

Sustained Growth in a Tough Terrain

Underwriting Performance Supported by Strong Topline Growth

In 2020FY, NEM Insurance Plc (NEM)'s Gross premium Written (GPW) rose by 11.52%YoY to NGN22.04bn. The performance was broad based as GPW across all business lines excluding Fire grew significantly. The growth momentum was sustained in Q1:2021 as GPW increased by 26.50% to NGN10.01bn (vs. NGN7.92bn in Q1:2020) largely driven by the motor and fire segments. In line with GPW growth, core premium income grew by 11.00% YoY to NGN24.06bn in 2020FY, and 34.68% YoY to NGN9.36bn in Q1:2021. On the other hand, NEM's claims expenses surged (+53.77%YoY) in 2020FY despite the lower level of business activities due to the Covid-19 lockdown, mainly from the motor insurance (+44.27%YoY) and oil & gas (+4,276.92%) segments. Consequently, claims ratio worsened to 38.17% (vs. 31.21% in 2019FY). Thus, although underwriting expense dropped by 9.92% YoY, combined ratio increased to 61.04% from 59.79% in 2019FY. Combined ratio worsened in Q1:2021 as sustained growth in underwriting and claims expenses further pushed it to 80.62% (vs. 69.28% in Q1:2020). Consequently, underwriting profit declined by 5.89% YoY to NGN1.81bn (as against the 37.52% YoY growth recorded in 2020FY). **For 2021FY, we expect claims expenses to remain elevated especially because of a generally increased level of economic activity. Nevertheless, we are quite positive about underwriting performance as we expect that the impact of gross premium growth will significantly outweigh that of higher claims. We therefore project a 24.29% YoY growth in underwriting profit.**

Bottom Line Buoyed by Higher Investment Income and Lower OPEX

The company's investment income grew by 96.22% YoY to NGN2.10bn in 2020FY on the back of a better-than-expected investment yield of 13.64% (vs 9.27% in 2019FY). However, In Q1:2021 investment income declined by 5.16% to NGN288.33mn (vs. NGN304.01mn in Q1:2020) with trailing investment yield of 11.52%. Meanwhile, Operating expenses (OPEX) declined by 8.53% YoY in 2020FY owing to a significant decline (37.66%YoY) in employee benefit expenses. This decline was sustained in Q1:2021 as OPEX fell 16.11% YoY to NGN817.15mn. Thus, net income grew by 112.27% to NGN5.08bn in 2020FY and 3.20% YoY to NGN1.09bn in Q1:2021. We note that NEM achieved a best-in-class net margin of 23.45% (vs. peer average of 15.33%) in Q1:2021. **For 2021FY, we expect a moderated growth in bottom line premised on modest increase in investment income. Furthermore, we do not think that the decline in OPEX is sustainable in view of the generally heightened inflationary pressure and resumption of normal operating activities. Therefore, we project a 11.07%YoY growth in bottom-line.**

Performance Supported by a Healthy Balance Sheet

The company's total assets improved by 8.20% YtD to NGN33.76bn in Q1:2021 driven by a 1.16% growth in earning assets. Also, the company's balance sheet is sufficiently liquid with liquid-to-total assets ratio of 64.29% as at Q1:2021. Liquidity is further supported by high earnings quality which improved to 2.73x as at Q1:2021 from 0.81x in 2020FY. Furthermore, the company remained in good regulatory standing Q1:2021 with solvency margin of NGN18.74bn (5.25x the regulatory requirement for non-life players) and contingency reserve of NGN5.51bn (higher than regulatory requirement of NGN218.39mn).

Recommendation

In arriving at our 2021FY target price of **NGN2.35**, we applied our projected EPS of NGN0.56 to a target PE of 4.19x. This implies an upside potential of 25.48% when compared to its closing price of NGN1.87 on May 11, 2021. Hence, we rate the ticker a **BUY**.

Company	NEM
Valuation	
Trailing EPS	0.51
BVPS	1.94
P/E	3.67x
P/BV	0.97x
Target PE	4.19x
Dec-2021 Exp. EPS	0.56
Dec 2020 Target price	2.35
Current Price	1.87
Up/Downside Potential	+25.48%
Ratings	BUY
Key metrics	
ROE	26.34%
ROA	15.16%
Combined Ratio	80.62%
Loss Ratio	35.87%
Share/Share Price Statistics	
Yr Hi	NGN2.69
Yr Lo	NGN1.72
YTD return	+11.73%
Beta	1.19
Adjusted Beta	1.13
Shares outstanding	10.03bn
Market cap [NGN]	20.37bn
Financial year end	December
Most Recent Period (MRP)	Q1:2021

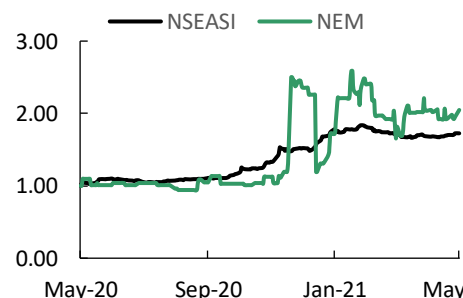


Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2021 Target Price to key model inputs						Min	2.25
						Max	2.44
EPS							
		0.54	0.55	0.56	0.57	0.58	
Target PE	4.17x	2.25	2.29	2.34	2.38	2.42	
	4.18x	2.26	2.30	2.34	2.38	2.42	
	4.19x	2.26	2.30	2.35	2.39	2.43	
	4.20x	2.27	2.31	2.35	2.39	2.44	
	4.21x	2.27	2.32	2.36	2.40	2.44	

Financial Highlights (NGN'bn) NEM INSURANCE PLC Q1:2020			
Profit & Loss Account	Q1:2020	Q1:2021	y/y Growth
Gross Premium Written	7.92	10.01	26.50%
Gross premium income	6.95	9.36	34.68%
Re-Insurance Costs	-2.11	-2.32	10.04%
Net Premium Income	4.84	7.04	45.42%
Fees and Commission Income	0.43	0.44	2.19%
Claims expenses (Net)	-1.33	-2.53	90.55%
Underwriting Expenses	-2.03	-3.15	55.26%
Underwriting Profit	1.92	1.81	-5.89%
Investment Income	0.30	0.29	-5.16%
Other Income	0.00	0.01	370.98%
PBT	1.25	1.29	3.20%
PAT	1.06	1.09	3.20%
Balance Sheet	Q1:2020	Q1:2021	y/y Growth
Cash and Bank Balances	7.33	7.07	-3.46%
Financial Assets	10.67	11.14	4.41%
Trade, Other Receivables & Prepayments	0.60	3.50	479.74%
Reinsurance Assets	5.11	5.11	0.00%
Investment Properties	1.62	1.62	0.00%
Fixed Assets	2.92	3.13	7.16%
Other Assets	2.93	2.20	-24.96%
Total Assets	31.17	33.76	8.30%
Insurance Contract Liabilities	9.78	10.92	11.68%
Trade Payables & Other payables	2.30	2.51	8.81%
Other Liabilities	0.75	0.90	20.08%
Total Liabilities	12.83	14.33	11.66%
Shareholders' fund	18.34	19.43	5.96%

Contact Information

Brokerage and Retail Services

topeoludimu@meristemng.com (+234 905 569 0627)
olatunjifaniyi@meristemng.com (+234 803 446 3118)
contact@meristemng.com

Investment Banking/Corporate Finance

rasakisalawu@meristemng.com (+234 806 022 9889)
seunlijofi@meristemng.com (+234 808 536 5766)

Wealth Management

funmilolaadekola-daramola@meristemng.com (+234 805 498 4522)
crmwealth@meristemng.com
Tel : +234 01 738 9948

Registrars

muboolasoko@meristemregistrars.com (+234 803 324 7996)
martinaosague@meristemregistrars.com (+234 802 303 1783)
www.meristemregistrars.com
Tel: +23401-280 9250

Trust Services

damilolahassan@meristemng.com (+234 803 613 9123)
crmwealth@meristemng.com

Group Business Development

saheedbashir@mersitemng.com (+234 802 454 6575)
ifeomaogalue@meristemng.com (+234 802 3942967)
info@meristemng.com

Client Services

adefemitaiwo@meristemng.com (+234 803 694 3034)
blessingogwuiche@meristemng.com (+234 706 896 5173)
car@meristemng.com

Investment Research

ahmedjinad@meristemng.com (+234 809 183 9487)
research@meristemng.com

Corporate websites: www.meristemng.com www.meristemwealth.com www.meristemregistrars.com

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Movements in Price Target

Company Name: NEM Insurance Plc.

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
11-May-21	1.87	2.23	2.35	HOLD	BUY

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Company	Disclosure
NEM Insurance Plc	

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