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Research Note

Custodian & Allied Ins. Plc Q3 2011 Results

02 November, 2011

- Custodian and Allied Insurance Plc (CAI) recently made public its unaudited numbers for the period ended September 2011. The underwriter recorded a 25.0% growth in gross written premiums to N7.6bn, relative to the corresponding period of 2010. PBT and PAT also recorded double-digit growths of 25.0% and 25.7% to N2.0bn and N1.7bn respectively. Net margins however stayed relatively flat at 22.9% on a year-on-year basis. Quarter-on-quarter (Q-o-Q), gross premiums declined by 18.2%, while PBT and PAT dropped by 22.7% and 23.1% respectively.

- Top line growth came in strong and was in line with our expectations as we had expressed reservations about the sustainability of the one-time surge in the Oil & Gas portfolio in the corresponding quarter of the previous year, when gross premium spiked 353.2% Q-on-Q. This consequently pushed the Oil & Gas share of premium income from 37.7% to 73.0%. From the limited information available, we observe a marginal decline in the underwriter's retention rate (the proportion of earned premium that is not reinsured) from 56.6% to 54.4%. While, we observe that retention rate had dropped from an annual average of 74.5% to 38.7% in FY 2010 in response to a swelling oil and gas portfolio, we think current retention rates are in line with a more favourable global outlook for reinsurance costs, as well as CAI's improving oil and gas risk underwriting expertise and strong capital base.

- Overall, we view the results as positive. Our long term call on the counter is reinforced by its superior ROAE of 14.3% versus the industry average of 7.9%, impressive underwriting profitability, with a combined ratio of 70.1% relative to an industry average of 90.1%. The underwriter continues to record strong growth in premium income (with a leading share of the Nigerian insurance industry). We remain positive on its investment performance on the back of its robust risk management and conservative investment management style.

- Based on these results, CAI currently trades at a trailing P/E of 6.1x versus a peer average of 11.5x and P/BV of 0.9x versus a peer average of 0.7x. We maintain our **BUY** rating on the counter, having established a target price of **N3.76**, which implies a 34.1% upside to the current market price.

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Table: Custodian & Allied Insurance Plc; Q3A 2011, Q3A 2010, Q3F 2011

CUSTODIAN & ALLIED INSURANCE PLC	30-Sep-11	30-Sep-10	% change	Analyst's Forecast	% of Forecast
	N'000	N'000		N'000	
TURNOVER	N7,600,000	N6,080,000	25.0%	N7,833,650	97.0%
PBT	N2,000,000	N1,600,000	25.0%	N1,883,320	106.2%
TAX	(N262,400)	(N217,700)		(N279,510)	
PAT	N1,737,600	N1,382,300	25.7%	N1,603,810	108.3%
PBT MARGIN	26.3%	26.3%		24.0%	
PAT MARGIN	22.9%	22.7%		20.5%	

Source: NSE, Afrinvest Research

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