

Top-line Up, Bottom-line Down

Premium Income Grew Amid Lockdown

AIICO Insurance Plc. (AIICO) grew gross premium income (GPI) by 24.31% YoY to NGN29.07bn in H1:2020 (vs. NGN23.39bn in H1:2019). The Life segment of the business was the main driver of growth, with premium income from the segment rising by 30.41% YoY in H1:2020, while the non-life business also recorded an improvement of 8.46% to NGN6.21bn. cash premium received during the period rose to NGN31.58bn (vs. 14.05bn in H1:2019), despite the prevailing macroeconomic challenges. **For H2:2020, we expect the firm to drive premium income higher, having crossed the recapitalization hurdle and the resulting increase in underwriting capacity. Thus, we have revised our growth expectation for premium income upward from 10.00% to 14.56% by FY2020.**

Underwriting Performance Worsens due to Provisioning

Net claims rose by 17.34% YoY to NGN14.45bn (vs. 12.32bn in H1:2019), slower than the growth in premium income. Hence, the loss ratio for the period improved to 56.05% (vs. 59.79% in H1:2019). **An indication that the rise (+24.31% YoY) in premium income in the period outperformed the increase (+17.34 YoY) in claims and benefit incurred.** The life business continues to account for the most part of claims and benefit, at 88.56% of the total incurred in the period. Underwriting expenses grew by 9.33% YoY to NGN3.43bn (vs. NGN3.14bn in H1:2019), as acquisition and maintenance expenses inched up by 5.60% and 30.71% respectively. This and the increase in provisions for life business to 19.82bn (vs. 11.58bn in H1:2019) worsened the combined ratio to 143.65% (vs. 128.37% in H1:2019). Thus, the underwriting segment recorded a loss of NGN10.86bn (vs. loss of NGN5.65bn in H1:2019).

Growth in Operating Expenses Dims Earnings

Investment income in H1:2020 grew by 44.92% YoY to NGN7.58bn, from NGN5.23bn in H1:2019. This is in line with the 43.12% YoY increase in financial assets to NGN195.95bn (vs. NGN136.91bn H1:2019). However, investment yield remained flattish at 3.87% (vs. 3.82% in H1:2019) in the period – **proof of the low yield environment.** Management and other operating expenses however grew sharply by 52.96% YoY to NGN6.50bn (vs. NGN4.25bn in H1:2019), moderating the net income by 2.18% to NGN2.79bn, which implies a net margin of 9.59% (vs. 12.19% in H1:2019). **For FY2020, we expect profit after tax to moderate further to NGN5.10bn (vs. NGN5.98bn in FY2019) due to rising management and underwriting costs.**

Stronger Balance Sheet, Better Future

In Q2:2020, AIICO's capital base improved by NGN0.54bn to NGN19.78bn (Paid-up capital: **NGN5.67bn**, Share Premium: **NGN5.83bn** and Retained Earnings: **NGN8.29bn**). This further strengthened the base beyond the NGN18.00bn regulatory minimum. Likewise, AIICO has recognized NGN1.37bn as available for sale financial asset from the proposed disposal of the firm's 70% stake in AIICO pensions (subject to regulatory approval) to FCMB pensions. **When fully implemented, this we expect would give more room for the firm to double down on the core insurance business.** Furthermore, the company restructured its financial assets as at H1:2020, lowering the proportion of financial assets valued at amortized cost (held to maturity) from 35.37% in H1:2019 to 27.31%. **This should support the active management of its investment portfolio against the widening negative real rate of return.**

Recommendation

For FY2020, we estimate AIICO's earnings per share to come in at NGN0.45 and price-earnings ratio at 2.20x, hence, a target price of NGN0.99. This coupled with the current stock price at NGN0.93, portends an upside potential of 6.45%. Thus, we recommend the ticker as a **HOLD**

Company	AIICO
Valuation	
Trailing EPS	0.52
BVPS	2.79
P/E	1.72x
P/BV	0.32x
Target PE	2.20x
Dec-2020 Exp. EPS	0.45
Dec 2020 Target price	0.99
Current Price	0.93
Up/Downside Potential	+6.45%
Ratings	HOLD
Key metrics	
ROE	19.32%
ROA	3.08%
Combined Ratio	143.65%
Loss Ratio	56.05%
Yr High	0.99
Yr Low	0.56
YTD return	-8.25%
Beta	0.46
Adjusted Beta	0.67
52-Week Avg. Volume	3,087,534
Shares outstanding	11.33bn
Market cap [NGN]	10.99bn
Financial year end	December
Most Recent Period (MRP)	H1:2020

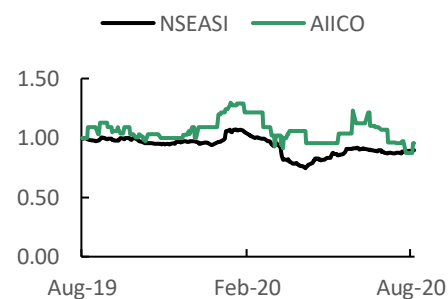


Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2020 Target Price to key model inputs						Min	0.90	
						Max	1.08	
		EPS						
		0.43	0.44	0.45	0.46	0.47		
Target PE	2.10x	0.90	0.92	0.95	0.97	0.99		
	2.15x	0.92	0.95	0.97	0.99	2.70		
	2.20x	0.95	0.97	0.99	1.01	3.85		
	2.25x	0.97	0.99	1.01	1.04	5.01		
	2.30x	0.99	1.01	1.04	1.06	1.08		

Financial Highlights (NGN'bn) AIICO INSURANCE PLC H1:2020

Profit & Loss Account	H1:2020	H1:2019	y/y Growth
Gross Premium Written	31.92	25.42	25.57%
Gross Premium Earned	29.07	23.39	24.31%
Re-Insurance Costs	3.28	2.78	18.04%
Net Premium Earned	25.79	20.60	25.16%
Fees and Commission Income	1.06	0.79	33.44%
Claims Incurred	14.45	12.32	17.34%
Underwriting Expenses	3.43	3.14	9.33%
Underwriting Profit	-10.86	-5.65	92.27%
Investment Income & Other income	7.58	5.23	44.92%
Other Income	11.95	7.68	55.56%
OPEX	6.50	4.25	52.96%
PBT	2.17	3.02	-27.97%
PAT	2.79	2.85	-2.18%
Balance Sheet	H1:2020	2019FY	y/y Growth
Cash and bank balances	12.87	10.08	27.64%
Financial Assets	183.08	126.83	44.35%
Trade, other Receivables & Prepayments	2.57	6.61	-61.10%
Reinsurance assets	8.48	5.46	55.24%
Investment properties	0.77	0.77	0.00%
Fixed Assets	7.45	7.60	-1.92%
Other Assets	4.46	2.12	109.97%
Total Assets	219.68	159.48	37.75%
Insurance contract liabilities	106.91	84.99	25.80%
Investment contract liabilities	19.31	16.20	19.17%
Trade payables	1.38	1.84	-24.91%
Other payables and Provisions	11.47	3.65	214.16%
Other Liabilities	48.99	23.89	105.06%
Total Liabilities	188.06	130.57	44.03%
Shareholders' fund	31.62	28.91	9.38%

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Movements in Price Target

Company Name: AIICO Insurance Plc.

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
06-May-20	0.97	0.94	1.96	HOLD	BUY
19-Aug-20	0.93	1.96	0.99	BUY	HOLD

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Company	Disclosure
AIICO Insurance Plc.	

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