

**Strong Growth in Interest Income Buoy Earnings**

**Underwriting Profit Slows Amid Growth in Core Premium Income**

Custodian Investment Plc. (CUSTODIAN) in its 2022FY financial scorecard recorded a notable growth of 20.22% YoY in gross revenue to NGN103.08bn (vs. NGN85.74bn in 2021FY) steered by expansion across all its business segments. Particularly, the gross premium income (which has been the main driver) advanced by 11.94% YoY to NGN74.14bn (vs. NGN66.23bn in 2021FY). The performance of its underwriting business was underscored by the growth of the life business (+15.81% YoY) and non-life insurance segment (+8.22% YoY) with the oil & energy and the fire segments being the largest contributors. Additionally, property sales from the UACN Property Development Plc (UPDC) grew significantly (+614.43% YoY) with increased contribution of 5.72% (vs. 0.96% in 2021) to gross revenue. However, the firm recorded a decline in underwriting profitability by 59.25% to NGN10.08bn (vs. NGN24.73bn in 2021). Huge provisions for life and annuity fund (from NGN4.83bn in 2021 to a negative of NGN13.38bn) constituted a major drag to the underwriting performance. Nevertheless, despite the increase in underwriting expenses (+8.87% YoY) and claims expenses (+12.27% YoY) which emanated majorly from the life business, the firm was able to improve its operational efficiency as combined ratio moderated to 39.87% (vs. 40.05% in 2021). **We expect growth in gross premium income to bolster the company's topline (+12.38% YoY) and underwriting profit (+14.21% YoY) by 2023FY. This is premised on the expansion of the firm's oil & gas, and life businesses. Also, we expect property sales from its UPDC subsidiary to continue to gain traction and less aggressive provisioning for the life and annuity fund.**

**Solid Earnings Performance Despite Rising Cost**

Total investment income expanded (+31.16% YoY to NGN16.05bn) buoyed by growth in interest income (+30.43% YoY) which accounts for 94.27% of total investment income and dividend income (+44.59% YoY). The expansion in interest income was due to relatively higher volumes of investment assets (+19.21% YoY). However, rise in the general yield environment lowered the prices of the company's financial assets resulting in fair value losses of NGN3.69bn (although it was lower than 2021 loss of NGN17.63bn). Also, in line with the trend over the past 5 years, management expenses surged by 10.16% to NGN10.87bn (vs. NGN9.86bn in 2021FY); due to increase in staff cost (+7.44% YoY), and marketing and administrative expenses (+12.4 3% YoY). The firm also recorded a spike in impairment allowance (+144.20% YoY) as a result of equity investment in Interstate Securities Limited and UPDC REIT. Nevertheless, earnings came in higher by 11.08% YoY to NGN11.16bn as the strong growth in interest income outweighed overall cost. **Going forward, we expect the uptrend in operating expenses to be sustained as well as increase in fair value losses given the general expectation of gradual uptrend in yields. However, we anticipate a generally improved earnings performance mostly from a significant rise in gross premium income and investment income which should offset the impact of higher OPEX.**

**Solvency Margin Remains Above Minimum Threshold**

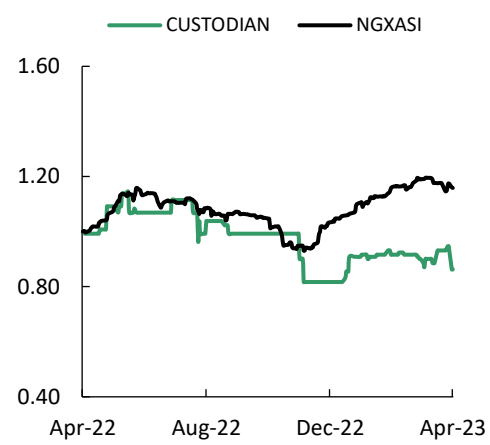
CUSTODIAN's earnings assets grew by 20.96% to NGN210.50bn (vs. NGN174.02bn in 2021FY). The growth was driven by cash and cash equivalent, investment properties, financial assets and property plant and equipment, which puts the firm in a relatively strong liquidity position (with short term assets to total assets ratio of 82.05%) and allows it to deploy more float to grow financial assets. Similarly, the firm's capital base advanced from NGN40.97bn to NGN48.47bn in 2022FY and it remains solidly above the NGN18.00bn proposed regulatory minimum. Solvency margin on the other hand stood at NGN67.04bn, which implies a solvency ratio of 2.72x and exceeds the regulatory threshold for a composite business.

**Recommendation**

For 2023, we maintain our expected EPS of NGN1.87 and estimated P/E multiple of 4.21x for the company. We arrive at a target price of NGN7.87, which indicates an upside potential of 39.29% from its closing price as of April 4,2023. Therefore, we rate the ticker a **BUY**.

Company	CUSTODIAN
<b>Valuation</b>	
Trailing EPS	NGN1.93
BVPS	NGN12.45
P/E	3.21x
P/BV	0.50x
Target PE	4.21x
Dec-2023 Exp. EPS	1.87
Dec 2023 Target price	<b>7.87</b>
Current Price	5.65
Up/Downside Potential	<b>+39.29%</b>
<b>Ratings</b>	
<b>BUY</b>	
<b>Key metrics-</b>	
ROE	15.50%
ROA	5.33%
Loss Ratio	30.56%
Combined Ratio	39.87%

<b>Stock Highlights</b>	
Yr Hi	6.20
Yr Lo	5.65
YTD return	-5.04%
Beta	0.33
Adjusted Beta	0.56
Shares outstanding	NGN5.88bn
Market cap	NGN33.23bn
Financial year end	December
Most Recent Period	2022FY



**Samuel Banmeke**  
[samuelbanmeke@meristemng.com](mailto:samuelbanmeke@meristemng.com)  
 +234 (818) 518 2859

Sensitivity Analysis of Dec-2023 Target Price to key model inputs						Min	7.27
						Max	8.48
						EPS	
Target PE		1.77	1.82	1.87	1.92	1.97	
	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	7.53	7.75	7.96	8.17	8.38	
	4.30	7.62	7.83	8.05	8.26	8.48	

## Financial Highlights and Forecasts (NGN billion)

<b>Profit &amp; Loss Account</b>	2021FY	2022FY	2023F	2024F	2025F	2026F	2027F
Gross Revenue	85.74	103.07	115.78	129.04	139.17	150.13	161.99
Gross Premium Income	66.23	74.13	83.33	92.99	99.51	106.47	113.93
OPEX	52.55	61.12	69.43	74.17	79.50	85.39	91.08
Net Operating Income	38.01	28.57	35.05	40.73	44.53	48.48	53.56
Claims Expenses (Net)	20.18	22.65	27.40	27.90	9.15	9.70	10.31
Underwriting Expenses	6.34	6.91	7.40	8.37	29.85	31.94	34.18
Total Investment Income	12.23	16.05	18.42	19.61	21.25	23.21	25.51
PBT	12.32	13.77	14.93	16.69	18.60	20.51	23.38
PAT	10.05	11.16	12.19	13.58	15.17	16.72	19.07

<b>Balance Sheet</b>	2021FY	2022FY	2023F	2024F	2025F	2026F	2027F
Investment Assets	145.19	173.09	195.25	217.14	234.44	252.78	272.82
Insurance contract Liabilities	85.04	100.08	103.79	113.46	121.40	129.90	138.99
Total Assets	184.47	213.19	237.95	262.79	282.28	303.02	325.47
Total Equity	64.26	72.68	87.43	94.51	98.17	100.74	102.81
Total Liabilities	184.47	140.51	150.53	168.27	184.11	202.28	222.65

<b>Financial Ratios</b>	2021FY	2022FY	2023F	2024F	2025F	2026F	2027F
GPI Margin	77.24%	71.93%	71.71%	72.07%	71.50%	70.92%	70.33%
Underwriting Margin	28.84%	9.78%	9.94%	11.62%	11.71%	11.66%	12.09%
Net Margin	11.73%	10.83%	10.53%	10.53%	10.90%	11.14%	11.77%
Return on Asset	5.58%	12.35%	12.71%	5.43%	5.57%	5.71%	6.07%
Return on Equity	16.51%	35.86%	35.81%	14.93%	15.75%	16.81%	18.74%
Investment Yield	8.63%	10.08%	10.00%	9.51%	9.41%	9.53%	9.71%
Expense Ratio	9.58%	9.31%	8.91%	9.00%	9.20%	9.11%	9.05%
Loss Ratio	30.47%	30.56%	33.00%	30.00%	30.00%	30.00%	30.00%
Combined Ratio	40.05%	39.87%	41.91%	39.00%	39.20%	39.11%	39.05%

## Contact Information

### Brokerage and Retail Services

topeoludimu@meristemng.com (+234905690627)  
[contact@meristemng.com](mailto:contact@meristemng.com)

### Investment Banking/Corporate Finance

[rasakisalawu@meristemng.com](mailto:rasakisalawu@meristemng.com) (+234 806 022 9889)  
[seunlijofi@meristemng.com](mailto:seunlijofi@meristemng.com) (+234 808 536 5766)

### Wealth Management

[funmilolaadekola-daramola@meristemng.com](mailto:funmilolaadekola-daramola@meristemng.com) (+234 805 498 4522)  
[crmwealth@meristemng.com](mailto:crmwealth@meristemng.com) Tel: +234 01 738 9948

### Registrars

[oluseyiowoturo@meristemregistrars.com](mailto:oluseyiowoturo@meristemregistrars.com) (+234 802 321 0561)  
[www.meristemregistrars.com](http://www.meristemregistrars.com) Tel: +23401-280 9250

### Trust Services

[damilolahassan@meristemng.com](mailto:damilolahassan@meristemng.com) (+234 803 613 9123)  
[crmwealth@meristemng.com](mailto:crmwealth@meristemng.com)

### Group Business Development

[sulaimonadedokun@mersitemng.com](mailto:sulaimonadedokun@mersitemng.com) (+234 803 301 3331)  
[ifeomaogalue@meristemng.com](mailto:ifeomaogalue@meristemng.com) (+234 802 3942967)  
[info@meristemng.com](mailto:info@meristemng.com)

### Client Services

[adefemitaiwo@meristemng.com](mailto:adefemitaiwo@meristemng.com) (+234 803 694 3034)  
[nkechinyeluokoye@meristemng.com](mailto:nkechinyeluokoye@meristemng.com) (+234 803 526 1801)  
[car@meristemng.com](mailto:car@meristemng.com)

### Investment Research

[damilareojo@meristemng.com](mailto:damilareojo@meristemng.com) (+234 816 890 2771)  
[research@meristemng.com](mailto:research@meristemng.com)

**Corporate websites:** [www.meristemng.com](http://www.meristemng.com)  
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### Fair Value Estimate

We estimate a 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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**Asset allocation:** The recommended weighting for equities, cash and fixed income instrument is based on several metrics and does not relate to a particular size change in one variable.

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## Movements in Price Target

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**Company Name:** Custodian Investment Plc.

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
04-April-2023	6.10	7.87	7.87	BUY	BUY

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Company	Disclosure
Custodian Investment Plc.	

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