

## Abu Dhabi National Insurance Co

Investment in digital and cost discipline to aid growth

### 1Q22 Net Profit higher than our estimate

Abu Dhabi National Insurance Co (ADNIC) recorded a 36.6% YOY drop in Net Profit to AED 85 Mn in 1Q22, missing our estimate of AED 73 Mn. This is mainly due to a decline in gross underwriting income, increase in claims incurred and impact on investment partially offset by a decline in operating expense.

### P&L highlights

Gross Premium rose 20.2% YOY to AED 2,282 Mn in 1Q22 primarily led by strong growth in Commercial lines as well as supported by a growth in Consumer lines. Reinsurance share of gross premiums written increased significantly 34.3% YOY to AED 1,709 Mn in 1Q22. Thus, premium retention ratio declined from 32.9% in 1Q21 to 25.1% in 1Q22. Net Premium declined by 8.3% YOY to AED 572 Mn in 1Q22. Net change in unearned premium reserve decreased 18.5% YOY to AED 221 Mn in 1Q22. Net premium earned rose slightly 0.4% YOY to AED 351 Mn in 1Q22. Commission earned decreased 7.7% YOY to AED 52 Mn in 1Q22 whereas, commission incurred increased 26.7% YOY to AED 47 Mn in 1Q22 as compared to AED 37 Mn in 1Q21. Gross underwriting income decreased 4.2% YOY to AED 356 Mn in 1Q22. Net claims incurred rose 20.1% YOY to AED 216 Mn in 1Q22. Thus, underwriting income decreased significantly 27.1% YOY to AED 139 Mn in 1Q22. Further, net underwriting income decreased 29.0% YOY to AED 126 Mn in 1Q22. Resultantly, total income including investment income fell 30.4% YOY to AED 150 Mn in 1Q22 due to extreme market volatility. General and administrative expenses decreased 20.2% YOY to AED 65 Mn in 1Q22 led by improvement in operations and investment in digital capabilities and solutions which will drive growth going forward.

### Ratio highlights

Expenses ratio decreased from 21.8% in 1Q21 to 21.1% in 1Q22 due to decline in expenses. Claim Loss ratio increased from 51.1% in 1Q21 to 61.6% in 1Q22 due to increase in claims in the commercial segment. As a result, combined Ratio increased from 72.9% in 1Q21 to 82.7% in 1Q22. Net profit ratio dropped from 37.9% in 1Q21 to 24.1% in 1Q22.

### Target price and rating

We maintain our BUY rating on ADNIC with a target price of AED 9.00. The Company recorded strong growth in gross premium supported by recovery in economic growth and led by its partnership with reinsurance companies. It is also deploying new digital sales capabilities to capture market share in new geographies and product areas. ADNIC is looking to establish new relationship in free zones and corporates to increase its distribution footprint. In addition, it is looking at synergies to improve cross-selling opportuni-

**Rating : BUY**

### First Look Note – 1Q22

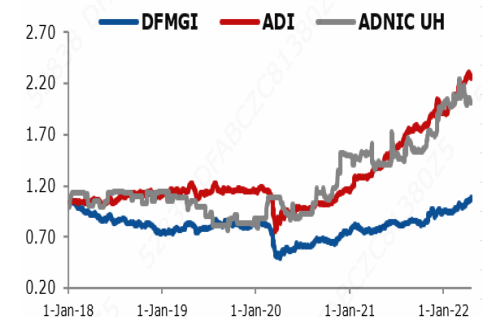
Sector: Insurance

#### Recommendation

Current Price (20-May-22)	6.34
Target Price	9.00
Upside/Downside (%)	+42%

#### Stock Information

Market Cap (mm)	3,613.80
Paid Up Capital (mm)	570.00
52 Week High	7.63
52 Week Low	4.77
3M Avg. daily value (AED)	991,670



#### Financial Ratios

Dividend Yield (12m)	6.31
Dividend Pay-out (%)	56.74
Price-Earnings Ratio (x)	10.23
Price-to-Book Ratio (x)	1.33
Book Value (AED)	4.77
Return-on Equity (%)	13.59
Earning Per Share (AED)	0.62
Beta	0.58

#### Stock Performance

5 Days	-0.94%
1 Months	-7.85%
3 Months	-9.82%
6 Months	9.31%
1 Year	32.08%
Month to Date (MTD)	-9.82%
Quarter to Date (QTD)	-7.04%
Year to Date (YTD)	-5.37%

ties. Pricing discipline across all lines of businesses and cost discipline will help in generating sustainable profit over the period. The Company balance sheet remains healthy to fund new business opportunity and maintain healthy solvency levels. All these factors lead us to maintain our BUY rating on the stock.

**ADNIC - Relative valuation**

(at CMP)	2018	2019	2020	2021	2022F
P/E (x)	15.2	12.8	9.8	9.1	8.5
P/B (x)	1.7	1.6	1.5	1.3	1.3
Dividend Yield (%)	4.7%	4.7%	5.5%	6.3%	5.5%

FABS Estimates & Co Data

**ADNIC - P&L**

AED mm	1Q21	4Q21	1Q22A	1Q22F	Var.	YOY Ch	QOQ Ch	2021	2022F	YOY
Gross premium	1,898	1,025	2,282	2,153	6.0%	20.2%	122.5%	4,267	4,694	10.0%
Reinsurance share of ced premium	-1,274	-493	-1,709	-1,615	5.8%	34.2%	247.1%	-2,649	-2,957	11.6%
<b>Net premium</b>	<b>624</b>	<b>533</b>	<b>572</b>	<b>538</b>	<b>6.3%</b>	<b>-8.3%</b>	<b>7.4%</b>	<b>1,619</b>	<b>1,737</b>	<b>7.3%</b>
Net change in unearned prem. rese	-271	-183	-221	-282	-21.6%	-18.5%	20.4%	-215	-258	20.0%
Net premium earned	353	349	351	256	37.0%	-0.4%	0.6%	1,403	1,479	5.4%
Commissions earned	56	57	52	75	-31.3%	-7.7%	-9.0%	212	235	10.7%
Commissions incurred	-37	-41	-47	-65	-26.5%	26.7%	17.1%	-156	-176	12.6%
Gross underwriting income	371	366	356	267	33.1%	-4.2%	-2.8%	1,459	1,537	5.4%
Gross claims paid	-452	-464	-436	-321	35.9%	-3.6%	-6.2%	-1,755	-1,922	9.5%
<b>Net claims paid</b>	<b>-241</b>	<b>-247</b>	<b>-240</b>	<b>-170</b>	<b>41.0%</b>	<b>-0.8%</b>	<b>-3.1%</b>	<b>-969</b>	<b>-1,000</b>	<b>3.2%</b>
Net claims incurred	-180	-246	-216	-150	44.3%	20.1%	-12.0%	-913	-915	0.2%
Underwriting Income	191	120	139	117	18.8%	-27.1%	16.2%	547	623	13.9%
Net Underwriting Income	177	105	126	103	22.0%	-29.0%	20.2%	492	568	15.5%
<b>Total income</b>	<b>215</b>	<b>123</b>	<b>150</b>	<b>122</b>	<b>22.9%</b>	<b>-30.4%</b>	<b>21.7%</b>	<b>636</b>	<b>712</b>	<b>11.9%</b>
G&A expenses	-82	-53	-65	-49	33.6%	-20.2%	22.2%	-234	-281	20.0%
<b>Profit attributable</b>	<b>134</b>	<b>70</b>	<b>85</b>	<b>73</b>	<b>15.8%</b>	<b>-36.6%</b>	<b>21.2%</b>	<b>402</b>	<b>431</b>	<b>7.3%</b>

FABS Estimates & Co Data

**ADNIC - Ratios**

	1Q21	4Q21	1Q22A	YOY ch	QOQ ch	2021	2022F	Change
Expense ratio	21.8%	14.9%	21.1%	-66	622	16.6%	18.7%	212
Claims loss ratio	51.1%	70.4%	61.6%	1049	-878	65.0%	61.9%	-316
Combined ratio	72.9%	85.3%	82.7%	982	-256	81.6%	80.6%	-104
Net profit ratio	37.9%	20.0%	24.1%	-1379	411	28.6%	29.1%	52

FABS estimate & Co Data

**Research Rating Methodology:**

Rating	Upside/Downside potential
BUY	Higher than +15%
ACCUMULATE	Between +10% to +15%
HOLD	Lower than +10% to -5%
REDUCE	Between -5% to -15%
SELL	Lower than -15%

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