

## Gulf Insurance Company

*Standing Tall in Tough Times...*

Tickers:  
**GINS.KW (Reuters)**  
**GINS KW (Bloomberg)**

April, 2009

**Buy**

Listing:  
**Kuwait Stock Exchange**

Current Price:  
**KD 0.445 (As on April 22, 2009)**

### Investment Summary

- **Gulf Insurance Company (GIC)** is one of leading insurance provider in the GCC market with its presence in major gulf regions. GIC dominates Kuwait insurance industry with highest market share of 27.2% as compared to other players having one of the oldest foundation. The company began its operations in 1962 as state owned company when the government had 82.0% stake.
- GIC began its business offering Life & Health and non-life policies and gaining major market share, later it diversified into other regional markets offering Life & Health and non-life policies to compete against the other players in the insurance market. Currently Gulf Insurance company offers Life & Health and health, Marine and Aviation, Accident and Property insurance to its customers.
- The company has its major share of premiums dominated by the Casualty segment followed by Life & Health, Property and Marine & Aviation segment during FY08. The dynamics of the business have changed post FY06 with rising income levels and investment appetite of individuals. The surge in demand for car and home available on easy bank credit improved the overall demand for insurance products.
- GIC is a market leader in Kuwait for 8th successive year in terms of premium income and technical profits. The company has bagged four out of five Kuwait Petroleum Company tenders. The company was awarded as “Insurance Company of the Year- Middle East” by World Finance, London in November 2008. GIC ranks as one of the top ten insurers in the MENA region based on Gross Written Premium, its activities are further supported by first class reinsurance security and the company possesses a (BBB+) interactive credit rating from Standard & Poor’s.
- GIC’s state-of-the-art internet based information technology system links all of its operations and that of subsidiaries to a mainframe. This process has immensely contributed to company’s efficiency in issuing policies, handling claims, maintaining financial accounts and allowing online access to its overseas subsidiaries and reinsurers.

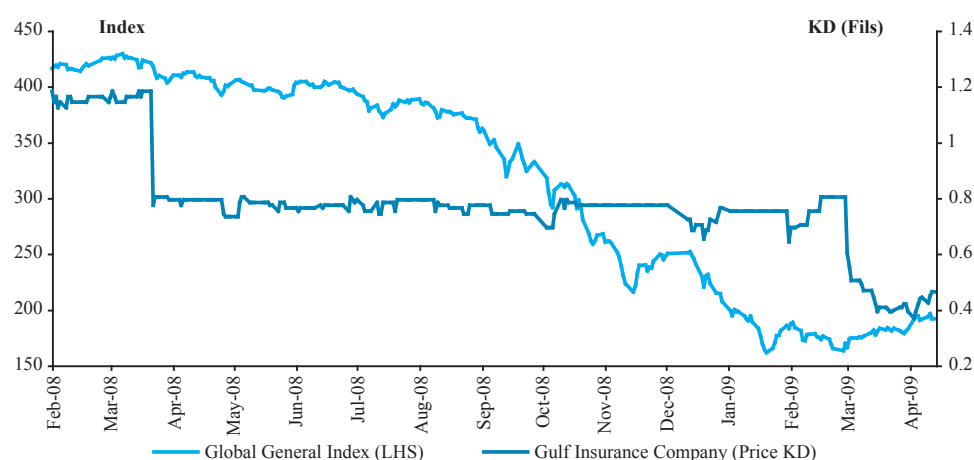
- GIC is a part of the Kuwait Projects Company (KIPCO) group, one of the biggest diversified holding companies in the MENA region, with assets worth more than US\$19bn under management. The group has substantial ownership interests in a portfolio of over 50 companies operating across 21 countries. KIPCO's main business sectors are financial services and media. Through the subsidiaries and affiliates of its core companies, KIPCO also has interests in Real Estate, Industry, Healthcare and the Management & Advisory sector.
- The stock witnessed volumes of KD16.1mn at a price level of 760fils as at 31st December 2008. The higher volumes were recorded as on 31st December 2007 at a price level of 566fils and volume of KD75.6mn. Post the crisis the liquidity has dried up in the stock and the Kuwaiti markets. We believe as the scenario improves the stock will gain momentum with higher volumes.
- At the CMP of 445 fils (As on 22nd April'09) the stock trades at 10.5x and 1.0x FY09E P/E and P/BV and 9.1x and 1.0x FY10E P/E and P/BV multiples respectively. Using the Embedded Value Method and Price to book method we arrive at a price target of 614fils per share indicating a premium of 38.0% to the current market price. We recommend "BUY" on the stock.

**Table 01: Investment Indicators**

Price as on April 22, 2009 (KD)	Shares in issue (Millions)	Market Capitalisation (KD Millions)	52 Week High-Low price range (KD)			
0.445	169.6	75.5	0.365-0.800			
Underwriting						
Year	Profit (KD Million)	Net Profit (KD Million)	EPS (KD)	BVPS (KD)	P/E (x)	P/BV (x)
2010 F	8.8	8.3	48.8	446.5	9.1	1.0
2009 F	8.5	7.2	42.4	427.7	10.5	1.0
2008 A	8.0	3.6	21.3	405.4	17.6	0.9
2007 A	4.5	37.7	233.1*	765.4	2.4	0.7

Source : Company Reports, *Global Research*

\* 2007 EPS Restated for Bonus.

**Chart 01 : Share Price Performance**

Source : *Global Research*

## Company Profile

Gulf Insurance Company was established in 1962 as a joint stock company majorly owned by the Kuwait government. In 1996, KIPCO acquired a major stake in the company marking the divestment by Government of Kuwait.

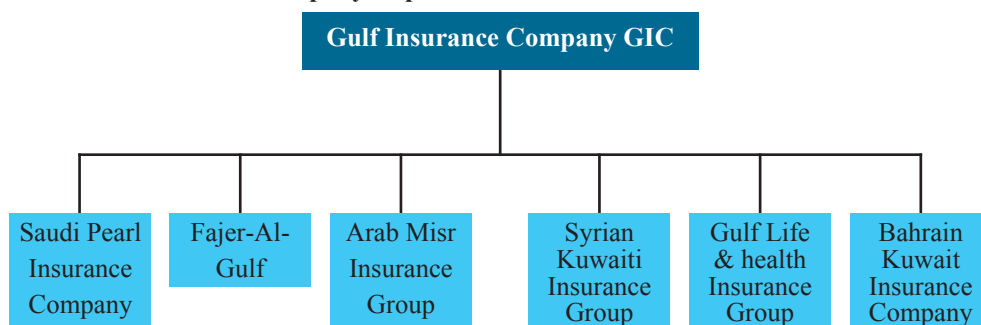
**Table 02- Key Milestones**

<b>1962</b>	GIC Commenced operations; 2nd state owned company in Kuwait
<b>1996</b>	Government of Kuwait divested 82% stake ; KIPCO acquired majority stake
<b>2000</b>	Acquired 90% stake in Saudi Pearl Insurance (SPI) and 61.3% stake in International Trust
<b>2003</b>	Formed Fajr-Al-Gulf Insurance and Reinsurance company
<b>2005</b>	Acquired 54.3% stake in Egypt's Arab Misr Insurance group
<b>2006</b>	Increased stake in Bahrain Kuwait Insurance company to 42%
<b>2006</b>	Established Syrian Kuwaiti Insurance company with 44.4% direct stake
<b>2007</b>	Increased stake in BKIC to 50.2% from 42%; Increased stake in AMIG to 85.4%
<b>2007</b>	Established Gulf Life & health Insurance company with 98.6% stake
<b>2008</b>	Increased stake in BKIC to 51.2%; obtained approval for Buruj Co-operative Insurance (BCIC); Saudi Arabia.
<b>2009</b>	GIC is in final process to acquiring 55% of Arab Orient Insurance Company (AOIC).

Source: Company Reports & Global Research

GIC commenced its operations in 1962 as a second state owned company in Kuwait. In 1996 Government of Kuwait divested their 82% stake and was acquired by Kuwait Projects Company (KIPCO). The company has made organic acquisition in different GCC regions by taking stakes in the insurance and reinsurance companies. The company has more than 50% stake in five companies in five different making GIC a diversified player.

**Chart 02: Presence of company's operations**



Source: Company Reports & Global Research

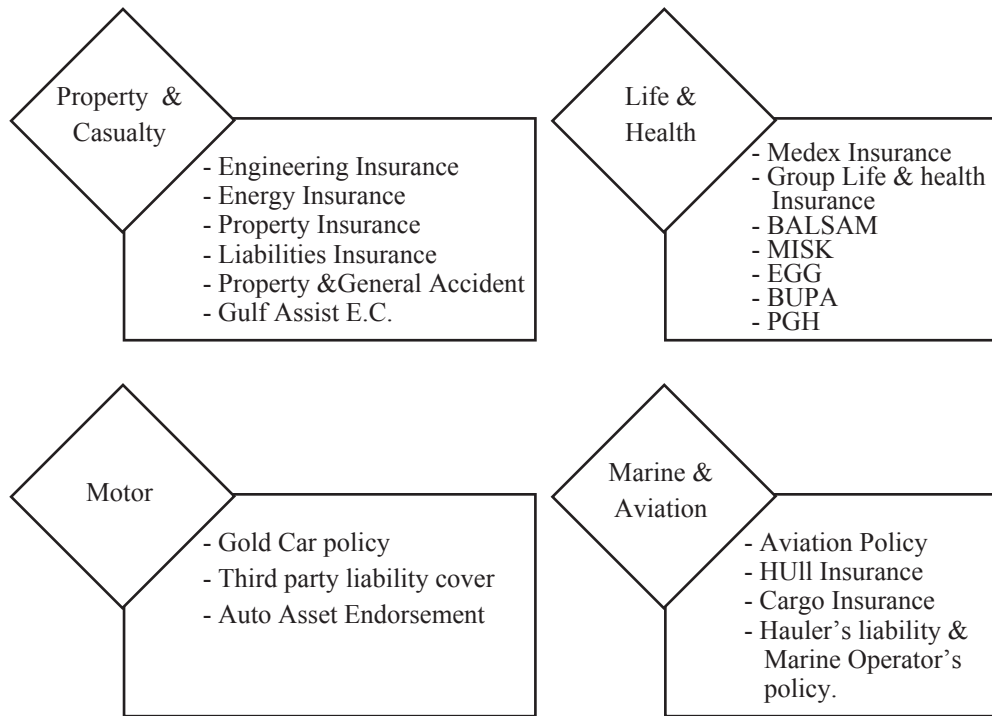
Gulf Insurance Company has a well-diversified presence in the growing countries like Saudi Arabia, Lebanon, Egypt, Syria and Bahrain. The company has started its plans to open operations in Jordan. We believe this diversification gives an edge to GIC as compared to other players in the industry.

**Table 03- Stake in different subsidiaries.**

Country	Saudi Arabia	Lebanon	Egypt	Syria	Bahrain	Kuwait
Holding	100%	51%	85.3%	44.4%	51.2%	98.6%
Board	4 of 4	5 of 9	4 of 7	4 of 7	5 of 9	4 of 5

Source: Company Reports & Global Research

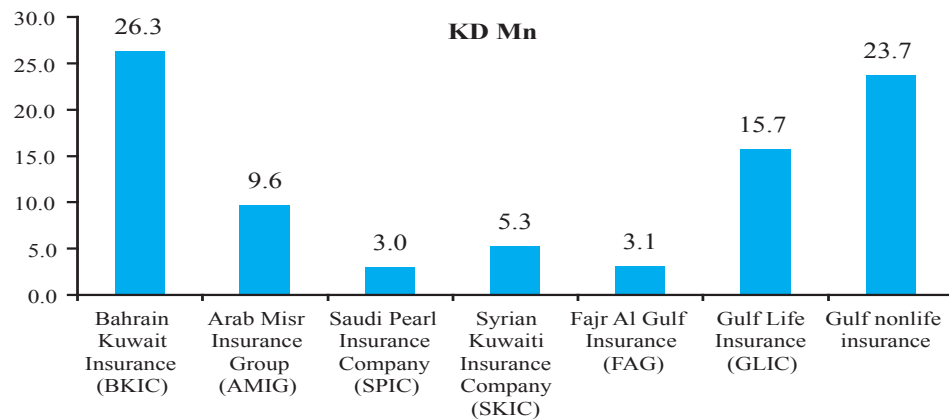
**Chart 03: Products & Services**



Source: Company Reports & *Global Research*

## Subsidiaries

**Chart 04 : 2008 Gross Written Premiums**



Source: Company Reports & Global Research

Gulf Insurance operates in the MENA regions through its five subsidiaries namely Bahrain Kuwait Insurance Company (BKIC), Arab Misr Insurance Group (AMIG), Saudi Pearl Insurance Company (SPIC), Syrian Kuwaiti Insurance Company (SKIC) and Fajr Al Gulf Insurance (FAG). The company also plans to open its operations in Jordan.

Bahrain Kuwait Insurance Company (BKIC) was established in 1975. The company is allowed to operate in Bahrain and Kuwait. The company is listed on Bahrain stock exchange and Kuwait stock exchange. BKIC is involved in all classes of insurance. BKIC has grown to occupy a leading position in the Bahrain insurance market. Due to the strong financial and market position of BKIC, GIC has increased its investment in BKIC to own 51.2% of shareholder's equity as at 31st December 2008.

Arab Misr Insurance Group is an Egyptian Non-life insurance company established in 1993. The company practices all lines of Non-life insurance business through 11 branches covering most of Egypt and employing around 200 employees. The company's market share is 3% of the total Non-life market & 10% from private sector insurance.

Saudi Pearl Insurance Company is a Bahraini insurance company, engaged in offshore insurance business in Kingdom of Saudi Arabia. The company has a strong presence in Saudi insurance market and is engaged in all classes of insurance. Also SPI is going under a transitory period, where a new company is being established under the name of Buruj Cooperative Insurance Company, where GIC will own a 22.5% of the share capital as a founder. The new formed company has a strong potentials to grow in the Saudi insurance market due to positive economic outlook, low current insurance penetration rates and a new insurance regulatory framework that was introduced in 2004.

Syrian Kuwaiti Insurance Company (SKIC) is a Syrian company, established in 2006. SKIC had 7% of the insurance market share in its first year of operations. The company provides services that consistently meet customers' needs and contributes positively in the development of the insurance industry in Syria by expanding the sales and distribution network.

Fajr Al Gulf is a Lebanese shareholding company established in 1992. The company employs 60 people spread over 7 branches servicing to over 60,660 customers in Lebanon. Due to the political and economical situations prevailing in Lebanon recently, Fajr has been incurring losses, but the management of the company is keen to overcome these losses in the near future increasing and diversifying its insurance and investment portfolio.

Gulf Life & health Insurance Company was established in 2008 as a subsidiary of Gulf Insurance Company (GIC) in line with the global practice of separating life & health insurance business from other general insurance businesses.

### **Analysis of 2008 results**

GIC has reported 16.9% and 80.4% growth in gross written premiums and underwriting profits respectively in 2008 as compared to 2007. The company has also reported a two year CAGR (2006-2008) of 10.8% and 43.0% respectively in GWP and underwriting results. The company has maintained its leadership position in Kuwait by having the highest market share during the same period.

As the dynamics of the business have been changing, the company has seen a change in revenue mix. The life & health insurance segment has seen a de-growth and other segments have been reporting significantly to company's gross written premiums. The company reported a two year CAGR (2006-2008) of 32.8%, 33.8% and 6.9% in Marine & Aviation, Casualty and Property segment respectively. The Life & health insurance segment has witnessed a degrowth in 2008 as a result of the significant regulatory developments. Firstly medical insurance underwriting has been assured by the government since the beginning of 2008. Also underwriting of insurance on credit defaults has been banned in Kuwait.

Gulf Insurance has seen a need to increase reinsurance on its property premiums since the Kuwaiti real estate market witnessed a sharp increase in prices even higher than its fair values despite supply in the markets exceeding the demand. The situation reinforced the company to cushion itself from any severe fall in prices by reinsuring the policies and mitigate any significant amount of claims arising in future from real estate segment. The reinsurance ratio for the segment stands at 93.7% in 2008 as compared to 92.3% in 2007 and 62.5% in 2006.

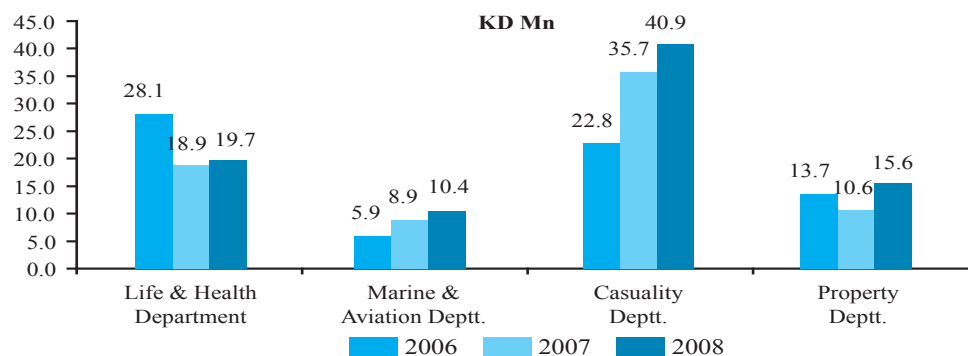
The premiums from Casualty department have been contributing majorly to the total gross written premiums. The segment has reported a three year CAGR (2005-2008) growth of 31.8%. The casualty department has witnessed a spurt in growth owing to introduction of new products by the company.

The company's retention ratio has been improving from 48.1% in 2004 to 52.3% in 2007. However due to global crisis post Q308 the company has been pro-active in determining the risks to the policies and has significantly increased its reinsurance ratio to 51.0% in 2008 from 49.6% in 2007.

The global financial crisis post Q308 has led to significant meltdown in equity markets and have led to erosion in equity prices. This has resulted in a net investment loss of KD0.6mn in 2008 as compared to KD39.1mn in 2007. The company has significant portion of its investments in equities of KD47.8mn forming 73.7% of available for sale portfolio. The composition of equities has reduced from 76.8% in 2007 to 73.7% in 2008, but this was due to meager growth in equities in 2008 at 2.2% as compared to 2007.

The commission income is lower with Casualty department since more than 60% of the portfolio comprises of Motor insurance. The premiums inflow from the motor insurance is retained to a major extent resulting to lower commissioning income and balance is workmen’s compensation resulting to negative contribution from the department.

**Chart 05: Segment wise break up for Gross Written Premiums**

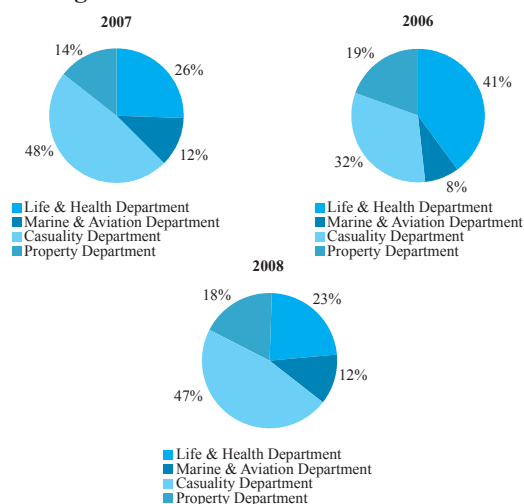


Source: Company Reports & Global Research

All the segments have reported growth except the life & health segment. The change in the industry dynamics have side-lined life & health insurance. The takaful insurance is growing at a faster pace as it is shariah compliant. The booming markets and growing population and high income levels have spurred growth for other segments. The major contributor to growth remains Casualty segment followed by Life & health and Marine & Aviation segment. The Marine & Aviation, Casualty and Property segment have reported a two year CAGR growth of 32.8%, 33.8% and 6.9% respectively.

Including the government medical premiums of KD3mn the life & health-segment would have reported 20.0% growth in 2008 as compared to 2007. In beginning of 2008 the Government of Kuwait has abandoned the distribution of premiums with the insurance companies resulting to lower or de-growth in life & health premiums for 2008 for all the insurance companies in Kuwait.

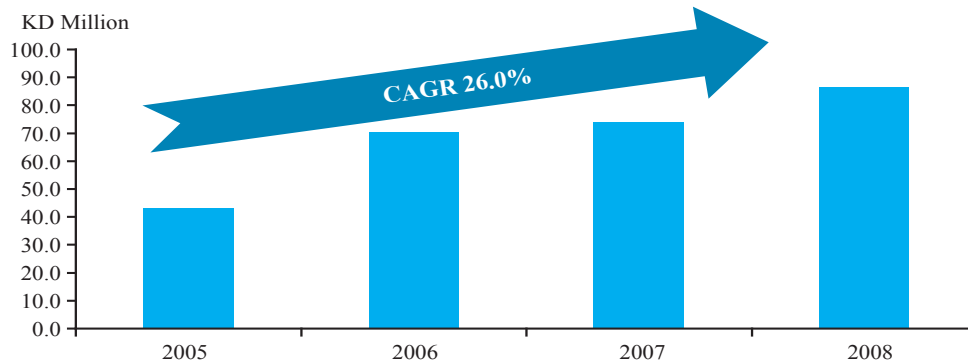
**Chart 06: Contribution segment wise to GWP**



Source: Company Reports & Global Research

The Casualty segment contribution to total gross written premiums has increased from 32.1% in 2006 to 47.2% in 2008. Although the life & health segment remains the domain expertise of GIC, it has not contributed majorly in the recent years. The change in industry dynamics during the last three years has led to change in the product mix. There has been a constant rise in the casualty segment also since the company introduced new products in this segment.

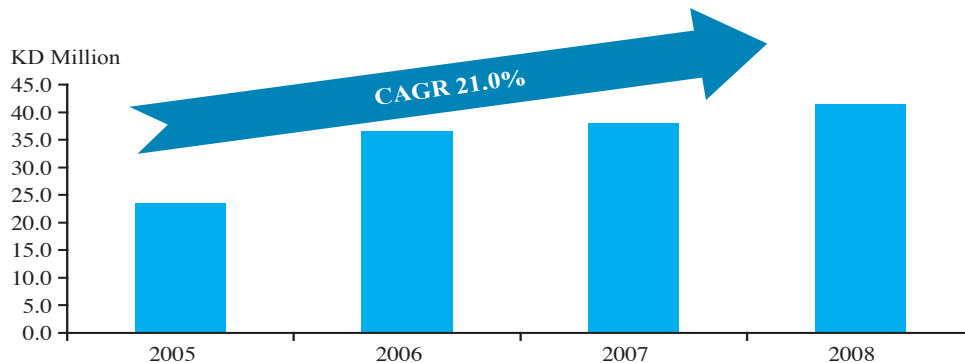
**Chart 07 : Gross Written Premiums**



Source: Company Reports & Global Research

Gulf Insurance Company has reported three year (2005-2008) CAGR growth of 26.0%. The higher growth is driven by exuberant growth in all the segments of insurance. The company reported a three year (2005-2008) CAGR growth of 10.3%, 30.0%, 31.8% and 37.6% in Life, Marine & Aviation, Casualty and Property respectively.

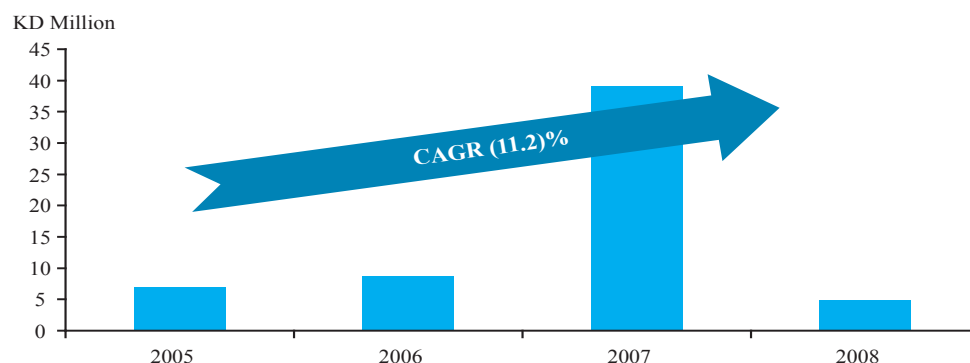
**Chart 08 : Net Premiums Earned**



Source: Company Reports & Global Research

GIC reported a three year (2005-2008) CAGR growth of 21.0% in net premiums earned. There has been a consistent growth despite the retention ratio going down reflecting a higher growth in gross written premiums. We believe the company is adequately capitalized to withstand any uncertainty in claims going ahead.



**Chart 09 : Net Profit**

Source: Company Reports & Global Research

The insurance companies have more than 40% approximately as total investments to total assets. The investment income has been extremely volatile due to fluctuation in interest rates and equity exposure. Accordingly the central banks have been increasing the interest rates to curb the inflation since 2006, the bankers had to adjust their yields and cost on incremental advances and deposits to compete in the market. The yields on the government securities has also seen volatility.

In 1H08 the interest rates had peaked and there was no room to increase the rates since demand was trailing the supply. The last quarter of 2008 saw a sharp fall in equities due to recession in US and other European markets leading to a fall in prices of oil and other commodities. The central banks worldwide started cutting the rates to spurt the demand make available money at a lower cost. The cut in rates saw a sharp increase in bond prices resulting in robust profits by bankers on their bond portfolio. The equities saw a sharp price erosion by the end of 2008, Gulf Insurance Company also saw negative impact on its equity portfolio.

In 2008, GIC booked a unrealized investment loss of KD0.6million as compared to investment income of KD39.1million in 2007. This resulted in sharp losses booked by the company and leading to fall in net income.

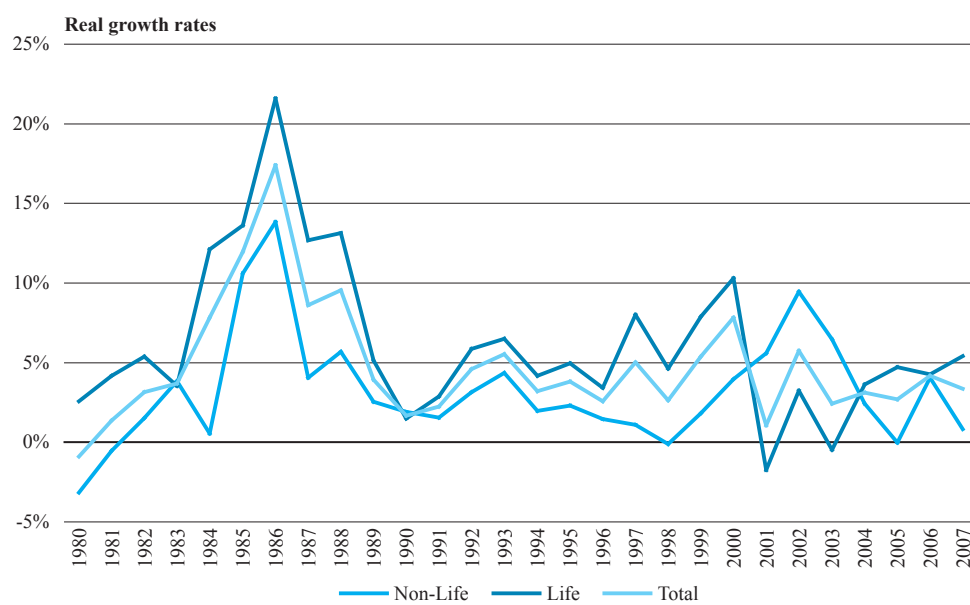
### Liquidity

Gulf Insurance has huge network to back up any kind of investment losses or uncertainty arising in claims. The company has seen a rise in overall gross premiums written to policy holder's surplus from 0.86x in 2007 to 1.13x in 2008. The liquidity is major driving factor in this crisis helps the company in taking additional risks without borrowing. GIC has additional liquidity of KD72.6mn in 2008, the liquidity of the company can be valued by adding up cash, investments held for trading and time and call deposits kept with banks. We remain positive on GIC with sound liquidity and better risk management capabilities. The insurance companies operate in the range of 6-10% of Surplus as a percentage to gross written premiums. The 10% stating excellent operating framework.

## Insurance : A Global Perspective

The world insurance premiums grew 3.3% in real terms in 2007, reaching US\$4,152.2bn. This growth was primarily driven by the life & health business in industrialized and emerging markets and to a lesser extent by the Non-life businesses in the emerging markets.

**Chart 10: Global premium growth 1980 - 2007**



Source : Swiss Re

Despite a macroeconomic environment characterised by marginally slower economic growth and rising inflation, life & health insurance continued to expand in 2007 with world life & health insurance premiums increasing by 5.4% annually to US\$ 2,476.2bn. Sales of retirement and other wealth accumulation products spurred growth in the industrialised economies. Life & health insurance in the emerging markets was fuelled by strong economic performance and catch-up potential.

Global Non-life premium growth slowed to 0.7% in real terms, totalling US\$ 1,675.9bn in 2007. Non-life premium growth continued to follow divergent trends in the industrialised and the emerging markets. While premium volume retreated in the industrialised markets, growth slowed marginally in the emerging markets. Though downward pressure on premium rates continued in some countries, overall technical results were favourable and profitability remained sound.

**Table-04: Total Business**

	Premium Volume (In millions of US\$)		Change (in%) inflation adjusted		Share of World Market (%)	Premiums in % of GDP	Premiums per capita (in US\$)
	2007	2006	2007	2006	2007	2007	2007
<i>Total businesses</i>							
America	1,420,534.0	1,333,784.0	2.7	3.0	34.2	7.6	1,576.7
North America	1,330,674.0	1,262,060.0	2.1	2.6	32.1	8.7	3,986.6
Latin America and Caribbean	89,860.0	71,725.0	11.8	11.5	2.2	2.6	158.4
Europe	1,764,047.0	1,489,118.0	6.4	6.5	42.5	8.3	2,057.0
Western Europe	1,689,405.0	1,432,119.0	6.1	6.3	40.7	9.2	3,296.1
Central and Eastern Europe	74,642.0	56,999.0	13.3	11.8	1.8	2.8	229.5
Asia	844,929.0	778,616.0	4.9	1.1	20.4	6.2	211.8
Japan & newly industrialized Asian economies	640,562.0	622,556.0	1.8	(2.0)	15.4	10.4	3,017.2
South and East Asia	180,761.0	136,574.0	17.6	16.8	4.4	3.1	52.2
Middle East and Central Asia	23,606.0	19,486.0	12.2	14.5	0.6	1.5	76.7
Oceania	68,889.0	58,238.0	4.0	2.1	1.7	6.6	2,061.7
Africa	53,810.0	51,127.0	1.0	19.9	1.3	4.4	55.9
World	4,152,210.0	3,710,883.0	4.6	4.1	100.0	7.6	621.4
Industrialized Countries	3,730,167.0	3,376,106.0	3.8	3.2	89.8	9.3	3,654.3
Emerging Markets	422,043.0	334,777.0	12.8	15.5	10.2	2.8	74.1
OECD	3,669,564.0	3,323,539.0	3.5	3.1	88.4	8.8	3,011.9
G7	2,933,386.0	2,689,510.0	3.2	1.9	70.7	9.5	3,965.3
EU, 15 Countries	1,610,161.0	1,360,587.0	6.3	6.5	38.8	9.6	3,860.9
EU, 27 Countries	1,650,022.0	1,391,254.0	6.4	6.6	39.7	9.2	3,136.8
Nafta	1,348,530.0	1,277,238.0	2.3	2.7	32.5	8.4	3,062.6
ASEAN	41,166.0	34,465.0	9.8	6.6	1.0	3.2	78.3

Source : Swiss Re

As it can be inferred from the above chart the premiums as a % to GDP is the lowest in the Middle East as compared to the other regions in the world. The insurance market is at its nascent stage and has the potential to grow as compared to other countries in the world.

**Table-05 : Total Life & health Business**

	Premium Volume (In millions of US\$) 2007	Change (in%) inflation adjusted 2006	Share of World Market (%) 2007	Premiums in % of GDP 2006	Premiums per capita (in US\$) 2007	Premium Volume (In millions of US\$) 2007	Change (in%) inflation adjusted 2007
<i>Life &amp; health &amp; health Business</i>							
<i>Total businesses</i>							
America	660,896.0	600,430.0	6.2	4.0	26.9	3.5	733.6
North America	624,558.0	571,352.0	5.9	3.5	25.2	4.1	1,871.1
Latin America and Caribbean	36,338.0	29,079.0	11.6	15.0	1.5	1.1	64.1
Europe	1,114,090.0	915,075.0	9.5	6.7	45.0	5.3	1,315.3
Western Europe	1,095,994.0	901,832.0	9.4	6.5	44.3	6.1	2,169.5
Central and Eastern Europe	18,096.0	13,242.0	17.2	19.2	0.7	0.7	55.6
Asia	627,758.0	579,761.0	4.8	(0.2)	25.4	4.6	157.7
Japan & newly industrialized Asian economies	493,764.0	480,191.0	1.9	(3.1)	19.9	8.0	2,332.6
South and East Asia	128,033.0	94,660.0	19.4	18.2	5.2	2.2	37.0
Middle East and Central Asia	5,961.0	4,910.0	11.9	7.7	0.2	0.4	19.4
Oceania	35,807.0	29,175.0	7.9	6.2	1.5	3.4	1,071.4
Africa	37,661.0	36,782.0	(1.0)	25.4	1.5	3.1	39.1
World	2,476,212.0	2,161,224.0	7.1	4.2	100.0	4.6	370.6
Industrialized Countries	2,253,296.0	1,985,234.0	6.5	3.1	91.0	5.6	2,218.8
Emerging Markets	222,916.0	175,991.0	13.6	19.1	9.0	1.5	39.2
OECD	2,183,791.0	1,927,630.0	6.1	3.0	88.2	5.3	1,801.9
G7	1,758,743.0	1,566,262.0	6.0	2.8	71.0	5.8	2,407.9
EU, 15 Countries	1,053,269.0	863,016.0	9.6	6.8	42.5	6.4	2,566.8
EU, 27 Countries	1,070,506.0	875,716.0	9.7	7.0	43.2	6.1	2,066.7
Nafta	632,211.0	578,164.0	5.9	3.7	25.5	3.9	1,435.8
ASEAN	26,762.0	21,964.0	12.2	10.7	1.1	2.2	53.3

Source : Swiss Re

In the Middle East region the premiums to per capita income ratio is the lowest as compared to other regions in the world. Although the life & health business is gaining its dominance post the takaful launch, which is gaining more importance and awareness for life & health insurance.

The Life & health business has gained popularity since the takaful product is launched in GCC countries, which is shariah compliant. As can be inferred from the table above there is an immense potential to tap in the life & health insurance segment.

**Table-06: Total Non-life Business**

	Premium Volume (In millions of US\$)	Change (in%) inflation adjusted	Share of World Market (%)	Premiums in % of GDP	Premiums per capita (in US\$)	Premium Volume (In millions of US\$)	Change (in%) inflation adjusted
<i>Non-life business</i>	2007	2006	2007	2006	2007	2007	2007
<i>Total businesses</i>							
America	759,637.0	733,354.0	(0.2)	2.2	45.3	4.1	843.2
North America	706,116.0	690,708.0	(1.0)	1.8	42.1	4.6	2,115.5
Latin America and Caribbean	53,522.0	42,646.0	11.9	9.3	3.2	1.6	94.4
Europe	649,957.0	574,043.0	1.5	6.1	38.8	3.0	741.7
Western Europe	593,411.0	530,287.0	0.7	5.9	35.4	3.2	1,126.7
Central and Eastern Europe	56,546.0	43,757.0	12.1	9.6	3.4	2.1	173.9
Asia	217,171.0	198,855.0	5.0	5.2	13.0	1.6	54.1
Japan & newly industrialized Asian economies	146,798.0	142,365.0	1.8	2.1	8.8	2.4	684.7
South and East Asia	52,728.0	41,914.0	13.4	13.9	3.2	0.9	15.2
Middle East and Central Asia	17,645.0	14,576.0	12.3	17.1	1.1	1.1	57.4
Oceania	33,082.0	29,062.0	0.1	(1.7)	2.0	3.2	990.2
Africa	16,150.0	14,344.0	7.1	5.9	1.0	1.3	16.8
World	1,675,998.0	1,549,658.0	1.2	4.0	100.0	3.1	250.8
Industrialized Countries	1,476,871.0	1,390,872.0	(0.1)	3.2	88.1	3.6	1,435.5
Emerging Markets	199,127.0	158,786.0	11.9	11.3	11.9	1.3	35.0
OECD	1,485,773.0	1,395,909.0	-	3.3	88.7	3.5	1,210.0
G7	1,174,643.0	1,123,248.0	(0.7)	0.7	70.1	3.7	1,557.4
EU, 15 Countries	556,892.0	497,571.0	0.6	6.0	33.2	3.2	1,294.0
EU, 27 Countries	579,516.0	515,538.0	0.8	6.0	34.6	3.1	1,070.1
Nafta	716,319.0	699,073.0	(0.7)	1.8	42.7	4.4	1,626.8
ASEAN	14,404.0	12,501.0	5.7	0.2	0.9	1.0	25.0

Source : Swiss Re

The Non-life premiums are growing faster as compared to life & health premiums in the Middle East and have better penetration rate. In 2007 East & Central Asia and Middle East had a 12.3% share of the World market.

Globally the assets are sharia compliant as it can be depicted from the table-4 below, the GCC assets have been growing CAGR 39%, as compared to MENA (excluding GCC growing at 30% CAGR).

**Table 07- Insurance Density**

<i>Premium Per Capita</i> US\$	Life & health Insurance 2007	Non-life Insurance 2007	Life & health Insurance 2006	Non-life Insurance 2006
Industrialised Markets	2218.1	1434.1	1969.4	1365.8
Emerging Markets	39.1	34.9	31.2	28.3
South and East Asia	37.2	15.2	27.7	12.2
Latin America	63.4	94.2	51.3	76.4
Eastern Europe	56.1	173.5	40.5	134
Africa	39.1	16.8	39.4	15.3
Middle East	19.4	57.5	16.2	48.3

Source: Swiss Re

The insurance density is highest in the industrialized markets as the economies are more developed as compared to the Middle East and North Africa region. The developed world has remarkably higher density owing to better awareness and many players in the insurance industry willing to set up their businesses as compared to other regions. The Non-life segment is growing on a higher base and at the same pace as compared to the life & health segment.

**Table 08- Insurance Penetration**

<i>Premiums as a % to GDP</i>	<b>Life &amp; health Insurance</b>		<b>Non-life Insurance</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Industrialised Markets	5.6%	5.4%	3.6%	3.7%
Emerging Markets	1.5%	1.4%	1.3%	1.3%
South and East Asia	2.2%	2.0%	0.9%	0.9%
Latin America	1.0%	1.0%	1.6%	1.4%
Eastern Europe	0.7%	0.6%	2.1%	2.0%
Africa	3.0%	3.4%	1.3%	1.3%
Middle East	0.1%	0.1%	1.0%	0.9%

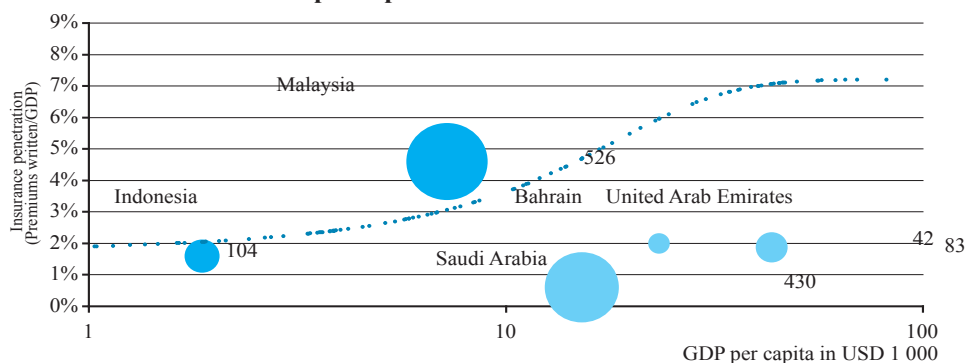
*Source : Swiss Re*

The contribution of insurance sector as a percentage to GDP is lowest in the Middle East. This reflects room to increase the penetration, but the concern lies as the Middle East economies rely heavily on oil revenues as compared to other countries having well-diversified. Also the number of insurance players are limited in Middle East since the regulator restricts from granting new licenses with easy approvals. Kuwait is an exception since there are already 22 licenses for a small market so the competition is intense.

## GCC Insurance market

Insurance is one of the cornerstones of the modern-day financial services sector. In addition to its traditional role of managing risk, the insurance sector promotes long-term savings and serves as a conduit to channel funds from policyholders to investment opportunities, including mortgage lending.

**Chart 11 : GCC Insurance per capita to GDP-2007**



Source: Company Reports & Global Research

### GCC Insurance Market potential

The Muslim population is primarily concentrated in the Middle East, Northern Africa and South and East Asia. About 300mn Muslims live as minorities in other countries, with the largest number of Muslims living in India (157mn :13%), China (40mn:3%) and Ethiopia (40mn). Given their fast-growing economies and insurance sectors, India and China are potential markets for Islamic insurance going forward.

Muslim countries accounted for US\$3,462.2bn (22%) of emerging market GDP in 2007. This is equivalent to an average GDP per capita for emerging countries (US\$2,700). In 2007, 11% of emerging market insurance premiums were written in Muslim countries (US\$45bn), indicating a low level of insurance penetration compared to that of the emerging markets.

Insurance penetration, particularly in life & health insurance is low in Muslim countries. Premiums written amounted to just 1.3% of GDP in 2007, versus 2.8% of GDP in the emerging markets. While economic growth has been solid in most Muslim countries since the turn of the century, the insurance sector has lagged. One reason for the low penetration is that conventional insurance is not compatible with Islamic faith. In order to grow the insurance market in Muslim countries, it is important to understand the different Islamic insurance models along with their unique challenges and opportunities.

### Insurance under Islam

The Quran is the ultimate source of all Islamic principles that were revealed to the prophet Mohammed by Allah, supplemented by the sayings and actions of the prophet (sunnah). These two sources are the roots of Islamic belief, which lay out general principles on how a Muslim should lead his/her life & health, albeit not all aspects of life & health.

Muslims conduct their lives according to the Islamic principles laid out in shariah. Consequently, all transactions must be shariah-compliant, including the type of insurance coverage purchased. The following must be avoided:

1. Riba : Payment/receipt of interest.
2. Maisir : Excessive risk-taking.
3. Gharar: Uncertainty and unclear terms in contracts.
4. Haram: Investment in anything unacceptable- eg pork, alcohol, gambling and pornography.

### **Wide spectrum of Islamic insurance models**

Given the varying interpretations of Islamic law, different insurance models have emerged. The models considered include non-profit mutual insurance and models that closely resemble conventional insurance, with funds invested in shariah-compliant assets.

In this sigma, a distinction is made between Islamic insurance and takaful. While Islamic insurance refers to all concepts of Islamic insurance, takaful refers specifically to insurance models that use segregated funds for policyholders and shareholders.

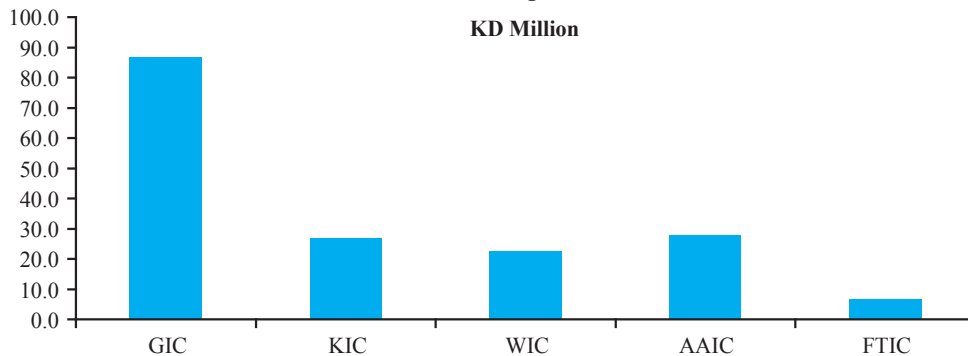
### **Takaful**

Takaful is a system based on the principle of mutual assistance (ta'awun) and voluntary contribution (tabarru), where the risk is shared collectively and voluntarily by a group of participants. Through payment of a voluntary donation and the clear definition of the type of loss, uncertainty and excessive risk taking are removed from the contract. Takaful has been practiced for centuries as a system of risk sharing.



## Kuwait Insurance Companies Peer Comparison

**Chart 12: Gross Written Premiums Peer Comparison**

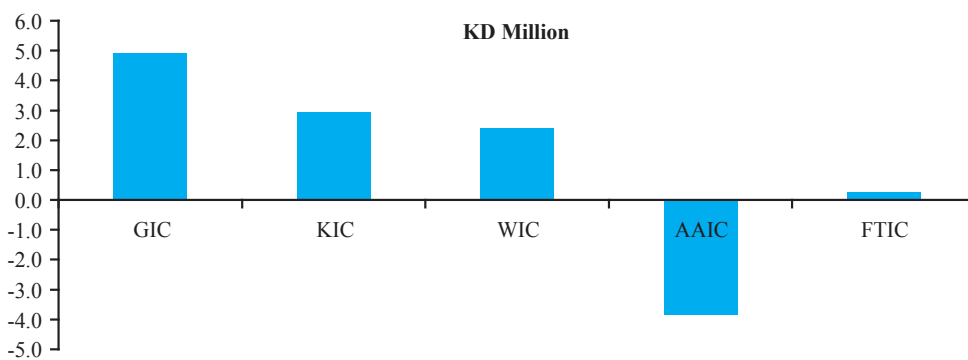


Source: Company Reports & **Global Research**

Note: GIC- Gulf Insurance Company, KIC- Kuwait Insurance Company, WIC- Warba Insurance Company, AAIC- Al-Ahleia Insurance Company and FTIC- First Takaful Insurance Company.

GIC topped in market share amongst the other players in the insurance market. GIC has outperformed substantially other insurance players on the gross written premiums. GIC sustains its market leadership in 2008. The gross written premiums have been approximately 2x higher as compared to other players in the industry.

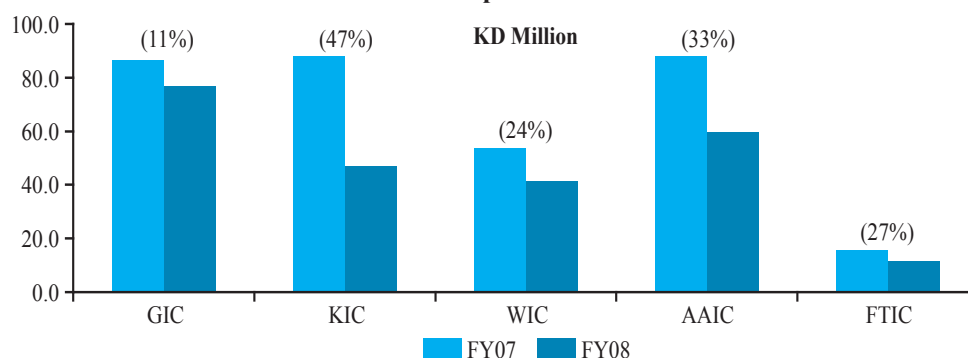
**Chart 13 : Net Profit Peer Comparison**



Source: Company Reports & **Global Research**

Note: GIC- Gulf Insurance Company, KIC- Kuwait Insurance Company, WIC- Warba Insurance Company, AAIC- Al-Ahleia Insurance Company and FTIC- First Takaful Insurance Company.

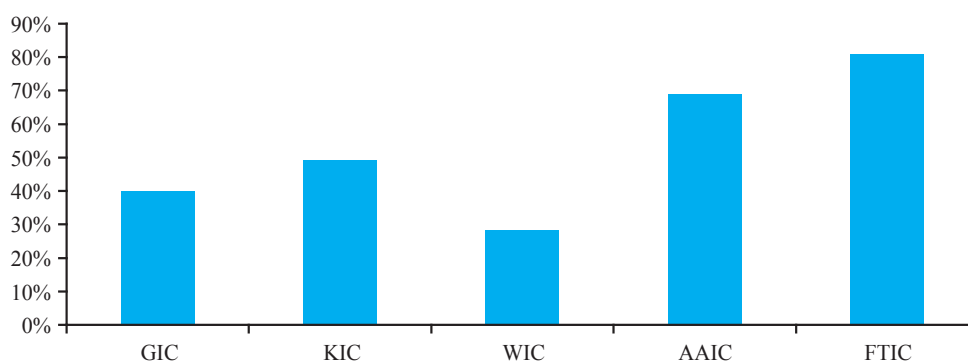
Gulf Insurance has reported higher net income as compared to other insurance players, despite the tough last quarter of 2008 the company has seen net income unlike Al-Ahleia that reported a net loss. The global financial crisis has hit all insurance players profitability contribution due to huge losses on the available for sale investment portfolio reported on a mark to market basis.

**Chart 14 : Erosion in Network Peer Comparison**

Source: Company Reports & **Global Research**

Note: GIC- Gulf Insurance Company, KIC- Kuwait Insurance Company, WIC- Warba Insurance Company, AAIC- Al-Ahleia Insurance Company and FTIC- First Takaful Insurance Company.

Gulf Insurance company has seen the least erosion in network as compared to other players. Kuwait Insurance company has reported 47% erosion in network mainly due to mark-to-market write-downs in investment portfolio. This reflects strong risk management capabilities considering the size of GIC.

**Chart 15- Investments/Total Assets- 2008**

\*Excluding Fixed deposits and money market funds included in cash

Source: Company Reports & **Global Research**

Note: GIC- Gulf Insurance Company, KIC- Kuwait Insurance Company, WIC- Warba Insurance Company, AAIC- Al-Ahleia Insurance Company and FTIC- First Takaful Insurance Company.

Gulf Insurance has majorly liquid investments as money market and time and call deposits as part of cash component. The 2008 was an exceptional year since all the companies booked loss on investment portfolio who did not exit till 3Q08.

Gulf Insurance Company is an undisputed leader in the Kuwait insurance market as it continues to dominate with larger market share, higher profits, geographical diversity, strong network and better positioning in the market.

GIC has presence in MENA with branches present in almost all major growing economies. It does have expansion plans to emerge as a giant and market leader of the GCC markets. The company has seen a consistent track record of sustaining its market share and report consistent profits despite the tough conditions.

## Outlook and Strategy Ahead

We remain positive on the outlook for insurance sector going ahead. As the global business scenario improves the GCC countries will bounce back as they are structurally dependent on oil revenues. The increase in oil prices will allow the GCC governments to accumulate significant reserves. We believe that the governments will invest part of the reserves in local economies to sustain growth and diversify the high reliability of income from oil revenues.

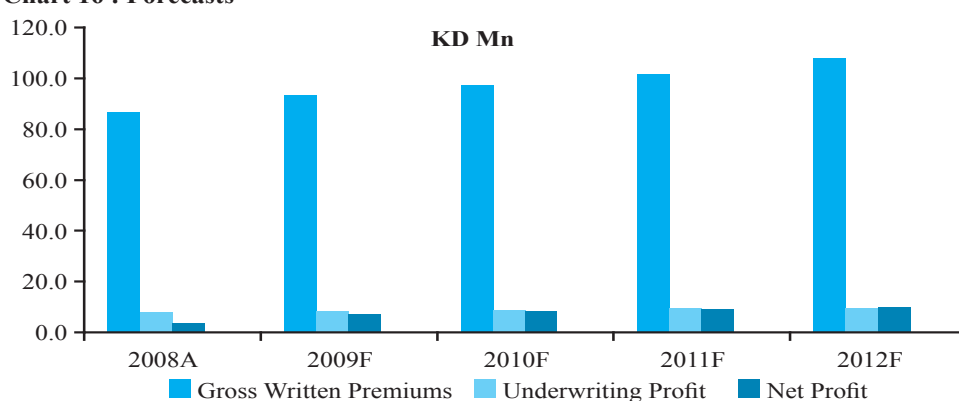
The insurance sector remains under penetrated and has potential to grow as the economy expands and corporates plan their capital expenditure. The penetration rate is lowest as compared to any other country in the World. This is due to unawareness of the product and less companies existing in the sector. We also believe that Muslim population remains untapped as they strictly prefer the takaful products which are shariah compliant.

GIC remains undisputed market leader in the insurance industry in Kuwait. The company has already has expanded its operations beyond Kuwait. We remain positive on earnings outlook for the company despite the turbulent markets and tough business scenario for underwriting new insurance policies.

The Kuwaiti government has officially cancelled the country's fourth oil refinery project. The fourth refinery's cost was estimated at US\$15bn and it would have had a capacity of 6,15,000 barrels a day. The company has spent about US\$400mn on its fourth refinery. The cancellation of this project will affect the premiums growth of the insurance companies as most of the insurance companies underwrite the policy jointly.

GIC's presence in countries like Saudi Arabia, Lebanon, Syria, Bahrain and Egypt will reduce the impact of the cancellation of refinery and a slowdown in growth for the company.

**Chart 16 : Forecasts**



Source: Company Reports, *Global Research*

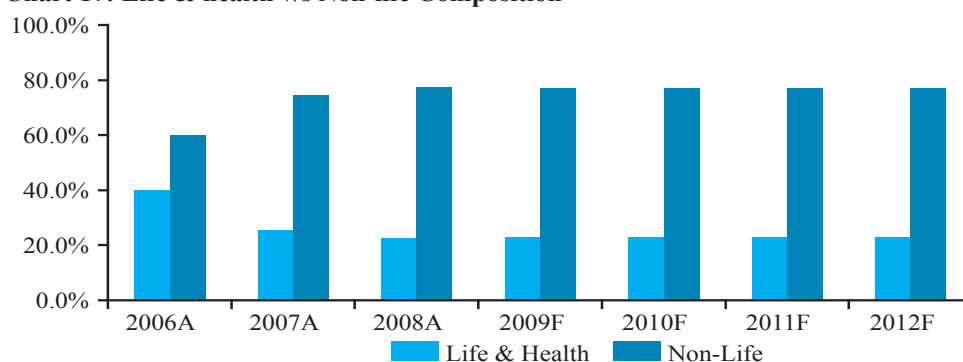
We expect a four year CAGR growth (2008-2012E) of 5.7%, 4.7% and 28.7% for gross written premiums, underwriting profit and net profit respectively.

The technical profit growth will be driven by mainly marginal growth in unallocated expenses for general and administration activities in the forecasted years. We expect a four year CAGR (2008-2012E) growth at 5.9% for the unallocated expenses.

GIC reported a de-growth of 99.2% in 2008 as compared to 2007 owing to unrealized losses in investments as a result of fall in equity markets and global meltdown.

The company made an unrealised loss on investments at KD0.6mn in 2008 as compared to net investment income of KD39.1mn in 2007. The hit was significant since the equity markets fell sharply across the world after the Q308 due to financial crisis.

**Chart 17: Life & health v/s Non-life Composition**



Source: Company Reports, *Global Research*

We expect that Non-life segment will continue to drive the gross written premium growth for the company. The changing dynamics of the insurance industry due to changing demographics and needs of an individual has spurred growth in other segments. The company has also witnessed high share from Marine and Aviation segment due to globalization, growing world trade and increasing usage of sea as one of the modes of transport. The rising oil prices have inflated the premiums and resulted in substantial growth.

The Property & Casualty segment has also seen rising share in premiums to overall gross written premiums due to rising demand for property and engineering goods owing to aggressive construction activities and rising demand for rental homes for increasing expatriate population.

We expect that with the changing dynamics of the insurance industry, the segment mix will also change. The life & health segment will not be major contributor to the overall gross written premiums since the Non-life segments are growing at a faster pace than life & health. We believe that insuring for the shipping industry has gone up substantially owing to piracy.

Piracy attacks have increased 11% worldwide last year, according to International Maritime Bureau's piracy reporting centre. The price of insuring and securing voyages has more than quadrupled forcing companies to spend millions of dollars per trip just to avoid the area. The gulf coast also faced attacks from the pirates and has witnessed huge losses.

We remain positive on the growth of insurance sector, as we believe despite the slowdown in GCC economies and cancellation of oil refinery plan by the Kuwait government, GIC has seen a growth in gross written premiums. We are not surprised with the fact that life & health segment has reported a de-growth in premiums owing to medical insurance premiums underwriting redeemed back by the government. The other segments such as Marine & Aviation will continue to drive the growth as oil prices push up and increasing usage of ships will create more demand for insurance.

We also remain positive on the Casualty and Property segment as the changing dynamics and the GCC inflated growth story will bounce back as it still is the place of foreign direct investments. We believe the Dubai real-estate market will bounce back as the interest rates and affordability comes to a realistic levels.

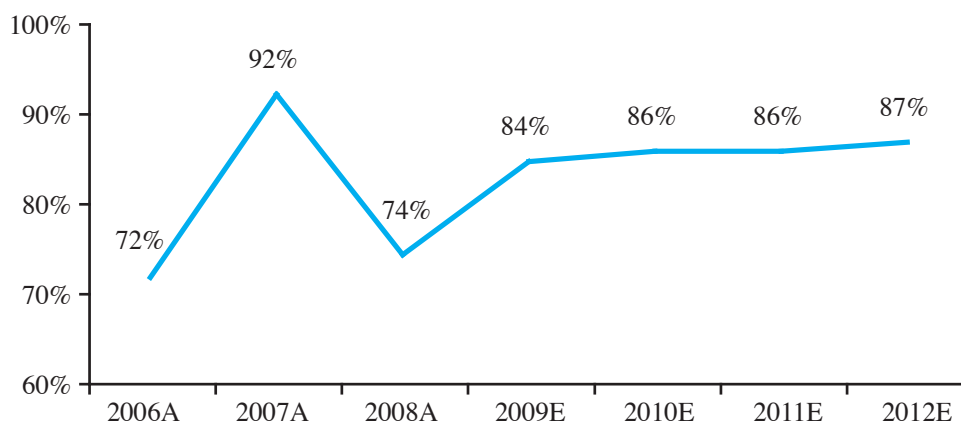
### Takaful Expectations

We expect the takaful insurance companies to outperform the conventional insurance companies owing to safer business model. The takaful companies invest in shariah compliant products having higher safety. The takaful market has still not reached its peak since there is huge Muslim population to be tapped.

Gulf Insurance Company has also begun offering the takaful products. The company remains undisputed leader in conventional insurance. The other takaful companies have been active in the takaful insurance. We believe that with lesser financial strength and with just a start up the takaful companies will find difficult in the long-run to manage their businesses. This will benefit Gulf Insurance company in the long-run to gain on market share and emerge as a leader in takaful segment.

In Kuwait 22 licenses were issued to existing conventional and new players for starting the takaful unit, Most of the companies are facing liquidity crisis and exploring merger options to survive the financial crisis. The conventional insurance companies have although been re-active in opening its takaful products but remain financially strong as compared to takaful companies.

**Chart 18: Combined Ratio**



Source: Company Reports, *Global Research*

The combined has remained has reduced from 92% in 2007 to 74% in 2008 this was due to reduction in claims from KD24mn to KD22mn has brought down the loss ratio from 65.7% in FY)7 to 50.9% in 2008. The reduction in claims was due to falling retention rate, the risk was taken off the books by increasing the reinsurance ratio in 2008 to 51% from 48% in 2007.

## Valuations

We believe that statutory cash flow accounting does little to show how an insurance company's management creates economic value. It looks at the past performance rather than the future potential. For valuation purposes past performance is just one of the indicators, as the insurance company would have to work in a very dynamic and ever changing scenarios.

Various research houses use different methodologies to value an insurance company, as its operations assume significant difference from other brick & mortar or services sector.

We use Embedded Value method recognized worldwide to value insurance companies. Embedded Value (EV) comprises net asset value, and the estimated value of current in-force business only for the life & health insurance segment, because it is relatively too low for the Non-life insurance companies. Life & health companies sell long-term contracts from which the company will derive profits in the future, in turn building up a profitable book of in-force business.

The fair value is based on comparing the company's Return on Equity with its cost of capital to generate an appropriate embedded value projected forward by twelve months.

Share price target = (Embedded Value Method)\*(Return on Equity/Cost of Capital)

We have also used the P/BV valuation method, the industry has weighted average P/BV of 1.2x so we have assigned a industry multiple for Gulf Insurance Company at 1.2x for 2009E Book Value. We assign EVM 80% weight and P/BV 20% weight and the target price is arrived.

**Table 09 : Embedded Value Method**

<i>Amounts in KD</i>	<b>Dec-08</b>	<b>Cost of capital</b>	
Stated shareholders' funds	76,976,564	Cost of equity	11.25%
Dividend	(10,942,070)	Justified RoE	19.0%
Goodwill	(2,934,275)		
Net Asset Value	63,100,219		
Inforce value	1,141,772		
Net asset plus in-force value	64,241,991		
Embedded Value per share (fils)	379		
Number of shares	16,965,000		
<b>Fair value per share using EVM (fils)</b>	<b>639.5</b>		

Source : *Global Research*

**Table 10: Price to Book Method**

<i>Amounts in Fils</i>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
BVPS	427.7	446.5	469.9	498.3
Industry P/BV (x)	1.2			
<b>Target price based on Industry P/BV</b>	<b>513.3</b>			

Source : *Global Research*

As per P/BV method the target price is 513.3fils indicating 15.3% premium to the current market price. The target price is arrived by calculating the weighted average sector P/BV as at 31st December 2008. The closing equity prices of the insurance companies are taken as at 21st April'09 and Book value as on 31st December 2008. The weighted average sector P/BV comes to 1.18 which we have taken for our calculations for P/BV method.

**Table 11: Valuations**

Company Name	Closing Price Fils As at 21st April'09	Market Cap KD'000	Book Value Fils (December 08')	P/BV (x)
<b>INSURANCE</b>				
Kuwait Insurance Co.	0.375	72,765	211.98	1.77
Gulf Insurance Co.	0.470	79,736	405.36	1.16
Al-Ahlia Insurance Co.	0.270	42,196	380.48	0.71
Warba Insurance Co.	0.305	52,701	237.78	1.28
Kuwait Re-Insurance Co.	0.246	25,715	333.62	0.74
1st Takaful Insurance	0.395	39,500	114.59	3.45
Wethaq Takaful Insurance	0.104	11,466	157.85	0.66
<b>Sector Total/ Weighted Average</b>		<b>324,079</b>	<b>272.13</b>	<b>1.18</b>

Source : *Global Research*

We believe that the current erosion in networth results in a higher sector multiple. This indicates slightly expensive valuations of the sector. But considering a bottom out of equity markets and losses realized by the insurance companies we do not see an exceptional scenario of networth erosion going ahead. We expect robust growth in insurance sector in GCC region owing to its lower penetration ratio as compared to other countries.

**Table 12: Valuation Summary**

	Amount in Fils	Premium to CMP (%)	Weight (%)	Weighted Fair Value per share (Fils)
Fair value based on Embedded Value method	639.5	43.7%	80%	511.6
Fair value based on P/B valuation	513.3	15.3%	20%	102.7
<b>Total Weighted Average Fair Value per share</b>		<b>38.0%</b>		<b>614.3</b>

Source : *Global Research*

At the CMP of 445 fils (As on 22nd April'09) the stock trades at 10.5x and 1.0x FY09E P/E and P/BV and 9.1x and 1.0x FY10E P/E and P/BV multiples respectively. Using the Embedded Value Method and Price to book method we arrive at a price target of 614fils per share indicating a premium of 38.0% to the current market price. We recommend "BUY" on the stock.

## Balance Sheet

	GULF INSURANCE COMPANY K.S.C.					
	2006A	2007A	2008A	2009F	2010F	2012F
<i>Assets (Kuwaiti Dinar)</i>						
<b>Cash and investments :</b>						
Cash and cash equivalents	8,011,279	7,616,889	6,329,136	8,056,681	10,530,983	7,967,834
Premiums and insurance balances receivable	15,729,874	22,961,088	27,842,034	32,701,259	35,123,044	36,750,182
Reinsurance recoverable on outstanding claims	15,805,880	22,224,904	37,231,202	29,898,294	33,171,764	34,588,406
Reinsurance accounts receivable	2,939,525	-	-	-	-	-
Loans secured by life & health insurance policies	126,976	438,165	731,959	747,457	878,076	972,799
Other Assets	6,759,834	6,364,874	12,163,792	8,408,895	7,805,121	7,566,214
Other debit balances	-	-	-	-	-	-
<b>Total Current Assets</b>	<b>49,373,368</b>	<b>59,605,920</b>	<b>84,298,123</b>	<b>79,812,585</b>	<b>87,508,987</b>	<b>87,845,435</b>
<b>Investments</b>						
Investments held for trading	12,205,923	22,829,621	16,378,807	13,595,031	18,494,858	24,933,887
Investments available for sale	63,700,291	60,913,490	64,820,838	64,511,826	68,382,536	83,876,064
Investments in associated companies	981,671	4,050,680	5,370,810	6,143,983	5,698,545	6,523,694
Investments in HTM	-	4,731,485	6,320,460	7,679,979	8,140,778	9,319,563
Time and call deposits at banks, money market fund	46,502,780	57,391,756	49,865,473	56,831,847	56,985,446	55,917,376
Debt Securities	5,516,155	4,300,000	3,300,000	4,607,988	4,884,467	5,591,738
Real Estate Investments (Net)	1,314,451	291,249	228,932	228,932	228,932	228,932
<b>Total investments</b>	<b>130,221,271</b>	<b>154,508,281</b>	<b>146,285,320</b>	<b>153,599,586</b>	<b>162,815,561</b>	<b>186,391,254</b>
Goodwill	2,699,664	2,725,109	2,934,275	2,934,275	2,934,275	2,934,275
Property & Equipment (gross)	11,724,713	13,227,418	14,533,459	16,277,474	18,230,771	20,418,463
Less : Depreciation	(6,058,654)	(7,035,745)	(8,074,940)	(9,702,687)	(11,525,765)	(15,854,479)
Net Fixed Assets (net)	5,666,059	6,191,674	6,458,519	6,574,787	6,705,006	6,850,853
<b>Total Assets</b>	<b>187,960,362</b>	<b>223,030,984</b>	<b>239,976,237</b>	<b>242,921,233</b>	<b>259,963,829</b>	<b>284,185,164</b>
<b>Liabilities, Minority Interest and Shareholder's equity</b>						
<b>Liabilities</b>						
Premiums received in advance	5,767,755	2,736,907	6,319,613	3,737,287	3,414,740	4,323,551
Accounts payable	15,229,941	13,007,860	13,955,996	14,949,147	15,610,242	17,294,203
Insurance and reinsurance companies	12,601,665	12,499,528	16,814,520	15,883,468	16,585,882	18,375,091
Other liabilities	6,772,551	11,010,746	11,196,155	13,080,503	13,658,961	15,132,428
Bank Overdraft	8,726,980	7,888,638	7,015,847	7,474,573	8,292,941	9,727,989
Loan from GIC	-	-	-	-	-	-
<b>Total Current Liabilities</b>	<b>49,098,892</b>	<b>47,143,679</b>	<b>55,302,131</b>	<b>55,124,979</b>	<b>57,562,766</b>	<b>60,365,563</b>
<b>Technical Reserves</b>						
Outstanding claims reserve	33,946,971	44,263,271	61,502,416	64,468,195	67,319,167	71,879,032
Unearned premiums reserve	13,501,164	13,287,003	14,188,193	16,817,790	22,439,722	21,395,390
Life & health mathematical reserve	14,420,000	15,617,788	16,311,027	16,817,790	17,561,522	18,320,077
Additional reserve	2,957,525	3,064,061	3,256,360	3,270,126	3,902,560	4,972,083
<b>Total Technical reserves</b>	<b>64,825,660</b>	<b>76,232,123</b>	<b>95,257,996</b>	<b>101,373,901</b>	<b>111,222,972</b>	<b>115,763,073</b>
Minority Interest	13,470,360	13,084,102	12,439,546	13,860,559	15,423,673	19,034,467
<b>Shareholders equity</b>						
Share capital	11,310,000	11,310,000	16,965,000	16,965,000	16,965,000	16,965,000
Share premium	3,600,000	3,600,000	3,600,000	3,600,000	3,600,000	3,600,000
Treasury shares	(3,151,943)	(3,385,743)	(2,045,871)	(2,045,871)	(2,045,871)	(2,045,871)
Statutory reserve	11,319,880	11,310,000	11,689,049	12,407,596	13,235,808	15,131,703
Voluntary reserve	10,363,850	15,263,413	15,642,462	16,361,009	17,189,221	18,095,027
Cumulative changes in fair value	18,511,012	12,084,472	8,169,978	8,169,978	8,169,978	8,169,978
Foreign currency translation adjustments	23,323	(496,807)	(430,516)	(430,516)	(430,516)	(430,516)
Treasury Share reserve	-	1,011,297	1,578,309	1,578,309	1,578,309	1,578,309
Employees share option reserve	-	318,508	-	-	-	-
Retained earnings	8,589,328	35,555,940	13,600,913	15,956,289	17,492,488	22,480,644
Cash Dividends	-	-	8,207,240	-	-	-
<b>Total shareholders equity</b>	<b>60,565,450</b>	<b>86,571,080</b>	<b>76,976,564</b>	<b>72,561,794</b>	<b>75,754,418</b>	<b>84,534,363</b>
<b>Total Liabilities, Minority Interest and Shareholder's equity</b>	<b>187,960,362</b>	<b>223,030,984</b>	<b>239,976,237</b>	<b>242,921,233</b>	<b>259,963,829</b>	<b>284,185,164</b>

Source : Company Reports, Global Research



## Income Statement

	GULF INSURANCE COMPANY K.S.C.						
Amount (Kuwaiti Dinar)	2006A	2007A	2008A	2009 (E)	2010 (E)	2011 (E)	2012 (E)
Premiums Written	70,547,809	74,084,609	86,609,378	93,432,167	97,564,010	101,882,807	108,088,770
Reinsurance Premiums Ceded	(33,260,713)	(35,384,832)	(44,211,087)	(49,051,888)	(50,245,465)	(52,265,880)	(55,125,273)
Net Premiums Written	37,287,096	38,699,777	42,398,291	44,380,279	47,318,545	49,616,927	52,963,497
Movement in unearned premiums	867,561	797,198	(901,192)	(922,082)	(906,092)	(582,530)	(1,134,392)
Net premiums Earned	36,419,535	37,902,579	41,497,099	45,302,361	48,224,637	50,199,457	54,097,889
Net Commission Received	351,227	(249,764)	460,488	93,432	146,346	203,766	324,266
Policy Issuance Fees	1,039,020	1,194,486	1,434,166	2,051,770	2,164,945	2,310,702	2,451,453
Net Investment Income from life insurance	1,431,495	2,383,866	479,854	632,055	877,463	1,041,733	1,265,179
<b>Expenses:</b>							
Claims incurred	(19,590,546)	(24,916,434)	(23,983,953)	(26,620,607)	(29,234,364)	(31,471,270)	(34,759,056)
Increase in life mathematical reserve	(8,045,000)	(1,197,788)	(693,239)	(272,777)	(190,065)	(198,665)	(214,106)
Increase in additional reserve	(80,843)	(58,597)	(192,297)	(211,527)	(232,679)	(255,947)	(281,542)
Maturity and cancellations of life insurance policies	(599,588)	(693,834)	(450,033)	(747,457)	(780,512)	(815,062)	(756,621)
General and administrative expenses	(6,992,303)	(9,903,100)	(10,505,983)	(11,730,409)	(12,185,745)	(11,726,711)	(12,441,017)
<b>Net Underwriting Result</b>	<b>3,932,997</b>	<b>4,461,414</b>	<b>8,046,102</b>	<b>8,496,842</b>	<b>8,790,027</b>	<b>9,288,003</b>	<b>9,686,444</b>
Net Investment (loss) income	6,373,722	39,123,228	(1,047,913)	2,528,219	3,509,853	4,166,934	5,060,715
Sundry income	162,013	95,197	58,700	-	-	-	-
<b>Other Charges</b>							
Unallocated general and administrative expenses	(1,440,208)	(3,137,982)	(1,974,568)	(2,055,508)	(2,048,844)	(2,241,422)	(2,486,042)
Profit before KFAS, NLST, Zakat and Director's Fees	9,028,524	40,541,857	5,082,321	8,969,553	10,251,036	11,213,515	12,261,118
Contribution to KFAS	(87,463)	(391,555)	(37,413)	(75,485)	(86,879)	(94,941)	(103,697)
National Labour Support Tax	(191,157)	(954,639)	(46,926)	(169,842)	(195,478)	(213,617)	(233,319)
Director's Fees	(80,000)	(120,000)	(80,000)	(80,000)	(80,000)	(80,000)	(80,000)
Zakat Tax	-	(23,337)	(18,771)	(37,743)	(43,440)	(47,470)	(51,849)
Profit for the year	8,669,904	39,052,326	4,899,211	8,606,483	9,845,238	10,777,487	11,792,252
<b>Attributable to:</b>							
Equityholders of the parent company	8,387,648	37,665,945	3,607,381	7,185,470	8,282,124	9,058,061	9,900,884
Minority interest	282,256	1,386,381	1,291,830	1,421,013	1,563,114	1,719,426	1,891,368
<b>P&amp;L Appropriation Account:</b>							
<b>Opening Balance of Retained Earnings</b>	<b>7235684</b>	<b>8589328</b>	<b>35555940</b>	<b>13,600,913</b>	<b>15,956,289</b>	<b>17,492,488</b>	<b>19,649,437</b>
Adjustments	-	-	-	-	-	-	-
Net Profit for the year	83,87,648	3,76,65,945	3607381	7,185,470	8,282,124	9,058,061	9,900,884
Transfer to Statutory Reserve	8,74,627	48,89,683	(3,79,049)	(718,547)	(828,212)	(905,806)	(990,088)
Transfer to Voluntary Reserve	8,74,627	-	(3,79,049)	(718,547)	(828,212)	(905,806)	(990,088)
Proposed Dividend KD	52,84,750	58,09,650	(10942070)	(3,393,000)	(5,089,500)	(5,089,500)	(5,089,500)
Cash Dividend	-	-	(8207240)	-	-	-	-
Bonus Issue	-	-	(5655000)	-	-	-	-
<b>Closing Balance of Retained Earnings</b>	<b>85,89,328</b>	<b>3,55,55,940</b>	<b>13600913</b>	<b>15,956,289</b>	<b>17,492,488</b>	<b>19,649,437</b>	<b>22,480,644</b>

Source : Company Reports, Global Research

## Cash Flow Statement

	GULF INSURANCE COMPANY K.S.C.						
	2006A	2007A	2008A	2009F	2010F	2011F	2012F
<i>Amount in Kuwaiti Dinar</i>							
Operating Activities	2,795,660	967,301	6,543,978	7,185,470	8,282,124	9,058,061	9,900,884
Net Profit to Equity Holders	9,028,524	40,541,856	5,082,321	7,185,470	8,282,124	9,058,061	9,900,884
Adjustments for:							
Depreciation	1,572,353	1,165,082	510,038	-	-	-	-
Gain on sale of associates	-	-	(47,759)	-	-	-	-
Net Investment Income	(7,805,217)	(43,062,912)	(4,107,100)	-	-	-	-
Impairment of investments	-	1,555,818	4,722,918	-	-	-	-
Impairment of goodwill	-	448,949	-	-	-	-	-
Cost share based payment	-	318,508	383,560	-	-	-	-
Changes in operating assets and liabilities:	26,937,489	(14,675,700)	(165,064)	13,591,591	1,834,751	(3,049,305)	4,457,213
Investments carried at fair value through income statement	(478,141)	(10,623,698)	6,450,814	-	-	-	-
Property held for sale	(144,000)	1,023,202	62,317	-	-	-	-
Premiums and insurance balances receivable	(5,163,713)	(4,292,688)	(4,880,946)	(4,859,225)	(2,421,785)	(535,939)	(1,091,199)
Reinsurance recoverable on outstanding claims	(1,395,504)	(6,419,024)	(15,006,298)	7,332,908	(3,273,470)	(449,563)	(967,080)
Accounts Receivable	-	-	-	-	-	-	-
Other debit balances	(2,029,115)	(135,257)	-	-	-	-	-
Other assets	-	-	(14,415,827)	3,754,897	603,774	(345,504)	584,411
Technical reserves	22,476,363	11,406,463	19,025,874	6,115,905	9,849,070	542,468	3,997,633
Premiums received in advance	(605,872)	(3,030,848)	3,582,706	(2,582,326)	(322,546)	151,158	757,653
Accounts/insurance payable	9,851,512	(1,793,001)	5,263,127	993,151	661,095	691,007	992,954
Insurance and reinsurance companies	3,727,536	-	-	(931,052)	702,413	734,195	1,055,014
Other Liabilities	698,423	(810,849)	1,342,144	1,884,348	578,458	604,632	868,835
Bank overdraft	-	-	-	458,726	818,368	621,805	813,244
Investments HTM	-	-	(1,588,975)	(1,359,519)	(460,799)	(488,447)	(690,338)
Investments held for trading	-	-	-	2,783,776	(4,899,827)	(4,575,117)	(1,863,913)
Cash generated from operations	(72,826)	(87,463)	(391,555)	-	-	-	-
Paid to KFAS	(80,000)	(80,000)	(120,000)	-	-	-	-
Paid to Directors	(174,688)	(178,460)	(967,336)	-	-	-	-
National Labour Support Tax	-	-	(23,707)	-	-	-	-
Zakat	-	-	-	-	-	-	-
<b>Net cash from operating activities</b>	<b>29,405,635</b>	<b>(14,054,322)</b>	<b>4,876,316</b>	<b>20,777,061</b>	<b>10,116,876</b>	<b>6,008,756</b>	<b>14,358,096</b>
Investing Activities							
Purchase of property and equipment	(3,453,815)	(1,837,306)	(772,944)	(116,268)	(130,220)	(145,846)	(163,348)
Proceeds from sale of property and equipment	33,578	146,610	2,930	-	-	-	-
Net Movement on investments AFS	(1,005,070)	(1,491,709)	(7,775,681)	309,012	(3,870,710)	(5,828,797)	(9,664,732)
Purchase of investments in associates	(4,450,506)	(3,278,070)	(2,072,655)	(773,173)	445,439	(341,913)	(483,237)
proceeds from sale of associate	476,726	-	800,284	-	-	-	-
(Increase) decrease in debt securities	1,381,009	1,216,155	1,000,000	(1,307,988)	(276,479)	(293,068)	(414,203)
Loans secured by life & health insurance policies	(39,707)	(311,189)	(293,794)	(15,498)	(130,619)	63,014	(157,736)
Real Estate Investments	-	-	-	-	-	-	-
Acquisition of subsidiary	(2,293,909)	(2,058,942)	(229,957)	-	-	-	-
Interest received	1,259,855	2,197,720	3,865,984	-	-	-	-
Dividends received	2,145,600	1,582,831	3,796,097	-	-	-	-
Other Investment income received	389,224	38,502,343	386,769	-	-	-	-
Time and call deposits	-	-	-	(6,966,374)	(153,600)	1,758,408	(690,338)
Net cash from investing activities	(5,557,015)	34,668,443	(1,292,967)	(8,870,289)	(4,116,188)	(4,788,202)	(11,573,593)
<b>Financing Activities</b>							
Dividends paid	(5,284,750)	(5,952,651)	(10,859,315)	(3,393,000)	(5,089,500)	(5,089,500)	(5,089,500)
Issue of shares	(34,686)	777,497	1,204,816	-	-	-	-
Minority interest	11,298,863	(386,258)	(1,936,386)	1,421,013	1,563,114	1,719,426	1,891,368
Cash Dividends	-	-	-	(8,207,240)	-	-	-
<b>Total Financing</b>	<b>5,979,427</b>	<b>(5,561,412)</b>	<b>(11,590,885)</b>	<b>(10,179,227)</b>	<b>(3,526,386)</b>	<b>(3,370,074)</b>	<b>(3,198,132)</b>
Foreign currency translation adjustments	58,464	(5,201,130)	66,291	-	-	-	-
Net Change in Cash	28,354,675	11,332,930	(7,941,245)	1,727,545	2,474,302	(2,149,520)	(413,629)
Cash and cash equivalents at the beginning of year	17,432,402	45,787,077	57,120,007	6,329,136	8,056,681	10,530,983	8,381,462
<b>Net Cash at end</b>	<b>45,787,077</b>	<b>57,120,007</b>	<b>49,178,762</b>	<b>8,056,681</b>	<b>10,530,983</b>	<b>8,381,462</b>	<b>7,967,834</b>

Source : Company Reports, Global Research

## Fact Sheet

Amount in Kuwaiti Dinar	GULF INSURANCE COMPANY K.S.C.						
	2006A	2007A	2008A	2009F	2010F	2011F	2012F
<b>Company Fundamentals</b>							
- Gross premiums written (GPW)	70,547,809	74,084,609	86,609,378	93,432,167	97,564,010	101,882,807	108,088,770
- Net premiums written (NPW)	37,287,096	38,699,777	42,398,291	44,380,279	47,318,545	49,616,927	52,963,497
- Net premium earned (NPE)	36,419,535	37,902,579	43,299,483	45,302,361	48,224,637	50,199,457	54,097,889
- Net commission earned/ (paid)	351,227	(249,764)	460,488	93,432	146,346	203,766	324,266
- Net Claims Paid (Net Losses Incurred)	(19,590,546)	(24,916,434)	(22,036,832)	(26,620,607)	(29,234,364)	(31,471,270)	(34,759,056)
- Cash & Invested assets	138,232,550	162,125,170	152,614,456	161,656,267	173,346,544	180,965,957	194,359,088
- Technical Reserves	64,825,660	76,232,123	95,257,996	101,373,901	111,222,972	111,765,440	115,763,073
- Total Assets	187,960,362	223,030,984	239,976,237	242,921,233	259,963,829	268,997,081	284,185,164
- Shareholders' funds	60,565,450	86,571,080	76,976,564	72,561,794	75,754,418	79,722,979	84,534,363
- Underwriting Profit	2,501,502	4,461,414	7,566,248	7,864,788	7,912,563	8,246,270	8,421,265
- Net Income	8,387,648	37,665,945	3,607,381	7,185,470	8,282,124	9,058,061	9,900,884
<b>Investment type as a % of invested assets (excl. assocd cos.)</b>							
- T-Bills & Bonds	39.9%	39.9%	36.3%	40.0%	38.0%	35.0%	33.0%
- Available for sale	48.9%	39.4%	44.3%	42.0%	42.0%	43.0%	45.0%
- Loan to life & health policy holders	0.1%	0.3%	0.5%	0.5%	0.5%	0.5%	0.5%
- Investment Properties	1.0%	0.2%	0.2%	0.1%	0.1%	0.1%	0.1%
- Investment held for trading	9.4%	14.8%	11.2%	8.9%	11.4%	13.4%	13.4%
- In associated companies	0.8%	2.6%	3.7%	4.0%	3.5%	3.5%	3.5%
- Investments HTM	0.0%	3.1%	4.3%	5.0%	5.0%	5.0%	5.0%
<b>Liquidity Ratio's</b>							
- Current Liquidity	113.9%	144.5%	90.0%	93.1%	93.4%	95.2%	97.3%
- Overall Liquidity	147.5%	163.4%	147.2%	142.6%	141.1%	142.1%	142.3%
- Liquid Assets to technical reserves	213.2%	206.5%	154.6%	153.4%	150.7%	156.5%	162.3%
- Invested Assets as a % of Assets	69.3%	69.3%	61.0%	63.2%	62.6%	64.2%	65.6%
<b>Profitability Analysis</b>							
- Combined Ratio	71.6%	92.0%	74.1%	84.4%	85.6%	85.6%	86.6%
- Retention rate	52.9%	52.2%	49.0%	47.5%	48.5%	48.7%	49.0%
- Loss Ratio	53.8%	65.7%	50.9%	58.8%	60.6%	62.7%	64.3%
- Expense Ratio	17.8%	26.2%	23.2%	25.7%	25.0%	23.0%	22.4%
- Net Investment Income Ratio	21.4%	103.2%	-1.3%	7.0%	9.1%	10.4%	11.7%
- NII to Invested Assets (Yield on Invested assets)	5.6%	24.1%	-0.4%	2.0%	2.5%	2.9%	3.3%
- Net Operating Ratio	50.2%	-11.2%	75.4%	77.5%	76.5%	75.3%	75.0%
- Net Income to NPW	22.5%	97.3%	8.5%	16.2%	17.5%	18.3%	18.7%
- Change in PHS	0.0%	30.0%	-11.1%	-5.7%	4.4%	5.2%	6.0%
- Net income after taxes to avg. Total Assets	9.5%	22.4%	17.8%	5.9%	9.7%	7.1%	7.2%
- Return on avg. Shareholders' equity (ROE)	13.8%	51.2%	4.4%	19.8%	21.9%	22.7%	23.4%
<b>Capitalisation/ Leverage Tests</b>							
- GPW to Policyholders' Surplus (PHS)	1.16	0.86	1.13	1.29	1.29	1.28	1.28
- NPW to PHS	0.62	0.45	0.55	0.61	0.62	0.62	0.63
- Technical Reserves to PHS	1.07	0.88	1.24	1.40	1.47	1.40	1.37
- Technical Reserves to GPW	0.92	1.03	1.10	1.09	1.14	1.10	1.07
- Technical Reserves & PHS/ NPW	3.36	4.21	4.06	3.92	3.95	3.86	3.78
- Financial leverage (current liability to total Capital)	0.81	0.54	0.72	0.76	0.76	0.76	0.77
<b>Ratio's Used for Valuation</b>							
- EPS (fils)	74.2	233.1*	21.3	42.4	48.8	53.4	58.4
- Book Value Per Share (fils)	535.5	765.4	405.4	427.7	446.5	469.9	498.3
- P/E	4.9	2.4	17.6	10.5	9.1	8.3	7.6
- P/BV	0.7	0.7	0.9	1.0	1.0	0.9	0.9
- Market Capitalisation (KD Millions)	41.5	64.1	63.3	75.5	75.5	75.5	75.5
- Current Market Price	367	567	373	445	445	445	445

Note: Latest Market price taken as on 22nd April '09. P/E and P/BV for the 2009 to 2012 calculated using price as on 22nd April '09. For Historical P/E and P/BV prices taken as at Year end trading prices for Gulf Insurance Company.

Note: 2008 Book Value Adjusted for Cash Dividends KD8.21mn.

\* 2007 EPS Restated for Bonus.

Source : Company Reports, Global Research

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Company	Recommendation	Ticker	Price	Disclosure
Gulf Insurance Company	Buy	GINS.KW (Reuters) GINS KK (Bloomberg)	KD.Fils0.445	1, 10

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Hold	Fair value of the stock is between +10% and -10% from the current market price
Reduce	Fair value of the stock is between -10% and -20% from the current market price
Sell	Fair value of the stock is < -20% from the current market price

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