

## AIICO Sustains Underwriting Profitability as Solvency Capital Weakens

### Underwriting Profitability Feeds-off Lower Valuation of Life and Annuity Funds

In Q3:2021, AIICO consolidated on earlier strong topline performance, delivering an overall 15.85% YoY growth in gross premium written (GPW) according to its 9M:2021 financial scorecard. Growth was recorded across all business segments except for the annuity business, which declined (68.83%YoY to NGN1.62bn). **The sharp decline in annuity business was due mainly to an industry-wide regulatory development which delayed the acquisition of new annuity business from retirees during the financial year. The regulation requires pensioners to enroll in the programmed withdrawal option for a period of one year before switching from a Pension Fund Administrator (PFA) to a Retiree Life Annuity (RLA). The impact is however expected to be temporal and growth in annuity business in the industry is expected to resume in 2022. For AIICO, annuity business accounts for c.11% of GPW.** Meanwhile, underwriting efficiency deteriorated as the increase (16.56% YoY) in gross premium income fell short of the increase in claims and underwriting expenses. Nevertheless, AIICO sustained its underwriting profitability from H1:2021, moving from a loss position of NGN22.43bn in 9M:2020 to a profit of NGN29.74bn in 9M:2021. The strong underwriting performance was due mainly to the lower valuations for liabilities in the Life and Annuity Funds, given the relative change in the yield environment between the periods. **We have revised downwards our end year forecast for Life and Annuity Funds liabilities thus we expect a reversal of the company's underwriting loss position to a profit of NGN34.67bn for 2021FY.**

### Sharp Decline in Bottom-line as Fair Value Losses Spike

AIICO's investment income declined 10.28% YoY to NGN9.53bn due mainly to a decline in investment yield (5.77% in 9M:2021 vs. 5.89% in 9M:2020). However, the major drag on profitability came from net fair value losses which amounted to NGN33.83bn in 9M:2021 from net fair value gains of NGN21.04bn in 9M:2020. Thus, the bottom-line declined by 55.13% YoY to NGN2.43bn while net margin fell sharply to 4.44% (vs. 11.45% in 9M:2020). **For the rest of the year, we expect net fair value losses to hover broadly around current levels while investment income is projected to decline by 10.69% YoY. Therefore, full year after-tax profit is projected at NGN2.81bn supported by profit on sale of discontinued business. This represents a significant downgrade from our earlier projection of NGN5.92bn.**

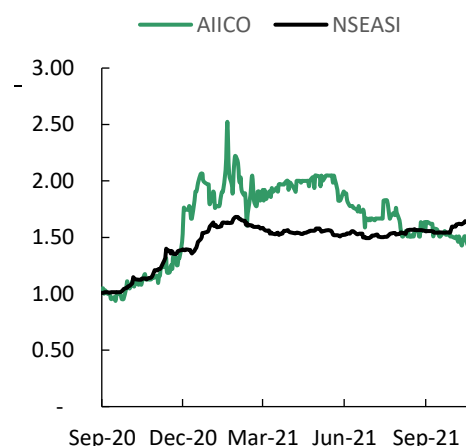
### Solvency Margin Remain Strong Despite Erosion of Solvency Capital

The firm's solvency capital declined by 20.57% YtD due to the impact of higher investment yields on fair value of financial assets during the period under review. While the fair value of liabilities also declined, the drop in fair value of financial assets had a more substantial effect. Nevertheless, solvency margin remained strong at 2.42x as at 9M:2021. Although operating cashflows ended the period in a deficit, overall liquidity position remains adequate, with short-term assets coverage of short-term liabilities at 127.76%.

### Recommendation

The company announced a bonus issue of 4 shares for every 3, to be funded partly by share premium and partly by retained earnings. This should translate to year end shares outstanding of 20.92bn. Thus, we project a full year EPS of NGN0.13 and a year-end PE of 10.27x. This yields a target price of NGN1.34, which is a downgrade from our earlier target price of NGN1.39. Based on the ticker's closing price of NGN1.28 (and an implied 4.30% upside) on November 04, 2021, we recommend a **HOLD**.

| Company               | AIICO         |
|-----------------------|---------------|
| <b>Valuation</b>      |               |
| Trailing EPS          | 0.11          |
| BVPS                  | 1.73          |
| P/E                   | 11.79x        |
| P/BV                  | 0.74x         |
| Target PE             | 10.27x        |
| Dec-2021 Exp. EPS     | 0.28          |
| Dec 2021 Target price | <b>1.34</b>   |
| Current Price         | 1.28          |
| Up/Downside Potential | <b>+4.30%</b> |
| <b>Ratings</b>        | <b>HOLD</b>   |
| <b>Key metrics</b>    |               |
| ROE                   | 6.28%         |
| ROA                   | 1.07%         |
| Combined Ratio        | 73.37%        |
| Loss Ratio            | 58.64%        |
| Yr Hi                 | 1.59          |
| Yr Lo                 | 0.90          |
| YTD return            | 9.73%         |
| Beta                  | 0.73          |
| Adjusted Beta         | 0.82          |
| Shares outstanding    | 15.69bn       |
| Market cap [NGN]      | 25.63bn       |



**Chart 1: Sensitivity Analysis**

| Sensitivity Analysis of Dec-2021 Target Price to Key model inputs |        |      |      |      |      |      | Min | 0.31 |
|---|--------|------|------|------|------|------|-----|------|
|   |        |      |      |      |      |      | Max | 2.39 |
|   |        | EPS  |      |      |      |      |     |      |
|   | 1.34   | 0.03 | 0.08 | 0.13 | 0.18 | 0.23 |     |      |
| Target PE   | 10.17x | 0.31 | 0.81 | 1.32 | 1.83 | 2.34 |     |      |
|   | 10.22x | 0.31 | 0.82 | 1.33 | 1.84 | 2.35 |     |      |
|   | 10.27x | 0.31 | 0.82 | 1.34 | 1.85 | 2.36 |     |      |
|   | 10.32x | 0.31 | 0.83 | 1.34 | 1.86 | 2.37 |     |      |
|   | 10.37x | 0.31 | 0.83 | 1.35 | 1.87 | 2.39 |     |      |
|   |        |      |      |      |      |      |     |      |

**Financial Highlights and Forecasts (NGN billion)**

| <b>Profit &amp; Loss Account</b> | <b>2020A</b>  | <b>2021F</b>  | <b>2022F</b>  | <b>2023F</b>  | <b>2024F</b>  | <b>2025F</b>  |
|----------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Gross Premium Written            | 61.98         | 69.49         | 76.44         | 85.61         | 96.74         | 106.42        |
| <b>Gross Premium Income</b>      | <b>60.68</b>  | <b>67.96</b>  | <b>74.76</b>  | <b>82.23</b>  | <b>90.46</b>  | <b>97.69</b>  |
| 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        |
| <b>Underwriting Profit</b>       | <b>-36.27</b> | <b>34.67</b>  | <b>13.01</b>  | <b>14.81</b>  | <b>16.67</b>  | <b>18.20</b>  |
| 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          |
| <b>PBT</b>                       | <b>4.63</b>   | <b>0.52</b>   | <b>7.26</b>   | <b>7.34</b>   | <b>8.34</b>   | <b>9.73</b>   |
| <b>PAT</b>                       | <b>5.25</b>   | <b>2.81</b>   | <b>6.17</b>   | <b>6.24</b>   | <b>7.09</b>   | <b>8.27</b>   |
| <b>Balance Sheet</b>             | <b>2020A</b>  | <b>2021F</b>  | <b>2022F</b>  | <b>2023F</b>  | <b>2024F</b>  | <b>2025F</b>  |
| 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        |
| <b>Total Assets</b>              | <b>243.10</b> | <b>265.17</b> | <b>305.14</b> | <b>352.06</b> | <b>407.38</b> | <b>469.32</b> |
| <b>Total Liabilities</b>         | <b>208.44</b> | <b>227.90</b> | <b>262.13</b> | <b>303.24</b> | <b>351.96</b> | <b>406.21</b> |
| <b>Total Equities</b>            | <b>34.66</b>  | <b>37.27</b>  | <b>43.02</b>  | <b>48.82</b>  | <b>55.41</b>  | <b>63.10</b>  |
| <b>Financial Ratios</b>          | <b>2020A</b>  | <b>2021F</b>  | <b>2022F</b>  | <b>2023F</b>  | <b>2024F</b>  | <b>2025F</b>  |
| GPI Margin                       | 97.90%        | 97.80%        | 97.80%        | 96.05%        | 93.50%        | 91.80%        |
| Underwriting Margin              | -59.78%       | 51.02%        | 17.40%        | 18.01%        | 18.43%        | 18.63%        |
| Net Margin                       | 8.65%         | 4.14%         | 8.26%         | 7.59%         | 7.83%         | 8.47%         |
| Return on Asset                  | 2.61%         | 1.11%         | 2.40%         | 2.02%         | 1.99%         | 2.01%         |
| Return on Equity                 | 15.15%        | 7.54%         | 14.35%        | 12.79%        | 12.79%        | 13.11%        |
| 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%       |

(Q1- First-Quarter); (H1- First-Half); (H2- Second Half) (FY- Full Year) (F- Forecast)

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**Company Name:** AIICO Insurance Plc.

| Date        | Price (N) | Previous Target Price(N) | New Target Price (N) | Previous Recommendation | New Recommendation |
|-------------|-----------|--------------------------|----------------------|-------------------------|--------------------|
| 05-Nov-2021 | 1.28      | 1.15                     | 1.34                 | BUY                     | BUY                |
| 26-May-2021 | 1.15      | 1.00                     | 1.34                 | BUY                     | BUY                |

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|---------------------|------------|
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|                     |            |

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