

### Significant Fair Value Losses Drags Earnings

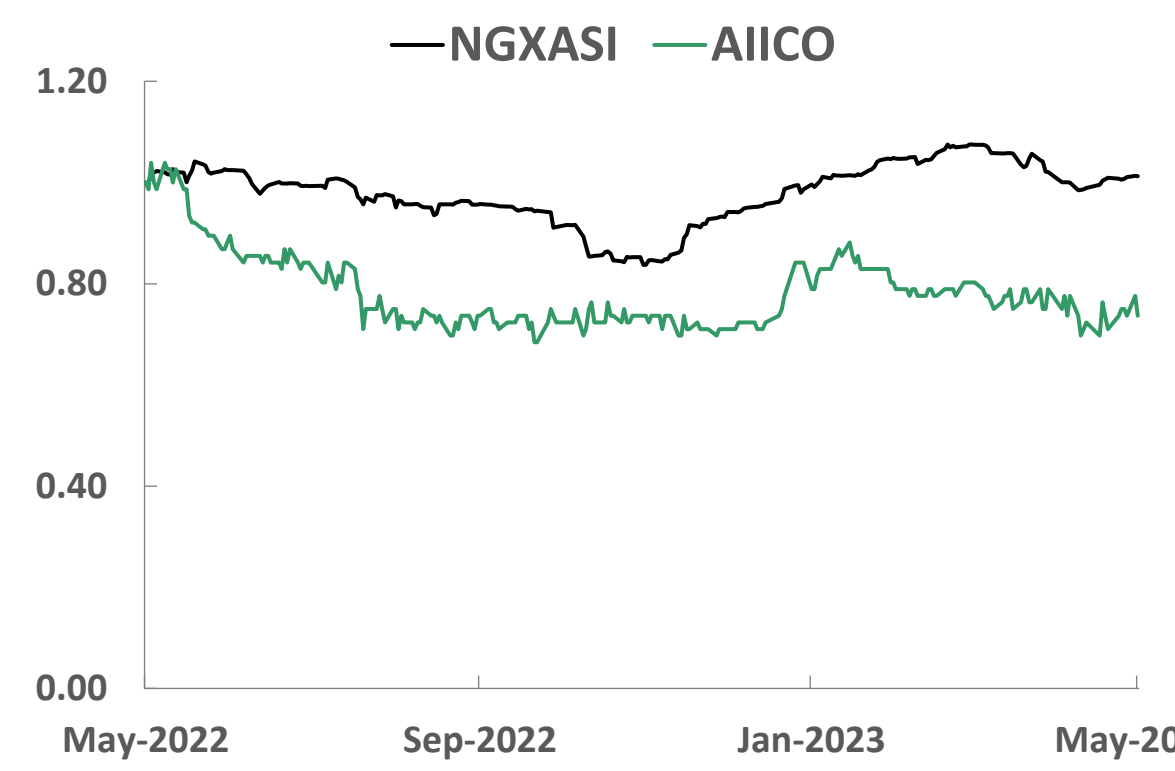
**Summary:** AIICO sustained its positive topline momentum in Q1:2023 with a 24.65% YoY growth in Insurance Revenue (formerly Gross Premium Income) to NGN14.75bn. The expansion in income from core insurance business was propelled by the increase experienced across all its business segments with the life business remaining its major cash cow (51.44% contribution to topline).

Conversely, bottom-line declined by 11.78% YoY to NGN1.37bn despite the expansion in investment income (+75.02% YoY) buoyed by increase in interest income on financial assets. Major drag to the overall profitability of the business in Q1:2023 stemmed from;

- Rise in Insurance Service Expenses (9.07% YoY to NGN10.65bn) due to increase (9.07%) in claims expenses emanating majorly from the life business.
- Significant fair value losses on financial assets (from a positive of NGN1.45bn in Q1:2022 to a negative **NGN9.71bn** in Q1:2023) as a result of the high yield environment which lowered the prices of financial assets.
- Operating expenses also grew (+11.54% YoY) attributed to the surge in personnel and other expenses.

While we remain optimistic about the firm's performance as it continues to expand its business across the frontiers of the insurance market which should support premium written, we expect a modest improvement in PAT given the expected rise in OPEX as well as the negative effect of fair value losses.

Valuation		Stock Highlights	
Trailing EPS	NGN0.21	Yr Hi	0.67
BVPS	NGN1.22	Yr Lo	0.53
P/E	2.81x	YTD return	0.00%
P/BV	0.48x	Beta	0.22
Target PE	3.00x	Adjusted Beta	0.48
Dec-2022 Exp. EPS	0.22	Shares outstanding	36.61bn
Dec2022 Target price	<b>NGN0.66</b>	Market cap [NGN]	<b>21.23bn</b>
Current Price	NGN0.58	Financial year end	December



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

**Recommendation: BUY TP: 0.66 CP: 0.58 UPP: +13.79%**

### Financial Highlight (NGN'bn)

Profit and Loss Account	Q1:2023	Q1:2022	Y/Y Growth
Gross Premium Written	31.74	24.66	+28.71%
Insurance Revenue	14.75	11.84	+24.65%
Claims Expenses	13.58	12.45	+9.07%
Investment Income	5.83	3.20	+82.19%
Operating Expenses	3.38	2.96	+14.19%
PBT	1.37	1.56	-12.29%
PAT	1.38	1.55	-11.78%

Balance Sheet	Q1:2023	2022A	YtD %Change
Investment Assets	249.38	241.38	+3.32%
Total Assets	280.60	274.63	+2.17%
Share Capital	18.30	10.30	0.00%
Total Equity	44.55	43.72	+1.90%
Contract Liabilities	190.36	192.58	-1.15%
Total Liabilities	236.04	230.90	+2.23%

Key Metrics	Q1:2023	Q1:2022	3-yr Hist. Avg
ROA	0.49%	0.55%	1.83%
ROE	3.10%	3.09%	11.53%
GPI Margin	62.84%	82.00%	97.99%
Underwriting Margin	48.46%	-1.37%	-3.70%
Net Margin	16.67%	3.32%	5.56%
Investment Yield	2.39%	2.01%	7.15%
Expense Ratio	10.86%	14.35%	13.99%
Loss Ratio	23.15%	52.88%	53.65%
Combined Ratio	34.01%	67.23%	67.64%

Solvency Ratio	2023F	2022A	3-yr Hist. Avg
Solvency Margin	1.65x	1.84x	1.63x

\*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



### PAT Drops Despite Rise in Revenue

**Summary:** CUSTODIAN's gross revenue improved markedly by 19.11% to NGN27.85bn (vs. NGN23.38 in Q1:2022). As always, expansion in premium income (19.15%) from the insurance business drove the growth witnessed in topline accounting for 73.70% of total revenue. While the firm recorded increase in claims (18.72%) and underwriting (17.88%) expenses, underwriting profit improved (from a loss of NGN1.69bn in Q1:2022 to a profit of NGN5.03bn in Q1:2023) as a result of the lower valuations for life and annuity fund (NGN1.22bn in Q1:2023 vs NGN6.69bn in Q1:2022).

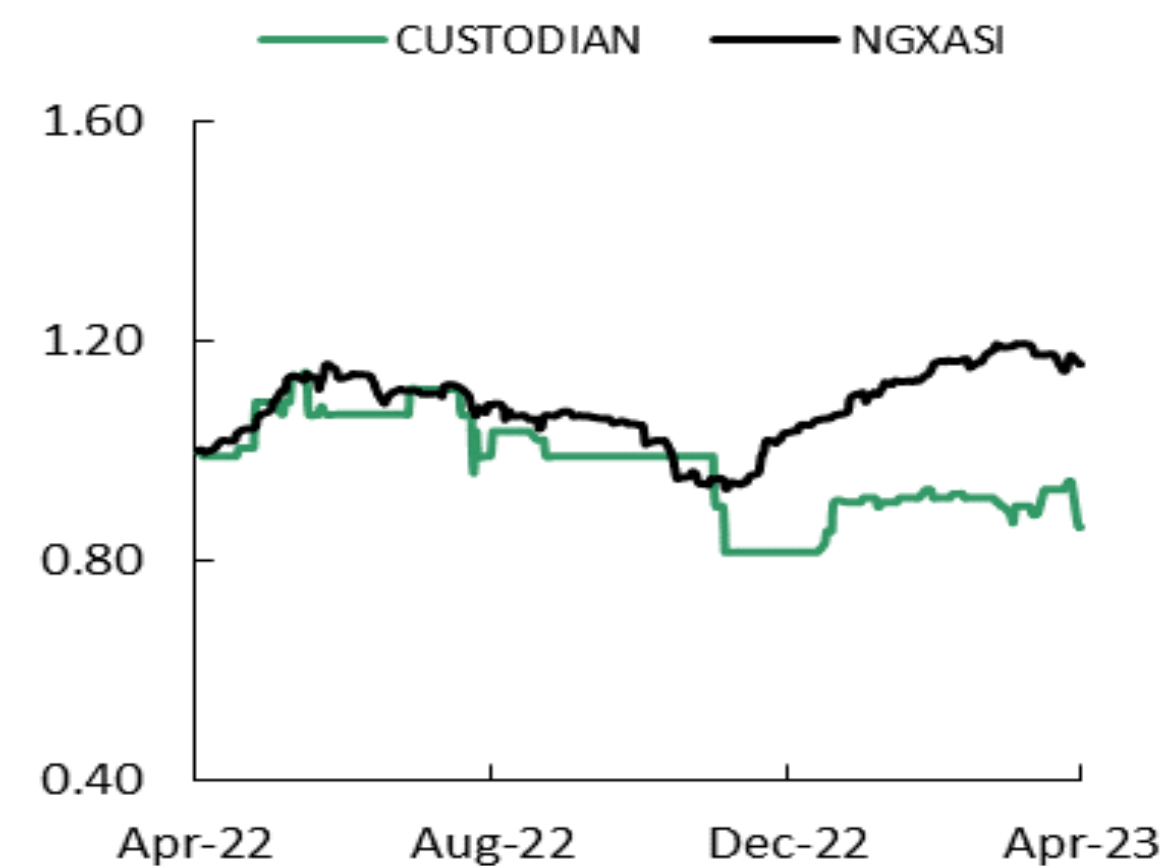
However, bottom-line declined (9.05% YoY to NGN2.00) as the growth recorded in investment income (17.65% YoY) due to the rise in interest income was eroded by fair value losses of NGN6.24bn on financial assets and surge in management expenses (28.08% YoY). The rise in general yield environment impacted the value of financial assets while increased staff cost and administrative expenses drove management expenses higher.

**Positives:** Combined ratio moderated slightly to 33.09% (vs. 33.22% in Q1:2022). Total assets also expanded to NGN218.03bn from NGN213.20bn in Q1:2022.

**Negative:** Return on equity and asset declined to 2.68% and 0.92% (vs. 3.01% and 1.02% in Q1:2022).

**Outlook:** While we expect the uptrend in operating expenses and increase in fair value losses to be sustained, we maintain optimism about the firm's earnings performance. We opine that the expected significant rise in gross premium income and investment income would outweigh the impact of higher OPEX.

Valuation		Stock Highlights	
Trailing EPS	1.90	Yr Hi	6.25
BVPS	12.36	Yr Lo	5.65
P/E	3.14	YTD return	0.00%
P/BV	0.48	Beta	0.33
Target PE	4.21x	Adjusted Beta	0.56
Dec-2022 Exp. EPS	1.87	Shares outstanding	5.88bn
Dec 2022 Target price	<b>NGN7.87</b>	Market cap [NGN]	<b>33.23bn</b>
Current Price	NGN6.00	Financial year end	December



**Recommendation: BUY TP: 7.87 CP: 6.00 UPP: +31.21%**

#### Financial Highlight (NGN'bn)

Profit and Loss Account	Q1:2023	Q1:2022	Y/Y Growth
Gross Revenue	27.85	23.38	19.11%
Gross Premium Income(GPI)	20.52	17.23	19.09%
Claims Expenses	5.01	4.22	18.72%
Underwriting expenses	1.78	1.51	17.88%
Underwriting Profit	6.24	4.99	25.05%
Investment Income	23.33	19.83	17.65%
PBT	2.63	2.79	-5.73%
PAT	2.00	2.19	-9.50%
Balance Sheet	Q1:2023	Q1:2022	Y/Y Growth
Investment Assets	181.05	175.62	3.09%
Total Assets	218.03	213.20	2.26%
Share Capital	2.94	2.94	0.00%
Total Equity	74.66	72.68	2.72%
Contract Liabilities	117.07	109.08	7.32%
Total Liabilities	143.37	140.51	2.03%

Profitability Ratios	Q1:2023	Q1:2022	3-yr Hist. Avg
ROA	0.92%	1.02%	6.33%
ROE	2.68%	3.01%	18.42%
GPI Margin	73.68%	73.69%	75.54%
Underwriting Margin	22.40%	28.96%	21.66%
Net Margin	7.18%	9.36%	12.62%
Investment Yield	12.88%	11.29%	14.08%
Expense Ratio	8.67%	8.76%	9.03%
Loss Ratio	24.41%	24.50%	28.56%
Combined Ratio	33.08%	33.25%	37.59%
Solvency Ratios	Q1:2023	Q1:2022	3-yr Hist. Avg
Solvency Ratio	2.72X	2.15X	2.15X

Sensitivity Analysis of Dec-2023 Target Price to key model inputs						Min
						Max
						EPS
Target PE	4.11	1.77	1.82	1.87	1.92	1.97
	4.16	7.27	7.48	7.69	7.89	8.10
	4.21	7.36	7.57	7.78	7.99	8.20
	4.26	7.45	7.66	7.87	8.08	8.29
	4.30	7.53	7.75	7.96	8.17	8.38
	4.30	7.62	7.83	8.05	8.26	8.48

\*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



### A Remarkable Start

**Summary:** NEM Insurance Plc (NEM) surpassed expectations in its Q1:2023 financial scorecard as its Gross Premium Written (GPW) expanded by 56.71% to NGN19.92bn (vs NGN12.71bn in Q1:2022). While the growth was broad based across all its business lines, remarkable expansion of its motor insurance business (+71.83% YoY) and the Fire business (+56.31% YoY) were major catalyst of top-line.

Unsurprisingly, the firms' underwriting profit grew strongly (55.32% YoY to 4.21bn) supported by the impressive topline performance and reduction (13.46%) in claims expenses irrespective of the spike (+29.70% YoY) in underwriting expenses.

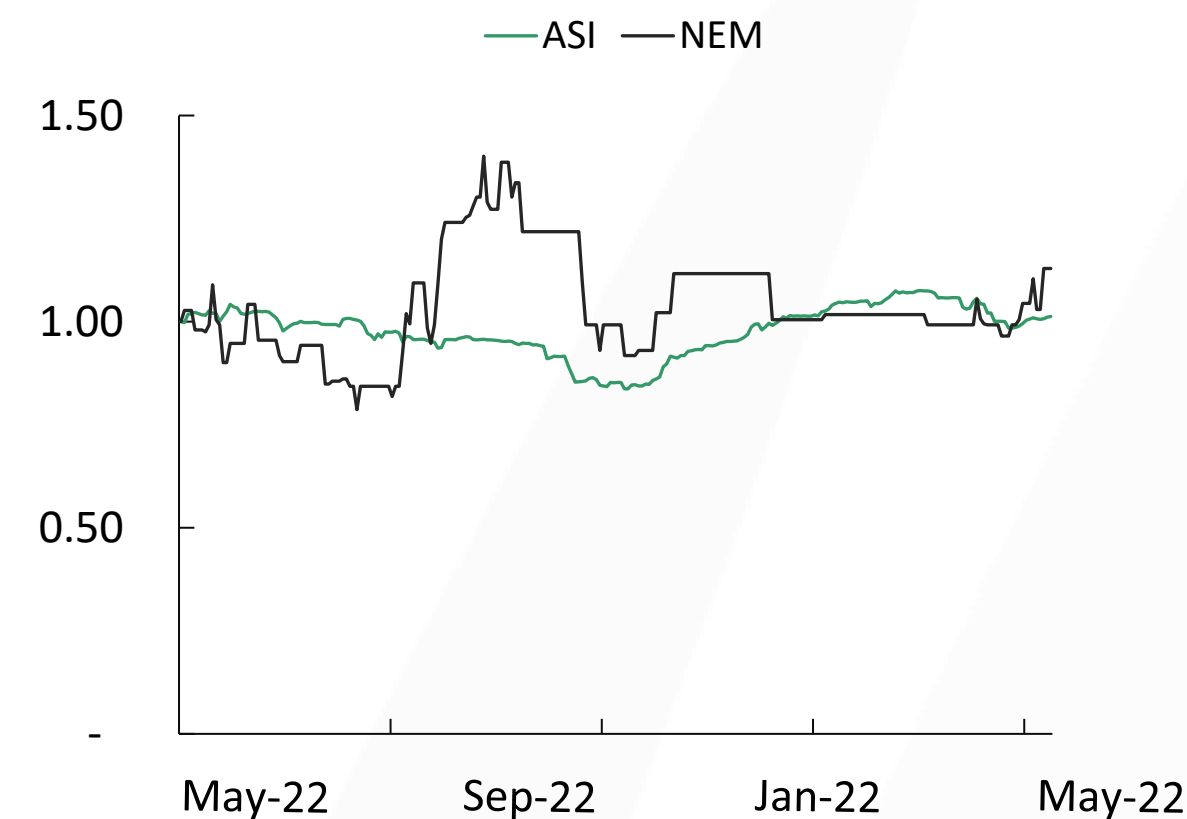
The combined effect of the solid growth in underwriting profitability and investment income (+61.76% YoY) drove bottom-line up (84.65% YoY to NGN2.85bn) in Q3:2023.

**Positive**— Combined Ratio declined to 38.02% in Q1:2023 (vs 54.87% in Q1:2022).

**Negative**- Underwriting margin declined marginally to 21.14% (VS 21.33% IN Q1:2022).

**Outlook:** We expect NEM's performance to remain upbeat for the remaining part of the year. Solid growth in core insurance business driven by the motor insurance business as well as expansion in investment income is expected to buoy the firm's performance.

Valuation		Stock Highlights	
Trailing EPS	NGN1.08	Yr Hi	4.55
BVPS	NGN5.42	Yr Lo	3.89
P/E	4.20x	YTD return	1.11%
P/BV	0.84x	Beta	0.25
Target PE	4.00x	Adjusted Beta	0.50
Dec-2022 Exp. EPS	1.19	Shares outstanding	5.02bn
Dec2022 Target price	<b>NGN4.76</b>	Market cap [NGN]	<b>20.02bn</b>
Current Price	NGN4.48	Financial year end	December



Sensitivity Analysis of Dec-2023 Target Price to key model inputs						Min	3.75
						Max	5.84
						EPS	
						0.99	1.09
						1.19	1.29
						1.39	
Target P/E	3.80x	3.76	4.14	4.52	4.90	5.28	
	3.90x	3.86	4.25	4.64	5.03	5.42	
	4.00x	3.96	4.36	<b>4.76</b>	5.16	5.56	
	4.10x	4.06	4.47	4.88	5.29	5.70	
	4.20x	4.16	4.58	5.00	5.42	5.84	

**Recommendation: HOLD TP: 4.76 CP: 4.48 UPP: +6.25%**

### Financial Highlight (NGN'bn)

Profit and Loss Account	Q1:2023	Q1:2022	Y/Y Growth
Gross Premium Written(GPW)	19.92	12.71	+56.71%
Gross Premium Income(GPI)	12.76	11.88	+7.40%
Claims Expenses	2.91	3.36	-13.47%
Investment Income	0.32	0.20	+61.76%
Operating Expenses	1.33	1.12	+18.80%
PBT	3.20	1.80	+78.42%
PAT	2.85	1.55	+84.65%

Balance Sheet	Q1:2023	2022A	YtD %Change
Investment Assets	31.92	27.16	+17.50%
Total Assets	54.60	44.51	+22.69%
Share Capital	5.01	5.01	0.00%
Total Equity	29.89	27.03	+10.93%
Contract Liabilities	21.32	14.39	+48.11%
Total Liabilities	24.62	17.48	+40.86%

Key Metrics	Q1:2023	Q1:2022	3-yr Hist. Avg
ROA	5.22%	3.67%	+42.19%
ROE	9.52%	6.33%	+50.42%
GPI Margin	64.08%	93.50%	-31.46%
Underwriting Margin	21.14%	21.33%	-0.89%
Net Margin	14.32%	12.16%	+17.83%
Investment Yield	1.00%	0.84%	+18.47%
Expense Ratio	23.40%	28.40%	-17.24%
Loss Ratio	14.62%	26.47%	-44.78%
Combined Ratio	38.02%	54.87%	-30.71%

Solvency Ratio	2023F	2022A	3-yr Hist. Avg
Solvency Margin	4.89x	4.49x	3.91x

\*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

# DISCLAIMER

---

## Analysts' Certification and Disclaimer

This research report has been prepared by the research analyst(s), whose name(s) appear(s) on the cover of this report. Each research analyst hereby certifies, with respect to each security or issuer covers in this research that:

- (1) all of the views expressed in this report accurately reflect his or her personal views about any and all of the subject securities or issuers (the Issuer); and
- (2) no part of any of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report. Research analysts' compensation is determined based upon activities and services intended to benefit the investor clients of Meristem Securities Limited (the Firm). Like all of the Firm's employees, research analysts receive compensation that is impacted by overall Firm profitability, which includes revenues from other business units within the Firm.
- (3) each research analyst and/or persons connected with any research analyst may have interacted with sales and trading personnel, or similar, for the purpose of gathering, synthesizing and interpreting non-material non-public or material public market information.

As at the date of this report, any ratings, forecasts, estimates, opinions or views herein constitute a judgment, and are not connected to research analysts' compensations. In the case of non-currency of the date of this report, the views and contents may not reflect the research analysts' current thinking. This document has been produced independently of the Issuer. While all reasonable care has been taken to ensure that the facts stated herein are accurate and that the ratings, forecasts, estimates, opinions and views contained herein are fair and reasonable, neither the research analysts, the Issuer, nor any of its directors, officers or employees, shall be in any way responsible for the contents hereof, and no reliance should be placed on the accuracy, fairness or completeness of the information contained in this document. No person accepts any liability whatsoever for any loss howsoever arising from any use of this document or its contents or otherwise arising in connection therewith.

## Analysts' Compensation

The equity research analysts responsible for the preparation of this report receive compensation based upon various factors, including the quality and accuracy of research, client feedback, competitive factors, and overall firm revenues, which include revenues from, among other business units, Investment Banking.

## Investment Ratings

### Fair Value Estimate

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

While we believe that the fair value is underpinned by the future benefits stream and growth outlooks, which are primary drivers of value, the market might not align to the fair value estimate within the estimated investment horizon. Thus, we do not derive our target price from the fair value but from a trading perspective using the year projected earnings or book value and the respective target multiples. Notwithstanding, we are of the opinion that the variance between the two should not be too significant.

### Ratings Specification

**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.



## Movements in Price Target

**Company Name:** Custodian Investment Plc

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
23-May-2023	6.00	7.87	7.87	BUY	BUY

**Company Name:** NEM Insurance Plc

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
23-May-2023	4.48	4.66	4.76	HOLD	HOLD

**Company Name:** AllCO Insurance Plc

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
23-May-2023	0.58	0.66	0.66	BUY	BUY

## Company disclosures

Meristem or the analyst(s) responsible for the coverage may have financial or beneficial interest in securities or related investments discussed in this report, which could, unintentionally, affect the objectivity of this report. Material interests, which Meristem or the analyst(s) have with companies or in securities discussed in this report, are disclosed below:

Company	Disclosure
Custodian Investment Plc	
NEM Insurance Plc	
AllCO Insurance Plc	

- a. The analyst(s) hold(s) personal positions (directly or indirectly) in a class of the common equity securities of the company.
- b. The analyst responsible for this report, as indicated on the front page, is a board member, officer or director of the company
- c. Meristem beneficially owns 1% or more of the equity securities of the company
- d. Meristem has been the lead manager or co-lead manager of any publicly disclosed offer of securities of the company over the past 12 months.
- e. Meristem beneficially holds a major interest in the debt of the company
- f. Meristem has received compensation for investment banking activities from the company within the last 12 months
- g. Meristem intends to seek, or anticipates receipt of compensation for investment banking services from the company in the next 3 months
- h. The content of this research report has been communicated with the company, following which this research has been materially amended before its distribution
- i. The company is a client of the stock broking division of the Meristem group.
- j. The company is a client of the investment banking division of the Meristem group.
- k. Meristem is the registrar to the company.
- l. The company owns more than 5% of the issued share capital of Meristem
- m. Meristem has other financial or other material interest in the company.

## CONTACT INFORMATION

---

### Brokerage and Retail Services

[topeoludimu@meristemng.com](mailto:topeoludimu@meristemng.com) (+234 905 569 0627)  
[isaaconaolapo@meristemng.com](mailto:isaaconaolapo@meristemng.com) (+234 803 234 8275)  
[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) (+234 803 355 0008)  
[crmwealth@meristemng.com](mailto:crmwealth@meristemng.com) (+234 01 738 9948)

### Registrars

[oluseyiowoturo@meristemregistrars.com](mailto:oluseyiowoturo@meristemregistrars.com) (+234 802 321 0561)  
[martinaosague@meristemregistrars.com](mailto:martinaosague@meristemregistrars.com) (+234 802 303 1783)  
[www.meristemregistrars.com](http://www.meristemregistrars.com) (+23401-280 9250)

### Trust Services

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

### Group Business Development

[saheedbashir@mersitemng.com](mailto:saheedbashir@mersitemng.com) (+234 802 454 6575)  
[ifeomaogalue@meristemng.com](mailto:ifeomaogalue@meristemng.com) (+234 802 394 2967)  
[info@meristemng.com](mailto:info@meristemng.com)

### Investment Research

[damilareojo@meristemng.com](mailto:damilareojo@meristemng.com) (+234 816 890 2771)  
[praiseihansekhien@meristemng.com](mailto:praiseihansekhien@meristemng.com) (+234 817 007 1512)  
[research@meristemng.com](mailto:research@meristemng.com)

### Analyst(s)

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

### Client Services

[adefemitaiwo@meristemng.com](mailto:adefemitaiwo@meristemng.com) (+234 803 694 3034)  
[car@meristemng.com](mailto:car@meristemng.com) (+23401-280 9250)

Corporate websites: [www.meristemng.com](http://www.meristemng.com) [www.meristemwealth.com](http://www.meristemwealth.com) [www.meristemregistrars.com](http://www.meristemregistrars.com)

Meristem Research can also be accessed on the following platforms:

**Meristem Research Portal:** [research.meristemng.com](http://research.meristemng.com)

**Bloomberg:** MERI <GO>

**Capital IQ:** [www.capitaliq.com](http://www.capitaliq.com)

**ISI Emerging Markets:** [www.securities.com/ch.html?pc=NG](http://www.securities.com/ch.html?pc=NG)

**Reuters:** [www.thomsonreuters.com](http://www.thomsonreuters.com)

**FactSet:** [www.factset.com](http://www.factset.com)