

Earnings Undeterred by the Plunge in Underwriting Profitability

Actuarial Valuation for Life and Annuity Funds Drags Underwriting Profit

AIICO Insurance Plc (AIICO) maintained its growth momentum in 2022 through product development and digitalization of its businesses as evinced by the expansion of its Gross Premium Written (GPW) +23.21% YoY to NGN88.28bn (vs NGN71.65bn in 2021). The growth was broad based across its various business segments with the non-life business expanding by 39.06% YoY, driven by growth in special oil (+111.99% YoY) and fire (+28.30% YoY) businesses; and life business advanced by +17.55% YoY. Noteworthy, is the growth of its annuity business (+198.42% YoY) as the industrywide regulatory development regarding the acquisition of new annuity business which impacted the business in 2021 faded. Also, in Q3:2022, the firm completed its acquisition of Tangerine Life's annuity portfolio which improved its ability to take advantage of economies of scale. Overall, the life business remained the major contributor to topline accounting for 69.18% of GPW. On the flip side, underwriting profitability declined by 84.23% YoY to NGN4.78bn (vs. NGN30.35bn in 2021) with actuarial valuation of the life and annuity fund constituting a major drag (from NGN19.73bn in 2021 to a negative of **NGN12.06bn** in 2022). The substantial change in life and annuity fund was as a result of changes in sovereign bond yields which significantly impacted the valuation of liabilities of the funds. Moreover, claims expenses soared (+12.71YoY to NGN44.99bn) with the bulk of the claims (90.01%) emanating from the life business. Nevertheless, AIICO's operational efficiency improved due to the reduction in combined ratio by 500bps to 66.46% (vs 71.46% in 2021). **For 2023, we remain optimistic about the firm's performance as it continues to expand its business across the frontiers of the insurance market via technological innovations which should support gross premium written. However, we expect modest improvement in underwriting profit (+5.86% YoY) given the volatility of the general yield environment which would impact actuarial valuation for life and annuity funds.**

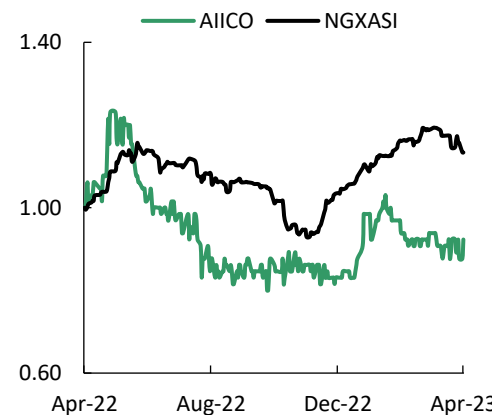
Strong Investment Income & Profit from Discontinued Operations Props Earnings

AIICO witnessed substantial growth in investment income (+40.12% YoY to NGN18.75bn) due to expansion in interest income on financial assets, which reflects the uptick in investment yield to 8.51% (vs. 6.38% in 2021). Nonetheless, the firm recorded fair value losses of **NGN6.04bn**, (although lower than the **NGN34.65bn** loss in 2021) due to the volatility of the yield environment which lowered the fair values of financial assets. Also, the firm's operating expenses (OPEX) soared (+22.01% YoY) given the rise in personnel, marketing & administration, and communication & postages expenses. Regardless, the firm recorded a robust after-tax-profit growth (+53.64% YoY to NGN7.55bn) firmly supported by profit from the disposal of its pension subsidiary (NGN2.87bn) as AIICO completed the sale of its stake in AIICO Pensions to FCMB Group in Q1:2022. **Although we anticipate growth in investment income given the gradual rise in yields (which should lower the fair value of financial assets) we expect a modest PAT performance in 2023. Rising OPEX and lower effect of profit from disposal is expected to impact bottom-line.** Meanwhile, the firm's capital adequacy remains solid with solvency margin of NGN33.13bn (vs. NGN28.84bn in 2021) resulting to a solvency ratio of 1.84x when benchmarked with the proposed regulatory requirement of NGN18.00bn for composite players. Also, the firm maintained a relatively fair liquidity position with short-term assets coverage of short-term liabilities of 1.22x.

Recommendation

For 2023, we project an EPS of NGN0.22, with a P/E multiple of 3.00x resulting to a target price of NGN0.66. This represents an upside potential of +10.00% from its current price as of 06 April 2023. Therefore, the ticker is rated **BUY**.

Company	AIICO
Valuation	
Trailing EPS	NGN0.21
BVPS	NGN1.22
P/E	2.81x
P/BV	0.48x
Target PE	3.00x
Dec-2023 Exp. EPS	0.22
Dec 2023 Target price	0.66
Current Price	0.60
Up/Downside Potential	+10.00%
Ratings	BUY
Key Metrics	
ROE	16.93%
ROA	2.79%
Loss Ratio	52.28%
Combined Ratio	66.46%
Stock Highlights	
Yr Hi	NGN0.67
Yr Lo	NGN0.57
YTD return	+1.69%
Beta	0.22
Adjusted Beta	0.48
Shares outstanding	36.61bn
Financial year end	Dec
Most Recent Period	2022FY



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Sensitivity Analysis of Dec-2023 Target Price to key model inputs						Min	0.35
						Max	0.99
						EPS	
Target PE		0.12	0.17	0.22	0.27	0.32	
	2.90	0.35	0.49	0.64	0.78	0.93	
	2.95	0.35	0.50	0.65	0.80	0.94	
	3.00	0.36	0.51	0.66	0.81	0.96	
	3.05	0.37	0.52	0.67	0.82	0.98	
	3.10	0.37	0.53	0.68	0.84	0.99	

Financial Highlights and Forecasts (NGN billion)						
Profit & Loss Account	2021FY	2022FY	2023F	2024F	2025F	2026F
Gross Premium Written	71.66	88.28	98.58	110.27	122.01	135.10
Gross Premium Income	70.65	86.04	96.58	108.17	121.15	133.27
Reinsurance Expenses	12.13	15.33	15.74	17.31	19.38	21.32
Claims Expenses (Net)	39.91	44.99	48.42	52.12	56.11	60.43
Underwriting Expenses	10.58	12.20	12.26	14.06	15.75	17.33
Underwriting Profit	30.34	4.78	5.07	8.64	11.31	13.06
Investment Income	13.38	18.75	21.10	22.01	24.27	26.93
Other Income	2.29	1.56	2.04	2.29	2.56	2.82
PBT	2.81	5.09	5.95	6.76	7.21	8.81
PAT	2.55	7.55	5.06	5.75	6.13	7.05
Balance Sheet	2021FY	2022FY	2023F	2024F	2025F	2026F
Investment Assets	198.49	241.88	254.65	286.23	320.57	352.63
Insurance contract Liabilities	119.78	165.40	169.02	193.63	221.71	246.55
Total Assets	222.38	270.33	282.61	316.91	353.91	388.67
Total Equity	38.37	45.00	50.60	59.45	67.33	76.10
Total Liabilities	184.01	225.32	232.00	257.29	286.57	312.57
Financial Ratios	2021FY	2022FY	2023F	2024F	2025F	2026F
GPI Margin	98.59%	97.47%	97.98%	98.09%	99.30%	98.65%
Underwriting Margin	41.43%	5.35%	5.06%	7.71%	9.02%	9.47%
Net Margin	3.48%	5.24%	5.05%	5.13%	4.89%	5.11%
Return on Average Asset	1.10%	1.90%	1.83%	1.92%	1.83%	1.90%
Return on Average Equity	7.11%	11.33%	10.67%	10.53%	9.75%	9.90%
Investment Yield	6.38%	8.51%	8.50%	8.14%	8.00%	8.00%
Expense Ratio	14.97%	14.17%	13.00%	13.00%	13.00%	13.00%
Loss Ratio	56.49%	52.30%	50.14%	48.18%	46.31%	45.32%
Combined Ratio	71.46%	66.47%	63.14%	61.18%	59.31%	58.32%
Solvency Margin Ratio	1.21x	1.20x	1.22x	1.23x	1.23x	1.24x

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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
06-Apr-2023	0.57	0.73	0.66	BUY	BUY

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Company	Disclosure
AIICO Insurance Plc.	

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