

Enterprise Group Plc 9M2023 Results

Current rating **UNDER REVIEW**

Ghana | 31 October 2023

EGL books modest bottom-line gains

Enterprise Group Plc (EGL) published 9M2023 results last week Friday, reporting a modest increase in earnings. Profit after tax grew by 8.7% y/y to GHS 130.1mn, propelled by double-digit growth in net investment income and net insurance premium revenue. Notably, management moved to shore up the stock of investment securities in 3Q2023 which bolstered investment income growth. In line with our expectations, the elevated inflationary pressures and Cedi depreciation continued to impact key cost items. Net expenses grew by 23.4% y/y to GHS 1.1bn, stifling earnings growth. We also believe the recent flooding caused by the Akosombo Dam spillage will also impact EGL's insurance benefits and claims in the near-term.

9M2023 Performance: EGL chalks modest bottom-line gains as net expenses remain elevated

- Profit after tax increased by 8.7% y/y to GHS 130.1mn, supported by double digit growth in EGL's revenue streams.
- Operating income increased to GHS 1.2bn (+21.3% y/y), driven by strong growth in insurance premium and investment income.
- Net investment income inched up by 14.4% y/y to GHS 224.6mn with the investment yield little changed at 13.6% (+0.6pp y/y).
- Net insurance premium revenue increased by 25.3% y/y to GHS 928.3mn.
- Net expenses increased by 23.4% y/y to GHS 1.1bn. Notably, net benefits and claims increased by 25.0% y/y to GHS 439.4mn. The claims ratio and expense ratio were little changed at 73.6% and 43.1% respectively.

Outlook: Headed for a soft landing

- Management's decision to shore up the stock of investment securities by GHS 154.1mn in 3Q2023 enhanced the revenue outturn for the period, driving investment income up by 60.0% q/q in the third quarter. We expect management to capitalize on the attractive yields on government securities in 4Q2023, increasing allocation of funds to investment securities to support revenue growth.
- As expected, growth in insurance premiums have remained robust, reflecting EGL's entrenched position in all of its key markets.
- On the trajectory of costs, we maintain our view that the local currency weakness coupled with the elevated inflationary pressures will drive up key expense items, serving as the main bulwark to bottom-line growth.
- Like the June 3rd 2015 floods, we believe that the recent flooding caused by the Akosombo Dam spillage may impact EGL's insurance benefits and claims in the near-term, although the exact size of the impact is difficult to estimate without colour from management.
- Overall, we expect EGL to report decent earnings at FY2023, with rising cost pressures serving as the main drag on the group's earnings momentum.

Valuation: Under Review

- EGL is trading at a P/B value of 0.4x and we intend to re-initiate coverage on the stock soon. EGL estimates its FY2022 embedded value at GHS 771.8mn (+5.54% y/y).

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