Qatar Insurance Company (QATI)

Recommendation	ACCUMULATE	Risk Rating	R-3
Share Price	QR74.50	Target Price	QR86.74
Implied Upside	16.4%		

Regional Heavyweight Aiming for Global Presence

QATI is the market leader in the GCC and MENA insurance industry. *It benefits from the regional growth story and has recently embarked on an international expansion (acquired 100% of Antares Holdings Limited, a leading specialist insurer and reinsurer operating in the Lloyd's market) that will increase its global footprint and allow it to expand in other geographical markets. We expect the firm to post strong 29.4% and 10.7% YoY bottom-line growth in 2014 and 2015, respectively. Hence, we initiate coverage with an Accumulate rating and a target price of QR86.74.*

Highlights

- **Low penetration levels imply significant opportunity.** According to industry estimates, the total GCC insurance market should reach roughly $37bn in 2017e from $16bn in 2012. Furthermore, overall insurance penetration in the GCC region will improve from ~1.1% in 2012 to ~2.0% in 2017. We believe QATI is well positioned to benefit from this growth scenario and will maintain its position as the market leader in the region.
- **Antares acquisition to provide global reach.** QATI has sights on the international market. The company made its first significant acquisition in 2014 by buying the entire share capital of Antares Holdings Limited. Antares is a leading specialist insurer and reinsurer operating in the Lloyd's market. Hence, the acquisition of Antares will provide QATI with access to the Lloyd's market.
- **QATI offers an attractive growth story – top-line and bottom-line to post strong double-digit growth.** We believe QATI offers a highly compelling longer-term growth story. We estimate the combination of current operations and new acquisitions to drive top-line and bottom-line CAGRs of 23.3% and 14.7%, respectively, over the next four years (2013-2017e).

Catalysts

- **Acquisition of Antares will boost revenue in the latter part of 2014.** The aforementioned acquisition should improve results in the latter part of 2014 and should act as a catalyst for the stock price. Furthermore, if QATI acquires to penetrate other prospective regions, such as the Far East market, this could also act as a future catalyst for the stock price.

Recommendation, Valuation and Risks

- **Recommendation and valuation:** ***We rate QATI an Accumulate with a price target of QR86.74.*** QATI trades at a P/E multiple of 12.3x, P/B of 2.0x, offers a ROE of 17.5% and a dividend yield of 3.4% on our 2014 estimates.
- **Risk:** 1) Expected growth from acquisitions does not materialize; 2) Entry of new players; 3) Global economic issues and 4) Global catastrophic events.

Key Financial Data and Estimates

	2012	2013	2014e	2015e
EPS (QR)	3.80	4.69	6.07	6.72
EPS Growth (%)	3.1%	23.4%	29.4%	10.7%
P/E (x)	19.6	15.9	12.3	11.1
ROE	17.5%	17.1%	17.5%	17.3%
DPS (QR)	1.39	2.00	2.50	3.00
Dividend Yield (%)	1.9%	2.7%	3.4%	4.0%

Source: Company data, QNBFS estimates; Note: All data based on current number of shares

Key Data

Bloomberg Ticker	QATI QD
ADR/GDR Ticker	N/A
Reuters Ticker	QINS.QA
ISIN	QA0006929838
Sector	Insurance
52wk High/52wk Low (QR)	76.00/43.60
3-m Avg. Volume (000)	153.0
Mkt. Cap. ($ bn/QR bn)	3.3/12.0
Shares Outstanding (mn)	160.5
FO Limit* (%)	24.8
Current FO* (%)	4.8
1-Year Total Return (%)	71.6
Fiscal Year End	Dec 31

Source: Bloomberg (as of April 20, 2014), *Qatar Exchange (as of April 20, 2014); Note: FO is foreign ownership

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Executive Summary

Low Penetration Levels in the Region Imply Significant Opportunity

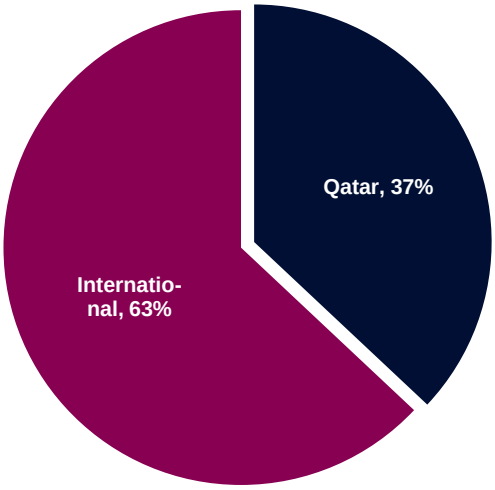
As awareness grows for insurance products, we believe QATI and other insurers should benefit. Over the last decade, the insurance industry in the Gulf Cooperation Council (GCC) has experienced sustained growth on the back of economic development, population growth, improved regulatory environment and increased product awareness. However, despite the strong performance, the sector is still relatively underpenetrated and key indicators trail the world average by a big margin. However, we believe the fundamental growth story remains intact with Shari'a compliant insurance a vital cog in increasing acceptance and awareness in the region. According to industry reports, the GCC insurance industry is projected to grow to ~$37bn by 2017 from ~$16bn in 2012, with overall insurance penetration in the GCC to improve from ~1.1% in 2012 to ~2.0% in 2017; insurance density is anticipated to more than double during this period. According to industry experts, Saudi Arabia may surpass the United Arab Emirates (UAE) as the largest insurance market in the region going forward. The Saudi insurance industry is seen as a major driver behind the growth of the GCC insurance industry. Other GCC countries are also expected to post double-digit CAGRs between 2012 and 2017.

Government-driven economic investment/diversification is likely to provide new underwriting opportunities. In general, GCC economies are at an emerging stage of development. GCC countries have produced long-term visions as a guide for their development, along with more detailed medium-term implementation plans. We believe all these developments will lead to increased insurance opportunities for the regional players. Growing income levels, low median age of residents, strong propensity for acquiring personal assets and implementation of compulsory health insurance programs in different jurisdictions are likely to create strong growth avenues for insurers. Recent geo-political and catastrophic events are also increasing awareness about the benefits of insurance, and make enterprises more proactive in insuring their properties and personnel.

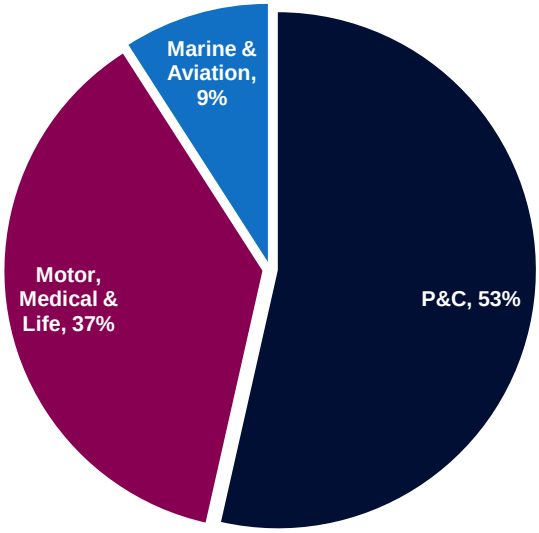
Antares Acquisition to Provide Global Reach

QATI is aggressively expanding its footprint globally. QATI operates in Qatar, the United Arab Emirates (Dubai and Abu Dhabi), Oman, Kuwait, Zurich, Bermuda and Malta, and has a representative office in London. Furthermore, QATI is a dominant insurer in Qatar with ~50% share of the domestic Qatari market. QATI is rated 'A/Stable' from Standard & Poor's and A (Excellent) rating from A.M. Best. The company has direct and indirect insurance exposure all over the globe through its reinsurance arm. To increase its global reach, QATI made its first significant acquisition in 2014 by buying the entire share capital of Antares Holdings Limited (together with its subsidiaries). Antares is a leading specialist insurer and reinsurer operating in the Lloyd's market. The acquisition of Antares will provide QATI with access to Lloyd's through Syndicate 1274 and Antares' own integrated managing agency, as well as bring a Bermudian platform with a Class 3 reinsurance license. The transaction is subject to UK, Bermudian and Qatari regulatory approvals and is expected to close in the second half of 2014 (we have incorporated the financials from 4Q2014 in our model). *Net-Net QATI aims to become a global player with a focus on capitalizing on its key strengths.*

Gross Written Premium (GWP) by Region (2013)



GWP by Business Lines (2013)

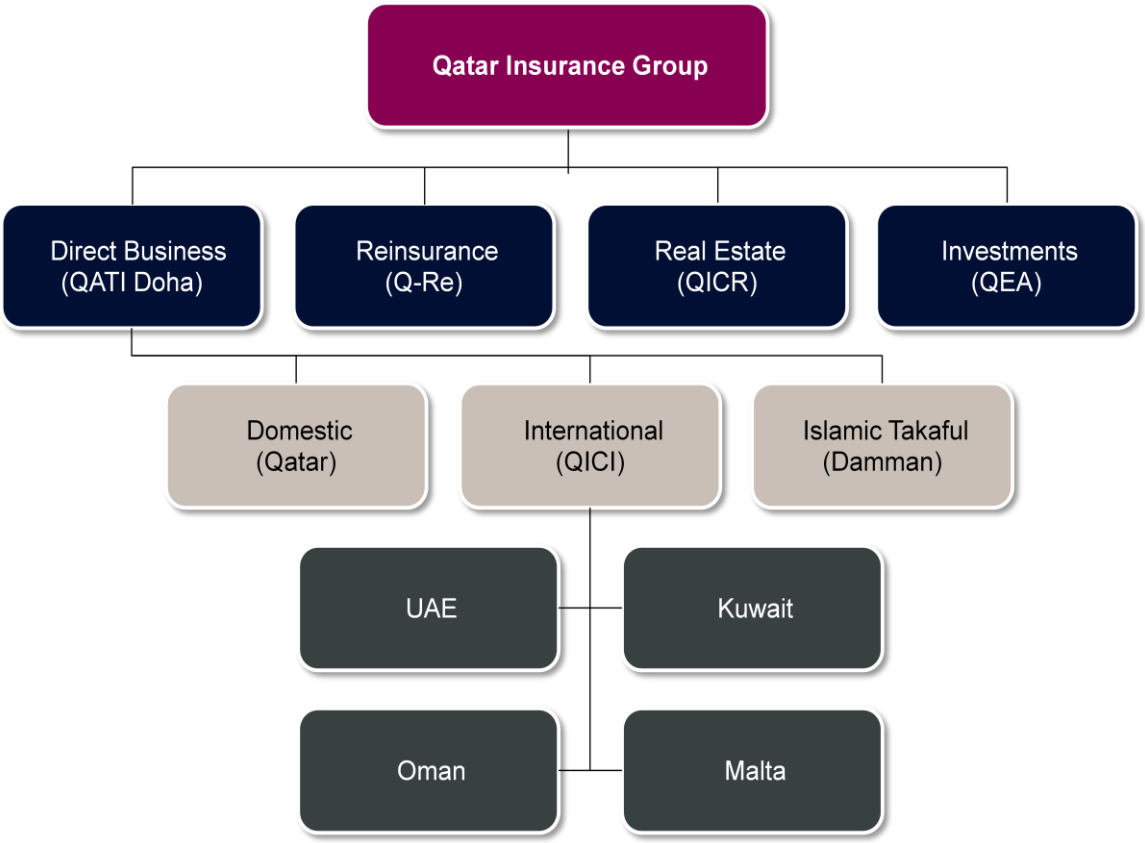


Source: Company data; Note: P&C is Property and Casualty

Direct operations: QATI operates in Qatar as well as five regional countries to provide direct insurance services. The regional operations are grouped and managed under QATI's subsidiary, QIC-International LLC (QICI). Going forward, QATI management plans to increase its regional footprint by increasing product lines within existing markets and by establishing new operations in regional countries, including scouting inorganic growth opportunities. Overall, the company's direct operations encompass over 13 different insurance lines.

Reinsurance operations: QATI envisions 50% of its revenue to come from its reinsurance business through its subsidiary, Qatar Reinsurance (Q-Re), by 2017e. Currently, the reinsurance business has a ~30% share in the gross written premium (GWP) pie. QATI's reinsurance operations have a global footprint.

QATI Business Lines and Geographical Presence



Source: Company data

Acquisitions are likely to be a part of QATI's growth plans, going forward. QATI, through its Antares acquisition, has forayed into global direct insurance market. When the deal will be closed in 2H2014, we believe it will allow QATI to access the direct insurance market globally. QATI hopes to leverage its strength in the energy-related segment to other parts of the world. We believe there are synergies, particularly with the marine and other casualty insurance business. However, the challenge may be for Antares to win business from clients that are already with other insurers.

Antares' (Syndicate 1274) Key Stats

In British Pounds (mn)	2012	2013	Change YoY
Gross Written Premium (GWP)	196.99	245.60	24.7%
Net Earned Premium (NEP)	155.27	187.63	20.8%
Net Income	16.40	23.78	45.0%
Combined Ratio	91.3%	88.3%	N/A

Source: Company data

QATI Offers an Attractive Growth Story; Top-Line and Bottom-Line to Post Strong Double-Digit Growth.

We estimate QATI to post CAGRs of 23.3% and 14.7% in its revenue (GWP) and bottom-line, respectively, over the next four years (2013-2017e). The company's revenue and profits have grown at CAGRs of 17.9% and 8.5%, respectively, over 2010-2013. If we consolidate revenue and net income of Antares in QATI's financial statements of 2013, the top-line would have been QR5.03bn vs. QR3.53bn (actual), higher by 42.5%. On the net income front, the bottom-line would have been QR898.3mn vs. QR752.9mn (actual), higher by 19.3%. Going forward, for 2017, we expect QATI to report GWP of QR8.17bn and net income of QR1.30bn.

1Q2014 Results and Outlook for 2014 and 2015

QATI posted a net profit of QR316.5mn in 1Q2014 vs. QR281.6mn in 1Q2013. This represented a growth of 12.4% on a year-on-year (YoY) basis. Gross written premium (GWP) stood at QR1.14bn vs. QR1.07bn (growth of 3.7% YoY). Premiums ceded to reinsurers declined significantly to QR157.2mn from QR229.7mn, a decline of 31.6% YoY. Movement in unexpired premiums dropped to QR348.4mn from QR406.7mn in 1Q2013. However, gross claims paid increased to QR485.2mn vs. QR368.5mn in 1Q2013. Reinsurance recoveries of QR188.9mn vs. QR148.5mn helped mitigate some of the negative effects of increased gross claims. Movement in outstanding claims increased to QR65.2mn vs. QR7.1mn in 1Q2013 and net commission expense increased to QR68.7mn vs. QR49.2mn. Hence, overall net underwriting results increased to QR178.5mn in 1Q2014 vs. QR162.1mn in 1Q2013, a growth of 10.1% YoY. On the investment front, investment income increased to QR221.9mn vs. QR185.8mn, a growth of 19.4% YoY. This lead to total income reaching QR445.5mn vs. QR385.6mn, a growth of 15.5% YoY. Operating and administrative expenses increased to QR110.4mn vs. QR89.1mn restricting the flow to the bottom-line, which improved by 12.4% YoY. **Going forward, we expect QATI to post a net profit of QR974.3mn for 2014 and QR1.08bn in 2015.** This represents a growth of 29.4% and 10.7% on a YoY basis for 2014 and 2015, respectively. We expect the firm to consolidate Antares in its 4Q2014 financial statements. Hence, the full impact will be visible in 2015. However, given such a big acquisition and strong growth over the last few years, we expect the firm to focus on integrating Antares. Our 2014 and 2015 estimates are covered in detail in the 'Key Forecasts' section later in the report.

Catalysts

Acquisition of Antares will boost revenue in the latter part of 2014. The acquisitions should improve results in the latter part of 2014 and should act as a catalyst for the stock price. Furthermore, if QATI acquires to penetrate other prospective regions, such as the Far East market, this could also act as a future catalyst for the stock price. We expect such an acquisition over the next three-to-four years but have not incorporated this in our model. We believe potential acquisitions have the ability to improve QATI's top-line and bottom-line.

Valuation

Our 12-month target price for QATI comes to QR86.74. We have valued QATI using a multi-period valuation model that discounts excess returns made by a company over and above its cost of equity. We have used a cost of equity (Ke) assumption of 12.0%. The Ke rate results from the aggregation of an assumed risk-free rate (4.0%), an equity risk premium of 8.0% and a beta of 1.0x. We have used a beta of 1.0x (vs. 0.78 in actual adjusted beta per Bloomberg) to be conservative.

Cost of Equity (Ke) Calculation

Risk-Free Rate (%)	4.0
Risk Premium (%)	8.0
Beta	1.0
Cost of Equity (%)	**12.0**

Source: QNBFS estimates

Relative Valuation

Peer Group Valuation

	Mkt. Cap (QR bn)	P/E Ratio 2014 (x)	P/B Ratio 2014 (x)	ROE 2014 (%)
Qatar Insurance Co.* (Qatar)	12.0	12.3	2.0	17.5
Tawuniya (KSA)	4.3	N/A	2.8	N/A
ADNIC (UAE)	2.3	12.1	1.1	9.3

Source: Bloomberg, *QNBFS estimates (as of April 20, 2014)

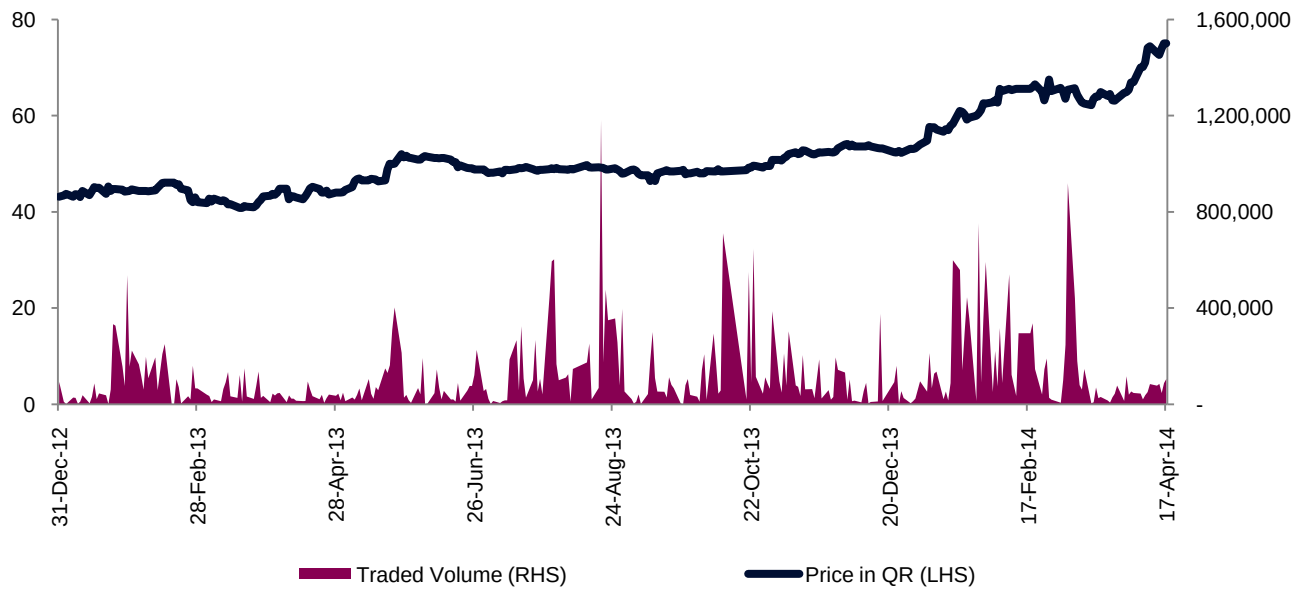
Risks to Our Target Price

- **Expected growth from acquisitions does not materialize:** QATI hopes to augment its top-line and profits by entering new markets via acquisitions. We believe that new acquisitions will provide impetus to the company's growth momentum. However, lack of opportunities and/or expensive acquisitions can significantly impact our estimates. Shareholders also bear the risk of value destructive and/or poorly executed acquisitions. Furthermore, the company is venturing into highly competitive markets, where competition is expected to be tough. While the inorganic growth model does pose its inherent risks, we do note that management historically has a stellar track record.
- **Entry of new players:** Although global operators have a regional presence, most of them do not offer a full suite of services. Thus, the growing regional market could attract other players to expand their footprint in the region.
- **Global economic issues:** The insurance is highly correlated with the global economic development. Therefore, any downturn in the region's economy could affect the company's financial performance. The regional economies could be impacted by a fall in crude oil and natural gas prices. Economic issues related to the Eurozone crisis could also adversely influence the regional economies and company's performance.
- **Global catastrophic events:** Lastly, the insurance industry is highly susceptible to global catastrophic events. A few major events in a short span can impact the profitability and capitalization of insurance companies.

Recent Price Performance and Other Trading Data

- **QATI stock price is up 40.04% YTD vs. QE Index up 21.19%.** QATI has posted a total return of 44.28% in 2014 thus far vs. the QE All Share Insurance Index posting a return of 38.59% for the same period. As of April 17 2014, the stock has 3.8% weight in the QE index and 61.0% weight in the QE All Share Insurance index. Over the last 12-months, the stock made a high of QR76.00 (adjusted for stock dividend) on April 10, 2014 and made a low of QR43.60 on April 25, 2013. The daily average value traded over the last three months is QR9.8mn ($2.7mn)

QATI Stock Price and Traded Volume



Source: Bloomberg

Company Description

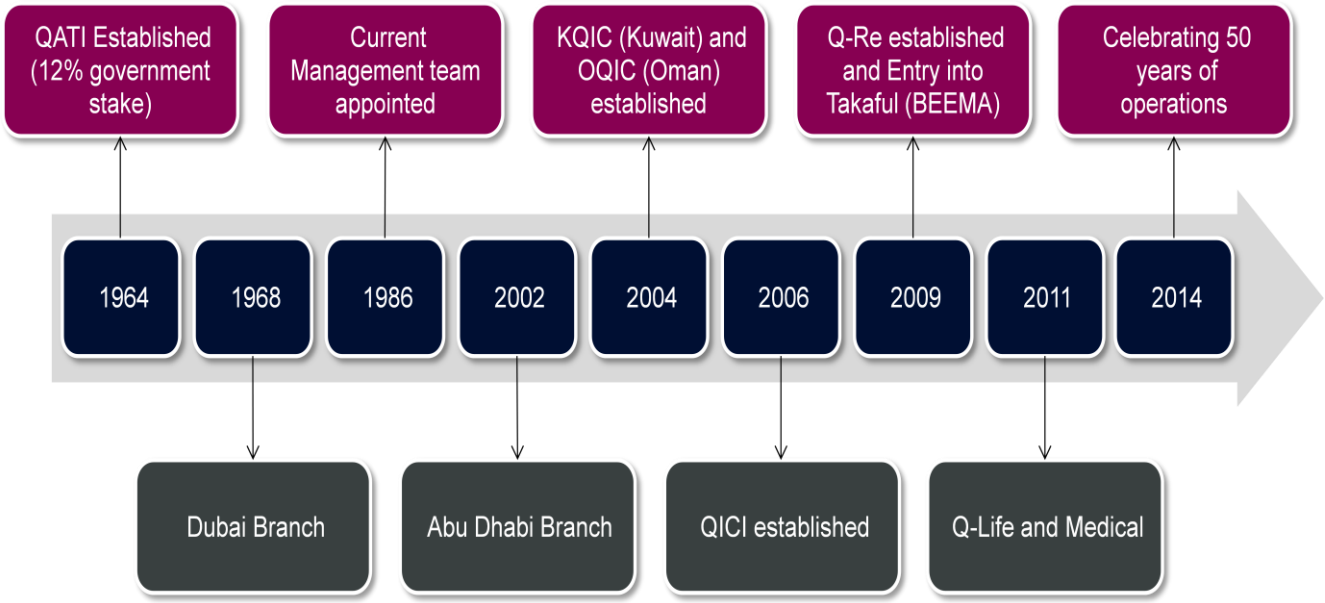
Qatar Insurance Company is the biggest insurance company in the region. QATI is a listed pan-GCC Property & Casualty insurer with an operating history of 50 years and an underwriting footprint across the Middle East and the rest of the world. Founded in 1964, QATI was the first domestic insurance company in the State of Qatar. The government assisted with an equity injection of 12%, a position that it continues to retain. QATI operates in Qatar, the United Arab Emirates (Dubai and Abu Dhabi), Oman, Kuwait, Zurich, Bermuda and Malta, and has a representative office in London. QATI is a dominant insurer in Qatar with about 50% share of the domestic Qatari market. The company is the highest rated insurer within the GCC with a rating of "A/Stable" from Standard & Poor's and A (Excellent) rating from A.M. Best. QATI is also the largest Insurance company in the MENA region (market capitalization). The current management team of QATI has been in place since 1986. Antares, its recent acquisition, is an established specialty lines (re)insurance group, comprised of a Bermuda-based holding company with a Class 3 reinsurer supporting Lloyd's Syndicate 1274. The business delivers a worldwide-diversified range of Property, Casualty, Marine and Aviation underwriting services through its highly experienced team of underwriters.

Key Personnel

Name	Designation
Sheikh Khalid Bin Mohammed Bin Ali Al-Thani	Chairman & Managing Director
Abdulla Bin Khalifa Al-Attiya	Deputy Chairman
Khalifa A. Al Subaey	Group President & CEO

Source: Company data

Qatar Insurance Timeline



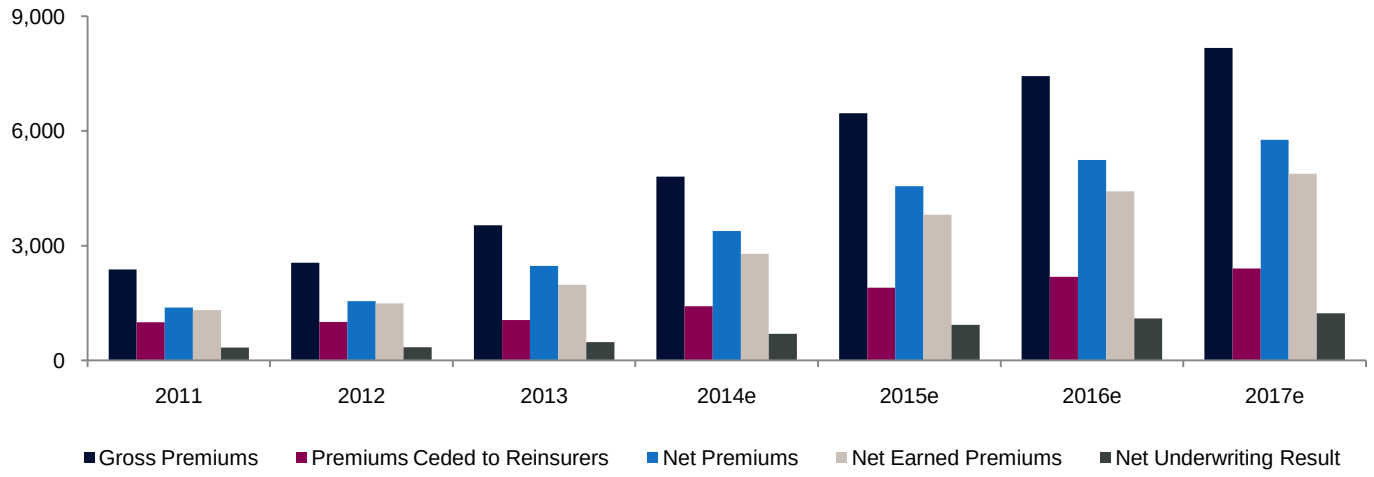
Source: Company data

Key Forecasts

Operating Performance

We estimate a CAGR of 23.3% in GWP over 2013-17e. The company's revenue has grown at a CAGR of 17.9% over 2010-2013. Going forward, we estimate GWP to touch QR8.17bn in 2017e from QR3.53bn in 2013. If we consolidate revenues of Antares in QATI's revenue of 2013, the top-line would have been QR5.03bn vs. QR3.53bn (actual), higher by 42.5%. We assume growth in GWP will be driven by entering new markets directly through Antares as well as introducing improved and customized offerings in recently entered markets. Furthermore, we have assumed Antares is consolidated from 4Q2014. Premium ceded to insurers, as a percentage of GWP, declined to 30.0% in 2013 from 41.9% in 2011, primarily due to the growing share from the reinsurance segment. Going forward, we have assumed a gradual decline of bps every year reaching 28.0% premium ceded to reinsurers in 2017e. Keeping other ratios somewhat constant, we estimate net earned premium and net underwriting income CAGRs of 25.9% and 28.3%, respectively.

Key operating Performance (QR bn)



Source: Company data, QNBFS estimates

Investment Book & Shareholders' Equity

We estimate income from the investment book to grow at a CAGR of 3.4% for 2013-17e. The company's investment income has grown at a CAGR of 17.2% over 2010-2013. However, we believe QATI will divest some of its investments in order to fund the Antares acquisition. In fact, investments are down to QR3.78bn at the end of 1Q2014 vs. QR4.46bn at the end of 2013. Going forward, we are conservative on investment income growth, as we assume underwriting insurance business will be a key driver behind the company's operating performance. We believe investment income is used as an adjustment factor to stable net income to shareholders and maintain the company's ROE close to 16%-18%.

QATI raised equity through a rights issue in 2013: QATI conducted a 20% rights issue in 2013 increasing its paid-up capital to QR1.28bn at the end of 2013 from QR891.9mn in 2012. The rights issue was approved during the Extraordinary General Assembly meeting held on 17th February 2013. Subsequent to the rights issue, the company announced a 25% stock dividend with the 2013 results taking the paid-up capital to QR1.61bn and total shareholders' equity (including non-controlling interests of QR210.8mn) to QR5.4bn.

Key Operating Ratios

	2012	2013	2014e	2015e
Cession Ratio % of GWP	39.4%	30.0%	29.5%	29.0%
Unearned Premiums as a % of GWP	2.2%	14.1%	12.4%	12.0%
Net Loss Ratio % of NEP	68.3%	64.9%	64.3%	63.6%
Commission Ratio % of NEP	8.7%	10.7%	10.6%	11.6%
Operating Expense Ratio % of NEP	15.9%	18.3%	16.6%	13.9%
Combined Ratio % of GWP	93.0%	93.9%	91.6%	89.1%
Underwriting Profit Margin % of GWP	13.4%	13.7%	14.6%	14.6%
Earnings Margin % of GWP	23.9%	21.3%	20.3%	16.7%
Investment Yield (Debt & Equity)	8.9%	9.0%	8.8%	7.4%

Source: Company data, QNBFS estimates

Detailed Financial Statements

Income Statement

	2012	2013	2014e	2015e
Gross Premiums	2,559	3,532	4,803	6,460
Premiums Ceded to Reinsurers	(1,008)	(1,061)	(1,419)	(1,872)
Net Premiums	1,551	2,471	3,384	4,588
Movement in Unexpired Risk Reserves	(56)	(497)	(596)	(775)
Net Earned Premiums	1,495	1,974	2,788	3,813
Gross Claims Paid	(1,405)	(1,826)	(2,525)	(3,409)
Reinsurance Recoveries	564	802	1,082	1,461
Movement in Outstanding Claims	(180)	(256)	(350)	(476)
Net Commission	(130)	(211)	(296)	(444)
Net Underwriting Result	343	483	699	946
Investment Income	440	582	705	630
Advisory Fee Income	56	76	84	94
Rental Income	49	47	49	52
Other Income	3	3	3	3
Total Income	892	1,191	1,540	1,725
Operating and Administrative Expenses	(256)	(400)	(520)	(599)
Depreciation	(23)	(23)	(24)	(25)
Profits Before Share of Results from Equity Accounted Investments	613	767	996	1,102
Share of Profit from Equity Accounted Investments	7	11	12	14
Profit for the Year	620	778	1,007	1,115
Owners of the Parent	610	753	974	1,079
Non-Controlling Interests	9	25	33	36

Source: Company data, QNBFS estimates

Balance Sheet

	2012	2013	2014e	2015e
Cash and Cash Equivalents	2,124	3,352	4,812	4,909
Insurance and Other Receivables	703	1,165	1,514	1,817
Reinsurance Contract Assets	1,950	2,151	5,378	5,916
Equity Accounted Investments	70	82	94	108
Investments	2,933	4,462	3,410	3,912
Investment Properties	439	387	407	427
PP&E & Goodwill	32	34	335	352
Total Assets	**8,252**	**11,633**	**15,950**	**17,441**
Short-term Borrowings	-	746	895	716
Provisions, Reinsurance and Other Payables	818	910	1,092	1,310
Insurance Contract Liabilities	3,641	4,595	7,811	8,592
Total Liabilities	**4,459**	**6,251**	**9,798**	**10,619**
Share Capital	892	1,284	1,605	1,605
Legal Reserve	464	1,304	1,380	1,380
General Reserve	287	287	287	287
Fair Value Reserve	663	751	759	759
Catastrophe Special Reserve	159	190	240	296
Retained Earnings	1,155	1,371	1,653	2,231
Equity Attributable to Owners of the Parent	**3,620**	**5,187**	**5,925**	**6,558**
Non-Controlling Interests	172	194	227	264
Total Equity	**3,793**	**5,382**	**6,152**	**6,822**
Total Liabilities and Equity	**8,252**	**11,633**	**15,950**	**17,441**

Source: Company data, QNBFS estimates

APPENDIX: Glossary

Key Insurance Terminology

Gross written premium: Total premium written and assumed by an insurer before deductions for reinsurance and ceding commissions.

Insurance penetration: Gross written premium measured as a percentage of gross domestic product (GDP).

Insurance density: Gross written premium measured per capita.

Net written premium: Gross written premium less reinsurance ceded.

Cession rate: The percentage of written premium transferred to reinsurer by a primary insurer (ceding company).

Retention rate: The percentage of written premium retained by a primary insurer.

Net underwriting profit: Excess of premium earned after providing for all expenses directly attributable to underwriting activities, and excluding investment income.

Claims ratio: Calculated on the sum of insurance benefits and claims, insurance benefits and claims recovered from reinsurers, and outstanding claims divided by net premium earned.

Expense ratio: The percentage of premium used to pay all the costs of acquiring, writing, and servicing insurance and reinsurance.

Combined ratio: The sum of claims ratio and expense ratio. A combined ratio of less than 100 indicates an underwriting profit.

Source: Alpen Capital

The Lloyd's market is home to 56 managing agents and 91 syndicates, which offer an unrivalled concentration of specialist underwriting expertise and talent. Business at Lloyd's is still conducted face-to-face, and the bustling Underwriting Room is central to the smooth running of the market. The market structure encourages innovation, speed and better value, making it attractive to policyholders and participants alike. Immediate access to decision-makers means that answers on whether a risk can be placed are made quickly, enabling the broker to provide fast, good-value solutions.

The majority of business written at Lloyd's is placed through brokers who facilitate the risk-transfer process between clients (policyholders) and underwriters. Clients can discuss their risk needs with a broker, a coverholder or a service company. Specialist underwriters for each syndicate price, underwrite and handle any subsequent claims in relation to the risk.

Source: Lloyds.com

Notes

Recommendations	
Based on the range for the upside / downside offered by the 12 - month target price of a stock versus the current market price	
OUTPERFORM	Greater than +20%
ACCUMULATE	Between +10% to +20%
MARKET PERFORM	Between -10% to +10%
REDUCE	Between -10% to -20%
UNDERPERFORM	Lower than -20%

Risk Ratings	
Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals	
R-1	Significantly lower than average
R-2	Lower than average
R-3	Medium / In -line with the average
R-4	Above average
R-5	Significantly above average

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