

Abu Dhabi National Insurance Co

Higher Gross claims paid reduced profitability

4Q21 Net profit misses our estimate

Abu Dhabi National Insurance Company (ADNIC) reported a decline by 22.7% YOY in Net Profit to AED68 Mn in 4Q21, as compared to AED88 Mn in 4Q20, missing our estimate of AED108 Mn. This was mainly driven by higher Gross claims paid and G&A expenses.

P&L highlights

Gross Premium increased by 21.2% YOY to AED1,025 Mn in 4Q21, as compared to AED846 Mn in 4Q20. Reinsurance share of gross premiums written decreased by 7.3% YOY to AED493 Mn in 4Q21, down from AED531 Mn in 4Q20. Resultantly, the Net Premium strongly increased by 69.5% YOY to AED533 Mn in 4Q21, up from AED314 Mn in 4Q20. The Net change in unearned premium reserve strongly decreased to a negative of AED183 Mn in 4Q21. Subsequently, the Net premium earned increased by 6.8% YOY to AED349 Mn in 4Q21, up from AED327 Mn in 4Q20. The company's Commissions earned increased by 25.6% YOY to AED57 Mn in 4Q21. Gross underwriting income increased by 8% YOY to AED366 Mn in 4Q21, and the Net claims incurred increased by 10.0% YOY to AED248 Mn in 4Q21, up from AED225 Mn in 4Q20. Similarly, the Underwriting Income increased by 4.1% YOY to AED118 Mn in 4Q21, compared to AED114 Mn in 4Q20. The Total Income decreased by 8.2% YOY to AED121 Mn in 4Q21, down from AED132 Mn in 4Q20. The General & Administrative expenses increased by 20.8% YOY to AED53 Mn in 4Q21, up from AED44 Mn in 4Q20. As a result, the Net Profit declined by 22.7% YOY to AED68 Mn in 4Q21, as compared to AED88 Mn in 4Q20.

Balance sheet highlights

Total Assets increased by 3.3% YOY to AED8.6 Bn in 4Q21, up from AED8.3 Bn in 4Q20. The Total Technical Reserves decreased by 3.4% YOY to AED4.2 Bn in 4Q21, compared to AED4.4 Bn in 4Q20. Total Liabilities slightly decreased by 0.8% to AED5.77 Bn in 4Q21, down from AED5.82 Bn in 4Q20. While, the Total equity increased by 12.9% YOY to AED2.8 Bn in 4Q21 from AED2.5 Bn in 4Q20.

Target price and rating

We assign a BUY rating for ADNIC with a revised target price of AED9.00. ADNIC performed strongly in the second year of pandemic and increased Its Net Written Premium by 20% YOY to AED1.6 Bn in 2021, up from AED1.3 Bn in 2020. It was driven by 6.4% YOY increase in Gross Premium to AED4.3 Bn in 2021, up from AED4 Bn in 2020. Furthermore, the Reinsurer's share of Gross Premiums declined by 0.6% YOY to AED2.6 Bn in 2021, down from AED2.66 Bn in 2020. As a result, the positive movements boosted the Gross Premiums in 2021. The Net Premiums

Rating : BUY

First Look Note – 4Q21

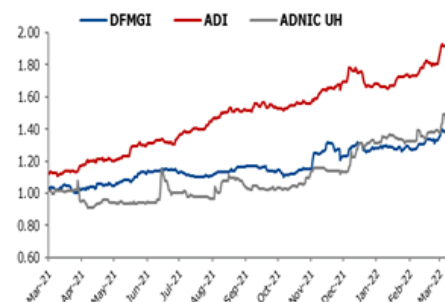
Sector: Insurance

Recommendation

Current Price (16-Mar)	7.08
Target Price	9.00
Upside/(Downside) (%)	+27%

Stock Information

Market Cap (mm)	4,035.60
Paid Up Capital (mm)	570.00
52 Week High	7.63
52 Week Low	4.63
3M Avg. daily value (AED)	1,271,034



Financial Ratios

Dividend Yield (12m)	4.96
Dividend Pay-out (%)	56.74
Price-Earnings Ratio (x)	10.09
Price-to-Book Ratio (x)	1.42
Book Value (AED)	4.97
Return-on Equity (%)	15.05
Earning Per Share (AED)	0.70
Beta	0.36

Stock Performance

5 Days	1.00%
1 Months	3.96%
3 Months	5.67%
6 Months	34.86%
1 Year	37.74%
Month to Date (MTD)	0.71%
Quarter to Date (QTD)	5.67%
Year to Date (YTD)	5.67%

Earned increased by 5.3% YOY to AED1.4 Bn in 2021, up from AED1.3 Bn in 2020. As a result, the Gross Underwriting Income increased by 5.9% YOY to AED1.5 Bn in 2021, up from AED1.4 Bn in 2020. The Net Claims paid increased by 5.2% YOY to AED969 Mn in 2021, up from AED921 Mn in 2020. Furthermore, the Net claims incurred increased strongly by 9.8% YOY to AED913 Mn in 2021, up from AED831 Mn in 2020. Therefore, the Underwriting Income remained stable at AED547 Mn in 2021, up from AED546 Mn in 2020. It is driven by the offsetting changes in Gross Underwriting Income and Net Claims incurred in 2021, as compared to 2020. As a result, the Net Underwriting Income declined by 1.1% YOY to AED492 Mn in 2021, down from AED497 Mn in 2020. The Net Income from Investments increased robustly by 52% YOY to AED132 Mn in 2021, up from AED87 Mn in 2020 mainly driven by strong Dividend Income of AED113 Mn in 2021, up from AED82 Mn in 2020. However, the Rental Income declined by 55% YOY to AED12 Mn in 2021, down from AED28 Mn in 2020. As a result, the Total Income increased by 3.9% YOY to AED636 Mn in 2021, up from AED612 Mn in 2020. The General and Administrative Expenses declined by 2.8% YOY to AED234 Mn in 2021, down from AED241 Mn in 2020. Therefore, the Net Profit increased by 8.3% YOY to AED402 Mn in 2021, up from AED371 Mn in 2020.

The Company operates via two segments – Commercial and Consumer segment. The Gross Underwriting Income is dominated by the Consumer segment with 71% of the Total Contribution, and the balance by Commercial segment. The Gross Underwriting Income for the Consumer segment grew by 7.7% YOY to AED1.04 Bn in 2021, up from AED968 Mn in 2020. Similarly, the Underwriting Income for the Commercial segment grew by 1.7% YOY to AED417 Mn in 2021, up from AED410 Mn in 2020. The Net claims incurred are dominated by the Consumer Segment with 87% Total Contribution. Under the Consumer segment, the Net Claims Incurred increased by 18% YOY to AED795 Mn in 2021, up from AED676 Mn in 2020. However, the Net Claims Incurred declined strongly by 92% YOY to AED117 Mn in 2021, down from AED155 Mn in 2020. As a result, the Underwriting Income for the Commercial segment improved by 17.5% YOY to AED299 Mn in 2021, up from AED255 Mn in 2020. However, under the Commercial segment it declined by 15.2% YOY to AED247 Mn in 2021, down from AED291 Mn in 2020.

During the year 2021, S&P upgraded its rating to A with a Stable outlook for ADNIC. Additionally, A.M Best assigned A rating with a Stable outlook. The consistent improvement in financial metrics, robust underwriting capabilities, it's diversified Investment portfolio that delivered strong results this year and lastly, strong market position as the UAE national insurance Co. aided the favorable ratings. Looking forward, Inward Reinsurance is an attractive area for the Company and has potential for further growth underpinned by the underwriting capabilities. It is a growth area for both the Consumer segment and the Commercial segment. The Company plans to continue its investments in Digital transformation that will be aid its growth and market leadership.

During the General Assembly Meeting, the shareholders of ADNIC has approved the distribution of cash dividends to shareholders of 40% (equivalent to 40 fils/share) of the capital for the year 2021. Based on our analysis, we assign a BUY rating.

ADNIC—Relative Valuation

AED mm	2017	2018	2019	2020	2021
PE (x)	17.83	16.98	14.26	10.97	10.19
P/B (x)	1.35	1.27	1.77	1.62	1.44
Dividend yield	5.6%	4.2%	4.2%	4.9%	5.6%

FABS forecast & Co Data

ADNIC - P&L

AED mm	4Q20	1Q21	2Q21	3Q21	4Q21	Var.	YOY Ch	QOQ Ch	2020	2021	YOY
Gross premium	846	1,898	773	571	1,025	43.6%	21.2%	79.5%	4,012	4,267	6.4%
Rein. share of ced premium	-531	-1,274	-481	-401	-493	-4.4%	-7.3%	22.8%	-2,664	-2,649	-0.6%
Net premium	314	624	292	170	533	NM	69.5%	NM	1,348	1,619	20.0%
Net change in unearned premium re-serve	13	-271	61	178	-183	NM	NM	NM	-16	-215	NM
Net premium earned	327	353	354	348	349	25.3%	6.8%	0.4%	1,333	1,403	5.3%
Commissions earned	45	56	47	52	57	5.6%	25.6%	9.3%	183	212	15.6%
Commissions incurred	-34	-37	-37	-41	-41	7.8%	20.1%	-1.5%	-138	-156	13.0%
Gross underwriting income	339	371	363	359	366	24.0%	8.0%	1.9%	1,378	1,459	5.9%
Gross claims paid	-401	-452	-435	-404	-464	12.0%	15.8%	14.8%	-1,817	-1,755	-3.4%
Net claims paid	-215	-241	-257	-223	-247	6.1%	15.0%	10.7%	-921	-969	5.2%
Net claims incurred	-225	-180	-247	-238	-248	44.1%	10.0%	4.2%	-831	-913	9.8%
Underwriting Income	114	191	116	121	118	-4.1%	4.1%	-2.6%	546	547	0.0%
Net Underwriting Income	102	177	103	109	103	-6.1%	0.6%	-5.0%	497	492	-1.1%
Total income	132	215	152	147	121	-24.1%	-8.2%	-17.5%	612	636	3.9%
G&A expenses	-44	-82	-37	-62	-53	2.1%	20.8%	-14.3%	-241	-234	-2.8%
Profit attributable	88	134	115	85	68	-36.8%	-22.7%	-19.8%	371	402	8.3%

FABs Estimates and Co Data

ADNIC - Ratios

AED mm	4Q20	1Q21	2Q21	3Q21	4Q21	YOY Ch	QOQ Ch	2020	2021	Change
Expense ratio	13.3%	21.8%	11.5%	18.4%	14.9%	154	-351	18.4%	16.6%	-177
Claims loss ratio	68.8%	51.1%	69.9%	68.3%	70.9%	205	259	62.4%	65.0%	264
Combined ratio	82.2%	72.9%	81.4%	86.7%	85.7%	359	-92	80.8%	81.6%	87
Net profit ratio	27.0%	37.9%	32.5%	24.4%	19.5%	-745	-492	27.8%	28.6%	79

FABs Estimates and Co Data

Research Rating Methodology:

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

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