

## PAT Climbs Regardless of the Fall in Underwriting Profit

### Soaring Claims Expenses Impairs Underwriting Performance

NEM Insurance Plc (NEM) continued to solidify its footprints as the biggest non-life insurance player (market share of c. 27%) among listed general insurance players in 2022, propelled by a 19.17% YoY growth in Gross Premium Written (GPW) to NGN33.37bn. The expansion in GPW crystallized across all its business lines, save for the marine insurance segment which bucked the trend with a 9.98% YoY decline in premium written. The motor insurance remained the largest contributor (30.61%) to the underwriter's topline, with premiums written in Q1:2022 accounting for 38.09% of the overall top-line performance. However, the firm's combined ratio deteriorated to 55.68% (vs. 51.86% in 2021) because of the spike in claims expenses (+37.52% YoY to NGN7.65bn) with a larger chunk (67.67%) arising from the motor insurance business. This, coupled with the +20.13% YoY growth in underwriting expenses dragged underwriting profit (down 11.25% to NGN6.21bn) and weakened underwriting margin to 19.75% (vs. 26.35% in 2021). **For 2023FY, we project a modest increase in underwriting profit (+9.05% YoY) premised on the expansion in premium written across all its business segments, especially the motor insurance business. However, rising claims and underwriting expenses remain a key downside to this outlook.**

### Elevated Investment Income and Reduction in OPEX Supports PAT

NEM's investment income grew strongly (+37.08% YoY to NGN1.56bn) driven majorly by expansion in interest income on financial securities and fixed deposit because of the uptrend in the yield environment. Similarly, income from other sources (sundry income, rental income, recoveries from loss on bonds and guarantees, and unrealized foreign exchange gains) further expanded by +371.20% YoY. Surprisingly, the firm recorded a decrease in management expenses (-11.27% YoY), as it was able to efficiently manage some of its cost lines (especially in Q2:2022). Consequently, net income soared (+22.73% YoY to NGN5.44bn) resulting in a best-in-class net margin of 17.31% (above peer average of 10.94%) in 2022FY. **We expect the firm to sustain its earnings growth (+10.06% YoY) in 2023 supported by the expansion in investment income given the anticipation of gradual rise in the general yield environment. However, we foresee a rise in NEM's operating expenses, which could be pressured by the continued rise in the general inflationary environment.**

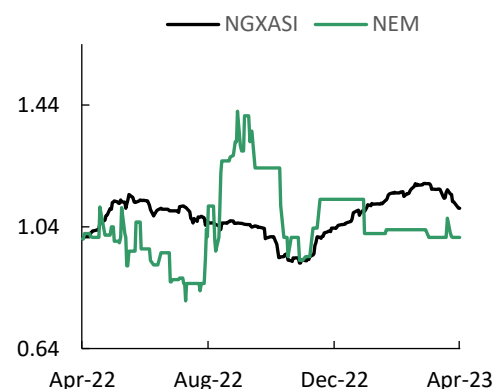
### Healthy Liquidity and Solvency Metrics

NEM remained in a good regulatory standing with improvement in solvency margin to NGN17.92bn (4.49x higher than the regulatory threshold for non-life players using the current capital base of NGN3.00bn). However, if we stress test the solvency capital with the proposed capital base of NGN10.00bn for non-life insurers, the firm's margin will decline to 0.79x. Also, the firm maintained a liquid balance sheet with short term assets to total assets of 0.88x (vs. 0.85x in 2021). Liquidity is further supported by stable earnings quality which improved to 0.98x 2022FY from 0.69x in 2021FY.

### Recommendation

For 2023FY, we forecast an EPS of 1.19 and estimated a P/E of 4.00x for the company which gives a target price of 4.77 which indicates an upside potential of 19.28% from its closing price of 4.00 as of April 12, 2023. Thus, we recommend a **BUY** on the ticker.

Company	NEM
<b>Valuation</b>	
Trailing EPS	NGN1.05
BVPS	NGN5.39
P/E	3.82x
P/BV	0.74x
Target PE	4.00x
Dec-2023 Exp. EPS	1.19
Dec 2023 Target price	<b>4.77</b>
Current Price	4.00
Up/Downside Potential	<b>+19.28%</b>
<b>Ratings</b>	
	<b>BUY</b>
<b>Key metrics-</b>	
ROE	19.43%
ROA	11.80%
Loss Ratio	24.33%
Combined Ratio	55.68%
<b>Stock Highlights</b>	
Yr Hi	4.50
Yr Lo	4.00
YTD return	-11.11%
Beta	0.23
Adjusted Beta	-0.15
Shares outstanding	NGN5.02bn
Market cap [NGN]	NGN20.07bn
Financial year end	December
Most Recent Period	2022FY



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Sensitivity Analysis of Dec-2023 Target Price to key model inputs						Min	3.77
						Max	5.85
EPS							
		0.99	1.09	1.19	1.29	1.39	
Target PE	3.80	3.77	4.15	4.53	4.91	5.29	
	3.90	3.87	4.26	4.65	5.04	5.43	
	4.00	3.97	4.37	4.77	5.17	5.57	
	4.10	4.07	4.48	4.89	5.30	5.71	
	4.20	4.17	4.59	5.01	5.43	5.85	

Financial Highlights and Forecasts (NGN billion)							
Profit & Loss Account	2021A	2022A	2023F	2024F	2025F	2026F	2027F
Gross Premium written	27.88	33.36	37.02	39.64	42.71	46.13	49.79
Gross Premium Income	26.55	31.43	35.06	37.97	41.23	44.41	47.50
Reinsurance Expenses	7.24	9.28	10.03	10.83	11.69	12.51	13.38
Claims Expenses (Net)	5.56	7.65	9.02	9.99	11.05	12.24	13.59
Underwriting Expenses	8.21	9.86	10.94	11.82	12.76	13.65	14.34
Underwriting Profit	7.00	6.21	6.77	7.25	7.86	8.40	8.87
Investment Income	1.13	1.55	2.72	3.34	3.74	4.25	4.75
Other income	0.29	1.38	0.70	0.72	0.90	1.03	1.21
PBT	4.53	5.48	6.06	6.48	6.78	7.53	8.01
PAT	4.44	5.44	5.99	6.39	6.71	7.44	7.91
Balance Sheet							
Investment Assets	21.74	27.21	30.54	30.40	33.96	35.41	36.50
Insurance contract liabilities	12.22	15.65	15.97	17.30	18.78	20.23	21.64
Total Assets	38.19	45.89	51.31	52.68	57.90	61.01	63.77
Total Equity	22.88	27.20	31.32	30.03	32.81	33.65	34.08
Total Liabilities	15.31	18.69	19.99	22.64	25.09	27.36	29.69
Financial Ratios							
GPI Margin	95.23%	94.20%	94.68%	95.78%	96.52%	96.282%	96.96%
Underwriting Margin	26.35%	19.75%	19.31%	19.09%	19.06%	18.90%	18.68%
Net Margin	16.71%	17.31%	17.08%	16.82%	16.27%	16.75%	16.66%
Return on average Asset	12.79%	12.94%	12.32%	12.29%	12.13%	12.51%	12.68%
Return on average Equity	21.53%	21.73%	20.46%	20.82%	21.34%	22.39%	23.36%
Investment Yield	5.22%	5.72%	8.90%	11.00%	11.00%	12.00%	13.00%
Expense ratio	30.91%	31.36%	31.21%	31.12%	30.95	30.74%	30.18%
Loss Ratio	20.95%	24.33%	25.74%	26.30%	26.80%	27.56%	28.60%
Combined Ratio	51.86%	55.68%	56.95%	57.42%	57.76%	58.31%	58.78%
Solvency Margin ratio	4.13x	4.49x	4.89x	4.15x	4.12x	3.96x	3.69x

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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.

**Movements in Price Target**

**Company Name:** NEM Insurance Plc.

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
13-April-2023	4.00	4.80	4.77	BUY	BUY

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Company	Disclosure
NEM Insurance	

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