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MERISTEM

The Nigerian Insurance Sector

…Rich Hunting Ground for Investment

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Investment Précis

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Nigeria's insurance industry will remain driven by the country's rich demography given the population of c.170m (estimated growth rate of 2.54% per year), median age of 17.9 years, rising urban population and emerging middle-class which the sector continues to explore.

Notwithstanding the demographic blessings, insurance sector lags the overall economy's growth as insurance penetration (insurance gross premiums earned as a percentage of GDP) and density (insurance gross premium earned in relation to total population size) remain low at 0.43% and USD8.9 respectively relative to South Africa (13.39% and USD1, 071.9), Mauritius (6.25% and USD507.2), Kenya (3.17% and USD29.9) and Ghana (3.07% and USD49.3).

National Insurance Commission (NAICOM) remains committed to solidifying the industry's configuration on the back of new regulatory measures. Recapitalization regulation, Market Development and Restructuring Initiative (MDRI), adoption of IFRS reporting style, introduction of "No Premium No Cover", and issuance of guidelines on Micro-insurance and Takaful are some of the efforts in place.

The Insurance sector in Nigeria is mainly dominated by life and motor insurance, which have historically contributed an average of *c.*45% to premium. Trend analysis shows that the top five insurance companies contribute about 40% of annual premium written.

The industry in recent time witnessed certain restructuring as most insurance companies embarked on intra- and inter-industry collaborations. Mergers between Wapic Insurance and Intercontinental Properties, Custodian & Allied Insurance and Crusader Nigeria Plc. were recently concluded. Deals on acquisition of 100% stake in Oasis Insurance Plc. by FBN Life Assurance Limited, Oceanic Life Assurance's acquisition by Old Mutual Nigeria Ltd were also sealed.

Characterized by immense and growing competition as indicated by our estimate of Herfindahl-Hirschman Index, we see the industry's prospects hinging on better product development for market growth.

Insurance stocks performed markedly well in 2013 given the return of 40.48% with the sustenance into 2014 as year-to-date (YtD) return currently pegs at 10.95%. In our view, the insurance sector is inherently laden with intrinsic potentials that portray the industry as a "**Rich Hunting Ground for Investment**".

NEM, MBENEFIT, AIICO, CONTINSURE, and UNITYKAP remain our top picks with estimated upside potentials for 2014 of 68.00%, 57.41%, 36.62%, 20.54%, and 20% in that order. We place 'HOLD' recommendation on SOVRENINS, CUSTODYINS, and MANSARD given their expected return potentials of 0.00% -0.51% and -4.92% respectively while we rate WAPIC a 'SELL' given its expected return of -54.39%.

Negative sentiments towards insurance sector as well as relative illiquidity of insurance stocks are the most likely risks to our valuation.

Analysis of Global and Nigerian Insurance Industry

Abounding Opportunities

The global insurance industry is currently dominated by insurance companies in Europe, North America and South Asia. Africa currently contributes 1.56% to global gross premium based on Swiss Re's estimates. Africa and other emerging economies are however expected to be the major drivers of global premium from now till 2030 due to the highly untapped potentials inherent in those economies. **Opportunities have also risen from power generation deals currently on-going in major African countries.**

The Nigerian space has also seen quite impressive progress as premiums written grew on an 8-year CAGR of 17.86% between 2004 and 2012 (from NGN69.4bn to NGN258bn). This growth was majorly influenced by the Motor, Life and Energy lines of business, with Life business accounting for 25% of total premium written. This contrasts the trend in global insurance space as life contributed 56% [1]to total premium in 2013. The peculiarity of Nigerian insurance industry has mainly been attributed to issues around affordability of insurance products as well as the lack of trust in, and awareness of insurance.

Interestingly, the government has often provided certain statutory support as insurance companies are regulated by two main Acts:

- The Insurance Act No. 1 of 2003 (1A) which governs the licensing and operation of insurers, reinsurers, intermediaries and other providers of related services; and
- CAMA 1990 which governs all companies registered in Nigeria.

The apex regulatory body for Insurance in Nigeria, National Insurance Commission (NAICOM), which replaced the Nigerian Insurance Supervisory Board is also making efforts to engender regulatory support for better insurance penetration.

NAICOM has expended considerable efforts towards ensuring the insurance industry is comparable to those of more advanced countries. Recent efforts include increase in financial inclusion through creation of risk-based recapitalization exercise, "No Premium No Cover", Market Development and Restructuring Initiative (MDRI), adoption of IFRS standard of reporting by

[1] Agusto and Co. 2013 Insurance Report

insurance companies, Enterprise Risk Management, and issuance of guidelines on micro-insurance and Takaful (non-conventional) insurance.

Demographic Blessings Signal Prospect

In recent times, the Nigerian demography has been a key driver of local and foreign investors' participation in the various sectors of the economy. With a population size of *c.*170m, growth rate of 2.54%, and median age of 17.9years (NBS), the potentials are boundless. Like most emerging economies, the urbanization rate in Nigeria is rapid, at 3.75% per year with an urban population which is *c.*50% of total population. Also, the proportion of the middle class to the total population is also expanding, currently 23% according to estimates from the African Development Bank (AfDB).

Chart 1.1 Nigeria's Age Distribution

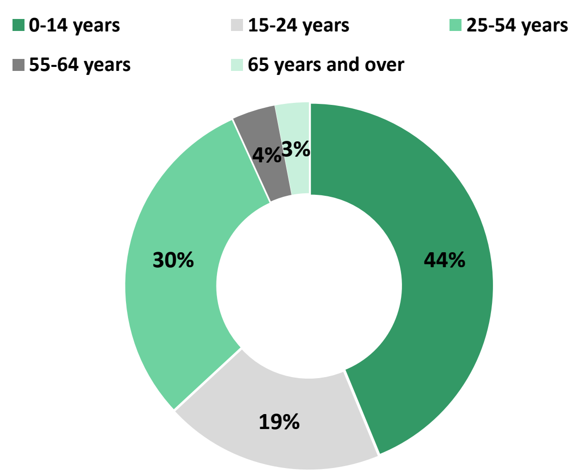
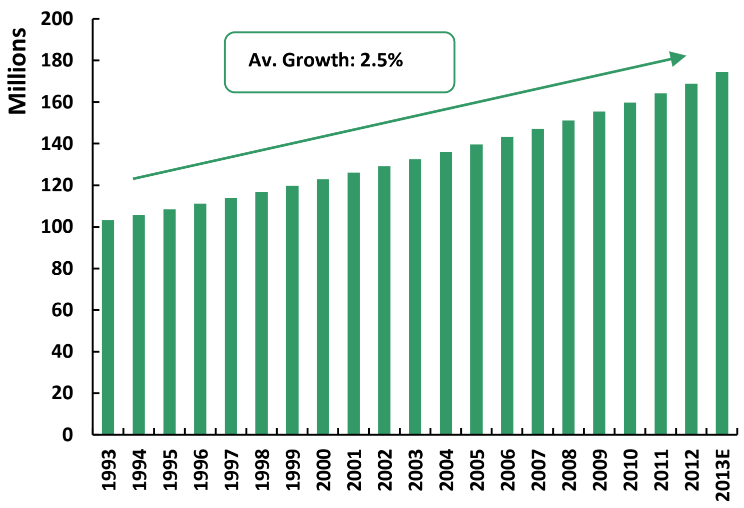


Chart 1.2 Total Populations in Nigeria (1993 to 2013)



Source: World Bank, CIA Fact book, Meristem Research

Furthermore, life expectancy in Nigeria (52 years) is low relative to its African peers e.g. South Africa at 56 years, Ghana at 61 years, Kenya also at 61 years and Mauritius at 74 years. This is basically as a result of the low quality of life lived by Nigerians as 84.5% of Nigerians live below USD2 a day according to World Bank. All these portend immense growth opportunities for insurance business in Nigeria.

Recapitalization Policy Instilling Confidence

In 2005, in a bid to improve the risk-taking capacity of insurance companies, NAICOM proposed new capital base for the industry. This recommends an increase in minimum capital base of insurance firms.

- Life insurance firms: from NGN150m to NGN2bn
- Non-life underwriting companies from NGN200m to NGN3bn
- Composite insurance firms from NGN350m to NGN5bn;
- Reinsurance companies from NGN350m to NGN10bn

This in our opinion will further solidify the industry's capacity to shoulder risk and also engender confidence among the teeming Nigerian population.

Market Development and Restructuring Initiative (MDRI) Strengthening Insurance Industry

NAICOM, in 2010 instituted the Market Development and Restructuring Initiative which aimed to deepen and grow the Nigerian insurance market by focusing on:

- Enforcement of compulsory insurance;
- Sanitization and modernization of insurance agency system;
- Wiping-out fake insurance institutions;
- Adoption of Risk-Based supervision and Solvency-Focused Regulation;

The initiative imposed these classes of insurance on the users: Third Party Motor Insurance, Builders' Liability Insurance, Group Life Insurance, Occupiers' Liability Insurance, Healthcare Professional Indemnity and Employers' Liability Insurance.

Risk-Based Supervision as one of the mandates of the MDRI aims to overhaul the former approach to supervision (i.e. rules-based supervision) by focusing on identifying the most critical risks facing insurance companies to assess their risk management adequacy with regards to their financial strength, as well as their vulnerability to potential adversities. This is in opposition to rules-based supervision, within which simple questions were used to measure performance, which was subjective in nature. All insurance companies have been mandated to establish Enterprise Risk Management (ERM) frameworks to ensure that the companies only underwrite risks that are commensurate with their capabilities.

Takaful Fostering Insurance Penetration

To enable Nigerian underwriters operate competitively with contemporaries, the need for Takaful insurance became necessary. According to NAICOM guidelines, “Takaful-Insurance is a form of insurance which incorporates elements of mutuality and ethical finance considerations and it is open to all people regardless of faith and background”. **This in our view will further deepen insurance density and penetration especially in the Northern part of the country where conventional insurance is viewed by many to be against their beliefs.**

While some reforms and regulations put in place by NAICOM have yielded some successes which include; prompt claims settlement, improved corporate governance, increased use of technology in running insurance businesses, we also see more opportunities springing from the economic fundamentals of the country.

Distribution of Insurance Products in Nigeria: Brokers Hold Sway!

Distribution of Insurance products in Nigeria is majorly hinged on brokers and agents as *c.*90% of corporate businesses are generated through them. It is therefore quite understandable that the number of brokers and agents are exponentially larger, with 2,477 brokers and agents servicing the 48 insurance and 2 reinsurance companies currently in operations.

Given the nature of insurance in Nigeria, where demand for insurance is driven largely by corporate entities relative to private individuals, the insurance brokers have a relatively autocratic power in the industry. This is evident in their late remittance, and in extreme cases, non-remittance of premiums to insurance companies.

Realizing this fact and its negative effect on the going concern of insurers and the future industry in general, NAICOM introduced the “No Premium No Cover” policy which categorically specified that the receipt of an insurance premium shall be a condition precedent to a valid insurance contract, else, the contract is null and void.

It is expected that incidence of brokers withholding insurance premium for more than 30 days will reduce significantly going forward. This has improved the qualities of premium written by insurance companies in 2013 as against prior years where huge chunk of premium written were recorded in the books as receivables.

We also expect the policy to spur brokers to find more ‘legitimate’ ways in augmenting the incomes generated from commission received from insurance companies. This we believe may be achieved through initiatives including the recruitment of competent marketers with enticing emoluments, continuous training and development of workforce, amongst others.

A lot of insurance companies have expanded their branches and agency networks to take advantage of Nigeria’s rich demographics by spreading across all major cities in the country. However, a significant proportion of the branches are located in the South Western region of the country. This, in our opinion, has contributed massively to the lower level of financial inclusion and demand for insurance in the Northern part of the country.

Insurance Penetration & Density: Knee-high to a Grasshopper

European countries were the top three countries in both insurance penetration and density, with Luxembourg identified as the country with the highest among the countries examined. Luxembourg’s premium is driven by life premium which contributed *c.*89% to total premium in 2012. The country has a well regulated insurance industry and offers a number of diversified insurance and financial products.

Other countries in the top rank were Ireland, United Kingdom and Switzerland. This can be attributed to the comparative development and affluence of European countries, which accounts for 28% of the world’s GDP.

The European insurance industry is one which focuses majorly on life insurance for the over 550 million residents in its region. Pensions and healthcare benefits, which have been excluded from life insurance in Nigeria, are incorporated into premium regarded as life insurance premium in Europe. The market is also highly regulated and developed, following the restructuring of the European life insurance market in 1774 with the Life Insurance Act of same year.

Chart 1.3 Top 20 Countries: Insurance Penetration

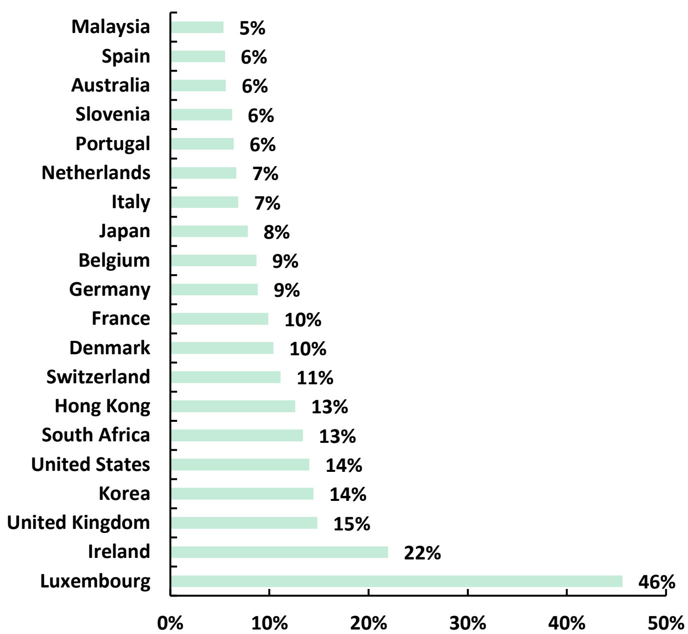
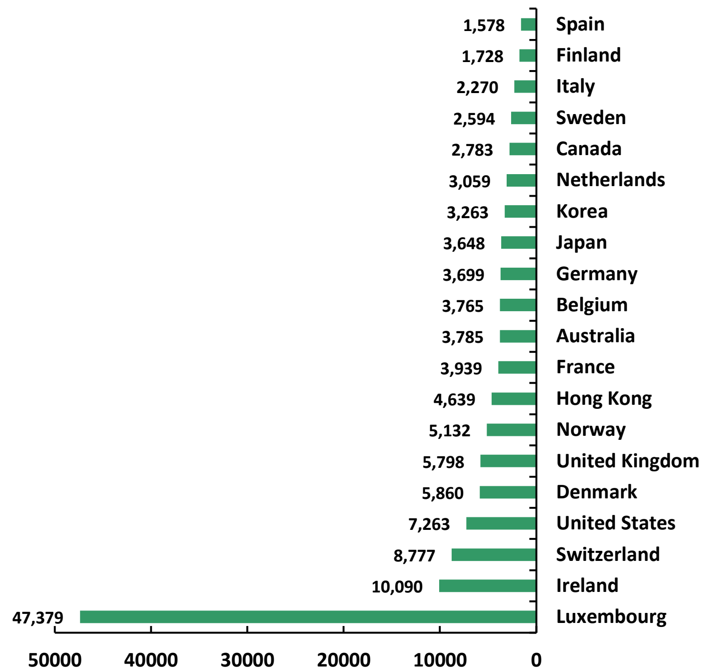


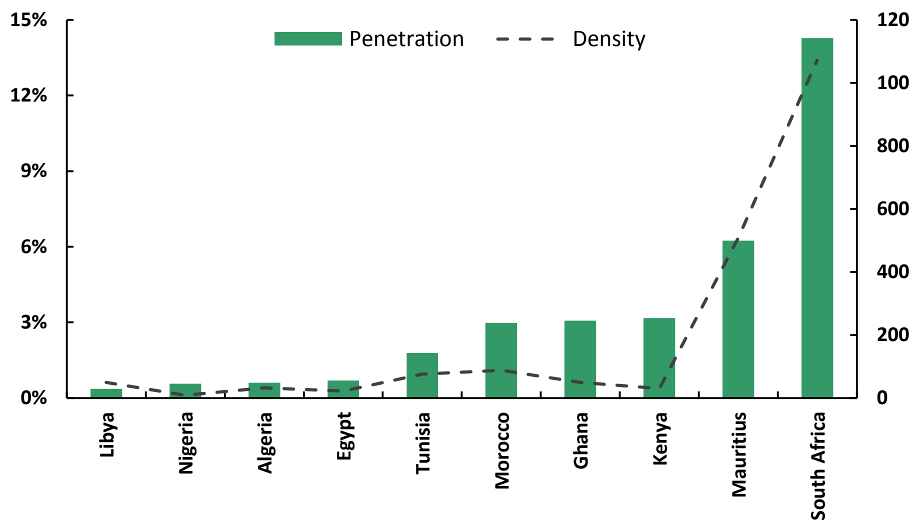
Chart 1.4 Top 20 Countries: Insurance Density (in USD)



Source: OECD, A.M. Best, Meristem Research

The depth of insurance in Nigeria, as measured by the insurance premium relative to GDP is 0.43% (post-rebasing), which is abysmally low in comparison with other major African countries (Ghana: 3.07%, Kenya: 3.17%, and South Africa: 13.39%). South Africa has the highest insurance penetration and density in Africa and 6th among the countries of the world reviewed.

Chart 1.5 Insurance Penetration and Density (in USD) for Select African Countries



Source: OECD, A.M. Best, Meristem Research

This may not be unconnected to the fact that the insurance industry in South Africa mirrors the accounting, regulatory reforms and consumerism of European insurance companies, with life insurance as the major driver of its Insurance sector.

Nigerian insurance on the other hand operates within a regulatory system which isolates insurance from pensions, and offers services to a populace unaware and/or indifferent about the offerings and benefits. However, given the increased modernization of the economy and increased consumerism of Nigerians, the insurance market has witnessed a significant level of improvement with demand increasing from the individual segment of the market. Also, as government intervention in the Financial Services sector continues, we expect that insurance companies will have the capacity to improve on their coverage of the Nigerian market. All these we expect to help boost premium generating abilities which would consequently increase insurance penetration and density going forward.

Analysis of Nigerian Insurance Industry

Value Chain Matrix

…Where lies the value?

We assess the value chain of life and non-life insurance businesses. The analysis showed that both lines have the same processes but differ in the vertical sub-processes.

Value Chain Matrix for Life and Non-Life Insurance

Product Development	Marketing and Communications	Sales	Underwriting	Customer Support	Claims	Finance
Actuarial Process	Market Research	Direct Sales	Risk Analysis	Policy Acquisition and Servicing	Claims Registration	Statement Preparation
Product Definition	Market Development	Acquisition and Sales	Risk Acceptance	Issue Quote	Claims Validation	Accounts Receivable
Product Pricing	Product Branding	Sales Planning	Risk Inspection	Issue Policy	Loss Reserve Creation	Commission Processing
Product Filing	Market Promotion	Sales Execution	Quotation Validation	Policy Endorsement	Claims Assessment	Remittance processing
Product Configuration	Channel Support	Sales Tracking and Monitoring	Policy Validation	In-Force Business	Claims Adjudications	Collections Processing
Product Testing		Distribution Channel	Rating Management	Policy Renewal	Fraud Management	Costing, Budgeting and Taxation
Product Maintenance		Commission Management	Loss Control	Policy Reinstatement	Claims Subrogation	
			Referrals and Negotiations	Rewrite, Reissue, Cancellation	Claims Litigation	
			Reinsurance Facility			

Source: TATA Consulting, Meristem Research

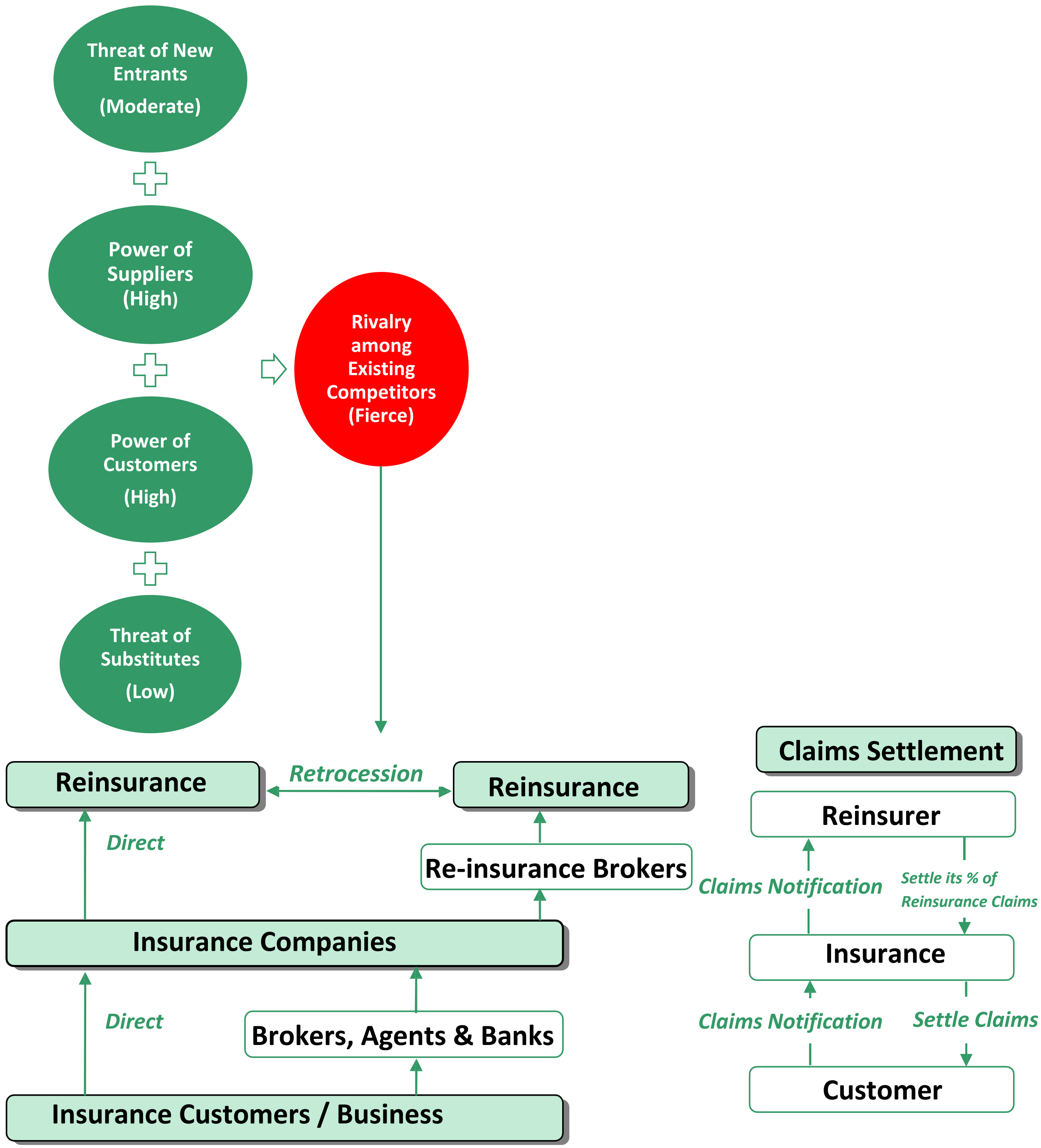
Given the nature of the insurance business, some opportunities in the value chain lie in the usage of technology to improve efficiency. Hence, we view how operations of the Nigerian insurance industry can be enhanced through the effective use of technology in the chart below.

Product Development	Marketing and Communications	Sales	Underwriting	Customer Support	Claims	Finance
• Use of Analytics to get Preferences • Collaborations with users through social media in Product Development • Survey/Sampling for Market Feelers	• Social Collaborations • Performance Dashboards • Online Adverts • Promo Notifications • on-demand Information to Field Agents • Convergent Apps	• Immedite links to Agents and their Information • Feedback from Customers • Direct information to Salespeople	• Quick online quotes and Sales Illustration • Policy Issuance • Telematics • Performance dashboard	• Review Policies Online • Bill due notification and payment • Self service • Coaching apps	• Raising of claims • Claims Status • Claims adjudication • Repair, monitor and Status	• Use of budgeting softwares • Use of payroll accounting softwares

Source: TATA Consulting, Meristem Research

Apart from the opportunities requiring the usage of technology, others may also arise from improvement in operations, facilitated by increased awareness due to advertisements. Overall, new entrants into the insurance value chain may decide to take advantage of any of the prospects highlighted above.

Analysis of the Insurance Industry Using Porter's Five Forces



Threat of New Entrants: Moderate

The threat of new entry into Nigeria's insurance space is modest given the capital requirement that pegged respectively at NGN2bn, NGN3bn, NGN5bn and NGN10bn for life, non-life, composite and re-insurance. Albeit, NAICOM's current policy not to issue fresh insurance certificate to any interested party makes the threat of new competitors limited to certain extent. However, parties who are interested in the Nigerian insurance industry can opt for merger and/or acquisition. Recent foreign entry into the market by Sanlam's stake in FBN life assurance and U.K Prudential Plc.'s entry in view assert this position.

Bargaining Power of Suppliers: High

Major suppliers of insurance products from household and corporates remain insurance brokers, accounting for >80% of industry's earned premium. By our estimates, corporate entities contribute more to gross premiums than households while >90% of premiums generated from corporate entities come from insurance brokers. With the large number of brokers (middlemen), they can leverage on their broad network base to bargain for high brokerages given the industry volume they control.

Bargaining Power of Customers: High

Insurance products in Nigeria are homogenous with very low switching cost, thereby, strengthening the powers of buyers to negotiate for reduced premiums even as competition remains stiff.

Threat of Substitutes: Low

Whilst threat of substitute remains low, complex financial instruments which act as hedges for investments and ensure returns to investors have recently been used as substitutes for some insurance products. The rate at which people participate in the investment worldwide via forex trading, financial instruments such as derivatives and other alternative investment channels, are gaining traction in this era and may slightly increase the level of competition in the domestic space. Despite the increasing uptake in the use of these substitutes, we still consider the degree of substitutability of insurance as low, especially in the domestic market.

Competitive Rivalry: Fierce

The insurance industry tilts more towards perfect competition and also inherently laden with stiff and rising competition. Differentiation as a means of boosting sales seems difficult to achieve in the industry as most insurance policies are identical in nature and content. However, we believe that prompt claims payment among other factors can allow companies build up enough brand equity that will engender good competitive edge.

Collaborations in the Nigerian Insurance Space

In an effort to improve distribution of insurance products in the country as well as increase the capitalization of industry players, the number of local participants is expected to shrink as more inorganic growth strategies (i.e. Mergers and Acquisitions) ensue. Custodian and Allied Insurance Plc. concluded its acquisition of Crusader Nigeria Plc. in 2012/2013FY; FBN Life Assurance also acquired a 100% stake in Oasis Insurance Plc. Similarly, Universal Insurance Plc. and African Alliance Plc. have also expressed their intent to merge and form a new entity—Universal Alliance Insurance Plc.

As a result of Nigeria's economic prosperity and growth momentum, a number of foreign operators have made inroads into the Nigerian insurance space while others have expressed the desire to participate and play active roles. A total of ten (10) foreign insurance companies currently own significant stakes in local insurance companies.Sanlam Emerging Markets (SEM), the Sanlam Group's EM business bought 35% stake in FBN Life Assurance and market grapevine suggests it is in talks to purchase stakes in Fin Insurance; Assur Africa Holdings acquired a 67.68% stake in GT Assure (now Mansard Insurance); New India Assurance Company of India own 51% stake in Prestige Assurance; Old Mutual of South Africa bought 70% stake in Oceanic Life which now operates as Old Mutual Life Assurance Company, Nigeria. Other companies that have expressed interest in the Nigerian insurance industry are Prudential Plc. from the UK, Liberty Holdings from South Africa, among others.

Two Good Heads better than one; Ripe Time for more Industry Consolidation and Foreign Participation

The insurance industry is fragmented as industry players hold market share in fractions. No industry player held above 12% of the market share in 2012. Leadway Insurance has been the industry leader for a number of years, holding 15% to 11% of total market share between 2009 and 2012. The company was followed by AIICO Insurance and IGI which accounted for 7% and 6% of the market share in 2012 respectively.

Whilst various qualitative factors have been employed to buttress the need for the industry to go through business combination in form of mergers and acquisitions, we are tuned to support this argument from the quantitative stance. Using the Herfindahl–Hirschman Index (HHI), we measured the degree of concentration and arrived at *c.*416, showing that the insurance industry is not concentrated and will have to consolidate its top four companies (by percentage of market share) before a level of moderate concentration (1000—1800) may be attained in the industry.

For foreign participants, proper knowledge of the Nigerian insurance industry is required for business success as evidenced in the significant stake in FBN Life Assurance by Sanlam Emerging Markets in South Africa.

We believe that the combination of the strong financial base and technical expertise of the foreign companies coupled with the know-how regarding the Nigerian market from domestic insurance companies will lead to highly profitable investments as they would be able to take advantage of synergies in operations and facilitate access to the unique opportunities embedded in the industry.

We therefore highlight, in the table below, collaborations in form of mergers/acquisitions and product collaboration, in the Insurance sector between 2012 to present.

MERGERS		
COMPANY A	**COMPANY B**	**RESULTANT COMPANY**
CUSTODIAN and ALLIED	CRUSADER INSURANCE	CUSTODIAN and ALLIED INSURANCE
WAPIC INSURANCE	INTERCONTINENTAL PROPERTIES	WAPIC INSURANCE
PROPOSED/ONGOING		
UNIVERSAL INSURANCE	AFRICAN ALLIANCE	UNIVERSAL ALLIANCE INSURANCE
REJECTED		
CORNERSTONE INSURANCE	LINKAGE ASSURANCE	

ACQUISITIONS		
ACQUIRER	**ACQUIREE**	**PERCENTAGE ACQUIRED**
FBN LIFE	OASIS	100%
OLD MUTUAL (SOUTH AFRICA)	OCEANIC LIFE	100%
ASSUR AFRICA HOLDINGS	GTASSURE—MANSARD	75%
SANLAM LIMITED (S. AFRICA)	FBN LIFE	35%
NSIA	ADIC INSURANCE	90%
ACCESS BANK	WAPIC INSURANCE	58%

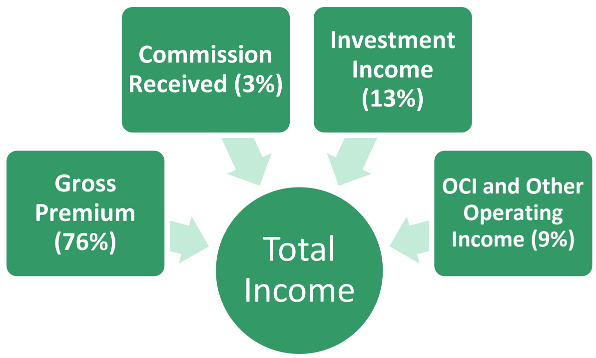
COLLABORATIONS		
SOVEREIGN TRUST INSURANCE	UBA METROPOLITAN	UBAMET provides its clients with general insurance solutions through STI and vice versa
MUTUAL BENEFITS ASSURANCE	PORTLAND PAINTS	MBENEFIT provides fire insurance coverage to customers of Sandtex paints
MANSARD INSURANCE	MTN NIGERIA	Mansard in collaboration with MTN for Y'ello cover
CONTINENTAL REINSURANCE	SWISS REINSURANCE	Swiss Re working with Continental Re to improve coverage in Nigeria
NAICOM	NIC Ghana	Cross-border supervision of Nigerian insurance companies operating in Ghana

Analysis of Operations of Insurance Companies in Nigeria

Revenue Generation and Composition

Insurance companies do not only obtain and keep premiums from policy holders periodically, they also invest the premiums to generate streams of income necessary for operations. The components of insurance companies' financials typically include actual premiums generated, investment income derived from investing premiums, as well as commission received on reinsurance. These form the total income which accrues to the companies annually.

Chart 1.6 Insurance Industry Income composition

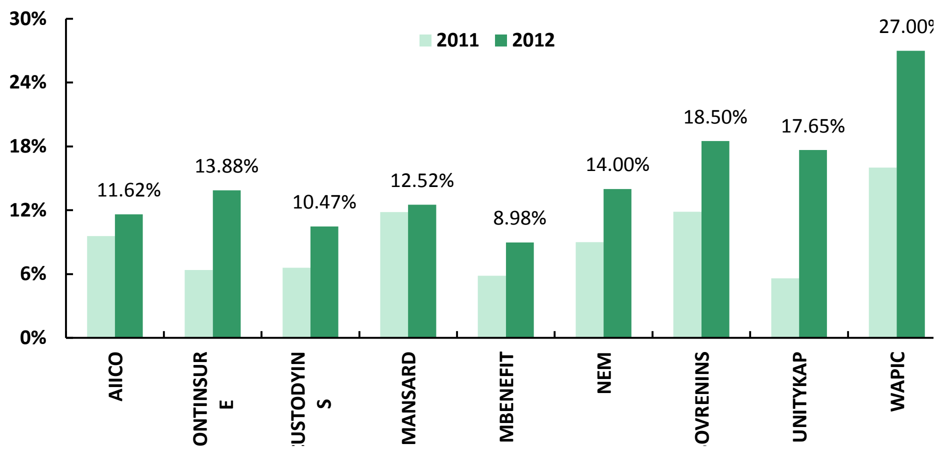


Source: Companies Financials, Meristem Research

The primary function of the insurance business is generation of premium income, which is usually the bulk of total income. These companies derive investment income by efficiently utilizing existing investment assets as well as premium generated from policy holders. This income not only forms a major part of the profits reported, but also helps to offset the effect of the high incidence of decline in bottom-line (emanating from average combined ratio of 111.5% in 2012).

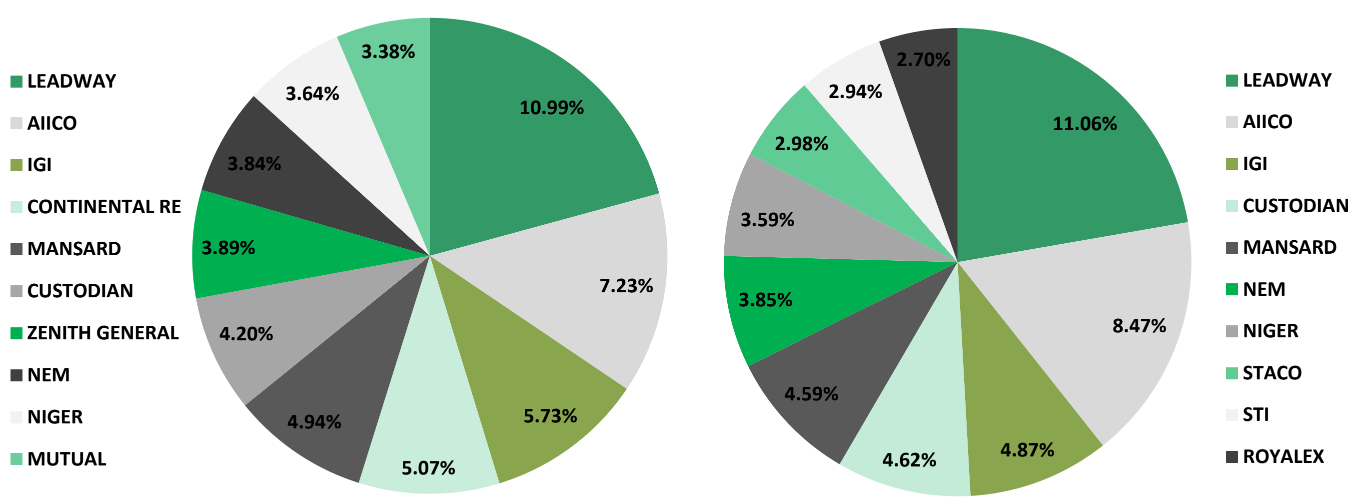
Return on Investment was generally higher in 2012 than in 2011 as shown in the chart below. This in our view was basically as a result of the attractive yield environment in 2012, as well as the increasing profitability of the real estate segment of the economy, from which most insurance companies derive the bulk of their investment income via holding of investment properties in their asset mix.

Chart 1.7 ROIA for select companies



Source: Companies Financials, Meristem Research

Chart 1.8 Top 10 Companies by Gross Premium Earned {2012 (LHS) and 2011 (RHS)}



Source: Companies Financials, NIA, Meristem Research

Drivers of Premium: Motor and Life Lead the Pack

The top ten insurance companies by Gross Premium Earned (GPE) controlled 52.9% of Total Gross Premiums Earned in 2012 of the 44 companies reviewed. The top 20 companies accounted for 76.9%, while the remaining 24 companies accounted for the 23.1% balance.

Chart 1.9 Gross Premium Growth (2004 to 2012)

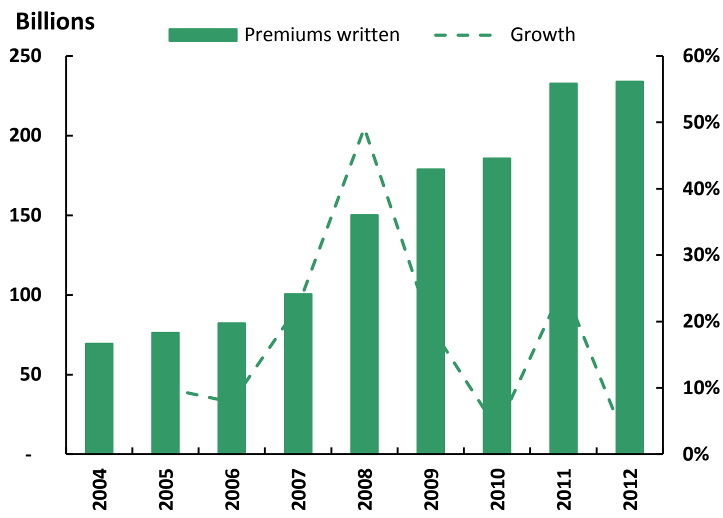
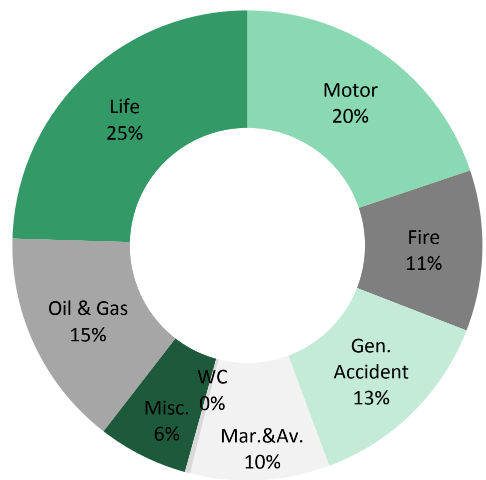


Chart 2.1 Policy Contribution to Gross Premium Earned (2011)



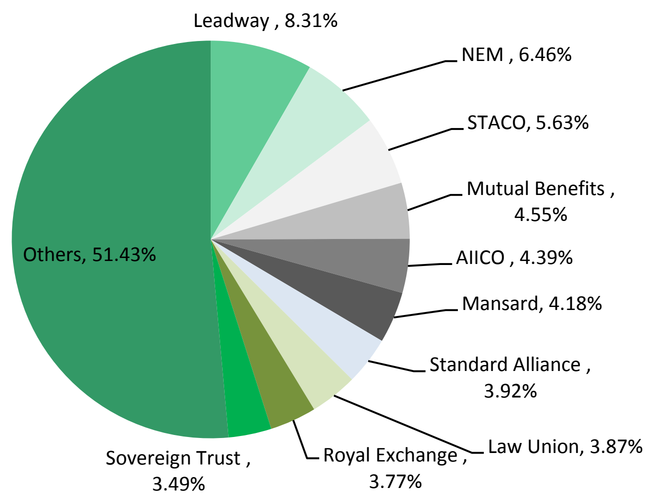
Source: NAICOM, NIA, Meristem Research

Motor Insurance remains a major forerunner

This segment has consistently featured at the forefront of the Nigerian insurance industry. Its relevance has improved significantly as NAICOM commenced its enforcement of compulsory insurance, entailed in the MDRI. Motor insurance, especially third party, has enjoyed a high level of patronage by policy holders as law enforcement agencies have worked together with insurance regulators and Federal Road Safety Commission (FRSC) to guarantee proper compliance and create better awareness.

Given the focus placed on this business line by regulators, numerous insurance companies have positioned to take advantage. Additionally, with increasing consumer confidence (relative to the level before the introduction of MDRI) in insurance companies and their offerings; rich demographics in the country – burgeoning middle class, increasing disposable income, improved infrastructure (i.e. improvement of road networks); we foresee a potential increase in motor premium accruing to insurance companies, in the near term.

Chart 2.2 Top Companies by Motor Premium Market Share (2011)



Source: NIA, Meristem Research

The introduction of, and official commencement of the Automotive Policy, expected in December 2014 is bound to impact positively on motor insurance premiums, albeit moderately, as purchasers of new Nigerian-made automobiles seek to reduce their exposure to risks by purchasing comprehensive motor insurance covers instead of the widely used third party policies.

Life Insurance in high demand

Life insurance in Nigeria is understandably in high demand, inarguably induced and buoyed by regulations. The business line has consistently been a profitable venture as it constituted an average of 19% to total gross premiums written between 2004 and 2011. In 2011, it accounted for 25% of Gross Premium, which we attribute to the growth in group life (Life insurance offered by an employer or large-scale entity to its workers or members) segment. **For most insurance companies, premium derived from group life insurance improved significantly upon the introduction of MDRI which imposes group life insurance on companies.**

NAICOM is currently working in partnership with some government agencies to ensure adequate compliance with the regulation, and a committee on strategic planning for implementation of group life insurance is being formed, and will be comprised of NAICOM, NLC and PENCOM members.

The Commissioner for insurance, Mr. Fola Daniel, recently held a meeting with the President of Nigeria Labour Congress (NLC), Abdulwahed Omar, to ensure compliance with group life coverage by employers of labour.

Energy Insurance still the fulcrum of insurance business

As a result of the immense contribution of Oil and Gas sector to the economy, the sector and consequently energy insurance has consistently been in the vanguard of government's policies. The Local Content Policy, Petroleum Industry Bill (PIB), privatization of power supply amongst other policies have influenced, and will continue to influence energy insurance.

NAICOM, as represented by the Commissioner for Insurance, stated that the Insurance sector has attained 40% local content retention of risk in the energy sector. This is 30% below the original target of 70% but surpasses the original starting point of <10% local retention.

Marine and Aviation Insurance

The major policies under marine insurance business are Cargo and Hull insurance. For cargo insurance, insurers provide covers to indemnify loss or damages to imported goods that are being transmitted through sea or air. Hull policies however seek to indemnify policyholders for losses arising from the use of vessels or yachts. The marine line of insurance is backed by the Cabotage Act (2003) in Nigeria, which seeks to preserve coastal shipping areas for indigenous maritime companies. However, the development in this segment is tempered, a fact not unconnected to improper implementation of the provisions of the Act.

Aviation insurance covers aircrafts against losses or damages while in operation and extends to the aircraft operator's legal liabilities to third parties in cases of death, injury and/or damage to property. This line of business (Marine, Aviation and Transit) contributed an average of 15% to total premiums written between 2004 and 2011. Growth has however been irregular, which we expect may improve once the Cabotage Act and Nigeria's Local Content Policy becomes fully operational.

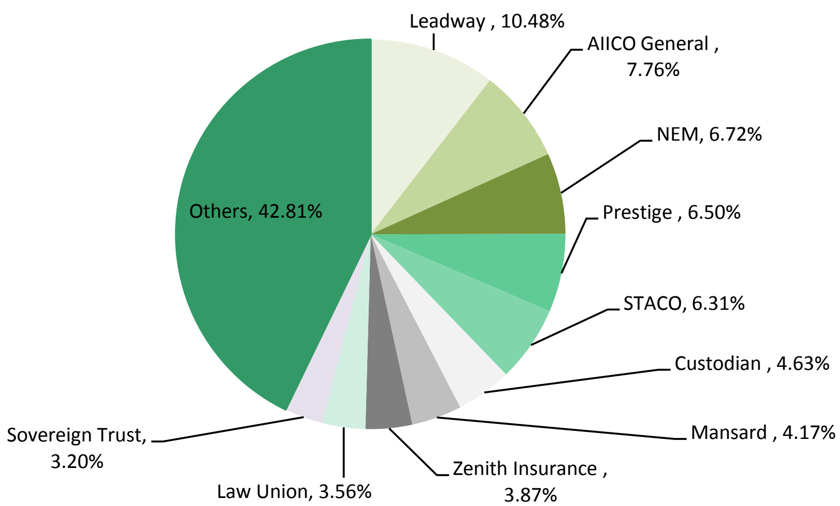
Fire Insurance

Fire insurance policies are suitable for property owners, (i.e. those who hold properties in trust or in commission and individuals or financial institutions who have financial interest in the properties). What is insured in a building under a fire insurance policy is not the building but the insured's financial interest in the building.

For corporate entities, there are basically two types of insurance policies under fire insurance: Loss of stock and loss of profit (consequential loss) insurance. The loss of stock is the monetary worth of the insured's stock that is destroyed as a result of fire, after considering some other factors such as value of stock salvaged from the outbreak. Loss of profit insurance involves indemnifying the insured for profit lost due to a fire outbreak, as a result of halt in operations, if covered.

Premium from fire insurance are low compared to what is obtainable from other major classes of insurance. However, this class of insurance has witnessed steady growth over the years, and has a 10-year average of 18% and 5-year cumulative average growth rate (CAGR) of 15% as at 2011.

Chart 2.3 Top Companies by Fire Premium Market Share (2011)



Source: NIA, Meristem Research

General Accident Insurance

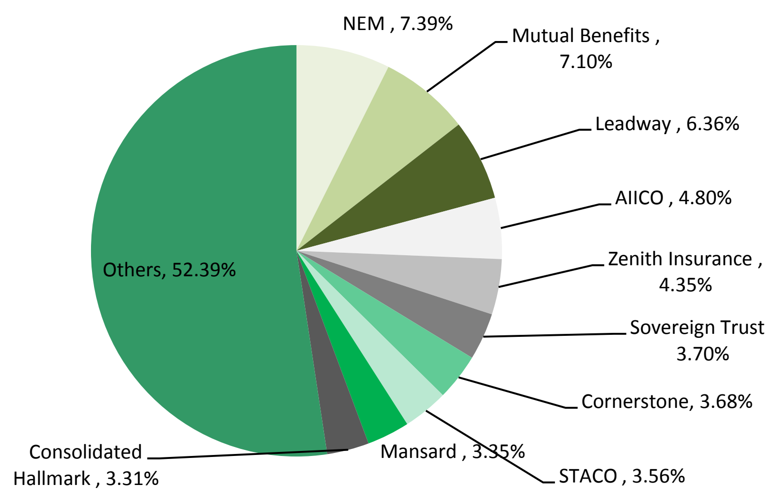
This policy covers indemnity to an insured for death, permanent disability, temporary and total disablement or medical expenses where insured, following an accident causing bodily injury solely by violent accidental and visible means.

There are two types of general accident insurance: personal accident insurance which covers an individual person against a bodily injury via accident and group accident insurance that covers more than one person and indemnity is paid to any member within the group that sustains bodily injury caused by accident.

General accident insurance has been the second highest contributor to gross premium incomes of insurance companies, trailing only motor insurance in the general class of insurance. Though, underwriting of oil and gas insurance which kicked off fully in 2006 displaced it from the second position.

In 2011, general accident contributed *c.*14% to the total premiums generated in the industry, and has a 10-year average growth rate of 24% and 5-year CAGR of 20%.

Chart 2.4 Top Companies by General Accident Premium Market Share (2011)



Source: NIA, Meristem Research

Workmen's Compensation Insurance: Enjoying Little Patronage

This provides benefits to any worker who sustains any form of injury resulting into death or disability in the course of discharging work duties. The policy is usually taken by employers and is one of the required policies by law.
The benefits payable are graduated on a scale based on the employee's annual salaries. In addition to disability and death benefits, the Workmen's

Compensation product also makes allowance for some medical expenses as a result of injury or ailment to employees.

Underwriting Workmen's Compensation insurance has witnessed oscillating growth in premium income due to fluctuating participation from industry companies because of the low premium obtainable (highest of N1.7bn in 2009 between 2002 and 2011). Statistics from Nigeria Institute of Insurers (NIA) shows that eight insurance companies played in this class of insurance in 2011 and generated a premium of N630mn, compared to motor insurance where virtually all the insurance companies participated, generating premiums of *c.*N45bn in the same year.

Cost Structure

On the basis of 2012 financial scorecard of insurance companies, the cost structure has 23% of total expenses paid in form of claims, 16% incurred on reinsurance, 26% classified as management expenses, 19% takes the form of underwriting expenses, while bad and doubtful debt accounts for 4% of total expenses.

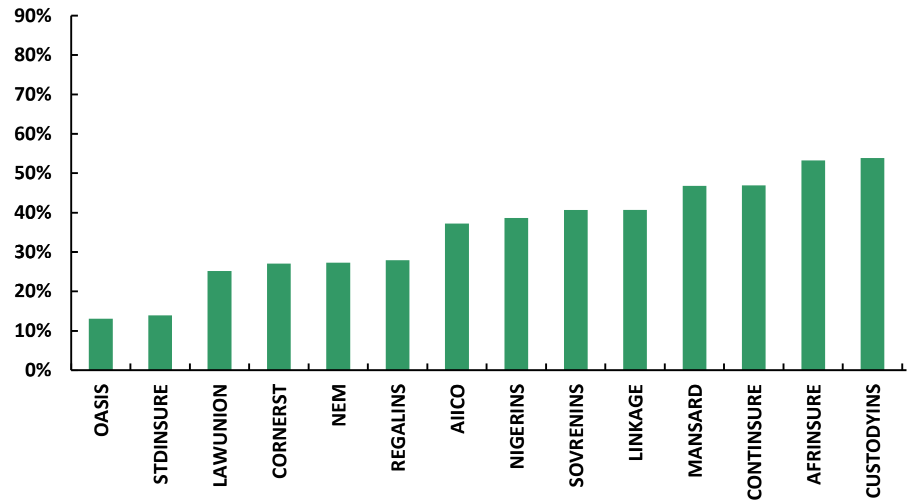
Claims Expenses

As insurance is a business of pooling risks and paying the insured when claims arise, claims expenses is a significant portion of the costs incurred by insurance companies. The average claims ratio in Nigeria is relatively lower in comparison with most other countries globally. This, some pundits attribute to certain exemption clauses included in some insurance contracts which allow insurance companies to avoid payment of claims when the need arises, aggravating the issue of trust by insurance users.

We however partly attribute that figure to Nigeria's focus on the non-life insurance segment from which it derives 75% of total premiums. Life businesses in Nigeria can garner claims ratio as high as 70% during certain periods as a result of the frequency of life claims and payments (which is not unconnected to Nigeria's low life expectancy). This is also in line with normal practices in other countries where combined ratio is usually above 100%.

Composite and non-life Nigerian insurance companies enjoy synergies arising from diversification in premium generation which spreads risks and claims across different segments of business. However, life insurance businesses maintain high claims ratios, with an average of 50% in 2012, compared with an average of 36.8% for the entire insurance industry. In 2013, earnings results showed that average claims ratio was approximately 38.2%, with the highest values recorded by composite insurance companies (e.g., 80% by WAPIC).

Chart 2.5 Claims Ratio across Selected Insurance Companies (FY2013)



Source: Companies Financials, Meristem Research
Q3'13 figures for AFRINSURE, NEM and STDINSURE

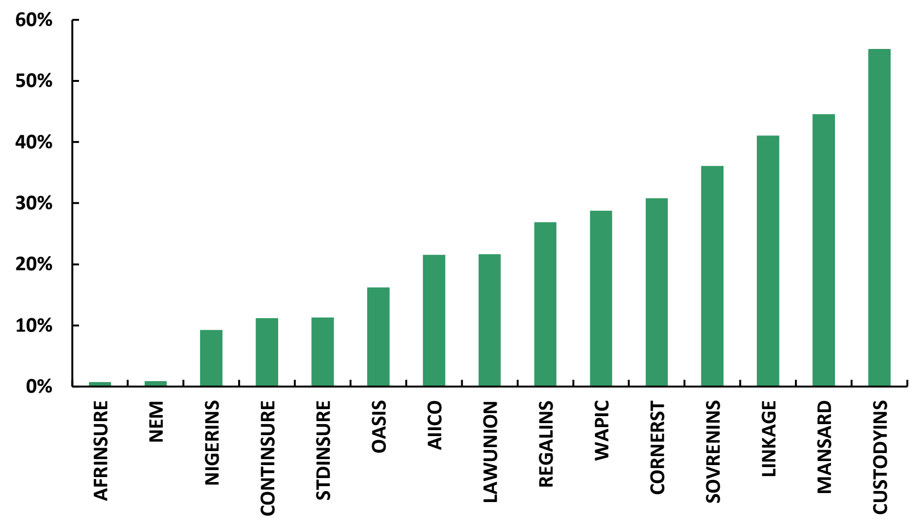
Re-insurance Expenses

As most insurance companies work in line with an enterprise risk framework, a portion of their written premiums are usually ceded with reinsurers. This is done in order to reduce their exposures to risks embedded in certain pooled risks. The companies are also compelled to have treaty deals with reinsurance companies which cover the pre-specified share of more than one insurance policy written by the ceding company as long as they fall under the scope of their contract.

The impact of the above is an increasing necessity for reinsurance especially for companies which are more inclined towards insuring "big ticket" transactions such as energy, marine and aviation. Companies with solvency margins which are less than adequate cede a significant portion of their premiums with reinsurers in order to afford payment of claims when they occur.

From the graph below, AFRINSURE, NEM and STDINSURE had the lowest reinsurance rates of the companies reviewed. AFRINSURE runs a solely life business and has the ability to cover claims payments when they arise (owing to its adequate capital base), negating the function of reinsurers. Even though NIGERINS also focuses on its life business and generates most of its premiums from the line, its borderline solvency (1.14x) makes the function of reinsurers dispensable to the functioning of the business. CUSTODYINS and MANSARD on the other hand incur high reinsurance costs as a result of their active involvement in the Oil and Gas insurance business in Nigeria.

Chart 2.6 Reinsurance Rate across Select Insurance Companies (FY2013)



Source: Companies Financials, Meristem Research

Q3'13 figures for AFRINSURE, NEM and STDINSURE

Management Expenses

Nigerian insurance companies classify expenses which cannot be classified as underwriting, claims and reinsurance expenses under the management expenses. This is usually high for most companies and significantly influences combined ratios. Expenses which are charged under this classification include salaries, allowances and other staff costs, repairs and maintenance, depreciation and amortization, director fees, advertisement fees and travelling expenses, and other administrative expenses.

Challenges Faced by Local Underwriters

In addition to challenges facing insurers globally, the Nigerian insurance industry also faces some challenges due to the peculiar operating environment. Some of these challenges relate to the orientation of Nigerians to insurance while others range from capital, government policies to regulation and enforcements etc.

From a holistic viewpoint, some of the most prominent challenges facing the industry are:

- **Lack of awareness** is a vital problem which has strained the Nigerian insurance industry since its inception. Most Nigerians, regardless of their literacy level, lack the basic understanding of the operations and benefits of insurance. **This is one of the primary contributors to the statistics of low insured population in Nigeria.**

- **Falsification of insurance policy documents** has also greatly affected the industry, especially in the class of motor insurance. Statistics from Federal Road Safety Commission (FRSC) showed that there were 12,545,177 registered vehicles in Nigeria in 2011. Applying this figure to the compulsory third party insurance with an insurance rate of N5,000 should give a minimum premium of *c.*NGN63bn to be written from that class of insurance in that year. However, the motor line reported gross premium written of NGN44.65bn in the same year. This may imply that the fake policy issuers realized the spread.

- **Rising competition** through reduction in premium rate in a bid to increase market share by players is also one of the problems facing the industry. This may lead to a problem of illiquidity, where underwriters have insufficient funds to pay claims when they arise.

- With the continued existence of **brokers and agents as major channels for insurance distribution,** excessive reliance on their services looks to pose more threats. They may be identified as the suppliers of insurance, with control of *c.*90% of the corporate business accruing to insurance companies which is the primary reason why non-remittance of premium was a big challenge that affected the profitability of insurance companies. Individual policies on the other hand are majorly sourced directly, as individuals interface with their insurers through their agents, e-channels and other avenues.

- **Opaqueness, unprofessionalism, poor governance and risk management** on the part of insurance companies reduced demand for insurance covers in the country, and consequently aggravated the problem of low insurance penetration and density. Opaqueness in financial reporting also drags the sector as most constituent companies, even public ones, do not release their financial results within the required time frame. As at the time of writing this report, only fourteen of thirty listed insurance companies have released financial scorecards for 2013. This greatly differs the situation in the Banking sector, its sister financial institution, where all listed banks have released 2013FY and H1:2014 results. Also, the reduction of indemnity by insurance companies through the insertion of clauses into contracts also propagates the negative perception of insurance by Nigerians.

- **Solvency and weak capital base** remain major challenges which a lot of insurance companies face. This is due to increased provisions for liabilities which increase as underwriting increases. It has a negative effect on the continued going concern status of companies. Most insurance companies have their solvency margins hovering around the adequate margin prescribed by NAICOM (1.00x). The implication of this is that any shocks to assets or liabilities may cause insolvency.

- **Deficiency in technical capacity** remains a challenge not only for insurance in Nigeria, but also for most other sectors in the Nigerian business space. Businesses such as banks have however recorded a high level of evolution as their operations have become highly technical and efficient, as e-banking services have been identified as a mode of increasing financial inclusion and driving income generation. For insurance companies, however, development has been lopsided as a number of insurance companies do not have operational websites, but some companies have portals that enable online transactions for their customers.

- **Dearth of innovative products** which reflect the tastes of consumers is also a problem which a few insurance companies are striving to overcome. This majorly emanates from indifferent attitude towards research and development by most insurance companies. Some companies have however strived to improve upon the traditional insurance products and develop products from which their target market will derive utility. Some insurance companies now have in plan a change in business strategy that will largely focus on retail insurance (i.e., insurance for low-income earners).

- **Limited vital skilled manpower** is also one of the major drags to the development in the sector**.** The industry lacks actuaries and skilled underwriters while professional marketers are not adequate. Regulators have however communicated the need to have developed workforce as the Director General of Chartered Insurance Institute of Nigeria tasked insurance companies to earmark 20% of their budgets for the development of their workforce regardless of position.

- **Economic factors** such as level of inflation can affect disposable income, thereby impairing the ability of individuals to pay premiums as and when due. Also, money market rates affect investment income, while exchange rate volatility affects other comprehensive income of insurers.

- **There is also the social (e.g. religious) factor** where some Nigerians believe that the conventional insurance goes against their beliefs. We are however moderately upbeat that the introduction of Takaful Insurance will manage this problem. Other social factors include rising crime rates which may cause increase in claims paid out and not necessarily translate to increased premiums.

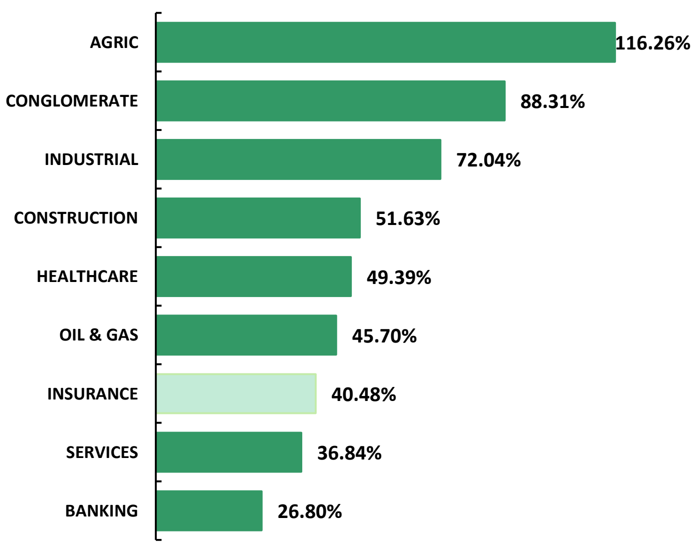
Market Sentiment on Insurance Stocks

Quoted insurance companies contribute <1.5% of total Nigerian market capitalization with 20 insurance stocks (*c.*67% of listed insurance stocks) currently trading at their nominal values of NGN0.50 given investors' unenthusiastic sentiments about insurance companies and the sector.

In 2012, the Insurance sector closed southwards, returning -4.73% as measured by MERI-INS index, still not unconnected to investors' negative sentiments. In 2013 however, the sector went through various policy reforms that shaped its outlook and partly restored confidence, which resulted in a significant 40.48% return (MERI-INS index) ranking the 7th sector by return on the Nigerian Bourse (NSE).

However, using Sharpe ratio (return per unit of risk) to analyse risk/return relationships, the Insurance sector with a Sharpe ratio of 6.24 outperformed all other sectors save Services sector with a Sharpe ratio of 114.05.

Chart 2.7 Sectors' Performance in 2013



Source: NSE, Bloomberg, Meristem Research

Table 1.1 Sectors' Performance in 2013

SECTORS	2013 Return	Sharpe Ratio	Ranking
SERVICES	40.48%	114.05	1st
INSURANCE	**45.70%**	**6.24**	**2nd**
BANKING	26.80%	0.22	3rd
AGRIC	49.39%	0.17	4th
CONGLOMERATE	51.63%	0.1	5th
HEALTHCARE	72.04%	0.06	6th
OIL AND GAS	36.84%	0.05	7th
INDUSTRIAL	116.26%	0.03	8th
CONSTRUCTION	88.31%	0.01	9th

***NB:** we used average T-bills yield in 2013 as risk free rate*

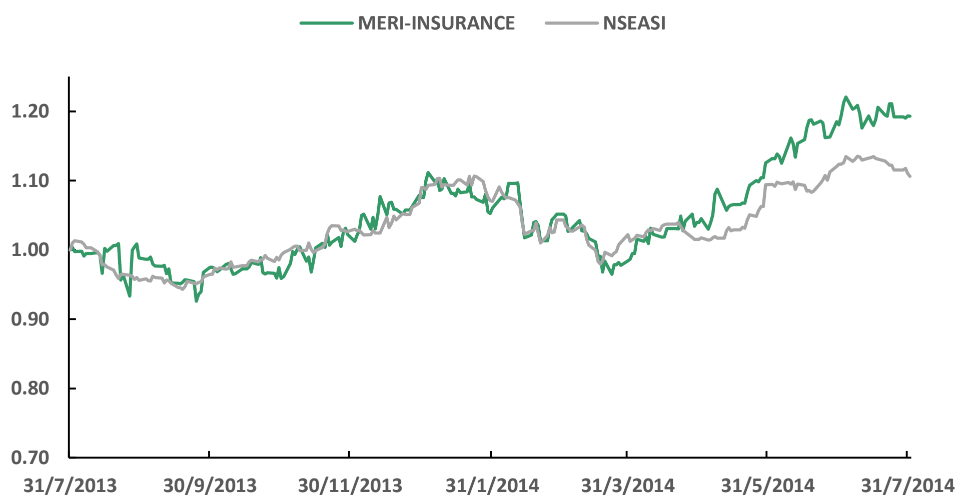
Even if returns from Insurance stocks look unattractive relative to other sectors from absolute stance, low level of volatility in returns suggests that Insurance sector is a **"Rich Hunting Ground"** for value-seeking investors willing to maximize wealth per unit of investment risk.

Whilst the general market sentiments so far in the year has been bearish, insurance counters have done relatively well as the sector currently pegs its Year-to-Date (YtD) return at 10.95%[2] as measured by the Meri-Insurance Index (MERIINS).

Some counters in the sector such as CUSTODYINS, MBENEFIT, MANSARD, and NEM have been investors' toast as they have returned 90.38%, 8.00%, 4.08%, and 1.33% in that order. We are however of the opinion that counters like AIICO and CONTINSURE have sound fundamentals that can drive their return performances in the remaining part of the year.

On the back of the general negative sentiments that characterized the Nigerian market in most part of first half of 2014 and the anticipated headwinds in the political environment in the second half of the year, we do not expect the insurance return for 2014 to outperform 2013 return even as we do not see it closing southward either. Our modest estimate pegs the sector's 2014 return expectation at 10.85%.

Chart 2.8 MERI-INSURANCE vs. NSEASI



Source: NSE, Bloomberg, Meristem Research

[2] Return as at 1st August

Company Specific Analysis

- AIICO Insurance Plc.
- Continental Reinsurance Plc.
- Custodian and Allied Plc.
- Mansard Insurance Plc.
- Mutual Benefit Assurance Plc.
- NEM Insurance Plc.
- Sovereign Trust Insurance
- Unitykapital Assurance Plc.
- Wapic Insurance Plc.

TP:	NGN1.11
RATING:	BUY

AIICO INSURANCE PLC.

Industry Life Leader…

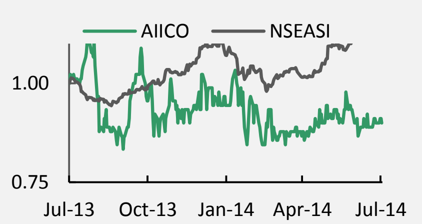
- AIICO started operations in 1963 as Nigerian-American Assurance Company Ltd., and its shares were listed for trading on the NSE in 1990.
- The company has two subsidiaries: AIICO pension management (owned by five companies) and Multishield Ltd., a health maintenance organization that became a full subsidiary in 2012.
- The business model on average tilts more towards the underwriting of life insurance. Also, the company is a major player in the general class. Multishield Ltd donates its quota to the company's top-line, contributing 3.27% as at 2013.
- With the compulsory group life insurance among the MDRI, we expect the company to generate more premiums from this unique opportunity.
- AIICO raised the bar in the insurance industry with the introduction of an online platform; AIICO e-insurance. This was instituted in order to bring insurance to the door of policyholders.
- The company has 5-year average growth rate of 67.45% in its top-line and -12.69% in its bottom-line.
- On the back of the company's result as at 2013FY and our outlook on the company within 5-year forecast horizon, we estimated the fundamental worth of AIICO at NGN1.11k. At its current price of NGN0.81k, it has an upside potential of 36.62%.

Relative Metrics	
Current price	0.81
P/E ttm	-5.45x
P/B	0.40x
Forward P/E	2.63x
52-Wk av. Vol (mn)	3.86
***Fundamental Metrics**	
BVPS	2.12
Net Margin	7.79%
ROAE	-6.87%
ROAA	-2.28%
Asset Turnover	0.28x
Leverage	3.52x
Mkt. Cap (N'bn)	5.61
Reinsurance Rate	13.18%
Claims Rate	22.19%
Expense Rate	39.48%

***Values as at H1:2014**

Key Price Metrics	
MtD Return	0.00%
QtD Return	0.00%
YtD Return	-3.57%
52-Week Return	-10.00%
52-Week Hi	1.00
52-Week Lo	0.75
Year Hi	0.97
Year Lo	0.76
Beta	0.86
14D-RSI	45.56

52-Weeks Price Trajectory



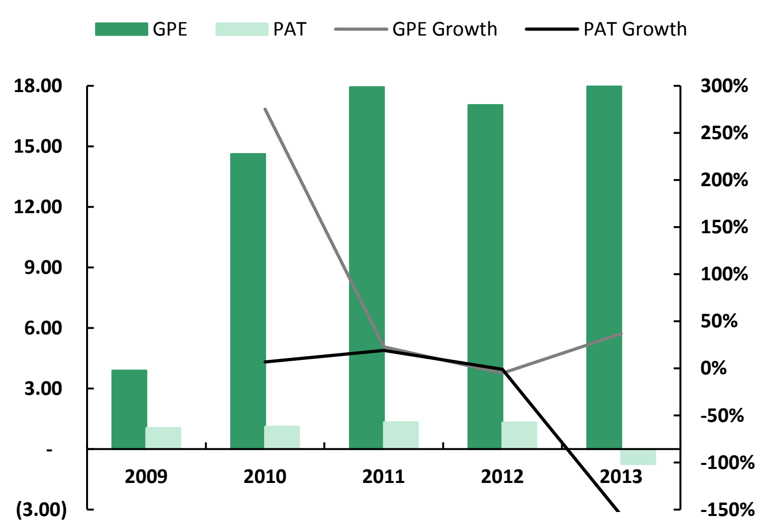
Business Summary

American International Insurance Company (AIICO) started operations in 1963 as Nigerian-American Assurance Company Ltd. The company transformed into a fully incorporated Nigerian company on the 14th July 1970, converted to a public liability company in 1989, and was listed on the Nigerian Stock Exchange in 1990. The company's group account is a consolidation with its two subsidiaries AIICO Pension Manager Limited (owned by the consortium of five companies) and Multishield Limited (a Health Maintenance Organization) that became a full subsidiary of AIICO Insurance Plc. on July 1st, 2012. AIICO is renowned as one of the biggest insurers in life underwriting business in Nigeria, and had 33 branches nationwide as at 2012.

In the face of industry consolidation in 2007, AIICO insurance merged with NFI Insurance Company and Lamda Insurance Company Limited in a scheme that transferred all assets, liabilities, and undertakings, including real and intellectual properties of NFI and Lamda to AIICO. The absorbed share capitals of these companies increased the shares outstanding of AIICO by 86% in 2008.

In a bid to change the face of insurance industry in Nigeria and stay competitive in the current challenging insurance environment, the company introduced an online electronic platform called AIICO e-insurance. The platform is designed to provide convenience in the purchase and renewal of insurance policies, and reporting of claims online from the comfort of any location.

Chart 2.9 **Gross Premium and PAT 2008 - 2013 (NGN Billion)**



Source: Company Financials, Meristem Research

Table 1.2 **Historical Performance Analysis (2010-2013)**

	Historical Performance Analysis			
	2010	2011	2012	2013
Reinsurance Rate	10.21%	12.90%	29.24%	21.82%
Claims Ratio	33.24%	40.10%	40.92%	37.22%
Expense Ratio	58.18%	51.84%	45.56%	74.13%
Underwriting Margin	24.98%	19.66%	36.09%	14.98%
Profit Margin	8.51%	8.53%	10.94%	-4.06%
ROAE	8.31%	11.28%	12.59%	-6.81%
ROAA	4.14%	4.63%	4.17%	-1.92%
Inv. Assets/Total Assets	69.21%	64.90%	66.92%	69.54%
ROIA	4.30%	5.65%	17.65%	12.43%
Leverage	2.01	2.44	3.02	3.55
Solvency Margin	2.27x	0.90x	1.42x	1.55x

Position and Outlook

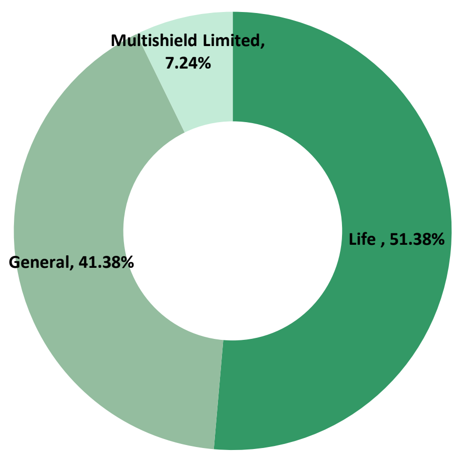
Composition and Drivers of Revenue

AIICO has a business model that is nearly a balance of Life and General insurance even as the company sustains its market leadership in the life segment of insurance. Also, a minority donor is one of its subsidiaries;

Multishield Limited that contributed 3.27% in Q3:2013, an improvement over the 3.26% it donated to the group's top-line in 2012.

With focus on the compulsory group-life insurance amongst the Market Development and Restructuring Initiatives (MDRI) by NAICOM, we expect AIICO being a leader in the life insurance class to strengthen expertise in its life business without relinquishing its market share in general insurance business. With the new NAICOM policy of "No Premium No Cover", the company's earnings quality is expected to improve even as it records lower bad debt provision going forward.

Chart 3.1 **Contribution of Classes of Insurance (as at Q3:2013)**



Source: Company Financials, Meristem Research

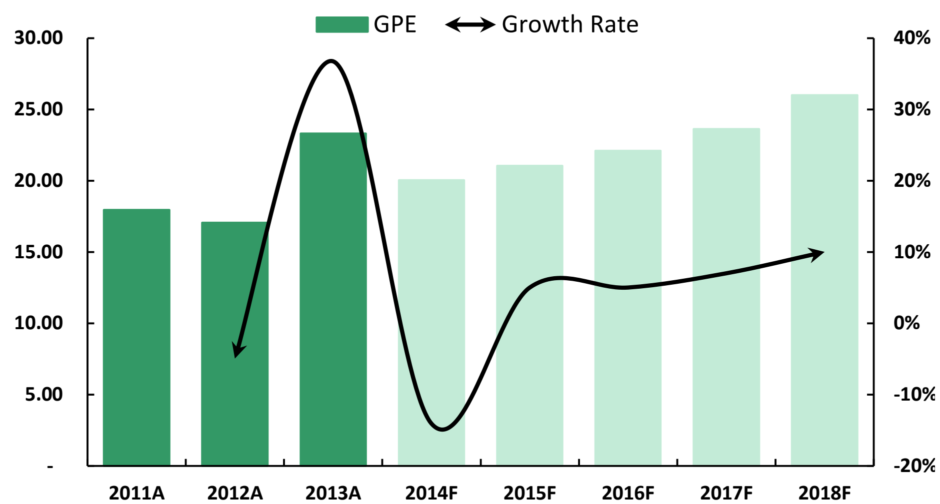
Operating Performance

Top-line

The company's top-line performance does not follow a particular growth pattern as growth in Gross Premium Earned (GPE) oscillates from positive, atypical positive growth and declines between 2007 and 2013. The company has an historical average growth rate (between 2009 and 2013) in top-line (GPE) of c.67% owing to an anomalous growth of 275.36% in 2010.

However, it is worth mentioning that there was a decline of 4.96% in growth in 2012 as a result of an astounding increase in unearned premium, putting the 5-year CAGR (2008 to 2013) at 45%. As at Q1:2014, the company has grown its top-line by 76.74%. Albeit, our full year growth in top-line is conservative at 12.00%, an assumption stemming from our perception of the company's capacity by year end.

Chart 3.2 **GPE and Growth Rate (Actual and Forecast) from 2013 to 2018**



Source: Company Financial, Meristem Research

Analysing the sector leaders in general insurance by classes, AIICO positioned itself as the market leader in the class of underwriting fire insurance in 2010, attracting 9.12% of the total premium income. Occupying the top tenth position in this class is a feat the company has been sustaining since 2008 after coming from 17th position in 2006. The company however dropped to second position in 2011, capturing 7.76% of the market share to trail Leadway Insurance, which accounted for 10.48% of the market share.

Also in 2010, the company also led the basket of underwriters in the class of general accident insurance, underwriting 8.3% of the market share. Although the company dipped to 4th position in 2011, this feat was greater than its prior 25th positions and below, between 2006 and 2010. 2007 was a good year for AIICO as it ranked among the top ten in the line of one of the "Big Ticket" insurance, marine and aviation, after dropping the oil and gas line of insurance from its coverage basket in 2008.

It was able to gain 4.81% market share in 2011 in the underwriting of Marine and Aviation. Zenith Insurance occupied the first position with 9.58% market share while 55% of the market share is concentrated in the hands of the top ten players. It is also noteworthy that the company has consistently ranked in the first ten positions amongst leaders in the underwriting of workmen's compensation, ranking 1st and 2nd position in 2010 and 2009 respectively.

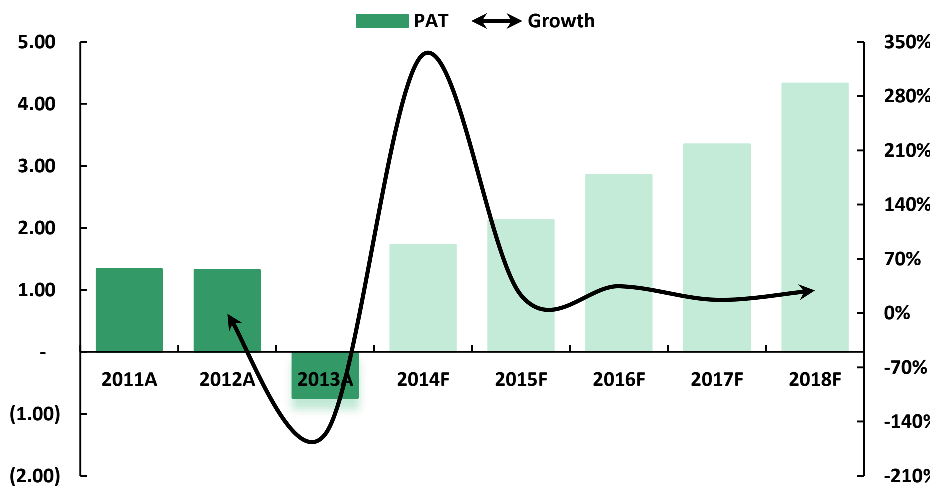
Bottom-Line

Much in line with the company's growth pattern in top-line, the bottom-line also oscillated in the period reviewed without a definite growth pattern. In 2012, the company's bottom-line suffered a marginal decline of 0.89% YoY as a result of a decline in top-line and a surge in reinsurance cost (c.115% vs. 55% recorded in 2011) although the company was able to recoup some of the reinsurance cost from its underwriting expenses which dropped by c.46%. However, it was not sufficient to swing the company's YoY performance into the positive territory.

Despite the 36.72% growth in top-line in 2013, the company's Profit After Tax (PAT) dipped significantly (156% decline) owing to significant 37% surge in net claims incurred and total underwriting expenses recorded a shocking increase of 172%. In spite of the loss in 2013, the company is currently in the profit zone, as unaudited Q1:2014 result shows an increase of 22.6% YoY.

Worthy of mentioning is that the company was profitable as at Q3:2013 (NGN761m) but posted a significant loss of N1.28bn by 2013FY. Notwithstanding the company's performance in 2013, we are upbeat on its bottom-line, which is expected to turnaround in 2014.

Chart 3.3 Profit after Tax and Growth Rate (Actual and Forecast) from 2013 to 2018



Source: Company Financials, Meristem Research

SWOT Analysis

Strengths

- Dominating the life insurance segment
- Business diversification model
- Continuous growth in top-line

Opportunities

- Opportunities in micro-insurance space
- Envisaged motor policy in Nigeria
- More income in the revised PENCOM Act
- No Premium No Cover to reduce bad debt going forward

Weaknesses

- High claims ratio

Threats

- Imminent competition from foreign investors
- Low investors' confidence in the industry
- Regulatory tightening by NAICOM
- Low life expectancy in Nigeria.

Source: Meristem Research

Valuation

AIICO currently trades at a price of N0.81 which implies 17% discount to its 52-week high of N0.98 (on 23rd of October 2013) and a premium of 8.00% to its 52-week low of N0.75 (on 2nd October 2013). Based on trend, the company has 3-year average dividend pay-out rate of 34.73% (between 2010 and 2012). In determining the intrinsic value of the counter using Dividend Discount Model (DDM), we adopted a modest pay-out rate of 30%.

This was blended with the price multiples model; Justified forward P/E and justified forward P/BV models. Using a cost of equity of 17.42%, beta of 0.85, adopted Return On Average Equity (ROAE), which was adjusted downward from forecasted 23.95% in 2014 to 13% and sustainable growth rate was also adjusted downward to 7.00% (vs. 9.10% using Gordon's growth model) on the notion that the company does not currently have the potentials to expand significantly beyond economic growth rate. Using theses metrics, we arrived at a fair value of N1.22 using DDM, N0.84 based on Justified forward P/E and N1.21 using forward Justified P/BV.

In arriving at the 2014 target price, we compounded the fair values to yearend and apportioned 40% to forward P/BV and 30% to DDM and forward P/E each respectively. This resulted in a 2014TP of NGN1.11 for AIICO, implying 36.62% upside potential to current price. Therefore, we recommend the counter as a BUY for value accretion.

Financials

FINANCIALS and RATIO (HISTORICAL + FORECAST)

				NGN'mn		
Income Statement	**FY11**	**FY12**	**FY13**	**FY14f**	**FY15f**	**FY16f**
Gross Premium Earned	17,945	17,054	23,316	20,033	21,035	22,087
Reinsurance Cost	2,316	4,986	5,088	4,912	5,010	5,161
Net Prem. Earned	15,629	12,068	18,228	15,121	16,024	16,926
Net Claims Incurred	6,267	4,939	6,784	9,156	10,072	10,575
Underwriting Expenses	6,916	3,758	10,228	6,438	6,760	6,962
Underwriting Profit	3,072	4,355	2,731	5,184	5,359	6,413
Net Operating Income	4,164	8,047	6,006	9,745	10,011	11,298
Total Other Expenses	2,646	5,934	7,269	7,586	7,358	7,726
Profit before Taxation	1,518	2,084	-1,280	2,160	2,653	3,572
Profit after Taxation	1,332	1,321	-739	1,728	2,122	2,858
Balance Sheet						
Cash and Bank Balances	6,900	9,722	8,542	9,765	11,230	12,914
Short Term Investments	2,043	4,784	15,332	4,805	5,526	6,355
Premium Debtors	2,051	2,184	36	2,194	2,523	2,902
Current Assets	**11,869**	**18,435**	**27,969**	**18,517**	**21,295**	**24,489**
Long Term Investments	5,868	6,469	3,714	3,655	4,203	4,834
Investment Properties	718	760	1,190	1,815	2,087	2,400
Property, Plant and Equipment	4,189	4,745	4,657	12,026	13,905	16,066
Non-Current Assets	**16,475**	**16,569**	**14,132**	**27,776**	**31,943**	**36,734**
TOTAL ASSETS	**28,344**	**35,005**	**4,210**	**46,294**	**53,238**	**61,223**
Creditors and Accruals (Payables)	1,358	1,356	1,835	5,065	5,906	6,828
Current Liabilities	**2,263**	**2,202**	**2,571**	**8,222**	**9,587**	**11,083**
Insurance Contract Liabilities	11,774	15,577	21,870	18,075	21,075	24,364
Investment Contract Liabilities	4,218	4,983	6,356	5,782	6,742	7,794
Non-Current Liabilities	**16,392**	**21,290**	**28,956**	**24,666**	**28,760**	**33,249**
TOTAL LIABILITIES	**18,655**	**23,492**	**31,528**	**32,888**	**38,347**	**44,332**
NET ASSETS	**9,689**	**11,513**	**10,573**	**13,544**	**15,029**	**17,030**

Source: Company Financials, Meristem Research

TP:	**NGN1.35**
RATING:	**BUY**

CONTINENTAL REINSURANCE Plc.

Expanding Footprints across Continent…

- Continental Reinsurance is the largest reinsurance company in Nigeria and plays in all classes of insurance.
- It operates in forty-six different countries on the African continent, through five regional offices, even as it has plans to raise capital for further expansion.
- The company had 5-Year cumulative average growth rate (CAGR) of 26.60% and 17.07% in top-Line and bottom-Line respectively between 2008 and 2013.
- Due to the nature of the business, claims account for the bulk of the company's expenses, with an average claims ratio of 45% in the last three years.
- The company derives greater part of its premiums from fire insurance under its business operations lines, and from Nigeria with respect to geographical locations.
- The company has great opportunities in the future which we opine will arise from the current regulations and intense awareness of insurance products in the country and the vital role which reinsurance companies have to play to support these developments.
- Given the company's historical performance, as well as our prediction of a positive future, we place a Target Price of NGN1.35 on CONTINSURE, representing a 20.54% potential upside from the current price.

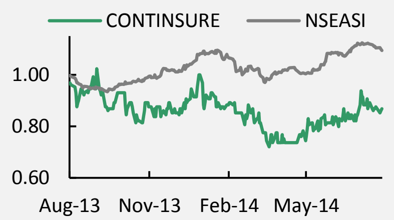
Relative Metrics	
Current price	1.12
P/E ttm	7.41x
P/B	0.74x
Forward P/E	6.94x
52-Wk av. Vol (mn)	5.832

*Fundamental Metrics	
BVPS	1.5
Net Margin	11.52%
ROAE	10.49%
ROAA	5.86%
ttm Asset Turnover	0.57x
Leverage	1.76x
Mkt. Cap (N'bn)	10.373
Reinsurance Rate	10.81%
Claims Rate	50.17%
Expense Rate	40.95%

Values as at H1:2014

Key Price Metrics	
MtD Return	2.75%
QtD Return	2.75%
YtD Return	-8.94%
52-Week Return	-13.18%
52-Week Hi	1.32
52-Week Lo	0.93
Year Hi	1.29
Year Lo	0.93
Beta	1.06
14D-RSI	38.61

52-Week Price Trajectory



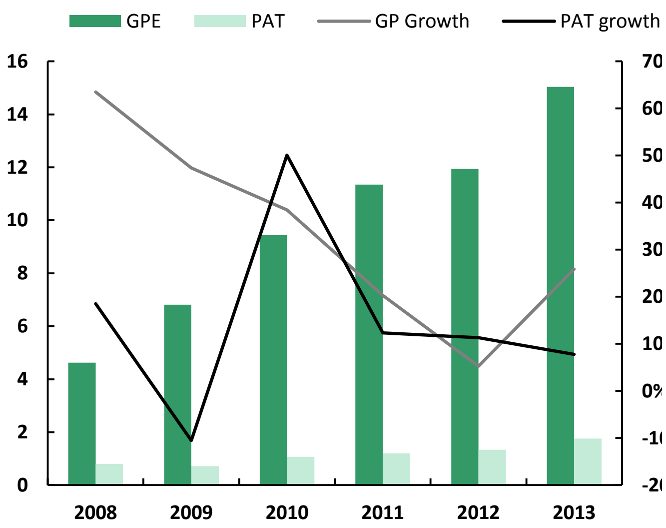
Business Summary

Continental Reinsurance is a Pan-African reinsurance company which was incorporated in 1985 to offer general re-insurance covers. It commenced operations as a general reinsurer in 1987 and became a composite reinsurer in 1990. The reinsurer maintains a position as one of the major players in Africa offering both treaty and facultative reinsurance solutions across forty-six (46) African countries. However, the Nigerian market accounts for about 67% of Non-Life Premium Revenues, making that its largest market.

Despite its wide reach, the company, through its Group Managing Director, has indicated its desire to raise capital in a bid to acquire businesses and make partnerships in the Anglophone, Francophone, Northern and Southern regions of Africa. It is the only listed Reinsurance Company on the stock exchange and the biggest reinsurance company in Nigeria. It operates a business model which is focused on reinsuring items within the fire and energy lines of business. Swiss Reinsurance Company Limited is in a partnership with Continental Re to understand the needs of the Nigerian life insurance market and help to bring cost effective and accessible life insurance to the Nigerian public.

Owing to its impressive track record of reinsuring major businesses in Africa, and especially Nigeria, the company currently has a financial strength rating of B+ from A.M. Best, one of the leading rating agencies in the world.

Chart 3.4 Gross Premium and Earnings Performance 2008 - 2013 (NGN Billion)



Source: Company Financials, Meristem Research

Table 1.3 Historical Performance Analysis 2010-2013

Historical Performance Analysis	2010	2011	2012	2013
Reinsurance Rate	9.20%	11.41%	13.01%	11.21%
Claims Ratio	43.25%	44.41%	46.12%	46.90%
Expense Ratio	42.28%	42.91%	45.14%	43.35%
Underwriting Margin	13.14%	11.23%	7.60%	8.66%
Profit Margin	11.35%	10.61%	13.62%	11.66%
ROAE	9.40%	10.06%	12.73%	12.74%
ROAA	6.22%	5.99%	7.16%	6.99%
Inv/Total Assets	75.05%	72.60%	64.53%	70.00%
ROIA	7.69%	5.84%	8.98%	5.51%
Leverage	1.62	1.74	1.82	0.00
Solvency Margin	0.74x	0.78x	0.67x	0.76x

Operating Performance

Sustained Profitability over the Years

The company apparently has no problems with maintaining profitability as Gross Premium Earned and Profit after Tax peg at 5yr CAGR of 26.6% and 17.1%

respectively in 2013 while their respective 5-year average growths were 27.5% and 19% between 2009 and 2013.

Claims Ratio contributing significantly to Expenses

Profit margin averaged 11.5% between 2009 and 2013, indicating that 88.5% of revenue was filed as expenses. The high level of expenses was primarily a consequence of claims ratio of 45.2%, arising from the nature of the reinsurance business, 22.9% above the insurance industry average of 22.3%. Reinsurance rate during the period reviewed was low at 9.7% basically as a result of their high capacity to reinsure businesses without ceding a major proportion to retrocessionaires. Expense ratio averaged 44% during the period which was an average-to-low figure compared with insurance industry average of c.75%.

Solvency dragged by capital requirement

Solvency margin settled at an average of 0.75x within the period. This, we attribute to the high minimum capital requirement of NGN10bn recommended by NAICOM for reinsurance companies. By NAICOM's statutory limit, the business is insolvent and may need to recapitalize to maintain its operations. Based on this background, it is rational that the company has announced its plans to raise capital in the near term for operational expansion.

The company was liquid enough to cover its current liabilities during the five year period reviewed (2009 to 2013) as average cash and current ratios pegged at 2.4 and 10.3 respectively. In 2012, the company improved on its liquidity as both the current and cash ratios were at their highest values of 4.45 and 11.44 for the period reviewed (2009 to 2013). These however dropped to 3.03 and 9.04 in 2013, owing to a change in asset mix by the company.

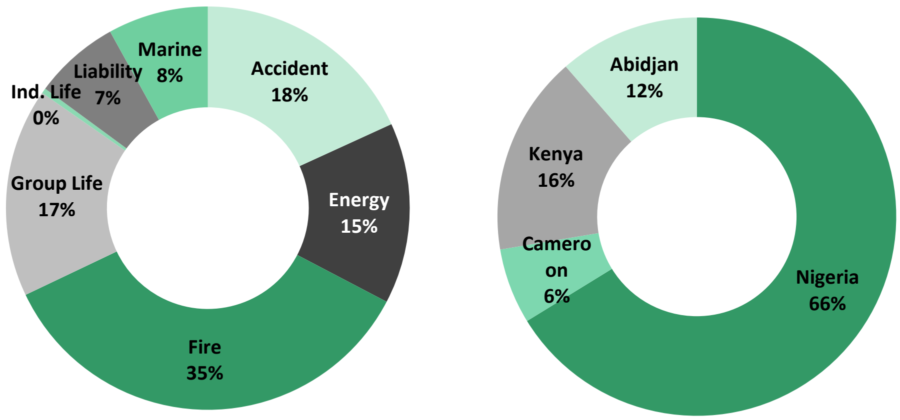
Continental Reinsurance Plc. maintained 6.2% and 10.3% 5-year average ROAA and ROAE between 2009 and 2013. The values are high in comparison with industry average of 2.2% 2.6% for ROAA and ROAE respectively.

Positioning and Outlook

Composition and Drivers of Revenue

The company has consistently placed Fire insurance in the forefront of its premium generation. It accounted for 35% of premiums written in 2013 while Accident, Group Life and Energy lines accounted for 17% and 15% respectively. As a pan-African company, revenue is usually derived from different segments of the African market. Nigeria however accounts for majority of revenue and it accounted for 66% of revenue in 2013.

Chart 3.5 Composition of Gross Premium Written in 2013: Policy Contribution (LHS); Location (RHS)



Source: Company Financials, Meristem Research

The company, being one of the leading players in Nigeria's reinsurance space, has continuous demand for its products by numerous insurance companies in the country, which require treaty deals with reinsurance companies to operate. The reinsurer has ensured consistent growth in assets, creating more room for increased capacity and consequently, increased underwriting of "big ticket" items.

Outlook and Opportunities

With increased strengthening of the Nigerian insurance industry comes increased demand for reinsurance services. The company can tap into the market being created by new innovative products being designed in collaboration with insurance companies. It can also improve its marketing competency to strike treaty reinsurance deals with insurance companies which are currently not under its reinsurance coverage. With the help of its current partner, Swiss Re—one of the leading reinsurance companies in the world, the company can improve on its visibility and generate more premiums in the near, mid and long term. Even though the volume of capital the company intends to raise is yet to be disclosed, we opine that this expansion would improve the company's operations by allowing it to develop its capacity given the nature of its business.

SWOT Analysis

Strengths

- Biggest reinsurance company in Nigeria
- Large asset base: 7th largest in Nigerian insurance industry in both total assets and equity
- Operations in 43 countries

Opportunities

- Probable gains from expansion plans
- Compulsory reinsurance enforced by NAICOM.
- Improved solvency post capital raising and subsequently, increased risk capacity

Weaknesses

- Weak solvency
- Untimely release of financial statements

Threats

- Intense Competition from insurance and reinsurance companies, both local and foreign
- Divestment of Emerging Capital

Source: Meristem Research

Valuation

The stocks were valued using a mix of absolute valuation approach (Dividend Discount, assuming a pay-out ratio of 60%, cost of equity of 18.17% and sustainable growth rate of 5.30%) as well as relative approaches (Justified P/E and P/BV and Forward P/E and P/BV) while incorporating the possible drivers and drags of revenue and earnings.

In July 2014, the majority shareholder in the company, Emerging Capital, announced its plans to divest its c.50% holdings in the company. The company's management has however assured the investing public of remarkable future operating performance, regardless of the imminent change in ownership structure. The share price has since witnessed a high level of volatility, with some gains reported and losses in other trading days.

The stock has experienced an 8.94% decline in the year and currently trades at NGN1.12. We however place a Target Price of NGN1.35 and a HOLD recommendation for 2014. This is on the back of the company's past performance, proving itself as a reinsurance market leader as well as its prospects for future earnings.

Financials

FINANCIALS and RATIO (HISTORICAL + FORECAST)

	NGN'mn					
Income Statement	**FY11**	**FY12**	**FY13**	**FY14f**	**FY15f**	**FY16f**
Gross Premium Earned	11,347	11,946	15,037	16,691	18,527	20,194
Reinsurance Cost	1,295	1,554	1,686	1,919	2,131	2,322
Net Prem. Earned	10,052	10,392	13,351	14,771	16,396	17,872
Net Claims Incurred	4,464	4,793	6,262	6,942	7,706	8,132
Underwriting Expenses	4,313	4,691	5,787	6,352	7,050	7,685
Underwriting Profit	1,274	908	1,301	1,477	1,640	2,055
Investment and other incomes	865	1,395	932	1,044	1,148	1,263
Profit before Taxation	1,591	1,980	2,233	2,521	2,788	3,318
Profit after Taxation	1,203	1,627	1,753	2,017	2,230	2,655
Balance Sheet						
Cash and Bank Balances	5,815	6,264	5,674	7,045	7,594	7,812
Short Term Investments	1,845	2,043	2,430	2,677	2,886	2,969
Reinsurance Receivables	4,602	5,428	6,292	6,200	6,683	6,875
Current Assets	**13,573**	**16,898**	**16,927**	**19,163**	**20,656**	**21,250**
Long Term Investments	5,076	4,359	5,830	5,636	6,379	6,562
Investment Properties	1,654	1,661	1,747	1,916	2,066	2,125
Property, Plant and Equipment	103	115	612	659	711	731
Non-Current Assets	**7,838**	**7,152**	**9,198**	**9,018**	**9,721**	**10,000**
TOTAL ASSETS	**21,411**	**24,049**	**26,125**	**28,181**	**30,377**	**31,250**
Creditors and Accruals (Payables)	722	755	1,169	930	1,002	1,031
Current Liabilities	**1,450**	**1,409**	**1,872**	**1,832**	**1,974**	**2,031**
Insurance Contract Liabilities	7,747	9,237	9,873	10,709	11,543	11,875
Non-Current Liabilities	**7,793**	**9,405**	**9,968**	**11,272**	**12,151**	**12,500**
TOTAL LIABILITIES	9,243	10,814	11,840	13,333	14,637	14,448
NET ASSETS	**12,168**	**13,235**	**14,285**	**14,848**	**15,740**	**16,802**

Source: Company Financials, Meristem Research

TP:	**NGN3.94**
RATING:	**HOLD**

CUSTODIAN AND ALLIED Plc.

Ready for the future…

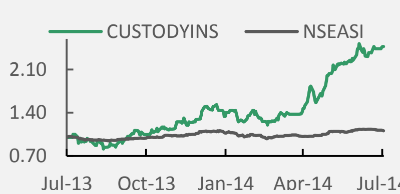
- CUSTODYINS completed a merger with Crusader Nigeria Plc. in 2012. However, the income statement was consolidated in 2013 even though the balance sheet was combined in 2012.
- The merger changed the company's name from Custodian and Allied Insurance Plc. to Custodian and Allied Plc. and a reclassification from Insurance sector to "Other financial services" on the NSE, even though the insurance business persists as the major income source.
- The company currently operates a holding company structure that has four subsidiaries: Custodian and Allied Insurance Ltd, Custodian Life Assurance Ltd, Crusader Sterling Pensions and Custodian Trustees Ltd.
- Custodian and Allied Plc. operates a business model that favours underwriting of Oil and Gas Insurance (which contributes >50% to its top-line) and it is one of the two companies that have oil treaties in Nigeria. Others classes of insurance in its business mix are: Motor, General Accident, Marine, Fire and Engineering.
- As a result of the business model it operates, its reinsurance expenses is one of the highest in the industry.
- The company's long-term strategy is to tap from the unique opportunities in the retail segment of insurance.
- On the back of the current synergy in operations and our outlook on the company's performance within a 5-year horizon, we arrived a TP of NGN3.94 for CUSTODYINS, implying -0.51% returns to its current price of NGN3.96. Hence, we recommend a HOLD.

Relative Metrics	
Current price	3.96
P/E ttm	4.91x
P/B	1.09x
Forward P/E	2.21x
52-Wk av. Vol (mn)	3.77
***Fundamental Metrics**	
BVPS	3.63
Net Margin	23.15%
ROAE	11.13%
ROAA	4.85%
Asset Turnover	0.2x
Leverage	2.26x
Mkt. Cap (N'bn)	23.29
Reinsurance Rate	50.07%
Claims Rate	30.84%
Expense Rate	26.18%

***Values as at H1:2014**

Key Price Metrics	
MtD Return	5.88%
QtD Return	5.88%
YtD Return	90.38%
52-Week Return	147.50%
52-Week Hi	4.03
52-Week Lo	1.3
Year Hi	4.03
Year Lo	1.92
Beta	1.07
14D-RSI	50.39

52-Week Price Trajectory



Business Summary

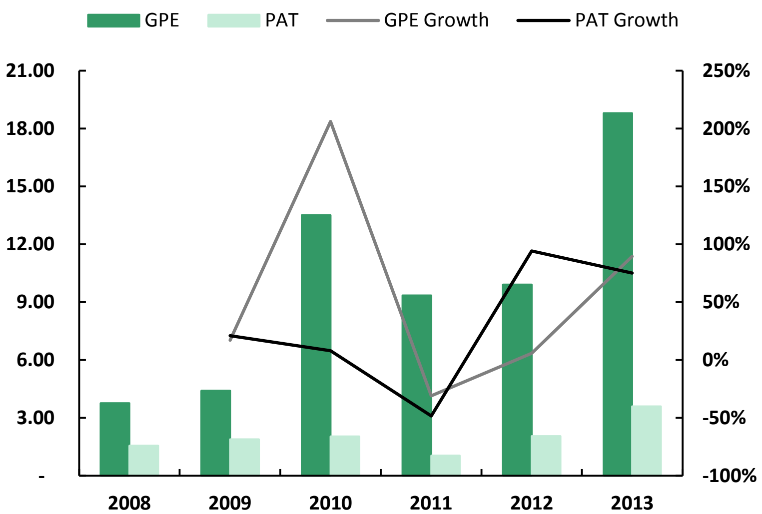
Incorporated in 1994 and listed in 1997, Custodian and Allied Plc. (formerly Custodian and Allied Insurance Plc.) is a wholly owned Nigerian company. Following the spin-off of its life business to Leadway Assurance, and strategic merger with Signal Insurance Company Limited, the company strategically positioned itself in the Financial Services sector among the top players in the

Insurance industry. It recently concluded a merger with Crusader Insurance Plc. which brought a positive outlook on the company as it currently operates as a financial conglomerate with coverage that spans across Life insurance, Pension and Trustees without ceding its market share in the general insurance segment where it is a major player (most especially in the line of "big ticket" underwriting).

Custodian and Allied Plc. currently operates as a holding structure with four subsidiaries which include: Custodian and Allied Insurance Limited, Custodian Life Assurance Limited (formerly Crusader Life Insurance Limited), Crusader Sterling Pensions Limited (76% holdings by Custodian) and Custodian Trustees Limited (formerly Crusader Trustees Limited). The Custodian Group also has 25.26% interest in Leadway Pensure Limited, thus qualifying the company as an associate. The company's inorganic growth in operations due to the merger has put the company in a vantage position to create wealth across a greater range of the financial services spectrum as an enlarged entity which currently has shareholders' funds above N21bn and total asset under management over N48bn, as at Q2:2014.

To affirm its financial strength, the company is rated B (Fair) and an issuer credit rating of "BB" by A.M. Best Europe-Rating Services Limited, implying its risk-adjusted capitalization is expected to remain at a strong level, supported by the robust earnings of the Group. On the back of its claims paying ability, the latest rating by Global Credit Rating Company of South Africa (usually regarded as Africa's number rating agency) awarded Custodian and Allied Plc. AA- rating (an improvement over the preceding rating of A+). The ratings revision was owing to the company's impressive capitalization, and its position within the comfortable international solvency zone. On the domestic scene, it received a rating of "A+" by Augusto and Co., the leading rating agency in Nigeria.

Chart 3.6 Gross Premium and Earnings Performance 2008-2013 (NGN Billion)



Source: Company Financials, Meristem Research

Table 1.4 Historical Performance Analysis 2010-2013

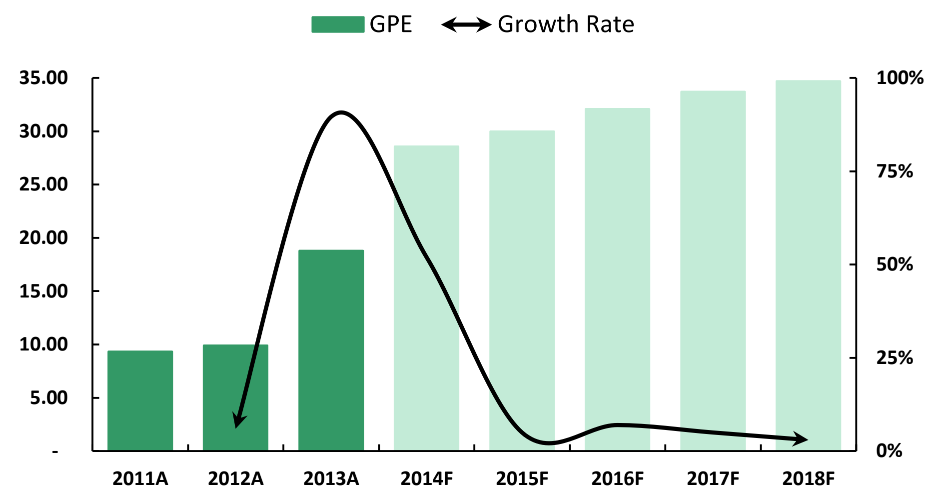
	Historical Performance Analysis			
	2010	2011	2012	2013
Reinsurance Rate	60.61%	56.96%	52.98%	55.22%
Claims Ratio	21.58%	47.94%	44.25%	53.85%
Expense Ratio	20.64%	22.16%	25.87%	25.70%
Underwriting Margin	65.77%	33.63%	25.56%	47.47%
Profit Margin	38.37%	26.27%	44.09%	42.81%
ROAE	17.80%	8.99%	14.13%	19.55%
ROAA	13.64%	5.87%	6.71%	8.32%
Inv Assets/Total Assets	72.01%	68.37%	71.22%	67.02%
ROIA	7.86%	9.58%	11.62%	14.68%
Leverage	1.30	1.53	2.46	2.69
Solvency Margin	4.10x	3.55x	5.14x	5.19x

Operating Performance

The company’s growth in top-line is volatile as a result of its business model that tilts towards underwriting oil and gas class of insurance. Prior to 2010, Custodian and Allied Plc. grew its top-line (GPE) by a 2-year average of c.32%. In 2010, the company had a significant c.206% leap in its top-line; a YoY growth driven by c.N8bn increase in its oil and gas business segment. This positioned the company as the industry leader in oil and gas business in Nigeria in 2010, overtaking Leadway Assurance Ltd. which was the market leader in oil and gas insurance between 2007 and 2010, after usurping NICON Insurance.

For a better comparison of the company’s 2013 result, we adjusted the company’s 2012 result to incorporate Crusader’s result for 2012. On this basis, Custodian recorded a YoY growth in its GPE by c.28% in 2013 (vs. 4-year CAGR of 21%). The company is currently reaping the synergy from the business combination with Crusader, and we believe the company’s long-term strategy to create and explore opportunities in the retail segment of insurance will be a strong driver of growth for the top-line, even as GPE growth oscillates due to its high exposure to oil and gas. Our five year forecast till 2018 was based on these assumptions and the expectation that the company will also take advantage of some of the on-going reforms in the industry.

Chart 3.7 Gross Premium Earned Forecast and Growth Rate Forecast from 2013-2018



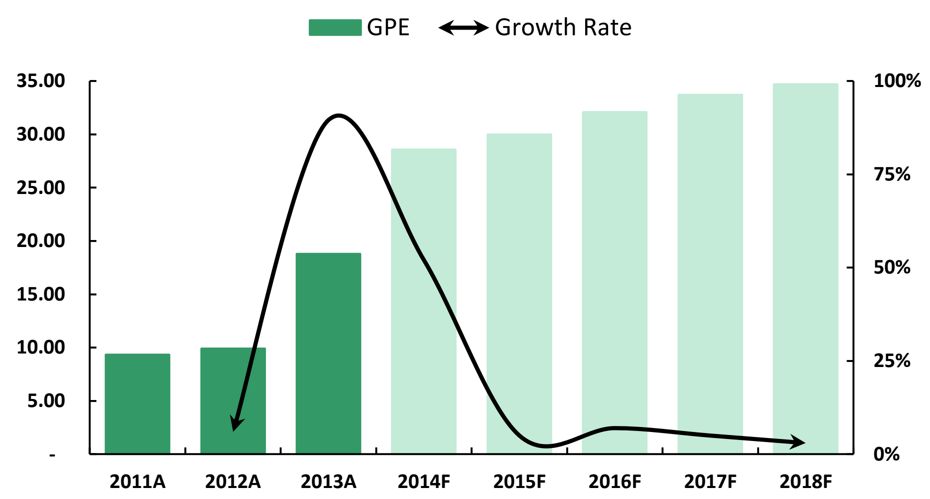
Source: Company Financials, Meristem Research

Bottom-Line and Resources Utilization

Custodian and Allied Plc. has consistently grown its bottom-line YoY, save for 2011 when the company witnessed a significant drop of 48% as a result of 23% decline in its top-line (due to 40% drop in oil and gas line of business). The company's bottom-line inched up by c.54% on average between 2007 and 2013 (excluding 2011 which we consider as an outlier), and has a 5-year CAGR of c.18%.

In forecasting the bottom-line, we factored in the various sources of the company's income from all subsidiaries but with higher weight placed on its general insurance, as it is still a major driver of the company's top-line, contributing an average of 90% and 52% top-line and bottom-line between 2012 and 2013. Due to the company's strong brand equity in this line of business which we expect will drive business growth, we expect it to still be the largest contributor to the company's performance in the near term.

Chart 3.8 PAT Forecast and Growth from 2013 to 2018



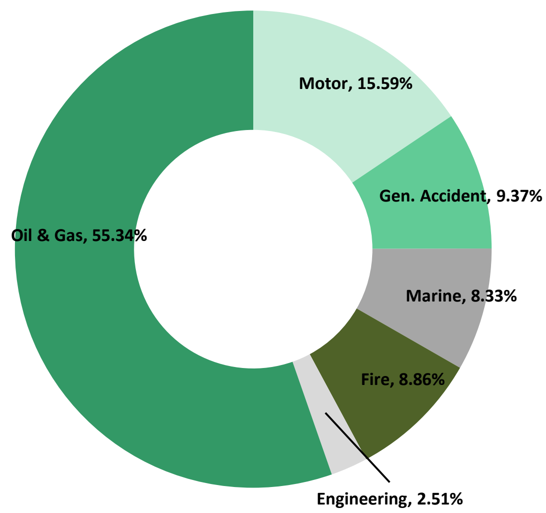
Source: Company Financials, Meristem Research

Positioning and Outlook

Composition and Drivers of Revenue

The company has been a major player and industry leader in the class of oil and gas insurance, which has impacted positively on its top-line performance but has necessitated increased reinsurance, pressuring the company's reinsurance rate upwards. The company has one of the highest reinsurance rates in the industry (53% vs. industry average of 19% in 2012).

Chart 3.9 Contribution from General Classes of Insurance (average between 2008 and 2011)



Source: Company Financials, Meristem Research

Another major supporter of the top-line is motor insurance, which contributes c.16% to GPE's on average between (2008 and 2011) and 20% in Q2:2014. All major players have interests in the motor insurance segment because of the growth potentials from the legal requirement of third party insurance, and we expect growth in the contribution from this line of business to the company's top line as the manufacturing of cars begins in Nigeria.

Outlook and Opportunities

The company's major strength is the significant growth it records in its top-line and bottom-line YoY. The company's Return on Average Equity (ROAE) using 2012 figures for comparison with companies with unavailable 2013FY results showed that the company outperformed major industry players like Leadway (9.7%), Mansard (11.6%), AIICO (12.5%), and NEM (10.2%).

This depicts that the company has higher returns for its ordinary shareholders among major players in the industry. Nonetheless, it still trails the likes of Zenith General (19.6%), UBA Metropolitan (19.7%), KBL (21.3%), Prestige (17.9%), and GNI (18.5%). A DuPont analysis of the company's Return on Equity (ROE) revealed that the company's laxity among some players is attributed to its inability to sweat its assets as 5-year average asset turnover pegs at 0.24x.

SWOT Analysis

Strengths
- Inorganic expansion in operations
- Adequate shreholders' fund to underwrite "big ticket" contracts
- Continuous growth in subsidiaries

Opportunities
- Opportunities in micro-insurance space
- Local content policy
- No Premium No Cover to reduce bad debt going forward

Custodian
CUSTODIAN AND ALLIED PLC

Weaknesses
- High reinsurance rate.

Threats
- Imminent competition from foreign investors
- Low investors' confidence in the industry
- Regulatory tightening by NAICOM

Source: Meristem Research

Valuation

The company was listed at a price of NGN1.75 in 2007, and currently priced by the market at NGN3.96 (126% growth). The counter currently trades at 1.74% discount to its 52-week high of NGN4.03, and at 110% premium to its 52-week low of NGN1.92.

CUSTODYINS outperformed most stocks in the insurance basket in 2013 by posting a significant returns of 60%. The company's outstanding performance in its Q1:2014 scorecards led to a price gyration for the counter from NGN2.08k at the start of the year to its current price of NGN3.96. The company has maintained a dividend paying culture, and this necessitated the use of dividend discount valuation model (DDM), blended with other valuation methods. Being a financial services company, it was appropriate to combine the DDM with the multiplier models (justified leading P/E and P/BV). We apportioned 50% to DDM, and 50% to relative valuation models (20% to the P/E and 30% to P/BV).

The DDM was arrived at on the assumption of a dividend pay-out rate of 30% (vs. 5-year historical average of c.35%) and sustainable growth rate of 6% (vs. 11% based on Gordon's growth model). We arrived at a 2014TP of NGN3.94 for CUSTODYINS. At its current price of NGN3.96, we recommend a HOLD.

However, we expect fantastic performance in the remaining quarters of this year, which we envisage might bring further rally on the counter, causing price appreciation beyond our target price. We advise investors to add it to their portfolios during this period to earn profit within a short-term holding period.

Financials

FINANCIALS and RATIO (HISTORICAL + FORECAST)						
	NGN'mn					
Income Statement	**FY11**	**FY12**	**FY13**	**FY14f**	**FY15f**	**FY16f**
Gross Premium Earned	9,354	9,915	18,797	21,053	24,632	29,559
Reinsurance Cost	5328	5253	10381	12042	14089	16202
Net Prem. Earned	4,026	4,662	8,417	9,012	10,544	13,357
Net Claims Incurred	1,930	2,063	4,532	5,076	5,838	6,888
Underwriting Expenses	925	1,802	2,217	2,494	2,868	3,298
Underwriting Profit	1354	1191	3995	4234	5189	7192
Net Operating Income	2560	3691	8382	7703	9592	12809
Total Other Expenses	1305	1259	3686	3676	3776	3866
Profit before Taxation	1170	2330	4337	3667	5456	8583
Profit after Taxation	1058	2056	3603	3117	4638	7296
Balance Sheet						
Cash and Bank Balances	8,782	16,503	15,420	26,633	29,296	31,054
Short Term Investments	732	1,402	0	146	161	170
Reinsurance Receivables	2,909	5,592	11,042	8,112	8,923	9,458
Current Assets	**15,152**	**26,077**	**27,306**	**37,327**	**41,059**	**43,523**
Long Term Investments	2,042	4,469	7,462	4,882	5,370	5,692
Investment Properties	1,682	5,603	6,309	3,425	3,767	3,993
Property, Plant and Equipment	411	2,517	2,464	2,317	2,549	2,702
Non-Current Assets	**5,087**	**14,912**	**18,347**	**13,806**	**15,186**	**16,097**
TOTAL ASSETS	**20,239**	**40,989**	**45,654**	**51,132**	**56,245**	**59,620**
Borrowings	460	5,535	1,947	-	-	-
Creditors and Accruals (Payables)	216	1,579	1,906	1,809	1,933	1,830
Current Liabilities	**612**	**2,404**	**3,113**	**3,648**	**3,897**	**3,691**
Investment Contract Liabilities	0	2,859	3,080	4,430	4,733	4,482
Insurance Contract Liabilities	6,512	11,455	17,658	21,038	22,476	21,285
Non-Current Liabilities	**7,890**	**21,235**	**22,991**	**26,033**	**27,812**	**26,339**
TOTAL LIABILITIES	**8,503**	**23,639**	**26,131**	**29,681**	**31,710**	**30,030**
NET ASSETS	**11736**	**17351**	**19523**	**21451**	**24536**	**29590**

Source: Company Financials, Meristem Research

TP:	NGN2.51
RATING:	HOLD

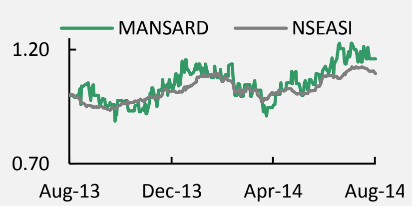
Relative Metrics	
Current price	2.55
P/E ttm	23.92
P/B	1.66
Forward P/E	17.39
52-Wk av. Vol (mn)	0.732

*Fundamental Metrics	
BVPS	1.53
Net Margin	8.47
ROAE	7.04
ROAA	2.81
ttm Asset Turnover	0.40
Leverage	2.58
Mkt. Cap (N'bn)	25.00
Reinsurance Rate	53.51%
Claims Rate	71.26%
Expense Rate	44.74%

Values as at H1:2014

Key Price Metrics	
MtD Return	-0.78%
QtD Return	-0.78%
YtD Return	4.08%
52-Week Return	15.91%
52-Week Hi	2.70
52-Week Lo	2.00
Year Hi	2.70
Year Lo	1.95
Beta	0.43
14D-RSI	44.69

52-Week Price Trajectory



MANSARD INSURANCE PLC.

Growth through Diversification…

- Mansard Plc. is the product of two acquisitions; one in 2002 by GT Bank, and the other in 2012 by Assur Africa Holdings.
- The company has established itself as one of the top players in the Nigerian insurance space from its fringe position in 2003 as it emerged as the 5th largest insurer by market share (gross premium earned) in 2012.
- As at 2013, the company had 5-Year CAGR of 34.23% and 2.22% in its top-Line and bottom-Line respectively.
- Reinsurance and claims expenses control the most significant portions of expenses (5-year average reinsurance rate and claims ratio of 38.56% and 42.15%).
- The bulk of the company's premium is derived from energy insurance given the huge premium attainable from that line. Other segments include Motor, Group Life, Fire, etc.
- We expect the future revenue to stream from the company's increased innovation and partnerships with telecommunication companies and banks, as well as synergy from its increasingly diversified operations.
- Based on the company's historical performances, and our outlook on the company's potentials, we place a Target Price of NGN2.51 on the company's shares, representing 4.92% potential downside from the current price

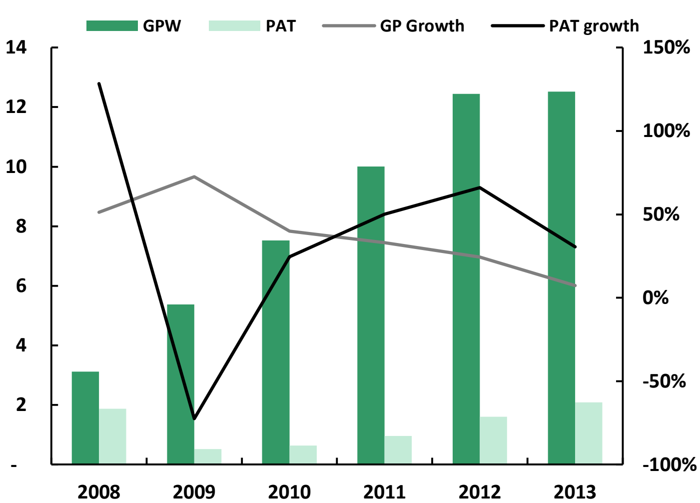
Business Summary

Mansard was incorporated as Heritage Assurance Company Limited in 1989 and was licensed to underwrite non-life insurance contracts. The company was acquired, and became a subsidiary of Guaranty Trust Bank Plc. The acquisition brought about a change in the company's business portfolio mix, adding life segment to its business, to make it a composite underwriter. As a result of regulation from CBN that Nigerian banks should divest their non-bank interests or reclassify as a holding company, Mansard underwent a divestment of GTBank's 67.68% holdings. Based on the current shareholding structure of MANSARD, 75% stake is owned by Assur Africa holdings, which is an international company with Netherlands, German, French, British and Tunisian ties.

Mansard has strategically established itself as one of the market leaders in the Nigerian insurance industry independent of its erstwhile parent company. As a composite insurer with focus on all lines of risks underwriting, Mansard relentlessly strives to maintain its position on the radar of market leaders in the Nigerian insurance industry. The company has partnered with MTN Nigeria to create and deepen the micro-insurance market through the MTN Y'ello Cover Scheme.

As part of its competitive strategy, Mansard has independent subsidiaries that focus on financial advisory, investment and consultancy services. Given its notable historical performance as regards risk management and insurance underwriting, Mansard also has rating of "A+" Risk rating by Agusto and Co.

Chart 4.1 Gross Premium and Earnings Performance 2008-2013 (NGN Billion)



Source: Company Financials, Meristem Research

Table 1.5 Historical Performance Analysis 2010-2013

Historical Performance Analysis	2010	2011	2012	2013
Reinsurance Rate	38.22%	35.09%	39.01%	39.79%
Claims Ratio	35.80%	43.72%	44.45%	46.84%
Expense Ratio	58.06%	54.65%	65.48%	83.45%
Underwriting Margin	9.89%	24.09%	17.99%	12.72%
Profit Margin	12.56%	10.30%	13.76%	16.73%
ROAE	5.05%	7.31%	11.60%	14.76%
ROAA	2.90%	3.39%	4.70%	5.80%
Inv/Total Assets	61.24%	55.92%	55.75%	57.56%
ROIA	5.41%	6.39%	13.88%	18.26%
Leverage	1.52	1.84	2.28	2.53
Solvency Margin	2.54x	2.64x	2.64x	2.36x

Operating Performance

Top and bottom lines growing by double digits

Gross Premium Earned has sustained growth with a 5-year CAGR of 34.23% and an average growth of 36.40% between 2009 and 2013. The underwriter has equally maintained an adequate level of profitability over the years as Profit after Tax increased consistently by a 5-year CAGR of 2.22% and an average growth of 19.76% between 2009 and 2013.

Reinsurance and Underwriting expenses dragging Net Profit

Expenses in form of reinsurance and underwriting expenses have been on a relatively high side in the last five years with reinsurance rate and expense ratio averaging 38.6% and 53.2% respectively. Expense ratio declined significantly YoY for several periods (2011 to 38.0% from 54.3% in 2010 and 71.9% in 2009). This was largely due to the significant 33% increase in the Gross Premiums.

Reinsurance rate on the other hand has maintained its level as a result of the company's retrocession of an average of c.93% of Aviation and Energy businesses. This represents an 8% decline compared with average rate of 83% in 2009. The company reinsures a major proportion of the "big ticket" items it underwrites in a bid to maintain what it has garnered in form of market share, whilst also avoiding perils that will arise if the need arises (i.e. claims materialize). An additional reason for the high reinsurance rate in the energy line is the NAICOM's regulation which restricts companies from retaining (without reinsurance) annual pool of underwritten energy risks greater than 5% of the company's net assets determined in the prior year to the transaction.

Risk Capacity widening with increasing Solvency Margin

The company has established its adequate capacity to underwrite risks as its solvency margin has averaged 2.55x in the last five years, 1.55x above the stipulated minimum by NAICOM. The implication of this is an increase in the company's underwriting capacity for more risks and consequently, its ability to earn greater premiums. The company also favours equity to debt in financing its assets, which can be seen from the debt-to-assets ratio of 0.10.

On the liquidity front, the company has also posted impressive numbers as Cash Ratio and Current Ratio have averaged 3.53 and 4.53 respectively. This implies that the company has the financial strength to adequately settle its immediate liabilities.

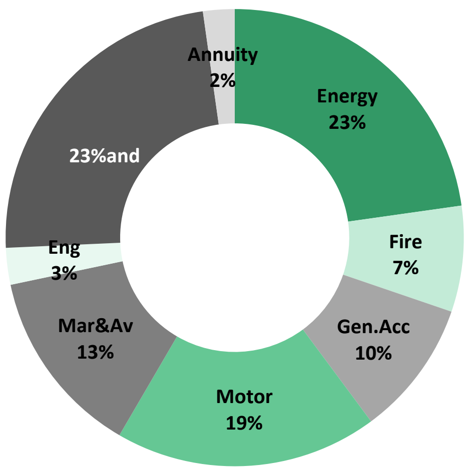
The company's efficiency, as measured by its historical 5-year average ROAA and ROAE of 3.91% and 8.56% are higher than the industrial average of 2.22% and 2.61%. The 5.75% and 14.76% ROAA and ROAE it recorded in 2013 were its highest in those five years, and were majorly driven by its growth in profit after tax, which was largely owing to the tax write-back which the company enjoyed in 2013.

Composition and Drivers of Revenue

The company operates a diversified business model which is dominated by Energy, Life Insurance and Health, and Motor insurance which contributed 25%, 21% and 19% respectively to Gross Premium in 2013.

Group life accounted for 76% of Life and Health Insurance underwritten by Mansard in the same period. Its contribution to total premiums written increased significantly in 2009 which was attributed to the Federal Government's compliance with the Pension Reform Act. Subsequent increases in contribution to total premium written can be connected to inclusion of the policy in NAICOM's MDRI.

Chart 4.2 Composition of Gross Premium 2013



Source: Company Financials, Meristem Research

Mansard, as an underwriter, focuses on energy insurance. This line of business has consistently contributed >20% to the company's Gross Premium in the last three years. As a result of regulations in the line of business, Motor insurance features as one of the major drivers of revenue, just as it features prominently in the books of most insurance companies.

Outlook and Opportunities

Opportunities for subsequent growth exist in the micro-insurance line of business, higher demand for insurance products arising from increased awareness, increased transparency and consumer confidence. The major component of the company's investment portfolio is telecommunications which accounted for 86% in 2012. The telecommunications sector grew significantly in 2013, and if sustained, it will trickle down to the investment income by MANSARD.

The company has also stated its intention to partner with another telecommunications company to improve coverage across the country. Increased diversification is also one of the strategies being employed to drive income, as it ventured into health insurance through its new subsidiary; launched agricultural insurance products; and has expressed intentions to cover the power sector, which is one of the current growth sectors in the economy.

SWOT Analysis

Strengths

- Strong Brand Equity
- Financial Strength and Solvency
- Diversification and Synergy
- Efficient management
- Strategic partnerships e.g. with MTN
- Online visibility

Opportunities

- Nigerian demography
- Regulation of the Insurance Industry
- Microinsurance
- Low insurance penetration in the country

MANSARD INSURANCE

Weaknesses

- High reinsurance rate
- Generic insurance and investment products, unlike the increasing development of specific products in the industry.

Threats

- High level of local and foreign Competition
- Fake insurance policies
- Development of financial products which can act as substitutes for insurance products

Source: Meristem Research

Valuation

The company's shares were valued using a combination of absolute valuation approach (DDM, assuming a pay-out rate of 60%, cost of equity of 17.39%, OAE of 16.31% for 2014 and sustainable growth rate of 7%) as well as relative approaches (Justified P/E and P/BV, and Forward P/E and P/BV).

Incorporating historical performance of the firm as well as our opinion about probable future earnings and drags, a target price of NGN2.51 for 2014 was derived. We recommend a HOLD on the stock with downward potential of 4.92% during the year.

Financials

FINANCIALS and RATIO (HISTORICAL + FORECAST)

	NGN'mn					
Income Statement	**FY11**	**FY12**	**FY13**	**FY14f**	**FY15f**	**FY16f**
Gross Premium Earned	9,372	11,656	12,520	15,678	18,528	21,307
Reinsurance Cost	3,289	4,547	4,981	5,958	7,226	8,310
Net Prem. Earned	6,083	7,109	7,538	9,721	11,302	12,997
Net Claims Incurred	2,659	3,160	3,531	4,180	4,747	5,459
Underwriting Expenses	2,309	3,407	4,061	4,860	5,538	6,369
Underwriting Profit	1,459	1,070	488	1,446	2,088	2,627
Net Operating Income	2,271	3,428	4,221	4,992	5,706	6,352
Total Other Expenses	1,015	1,248	2,230	1,784	1,570	1,460
Profit before Taxation	1,256	2,180	1,991	3,208	4,136	4,892
Profit after Taxation	966	1,603	2,094	2,406	3,102	3,669
Balance Sheet						
Cash and Bank Balances	2,607	3,257	6,169	4,768	4,898	5,220
Short Term Investments	8,424	9,221	8,176	10,637	10,925	11,644
Current Assets	**14,673**	**17,671**	**18,649**	**19,074**	**19,590**	**20,880**
Long Term Investments	2,879	5,423	6,450	5,869	3,767	4,015
Investment Properties	5,490	6,937	8,743	8,436	8,665	9,235
Property, Plant and Equipment	1,288	1,478	1,680	2,384	2,449	2,610
Non-Current Assets	**10,199**	**14,438**	**17,484**	**17,606**	**18,083**	**19,273**
TOTAL ASSETS	**24,872**	**32,109**	**36,133**	**36,680**	**37,674**	**40,153**
Creditors and Accruals (Payables)	2,167	3,101	1,143	2,384	2,449	2,610
Borrowing	926	3,582	3,484	3,172	2,859	2,547
Current Liabilities	**4,723**	**9,241**	**7,374**	**6,602**	**6,781**	**7,228**
Insurance Contract Liabilities	4,649	5,865	7,693	13,572	7,535	8,031
Investment Contract Liabilities	1,513	4,147	5,929	5,869	6,028	6,424
Non-Current Liabilities	**6,308**	**10,433**	**13,827**	**9,395**	**9,537**	**9,795**
TOTAL LIABILITIES	11,031	19,674	21,202	21,447	21,200	22,211
NET ASSETS	**13,841**	**12,435**	**14,931**	**15,233**	**16,474**	**17,942**

Source: Company Financials, Meristem Research

TP:	**NGN0.85**
RATING:	**BUY**

MUTUAL BENEFIT ASSURANCE PLC.

Improving Visibility…

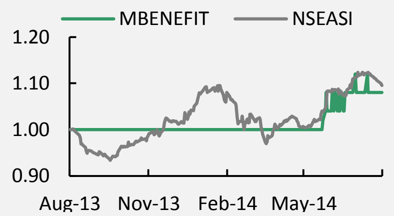
Relative Metrics	
Current price	0.54
P/E ttm	
P/B	1.21
Forward P/E	4.12
52-Wk av. Vol (mn)	1.547

*Fundamental Metrics	
BVPS	0.45
Net Margin	-7.67%
ROAE	-12.6%
ROAA	-2.5%
ttm Asset Turnover	0.33x
Leverage	7.39x
Mkt. Cap (N'bn)	4.32
Reinsurance Rate	6.58%
Claims Rate	34.23%
Expense Rate	80.73%

Values as at FY:2012

Key Price Metrics	
MtD Return	3.85%
QtD Return	3.85%
YtD Return	8.00%
52-Week Return	8.00%
52-Week Hi	0.56
52-Week Lo	0.50
Year Hi	0.56
Year Lo	0.50
Beta	0.06
14D-RSI	44.69

52-Week Price Trajectory



- Mutual Benefits Assurance Plc. was incorporated in 1995 and is licensed to transact General, Special Risk and Life and Pension classes of business.
- The company has established itself as a major player in Nigerian insurance owing to its visibility and innovation. It currently has partnerships with Portland Paints, NUT, Delta State Government, and NNPC among others.
- The company had 4-Year CAGR of 22% and -21% in top-line and bottom-line respectively.
- Key business lines for the company are Motor, General Accident and Life insurance classes respectively.
- We expect future revenue streams to arise from its strategic position in the Nigerian insurance space: its innovative products, its public and private partnerships, focus on micro-insurance, among other revenue drivers.
- We place a 2014FY Target Price of NGN0.85 on the company based on its historical and anticipated performance.

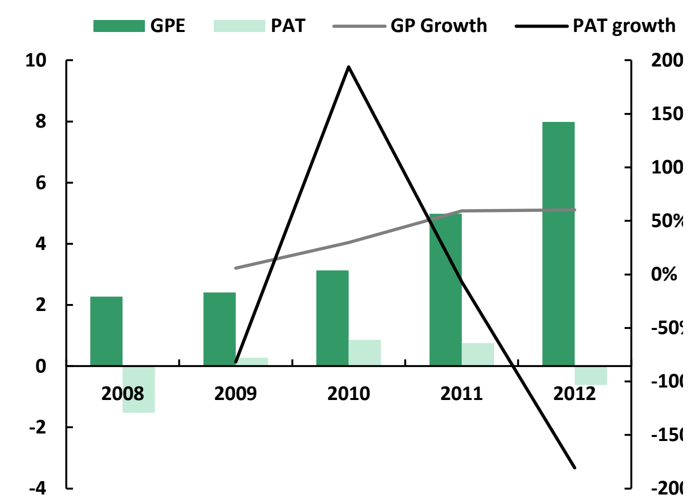
Business Summary

The company was incorporated in 1995 as a private limited liability company and registered by NAICOM to underwrite all classes of insurance. Mutual Benefits has progressed into a group with nine constituent companies involved in various sectors in the Nigerian economy through investments and partnerships since its incorporation. The company is actively involved in the real estate and transport division of the economy.

The company operates a model which focuses on the retail segments of Nigerian insurance, and identifies itself as an insurer to the masses. Innovation and visibility through a wide branch network are ways which the company has devised to remain active in the insurance industry, and seems enjoying enviable patronage and confidence of its retail base as well as Delta State Government, NNPC who are currently in partnerships with the company.

The company has also launched an initiative to promote insurance in the northern region, being achieved through its partnership with the Nigerian Union of Teachers (NUT) to raise awareness of conventional insurance in that region. It has also expanded its branch network beyond the South-Western region, which currently has the highest concentration of insurance companies, to other parts of the nation which offer high prospects.Apart from its dealings in Nigeria, the company also has branches in Liberia and Cameroon.

Chart 4.3 Gross Premium and Earnings Performance 2008-2012 (NGN Billion)



Source: Company Financials, Meristem Research

Table 1.6 Historical Performance Analysis 2010-2012

	Historical Performance Analysis		
	2010	2011	2012
Reinsurance Rate	5.87%	3.73%	6.58%
Claims Ratio	24.85%	22.08%	34.23%
Expense Ratio	72.71%	59.81%	80.73%
Underwriting Margin	3.06%	18.16%	-13.22%
Profit Margin	25.48%	13.83%	-7.67%
ROAE	17.63%	13.33%	-12.55%
ROAA	4.16%	-2.54%	3.00%
Inv./Total Assets	38.68%	54.38%	57.61%
ROIA	22.80%	16.10%	27.26%
Leverage	2.95	3.20	4.94
Solvency Margin	-0.01x	-0.13x	0.16x

Operating performance

Gross Premium earned grew by an average of 39% between 2009 and 2012. Alternatively, Profit After Tax grew by an average of -19% during the period reviewed. 4-year CAGR for both the top-line and bottom-line stood at 22% and -21% for the respective indicators. The company's ROAA averaged -1.1% between 2008 and 2012, and pegged at -2.4% in 2012 as a result of the loss after tax declared in its financial scorecards.

Expenses

Net margin averaged -1% as a result of the losses recorded in 2008 and 2012. Combined ratio averaged 89.8% during the period, with the highest value of 114.97% obtained in 2012, majorly caused by an expense ratio of 80.73% which was due to a 61% increase in management expenses during the period.

Reinsurance rate on the other hand recorded a low average value of 7.39% between 2008 and 2012, basically as a result of its retail insurance focal point. The company derives majority of its business from motor, general accident and life, which its asset base of NGN28.29bn (as at 2012) can absorb.

Solvency and Liquidity

The company's solvency margin has been consistently meagre with an average of 0.04x between 2008 and 2012. In 2009, 2010 and 2011, admissible liabilities exceeded admissible assets, resulting in negative solvency margins. This is primarily an outcome of the spikes in insurance and investment contract liabilities witnessed in those years.

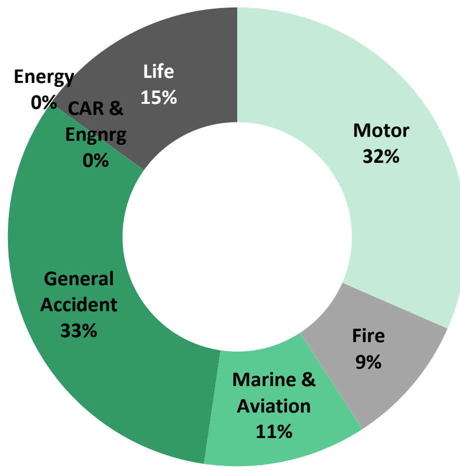
In measuring the company's ability to meet its short-term financial obligations, cash and current ratios were employed. These ratios averaged 0.61 and 3.13 between 2008 and 2012, indicating that the company not only had problems with solvency, but also from liquidity standpoint. The company needs to raise capital to augment its operations in the near term and has secured the approval of its shareholders to raise additional capital by issuing debt or equity or a combination of both financing options.

Positioning and Outlook

Composition and Drivers of Revenue

General accident, motor and life usually contribute the largest portion to gross premium written. The company, in 2012, modified its operations as it changed its major revenue driver to life insurance and savings. The shift in focus seems to have paid off, as premiums from life insurance increased by 178% and contribution to top-line increased by 34%. The focus on micro-insurance has also paid off, with estimations atNGN1bn generated annually in the last three years.

Chart 4.4 Composition of Gross Premium 2011



Source: Company Financials, Meristem Research

Outlook and Opportunities

The company, in a bid to stay profitable, employed some innovative approaches which have begun to generate revenue. About 40 new products have been launched, targeted at certain demographics e.g. Politician and Political risk insurance, Pilgrims welfare insurance, Celebrity life assurance, Event centre insurance, hair salon insurance, amongst others. These are expected to serve as revenue drivers for the company in the near term.

The company also currently has an alliance, terms and conditions inclusive, with Portland paints where it provides insurance coverage to Portland Paints consumers who lose their property due to fire outbreaks and burglaries.

Apart from its collaborations with the private sector, the company has also established partnerships with the Nigerian government. The company is Delta State's insurance partner in its scheme to encourage the SMEs in the state. Mutual Benefit has also partnered with the Nigerian Union of Teachers in a bid to improve awareness about insurance and its offerings, especially in the Northern region of the country.

Given its proven track record of risk management, the company was awarded the NNPC non-life insurance coverage in 2014. This, we expect to positively impact the company's top- and bottom-lines during the year. We also expect this to improve the visibility of the company and subsequently lead to increased revenue generation avenues for Mutual Benefits.

SWOT Analysis

Strengths

- Unique Products
- Great Locations
- Profitable and Innovative Partnerships
- Presence in various lines of insurance, and other businesses
- Innovation

Opportunities

- Benefits derivable from operations in the northern region.
- Low insurance penetration in Nigeria
- Microinsurance
- Funds raising from the capital market

Weaknesses

- Weak solvency
- Poor historical efficiency in profit generation
- Combined ratio is historically high, causing underwriting losses.

Threats

- Intense Competition from local, currently operating and prospective foreign players
- Increased regulation to match industry and market dynamics.

Source: Meristem Research

Valuation

The company was valued using a combination of absolute valuation approach (DDM, assuming a pay-out rate of 45%, international perspective cost of equity of 13.45%, ROAE of 12.40% for 2014, SGR of 6.0% and our perception about the company's operations in the future) as well as relative approaches (Justified P/E and P/BV and Forward P/E and P/BV).

MBENEFIT has traded at NGN0.50 since June 2010, save for a month in 2013 (between 5th Feb and 1st March) when the price went as high as NGN0.63 (on 12th February) before reverting to NGN0.50 on 2nd March of the same year. The stock also recorded an upward trend in June as the price increased to NGN0.54, witnessed some volatility, and pegged at NGN0.54. However, we place a Target Price of NGN0.85 and a BUY recommendation for 2014 on account of the company's historical results and expectations on future performances.

Financials

FINANCIALS and RATIO (HISTORICAL + FORECAST)

	NGN'mn					
Income Statement	**FY11**	**FY12**	**FY13**	**FY14f**	**FY15f**	**FY16f**
Gross Premium Earned	4,984	7,981	8,000	10,294	9,830	10,178
Reinsurance Cost	186	525	758	862	819	844
Net Prem. Earned	4,798	7,456	7,242	9,432	9,011	9,334
Net Claims Incurred	1,059	2,552	2,390	2,829	2,703	3,034
Underwriting Expenses	2,870	6,019	5,432	6,131	6,578	6,721
Underwriting Profit	905	-1,055	-411	687	-66	-209
Net Operating Income	2,286	2,623	3,194	4,220	3,644	3,593
Total Other Expenses	1,279	2,914	2,105	2,156	2,048	2,109
Profit before Taxation	1,007	-291	1,088	2,064	1,596	1,483
Profit after Taxation	757	-609	871	1,651	1,276	1,187
Balance Sheet						
Cash and Bank Balances	1,586	1,540	1,787	1,909	1,980	2,000
Short Term Investments	3,214	5,116	6,904	7,661	8,060	8,167
Reinsurance Receivables	608	2,286	893	954	990	1,000
Current Assets	**9,020**	**12,634**	**13,299**	**14,205**	**14,735**	**14,886**
Long Term Investments	2,126	5,246	5,858	6,291	6,544	6,616
Investment Properties	3,263	3,898	4,616	4,931	5,115	5,167
Property, Plant and Equipment	4,222	5,725	5,510	5,885	6,105	6,167
Non-Current Assets	**10,636**	**15,660**	**16,484**	**17,607**	**18,264**	**18,451**
TOTAL ASSETS	**19,656**	**28,294**	**29,782**	**31,812**	**32,999**	**33,336**
Borrowings	2,927	2,858	2,858	2,858	2,858	2,858
Creditors and Accruals (Payables)	1,455	3,141	3,356	3,405	3,641	3,704
Current Liabilities	**1,999**	**3,847**	**3,574**	**3,817**	**3,960**	**4,000**
Investment Contract Liabilities	7,327	10,678	10,424	11,134	11,550	11,668
Insurance Contract Liabilities	4,116	6,599	7,020	7,505	7,915	8,284
Non-Current Liabilities	**14,552**	**20,619**	**22,167**	**23,045**	**23,388**	**23,032**
TOTAL LIABILITIES	16,551	24,465	25,741	26,863	27,347	27,033
NET ASSETS	**6,131**	**3,575**	**4,041**	**4,949**	**5,651**	**6,304**

Source: Company Financials, Meristem Research

TP:	**NGN1.27**
RATING:	**BUY**

NEM INSURANCE Plc.

Enjoying Foreign Connection…

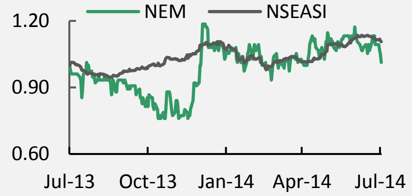
Relative Metrics	
Current price	0.76
P/E ttm	2.65x
P/B	0.67x
Forward P/E	2.57x
52-Wk av. Vol (mn)	7.24

***Fundamental Metrics**	
BVPS	1.20
Net Margin	32.28%
ROAE	23.19%
ROAA	16.20%
Asset Turnover	0.64x
Leverage	1.57x
Mkt. Cap (N'bn)	4.01
Reinsurance Rate	0.91%
Claims Rate	27.28%
Expense Rate	46.29%

Values as at Q3:2013

Key Price Metrics	
MtD Return	-13.64%
QtD Return	-13.64%
YtD Return	1.33%
52-Week Return	1.33%
52-Week Hi	0.89
52-Week Lo	0.57
Year Hi	0.97
Year Lo	0.70
Beta	1.20
14D-RSI	47.52

52-Week Price Trajectory



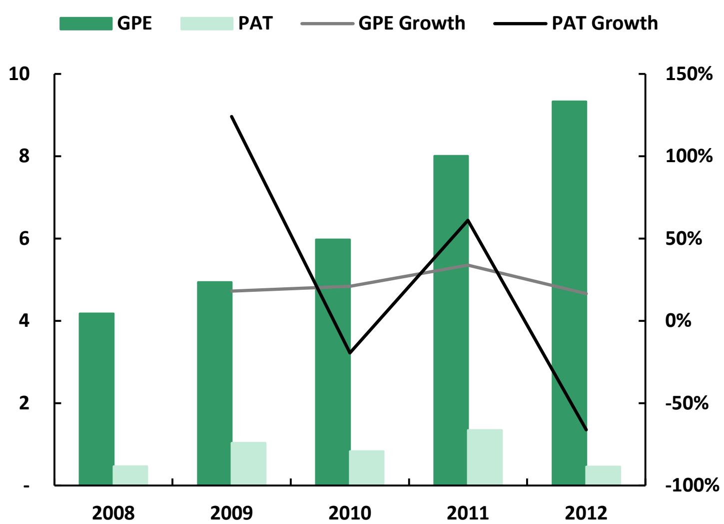
- Started operations in Nigeria as a branch of NEM General Insurance Association Limited of London in 1965, and was listed on the NSE in 1989.
- The company operates a business model that spans across most classes of insurance. However, the company is a strong player in motor insurance which accounts for c.36% of its gross premium.
- The company has dominance in many insurance classes; occupying top ten positions in most, save for oil and gas.
- As one of the market leaders in motor insurance, the company also has dominance in general accident insurance, occupying positions in the top three since 2008.
- The company's reinsurance rate of 9% (5-year average) is one of the lowest in the industry.
- The company has a 5-year CAGR of c.30%% in its top-line and a 5-year average of 31%.
- On the back of the company's result as at Q3:2013 and our five year forecast horizon, we arrived at a TP of NGN1.27 for NEM. At the current price of NGN0.76, the counter has a 68% upside potential.

Business Summary

NEM started business operations in Nigeria as a branch of NEM General Insurance Association Limited of London in 1965 before it was incorporated as a Nigerian entity in 1970, and listed on the Nigerian Stock Exchange in 1989 following the privatization by the Federal Government of Nigeria. NEM Insurance Plc. in earlier times operated as a composite underwriter.

However, the business model skewed towards the underwriting of general insurance as a result of the recapitalization exercise which led to its merger with Vigilant Insurance Company Limited in 2007. This new model has seen the company enjoy the benefits of motor insurance which is now the highest contributor to its Gross Premium. In 2009, the company expanded its geographical presence to the West African Sub region through the successful establishment of a subsidiary in Ghana.

Chart 4.5 Gross Premium and PAT 2008 to 2012 (NGN Billion)



Source: Company Financials, Meristem Research

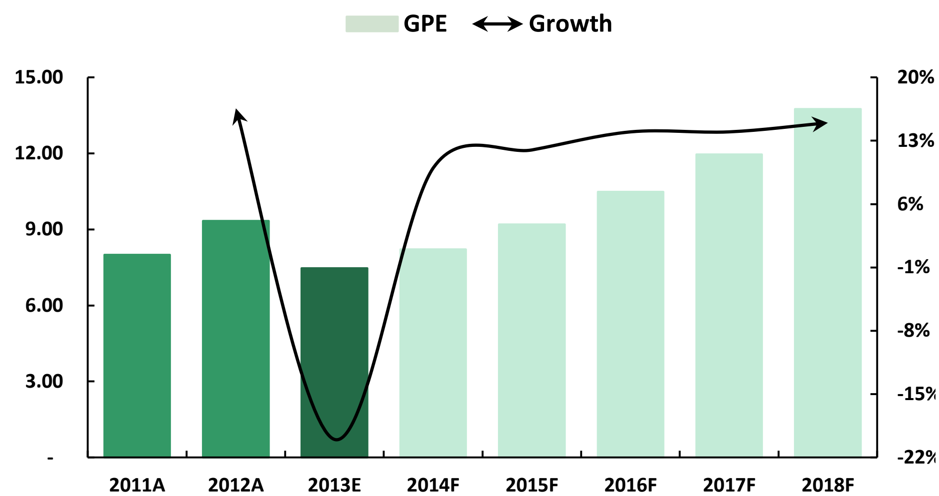
Table 1.7 Historical Performance Analysis 2010-2013Q3

Historical Performance Analysis	2010	2011	2012	Q3:2013
Reinsurance Rate	11.49%	9.84%	2.34%	0.91%
Claims Ratio	21.62%	23.85%	32.19%	27.28%
Expense Ratio	53.52%	52.81%	62.29%	52.70%
Underwriting Margin	51.89%	48.78%	39.80%	41.47%
Profit Margin	15.76%	18.62%	4.99%	32.58%
ROAE	16.14%	21.77%	8.28%	32.87%
ROAA	13.24%	17.50%	5.64%	23.15%
Inv. Assets/Total Assets	55.91%	50.48%	67.60%	77.56%
ROIA	4.36%	6.60%	10.47%	10.25%
Leverage	1.22	1.24	1.47	1.39
Solvency Margin	1.20x	1.21x	1.06x	2.12x

Operating Performance

NEM has consistently increased its Gross Premium Earned from 2007 to 2012 as 5-year average growth rate stands at 34% and 5-year CAGR pegs at c.32%. However, as at the end of Q3:2013, the company's YoY GPE growth declined by 20.69%. Our modest estimates for 2013FY project a YoY decline of 20% as the company's result in Q3:2013 showed c.21% decline in GPE year-on-year (YoY) just as quarter-on-quarter (QoQ) growth waned significantly by 98%.

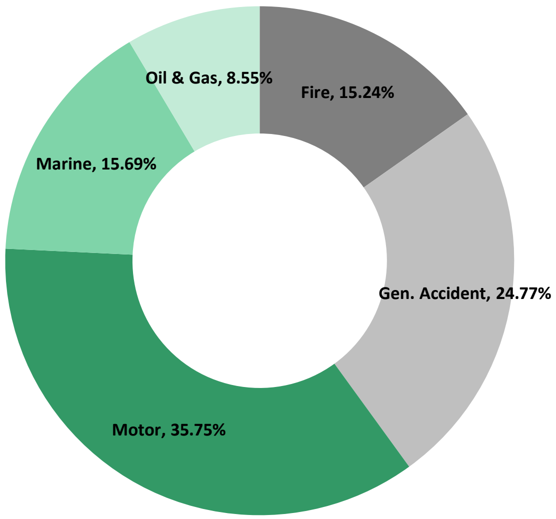
Chart 4.6 **Gross Premium Earned Forecast and Growth Rate from 2013-2018 (NGN Billion)**



Source: Company Financials, Meristem Research

The company, like many of its insurance contemporaries, operates a business model that favours motor insurance. Cumulative results for the company from 2010 to Q3:2013 shows that motor insurance donates c.36% to the company's premium, trailed by general accident insurance which contributes c.25% on average. Oil and Gas insurance contributes the least to the top-line, as the company finished in the 14th position on the list of industry market leaders in oil and gas insurance in 2010.

Chart 4.7 **Contribution of Classes of Insurance (average from 2010 to Q3:2013)**



Source: Company Financials, Meristem Research

The company ranked second on the list of insurance companies with the highest premium from motor insurance segment in 2010, controlling c.6% of the industry's total premium, trailing only Leadway assurance which controlled 9%. Prior to 2010, the company had maintained the top five positions in the industry in the line of motor insurance after leapfrogging from 17th position in 2006 to finish in the 5th position in 2007.

In addition to its leadership in motor insurance, the company also has dominance in some other areas of its business segments. In 2010, the company controlled c.6% of the market share in general accident to finish in the third position, and grew to 7.39% control of market share in this line of business to place itself as the industry leader in 2011.

It also had c.5.8% market share in fire insurance to occupy the fourth position in 2010 and second position in 2011 by grabbing 6.72% of the market share. The company is also a big player in marine and aviation, occupying the 6th position in 2010 by controlling c.5% of the market share to displace many of its competitors, then further consolidating on that performance by finishing in the third position in 2011 after it accounted for 6.69% of the market share.

Prior to 2010, the company had fantastic records in the industry. Case in point is fire insurance where the company finished below the first twenty (28th position) in 2006, finished fourteenth in 2007 and has since then maintained the top ten positions.

Also in the class of general accident insurance, the company has consistently finished in the top five positions, a distinction that has been maintained since 2007 after finishing in the 17th position in 2006. Year 2009 also marks a fantastic achievement in the company's history, as it finished in the fifth position in one of the "big tickets" insurance (Marine and Aviation). It is also noteworthy that in 2009, NEM controlled 9.4% in the market share of workmen's compensation to finish in the third position.

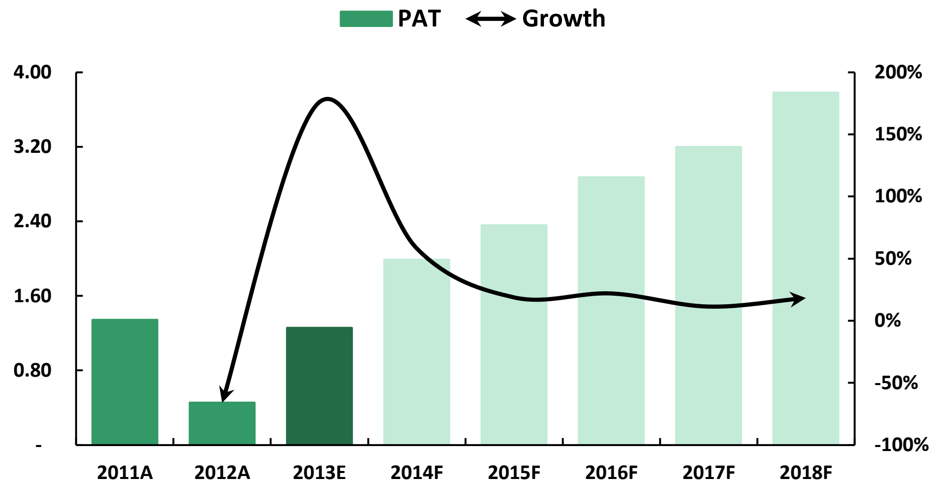
Bottom-Line and Resources Utilization

NEM has recorded consistent growth in its earnings since 2007, with 2010 and 2012 being the only outliers when it recorded decline in its bottom-line as a result of a significant increase in its tax rate (19.40% in 2010 and 33.10% in 2012 vs. average of 9.38% in other years). In spite of the significant c.21% YoY drop in the company's GPE in Q3:2013, it was able to post c.38% YoY increase in PAT. The effect of the drop in GPE was offset by the company's ability to curtail most of its expenses, as claims ratio and expenses ratio (claims and expenses as a %

of GPE) reduced by 16.62% and 17.47% respectively. These minimized costs acted to offset the effect of the GPE decline on the bottom-line.

After critical assessment of the company's quarterly results for 2013, we modelled an expectation for 2013FY which shows a considerable increase of 176% YoY growth due the comparatively low base of 2012. Our modest estimates for the next five years to 2018 shows an average growth rate of c.26% in the company's PAT.

Chart 4.8 Profit after Tax Forecast and Growth Rate from 2013 to 2018



Source: Company Financials, Meristem Research

NEM's established industry cost leadership in reinsurance expenses (5-year average of 9.20% vs. Industry average of 22.27% as at Q3:2013) allows the company to compete in terms of Net Premium Earned (NPE) and earnings figures with other underwriters. This low reinsurance, in our opinion, might not affect the company's operations significantly, as it does not underwrite much "big ticket" insurance which have severe exposures.

SWOT Analysis

Strengths

- Consistent growth in top-line
- Low reinsurance rate
- Enjoying foreign affiliation

Opportunities

- Opportunities in micro-insurance space
- Envisaged motor policy in Nigeria
- No Premium No Cover to reduce bad debt going forward

NEM INSURANCE PLC

Weaknesses

- Late filing of financial statement

Threats

- Imminent competition from foreign investors
- Low investors' confidence in the industry
- Regulatory tightening by NAICOM

Source: Meristem Research

Valuation

As a dividend-paying company, it was necessary to incorporate DDM as part of our valuation methodologies. We assumed a modest pay-out rate of 30% (vs. 5-year historical average of 37%). We adopted a sustainable growth rate of 5% in discounting the terminal value in comparison with the sustainable growth rate of 10.69% derived using Gordon's growth model . The DDM was blended with the forward P/E and forward P/BV. Our forecasted ROAE for 2014 was revised downward to 15.27%, which is in line with peer average. At a cost of equity of 16.66%, we arrived at a forward P/E of 2.57x and forward P/BV of 0.88x.

Based on the aforementioned metrics, we arrived at 2014TP of NGN1.27 for the counter, after apportioning 40% weight to forward P/BV and 30% apiece to DDM and forward P/E. At the current price of NGN0.76, NEM has potentials to deliver capital appreciation of 68%, thus, compelling our BUY recommendation.

Financials

FINANCIALS and RATIO (HISTORICAL + FORECAST)

	NGN'mn					
Income Statement	**FY11**	**FY12**	**FY13E**	**FY14f**	**FY15f**	**FY16f**
Gross Premium Earned	8,006	9,335	7,468	8,215	9,201	10,489
Reinsurance Cost	788	218	1643	756	920	1259
Net Prem. Earned	7,219	9,117	5,825	7,459	8,281	9,230
Net Claims Incurred	1,722	2,934	1,748	2,238	2,319	2,308
Underwriting Expenses	2,113	2,567	2,751	2,594	2,906	3,312
Underwriting Profit	3,521	3,629	1,704	2,801	3,268	3,900
Net Operating Income	3,790	4,126	2,968	3,686	4,180	4,857
Total Other Expenses	2313	3445	1378	1171	1195	1219
Profit before Taxation	1476	681	1590	2515	2985	3638
Profit after Taxation	1344	455	1256	1987	2358	2874
Balance Sheet						
Cash and Bank Balances	306	577	466	489	538	597
Short Term Investments	2277	2595	2645	2777	3055	3391
Premium Debtors	2504	981	2046	2148	2363	2623
Current Assets	**5,617**	**4,521**	**5,628**	**5,910**	**6,500**	**7,215**
Long Term Investments	817	1,304	1,230	1,291	1,420	1,577
Investment Properties	389	460	486	511	562	624
Property, Plant and Equipment	842	829	958	1006	1107	1228
Non-Current Assets	**2,710**	**3,288**	**3,430**	**3,602**	**3,962**	**4,398**
TOTAL ASSETS	**8,327**	**7,809**	**9,059**	**9,512**	**10,463**	**11,614**
Creditors and Accruals (Payables)	38	192	189	144	110	69
Current Liabilities	**-38**	**214**	**315**	**240**	**184**	**115**
Insurance Contract Liabilities	1,564	3,028	3,328	2,534	1,942	1,213
Non-Current Liabilities	**1,671**	**3,294**	**3,617**	**2,755**	**2,111**	**1,319**
TOTAL LIABILITIES	**1,633**	**3,508**	**3,932**	**2,994**	**2,294**	**1,433**
NET ASSETS	**6,694**	**4,301**	**5,127**	**6,517**	**8,168**	**10,180**

Source: Company Financials, Meristem Research

TP:	**NGN0.50**
RATING:	**HOLD**

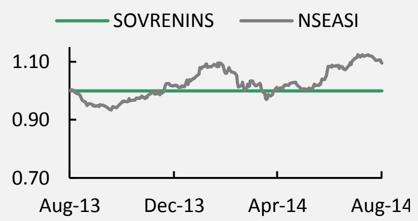
Relative Metrics	
Current price	0.50
P/E ttm	9.90x
P/B	1.21x
Forward P/E	6.51
52-Wk av. Vol (mn)	0.173

***Fundamental Metrics**	
BVPS	0.51
Net Margin	3.96%
ROAE	10.48%
ROAA	4.40%
ttm Asset Turnover	1.11%
Leverage	2.48x
Mkt. Cap (N'bn)	3.435
Reinsurance Rate	42.06%
Claims Rate	40.66%
Expense Rate	66.81%

Values as at FY:2013

Key Price Metrics	
MtD Return	0.00%
QtD Return	0.00%
YtD Return	0.00%
52-Week Return	0.00%
52-Week Hi	0.50
52-Week Lo	0.50
Year Hi	0.50
Year Lo	0.50
Beta	0.02
14D-RSI	42.73

52-Weeks Price Trajectory



SOVEREIGN TRUST INSURANCE PLC

Reaping Energy Insurance Dividends…

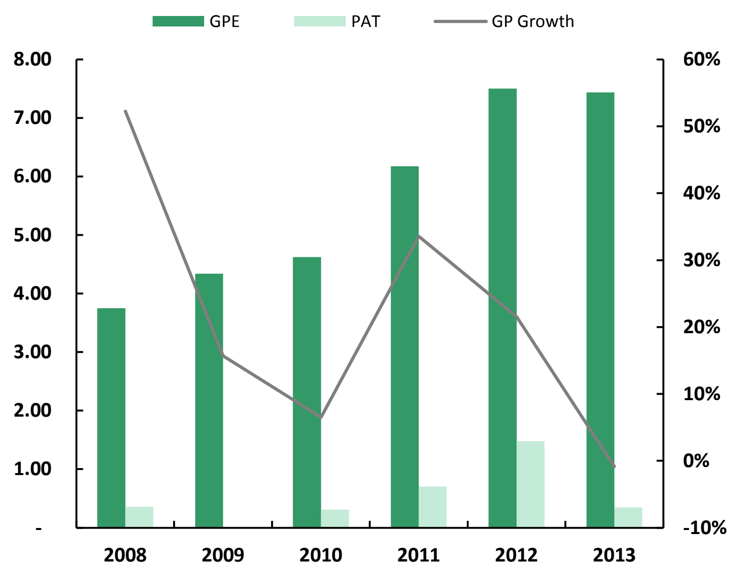
- Sovereign Trust Insurance commenced operations in 1995 following the acquisition and recapitalization of Grand Union Assurance Limited.
- The company's focal business line is energy insurance, from which c.51% of Gross Premiums Written is derived.
- Sovereign Trust grew Gross Premium Earned and Profit after Tax by a 5-year CAGR of 15% and -1% respectively.
- The company is slightly efficient in its operations, with 2013 Return on Average Assets (ROAA) and Asset Turnover of 4.4% and 1.11x respectively.
- We expect future profitability to rise on the back of increased efficiency in operations, niche operation in the energy, and other classes of insurance.
- The company has a collaboration with UBA Metropolitan, where UBAMET provides SOVRENINS with general insurance business which it cannot underwrite (being a life insurance company) and vice versa.
- Sovereign Trust Insurance has announced its intention to acquire an existing life insurance business in Nigeria in a bid to tap from opportunities inherent in that segment of the market.
- We placed a HOLD recommendation and 2014FY Target Price of NGN0.50 on the company's shares based on our expectation of the company's future earnings potentials.

Business Summary

STI commenced operations in 1995 as insurer with a licence to underwrite all classes of non-life business, following the acquisition and recapitalization of Grand Union Assurances Limited. The company redefined its operations in 2011 as energy usurped motor as the driver of the underwriter's revenue. The company is owned by a diverse collection of shareholders including the Chairman—Dr. Ephraim Faloughi, and the Bayelsa State Government, amongst others.

Like most insurance companies, the company obtains income from sources other than premiums. STI owns investment properties which are not used for business, but for capital appreciation even as they also invest in other channels—quoted and unquoted securities, fixed income instruments, etc. Risk being taken by the company is managed by their risk management desk, an initiative from NAICOM to ensure that insurance companies do not assume risks beyond their capacity.

Chart 4.9 Gross Premium and Earnings Performance 2008-2013 (NGN Billion)



Source: Company Financials, Meristem Research

Table 1.8 Historical Performance Analysis 2010-2013

Historical Performance Analysis	2010	2011	2012	2013
Reinsurance Rate	20.32%	31.55%	38.41%	42.06%
Claims Ratio	25.12%	36.77%	19.92%	40.66%
Expense Ratio	59.57%	65.56%	68.51%	66.81%
Underwriting Margin	0.00%	0.00%	0.00%	0.00%
Profit Margin	6.48%	-8.41%	19.07%	3.96%
ROAE	8.59%	-12.14%	35.71%	10.48%
ROAA	5.65%	-9.17%	22.34%	4.40%
Inv. /Total Assets	75.85%	94.73%	67.08%	73.45%
ROIA	4.84%	11.81%	12.52%	7.18%
Leverage	1.52	1.32	1.60	2.38
Solvency Margin	0.72x	0.48x	0.66x	0.88x

Operating Performance

Sustained profitability with Increased Capacity

The company grew its premium earned and profit by averages of 15% and 1,396% respectively between 2009 and 2013. The astronomical growth in PAT is as a result of its unusual PAT growth of 7,257% recorded between 2009 and 2010—a feat achieved by the company overcoming challenges bordering on increasing reinsurance and management expenses, as well as mark-to-market losses on investments .

Claims ratio reflecting company's shift from retail line

An average profit margin of 4.2% between 2009 and 2013 indicates that a significant portion of revenue was paid out in form of reinsurance, claims and underwriting expenses. The company's reinsurance rate progressed from an average of 19.8% between 2006 and 2010 to 37.3% between 2011 and 2013, as the company repositioned to underwrite more energy businesses. Expense ratio has also witnessed increments with acquisition and management expenses constituting the largest part to the expenses.

Average claims ratio between 2008 and 2012 was 24.1% but increased significantly to 40.66% in 2013. This is not in line with our expectation of reduced claims as a result of the company's shift from retail lines from where claims occurrence are frequent, to the "big ticket" class where claims rarely materialize. However, given the management's focus on brand improvement through swift payment of legitimate claims, and its continued involvement in other segments of insurance other than energy, this ratio might stay high in the near term.

Solvency and Liquidity

Solvency margin averaged 0.78x between 2009 and 2013, largely below NAICOM's stipulated minimum of 1.00x. We however expect this to reverse upon the conclusion of the company's proposed rights issues, which would shore up its capital base.

Cash and Current ratios averaged 5.2 and 13.2 respectively, indicating that the company was sufficiently liquid to cover its current liabilities with its current assets during the period. Current assets were however dominated by premium and other debtors which accounted for an average of 46% during the period, and could eventually be written off as bad and doubtful.

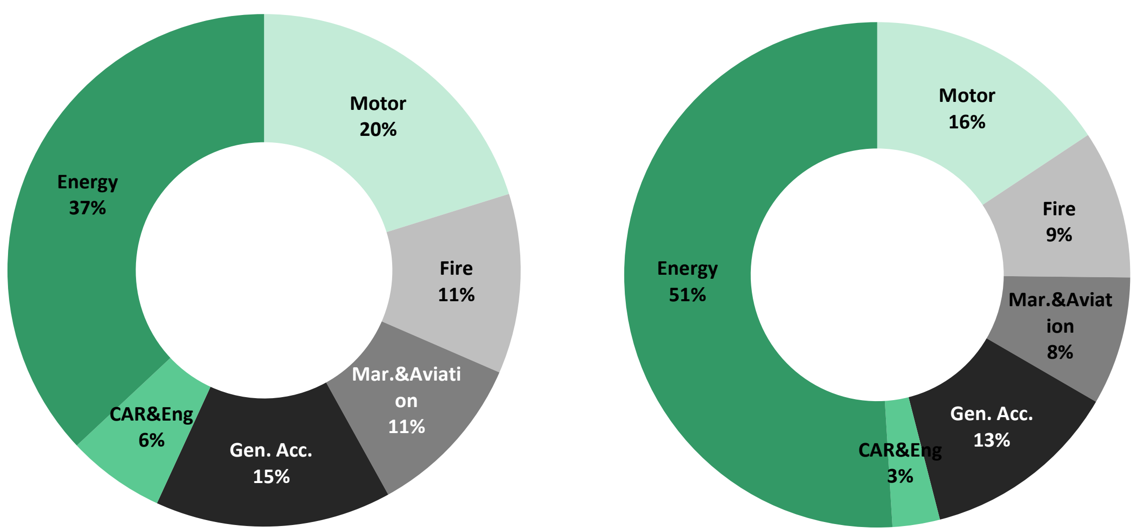
Positioning and Outlook

Composition and Drivers of Revenue

Following its rights issue in 2011, the company moved its focal point from motor insurance to energy insurance. As of 2012FY, this business line accounted for a significant 37% of its Gross Premium, followed by Motor Insurance which accounted for 20%. The company further intensified its focus on energy insurance in 2013, as its contribution to premiums written increased to 51%, while contribution of all other segments declined.

The company's involvement in energy is shared between upstream and downstream risks. The company tailors its energy products to suit the users, including the public sector, industrial and financial institutions. This is expected to drive demand in the near and distant term, and has been evident in the increasing premium generated since Sovereign Trust ventured into this line of business.

Chart 5.1 Composition of Gross Premium (LHS 2012) (RHS 2013)



Source: Company Financials, Meristem Research

In the struggle to attain and maintain profitability, the company has employed a number of methods which include a symbiotic relationship with UBAMET – acquiring non-life solutions which UBAMET cannot offer their clients and referring life businesses by their clients to UBAMET. The company also employs an insurance agency system in Lagos with agents who work solely for the company's benefits.

Outlook and Opportunities

Vast opportunities lie in the Insurance sector, especially in the oil and gas line in which the company is carving a niche for itself. The company was recently appointed into the Oil and Energy Insurance Pool of the African Market. This, we expect to further improve the company's visibility and affirm its capabilities in oil and gas, and generally, energy insurance.

However, as a result of the company's current solvency issues, as well as the high growth of its revenue relative to its net assets, additional capital will be required in order to obtain more businesses. The company has also announced its plan to expand and tap into the opportunities which life insurance business offers. For this reason, it has announced its plans to acquire an existing life insurance company.

SWOT Analysis

Strengths

- Dynamism (shown in its ability to change its focal point to achieve higher profitablity)
- Strategic Partnerships
- High efficiency: Asset turnover of 1.11x

Opportunities

- Probable gains from expansion plans
- Compulsory reinsurance enforced by NAICOM.
- Synergy from acquiring life insurance business

Weaknesses

- Weak solvency
- Untimely release of earnings
- Increasing concentration on Energy insurance

Threats

- Intense Competition from insurance and reinsurance companies
- Substitutability of insurance products with other products in the financial services industry

Source: Meristem Research

Valuation

Valuation was carried out by combining absolute valuation approach (DDM, assuming a pay-out rate of 30%, cost of equity of 13.45%, ROAE of 14.09% for 2014, SGR of 5.4% and analyst's perception about operations of the company in the future) as well as relative approaches (Forward P/E and P/BV).

Alongside 15 other insurance stocks, STI has traded at its nominal values of NGN0.50 for a significant amount of time, since the stock market crash in 2009.

The price of STI's stock declined to NGN0.50 in September 2009 and traded at that price until January 2013 when it appreciated to a high of NGN0.59 before reverting to NGN0.50 in March of the same year.

We place a 2014 Target Price of NGN0.50 and a HOLD recommendation for 2014 on account of the company's historical performance and earnings prospects.

Financials

FINANCIALS and RATIO (HISTORICAL + FORECAST)

NGN'mn

Income Statement	FY11	FY12	FY13	FY14f	FY15f	FY16f
Gross Premium Earned	6,173	7,502	7,438	8,329	8,745	9,183
Reinsurance Cost	1,948	2,882	3,128	3,313	3,478	3,652
Net Prem. Earned	4,226	4,620	4,309	5,016	5,267	5,531
Net Claims Incurred	1,554	920	1,752	2,007	2,107	2,212
Underwriting Expenses	2,771	3,165	2,879	3,110	3,160	3,263
Underwriting Profit	182	909	288	545	678	767
Net Operating Income	626	1,315	603	857	984	1,088
Total Other Expenses	1,140	-270	328	237	229	209
Profit before Taxation	-514	1,585	275	621	755	879
Profit after Taxation	-539	1,476	347	528	642	748
Balance Sheet						
Cash and Bank Balances	1,432	1,167	1,933	1,352	1,465	1,554
Short Term Investments	772	357	470	604	314	455
Reinsurance Receivables	851	1,322	2,652	2,650	2,783	2,922
Current Assets	**3,967**	**4,839**	**5,977**	**5,795**	**5,754**	**6,106**
Long Term Investments	379	354	451	773	837	888
Investment Properties	860	1,053	1,222	1,449	1,569	1,776
Property, Plant and Equipment	583	553	549	676	732	777
Non-Current Assets	**2,138**	**2,275**	**2,672**	**3,863**	**4,707**	**4,995**
TOTAL ASSETS	**6,106**	**7,113**	**8,649**	**9,658**	**10,461**	**11,101**
Creditors and Accruals (Payables)	172	251	177	489	488	465
Current Liabilities	**344**	**420**	**290**	**582**	**601**	**596**
Borrowings	1,524	1,008	1,067	1,128	1,067	1,006
Insurance Contract Liabilities	1,971	2,240	3,473	4,609	5,801	7,053
Non-Current Liabilities	**3,782**	**3,554**	**4,876**	**5,071**	**5,236**	**5,194**
TOTAL LIABILITIES	**4,127**	**3,974**	**5,166**	**5,654**	**5,838**	**5,791**
NET ASSETS	**1,979**	**3,139**	**3,483**	**4,004**	**4,623**	**5,310**

Source: Company Financials, Meristem Research

TP:	**NGN0.60**
RATING:	**BUY**

UNITYKAPITAL ASSURANCE Plc.

To Strive Independently...

- UNITYKAPITAL has gone through series of changes in name from Kano State Insurance to Kapital Assurance before finally settling at UnityKapital in 2008.
- It has controlling interest in Future Unity Glanvills Pensions Limited (c.70% holdings) and Health Care Security Limited (c.94% holdings) and significant holdings of c.28% in Goldlink Insurance.
- The major driver of business is motor insurance which contributes c.31% to its top-line, seconded by General Accident insurance which accounts for 22%.
- The company's business model which currently supports motor insurance is gradually navigating to underwriting oil and gas insurance. The former increased from 6% in 2009 to 24% in 2012 while the latter decreased from 50% to 25% within the same period.
- In the early part of this year, Unity Bank announced its intention to divest its holdings (*c*.50%) in UnityKapital based on the new CBN policy that banks should concentrate on their primary activity or operate as a holding company.
- Even though the stock currently trades at its NGN0.50k nominal value, our analysis unveiled the intrinsic value in UNITYKAP as we arrived at 2014TP of NGN0.60k. This implies upside potentials of 20%. Albeit, liquidity risk remains a bottleneck.

Relative Metrics	
Current price	0.5
P/E ttm	27.34x
P/B	1.15x
Forward P/E	6.31x
52-Wk av. Vol (mn)	7.24
***Fundamental Metrics**	
BVPS	0.44
Net Margin	22.36%
ROAE	4.03%
ROAA	3.33%
Asset Turnover	0.12x
Leverage	1.24x
Mkt. Cap (N'bn)	6.93
Reinsurance Rate	15.08%
Claims Rate	13.17%
Expense Rate	60.68%

Values as at Q3:2013

Key Price Metrics	
MtD Return	0.00%
QtD Return	0.00%
YtD Return	0.00%
52-Week Return	0.00%
52-Week Hi	0.50
52-Week Lo	0.50
Year Hi	0.50
Year Lo	0.50
Beta	NA
14D-RSI	NA

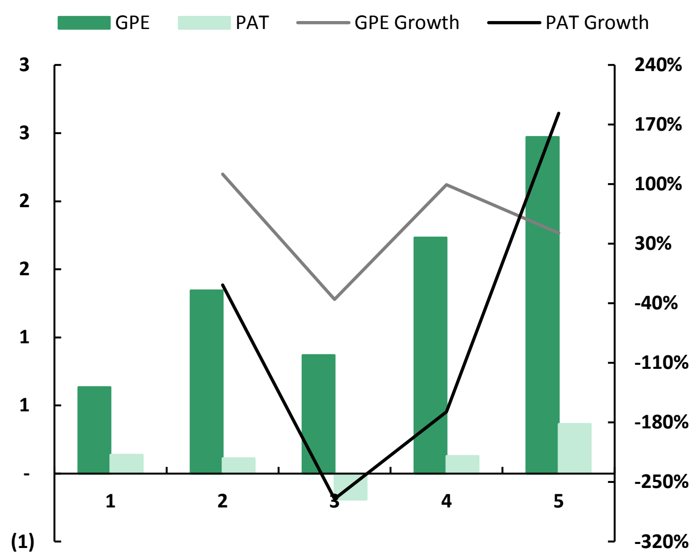
52-Weeks Price Trajectory

Business Summary

UnityKapital has undergone a number of transformations from a state-owned institution in 1974, Kano State Insurance Company Limited to Kapital Insurance Company Limited in 1981. In 2005, it merged with Global Commerce and General Assurance Company Limited and Inter-Continental Assurance Company Limited. In 2008, the name of the company was changed to UnityKapital Assurance Plc. and its shares were quoted on the NSE on 17th December, 2009.

UnityKapital Assurance Plc., has two subsidiaries; Future Unity Glanvills Pensions Limited (70% holdings) and Health Care Security Limited (c.94% holdings) in addition to a c.28% interest in Goldlink Insurance Plc. The principal focus of the company is general (Non-life) insurance business as it ceased transacting life business in 2007.

Chart 5.2 Gross Premium and Earnings 2008-2013 (NGN Billions)



Source: Company Financials, Meristem Research

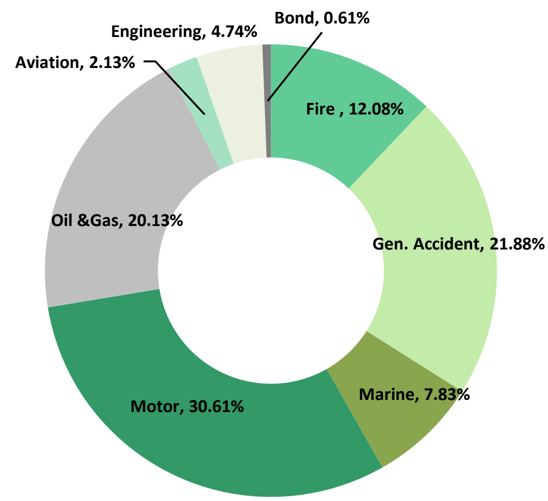
Table 1.9 Historical Performance Analysis 2010-2013Q3

Historical Performance Analysis	2010	2011	2012	Q3:2013
Reinsurance Rate	14.24%	10.34%	10.30%	19.59%
Claims Ratio	6.57%	6.74%	12.11%	21.35%
Expense Ratio	131.35%	110.24%	97.46%	70.17%
Underwriting Margin	-25.53%	8.26%	16.40%	56.77%
Profit Margin	82.32%	79.37%	75.37%	93.65%
ROAE	-2.35%	1.53%	4.06%	14.55%
ROAA	-2.13%	1.37%	3.60%	12.81%
Inv. Assets/Total Assets	75.52%	73.43%	65.37%	63.55%
ROIA	8.25%	11.85%	18.50%	21.71%
Leverage	1.10	1.11	1.13	1.14
Solvency Margin	2.53x	2.86x	2.72x	3.56x

Top-line Performance

As a result of full concentration on general insurance following the cesation of its life business, the company currently underwrites all the eight classes of the general insurance business. The company's general insurance model has strongly favoured underwriting of motor insurance. Cumulative figures for 2010 to 2012 put motor insurance as the highest contributor to the company's gross premium income, donating >30% on avearge over the period. This was followed by general accident and oil and gas insurance which contributed c.22% and 20% respectively to the top-line. UnityKapital is however not a strong player in bond insurance as this contributes least (<1%) for periods reviewed. The company also plans on incorporating Takaful insurance into its line of business from 2013.

Chart 5.3 Contribution of Classes of Insurance (average between 2008 and 2011)

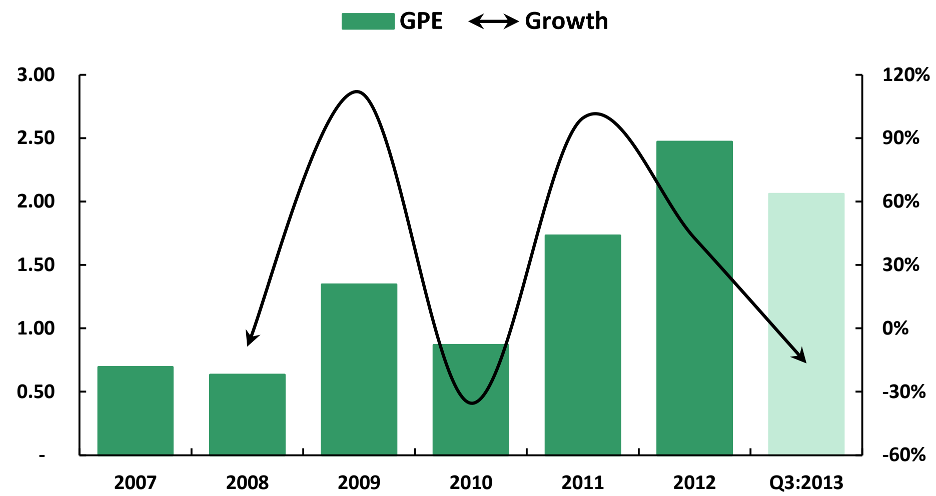


Source: Company Financials, Meristem Research

UNITYKAP's top-line growth does not follow any particular pattern as it has oscillated between significant positive growths to moderate declines. In 2008, the company had a marginal decline of c.9% in its top-line while a huge growth of 112% featured in the company's GPE in 2009. The significant growth in 2011 (c.100%) was driven by atypical 103%, 172% and 381% YoY increase in the company's business lines of motor insurance, general accident insurance, and marine and aviation insurance in that other.

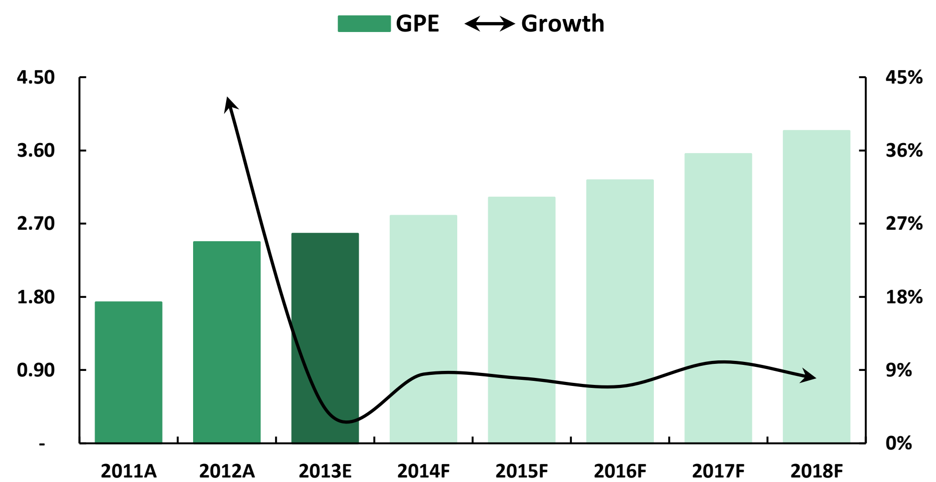
We are however optimistic of a positive performance in 2013 and beyond, given that the insurer is poised to tap more opportunities in the oil and gas class of insurance. However, our estimates for 2013FY put the company at a YoY growth of 4% and a modest 8.3% average growth in the company's top-line till 2018.

Chart 5.4 **Gross Premium Earned and Growth Rate from 2007 to Q3:2013**



Source: Company Financials, Meristem Research

Chart 5.5 **Gross Premium Earned Forecast and Growth Rate from 2013 to 2018**



Source: Company Financials, Meristem Research

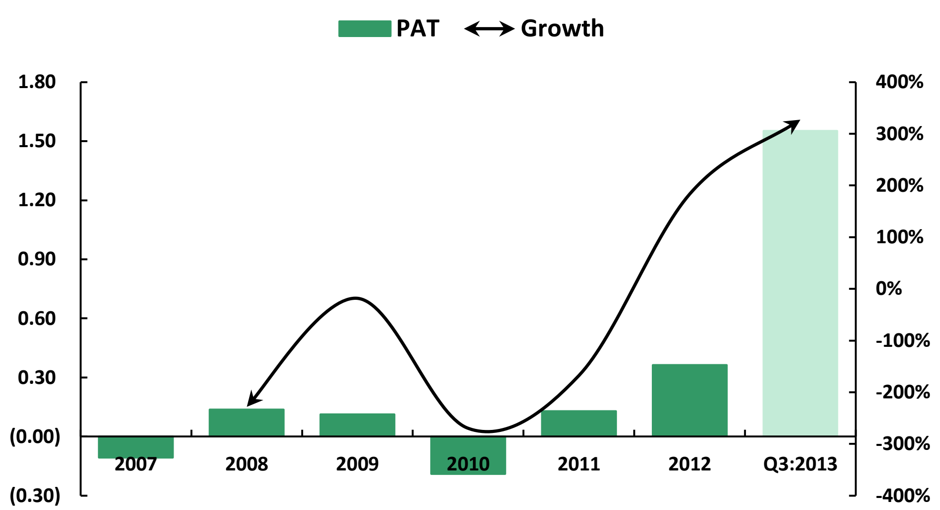
Business mix skewing from motor insurance to energy

As a non-life underwriter, the company earns more premiums in motor insurance (c.44% 5-year average contribution to GPE) than any other business line. Oil and gas line contributed 6.10% to GPE in 2009, growing to 24.01% by 2012. This feat dropped the contribution of motor insurance from c.50% in 2009 to c.25% in 2012 just as it declined by 3.2% between 2011 and 2012. However, stretching its coverage to underwrite more of oil and gas businesses is a cogent strategy from the company's management given the high return from that class of insurance. However, the reinsurance rate will tend to move in tandem with the high premiums from the oil and gas risk underwriting.

Bottom-line Performance

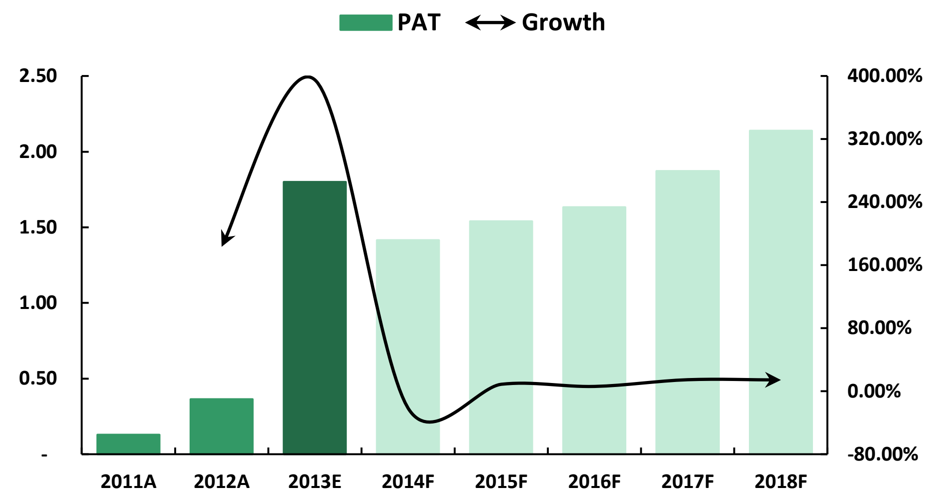
After bouncing from a loss making position in 2010 (c.N190m) to profitability in 2011 and 2012 (c.N128m and c.N364m in those years respectively), the company has maintained outstanding and consistent quarterly performances in 2013. As of Q3:2013, its unaudited earnings stood at c.N1.6bn (c.419% growth in comparison with Q3:2012). Major drivers of Q3:2013 bottom-line are; 24% YoY growth in GPE and c.321% YoY growth in investment and other incomes.

Chart 5.6 PAT and Growth Rate from 2007 to Q3:2013



Source: Company Financials, Meristem Research

Chart 5.7 PAT Forecast and Growth Rate from 2013 to2018



Source: Company Financials, Meristem Research

SWOT Analysis

Strengths

- Business model gradually skewing to oil and gas
- Adequate solvency ratio
- High return on investment assets

Opportunities

- Opportunities in micro-insurance space
- Envisaged motor policy in Nigeria
- Takaful insurance for the Northerners

UnityKapital assurance plc RC 11785 ... experience peace of mind

Weaknesses

- Late filing of financial statement
- Volatility in top-line growth

Threats

- Imminent competition from foreign investors
- Low investors' confidence in the industry
- Recent insurgence in the North
- Regulatory tightening by NAICOM

Source: Meristem Research

Valuation

UNITYKAP was valued using a blend of present value model (DDM) and multiplier model (price multiples). In our approach to DDM, we assumed a pay-out of 65% based on historical pay-out rates (100% plus bonus issue of 1 for 15 in 2011 and 76% pay-out in 2012). We also applied the Gordon's Growth Model to determine the sustainable growth rate of c.3%.

The Capital Asset Pricing Model (CAPM) was adopted in determining investors' minimum required rate of return, using a market risk premium of 5% and an adjusted beta of 0.33. Using these metrics, we arrived at a forward P/E of 6.31x and forward P/BV of 0.57x.

We arrived at a 2014TP of NGN0.60 for UNITYKAP after apportioning highest weight of 60% to our multipliers model (30% apiece to P/E and P/BV), 30% to residual income model and the remaining 10% to DDM. At the current price of NGN0.50, UNITYKAP has potentials for upward capital gains of 20% and we place a BUY recommendation.

However, we note that negative sentiments towards insurance counters coupled with illiquidity risk which remains a concern may cause the counter to underperform expectations.

Shareholding structure

Unity Bank has controlling interest in Unitykap (50.3%) and only one individual has more than 5% equity stake (9.29% holdings by Dr. Emmanuel Ojei) in the company's shares outstanding. However, towards the end of January 2014, Unity Bank notified the public of its intent to divest its holdings in UnityKapital Assurance Plc. The divestment is in compliance with the directive from the CBN that all banks should divest from non-banking subsidiaries or adopt a holding company structure.

Financials

FINANCIALS and RATIO (HISTORICAL + FORECAST)

	NGN'mn					
Income Statement	**FY11**	**FY12**	**FY13**	**FY14f**	**FY15f**	**FY16f**
Gross Premium Earned	1,733	2,472	2,577	2,796	3,020	3,231
Reinsurance Cost	179	255	276	318	375	469
Net Prem. Earned	1,554	2,218	2,301	2,479	2,645	2,763
Net Claims Incurred	105	268	395	466	512	553
Underwriting Expenses	232	286	387	522	668	882
Underwriting Profit	1,233	1,671	1,539	1,514	1,492	1,362
Net Operating Income	2,059	2,965	3,713	3,775	4,024	4,199
Total Other Expenses	1831	2381	1667	2167	2275	2343
Profit before Taxation	228	584	2046	1608	1749	1856
Profit after Taxation	128	364	1801	1415	1540	1633
Balance Sheet						
Cash and Bank Balances	4,572	3,009	6,757	7,567	8,551	9,577
Premium Debtors	99	454	159	178	201	225
Current Assets	**5,069**	**4,155**	**7,949**	**8,903**	**10,060**	**11,267**
Long Term Investments	244	329	224	251	283	317
Investment Properties	387	473	342	384	433	485
Property, Plant and Equipment	2062	2350	1712	1918	2167	2427
Non-Current Assets	**4,775**	**6,174**	**4,280**	**4,794**	**5,417**	**6,067**
TOTAL ASSETS	**9,844**	**10,329**	**12,229**	**13,697**	**15,477**	**17,335**
Creditors and Accruals (Payables)	231	251	175	248	341	436
Current Liabilities	**693**	**959**	**583**	**828**	**1,135**	**1,454**
Insurance Contract Liabilities	411	679	376	535	733	939
Non-Current Liabilities	**412**	**469**	**2,067**	**2,936**	**4,025**	**5,155**
TOTAL LIABILITIES	**1,105**	**1,427**	**2,651**	**3,764**	**5,160**	**6,609**
NET ASSETS	**8,740**	**8,902**	**9,579**	**9,933**	**10,317**	**10,726**

Source: Company Financials, Meristem Research

TP:	NGN0.57
RATING:	SELL

WAPIC INSURANCE PLC

SME Focus to drive business…

- West African Provincial Insurance Company (WAPIC Insurance) Plc. started its operations as a subsidiary of Provincial Insurance Company in the United Kingdom.
- It is licensed to underwrite all classes of insurance, and focuses on the life and motor insurance business lines which contribute c.50% of total premium written.
- Despite the rapid growth of its operations in Ghana, Nigerian life and non-life businesses still remain the main drivers of revenue as they account for c.81% of total premium written.
- WAPIC grew its top- and bottom-lines by averages of -10% and -40% respectively between 2009 and 2013 owing to highly negative growth witnessed in 2013.
- Future earnings are expected to be derived from the company's operations in Nigeria and Ghana, and its continued use of Information technology in generating superior premiums.
- We place a SELL recommendation and 2014FY Target Price of NGN0.57 on the company based on our tempered outlook on the company's prospects.

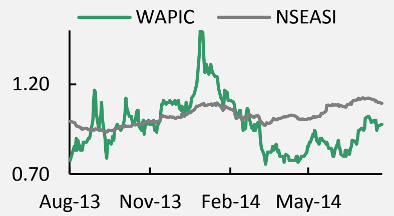
Relative Metrics	
Current price	0.88
P/E ttm	65.79x
P/B	0.81x
Forward P/E	16.77x
52-Wk av. Vol (mn)	15.420

*Fundamental Metrics	
BVPS	1.08
Net Margin	4.83%
ROAE	1.24%
ROAA	0.76%
ttm Asset Turnover	0.10x
Leverage	1.63x
Mkt. Cap (N'bn)	10.037
Reinsurance Rate	34.24%
Claims Rate	18.73%
Expense Rate	113.17%

Values as at FY:2013

Key Price Metrics	
MtD Return	11.39%
QtD Return	11.39%
YtD Return	-18.52%
52-Week Return	-2.22%
52-Week Hi	1.35
52-Week Lo	0.68
Year Hi	1.35
Year Lo	0.68
Beta	0.95
14D-RSI	31.024

52-Weeks Price Trajectory



Business Summary

WAPIC (West African Provincial Insurance Company) Insurance was founded in 1958 as a subsidiary of Provincial Insurance Company, a United Kingdom Company and licensed to underwrite all classes of insurance. It was subsequently acquired by Intercontinental Bank Plc. and its name changed to Intercontinental WAPIC Plc. However, upon the acquisition of Intercontinental Bank Plc. by Access Bank, the company's name changed back to WAPIC Insurance Plc.

The company has two wholly owned subsidiaries—WAPIC Life Assurance Limited in Nigeria and WAPIC Insurance (Ghana) Limited. It became a subsidiary of Access Bank in 2011, and in a bid to enhance underwriting capacity in form of capital, the company completed a merger with Intercontinental Properties Limited in 2012. Following a court mandated divestment by Access Bank, the shares of the company were unbundled and sold to existing shareholders of Access Bank Plc.

The company uses bancassurance, worksite and electronic channels to acquire and maintain business. Information technology is at the forefront of the company's strategy as they embrace the "consumerisation" of IT—creating mobile applications and other e-channels.

Chart 5.8 Gross Premium & Earnings Performance 2009-2013 (NGN Billions)

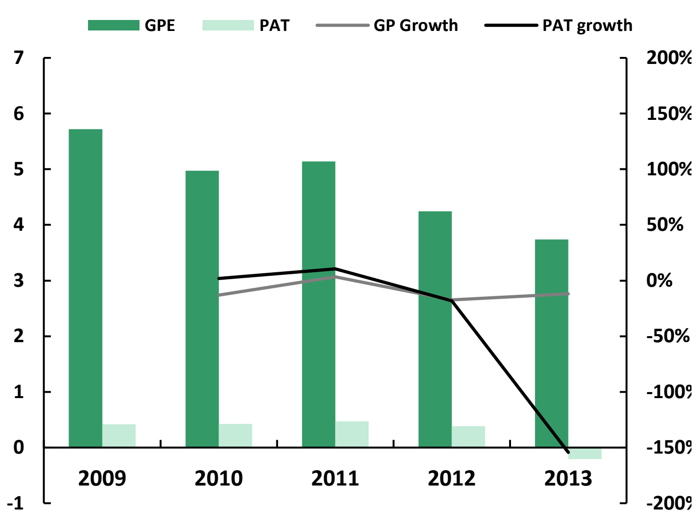


Table 2.1 Historical Performance Analysis 2010-2013

Historical Performance Analysis	2010	2011	2012	2013
Reinsurance Rate	19.16%	16.18%	17.27%	28.76%
Claims Ratio	23.00%	32.30%	43.24%	80.09%
Expense Ratio	49.99%	59.30%	67.11%	130.96%
Underwriting Margin	35.51%	9.40%	-5.66%	-73.79%
Profit Margin	11.61%	6.87%	9.17%	-5.53%
ROAE	5.47%	4.69%	5.14%	-1.91%
ROAA	3.56%	2.95%	3.11%	-1.19%
Inv./Total Assets	78.05%	79.87%	78.03%	82.20%
ROIA	9.07%	9.20%	13.88%	16.16%
Leverage	1.54	1.59	1.65	1.60
Solvency Margin	1.09x	1.07x	1.11x	2.22x

Source: Company Financials, Meristem Research

Operating Performance

Gross premium growth averaged -10% between 2010 and 2013 while profit after tax grew by an average of -40% during the same period. The negative value for gross premium growth is basically as a result of the sporadic growth it recorded during the period.

Expenses

Expenses in form of claims, reinsurance, management, and other expenses stifled revenue, causing an average net profit margin of 6% between 2009 and 2013. Reinsurance rate averaged 19.89% during the period reviewed, which is much in line with industry average. The tempered rate is as a result of its involvement in retail segments of the insurance industry—motor and life insurance. Expense ratio, on the other hand, averaged 73.51% which was primarily due to management expenses. Claims ratio was also high during the period, with the highest value of 80.09% recorded in 2013 as a result of NGN1.1bn backlog of claims paid by the company. Average claims ratio however stood at 39.80% during the periods assessed.

Solvency and Liquidity

Liquidity was apparently not a constraint for the company between 2009 and 2013 as average cash and current ratios pegged at 3.07 and 6.63 respectively. This was achieved through the company's accumulation of cash and short term investments which were not financed by short term liabilities.

Solvency, however, was borderline as solvency margin averaged 1.1x between 2009 and 2012 which was barely adequate with respect to NAICOM's statutory requirement of 1.0x. This however reversed in 2013, following the company's inorganic growth in its asset base, as solvency pegged at 2.22x for the year. We expect this to be maintained going forward, as the company employs its equity option, rather than debt, to finance assets growth.

Positioning and Outlook

Composition and Drivers of Revenue

Nigeria has remained the company's prime location as regards revenue generation. Its operations in Ghana generated 19% of gross premium in 2012 while life and non-life businesses in Nigeria accounted for the outstanding 81%. The company's strategy places motor and life insurance at the forefront of revenue generation. This strategy has, and is expected to generate income to the company, given the demographic dividend which Nigeria as a country offers.

Income is not only derived from insurance premium, as the company investments in other asset classes such as the financial and real estate markets. Average Return on Investment Assets between 2009 and 2013 stayed at 13%. Return on Investments (ROI) in 2012 and 2013 reflected the states of equity markets in those years as they stood at 14% and 16% respectively.

Chart 5.9 **Composition of Gross Premium by Location 2012**

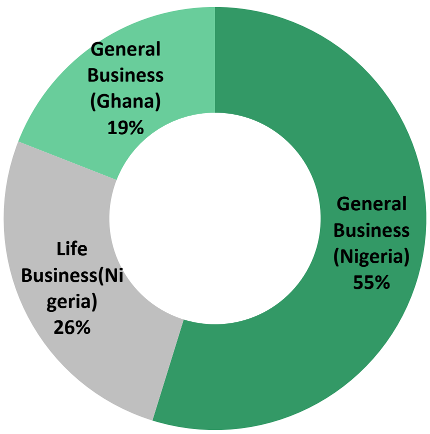
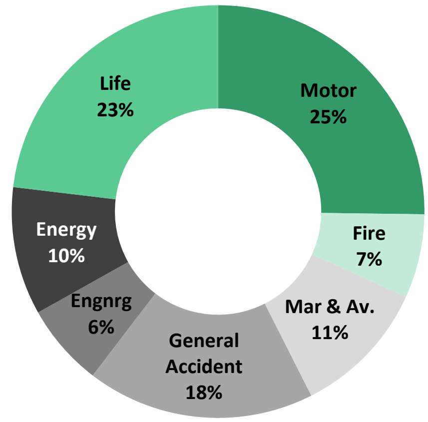


Chart 6.1 **Composition of Gross Premium by Policy 2011**



Source: Company Financials, Meristem Research

Outlook and Opportunities

In view of the requirement of a large asset base for increased risk-taking capacity, WAPIC Insurance embarked on a deliberate attempt to increase net assets by merging with Intercontinental Properties Ltd. This brought net assets to NGN14.18bn in 2013 from NGN7.62bn in 2012, making the company one of the top five companies by net assets in the Nigerian insurance industry.

Given the ongoing reforms in the company's chosen lines of business—motor and life, future benefits are bound to accumulate to the company. Furthermore, as a result of the ongoing development in Ghana's insurance industry as well as the close relationship with Nigerian insurance, we see profitable future for the company's operations in Ghana.

The company has also undergone a significant amount of reforms following the divestment precipitated by the CBN—appointment of new directors, including managing director et al. The company's focus on the use of information technology to drive its value delivery is also expected to translate to improved top-lines and bottom-lines in the short to long term.

We believe that the company has good fundamentals, and is expected to stay on the path of profitability; however, in the short term, we don't expect an exponential increase in earnings which can offset the effect of the dilution of earnings brought about by the increased capital base.

SWOT Analysis

Strengths

- Riding on the Access Bank brand despite the divestment
- Expanded network outside the shores of Nigeria
- Use of technology to improve operations
- Improved solvency

Opportunities

- Probable gains from expansion plans
- Compulsory reinsurance enforced by NAICOM.

wapic

Weaknesses

- High combined ratio
- Low efficiency (average ROAE of 3.7%) which is being worsened by higher capital base

Threats

- Intense Competition from insurance and reinsurance companies
- Substitutability of insurance products with other products in the financial services industry

Source: Meristem Research

Valuation

The company was valued using a combination of absolute valuation approach (Residual Income Model, assuming cost of equity of 17.37%, ROAE of 6.2% and our perception about the company's future potentials), as well as relative approaches (Forward P/E and P/BV).

WAPIC is one of the few actively traded insurance stocks on the NSE. The stock posted the highest returns of 86.2% in 2013, pegging its year-end price at NGN1.08. However, it has lost 18.52% in the year and currently trades at NGN0.88. We place a Target Price of NGN0.57 (-35.2%) downside return from its current price) and a SELL recommendation for 2014 as a result of our conviction that the stock is trading ahead of its fundamentally justified value.

Financials

FINANCIALS and RATIO (HISTORICAL + FORECAST)

				NGN'mn		
Income Statement	**FY11**	**FY12**	**FY13**	**FY14f**	**FY15f**	**FY16f**
Gross Premium Earned	5,033	4,178	3,761	6,769	7,784	8,718
Reinsurance Cost	803	733	1,074	2,369	2,647	2,964
Net Prem. Earned	4,162	3,513	2,662	4,356	5,088	5,698
Net Claims Incurred	1,344	1,519	2,132	871	1,018	1,197
Underwriting Expenses	2,468	2,357	3,486	4,574	4,833	5,128
Underwriting Profit	473	-236	-2,775	-852	-491	-322
Net Operating Income	1,324	1,112	-494	858	1,160	1,370
Total Other Expenses	742	560	135	203	243	279
Profit before Taxation	582	552	-629	656	917	1,091
Profit after Taxation	346	383	-208	455	636	756
Balance Sheet						
Cash and Bank Balances	3,896	4,069	5,853	5,660	5,784	5,929
Short Term Investments	849	176		6,465	6,386	6,337
Premium Debtors	630	667	186	748	873	978
Current Assets	**6,468**	**6,204**	**15,121**	**15,348**	**15,686**	**16,078**
Long Term Investments	3,123	4,868	871	2,332	2,383	2,443
Investment Properties	1,067	264	4,358	4,301	4,396	4,506
Property, Plant and Equipment	598	660	1,036	1,245	1,273	1,304
Non-Current Assets	**5,476**	**6,475**	**7,183**	**7,291**	**7,451**	**7,637**
TOTAL ASSETS	**11,945**	**12,679**	**22,304**	**22,639**	**23,137**	**23,715**
Creditors and Accruals (Payables)	164	493	462	46	194	523
Current Liabilities	**1,078**	**1,268**	**3,718**	**3,242**	**3,108**	**2,881**
Insurance Contract Liabilities	3,439	3,546	2,952	2,995	3,045	3,101
Non-Current Liabilities	**3,590**	**3,787**	**4,407**	**5,521**	**5,772**	**6,123**
TOTAL LIABILITIES	**4,669**	**5,055**	**8,125**	**8,763**	**8,880**	**9,005**
NET ASSETS	**7,276**	**7,623**	**14,180**	**13,875**	**14,257**	**14,711**

Source: Company’s Financials, Meristem Research

Insurance Sector Terminologies

Investment Assets: The assets of a company which it employs in generating income in the form of rent, interest, dividends and so on.

Gross Premiums Written: The sum of both direct premiums written and assumed premiums written before the effect of ceded reinsurance. Direct premiums written represent the premiums on all policies the Company's insurance subsidiaries have issued during the year. Assumed premiums written represent the premiums that the insurance subsidiaries have received from an authorized state-mandated pool or under previous fronting facilities.

Gross Premiums Earned: The amount of total premiums collected by an insurance company over a period that have been earned based on the ratio of the time passed on the policies to their effective life.

Net Premiums Earned: Earned premium from which the various components such as commissions and reinsurance have been deducted.

Expense Ratio: ratio of underwriting expenses against net premiums earned. Underwriting expenses are the costs of obtaining new policies from insurance carriers

Combined Ratio: Addition of claims and expense ratios.

Claims Ratio: Ratio of an insurance firm's claims total paid added to the loss adjustments against the net premiums earned.

Reinsurance: The practice of insurers transferring portions of risk portfolios to other parties by some form of agreement in order to reduce the likelihood of having to pay a large obligation resulting from an insurance claim.

Reinsurance Rate: Reinsurance Cost divided by Gross Premium Earned

ROAA: Profit after Tax/ Average Total Assets. Measures the efficiency with which a company utilizes its assets in its operations, in a bid to generate profits.

ROAE: Profit after Tax/ Average Shareholders' Equity. Measures the efficiency with which a company utilizes its shareholders' funds in its operations, to generate profits.

ROIA: Return on Investment Assets (Investment Income/Average Investment Assets)

MDRI: Market Development and Restructuring Initiative is a medium term plan instituted by NAICOM to install the first phase of the necessary reforms in the areas of Industry capacity, Market efficiency and Consumer protection in the Nigerian Insurance market.

Abbreviation	Definition	Abbreviation	Definition
ATM	Automated Teller Machine	HOPESEA	Hotel and Personal Services Employers' Association of Nigeria
ARV	Anti-retroviral	HRS	hot rolled steel
BBLS	Barrels	HRW	Hard Red Winter
BDC	Bureau De Change	ICB	International Commercial Bank
BPE	Bureau of Public Enterprises	ICCO	International Cocoa Organization
BRICS	Brazil, Russia, India, China and South Africa	ICT	Information Communication Technology
BVPS	Book Value per Share	IFC	International Finance corporation
C.	Close to	IFRS	International Financial Reporting Standard
CAPEX	Capital Expenditure	IMF	International Monetary Fund
CAGR	Compounded Annual Growth Rate	IOC	International Oil Company
CAR	Capital Adequacy Ratio	IPP	Independent Power Producer
CBN	central Bank of Nigeria	LTD	Loan to Deposit
CEO	Chief Executive Officer	LPFO	Low Pour Fuel Oil
CIF	Cost Insurance and Freight	LSE	London Stock Exchange
CIT	Company and other Income Tax	LSHLL	Lagos State Hotel Licensing Law
CKD	Completely Knocked Down	M1	Narrow Money
CNG	Compressed Natural Gas	M2	Broad Money
COE	Cost of Equity	M&A	Mergers and Acquisition
COT	Commission on Turnover	MBPD	Million barrels per day
CPI	Consumer Price Index	MCAP	Market Capitalization
CPO	Crude Palm Oil	MDRI	Market Development and Restructuring Initiative
CRR	Cash Reserve Ratio	MENAP	Middle East, North Africa, Afghanistan and Pakistan
DCF	Discounted Cash Flow	MIC	Middle Income Country
DDM	Dividend Discount Model	MIRS	Minimum Interest Rate on Savings
DPS	Dividend Per Share	MMT	Million Metric Tonne
DISCOS	Distribution Companies	MMTPA	Million Metric Tonne Per Annum
D/Y	Dividend Yield	MOU	Memorandum of Understanding
EBIT	Earnings before interest and tax	MPC	Monetary Policy Committee
ECA	Excess Crude Account	MPR	Monetary Policy Rate
EEG	ECOWAS Expansion Grant Scheme	MRQ	Most Recent Quarter
EIA	Energy Information Administration	MSCI	Morgan Stanley Capital International
EIU	Economist Intelligence Unit	MTEF	Medium Term Expenditure Framework
ETLS	ECOWAS Trade Liberalization Scheme	MYTO	Multi-Year Tariff Order
EM-LCI	Emerging Markets local currency index	NAICOM	National Insurance Commission
EPS	Earnings per Share	NBS	Nigeria Bureau of Statistics
EU	European Union	NDA	Net Domestic Asset
FDI	Foreign Direct Investment	NFA	Net Foreign Assets
FEC	Federal Executive Council	NGL	Natural Gas Liquids
FED	Federal Reserve	NGN	Naira
FFB	Fresh Fruit Bunches	NGO	Non-government organization
FGN	Federal Government of Nigeria	NHA	Nigeria Hotel Association
FIRS	Federal Inland Revenue Service	NIBOR	Nigeria Interbank Offer Rate
FMCG	Fast Moving Consumer Goods	NIPP	National Integrated Power Project
FMF	Federal Ministry of Finance	NNPC	Nigerian National Petroleum Corporation
FPI	Foreign Portfolio Investment	NPC	National Population Commission
FTAN	Federation of Tourism Associations	NPE	Net Premium Earned
FY	Full Year	NPL	Non-Performing Loan
GBI-EM	Global Bond Index Emerging Market	NSE	Nigerian Stock Exchange
GCI	Global Competitiveness Index	NSEBNK	Nigerian Stock Exchange Bank
GDP	Gross Domestic Product	NTDC	Nigerian Tourism Development Corporation
GDR	Global Depository Receipts	OECD	Organization for Economic Cooperation and Development
GE	General Electric	OPEC	Organization of Petroleum Exporting Countries
GENCOS	Generation Companies	OPEX	Operating Expense
GMP	good manufacturing practice	OTC	Over the Counter
GPE	Gross Premium Earned	PAT	Profit After Tax
GPW	gross premium written	P/B	Price to Book Value
H1	First Half	P/E	Price to Earnings Ratio

H2	Second Half	PBB	Personal and Business Banking
HA		PBT	Profit before tax
HATMAN	Hospitality and Tourism Management Association of Nigeria	PIB	Petroleum Industry Bill

Abbreviation	Definition	Abbreviation	Definition
PMI	Purchasing Managers' Indices	SKD	Semi- Knocked Down
POME	Palm Oil Mill Effluent	SME	Small and Medium Scale Enterprise
PPP	Purchasing Power Parity	SON	Standard Organization of Nigeria
PPT	Petroleum Profit Tax	SRW	Soft Red Winter
Q1	First Quarter	SSA	Sub-Saharan Africa
Q2	Second Quarter	TCN	Transmission Company of Nigeria
Q3	Third Quarter	TELECOS	Telecommunication Companies
Q4	Fourth Quarter	TP	Target Price
QE	Quantitative Easing	UNICEF	United Nations children Emergency Fund
Q-o-Q	Quarter on Quarter	UK	United Kingdom
RER	Real Exchange Rate	US	United States of America
R&D	Research and Development	USAID	United states Agency for International Development
RDAS	Retail Dutch Auction System	USD	United States Dollars
RIM	Residual Income Model	VAT	Value Added Tax
RIR	Real Positive Interest Rate	WAMA	West Africa Monetary Agency
ROAA	Return on Average ASSET	WAMZ	West Africa Monetary Zone
ROAE	Return on Average Equity	WDAS	Wholesale Dutch Auction system
ROE	Return on Equity	WHO	World Health Organization
SAP	Structural Adjusted Program	YTD	Year to Date
SHF	Shareholders Fund	Y-o-Y	Year on Year

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COMPANY NAME	Last Review Date	Current Price(N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
Custodian and Allied Plc	27/06/2014	3.60	3.58	3.94	"BUY"	"BUY"
AIICO Insurance Plc	27/06/2014	0.84	0.84	1.20	"BUY"	"BUY"
NEM Insurance Plc	31/12/2013	0.85	1.26	1.26	"BUY"	"BUY"
Mansard Insurance Plc	27/06/2014	2.50	2.21	2.51	"HOLD"	"HOLD"
Continental Reinsurance	27/06/2014	1.09	1.39	1.35	"HOLD"	"HOLD"
Unitykapital Assurance Plc	27/06/2014	0.50	0.80	0.60	"BUY"	"BUY"

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