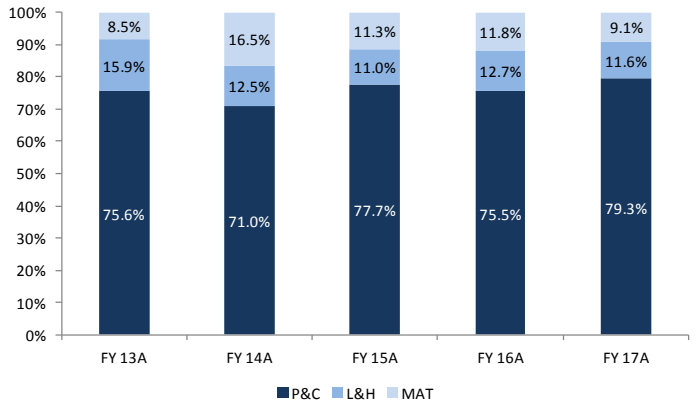
We project top line growth of 26.7% in FY 18e, with increasing P&C premiums from Markerstudy's (32.6% of total FY 17 GWPs, to impact H2 18e), volume growth and higher prices in Qatar Re and Anantares (73.0% of total GWPs), growth in direct insurance (6-8% growth, currently accounting for 27.0% of total GWPs) and healthy underwriting in L&H premiums (10-12% growth).

Exhibit 8: Dissection of FY GWP: Majority made up of P&C



Source: Company Data, Arqaam Capital Research

Exhibit 9: L&H GWPs evolution as % of total



Source: Company Data, Arqaam Capital Research

QIC's P&C segment contributed 79.3% to top line as of FY 17, followed by L&H and MAT underwriting at 11.6% and 9.1%, respectively, with the majority of underwriting resulting from Qatar Re and Antares' operations, both contributing 50.6% and 16.8%, respectively. Reinsurance combined contributes 67.4% of total GWPs, with Qatari operations making up 14% of total GWPs in FY 17, declining by 300bps y/y.

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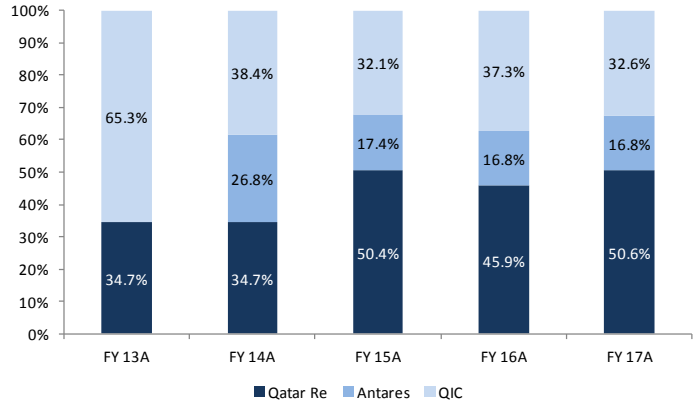
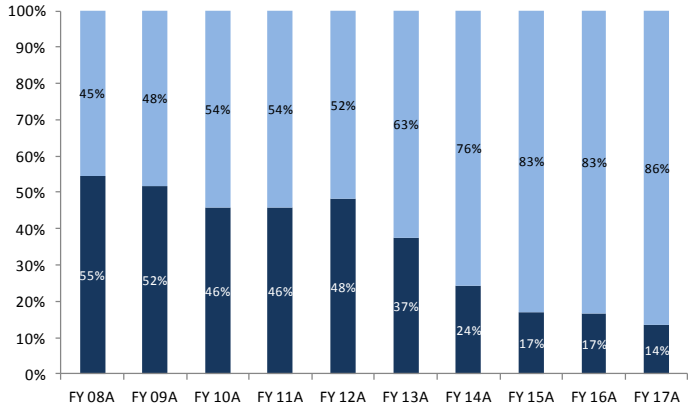
Exhibit 10: Reinsurance contribution to top line



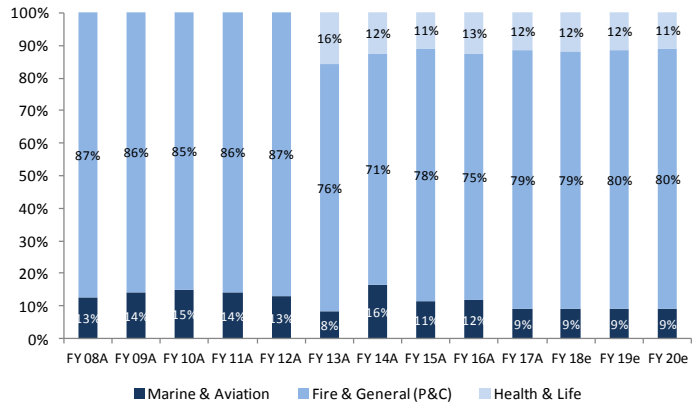
Source: Company Data, Arqaam Capital Research

Exhibit 11: Qatar GWPs vs. International



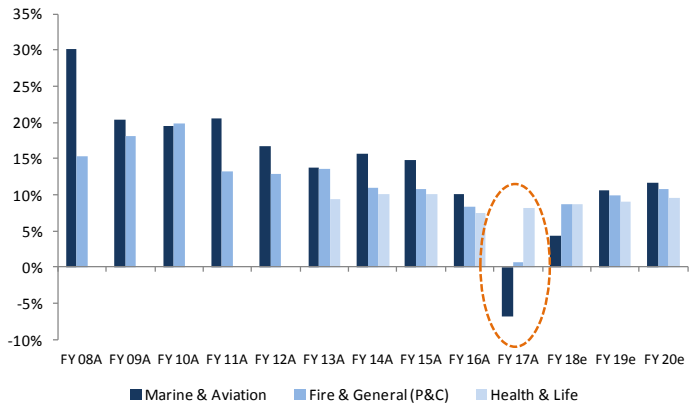
Source: Company Data, Arqaam Capital Research

Exhibit 12: GWP breakdown evolution (FY 08-17A)



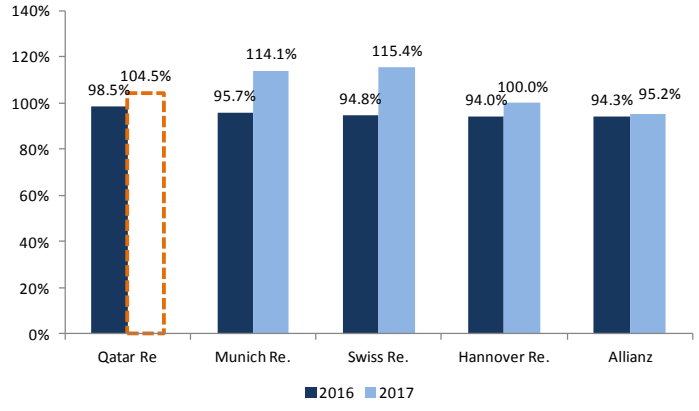
Source: Company Data, Arqaam Capital Research

Exhibit 13: Underwriting margin worsening mainly in MAT and P&C



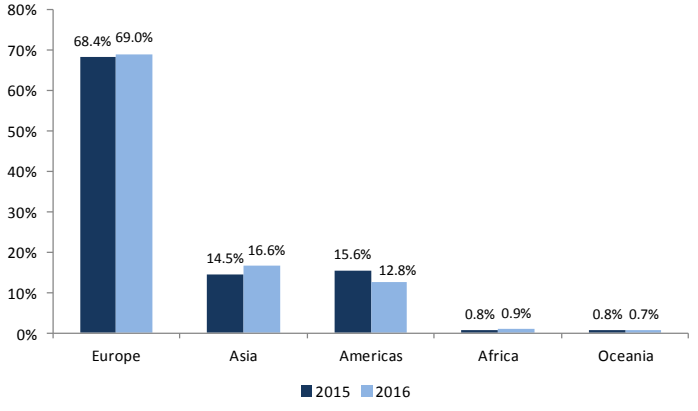
Source: Company Data, Arqaam Capital Research

Exhibit 14: We expect slightly higher CR for Qatar Re on NatCat claims in FY 17



Source: Bloomberg, Arqaam Capital Research

Exhibit 15: Qatar Re GWP breakdown by region



Source: Company Data, Arqaam Capital Research

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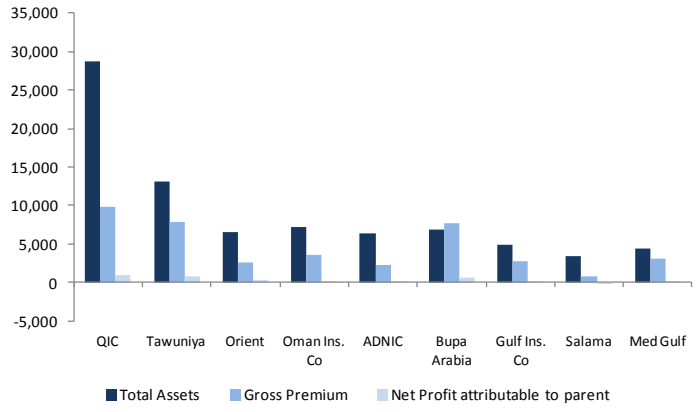
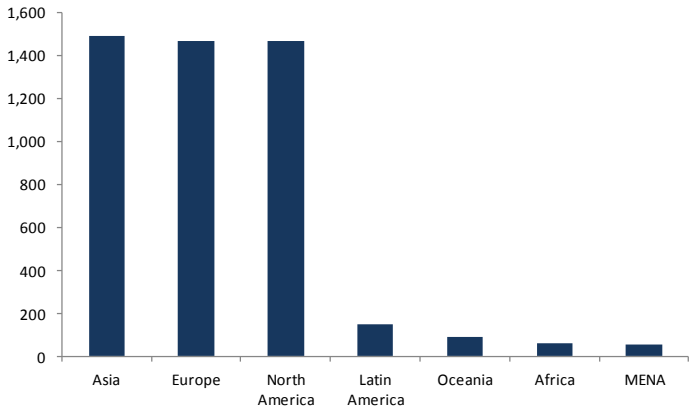
Exhibit 16: QIC ranks higher in terms of GWP and total assets vs. other GCC insurers



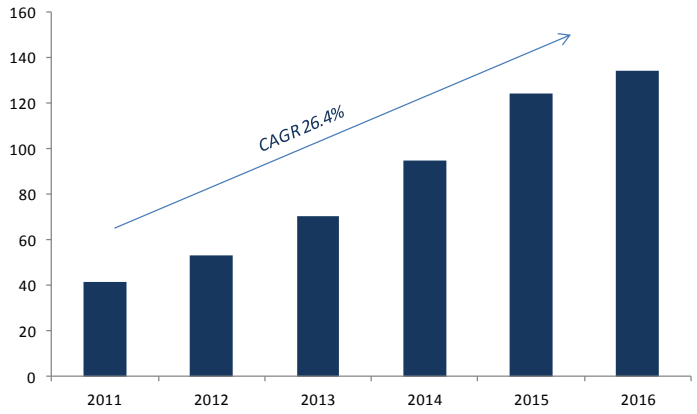
Source: Company Data, Arqaam Capital Research

Exhibit 17: MENA total GWPs still lag behind global markets



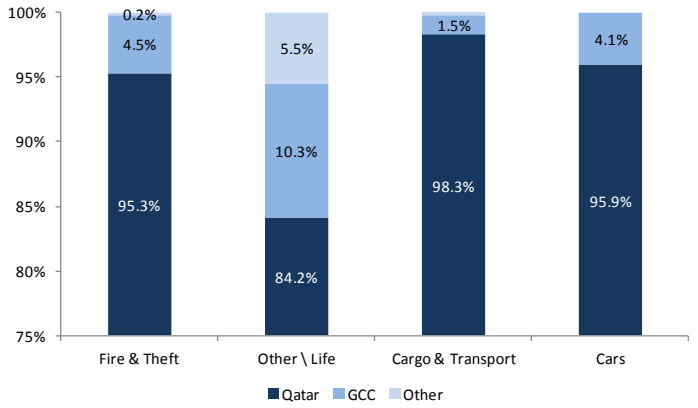
Source: Swiss Re Sigma, Arqaam Capital Research

Exhibit 18: Qatari total GWP evolution



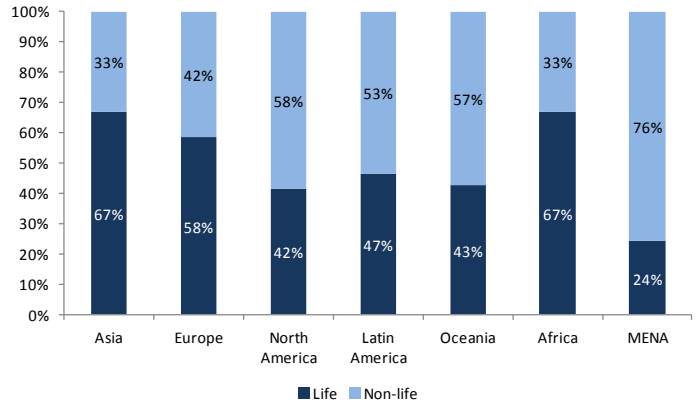
Source: Qatar Ministry of Development and Statistics, Arqaam Capital Research

Exhibit 19: Qatari Insurance sector breakdown underwriting by category



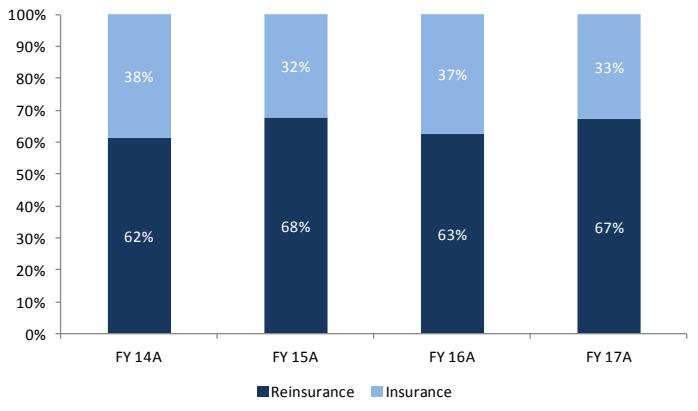
Source: Qatar Ministry of Development and Statistics, Arqaam Capital Research

Exhibit 20: Life insurance premiums in MENA behind other markets



Source: Swiss Re Sigma, Arqaam Capital Research

Exhibit 21: Reinsurance vs. Insurance contribution to top line



Source: Swiss Re Sigma, Arqaam Capital Research

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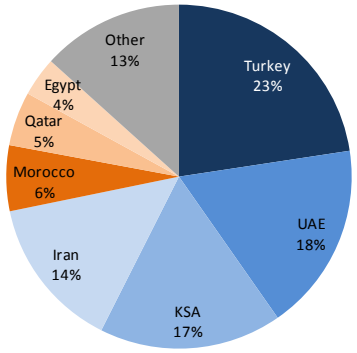
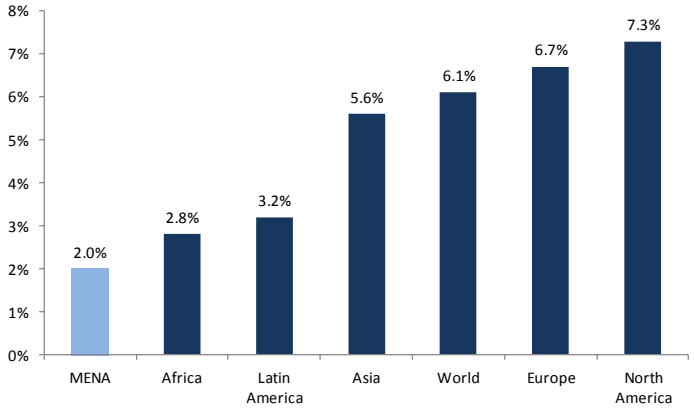
Exhibit 22: MENA GWP breakdown by country



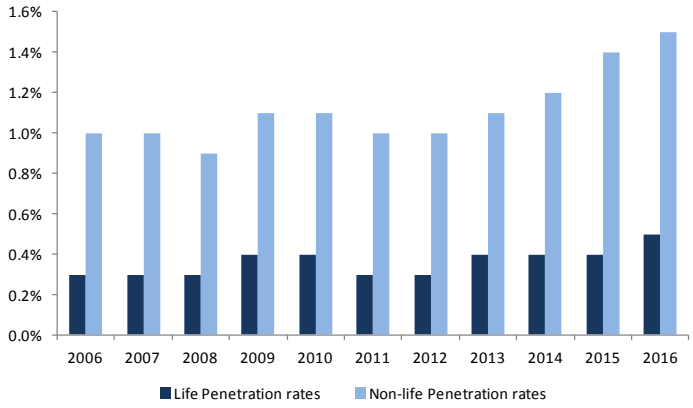
Source: Swiss Re Sigma, Arqaam Capital Research

Exhibit 23: MENA Insurance penetration rate behind other markets



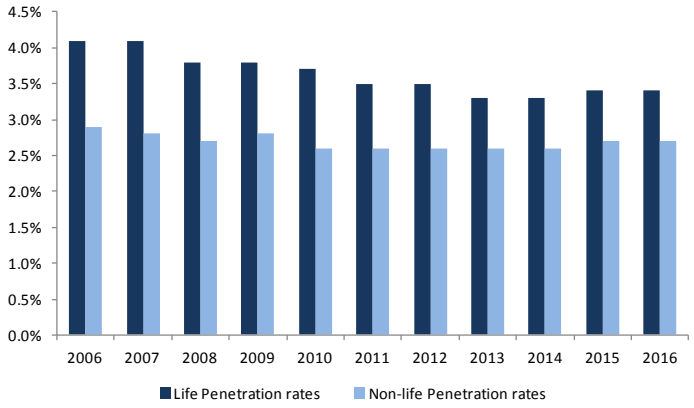
Source: Swiss Re Sigma, Arqaam Capital Research

Exhibit 24: MENA life vs. non-life insurance penetration rates



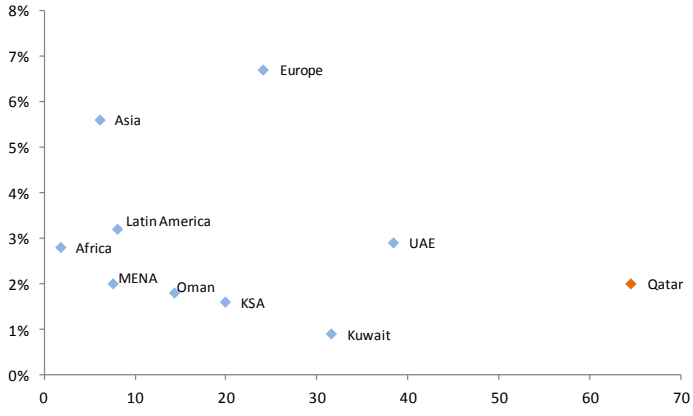
Source: Swiss Re Sigma, Arqaam Capital Research

Exhibit 25: World life vs. non-life insurance penetration rates



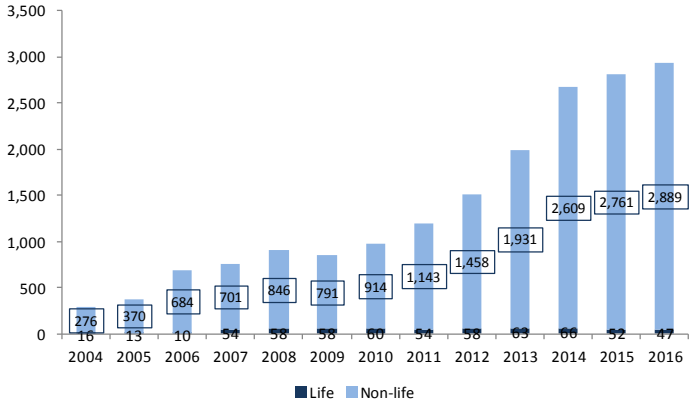
Source: Swiss Re Sigma, Arqaam Capital Research

Exhibit 26: Insurance penetration (Y-axis) vs. GDP per capita in USD: Qatar has additional room for improvement



Source: Swiss Re Sigma, Arqaam Capital Research

Exhibit 27: Qatari life vs. non-life GWP breakdown (USDm)



Source: Swiss Re Sigma, Arqaam Capital Research

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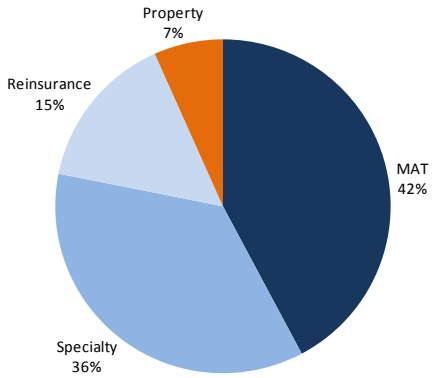
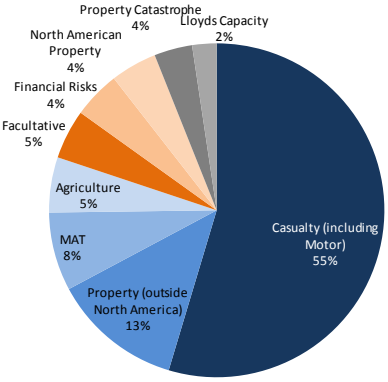
Exhibit 28: Antares GWP breakdown in FY 16



Source: Company Data, Arqaam Capital Research

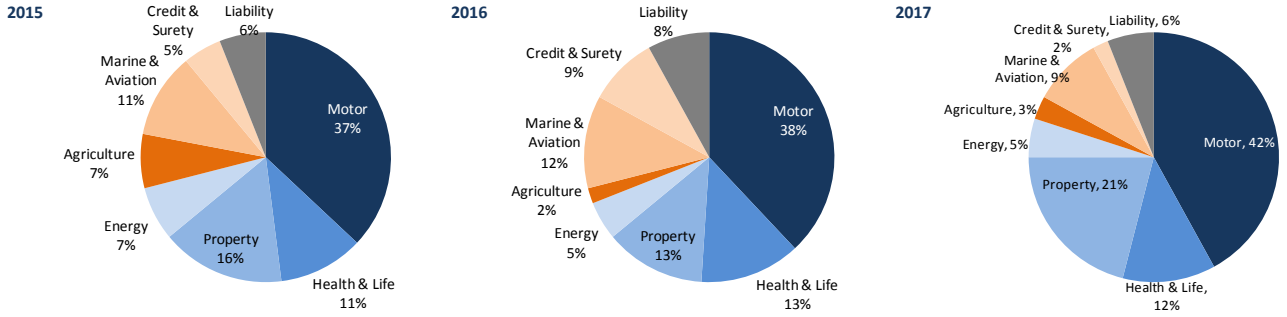
Exhibit 29: Qatar Re GWP breakdown in FY 16



Source: Company Data, Arqaam Capital Research

Share of motor insurance increased in FY 17 reaching 42% of total GWPs, and we expect a further increase in motor premiums on the Markerstudy acquisition. QICs reinsurance business underwrites a significant portion of P&C and MAT premiums. Qatar Re mainly underwrites casualty and property reinsurance at 55% and 13% of total GWP respectively, while Antares majorly underwrites MAT and specialty premiums, both combined making up 78% of total GWPs.

Exhibit 30: Gross Written Premium breakdown: We expect motor underwriting to increase by another +43.6% in FY 18e, reaching QAR 8.6bn, due to Markerstudy acquisition



Source: Company Data, Arqaam Capital Research

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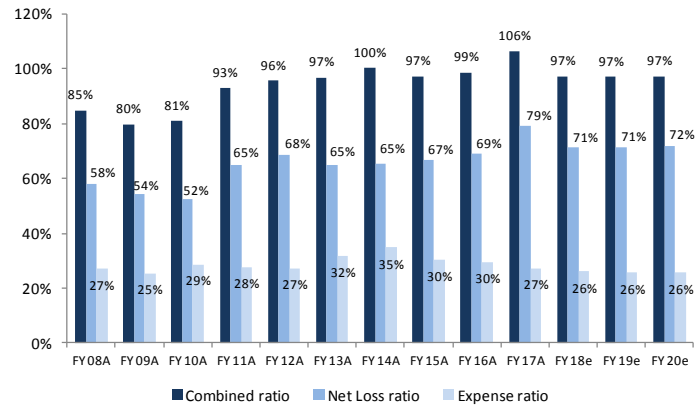
Combined Ratios to improve significantly in FY 18e

- **Higher reinsurance pricing should further benefit Combined Ratios by an additional +2ppt.**
- **We pencil in limited NatCat losses impact for FY 18e, resulting in a 6.8ppt benefit to Combined Ratios.**
- **Lower reserving during FY 18e on limited NatCat losses should further improve Combined Ratios by 1.6ppt, leaving our FY 18e combined ratio at 97.3% (Exhibit 33).**
- **M&A effects: slightly higher margins due to the acquisition of Markerstudy.**

Reinsurers globally faced higher claims in FY 17, on the worst NatCat events including hurricane Harvey, Irma and Maria, resulting in higher combined ratios. The cost of NatCat disasters on Swiss Re, Munich Re, and QIC sits at 28.7%, 22.0%, and 6.8%, respectively (Exhibit 34-36), with combined ratios of 104.7%, 92.1% and 99.6% respectively in FY 17 excluding NatCat claims vs. 133.4%, 114.1%, and 106.4% including NatCat claims.

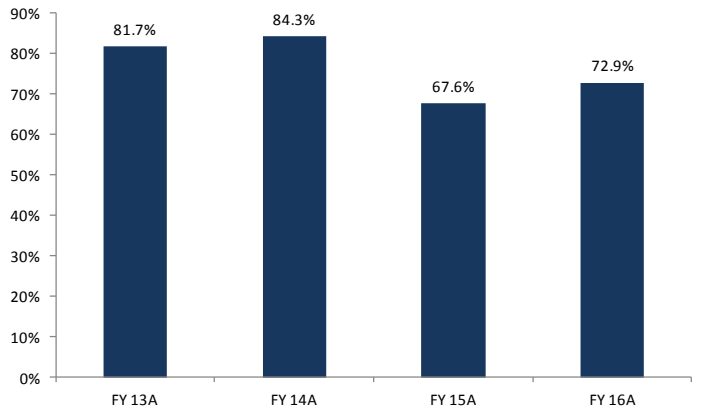
We expect limited impact on CRs in FY 18e on NatCat claims returning to historic levels, similar to that of Swiss re (Exhibit 34), where historic impact of NatCat claims stood at 1-2% of NEP in FY 16, and expected to stabilize in FY 18e reaching 97.3%.

Exhibit 31: Combined Ratio evolution



Source: Company Data, Arqaam Capital Research

Exhibit 32: Loss ratio evolution of Qatar Re



Source: Company Data, Arqaam Capital Research

We have penciled in a 97.1% CR for FY 18e, slightly lower than Swiss Re and Munich Re. Both Swiss Re and Munich Re have guided for a CR of 99% in FY 18e. Similarly, we lower our CR estimate for QIC to 97.1% on limited NatCat claims and reserving (Exhibit 28).

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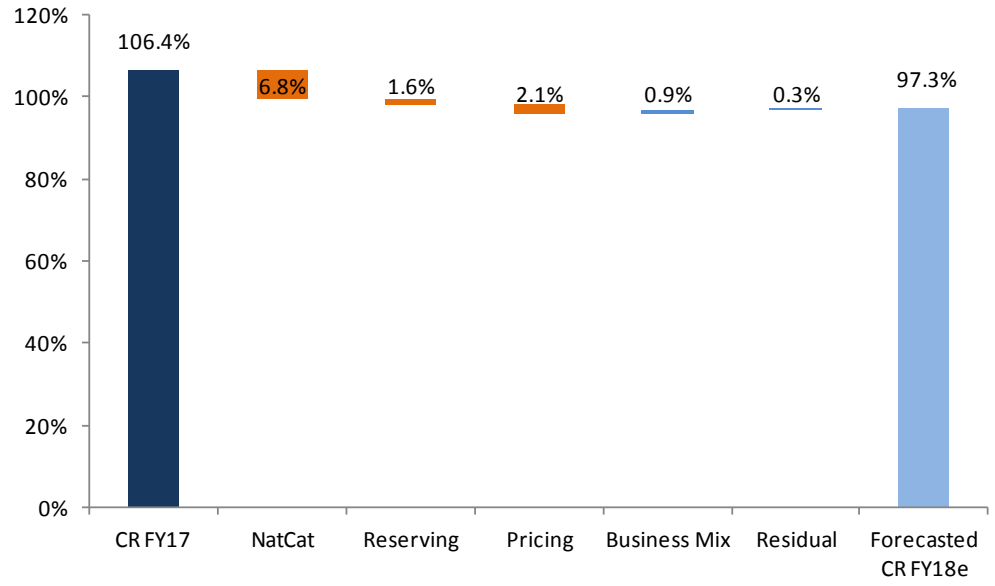
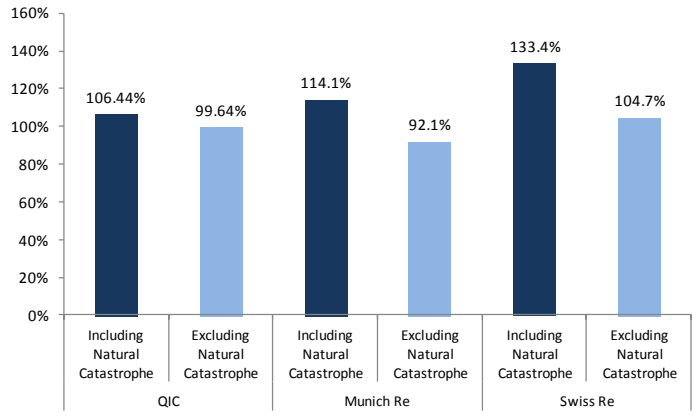
Exhibit 33: Evolution of Combined Ratio FY 18e



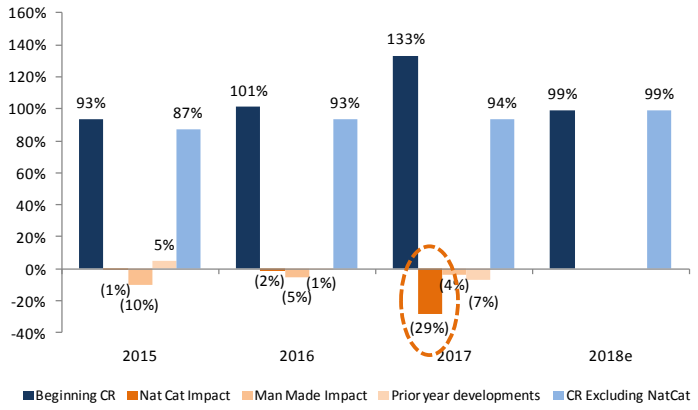
Source: Company Data, Arqaam Capital Research

Exhibit 34: NatCat claims impacted the reinsurance space in FY 17, resulting in deterioration of CR



Source: Company Data, Arqaam Capital Research

Exhibit 35: Swiss Re NatCat claims historically at 1-2% of NEP, although spiked in FY 17, and CR expected to decline in FY 18e



Source: Company Data, Arqaam Capital Research

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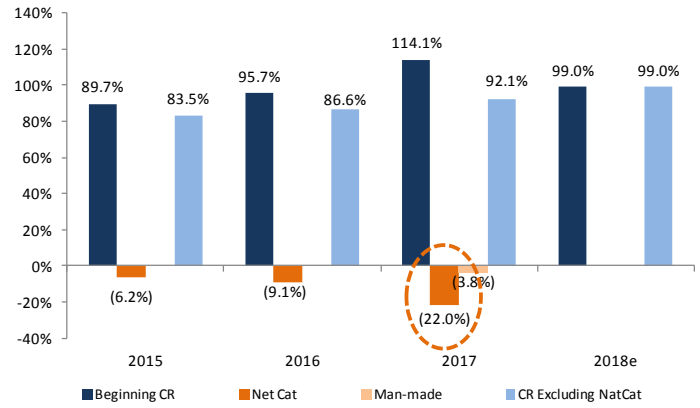
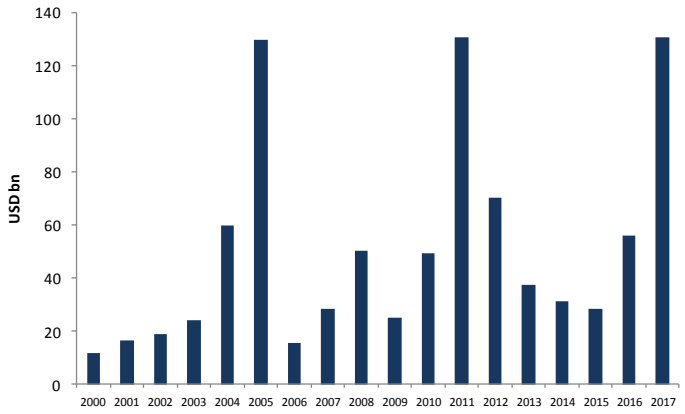
Exhibit 36: Munich Re NatCat claims peaked in FY 17, historically at lower levels



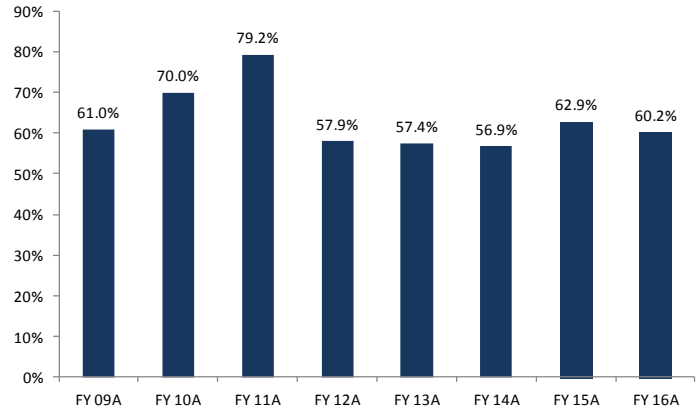
Source: Company Data, Arqaam Capital Research

Exhibit 37: Total NatCat losses evolution over the past 17 years



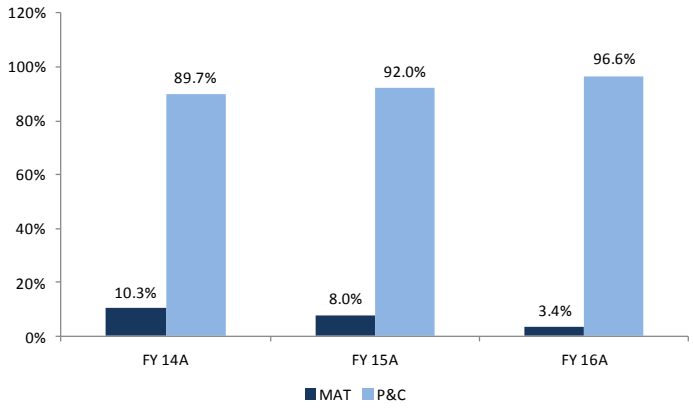
Source: Company Data, Arqaam Capital Research

Exhibit 38: Loss ratio evolution of Antares



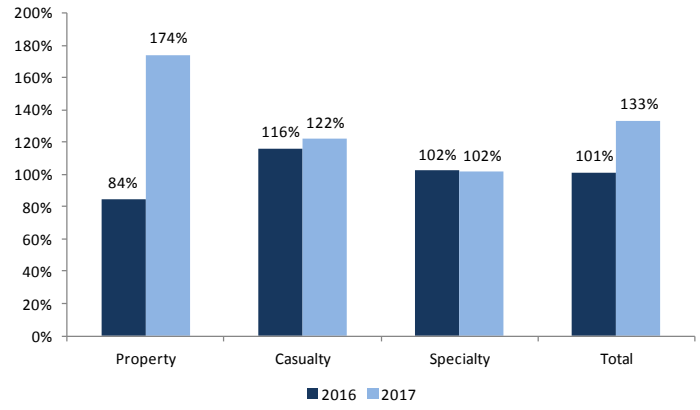
Source: Company Data, Arqaam Capital Research

Exhibit 39: Breakdown of Qatar Re claims



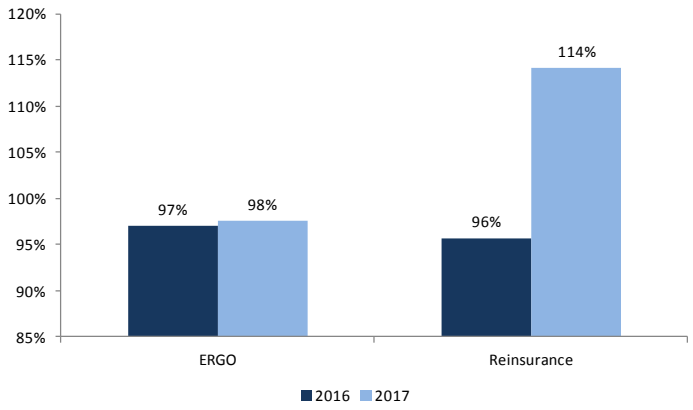
Source: Company Data, Arqaam Capital Research

Exhibit 40: Swiss Re Corporate solutions CR breakdown



Source: Company Data, Arqaam Capital Research

Exhibit 41: Munich Re combined ratio breakdown



Source: Company Data, Arqaam Capital Research

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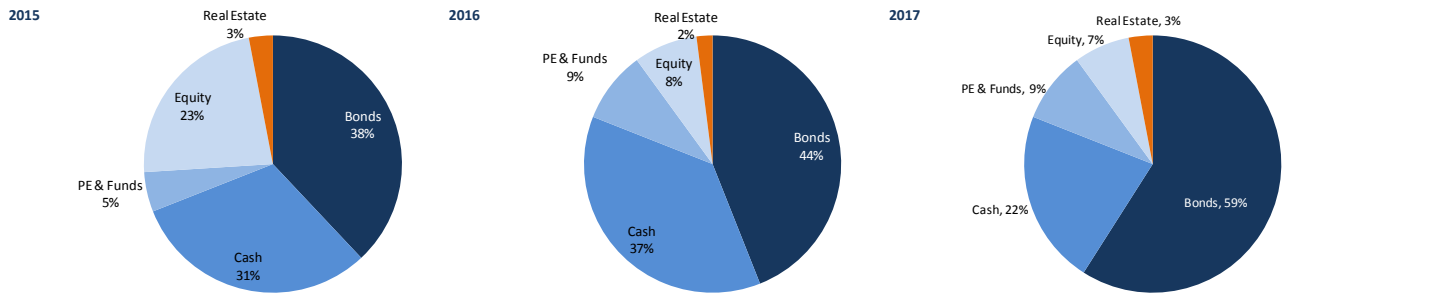
Investment yields set to improve on rising rates (dollar-linked)

- **We increase our investment yields on QIC's fixed income book to 3.4% in FY 18e vs. 3.3% in FY 17 and pencil in an average of 3.7% over our forecast period, on increasing interest rates.**
- **Investment yields offer room to increase, thanks to rising rates with limited MtM losses affecting comprehensive income and NAV growth (contribution to RoE to increase from 10.6ppt in FY 17A to 11.0ppt in FY 18e).**

We increase our investment yields on QIC's fixed income book to 3.4% in FY 18e vs. 3.3% in FY 17 and pencil in an average of 3.7% over our forecast period, on increasing interest rates (QIBOR and higher bond yields in the GCC). The majority of QIC's investment book is made up of fixed income products 59% of total vs. 44% the year before (Exhibit 42), with investment returns sitting at 3.0% in FY 17 vs. 3.2% in FY 18e.

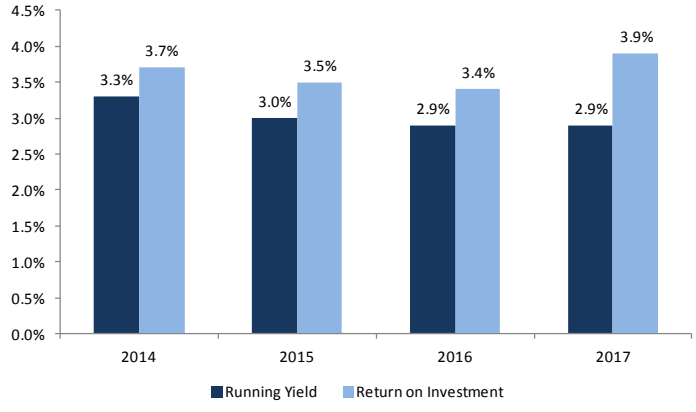
However, every additional 1% interest rate increase will result in an equity loss of QAR 348.4m or 4.3% of shareholders equity of which only 1% or QAR 81m will hit the income statement, with the rest impacting comprehensive income.

Exhibit 42: Investment book leaning towards fixed income products now comprising 59.0% of total with equities at 7.0% vs. YE 15 at 23.0% (including short term borrowing against fixed income securities)



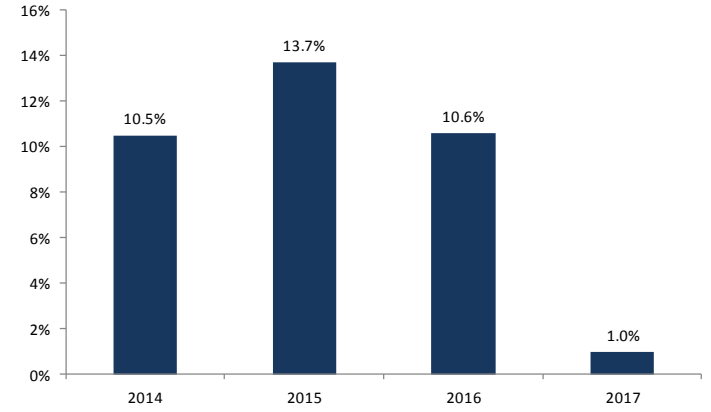
Source: Company Data, Arqaam Capital Research

Exhibit 43: Swiss Re Investment book returns similar to QIC



Source: Company Data, Arqaam Capital Research

Exhibit 44: Swiss Re Returns declining on NatCat claims in FY 17



Source: Company Data, Arqaam Capital Research

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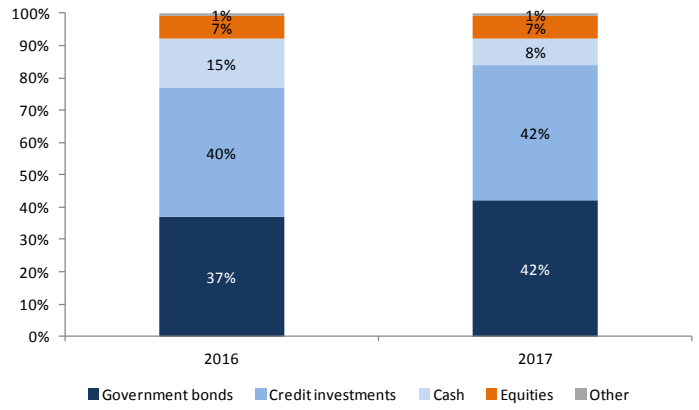
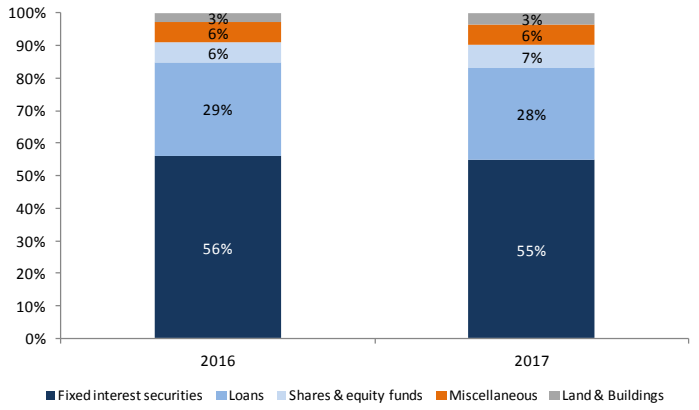
Exhibit 45: Swiss Re Investment book composition geared towards fixed income



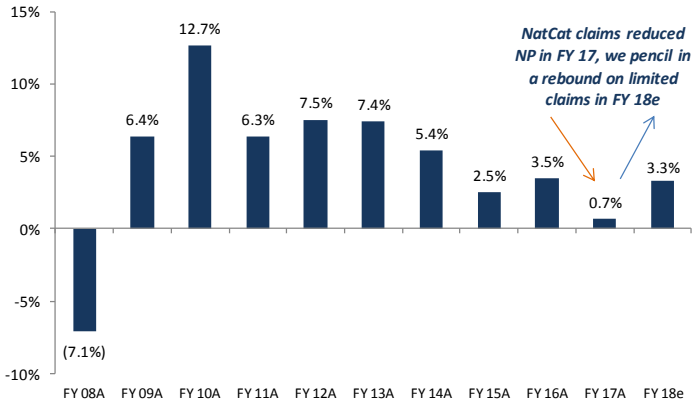
Source: Company Data, Arqaam Capital Research

Exhibit 46: Munich Re Investment book composition



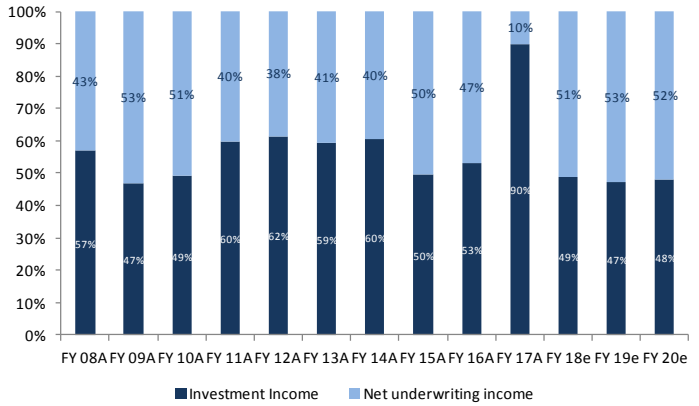
Source: Company Data, Arqaam Capital Research

Exhibit 47: RoA evolution over time



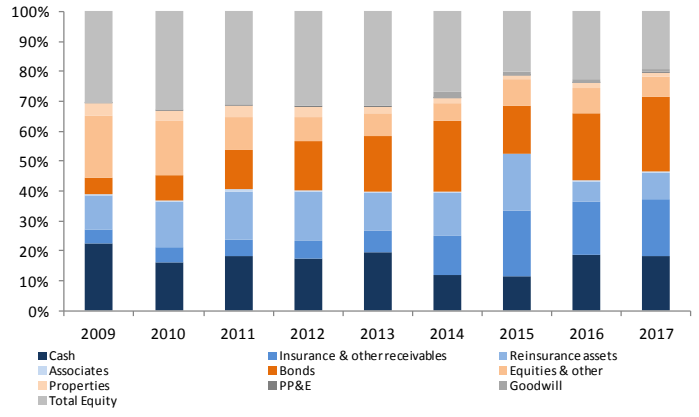
Source: Company Data, Arqaam Capital Research

Exhibit 48: Investment income vs. Underwriting income



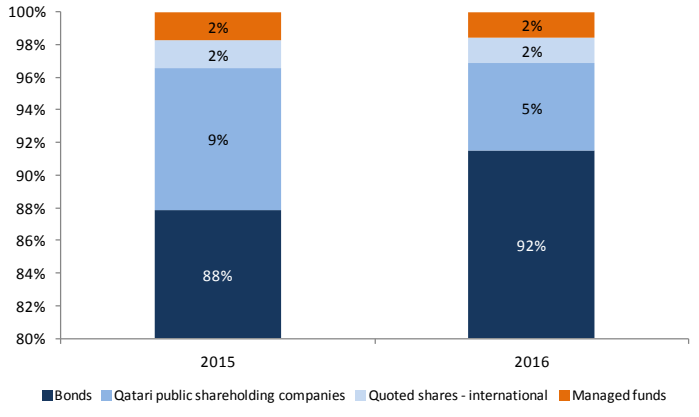
Source: Company Data, Arqaam Capital Research

Exhibit 49: QIC Investment portfolio evolution over time – de-risked with a lower equity exposure



Source: Company Data, Arqaam Capital Research

Exhibit 50: Qatar Re Investment portfolio evolution over time – being de-risked with a lower equity exposure



Source: Company Data, Arqaam Capital Research

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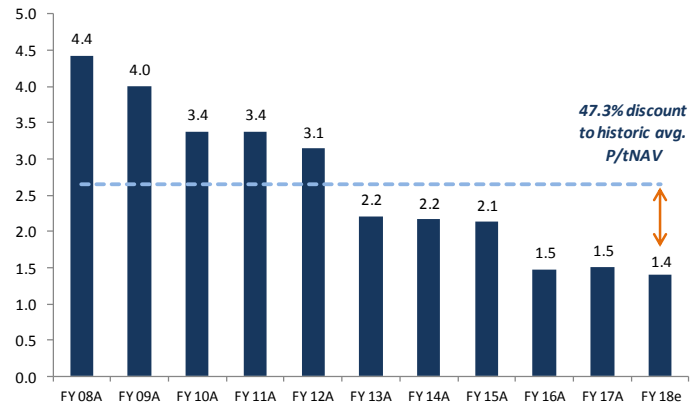
Valuation has become very attractive on index flows and its annus horribilis

- **Stock has de-rated 37% in the past 12M, oversold on FTSE EM exclusion (42 days of trading, however, it is still included in MSCI EM), and on very poor FY 17A results.**
- **It is now trading at a significant discount P/tNAV 18e of 1.4x and P/E 19e of 7.5x (>50% below historic levels)**

Compelling valuation. Stock has de-rated 37% in the past 12 months and oversold on FTSE EM exclusion, despite still included in MSCI EM, trading at a significant discount P/tNAV 18e at 1.4x and P/E 19e of 7.7x (>50% below history, see exhibit 51).

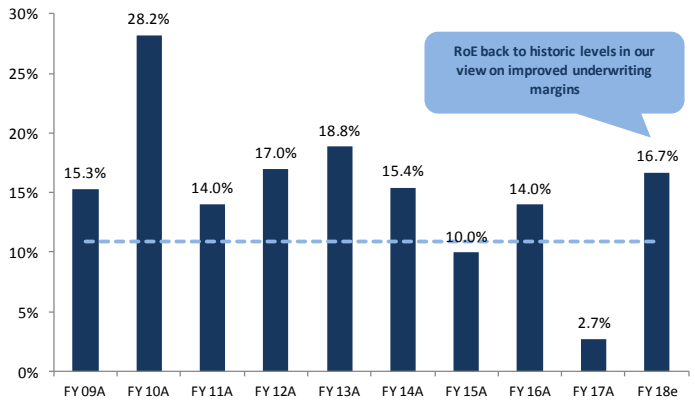
We increase our TP to QAR 51.4 from QAR 43.6, as we raise investment yields and factor in the potential acquisition, offering upside to CMP of 37%.

Exhibit 51: Trading at a 49.1% discount to historic avg. P/tNAV



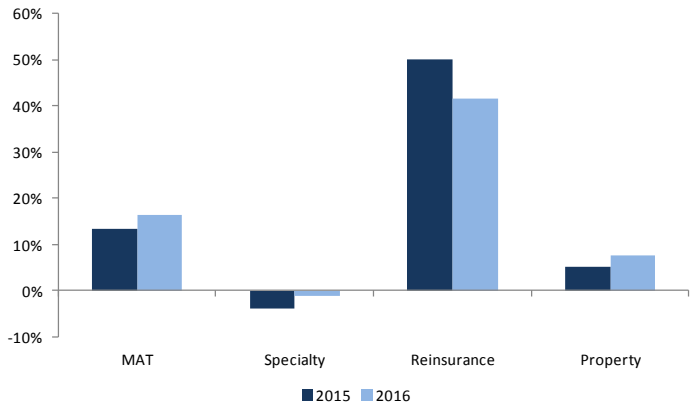
Source: Company Data, Arqaam Capital Research

Exhibit 52: RoE expected to rebound in FY 18e on improving investment income and underwriting margins



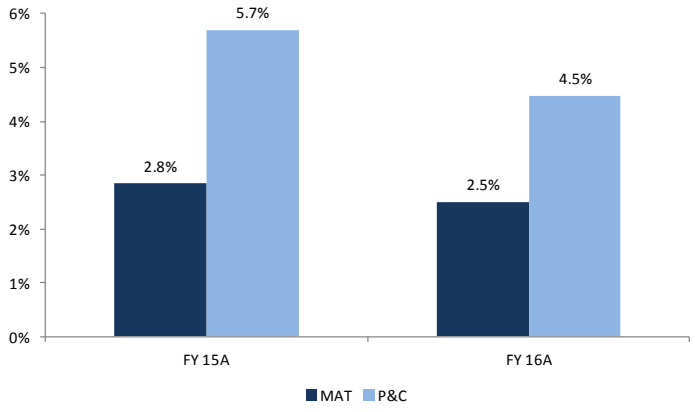
Source: Company Data, Arqaam Capital Research

Exhibit 53: Antares underwriting margin broken down by business line



Source: Company Data, Arqaam Capital Research

Exhibit 54: Qatar Re P&C underwriting margin declining y/y



Source: Company Data, Arqaam Capital Research

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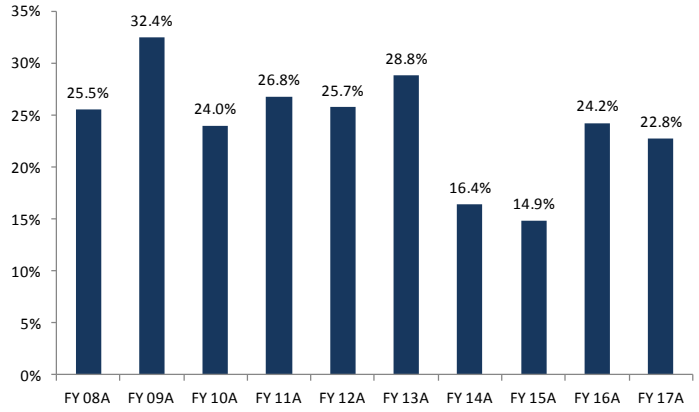
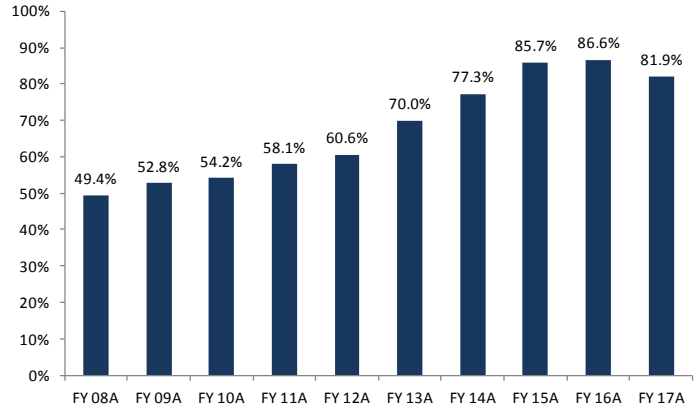
Exhibit 55: Cash as % of total assets



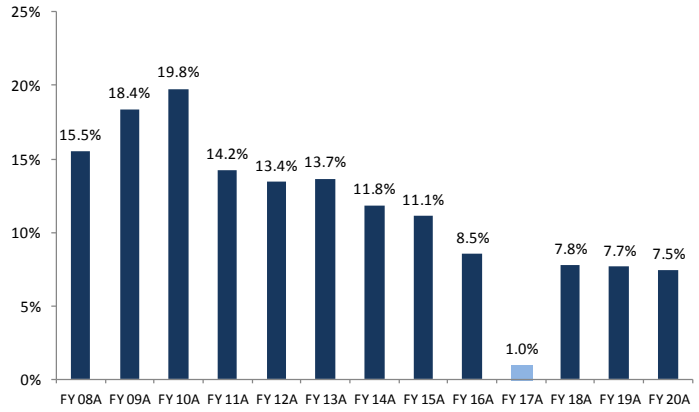
Source: Company Data, Arqaam Capital Research

Exhibit 56: Retention ratio evolution



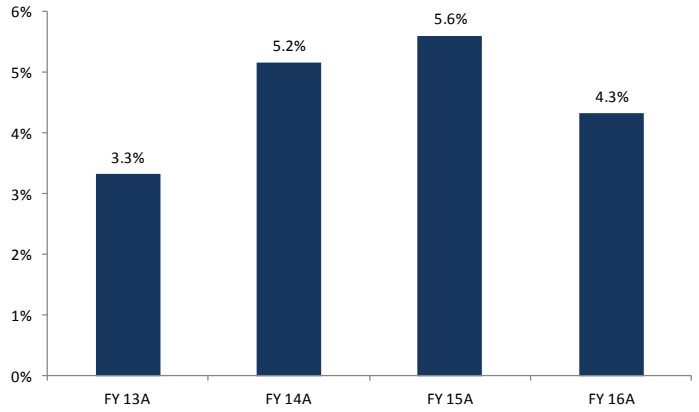
Source: Company Data, Arqaam Capital Research

Exhibit 57: We pencil in a rebound in Underwriting margin in FY 18e, after NatCat claims in FY 17



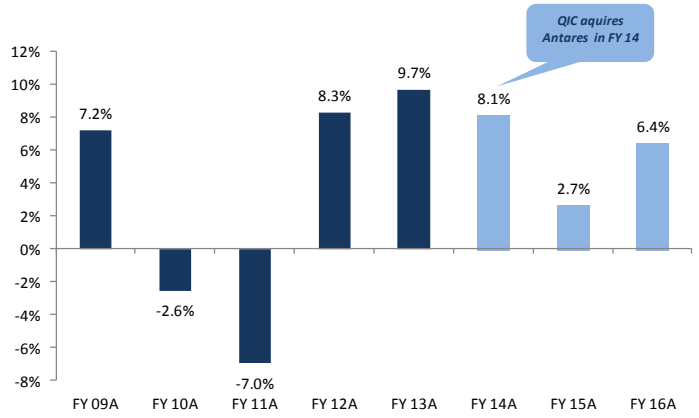
Source: Company Data, Arqaam Capital Research

Exhibit 58: Underwriting margin of Qatar Re. (as of latest filing)



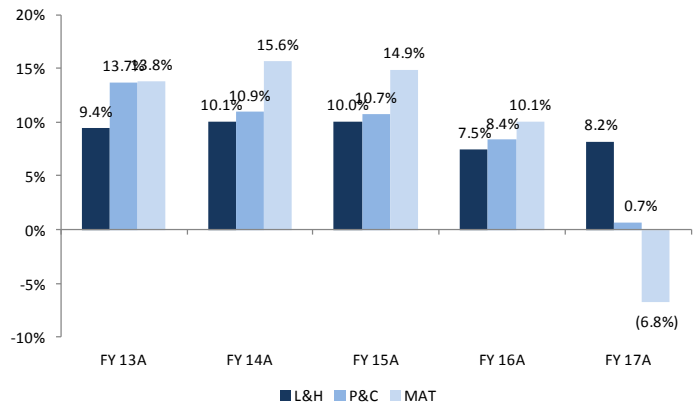
Source: Company Data, Arqaam Capital Research

Exhibit 59: Antares Underwriting margin (as of latest filing)



Source: Company Data, Arqaam Capital Research

Exhibit 60: QIC UM per business line



Source: Company Data, Arqaam Capital Research

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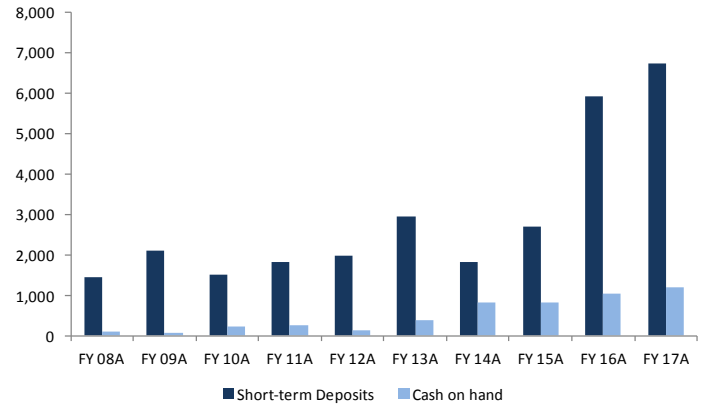
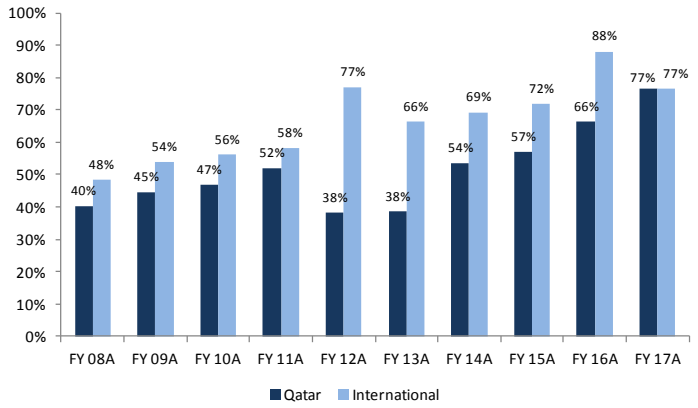
Exhibit 61: Short-term Deposits and Cash evolution, boosting investment income with an average variable rate of 3.1% in FY 17 and 2.9% in FY 16



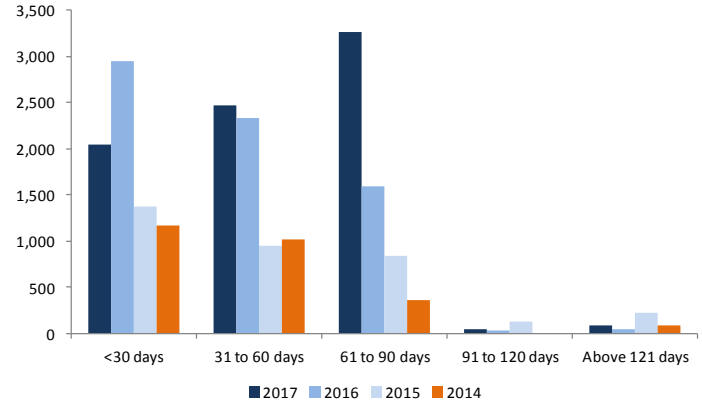
Source: Company Data, Arqaam Capital Research

Exhibit 62: NEP as % of GWP declining for International operations on higher NatCat claims



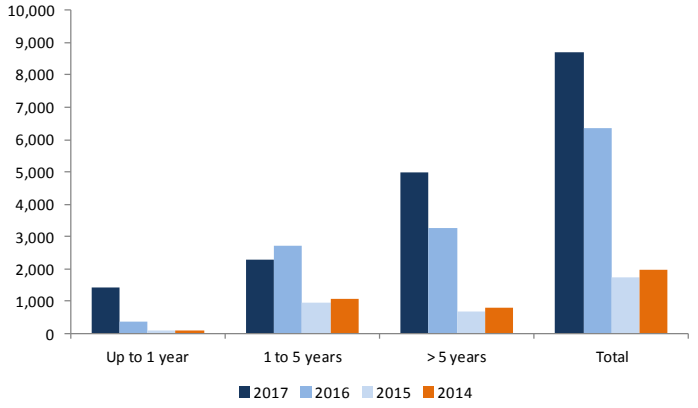
Source: Company Data, Arqaam Capital Research

Exhibit 63: Cash and cash equivalents broken down by arrears



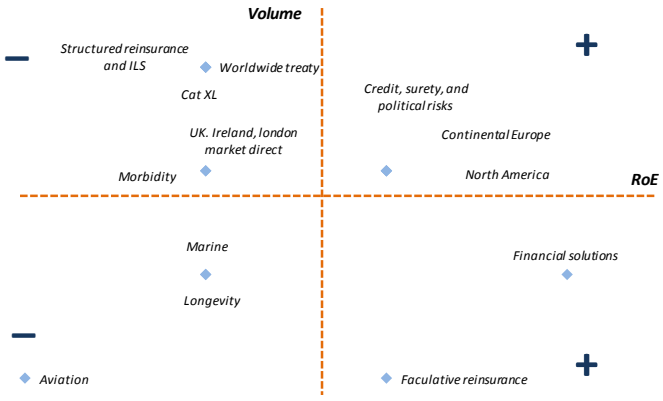
Source: Company Data, Arqaam Capital Research

Exhibit 64: Bonds categorized by maturity



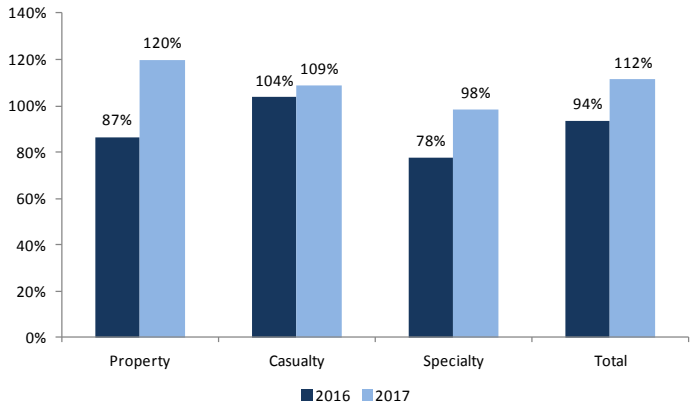
Source: Company Data, Arqaam Capital Research

Exhibit 65: Hannover Re Volume and RoE by category



Source: Company Data, Arqaam Capital Research

Exhibit 66: Swiss Re P&C reinsurance CR breakdown



Source: Company Data, Arqaam Capital Research

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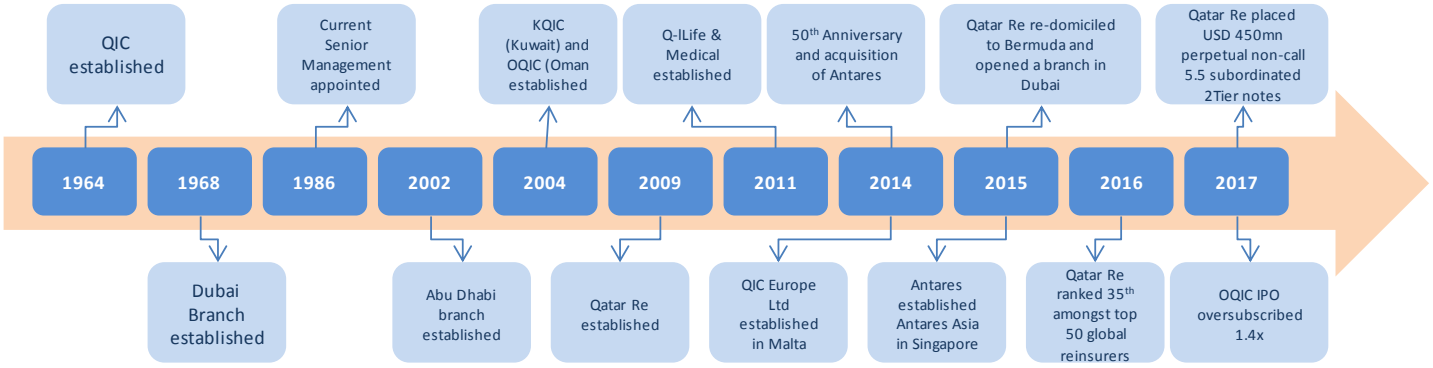
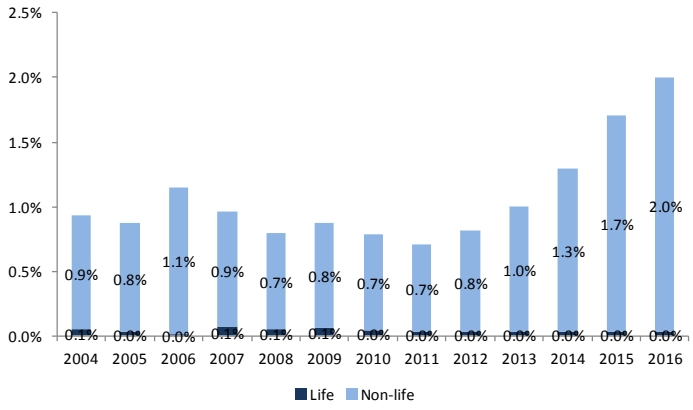
Exhibit 67: Key historical developments since establishment in 1964



Source: Company Data, Arqaam Capital Research

Exhibit 68: Insurance penetration in Qatar improving



Source: Swiss Re Sigma, Arqaam Capital Research

Exhibit 69: Qatar Re ranking improving to 35th globally (USDbn)

Ranking	Reinsurer	GWP	Shareholders Funds
1.	Swiss Re	35.62	35.72
2.	Munich Re	33.15	33.49
3.	Hannover Re	17.23	10.26
4.	SCOR	14.57	7.06
5.	Berkshire Hathaway	12.71	286.36
6.	Lloyd's	11.58	34.10
7.	Reinsurance Group of America	10.11	7.09
8.	China Reinsurance Corp.	7.86	10.38
9.	Great West Lifeco	6.20	13.86
10.	Korean Reinsurance Company	5.55	1.76
11.	Partner Re	5.36	6.69
12.	General Insurance Corporation of I	5.21	7.68
13.	Transatlantic Holdings	4.33	5.20
14.	Everest Re Group	4.25	8.08
15.	XL Group	4.24	12.96
….			
35.	Qatar Re	1.25	772.00

Source: Am Best, Arqaam Capital Research

Exhibit 70: QIC vs. Developed market and Emerging markets peers

	Mrkt Cap USDbn	P/E (x)			P/B (x)			RoE (%)			Div Yield (%)		
		2016	2017	2018e	2016	2017	2018e	2016	2017	2018e	2016	2017	2018e
Developed markets													
AIG	47.9	22.2	24.9	21.8	0.9	0.8	0.7	-1.0%	-8.6%	7.4%	2.0%	2.2%	2.4%
Allianz	99.1	10.3	12.6	10.6	1.1	1.3	1.2	10.7%	10.3%	11.3%	4.7%	4.0%	4.4%
AXA	64.3	9.7	9.9	8.2	0.9	0.9	0.7	8.7%	8.8%	8.8%	4.6%	4.7%	5.9%
Swiss Re	35.1	8.9	91.0	11.3	0.9	0.9	0.9	10.6%	1.0%	8.3%	4.8%	5.3%	5.2%
Munich Re	35.8	11.1	74.1	11.4	0.9	1.0	1.0	8.3%	1.3%	8.8%	4.6%	4.8%	4.6%
Hannover Re	16.4	10.6	13.2	12.4	1.4	1.5	1.5	13.7%	10.9%	12.0%	3.2%	3.3%	3.2%
Berkshire Hathaway	481.8	22.8	35.0	34.5	1.4	1.4	1.3	9.0%	14.3%	5.9%	N/A	N/A	N/A
MSCI DM Insurance	1,590.0	14.76	17.75	11.71	1.13	1.32	1.17	7.71	7.24	10.94	3.09	2.93	3.4
Emerging markets													
XL Group	14.2	24.4	23.16	14.72	0.91	0.91	1.33	3.9%	-5.4%	9.3%	2.2%	2.5%	1.6%
PZU	10.6	14.8	12.5	11.6	2.2	2.5	2.3	14.9%	21.1%	21.8%	6.3%	3.3%	3.3%
Argo Group International	1.6	16.1	90.0	16.6	1.1	1.0	1.0	8.5%	2.8%	6.4%	1.3%	1.8%	1.9%
Bangkok Insurance	1.2	15.1	15.9	16.0	1.1	1.1	1.1	7.2%	7.0%	7.0%	3.7%	3.9%	3.9%
MSCI EM Insurance	189.8	12.6	14.3	11.0	1.2	1.6	1.3	9.6%	10.8%	14.1%	2.3%	1.7%	2.8%
QIC	**3.3**	**11.8**	**52.6**	**9.6**	**1.4**	**1.4**	**1.3**	**14.0%**	**2.7%**	**14.5%**	**3.0%**	**3.5%**	**4.7%**

Source: Bloomberg, Company Data, Arqaam Capital Research

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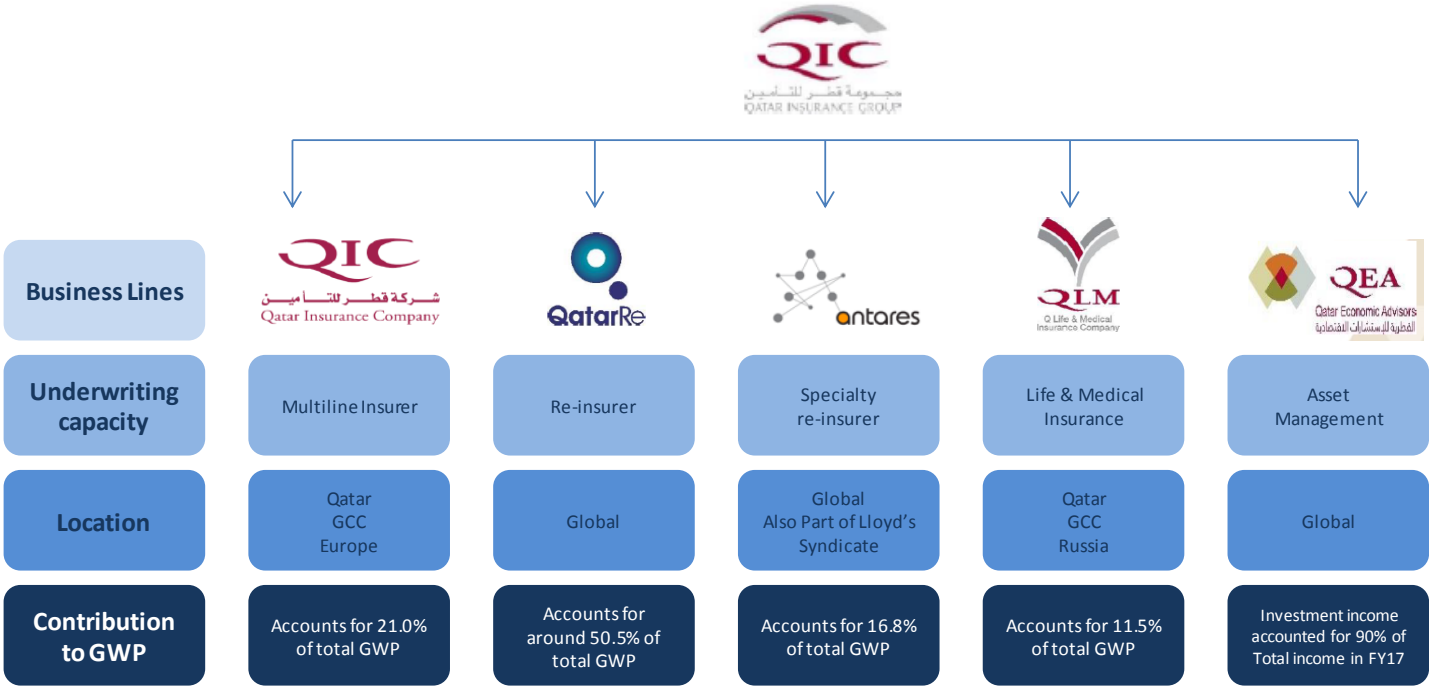
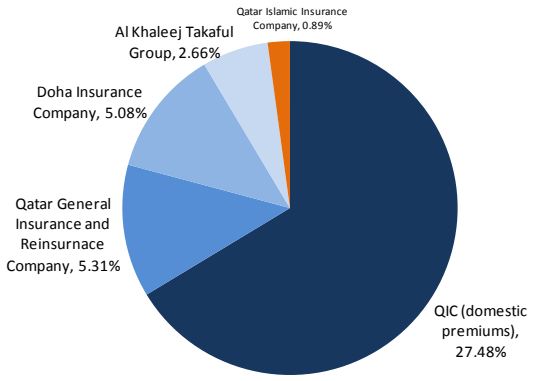
Exhibit 71: QIC Group Structure



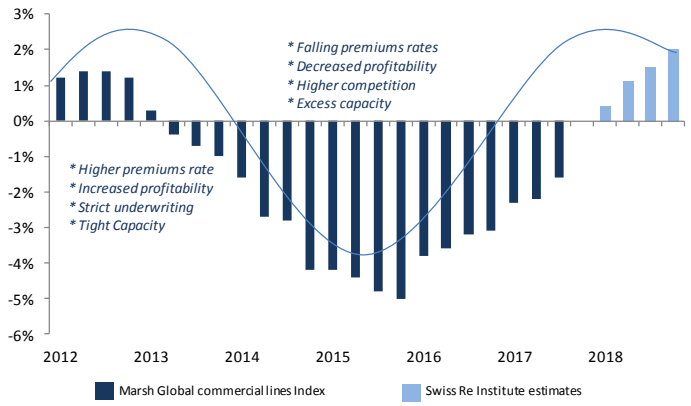
Source: Company Data, Arqaam Capital Research

Exhibit 72: Breakdown of top 5 insurers in Qatar, QIC ahead of peers at 27.5% of total Qatari GWP's



Source: Swiss Re Sigma, Arqaam Capital Research

Exhibit 73: Global Composite renewal rate changes



Source: Marsh Global Commercial lines Index, Arqaam Capital Research

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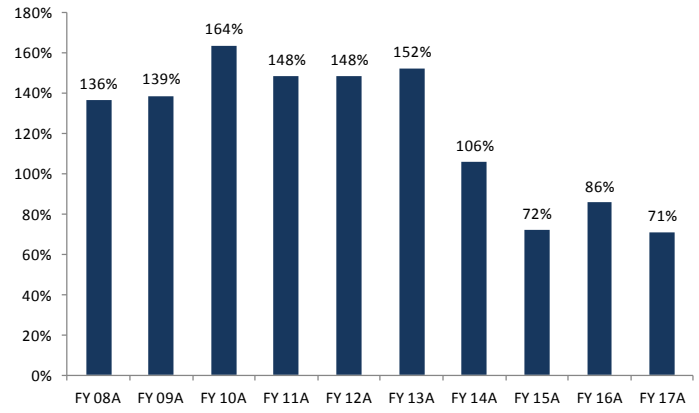
Strong capital position despite NatCat losses

- **QIC maintains its strong capital position despite NatCat losses in FY 17, with equity as % of total GWP sitting at 71% in FY 17A.**
- **Debt as % of GWP peaked in FY 17 due to issuance of USD 450m Tier II perpetual debt, which could be used for the Markerstudy acquisition.**
- **We estimate QIC's solvency at 200%, in line with its single A credit rating.**

QIC successfully conducted 2 rights issues, one in FY 13 and another in FY 16, both raising a total of USD 376.0m for the group at a ratio of 1:5 shares. Offer prices differed between the 2 issues, with the FY 13 taking place at QAR 45/share and that of FY 16 at QAR 50/share.

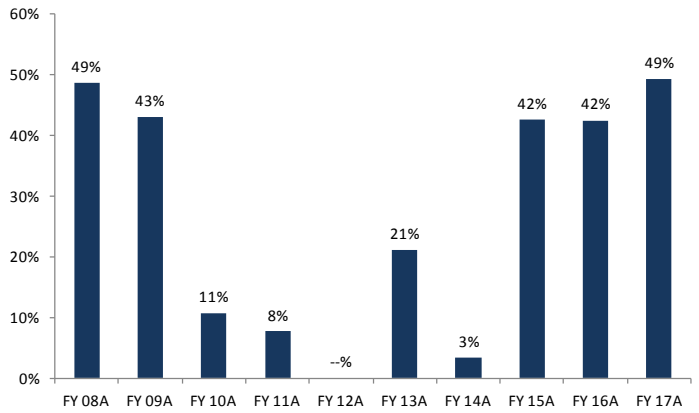
Tier 2 perpetual bond issuance of USD 450m in FY 17 to boost solvency ratios, and we think it could be used to fund the recently announced acquisition of Markerstudy. QIC also saved QAR 178m by cutting its dividends by 40% y/y to QAR 1.5/share (same in FY 17) in FY 16A.

Exhibit 74: Total Equity as % of GWPs



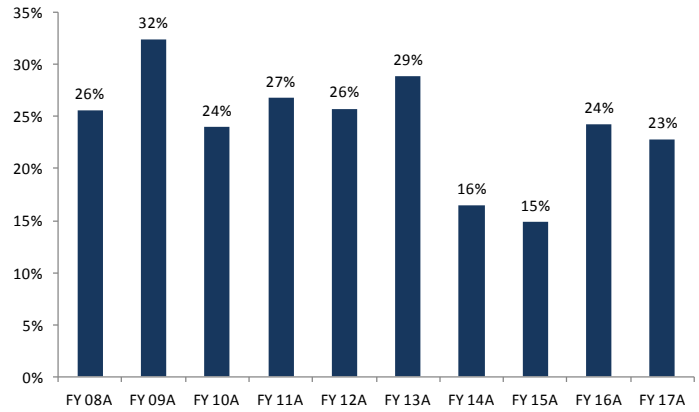
Source: Company Data, Arqaam Capital Research

Exhibit 75: Debt as % SHE



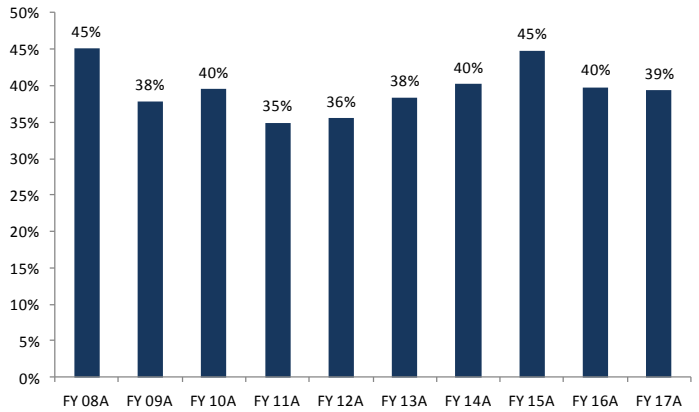
Source: Company Data, Arqaam Capital Research

Exhibit 76: Cash as % of Total Assets



Source: Company Data, Arqaam Capital Research

Exhibit 77: Investments as % of total assets



Source: Company Data, Arqaam Capital Research

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Reinsurance contribution to fall below 50% after M&A

Qatar Re and Antares contribute 54.7% and 18.2% of top line as of FY 17 respectively, but likely to fall to 47% on full consolidation of Markerstudy. Reinsurance underwriting margin hovers around 4.6-5.7% on average, with Antares contributing the majority in FY 16 on limited NLR, boosting profitability during the period, although total reinsurance underwriting margins add 36.4% to bottom line based on our calculations below.

Exhibit 78: Analysis of Insurance vs. Reinsurance business lines

QAR m	FY 11A	FY 12A	FY 13A	FY 14A	FY 15A	FY 16A	FY 17A
Top Line Analysis							
Gross Written Premiums	2,383	2,559	3,532	5,614	8,347	9,901	11,659
Qatar Re	--	--	1,225	1,951	4,209	4,917	6,383*
Antares	--	--	--	1,505	1,456	1,796	2,124*
Reinsurance Total	--	--	1,225	3,456	5,665	6,713	8,507*
% of Topline							
Insurance	100.0%	100.0%	65.3%	38.4%	32.1%	32.2%	27.0%*
Reinsurance	--%	--%	34.7%	61.6%	67.9%	67.8%	73.0%*
NEP Analysis	**FY 11A**	**FY 12A**	**FY 13A**	**FY 14A**	**FY 15A**	**FY 16A**	**FY 17A**
Net Premiums Earned	1,321	1,495	1,974	3,678	5,787	8,360	8,929
Qatar Re	--	--	375	492	892	1,279	N/A
Antares	--	--	--	1,242	1,224	1,359	N/A
Reinsurance Total	--	--	375	1,734	2,115	2,637	N/A
% of NEP							
Insurance	100.0%	100.0%	81.0%	52.9%	63.4%	68.5%	N/A
Reinsurance	--%	--%	19.0%	47.1%	36.6%	31.5%	N/A
Claims Analysis	**FY 11A**	**FY 12A**	**FY 13A**	**FY 14A**	**FY 15A**	**FY 16A**	**FY 17A**
Net Claims Incurred	(859)	(1,021)	(1,280)	(2,407)	(3,872)	(5,769)	(7,075)
Qatar Re	--	--	(306)	(414)	(603)	(932)	N/A
Antares	--	--	--	(706)	(769)	(818)	N/A
Reinsurance Total	--	--	(306)	(1,121)	(1,372)	(1,750)	N/A
% of Net Claims							
Insurance	100.0%	100.0%	76.1%	53.4%	64.6%	69.7%	N/A
Reinsurance	--%	--%	23.9%	46.6%	35.4%	30.3%	N/A
Bottom Line Analysis	**FY 11A**	**FY 12A**	**FY 13A**	**FY 14A**	**FY 15A**	**FY 16A**	**FY 17A**
Net underwriting result	338	343	483	664	926	844	115
Qatar Re	--	--	41	101	236	197	N/A
Antares	--	--	--	120	36	110	N/A
Reinsurance Total	--	--	41	221	272	307	N/A
% of Bottom Line							
Insurance	100.0%	100.0%	91.6%	66.8%	70.7%	63.6%	N/A
Reinsurance	--%	--%	8.4%	33.2%	29.3%	36.4%	N/A
Investment Income Analysis	**FY 11A**	**FY 12A**	**FY 13A**	**FY 14A**	**FY 15A**	**FY 16A**	**FY 17A**
Investment Income	845	892	1,191	1,679	1,837	1,795	1,153
Qatar Re	--	--	72	100	39	119	N/A
Antares	--	--	--	(2)	(3)	3	N/A
Reinsurance Total	--	--	72	97	36	122	N/A
% of Bottom Line							
Insurance	100.0%	100.0%	94.0%	94.2%	98.0%	93.2%	N/A
Reinsurance	--%	--%	6.0%	5.8%	2.0%	6.8%	N/A

** provisional numbers based on FY 17 investor presentation*

Source: Company Data, Arqaam Capital Research

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Exhibit 79: QIC EVA Valuation (QAR m)

	2016A	2017A	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e	perp	subtotal	% of total
1 DCF													
Net profit	1,010	227	1,245	1,397	1,623	1,798	2,082	2,296	2,542	3,041	3,162		
Other adjustments	--	--	--	--	--	--	--	--	--	--			
Minus: excess return excess capital	0	(37)	(34)	(44)	(44)	(55)	(66)	(79)	(93)	(109)	(113)		
Return on excess capital	3.5%	3.5%	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%	0.0%	0.0%		
Adjusted net profit	1,009	264	1,278	1,441	1,667	1,853	2,148	2,375	2,635	3,150	3,276		
Capital requirements	7,415	8,012	8,693	9,691	10,487	11,705	13,058	14,556	16,213	18,146	18,872		
RoEcC	13.6%	3.3%	14.7%	14.9%	15.9%	15.8%	16.4%	16.3%	16.3%	17.4%	17.4%		
Cost of capital	11.8%	11.8%	11.8%	11.8%	11.8%	11.8%	11.8%	11.8%	11.8%	11.8%	11.8%		
Capital charge	878	949	1,029	1,147	1,242	1,386	1,546	1,723	1,920	2,148	2,234		
Economic profit	131	(685)	249	294	425	467	602	652	715	1,001	1,041		
Discount factor	0.00	0.00	1.00	0.89	0.80	0.71	0.64	0.57	0.51	0.46	0.41		
NPV of Economic Profit	--	--	249	263	340	334	385	372	366	458	1,041		
DCF EVA Forecast period												2,766	
Perpetual growth rate (GDP)											4.0%		
Terminal Value											13,286		
Terminal value discounted												5,428	
Required Capital												8,693	
Value of the insurance operations												**16,887**	**103.3%**
2 Capital surplus/deficit													
Available capital:													
Shareholders equity	8,468	8,274	8,930	9,669	10,531	11,489	12,597	13,823	15,182	16,805			
Less Goodwill & intangibles	1,039	1,317	1,194	1,244	1,295	1,348	1,419	1,520	1,635	1,777			
Less dividends	--	--	--	--	--	--	--	--	--	--			
Tangible equity	7,429	6,957	7,736	8,425	9,236	10,141	11,178	12,303	13,547	15,028			
Capital needs													
Net Written Premium (NWP)	8,578	9,550	12,173	14,113	15,558	17,153	18,914	20,858	23,004	25,644			
Claims reserves	6,851	8,571	10,173	12,060	14,155	16,480	19,060	21,922	25,099	28,623			
Equity investments	5,212	4,878	3,710	3,465	3,035	3,233	3,463	3,717	3,999	4,334			
Investment properties	576	586	579	572	546	517	489	462	436	411			
Associates	139	143	153	164	174	185	196	207	218	229			
Equity as % NWP	32.0%	32.0%	32.0%	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%	26.0%	26.0%			
Equity as % of investments	50.0%	50.0%	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%	25.0%	25.0%			
Equity as % of associates	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%			
Capital Requirements	7,415	8,012	8,693	9,691	10,487	11,705	13,058	14,556	16,213	18,146			
Surplus capital	**14**	**(1,056)**	**(957)**	**(1,266)**	**(1,251)**	**(1,565)**	**(1,880)**	**(2,253)**	**(2,666)**	**(3,118)**		**(957)**	**-5.9%**
3 Other adjustments													
Investment properties													
Total adjustments	--	--	--	--	--	--	--	--	--	--		**--**	**0.0%**
4. Dividends												413	**2.5%**
Total Fair Value YE 2011												**16,344**	
Number of shares												318	
Fully diluted number of shares												318	
Fair value per share												**51.4**	
Current share price												37.5	
Upside												**37.2%**	

Source: Company Data, Arqaam Capital Research

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