

REPORT DATE: JULY 7, 2007

Valuation Price: N4.06k

Premium to Valuation: 5 per cent

EXECUTIVE SUMMARY AND INVESTMENT RATIONALE:

- Sovereign Trust Insurance Plc was incorporated on January 2, 1995 as a non-life insurer. It later became a composite insurer, engaging in all classes of insurance businesses having secured license in 2001 to transact life and pension businesses. The company was quoted on the Nigerian Stock Exchange on November 29, 2006 with the listing of a total of 2,243,167,216 ordinary shares of 50k. It also met the new capital base requirement of NAICOM to conduct general insurance business with a capital base in excess of N3bn having successfully consummated a merger arrangement with **Coral International Insurance Company Limited, Confidence Insurance Plc and Prime Trust Insurance Company Limited under the brand name of Sovereign Trust Insurance.**
- In line with the international best practice and with a view to reducing risks and meeting customers' claims, Sovereign Trust has re-insurance treaty arrangements with top Re-insurers in Nigeria, viz: **African Reinsurance Corporation; Continental Reinsurance Company Limited; Globe Reinsurance Company Limited and Universe Reinsurance Company Limited.**
- Sovereign Trust has consistently issued bonus shares and paid dividend to its shareholders at an average yearly increase of 43.37 per cent in the last 10

years. It has also put in place robust business strategies to float more subsidiaries with a view to offering a broad range of other financial services in order to diversify income base and give superior returns to investors.

- Risk attached to our valuation is the declining margin arising from cut-throat competition in the industry especially in general insurance business leading to diminishing rates on premium. Worse still, the risk is compounded by low level of demand for insurance products by Nigerian consumers coupled with poor disposable income. Moreover, the future of Nigerian insurance industry is hinged on government policy as evidenced in recent times through Pension Reforms Act 2004 and implementation of 40 per cent local policy content in Oil and Gas sector. A change in the status quo will have a sharp adverse effect on incomes of all players in the industry. However, with a robust strategy for business diversification in the pipeline, Sovereign Trust is expected to fashion out plans to cushion the effects.
- Sovereign Trust is one of the few Insurance companies that have consistently rewarded its investors with twin-benefit of dividend and bonus issue in the past five years. Its trailing EPS stands at 16.68k as at Q1-2007 and a PE ratio of 25.55 xs. We forecast an EPS of 24.41k for the year ending December 2007.
- Based on the above, we opine that the stock is trading at a small premium to the closing price of N4.06 on Friday July 6, 2007.

RECENT DEVELOPMENTS/ LATEST QUARTERLY RESULTS:

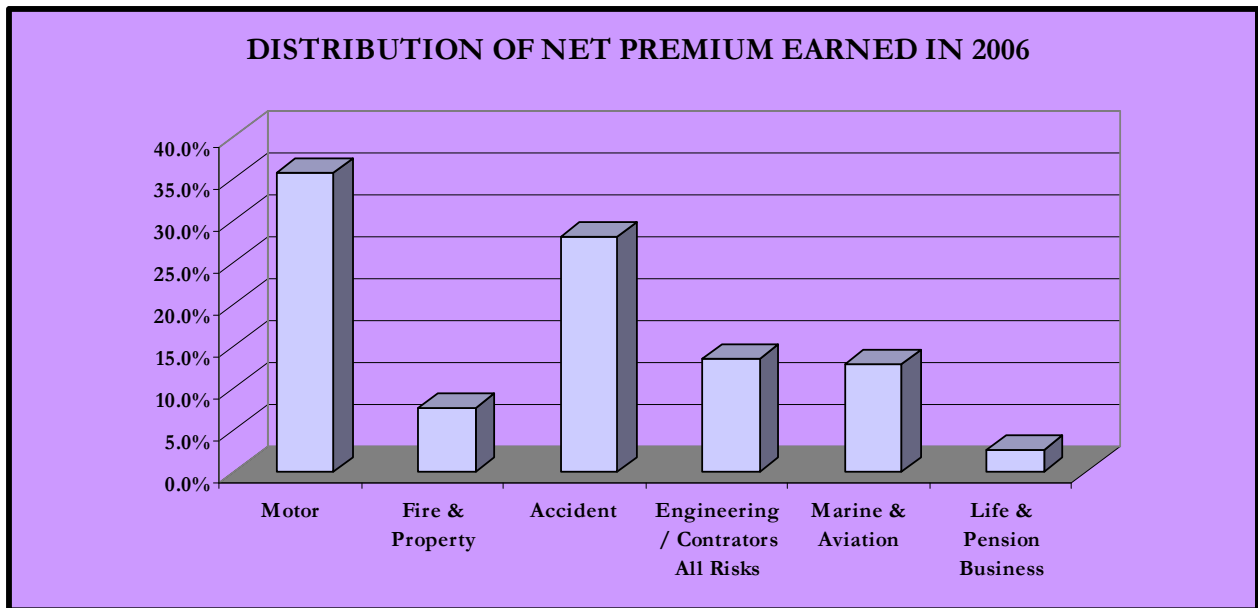
Post consolidation, Sovereign Trust's shareholders fund currently stands at N3.28bn against N1.59bn as at December 2006 while total assets has grown to

N3.74bn from N2.24bn. In the same vein, the company's Q1-2007 further reaffirms the company's performance strength. It reported Gross Premium & Net Premium of N605.9m and N525.32m against N485.1m and N421.1m reported in the prior quarter of the previous year, representing a growth by 25 per cent respectively. Underwriting profit margin grew to 29.8 per cent as against 14.6 per cent in the similar quarter of prior year and 25.5 per cent recorded in 2006FY. Moreover, the company recorded a significant leap in earnings with trailing EPS of 16.68k up from 10.42k in December 2006, translating to 62.5 per cent growth. Barring all odds, we anticipate an EPS of 24.41k by the year ending December 2007.

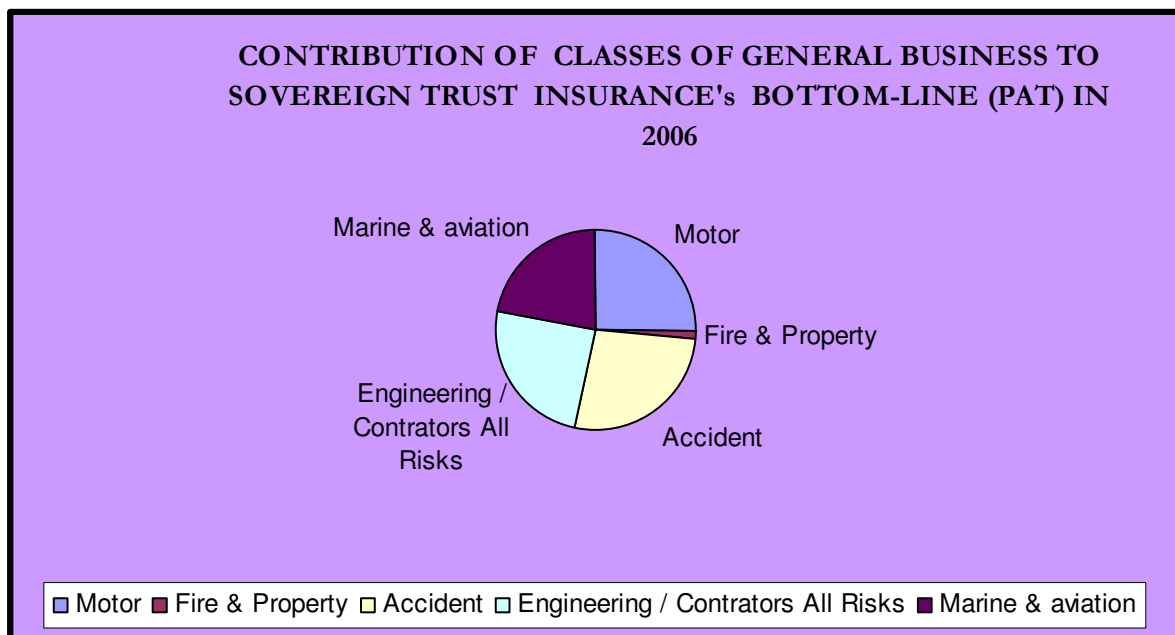
ANALYSIS OF FINANCIALS:

BUSINESS MIX

Sovereign Trust Insurance Plc, as a composite insurer generates its incomes from combined businesses of Life and Non-life. However, the company's business is highly skewed towards Non-life business which accounts for over 95 per cent of Net premium over the past five years.

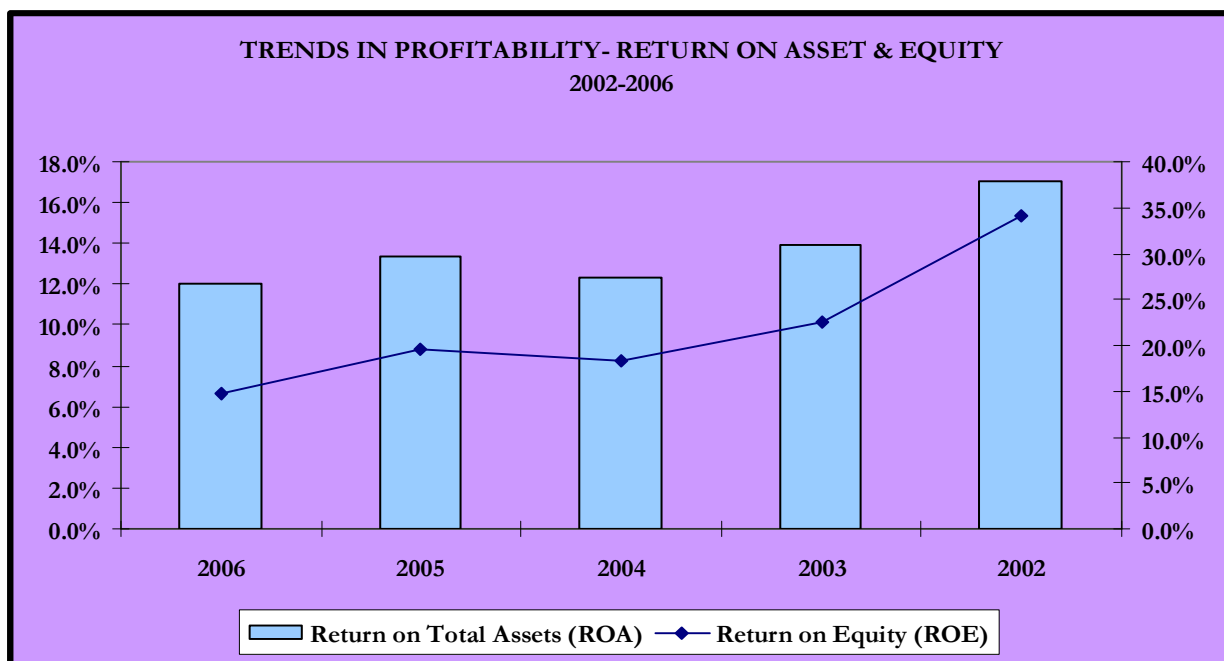


Non-life business accounted for 97.5 per cent of Net Premium in the year ended December 2006 out of which Motor and Accidents insurance classes contributed 35.7 per cent and 28 per cent respectively while Engineering/Contractor All Risks(CAR); Marine & Aviation and Fire insurance classes contributed 13.5 per cent, 12.8 per cent and 7.5 per cent in that order. Furthermore, underwriting profit was solely made up of non-life business in the financial year ended December 2006. Accident and Motor insurance classes accounted for 26.3 per cent and 25.4 per cent while engineering/Contractor All Risks (CAR); Marine & Aviation and Fire insurance classes generated 24.8 per cent; 22.2 per cent and 1.2 per cent respectively.



PREMIUM GROWTH & PROFITABILITY:

Sovereign Trust has recorded an average annual growth rate (Compounded Annual Growth Rate-CAGR) in Gross and Net Premiums of 18.2 per cent and 17.1 per cent respectively between 2002 and 2006. Gross Premium stood at N1.42bn in 2006 against N1.02bn reported prior year while Net Premium rose from N881.67m to N1.14bn over same period. This represents 38.76 per cent and 20.46 per cent growth between 2005 and 2006 financial years respectively. On relative basis, the company has fared well when compared with industry peers such as **Prestige Assurance and Standard Alliance Insurance Plc. Prestige Assurance** grew its Gross Premium by 18.5 per cent to N1.54bn in 2006 up from N1.3bn prior year while **Standard Trust Insurance's** Gross Premium rose from N506m in 2005 to N739m, translating to 46.1 per cent growth.

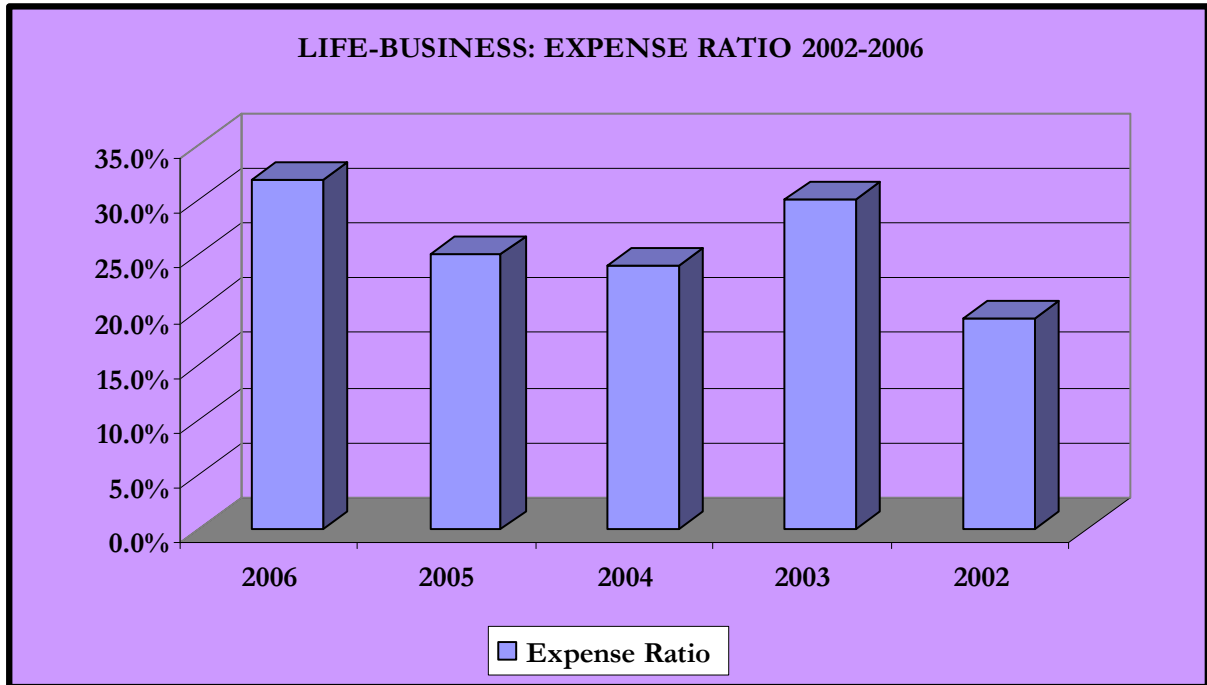


Underwriting Profit growth also averaged 29.9 per cent (CAGR) while growth in underwriting margin averaged 19.4 per cent over a 5-year period 2002-2006. Underwriting margin consistently grew from 16.2 per cent in 2004 to 25.5 per cent in 2006. Similarly, Sovereign Trust **Return on Total Asset (ROTA)** and **Return on Equity (ROE)** were 12.0 per cent and 14.7 per cent in 2006 respectively against 13.4 per cent and 19.6 per cent in 2005. The dip in ROE from 19.6 per cent in 2005 to 14.7 per cent in 2006 may be traced to the growth in total equity of 97.2 per cent (resulting from its private placement in 2005) which out-weighed 48.3 per cent growth in net profit. **However, the industry averages for ROTA and ROE stood at 8.3 per cent and 15.5 per cent respectively for the year ended 2005.**

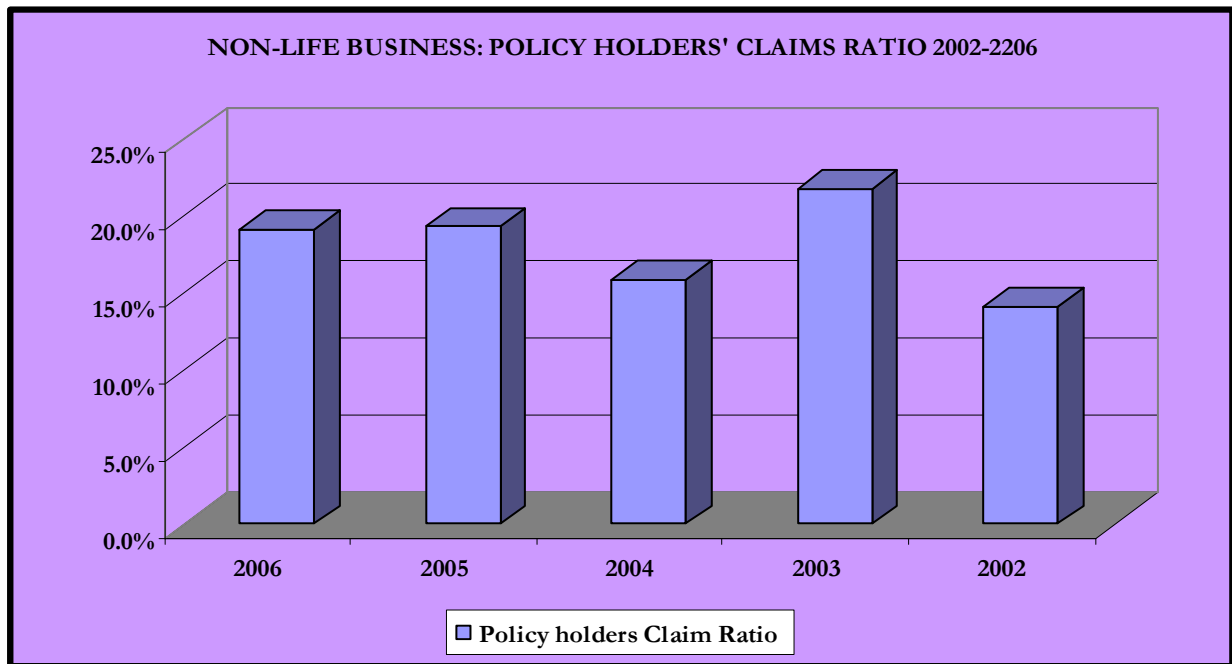
EFFICIENCY:

Key metrics in measurement of the management performance are efficiency ratios, represented by expense ratio and policy claims ratio. The expense ratio examines the extent of an insurance company's underwriting expenses and net claims paid in

relation to the size of the net premium earned. Hence, an upward movement indicates declining efficiency in risk management as well as cost management control. The reverse holds for a declining trend.



Sovereign Trust expense ratio (Non-life) rose from 24.0 per cent in 2004 to 31.9 per cent in 2006 while Life expense ratio grew from 0.7 per cent to 4.1 per cent over same period. In the same vein, policy claims ratio (non-life) increased from 15.9 per cent to 19.1 per cent between 2004 and 2006 while life policy claims ratio rose by 0.7 per cent to 4.1 per cent (same as in expense ratio). From the foregoing, it suffices to say that the company's management needs to pay more attention to these ratios by devising improved techniques in risks appraisals and management which is also expected to improve its profitability.



CAPITAL ADEQUACY & RISK MANAGEMENT:

Analysis of Sovereign Trust composite balance sheet revealed that the shareholders' fund, prior to conclusion of the recapitalization exercise in February 2007, stood at N1.59bn against N806.35m recorded in 2005, representing about 97 per cent growth which was partly due to its private placement of 1 billion shares of 50k. Furthermore, analysis of the company's financials indicated that for life business, the extent by which Total Asset is financed by Equity (i.e. Equity/ Total Asset) rose from 70.8 per cent in 2005 to 81.1 per cent in 2006 (5-year average is 63.4 per cent) while in for non-life business, 71.2 per cent of the total asset is financed by equity in 2006 up from 60.7 per cent in 2005 (5-year average is 38.7 per cent).

Similarly, Sovereign Trust's solvency ratio of general business, measured by the ratio of shareholders' funds to net premium income (at market value) soared continually from 41.4 per cent in 2002 to 64.4 per cent in 2004 and further jumped from 75.6 per cent in 2005 to 126.1 per cent in 2006. This was directly linked to its private placement of 1 billion shares in 2005. **This index measures the risk an**

insurer faces of claims that it cannot absorb. The amount of premium written is a better measure than the total amount insured because the level of premiums is linked to the likelihood of claims. It is a basic measure of how financially sound an insurer is.

LIQUIDITY:

Analysis of Sovereign Trust's financials revealed that its ability to meet its policy holders' claims is not in doubt. This measure is very crucial in analysis of the strength of insurance company most especially in Nigeria where people have almost lost confidence in the insurers until the recent upturn. Sovereign trust liquidity indices showed that the company has done well. Sovereign Trust grew its non-life liquid assets (**mainly cash and short-term investments**) much more than growth in total assets. **Liquid assets** grew by 81.7 per cent on 5 year average (CAGR) while total assets rose by only 39.0 per cent thereby making adequate provision for customers' claims without jeopardizing profitability.

The above performance has helped in improving liquidity index measured by ratio of liquid assets to total assets. This averaged 19.2 per cent in 5 years (2002-2006). The index rose from 9.3 per cent in 2004 to 43.2 per cent in 2006 for Non-life business. Similarly for life business, liquid assets to total assets averaged 51.3 per cent between 2002 and 2005. However, trend analysis revealed that this has been relatively stable at 52 per cent over prior 4 years.

Similarly, a review of Sovereign Trust's financials showed that the company's ratio of Permanent Assets to Total Assets fell from 14.2 per cent in 2004 to 7.4 per cent in 2006 for Non- Life Business while for Life Business, the index nose-dived from 35.8 per cent in 2004 to 21.6 per cent in 2006. This is also a cursor to the fact that the company has improved on its liquidity measures over the years.

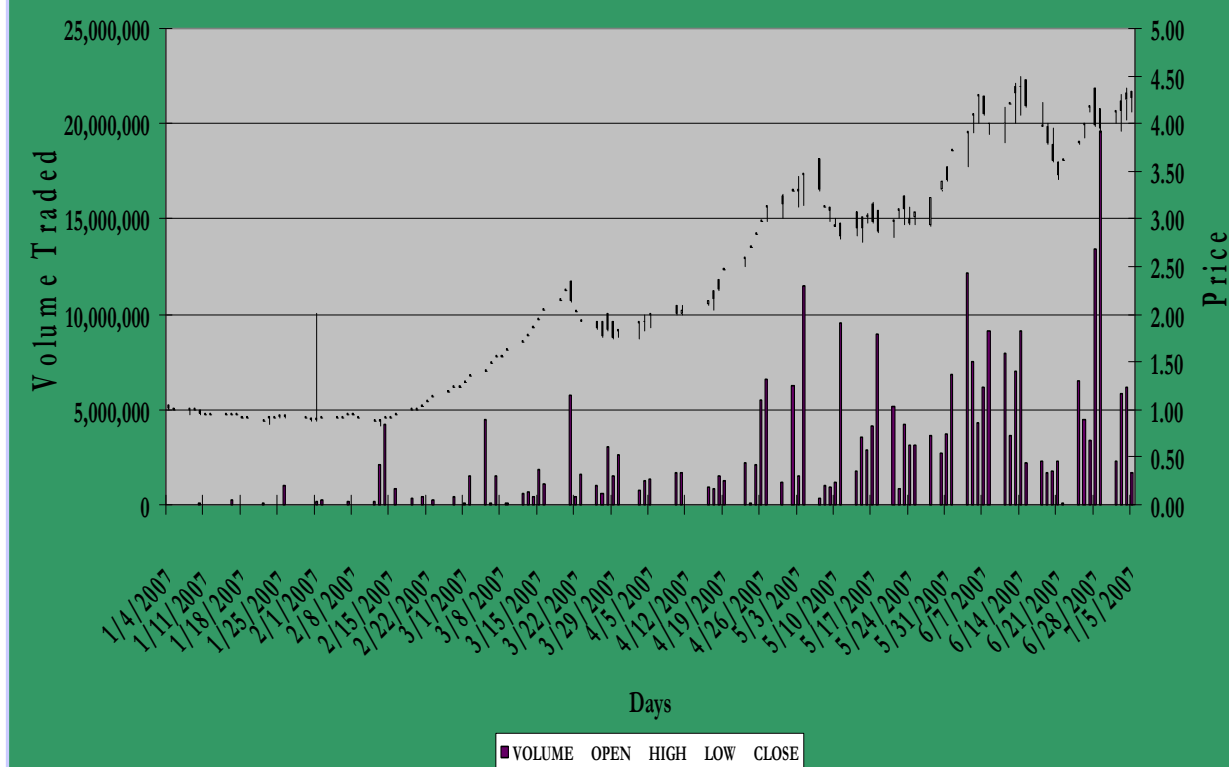
TECHNICAL ANALYSIS OF SOVEREIGN TRUST INSURANCE:

Sovereign Trust Insurance was listed on the floor of the Nigerian Stock Exchange on the 29th of November' 2006 at a price of N1.00. It closed at N1.05, realizing a capital appreciation of 5% at the end of the year.

The shares recorded an all-time Low of N0.87 on the 31st of January, in 2007 trading at less than its listing price of N1 until the 22nd of February, 2007 when it joined other stocks in the industry to benefit from promising industry outlook. The stock received strong patronage from investors leading to strong bids for it. This translated to a daily rally of 5% higher than previous close until the 30th of March, 2007 when it traded for N2.24. Traded volume increased significantly during this period reflecting that the shares have properly circulated among investors.

The share price reached an all-time High of N4.38 at close of trade on the 14th of June, 2007. Recent price trends show that it hovers around prices close to this high suggesting the possibility of the stock finding a new Resistance level (High) in the very near future.

SOVEREIGN INSURANCE PLC: PRICE VOLUME CHART 2007



VALUATION:

In arriving at an appropriate value for Sovereign Trust Insurance Plc, we employed a number of valuation metrics ranging from Embedded Value which is a variant of Discounted Cash Flow (DCF) model more suited to insurance companies and a couple of relative valuation metrics such as Price to Book Value (P/B), Price to Net Premium (P/NP), and Price to Earnings (P/E) ratios.

From our Discounted Cash Flow Approach (DCF), we used a discount rate of 12.75 per cent and a perpetual growth rate of 5 per cent. We arrived at a share price of N2.06.

We arrived at a final valuation of N4.06 based on the weighting of the forecast share prices obtained from the various valuation metrics we employed. We however conclude that Sovereign Trust is trading at a small premium above the closing price of N4.26 on Friday July 6, 2007.

* INSURANCE PEER PERFORMANCE REVIEW

	AVRG.	WAPIC	CRUSADER	CORNERSTONE	SOVEREIGN*
Shares Outstanding(bn)	2.74	1.00	3.33	4.37	2.24
Mkt. Capt.(N'bn)	13.39	7.96	17.09	18.80	9.71
Market Price as at Date-July 4, 2007 (N)	5.43	7.96	5.14	4.30	4.33
Shareholders' Funds- (N'bn)*	1.11	1.01	0.46	1.55	1.59
EPS(N)	0.21	0.50	0.11	0.06	0.16
DPS(N)	0.10	0.18	0.10	0.05	0.06
ROE (%)	16.66	23.65	14.95	13.32	14.70
ROA (%)	11.8	12.25	9.60	9.42	12.00
Book Value Per Share(BVPS)N	0.51	0.85	0.14	0.35	0.67
Earnings Yield (%)	3.95	3.64	5.45	4.30	2.41
Div. Yield (%)	1.67	2.20	1.95	1.16	1.40
Div. Pay-out (%)	45.17	60.34	35.71	27.03	57.58
Price/Earnings ratio as at July 6, 2007.	27.65	16.39	48.51	66.56	25.55
Price-to-Book Value	16.26	9.32	37.48	12.12	6.38
Price-to-Net Premium	14.84	6.83	28.10	15.90	8.89
Net Premium Per Share(N)	0.53	1.17	0.18	0.27	0.48
Gross Premium (N' bn)	1.29	1.30	0.83	1.60	1.42
Underwriting Expenses (N' bn)	0.28	0.27	0.24	0.48	0.15

*** as at December 2006 while others are based on 2005 financials- the latest available audited accounts and annual reports.**

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