

Charting New Gains

Oil and Gas Segment Drags Premium Growth

NEM Insurance Plc. (**NEM**) grew its topline by 26.66% YoY to NGN6.95bn in Q1:2020. The growth was faster than the 19.27% growth recorded in Q1:2019, despite the decline (-19.10% YoY) in oil and gas contracts, which contributes 11.09% to total premium income. The significant premium income growth across other business segments such as Motor (+59.98%), Marine (+59.60), Fire (+23.77%), and General Accident (+ 61.10%) businesses sustained the positive momentum. **We maintain our expectation of a moderated growth in 2020FY on account of downside risks due to the COVID-19 pandemic, even as the lockdown across the main commercial hubs ease. Therefore, we project a 6.00% growth in premium income by FY2020.**

Improved Underwriting Efficiency Spurs Profit

Claims ratio rose to 27.37% (vs. 24.84% in Q1:2019), due to the sharp increase in total claims incurred (+21.13% YoY) in Q1:2020. The rise in claims was fueled by significant growth in claims incurred across the Motor (+42.08% YoY), Marine (+220.24% YoY), and oil & gas (+149.02% YoY) segments, respectively. Despite accounting for the chunk of claims paid (69.31% vs. 65.31% in Q1:2019), underwriting margin for the motor segment improved significantly to 41.01% (vs. 14.80% in Q1:2019). Furthermore, the insurer was able to keep the loss ratio in the period below the peer average of c.44.00% to retain its cost leadership position in the non-life segment of the industry. Also, although underwriting expenses in the period increased by 7.33% YoY, due to the rise in acquisition (+7.74% YoY) and maintenance (+6.60% YoY) costs, the combined ratio for the period improved to 56.56% (vs. 59.29% in Q1:2019).

Growth in Investment Income Propels Bottom-Line

Investment income grew by 24.84% YoY to NGN0.30bn, implying an investment yield of 2.08% (vs. 1.97% in 2019) for the quarter. **Nonetheless, we expect annualized investment yield in 2020FY to settle lower at 6.00% (vs. 6.08% in 2019FY), as the downward yield pressures persist.** Although management and other operating expenses increased by 25.48%, overhead ratio improved to 12.31% (vs. 13.89% in Q1:2019) due to its enhanced underwriting performance. Hence, Profit after Tax rose by 24.55% YoY to NGN1.06bn (vs. NGN0.85bn in Q1:2019).

On Track to Meet Recapitalization Requirements

The firm's solvency capital position of NGN9.55bn as at Q1:2020 falls just shy of the NGN10bn regulatory benchmark set by NAICOM. Nonetheless, this poses minimal concerns ahead of the recapitalization deadline of December 2020, as the firm would be able to recapitalize earnings to meet the deficit

Recommendation

The firm's earnings per share (**EPS**) for 2020FY is expected to settle at NGN0.61 (vs. NGN0.45 in 2019FY). This coupled with our target PE of 3.11x puts our December 2020 expected price at NGN1.90. This represents a downside potential of 5.26% from its current price. Therefore, we rate the ticker as **HOLD**.

Company	NEM
Valuation	
Trailing EPS	0.74
BVPS	2.72
P/E	2.70x
P/BV	0.71x
Target PE	3.11x
Dec-2020 Exp. EPS	0.61
Dec 2020 Target price	1.90
Current Price	2.00
Up/Downside Potential	+5.26%
Ratings	HOLD
Key metrics	
ROAE	17.30%
ROAA	9.99%
Net margin	15.22%
Yr Hi	2.40
Yr Lo	1.48
YTD return	-17.35%
Beta	0.58
Adjusted Beta	0.72
Shares outstanding	5.28bn
Market cap [NGN]	10.93bn
Financial year end	Dec
Most Recent Period (MRP)	Q1:2020

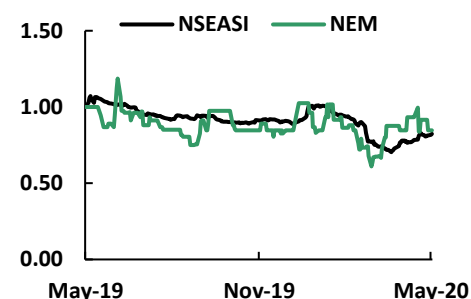


Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2020 Target Price to key model inputs						Min	1.47
EPS						Max	2.36
Target PE		0.51	0.56	0.61	0.66	0.71	
	2.89x	1.47	1.62	1.76	1.91	2.05	
	3.00x	1.53	1.68	1.83	1.98	2.70	
	3.11x	1.59	1.74	1.90	2.05	3.85	
	3.22x	1.64	1.80	1.96	2.13	5.01	
	3.33x	1.70	1.86	2.03	2.20	2.36	

Financial Highlights (NGN'bn) NEM INSURANCE Q1:2020			
Profit & Loss Account	Q1:2020	Q1:2019	y/y Growth
Gross Premium Written	7.92	6.80	16.41%
Gross Premium Earned	6.95	5.49	26.66%
Re-Insurance Costs	2.11	1.09	94.50%
Net Premium Earned	8.21	5.96	37.78%
Claims Incurred	1.33	1.094	21.13%
Underwriting Expenses	2.03	1.89	7.33%
Underwriting Profit	1.92	1.54	24.75%
Investment Income & Other income	0.31	0.24	26.25%
OPEX	2.23	1.78	24.96%
PBT	1.25	1.01	24.55%
PAT	1.06	0.85	24.55%
Balance Sheet	Q1:2020	2019FY	y/y Growth
Cash and bank balances	9.60	8.10	18.59%
Financial Assets	4.69	4.69	0.00%
Trade, other Receivables & Prepayments	1.92	0.83	129.46%
Reinsurance assets	5.47	5.53	-1.03%
Investment properties	1.59	1.59	0.23%
Fixed Assets	3.04	3.03	0.29%
Other Assets	2.05	1.90	8.11%
Total Assets	28.36	25.66	10.50%
Insurance contract liabilities	10.45	9.00	16.06%
Trade payables	0.40	0.30	32.59%
Other payables and Provisions	1.28	1.38	-7.22%
Other Liabilities	1.09	0.90	21.66%
Total Liabilities	13.21	11.58	14.14%
Shareholders' fund	28.36	25.66	10.50%

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- BUY:** Target Price of the stock is above the current market price by at least **10 percent**
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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.

Movements in Price Target

Company Name: NEM Insurance Plc.

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
23-April-2020	2.20	3.05	1.90	BUY	SELL
17-May-2020	2.00	1.90	1.90	SELL	HOLD

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Company	Disclosure
NEM Insurance Plc.	

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