Earnings Review

April 26 2018

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Qatar Insurance

Recovery underway with improved profitability and strong top line growth

- **Strong top line growth in Q1 18 with GWP up by +32.0% q/q and +14.9% y/y, with QIC focusing on expanding in lower risk business segments like motor.**
- **CRs recovering on a like-for-like basis, excluding reserving, to 98.5% in Q1 18, although worsening to 101.8% including the additional reserving on discontinued segments for the period.**
- **Net income up +2.0x q/q although decreasing by -23.7% y/y, whilst comprehensive income declined on MtM losses on bond portfolio (2% of total bond portfolio).**
- **Attractive valuations with the stock trading at a P/tNAV 18e of 1.4x, P/E 19e of 8.2x and RoE 18e of 14.4%.**

Strong GWP growth on focus on lower risk segments in Q1 18. GWP grew by +32.0% q/q and +14.9% y/y, with QIC focusing on lower risk lines such as motor insurance. This should further improve by the acquisition of Markerstudy's, still subject to regulatory approvals, bolstering QIC's lower risk motor book given Markerstudy enjoys >5% of market share in the UK motor market.

Combined ratios slightly worsening in Q1 18, including reserving on discontinued operations. CR reached 101.8% in Q1 18 on the back of higher expense ratio of 31.8%, and additional reserving on discontinued segments, (amounting to a one-off of 3.1% of NEP, or QAR 89.3m in Q1 18). However, combined ratio improved to 98.5% in Q1 18 from 100.3% in Q4 17 and 99.8% in Q1 17, excluding the reserving on discontinued operations. Expense ratio worsened due to a surge in commissions, up by +46.2% q/q and +81.2% y/y. We estimate this is part of QIC's lower risk strategy focusing on motor insurance. Loss ratio improved by -1.64ppt driven by lower gross claims paid -11.8% q/q although higher +18.0% y/y. We expect combined ratio to improve to 97.3% in FY 18e after peaking at 106.4% in 2017, driven mainly by i) lower NatCat losses, ii) hardening reinsurance market (pricing +2%) and iii) change in business mix (+0.9%).

Underwriting income lower on higher commissions in Q1 18. Underwriting income has declined by -47.1% q/q and -35.8% y/y, due to increasing net claims and commissions, up by +9.9% q/q, +53.8% y/y and +46.2%, +81.2% y/y, respectively. We pencil in lower gross claims throughout the year with the downward trend persisting in the coming periods, after already declining by -11.8% q/q. Investment income now makes up 71.7% of total income vs. 28.2% from underwriting income, with investment income increasing +59.5% q/q, on higher interest rates, given 59% of QIC's investment book was made up of fixed income at the end of 2017. However, comprehensive income declined -51.7% q/q and -67.5% y/y, on MtM losses from QIC's bond portfolio. Strong investment income helped improve profitability, leading to earnings growth of +2.0x q/q although lower y/y on higher claims during the period.

Attractive valuation with the stock de-rating 37% in the past 12M on FTSE EM exclusion(42 days of trading, still included in MSCI EM), and trading at a significant discount to historical levels with P/tNAV 18e of 1.4x, P/E 18e of

BUY **QAR 51.4**

Insurance / Qatar

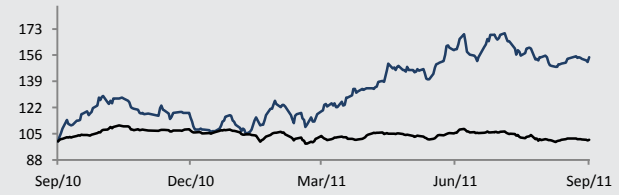
Bloomberg code	QATI QD
Market index	Qatar
Target Price	51.4
Upside (%)	41.5

Market data 24/04/2018

Last closing price	36.3
52 Week range	32.1-63.5
Market cap (QAR m)	11,579
Market cap (USD m)	3,163
Average Daily Traded Value (QAR m)	11.5
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)	50.9	9.3	8.3	7.1
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	1.2	1.1
DPS	1.3	1.8	2.0	2.3
Div. yield (%)	3.6	4.9	5.4	6.3
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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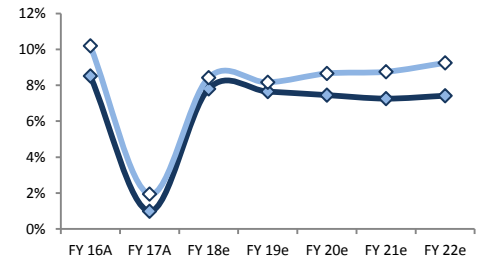
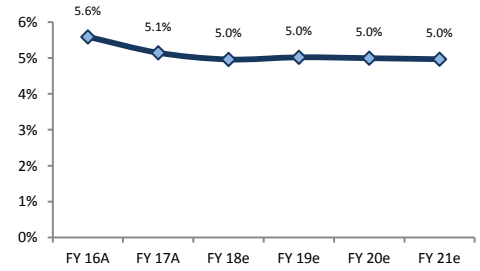
Abacus *Arqaam Capital Fundamental Data*

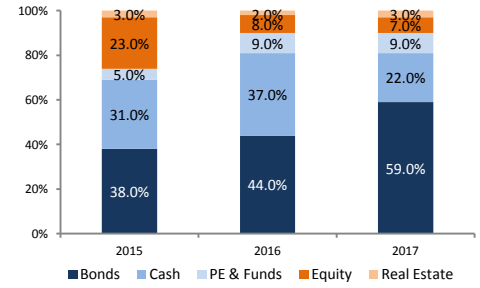
Profitability



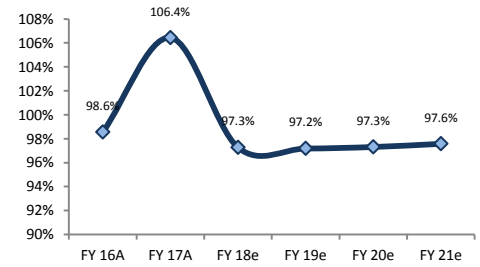
Investment Yield



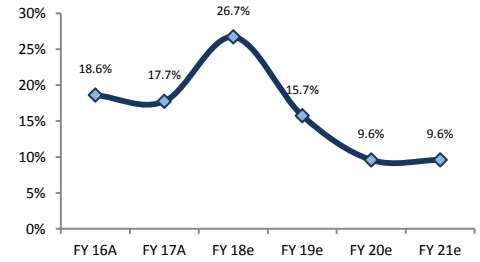
Investment Exposure



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)	11.4	50.9	9.3	8.3	7.1	6.4
P/E(x) (target price)	16.2	72.1	13.1	11.7	10.1	9.1

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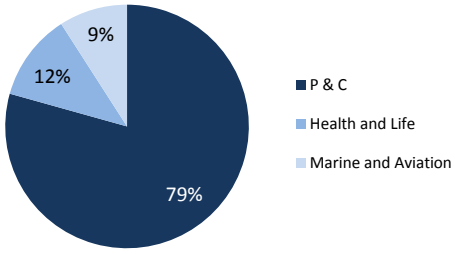
Abacus *Arqaam Capital Fundamental Data*

Investment thesis

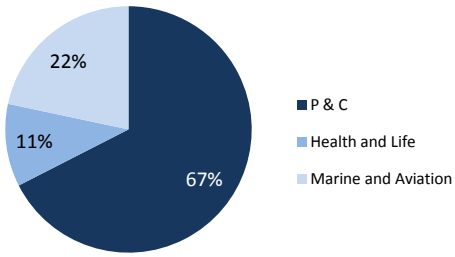
QIC invests (re)insurance premiums into its Asset Management business supporting overall RoE. However, as it grows, we expect it to start transforming into a diversified insurance company with a two-tier growth strategy across the insurance and reinsurance businesses.

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.

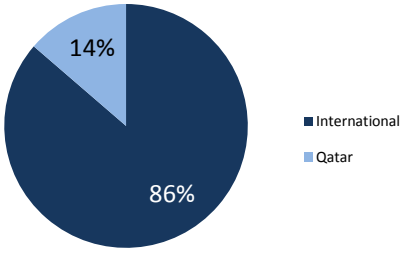
GWP Breakdown by business line:



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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Exhibit 1: QIC Valuation (QARm)

	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												36.3	
Upside												**41.5%**	

Source: Company Data, Arqaam Capital Research

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