

Strong Underwriting Performance, Weak Earnings Quality

Decrease in Liability Provisioning Supports Underwriting Performance

In H1:2021, AIICO maintained a stout topline performance as gross premium written expanded 17.41%YoY to NGN37.48bn. The performance was largely driven by expansion in both the life and non-life business, with the life segment making most significant contribution (66.91% of total premiums written). On a broader scale, all segments of the business recorded growth except the annuity business which declined by 78.13%YoY to NGN833.59mn. Meanwhile, net loss ratio deteriorated to 60.80% (vs. 49.72% in H1:2020) due to higher claims payment which inched up by 46.30% YoY to NGN26.37bn. Underwriting expenses also grew by 37.74% YoY to NGN4.73bn worsening combined ratio to 74.54% (vs.61.53% in H1:2020). However, the firm's underwriting position was supported by the uptrend in the yield environment which implied lower valuations for liabilities in the Life and Annuity Funds. Thus, underwriting loss (of NGN10.86bn recorded in H1:2020) was reversed to an underwriting profit of NGN31.96bn in H1:2021. **For 2021FY, based on yield performance in H1:2021 and the outlook for yields for the rest of the year, we expect a moderation in full year provisioning for Life and Annuity funds. This should translate to an underwriting profit of NGN12.59bn.**

Profit from Divestment of AIICO Pensions Buoy Bottom-line.

Despite the uptrend in yields during the period, investment income declined by 21.89% YoY to NGN5.92bn apparently due to a significant decrease in the stock of financial assets. This resulted in a decline in investment yield which (by our estimation) fell to 5.68% from 6.48% in H1:2020. Further pressuring bottom line performance were fair value changes which went from gains of NGN11.51bn in H1:2020 to NGN33.09bn in losses. OPEX margin also came in stronger at 14.16% (vs. 13.74%) as operating expenses increased by 21.00% YoY owing to a spike in marketing and advertising expenses. Consequently, profits before tax fell sharply by 58.17%YoY to NGN908.57mn. However, profit realized from the divestments of AIICO Pensions to FCMB Group supported growth in after tax profits (up 13.68% YoY to NGN3.25bn) in H1:2021. **Although we note the reversal in the uptrend in yields which began in H1:2021, we expect yields to hover around current levels for the rest of the year. Thus, we revise our PAT growth projection higher to 13.09% YoY (from 3.84% YoY) to reflect underwriting performance in H1:2021 and the outlook for yields in H2:2021.**

Solvency Capital Pressured by Yield Volatility

The company's solvency capital declined by 8.48% YtD due mainly to the impact of higher investment yields during the period on fair value of financial assets. Although the fair value of liabilities also declined, the fall in the fair value of financial assets had the stronger effect. However, we note that solvency margin (which stood as 1.70x as at H1:2021) remains competitive and well-above regulatory benchmark. Meanwhile, although volatility in the company's earnings quality is not encouraging, its liquidity position remains robust with short-term assets coverage of short-term liabilities at 127.28%.

Recommendation

Premised on our revised full year earnings expectation, we project an EPS of NGN0.29, and a target PE of 3.95x. This yields a target price of NGN1.15, which represents an upside potential of +11.21% from its current market price of NGN1.03 as of September 06, 2021. Hence, we recommend a **BUY**.

Company	AIICO
Valuation	
Trailing EPS	0.27
BVPS	1.74
P/E	3.77x
P/BV	0.59x
Target PE	3.95x
Dec-2021 Exp. EPS	0.29
Dec 2021 Target price	1.15
Current Price	1.03
Up/Downside Potential	+11.21%
Ratings	BUY
Key metrics	
ROE	15.64%
ROA	2.79%
Combined Ratio	74.54%
Loss Ratio	60.80%
Yr Hi	1.59
Yr Lo	0.95
YTD return	-0.09%
Beta	0.73
Adjusted Beta	0.82
Shares outstanding	20.67bn
Market cap [NGN]	26.46bn
Financial year end	Dec
Most Recent Period (MRP)	H1:2021

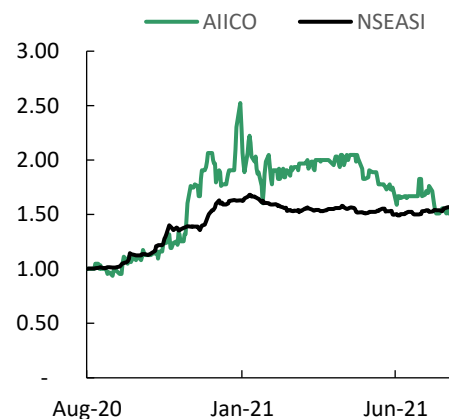


Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2021 Target Price to Key model inputs							Min	0.73
EPS							Max	1.58
	1.15	0.19	0.24	0.29	0.34	0.39		
Target PE	3.85x	0.73	0.92	1.12	1.31	1.50		
	3.90x	0.74	0.94	1.13	1.33	1.52		
	3.95x	0.75	0.95	1.15	1.34	1.54		
	4.00x	0.76	0.96	1.16	1.36	1.56		
	4.05x	0.77	0.97	1.17	1.38	1.58		

Financial Highlights and Forecasts (NGN billion)						
Profit & Loss Account	2020A	2021F	2022F	2023F	2024F	2025F
Gross Premium Written	61.98	69.49	76.44	85.61	96.74	106.42
Gross Premium Income	60.68	67.96	74.76	82.23	90.46	97.69
Re-insurance Costs	-7.90	-8.77	-8.07	-7.66	-7.28	-6.92
Claims Expenses	31.66	-38.06	-42.61	-47.70	-53.37	-58.62
Underwriting Expenses	7.77	-8.88	-11.34	-12.68	-14.14	-15.43
Underwriting Profit	-36.27	12.59	13.01	14.81	16.67	18.20
Investment Income	11.71	10.46	12.18	12.36	13.41	14.97
Other Income	2.77	0.68	0.75	0.82	0.90	0.98
PBT	4.63	6.99	7.26	7.34	8.34	9.73
PAT	5.25	5.94	6.17	6.24	7.09	8.27
Balance Sheet	2020A	2021F	2022F	2023F	2024F	2025F
Investment Assets	220.26	244.66	242.56	251.75	284.60	314.01
Insurance Contract Liabilities	136.08	138.53	151.76	166.94	183.63	198.32
Total Assets	243.10	270.51	314.91	366.30	426.40	493.70
Total Liabilities	208.44	227.90	262.13	303.24	351.96	406.21
Total Equities	34.66	42.61	52.79	63.06	74.44	87.49
Financial Ratios	2020A	2021F	2022F	2023F	2024F	2025F
GPI Margin	97.90%	97.80%	97.80%	96.05%	93.50%	91.80%
Underwriting Margin	-59.78%	18.53%	17.40%	18.01%	18.43%	18.63%
Net Margin	8.65%	8.74%	8.26%	7.59%	7.83%	8.47%
Return on Asset	2.61%	2.32%	2.39%	2.00%	1.97%	2.00%
Return on Equity	15.15%	14.78%	13.45%	12.07%	12.15%	12.53%
Investment Yield	6.56%	4.50%	5.00%	5.00%	5.00%	5.00%
Expense Ratio	14.73%	-15.00%	-17.00%	-17.00%	-17.00%	-17.00%
Loss Ratio	59.98%	-64.30%	-63.90%	-63.96%	-64.16%	-64.57%
Combined Ratio	74.71%	-79.30%	-80.90%	-80.96%	-81.16%	-81.57%

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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: AIICO Insurance Plc.

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
07-Sept-2021	0.95	1.34	1.15	BUY	BUY
26-May-2021	1.15	1.00	1.34	BUY	BUY

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Company	Disclosure
AIICO Insurance Plc	

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