

## Positioned for Better Performance

### Reduction in Actuarial Valuation Spurs Underwriting Profitability

AIICO Insurance Plc. continued its growth momentum in 2021FY as Gross Premium Written (GPW) advanced by 15.60% YoY to NGN71.65bn, regaining its position as the market leader across listed composite players in the insurance industry. The life business maintained its position as the major contributor (69.41% of total GPW) to premium growth advancing by 19.45% YoY to NGN49.73bn, while the non-life business also grew by 36.07% YoY to NGN19.05bn. The only outlier to top-line growth was the annuity business which was impacted by a regulatory development in the industry as noted in our [9M-2021 Earnings Update](#). However, increase in total underwriting expenses (36.07% YoY) was a major headwind for the firm, supported by a spike in claims expenses (26.09% YoY) especially from the life business. Nevertheless, **AIICO** recorded a strong underwriting performance, with an underwriting profit of NGN30.34bn (from a loss position of **NGN36.27bn** in 2020FY). This was in line with industry trend witnessed among composite players particularly for life businesses, as the rise in the general yields environment led to a lower actuarial valuation in 2021FY. **Our outlook for 2022FY remains positive given the recent insurance inclusion drive of the firm which should support growth in Gross Premium Written. However, we expect underwriting profit to moderate by 27.12% as we expect increase in actuarial valuation for life and annuity funds given the general yield environment.**

### Strategic Move to Focus on Core Insurance Business

**AIICO's** investment income improved by 17.72% to NGN13.85bn (vs NGN11.76bn in 2020FY) propelled by interest income from fixed income securities. This translated to an uptick in investment yield to 6.94% YoY (vs. 5.27% YoY in 2020FY). However, the company recorded a net fair value loss of **NGN32.25bn** in 2021FY from a gain of NGN38.02bn in 2020FY, as financial assets were impacted by uptrend in the fixed income space. This dragged profit before tax (down by 38.65% to NGN2.84bn vs NGN4.63bn in 2020FY). Thus, profitability declined (by 6.36% YoY to NGN4.91bn) although gains from the partial sale of its AIICO pensions subsidiary moderated the decline in net profit for the period. **The firm recently received approval from PENCOS to sell 33.91% of its stake in AIICO Pensions to FCMB Pensions. This will enable the company double down on its core insurance business. We expect this development as well as improvement in net fair value gains and moderate growth investment income to support bottom-line.**

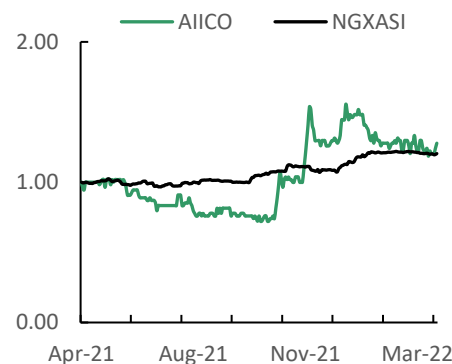
### AIICO Meets the Proposed Recapitalization Threshold

In 2021FY, **AIICO** met the proposed minimum regulatory capital of NGN18.00bn for composite players through a bonus issue worth NGN10.45bn which was paid from firm's share premium and retained earnings account. **This should position the firm to increase its market share, generate new business and ultimately bolster its underwriting capacity.** Also, its solvency margin of 2.92x (above the 1.00x threshold) remains adequate and signals a strong underwriting position. While the firm's liquidity position improved marginally (short-term assets coverage of short-term liabilities of 1.15x vs. 1.11x in 2020FY), its earnings quality worsened to -2.81x (vs. +6.90x in 2020FY) given the significant reduction in cash receipts from operations and poses a risk as it has remained volatile over the past 3 years.

### Recommendation

Given the decline in profitability in 2021FY, we revised our earnings per share downwards to **NGN0.14** and a target price earnings ratio of **5.32x** for 2022FY. This yields a target price of **NGN0.73** representing an upside potential of **6.52%** from its current price of **NGN0.69** as of April 11, 2022. Hence, we recommend a **HOLD** on the ticker.

Company	AIICO
<b>Valuation</b>	
EPS	0.13
BVPS	1.05
P/E	5.14x
P/BV	0.66x
Target PE	5.32x
Dec-2022 Exp. EPS	0.14
Dec 2022 Target Price	<b>0.73</b>
Current Price	0.69
Up/Downside Potential	6.52%
<b>Ratings</b>	<b>HOLD</b>
<b>Key Metrics</b>	
ROE	12.81%
ROA	2.21%
Combined Ratio	71.46%
Loss Ratio	56.49%
<b>Share/Share Price Statistics</b>	
Yr Hi	NGN0.84
Yr Lo	NGN0.64
YtD Return	-1.43%
Beta	0.55
Adjusted Beta	0.70
Shares Outstanding	36.60bn
Market Cap [NGN]	24.52bn
Financial year end	Dec
Most Recent Period [MRP]	2021



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**Chart 1: Sensitivity Analysis**

Sensitivity Analysis of Dec-2022 Target Price to key model inputs						Min	0.20
						Max	1.29
						EPS	
						0.73	0.04
						0.09	0.14
						0.19	0.24
Target PE	5.22x	0.20	0.46	0.72	0.98	1.24	
	5.27x	0.20	0.46	0.73	0.99	1.26	
	5.32x	0.20	0.47	0.73	1.00	1.27	
	5.37x	0.20	0.47	0.74	1.01	1.28	
	5.42x	0.21	0.48	0.75	1.02	1.29	

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

<b>Profit &amp; Loss Account</b>	2020A	2021A	2022F	2023F	2024F	2025F	2026F
Gross Premium Written	61.98	71.65	80.16	87.33	94.46	100.80	107.60
Gross Premium Income	60.68	70.66	79.10	86.61	93.97	100.55	107.09
Reinsurance Costs	(7.90)	(12.13)	(13.10)	(15.46)	(18.25)	(21.53)	(25.40)
Claims Expenses	(31.66)	(39.91)	(45.86)	(51.82)	(55.45)	(59.33)	(64.08)
Underwriting Expenses	(6.26)	(7.77)	(10.58)	(11.87)	(13.39)	(15.12)	(17.10)
Underwriting Profit	(36.27)	30.34	22.11	17.29	15.24	10.17	4.76
Investment Income	11.77	13.85	14.98	16.10	17.24	18.45	19.80
Other Income	2.72	1.82	1.86	1.91	1.95	2.00	2.06
PBT	4.63	2.84	5.56	6.27	5.90	6.30	6.79
PAT	5.25	4.92	5.06	5.35	5.54	5.96	6.41

<b>Balance Sheet</b>	2020A	2021A	2022F	2023F	2024F	2025F	2026F
Investment Assets	223.25	199.50	234.91	255.50	284.26	295.62	320.19
Contracts Liabilities	157.91	142.61	172.96	191.23	211.82	217.89	236.01
Total Assets	245.31	222.27	263.07	292.99	326.73	347.24	374.79
Total Equity	34.66	38.37	43.48	48.85	54.70	60.96	60.96
Total Liabilities	208.44	184.01	219.59	244.13	272.02	286.28	313.83

<b>Financial Ratios</b>	2020A	2021A	2022F	2023F	2024F	2025F	2026F
GPI Margin	97.90%	98.62%	98.68%	99.17%	99.48%	99.75%	99.52%
Underwriting Margin	(59.78%)	42.95%	27.96%	19.97%	16.22%	10.11%	4.45%
Net Margin	8.65%	6.96%	6.39%	6.17%	5.89%	5.93%	5.99%
Return on Asset	2.14%	2.21%	1.92%	1.82%	1.69%	1.72%	1.71%
Return on Equity	15.15%	12.81%	11.63%	10.94%	10.12%	9.77%	10.51%
Investment Yields	5.27%	6.94%	6.38%	6.30%	6.07%	6.24%	6.18%
Expenses Ratio	(12.81%)	(14.97%)	(15.01%)	(15.46%)	(16.09%)	(17.00%)	(18.06%)
Loss Ratio	(52.17%)	(56.49%)	(57.98%)	(59.84%)	(59.01%)	(59.01%)	(59.84%)
Combined Ratio	(64.98%)	(71.46%)	(72.99%)	(75.29%)	(75.10%)	(76.01%)	(77.90%)

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We estimate stock's fair value by computing a weighted average of projected prices derived from discounted cash flow and relative valuation methodologies. The choice of relative valuation methodology (ies) usually depends on the firm's peculiar business model and what in the opinion of our analyst is considered as a key driver of the stock's value from a firm specific as well as an industry perspective. However, we attach the most weight to discounted cash flow valuation methodology.

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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
12-April-22	0.69	0.85	0.73	BUY	HOLD

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Company	Disclosure
AIICO Insurance Plc	

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