

Islamic Arab Insurance (Salama)

Earnings Flash Note

Sunday February 14, 2010



Salama 2009 Preliminary Results

Company Description

Islamic Arab Insurance is a market leading takaful and retakaful company with exposure to MENA and central Asia. The company was incorporated in 1979 in Dubai and has been a pioneer in Islamic Insurance and Reinsurance.

Investment Theme/Thesis

Salama is a company that has considerable potential to attract further low cost capital from its gross premium written and above average combined ratio. The company's expertise and brand equity in Islamic insurance makes it difficult for conventional insurers to compete in its core markets.

Investment Points

- Insurance penetration in MENA markets remains well below developed countries at 1% of GDP compared to 9.5%.
- Islamic insurance while still an industry in its infancy is exhibiting tremendous growth relative to conventional insurance.
- The company has maintained healthy net underwriting margins of 10-15% throughout its history reflecting a disciplined underwriting practice.
- Premium/Equity is running at 1.1x on an assumed combined ratio of 90-95% and modest investment gains imply returns in the 15-19% range.
- The company also owns a 30% stake in Salama Saudi which currently has a market cap of SAR 550 million.

2009 Review

- 2009 gross premium written grew 19% to AED 1.58 billion and operating profit reached AED 184 million.
- Net underwriting margin remained at 12% roughly flat with last year.
- Annualized Q4 net income of AED 51 million gives the company an earnings multiple of 4.5x.
- Shareholders equity grew 10% year on year to approximately AED 1.5 billion.
- As of Q3 09 the company had cash and short-term deposits of AED 800 million and investments of AED 820 million compared to a current market cap of AED 900 million.
- Salama's balance sheet continues to grow in the right places giving management flexibility that could allow for a significant share buy-back or acquisition.

Possible Negatives

There is a perception that the company's investment book is heavily exposed to the UAE market. In reality, Salama's investments are predominantly held in government bonds and international funds. In fact, domestic investments only account for 4% of total investments.

Recommendation

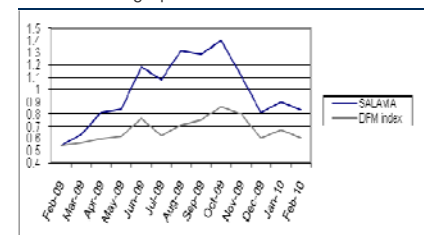
Not Rated

Stock Data

Price (as of Feb 14 2010) (AED)	0.82
Target Price (AED)	NA
Upside / Downside	NA
Market Cap (AED mn)	902.0
Market Cap (USD mn)	245.6
Shares outstanding (bn)	1.1
52 Wk Av. value traded (USD mn)	3.5
Reuters / Bloomberg	SLAMA.DU / SLAMA UH
Exchange Rate (EGP / USD)	3.7

Source: Reuters, Rasmala Research

Performance graph



Source: Reuters, Rasmala Research

12m High / Low (AED) 1.45/ 0.55

	1M	3M	12M
Salama	-3.5%	-25.5%	46.4%
DFM Index	-5.3%	-25.3%	8.7%

Source: Reuters, Rasmala Research

Major Shareholders

	(%)
Noor Al Ain Management Services	13.7
Aiyad Management Services	10.0
Others	31.0
Free Float	45.3

Source: Company data

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