

QLM Life & Medical Insurance Company (QLMI)

| | | | |
|-----------------------|-------------------|---------------------|-------------|
| Recommendation | ACCUMULATE | Risk Rating | R-3 |
| Share Price | QR4.90 | Target Price | 5.43 |
| Implied Upside | 10.8% | | |

Upcoming Mandatory Health Insurance will be a Major Growth Driver; Initiate with Accumulate

QLM Life & Medical Insurance Company (QLM) is Qatar's leading medical and life insurance company with a +50% market share and strong brand recognition. Qatar comprised 80% of QLM's gross written premiums (GWP) in 2020; however, the company also reinsures policies written in Oman, Kuwait and the UAE. QLM plans to expand its product range with retail insurance offerings, which should support its growth in the coming years. Furthermore, in April 2021, the Shura Council approved the health insurance draft law that will make health insurance compulsory for residents and visitors. Once it is enacted (which is likely to take place in early 2022), the law will increase the number of members in the local health insurance system by 4 to 5x. Besides, in 2022, 1.7mn additional tourists are expected to visit Qatar due to the World Cup; once the mandatory health insurance system is in place, they will be required to have health insurance as well. QLM's financial strength and its top-notch profitability should allow the company to maintain its growth while paying generous dividends to its investors. QLM intends to distribute 40-60% of its earnings as dividends annually. **We initiate coverage for QLM shares with an Accumulate rating and our target price implies 10.8% upside potential.**

Highlights

- **QLM Life & Medical Insurance Company (QLM) is Qatar's leading medical and life insurance company with its dominant market share and strong brand recognition.** QLM engages in group credit life & group medical insurance and plans to expand into retail life insurance products. The company has a +50% market share in the local market in terms of gross written premiums (GWP).
- **Group medical insurance generates bulk of GWP.** The segment generated 82% of QLM's GWP in 1Q2021, while the rest (18%) was realized by the Group & Credit Life segment. QLM enjoys GCC's most comprehensive network of medical providers, operating in 103 countries along with its state-of-the-art IT system that enhances its customer experience, resulting in +90% policy renewal rates in Qatar. In 2020, Qatar comprised 80% of QLM's GWP (both life and medical). The company also reinsures policies written in Oman, Kuwait and the UAE.
- **In April 2021, the Shura Council approved the health insurance draft law that obliges residents and visitors to have health insurance. Once the Amiri Decree is released, it could take approximately 6 months for the initiation of the implementation (most probably by early 2022). With its leading market share, strong solvency and state-of-the-art IT infrastructure, we expect QLM to benefit the most from this mandatory health insurance.** Currently, some large companies and most of the local SMEs do not provide private health insurance to their employees; as a result, merely c.400k residents are believed to have health insurance coverage. Hence, this law has a potential to expand the number of members in the local health insurance system by 4-5x. Moreover, the new law obliges visitors to have health insurance as well, which is likely to create a lucrative new market for QLM, especially in 2022 as Qatar is expected to welcome 1.7mn visitors for World Cup 2022. **While the law is yet to be finalized, our conservative initial estimations indicate that QLM's net profit could reach QR129.5mn by 2023, implying a 32.1% rise over 2020.**
- **Solid capitalization and high profitability pave the way for top-line growth.** QLM's solvency ratio rose steadily from 165.3% in FY2017 to +200% in FY2020, notably above the QCB requirement of 150.0%. Moreover, QLM enjoys one of the highest ROEs among international life insurers with its 2020 ROE at 18.7% notably above the international peer group's average of 11.8%.
- **A strong commitment to dividends.** QLM intends to distribute 40-60% of its net profits annually as cash or bonus dividends. QLM states that its target dividend yields are expected to be above QE average yields. In 2019, QLM declared and paid dividends of QR42mn, which corresponded to a 48% payout ratio and a dividend yield of 2.4%. With its strong profitability and financial power, we believe QLM has the capacity to increase its payout ratio and achieve its dividend policy goals.

Catalysts

- 1) Potential inclusion in local, FTSE and MSCI EM indices
- 2) Announcement of dividends
- 3) Initiation of mandatory health insurance
- 4) New products

Recommendation, Valuation and Risks

- **We rate QLM an ACCUMULATE.** Our 1-year target of QR5.430/Sh. implies a 10.8% upside potential, based on a weighted average of DDM and international peer comparison. QLM's 2021 and 2022 P/E and P/BV multiples are above its international peers, which we think is justifiable considering its superior ROE. Besides, we expect the full impact of the upcoming mandatory health insurance to be seen in QLM's 2023 results; hence, we think QLM's multiples will approach to sector averages post 2023.
- **Risks:** 1) Geopolitical risks 2) Decrease in local expat population 3) Continuation of Coronavirus disruptions 4) Impact of IFRS 17 5) Credit rating change

Key Financial Data and Estimates

| | 2019 | 2020 | 2021e | 2022e |
|----------|------|------|-------|-------|
| EPS (QR) | 0.25 | 0.28 | 0.27 | 0.31 |
| P/E (x) | 19.7 | 17.5 | 18.3 | 15.6 |
| P/BV (x) | 3.7 | 3.28 | 2.96 | 2.69 |
| DPS (QR) | 0.12 | 0.00 | 0.13 | 0.17 |
| DY (%) | 2.4% | 0.0% | 2.7% | 3.5% |

Source: Company data, QNB FS Research; Note: All data based on current number of shares

Key Data

| | |
|----------------------------|------------------|
| Bloomberg Ticker | QLMI QD |
| ADR/GDR Ticker | N/A |
| Reuters Ticker | QLMI.QA |
| ISIN | QA000QLM003 |
| Sector | Health Insurance |
| 52wk High/52wk Low (QR) | 5.709 / 3.300 |
| 3-m Avg. Volume (000) | 341 |
| Mkt. Cap. (\$ bn/QR bn) | 0.47/1.71 |
| EV (\$ bn/QR bn) | N/M |
| FO Limit* (%) | 49.0 |
| Current FO* (%) | 18.6 |
| Shares Outstanding (mn) | 350.0 |
| Total Return since IPO (%) | 55.5% |
| Fiscal Year End | December 31 |

Source: Bloomberg (as of Jul 5, 2021), *Qatar Exchange (as of Jul 5, 2021); Note: FO is foreign ownership

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Valuation

We value QLM shares at QR5.430 with a 10.8% upside potential using a combination of DDM and international peer group multiples. We assign the biggest weight to Dividend Discount Model (DDM) methodology, as we think it captures the long-term potential of companies better than market multiples, especially in the case of QLM. We expect the Mandatory Health Insurance System to be initiated in early 2022, but become fully operational in 2023. Therefore, we expect to see the full impact of the mandatory health insurance plan on QLM's bottom-line and P/E & P/BV multiples by 2023.

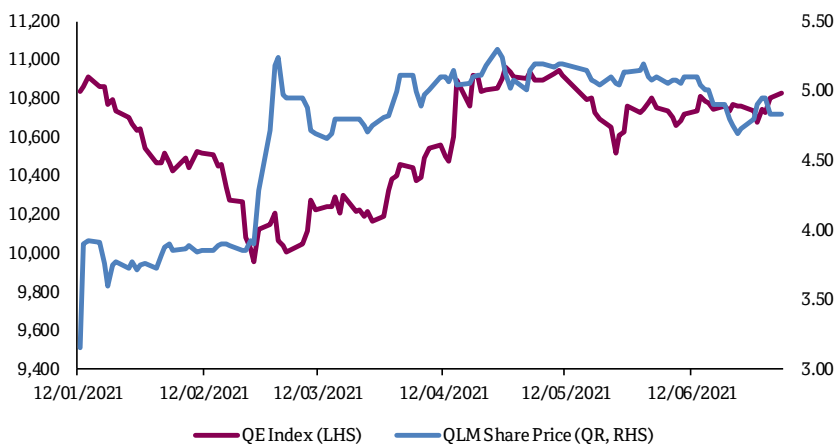
QLM: Valuation Summary

| Method | Weight in Overall Valuation | QLM's Upside/Downside Potential |
|---|-----------------------------|---------------------------------|
| DDM | 80% | 18.8% |
| International Comparison | 20% | |
| P/E, 2021e | 4% | -20.7% |
| P/BV, 2021e | 4% | -25.6% |
| Dividend Yield, 2021e | 4% | -9.6% |
| P/E, 2022e | 4% | -11.1% |
| P/BV, 2022e | 4% | -39.1% |
| Weighted Average Upside Potential for QLM Shares | | 10.8% |

Source: Bloomberg consensus figures for international peers, QNB FS Research Estimates

Positive developments on the new mandatory health insurance system in February and April boosted QLM's share price, leading the stock to outperform the QE Index by 53.5% since the IPO. On February 24, the Cabinet's approval of the draft law regulating healthcare services led QLM shares to reach a peak closing price of QR5.284 by March 02. On April 12, the Shura Council approved the draft law, which led the stock to touch QR5.300 (April 25th closing price). Since then, the stock is consolidating, awaiting the Amiri Decree on the subject.

QLM: Stock Price



Source: Bloomberg, QNB FS Research

QLM's international peer comparison does not reflect the full picture due to the lack of 2023 consensus data for its peers. While the major parameters of the new scheme are yet to be announced, we expect the new mandatory health insurance to be initiated in 2022 and become fully operational in 2023. Therefore, we anticipate the number of insured employees in the Qatari health insurance system to increase by 0.96mn in 2022 and an additional 0.95mn in 2023. Consequently, we foresee QLM's top- and bottom-lines to reflect the full positive impact of the new system by the end of 2023. Hence, we forecast QLM's P/E multiple to decline from 15.6x in 2022E to 13.2x in 2023E, in-line with its ROE rising from 17.3% to 18.8%, respectively. However, due to the lack of 2023 consensus

estimates for the international peers, we were obliged to base the peer group comparison to 2021 and 2022 forecasts. QLM's 2021E and 2022E P/E multiples (18.3x and 15.6x, respectively) are at a 26.2% and 12.5% premiums to their international peer group averages. QLM's P/BV multiples for 2021E and 2022E (3.0x and 2.7x) are above its peers' 2.2x and 1.6x, which is partially justified due to QLM's strong ROEs (16.2% for 2021E and 17.3% for 2022E vs. the peers' 14.4% and 14.2%, respectively).

International Peer Group Valuation Multiples vs. QLM

| Company | Country | Sh. Price (LCY) | Mcap USDmn | Beta 5yr adj. | P/E | | P/BV | | ROE | | Dividend Yield | |
|-----------------------------|--------------|--------------------|---------------|------------------|-------------|-------------|------------|------------|--------------|--------------|----------------|-------------|
| | | | | | 2021e | 2022e | 2021e | 2022e | 2021e | 2022e | 2020a | 2021e |
| BUPA ARABIA FOR COOPERATIVE | KSA | 126.8 | 4,057 | 0.91 | 24.2 | 18.1 | 3.29 | 2.84 | 12.8% | 18.1% | 1.4% | 1.9% |
| UNUM GROUP | U.S. | 28.7 | 5,860 | 1.56 | 6.1 | 5.3 | 0.49 | 0.44 | 8.9% | 9.3% | 4.0% | 4.1% |
| MEDIBANK PRIVATE LTD | Australia | 3.1 | 6,507 | 0.74 | 20.7 | 20.8 | 4.37 | n.a. | 22.2% | 21.0% | n.a. | 3.9% |
| NIB HOLDINGS LTD | Australia | 6.6 | 2,270 | 0.70 | 18.3 | 21.5 | 4.19 | n.a. | 25.2% | 19.9% | n.a. | 3.5% |
| AFLAC INC | U.S. | 54.2 | 36,804 | 1.21 | 10.4 | 10.5 | 1.05 | n.a. | 10.7% | 10.2% | 2.1% | 2.4% |
| CNO FINANCIAL GROUP INC | U.S. | 23.7 | 3,123 | 1.43 | 10.9 | 10.9 | 0.58 | n.a. | 5.7% | 5.5% | 2.0% | 2.2% |
| SUN LIFE FINANCIAL INC | Canada | 63.7 | 30,204 | 1.21 | 10.7 | 9.9 | 1.44 | n.a. | 15.3% | 15.2% | 3.1% | 3.3% |
| Peer Group Average | | | | 1.11 | 14.5 | 13.9 | 2.2 | 1.6 | 14.4% | 14.2% | 2.5% | 3.0% |
| QLM | Qatar | 4.9 | 471 | n.a. | 18.3 | 15.6 | 3.0 | 2.7 | 16.2% | 17.3% | 0.0% | 2.7% |

Source: Bloomberg consensus figures for international peers, QNB FS Research Estimates

Our Dividend Discount Model implies a fair equity value of QR2,037mn for QLM shares, implying an 18.8% upside potential. We have added 1pp to QLM's ERP due to the company's lack of capital market history. While calculating QLM's Cost of Equity, we have considered a risk free rate of 2.1% (US 10-year government bond yield plus Qatar's 10-year CDS spread). We have also added 1pps to QLM's equity risk premium (ERP) for 1x beta due to its limited equity market history as its shares have been trading on the QE since January 12, 2021. This gets us to a 7.8% ERP for 1x beta. As a result, we have calculated QLM's cost of equity at 9.9% for a beta of 1.0x.

DDM Summary (QR000)

| | 2021E | 2022E | 2023E | 2024E | 2025E | 2026E | 2027E | 2028E | 2029E | 2030E |
|--|------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Cost of Equity | 9.9% | 9.9% | 9.9% | 9.9% | 9.9% | 9.9% | 9.9% | 9.9% | 9.9% | 9.9% |
| RFr (US 10 yr+Qatar 10yr CDS) | 2.1% | 2.1% | 2.1% | 2.1% | 2.1% | 2.1% | 2.1% | 2.1% | 2.1% | 2.1% |
| ERP | 7.80% | 7.80% | 7.80% | 7.80% | 7.80% | 7.80% | 7.80% | 7.80% | 7.80% | 7.80% |
| ERP for 1x Beta | 7.80% | 7.80% | 7.80% | 7.80% | 7.80% | 7.80% | 7.80% | 7.80% | 7.80% | 7.80% |
| Beta | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 |
| Cost of Equity | 9.9% | 9.9% | 9.9% | 9.9% | 9.9% | 9.9% | 9.9% | 9.9% | 9.9% | 9.9% |
| Net Earnings Attributable to Shareholders | 93,967 | 110,007 | 129,515 | 149,658 | 170,806 | 192,876 | 216,724 | 241,656 | 267,693 | 294,875 |
| Payout Ratio | 50% | 55% | 60% | 60% | 60% | 60% | 60% | 60% | 60% | 60% |
| Dividends | 46,984 | 60,504 | 77,709 | 89,795 | 102,483 | 115,726 | 130,034 | 144,994 | 160,616 | 176,925 |
| Cost of Equity | 9.9% | 9.9% | 9.9% | 9.9% | 9.9% | 9.9% | 9.9% | 9.9% | 9.9% | 9.9% |
| Discount Factor | 1.00 | 1.10 | 1.21 | 1.33 | 1.46 | 1.61 | 1.76 | 1.94 | 2.13 | 2.34 |
| PV of Dividends | 46,984 | 55,040 | 64,308 | 67,599 | 70,184 | 72,096 | 73,694 | 74,752 | 75,328 | 75,484 |
| Sum of PV of Dividends | 675,467 | | | | | | | | | |
| Terminal Value of Dividends | | | | | | | | | | |
| Terminal Net Profits | 125,806 | | | | | | | | | |
| Terminal Payout Ratio | 75% | | | | | | | | | |
| Terminal Dividends | 94,355 | | | | | | | | | |
| Terminal Growth Rate | 3.0% | | | | | | | | | |
| Terminal Cost of Equity | 9.9% | | | | | | | | | |
| Terminal Value of Dividends | 1,362,151 | | | | | | | | | |
| Fair Value of Equity | 2,037,618 | | | | | | | | | |
| Shares o/s (mn) | 350,000 | | | | | | | | | |
| 12M target price per share | 5.82 | | | | | | | | | |
| 12 Month Upside Potential | 18.8% | | | | | | | | | |

DDM SENSITIVITY

TARGET SHARE PRICE SENSITIVITY TO TERMINAL GROWTH RATE AND DISCOUNT RATE

| | | Terminal Growth Rate | | | | |
|----------|-------|----------------------|------|------|------|------|
| | | 2.0% | 2.5% | 3.0% | 3.5% | 4.0% |
| Terminal | 8.9% | 5.82 | 6.12 | 6.48 | 6.90 | 7.40 |
| | 9.4% | 5.56 | 5.82 | 6.12 | 6.48 | 6.90 |
| | 9.9% | 5.33 | 5.56 | 5.82 | 6.12 | 6.48 |
| | 10.4% | 5.13 | 5.33 | 5.56 | 5.82 | 6.12 |
| | 10.9% | 4.95 | 5.13 | 5.33 | 5.56 | 5.82 |

12M PRICE UPSIDE POTENTIAL SENSITIVITY TO TERMINAL GROWTH RATE AND DISCOUNT RATE

| | | Terminal Growth Rate | | | | |
|--------------------------|-------|----------------------|-------|-------|-------|-------|
| | | 2.0% | 2.5% | 3.0% | 3.5% | 4.0% |
| Terminal Discount Rate % | 8.9% | 18.8% | 25.0% | 32.2% | 40.8% | 51.1% |
| | 9.4% | 13.5% | 18.8% | 25.0% | 32.2% | 40.8% |
| | 9.9% | 8.8% | 13.5% | 18.8% | 25.0% | 32.2% |
| | 10.4% | 4.7% | 8.8% | 13.5% | 18.8% | 25.0% |
| | 10.9% | 1.0% | 4.7% | 8.8% | 13.5% | 18.8% |

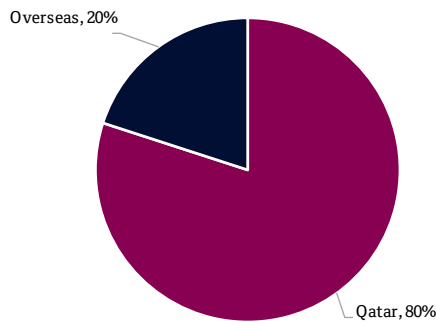
Source: QNB FS Research

Investment Themes

- **In April 2021, the Shura Council approved the health insurance draft law that obliges residents and visitors to have health insurance.** Once the Amiri Decree is released, it could take approximately 6 months for the initiation of the implementation, which we think could happen by early 2022. With its leading market share and its advanced IT infrastructure, we expect QLM to benefit the most from this mandatory health insurance. Currently, some large companies and most of the local SMEs do not provide private health insurance to their employees. Therefore, the introduction of the mandatory health insurance should increase the number of members in the local health insurance system by 4 to 5x. Besides, the new law obliges visitors to have health insurance as well, which is likely to create a lucrative new market for QLM especially in 2022, as Qatar is expected to welcome 1.7mn visitors for the World Cup 2022.
- **While the law is still not finalized and the details such as the coverage & price of the basic products are still not available, we still penciled in QLM's net earnings to increase to QR129.5mn by 2023 (up 32.1% vs. 2020), based on conservative assumptions:**
 - While we expect the mandatory healthcare system to be operational in early 2022, we think there could be a transition period for the companies to adapt to the new system. Therefore, we modeled in a 50% implementation rate in 2022 and 100% in 2023.
 - We anticipate the basic mandatory health insurance product to be priced at QR800 for residents and QR150 for tourists (although we believe the price for tourists should be variable based on the length of stay). We observe many expat families still use tourist visas during their stay in Qatar; therefore, higher premiums for longer durations may create a further upside to our forecasts. Furthermore, while QLM's loss ratios on health insurance is above 90%, we think the ratio should be much lower for the tourists. Therefore, we anticipate the profitability in the tourist segment to be higher, regardless of potentially higher acquisition costs. Meanwhile, it is noteworthy that QLM's current average GWP per customer is QR3.5k. Therefore, we are of the view that the expected expansion in the number of insured people after the mandatory law will not be proportionally reflected in QLM's bottom-line.
 - We expect the number of residents that have health insurance to increase from c.400k people to 2.3mn with the mandatory law. The draft law addresses "residents"; therefore, we have only considered the expat population in our estimations, to be on the safe side. However, if Qatari citizens are included in the system, the potential market size could be higher than our assumptions.
 - Again, to be on the safe side, we expect QLM to maintain its 50% market share once the mandatory health insurance system becomes operational. However, we believe it is likely that QLM may get additional market share from its competitors, given its strong solvency ratios (+200%, notably above the legal requirement of 150%) and its state-of-the-art IT systems, that is capable to handle the expected 4-5x increase in the number of insured people in Qatar.
- **Growth prospects through life insurance & new retail products.** QLM's insurance license allows the company to deal directly with retail customers. Therefore, QLM believes that it will be able to tap the local market with a wider product range in the coming periods. QLM is currently in the process of rolling out new products targeting retail customers. The life insurance segment in Qatar remains untapped, with a penetration rate of 0.03% (3% in the U.S. and 4.2% in the EU) and density (total life premiums per capita) of \$18, notably below U.S. & EU's \$2k in 2019. This is partially due to attractive pension plans provided to citizens by the State. Currently, we believe the market is underserved with innovative products & services and there could be demand for savings/investment-linked products. Furthermore, the Covid-19 pandemic has ignited the demand for protection products like term-life. Micro insurance is another untapped area in Qatar, which can generate consistent streams of revenue to insurers with good margins.
- **International expertise and support from QIC's GCC network should also support QLM's growth.** QLM insures and or reinsures risk in overseas markets such as the UAE, Oman and

Kuwait. In 2019, its international network generated 23% of QLM's life and medical insurance GWP. Apart from these markets, QLM's subsidiary Q Life previously reinsured risks written through the Labuan Branch (until 2017). On the life insurance front, QLM's GWP originating from the UAE, Oman and Kuwait accounted for 16% of total life GWP in FY2020. QLM plans to steadily expand its reinsurance portfolio in the GCC while keeping a strict vigil that the quality of underwriting is not compromised.

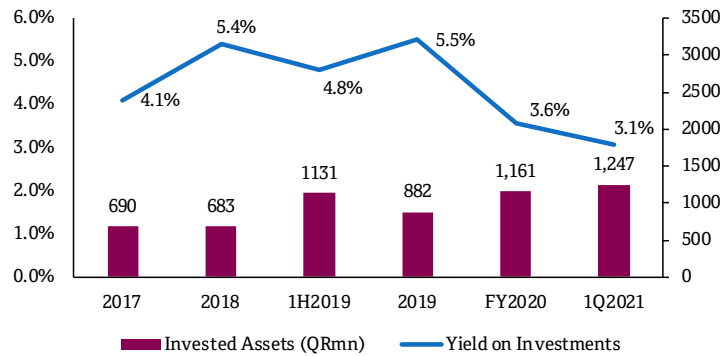
QLM GWP Breakdown (2020)



Source: QLM, QNB FS Research

- **UAE:** QLM's predecessor Q Life, reinsured UAE-written policies since its incorporation in 2011 and has maintained the business. QLM's ex-parent company (QIC) has branches in Dubai & Abu Dhabi, which serve several large corporate clients. QLM reinsures 50% of the medical portfolio of QIC's UAE branches while also reinsuring the UAE-written life insurance policies coming from various channels, including UAE-based life insurers and brokers.
 - **Oman:** Since 2011, QLM has acted as a reinsurer for medical and life policies written in the Sultanate of Oman by OQIC, a subsidiary of QIC. In 2020, QLM reinsured 60% of the medical portfolio of OQIC vs. 80% in 2019, and 100% in 2018 and 2017. On the life insurance front, QLM reinsured 90% of OQIC's life insurance portfolio in 2020 vs. 90% in 2019, and 100% in 2018 and 2017. Aside from reinsuring OQIC's life and medical policies, QLM also reinsures life insurance written by other Omani insurers.
 - **Kuwait:** Since 2011, QLM reinsured the medical portfolio of QIC's subsidiary in Kuwait (KQIC). QLM only accepts risks with favorable financial and underwriting terms. On the life insurance segment, QLM reinsures policies from various Kuwait-based life insurers as well.
 - **Other countries:** While QLM no longer reinsures risks outside of the UAE, Oman and Kuwait, it used to be active in other overseas countries as well. 1) Malaysia: In 2015, Q Life established a branch entity in Labuan, Malaysia. However, at the beginning of 2017 the Labuan branch ceased to underwrite new businesses. All previously underwritten Labuan policies have expired and the branch is in runoff. 2) Until 2018, a small part of QLM's life reinsurance business originated in Taiwan, Jordan, Lebanon, Libya, Palestine and Iraq.
- **Successful investment management performance with a risk-averse asset allocation approach.** As of 1Q2021, QLM has QR1,247mn of investment assets, 46.5% of which is in cash deposits. While QLM's average investment yield was higher in 2018 and 2019 (5.4% and 5.5%, respectively, vs. 3.6% in 2020 and 3.1% in 1Q2021 on an annualized basis), **we think the yield could have room for recovery in the coming periods.** 1Q2021 investment returns were adversely impacted due to the lower deposit rates and global inflation worries that impacted bond yields. Nevertheless, we expect QLM's investment portfolio to perform relatively better in 2H2021 as economies continue to normalize at an accelerated pace due to the higher proportions of vaccinated populations. QLM has notably high amount of cash on the sidelines (46.5% of total investments as of 1Q2021 vs. 23% as of 1H2020) to benefit from a potential increase in bond & equity prices in the coming months.

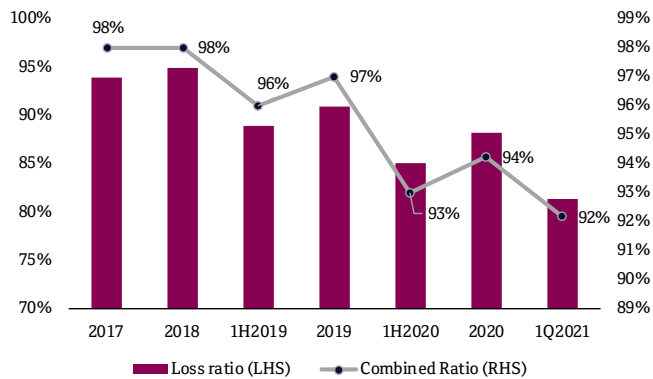
QLM Investment Portfolio Size and Yield (Annualized)



Source: QLM, QNB FS Research

- QIC's (QATI) backing continues after the IPO as well.** QIC, QLM's pre-IPO parent company, is the largest local insurer, recording \$3.4bn in gross written premiums in 2020. We expect QLM to continue on leveraging its relationship with QIC's group entities in the UAE, Oman and Kuwait to source reinsurance business from those markets. Aside from supporting QLM's insurance business, QIC supports QLM's investment management activities as QLM's investment management functions is carried out by a wholly owned subsidiary of QIC (Epicure Investment Management).
- Exceptionally high client loyalty.** QLM has consistently retained approximately 90% of its existing Qatar business since FY2017 because of a differentiated product range, service quality, competitive pricing and IT infrastructure.
- Economies of scale advantages:** There are currently 12 active licensed insurers in Qatar, most of which deal in conventional/non-Islamic insurance with a few operating in the takaful/Shari'ah-compliant space. QLM is the biggest player in the medical insurance segment in terms of gross written premiums in Qatar with an estimated 50-55% market share, followed by Al Koot. MetLife Gulf and QGIRCO are the other active players in the local medical insurance segment. Qatari medical insurance market is highly competitive and contracts are generally awarded via tenders. QLM's relatively bigger client base gives it an edge in winning new business. QLM is anticipated to have a market share slightly above 50% in the medical insurance segment.
- QLM's combined ratio has been continuously improving since 2017** from 98% in 2017 to 94% in 2020 driven by the following countermeasures to reduce claims, operation and acquisition costs as well as increasing revenues from accounts with high loss ratios: 1) QLM has been weeding out accounts with high loss ratios 2) The company corrected renewal premiums and benefit pricing in-line with claims 3) The company enhanced its control of overall claim costs 4) QLM plugged the malpractices of providers in order to reduce the claims 5) Digital transformation over the past years through automation of process has brought operating expenses lower 6) Significant portion of the business is directly acquired from the clients, resulting in lower net acquisition costs.
- To be conservative, we expect the combined ratio to average at 95.7% during 2021-2023, as we think the drop in 1Q2021 to 92.2% could be temporary due to low healthcare demand** given COVID-19 worries. Furthermore, as part of the coronavirus counter-measures, the provision of non-emergency medical services in private health facilities were stopped throughout March'21; as such, we believe these measures also lowered the loss ratio temporarily in 1Q2021.

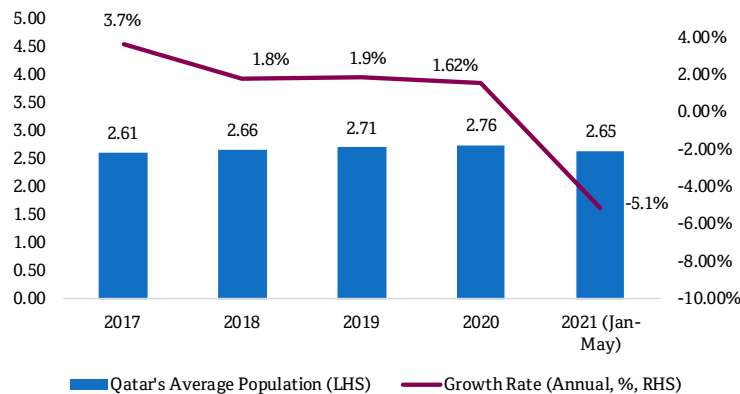
QLM's Loss, Acquisition and Combined Ratios



Source: QLM, QNB FS Research

- QLM's solid capitalization and strong profitability pave the way for top-line expansion without capital injection.** On January 14 2021, Standard & Poor's assessed the Financial Strength Rating of QLM Life & Medical Insurance Company QPSC on a stand-alone basis and rated QLM as "A-" with a stable outlook. The assessment came after the withdrawal of parental guarantee of QIC following the IPO, underlining that QLM's own balance sheet strength and its strong profitability is enough to maintain top-notch ratings.
- A strong commitment to dividends.** QLM's board of directors deem a robust dividend yield to be essential in creating shareholder value; hence, the company intends to pay an annual dividend to its shareholders amounting to 40-60% of QLM's net profit in accordance with the dividend declaration and distribution policy of the company. QLM states that its target dividend yields are expected to be above QE average yields (subject to availability of distributable profits and board of directors' approval). The dividend may be in cash or in the form of bonus shares or a mix of both. In 2019, QLM paid cash dividends of QR42mn, which corresponded to a 48% payout ratio and a dividend yield of 2.4% given the current mcap. With QLM's strong financial position and strong cash generation, we believe the company has the capacity to increase its payout ratio further and achieve its dividend policy goals. **In line with its commitment to shareholder value creation through dividends, QLM intended to pay an interim dividend for the period covering Jan'21 to Mar'21 in June'21; however, it was not approved by the QCB (Qatar Central Bank), as the QCB preferred the company not pay dividends based on unaudited interim financials.**
- In 1Q2021, QLM recorded QR25.1mn in net income, with a 67.0% growth YoY, thanks to a low base effect, lower risk reserves and normalizing investment income. This was despite a 24% fall in GWP.** GWP was affected adversely from a declining labor force resulting in a low member count for QLM and cost measures taken by some companies that reduced benefits. In line with the declining member count and due to the Covid-19 pandemic, which reduced members' hospital visits, movement in unexpired risk reserve fell by 44.3% to QR76.8mn YoY and movement in outstanding claims fell from -QR13.5mn as of 1Q2020 to +QR30.5mn in 1Q2021. Furthermore, as mentioned above, suspension of non-emergency medical services in private health facilities throughout March'21 also positively impacted the loss ratio. Consequently, QLM's loss ratio fell to 81.3% in 1Q2021 from 86.8% in 1Q2020. Investment income also recovered to QR9.6mn in 1Q2021 from QR1.1mn in 1Q2020.
- The population decline is one of the major reasons for the contraction in QLM's GWP YoY in 1Q2021.** As of May'21, Qatar's average population fell by 6.4% YoY, whereas Jan-May'21 Qatar's average population is down 5.1% YoY, primarily due to Covid-19 counter-measures (which complicates international travel for expat families) and job losses. We also think population growth is likely to recover in 2H2021 given the easing of Covid-19 counter-measures on international travel. Population growth should also be aided by recovering business sentiment with higher oil prices, which could lead to an expansion in the labor force again. **Accordingly, we expect QLM's GWP contraction to be at 5% YoY for 2021 vs. 24% in 1Q2021.**

Qatar's Annual Average Population & Growth



Source: QLM, QNB FS Research

Catalysts

- **Potential inclusion in local, FTSE and MSCI EM indices.**
- **Expected initiation of the mandatory health insurance system for residents and tourists to Qatar, ahead of FIFA 2022.**
- **Above average & better than expected dividends.** With dividends being a major driver for investors, better than expected DPS could drive the stock price.
- **The impact of IFRS 17.** IFRS 17 introduces changes to accounting and reporting standards of insurers such as requiring discounting of loss reserves expected to be paid in more than one year as well as risk adjustment for general insurance contracts. QLM is currently in the process of evaluating the potential impact of IFRS 17 and the study is expected to be completed by 1H2021. The new standard will be effective after January 2023 and although an earlier adoption is permitted, we think QLM may not intend to do so.

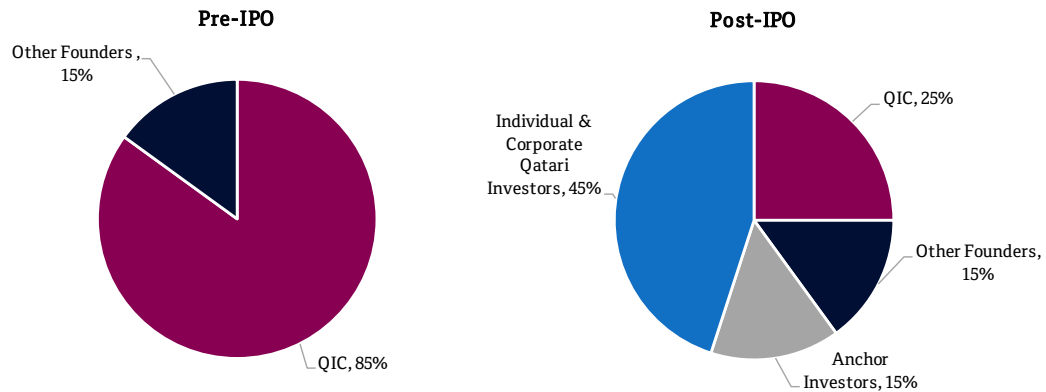
Company Overview

QLM is the successor of Q Life and is Qatar's leading medical & life insurance company with a dominant market share and strong brand recognition in Qatar. The company provides medical and life insurance products for a wide variety of clients (most of the large entities in Qatar). Following its incorporation in 2018, QLM became the business successor of Q Life when it acquired a substantial amount of the insurance business portfolio of Q Life, which had been operational since June 2011. In addition to the portfolio transfer, QLM also acquired QIC's shares in Q Life (Q Life is now a wholly owned subsidiary of QLM). QLM has continued to engage in the same activities as Q Life, including group credit life and group medical. It has also expanded into retail life insurance products. The company will continue to expand into new product lines, including individual medical insurance and investment-linked life insurance. Q Life will not undertake any regulated activities. However, it will continue to provide non-regulated support services to QLM. Furthermore, while Q Life was not authorized to deal with retail clients, QLM's insurance license allows it to issue retail products.

Group medical insurance and the business in Qatar generates the bulk of QLM's GWP. The segment generated +86.2% of QLM's GWP in 2020, while the rest (13.8%) was realized by the Group and Credit Life segment. QLM's policies cover approximately 175k local policyholders. QLM enjoys GCC's most comprehensive network of medical providers operating in 103 countries along with its state of the art IT system that enhances its customer experience, resulting in high policy renewal rates. The company has low client concentration, with no client contributing to more than 8% of GWP. From a geographical point of view, as of 2020, Qatar comprised 80% of QLM's gross written premiums. However, the company also has reinsurance policies originating in Oman, Kuwait and the UAE.

During the IPO, Qatar Insurance Company (QATI) was the sole selling shareholder. Apart from 45% stake allocated to Qatari individuals and corporates, a 15% stake was sold to “Anchor Investors”. General Retirement and Social Insurance Authority has become the major anchor investor with its 10% stake in QLM, whereas Doha Insurance Group and Qatar Ports Management Company (Mawani) each received 2.5% stakes.

QLM Shareholder Structure (Pre & Post-IPO)



Source: QLM

Detailed Financial Statements

Income Statement (QR000)

| | 2017 | 2018 | 2019 | 2020 | 2021e | 2022e | 2023e |
|---------------------------------------|------------------|------------------|------------------|------------------|----------------|------------------|------------------|
| Gross Premiums | 1,019,517 | 1,050,558 | 1,020,479 | 1,001,323 | 951,257 | 1,552,601 | 1,952,753 |
| Premiums Ceded to Reinsurers | -192,937 | -156,889 | -77,906 | -67,951 | -64,553 | -105,361 | -132,516 |
| Net Premiums | 826,580 | 893,669 | 942,573 | 933,372 | 886,703 | 1,447,239 | 1,820,236 |
| Movement in unexpired risk reserve | 31,278 | -19,056 | -67,909 | 32,923 | -10,984 | -60,302 | -75,843 |
| | 3% | -2% | -7% | 3% | -1% | -4% | -4% |
| Net Earned Premiums | 857,858 | 874,613 | 874,664 | 966,295 | 875,720 | 1,386,938 | 1,744,393 |
| Gross Claims Paid | -951,450 | -1,020,987 | -908,980 | -826,488 | -753,395 | -1,164,984 | -1,466,232 |
| Reinsurance Recoveries | 182,268 | 140,070 | 99,607 | 53,083 | 55,206 | 55,758 | 56,316 |
| Movement in Outstanding Claims | -38,851 | 51,045 | 15,282 | -78,716 | -67,885 | -121,776 | -161,133 |
| Net Commissions | 3,508 | 11,335 | -2,414 | -11,766 | -16,473 | -26,887 | -33,816 |
| EBITDA Margin % | 62.1% | 68.4% | 97.1% | 8.5% | 82.9% | 0.0% | #REF! |
| Net Underwriting Results | 53,333 | 56,076 | 78,159 | 102,408 | 93,173 | 129,049 | 139,528 |
| Net Investment & Other Income | 36,669 | 41,001 | 52,616 | 41,230 | 47,710 | 55,605 | 65,381 |
| Investment & Other Income | | | | 0 | | | |
| Finance Costs | 6,403 | 10,715 | 10,799 | 4,762 | 3,853 | 4,084 | 4,329 |
| Total Income | 90,002 | 97,077 | 130,775 | 143,638 | 140,883 | 184,654 | 204,909 |
| Operating and Administrative Expenses | -36,420 | -35,638 | -47,536 | -45,750 | -46,208 | -73,932 | -74,671 |
| Depreciation | -263 | -287 | -711 | -846 | -708 | -715.08 | -722.2308 |
| PBT | 53,319 | 61,152 | 82,528 | 97,042 | 93,967 | 110,007 | 129,515 |
| Income Tax Expenses | -5,350 | -6,100 | -1,000 | -2,762 | 0 | 0 | 0 |
| Prior Period Tax Adjustments | 6,139 | 0 | 5,350 | 3,768 | 0 | 0 | 0 |
| Net Income | 54,108 | 55,052 | 86,878 | 98,048 | 93,967 | 110,007 | 129,515 |
| Shares Outstanding (mn) | 144,000 | 172,800 | 350,000 | 350,000 | 350,000 | 350,000 | 350,000 |
| EPS | 0.15 | 0.16 | 0.25 | 0.28 | 0.27 | 0.31 | 0.37 |
| DPS | 0.00 | 0.00 | 0.12 | 0.00 | 0.13 | 0.17 | 0.22 |

Source: Company data, QNB FS Research

Balance Sheet (QR000)

| | 2017 | 2018 | 2019 | 2020 | 2021e | 2022e | 2023e |
|---|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Cash and balances | 470,833 | 448,976 | 568,711 | 604,976 | 681,564 | 866,436 | 1,110,793 |
| Insurance and other receivables | 268,975 | 311,303 | 297,491 | 326,390 | 278,862 | 459,400 | 583,151 |
| Reinsurance contract assets | 138,504 | 126,641 | 91,818 | 103,084 | 116,498 | 118,897 | 114,074 |
| Due from related parties | 147,093 | 126,245 | 109,748 | 115,094 | 116,820 | 118,573 | 120,351 |
| Investments | 631,300 | 616,510 | 702,290 | 590,886 | 700,714 | 735,750 | 772,538 |
| Total Current Assets | 1,656,705 | 1,629,675 | 1,770,058 | 1,740,430 | 1,894,459 | 2,299,056 | 2,700,907 |
| Property and equipment | 716 | 733 | 1,997 | 1,279 | 1,292 | 1,305 | 1,318 |
| Non-Current Assets | 716 | 733 | 1,997 | 1,279 | 1,292 | 1,305 | 1,318 |
| Total Assets | 1,657,421 | 1,630,408 | 1,772,055 | 1,741,709 | 1,895,751 | 2,300,361 | 2,702,225 |
| Provisions, reinsurance and other payables | 72,429 | 108,334 | 93,123 | 104,590 | 101,967 | 170,679 | 220,019 |
| Due to related parties | 165,957 | 146,368 | 144,974 | 130,697 | 124,162 | 202,652 | 254,882 |
| Short term borrowings | 411,862 | 382,404 | 389,095 | 242,333 | 256,873 | 272,285 | 288,622 |
| Insurance contract liabilities | 710,047 | 666,196 | 683,998 | 741,056 | 833,338 | 1,017,813 | 1,249,966 |
| Current Liabilities | 1,360,295 | 1,303,302 | 1,311,190 | 1,218,676 | 1,316,339 | 1,663,430 | 2,013,489 |
| Non-Current Liabilities | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Liabilities | 1,360,295 | 1,303,302 | 1,311,190 | 1,218,676 | 1,316,339 | 1,663,430 | 2,013,489 |
| Total Equity | 297,126 | 327,106 | 460,864 | 523,031 | 579,411 | 636,930 | 688,736 |
| Minority Interest | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Liabilities & Shareholder's Equity | 1,657,421 | 1,630,408 | 1,772,054 | 1,741,707 | 1,895,751 | 2,300,361 | 2,702,225 |

Source: Company data, QNB FS Research

Ratio Analysis

Key Metrics

| Particulars | 2017 | 2018 | 2019 | 2020 | 2021e | 2022e | 2023e |
|-------------------------------|---------|---------|---------|---------|---------|---------|---------|
| Growth Rates | | | | | | | |
| Gross Premiums | N/M | 3.0% | (2.9%) | (1.9%) | (5.0%) | 63.2% | 25.8% |
| PBT | N/M | 14.7% | 35.0% | 17.6% | (3.2%) | 17.1% | 17.7% |
| PAT/EPS | N/M | 1.7% | 57.8% | 12.9% | (4.2%) | 17.1% | 17.7% |
| DPS | N/M | N/M | N/M | N/M | N/M | 28.8% | 28.4% |
| Operating Ratios | | | | | | | |
| Underwriting Profit Margin | 6.2% | 6.4% | 8.9% | 10.6% | 10.6% | 9.3% | 8.0% |
| Loss Ratio | (94.2%) | (94.9%) | (90.8%) | (88.2%) | (87.5%) | (88.8%) | (90.1%) |
| Expense Ratio | (4.3%) | (4.1%) | (5.5%) | (4.8%) | (5.4%) | (5.4%) | (4.3%) |
| Net Acquisition Ratio | 0.4% | 1.3% | (0.3%) | (1.2%) | (1.9%) | (1.9%) | (1.9%) |
| Combined Ratio | (98.1%) | (97.7%) | (96.6%) | (94.2%) | (94.7%) | (96.1%) | (96.3%) |
| Net Profit Margin | 5.3% | 5.2% | 8.5% | 9.8% | 9.9% | 7.1% | 6.6% |
| Working Capital Ratios | | | | | | | |
| Days Receivables | 70 | 71 | 73 | 81 | 68 | 68 | 68 |
| Payable Days | 96 | 108 | 106 | 119 | 107 | 108 | 109 |
| | 26 | 38 | 33 | 38 | 39 | 40 | 41 |
| Finance Ratios | | | | | | | |
| Debt-Equity Ratio | 139% | 117% | 84% | 46% | 44% | 43% | 42% |
| Net Debt-Equity Ratio | -232% | -209% | -191% | -182% | -194% | -209% | -232% |
| Net Debt-to-Capital | -97% | -96% | -104% | -125% | -135% | -146% | -163% |
| Interest Coverage | 14.1 | 9.1 | 12.1 | 30.2 | 36.6 | 45.2 | 47.3 |
| Return Ratios | | | | | | | |
| ROIC | 7.6% | 7.8% | 10.2% | 12.8% | 11.2% | 12.1% | 13.3% |
| ROE | 18.2% | 16.8% | 18.9% | 18.7% | 16.2% | 17.3% | 18.8% |
| ROA | 3.3% | 3.4% | 4.9% | 5.6% | 5.0% | 4.8% | 4.8% |
| Valuation | | | | | | | |
| P/E | 31.7 | 31.2 | 19.7 | 17.5 | 18.3 | 15.6 | 13.2 |
| P/BV | 5.8 | 5.2 | 3.7 | 3.3 | 3.0 | 2.7 | 2.5 |
| Dividend Yield | N/A | N/A | 2.4% | 0.0% | 2.7% | 3.5% | 4.5% |

Source: Company data, QNB FS Research

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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