AFRINVEST

Insurance Sector Update Report

Trailing a Rocky Path?

June 2022

Trailing a Rocky Path?

AFRINVEST RESEARCH

Insurance Sector Update

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Trailing a Rocky Path?

Industry Outlook: HOLD

Executive Summary

The global insurance industry rebounded strongly from the pandemic shock in 2021. This improvement was driven by the wave of economic recovery that swept across the globe following the injection of large scale stimulus by national governments (+$10.0tn) and supranational organizations (+$650.0bn). For 2021, global insurance premium is estimated to expand by 3.4% y/y to US$6.5tn—8.0% higher than the pre-pandemic level—with premiums from AEs and EMs estimated to grow by 3.3% and 3.4% y/y to US$5.3tn and US$1.2tn respectively (Swiss Re Institute). This is driven by the uptick in demand for insurance products (stemming from increased risk awareness due to the pandemic) and upward policy repricing. In 2022, global premium growth is projected to expand to US$6.7tn (up 3.2% y/y) bolstered by the earlier mentioned drivers. However, this growth would be tamed by higher inflationary pressure on consumer and business spending globally.

In ranking terms, the Nigerian insurance industry underperformed significantly, contributing a minuscule 0.02% to world premiums. This ranked the Nigerian insurance industry 81st (previously 71st) out of 88 countries profiled by the Swiss Re Institute in 2021. Nevertheless, the growth rate and contribution of the domestic insurance industry to the GDP in 2021 beat prior year performance. According to the National Bureau of Statistics (NBS), the insurance sector expanded 6.2% y/y in 2021, faster than the overall economic growth of 3.4% y/y. This puts the industry size at ₦267.7bn in real term, representing 0.37% of total GDP compared to 0.36% (or ₦252.0bn) in 2020. Despite this performance, the industry output (measured as GDP) was below pre-pandemic levels by 10.0% indicating an estimated shortfall of ₦29.8bn due to the pandemic-induced strain on businesses and weak insurance penetration in the country.

Although the insurance sector recovered in 2021, the substantial number of claims settled in the year, coupled with higher operating expenses constrained the sector's profitability. The Nigerian Insurers Association (NIA) established that over ₦11.0bn has been paid by insurance companies in settlement of claims associated with losses from the EndSARS protest. As of November 2021, 718 claims have been settled on vandalization, 93 on looting, 113 on theft, and 136 on the loss of cash. This is evident by the sharp uptick of 37.8% y/y to ₦172.9bn in total claims paid in 2021 per Afrinvest's computation.

In 2022, we expect profit margins to be pressured downward. This is predicated on the deteriorating effect of rising inflation rate (through higher claims particularly in the non-life business) and an increase in HMO policy pricing. Furthermore, we foresee mounting pressure on underwriting margins as the inflationary effect trickles into insurance policy acquisition and maintenance costs thus raising underwriting expenses. Coupled with the rising risk of global recession, we see the insurance sector "Trailing a Rocky Path" to delivering growth over the medium term. On recapitalization, we opined that instead of introducing risk-based capitalisation at this time, NAICOM should assess the impact of the current recapitalisation programme on the sector, to drive a more balanced strategy. Failure to do this could keep investors on the side-line, thereby deteriorating investors' sentiment towards the sector.

Outline

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Investment Thesis

Nigeria's insurance sector remains one of the most underpriced among peer countries despite recording an impressive rebound of 6.2% y/y in 2021 and GPW growth of 19.9% y/y to ₦377.6bn. The sector's growth has been bridled by a barrage of drags—notably persistent regulatory uncertainty, weak enforcement of compulsory insurance policies, history of delayed claims settlement, tough operating landscape, lack of trust, and low awareness of insurance benefits. These factors continue to limit industry players from tapping the full potential of Nigeria's large population (growing at c.2.6% p.a.). Moreover, the sector's insurance penetration (measured as GPW as a % of GDP) has remained relatively unchanged at 0.3% in 2021 compared to South Africa (13.6%), Brazil (4.0%), Morocco (3.9%), India (3.8%), and Kenya (2.5%). Similarly, insurance density (measured as GPW per capita) is estimated at $6.3 compared to peers—South Africa (US$786.3), Brazil (US$342.3), Morocco (US$119.7), India (US$72.5) and Kenya (US$41.3).

Nigeria's insurance sector remained one of the most underpriced sector of the economy despite the sector recording an impressive rebound of 6.2% y/y in 2021 and GPW growth of 19.9% y/y to ₦377.6bn.

Interestingly, the relatively low insurance penetration and density underscores the largely untapped growth opportunities subsisting in the sector. Furthermore, the after-effect of recent events (such as the COVID-19 pandemic and EndSARS protests) have helped to increase awareness on risk protection which is positive for the sector in terms of attracting policy underwriting as observed in the 20.7% y/y increase in industry premium. Also, insurers' effort to promptly pay all legitimate claims (evident in the sharp uptick of 37.8% y/y to ₦172.9bn in total claims paid in 2021) has contributed to fostering trust from the populace. We believe these would support insurance product adoption, penetration, and ultimately trickle into industry players' topline growth in the coming years.

We observed poor pricing of insurance companies in Nigeria with price-to-book ratio of 0.64x compared with Brazil (2.58x), South Africa (2.48x), Egypt (1.66x), and Kenya (0.65x).

In market valuation terms, the pricing of insurance companies in Nigeria improved marginally to a price-to-book ratio of 0.64x (previously: 0.63x) in 2022. Nevertheless, it remains underwhelming compared to Brazil (2.58x), South Africa (2.48x), Egypt (1.66x), and Kenya (0.65x). Interestingly, this highlights the relative attractiveness of the sector despite challenging business landscape.

Following the prospects earlier highlighted and our valuation outcomes, we have identified some investment opportunities for long term investors. we see upside in CORNERSTONE and MANSARD as current valuation presents discount of 43.2% and 40.4% respectively to their closing prices as at June 3rd, 2022. For CORNERSTONE, we expect its stellar underwriting performance and commitment to returning value to shareholders to drive investor's preference while our expectation for MANSARD is hinged on its robust risk management framework which we expect would support bottom-line growth going forward.

Within our coverage universe, we see upside in CORNERSTONE and MANSARD as current valuation presents discount of 43.2% and 40.4% respectively to their closing prices as at June 3rd, 2022.

Insurance Sector Update

June 2022

Global Insurance Industry Performance Review

Resilient Life Assuage Slow Premium Growth

The pandemic hit the world unaware in 2020, causing an economic downturn across the globe. The global insurance industry was not spared by the pandemic shock following the contraction in global premium. Notably, total global insurance premium was stunted, with a slow growth of 4bps y/y to remain at US$6.3tn in 2020, but better than the contraction experienced (down 2.0%) during the 2008/09 Global Financial Crisis. This stunted growth stemmed from a 4.4% y/y decline in life insurance premium despite the resilient 1.5% y/y growth of the non-life segment. In terms of contribution, the life segment's proportion of global premium reduced to 44.5% (previously: 46.0%) in 2020 while the non-life segment contributed 55.5% (previously: 54.0%) to global premium.

In the non-life segment, gross premium written expanded by 1.5% y/y to US$3.5tn owing to faster growth in Advanced Economies (AEs) supported by y/y growth in premiums across the US (1.2%), Canada (8.0%), Germany (2.5%), and South Korea (6.6%). Among Emerging Markets (EMs), China dominated with a 4.4% y/y expansion in non-life premium in 2020 following a 15.0% y/y surge in medical insurance—thanks to increased risk awareness brought about by COVID-19. The decline

Chart 1: Contribution to Global Insurance Premiums in 2020 by Regions

Source: Swiss Re Institute, Afrinvest Research

recorded in the life segment was caused by a sharp double-digit downturn among the AEs as Portugal (down 34.6% y/y), Australia (down 30.5% y/y), and France (down 20.5% y/y) experienced the largest contraction in premium. This decline can be attributed to the devastating impact of the pandemic which led income and output levels to plunge. However, the EMs posted a marginal slowdown (up 0.3% y/y) driven by a stronger recovery in China (up 2.8% y/y), increased demand for risk protection, as well as rapid adoption of digital channels across EMs.

Furthermore, aggregate insurance penetration rose to 7.4% from 7.2% in 2020 as the reduction in global premium was reinforced by a sharper decline in world output due to the pandemic-induced lockdowns. Similarly, aggregate insurance density shrank 1.1% y/y to US$809.0 in 2020 (previously US$818.0) owing to a marginal drop in EMs.

Global insurance premiums was stunted, with a slow growth of 4bps y/y to remain at US$6.3tn in 2020.

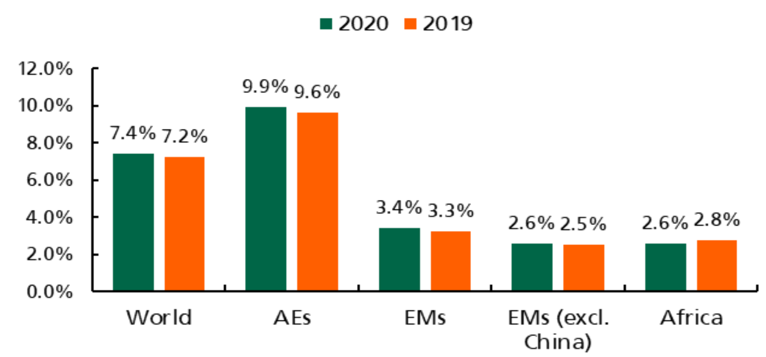
In terms of distribution, the contribution of the life segment to global premium reduced to 44.5% (2019: 46.0%) in 2020, while the non-life segment contributed 55.5% (2019: 54.0%) to global premium.

The non-life segment's gross premium written expanded by 1.5% y/y to US$3.5tn owing to faster growth in Advanced Economies (AEs). The decline recorded in the life segment was caused by a sharp double-digit downturn among the AEs.

Like the rest of the world, the global insurance industry rebounded strongly from the pandemic shock in 2021 riding on the wave of economic recovery that swept across the globe. For 2021, global insurance premium is estimated to expand by 3.4% y/y to US$6.5tn—8.0% higher than the pre-pandemic level—with premiums from AEs and EMs estimated to grow by 3.3% and 3.4% y/y to US$5.3tn and US$1.2tn respectively according to Swiss Re Institute. This is driven by the uptick in demand for insurance protection (stemming from the increased risk awareness among consumers due the pandemic) and the upward policy repricing in the non-life segment. In 2022, global premium is projected to expand further to US$6.7tn (up 3.2% y/y) bolstered by the earlier mentioned drivers. However, this expansion would be slower due to higher inflationary pressure on consumer income globally.

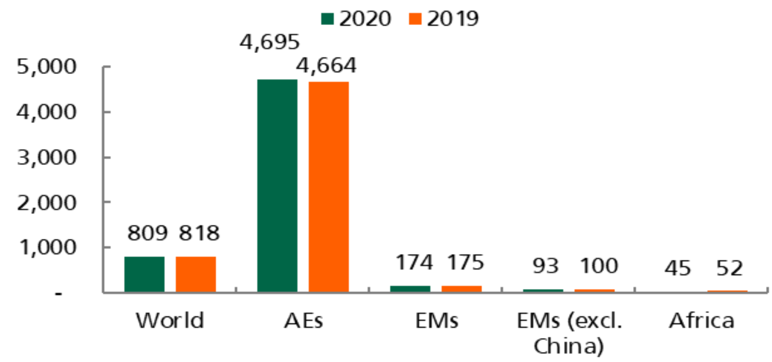
In terms of profitability, the non-life segment's Return on Equity (ROE) is estimated to print at 6.2% for 2021 compared to 6.6% in 2020. This reduction came on the back of weaker underwriting profitability which is attributed to higher claims following the Covid-19 lockdowns and slump in business operations. Also, the increased number of natural catastrophes and elevated inflation drove higher claims payment.

Chart 2: Insurance Penetration (GPW/GDP) across Major Regions



Source: Swiss Re Institute, Afrinvest Research

Chart 3: Insurance Density (GPW per capita) across Major Regions in USD



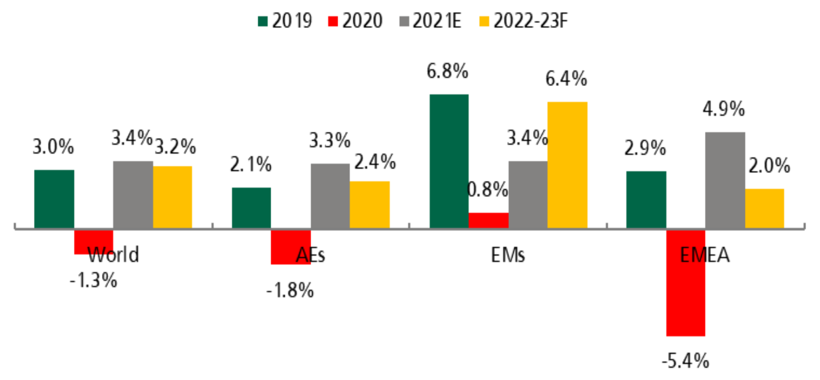
Source: Swiss Re Institute, Afrinvest Research

The global insurance industry rebounded strongly from the pandemic shock in 2021 riding on the wave of economic recovery that swept across the globe. For 2021, global insurance premium is estimated to expand by 3.4% y/y to US$6.5tn, 8.0% higher than pre-COVID-19 levels.

In 2022, global premiums is expected expand to US$6.7tn (up 3.2% y/y) albeit at a slower pace due to higher inflationary pressure on consumer income globally.

Non-life segment's Return on Equity (ROE) is estimated to print at 6.2% for 2021 compared to 6.6% in 2020.

Chart 4: Global Insurance Premium Growth to Slow in 2022



Source: Swiss Re Institute, Afrinvest Research

For the life segment, ROE printed at 10.9% in 2021 (2.4ppt higher than 2020) while investment income rose by 14.0% y/y during the same period.

We expect the upward recovery of yields to support the investment income growth in 2022.

For the life segment, ROE printed at 10.9% in 2021 (2.4ppt higher than 2020) while investment income rose by 14.0% y/y during the same period. These gains were supported by improved performance of the equities market and an uptick in the yield environment. Given that 2021 was characterized by low-interest rate environment, life insurers have adjusted their product portfolio (such as offering a combination of traditional savings products and products with lower or no guarantees) to better withstand low yields. Notwithstanding, we expect the upward recovery of yields to support the investment income growth in 2022.

Insurance and Climate Change… Positioning for the Green Future

As global climate change discussions gain traction, insurers must reassess their asset-liability mix to reduce investment exposure to sectors involved in high carbon emissions as well as investments with a poor record of upholding ESG standards..

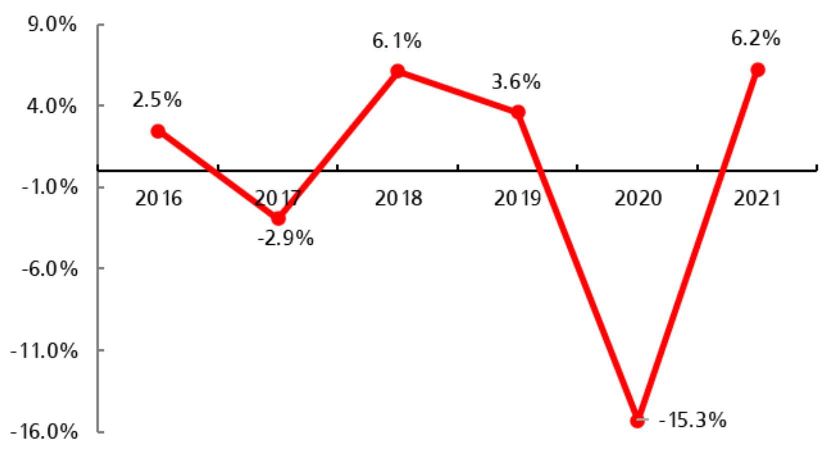
Climate change remains a global phenomenon, impacting human, societal, environmental, and economic systems through extreme weather conditions as well as increased frequency and severity of natural catastrophes. In 2021 alone, natural catastrophes were responsible for a sizeable chunk of insured losses suffered by insurers estimated at above US$100.0bn—making the year the fourth costliest on record for the insurance industry (after 2005, 2011, and 2017) according to Swiss Re Institute. Perils such as hurricanes, floods, winter storms, and drought decimated lives and business operations thereby raising underwriting expenses and deflating profits. As global climate change discussions gain traction, insurers must reassess their asset-liability mix to reduce investment exposure to sectors involved in high carbon emissions as well as investments with a poor record of upholding ESG standards. Also, insurers should be mindful of counterparty exposure to reduce the probability of large-scale asset liquidation as well as stranded assets. In passing, insurers should look to reallocate capital to support investments in infrastructures that are critical to combating and reducing the impact of global warming.

Nigerian Insurance Sector Review

Strong Recovery Momentum Despite Weak Penetration and Density

The insurance industry witnessed a strong recovery momentum in 2021 relative to the pandemic-induced contraction in the previous year. According to the National Bureau of Statistics (NBS), the insurance sector expanded 6.2% y/y in 2021, faster than the overall economic growth of 3.4% y/y. This puts the industry size at

Chart 5: Nigeria Insurance Sector Real GDP Growth (2016 - 2021)



Source: NBS, Afrinvest Research

₦267.7bn in real term, representing 0.37% of total GDP compared to 0.36% (or ₦252.0bn) in 2020. Despite this performance, the industry output (as measured by GDP) was below pre-pandemic levels by 10.0% indicating an estimated shortfall of ₦29.8bn due to the pandemic-induced strain on businesses and weak insurance penetration. Nevertheless, the shift towards adoption of digital channels brought about by the pandemic is expected to improve penetration albeit modestly in 2022.

In ranking terms, the Nigerian insurance industry underperformed significantly, contributing a minuscule 0.02% to world premiums. This ranked the Nigerian insurance industry 81st (previously 71st) out of 88 countries profiled by the Swiss Re Institute in 2021. A comparison with peer countries across SSA and BRICS markets tells a similar narrative. The sector's insurance penetration (GPW as a % of GDP) was relatively unchanged—printing at 0.3% in 2021 compared to South Africa (13.6%), Brazil (4.0%), Morocco (3.9%), India (3.8%), and Kenya (2.5%). On the other hand, the sector's insurance density (GPW per capita) is estimated to increase marginally in 2021 to $6.3 previously $6.0. However, this is lower when compared to peers–South Africa (US$786.3), Brazil (US$342.3), Morocco (US$119.7), India (US$72.5) and Kenya (US$41.3). This gap underscores inherent opportunities which remain untapped in the sector.

One of the factors limiting the industry's growth over time has been the lack of trust (particularly with respect to claims settlement) and low awareness of insurance benefits to the Nigerian populace. However, the after-effect of recent events (such as the COVID-19 pandemic and EndSARS protests) have increased risk awareness which is positive for the sector in terms of attracting policy underwriting as observed in the 20.7% y/y increase in industry premium. Also, insurers' effort to pay all legitimate

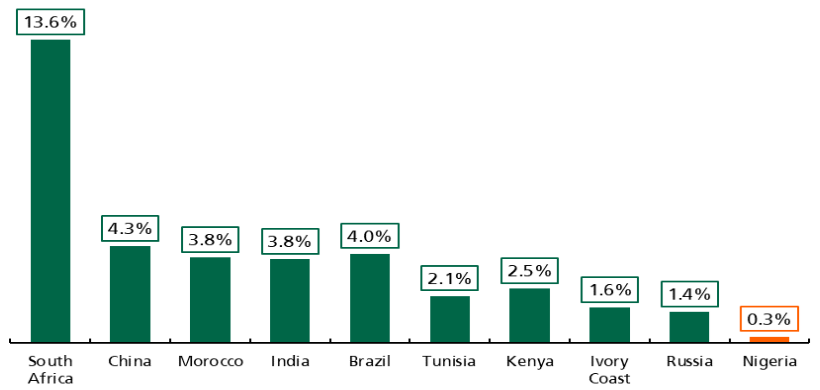
The Nigerian insurance sector expanded 6.2% y/y in 2021, faster than the overall economic growth of 3.4% y/y according to the National Bureau of Statistics (NBS).

In ranking terms, the Nigerian insurance industry underperformed peers, contributing 0.02% to world premiums and ranked 81st (previously 71st) out of the 88 countries profiled by the Swiss Re Institute in 2021

The sector's insurance penetration (GPW as a % of GDP) was relatively at the same level from the previous year—printing at 0.3% relative to the modest performance of South Africa (13.7%), Morocco (4.5%), Brazil (4.1%), and Kenya (2.2%).

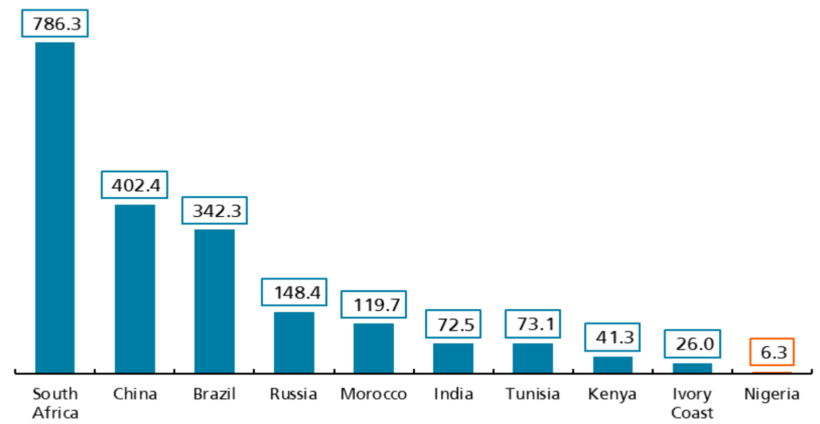
Insurance density (GPW per capita) is estimated to increase marginally in 2021 to $6.3 previously $6.0. However, this is lower when compared to peers–South Africa (US$786.3), Brazil (US$342.3), Morocco (US$119.7), India (US$72.5) and Kenya (US$41.3).

Chart 6: Insurance Penetration across Peer Countries in 2021



Source: Swiss Re Institute, Afrinvest Research

Chart 7: Insurance Density (in USD) across Peer Countries in 2021



Source: Swiss Re Institute, Afrinvest Research

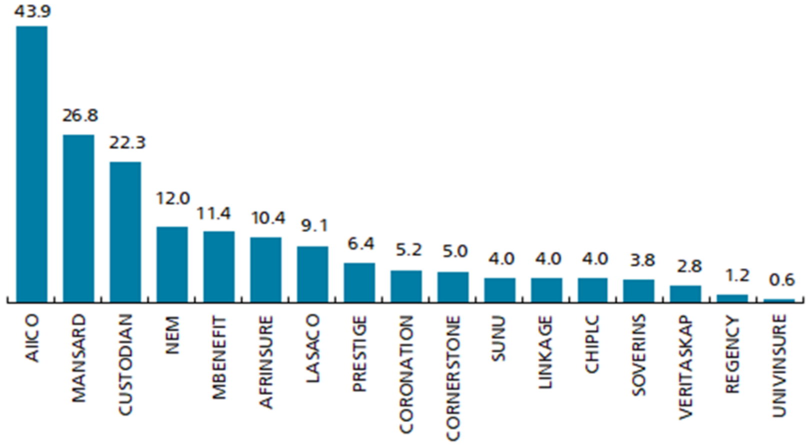
claims promptly (especially as related to the EndSARS protest) has contributed to fostering trust from the populace. Nevertheless, other factors such as weak enforcement of compulsory insurance policies, socio-cultural and religious beliefs, as well as the high rate of poverty continue to constrain growth.

Insurance Sector in the Aftermath of EndSARS Protest

The aftermath of the youth restiveness witnessed during the EndSARS protest in Q4:2020 dealt a major blow to insurers bottom line as the financial cost accrued in billions of Naira. The Nigerian Insurers Association (NIA) confirmed that over ₦11.0bn has been paid by insurance companies for the settlement of claims associated with losses from the protest. As of November 2021, 718 claims have been settled on vandalization, 93 on looting, 113 on theft, and 136 claims on loss of cash. This is evident in the sharp uptick of 37.8% y/y to ₦172.9bn in total claims paid in 2021. We laud this development as it is instrumental to strengthening trust in insurance companies

As of November 2021, 718 claims have been settled on vandalization, 93 on looting, 113 on theft, and 136 on the loss of cash. This is evident in the sharp uptick of 37.8% y/y in total claims paid to ₦172.9bn in 2021 as per our data.

Chart 8: Distribution of Claims Paid by Companies in 2021 (in ₦'bn)



Source: Company filings, Afrinvest Research

which in turn would improve the adoption and penetration of insurance products.

Recapitalisation… Teetering on the Precipice!

We highlighted in our Insurance Sector Report 2021 ("Recapitalisation – Another Dead End?") that further to extending the recapitalisation deadline due to the impact of COVID-19, NAICOM ("Commission") requires insurers and reinsurers to meet 50% and 60% respectively of the new minimum capital requirements by December 2020 with the deadline for full compliance set at September 2021. As at the time of writing this report, these deadlines have passed with little progress recorded as NAICOM suspended the exercise without a definite resumption date. This suspension was due to pending court cases brought against the Commission by aggrieved shareholder groups at the Federal High Court in Lagos and Abuja. Recall that in December 2020, lawmakers in the lower chamber of the National Assembly directed the Commission to suspend the phased recapitalisation. These delays highlight the recurring resistance by stakeholders towards the recapitalisation programmes. Although there is no definite deadline for the completion of the program as of this time, we believe that the success of the program is imperative to upscaling the industry's underwriting capacity for big-ticket risks, unlock growth, and elevate the industry's global competitiveness. Against this backdrop, we advocate for NAICOM to hold a round table discussion with relevant stakeholders to address these incessant tussles and avert further delays to the program's completion.

Although there is no definite deadline for the completion of the program as of this time, we believe that the success of the program is imperative to upscaling the industry's underwriting capacity of big-ticket risks, unlocking growth potentials, and elevating the industry to global competitiveness.

More recently, NAICOM has begun contemplating the introduction of risk-based capitalization that would emulate the capitalisation requirement in the banking sector. This is coming at a time when the current capitalisation model has not generated the intended progress. In our opinion, we believe the regulator should hold-off implementing the risk-based capitalisation to assess the impact of the current recapitalisation programme on the sector. Failure to do this would continue to keep investors on the side-line, thereby deteriorating investors' sentiment for the sector.

In our opinion, we believe the regulator should hold-off implementing the risk-based capitalisation to assess the impact of the current recapitalisation programme on the sector.

Nevertheless, it is noteworthy to recall the recapitalisation thresholds—₦8.0bn for life Insurers, ₦10.0bn for non-life insurers, ₦18.0bn for composite insurers, and ₦20.0bn for reinsurers—set by the commission. We gleaned from recent company financial statements, corporate disclosures, and other publicly available information to assess the compliance level of insurers with the recapitalisation programme. Our findings showed that only 3 (African Alliance Insurance Plc, AIICO Insurance Plc, and AXA Mansard Insurance Plc) out of the 16 companies listed on the NGX Insurance index have met the recapitalisation requirement while the others have recorded considerable progress in accomplishing the threshold. African Alliance Insurance Plc maintained a buoyant capital base as its paid-up capital of ₦10.3bn comfortably sits above the regulatory threshold for life insurers. Also, AIICO Insurance Plc completed the issuance of its 12 for 9 bonus shares which increased the company's paid-up capital by ₦10.5bn (with an addition of 20.9bn units of shares at 50kobo each) in 2022 following shareholders' and regulatory approval. Consequently, AIICO's paid-up share capital rose to ₦18.3bn slightly above the new regulatory threshold set by NAICOM for composite insurers.

Our findings showed that only 3 (African Alliance Insurance Plc, AIICO Insurance Plc, and AXA Mansard Insurance Plc) out of the 16 companies listed on the NGX Insurance index have met the recapitalisation requirement...

Likewise, AXA Mansard Insurance Plc completed its share reconstruction exercise which saw its nominal share value rise from 50kobo to ₦2.00 with the number of shares outstanding declining from 36.0bn units to 9.0bn units of ordinary shares. This effectively places the company in compliance with the recapitalisation threshold as its paid-up capital now prints at ₦18.0bn. Meanwhile, NEM Insurance Plc completed its share reconstruction increasing its nominal share value from 50kobo to ₦1.00 per share with the company's paid-up capital printing at ₦5.0bn (far lower than the regulatory threshold for non-life insurers). Although NEM Insurance Plc's paid-up capital currently falls below the threshold, we believe the company is now transitioning to the second phase of its recapitalisation exercise which may increase its authorised share capital as well as issue new shares through private placement, right issue, and bonus issue. For the others, we continue to monitor developments as available.

Finance Act 2021 ("FA21") made adjustment to the Insurance Act 2003 ("Insurance Act") with regards to the definition of share capital. The FA21 replaced "paid-up share capital" with "capital requirement"

Insurance Sector and the Finance Act 2021

Finance Act 2021 ("FA21") made a key adjustment to the Insurance Act 2003 ("Insurance Act") with regards to the definition of share capital for the industry. The FA21 replaced "paid-up share capital" with "capital requirement" and further defined the constituent of the latter. FA21 defined capital requirement as:

- For an existing company – the excess of admissible assets over liabilities, less the amount of own shares held by the company (which have been expanded to include share capital, share premium, retained earnings, contingency reserves, and any other admissible assets subject of the approval of NAICOM), subordinated liabilities subject to approval by NAICOM, and any other financial instruments as prescribed by NAICOM.
- For new companies – Government bonds and treasury bills, cash and bank balances, cash and cash equivalent.

We see this as a win-win for stakeholders as it will provide alternative means for insurance companies to recapitalise, and potentially calm aggrieved stakeholders that have consistently sought legal injunctions to delay the recapitalisation programme.

The FA21, through this adjustment, aims to expand the composition of share capital for insurance companies beyond paid-up capital thereby providing relief for companies that have been struggling to raise the needed capital to meet the recapitalisation thresholds. This implies that insurance companies may consider the sum of the admissible assets in determining their share capital going forward. We see this as a win-

win for stakeholders in the industry as it will provide alternative means for insurance companies to recapitalize, as well as potentially calm aggrieved stakeholders that have consistently sought legal injunctions to delay the recapitalisation programme.

In addition, FA21 also amended the section 16 of the Company Income Tax Act (CITA) –geared towards improving the taxation of insurance companies in line with recent events. The FA21 expounded the identification of insurance companies for taxation purpose. Notably, an insurance business will now be taxed as either a general insurance company (whether proprietary or mutual, other than a life insurance company), or a life insurance company. Furthermore, for the purpose of minimum tax computation, FA21 introduced the term "other income" to the composition of gross turnover for non-life insurance companies while retaining "gross income" for life insurance business.

FA21 also amended the section 16 of the Company Income Tax Act (CITA)–geared towards improving the taxation of insurance companies in line with recent events

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Financial Performance

We adopted the FY:2021 financial statements of 18 listed insurance companies (African Alliance, AIICO, CHI Plc, Cornerstone, Coronation, Custodian, Guinea, LASACO, Linkage Assurance, MANSARD, Mutual Benefit, NEM, Prestige, Regency Alliance, Sovereign Trust, Sunu Assurance, Universal Insurance, and Veritas Kapital) to proxy industry performance.

Sector Earnings Growth Analysis

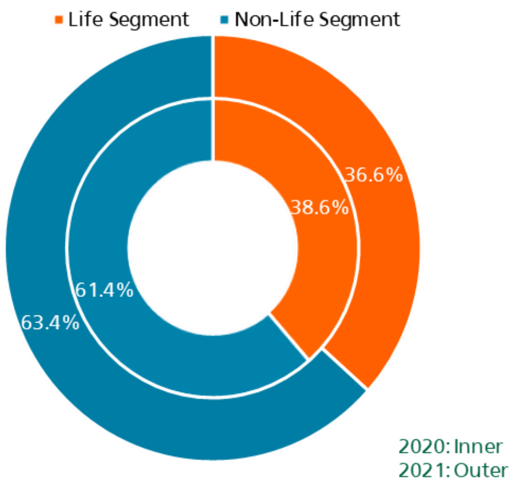
The data revealed an uptick in insurance premiums driven by the increased demand for insurance products and the strong recovery of the broader economy. Gross Premium Written (GPW) surged 19.9% y/y to ₦377.6bn in 2021 relative to the ₦315.0bn recorded in 2020. Also, Gross Premium Income (the portion of GPW that is earned as income in FY:2021) grew 17.0% y/y to ₦361.2bn (2020: ₦308.7bn).

Industry Gross Premium Written (GPW) surged 19.9% y/y to ₦377.6bn in 2021 relative to the ₦315.0bn recorded in 2020. Also, Gross Premium Income (the portion of GPW that is earned as income in FY:2021) grew 17.0% y/y to ₦361.2bn (2020: ₦308.7bn).

In terms of segment contribution, the non-life segment contributed 63.4% to GPW in 2021 (2020: 61.4%) while the life segment's proportion stood at 36.6% of GPW in

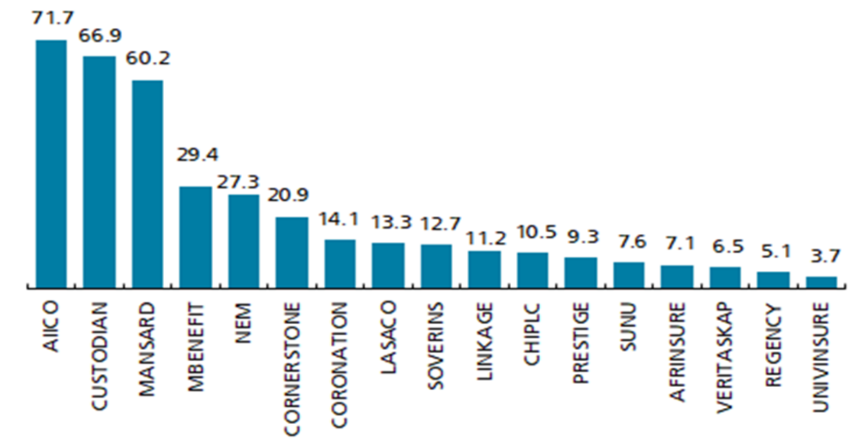
In terms of segment contribution, the non-life segment contributed 63.4% to GPW in 2021 (2020: 61.4%) while the life segment's proportion stood at 36.6% of GPW in 2021 relative to 38.6% recorded in 2020.

Chart 9: Segmental Contribution to Gross Premium Written (2020 vs 2021)



Source: Company filings, Afrinvest Research

Chart 10: Distribution of GPW by Companies in 2021 (₦'bn)



Source: Company filings, Afrinvest Research

2021 relative to 38.6% recorded in 2020.

We also examined the various insurance policy classes in detail in subsequent sub-sections.

Life Insurance… Group Life and Annuity Policies Spur Growth

The life insurance segment remained the largest sub-group in the Nigerian Insurance industry with a 36.6% share of total GPW in 2021 (2020: 38.6%). The reduction in the segment's contribution is mainly attributed to faster growth of premium in the non-life segment. Gross premium in the life insurance segment grew by 14.0% y/y to ₦129.5bn (2020: ₦113.6bn) based on data from the 8 life and composite insurance profiled companies (African Alliance, AIICO, Cornerstone, Coronation, Custodian, LASACO, MANSARD, Mutual Benefit). We expect regulations mandating group life and annuity policies to remain supportive of the life insurance segment.

Fire Insurance… Compulsory Insurance to Bolster Premium Growth

Premium surged by 30.6% y/y to ₦22.1bn in 2021 (2020: ₦16.9bn) based on the data from the 12 profiled companies. We emphasized in our Insurance Sector Report 2021 titled "Recapitalisation – Another Dead End?", the importance of adding the fire insurance policy class to the compulsory insurance products given the incidences of fire accidents across the country (especially in Lagos state). We believe the trend of gas station and pipeline explosions recorded in the South-West and South-South regions of the country as well as infernos across major markets in Lagos to be a major factor driving NAICOM's renewed efforts to make fire liability insurance compulsory for all public buildings.

Motor Insurance… Premium Expands Despite Proliferation of Fake Certificates

Despite the introduction of the Nigerian Insurance Industry Database (NIID), a sizeable portion of vehicles plying Nigerian roads still evade the mandatory third-party motor insurance policy. According to NIA, only 26.2% of the estimated 13 million vehicles in Nigeria have authentic third-party motor insurance representing 3.4 million vehicles

The life insurance segment remained the largest sub-group in the Nigerian Insurance industry with a 36.6% share of total GPW in 2021 (2020: 38.6%) while GPW grew by 14.0% y/y to ₦129.5bn (2020: ₦113.6bn).

Fire insurance premium surged by 30.6% y/y to ₦22.1bn in 2021 (2020: ₦16.9bn)… We believe the trend of gas station and pipeline explosions as well as infernos across major markets to be a major factor driving NAICOM's renewed efforts to make fire liability insurance compulsory...

The recent announcement by NAICOM to review the minimum premium on motor insurance upward from the current base rate of ₦5,000 (which could raise premium by as much as 50.0%) is expected to support premium growth in 2022...

captured on the NIID as of February 2022. We believe that a collaboration between NAICOM, Federal Road Safety Corps, Vehicle Inspection Service, and Nigerian Insurers Association would be pivotal in curbing the proliferation of fake third-party motor insurance certificates. Moreover, the recent announcement by NAICOM to review the minimum premium on motor insurance upward from the current base rate of ₦5,000 (which could raise premium by as much as 50.0%) is expected to support premium growth in 2022 and beyond.

General Insurance… Improved Compliance to Uphold Performance

Data from the profiled companies showed that premium from the general accident policy class rose 11.3% y/y to ₦15.3bn in 2021. We attribute this growth to increased awareness among businesses to protect against unforeseen catastrophes (as witnessed with the #EndSARS). Moreover, the recent wave of building collapses has brought to light the need to enforce building insurance across the country. We believe this trend influenced NAICOM's push for compulsory insurance of public buildings. On this backdrop, we advocate for collaboration between NAICOM, Town Planning Authorities, and other relevant agencies to enforce the insurance of buildings against third-party liability (whether private or public), including those under construction.

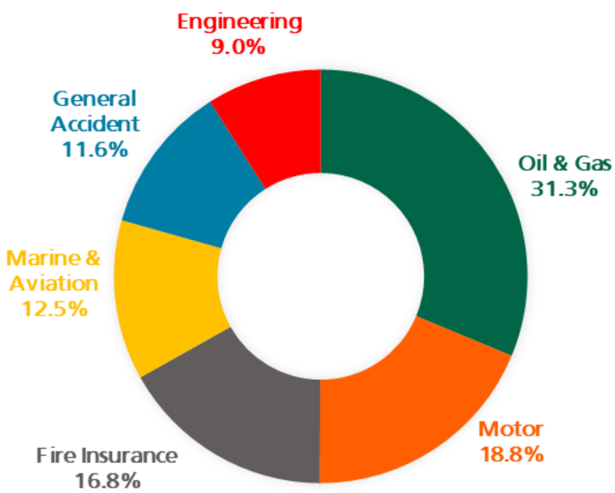
Premium from general accident policy class rose 11.3% y/y to ₦15.3bn in 2021, attributed to the increased awareness among businesses to protect against unforeseen catastrophes.

Marine and Aviation… Resumption from Lockdown Supports Impressive Growth

This policy class recorded an impressive recovery from the pandemic-induced slowdown in 2020, with premiums surging by 53.3% y/y to ₦16.5bn in 2021 relative to ₦10.8bn in the previous year. This performance is attributed to the lifting of travel restrictions in the Marine and Aviation sectors. Furthermore, we believe that the recent rise in demand for air-lifting service, evident in higher traffic across Nigerian airports, would support positive performance in 2022.

Marine and Aviation insurance policy class recorded an impressive recovery from the pandemic-induced slowdown of 2020, with premium surging by 53.3% y/y to ₦16.5bn in 2021 relative to ₦10.8bn in the previous year.

Chart 11: Composition of Non-life Insurance Premiums in 2021



Source: Company filings, Afrinvest Research

Oil & Gas… Local Content Adoption Steers Growth

The enabling environment provided by the Local Content Act supported the Oil & Gas policy class as premium expanded by 25.7% to ₦41.2bn in 2021 (2020: ₦32.8bn). Also, the recent surge in global crude oil prices has returned the sector's fortune in contrast to the decline witnessed in 2020 when operations were adversely hit by low oil prices. Given the favourable regulatory and operating environment, we expect premiums to continue their uptrend in 2022.

The enabling environment provided by the Local Content Act supported the Oil & Gas policy class as premium expanded by 25.7% to ₦41.2bn in 2021 (2020: ₦32.8bn).

Sector Profitability and Underwriting Margins Analysis

In 2021, sector profitability surged with total underwriting profit rising by 32.6x to ₦96.8bn. The rebound in African Alliance and AIICO from losses in 2020 to record 141.9% and 181.3% y/y growth in underwriting profits in 2021, coupled with the impressive performance of Cornerstone (+377.7% y/y), buoyed profitability. Nevertheless, claims paid surged by 37.8% y/y to ₦172.9bn in 2021 (2020: ₦125.5bn) due to backlog from 2020 and new claims incurred during the year. Consequently, sector claims and expense ratio surged to 52.6% and 33.3% respectively in 2021 relative to 48.0% and 30.9% recorded in 2020. The increase in claims and expense ratio was insufficient to weigh down underwriting margin, as it rose 24.2ppts to 37.6% in 2021. However, the increase of 7.6ppts in OPEX margin to 37.3% stifled profitability as the average net margin fell to 2.9% in 2021 (2020: 17.8%) while sector ROAA and ROAE declined to 2.4% and 6.0% respectively (previously 6.2% and 8.0%). We attribute this to losses reported by some insurers (notably African Alliance, Coronation, Linkage Assurance, and Mutual Benefits) during the review period.

Sector profitability surged significantly with total underwriting profit rising by 32.6x to ₦96.8bn (2020: ₦2.9bn) while claims paid surged by 37.8% y/y to ₦172.9bn in 2021 (2020: ₦125.5bn).

Sector Liquidity, Contingency, and Solvency Analysis

In terms of liquidity, our data showed mixed performance with buoyant current and quick ratios while cash ratio fell in 2021. The average current and quick ratio rose to 4.0x and 2.9x respectively in 2021 relative to 3.5x and 2.8x previously. This implies that, on average, the industry liquidity position strengthened in the review period. We observed strong short-term assets position in Linkage Assurance (current ratio: 10.9x, quick ratio: 7.7x), CHIPLC (current ratio: 13.6x, quick ratio: 8.8x), African Alliance (current ratio: 9.5x, 9.2x), and AIICO (current ratio: 3.7x, quick ratio: 3.4x). However, the average cash ratio fell to 1.2x in 2021 from 1.6x in the previous year. Based on regulation, insurers are mandated to maintain a contingency reserve which is to be credited with the greater of either 3.0% of total premium or 20.0% of the net profits for non-life insurance business and an amount equal to 1.0% of gross premium or 10.0% of net profit for life insurance business. On an aggregate level, the total contingency reserve rose by 12.9% y/y to ₦52.8bn in 2021 (2020: ₦46.7bn) on stronger growth of gross premiums while the solvency ratio fell from 2.0x to 1.8x in 2021.

The average current and quick ratio rose to 4.0x and 2.9x respectively in 2021 relative to 3.5x and 2.8x previously while the average cash ratio fell to 1.2x in 2021 from 1.6x.

On an aggregate level, the total contingency reserve rose by 12.9% y/y to ₦52.8bn in 2021 (2020: ₦46.7bn) on stronger growth of gross premiums while the solvency ratio fell from 2.0x to 1.8x in 2021.

Sector Pricing and Market Valuation

In contrast to the rally in the domestic equities market during our review period (up 20.6% to 46,766.16 index points between April 2021—April 2022), the performance of Nigerian insurance sector has been bridled by a barrage of drags and thrusts. Persistent regulatory uncertainty, increased claims and underwriting costs, accelerating energy prices, recovery of the broader economy, corporate earnings growth, and rising fixed income yields have combined to weaken sentiment for the sector with the NGX Insurance index recording a loss of 9.9% in the 12-month period to April 2022. Within our coverage universe, sentiment was mixed as CHIPLC and AIICO appreciated by +120.7% and 25.0% apiece, MANSARD and NEM lost 38.8% and 6.8% respectively while CORNERST was flat. In terms of market valuation, the sector was poorly priced with price-to-book ratio of 0.64x compared to Brazil (2.58x), South Africa (2.48x), Egypt (1.66x), and Kenya (0.65x). This emphasises the relative price attractiveness of the sector amid weak investor sentiment.

Within our coverage universe, sentiment was mixed as CHIPLC and AIICO appreciated by +120.7% and 25.0% apiece, MANSARD and NEM lost 38.8% and 6.8% respectively while CORNERST was flat.

Industry Trends

Insurance Web Aggregators: NAICOM released the operational guidelines for insurance web aggregators targeted at registration, supervision, and monitoring their activities. A web aggregator is a company licensed by NAICOM to own or maintain a website that provides information to the public on insurance products, prices, and features from partner insurance companies. Like bancassurance, this initiative seeks to deepen insurance penetration through partnerships between insurers and web aggregators to market insurance products to customers using digital platforms. Companies that qualify as web aggregators include, but are not limited to, fintechs and telecommunication firms.

Agriculture Insurance: Heifer International introduced Area Yield Index Insurance (AYII) to Nigerian farmers to reduce losses resulting from climate change thereby expanding insurance reach to rural farmers. The AYII provides solace to farmers by ensuring they receive full return if insured farmland do not produce the projected quantity of crops. Essentially, it ensures the sustainability of agribusiness and guarantees minimal loss to farmers.

Merger & Acquisition (M&A): In a bid to meet the recapitalisation deadline, market players with minor market share attracted M&A offers while larger players opted for organic capital consolidation. Specifically, Tangerine Life Insurance Limited (backed by Verod Capital) merged with ARM Life while Tangerine General Insurance Limited acquired and rebranded to Law Union & Rock Insurance Limited. Recently, NAICOM gave a no objection approval for Norrenberger Advisory Partners Limited to acquire 100% equity stake in International Energy Insurance Company Plc. Although we advocate for more M&A in the industry to boost industry players' capacity to underwrite larger policies, we believe that the lack of clear direction from NAICOM regarding the next line of action on the recapitalisation programme could prompt insurers to be less inclined to explore M&A opportunities.

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Industry Outlook

Increased Retail Product Penetration and Rising Demand for Risk Protection to drive GPW growth.

In 2022, we anticipate that GPW would expand by 17.6% as the lessons from the pandemic continue to drive demand for policy underwriting across risk classes in the domestic economy. Furthermore, retail penetration strategies supported by regula-

We anticipate that GPW would expand by 17.6% as the lessons from the pandemic continue to drive demand for policy underwriting across risk classes.

tions (including bancassurance, web aggregation, and microinsurance) are expected to boost GPW performance. On the back of this, we expect increased adoption of digital channels for product distribution. Also, we project that the continued upward policy repricing would bolster premium growth.

Pressure on Claims Ratio and Underwriting Margin would Persist

We expect claims ratio to increase albeit at a slower pace while underwriting margin would be pressured downward. This expectation is predicated on the deteriorating effect of the rising inflation rate which could result in higher claims particularly in the non-life business. Subsequently, we foresee mounting pressure on underwriting margins as the inflationary effect trickles into insurance policy acquisition and maintenance cost thus raising underwriting expenses.

Partnerships to Drive Online Sales and Digital Underwriting

The pandemic has unlocked digital transformation across the underwriting value chain. In turn, this have brought to limelight the need to actively assess customers' risk factors in real time rather than relying on historical data as done with traditional underwriting. Hence, we expect Nigerian insurers to step up digital transformation drive to capture untapped value at the retail end. Also, we anticipate that insurers would leverage NAICOM's initiatives (such as web aggregators, bancassurance, and microinsurance) to increase collaboration with telecommunication companies, banks, and fintech platforms.

Chart 12: Summary of Coverage Universe Trading & Valuation Statistics

	AIICO	CHIPLC	CORNERSTONE	MANSARD	NEM
Financial Highlights					
GPW (₦'bn)	71.6	10.5	20.9	60.2	27.9
NPI (₦'bn)	58.5	6.0	8.7	37.1	19.3
Underwriting Costs (₦'bn)	50.5	4.7	5.6	29.1	13.8
OPEX (₦'bn)	45.6	2.2	3.9	9.5	4.2
PAT (₦'bn)	2.5	0.8	3.5	3.7	4.4
Underwriting Ratios					
Claims Ratio	68.2%	37.8%	29.9%	65.5%	28.8%
Expense Ratio	19.9%	39.3%	35.2%	14.7%	42.5%
Combined Ratio	88.1%	77.1%	65.1%	80.2%	71.3%
Reinsurance Rate	17.2%	41.2%	61.6%	33.3%	27.3%
Underwriting Margin	51.9%	31.7%	60.6%	24.9%	36.2%
Valuation Metrics					
Current TP (₦)	0.52	0.56	0.89	2.86	4.25
Rating	SELL	SELL	BUY	BUY	HOLD
Price as of 03-June-2022 (₦)	0.68	0.68	0.62	2.04	4.20
Upside/(Downside) Potential	(24.1%)	(18.0%)	43.2%	40.4%	1.1%
Market Pricing Metrics					
P/E	9.76x	9.21x	3.19x	5.80x	4.75x
P/BV	0.65x	0.81x	0.56x	0.61x	0.92x

Source: Company filings, Afrinvest Research

Insurance Sector Update
June 2022

Company Profiling

AIICO Insurance Plc

Fair Valuation Loss on Financial Assets Drains Profit

Company Overview

AIICO Insurance Plc ("AIICO" or the "Company") was established in Nigeria in 1963 as American Life Insurance Company - a subsidiary of American International Group (AIG). It was renamed "American International Insurance Company" (AIICO) upon the acquisition of a 60.0% stake by the Federal Government of Nigeria (FGN). AIICO was listed on the Nigerian Exchange in 1990 and subsequently, both the FGN and AIG divested from the Company. During the 2007 insurance recapitalisation exercise, the Company acquired Nigerian French Insurance Plc and Lamda Insurance Company Limited, thereby restructuring to become a composite insurer. Besides offering life and non-life insurance products, AIICO offers health insurance and asset management services through its wholly-owned subsidiaries – AIICO Capital Ltd and AIICO Multishield Limited. Meanwhile, AIICO Pension Managers Limited ceased to be a subsidiary (now an associate company) of AIICO following the acquisition of 96.0% equity stake by FCMB Pensions. In a bid to meet NAICOM's new minimum capital requirement of ₦18.0bn, AIICO completed the issuance of 12 for 9 bonus shares to existing shareholders in 2021 . This increased the company's issued share capital by 133.3% to ₦18.3bn (previously: ₦7.8bn), above NAICOM's threshold. The company also invested in upscaling its technology infrastructure to boost customer engagement and service delivery through the launch of AIICO Ella (an official chatbot) and AIICO Express (a one-stop mobile application).

Trading Data (AIICO)			
Rating			SELL
Share Price (₦) as of 03-June-2022			0.68
12-Month TP			0.52
Downside Potential (%)			(24.1%)
52 -Weeks High (₦)			0.84
52-Weeks Low (₦)			0.39
Outst. Shares (bn units)			36.6
Free Float (%)			29.4
Mkt. Cap (N'bn)			24.9
Mkt . Cap (US$'m)			59.4
Profitability and Valuation Metrics			
	2021	2022E	2023F
Underwriting Margin	51.9%	22.8%	25.6%
Net Margin	3.6%	3.5%	3.3%
OPEX Margin	64.6%	39.2%	40.2%
EPS (₦)	0.07	0.08	0.08
P/E (x)	9.8	8.6	8.1
P/BV (x)	0.6	0.7	0.7
ROAE	7.1%	7.9%	8.4%
ROAA	1.1%	1.2%	1.2%
Other ratios (FY 2021)			
Claims Ratio (%)			68.2
Expense Ratio (%)			19.9
Combined Ratio (%)			88.1
Reinsurance Rate (%)			17.2
Investment Yield (%)			6.7
Solvency Ratio (x)			3.3

Source: Company Filings, NGX, Bloomberg, Afrinvest Research

Sensitivity Analysis - Target Price (Naira)

Terminal Growth	Cost of Equity 15.6%	17.6%	19.6%	21.6%	23.6%
1.0%	0.607	0.561	0.526	0.498	0.476
1.5%	0.601	0.556	0.521	0.494	0.472
2.0%	0.596	0.550	0.516	0.489	0.467
2.5%	0.589	0.544	0.510	0.484	0.463
3.0%	0.582	0.538	0.505	0.479	0.458

Source: Afrinvest Research

Financial Performance

Earnings Growth Analysis

AIICO sustained its impressive performance in 2021 expanding GPW by 15.6% y/y to ₦71.6bn, supported by an increase in premiums across business segments. Notably, the life and non-life segments grew GPW by 19.4% and 36.1% y/y respectively to ₦49.7bn and ₦19.0bn—contributing 69.4% and 26.6% share of the company's total GPW. However, premiums from Annuity and Health management businesses contracted 61.0% and 2.5% y/y respectively to ₦2.2bn and ₦644.9m. We attribute the contraction in annuity premiums to a change in annuity regulation by PENCOM. Prior to this regulatory change, a pensioner can purchase an annuity plan without restrictions. However, a pensioner is now required to be enrolled in the programmed withdrawal package for at least one year before he/she can purchase an annuity from an insurer. Consequently, annuity premiums contracted as the regulation restricted business conversion rate. Nevertheless, we see annuity premiums picking up in subsequent years as the one-year prohibition elapse in 2022. Over our forecast period (2022 – 2026), we estimate GPW would grow at a CAGR of 12.0% on the back of expected growth across all business segments.

Underwriting costs and Claims Ratio Analysis

AIICO's claims ratio expanded 8.2ppts to 68.2% in 2021 as actual claims paid during the period rose 20.8% y/y to ₦43.8bn due to the increased claims filing that trailed the pandemic and civil unrests of 2020. Contrary to our expectation, total underwriting expenses (sum of claims and underwriting expenses) plunged 80.4% y/y to ₦11.6bn due to actuarial valuation gains emanating from the appreciation of ordinary life and annuity funds amounting to ₦18.8bn. Although this appreciation only covers about 36.5% of the valuation loss recorded in the prior year, it was sufficient to boost underwriting profit by 183.7% y/y to ₦30.3bn while total underwriting expenses as a proportion of GPW declined to 16.5% in 2021 relative 97.8% in 2020. Meanwhile, expense and combined ratios fell to 19.9% and 88.1% respectively (previously 112.5% and 172.4%) in 2021. Nevertheless, we observed a 36.1% y/y surge in underwriting expenses as the cost of acquiring and maintaining insurance contracts rose 18.4% and 114.5% y/y respectively with increases across all business segments. Over our forecast horizon, claims ratio is projected to average 57.8% supported by increase in net premium income (CAGR: 13.1%). Total underwriting expenses as a proportion of GPW is estimated to average 18.0% over 2022/26 in anticipation of subdued valuation losses from life and annuity funds.

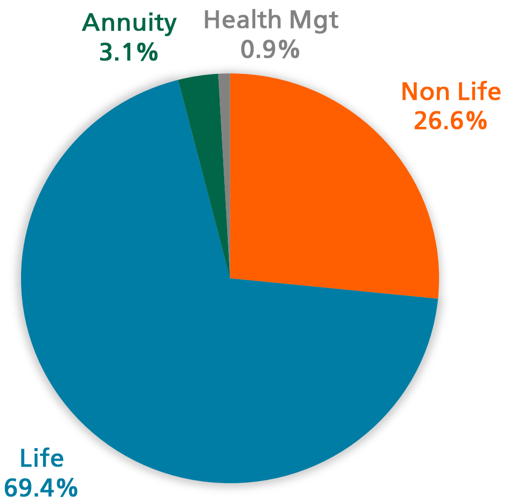
Profitability Margin Analysis

AIICO's efficiency deteriorated in 2021 amid the pressure from OPEX, coupled with the rise in claims ratios. Notably, OPEX margin climbed to 64.6% (previously: 19.0%) driven by a increase in fair value losses of ₦34.7bn on financial assets and resulting in an unanticipated increase of 296.4% y/y in total indirect expenses. Also, PBT and net margins fell 3.7ppts and 4.6ppts respectively to 4.0% and 3.6% in 2021 while RoAE and RoAA declined 9.1ppts and 1.4ppts respectively to 7.1% and 1.1%. For 2022/26, we forecast an average OPEX margin of 40.7% in anticipation of moderation in fair value losses. Notwithstanding, we expect strain on profitability, hence our 7.7% CAGR for PAT over 2022/26. Meanwhile, net margin, RoAE, and RoAA would average 3.2%, 8.1%, and 1.2% respectively.

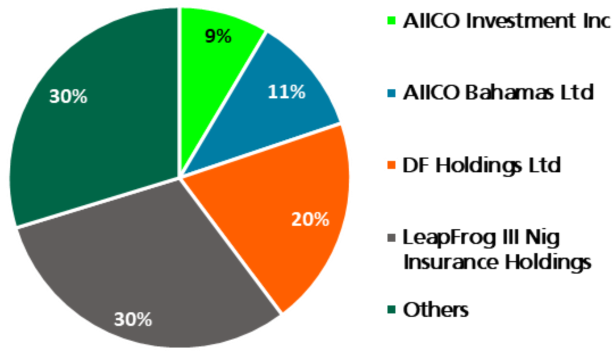
Investment Assets and Yield Analysis

During the period under review, the yield on AIICO's interest-yielding assets rebounded by 1.4ppts y/y to 6.7% halting the contraction experienced in the last 3 consecutive years. We traced this gain to the 14.2% y/y (+₦1.7bn) increase in investment income to ₦13.4bn. This came despite the 9.7% y/y decline in investment assets as AIICO's holdings of cash & cash equivalent and short-term investment securities decreased by 20.1% and 8.4% y/y respectively. Given the shift towards monetary policy normalization and the associated rise in fixed income yields, we expect yields on investment assets to increase in 2022 to 7.2% and average 6.7% over our forecast horizon.

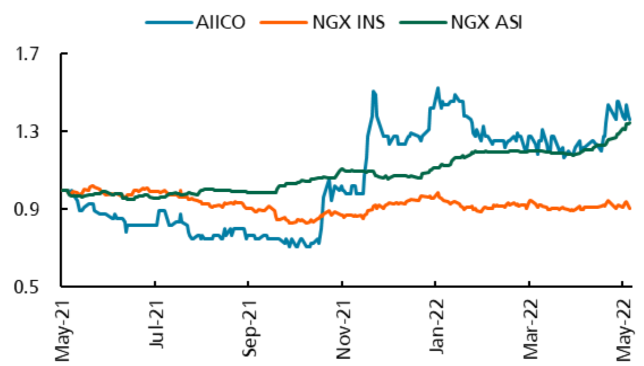
AIICO's Gross Premium Written by Segment in 2021



AIICO's Shareholding Structure



AIICO vs NGX-ASI and Insurance Sector



Source: Bloomberg, Company Filings, Afrinvest Research

Liquidity, Contingency, and Solvency Analysis

In 2021, AIICO's liquidity ratios reflect the company's operational resilience as both the current and quick ratios rose to 4.6x and 4.3x respectively from 4.3x and 4.1x. This is attributed to a faster decline in current liabilities (down 14.9% y/y) relative to current assets (down 8.4% y/y). However, the cash ratio fell to 0.6x in 2021 driven by the decrease in cash levels. In terms of solvency, the coverage remains robust at 332.2% in 2021 (2020: 335.3%) thereby demonstrating buoyant capital adequacy against the insured risks. Meanwhile, AIICO's transfer to contingency reserve rose by 100.7% y/y to ₦1.1bn (previously ₦543.5m) which is lower than both 3.0% of its net premium and 20.0% of PAT as per NAICOM's requirement.

Valuation and Recommendation

In valuing AIICO, we adopted a blend of absolute (80.0%) and relative (20.0%) valuation methods to arrive at the target price. Under the absolute valuation, we employed the Dividend Discount Model (DDM) and Residual Income methods while P/BV comparable multiple was used under the relative valuation method. The weights used for the absolute and relative methods are in line with our expectations of steady dividend growth and recovery of ROE over our forecast horizon. The assumptions underlying our valuations were 12.4% risk free rate, 0.7 beta, 19.6% cost of equity and 2.0% sustainable growth rate. Consequently, we arrived at a 12-month target price of ₦0.52. This represents a downside potential of 24.1% relative to the closing price of ₦0.68 as of June 03, 2022. Therefore, we recommend a "SELL".

Valuation Summary

Valuation Methodologies		Weighting	
Absolute Valuation Methodology			
Valuation Metrics			
Risk Free Rate	12.4%		
Beta	0.7		
Cost of Equity	19.6%		
Sustainable Growth Rate	2.0%		
Dividend Discount Model	**0.17**	**30.0%**	**80.0%**
Residual Income Approach	**0.40**	**50.0%**	
Relative Valuation Methodology			
P/Bv Valuation Methodology			
Valuation P/Bv	1.2x		
Forecast BVPS	1.0		
Target Price	**1.33**		**20.0%**
Blended 12-month Target Price			**NGN 0.52**
Upside/(Downside) Potential			**(24.1%)**

Financial Highlights

	2021A	2022F	2023F
Gross Premium Written (₦'bn)	71.6	83.2	93.6
Net Claims Incurred (₦'bn)	39.9	43.7	46.7
Underwriting Profit (₦'bn)	30.3	16.0	20.3
PAT (₦'bn)	2.5	2.9	3.1
Total Assets (₦'bn)	222.4	244.0	255.3
Shareholders Funds (₦'bn)	38.0	34.9	37.9
Claims Ratio	68.2%	62.7%	60.2%
Expense Ratio	19.9%	19.7%	19.6%
Combined Ratio	88.1%	82.3%	79.7%
Underwriting Margin	17.2%	14.2%	13.0%
OPEX Margin	64.6%	39.2%	40.2%
Net Margin	3.6%	3.5%	3.3%
RoAE	7.1%	7.9%	8.4%
RoAA	1.1%	1.2%	1.2%
Investment Yield	6.7%	7.6%	7.1%
Dividend Yield	-	3.5%	3.7%

Source: Bloomberg, Company fillings, Afrinvest Research

Insurance Sector Update

June 2022

AXA Mansard Insurance Plc

Reduced Valuation Losses Supports Underwriting Efficiency

Company Overview

AXA Mansard Plc ("Mansard" or "the Company") is a member of the AXA group, a global leader in insurance and asset management. Mansard was initially incorporated in Nigeria as a private limited liability company named "Heritage Assurance" and licensed as a composite insurer by NAICOM in 2004. Following the acquisition of majority stake by Guaranty Trust Bank (GTB), the Company's name was changed to Guaranty Trust Assurance Limited. The Company was later listed on the Nigerian Exchange in 2009 with its name changed to Guaranty Trust Assurance Plc (GTA). However, GTB divested its 67.7% stake to Assur Africa Holdings in line with the 2012 CBN guidelines for banks to either divest from non-banking subsidiaries or adopt an holding company (Holdco) structure. In 2014, AXA group acquired Assur Africa Holdings' 77.0% stake in GTA – a market entry move that led its name changing to AXA Mansard Insurance Plc. In 2021, Mansard completed its divestment from the pension management business through a sale of its stake to Eustacia Limited. Mansard currently offers life and non-life insurance business while delivering asset management and health maintenance businesses through its subsidiaries – AXA Mansard Health Limited and AXA Mansard Investments limited. The company reconstructed its share capital in 2021, increasing the nominal value from 50kobo to ₦2.00 per unit while the number of shares outstanding was reduced to 9 billion units (previously: 36 billion units). Mansard continues to uphold its commitment to returning value to shareholders as it declared a dividend of 25kobo per share (estimated at ₦2.3bn) for the period ended 31st December 2021.

Trading Data (MANSARD)			
Rating			BUY
Share Price (₦) as of 03-June-2022			2.04
12-month TP			2.86
Upside/(Downside) Potential			40.4%
52 -Weeks High (₦)			3.88
52-Weeks Low (₦)			2.07
Outst. Shares (bn units)			9.0
Free Float (%)			23.5
Mkt. Cap (N'bn)			18.4
Mkt . Cap (US$'m)			43.8
Profitability and Valuation Metrics			
	2021	2022E	2023F
Underwriting Margin	24.9%	26.1%	26.2%
Net Margin	6.7%	7.6%	7.5%
OPEX Margin	17.0%	19.4%	17.8%
EPS (₦)	0.35	0.40	0.50
P/E (x)	5.80	5.11	4.10
P/BV (x)	0.61	0.41	0.38
ROAE	11.7%	10.7%	10.3%
ROAA	3.8%	3.6%	3.9%
Other ratios (FY 2021)			
Claims Ratio (%)			65.5
Expense Ratio (%)			14.7
Combined Ratio (%)			80.2
Reinsurance Rate (%)			33.3
Investment Yield (%)			6.7
Solvency Ratio (x)			3.2

Source: Company Filings, NGX, Bloomberg, Afrinvest Research

Sensitivity Analysis - Target Price (Naira)

Terminal Growth	Cost of Equity				
	20.7%	22.7%	24.7%	26.7%	28.7%
1.0%	3.32	3.04	2.81	2.62	2.46
1.5%	3.36	3.07	2.84	2.64	2.48
2.0%	3.40	3.10	2.86	2.66	2.49
2.5%	3.44	3.14	2.89	2.68	2.51
3.0%	3.49	3.17	2.92	2.71	2.53

Source: Company Filings, Afrinvest Research

Financial Performance

Earnings Growth Analysis

In 2021, Mansard grew its GPW impressively, up 26.5% y/y to ₦60.2bn – 2ppts shy of its pre-pandemic level. This growth was supported by expansion across all business lines as non-life, life, and HMO premiums rose 41.0%, 23.7%, and 14.8% y/y respectively. In terms of contribution, the non-life insurance business remained the dominant segment contributing 46.8% of GPW, followed by the HMO (38.0%) and life insurance (15.3%) businesses. However, the proportion of GPW earned in 2021 moderated to 92.6% (2020: 95.7%) owing to a 116.9% y/y increase in provision for unearned premium (2021: ₦4.5bn vs 2020: ₦2.1bn). Over our forecast horizon (2022 – 2026), we expect GPW to grow at a CAGR of 15.3% driven by expansion in premiums from non-life and HMO businesses. We anticipate that the increased risk awareness among the populace would drive faster growth in non-life and HMO, thereby ensuring these segments remained the brightest spot for the company.

Underwriting costs and Claims Ratio Analysis

Mansard's claims ratio rose 1.6ppts y/y to 65.5% in 2021 driven by faster growth in net claims incurred. During the period, the value of claims paid rose by 29.4% y/y to ₦26.8bn (2020: ₦20.7bn) due to the higher pressure from the HMO business. Meanwhile, reinsurance recovery surged by 400.6% y/y to ₦4.6bn (2020: ₦0.9bn) as the Company reaped the benefit of purchasing more reinsurance coverage in the wake of COVID-19 and civil unrest in 2020. In spite of the surge in reinsurance recovery, net claims incurred rose 20.0% y/y to ₦24.3bn due to increase in gross claims. Also, underwriting expenses rose 25.7% y/y to ₦4.8bn in 2021 (2020: ₦3.8bn) owing to a 27.9% and 7.7% y/y increase in acquisition and maintenance costs respectively to ₦4.1bn and ₦651.4m. During the review period, Mansard recorded a 63.5% y/y decline in valuation losses from its life and annuity funds to ₦681.5m (2020: ₦1.9bn) which assuaged mounting pressure from underwriting expenses. Over our forecast horizon, we expect the pressure from claims to persist with claims ratio averaging of 67.8% supported by a sustained but gradual rise in net claims incurred (CAGR: 12.3%)while underwriting expenses will average 10.8%. We expect the non-life and HMO business to fuel overall claims growth given the nature of the contracts coupled with the expected growth in GPW.

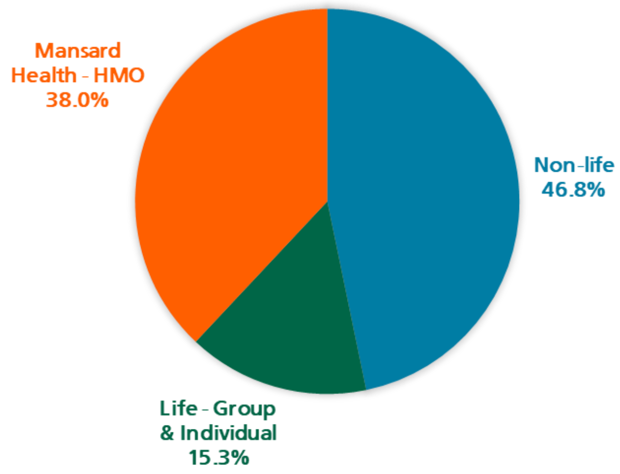
Profitability Margin Analysis

Mansard's underwriting efficiency improved owing to the reduction in actuarial valuation losses earlier mentioned. The company's expense ratio fell to 14.7% in 2021 (2020: 17.9%), causing the combined ratio to moderate by 1.6ppts to 80.2% during the review period. Consequently, underwriting profitability strengthened as underwriting margin improved by 1.4ppts y/y to 24.9%. On the other hand, operating efficiency weakened as OPEX margin rose slightly by 5bps to 17.0% (2020: 16.9%) due to increases in operating expenses (spurred by higher marketing & administrative as well as employee benefit expenses). Hence, PBT and net margin declined 4.4ppts and 3.5ppts y/y respectively to 10.6% and 6.4% in 2021. Likewise, RoAE and RoAA was down 4.2ppts and 1.2ppts y/y respectively to 11.0% and 3.6%. We expect profit margins to remained pressured in 2022 given the recent introduction of new tariffs by hospitals and healthcare providers and higher claims cost due to the high inflation rate. Therefore, we expect PBT and net margins to average 10.6% and 7.6% respectively while ROAE and ROAA will print at an average of 10.7% and 3.9% sequentially.

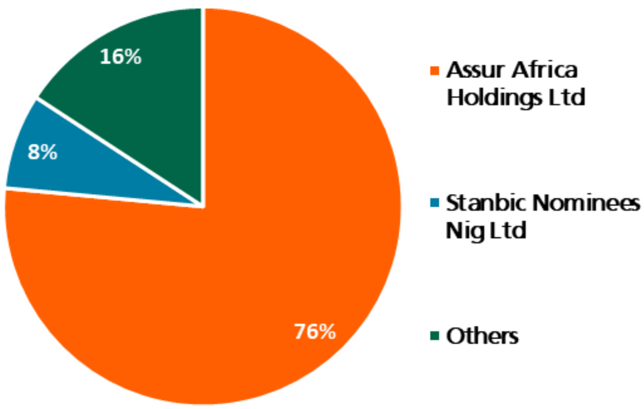
Investment Assets and Yield Analysis

Supported by an uptick in the yield environment, the yield on Mansard's investment-bearing assets rebounded by 0.3ppts y/y to 6.7% although lower than pre-pandemic level of 7.0%. The slower growth in investment yield is attributed to the 0.1% y/y marginally increase in investment assets as portfolio investment properties and financial assets expanded by 6.3% y/y apiece. Nevertheless, investment

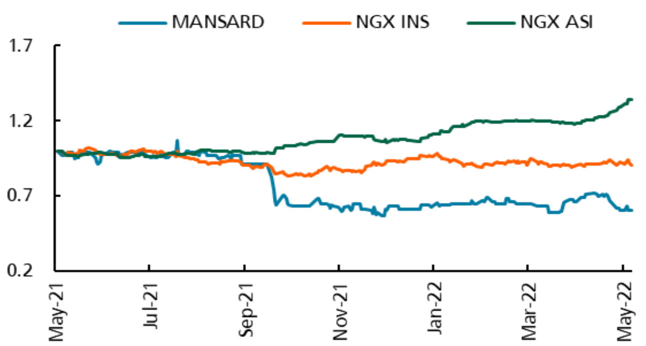
MANSARD's Gross Premium Written by Segment in 2021



MANSARD's Shareholding Structure



MANSARD vs NGX-ASI and Insurance Sector



Source: Bloomberg, Company filling, Afrinvest Research

income rose by 4.7% y/y to ₦5.1bn in 2021. Given the shift towards monetary policy normalization and the expected rise in fixed income yields, we project that Mansard's investment yields would average 7.1% while investment income would grow at a CAGR of

8.9% over our forecast horizon (2022 – 2026).

Liquidity, Contingency, and Solvency Analysis

For 2021, we observed an increase in the Company's reserve-to-profit ratio to 12.6% (previously 1.7%) as transfer to contingency reserve surged 531.6% to ₦471.6m although lower than the estimated regulatory threshold. Given that the Company is now adequately capitalized, we expect that appropriations to contingency reserve would increase going forward. In liquidity terms, we observed deterioration across the three main metrics with the current, quick, and cash ratios falling to 0.9x, 0.5x, and 0.4x respectively from 1.0x, 0.4x, and 0.5x in 2020. We traced this deterioration to faster growth in current liabilities which outpaced current assets during the period. A similar trend was also observed with the solvency ratio, which declined from 463.5% in 2020 to 318.7% in 2021 but remained comfortably above the 100% regulatory minimum.

Valuation and Recommendation

In valuing Mansard, we adopted a blend of absolute (90.0%) and relative (10.0%) valuation methods to arrive at the target price. Under the absolute valuation, we employed the Dividend Discount Model (DDM) and Discounted Cashflow (FCFE) methods while P/BV comparable multiple was used under the relative valuation method. The weights used for the absolute and relative methods are in line with our expectations of sustained dividend pay-out and buoyant cashflow through our forecast horizon. The assumptions underlying our valuations were 12.4% risk free rate, 1.2 beta, 24.7% cost of equity, and 2.0% sustainable growth rate. Consequently, we arrived at a 12-month target price of ₦2.86. This represents an upside potential of 40.4% relative to the closing price of ₦2.04 as of June 03, 2022. Therefore, we recommend a "BUY".

Valuation Summary

Valuation Methodologies		Weighting	
Absolute Valuation Methodology			
Valuation Metrics			
Risk Free Rate	12.4%		
Beta	1.2		
Cost of Equity	24.7%		
Sustainable Growth Rate	2.0%		
Dividend Discount Model	**1.54**	**60.0%**	**90.0%**
Discounted Cashflow Model	**4.21**	**30.0%**	
Relative Valuation Methodology			
P/Bv Valuation Methodology			
Valuation P/Bv	1.14x		
Forecast BVPS	4.99		
Target Price	6.81		**10.0%**
Blended 12-month Target Price			NGN 2.86
Upside/(Downside) Potential			**40.4%**

Financial Highlights

	2021A	2022F	2023F
Gross Premium Written (₦'bn)	60.2	69.2	78.8
Net Claims Incurred (₦'bn)	24.3	26.1	30.2
Underwriting Profit (₦'bn)	9.2	10.9	12.7
PAT (₦'bn)	3.7	4.0	4.8
Total Assets (₦'bn)	104.1	118.2	130.2
Shareholders Funds (₦'bn)	30.1	44.9	48.8
Claims Ratio	65.5%	68.8%	67.6%
Expense Ratio	14.7%	17.5%	16.7%
Combined Ratio	80.2%	86.3%	84.3%
Underwriting Margin	24.9%	26.1%	26.2%
OPEX Margin	17.0%	19.4%	17.8%
Net Margin	6.7%	7.6%	7.5%
RoAE	11.7%	10.7%	10.3%
RoAA	3.8%	3.6%	3.9%
Investment Yield	6.7%	7.0%	7.4%
Dividend Yield	10.8%	11.5%	13.4%

Source: Bloomberg, Company fillings, Afrinvest Research

Consolidated Hallmark Insurance Plc

Improved Operational Resilience Bolsters Bottomline

Company Overview

Consolidated Hallmark Insurance Plc ("CHIPLC" or "the Company") is licensed to offer general insurance business in Nigeria with products ranging from motor, fire, and general accidents to marine, aviation, and oil & gas insurance. CHIPLC was incorporated in 1991 as Consolidated Risk Insurers. Following its merger with Hallmark Assurance and the Nigerian General Insurance Company Limited during the 2007 recapitalisation exercise, the company changed its name to "Consolidated Hallmark Insurance" and was listed on the Nigerian Stock Exchange (now Nigerian Exchange) in 2008. The company's subsidiaries include CHI Microinsurance limited, CHI Capital Limited, CHI Support Services Limited, Hallmark Health Services limited, and Grand Treasuries Limited. Although CHIPLC met the initial 60% recapitalisation requirement of ₦5.0bn, the company could not achieve the remaining 40% within the stipulated timeline. Nevertheless, CHIPLC upheld its commitment to regular dividend payment declaring an interim and a final dividend of 2kobo apiece per share compared to 2020 when the Company issued bonus shares.

Trading Data (CHIPLC)	
Rating	SELL
Share Price (₦) as of 03-June-2022	0.68
12-month TP	0.56
Upside/(Downside) Potential	(18.0%)
52 -Weeks High (₦)	0.80
52-Weeks Low (₦)	0.42
Shares Outst. (bn units)	10.7
Free Float (%)	49.8
Mkt. Cap (₦'bn)	7.3
Mkt . Cap (US$'m)	17.4

Profitability and Valuation Metrics	2021	2022E	2023F
Underwriting Margin	31.7%	33.3%	32.1%
Net Margin	7.7%	7.4%	7.9%
OPEX Margin	21.6%	23.9%	23.8%
EPS (₦)	0.07	0.08	0.09
P/E (x)	9.21	8.12	6.83
P/BV (x)	0.81	0.82	0.75
ROAE	9.1%	9.7%	11.4%
ROAA	5.3%	5.2%	5.6%

Other ratios (FY 2021)	
Claims Ratio (%)	37.8
Expense Ratio (%)	39.3
Combined Ratio (%)	77.1
Reinsurance Rate (%)	41.2
Investment Yield (%)	12.5
Solvency Ratio (x)	2.8

Source: Company Filings, NGX, Bloomberg, Afrinvest Research

Sensitivity Analysis - Target Price (Naira)

Terminal Growth	Cost of Equity				
	14.6%	16.6%	18.6%	20.6%	22.6%
1.0%	0.726	0.632	0.561	0.505	0.460
1.5%	0.728	0.632	0.559	0.503	0.458
2.0%	0.731	0.632	0.558	0.500	0.455
2.5%	0.733	0.631	0.556	0.498	0.452
3.0%	0.736	0.631	0.554	0.495	0.449

Source: Company Filings, Afrinvest Research

Financial Performance

Earnings Growth Analysis

Contrary to our expectation of 9.2% y/y growth, CHIPLC grew GPW by 7.4% y/y to ₦10.5bn in 2021 (2020: ₦9.8bn) due to the contraction in the motor and oil & gas premiums. Also, the proportion of GPW earned in 2021 declined to 98.0% (from 99.2%) to print at ₦10.3bn. This is attributed to the 203.1% increase in unearned premium to ₦192.5m (previously ₦63.5m). In terms of business line performance, Oil & Gas premiums remained the largest contributor to GPW at 25.0% despite recording a 2.8% y/y contraction to ₦2.6bn. Similarly, motor insurance premiums moderated by 1.0% y/y to ₦2.1bn with a 20.6% share of overall GPW while premiums from engineering and bond insurance contracted 25.5% and 4.1% respectively to ₦449.9m and ₦195.1m (with 4.4% and 1.9% share). Conversely, growth across Marine insurance (up 35.4% y/y to ₦792.7m), Aviation insurance (up 19.0% y/y to ₦1.1bn), Fire insurance (up 14.6% y/y to ₦1.2bn), General accident (up 13.7% y/y to ₦1.4bn), and Medical premiums (up 47.2% y/y to ₦522.7m) supported overall GPW in 2021. Over the forecast period (2022 – 2026), we expect GPW to grow at 9.9% CAGR on the back of increases in premiums from General Accident, Motor, and Oil & Gas. Furthermore, we anticipate that the elevated prices of global crude oil would drive increased profitable ventures in the Oil & Gas sector which would in turn induce higher premiums in the near term while the other business lines continue to benefit from the increased risk awareness among the populace.

Underwriting costs and Claims Ratio Analysis

Contrary to the trend of higher claims ratio observed in the industry, CHIPLC's claims ratio contracted 4.9ppts y/y to 37.8% largely due to a 10.8% y/y decrease in net claims incurred in 2021. The reduction in net claims incurred resulted from the 4.2% y/y decrease in gross claims to ₦4.0bn coupled with a 6.5% y/y increase in reinsurance recovery to ₦1.7bn. On the other hand, underwriting expenses rose 14.5% y/y to ₦2.4bn owing to the cost of acquiring and maintaining insurance contracts. Consequently, underwriting expenses remained elevated, rising to 23.1% of overall GPI though slightly lower than the 5-year average of 23.4%. Over our forecast horizon, we expect the pressure from claims to linger with claims ratio averaging 39.0% supported by modest rise in net claims incurred (CAGR: 10.4%) while underwriting expenses will grow at a CAGR of 9.6%.

Profitability Margin Analysis

CHIPLC's operational efficiency improved as key margins strengthening for the third consecutive year in 2021. Specifically, the company's combined ratio and OPEX margin decreased by 15bps and 56bps y/y to 77.1% and 21.6% respectively despite the expense ratio rising by 474bps to 39.3%. Consequently, profitability improved with PBT and net margins rising by 148bps and 69bps y/y respectively to 9.4% and 7.7% in 2021. Similarly, RoAE and RoAA appreciated by 4bps and 7bps y/y respectively to 9.1% and 5.3%. Over our forecast period (2022 – 2026), we expect the combined ratio and underwriting margin to average 77.6% and 32.9% respectively on the back of robust risk management and operational efficiency. Similarly, PBT and net margin to average 11.8% and 8.8% respectively while RoAE and RoAA would print at an average of 13.0% and 6.3% respectively.

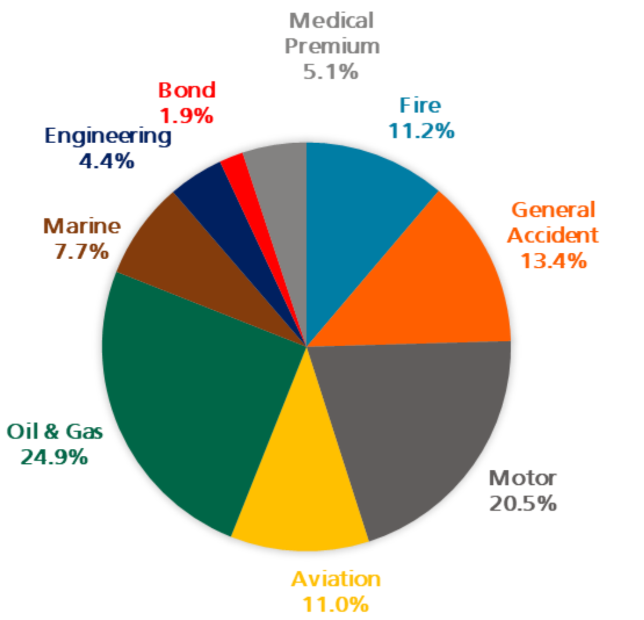
Investment Assets and Yield Analysis

In line with the recovery in the yield environment, CHIPLC's investment yield rose 2.1ppts y/y to 12.5% in 2021 from 10.4% in 2020. Likewise, yield-bearing assets rose marginally by 2.1% y/y to ₦9.6bn due to increase in financial assets and investment property while investment income rose 27.9% y/y to ₦1.2bn. In 2022, we expect the yield environment to continue to improve further on the back of the increased shift towards monetary policy normalization which should bolster investment yield in the industry.

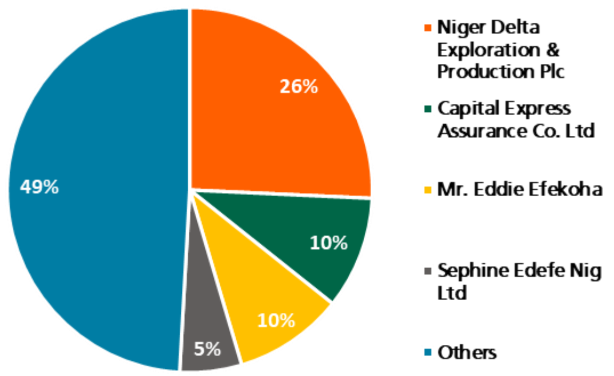
Liquidity, Contingency, and Solvency Analysis

In 2021, CHIPLC's liquidity position deteriorated with the current, quick, and cash ratios declining to 14.2x, 9.6x, and 9.0x respectively from 19.7x, 13.7x, and 12.7x. This came as the growth in current liabilities (up 51.6% y/y) outstripped current assets (up 9.6% y/y). Furthermore, the decline in cash levels (down 10.0% y/y) and underwriting debtors (down 1.0% y/y) caused both the cash and quick ratios to plunge. In spite of this, CHIPLC's operations remained resilient as current, quick, and cash ratios steadied above the pre-

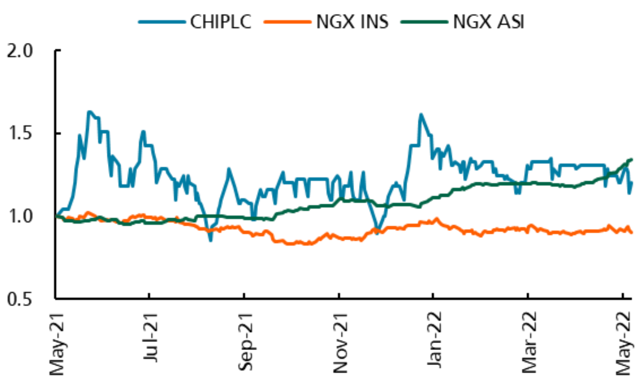
CHIPLC's Gross Premium Written by Segment in 2021



CHIPLC's Shareholding Structure



CHIPLC vs NGX-ASI and Insurance Sector



Source: Bloomberg, Company filling, Afrinvest Research pandemic levels of 10.8x, 7.0x, and 6.7x respectively. The company's solvency margin strengthened to 280.3% in 2021 (2020: 238.0%) – indicating sufficient capital adequacy against the insured risks. Meanwhile, CHIPLC's transfer to contingency reserve rose slightly by 7.0% y/y to ₦301.0m (2020: ₦281.3m) which exceeded both 3.0% of its net premium and 20.0% of PAT per NAICOM requirement.

Valuation and Recommendation

In valuing CHIPLC, we adopted a blend of absolute (80.0%) and relative (20.0%) valuation methods to arrive at the target price. Under the absolute valuation, we employed the Dividend Discount Model (DDM) and Residual Income methods while P/BV comparable multiple was used under the relative valuation method. The weights used for the absolute and relative methods are in line with our expectations of tepid dividend pay-out and modest equity returns through our forecast horizon. The assumptions underlying our valuations were 12.4% risk free rate, 0.6 beta, 18.6% cost of equity, and 2.0% sustainable growth rate. Consequently, we arrived at a 12-month target price of ₦0.56. This represents a downside potential of 18.0% relative to the closing price of ₦0.68 as of June 03, 2022. Therefore, we recommend a "SELL".

Valuation Summary

Valuation Methodologies		Weighting	
Absolute Valuation Methodology			
Valuation Metrics			
Risk Free Rate	12.4%		
Beta	0.6		
Cost of Equity	18.6%		
Sustainable Growth Rate	2.0%		
Dividend Discount Model	**0.24**	**30.0%**	**80.0%**
Residual Income Model	**0.59**	**50.0%**	
Relative Valuation Methodology			
P/Bv Valuation Methodology			
Valuation P/Bv	1.1x		
Forecast BVPS	0.8		
Target Price	**0.94**		**20.0%**
Blended 12-month Target Price			**NGN 0.56**
Upside/(Downside) Potential			**(18.0%)**

Financial Highlights

	2021A	2022F	2023F
Gross Premium Written (₦'bn)	10.5	11.8	13.1
Net Claims Incurred (₦'bn)	2.3	2.5	2.9
Underwriting Profit (₦'bn)	1.9	2.3	2.4
PAT (₦'bn)	0.8	0.9	1.1
Total Assets (₦'bn)	15.7	16.8	18.8
Shareholders Funds (₦'bn)	9.0	8.4	9.2
Claims Ratio	37.8%	39.0%	39.1%
Expense Ratio	39.3%	39.2%	38.6%
Combined Ratio	77.1%	78.3%	77.8%
Underwriting Margin	31.7%	33.3%	32.1%
OPEX Margin	21.6%	23.9%	23.8%
Net Margin	7.7%	8.1%	8.7%
RoAE	9.1%	10.7%	12.6%
RoAA	5.3%	5.7%	6.2%
Investment Yield	12.5%	12.8%	12.8%
Dividend Yield	-	3.5%	4.2%

Source: Bloomberg, Company fillings, Afrinvest Research

Cornerstone Insurance Plc

Stellar Underwriting Performance Drives Profitability

Company Overview

Cornerstone Insurance Plc ("Cornerstone" or "the Company") was incorporated in 1991 as a private limited liability company and became listed on the Nigerian Stock Exchange (now Nigerian Exchange) in 1997. Cornerstone's principal business involves the provision of life, non-life insurance and takaful policy underwriting as licensed by NAICOM. The Company's subsidiaries include, but not limited to, FIN Insurance Company limited and Hilal Takaful Nigeria Limited (formerly Cornerstone Takaful Nigeria Ltd). The Company also offers asset leasing services through its fully owned subsidiary, Cornerstone Leasing and Investment limited. In 2020, Cornerstone issued a bonus share of seven (7) new shares for every thirty (30) existing shares in a bid to comply with the new capital threshold set by NAICOM. The company is set to pay a dividend of 5kobo per share for the first time in more than 7 years despite its inability to meet up with the deadline for the second phase of the recapitalisation exercise.

Trading Data (CORNERST)	
Rating	BUY
Share Price (₦) as of 03-June-2022	0.62
12-month TP	0.89
Upside/(Downside) Potential	43.2%
52 -Weeks High (₦)	0.74
52-Weeks Low (₦)	0.46
Shares Outst. (bn units)	18.2
Free Float (%)	21.0
Mkt. Cap (N'bn)	11.3
Mkt . Cap (US$'m)	26.9

Profitability and Valuation Metrics	2021	2022E	2023F
Underwriting Margin	60.6%	57.4%	60.3%
Net Margin	19.9%	17.0%	17.4%
OPEX Margin	21.9%	19.5%	18.7%
EPS (₦)	0.19	0.20	0.24
P/E (x)	3.19	3.11	2.61
P/BV (x)	0.56	0.50	0.45
ROAE	18.8%	17.1%	18.1%
ROAA	7.6%	6.8%	7.0%

Other ratios (FY 2021)	
Claims Ratio (%)	29.9
Expense Ratio (%)	35.2
Combined Ratio (%)	65.1
Reinsurance Rate (%)	61.6
Investment Yield (%)	4.6
Solvency Ratio (x)	2.6

Source: Company Filings, NGX, Bloomberg, Afrinvest Research

Sensitivity Analysis - Target Price (Naira)

Terminal Growth	Cost of Equity				
	14.7%	16.2%	17.7%	19.2%	20.7%
1.0%	1.04	0.94	0.86	0.79	0.73
1.5%	1.07	0.96	0.87	0.80	0.74
2.0%	1.09	0.98	0.89	0.81	0.75
2.5%	1.12	1.00	0.90	0.83	0.76
3.0%	1.15	1.03	0.92	0.84	0.77

Source: Company Filings, Afrinvest Research

Financial Performance

Earnings Growth Analysis

Cornerstone's GPW expanded in 2021 by 19.3% y/y to ₦20.9bn – 6.4ppts higher than its pre-pandemic growth rate. This growth was supported largely by the expansion of non-life and takaful insurance premiums, up 28.5% and 103.9% y/y respectively to ₦15.2bn and ₦389.6m. In terms of contribution, the non-life insurance business remained the dominant segment representing 72.5% of the overall GPW. Trailing, the life insurance segment contributed 25.7% to GPW despite the 3.2% y/y contraction recorded in premiums. Meanwhile, the share of takaful insurance premium contribution remained minuscule at 1.9% (2020: 1.1%). In 2021, the proportion of GPW earned – known as Gross Premium Income (GPI) – moderated to 85.0% (2020: 89.6%) due to a 71.8% y/y increase in provision for unearned premium (2021: ₦3.1bn vs 2020: ₦1.8bn). We expect unearned premium provisions to shrink marginally in 2022 which would keep GPW growth buoyant at an average of 13.2% over the next 5 years. We anticipate that this will be supported by a rebound of premium growth from the life insurance segment and a modest expansion in non-life premiums.

Underwriting costs and Claims Ratio Analysis

In 2021, Cornerstone's claims ratio improved – trimming 40.6ppts y/y to 29.9% on the back of a 34.4% y/y contraction in net claims expenses to ₦2.6bn. The contraction in net claims expenses was driven by a 35.3% y/y reduction in gross claims incurred during the period despite claims paid rising 8.6% y/y to ₦4.9bn (2020: ₦4.6bn). Similarly, reinsurance recovery contracted by 36.4% y/y to ₦2.1bn (2020: ₦3.3bn) which we attribute to the reduction in gross claims incurred. Contrary to the downtrend in net claims incurred, underwriting expenses rose 40.1% y/y to ₦3.0bn in 2021 (2020: ₦2.2bn). This was due to 18.2% and 120.2% y/y increase in the cost of acquiring and maintaining insurance contracts respectively. Although underwriting expenses increased during the review period, the actuarial valuation gain of ₦1.8bn (due to gains in both the life and annuity funds) and the reduction in net claims incurred relieved the mounting pressure on the Company's underwriting performance in 2021. Over our forecast horizon, we expect claims ratio to average 32.5% supported by a steady increase in net claims incurred (CAGR: 8.6%) while underwriting expenses will grow at a CAGR of 10.0%.

Profitability Margin Analysis

In similar trend, expense and combined ratio improved thereby strengthening Cornerstone's underwriting efficiency. The company's expense ratio fell to 35.2% in 2021 (2020: 38.3%) while the combined ratio firmed up at 65.1% (2020: 109.4%) during the period. Consequently, underwriting profitability strengthened with underwriting margin rising 41.1ppts y/y to 60.6% in 2021. On the other hand, operating efficiency faltered as OPEX margin rose by 100bps y/y to 21.9% (2020: 20.9%) due to increased personnel and other operating expenses. Nevertheless, other profitability metrics improved with PBT and net margins rising 9.8ppts and 5.9ppts y/y respectively to 19.9% and 21.0% in 2021. Likewise, ROAE and ROAA rose 5.1ppts and 2.0ppts y/y respectively to 18.8% and 7.6%. Over the forecast period, we expect PBT and net margin to average 17.1% and 17.6% as underwriting profitability remains buoyant. Also, we project that ROAE and ROAA will average 17.5% and 6.9% higher than the 12.2% and 4.5% recorded in the last 5 years.

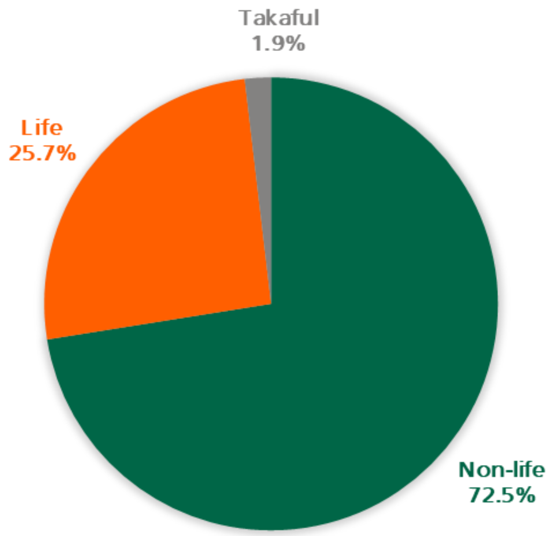
Investment Assets and Yield Analysis

Yield on investment assets rose to 4.6% in 2021 from 3.6% due to an uptick in investment assets and income. The improvement was driven by a faster increase in investment income (up 39.0% y/y) relative to investment assets (up 9.2% y/y). We observed a 23.5% and 11.0% y/y increase in cash levels and long-term financial assets. In 2022, we anticipate that sustained improvement in the yield environment would support uptrend in investment income. As such, we expect investment income to grow at a CAGR of 8.7% over our forecast period.

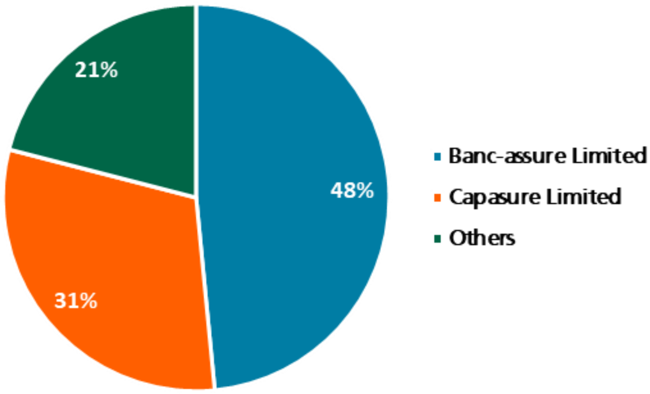
Liquidity, Contingency, and Solvency Analysis

Cornerstone's liquidity position weakened in 2021 as all tracked ratios declined save the cash ratio which was relatively unchanged at 0.7x. The current and quick ratios fell to 1.2x and 0.7x respectively from 1.3x and 0.8x as current liabilities (up 25.3% y/y) grew faster than current assets (up 16.8% y/y). However, the company's solvency margin strengthened to 257.5% in 2021 (2020: 228.8%) indicating strong capital adequacy to cover insured risks. Transfer to contingency reserve expanded to ₦717.9m (2020: ₦471.9m) exceeding both 3.0% of net premium and 20.0% of PAT.

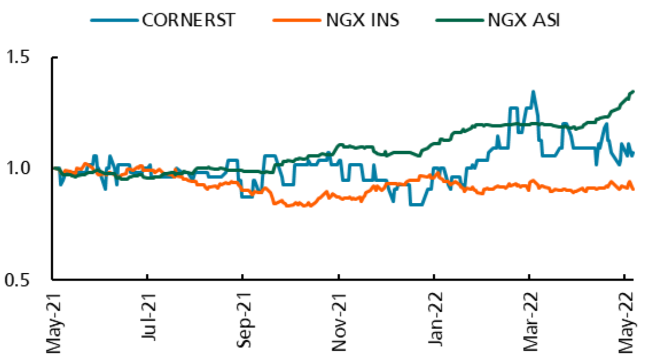
CORNERST's Gross Premium Written by Segment in 2021



CORNERST's Shareholding Structure



CORNERST vs NGX-ASI and Insurance Sector



Source: Company filling, Afrinvest Research

Valuation and Recommendation

In valuing Cornerstone, we adopted a blend of absolute (90.0%) and relative (10.0%) valuation methods to arrive at the target price. Under the absolute valuation, we employed the Dividend Discount Model (DDM) and Discounted Cashflow Model (FCFE) while P/BV comparable multiple was used for relative valuation. The weights used for the absolute and relative methods are in line with our expectation buoyant cashflow and return of equity capital appreciation through our forecast horizon. The assumptions underlying our valuations were 12.4% risk free rate, 0.5 beta, 17.7% cost of equity, and 2.0% sustainable growth rate. Consequently, we arrived at a 12 -month target price of ₦0.89. This represents an upside potential of 43.2% relative to the closing price of ₦0.62 as of June 03, 2022. Therefore, we recommend a "BUY".

Valuation Summary

Valuation Methodologies		Weighting	
Absolute Valuation Methodology			
Valuation Metrics			
Risk Free Rate (%)	12.4%		
Beta	0.5		
Cost of Equity (%)	17.7%		
Sustainable Growth Rate (%)	2.0%		
Dividend Discount Model	**0.52**	**70.0%**	**90.0%**
Discounted Cashflow Model	**1.84**	**20.0%**	
Relative Valuation Methodology			
P/Bv Valuation Methodology			
Valuation P/Bv	1.1x		
Forecast BVPS	1.2		
Target Price	**1.58**		**10.0%**
Blended 12-month Target Price			**NGN 0.89**
Upside/(Downside) Potential			**43.2%**

Financial Highlights

	2021A	2022F	2023F
Gross Premium Written (₦'bn)	20.9	24.4	28.5
Net Claims Incurred (₦'bn)	2.6	3.3	3.7
Underwriting Profit (₦'bn)	5.3	5.8	6.9
PAT (₦'bn)	3.5	3.6	4.3
Total Assets (₦'bn)	49.3	57.0	66.7
Shareholders Funds (₦'bn)	20.2	22.3	25.3
Claims Ratio	29.9%	32.5%	32.5%
Expense Ratio	35.2%	37.7%	39.3%
Combined Ratio	65.1%	70.2%	71.8%
Underwriting Margin	60.6%	57.4%	60.3%
OPEX Margin	21.9%	19.5%	18.7%
Net Margin	19.9%	17.0%	17.4%
RoAE	18.8%	17.1%	18.1%
RoAA	7.6%	6.8%	7.0%
Investment Yield	4.6%	4.7%	4.5%
Dividend Yield	-	8.1%	9.6%

Source: Bloomberg, Company fillings, Afrinvest Research

NEM Insurance Plc

Operational Efficiency Weakens due to Higher OPEX

Company Overview

NEM Plc ("NEM" or "the Company") commenced operation in Nigeria through the agency of Edward Turner & Co in 1946 and became listed on the Nigerian Stock Exchange (now Nigerian Exchange) in 1989 following its privatisation by the Federal Government of Nigeria. NEM was initially licensed by NAICOM to offer both non-life and life insurance services. However, following its merger with Vigilant Insurance Company during the 2007 recapitalisation exercise, the Company focused majorly on non-life insurance business. NEM expanded operations into West Africa by setting up NEM Insurance Ghana limited in 2009, however, the subsidiary was merged with Regency Alliance to form "Regency NEM Insurance Ghana limited" in 2016 due to recapitalisation exercise in Ghana. In the same year, the Company diversified into asset management through its subsidiary NEM Asset Management limited. In 2019, a private equity fund—Advanced Finance Investment Group (AFIG Funds) acquired a 29.9% stake in NEM Insurance Plc. Meanwhile, the company reconstructed its shares in 2021 from a nominal value of ₦0.50k to ₦1.00k by consolidating every two shares held by shareholders into one share whilst declaring a final dividend of 22kobo per share – the highest in a decade.

Trading Data (NEM)	
Rating	HOLD
Share Price (₦) as of 03-June-2022	4.20
12-month TP	4.25
Upside/(Downside) Potential	1.1%
52 -Weeks High (₦)	5.00
52-Weeks Low (₦)	3.01
Outst. Shares (bn units)	5.0
Free Float (%)	49.5
Mkt. Cap (N'bn)	21.1
Mkt . Cap (US$'m)	50.3

Profitability and Valuation Metrics	2021	2022E	2023F
Underwriting Margin	36.2%	39.9%	39.2%
Net Margin	16.7%	16.5%	15.8%
OPEX Margin	16.0%	16.3%	16.1%
EPS (₦)	0.88	1.00	1.06
P/E (x)	4.75	4.19	3.95
P/BV (x)	0.92	0.80	0.70
ROAE	21.5%	20.4%	18.9%
ROAA	12.8%	12.0%	11.2%

Other ratios (FY 2021)	
Claims Ratio (%)	28.8
Expense Ratio (%)	42.5
Combined Ratio (%)	71.3
Reinsurance Rate (%)	27.3
Investment Yield (%)	4.8
Solvency Ratio (x)	3.1

Source: Company Filings, NGX, Bloomberg, Afrinvest Research

Sensitivity Analysis - Target Price (Naira)

Terminal Growth	Cost of Equity				
	18.0%	19.5%	21.0%	22.5%	24.0%
1.0%	4.74	4.43	4.16	3.93	3.74
1.5%	4.80	4.48	4.20	3.97	3.76
2.0%	4.87	4.53	4.25	4.00	3.79
2.5%	4.95	4.59	4.29	4.04	3.83
3.0%	5.03	4.65	4.34	4.08	3.86

Source: Company Filings, Afrinvest Research

Financial Performance

Earnings Growth Analysis

GPW growth appreciated beyond the pre-pandemic average of 22.7% (2017 – 2019) rising 26.5% y/y to ₦27.9bn in 2021 due to increase in premiums from all business lines. Oil & Gas and Motor Insurance premiums accelerated by 21.9% and 15.1% y/y respectively to ₦4.3bn and ₦8.0bn in 2021 on the back of uptick in global prices of crude oil and increased risk awareness among the populace. Similarly, premiums from Fire and General Accident insurance rose by 36.8% and 9.0% y/y respectively to ₦6.3bn and ₦4.9bn while Marine and Inward reinsurance premiums rose 74.5% and 78.4% y/y respectively to ₦3.8bn and ₦462.5m. Also, NEM grew premiums from the newly introduced Agricultural Insurance in 2021 from ₦2.4m to ₦71.3m. In terms of contribution to GPW, Motor insurance remains the largest with a 28.5% share. Followed by Fire (22.7%), General Accident (17.5%), Oil & Gas (15.6%), and Marine insurance (13.8%). Over the forecast period (2022 – 2026), we expect GPW to grow a CAGR of 11.3% driven majorly by expansion in premiums from Motor, Fire, General Accident, and Oil & Gas insurance policies.

Underwriting costs and Claims Ratio Analysis

NEM's claims ratio improved in 2021 – moderating to 28.8% (previously 38.2%) – on the back of decrease in net claims incurred (down 8.2% y/y to ₦5.7bn from ₦6.1bn). The decrease in net claims incurred is attributed to a faster increase in reinsurance recovery (up 103.6% y/y to ₦4.8bn) which offset the 42.7% y/y increase in gross claims (₦12.7bn). The increased pay-out from reinsurers implies higher reinsurance coverage procured by the Company during the review period. This culminated in reinsurance costs appreciating by 24.4% y/y to ₦7.2bn in 2021. On the other hand, underwriting expenses rose 65.4% y/y to ₦8.2bn due to increase in acquisition (up 119.1% y/y to ₦5.2bn) and maintenance (up 15.6% y/y to ₦2.9bn) costs. Over the forecast period, we expect NEM's claims ratio to average 35.6% on the back of steady increase in net claims incurred at a CAGR of 10.5% while underwriting expenses should grow at a CAGR of 9.9%.

Profitability Margin Analysis

In 2021, combined ratio worsened as it rose 1.9ppts y/y to 71.3% due to an 11.2ppts y/y increase in expense ratio to 42.5%. The upturn in expense ratio is attributed to the rise in underwriting expenses (up 65.4% to ₦8.2bn). In spite of this, underwriting performance remained upbeat with underwriting profit rising 17.0% y/y to ₦6.9bn. Meanwhile, underwriting margin trimmed slightly to 36.2% from 37.7%.. A review of other profitability metrics revealed weak performance as higher operating expense (up 28.3% y/y to ₦4.2bn) drove PBT margin, Net margin, RoAE, and RoAA downwards to 17.1%, 16.7%, 21.5%, and 12.8% respectively (previously: 23.7%, 23.5%, 31.3% and 17.9%). Going forward, we expect the Company's operational efficiency will rebound with OPEX margin averaging 16.3% – lower than the past 5-year average of 18.5% – while the expense ratio is projected to average 39.3% over our forecast period. Consequently, we expect PBT and net margin to average 18.0% and 16.2% respectively (lower than 18.6% and 17.6% recorded in the last 5 years) due to higher OPEX pressure. Also, we project that ROAE and ROAA will average 19.2% and 11.5% respectively.

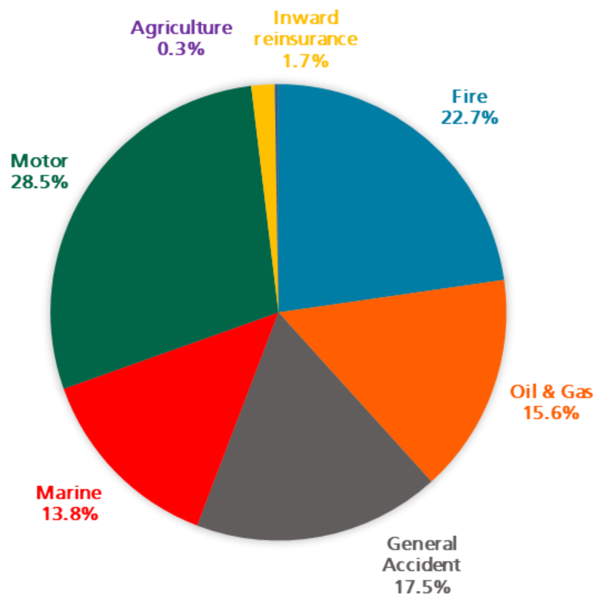
Investment Assets and Yield Analysis

Contrary to industry trend, NEM's investment yield fell 0.2ppts y/y to 4.8% in 2021 from 5.0%. This was driven by a faster growth of 17.8% y/y to ₦23.5bn in investment assets which outpaced investment income (up 13.0% y/y to ₦1.1bn). We attribute the accretion in investment assets to increases in financial assets, cash levels, and investment property. In 2022, we expect NEM's investment income to rise on account of improvement in the yield environment.

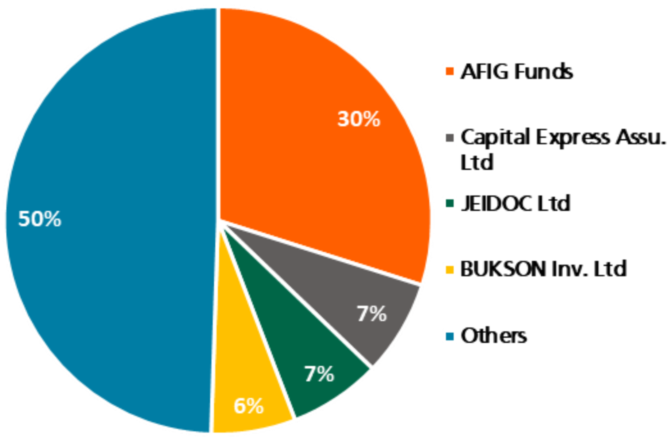
Liquidity, Contingency, and Solvency Analysis

NEM's liquidity position was weakened in 2021 as 2 of the three tracked ratios declined. The current ratio rose to 1.21x from 1.18x driven by higher increase in current assets as cash levels and reinsurance assets appreciated. On the other hand, quick and cash

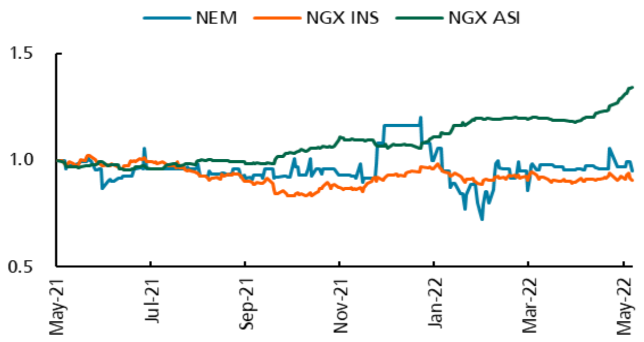
NEM's Gross Premium Written by Segment in 2021



NEM's Shareholding Structure



NEM vs NGX-ASI and Insurance Sector



Source: Company filling, Afrinvest Research ratios retreated to 0.7x and 0.5x respectively from 0.8x and 0.6x due to a faster increase in insurance contract liabilities which propped current liabilities up 19.8% y/y to ₦15.3bn. The company's solvency margin strengthened to 306.9% in 2021 (2020: 246.4%) indicating strong capital adequacy to cover insured risks. Meanwhile, transfer to contingency reserve reduced by 12.8% y/y to ₦884.9m (2020: ₦1.0bn) which exceeded 3.0% of net premium but fell short of the 20.0% of Profit after Tax.

Valuation and Recommendation

In valuing NEM, we adopted a blend of absolute (80.0%) and relative (20.0%) valuation methods to arrive at the target price. Under the absolute valuation, we employed Dividend Discount Model (DDM) and Discounted Cashflow Model (FCFE) while P/BV comparable multiple was used for relative valuation method. The weights used for the absolute and relative methods are in line with our expectation buoyant cashflow and sustained dividend payment (though with tepid growth) through our forecast horizon. The assumptions underlying our valuations were 12.4% risk free rate, 0.8 beta, 21.0% cost of equity, and 2.0% sustainable growth rate. Consequently, we arrived at a 12-month target price of ₦4.25. This represents an upside potential of 1.1% relative to the closing price of ₦4.20 as of June 03, 2022. Therefore, we recommend a "HOLD".

Valuation Summary

Valuation Methodologies		Weighting	
Absolute Valuation Methodology			
Valuation Metrics			
Risk Free Rate (%)	12.4%		
Beta	0.8		
Cost of Equity (%)	21.0%		
Sustainable Growth Rate (%)	2.0%		
Dividend Discount Model	**1.88**	**40.0%**	**80.0%**
Discounted Cashflow Model	**5.63**	**40.0%**	
Relative Valuation Methodology			
P/Bv Valuation Methodology			
Valuation P/Bv	1.01x		
Forecast BVPS	5.28		
Target Price	**6.21**		**20.0%**
Blended 12-month Target Price			NGN 4.25
Upside/(Downside) Potential			**1.1%**

Financial Highlights

	2021A	2022F	2023F
Gross Premium Written (₦'bn)	27.9	31.4	35.0
Net Claims Incurred (₦'bn)	5.6	6.0	6.9
Underwriting Profit (₦'bn)	7.0	5.8	6.9
PAT (₦'bn)	4.4	5.0	5.3
Total Assets (₦'bn)	38.3	57.0	66.7
Shareholders Funds (₦'bn)	22.9	22.3	25.3
Claims Ratio	28.8%	37.0%	36.0%
Expense Ratio	42.5%	39.8%	39.3%
Combined Ratio	71.3%	76.8%	75.3%
Underwriting Margin	36.2%	39.9%	39.2%
OPEX Margin	16.0%	16.3%	16.1%
Net Margin	16.7%	16.5%	15.8%
RoAE	21.5%	17.1%	18.1%
RoAA	12.8%	6.8%	7.0%
Investment Yield	4.8%	4.7%	4.5%
Dividend Yield	4.3%	6.0%	6.3%

Source: Bloomberg, Company fillings, Afrinvest Research

AFRINVEST RESEARCH

Appendix

AIICO INSURANCE PLC

AIICO INSURANCE PLC	2017	2018	2019	2020	2021	2022F	2023F	2024F	2025F	2026F
Financial Metrics (₦'m)										
Gross Premium Written	32,098	37,666	50,138	61,980	71,646	83,203	93,587	104,236	115,564	126,296
Net Premium Income	17,501	31,866	43,776	52,780	58,522	70,484	79,527	89,770	98,519	108,146
Net Claims Expenses	20,774	23,869	25,381	31,657	39,915	43,727	46,706	50,299	53,217	55,567
Underwriting Expenses	3,105	4,415	6,261	7,775	10,579	11,373	12,169	12,946	13,872	14,635
Net Operating Income	11,173	13,064	17,429	16,236	48,418	35,391	40,127	45,037	50,146	57,356
Profit After Tax	1,283	3,152	5,718	4,980	2,549	2,893	3,059	3,192	3,367	3,701
Financial Assets	73,636	89,240	126,827	188,342	172,501	184,631	196,307	203,413	215,917	220,233
Insurance Contracts Liabilities	59,960	65,541	84,986	136,078	119,776	132,658	139,735	144,058	153,917	156,577
Net Assets	10,959	15,271	28,910	34,659	38,374	34,878	37,885	42,436	44,770	44,304
Underwriting Ratios (%)										
Claims Ratio	118.7	74.9	58.0	60.0	68.2	62.7	60.2	57.7	55.2	52.7
Expense Ratio	17.7	24.2	63.9	112.5	19.9	19.7	19.6	19.3	19.5	19.4
Combined Ratio	136.4	99.1	121.9	172.4	88.1	82.3	79.7	77.0	74.7	72.1
Reinsurance Rate	17.8	14.0	12.5	13.0	17.2	14.2	13.0	12.6	13.3	13.0
Profitability Ratios (%)										
Underwriting Margin	(23.0)	10.1	(17.7)	(68.7)	51.9	22.8	25.6	27.9	29.5	32.3
OPEX Margin	37.0	24.9	22.0	19.0	64.6	39.2	40.2	40.4	40.9	42.9
Cost to Income Ratio	70.6	70.5	63.2	70.9	94.2	91.0	91.6	92.2	92.6	92.9
Liquidity Ratios (x)										
Current Ratio	10.64	7.19	5.06	4.28	4.61	4.35	4.32	4.44	4.47	4.44
Quick Ratio	10.04	6.76	4.63	4.07	4.30	4.00	3.96	4.08	4.09	4.05
Cash ratio	0.66	0.38	0.34	0.59	0.55	0.34	0.35	0.40	0.43	0.40
DuPont Analysis										
ROE	12.17%	21.70%	20.49%	14.78%	7.11%	8.30%	8.07%	7.52%	7.52%	8.35%
Net Margin	6.03%	8.51%	11.43%	8.21%	3.61%	3.52%	3.35%	3.11%	2.96%	2.98%
Asset Turnover	0.23x	0.34x	0.31x	0.25x	0.30x	0.34x	0.36x	0.39x	0.40x	0.43x
Leverage	8.76x	7.57x	5.71x	7.21x	6.49x	6.99x	6.74x	6.25x	6.31x	6.48x

AXA MANSARD INSURANCE PLC

MANSARD PLC	2017	2018	2019	2020	2021	2022F	2023F	2024F	2025F	2026F
Financial Metrics (₦'m)										
Gross Premium Written	26,825	33,924	43,620	47,583	60,198	69,176	78,835	92,244	106,259	122,504
Net Premium Income	13,788	19,700	26,290	31,716	37,142	41,861	48,683	57,515	66,650	75,773
Net Claims Expenses	(9,538)	(12,131)	(17,490)	(20,272)	(24,317)	(26,054)	(30,168)	(35,878)	(41,807)	(46,610)
Underwriting Expenses	(2,937)	(3,355)	(3,492)	(3,797)	(4,774)	(6,156)	(6,737)	(7,627)	(8,841)	(10,264)
Net Operating Income	9,989	12,229	11,791	14,527	15,532	18,159	20,929	23,566	26,924	31,636
Profit After Tax	2,675	2,482	2,824	4,501	3,735	3,993	4,805	5,197	5,759	7,087
Financial Assets	25,964	28,653	37,294	40,995	43,588	47,103	51,652	57,626	63,398	70,277
Insurance Contracts Liabilities	21,168	22,539	25,163	29,598	36,928	38,831	43,268	50,748	56,603	64,522
Net Assets	23,763	25,523	30,079	37,693	34,393	44,882	48,774	54,527	63,203	71,206
Underwriting Ratios (%)										
Claims Ratio	69.2	61.6	66.5	63.9	65.5	68.8	67.6	67.3	67.9	67.6
Expense Ratio	23.3	17.3	17.3	17.9	14.7	17.5	16.7	16.7	16.5	16.3
Combined Ratio	92.5	78.9	83.9	81.8	80.2	86.3	84.3	83.9	84.4	83.9
Reinsurance Rate	47.4	39.8	36.8	30.3	33.3	36.7	35.1	34.3	33.8	34.6
Profitability Ratios (%)										
Underwriting Margin	18.7	30.1	23.3	23.4	24.9	26.1	26.2	25.7	25.3	26.9
OPEX Margin	24.3	25.7	18.1	16.9	17.0	19.4	17.8	17.8	18.0	18.3
Cost to Income Ratio	63.7	68.7	63.7	53.0	60.9	63.1	61.0	63.1	63.8	62.2
Liquidity Ratios (x)										
Current Ratio	3.33	2.89	0.76	0.98	0.89	0.94	0.97	0.92	0.94	0.94
Quick Ratio	2.97	2.60	0.38	0.44	0.54	0.49	0.51	0.49	0.50	0.50
Cash ratio	0.37	0.29	0.38	0.54	0.36	0.45	0.45	0.44	0.45	0.45
DuPont Analysis										
ROE	13.19%	11.88%	11.18%	13.26%	12.42%	11.65%	12.20%	13.14%	12.39%	13.00%
Net Margin	10.21%	7.59%	6.79%	9.89%	6.70%	7.56%	7.55%	7.76%	7.37%	7.56%
Asset Turnover	0.39x	0.44x	0.45x	0.48x	0.54x	0.59x	0.61x	0.62x	0.63x	0.64x
Leverage	3.28x	3.53x	3.65x	2.78x	3.46x	2.63x	2.67x	2.75x	2.69x	2.71x

CONSOLIDATED HALLMARK INSURANCE PLC

CHI PLC	2017	2018	2019	2020	2021	2022F	2023F	2024F	2025F	2026F
Financial Metrics (₦'m)										
Gross Premium Written	5,681	6,865	8,691	9,776	10,500	11,782	13,057	14,529	16,377	18,875
Net Premium Income	3,683	4,273	4,945	6,007	6,050	6,869	7,626	8,444	9,603	11,030
Net Claims Expenses	(1,423)	(1,800)	(1,679)	(2,566)	(2,288)	(2,518)	(2,896)	(3,126)	(3,625)	(4,120)
Underwriting Expenses	(1,385)	(1,622)	(1,957)	(2,074)	(2,375)	(2,695)	(2,947)	(3,249)	(3,657)	(4,256)
Net Operating Income	2,113	2,313	2,779	2,919	3,192	3,969	4,486	5,004	5,562	6,482
Profit After Tax	406	407	600	678	791	931	1,106	1,294	1,427	1,686
Financial Assets	2,900	2,626	4,198	4,428	5,291	6,794	7,621	8,543	9,603	11,070
Insurance Contracts Liabilities	3,532	3,804	4,105	5,208	5,474	7,022	8,048	9,342	10,800	12,306
Net Assets	4,689	6,176	6,614	8,322	9,012	8,399	9,176	9,926	10,928	12,669
Underwriting Ratios (%)										
Claims Ratio	38.6	42.1	34.0	42.7	37.8	39.0	39.1	38.5	39.5	38.8
Expense Ratio	37.6	38.0	39.6	34.5	39.3	39.2	38.6	38.5	38.1	38.6
Combined Ratio	76.2	80.1	73.5	77.2	77.1	78.3	77.8	77.0	77.5	77.4
Reinsurance Rate	33.5	34.4	40.4	38.1	41.2	39.9	39.7	40.3	40.0	40.0
Profitability Ratios (%)										
Underwriting Margin	33.8	28.3	37.0	31.0	31.7	33.3	32.1	33.4	33.1	32.9
OPEX Margin	26.6	27.3	24.9	22.1	21.6	23.9	23.8	23.2	22.9	23.0
Cost to Income Ratio	69.7	76.9	74.4	73.5	69.6	68.7	67.1	65.5	65.8	65.3
Liquidity Ratios (x)										
Current Ratio	7.07	12.94	10.82	19.68	14.22	12.66	12.36	12.20	12.57	12.21
Quick Ratio	4.82	8.75	7.01	13.69	9.63	10.16	10.53	10.26	10.47	10.23
Cash ratio	4.67	8.39	6.68	12.68	8.96	9.62	9.94	9.63	9.77	9.58
DuPont Analysis										
ROE	8.7%	6.6%	9.1%	8.1%	8.8%	11.1%	12.1%	13.0%	13.1%	13.3%
Net Margin	7.3%	6.2%	7.2%	7.0%	7.7%	8.1%	8.7%	9.2%	8.9%	9.2%
Asset Turnover	0.58x	0.60x	0.71x	0.68x	0.66x	0.68x	0.67x	0.67x	0.67x	0.67x
Leverage	2.02x	1.75x	1.78x	1.72x	1.74x	2.00x	2.05x	2.13x	2.17x	2.16x

CORNERSTONE INSURANCE PLC

CORNERSTONE INSURANCE PLC	2017	2018	2019	2020	2021	2022F	2023F	2024F	2025F	2026F
Financial Metrics (₦'m)										
Gross Premium Written	9,201	11,570	13,059	17,539	20,921	24,443	28,475	32,353	35,864	38,844
Net Premium Income	5,463	5,759	6,589	5,603	8,666	10,133	11,411	12,407	14,331	15,328
Net Claims Expenses	(6,384)	(2,436)	(3,069)	(3,955)	(2,595)	(3,289)	(3,704)	(4,027)	(4,652)	(4,975)
Underwriting Expenses	(1,776)	(1,752)	(1,992)	(2,176)	(3,049)	(3,820)	(4,487)	(5,155)	(5,836)	(6,403)
Net Operating Income	69	6,217	7,791	5,053	7,642	8,192	9,463	10,165	12,185	13,486
Profit After Tax	(3,362)	3,018	4,045	2,195	3,536	3,625	4,320	4,405	5,618	6,399
Financial Assets	10,631	10,846	12,661	18,403	18,564	21,903	26,183	29,447	33,029	35,697
Insurance Contracts Liabilities	10,653	10,829	11,730	18,746	19,737	22,092	27,019	30,468	33,862	36,792
Net Assets	7,331	10,412	14,878	17,724	20,472	22,304	25,306	30,342	34,503	36,330
Underwriting Ratios (%)										
Claims Ratio	116.9	42.3	46.6	70.6	29.9	32.5	32.5	32.5	32.5	32.5
Expense Ratio	32.5	30.4	30.2	38.8	35.2	37.7	39.3	41.5	40.7	41.8
Combined Ratio	149.4	72.7	76.8	109.4	65.1	70.2	71.8	74.0	73.2	74.2
Reinsurance Rate	38.5	45.8	47.8	48.2	61.6	45.9	47.3	49.0	47.4	47.9
Profitability Ratios (%)										
Underwriting Margin	(37.2)	40.5	40.5	19.4	60.6	57.4	60.3	63.2	64.9	67.6
OPEX Margin	38.1	25.8	25.7	20.9	21.9	19.5	18.7	18.6	19.0	18.8
Cost to Income Ratio	5,093.2	47.2	43.8	65.0	51.0	50.8	49.3	51.9	48.8	47.3
Liquidity Ratios (x)										
Current Ratio	2.48	2.14	1.77	1.33	1.24	1.41	1.28	1.32	1.37	1.33
Quick Ratio	5.04	3.95	1.27	0.82	0.71	0.87	0.75	0.77	0.81	0.78
Cash ratio	1.28	1.10	1.17	0.67	0.66	0.79	0.68	0.70	0.74	0.70
DuPont Analysis										
ROE	46.84%	29.56%	27.66%	12.57%	17.52%	16.25%	17.07%	14.52%	16.28%	17.61%
Net Margin	36.62%	26.58%	30.43%	13.96%	19.87%	16.97%	17.36%	15.58%	17.93%	18.85%
Asset Turnover	0.38x	0.40x	0.38x	0.36x	0.36x	0.37x	0.37x	0.37x	0.37x	0.37x
Leverage	3.36x	2.81x	2.40x	2.51x	2.44x	2.56x	2.64x	2.53x	2.47x	2.53x

NEM INSURANCE PLC

NEM INSURANCE PLC	2017	2018	2019	2020	2021	2022F	2023F	2024F	2025F	2026F
Financial Metrics (₦'m)										
Gross Premium Written	13,416	15,049	19,760	22,036	27,875	31,429	35,017	38,775	42,952	47,596
Net Premium Income	9,802	10,694	12,618	15,863	19,306	21,955	24,238	26,693	29,994	33,033
Net Claims Expenses	(1,784)	(2,554)	(3,937)	(6,054)	(5,561)	(5,961)	(6,943)	(7,495)	(8,292)	(9,158)
Underwriting Expenses	(4,164)	(4,260)	(5,506)	(4,960)	(8,205)	(8,747)	(9,520)	(10,456)	(11,505)	(13,155)
Net Operating Income	5,973	5,529	5,471	8,454	8,769	10,532	11,376	12,766	14,596	15,561
Profit After Tax	2,775	2,037	2,395	5,085	4,432	5,028	5,340	5,899	7,040	7,269
Financial Assets	5,917	3,604	4,686	10,666	13,582	14,183	15,802	17,498	19,382	21,478
Insurance Contracts Liabilities	6,519	7,127	9,001	9,780	12,218	14,846	16,159	18,019	20,023	22,089
Net Assets	9,738	12,425	14,098	18,361	22,909	26,472	30,115	33,639	37,380	41,796
Underwriting Ratios (%)										
Claims Ratio	18.2	23.9	31.2	38.2	28.8	37.0	36.0	35.0	35.0	35.0
Expense Ratio	42.5	39.8	43.6	31.3	42.5	39.8	39.3	39.2	38.4	39.8
Combined Ratio	60.7	63.7	74.8	69.4	71.3	76.8	75.3	74.2	73.4	74.8
Reinsurance Rate	24.8	25.5	34.5	26.8	27.3	27.8	28.4	28.9	27.8	28.0
Profitability Ratios (%)										
Underwriting Margin	46.0	43.2	34.5	37.7	36.2	39.9	39.2	40.1	40.9	39.5
OPEX Margin	22.9	20.0	18.6	15.2	16.0	16.3	16.1	16.5	16.3	16.3
Cost to Income Ratio	49.9	51.8	65.3	39.1	48.3	47.0	47.8	48.7	46.4	48.1
Liquidity Ratios (x)										
Current Ratio	1.71	1.76	1.38	1.18	1.21	1.22	1.29	1.31	1.33	1.36
Quick Ratio	1.40	1.25	0.89	0.78	0.71	0.69	0.68	0.68	0.68	0.68
Cash ratio	0.43	0.70	0.73	0.58	0.52	0.56	0.56	0.56	0.57	0.57
DuPont Analysis										
ROE	28.50%	16.39%	16.99%	27.69%	19.35%	18.99%	17.73%	17.54%	18.83%	17.39%
Net Margin	21.30%	14.20%	12.44%	23.45%	16.70%	16.54%	15.78%	15.70%	16.94%	15.84%
Asset Turnover	0.74x	0.64x	0.75x	0.69x	0.69x	0.67x	0.67x	0.67x	0.67x	0.67x
Leverage	1.80x	1.81x	1.82x	1.70x	1.67x	1.71x	1.68x	1.66x	1.66x	1.64x

AFRINVEST RESEARCH

Insurance Sector Update

June 2022

About Afrinvest

Afrinvest (West Africa) Limited (Afrinvest or the Company) is a financial services holding company with a focus on West Africa and active in five principal areas: investment banking, securities trading, asset management, fund trust, and investment research & consulting. The Company was originally founded in 1995 as Securities and Trust Company Limited ("SecTrust") which grew to become a respected research, brokerage and asset management firm. Afrinvest has built a track record in executing transactions within its principal areas of business and prides itself in thorough knowledge of the Nigerian market, business communities and the regulatory environment; careful, fact-based analysis and recommendations; complete corporate independence and discretion; and the delivery of innovative solutions tailored to the specific needs of our clients. Afrinvest owns four operating subsidiaries.

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Our approach to establishing fair value takes into account a weighted average of price estimates derived from a blend of valuation methodologies including the Dividend Discount Model (DDM), Discounted Cash Flow ("DCF") and its variants as well as other relative/ comparable trading multiples valuation models. However, we attach the most weight to P/BV Valuation Model, Dividend Discount Model, Free Cash Flow (FCF) model, and Residual Income Valuation/Model ("RIV/RIM"). The utilization of comparable trading multiples is guided by the analysts' understanding of the company's fundamentals, as well as key price drivers from the firm, industry and macroeconomic perspectives.

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Investment Ratings

BUY: The expected total return over the next 12 months is 25.0% or more. Investors are advised to take positions at the prevailing market price as at the report date.

ACCUMULATE: The expected total return over the next 12 months ranges between 10.0% and 25.0% or the upside potential is above industry average. However, cautious portfolio positioning is advised.

HOLD: Over the next 12 months, investors are advised to remain neutral as the expected total returns may not exceed 10.0% based on the prevailing market price as at the report date.

REDUCE: The expected total return of the stock ranges from nil to negative. Aggressive exit or entry may not be appropriate as the stock might fluctuate into a 10.0% decline over a 12-month horizon. Thus, the slim upside potential does not adequately compensate for the inherent risk.

SELL: The stock trades at a premium to its intrinsic value and is thus expected to lose up to 10.0% or more of its market value. Immediate exit is therefore advised at the prevailing market price as at the report date.

Target Prices: Target prices disclosed in this report are partly based on analysts' estimate of the company earnings. However, prices of securities could fluctuate if earnings miss estimate or due to general market, industry or macroeconomic risk factors.

For more details on company specific valuation methodologies, upside/downside risks to current valuation, contact the primary analyst or email research@afrinvest.com

Ratings Summary

	BUY	ACCUMULATE	HOLD	REDUCE	SELL	Total
Universe	2	0	1	0	2	**5**
% distribution	**40.0%**	**0.0%**	**20.0%**	**0.0%**	**40.0%**	**100.00%**

Disclaimer

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