Company Update

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Qatar Insurance Company

Pressure on underwriting margins and large investment losses in Q1

- **Q1 OCI loss spiraled to QAR 942m (losing 11% of NAV during Q1), on a surge in OCR provisioning (QAR 240m), and impairments on both its equity book (QAR 165m) and FI portfolio (QAR 770m), the latter via the OCI income statement.**
- **Capital remains sound with solvency at 181% at YE 19A (170% post DPS). But near-term outlook remains exposed to potential business interruption (BI) claims, as several US states have introduced bills to force insurers to cover claims, which on their turn will try to enforce recoveries from reinsurers.**
- **We maintain Hold, trading at P/tNAV 20e of 0.9x, despite low valuation in historical context and relative to peers.**

Losses in Q1 20A increased to QAR 942m, a record. Combined ratio increased to 107.8% (+7.2ppts y/y), as OCR provisioning increased to 8.7% of NCI vs. -3.6% in Q1 19A due to the looming threat of legislation to reverse BI exclusions. Further, QATI's equity portfolio (QAR 1.1bn) was down by 14% in Q1 (vs. -20% for DSM), driving losses of QAR 165m, and derailing investment income by -90% y/y. Finally, as credit spreads widened on its fixed income book, resulting in OCI losses of QAR 770m on its fixed income portfolio.

Fixing underwriting profitability to hamper GWP growth. We pencil in a FY 19-24e GWP CAGR of 3.4%, supported by growth in the regional markets (5.9% CAGR), and modest growth in the international markets (3.0% CAGR), primarily as its acquisition driven growth model comes to an end *(for now)*. QATI is challenged by the newly acquired Markerstudy group (QAR 2.7bn of GWPs, c.35% of Qatar Re's GWPs), through repricing, which should reduce its market share by 1ppt to 4% by FY 23e on our forecasts as c.83% of UK motor customer market is price driven (FCA pg.43, *link*) – reducing Qatar Re's GWP growth to 1% in FY 20e from 15% last year. However, digital transformation is now paying-off, as B2C portal sales increase by 3x (or to 35% of its MENA portfolio).

US (re)insurers face an existential threat from potential BI claims. Following the SARS outbreak in FY 02-03A, and the damage it had inflicted on insurers' capital, The Insurance Service Office (ISO) updated the Standard BI policies for virus exclusions. Nonetheless, seven US states have filed bills that would require insurers to pay for BI coverage and nullify their exclusion clause. QATI received c.100 claims for BI coverage from its European franchise in Q1, albeit increased its OCR provisioning accordingly to QAR 240m. Nonetheless, Qatar Re has expanded its footprint in the *'North American Property"* market to 11.1% of GWPs in FY 18A from 3.7% in FY 16A, while an adverse court ruling in the US could set a dangerous precedent for European regulators. As such, we increase our OCR provisioning to 10.5% of NCI from -4.3% in FY 19A, as we expect i) higher frequency (and severity) of BI claims, and ii) a prolonged litigation process.

Lower interest rate environment and higher short tail tilt reduce investment yields. De-risking initiatives have reduced QATI's NATCAT exposure to <5% of GWPs, and redeployed capital into shorter tail motor contracts – Motor share of GWPs increased by 10ppts since FY 16A to 48%. Concomitantly, QATI's asset allocation has changed, resulting in a higher allocation to bonds and funds (56% vs. 44% in FY 15A). As such, we expect yields to fall to 2.6% through FY 21e, but to gradually recover to 3% by FY 24e, as dividend income normalizes. That said, we expect QATI to reverse some of its OCI impairments in Q2, as US corporate bonds have already recovered by c.13% from their March lows, and European bonds have already recovered c.2.1% from their March lows.

Strong de-rating of the stock justified. QATI's premium valuation has now reversed, as market begins to discount the low underwriting profitability over growth**.** QATI has been trading at a rich premium of 37% and 11% to US and EU peers, based on average P/tNAV 14-19A. Partially explained by its above average RoE (11% vs. 9% for US peers) and higher growth, as QATI was sheltered from recent white swan events: i) the increased Ogden rates in FY 17A (1.6% contribution to NLR) and ii) Japanese typhoons in FY 19A (1.7% contribution to NLR). We maintain our Hold, as we monitor its near-term profitability under the current black swan event, coupled with the impact from the MSCI index downgrade to the Small Cap index this review, having consistently failed the free float market cap cutoff criteria with c.USD 62m in net outflows (c.63 days). MSCI May review changes will be effectives as of the open of June 1.

HOLD QAR 2.2

Insurance / Qatar

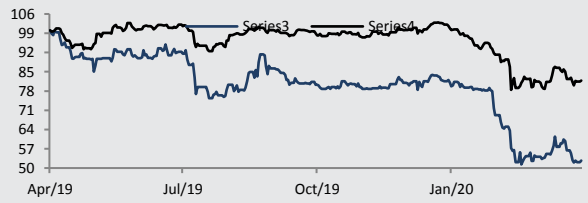
Bloomberg code	QATI QD
Market index	Qatar
Target Price	2.2
Upside (%)	8.2

Market data 5/17/2020

Last closing price	2.0
52 Week range	1.9-3.7
Market cap (QAR m)	6,584
Market cap (USD m)	1,797
Average Daily Traded Value (QAR m)	4.0
Average Daily Traded Value (USD m)	1.1
Free float (%)	95%

Year-end (local m)	2019	2020e	2021e	2022e
Gross Written Premiums	12,843	13,067	13,451	13,921
Underwriting Profit	355	(57)	101	659
EPS	0.20	(0.01)	0.06	0.28
P/E (x) (market price)	5.5	(28.7)	31.4	7.3
BVPS	2.64	2.58	2.63	2.86
Tangible BVPS	2.64	2.58	2.63	2.86
P/B (x) (market price)	0.8	0.8	0.8	0.7
P/TBVPS (x) (market price)	0.8	0.9	0.8	0.8
DPS	0.2	-	-	0.1
Div. yield (%)	7.4	0.2	1.0	2.5
RoAA (%)	3.1	(0.5)	0.5	2.4
RoAE (%)	14.6	(2.7)	2.5	10.3
Investments/Assets (%)	57.0	48.7	52.9	58.0
Investment Yield (%)	3.7	2.6	2.8	3.0
Net Loss Ratio	70.2	74.7	73.6	69.4
Combined Ratio	103.7	107.1	105.9	101.2
Underwriting Profit Margin	2.8	(0.5)	0.7	4.7
Net Profit Margin	9.4	(1.8)	1.6	6.6
Policy Reserves/Equity	242.5	290.5	268.2	227.1

Price Performance



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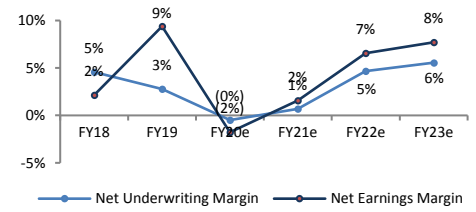
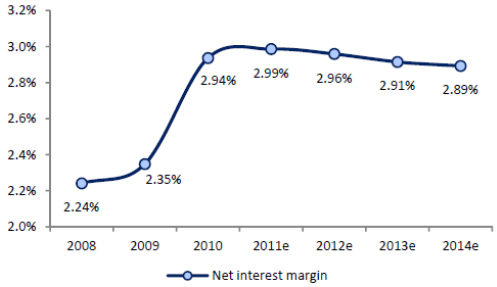
Abacus *Arqaam Capital Fundamental Data*

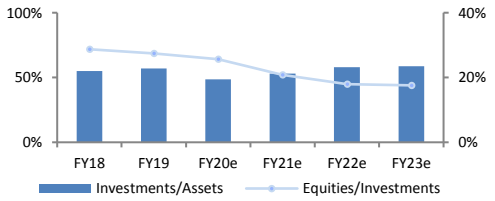
Profitability



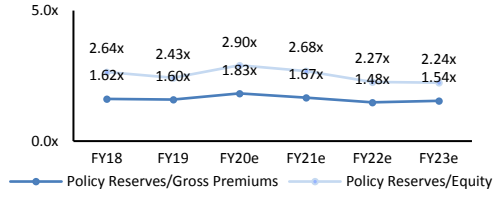
Investment Yield



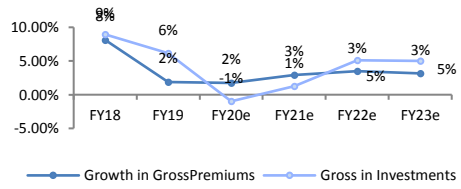
Investment Exposure



Solvency ratios & reserve adequacy



Growth



Qatar Insurance Company

Year-end	2018	2019	2020e	2021e	2022e	2023e
Performance analysis						
Cession Ratio	14.3	13.6	13.1	13.3	13.4	13.4
Net Loss Ratio	69.3	70.2	74.7	73.6	69.4	69.3
Expense Ratio	32.5	33.5	32.3	32.3	31.8	30.9
Combined Ratio	101.8	103.7	107.1	105.9	101.2	100.2
Underwriting Profit Margin	4.6	2.8	(0.5)	0.7	4.7	5.6
Investment Yield	3.0	3.7	2.6	2.8	3.0	3.0
Net Margin	2.1	9.4	(1.8)	1.6	6.6	7.7
RoAE	3.3	14.6	(2.7)	2.5	10.3	11.4
RoAA	0.7	3.1	(0.5)	0.5	2.4	2.7
Net Premiums/Equity	1.5	1.3	1.3	1.4	1.3	1.2
Gross Premiums/Equity	1.6	1.5	1.6	1.6	1.5	1.5
Claims Reserve/NPE	1.2	1.1	1.4	1.2	1.0	1.0
Investment Income/Total Income	62.5	77.3	106.9	90.6	62.8	59.2

Year-end Click here to enter text.	2018	2019	2020e	2021e	2022e	2023e
Investment Exposure						
Investments/Assets	54.9	57.0	48.7	52.9	58.0	58.7
Equities/Investments	28.7	27.4	25.7	20.8	17.9	17.6
Equity/Assets (%)	20.4	21.8	19.7	20.5	24.2	24.8

Year-end Click here to enter text.	2018	2019	2020e	2021e	2022e	2023e
Liquidity/Leverage						
Policy Reserves/Gross Premiums	1.6	1.6	1.8	1.7	1.5	1.5
Policy Reserves/Net Earned Premiums	1.3	1.4	1.4	1.4	1.5	1.5
Policy Reserves/Equity	2.6	2.4	2.9	2.7	2.3	2.2
Debt/Capital	0.5	0.4	0.4	0.4	0.3	0.3
Debt/Equity (x)	0.9	0.7	0.8	0.8	0.5	0.4

Year-end Click here to enter text.	2018	2019	2020e	2021e	2022e	2023e
Growth						
Gross Premiums	8.1	1.9	1.7	2.9	3.5	3.2
Net Earned Premiums	27.1	(4.5)	1.8	2.8	3.4	3.1
Investments	8.9	6.1	(1.0)	1.2	5.1	5.0
Assets	12.8	0.6	7.9	(2.2)	(7.7)	5.9
Total Reserves	15.3	0.4	16.5	(6.0)	(7.9)	6.8
Equity	(3.6)	9.4	(2.7)	1.7	8.8	8.4

Year-end Click here to enter text.	2018	2019	2020e	2021e	2022e	2023e
Valuation						
P/B(x) (current price)	0.8	0.8	0.8	0.8	0.7	0.7
P/B(x) (target price)	0.9	0.8	0.9	0.8	0.8	0.7
P/E(x) (current price)	24.7	5.5	(28.7)	31.4	7.3	6.0
P/E(x) (target price)	26.5	5.9	(30.8)	33.7	7.8	6.4

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Abacus *Arqaam Capital Fundamental Data*

Investment thesis

QIC is 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 motor, Life & Health. We maintain our Hold, despite the attractive valuation in historical context, as we seek better visibility on earnings, and the MSCI downgrade to filter through.

Opportunities

- QIC to introduce new products boosting GWP but also cross-sell new products as reinsuring Fixed Annuities, COLI/BOLI reinsurance and Terrorism, coupled with growth in life & health, with wider margins and boosting AuMs.
- Acquisitive growth
- Antares as its platform to grow in Marine & Energy

Key risks

- Regulatory clause to cancel out BI exclusions in pandemics.
- Focus on profitability will likely come at the expense of market share
- Equity risk (39% of investment portfolio and 73% of NAV), with further de-risking of its portfolio.
- Concentrated reinsurance exposure skewed to London and Bermuda based on reinsurance business.

Holder Name	% Ownership
GEN RETIREMENT & SOC INS	9.9%
VANGUARD GROUP Inc	5.4%
BLACK ROCK	1.3%
VANGUARD GROUP	0.9%
GOV PENSION INVESTMENT	0.3%

Consensus Rating	
Buys	2
Holds	0
Sells	0

Qatar Insurance Company

Year-end Click here to enter text.	2018	2019	2020e	2021e	2022e	2023e
Income statement (mn)						
Gross Written Premiums	**12,605.8**	**12,843.2**	**13,067.1**	**13,451.4**	**13,921.3**	**14,362.4**
Ceded Premiums	1,796.8	1,744.4	1,716.4	1,787.6	1,861.2	1,924.0
Retained Premiums	10,809.0	11,098.8	11,350.7	11,663.8	12,060.1	12,438.4
Movement in Unearned Premiums	(536.9)	266.8	326.7	336.3	348.0	359.1
Net Premiums Earned	**11,346.0**	**10,832.0**	**11,024.0**	**11,327.5**	**11,712.1**	**12,079.3**
Commissions paid	-	-	-	-	-	-
Net commissions	(2,911.4)	(2,879.8)	(2,851.8)	(2,898.3)	(2,933.6)	(2,914.5)
Other underwriting expenses	(7.6)	(8.2)	(7.6)	(7.8)	(8.1)	(8.4)
Changes in technical reserves	(882.6)	324.5	(863.3)	(442.0)	(783.1)	(806.4)
Net Claims	7,865.9	7,605.1	8,236.5	8,336.3	8,127.4	8,366.4
Underwriting Profit	**576.3**	**355.4**	**(56.7)**	**100.7**	**659.2**	**806.9**
Investment Income	895.0	1,152.4	819.9	909.3	1,052.4	1,111.8
Other operating income	66.6	60.9	61.3	61.1	61.0	60.9
Investment & other income	**-**	**-**	**-**	**-**	**-**	**-**
Interest Expense	114.8	142.5	126.4	113.8	78.8	62.9
General & Administrative	774.2	747.8	713.4	758.1	791.4	822.1
Operating Profit	**648.9**	**678.4**	**(15.4)**	**199.3**	**902.4**	**1,094.6**
Distribution of surplus	-	-	-	-	-	-
Other income/(loss)	15.9	13.6	12.9	12.9	12.7	12.5
Tax	0.6	21.1	-	-	-	-
Minority Interest	18.2	20.0	14.7	16.2	17.8	19.6
Net Income	**664.2**	**670.9**	**(2.5)**	**212.2**	**915.1**	**1,107.2**
Reported EPS	0.20	0.20	(0.01)	0.06	0.28	0.33

Year-end Click here to enter text.	2018	2019	2020e	2021e	2022e	2023e
Balance sheet (mn)						
Cash	6,805.4	7,076.2	6,338.5	7,745.7	7,058.7	7,988.5
Intangible Assets	1,866.3	2,105.4	1,643.5	1,562.8	1,555.5	1,549.2
Reinsurance Contract Assets	5,467.2	5,099.8	8,529.8	6,308.4	3,408.7	3,646.2
Investment Properties	606.4	596.0	588.0	580.2	572.4	564.8
Investments	14,876.2	15,788.5	15,634.0	15,827.9	16,638.1	17,476.2
Associates	145.3	149.7	158.7	167.7	176.6	185.4
Insurance Receivables	9,346.0	8,452.9	9,361.8	9,054.3	8,588.6	8,857.6
Fixed Assets	52.0	146.9	279.2	362.9	402.9	402.9
Other Assets	-	-	-	-	-	-
Total Assets	**39,164.6**	**39,415.3**	**42,533.6**	**41,610.0**	**38,401.5**	**40,670.6**
Short-term Insurance Contract Liabilities	20,421.0	20,499.2	23,880.5	22,437.5	20,668.8	22,071.8
Long-term Policyholder Liabilities	-	-	1.0	2.0	3.0	4.0
Debt	6,630.0	6,320.3	6,320.3	6,320.3	4,192.5	4,192.5
Insurance Payables	4,142.0	3,995.2	3,949.3	4,309.2	4,242.6	4,326.9
Other Liabilities	-	-	-	-	-	-
Total Liabilities	**31,193.0**	**30,814.7**	**34,150.1**	**33,066.9**	**29,103.9**	**30,591.2**
Shareholders Equity	**7,725.8**	**8,453.3**	**8,221.4**	**8,364.8**	**9,101.5**	**9,863.7**
Minority Interest	18.2	20.0	14.7	16.2	17.8	19.6
Total Equity	**7,971.6**	**8,600.6**	**8,383.5**	**8,543.0**	**9,297.6**	**10,079.5**
BVPS	2.45	2.64	2.58	2.63	2.86	3.10

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Exhibit 1: Qatar Insurance Company Valuation Table

	2016A	2017A	2018A	2019A	2020e	2021e	2022e	2023e	2024e	2025e	2026e	perp	subtotal	% of total
1 DCF														
Net profit	1,010	227	270	1,206	(232)	212	915	1,107	1,222	1,297	1,376	1,348		
Other adjustments	--	--	--	--	--	--	--	--	--	--	--			
Minus: excess return excess capital	1	(38)	(108)	(94)	(82)	(68)	(43)	(30)	(19)	(7)	7	(8)		
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%	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%	0.0%		
Adjusted net profit	1,009	264	378	1,300	(150)	280	958	1,137	1,242	1,304	1,370	1,356		
Capital requirements	7,403	8,035	9,198	9,192	9,077	8,928	8,959	9,387	9,812	10,254	10,714	10,664		
RoEcC	13.6%	3.3%	4.1%	14.1%	-1.7%	3.1%	10.7%	12.1%	12.7%	12.7%	12.8%	12.7%		
Cost of capital	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%		
Capital charge		884	1,012	1,011	998	982	985	1,033	1,079	1,128	1,179	1,173		
Economic profit	1,009	(619)	(634)	289	(1,149)	(702)	(28)	105	163	176	191	183		
Discount factor	0.00	0.00	0.00	0.00	1.00	0.90	0.81	0.73	0.66	0.59	0.53	0.53		
NPV of Economic Profit	--	--	--	--	(1,149)	(632)	(23)	76	107	105	102	183		
DCF EVA Forecast period													(1,230)	
Perpetual growth rate (GDP)												4.0%		
Terminal Value												2,616		
Terminal value discounted													1,399	
Required Capital													9,192	
Value of the insurance operations													**9,361**	**131.1%**
2 Capital surplus/deficit														
Available capital:														
Shareholders equity	8,468	8,274	7,972	8,601	8,383	8,543	9,298	10,079	10,813	11,622	12,512			
Less Goodwill & intangibles	1,039	1,317	1,866	2,105	1,644	1,563	1,555	1,549	1,558	1,582	1,610			
Less dividends	--	--	--	--	--	--	--	--	--	--	--			
Tangible equity	7,429	6,957	6,105	6,495	6,740	6,980	7,742	8,530	9,255	10,040	10,903			
Capital needs														
Net Written Premium (NWP)	8,578	9,550	10,809	11,099	11,351	11,664	12,060	12,438	12,803	13,178	13,565			
Claims reserves	6,851	8,571	9,454	9,129	9,992	10,435	11,218	12,024	12,854	13,709	14,590			
Equity investments	5,188	4,924	5,969	5,936	5,082	4,341	3,726	3,909	4,078	4,265	4,469			
Investment properties	576	586	606	596	588	580	572	565	557	550	542			
Associates	139	143	145	150	159	168	177	185	194	202	210			
Equity as % NWP	32.0%	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%	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%	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%	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%	100.0%			
Capital Requirements	7,403	8,035	9,198	9,192	9,077	8,928	8,959	9,387	9,812	10,254	10,714			
Surplus capital	**26**	**(1,079)**	**(3,093)**	**(2,697)**	**(2,337)**	**(1,948)**	**(1,217)**	**(857)**	**(556)**	**(213)**	**188**		**(2,697)**	**-37.8%**
3 Other adjustments														
Investment properties														
Capital increase														
Total adjustments	--	--	--	--	--	--	--	--	--	--	--		**--**	**0.0%**
4. Dividends													477	**6.7%**
Total Fair Value YE 2011													**7,141**	
Number of shares													3,266	
Fully diluted number of shares													3,266	
Fair value per share													**2.2**	
Current share price													2.0	
Upside													**7.2%**	
Implied P/E	6.8x	16.9x	10.8x	10.6x										
Implied P/B	0.8x	0.9x	0.9x	0.8x										
Implied P/tNAV	0.9x	0.9x	1.0x	0.9x										

Source: Company Data, Arqaam Capital Research

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