

## Lockdown Drags Performance

### Topline Growth Slows

NEM Insurance Plc. (**NEM**) bucked the trend of double-digit growth in gross premium income (stretching back to three years), as GPI rose by 6.00% to NGN11.22bn (vs. 10.59bn in H1:2019) in H1:2020. This was due to the weaker performance in Q2:2020 with premium income dropping by 16.26%, a sharp contrast to the 26.66% YoY rise recorded in the preceding quarter. The main drag was the 24.78% drop in direct premium from the fire insurance business, given it accounted for an average of c.23.62% of the firm's topline in the last six years. Hence, the drop overshadowed the impressive growth across motor insurance (+26.06% YoY), oil & gas insurance (+7.58% YoY), marine insurance (+51.68% YoY), and the general accident (+33.06% YoY) segments. **While the economic impact of the Coronavirus continues to linger, the reopening of economic activities should support topline growth. We maintain our 6.00% growth estimate for GPI in FY2020.**

### Underwriting Margin Pressured by Higher Reinsurance

Claims expenses fell by 4.62% YoY to NGN1.99bn (vs. NGN2.08bn in H1:2019), as all business lines except fire (with a rise of NGN0.77bn) recorded a decline in the period. Despite the fall in net claims expense, loss ratio deteriorated to 27.08% (vs 26.13% in H1:2019) **due to the higher reinsurance, c.35% relative to 25% in the corresponding period in 2019.** Underwriting expenses also declined by 8.15% YoY to NGN3.29bn in H1:2020, in line with the dip in maintenance costs by 26.06% YoY to NGN1.29bn (vs. NGN1.75bn in H1:2019). Thus, combined ratio improved to 52.83% (vs. 56.50% in H1:2019). **Thus, maintaining its cost leadership among non-life player, considering the industry average currently stand at c.63.00%.** However, the drop in underwriting related costs could not offset the drop in premium income. Hence, underwriting margin contracted to 22.05% (vs. 24.85% in H1:2019).

### High Operating Costs Cut into Profit

In H1:2020, NEM grew investment income by 63.79% YoY to NGN0.52bn. This was driven by a rise in interest on statutory deposit (+29.66%) and Investment assets (+65.85%) to NGN0.02bn and NGN0.49bn respectively, a reflection of the increase in investment assets (+9.22%) and the better Investment yield performance in H1:2020 (3.71% in H1:2020 vs. 2.47% in H1:2019). However, the combined effect of the fall in underwriting profit and a significant increase (+15.58% YoY) in management expenses dragged profit after tax by 3.02% to NGN1.56bn (vs. NGN1.61bn in H1:2019).

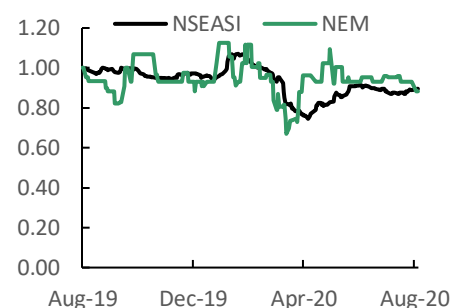
### NEM Meets Phase I Recapitalization Threshold

As at Q1:2020, **NEM's capital base** (Paid-up Capital, Share Premium, and Retained Earnings) **was below the regulatory minimum** at NGN9.05bn (vs. NGN10bn as required by NAICOM). However, due to the phased implementation of the recapitalization exercise, its NGN9.11bn is way above the NGN5.00bn Phase I minimum for non-life players in the industry and should remain so by the Phase I deadline of December 2020.

### Recommendation

We maintain our earlier EPS estimate of NGN0.61 by 2020FY, but we have revised the target PE upwards to 3.38x to arrive at a target price of NGN2.23. This compared to the current market price (NGN2.15) indicates an upside potential of +3.72%. Thus, we recommend the ticker as a **HOLD**.

Company	NEM
<b>Valuation</b>	
Trailing EPS	0.44
BVPS	2.81
P/E	4.21x
P/BV	0.66x
Target PE	3.38x
Dec-2020Exp. EPS	0.61
Dec 2020 Target price	2.23
Current Price	2.15
Up/Downside	<b>+3.72%</b>
<b>Ratings</b>	<b>HOLD</b>
<b>Key metrics</b>	
ROaE	16.22 %
ROaA	8.59%
Combined Ratio	52.83%
Loss Ratio	27.08%
52 Days Avg Volume	168,566
Beginning Price	2.42
Current Price	1.87
YTD return	-22.72%
Beta	0.58
Adjusted Beta	0.72
Shares outstanding	5.28bn
Market cap [NGN]	<b>11.35bn</b>
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	2.02	
						Max	2.44	
		EPS						
		0.57	0.59	0.61	0.63	0.65		
Target PE	3.55x	2.02	2.09	2.17	2.24	2.31		
	3.60x	2.05	2.12	2.20	2.27	2.70		
	3.65x	2.08	2.15	2.23	2.30	3.85		
	3.70x	2.11	2.18	2.26	2.33	5.01		
	3.75x	2.14	2.21	2.29	2.36	2.44		

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

<i>Profit &amp; Loss Account</i>	H1:2020	H1:2019	y/y Growth
Gross Premium Written	12.99	11.78	10.24%
Gross Premium Earned	11.22	10.59	6.00%
Re-Insurance Costs	3.88	2.61	48.61%
Net Premium Earned	7.34	7.98	-7.95%
Fees and Commission Income	0.80	0.61	29.88%
Claims Incurred	1.99	2.08	-4.62%
Underwriting Expenses	3.29	3.58	-8.15%
Underwriting Profit	2.86	2.93	-2.15%
Investment Income	0.52	0.32	63.79%
Other Income	0.01	0.00	-368.17%
OPEX	1.54	1.33	15.58%
PBT	1.85	1.91	-3.02%
PAT	1.56	1.61	-3.02%
<i>Balance Sheet</i>	H1:2020	2019FY	y/y Growth
Cash and bank balances	8.83	8.10	9.02%
Financial Assets	5.13	4.69	9.57%
Trade, other Receivables & Prepayments	2.94	0.83	252.79%
Reinsurance assets	5.45	5.53	-1.37%
Investment properties	1.59	1.59	0.23%
Fixed Assets	2.98	3.03	-1.68%
Other Assets	2.07	1.90	8.98%
<b>Total Assets</b>	<b>29.00</b>	<b>25.66</b>	<b>13.00%</b>
Insurance contract liabilities	11.12	9.00	23.58%
Trade payables	0.67	0.30	124.25%
Other payables and Provisions	1.28	1.38	-7.07%
Other Liabilities	1.07	0.90	18.90%
Total Liabilities	14.14	11.58	22.15%
Shareholders' fund	14.85	14.08	5.48%

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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-20	2.20	3.05	1.90	BUY	SELL
17-May-20	2.00	1.90	1.90	SELL	HOLD
28-Aug-20	2.15	1.90	2.23	HOLD	HOLD

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NEM Insurance Plc	

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