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).

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