

## For MANSARD, Health is King

### Non-life and HMO Segments Support Growth in Gross Premium Income

AXA Mansard Insurance Plc. (MANSARD) maintained its impressive topline performance in Q1:2020, reporting a 20.34% YoY rise in gross premium income (GPI) to NGN11.61bn (vs. NGN9.65bn in Q1:2019).

**This performance was the result of the roll out of innovative products, increased brand awareness and efficiency in handling its HMO business.** This quarter's performance was in line with the strong QoQ growth observed over the last three quarters. As at the end of Q1:2020, the insurer had written NGN21.04bn in premiums, a +20.75% improvement from the NGN17.42bn written in the corresponding period of 2019. This puts the firm's gross premium written in Q1:2020 at c. 50.00% of NGN41.61bn - the total gross premium income posted in 2019FY. The HMO and non-life businesses were the major contributors to overall performance, both expanding by 45.86% and 15.99% respectively in Q1:2020. In contrast, the life business constituted a drag to performance, as it slowed by 9.21% during the period. The HMO business continues to thrive, accounting for 37.15% (vs .30.30% in Q1:2019) of the total Gross Premium Income. **Looking ahead, we anticipate a slowdown in underwriting activities in the non-life business segment, due to the impact of the coronavirus pandemic. We expect this to cap premium income growth at 10.00% or NGN45.77bn by 2020FY (vs. NGN41.61bn in 2019FY).**

### Underwriting Profit Grew Despite Increase in Loss Ratio

In Q1:2020, claims and benefit ratio deteriorated to 68.10% (vs. 63.85% in Q1:2019) as claims payments rose surged by +46.96% YoY to NGN5.59bn. Benefits paid on the health maintenance business constituted 60.20% of the total claims paid in Q1:2020. This large amount paid in benefits on the health maintenance business in the period, dipped underwriting margin in the segment to 17.52% (vs 20.03% in Q1:2019). On the flip side, underwriting expenses declined by 30.07%, muting the impact of the rise in claims on the combined ratio, which pegged at 78.14% (vs.77.39% in Q1:2019). Nonetheless, the combined ratio still betters the industry peers' average of c. 95.06%. Overall, the three core business segments — HMO, non-life and life-returned underwriting profits of NGN0.74bn, NGN0.83bn and NGN0.55bn respectively, totaling NGN2.05bn (vs. NGN1.76bn in Q1:2019).

### Improvement in Investment Income Spur Earnings

MANSARD's investment income climbed from NGN1.19bn in Q1:2019 to NGN1.28bn as at Q1:2020. The rise was occasioned by a 43.60% increase in investment assets during the period. Investment yield, however, dipped to 1.78% (vs. 2.37% in Q1:2019). **This aligns with our expectation for yields to decline to 8.27% (vs 10.22% in 2019FY) in 2020FY, as the downtrend continues.** Overheads surged by 16.43% in the period to NGN2.05bn (vs. NGN1.76bn in Q1:2019) driven mainly by marketing and administration expenses (+13.54%), employee benefit expenses (17.32%), and other operating expenses (+22.64%) respectively. Nonetheless, the company recorded positive bottom-lines across its major business lines with a total Profit after tax of NGN1.96bn (vs NGN0.98 in Q1:2019).

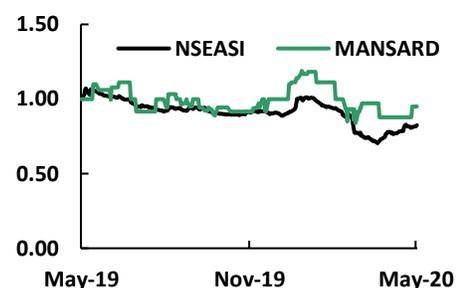
### No Imminent Recapitalization Worries

MANSARD's capital base remained comfortably above the regulatory threshold at NGN19.06bn (vs NGN18.00bn as required by NAICOM). This should set the firm on course to expand its market share and generate new businesses.

### Recommendation

For 2020FY, our expectation of an uptick in earnings per share to NGN0.39 (vs NGN0.28 in 2019FY), when applied to our target PE of 6.68x gave a target price of NGN2.61. when compared to the current market price of NGN1.85, this implies an upside potential of 41.08%, hence we rate the ticker as **BUY**.

Company	MANSARD
<b>Valuation</b>	
Trailing EPS	0.38
BVPS	3.11
P/E	4.51x
P/BV	0.84x
Target PE	6.68x
Dec-2020 Exp. EPS	0.39
Dec 2020 Target price	2.61
Current Price	1.85
Up/Downside	<b>+41.08%</b>
<b>Ratings</b>	<b>BUY</b>
<b>Key metrics</b>	
ROaE	12.68%
ROaA	4.04%
Net Margin	16.88%
Yr Hi	2.18
Yr Lo	1.58
YTD return	-6.57%
Beta	0.58
Adjusted Beta	0.72
Shares outstanding	10.50bn
Market cap [NGN]	<b>16.59bn</b>
Financial year end	December
Most Recent Period (MRP)	Q1:2020



**Chart 1: Sensitivity Analysis**

Sensitivity Analysis of Dec-2020 Target Price to key model inputs							Min	1.86
							Max	3.46
		EPS						
Target PE		0.35	0.37	0.39	0.41	0.43		
	5.32x	1.86	1.97	2.07	2.18	2.29		
	6.00x	2.10	2.22	2.34	2.46	2.7		
	6.68x	2.34	2.47	2.61	2.74	3.85		
	7.36x	2.58	2.72	2.87	3.02	5.01		
	8.04x	2.81	2.97	3.14	3.30	3.46		

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

<i>Profit &amp; Loss Account</i>	Q1:2020	Q1:2019	y/y Growth
Gross Premium Written	21.04	17.42	20.75%
Gross Premium Earned	11.61	9.65	20.34%
Re-Insurance Costs	3.40	3.69	-7.80%
Net Premium Earned	8.21	5.96	37.78%
Claims Incurred	5.56	3.803	46.25%
Underwriting Expenses	0.65	0.50	30.64%
Underwriting Profit	1.17	1.31	-10.66%
Investment Income & Other income	2.39	1.32	81.58%
OPEX	0.49	0.43	13.29%
PBT	2.14	1.02	109.18%
PAT	1.96	0.89	120.20%
<i>Balance Sheet</i>	Q1:2020	2019FY	y/y Growth
Cash and bank balances	18.93	17.91	5.68%
Financial Assets	37.26	37.29	-0.10%
Trade, other Receivables & Prepayments	14.49	6.97	108.01%
Reinsurance assets	12.92	8.97	43.98%
Investment properties	15.54	15.80	-1.64%
Fixed Assets	2.22	1.99	11.68%
Other Assets	3.50	3.35	4.43%
<b>Total Assets</b>	<b>104.86</b>	<b>92.29</b>	<b>13.62%</b>
Insurance contract liabilities	35.23	25.16	40.00%
Investment Contract Liabilities	8.49	8.43	0.65%
Trade payables	17.10	16.57	3.24%
Other payables and Provisions	3.88	3.31	17.44%
Other Liabilities	7.51	8.74	-14.14%
Total Liabilities	72.21	62.21	16.07%
Shareholders' fund	32.65	30.08	8.56%

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We estimate stock's fair value by computing a weighted average of projected prices derived from discounted cash flow and relative valuation methodologies. The choice of relative valuation methodology (ies) usually depends on the firm's peculiar business model and what in the opinion of our analyst is considered as a key driver of the stock's value from a firm specific as well as an industry perspective. However, we attach the most weight to discounted cash flow valuation methodology.

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- HOLD:** Target Price of the stock ranges between **-10 percent and 10 percent** from the current market price.
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**Asset allocation:** The recommended weighting for equities, cash and fixed income instrument is based on a number of metrics and does not relate to a particular size change in one variable.

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## Movements in Price Target

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**Company Name:** AXA Mansard Insurance Plc.

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
14-May-2020	1.71	2.88	2.61	BUY	BUY

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