

Sustained Profitability Growth, Weak Solvency Margin

Reduction in claims and Provisioning Spurs Underwriting Performance

Cornerstone Insurance Plc. (**CORNERST**) recorded an improvement in Gross Premium Written (GPW) (19.28% YoY to NGN20.92bn) in its 2021FY financial scorecard. The performance was mixed across the various business segments; while the non-life business advanced (+28.47% YoY), accounting for 72.48% of total GPW, the life business declined (3.20% YoY) due to a reduction in its annuity business. We also note a significant expansion in the Takaful insurance segment (103.93% YoY), given the increased acceptability of the ethical product. Meanwhile, **CORNERST** recorded a reduction in claims expenses (- 34.39% YoY) due to a decline in claims payout from the non-life business. Consequently, combined ratio improved to 49.77% (vs 64.01% in 2020FY), better than the industry peer average of 61.91%. This underpinned the firm's underwriting efficiency, despite the rise in underwriting expenses (40.08% YoY) given increased cost of acquiring new business. Accordingly, underwriting profit grew to a record high (+382.01% YoY to NGN5.25bn), with an underwriting margin of 25.10% above the 5-year average of 20.44%. This performance is also attributed to the reduction in provisions for actuarial valuation of the life and annuity business (from a negative position of **NGN2.53bn** in 2020FY to a positive of NGN1.84bn in 2021FY), hinged on the uptick in the general yield climate. **For 2022FY, we anticipate a sustained expansion in GPW on the back of improved performance across all its business segments. Nevertheless, we expect a moderation in underwriting profit to the tune of NGN4.66bn, given the increase in provisioning for life and annuity funds and increased claims payout.**

CORNERST Achieves Best-in-Class Net Margin Amongst Industry Peers

Investment income grew by 14.12% YoY to NGN3.12bn, enhanced by the expansion in interest income on financial assets, which translated to an investment yield of 9.30% from 8.85% in 2020FY. However, net fair value declined to **NGN794.66m** from a favorable position of NGN1.00bn in 2020FY, given the rise in the general fixed income environment during the period. Despite this and the uptick in operating expenses (+18.72% YoY), the firm was the only listed composite insurer to record bottom-line growth as **PAT** advanced by 61.10% YoY to NGN3.53bn in 2021FY. This was due to the record high underwriting performance, which had a significant impact on the company's overall profitability. Hence, the firm achieved a best-in-class net margin (19.87% YoY) above peer average of 9.44%. Management responded to this development by proposing a dividend of N0.05k per ordinary share of N0.50k for the first time in 5 years, which implies a payout ratio of 25.69% and represents a dividend yield of 8.33% from its closing price as of March 30, 2022. **We project a PAT growth of +7.77% YoY in 2022FY, premised on the firm's underwriting performance and a moderate growth in investment income as well as a reduction in fair valuation losses.**

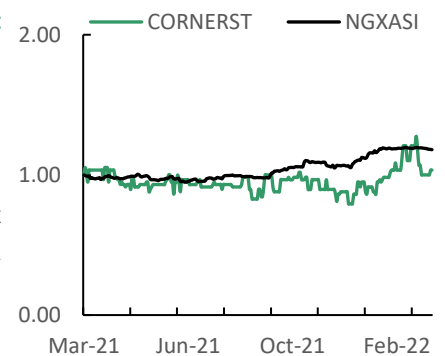
Solvency Margin Remains Weak

Although **CORNERST** witnessed growth in its solvency capital (from 16.86bn in 2020FY to NGN19.63bn in 2021FY), its solvency margin of 0.09x remains abysmally below the regulatory requirement of 1.00x using the proposed required capital of NGN18bn for composite players. This shows the firm's weak underwriting capacity and its huge funding gap requirement, which remain largely unmet. Nevertheless, liquidity remains positive as short-term assets to short term liabilities improved marginally from 1.54x to 1.55x in 2021FY.

Recommendation

For 2022FY, we project an EPS of **NGN0.21** and a target PE ratio of **3.20x**, which yields a target price of **NGN0.67**. Thus, indicating an upside potential of **+11.88%** from its market price of **NGN0.60** as of March 30, 2022. Hence, we recommend a **BUY**.

Company	CORNERST
Valuation	
EPS	NGN0.19
BVPS	NGN1.13
P/E	3.08x
P/BV	0.53x
Target PE	3.20x
Dec-2022 Exp. EPS	NGN0.21
Dec 2022 Target Price	NGN0.67
Current Price	NGN0.60
Up/Downside Potential	+ 11.88%
Ratings	BUY
Key Metrics	
ROE	17.27%
ROA	7.17%
Combined Ratio	49.77%
Loss Ratio	14.59%
Share/Share Price Statistics	
Yr Hi	NGN0.81
Yr Lo	NGN0.46
YtD Return	30.43%
Beta	0.22
Adjusted Beta	0.48
Shares Outstanding	NGN18.17bn
Market Cap [NGN]	NGN10.90bn
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	0.34
EPS							Max	1.02
Target PE	0.67	0.11	0.16	0.21	0.26	0.31		
	3.10	0.34	0.49	0.65	0.80	0.96		
	3.15	0.34	0.50	0.66	0.82	0.97		
	3.20	0.35	0.51	0.67	0.83	0.99		
	3.25	0.36	0.52	0.68	0.84	1.01		
	3.30	0.36	0.53	0.69	0.86	1.02		

Financial Highlights and Forecasts (NGN billion)

<i>Profit & Loss Account</i>	2020A	2021A	2022F	2023F	2024F	2025F	2026F
Gross Premium Written	17.54	20.92	24.98	30.82	37.83	47.00	57.44
Gross Premium Income	15.72	17.79	20.67	24.32	28.32	32.95	38.21
Reinsurance Costs	(7.58)	(10.97)	(12.07)	(14.12)	(15.95)	(17.87)	(18.94)
Claims Expenses	(3.96)	(2.60)	(2.96)	(3.45)	(3.83)	(3.83)	(4.17)
Underwriting Expenses	(2.18)	(3.05)	(3.50)	(4.03)	(4.78)	(5.72)	(6.96)
Underwriting Profit	1.09	5.25	4.66	4.84	5.70	6.91	6.67
Investment Income	2.74	3.12	3.43	3.80	4.25	4.71	5.19
Other Income	0.23	0.06	0.07	0.09	0.14	0.13	0.13
PBT	1.77	3.74	3.71	4.51	5.43	6.29	6.46
PAT	2.19	3.54	3.81	4.69	5.74	6.68	6.63

<i>Balance Sheet</i>	2020A	2021A	2022F	2023F	2024F	2025F	2026F
Investment Assets	30.94	33.59	40.22	46.53	54.64	63.74	74.06
Contracts Liabilities	22.42	23.47	28.66	33.52	40.10	49.04	57.45
Total Assets	43.83	49.30	58.53	68.27	80.70	96.32	111.34
Total Equity	17.72	20.47	24.12	28.57	33.98	40.21	46.31
Total Liabilities	26.10	28.83	34.41	39.70	46.72	56.12	65.03

<i>Financial Ratios</i>	2020A	2021A	2022F	2023F	2024F	2025F	2026F
GPI Margin	89.62%	85.05%	82.73%	78.90%	74.87%	70.11%	66.52%
Underwriting Margin	6.21%	25.10%	18.67%	15.71%	15.07%	14.69%	11.61%
Net Margin	13.96%	19.87%	18.44%	19.27%	20.28%	20.27%	17.35%
Return on Asset	5.01%	7.17%	6.51%	6.86%	7.12%	6.94%	5.95%
Return on Equity	12.38%	17.27%	15.80%	16.40%	16.90%	16.61%	14.31%
Investment Yields	8.85%	9.30%	8.53%	8.17%	7.77%	7.38%	7.00%
Expenses Ratio	38.84%	35.18%	41.38%	42.99%	43.19%	44.36%	50.13%
Loss Ratio	25.16%	14.59%	14.35%	14.18%	13.51%	11.62%	10.91%
Combined Ratio	64.01%	49.77%	55.73%	57.17%	56.70%	55.98%	61.04%

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Movements in Price Target

Company Name: Cornerstone Insurance Plc

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
30-Mar-22	0.60	-	0.67	-	BUY

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