

**HOLD**  
 Target Price  
 QAR 42.6

# Qatar General Insurance & Reinsurance Company

## Market Data

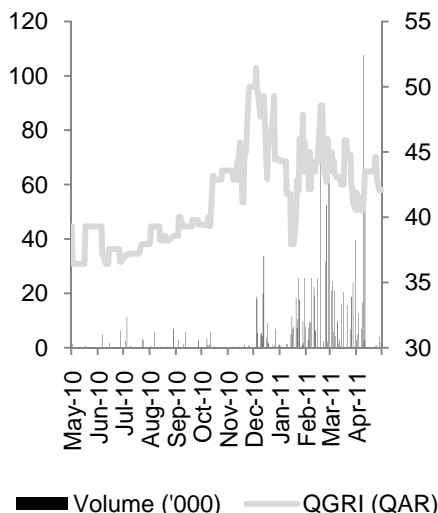
Bloomberg Code:	QGRI QD
Reuters Code:	QGRI.QA
CMP (18 May 2011):	QAR 42.1
O/S (mn)	44.76
Market Cap (QAR mn):	1,884.2
Market Cap (USD mn):	517.64
P/E 2011e (x):	14.4
P/Bv 2011e (x):	0.7

## Price Performance 1-Yr

High (QAR):	51.4
Low (QAR):	36.4
Average Volume: (000)	9.6

	1m	3m	12m
Absolute (%)	0.5	-4.2	9.7
Relative (%)	0.8	-7.1	-14.3

## Price Volume Performance



Source: Zawya

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- **Net profit witnessed a y-o-y decline of 52% in 1Q11**
- **Higher retention rate**
- **Net underwriting revenue down by 16.2%**
- **Higher loss ratio and lower expense ratio**
- **Significant drop in investment income**

### Net profit witnessed a y-o-y decline of 52% in 1Q11

Qatar General Insurance and Reinsurance Company (QGIR) reported net profit of QAR33.5mn during 1Q11, a deviation of 2% of our estimated net profit of QAR32.8mn for the first quarter of 2011. Net profit witnessed a y-o-y decline of 52% from QAR69.6mn in 1Q10, and a q-o-q decline of 20% from QAR40.3mn in 4Q10. EPS stood at QAR0.75 for 1Q11 compared to QAR1.55 in 1Q10.

### Higher retention rate

Gross premiums declined 17.1% y-o-y to QAR154.2mn in 1Q11 compared to QAR186.1mn in 1Q10. The retention rate improved however from 36.2% in 1Q10 to 42.6% in 1Q11, resulting in a decline of only 3% in retained premiums reaching QAR65.7mn in 1Q11 compared to QAR67.4mn in 1Q10. Net premiums earned declined by 18% to reach QAR58.7mn in 1Q11 compared to QAR71.8mn in 1Q10.

### Net underwriting revenue down by 16.2%

Net underwriting revenue dropped by 16.2% y-o-y to reach QAR41.6mn in 1Q11. The decline in net underwriting revenue came mainly on the back of the 13.9% y-o-y decline in underwriting revenues from QAR80.5mn in 1Q10 to QAR69.3mn in 1Q11. Gross claims paid increased by 9.4% to QAR65.8mn in 1Q11 compared to QAR60.2mn in 1Q10 while reinsurance and other recoveries increased by 32.1% from QAR22.9mn in 1Q10 to QAR30.2mn in 1Q11.

### Higher loss ratio, and lower expense ratio

The decline in net premiums earned implied a higher loss ratio which increased to 47.2% in 1Q11 compared to 43.0% in 1Q10. The expense ratio declined to 32.0% in 1Q11 compared to 36.2% in 1Q10. The combined ratio stood at 79.2% in 1Q11 which was the same level reported in 1Q10, and lower than the combined ratio of 91.3% reported in 2010.

### Significant drop in investment income

Investment income for 1Q11 dropped by 38.6% to QAR32.3mn in 1Q11 compared to QAR52.6mn in 1Q10. Held for trade investments stood at QAR70.7mn in 1Q11 compared to QAR70.1mn in 1Q10, while available for sale investments declined from QAR909.4mn in 1Q10 to QAR888.1mn in 1Q11.

### Valuation update

Our projections remain the same since our last update on QGIR Company. At the CMP of QAR42.1, the stock trades at 14.4x and 0.7x FY2011E P/E and P/BV respectively. Using the Embedded Value Method and Price to book method we arrive at a price target of QAR42.6 indicating a premium of 1.1% to the current market price. Accordingly, we change our recommendation from "SELL" to "HOLD".

## Financial Statements

(QAR mn)	2008	2009	2010	2011e	2012e	2013e	2014e
<b>Income Statement</b>							
Gross Premiums	719	505	519	557	616	669	702
Premiums ceded to reinsurers	(477)	(295)	(317)	(342)	(388)	(432)	(449)
<b>Net premium</b>	<b>242</b>	<b>209</b>	<b>201</b>	<b>214</b>	<b>228</b>	<b>237</b>	<b>253</b>
Movement in unearned premium	(2)	6	(6)	(6)	(7)	(7)	(8)
Net Commission	36	27	30	32	34	36	38
Other income-technical	1	1	(1)	(1)	(2)	(2)	(3)
<b>Underwriting revenue</b>	<b>277</b>	<b>244</b>	<b>224</b>	<b>239</b>	<b>254</b>	<b>264</b>	<b>280</b>
Net claims incurred	(194)	(169)	(124)	(125)	(113)	(84)	(85)
<b>Net underwriting revenue</b>	<b>83</b>	<b>74</b>	<b>100</b>	<b>114</b>	<b>141</b>	<b>180</b>	<b>195</b>
Net investment income	251	112	128	135	143	140	140
Fair value gain on investment properties	-	45	2	2	1	1	1
Other income	4	6	2	2	2	3	3
Finance costs	-	(15)	(27)	(34)	(42)	(46)	(47)
General and administrative expenses	(111)	(86)	(86)	(89)	(91)	(94)	(97)
<b>Net Profit</b>	<b>226</b>	<b>136</b>	<b>119</b>	<b>131</b>	<b>155</b>	<b>183</b>	<b>196</b>
<b>Balance Sheet</b>							
Cash and cash equivalents	162	110	54	52	82	71	57
Statutory deposits	6	6	6	6	6	6	6
Insurance contracts receivable	159	192	273	314	345	380	399
Investments-Held for trading	42	45	70	72	74	77	79
Investments- AFS	745	710	909	961	1,016	1,076	1,139
Investment Property	1,552	1,618	1,668	1,718	1,752	1,787	1,823
Investment in associates	184	232	238	274	315	347	381
Takaful participants assets	26	59	93	107	117	123	129
Property and equipment	18	21	21	21	22	23	24
Reinsurance Contract Assets	436	355	402	432	478	519	544
Due from related parties	20	116	140	155	170	187	206
<b>Total Assets</b>	<b>3,350</b>	<b>3,463</b>	<b>3,876</b>	<b>4,111</b>	<b>4,378</b>	<b>4,595</b>	<b>4,787</b>
Insurance contract liabilities	646	559	598	628	660	676	693
Short term borrowings	158	263	357	446	558	614	629
Accounts payables	139	167	172	176	185	189	194
Others	205	228	262	291	318	343	369
Share Capital	205	256	320	448	448	448	448
Legal reserve	58	80	89	102	117	136	155
Fair value reserve	411	383	581	581	581	581	581
Revaluation reserve	77	77	77	77	77	77	77
Foreign currency translation reserve	(1)	(2)	(13)	(13)	(13)	(13)	(13)
Retained earnings	1,453	1,451	1,431	1,374	1,446	1,544	1,652
Non-Controlling interest	-	0.5	0.4	0.4	0.4	0.4	0.4
<b>Total Equity &amp; Liabilities</b>	<b>3,350</b>	<b>3,463</b>	<b>3,876</b>	<b>4,111</b>	<b>4,378</b>	<b>4,595</b>	<b>4,787</b>
<b>Cash Flow</b>							
Cash Flow from Operating Activities	215	(80)	(62)	106	131	144	189
Cash Flow from Investing Activities	(27)	(16)	(24)	(150)	(146)	(143)	(152)
Cash Flow from Financing Activities	(77)	43	30	41	44	(11)	(52)
Change in Cash	110	(52)	(56)	(3)	30	(11)	(15)
<b>Net Cash at End</b>	<b>162</b>	<b>110</b>	<b>54</b>	<b>52</b>	<b>82</b>	<b>71</b>	<b>57</b>
<b>Ratio Analysis</b>							
Combined Ratio	112%	107%	91%	86%	76%	61%	58%
Retention rate	34%	42%	39%	39%	37%	36%	36%
Loss Ratio	81%	79%	63%	60%	51%	37%	35%
Expense Ratio	31%	28%	28%	26%	25%	25%	23%
Return on Average Equity	13%	6%	5%	5%	6%	7%	7%
GPW to Policyholders' Surplus (x)	0.3	0.2	0.2	0.2	0.2	0.2	0.2
NPW to PHS (x)	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Technical Reserves to PHS (x)	0.3	0.2	0.2	0.2	0.2	0.2	0.2
Technical Reserves to GPW (x)	0.9	1.1	1.2	1.1	1.1	1.0	1.0
Technical Reserves & PHS/ NPW (x)	11.8	13.4	15.3	14.9	14.5	14.5	14.2
EPS (QAR)	11.1	4.3	3.7	2.9	3.5	4.1	4.4
Book Value Per Share (QAR)	107.6	87.8	77.8	57.4	59.4	62.0	64.8
Market Price (QAR) *	49.3	32.5	50.1	42.1	42.1	42.1	42.1
Market Capitalization (QAR mn)	1,008	830	1,600	1,884	1,884	1,884	1,884
Dividend Yield	6.1%	7.7%	3.0%	3.6%	3.6%	3.6%	3.6%
P/E Ratio (x)	4.5	7.6	13.4	14.4	12.2	10.3	9.6
P/BV Ratio (x)	0.5	0.4	0.6	0.7	0.7	0.7	0.6

Source: Company Reports &amp; Global Research

\* Market price for 2011 and subsequent years as per closing prices on May 18, 2011

## Disclosure

The following is a comprehensive list of disclosures which may or may not apply to all our researches. Only the relevant disclosures which apply to this particular research has been mentioned in the table below under the heading of disclosure.

Disclosure Checklist					
Company	Recommendation	Bloomberg Ticker	Reuters Ticker	Price	Disclosure
Qatar General Insurance & Reinsurance Company	HOLD	QGRI QD	QGRI.QA	QAR 42.1	1,10

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BUY	Fair value of the stock is between +10% and +20% from the current market price
HOLD	Fair value of the stock is between +10% and -10% from the current market price
SELL	Fair value of the stock is < -10% from the current market price

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