

Staying Above the Waters

Operational Efficiency Supports Underwriting Profitability

In 2021FY, **LASACO's** gross premium written (**GPW**) improved by 21.44% YoY to NGN13.28bn. The performance was mainly supported by the income from life insurance segment of the business which grew by 16.38% YoY and accounted for 59.64% of total **GPW**. However, in Q1:2022, GPW declined by 24.26% YoY to NGN5.07bn, due to the decline in premium written from all of the company's business segments. Specifically, premium written from the life business declined by 30.07% YoY given the reduction in group life business and the non-life business segment declined by 15.67% YoY as the firm was not able to ramp up business from the motor insurance business. On the other, while claims expense surged (+34.56% YoY) in 2021FY due spike in claims paid on fire insurance and life insurance, it reduced by 25.46% YoY to NGN1.41bn (vs. NGN1.90bn in Q1:2021). Consequently, the firm was able to sustain its underwriting profit (up 3.75% YoY to NGN0.83bn) despite the increase in underwriting expense (+0.62% YoY) and the provisions for life and annuity fund (+104.08% YoY) in Q1:2022. The performance was also underpinned by the firm's improved operational efficiency as combined ratio improved to 61.43% (vs. 62.52% in Q1:2021). **The decline in premiums written in Q1:2022 raises concerns about the firm's ability to underwrite more business by 2022FY. This is due to LASACO's weak underwriting capacity (poor capital base) to compete with its peers in the industry. However, for 2022FY, we project a modest underwriting profit of +6.14% YoY premised on the firm's improved operational efficiency.**

Growth in Investment Income Drives Bottom-line

LASACO's investment income grew by 18.82% to NGN0.66bn in 2021FY on the back of expansion in interest income on fixed income instruments. Similarly, in Q1:2021 investment income advanced by +92.85% to NGN0.14bn (vs. NGN0.07bn in Q1:2021). Hence, investment yield for Q1:2022 advanced to 0.69% from 0.40% in Q1:2021. Meanwhile, operating expenses surged by 9.76 YoY% to NGN3.20bn in 2021FY. The rise in OPEX (39.14% YoY) continued in Q1:2022 largely driven by director's emolument and employee benefits expense. However, while after-tax-profit declined by 0.62% to NGN0.26bn in 2021FY, it grew by 64.05% in Q1:2022 to NGN0.30bn driven by the growth in investment income as well as foreign exchange gain during the period. **For 2022FY, we anticipate an 8.05% YoY growth in bottom line supported by expansion in investment income.**

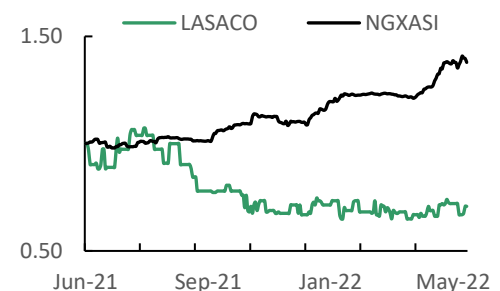
Weak Solvency Margin Undermines Underwriting Capacity

LASACO's capital base (share capital + share premium + retained earnings) stands at NGN5.34bn in Q1:2022 below the proposed recapitalization requirement of NGN18.00bn for composite players. Similarly, its solvency margin remains abysmal at **-0.36x** (below the stipulated requirement of 1.00x using the NGN18.00bn proposed capital base benchmark). This portends the firm's weak underwriting capacity which undermines its ability to undertake new businesses as seen in its Q1:2022 financial scorecard where premium written declined significantly. **To be able to compete favorably with its peer in the industry, LASACO needs to shore up its solvency capital base.**

Recommendations

Given our modest earnings outlook for **LASACO**, we revise 2022FY **EPS** downwards to NGN0.15 with a **target PE** of 7.59x. This yields a target price of **NGN1.14** and indicates an upside potential of 4.59% based on the closing price on 10th June 2022. Hence, we rate the ticker a **HOLD**.

Company	TICKER
Valuation	
Trailing EPS	NGN0.21
BVPS	NGN6.17
P/E	5.29x
P/BV	0.18x
Target PE	7.59x
Dec-2022 Exp. EPS	NGN0.15
Dec 2022 Target price	1.14
Current Price	1.09
Up/Downside Potential	4.59%
Ratings	HOLD
Key metrics	
ROE	1.86%
ROA	0.85%
Combined Ratio	53.24%
Loss Ratio	29.60%
Yr Hi	1.15
Yr Lo	1.00
YTD return	+4.81%
Beta	0.65
Adjusted Beta	0.77
Shares outstanding	1.83bn
Market cap [NGN]	2.00bn
Financial year end	December
Most Recent Period (MRP)	Q1:2022



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Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2022 Target Price to key model inputs							Min	0.98
							Max	1.29
EPS								
		0.13	0.14	0.15	0.16	0.17		
Target PE	7.57x	0.98	1.06	1.14	1.21	1.29		
	7.58x	0.99	1.06	1.14	1.21	1.29		
	7.59x	0.99	1.06	1.14	1.21	1.29		
	7.60x	0.99	1.06	1.14	1.22	1.29		
	7.61x	0.99	1.07	1.14	1.22	1.29		

Financial Highlights and Forecasts (NGN billion)

<i>Profit & Loss Account</i>	Q1:2021A	Q1:2022A	2022F	2023F	2024F	2025F	2026F
Gross Premium Written	6.70	5.07	13.56	14.38	15.45	16.61	17.78
Gross Premium Income	4.57	4.33	13.38	14.31	15.60	17.01	18.45
OPEX	0.72	1.00	3.39	3.71	4.04	4.24	4.50
Net Premium Income	3.41	3.21	8.77	9.43	10.35	11.36	12.41
Claims Expenses (Net)	1.90	1.41	4.48	4.74	5.10	5.48	5.87
Underwriting Expenses	1.24	1.25	3.66	3.88	4.17	4.49	4.80
Total Investment Income	0.07	0.14	0.66	0.68	0.75	0.82	0.89
PBT	0.24	0.33	0.33	0.36	0.56	0.98	1.40
PAT	0.18	0.30	0.28	0.31	0.49	0.89	1.26

<i>Balance Sheet</i>	Q1:2021A	Q1:2022A	2022F	2023F	2024F	2025F	2026F
Investment Assets	11.14	11.97	14.58	15.60	17.01	18.71	20.30
Insurance Contract Liabilities	9.17	9.67	10.03	10.74	11.70	12.76	13.84
Total Assets	25.69	25.20	24.53	26.13	28.01	30.36	33.03
Total Equity	11.14	11.61	9.13	9.28	9.50	9.86	10.36
Total Liabilities	5.38	3.92	12.65	15.40	16.84	18.51	20.50

<i>Financial Ratios</i>	Q1:2021A	Q1:2022A	2022 F	2023F	2024F	2025F	2026F
GPI Margin	68.22%	85.31%	98.64%	99.57%	100.96%	102.36%	103.80%
Underwriting Margin	17.52%	19.19%	13.55%	14.47%	15.82%	17.16%	18.54%
Net Margin	3.97%	6.88%	2.20%	2.81%	2.62%	2.53%	2.48%
Return on Asset	0.38%	0.85%	1.21%	1.59%	1.51%	1.48%	1.46%
Return on Equity	2.26%	1.86%	2.88%	4.36%	4.34%	4.47%	4.67%
Investment Yield	0.65%	1.16%	4.69%	4.84%	5.27%	5.25%	5.28%
Expense Ratio	27.08%	28.77%	27.37%	27.12%	26.74%	26.38%	26.01%
Loss Ratio	41.50%	32.66%	33.46%	33.14%	32.69%	32.24%	31.79%
Combined Ratio	68.59%	61.43%	60.83%	60.26%	59.43%	58.61%	57.80%

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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.

Target Price Estimate

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BUY: Target Price of the stock is above the current market price by at least **10 percent**

HOLD: Target Price of the stock ranges between **-10 percent and 10 percent** from the current market price.

SELL: Target Price of the stock is more than **10 percent** below the current market price.

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Price Targets: Price targets reflect in part the analyst’s estimates for the company’s earnings. The achievement of any price target may be impeded by general market and macroeconomic trends, and by other risks related to the company or market and may not occur if the company’s earnings fall short of estimates.

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:

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
10-June-2022	1.04	1.42	1.14	BUY	HOLD

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Company	Disclosure
LASACO Assurance Plc	

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