



# ENTERPRISE GROUP LIMITED

## COMPANY PROFILE

Incorporated in 1995, Enterprise Group Limited provides through its subsidiaries general insurance, life insurance, pension services, real-estate development, funeral service and most recently health insurance. Enterprise Group Limited has eight subsidiaries including Enterprise Life Assurance in Gambia and Nigeria. It is listed on the Ghana Stock Exchange with a current market capitalization of GH¢512.68 million. Enterprise Group Limited as at 2020 wrote 26% of the total life insurance premiums and 12% of the total non life insurance premium in Ghana, a market leader in the insurance industry. EGL's PAT grew at 13% CAGR and recorded an average ROE of 15% (FY17 – FY21).

RECOMMENDATION:	BUY
CURRENT PRICE	3.00
TARGET PRICE	3.32

### COMPANY DATA

TICKER	EGL
PRIMARY EXCHANGE	GSE
52-WEEK LOW:	3.00
52-WEEK HIGH:	3.30
MARKET CAP. (GH¢M):	512.68
SHARES OUTSTANDING(M)	170.89



## GROWTH DRIVERS

### Health insurance to give long term opportunities

EGL added health insurance to its bouquet of services through the acquisition of Acacia Health Insurance in 2021. The strategic addition of Acacia affords EGL the chance to add to its already broad product mix with Acacia already being an existing brand in the health insurance sector. As part of their strategic plan for 2022, Acacia is looking to achieve a 100% increase in total lives under management.

### Increase in motor insurance premiums to boost revenue

The National insurance commission introduced new pricing guidelines for 3rd party motor insurance. This new pricing method is based on the registration year of the vehicle and all motor insurance companies are expected to apply this pricing to their products. Vehicle owners would be paying up to 43% more for what they used to pay for insurance in 2022. The increase in third party premiums should feed into the cost of comprehensive insurance premiums as well. Motor insurance remains the lifeline of the non-life sector and we expect this to be translated into EGL's revenues in FY 2023.

### Strong digital transformation and channels

Digital transformation remains a key differentiator for Enterprise group Limited's operations having invested heavily in acquiring digital assets. Business across subsidiaries continue to be done digitally which has increased operational efficiencies and brought growth in transactions for both New Business and Renewals. In addition, insurance brokers have also been given access to core systems which has further contributed to the increase in policy sales. Advantage3 was launched in 2021 to provide a platform for customers to connect at their convenience and to drive further consumer adoption, Advantage4 will be launched to help improve active usage and enhance new business generation, policy renewals and premium collection.

SHAREHOLDER	NO. OF SHARES	% HOLDINGS
GRACE STRATEGIC VENTURES LIMITED	75,395,586	44.12
STD NOMS/TRUST		
ACCNT/CS SEC(US) LLC/ CLEARTRIDE ASSET HOLDINGS LTD	16,978,891	9.94
SOCIAL SECURITY AND NATIONAL INS TRUST	13,300,878	7.78
	8,292,318	4.85
OTHERS	56,925,152	33.33

## VALUATION

We initiate coverage on EGL with a BUY rating. Based on FY22E projections, we are valuing the insurer at ~0.7x P/B and 12% ROE and at a target price of GH¢3.32. We estimate common equity to be GH¢767 million. We expect EGL to deliver between 22-23% growth in Gross premiums Written in FY22E and FY23E. EGL has traded within a P/B(x) range of 0.4x to 0.8x since FY18, suggesting an undervaluation by the market and an opportunity to buy. In addition, it has also delivered positive average ROE of 15% for its shareholders and an average dividend yield of 3% over the same period and remains a very good option for value investors. We believe that EGL will maintain its leadership in the insurance sector and the addition of health insurance business presents opportunities for sustainable long-term growth.

*(Thousands of Ghana cedis)*

Key Financials	2017	2018	2019	2020	2021	2022F
Gross Premium Written	462,985	542,558	642,279	785,419	1,002,666	1,233,279
Net Income	542,652	607,167	714,088	847,747	1,164,094	1,567,343
Net Investment Income	139,744	114,478	128,008	141,662	245,015	269,640
Net Earned Premium	380,706	453,430	535,870	651,386	838,697	1,070,855
Profit After tax	87,045	87,949	117,225	146,729	122,852	159,359
ROE (%)	24.00	11.00	15.00	14.00	10.00	12.00
EPS (GH¢/share)	0.397	0.303	0.466	0.476	0.396	0.522
DPS(GH¢/share)	-	0.045	0.054	0.062	0.074	0.074
BVPS(GH¢/share)	1.65	2.72	3.08	3.46	3.77	4.49
P/E(x)	9.39	7.42	3.54	2.94	7.05	5.16
P/B(x)	2.25	0.82	0.54	0.40	0.74	0.71

Source: 2021 EGL Annual Report, SBL Research

Key Ratios	2017	2018	2019	2020	2021	2022F
<b>Growth (%)</b>						
GROSS PREMIUM WRITTEN	24.00	17.00	18.00	22.00	28.00	23.00
NET PREMIUM EARNED	24.00	19.00	18.00	22.00	29.00	28.00
NET INVESTMENT INCOME	63.00	-18.00	12.00	11.00	73.00	10.00
PROFIT AFTER TAX	28.00	1.00	33.00	25.00	-16.00	30.00
INVESTMENT ASSETS	28.00	39.00	0.00	40.00	27.00	25.00
TOTAL ASSETS	28.00	30.00	11.00	20.00	20.00	27.00
<b>Profitability (%)</b>						
RETENTION RATIO	83.00	84.00	84.00	85.00	86.00	89.00
COMMISSION RATIO	15.00	15.00	14.00	15.00	14.00	14.00
INCURRED CLAIMS RATIO	43.00	47.00	46.00	39.00	46.00	51.00
EXPENSE RATIO	45.00	47.00	45.00	44.00	43.00	48.00
COMBINED RATIO	89.00	95.00	91.00	83.00	89.00	99.00
INVESTMENT YIELD	28.00	17.00	16.00	15.00	19.00	17.00
PAT MARGIN	19.00	16.00	18.00	19.00	12.00	11.00
ROE	24.00	11.00	15.00	14.00	10.00	12.00
<b>Valuation</b>						
P/E(X)	9.32	7.39	3.54	2.94	7.05	6.13
P/BV(X)	2.25	0.82	0.54	0.40	0.74	0.71
DIV YIELD (%)	-	3.00	3.00	4.00	3.00	2.00

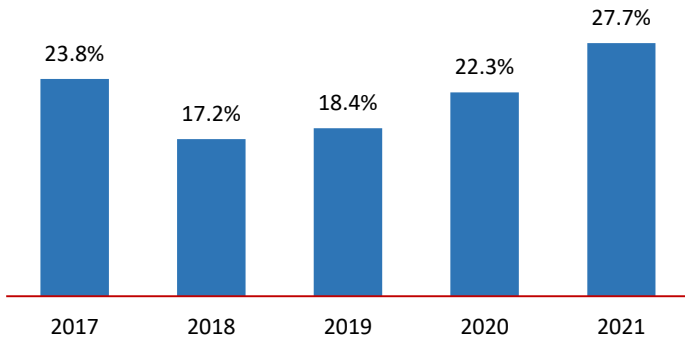
Source: 2021 EGL Annual Report, SBL Research

**RATIONALE**

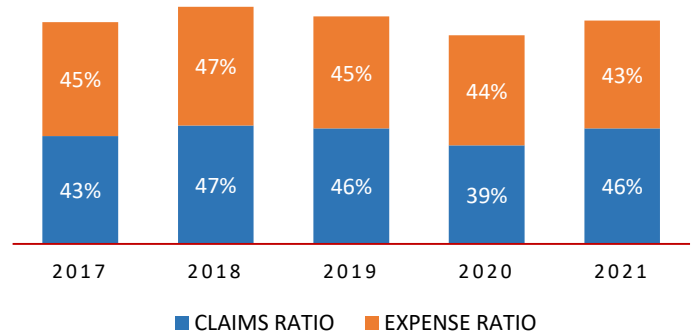
**Expect growth in gross premiums**

Enterprise Group's gross premium written (GPW) has increased consistently over the 2017-2021 period only recording a decline in 2018. Gross Premium Written recorded a 22% CAGR during the 2017-21 period, with its life business increasing at a CAGR of 22%. The non-life business of EGL grew at a CAGR of 20% during the same period. We remain positive on EGL's growth potential in the long-term given its already dominant market share and the added revenue potential health insurance provides. Consequently, we expect EGL's Gross Premium Written to grow by 23.0% and 22.0% in FY22E and FY2023E respectively.

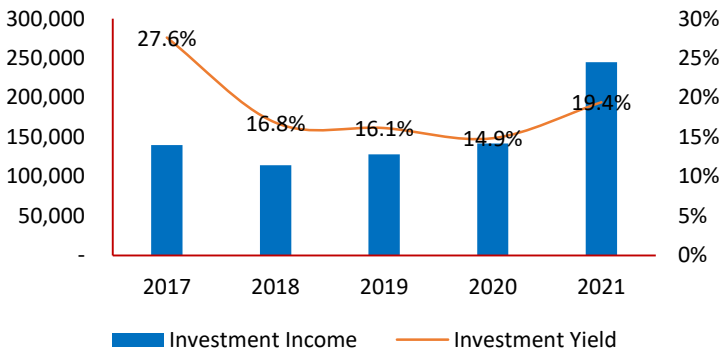
**GROSS PREMIUM GROWTH**



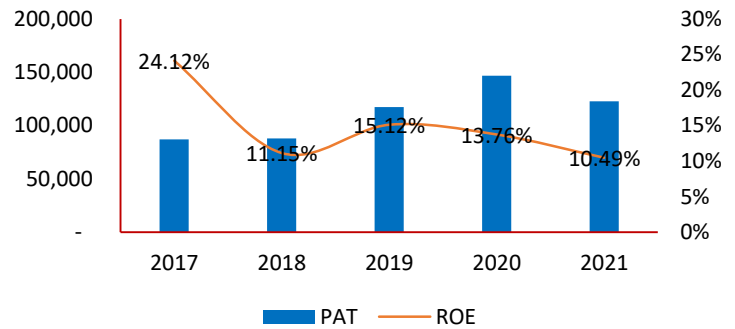
**CLAIMS & EXPENSE RATIO**



**INVESTMENT INCOME & INVESTMENT YIELD**



**PROFIT AFTER TAX & ROE**



**Diversified product mix**

The company has a diversified business model which helps it in balancing risk across business cycles. As of FY21, the life, non-life, properties, pension, health and funeral segments contribute 78%, 20%, 11%, 10%, 5% and 4% respectively to the group's PAT. While investments alone contribute 27% to its PAT. The motor insurance business, the most profitable line for the general insurance wing grew by 27% in 2021. Individual life products the core of the life insurance wing, contributed to 90% of Gross Premiums in FY21.

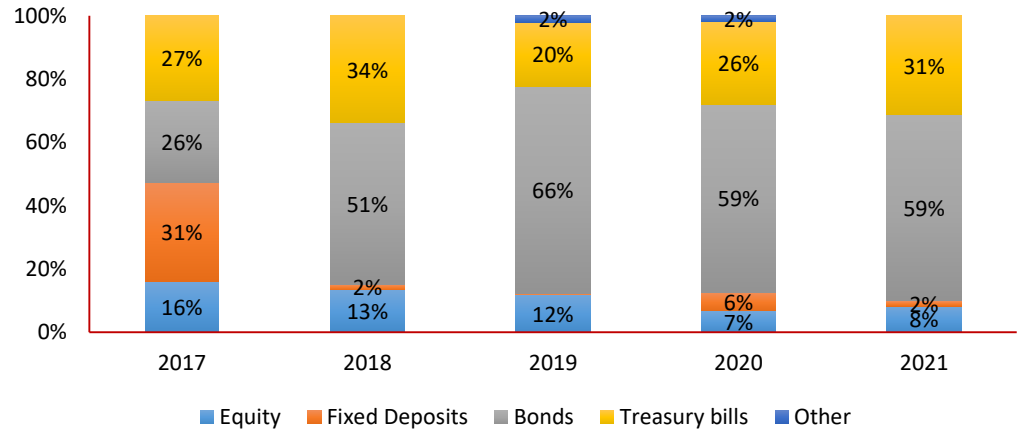
**Strengthening of operating metrics to boost profitability**

A combined effort of maintaining low levels of claims and expense ratios, has led Enterprise Group Limited to report a combined ratio below 100% from FY17 to FY21 and, thus, created value for shareholders posting positive ROE consistently. Claims ratio stood at 46% and expense ratio at 43% in FY21. It has also recorded an average retention ratio of 84% over the FY17 to FY21 period, evidence of a company well diversified from risk. We estimate a retention ratio of 89% in FY22E. A continued focus on keeping claims and expense ratios low, is expected to enable EGL continue to deliver superior business growth and profitability.

## INVESTMENT RISKS

**Debt portfolio rebalancing:** Though pension funds were exempt from Ghana’s Domestic debt exchange program, insurance companies will be faced with rebalancing and revaluing their debt portfolios to reflect new yields and maturities. Since 2018 EGL’s investment portfolio has consistently included at least 50% of bonds. We expected returns on investments to moderate especially in 2023.

**INVESTMENT PORTFOLIO MIX**



**Elevated inflation:** Inflation levels continue to remain elevated in Ghana, further reducing real returns on investments and increasing the cost of claims by policyholders. As a consequence, premium costs may see a significant increase industry wide. EGL must remain competitive with their pricing given the options competitors may offer potential policyholders who may opt for cheaper premium costs.

**Economic decline to impact industry:** Economic activity slowed down significantly in the latter part of 2022 with real GDP for Q3 2022 shrinking to 2.9% from 4.8% in Q2 2022. A further decline in overall real GDP growth of 2.8% is expected in 2023. The insurance industry has recorded declines in periods of economic decline and we foresee these conditions as a risk to the growth of new businesses and real investment returns.

## CONCLUSION

We strongly recommend EGL a BUY stock because it has an impressive track record of consistently improving its revenues leveraging on the combined strengths of its subsidiaries and branch network. Though investment income is expected to be muted given the prevailing macroeconomic challenges, we believe the company’s dominance in the market coupled with its well diversified product mix offered across its subsidiaries presents a sufficient cushion for the difficult periods. The inclusion of health insurance strengthens this position even more and presents the opportunity for further growth in future premiums.

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### RESEARCH TEAM

Godwin Kojo Odoom: Senior Research Analyst ([gkodoom@sicbrokerage.com](mailto:gkodoom@sicbrokerage.com))  
Wisdom Kwame Asigbetse: Analyst ([wkasigbetse@sicbrokerage.com](mailto:wkasigbetse@sicbrokerage.com))

### SIC BROKERAGE LIMITED

No. 67 A & B Switchback Road  
Cantonments PMB CT 314  
Cantonments – Accra, Ghana

Tel: +233(0)302 767051; 940056  
[www.sicbrokerage.com](http://www.sicbrokerage.com)  
[trader@sicbrokerage.com](mailto:trader@sicbrokerage.com)