Inside Rasan: Saudi's newest unicorn

By AbdulAziz Malik

Overview

June 15th, 2015, marked a significant milestone when Saudi Arabia opened its stock exchange, Tadawul, to qualified foreign investors. Though preceding the launch of Vision 2030, this event was an early indicator of the transformative changes the Kingdom would undergo over the next decade, particularly in capital markets.

For years, Riyadh was a major source of capital for various asset classes across multiple geographies, from being a big backer of Softbank's Vision Fund to acquiring Premier League's Newcastle United. While these investments still continue, the Kingdom has now become an important destination for capital as well. You can choose many instances to highlight this shift, from the Big Tech to high finance amping up their presence in Saudi.

Scale and Growth

The intial public offering of Rasan perhaps underscores this bullishness the best. Founded in 2016, Rasan listed on Saudi bourse, Tadawul, on June 13th, 2024, almost exactly a decade after the the country's capital markets opened up to foreigners. Its debut was nothing short of spectacular, as the 22.7M shares were oversubscribed by 129x.

Founded in 2016, Rasan is a prominent insurtech firm headquartered based out of Riyadh has and served over 7.5M customers across the country. As of July 9th, its market capitalization stood at almost $1.2B (SAR 4.6B) so the investors are clearly excited about the growth prospects. But does the exuberance of the market align with the underlying numbers?

Over the last four years, Rasan's topline has surged almost sixfold to $68.3M. According to the latest financials, the company had four main revenue sources. Tameeni — a consumer-focused aggregator allowing people to compare multiple insurance options — led the way, generating over SAR 198M ($52M).

Treza — a backend solution that connects banks and other financing institutions directly to insurers — also contributed $14.2M. Surging 62.4% compared to 2022, this service already controls 60% of the Saudi market. Other streams include business analytic tools under R Solutions and an auction platform for salvaged vehicles named Awal Mazad.

The company has also managed to increase its Gross Written Premium, a key industry indicator, to almost $1.3B. Put another way, Rasan is now in line with the industry average though it still has ample room to catch up with the top 10 firms. This indicates Rasan's potential to gain further market share. To the shareholders, the company has been delivering already with a return on equity of 38.8% in 2023, about 2.5x the industry average of 15.4%. However, there's still room for improvement here through prudent leverage given its equity-to-asset ratio of 38.1% is still below the top 10 firms' 51%.

Trading Snapshot

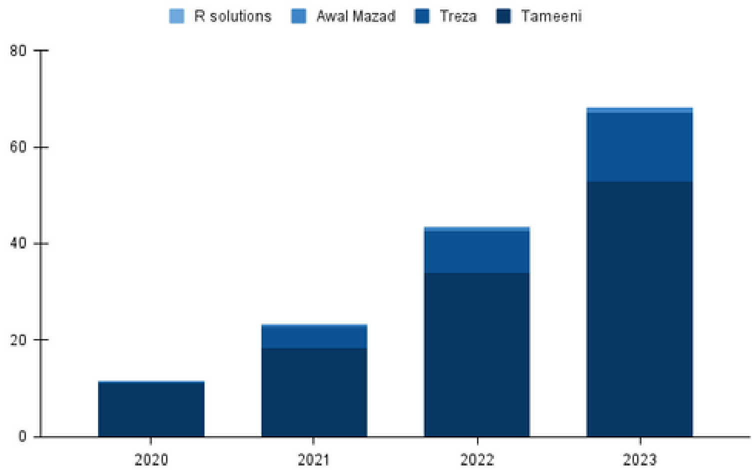
Share Price: 62 SAR

Market Cap: 4.6B SAR

# of Shares: 22.7M

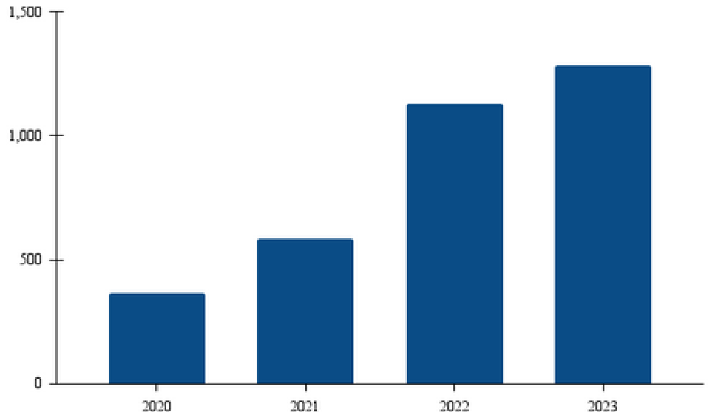
Tameeni brings in three-fourths of Rasan's revenues

Revenues (in million $)



Growth in underwriting slows down amid a high base

Gross Written Premium (in million $)



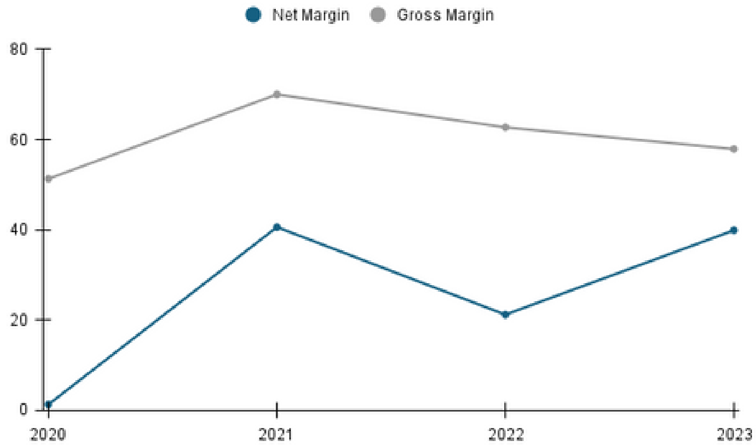
Unit Economics

More importantly, the higher scale has not come at the cost of unit economics. In fact, Rasan's profitability ratios are extremely impressive with gross margin at around 60% in 2023 and have consistently hovered over 50% throughout the last four years. This provides them a pretty comfortable cushion for expansion or economic downturns.

Though comparatively volatile, Rasan's net margins are also quite healthy, standing at 17.9% in 2023 — more than 3x the industry average of 5.8%. As a result, the profit after tax reached more than $11.9M. This is what makes it a unicorn in the truest sense of the word. The company recorded a return on equity of 38.8% in 2023, about 2.5x the industry average of 15.4%. However, there's still room for improvement here through prudent leverage given its equity-to-asset ratio of 38.1% is still below the top 10 firms' 51%.

Rasan maintains impressive profitability margins

in %

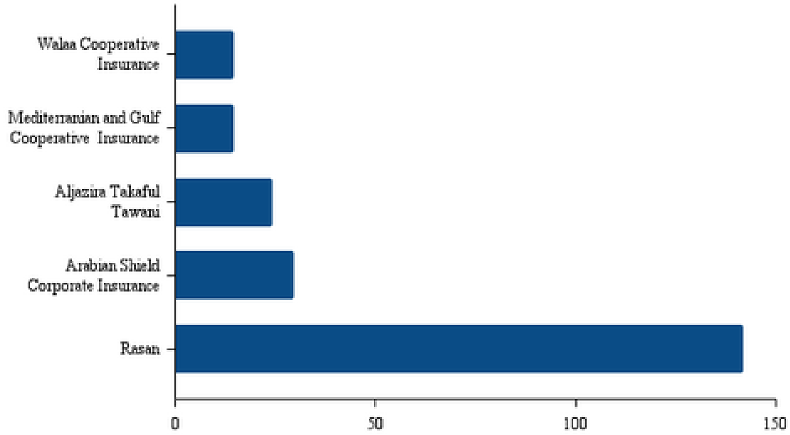


Investor Exuberance

With such numbers, investors are unsurprisingly bullish and the company's multiples prove that. Its Price-to-Earnings (P/E) ratio is currently an abnormally high 142.1x, up from 80x on the IPO day. That's a massive premium compared to the industry averages of 28x for insurance and 29x for tech in Saudi listed companies. However, this not only highlights Rasan's own growth prospects but also underscores the broader optimism in the Kingdom, which continues to attract investment despite global economic uncertainties. More importantly, it proves that valuation and profitability are not mutually exclusive goals. This success is a testament to investor's getting excited for new revolutionary business models such as Rasan, which are out there to disrupt the traditional sectors.

Rasan's massive premium compared to insurance peers

Price-to-Earnings Ratio



Sources: KPMG, Shima Consulting, Simply Wall.st, Annual Reports of Rasan, Google Finance
Note: P/E as of 2nd July, 2024