



NEM Insurance FY 2020 28 May 2021



MPR: 11.50%
April '21 Inflation Rate: 18.12%
Q1 '21 GDP: 0.51%

TICKER: NEM
Sector: Insurance
Price as at 26 May 2021: NGN2.07
Target Price: NGN2.48

Upside Potential: 19.81%
Performance Rating: Bb (Historical Long-term average rating is BB)
Recommendation: MODERATE BUY
Suggested Entry Price: NGN0.90 – NGN1.50

Financial Summary (N'Bn)	FY 2020	FY 2019	Y-o-Y%Δ
Gross Premium Written	22.04	19.76	11.52%
Earned Premium	15.86	12.62	25.72%
Claims Expense	6.05	3.94	53.77%
Underwriting expense	4.96	5.51	-9.92%
Underwriting Profit	5.98	4.35	37.52%
Investment Income	1.00	0.88	14.37%
Operating Expenses	3.22	3.54	-8.90%
PAT	5.08	2.40	112.27%
Total Assets	31.20	25.68	21.48%
Shareholders' Funds	18.36	14.10	30.24%

Source: Company Financials, Cowry Research

Financial Ratios	FY 2020	FY 2019	Industry Average
Claims ratio	38.17%	31.21%	54.77%
Underwriting ratio	22.51%	27.86%	18.52%
Combined ratio	60.68%	59.07%	73.28%
Insurance Margin	44.03%	41.43%	44.47%
Return on Premium	23.07%	12.12%	3.89%
Return on Investment/Equity	31.33%	18.06%	8.12%
Investment Returns	5.76%	6.70%	6.87%
Solvency ratio	412.00%	294.00%	148.09%
Revenue to Equity	137.41%	228.60%	104.10%
Premium Cession Ratio	26.84%	26.84%	33.42%

Source: Company Financials, Cowry Research

Ratios derived from unadjusted figures presented in financial statements

Investment Ratios	FY 2020	Industry Average
EPS	0.51	0.14
F' EPS	0.51	0.14
NAV	1.41	1.11
PER	4.01x	5.11x
Weighted PER	0.56x	4.72x
P/B	1.44x	0.63x
Total Dividend yield at suggested entry price	4.35%	

Source: NSE, Company Financials, Cowry Research

Key: EPS – Earnings Per Share; NAV – Net Asset Value per share; PER – Price to Earnings; P/B – Price to Book; F' – Full Year Forecast; TTM – Trailing Twelve Months

In FY 2020, NEM Insurance remained profitable and registered an average performance rating of “Bb” amid the 2020 pandemic (slightly below its historical above-average “BB” performance). This, coupled with an upside potential of 17.32% on its share price, informed our “MODERATE BUY” recommendation.

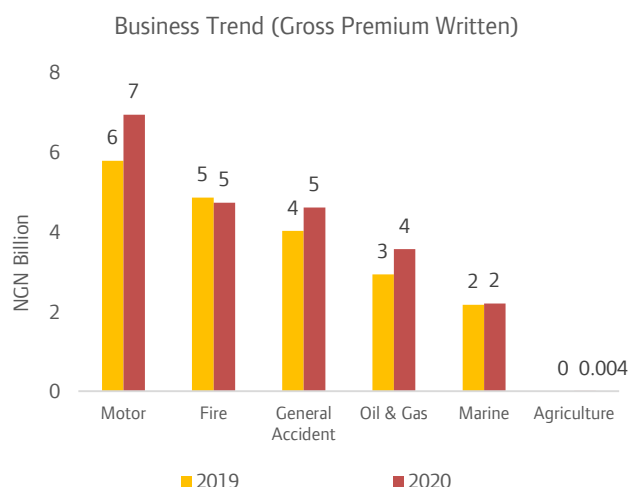
NEM Sustains Positive Performance in Core Business

NEM Insurance Plc, a provider of general insurance, continued to demonstrate increased capacity, efficiency and profitability. In FY 2020, its gross premium written increased by 11.52% to N22.04 billion while earned premium rose by 25.72% to N15.56 billion. Underwriting profit also spiked by 37.52% to N5.98 billion despite a combined increase in claims and underwriting expenses to N11.01 billion (combined ratio rose to 60.68% in 2020 from 59.07% in 2019; albeit lower than 2020 industry average of 73.28%). The insurer also grew investment income (dividend and interest) by 14.37% to N1 billion which helped boost insurance margin to 44.03% (from 41.43%). However, investment returns and revenue to equity fell to 5.76% (from 6.70%) and 137.41% (from 228.60%) as total investments and shareholders fund rose by 35.35% and 30.24% to N20.05 billion and N18.36 billion respectively.

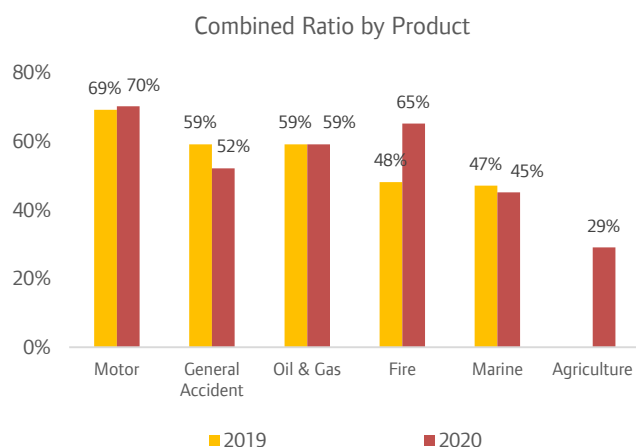
Fair Value Gain in Equities Portfolio Boosts Profitability

The bullish equities market performance witnessed in 2020 helped the non-life insurer report significant portfolio gains. Net fair value gain increased by 554% to N1.12 billion (98% of which was due to a 541% spike in fair value gains in FVPL quoted equity securities) which, coupled with an 8.90% fall in operating expenses to N3.22 billion, resulted in a 112.27% increase in profit after tax to N5.08 billion.

NEM Registers Growth in Most Classes of Business



As displayed in the bar chart above, NEM recorded more business across most of its product classes, with the highest growths recorded in the general accidents and oil & gas insurance; and even began to underwrite risk in the Agricultural sector. The Combined Ratio for each product, as shown in the bar chart below, is defined as the sum of both claims and underwriting expenses incurred by the insurer as a percentage of earned premium for each product.



SOURCE: COMPANY FINANCIALS, COWRY RESEARCH

NEM on Track to Tap Increased Opportunities...

Between 2016 and 2020, the company grew its gross premium written at a CAGR of 19.63% to N22.04 billion even as shareholders fund grew at a CAGR of 25.50% to N18.36 billion. Against the backdrop of an impressive track record of business growth and operating efficiency, we believe the non-life insurer is poised to seize even greater opportunities which a bigger balance sheet affords, especially with the ongoing industry recapitalisation, as it deepens penetration, not only in Nigeria, but also in other African countries under the auspices AfCFTA. Already, NEM has presence in Ghana via its associate company, Regency Nem Insurance (Ghana) Limited.

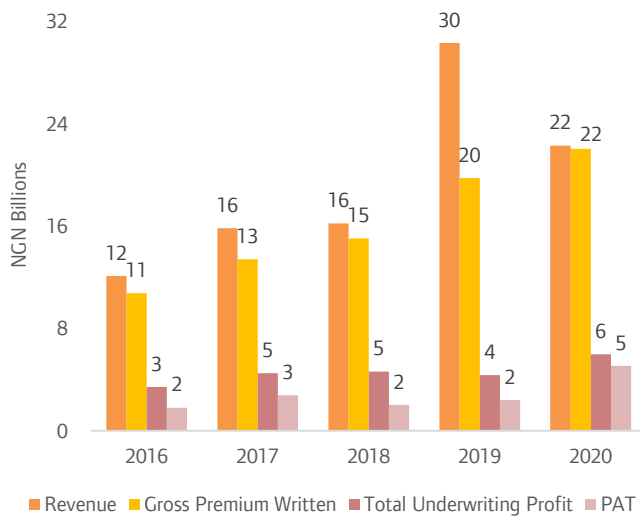
As the Race Continues to Meet Recapitalization Deadline...

The 7.56% y-o-y increase in shareholders funds to N18.36 billion in 2020 partly resulted from a 90% increase in share capital account to N5.02 billion. The jacked up share capital account was an accounting treatment and was in response to NAICOM's directive to non-life insurers to meet 50% (N5 billion) of the new capital base requirement of N10 billion (from N3 billion) by the end of December 2020. NEM easily met the requirement, when, at its Extra Ordinary General Meeting held on 10 December 2020, the Company resolved that the sum of N272,551,000 and N2,103,675,311 be transferred from the Company's share premium account and Retained Earnings accounts respectively to the Share Capital account.

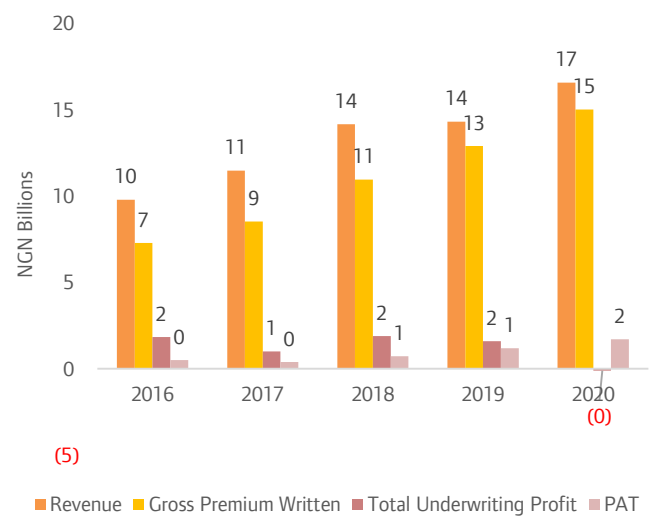
Our Expectation...

As Nigeria recovers from the effects of the pandemic and opens up to more economic activity, we expect NEM to continue to witness increase in its underwriting business. We also believe the insurer is well positioned to meet up with the September 2021 recapitalisation deadline, hence, boosting its standing and penetration in the industry. Furthermore, anticipate higher investment income amid relatively higher interest rate environment. We are also mindful, however, of a probable rise in loss expense given an 8.6% y-o-y increase in insurance contract liabilities to N9.78 billion in 2020, which may partly offset margins.

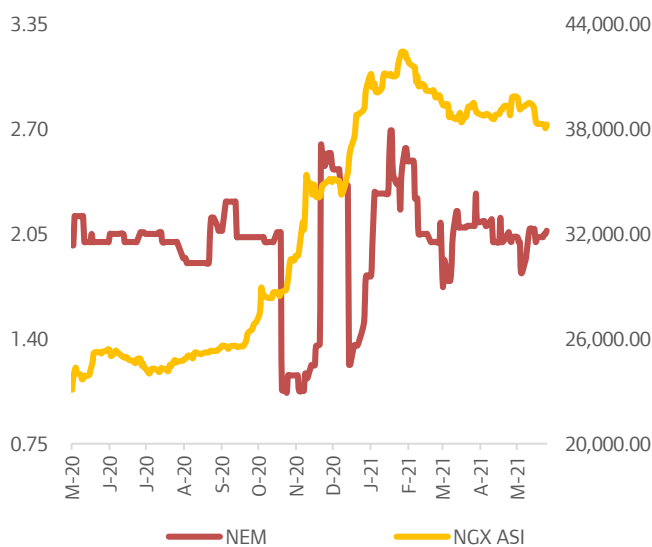
NEM Revenue & Profit Trend



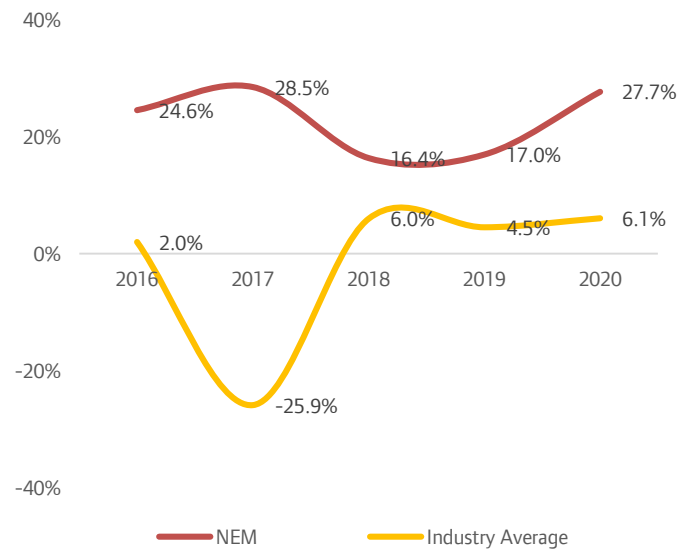
Insurance Industry Averages



NEM vs NGX ASI



Historical Average Returns on Equity



Source: Company Financial Reports, Cowry Research



IMPORTANT DISCLOSURES:

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Performance Rating (PR)	Meaning
A	Security's Performance (Operating and Investment) rated ' Excellent '; scores $\geq 75\%$ in its industry
BB	Security's Performance rated ' Investment Grade '; scores between 65% and 75% in its industry
Bb	Security's Performance rated ' Acceptable '; scores between 50% and 65% in its industry
D-E	Security's Performance rated ' Not Acceptable '; scores below industry average

Analyst Recommendation (AR)	Meaning
BUY	PR is a 'BB' or 'A' and/or Security's Upside Potential is X: $X > 500\text{bps}$ above 364-day T-Bill rate
MODERATE BUY	PR is a 'Bb' or 'BB' and Security's Upside Potential is X: 364-day T-Bill Rate $< X$
HOLD	PR is a 'Bb' and Security's Upside Potential is X: X is positive and $\leq$ 364-day T-Bill Rate
MODERATE SELL/ REDUCE	PR is a 'Bb' and Security is Overvalued
SELL	PR is a 'D' or 'E' and Security is Overvalued