MAR 2018

ARABIA FALCON INSURANCE CO

UNDER TRANSFORMATION

Offer Price: RO 0.190 *Outlook: Neutral* *12 Month Fair Value: RO 0.198*

Arabia Falcon Insurance Co SAOG (AFIC)- *Merged entity to remain strong, Neutral on Valuations…*

Outlook: Neutral ***IPO Rating: Average*** ***Fair Value: RO 0.198***

- Combination of regional brand along with strong local promoter background to support growth
- Reinforce business prospects post the merger with operations in complimentary businesses and opportunities
- Being the subsidiary of Arabia Insurance to benefit in gaining regional experience in products and services offerings
- Volatile historical performance reported amid higher losses, additional UPR and merger related costs (in 2017)
- IPO at premium, we remain neutral on valuations with no listing gains estimated, considering optimistic projections
- Challenges seen on economic slowdown, higher reserves/ capital requirements, regulatory challenges and cultural integration.

Combined entity to emerge strong: With the emphasis on consolidation theme in the sector, Arabia Falcon Ins. (AFIC) is formed post the successful merger of Falcon Ins. and the Arabia Ins. Oman Branch in 2017. The combined entity offers comprehensive range of general and life insurance products and services. The merged company benefits from both local and regional expertise along with the presence of complimentary business offerings and new opportunities. The business combination is expected to evolve through the strength of strong technical team, corporate relations, wide network, enhanced reinsurance capacities to achieve economies of scale.

Solid shareholder background: AFIC has strong promoter background with Arabia Holding as the major shareholder. Arabia Insurance is one of the oldest insurance companies in the region with more than 73 years of experience across the MENA region. Moreover, the company has one of prominent local investment company - Al Anwar Holding, as their key promoters. Added, the management of the company remain strong with rich experience in the local, regional and international Insurance markets.

Non-motor business to drive Gross Premium growth: Overall Gross written premium (GWP) is estimated to reveal annualized growth of 7.4% over 2017-2021E. The motor business is estimated to reveal annual growth of 5-6% over 2017-2021E with increase in business trend. While the non-motor business growth to remain strong going forward with the company finalizing projects in early 2018. Life business is estimated to contribute c. 27% of AFIC business by 2021 from the current levels of about 16% (2016).

Traditional distribution strategy: The company distributes its products and services through all traditional marketing channels which include branches, brokers, agents and sales force. In the addition, the company serves corporate customers from its head office. AFIC has five branches and proposed to add three more branches soon. In future, they may look for digital channels.

Concern remains on volatile performance: The historical performance of the company remains volatile amid higher losses, additional unearned premium reserve (UPR) charges and other merger related costs. During 2017, the earnings of the company impacted due to several one-off items. Excluding these, the normalized profit after tax is estimated at RO 1.426 million as compared to reported net profit of RO 886K (which is higher than the IPO estimates).

The average combined ratio of the company remained above 100% levels during last three years amid average loss ratios of c. 73%, which is a key concern area. The management projections remain optimistic in terms of both these ratios. The combined ratio to average c. 92.5% levels over the next four years and the loss ratio to decline sharply to c. 62% levels, this remain as a key reason for stronger performance going forward. While the management remains confident on their IPO projections, we remain skeptical.

Outlook- Merger to create strong entity, Neutral on valuations: The successful business merger remains as one of the strong points in our investment case with clear emphasis on sector consolidation. We do incline to the consolidation theme with emergence of stronger entity to achieve economies of scale along with strong local and regional shareholders support. While, the historical performance remains volatile and the IPO projections remain optimistic on prevailing competitive environment. Overall, we rate the IPO as an average issuance. We initiate coverage with a **Neutral** rating, the offer price provides no major upside**. Our weighted fair value is at RO 0.198** (PBV, P/E, Div. Yield, DDM). We may see the issue favored by select Institutional investors who are keen on the Insurance sector exposure. While, we do expect lower level of retail participation post mixed response in the previous Insurance sector IPOs. Downside earnings risk remain in lower growth rates, pricing pressure due to competition, increasing regulatory restrictions and higher operating costs. Added, the delays in achieving merger efficiencies and cultural synergies to impact the performance.

Key Investment Highlights

- Strong and Experienced regional Partner, Arabia Insurance to remain supportive for AFIC. Falcon Insurance Co (FIC) had strong technical team, local decision making and excellent relations. Arabia Insurance (AIC) had strong retail/ motor business, corporate accounts and contacts.

- The business of the combined entity remained complementary in several aspects. Added the company achieved the local regulations stipulated minimum capital of RO 10 million.

- AFIC operates through all the traditional channels (i.e. branches, brokers and agents, sales force). Merged company to have broad product range to service client requirements with strong distribution network.

- The management remain confident on the growth prospectus of the consolidated Arabian Falcon Insurance. Higher economies of scale post the consolidation to improve the operational efficiency of the company.

- Better controls in motor business and selective and slashing of loss generating business coupled with company increasing its share in life insurance segment (individual) is likely to reduce the current claim ratio from 75% to 62% level going forward.

- Investment book remains conservative and predominantly in fixed deposits and bonds. The increase in yield to support the investment contribution going forward.

- Slowdown in the Economic environment to impact the growth projections. The company remains highly exposed to the Motor Segment, the decline in growth to influence the future estimates.

- The delay in achieving merger efficiencies and cultural synergies to impact the performance of the company

Table 1: Bear and Base Case approach

Scenarios	Key Assumptions
Bear Case	In our worst-case scenario, we have lowered GWP growth due to slowdown and competition. Gross premium to reveal annualized growth of 3% over 2016-21E. Added the estimated increase in loss ratios, the PAT to reveal CAGR of 2% over the same period. Average RoAE for 2018-2020E to lower to c. 8-9% levels. **In our bear case, the fair value works out to be discounted to the offer price.**
Base Case	In base case workings, we have used the IPO estimates with GWP revealing CAGR of 7% over 2016-21E. During the same period, underwriting result to grow 7% annualized and PAT to reveal CAGR of 11%. Average RoE for 2018-21E is at 12%. **Weighted average fair value of AFIC on Base Case works out to be RO 0.198.**

Table 2: Valuation Scenarios- Base Case

Methodology	Fair Value (In RO)
Price to Book Value Method	0.191
Relative- Price to Earnings method	0.197
Relative- Div. Yield Methodology	0.200
Dividend Discount Model (DDM)	0.204
Weighted Average Fair Value	**0.198**

Source: Company Report, GBCM Research Estimates

Table 3: Key Ratios- Base Case

Key Ratios **	2015	2016	2017E	2018E	2019E	2020E	2021E
Price to Earnings Ratio (PE)	14.6	12.3	28.0	8.8	8.6	7.6	6.7
Price to Book Value- PBV (on Total Equity)	1.40	1.30	1.06	1.01	0.97	0.93	0.88
Dividend Yield (%)	5.3%	0.0%	6.6%	7.9%	7.9%	9.2%	10.5%
Dividend Payout (%)	76.7%	0.0%	184.2%	69.8%	67.6%	70.4%	70.7%

Source: Company Report, GBCM Research Estimates, ** Based on IPO price of RO 0.190

Find below the table with the Oman Insurance Sector comparison details for you reference.

Table 4: Oman Insurance Sector comparison- 2017 Actual and 2018 Estimates

Company Name	Insurance Sector- Valuations									
	Closing (28-Mar-2018)	Market Cap (In RO 000s)	PE (2017)	PE (2018E)	PBV (2017)	PBV (2018E)	Div. Yield (2017)	Div. Yield (2018E)	RoAE (2017)	RoAE (2018E)
Al Ahlia Ins. Co	0.366	36,600	9.9	12.8	0.9	1.0	10.4%	7.7%	9.9%	7.5%
Vision Insurance	0.156	15,600	8.6	6.6	1.1	1.0	9.0%	8.0%	15.9%	15.8%
Oman Qatar Ins.	0.135	13,500	7.2	7.4	0.9	0.9	5.9%	9.4%	14.8%	11.8%
National Life and General	0.320	84,800	10.1	9.1	1.7	1.5	5.0%	5.6%	17.9%	17.9%
Oman United Ins.	0.330	33,000	9.9	10.0	1.1	1.1	9.1%	7.6%	11.5%	11.2%
Arabia Falcon Ins #	0.190	19,627	28.0	8.8	1.1	1.0	6.6%	7.9%	4.0%	11.7%
Sector Average-Weighted		**203,127**	**11.4**	**9.6**	**1.3**	**1.2**	**7.1%**	**7.0%**	**13.7%**	**13.8%**

Source: Company Reports, ^Based on closing price as on 28-Mar-2018, # On Offer price, GBCM Research

- **Oman Conventional Insurance sector (recent listing including AFIC and Oman United Ins.) trades at PE (2018E, weighted) of 9.6X and PBV (2018E) of 1.2X.** Average RoAE (2017E) of the Insurance Cos is at 13.8% levels.

- Based on the issue price, **AFIC would trade at PE (2018E) of 8.8X and PBV (2018E) of 1.1X**, the RoAE (2018E, on total equity) works out to be c. 11.4%.

- **On justifiable Price to Book valuation, the issue has been offered at valuations closer to its fair price.** While on comparable Price to Earnings multiple methodology (Oman), the issue has been priced more in line with the sector average.

- On the other hand, on 2017E dividend yield basis (c. 6.6% on IPO) which would be paid immediately after the IPO. The sector average dividend yield works out to be c. 7%. Excluding NLGIC, the sector dividend yield would increase to 8% levels.

Table 5: GCC Insurance Sector- Peer Group Analysis

(In local currencies- millions)	Market Cap	P/E- TTM	P/B (Latest)	Div. Yield	ROE- LF	ROA- LF
		(x)	(x)	(%)	(%)	(%)
Oman- Conventional						
Oman United Insurance Co	33.0	9.9	1.1	9.1	11.5	3.2
Dhofar Insurance	40.0	NA	2.4	NA	NA	NA
Muscat National Holding	8.6	5.7	0.5	5.8	9.0	3.0
Al Ahlia Insurance	36.6	8.9	0.9	10.4	9.9	10.4
Vision Insurance	15.6	7.1	1.1	9.7	9.7	4.8
Oman Qatar Ins.	13.5	5.6	0.9	5.9	14.8	3.2
National Life and General Ins.	84.8	10.0	1.7	5.0	17.9	6.1
Average- Oman Conventional Ins. Cos		**7.9**	**1.2**	**7.6**	**12.1**	**5.1**
Oman- Takaful						
Al Madina Takaful Co	15.8	NM	0.7	4.4	1.7	0.4
Takaful Oman	16.0	8.2	1.0	NM	13.2	12.7
Average- Oman Takaful Ins. Cos		**8.2**	**0.8**	**4.4**	**7.4**	**6.5**
Average- Oman Insurance Sector		**7.9**	**1.1**	**7.2**	**11.0**	**5.5**
Qatar						
Qatar Insurance Co	11,672.0	32.1	1.2	3.6	4.0	1.3
Doha Insurance Co	673.5	16.0	0.6	5.6	4.0	2.5
Average- Qatar Conventional Ins. Cos		**24.0**	**0.9**	**4.6**	**4.0**	**1.9**
Saudi						
Tawniya	9,612.5	NA	4.3	5.2	(5.7)	(4.6)
BUPA	7,551.2	15.0	3.3	1.6	23.0	20.8
Walaa Cooperative Insurance	1,295.2	9.0	2.3	NA	28.6	27.1
Axa Cooperative Insurance	1,202.9	19.9	2.2	NA	11.5	11.0
SAICO	479.3	9.2	1.4	NA	16.2	15.7
Ace Arabia Cooperative Ins- Chubb	467.4	12.2	1.8	NA	15.9	14.7
Gulf Union Cooperative Ins	263.6	9.6	1.6	NA	17.5	16.2
Average- Saudi Cooperative. Ins. Cos		**12.5**	**2.4**	**3.4**	**15.3**	**14.4**
Kuwait						
Gulf Insurance Group KSC	130.4	12.1	1.5	5.7	12.3	2.4
Al-Ahleia Insurance Co	108.0	12.3	1.0	6.5	8.1	3.4
Average- Kuwait Conventional Ins. Cos		**12.2**	**1.2**	**6.1**	**10.2**	**2.9**
UAE						
Abu Dhabi National Insurance	1,282.5	8.4	0.6	7.3	12.2	3.4
Oman Insurance	785.2	7.3	0.4	5.9	5.4	1.5
Dubai Insurance	350.0	9.5	0.7	7.1	7.7	3.3
Emirates Insurance Co. (Psc)	1,050.0	9.5	1.0	7.1	10.3	4.7
Al Buhaira National Ins.	550.0	10.5	0.8	4.5	8.0	2.9
Sharjah Insurance Co	479.9	21.7	2.2	2.2	10.6	6.0
Ras Al-Khaimah National Ins	404.8	12.4	1.6	4.1	13.1	4.1
Average- UAE Conventional Ins. Cos		**11.3**	**1.0**	**5.5**	**9.6**	**3.7**
Average- GCC Insurance Cos (Inc. Oman)		**12.1**	**1.5**	**5.9**	**10.7**	**7.1**

Source: Company Reports, Bloomberg, Based on closing price as on 28-Mar-2018, GBCM Research

- **GCC Insurance sector trades at average PE-TTM of 12.1X and PBV (latest) of 1.5X. Average RoE of the regional companies is at 10.7% levels. While Oman Insurance sector trades at PE-TTM of 7.9X and PBV (latest) of 1.1X. Dividend yield is c. 7.2% levels (on 2017).**

Table 6: ***IPO - Term Sheet***

Offer Details **	
Nominal Value	RO 0.100
Authorized Share Capital	RO 15,000,000
Paid up capital – Pre-IPO	RO 10,330,166
Total No. of shares offered	25,825,415 shares or 25% of the share capital
Paid up capital – Post IPO	RO 10,330,166
Offer Price (Inc. Expenses)	RO 0.190
Offer Expenses	RO 0.002
Gross Proceeds from the offer (In RO)	4,906,828.85
IPO Expenses to be collected – (In RO)	51,652
Net Proceeds from the offer (In RO)	4,855,176.85
Total estimated expenses (In RO)	184,957
Difference between estimated expenses (In RO)	-133,305 (to be borne by selling shareholders)
Purpose of IPO	Undertaking the IPO Offer to comply with the requirements of Royal Decree 39/2014 which amended the Insurance Law, requiring existing licensed insurance companies to be listed as SAOGs by 17th August 2017. The proceeds of the offer will accrue entirely to the Selling Shareholders.
Foreign Ownership	70%
Proposed allocation of Shares	
Category I Investors	16,786,250 shares, being 65% of the offer shares to be allocated on a pro-rata basis
Category II Investors	9,038,895 shares or 35% of the offer shares on a pro-rata basis
Minimum Limit for the Subscription	
Category I Investors	1,000 shares and in multiples of 100 shares
Category II Investors	100,100 shares and in multiples of 100 shares
Maximum Limit for the Subscription	
Category I Investors	100,000 shares
Category II Investors	2,582,500 shares or 10% of the total offer
Offer Opening Date	4-Mar-18
Offer Closing Date **	**2-April-18**
Issue Manager - Subscription data	9-April-18
Approval of CMA - proposed allotment	12-April-18
Proposed Listing of shares	**16-April-18**
Issue Manager & Financial adviser	Ubhar Capital SAOC
Marketing Advisor	United Media Services
Subscription Banks	Bank Sohar SAOG, National Bank of Oman SAOG, Oman Arab Bank SAOC
Legal Advisor	Al Busaidy Mansoor Jamal & Co
Statutory Auditors	PricewaterhouseCoopers LLC
Reporting Accountant	Horwath Mak Ghazali LLC

Source: IPO Prospectus, GBCM Research

Chart 1: Shareholding Pattern – Pre-IPO

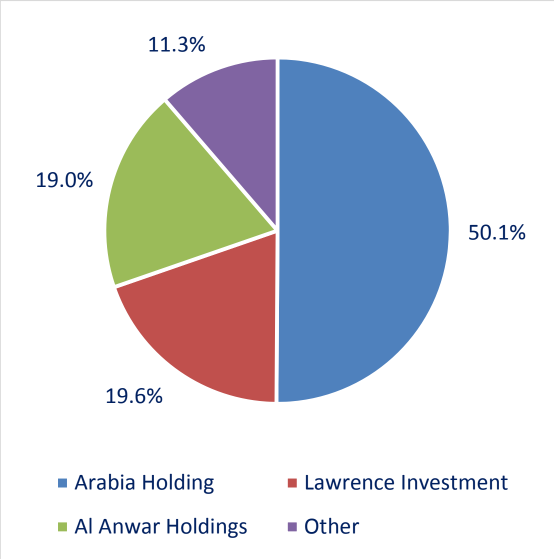
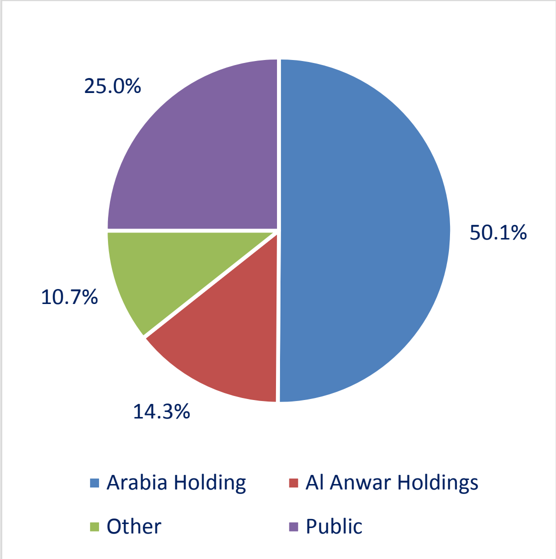


Chart 2: Shareholding Pattern – Post IPO



Source: IPO Prospectus, GBCM Research

Table 7: Pre-and Post IPO shareholder structure

S. No	Name	Shares held – Pre- IPO	% Holding	Shares held – Post IPO	% Holding
1	Arabia Holding	51,754,140	50.1%	51,754,140	50.1%
2	Lawrence Investment	20,254,680	19.6%	2,252,475	2.2%
3	Al Anwar Holdings	19,626,710	19.0%	14,720,033	14.3%
4	Mr. George Chidiac	6,400,000	6.2%	4,800,000	4.7%
5	Mr. Ameen Al Shareef	3,200,100	3.1%	2,400,075	2.3%
6	ONIC SAOC	2,066,030	2.0%	1,549,522	1.5%
7	Public			25,825,415	25.0%
	Total	**103,301,660**	**100.0%**	**103,301,660**	**100.0%**

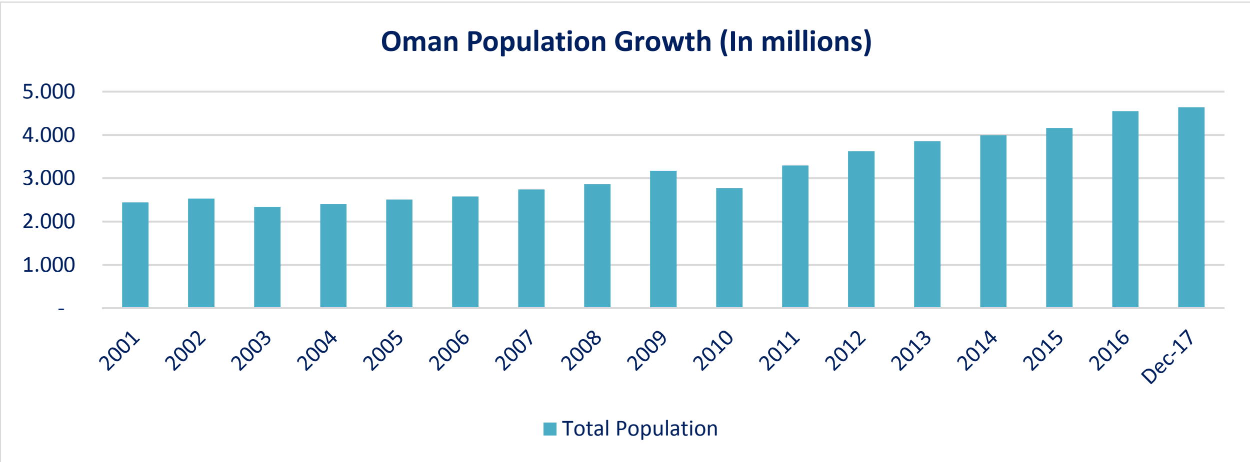
Source: IPO Prospectus, GBCM Research

Oman Insurance Industry

Population and favorable demography, a boon for the industry:

The population in Oman has reported a CAGR of 3% over 2007 to 2017 as per the official data published by National Centre for Statistics and Information (NCSI). As of Dec 2017, the population in Oman stands at 4.639 million. The population of Omanis is expected to reach 4 million by 2040, up from the current 2.55 million, as per the NCSI estimates. The increase in local population, inflow of expats due to setting up of industrialization zones across the country and diversification efforts are expected to benefit the insurance sector over the medium to long term. Oman has favourable demographics with c. 55% of the population is within the age group of 15 to 40 years, this provides opportunities for growth.

Chart 3: Population growth



Source: NCSI; GBCM Research

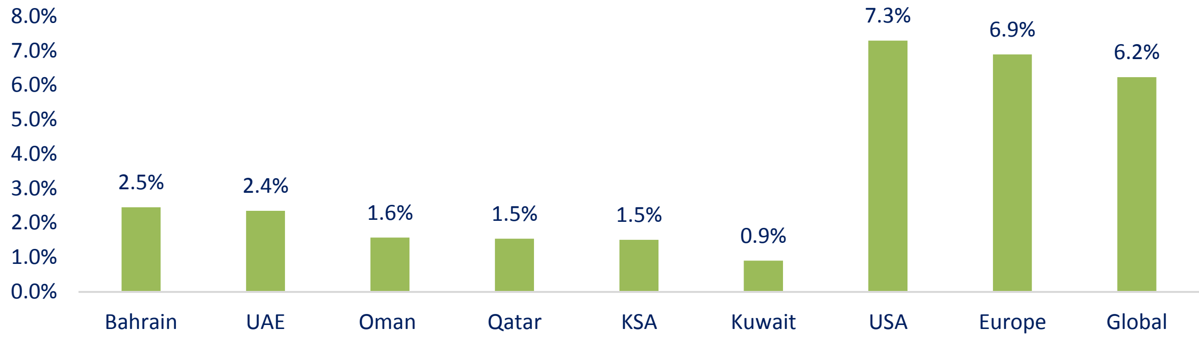
Sector remains underpenetrated in the GCC region:

As per research by SwissRe, the gross domestic product (GDP) in 2016 in the Middle East grew by an estimated 2.6% in real terms, as compared to 2015. The growth to an extent constrained by low oil prices and prevailing geo-political tensions. The growth in the GCC region slowed to 2.0% in 2016, lower than 3.8% in 2015. The short to medium term outlook for the region remain challenging against the backdrop of low oil prices. Added, the large markets like UAE and Saudi Arabia are cutting back on public social spending as oil revenues decline.

Non-life insurance constitutes more than 80% of total insurance premiums written in the Middle East. Non-life premiums grew rapidly between 2008 and 2016, an average 7.2% annually in real terms. **However, the penetration rate was 1.4% in 2016, in line with the emerging market but below the global average of 6.2%.**

The Insurance sector remains underpenetrated in the GCC region and have scope for growth over the long-term perspective. Within GCC, **Kuwait has the lowest insurance penetration of 0.9%**, While Bahrain and UAE have the highest penetration levels of c. 2.5% levels. **Oman also has one of the lowest penetration levels of 1.6%** (life penetration at 0.24% and non-life penetration at 1.37%, which reveals an underpenetrated market. The Insurance density (premium written/ population) is about USD 258 (RO 98.9) in Oman.

Chart 4: Insurance penetration GCC Vs Rest of the world

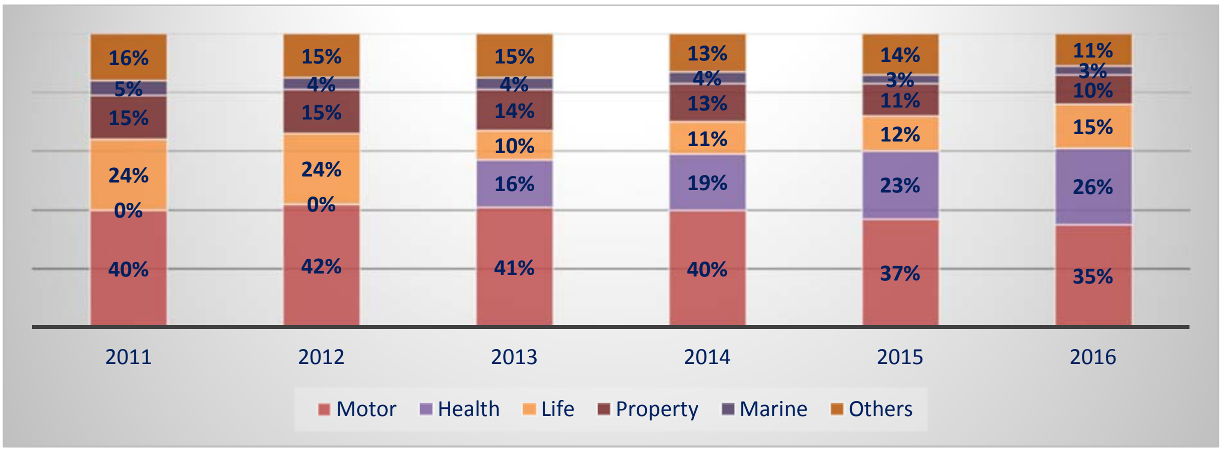


Source: EY; GBCM Research

Motor and Health Insurance- Key contributor in Oman Insurance sector:

The key segments in the Oman Insurance sector are motor, health, life, property, marine and others (including liability and engineering). Motor is the largest and the fastest growing segment in Oman especially due to the mandatory motor coverage. For AFIC, the motor business form c. 54% of total GWP (2016). Added, Health is the second largest segment in Oman and has reported robust growth in recent times. The Health Insurance market is the fastest growing segment in Oman. As per reports, **the health insurance coverage would become compulsory for all private sector employees during 2018.** This would create growth opportunities for all the key insurance companies in Oman.

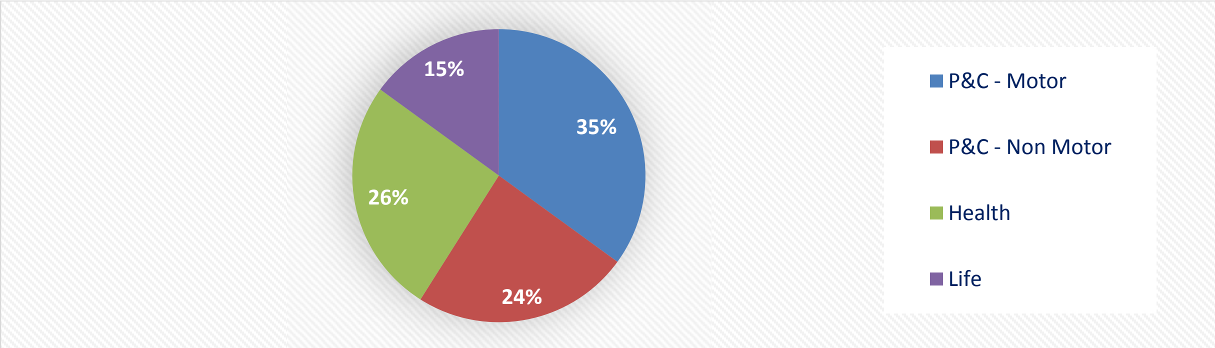
Chart 5: Market share of the key segments of insurance sector



Source: IPO prospectus/ CMA 2016 Insurance sector data, GBCM Research

Oman Insurance sector remain as highly competitive with 22 licensed companies operating, including 2 companies which are licensed to run takaful operations. The top 5 companies dominate the sector and have market share of closer to 60% levels in 2015. With the new Insurance companies in the market over the last three years, the market is witnessing intense competition amid attractive pricing to gain market share and through innovative products.

Chart 6: Total Oman - GWP Break up (2016)



Source: CMA, IPO prospectus, GBCM Research

For the Oman Insurance sector, Motor, Health and Life Insurance business combined forms c. 75% of total GWP. Health Insurance forms c. 26% of total GWP and Life Insurance forms c. 15% of the total premiums in Oman. **In 2016 for AFIC, the Motor business forms c. 54% of total GWP, Non-motor forms c. 30% and the Life Insurance business forms c. 16% of total GWP.**

Growth projections to remain strong in certain segments, Non-life segment to be key growth area

Insurance market in Oman has growth steadily over the years amid favorable demographics and growing working group population. In terms of Gross written premium, the Oman Insurance sector has revealed CAGR of 9.5% over 2011-2016. **As per BMI Research, the Non-life segment in Oman to reveal annualized growth of 7.9% over 2015-2020 on Gross Written Premium (GWP) basis** amid stable economic growth on a longer forecasted period coupled with low insurance penetration and compulsory health insurance for expats. **We see opportunities in increasing both general and life insurance penetration in Oman over the medium to long term perspective.**

Chart 7: Sector growth estimates in Non-life premiums

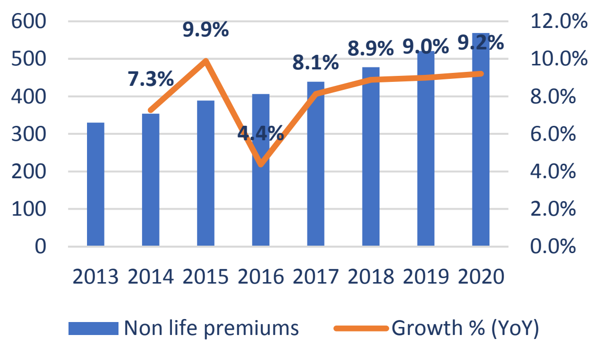
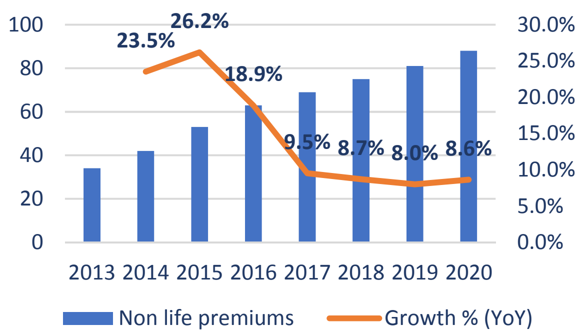


Chart 8: Sector growth estimates in Life premiums



Source: CMA, IPO prospectus, GBCM Research, * Non-Life and Life Premium numbers in RO millions.

Similarly, as per BMI Research, the Life segment in Oman to reveal annualized growth of 8.9% over 2015-2020 on Gross Written Premium (GWP) basis driven factors such as increase in nuclear families coupled with greater awareness among the local population, growth in disposable income and demand from expats community.

Concern remain on fall in New vehicle sales:

The downturn in the economic activity in Oman since 2015 due to prolonged low oil prices has led to decrease in spending in both commercial and retail categories which has resulted in lower sales of new cars. This trend has been witnessed during 2017 (YoY decline of 22%) and the trend continued during this year also. The decline in car sales would impact the growth in new business opportunities in the Motor segment for the Insurance companies. **Despite fall in new car sales, the Oman motor insurance market in terms of number of policies has reported annualized growth of c. 4% over 2014-16.** To reduce this risk, AFIC is looking at diversified product portfolio going forward with the merged entity.

Chart 9: New Vehicle registration trend since 2011

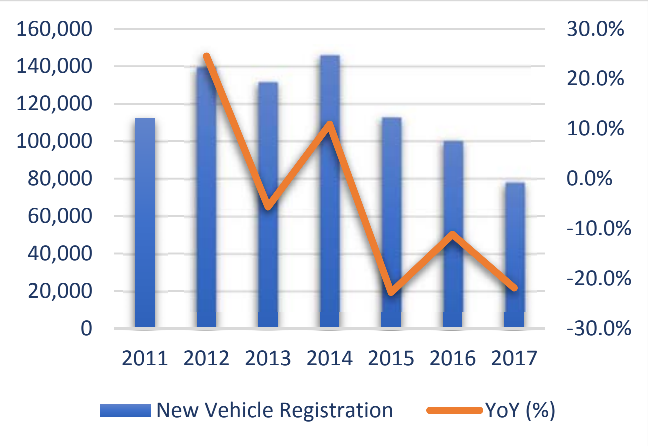
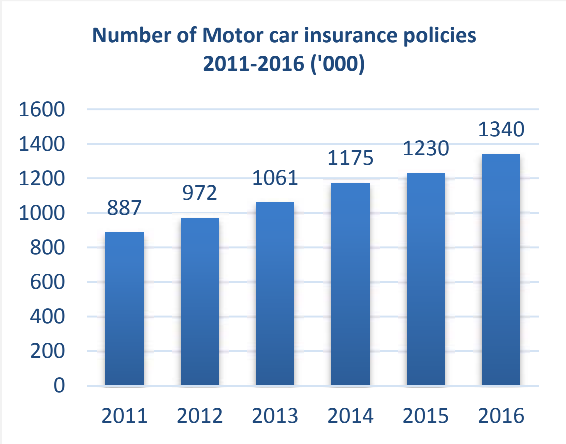


Chart 10: No. of Motor Car Ins. Policies since 2011

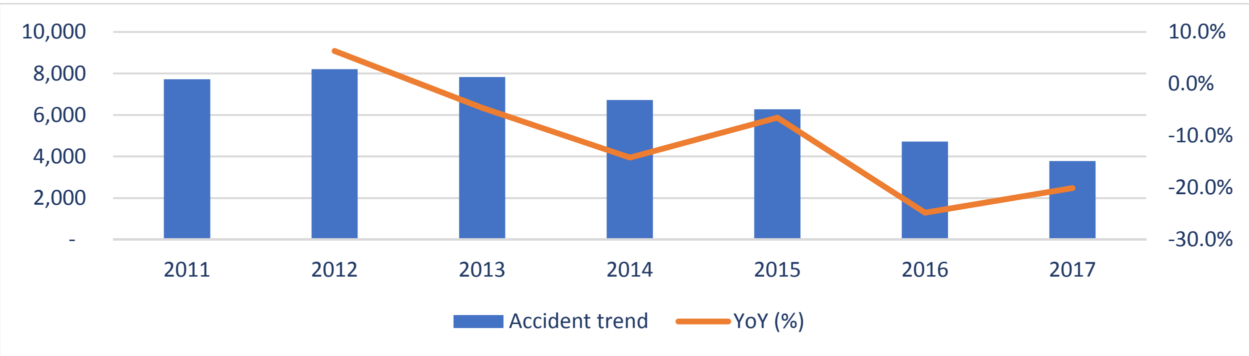


Source: NCSI; IPO Prospectus, GBCM Research

Decline in accidents to remain positive

Speeding has been the major cause for accidents and with Royal Oman Police taking significant steps to curb the same, has yielded positive benefits for the sector. Since 2013 the accidents in Oman were on a declining trend thereby benefitting the Insurance companies with less claims. End 2017, the accidents have declined by 20% YoY, after a decline of 25% in 2016. This is expected to lead to lower claims and improvement in underwriting results for the Insurance companies.

Chart 11: Accident trend since 2011



Source: NCSI; GBCM Research

Lower level retention ratios seen in National insurers:

Retention ratios are one of the key measures of the risk carried by an insurer in their balance sheet rather than being passed to reinsurers. The retention ratios for the national insurers have increased from 43% in 2011 to 52% in 2016, while the retention ratio of foreign insurers has decreased from 75% in 2011 to 70% in 2016. This has resulted in the industry-wide ratios increasing from 53% in 2011 to 57% in 2016. The fall in accidents and claims coupled with increasing retention ratio in Motor segment is likely to improve the underwriting margins of the insurance companies going ahead. In terms of segment, the retention ratios remain highest in motor business with 84%, followed by health and motor insurance at 58% levels.

Table 8: Oman Insurance Sector- Segment-wise retention ratios

Segment	2011	2012	2013	2014	2015	2016
Motor	78%	85%	87%	87%	87%	84%
Health	41%	40%	37%	50%	58%	58%
Property	8%	7%	8%	9%	10%	11%
Marine	27%	22%	21%	21%	17%	19%
Engineering	27%	23%	28%	24%	21%	31%
Liability	33%	35%	44%	40%	40%	36%
Other	30%	33%	38%	47%	31%	29%

Source: CMA Oman, IPO prospectus, GBCM Research

Overall retention ratio for the Oman Insurance sector is c. 57% levels (2016) primarily due to lower level of retention from the national insurers (at 52% levels). **AFIC has a retention ratio of c. 51% to 59% as compared to Industry average of 57% levels. While the company expects to improve the ratios going forward.**

Loss Ratios remain high in Motor and health business: Overall loss ratio of the national insurance companies increased to 71% levels in 2016 as compared to 58% in 2015. While for the foreign companies the same has increased to 64% levels in 2016. The motor business (third party) loss remain the higher at 97% levels and the health insurance segment loss ratio is at 92% levels. **The gross loss ratio of AFIC to remain between 70-75% levels over the next five years more in line with the sector average.**

Overall, we see Oman Insurance Industry is still in growth stages with low penetration, increasing awareness, favorable demographics and the introduction of mandatory policies (in motor/ health etc.)

Overview of Arabia Falcon Insurance Co. (AFIC)

Falcon Insurance Co (FIC) was established in 2005 and since March 2017, it is a subsidiary of Arabia Insurance (AIC), the oldest Insurance group in the region. AFIC is anticipated to benefit from Arabia Insurance regional and local experience and to provide top notch services to the Omani market.

The consolidation of both the companies was completed in March 2017 and the company began operating the business of FIC and Arabia Insurance Oman Branch as a single business from April 2017. In terms of shareholders, the Arabia Insurance remains as a majority shareholder and the second biggest shareholder is Al Anwar Holding.

The Company provides protection services in general insurance and life insurance, and operates form several branches all over Oman, including Ruwi CBD, Seeb, Barka, Sohar, Buraimi, Nizwa and Salalah other than the head office in Qurum in Muscat.

Key Rationale for merger

- Arabia Insurance wants to establish as a local entity
- New regulatory requirements of RO 10 million minimum capital (For local and foreign branches)
- Listing of Local insurance companies in MSM
- Complementary nature of businesses of the two entities
- To achieve economies of scale in several business areas.

AFIC provides a total of various products categorized as general and life insurance, this constitutes of marine, aviation, fire and general risks, and life assurance contracts. Find below is the breakdown of the total contribution of each line of business of the combined entity.

Table 9: AFIC- Combined Entity Market Share

Combined Entity	Number of Polices		Gross Premium (RO)		Market share	
	2015	2016	2015	2016	2015	2016
Marine	741	693	810,829	1,041,964	5.7%	7.7%
Property	1,426	1,374	2,249,953	1,467,204	4.8%	3.2%
Motor-Third Party	31,482	36,523	2,543,606	2,919,170	4.6%	4.6%
Motor-Comprehensive	23,990	22,064	10,152,881	7,631,699	9.4%	8.1%
Motor Total	55,472	58,587	12,696,487	10,550,869	7.8%	6.7%
Health	46	44	407,964	471,819	0.4%	0.4%
Life-Individual	922	1,288	1,552,644	1,880,337	14.6%	5.7%
Life-Group	243	314	5,581,307	907,797	13.2%	2.6%
Life-Total	1,165	1,602	7,133,951	2,788,134	13.5%	4.1%
Engineering	1,299	1,242	2,623,207	1,682,433	11.0%	9.4%
Liabilities	873	895	1,442,040	1,245,654	11.7%	9.2%
Others	1,129	1,079	391,906	325,334	1.5%	1.8%
Total General Insurance	**60,986**	**63,914**	**20,622,386**	**16,785,277**	**5.3%**	**4.4%**
Total Life Insurance	**1,165**	**1,602**	**7,133,951**	**2,788,134**	**13.5%**	**4.1%**
Grand Total	**62,151**	**65,516**	**27,756,337**	**19,573,411**	**6.3%**	**4.4%**

Source: IPO Prospectus

Offer Summary

Purpose of the Offer

The purpose of the offering is to transform the Company from an SAOC to an SAOG and list the Shares on MSM. The conversion and the Offer have been approved by the Shareholders at an EGM held on 19th June 2017.

The Offer will enable the Company to comply with the requirements of **Royal Decree 39/2014** which amended the Insurance Law, requiring existing licensed insurance companies to be converted as SAOGs within three years from the date of the publication of the said Royal Decree in the official gazette.

The selling shareholders are undertaking the IPO to comply with the requirements of Royal Decree and other CMA requirements.

Use of the Proceeds of the Offer

The Offer Proceeds (including the premium and excluding amount collected towards offer expenses) will be remitted in full to the Selling Shareholders on listing of the Offer Shares in MSM.

Therefore, the company will not receive any amount other than the amount collected towards offer expense. If the actual Offer expenses are less than the amount collected from the successful applicants, the surplus will be retained by the Company and credited to its reserves.

The offer shares do not represent an issuance of new shares of the company. The offer shares represent the sale of a part of the shares currently held by the Selling Shareholders.

The proceeds of the Offer (including the premium) is estimated at RO 4.855 million, net of issue expenses, shall accrue to the Selling Shareholders in the ratio of Shares offered.

Expenses related to the offer

The Bzs 2 per offer share collected towards the Issue Expenses will cover a portion of the expenses incurred in relation to the IPO. Estimated Offer expenses collected in total would be RO 51,652.

The total offer expenses will be partially met out of the amount collected towards offer expenses. Any offer expense more than the amount collected (est. RO 133,305) will be borne by the selling shareholders. If the actual offer expenses are less than the amount collected from the successful applicants, the surplus will be retained by the company and credited to its reserves.

Investment Rationale

Combined entity to emerge strong:

With the emphasis on consolidation theme in the sector, Arabia Falcon Ins. (AFIC) is formed post the successful merger of Falcon Ins. and the Arabia Ins. Oman Branch in 2017. The combined entity offers comprehensive range of general and life insurance products and services. The merged company benefits from both local and regional expertise along with the presence of complimentary business offerings and new opportunities. **The business combination is expected to evolve through the strength of strong technical team, corporate relations, wide network, enhanced reinsurance capacities to achieve economies of scale.**

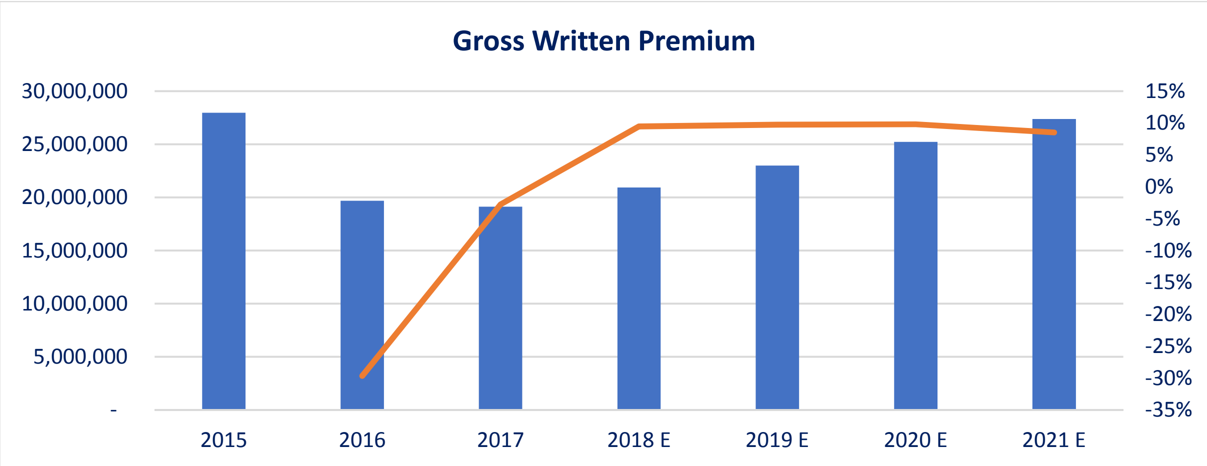
Solid shareholder background:

AFIC has strong promoter background with Arabia holding as the major shareholder. Arabia Insurance is one of the oldest insurance companies in the region with more than 73 years of experience across the MENA region. The company has one of prominent investment companies Al Anwar Holding as their promoters. The management of the company remain strong with rich experience in the local, regional and international Insurance markets.

Premium growth assumptions remain optimistic:

As per the IPO prospectus, the motor business is estimated to reveal annualized growth of 5-6% over 2017-2021E with increase in business trend. While the non-motor business growth to remain strong going forward with the company finalizing certain projects in 2017 and in early 2018. **Overall Gross premium growth of the company is estimated at 7.4% over 2017-2021E.**

Chart 12: Gross Written Premium Growth Trend



Source: IPO Prospectus, Company Reports, GBCM Research

In the life and medical segment, the company has formed specialized sales team to focus on individual life to achieve growth targets. The life portfolio of the company increased c. 26% YoY during Q3 2017. The company expects robust growth in the life business going forward. **Life business is estimated to contribute c. 27% of AFIC business by 2021 from the current levels of about 16% (2016).**

AFIC has estimated diversified product portfolio over the next three years to improve profitability.

Find below the chart with Product Portfolio Distribution

Chart 13: 2016- Product Portfolio

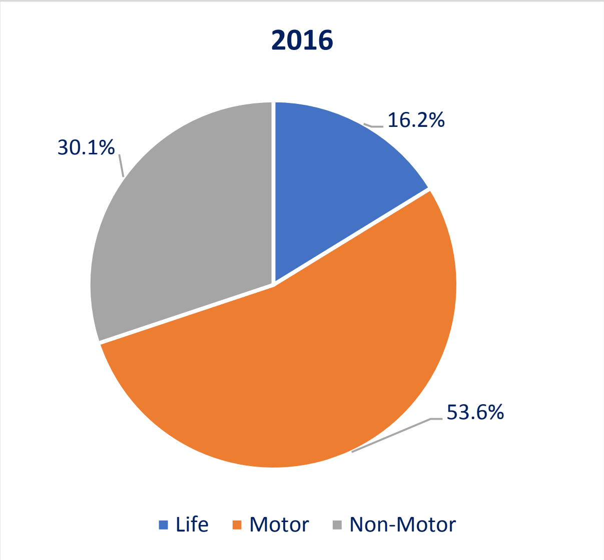
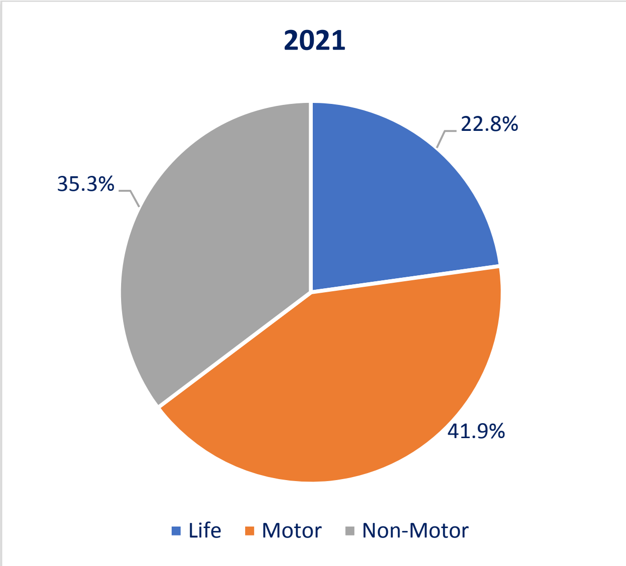


Chart 14: 2021- Product Portfolio



Source: IPO Prospectus, Company Reports, GBCM Research

Traditional distribution strategy:

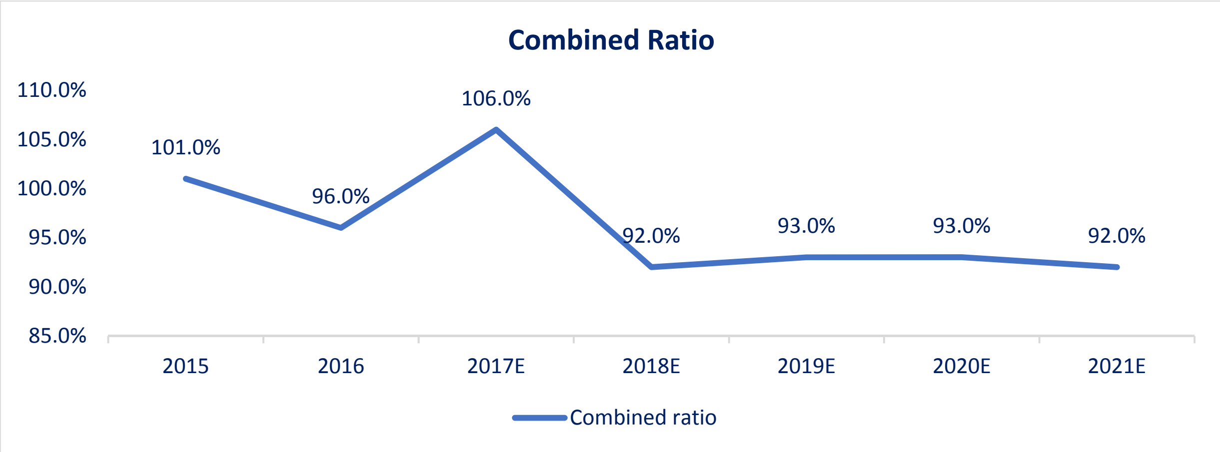
The company distributes its products and services through all traditional marketing channels which include branches, brokers, agents and sales force. In the addition, the company serves corporate customers from its head office. AFIC has five branches and proposed to add three more branches soon. **The additional branches would help the company to reach retail customers in new areas where the growth could come.** While we would need to see how the company would progress in the new distribution channels like digital sales (online) and e-portals during the coming years.

Concern remains on volatile performance:

The historical performance of the company remains volatile amid higher losses, additional unearned premium reserve (UPR) charges and other merger related costs. During 2017, the earnings of the company impacted due to several one-off items. Excluding these, the normalized profit after tax is estimated at RO 1.426 million as compared to reported net profit of RO 886K (which is higher than the IPO estimates).

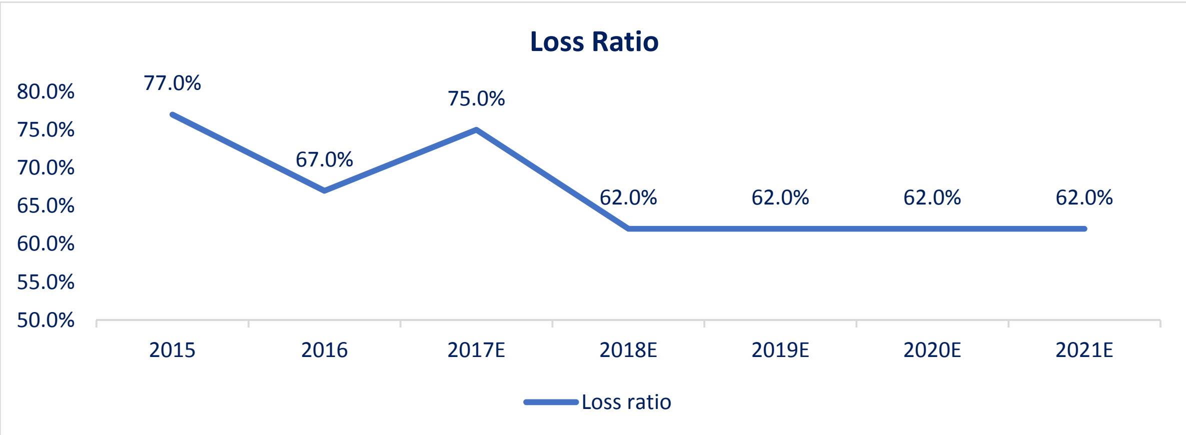
The average combined ratio of the company remained above 100% levels during last three years amid average loss ratios of c. 73%, which is a key concern area. The management projections remain optimistic in terms of both these ratios. The combined ratio to average c. 92.5% levels over the next four years and the loss ratio to decline sharply to c. 62% levels, this remain as a key reason for stronger performance going forward. While the management remains confident on their IPO projections, we remain skeptical.

Chart 15: AFIC- Combined Ratio trend- Projected average of c. 93% over 2018-21E



Source: IPO Prospectus, Company Reports, GBCM Research

Chart 16: AFIC- Loss Ratio - Projected average of c. 12% over 2017-20E- Reasonable levels



Source: IPO Prospectus, Company Reports, GBCM Research

Find below the table with the details of AFIC- Claim Ratios

Table 10: AFIC- Claim Ratio

	2016	2017E	2018E	2019E	2020E	2021E
Motor	-81%	-79%	-76%	-74%	-74%	-74%
Non- Motor	-44%	-45%	-45%	-45%	-45%	-45%
Total General	**-68%**	**-66%**	**-64%**	**-62%**	**-62%**	**-61%**
Total	**-67.0%**	**-75.0%**	**-62.0%**	**-62.0%**	**-62.0%**	**-62.0%**

Source: IPO Prospectus, Company Reports, GBCM Research

Table 11: Our Views on the Key IPO Assumptions

Parameter	Assumptions	Comments
Gross Written Premium (GWP)	2017-2021E -CAGR 9.2%	Historically the company has witnessed inconsistent growth in GWP. **Management estimates growth strategy in non-motor business to support.**
Retention Ratio	2017E-2020E – 55-60% of Gross Written Premium	Falcon Ins. retention ratio used to be 45% levels, while Arabia Insurance used to be at 70-80% and going forward the management expects retention to be c. 55-60% in the combined entity. Retention to increase during the projected period amid better underwriting, risk management and market study.
Outstanding Claims and UPR reserve	Regulatory requirements	Globally, the Insurance sector considers 1/24th method as a statistically acceptable method for calculation of UPR. However, the company has adopted the higher of 45% and 1/24 method.
Doubtful Accounts	Different aging brackets and percentages	The combined entity has prepared a new credit policy to be followed including all critical aspects
Investment Income	Annual Investment return over 2017-20E at 5.0%	Equity exposure to remain low at 4%, the increase in asset allocation to fixed deposits and bonds to protect investment returns over projected period.
Claim Ratio	Average 2018-21E- 62%	Aggressive projections for the period 2018-2021E. Historically the average claims ratio stood at 72% over 2014-2017. The company to improve the loss ratio on the back of better controls implemented in motor business and exiting loss generating business. Added, the shift towards individual life which has lower loss ratio to improve overall gross loss ratio.
Profit After Tax	2016-2020E -CAGR 11%	Aggressive growth projections amid improved underwriting results over 2017-21E. Historically, the earnings trend have remained volatile with certain one-off items in 2017. Ambitious projections amid current economic situation coupled with increasing competition.
Dividend Payout	Average 2017-21E-70%	Reasonable dividend payout policy to be adopted taking into consideration of growth projections. **Insurance company do see several risks in terms of underwriting/ higher claims, increase in UPR and regulatory contingency provisions**. Dividend payout to remain volatile depending on performance.

Source: IPO Prospectus, GBCM Research

Table 12: ***Risks and Concerns…***

Risks Involved	Impact	Mitigates
Economic Growth and Oil Price	Performance and prospects are directly linked to economic growth and outlook. Oman's economic growth is significantly influenced by the oil prices. The sharp decline in oil price during last two years poses a significant risk for the economy and to the insurance sector and the company.	Oman's Ninth Plan (2016-2020) and Tanfeedh program aim to enhance diversification by adopting a set of objectives, policies and mechanisms, and eventually help the economy to revive from the economic downturn. Oman's General Budget for 2018 targets priority projects and broaden non-oil revenue. These measures are likely to mitigate the impact.
Concentration risks	AFIC in 2016 has concentration of risk mainly in motor business and individual life segments whereby maximum risk exposure (total sums insured less reinsurance) amounted to 43% and 33% respectively.	The concentration of insurance risk exposure is mitigated by implementation of underwriting strategy, which attempts to ensure that the risks underwritten are well diversified across a large portfolio in terms of type, level of insured benefits, and amount of risk, industry and geography. Underwriting limits are in place to enforce risk selection criteria.
Risks related to reinsurance	Reinsurance arrangements with many reinsurers and this enables to secure some protection against losses, to expand its underwriting capacity and to give some stability to its underwriting results. The effectiveness of these arrangements depends on acceptance and settlement of claims made on the reinsurers by the Company.	To minimize its exposure to significant losses from reinsurer insolvencies, the company evaluates financial condition of its reinsurers and monitors concentration of credit risk arising from similar geographic regions, activities or economic characteristics of the reinsurers. The Company has a policy of dealing with reinsurers rated by S&P and A M Best.
Investment Risk	As with many insurance companies, a major portion of the income and profits is derived from its investment portfolio, and therefore the financial performance could be substantially affected by any decline in investment performance.	The company manages such risks by setting and monitoring objectives and constraints on investments, diversification plans and limits on investments in country, sector and market.
Market Size and Competition	The insurance market in Oman is highly competitive with 20 insurance companies operating which exposes the risk that its revenues may not grow or be sustained at the projected levels. Further, this could also lead to greater price competition between companies which could impact the profitability.	As stated earlier the insurance market is expected to grow which in turn is expected to permit the various players to share the growth. Further, with the support of Arabia Insurance and its experienced management team, the Company believes that it is well placed to successfully compete in the market.

Dividend policy may not be fulfilled	Dividend payments are not guaranteed and the Board may decide, in their absolute discretion, at any time and for any reason, not to recommend dividend based on the performance.	Falcon has sufficient reserves and recurring income which would substantiate consistent dividend payment in the future. While the risk on the sustainable dividends would remain for an insurance company.
Loss of Business	The insurance policies issued by the Company are generally for a one-year period and are renewable annually. If the Company's customers do not renew their insurance policies, and shift their business to another company, this will adversely affect the Company's revenues and market share.	AFIC is placing emphasis on offering appropriate products that effectively meet the customer requirements at competitive rates. It is focusing on further improving its customer service to respond quickly to customer requirements. The company taken efforts to help it retain and grow its customer base.

Source: IPO Prospectus, GBCM Research

Valuations and Recommendation…

Table 13: Valuation method 1. Justified Price to Book Value (PBV) Method – On Total Equity

1. Price to Book Value Method	2016	2017	2018	2019	2020
Book Value	0.146	0.179	0.188	0.195	0.205
Return on Equity (RoE)	10.6%	3.8%	11.4%	11.4%	12.1%
RoE - 2018-19E	11.4%				
Cost of Equity	11.3%				
Terminal Growth	1.0%				
PBV- Justified	**1.02**				
Book Value (2018E)	0.188				
Fair Value per Share	**0.191**				

Source: IPO Prospectus; GBCM Research

Our Justified Price to Book Value (PBV) takes into consideration of average RoAE of 11.4% for 2018-19E and Cost of Equity of 11.28% and Terminal growth rate of 2%. We have considered the near term RoAE estimates in our valuations to arrive at 12-month fair value.

Based on the estimated RoAE (total equity), the justified book value of AFIC works out to be 1.02X. In our justified P/BV methodology, based on the average RoAE of c. 11.4% levels over next two years and assuming terminal growth rate of 2%, the stock would trade at c. 1.02X.

Based on 2018E Book Value multiples, the fair value works out to be RO 0.191.

Table: 14: PBV- Sensitivity Analysis

		Discount Rate (%)				
Sensitivity Analysis		**10.5%**	**11.0%**	**11.275%**	**11.5%**	**12.0%**
Terminal Growth Rate (%)	**1.0%**	0.207	0.196	0.191	0.187	0.178
	1.5%	0.208	0.197	0.191	0.187	0.178
	2.0%	0.209	0.197	**0.191**	0.187	0.177
	2.5%	0.210	0.198	0.191	0.187	0.177
	3.0%	0.212	0.198	0.192	0.187	0.176

Source: IPO Prospectus; GBCM Research

In our sensitivity analysis, the increase in cost of equity to 12% and assuming similar growth rate of 2%, the fair value works out to be c. RO 0.177, discount to the offer price

Table 15: Valuation method 3. Relative- Price to Earnings (P/E) Methodology

4.Relative- P/E Methodology	2016	2017E	2018E	2019E	2020E
EPS	0.016	0.007	0.022	0.022	0.025
P/ E	6.9	28.0	8.8	8.6	7.6
Relative- P/E - 2018E (9X)	**0.197**				

Source: IPO Prospectus; GBCM Research

On the IPO price, the stock trades at PE (2017E) of 28X and PE (2018E) of 8.8X.

Based on our comparable P/E methodology, we have assumed the Oman Insurance Sector average PE of 9X and applied the same on projected 2018E Earnings per Share (EPS) of AFIC.

The fair value on P/E method works out to be RO 0.197

Table 16: Valuation method 3. Relative- Div. Yield Methodology

3. Relative- Div. Yield Methodology	2016	2017E	2018E	2019E	2020E
Dividend Per Share		0.013	0.015	0.015	0.018
Dividend Yield (%)		6.6%	7.9%	7.9%	9.2%
Relative Div. Yield- 2018E (@7.5%)	**0.200**				

Source: IPO Prospectus; GBCM Research

In our relative and comparable dividend yield approach, we have taken the Oman Insurance Sector average dividend yield of circa 7.5% and discounted the same with 2018E dividends.

Adjusting for 7.5% dividend yield, **the fair value in this method works out to be RO 0.200**

Table 17: Valuation method 4. Dividend Discount Model (DDM)- Three Stage

DDM Valuation- Three Stage		**Apr-18**	**Mar-19**	**Mar-20**	**Mar-21**	**Mar-22**
Period		0.08	1.01	2.01	3.01	4.01
Dividend Per Share	(In RO)	0.013	0.015	0.015	0.018	0.020
Total Dividends	(RO 000s)	1,291	1,550	1,550	1,808	2,066
Div. Payout	(%)	184.2%	69.8%	67.6%	70.4%	70.7%
Present Value of Div.	(RO 000s)	1,281	1,392	1,251	1,311	1,347
Terminal Value		22,275				
Present value of TV		14,520				
Fair Value		21,102				
No. of Shares		103,302				
Fair Value per share		**0.204**				

Source: IPO Prospectus; GBCM Research

Valuation Assumptions

- Cost of Equity of the entity is assumed at 11.275% levels; Risk free rate assumed at 5.75% and Market return at 10%. BETA assumed at 1.30 based on our in-house risk rating model taking into consideration of the risks associated with Insurance company with diversified market presence.

- We have assumed dividend projections (IPO) till 2021E (based on IPO projections) and incorporated 2.0 % terminal growth beyond projected period.

- **On DDM methodology, the fair value on our base case works out to be RO 0.204,** with the dividend payout policy of the company is about 70% levels

Table 18: ***DDM- Sensitivity Analysis***

		Discount Rate (%)				
		10.5%	**11.0%**	**11.275%**	**11.5%**	**12.0%**
Terminal Growth Rate (%)	**1.0%**	0.206	0.196	0.191	0.187	0.178
	1.5%	0.214	0.203	0.197	0.193	0.184
	2.0%	0.222	0.210	0.204	0.200	0.190
	2.5%	0.232	0.219	0.212	0.207	0.197
	3.0%	0.243	0.229	0.221	0.216	0.204

Source: GBCM Research

- On our sensitivity analysis (worst case), increasing the cost of equity to 12% and maintaining the terminal growth, the value works out to be RO 0.190.

- On the other hand, lowering the cost of equity to 10.5%, the value of the stock is at RO 0.222.

Table 19: Weighted Fair value at RO 0.198, No listing gains seen…

Find below the table with the synopsis of various valuation methodologies used.

Valuation Methodologies	Fair Value (In RO)	Weight (%)	Comment
1. Price to Book Value Method	0.191	25%	Justified PBV as compared to Average RoAE (2018-19E)
2. Relative- P/E Methodology	0.197	25%	9X multiples 2018-19E EPS (Oman Ins. Sector Average).
3. Relative- Div. Yield Methodology	0.200	25%	We have assumed 7.5% Div. Yield Adjustment
4. Dividend Discount Model (DDM)	0.204	25%	Assumed IPO Dividends till 2021E
Weighted Fair Value	**0.198**		**Upside of c. 4.2% from the offer price**

Source: GBCM Research Estimates

Outlook- Merger to create strong entity, Neutral on valuations:

The successful business merger of the entity remains as one of the strong points in our investment case with our clear emphasis on the need of sector consolidation. We do incline to the consolidation theme with the emergence of stronger entity to achieve economies of scale along with strong local and regional shareholders support. While, the historical performance remains volatile and the IPO projections remain optimistic on prevailing competitive environment. Overall, we rate the IPO as an average issuance.

We initiate coverage with a **Neutral** rating, the offer price provides no major upside**. Our weighted fair value is at RO 0.198** (Justified PBV, P/E, Div. Yield and DDM Model). We may see the issue favored by select Institutional investors who are keen on the Insurance sector exposure. While, we do expect lower level of retail participation post mixed response in the previous Insurance sector IPOs. Downside earnings risk remain in lower level of growth rates, pricing pressure due to competition, increasing regulatory restrictions and higher operating costs. Added, the delays in achieving merger efficiencies and cultural synergies to impact the performance of the company.

Table 20: *Income Statement Highlights*

Figures In RO	2015	2016	2017	2017 E	2018 E	2019 E	2020 E	2021 E
Gross premium written	27,977,358	19,675,918	19,131,004	19,320,669	20,944,129	22,984,807	25,238,863	27,388,919
YoY (% Chg)	-1.4%	-29.7%	-2.8%		8.4%	9.7%	9.8%	8.5%
Revenue								
Underwriting Results	**2,937,674**	**3,815,961**	**2,860,160**	**2,646,333**	**4,256,574**	**4,445,250**	**4,858,736**	**5,295,230**
Investment income	266,830	794,828	1,000,179	971,838	1,141,489	1,191,887	1,341,145	1,513,145
Other income	1,642,234	407,032	386,302	354,804	366,237	382,180	401,154	419,489
Total Revenue	**4,846,738**	**5,017,821**	**4,246,641**	**3,972,975**	**5,764,300**	**6,019,317**	**6,601,035**	**7,227,864**
YoY (% Chg)	17.5%	3.5%	-15.4%		45.1%	4.4%	9.7%	9.5%
General and Admin Exp.	(2,992,701)	(3,060,047)	(3,199,931)	(2,968,038)	(3,004,048)	(3,189,640)	(3,456,438)	(3,687,840)
Depreciation	-	-		(55,403)	(43,676)	(34,659)	(42,159)	(23,455)
Amortization of intangibles	-	-		(87,801)	(104,466)	(104,466)	(93,241)	(109,903)
Total expenses	**(2,992,701)**	**(3,060,047)**	**(3,199,931)**	**(3,111,242)**	**(3,152,190)**	**(3,328,765)**	**(3,591,838)**	**(3,821,198)**
YoY (% Chg)	2.1%	2.3%	4.6%		1.3%	5.6%	7.9%	6.4%
Operating profit	**1,854,037**	**1,957,774**	**1,046,710**	**861,733**	**2,612,110**	**2,690,552**	**3,009,197**	**3,406,666**
Tax expenses	(357,617)	(193,456)	(160,713)	(160,668)	(390,782)	(397,062)	(443,139)	(485,453)
Profit /loss for the year	**1,496,420**	**1,764,318**	**885,997**	**701,065**	**2,221,328**	**2,293,490**	**2,566,058**	**2,921,213**
YoY (% Chg)	57.7%	17.9%	-49.8%		216.9%	3.2%	11.9%	13.8%

Source: IPO Prospectus; GBCM Research

AFIC has reported better than estimated results in 2017. The actual underwriting results for 2017 stood at RO 2.860 million as compared to IPO estimates of RO 2.646 million. While the net profit for 2017 is at RO 885,997 as compared to estimates of RO 701,065 in the IPO prospectus.

Table 21: ***Balance Sheet Highlights***

Historical- Combined Balance Sheet- Figures in RO	2014	2015	2016
Assets			
Cash and equivalents	1,291,187	1,418,404	980,875
Bank deposits	23,840,099	25,616,620	24,423,448
Financial assets at FV through PL	6,753,523	2,973,532	4,590,745
Available for sale investments	1,077,430	1,667,528	3,740,736
Reinsurance contract assets	11,427,624	9,675,902	8,868,925
Insurance and other receivables	6,766,839	5,638,868	5,689,449
Property plant and equipment	79,663	2,001,644	105,847
Intangible assets	76,544	3,964	128,623
Deferred tax	8,978	8,698	59,044
Total assets	**51,321,887**	**49,005,160**	**48,587,692**
Equity and liabilities			
Capital	6,394,457	6,394,457	6,394,457
AIC branch head office account	5,716,120	5,087,672	4,982,907
legal reserve	319,051	499,261	596,516
Contingency reserve (AFIC)	1,283,307	1,510,221	1,657,092
Contingency reserves (AIC Branch)	944,244	948,222	1,698,082
Investment revaluation reserves	158,383	174,094	192,689
Retained earning	157,386	922,981	1,053,868
Total equity	**14,972,948**	**15,536,908**	**16,575,611**
Current Liabilities			
Insurance contract liabilities	26,296,463	29,633,766	28,365,274
Insurance accrued and other payables	9,866,423	3,529,416	3,378,550
Provision for income tax	186,053	305,070	268,257
Total liabilities	**36,348,939**	**33,468,252**	**32,012,081**
Total equity and liabilities	**51,321,887**	**49,005,160**	**48,587,692**

Source: IPO Prospectus; GBCM Research

Table 22: *Balance Sheet Highlights – Projected*

Balance Sheet- Projected (In RO 000s)	2017 E	2018 E	2019 E	2020 E	2021 E
Assets					
Non-Current Assets					
Property plant and equipment	87,860	64,184	29,525	27,366	3,911
Intangible assets	1,264,063	1,209,597	1,105,130	1,011,889	951,986
Investments available for sale	6,500,000	7,000,000	7,500,000	9,000,000	9,000,000
Term Deposits	21,000,000	21,300,000	21,500,000	21,500,000	21,500,000
Total Non-current assets	**28,851,923**	**29,573,781**	**30,134,655**	**31,539,255**	**31,455,897**
YoY (% Chg)		2.5%	1.9%	4.7%	-0.3%
Current Assets					
Investment at FV through PL	500,000	800,000	1,300,000	1,500,000	3,000,000
Term Deposits	2,500,000	1,500,000	2,000,000	3,000,000	4,000,000
Insurance and Other Receivables	3,864,134	4,188,826	4,596,961	5,047,773	5,477,784
Reinsurance share in insurance funds	6,195,703	6,538,664	7,184,498	7,355,607	7,610,911
Bank balances and cash	50,655	133,050	192,931	92,697	315,271
Total Current Assets	**13,110,492**	**13,160,540**	**15,274,390**	**16,996,077**	**20,403,966**
YoY (% Chg)		0.4%	16.1%	11.3%	20.1%
Total Assets	**41,962,415**	**42,734,321**	**45,409,045**	**48,535,332**	**51,859,863**
YoY (% Chg)		1.8%	6.3%	6.9%	6.8%
Equity and liabilities					
Share Capital	10,330,166	10,330,166	10,330,166	10,330,166	10,330,166
Share Premium	1,749,442	1,749,442	1,749,442	1,749,442	1,749,442
Legal Reserve	666,622	888,755	1,118,104	1,374,710	1,666,831
Contingency reserve	3,909,703	4,311,662	4,715,153	5,169,627	5,676,265
Fair Value Reserve	234,721	234,721	234,721	234,721	234,721
Dividend payable	1,291,271	1,549,525	1,549,525	1,807,779	2,066,033
Retained earnings	310,099	357,811	468,935	516,133	572,552
Total Shareholders' equity	**18,492,024**	**19,422,082**	**20,166,046**	**21,182,578**	**22,296,010**
YoY (% Chg)		5.0%	3.8%	5.0%	5.3%
Non-Current liabilities					
Provision for employees end of service indemnity	411,830	473,605	544,645	571,878	600,471
Total non-current liabilities	**411,830**	**473,605**	**544,645**	**571,878**	**600,471**
YoY (% Chg)		15.0%	15.0%	5.0%	5.0%
Current liabilities					
Insurance Funds	15,362,831	14,279,643	15,337,218	16,494,580	17,796,249
Insurance accounts payable	5,796,201	6,283,239	6,895,442	7,571,659	8,216,676
Claims and other payables	1,738,860	1,884,972	2,068,633	2,271,498	2,465,003
Taxation	160,668	390,782	397,062	443,139	485,453
Total current liabilities	**23,058,560**	**22,838,636**	**24,698,355**	**26,780,876**	**28,963,381**
YoY (% Chg)		-1.0%	8.1%	8.4%	8.1%
Total Liabilities	**23,470,391**	**23,312,239**	**25,242,999**	**27,352,754**	**29,563,853**
Total equity and liabilities	**41,962,415**	**42,734,321**	**45,409,045**	**48,535,332**	**51,859,863**
YoY (% Chg)		1.8%	6.3%	6.9%	6.8%

Source: IPO Prospectus; GBCM Research

Table 23: ***Ratio Analysis***

Key Ratios	2014	2015	2016	2017E	2018E	2019E	2020E	2021E
Growth (YoY % Chg)								
Gross Insurance premium revenue		-1.4%	-29.7%	-1.8%	8.4%	9.7%	9.8%	8.5%
Net underwriting result		-11.8%	29.9%	-30.7%	60.8%	4.4%	9.3%	9.0%
Investment income (net)		345.6%	197.9%	-20.8%	17.5%	4.4%	12.5%	12.8%
Earnings Growth		57.7%	17.9%	-60.3%	216.9%	3.2%	11.9%	13.8%
Total Assets Growth		-4.5%	-0.9%	-13.6%	1.8%	6.3%	6.9%	6.8%
Total Equity Growth		3.8%	6.7%	11.6%	5.0%	3.8%	5.0%	5.3%
Per Share Ratio (In RO)								
EPS	0.008	0.013	0.016	0.007	0.022	0.022	0.025	0.028
Book Value	0.124	0.135	0.146	0.179	0.188	0.195	0.205	0.216
Cash Dividend Per Share	0.005	0.010	-	0.013	0.015	0.015	0.018	0.020
Multiples (x)								
PE	24.3	14.6	12.3	28.0	8.8	8.6	7.6	6.7
PBV	1.54	1.40	1.30	1.06	1.01	0.97	0.93	0.88
Dividend Yield (%)	2.6%	5.3%	0.0%	6.6%	7.9%	7.9%	9.2%	10.5%
Cash Dividend Payout (%)	0.0%	0.0%	0.0%	184.2%	69.8%	67.6%	70.4%	70.7%
Profitability Ratio (%)								
Return on Equity (RoE)	6.3%	9.6%	10.6%	3.8%	11.4%	11.4%	12.1%	13.1%
Return on Average Equity (RoAE)	6.3%	9.3%	11.2%	4.2%	11.7%	11.6%	12.4%	13.4%
Return on Assets (RoA)	1.8%	3.1%	3.6%	1.7%	5.2%	5.1%	5.3%	5.6%
Return on Average Assets (RoAA)	1.8%	3.0%	3.6%	1.5%	5.2%	5.2%	5.5%	5.8%
As % of Gross Written Premium (GWP)								
Net Underwriting results as % of GWP	11.7%	10.5%	19.4%	13.7%	20.3%	19.3%	19.3%	19.3%
Inv. Income as % of GWP	0.2%	1.0%	4.0%	5.0%	5.5%	5.2%	5.3%	5.5%
PBT as % of GWP	4.2%	6.6%	10.0%	4.5%	12.5%	11.7%	11.9%	12.4%
PAT as % of GWP	3.3%	5.3%	9.0%	3.6%	10.6%	10.0%	10.2%	10.7%
Key Ratios (%)								
Net Loss Ratio	70.0%	77.0%	67.0%	75.0%	62.0%	62.0%	62.0%	62.0%
Combined Ratio	94.0%	101.0%	96.0%	106.0%	92.0%	93.0%	93.0%	92.0%

Source: IPO Prospectus; GBCM Research

Stock Rating Methodology:

Buy *- Upside more than 20%*
Accumulate *- Upside between 10% and 20%*
Neutral *- Upside or downside less than 10%*
Reduce *- Downside between 10% and 20%*
Sell*- Downside more than 20%*
Not Rated *- Stocks not in regular research coverage*

Time Horizon

LT – *Long Term rating with a 12 to 18-month horizon*
ST – *Short Term rating with a 3 to 6-month horizon*