

Enterprise Group Plc 1H2023 Results

Current rating **UNDER REVIEW**

Ghana | 31 July 2023

Rising expenses cast a shadow on profits

Enterprise Group Plc (EGL) published 1H2023 results last week Friday, reporting a 7.6% y/y decline in profit after tax to GHS 67.0mn due to rising expenses. The group's operating income increased by 22.5% y/y, supported mainly by robust growth in insurance premiums and a modest growth in investment income as the stock of investment securities contracted year-on-year. Net expenses increased by 26.9% y/y, nudging the expense ratio up by 2.9pp y/y to 45.1% at the end of 1H2023.

1H2023 Performance: Earnings slip on rising expenses

- Profit after tax fell by 7.6% y/y to GHS 67.0mn on account of rising expenses.
- Operating income increased to GHS 797.8mn (+22.5% y/y), driven by strong growth in insurance premium and modest growth in investment income.
- Net investment income inched up by 9.4% y/y to GHS 135.1mn with the investment yield little changed at 8.9% (+0.1pp y/y).
- Net insurance premium revenue increased by 23.7% y/y to GHS 599.5mn.
- Net expenses increased by 25.1% y/y to GHS 1.3bn, pushing the expense ratio to 49.5% (+2.6pp y/y). Notably, net benefits and claims increased by 23.9% y/y to GHS 439.4mn.

Outlook: Weak growth in investment income and rising costs to weigh on earnings momentum

- We believe EGL is on course to achieve the GHS 2.0bn operating income target by 2024. Our view is anchored on EGL's continued market leadership in the life and non-life business which accounts for more than 60% of the group's operating income.
- However, we take note of the lack of growth in the group's stock of investment securities which has remained stable at GHS 1.4bn. We believe management is taking a cautious approach to investing in government securities following the restructuring of government debt.
- Consequently, growth in investment income will stay in single digits without any strong growth in investment securities, which will weigh on growth in operating income in the near-term.
- We expect the elevated inflationary pressures and Cedi depreciation to continue to drive up key cost items, thereby driving up the group's net expenses.
- We do not expect government's recent domestic debt exchange offer on USD bonds and cocoa bills to have any material impact on EGL's books as the group held no USD-denominated securities or cocoa bills at the end of FY2022 based on its 2022 annual report.
- Overall, we expect EGL to remain profitable, with rising cost pressures and the modest growth in investment income acting as the main drag on the group's earnings momentum.

Valuation: Under Review

- EGL is trading at a P/B value of 0.39x and we intend to re-initiate coverage on the stock soon. EGL estimates its embedded value at GHS 771.8mn (+5.54% y/y).

Analyst:

Lydia Adzobu: +233 30 825 0051

For further information, please contact our Insights Team. T: 233 308-250051 | Email: insights@ic.africa

Disclaimer:

This report is designed to be utilized by qualified institutional and professional investors only. Private investors must consult their investment adviser or broker for professional advice before seeking to act on the contents of this report. This advice has been prepared without taking account of the objectives, financial situation or needs of any particular investor. Accordingly, investors should, before acting on the advice, consider the appropriateness of the advice, having regard to their objectives, financial situation and needs. IC Securities' investment research reports are provided for informational purposes only. All information provided in this report is the intellectual property of IC Securities, is for the use of intended recipients only, and may not be reproduced in any form whatsoever without the express written consent of IC Securities. Descriptions are not intended to be complete and cannot be guaranteed to be accurate; therefore, IC Securities does not assume any legal liability or responsibility for any inaccuracies or misrepresentations contained in this report. Neither IC Securities nor its management, officers or employees accept responsibility or liability for, or make any representation, statement or expression of opinion or warranty, express or implied, with respect to the accuracy or completeness of the information or any oral communication in connection therewith. There may be regulatory or confidentiality obligations which prevent IC Securities from disclosing information, material or otherwise, which would normally be expected to be included in this report. The price of any securities stated in this report is the reported market price as of the date indicated, taken from sources IC Securities believes to be reliable. IC Securities does not represent that this price may be achieved in any transaction. Due to the inherently illiquid and relatively opaque nature of most of the Firm's coverage markets, any price stated in this report may not reflect the true trading price of the security referenced. This document does not constitute an offer by, or on behalf of IC Securities to enter into any transaction with you and will not form the basis of a contract for any such transactions. This report does not constitute an offer to sell or solicitation of a purchase order in respect of any securities, derivative or other instrument by the Firm.