

### Profit from Divested Business Supports PAT

**Recommendation: BUY**      **TP: 0.74**      **CP: 0.55**      **UPP: 34.55%**

**Summary:** In 9M:2022, AIICO's Gross Premium Written (GPW) advanced by 27.12% YoY to NGN69.50bn. The growth was broad based as all segment of the business expanded with the life segment accounting for major part of the growth.

However, net claims expense increased (+9.24% YoY to NGN32.96bn) with high claims payment stemming from the life business. Similarly, underwriting expenses surged (+12.08% YoY) given the increased cost of acquiring new businesses and actuarial provisioning for the life and annuity funds worsened to **-NGN7.86bn** (vs. NGN22.64bn in 9M:2021). Consequently, underwriting profit fell drastically by +81.82% YoY to NGN5.40bn in 9M:2022.

However, the firm reported an impressive after-tax-profit (up 152.88% to NGN6.13bn). This was majorly driven by strong growth in investment income (+32.36% YoY), significant reduction in net fair value losses and income from the completion of the sales of its subsidiary. **We maintain a positive outlook for the firm premised on the expansion in GPW, and uptick in fixed income yields which should moderate the actuarial provisioning for the life and annuity funds and improve the investment income.**

**Positives:** Combine ratio moderated to 65.25% from 73.37% in 9M:2021 which signals strong underwriting efficiency.

**Negative:** Underwriting Margin declined to 8.51% (vs. 57.82% in 9M21) given the significant reduction in underwriting profitability

Valuation		Stock Highlights	
Trailing EPS	0.24	Yr Hi	0.84
BVPS	1.17	Yr Lo	0.52
P/E	2.38x	YTD return	-32.05%
P/BV	0.48x	Beta	0.74
Target PE	5.32x	Adjusted Beta	0.83
Dec-2022 Exp. EPS	0.14	Shares outstanding	36.61bn
Dec 2021 Target price	NGN0.74	Market cap [NGN]	26.53bn
Current Price	NGN0.55	Financial year end	December
		Most Recent Period	9M:2022

### Financial Highlight (NGN'bn)

Píofii and Loss ficcouni	9M:2022	9M:2021	Y/Y Growth
Gross Premium Written (GPW)	69.50	54.67	27.12%
Gross Premium Income (GPI)	63.51	51.44	23.46%
Claims Expense	-32.96	-30.17	9.24%
Underwriting Expense	-8.49	-7.57	12.08%
Underwriting Profit	5.40	29.74	-81.83%
Investment Income	12.62	9.53	32.36%
PBT	3.58	0.03	12791.19%
PAT	6.13	2.43	152.88%

### Balance Sheet

	9M:2022	2021A	YtD Growth
Investment Assets	242.74	197.99	22.60%
Total Assets	275.10	222.38	23.71%
Share Capital	18.30	18.3	0.00%
Total Equity	43.07	38.37	12.25%
Contract Liabilities	161.62	119.78	34.93%
Total Liabilities	232.03	184.01	26.10%

### Key Metrics

Píofiiability Raio	9M:2022	9M:2021	3-yí Hist. Avg
ROA	3.14%	1.46%	2.69%
ROE	20.20%	8.48%	16.13%
GPI Margin	91.38%	94.09%	98.75%
Underwriting Margin	8.51%	57.82%	(10.76%)
Net Margin	9.66%	4.72%	9.14%
Investment Yield	5.20%	4.81%	6.58%
Expense Ratio	13.37%	14.72%	13.43%
Loss Ratio	51.89%	58.64%	53.14%
Combined Ratio	65.25%	73.37%	66.57%

### Solvency Raio

	9M:2022	2021A	3-yí Hist. Avg
Solvency Margin	2.65	2.90x	2.63x

\*TP=Target Price, CP= Current Price, UPP=Upside Potential, EPS= Earnings Per Share, BVPS= Book Value Per Share, P/E=Price to Earnings, P/BV= Price to Book Value, T= Trailing, A= Actuals

Sensitivity Analysis of Dec-2022 Target Price to key model inputs						Min	0.21
						Max	1.30
						EPS	
						0.04	0.09
						0.14	0.19
						0.24	
Target P/E	5.22	0.21	0.47	0.73	0.99	1.25	
	5.27	0.21	0.47	0.74	1.00	1.26	
	5.32	0.21	0.48	0.74	1.01	1.28	
	5.37	0.21	0.48	0.75	1.02	1.29	
	5.42	0.22	0.49	0.76	1.03	1.30	

### CUSTODIAN Sustains its Growth Momentum

**Recommendation: BUY**      **TP: 7.87**      **CP: 5.35**      **UPP: 47.10%**

**Summary:** The firm reported strong growth in top-line (+15.84% YoY to NGN75.53bn) largely driven by expansion in premium income from core insurance business which improved 11.76% YoY to NGN56.86bn. However, increase in underwriting expenses (+7.19% YoY), claims (+33.62% YoY) expenses and provisions for the life and annuity business dragged the firm's underwriting profitability down to NGN3.63bn (vs. NGN19.50bn in 9M:2021).

Nevertheless, expansion in investment income by +29.89% YoY to NGN11.58bn influenced by the growth in interest income, coupled with significant reduction in net fair value losses buoyed earnings. Consequently, after tax profit advanced by +14.30% YoY to NGN5.73bn in 9M:2022. **We expect CUSTODIAN to sustain its growth momentum both in top-line and bottom-line by 2022FY. This is hinged on expansion in core premium income and investment income, although high claims, and increasing operating expenses could be a constraints.**

**Positives:** Investment yield rose to 6.38% from 3.88% due to the increase in interest income on investment asset.

**Negative:** Combined ratio worsened to 37.63% from 33.14% which signal weak underwriting efficiency.

#### Financial Highlight (NGN'bn)

Profit and Loss Account	9M:2022	9M:2021	Y/Y Growth
Revenue	75.53	65.20	15.84%
Net Income	20.98	33.30	-36.99%
Claims Expense	-16.82	-12.59	33.62%
Underwriting Expense	-4.58	-4.27	7.19%
Investment Income	11.58	8.92	29.89%
PBT	7.57	6.84	10.64%
PAT	5.73	5.02	14.30%

Balance Sheet	9M:2022	2021A	YtD Growth
Investment Assets	183.87	150.13	22.47%
Total Assets	204.33	184.47	10.77%
Share Capital	2.94	2.94	0.00%
Total Equity	67.42	64.26	4.92%
Contract Liabilities	104.71	85.04	23.13%
Total Liabilities	136.91	120.21	13.89%

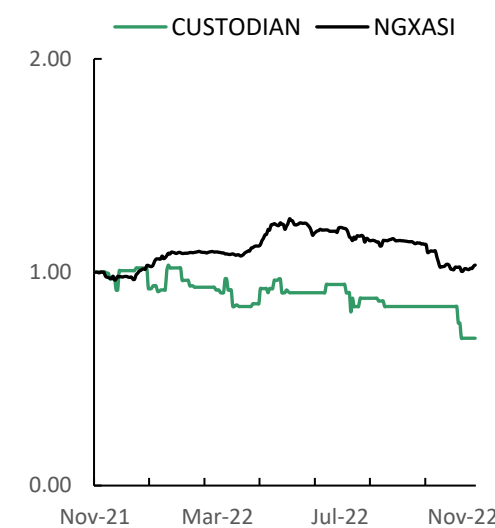
#### Key Metrics

Profitability Ratio	9M:2022	9M:2021	3-year Hist. Avg
ROA	5.33%	2.72%	5.94%
ROE	16.15%	7.81%	17.11%
Underwriting Margin	6.38%	38.33%	21.85%
Net Margin	7.59%	7.69%	12.85%
Investment Yield	6.30%	3.88%	7.31%
Expense Ratio	8.06%	8.40%	6.77%
Loss Ratio	29.57%	24.74%	19.54%
Combined Ratio	37.63%	33.14%	26.32%

#### Solvency Ratio

Solvency Ratio	9M:2022	2021A	3-yr Hist. Avg
Solvency Margin	2.50x	2.51x	4.32x

Valuation		Stock Highlights	
Trailing EPS	1.85	Yr Hi	8.00
BVPS	11.46	Yr Lo	5.35
P/E	2.89x	YTD return	-32.28%
P/BV	0.47x	Beta	0.28
Target PE	4.21x	Adjusted Beta	0.52
Dec-2022 Exp. EPS	1.87	Shares outstanding	5.88bn
Dec 2022 Target price	NGN7.87	Market cap [NGN]	40.00bn
Current Price	NGN5.30	Financial year end	December
		Most Recent Period	9M:2022



Sensitivity Analysis of Dec-2022 Target Price to key model inputs						Min	7.27			
						Max	8.49			
						EPS				
						1.77	1.82	1.87	1.92	1.97
Target P/E	4.11	7.27	7.48	7.69	7.89	8.10				
	4.16	7.36	7.57	7.78	7.99	8.20				
	4.21	7.45	7.66	7.87	8.08	8.29				
	4.26	7.54	7.75	7.97	8.18	8.39				
	4.31	7.63	7.84	8.06	8.28	8.49				

\*TP=Target Price, CP= Current Price, UPP=Upside Potential, EPS= Earnings Per Share, BVPS= Book Value Per Share, P/E=Price to Earnings, P/BV= Price to Book Value, T= Trailing, A= Actuals

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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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**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.

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## Movements in Price Target

**Company Name:** AIICO Insurance Plc

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
22-Nov-2022	0.54	0.73	-	HOLD	BUY
15-May -2022	0.69	0.54	-	HOLD	HOLD

**Company Name:** Custodian Investment Plc

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
22-Nov -2022	6.80	7.87	-	BUY	BUY
15-Aug -2022	7.00	7.87	-	BUY	BUY

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Company	Disclosure
AIICO Insurance Plc	
Custodian Investment Plc	

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