

## Value Created Against the Odds

### Stellar Topline Performance Supported by Core Business Income

Custodian Investment Plc (**CUSTODIAN**) recorded a growth of 22.22% YoY in gross revenue to NGN75.06bn (vs. NGN61.42bn in 2019FY), driven by growth across all its business segments. Notably, the gross premium income (which was the main driver) advanced by 23.18% YoY to NGN58.14bn (vs. NGN47.20bn in 2019FY). The performance of its underwriting business was underlined by the growth in the oil & energy and the fire segments in the non-life insurance category, while the life business also improved by 18.35% YoY. Topline performance was also buoyed by interest income (+14.56% YoY) due to relatively higher volumes of investment assets (+37.83%YoY). In addition, property sales from the recently acquired UACN Property Development Plc (**UPDC**), contributed 1.18bn (representing 1.57%) to gross revenue between the date of acquisition and reporting of the company's financials. In our view, a strong topline performance reinforces the growing underwriting capacity of the company and supports the quest for market share and portfolio diversification. **We expect growth in gross premium income to bolster the company's topline to NGN88.57bn by 2021FY, driven majorly by its growing oil & gas and annuity businesses. Also, we expect rental income from the newly acquired property development business to track higher.**

### Investment Income Mitigates OPEX Surge to Drive Bottom Line Growth

In line with the trend over the last 5 years, operating expenses (OPEX) surged by 51.12% to NGN77.57bn (vs. NGN51.34bn in 2019FY); due to 45.79% increase in net claims expenses, and annuity provisions which spiked by 79.36% to NGN32.79bn (vs. NGN18.29bn in 202FY). This coupled with increase in underwriting and reinsurance expenses by 17.99% and 26.47% respectively was the major driver of OPEX during the period. Consequently, an underwriting loss of NGN2.50bn was incurred (vs an underwriting profit of NGN10.09bn in 2019FY). **Going forward, we expect the uptrend in operating expenses to be sustained owing to higher claims expenses and provisioning for the life and annuity funds. However, we anticipate a generally improved underwriting performance mostly from a significant rise in gross premium income which should offset the impact of higher OPEX.** Notwithstanding the underwriting loss, profit-after-tax reached a five-year high after a growth of 112.75% YoY to NGN12.79bn (vs. NGN6.01bn in 2019FY). This was due to a 331.60% YoY growth in investment income (to NGN22.27bn). The relatively higher prices of investment assets and FX revaluation were responsible for the growth in investment income. This is not considered sustainable in view of falling asset prices of equities and fixed income instruments.

### Growth in Investment Asset Boosts Liquidity

**CUSTODIAN's** total assets grew by 49.26% to NGN176.16bn (vs. NGN118.02bn in 2019FY) beating peer average of c. NGN164.59bn. The growth was driven by cash and cash equivalent, investment properties and financial assets, which puts the firm in a relatively strong liquidity position and allows it to deploy more float to grow financial assets. Also, capital base advanced from NGN32.49bn to NGN34.73bn in 2020FY and it remains solidly above the NGN18.00bn regulatory minimum. Solvency margin on the other hand was pegged at NGN53.22bn, which implies a solvency ratio of 1.96x and exceeds the regulatory threshold for a composite business.

### Recommendation

In view of the above, we project an EPS of NGN2.22. Applying this to a target PE of 3.80x yields a target price of **NGN8.44**, which represents an upside potential of **38.34%** from its current price of NGN6.10. Hence, we recommend as **BUY**.

Company	CUSTODIAN
<b>Valuation</b>	
Trailing EPS	2.18
BVPS	10.30
P/E	3.06x
P/BV	0.74x
Target PE	3.80x
Dec-2021 Exp. EPS	2.22
Dec 2021 Target Price	<b>8.44</b>
Current Price	6.10
Up/Downside Potential	<b>+ 38.34%</b>
<b>Ratings</b>	<b>BUY</b>
<b>Key Metrics</b>	
ROE	8.72%
ROA	3.75%
Combined Ratio	32.84%
Loss Ratio	24.65%
<b>Share/Share Price Statistics</b>	
Yr Hi	6.05
Yr Lo	5.75
YtD Return	+2.56%
Beta	0.33
Adjusted Beta	0.55
Shares Outstanding	5.88bn
Market Cap [NGN]	35.29bn
Financial year end	Dec
Most Recent Period [MRP]	2020FY

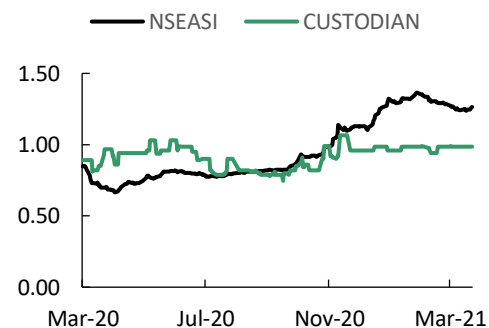


Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2021 Target Price to key model inputs							Min	7.50
EPS							Max	9.42
	<b>6.97</b>	<b>2.06</b>	<b>2.14</b>	<b>2.22</b>	<b>2.30</b>	<b>2.38</b>		
Target PE	<b>3.64x</b>	7.50	7.79	8.08	8.37	8.66		
	<b>3.72x</b>	7.66	7.96	8.26	8.56	8.85		
	<b>3.80x</b>	7.83	8.13	<b>8.44</b>	8.74	9.04		
	<b>3.88x</b>	7.99	8.30	8.61	8.92	9.23		
	<b>3.96x</b>	8.16	8.47	8.79	9.11	9.42		

Financial Highlights (NGN'bn) CUSTODIAN INVESTMENT PLC 2020FY			
Profit & Loss Account	2019FY	2020FY	y/y Growth
Gross Revenue	61.42	75.06	22.22%
Gross premium income	47.20	58.14	23.18%
Other Income	14.21	16.92	19.04%
OPEX	-51.33	-77.57	51.12%
Net Operating Income	10.09	-2.50	-124.82%
Claims Expenses (Net)	9.83	14.33	45.79%
Underwriting Expenses	4.04	4.76	17.99%
Investment Income	5.16	22.27	331.60%
PBT	8.07	13.69	69.61%
PAT	6.01	12.79	112.75%
Balance Sheet	2019FY	2020FY	y/y Growth
Cash and Bank Balances	9.36	13.74	46.78%
Financial Assets	81.16	112.83	39.02%
Trade, Other Receivables & Prepayments	2.79	7.46	167.50%
Reinsurance Assets	9.15	7.88	-13.91%
Investment Properties	9.28	11.06	19.26%
Fixed Assets	4.28	4.45	3.91%
Other Assets	2.00	18.73	835.98%
<b>Total Assets</b>	<b>118.02</b>	<b>176.16</b>	<b>49.26%</b>
Insurance Contract Liabilities	59.07	89.54	51.58%
Investment Contract Liabilities	3.99	6.07	52.37%
Trade Payables	3.32	4.63	39.25%
Other Payables and Provisions	3.39	8.69	156.55%
Borrowings	0.00	5.42	
Other Liabilities	3.51	4.30	22.41%
Total Liabilities	73.28	118.65	61.92%
Shareholders' fund	43.72	47.65	9.00%

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## Movements in Price Target

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**Company Name:** Custodian Investment Plc.

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
26-MAR-21	6.10	7.24	8.44	BUY	BUY

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