

Enterprise Group Plc 9M2024 Results

Current rating **UNDER REVIEW**

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Thriving through the squeeze, aided by the rulebook

Enterprise Group Plc (EGL) released its unaudited 9M2024 financial results on 29 November 2024, following the adoption of IFRS 17 and the restatement of its financial statements for 2023 to align with the new standard. The results revealed stellar y/y performances, with earnings surging by 129.7% y/y and net income growing by 66.6% y/y. While the restatement of past results ensures comparability and had some impact on the reported growth, the performance largely reflects a combination of operational improvements and the adoption of IFRS 17. Operating expenses and total expenses increased by 22.5% and 19.3%, respectively, highlighting the impact of prevailing economic challenges. EGL's investment securities expanded by 28.9% y/y, driving an 80.7% y/y increase in investment income. The insurance service result rose by 15.0% y/y, while other revenue posted robust growth of 35.0% y/y. While this performance reflects transitional effects of the new standard, we expect the growth momentum to normalize in the coming year.

9M2024 Performance: EGL records stellar earnings growth despite rising expenses

- Profit-after-tax soared by 129.7% y/y to GHS 311.22mn in 9M2024, supported by strong topline growth amidst cost squeeze.
- Net investment income grew by 80.7% y/y to GHS 123.5mn supported by a 28.9% y/y increase in investment securities.
- Insurance revenue surged by 42.0% y/y to GHS 1.2bn.
- Insurance service result saw a 15.0% y/y increase to GHS 405.3mn while insurance service result after reinsurance grew by 20.0% y/y, owing to a GHS 7.6mn reinsurance income.
- Other income and revenue amounted to GHS 121.6mn, representing a 35.0% increase.
- Impressively, impairments churned out a gain of GHS 3.9mn in 9M2024 from a loss of GHS 2.9mn in the previous year.
- Operating expenses and finance cost soared by 22.5% y/y and 76.1% y/y respectively, resulting in a 19.3% y/y surge in net expenses.
- Insurance contract liabilities grew by 33.3% y/y to GHS 1.5bn, while reinsurance contract liabilities surged by 72.2% y/y to GHS 40.1mn.
- In view of the strong topline growth which absorbed the cost pressures, net profit margin surged to 21.6% in 9M2024 from 13.5% in the same period last year.

Outlook: Positioned for sustained growth

- We expect EGL's insurance revenue to continue its upward moment on the back of the anticipated improvements in the broader economy, bolstered by increased demand for insurance products and services.
- We believe EGL is well-placed to exploit its increased investment capacity with positive prospects for investment income. We anticipate that EGL will leverage its growing revenue stream to enhance financial performance by utilizing the increased income to expand its investment portfolio, strategically channelling funds into high-yield, low-risk securities to generate consistent returns.
- Our forecast decline in inflation over the coming year will ease the pressure on EGL's cost-base, particularly operating expenses. While we expect the cost moderation to translate into improved margins over time currency depreciation remains a persistent risk that could partially offset these gains.
- Overall, EGL is poised for a strong finish to 2024 and remains on track for sustained growth in the medium term, with strategic execution and careful cost control potentially driving its performance in the medium term.

Valuation: Under Review

- EGL is trading at a P/B value of 0.2x and we intend to re-initiate coverage on the stock soon.

Analyst:

Kwabena A. Obeng: +233 30 825 0051

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

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