

## Earnings Impress Despite Operating Inefficiency

### Riding on Support From its Life Business

In its recently released Q1:2020 financial scorecard, AIICO Insurance Plc (**AIICO**) sustained the healthy top-line performance that has characterized the preceding four quarters. During the Q1:2020 period, GPI expanded by +22.61% YoY to NGN15.19bn (vs. NGN12.39bn in Q1:2019). This performance was however weaker than the 34.99% YoY growth recorded in 2019FY as the growth across its life and non-life business segments moderated to +29.10% and +3.77% respectively (as against the 2019FY performance of +40.74% and +21.59%). The health maintenance business bucked the trend as it outperformed Q1:2019 levels, growing by 9.66% to NGN0.15bn (vs. NGN0.13bn in the corresponding period of 2019) albeit it accounts for just 0.96% of overall topline. The Life business which typically contributes c. 66.80% to topline maintained its leadership position, accounting for 78.07% of topline performance in Q1:2020. **Despite the Q1:2020 performance, we expect the impact of COVID-19 to be felt in general disposable income. Hence, we project a deceleration in growth by 10.00% to slow GPI to NGN55.01bn in FY2020.**

### Underwriting Inefficiency Pressures Performance

During the period, loss ratio deteriorated to 58.00% (vs. 57.82% in Q1:2019) due to higher claims payment - which inched up by 20.14% to NGN7.72bn in Q1:2020. Benefits paid on life business constituted 90.00% (vs. 86.11% in Q1:2019) of the total settlements, dipping underwriting performance by NGN1.08bn in the period. Underwriting expenses however declined by 25.49% YoY to NGN6.45bn, improving combined ratio to 100.44% (vs. 127.66% in Q1:2019) in the process. Despite this improvement, the firm's position still lags the industry average of c. 93.05%. Noteworthy also, is that combined ratio has trended above 100.00% (Usually triggered by the firm's provision for life and annuity fund) for the past three (2017-2019) years. Similarly, in Q1:2020, the firm recorded a loss of NGN0.32bn on its insurance business (Solely influenced by the loss incurred on life business).

### Investment Income Supports Profit After Tax

Investment income grew by 48.38% YoY to NGN3.79bn (vs. NGN2.56bn in Q1:2019) following an improved performance on interest-income which grew by 47.89% in Q1:2020. Thus, investment yield improved to 2.44% (vs. 1.87% in the corresponding period of 2019). Management and other operating expenses also rose by 33.35% YoY to NGN3.69bn, hinged on expansion in employee benefit expenses (+38.10% YoY), other operating expenses (+39.83% YoY), and finance costs (+38.87% YoY) respectively. As a consequence, overhead ratio climbed to 24.29%, from 22.33% in Q1:2019. Nonetheless, profit after tax rose by 82.81% to NGN1.88bn in the period, pegging net margin at 12.35%, a marked improvement from the 8.29% recorded as at Q1:2019.

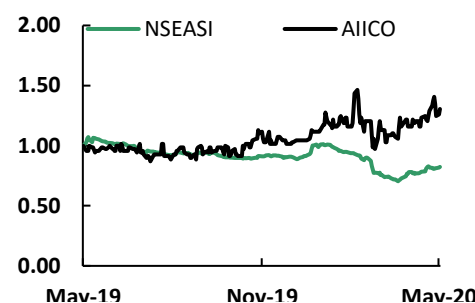
### Balance Sheet Strength Allays Recapitalization Fears

**AIICO's** current capital position of NGN19.24bn as at Q1:2020 places the insurer comfortably above the regulator's NGN18.00bn recapitalization threshold required of composite businesses. The company's financial assets also expanded by 13.36% to NGN155.20bn during the period. This rise hinged on the 74.31% improvement in float reported in the period. Thus, providing an avenue for the business to ramp more interest income in the latter part of FY2020.

### Outlook and Recommendation

For 2020FY, we have modelled our expectation of an improvement in EPS to NGN0.54. This combined with our target PE of 3.60x yields a target price of NGN1.94, which when compared to the current price of NGN1.06 implies an upside potential of 83.40%. Hence, we rate the ticker as a **BUY**.

Company	AIICO
<b>Valuation</b>	
Trailing EPS	0.60
BVPS	2.55
P/E	1.66x
P/BV	0.84x
Target PE	3.60x
Dec-2020 Exp. EPS	0.54
Dec 2020 Target price	1.94
Current Price	1.06
Up/Downside Potential	<b>+83.40%</b>
<b>Ratings</b>	<b>BUY</b>
<b>Key metrics</b>	
ROAE	23.37%
ROAA	4.02%
Net margin	12.35%
Yr Hi	1.06
Yr Lo	0.67
YTD return	<b>47.22%</b>
Beta	0.58
Adjusted Beta	0.72
Shares outstanding	11.33bn
Market cap [NGN]	12.01bn
Financial year end	Dec
Most Recent Period (MRP)	Q1:2020



**Chart 1: Sensitivity Analysis**

Sensitivity Analysis of Dec-2020 Target Price to key model inputs						Min	1.70	
						Max	2.20	
		EPS						
		0.5	0.52	0.54	0.56	0.58		
Target PE	3.40x	1.70	1.77	1.84	1.90	1.97		
	3.50x	1.75	1.82	1.89	1.96	2.70		
	3.60x	1.80	1.87	1.94	2.02	3.85		
	3.70x	1.85	1.92	2.00	2.07	5.01		
	3.80x	1.90	1.98	2.05	2.13	2.20		

## Financial Highlights (NGN'bn) AIICO INSURANCE PLC Q1:2020

<i>Profit &amp; Loss Account</i>	Q1:2020	Q1:2019	y/y Growth
Gross Premium Written	17.55	14.32	22.53%
Gross Premium Earned	15.19	12.39	22.61%
Re-Insurance Costs	1.89	1.28	47.44%
Net Premium Earned	13.31	11.11	19.76%
Fees and Commission Income	1.08	0.84	27.93%
Claims Incurred	7.72	6.42	20.14%
Underwriting Expenses	6.45	8.65	-25.49%
Underwriting Profit	0.22	-3.13	-106.95%
Investment Income & Other income	4.91	7.06	-30.38%
OPEX	3.69	2.77	33.35%
PBT	1.44	1.17	23.69%
PAT	1.88	1.03	82.81%
<i>Balance Sheet</i>	Q1:2020	2019FY	y/y Growth
Cash and bank balances	17.57	10.08	74.32%
Financial Assets	137.63	126.83	8.51%
Trade, other Receivables & Prepayments	2.94	6.61	-55.48%
Reinsurance assets	7.64	5.46	39.93%
Investment properties	0.77	0.77	0.00%
Fixed Assets	7.79	7.60	2.47%
Other Assets	2.32	2.12	9.38%
<b>Total Assets</b>	<b>176.66</b>	<b>159.48</b>	<b>10.78%</b>
Insurance contract liabilities	91.83	84.99	8.06%
Investment contract liabilities	17.21	16.20	6.25%
Trade payables	1.29	1.84	-30.07%
Other payables and Provisions	4.84	3.65	32.49%
Other Liabilities	32.56	23.89	36.28%
Total Liabilities	147.72	130.57	13.14%
Shareholders' fund	28.94	28.91	0.10%

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## Movements in Price Target

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**Company Name:** AIICO Insurance Plc.

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
21-May-2020	1.06	0.94	1.94	BUY	BUY

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AIICO Insurance Plc.	

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