

ADAMJEE INSURANCE LIMITED

NOV - 2018

 **ABBASI**
SECURITIES



Adamjee Insurance – Investment Hypothesis



Income Statement Rs'000	9MCY18	9MCY17	CY17	CY16	CY15	CY14	CY13	CY12
Net premium revenue	9,956,830	8,628,807	11,534,999	9,615,381	7,747,391	6,302,550	5,506,556	5,671,977
Net claims	(6,073,792)	(5,623,087)	(7,433,828)	(6,210,499)	(4,779,707)	(4,088,215)	(3,486,861)	(4,142,667)
Expenses	(1,919,481)	(1,472,479)	(1,893,360)	(1,614,629)	(1,555,751)	(1,483,354)	(1,535,469)	(1,582,916)
Net commission	(954,525)	(841,509)	(1,090,052)	(762,579)	(557,997)	(361,771)	(347,666)	(358,665)
Underwriting result	1,009,032	813,285	1,239,312	1,077,987	853,936	369,210	136,560	(412,271)
Investment income	1,464,612	806,296	1,482,144	3,502,042	2,404,312	2,060,861	2,357,262	1,331,791
General & admin expenses	(253,028)	(566,559)	(725,906)	(630,392)	(570,908)	(485,378)	(445,354)	(415,204)
Window Takaful Operations	69,769	51,718	66,598	4,038	-	-	-	-
Profit before tax	2,364,074	1,147,820	2,120,906	4,053,636	2,826,622	2,030,472	2,210,395	666,558
Profit after tax	1,510,572	540,068	1,221,228	3,492,944	2,554,810	1,879,098	1,966,159	624,193
EPS (Unconsolidated)	4.32	4.67	3.49	9.98	7.30	5.37	5.62	1.78
EPS (Consolidated)	4.30	4.66	3.44	9.98	7.30	5.40	5.64	1.25
DPS	1.00	1.50	2.50	4.00	3.00	2.75	3.50	2.50

Market Price	Rs 46
Target Price (Dec 2019)	Rs 75.66
Upside	64%
Free Float (m)	262.50 Shares
Outstanding Shr. (m)	350.00 shares
Market Cap (m)	Rs15,750.45
Market Cap (m)	\$117.53
52 week High	Rs 59.12
52 week low	Rs 39.14
Daily Volume (1-year)	0.25m shares
Net Asset per share	Rs45.48
Return on Income	42.02%

INVESTMENT HYPOTHESIS

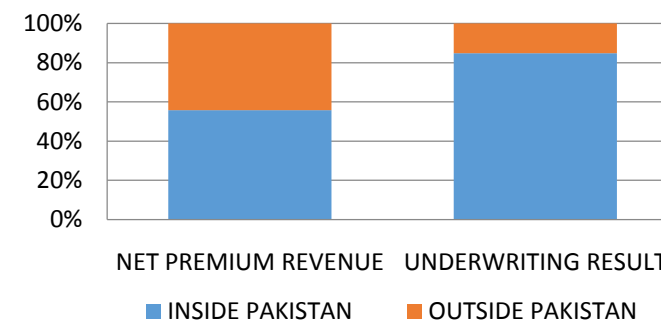
- Growth in Non-Life Business
- Strong Investment Portfolio valued at Rs53.14/share
- Market not fully pricing in Life Assurance Business



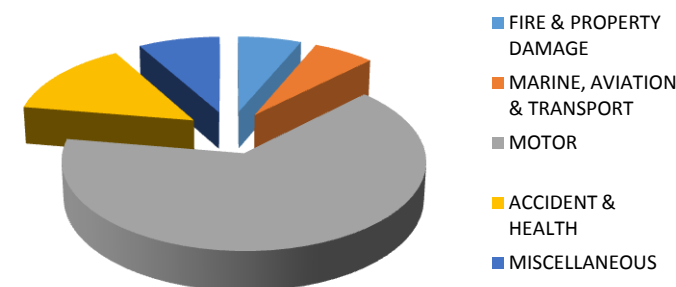
Growth in Non-Life Business

- Non Life business has grown at a 5-year CAGR of 15.25%
- Non Life business is **geographically split** between Pakistan and UAE almost equally with 55% contribution in Net Premiums from the former and remaining from the latter
- Claims ratio is higher in UAE. Hence UAE's contribution to underwriting results is around 15%
- In terms of insurance **portfolio exposure**, motor insurance share of total premium is around 64% with Accident and Health segment accounting for 14.43%. The remaining segments constitute less than 10% each
- Adamjee Insurance experienced tremendous growth in its non-life business in the UAE with 5-year CAGR of 30.24% in Net premiums and 54.77% in Underwriting result
- Motor segment has been the growth driver with 5-year CAGR of 21.94% (Motor-Pakistan 10.36% and Motor-UAE 31.11% growth). 68% of the motor segments contribution comes from outside Pakistan
- Among other segments Accident and Health has mentionable growth of around 9.37%
- Window Takaful Operations will be completing its 3rd year of operations this year. These contributed Rs67.7 Mn to pre-tax earnings in 9MCY18 (Rs66.5 Mn in 2017 full year). The size of business is similar in value terms to peers such as EFU and Jubilee. The product is in a nascent stage and future results will give more clarity
- Non Life contributes 22% to pre-tax earnings. On comparable multiples we estimate Non Life value to be in the region of **Rs9.8/share**

GEOGRAPHICAL SPLIT



PORTFOLIO EXPOSURE - BREAKUP

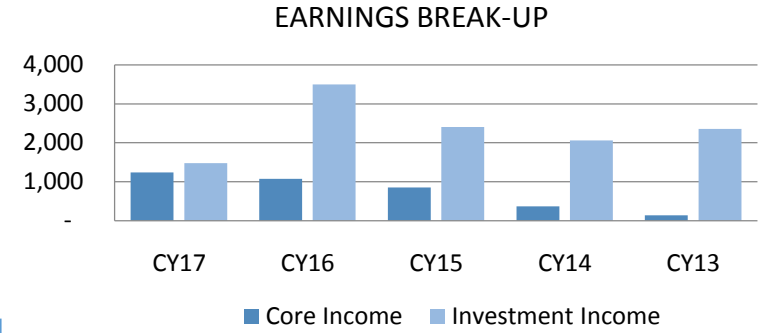


IMPLIED VALUE OF NON LIFE BUSINESS

Earning from Non-Life Bussiness (Rs Mn)	AICL	EFUG	JGICL
Underwriting Result	1,239	1,628	409
Less: Expenses	(769)	(69)	(5)
Profit Before Tax	470	1,560	404
Non-Life Bussiness (Per/Share)	1.34	7.80	2.24

Strong Investments Portfolio and Investment Income

- Investment Income has grown with a 5-year CAGR of 21.02% supported by Dividend Income (5-year CAGR of 12.8%) and Capital Gains (5-year CAGR of 48.49%)
- Capital Gains which have historically accounted for more than 50% of investment income contributed around 41% to investment income in 9MCY18, thus enhancing the quality of earnings in the most recent period



INVESTMENT PORTFOLIO EXCLUDING ADAMJEE LIFE

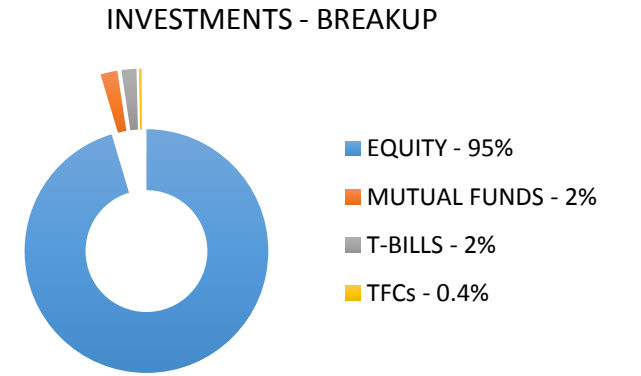
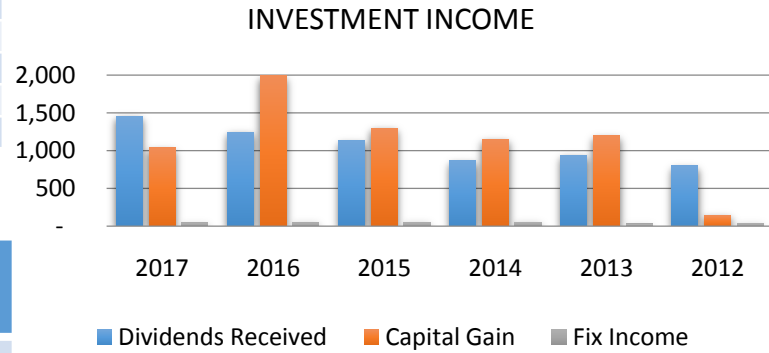
INVESTMENT PORTFOLIO	PER SHARE VALUE
LISTED EQUITIES + MUTUAL FUNDS	48.34
FIXED INCOME INCLUDING MUTUAL FUNDS and TFCs	2.15
UNLISTED EQUITIES	2.64
TOTAL	53.14

LISTED EQUITIES + MUTUAL FUNDS

SYM	VALUE – Rs Mn	% Portfolio Holding
MCB	9,341	56%
FFC	1,060	6%
SNGP	943	6%
RMPL	477	3%
LPL	430	3%

UNLISTED EQUITIES

COMPANY	VALUE – Rs Mn
SECURITY GENERAL INSURANCE COMPANY LIMITED	925



- Current market value of the investment portfolio per share is **Rs53.14** (Excluding-Adamjee Life without discount)

- Adamjee Life Assurance is a partnership between Adamjee Insurance (74.28% holding) and Hollard, South Africa (25.72% holding) – the arrangement was such that Adamjee Life would benefit from Hollard’s expertise in this sector. Market grapevine suggests that Hollard may be looking to exit Adamjee Life. In this context we see appointment of Mr Umer Mansha as CEO of Adamjee Life to be a step towards Hollard’s eventual exit

- As a result of consistent policy holder surplus in previous years, Adamjee Life was able to return capital contributions from shareholders’ fund in 2016 and 2017 (see table). We estimate that in 2018 Adamjee Life may be able to appropriate some of the surplus generated in individual business lines to shareholder’s fund which would enhance earnings

- Adamjee Life Assurance business has witnessed a strong growth in Premiums (4-Year CAGR of 25.28%) and Policy Holder Liability (4-Year CAGR of 54.69%), which is higher than what competitors have achieved (EFU Life – Net Premium 4-Year CAGR of 18.14% and Jubilee Life – Net premium 4-Year CAGR of 23.05%)

- Our channel checks suggests the life business has current estimated embedded value of Rs2 Bn which on Adamjee Insurance’s shareholding works out to be **Rs4.24 / share of AICL**

Rs Mn	Adamjee Life	Jubilee Life	EFU Life
NET PREMIUM (4- YEAR CAGR)	25.28%	23.05%	18.14%
POLICY HOLDER LIABILITIES (4- YEAR CAGR)	41.77%	28.89%	18.26%
MARKET CAP	N/A	49,184,600	19,982,000
POLICY HOLDER LIABILITY	27,096,071	103,219,723	99,106,155
MARKET CAP / POLICY HOLDER LIABILITY	-	0.5	0.2

	2017	2016	2015	2014	2013
EXCESS OF INCOME OVER CLAIMS & EXPENDITURE	5,610	7,791	6,174	3,325	2,808
INCREASE / (DECREASE) IN POLICYHOLDER LIABILITY DURING THE YEAR	5,844	7,395	5,869	3,254	2,806
BALANCE OF CAPITAL CONTRIBUTION FROM SHAREHOLDER'S FUND	474	585	655	641	571
NET CAPITAL (RETURNED) / CONTRIBUTED DURING THE YEAR	(111)	(70)	13	70	33
CAPITAL CONTRIBUTION TO INCREASE IN POLICY HOLDER LIABILITY	8%	8%	11%	20%	20%

NET PREMIUM-Rs Mn	2013	2014	2015	2016	2017	CAGR
EFU LIFE	13,365	17,595	30,351	23,861	30,759	18.14%
JUBILEE LIFE	16,349	21,085	29,120	36,988	46,128	23.05%
ADAMJEE LIFE	4,312	4,976	8,837	10,913	13,309	25.28%
POLICY HOLDER LIABILITIES	2013	2014	2015	2016	2017	CAGR
EFU LIFE	42,842	59,923	82,185	95,869	99,106	18.26%
JUBILEE LIFE	29,012	42,693	60,290	90,375	103,219	28.90%
ADAMJEE LIFE	4,732	7,986	13,855	21,251	27,096	41.77%

- Our SOTP based target value of Adamjee Insurance is given below:

	Rs	Rs	Rs
NON-LIFE BUSINESS	9.8	9.8	9.8
INVESTMENT PORTFOLIO	53.14	53.14	53.14
TOTAL – EX LIFE	62.94	62.94	62.94
	EV /share	EV MULTIPLE	COMPARABLE MULTIPLE
LIFE BUSINESS	4.24	12.72	28.75
TOTAL VALUE	67.18	75.66	91.69

- For the Life Business we have used the following valuation measures:

- Embedded Value / Share – Embedded value of Rs2 Bn as per our channel checks on AICL’s share holding works out to be Rs4.24/share
- Embedded Value Multiple – Regionally we have observed that life assurance companies trade at a multiple of EV. We have given 3x its EV/share to Adamjee Life assurance
- Comparable multiple – Market Cap to Policy Holder liability multiple is used to give a multiple of 0.5x to AICL’s share of policyholder liabilities (see table on the previous slide)

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REP-091

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Valuation Methodology

To arrive at period end target price, Abbasi Securities uses different valuation methodologies:

- Comparable Method (P/E, P/B etc.)
- Discounted Cash flow Method
- Sum of the parts {SOTP}
- Equity and Asset based valuation

Rating

- BUY Total return more than 20% from last closing of market price
- HOLD Total return is in between 10% and 20% from last closing of market price
- REDUCE Total return is less than 10% from last closing market price



Contact us:
Email: research@abbasisecurities.com
Website: www.abbasisecurities.com
Telephone: 111-555-275

