

MERISTEM EQUITY RESEARCH REPORT



REPORT DATE: MAY 4, 2007

BUY

12-Month Target Price =N8.28

EXECUTIVE SUMMARY AND INVESTMENT RATIONALE

- WAPIC Insurance Plc(formerly West African Provisional Insurance Company Plc) was incorporated on March 14, 1958 as a private limited liability company to transact insurance business in Nigeria.
- It became a quoted company on the floor of The Nigerian Stock Exchange (NSE) in 1990 following the divestment of the Federal Government holding same year. The company's strategic focus for enlarged market share in the industry culminated in the acquisition of the company by Intercontinental Bank Plc in November 1997.
- The company was granted license to transact Life Insurance business by National Insurance Commission (NAICOM) in 2000. It currently has thirteen (13) branches across Nigeria and one (1) in London UK. In order to properly hedge against risks, the company has reinsurance arrangement with seven (7) reputable Reinsurance Companies: Continental Reinsurance Limited; Nigeria Reinsurance Corporation; Globe Reinsurance Limited; Universe Reinsurance Limited; African Reinsurance Corporation; Munich Mauritius Reinsurance Company Ltd. (MMRC) and WAICA Reinsurance Pool.
- The company's ownership structure according to its last financials, (February 28, 2006) is made up of Intercontinental Bank Plc (59.83%); Shipeville Limited, UK (1.19%) while Nigerian Citizen and Associations own the balance of 38.98%. However, the last Offer of the company might have altered the ownership structure.
- The company was hitherto a composite Insurance company licensed to underwrite all classes of Life and Non-life insurance cover prior to the conclusion of the recapitalisation exercise in February 2007 in the industry.
- Post-consolidation process, WAPIC Insurance emerged as separate entity with specialty in

Non-life businesses while another company, WAPIC Life Insurance Company, was floated to solely undertake Life Insurance business. This emphasises a strategic focus of the company and it is expected that this will create more value to the shareholders.

- Risks attached to our valuation are the volatility of earnings due to escalating claims and sustainability of cash flows in the face of growing outstanding premiums. We however, estimated that the company's gross earnings and Profit After Tax (PAT) would be N3.9bn and N635m respectively and Earnings Per Share (EPS) of N0.28k for financial year ended February 28, 2007.
- We thereby recommend WAPIC as a medium to long term buy based on our analysis and conclusion that the stock is currently trading at a discount of about 5% to its trailing market price on May 4, 2007.

RECENT DEVELOPMENTS:

WAPIC Insurance Plc in the last quarter of 2006 undertook a hybrid offer of 250 million shares by way of Offer for Subscription and 1 billion shares via Rights Issue. This is line with its corporate strategy to meet the new capital requirement for licensed Insurance Companies as well as expansion/improvement of branch network, Information and Communication Technology (ICT) upgrade, acquisition of smaller firms and enhancement of its working capital.

RISKS ANALYSIS:

We expect a stiffer competition among players that scaled the hurdle of recapitalisation/consolidation in the insurance industry, as the need to provide adequate return to enlarged capital base can not be over-emphasised. It therefore implies that company with superior strategies will create competitive edge and distinctive competencies to increase its market share via innovative products and services to meet customers' needs.

Similarly, players in the industry are faced with enormous challenges following the implementation of Pension Reform Act of 2004 and the recapitalisation exercise in the insurance industry given the dynamics of the business environment in Nigeria.

Bye and large, the above-mentioned risks will be mitigated as individual insurance companies are relatively more capitalised and better positioned to participate in big ticket insurance businesses that will impact significantly on their earnings and profitability. Moreover,

consolidation of the on-going sectoral and institutional reforms by in-coming government is also expected to generate multiplier effects in new business opportunities for insurers.

MOST RECENT QUARTER RESULTS & PROJECIONS:

WAPIC's Q3 results show that the company recorded a quarter-on-quarter Gross Premium growth of 162.5%, while its Earned Premium and Profit After Tax (PAT) grew by 91.9% and 202.8% respectively. Earned Premium increased from N781.8m in the corresponding quarter of prior year to N1.5bn and PAT rose by more than two-folds from N126.7m to N383.6m over same period.

Going by the company's projections in its September/October 2006 Offer document, it is most probable that it will surpass earnings and profitability forecasts vis-à-vis dividend target of 20k per share for the year ended February 28, 2007. The company's subsequent quarterly performance is expected to be impactul after the release of the proceeds of its recent offer by the National Insurance Commission (NAICOM). This would enable the company to position itself for more profitable investment opportunities.

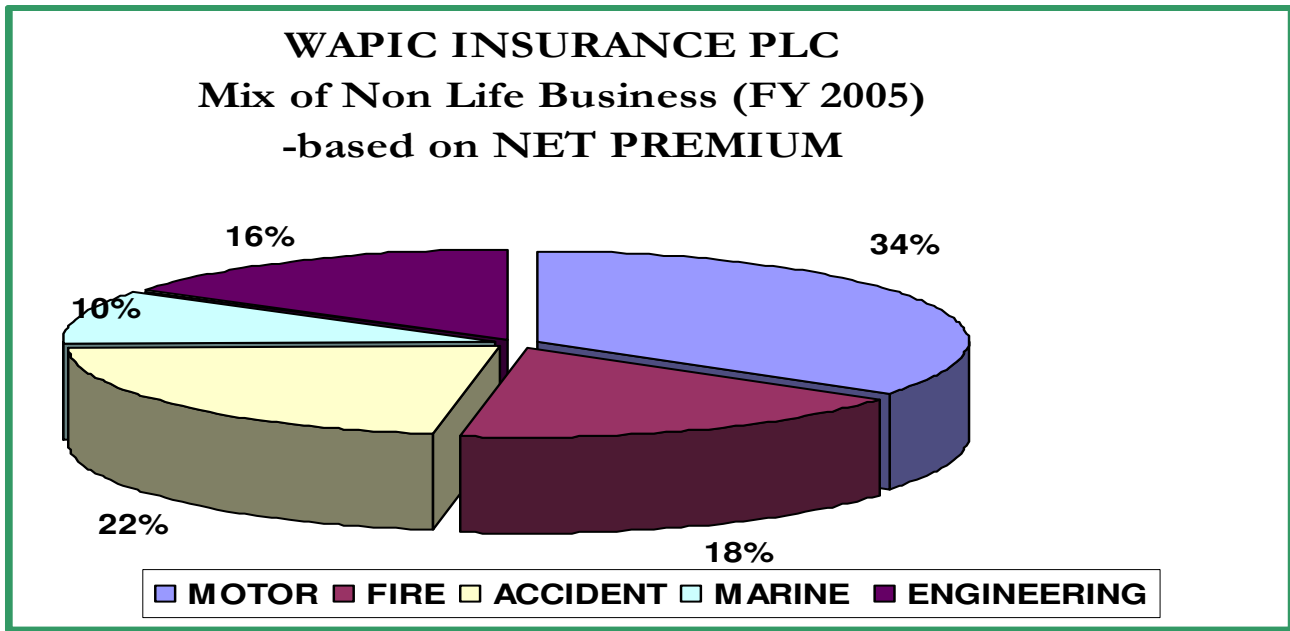
ANALYSIS OF FINANCIALS:

BUSINESS MIX

Wapic Insurance Plc maintained a portfolio of Life, Motor, Accident, Marine, Engineering and Fire Insurance businesses, thereby qualifying as a Composite Insurance company prior to February 28, 2007. While the Life business constitutes 1.2% in terms of underwriting profit and 9.8% in terms of net premium, the Non Life business is the mainstay of the company, delivering underwriting profit (excluding non core insurance income and expenses) of N523.8 m in 2006 financial year.

In its 2006 financial, the most profitable business segment was the Marine business recording an underwriting profit margin (underwriting profit margin/net premium) of 51.6%, followed by the Fire Insurance business & Motor Insurance businesses with 45.6% and 45.3% underwriting profit margin respectively. Absolute contributions to underwriting profit by these business segments stand at N183.8m for Motor Insurance, N133.9m for Marine Insurance and N83.9m for Fire Insurance. Accident and Engineering Insurance business segments contributed N82.9m and N39.4m respectively.

However, in terms of contribution to the revenue generation (net premium) of the business, Motor Insurance business generated almost twice as much as the takings from Accident Insurance business, raking in N405m as compared to N204m derived from the Accident Insurance business. On the other hand, Marine insurance generated a net premium of N259m followed by Fire Insurance with a net premium of N183.8m while Engineering Insurance accounted for N111.4m.



GROWTH IN PREMIUM AND PROFITABILITY

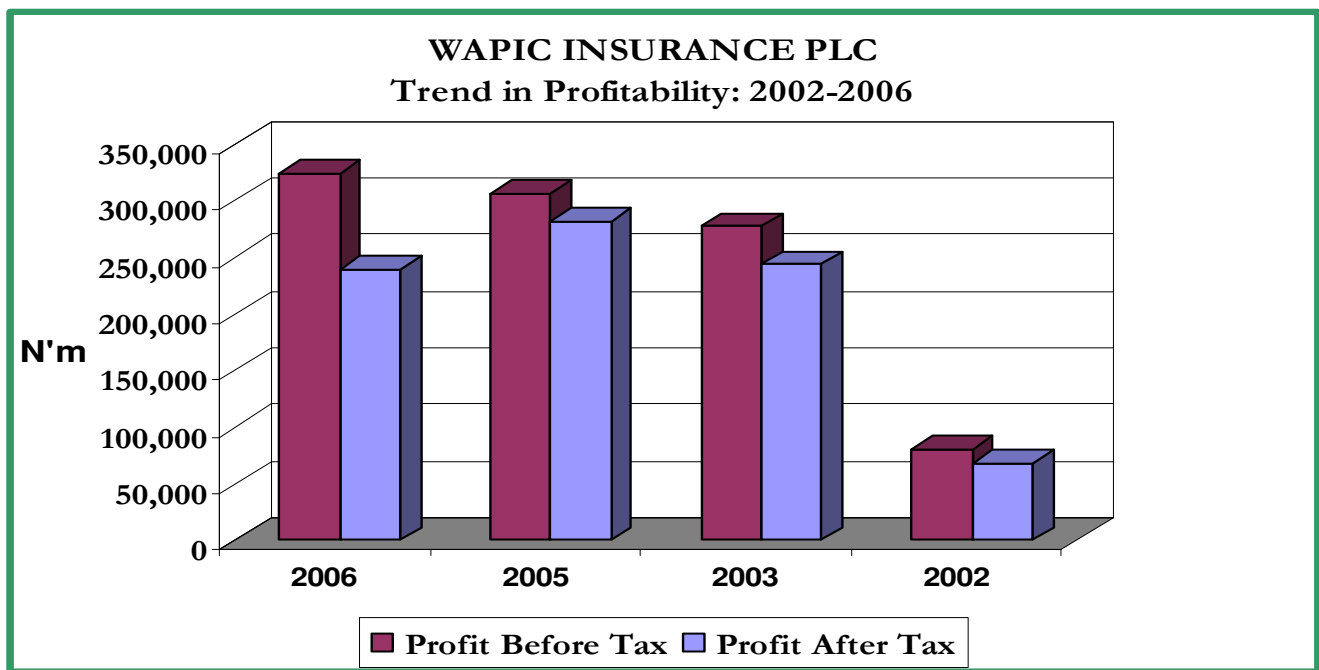
Wapic has been able to maintain above-industry growth in Gross and Net premiums, which are the main drivers of profitability and stakeholders’ value. It recorded an average annual rate (Compounded Annual Growth Rate-CAGR) of 42.3% and 54.7% respectively between 2001 and 2005. On a relative basis, this performance out-matched other key players in the industry during same period. While Crusader Insurance Plc recorded 42.5% and 42.6% growth in Gross and Net premiums respectively, Oasis Insurance Plc on the other hand, grew its Gross and Net premiums by 32% and 16.3%. Similarly, Cornerstone Insurance Plc recorded a growth in Net premium by 50% while Royal Exchange Assurance (REAN) Gross and Net premiums grew at an average rate of 24% and 30.2% respectively over same period.

The company’s Gross Premium increased from N444 m in 2002 to N1.29 bn in 2006 while Net Premium over the same period rose more sharply from N315.9 million to N1.18 bn. There was however, a slight decline in year-on-year growth rate for the financial year ended February 28,

2006. Gross and Net Premium declined by 9.5% and 12.4% respectively in 2006 from the annualized figures for the preceding financial year.

The Life insurance business is expected to be one of the business units driving the growth in corporate gross and net premium. This generated a net premium growing at an average annual growth of 190.7%. Though, there was a slight decline in FY 06 and the potential prospect from this business line is enormous. It provides more cushion for the company and ability to venture into highly profitable investments. The Engineering and Fire insurance businesses have also recorded tremendous growth. Net premium from Engineering increased by 92.3% from N15.4m in 2002 to N56m in 2006 and Fire by 81.7% from N30.1m in 2002 to N183.8m in 2006. Accident, Marine and Motor Insurance businesses recorded growth in net premium by 67.5%, 64.9% and 34.5% respectively.

The growth recorded by the various business units and their relative profitability have contributed to the overall growth in Profit After Tax (PAT). After Tax Profit soared from N68.3m in 2002 to N239.8 m in 2006. This translates to a growth of 51.4% on a CAGR basis. The company recorded an average Return on Assets (ROTA) of 13.1% and an average Return on Equity (ROE) of 26.9% over same period. The ROTA and ROE for financial year 2006, however, declined slightly compared with the corresponding ratios in 2005. Return on Total Asset in 2006 declined by 0.2% from 12.4% to 12.2% while Return on Equity declined by 7% from 30.6% to 23.6%. Meanwhile, the industry averages for ROTA and ROE stand at 8.3% and 15.5% respectively for the year ended 2005.



The sustainability of performance of Wapic Insurance in terms of profitability in the face of declining margin from stiffer competition can be traced to its aggressive growth in net premium. The company uses its assets more efficiently and effectively in generating more earnings vis-à-vis profits.

The unusual claims settlements in 2006 impaired the level of average growth. The huge claims brought about a sharp increase in the hitherto well controlled company's cost ratios. The Policy Claim ratio (Claims/Net Premium) for the company as a whole increased from 14.7% in 2005 (annualized) to 72% in 2006, while the Expense Ratio (Underwriting Expenses plus Claims as a ratio of Net Premium) increased from 22.7% in 2005 to 94.9% in 2006. A 4-year average however, stands at 30.2% and 43.9% for the Policy Claim and Expense ratios respectively.

LIQUIDITY AND SOLVENCY

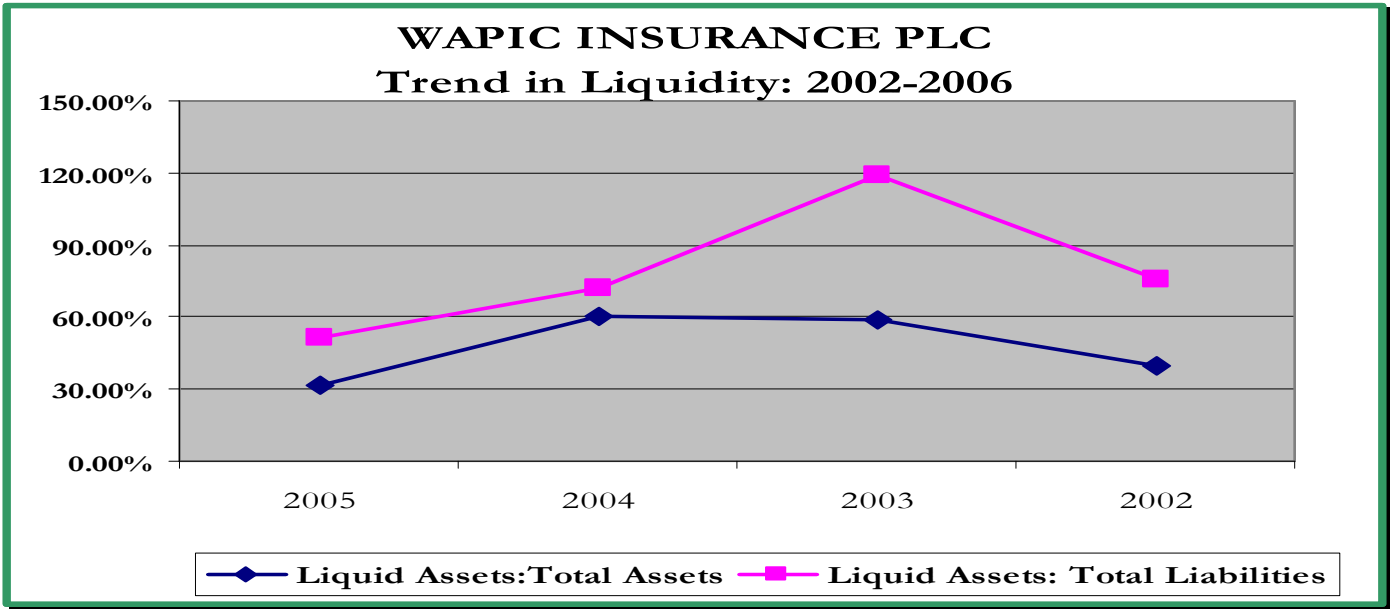
The company, over the years has always maintained a comfortable liquidity level. On the average, 48.4% of its total assets are maintained in liquid assets in the form of cash and investments which can be realized within a very short time. Except for 2006, the year-on-year growth in cash resources held on hand has transcended the year-on-year growth in total assets, thereby putting no pressure on the company's liquidity.

Similarly, permanent assets constitute only a small portion of the company's total assets.

Between 2001 and 2006, its permanent assets have consistently constituted only 10.7% of the total assets. This indicates that in the event of a dire liquidity need, a large proportion of the assets of the company can be easily realised. Moreover, quick ratio of the company over the same period indicates that Wapic maintained on average, sufficient liquid resources to cover 75.9% of its total liabilities.

Furthermore, apart from its strong short-term liquidity position, Wapic Insurance shows stability in the long-term too. It maintained an average debt ratio of 66.2%. This indicates that the total liabilities of the company can eat up only 66.2% of its total assets. In other words, the company is well positioned to meet both its long term and short term obligations.

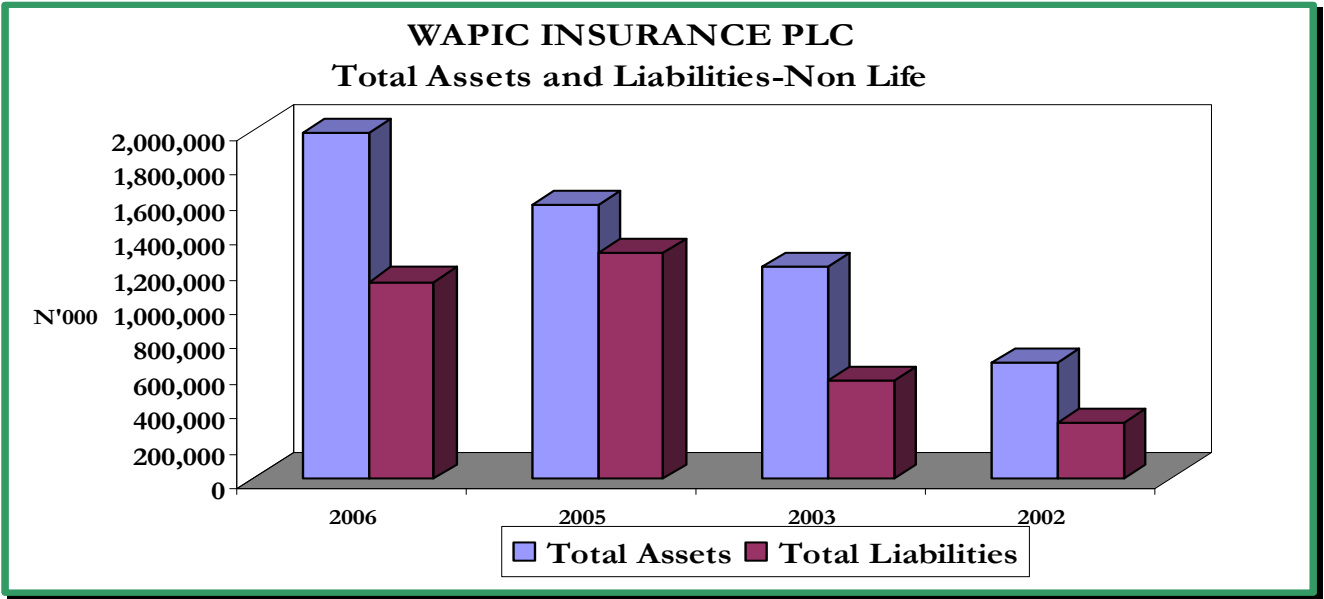
The company however, needs to improve on its receivables (i.e. outstanding premium) as it constitutes 33.2% of the total assets in 2006 up from 16.5% in the previous year. The increase in receivables out-matched increase in premium, indicating that the premium growth is not fully backed by cash. It therefore means that a stricter credit policy and debt recovery strategy is expected to be put in place by the management in order to reduce debtors' turnover period.



CAPITAL ADEQUACY:

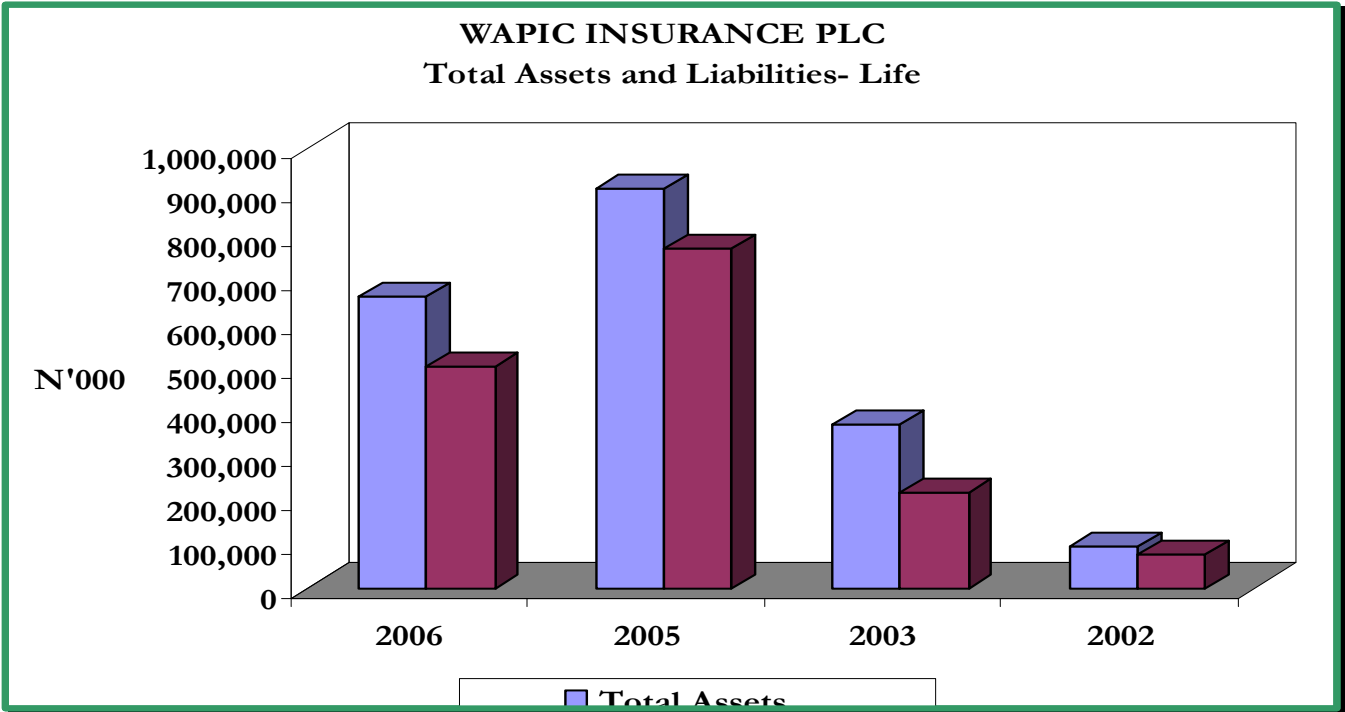
With the support of its parent company, Intercontinental Bank Plc, meeting any urgent capital needs remains a remote problem. However, on a stand-alone analysis, the company's reveals no symptom of capital inadequacy. The company's shareholders fund stands at N1.01billion at the end of its financial year in February, 2006 as against N328.2 million in 2002. The increase in shareholders fund resulted from the fresh equity injection in 2003 via a Rights Issue of 300 million shares as well as profit retained over the years which has strengthened the company's base. In addition, the recently concluded hybrid offers further boosted its capital base.

An analysis of the company's Equity as a ratio of Total Assets indicates that, an average of 40.8% of the total assets of the company is financed by the owners' capital (equity). The company's Equity/Total Assets ratio over the years ranged between 34% and 51%(with the highest ratio of 51% maintained in 2002/2003 when fresh funds were injected into the business from its Rights Issue).



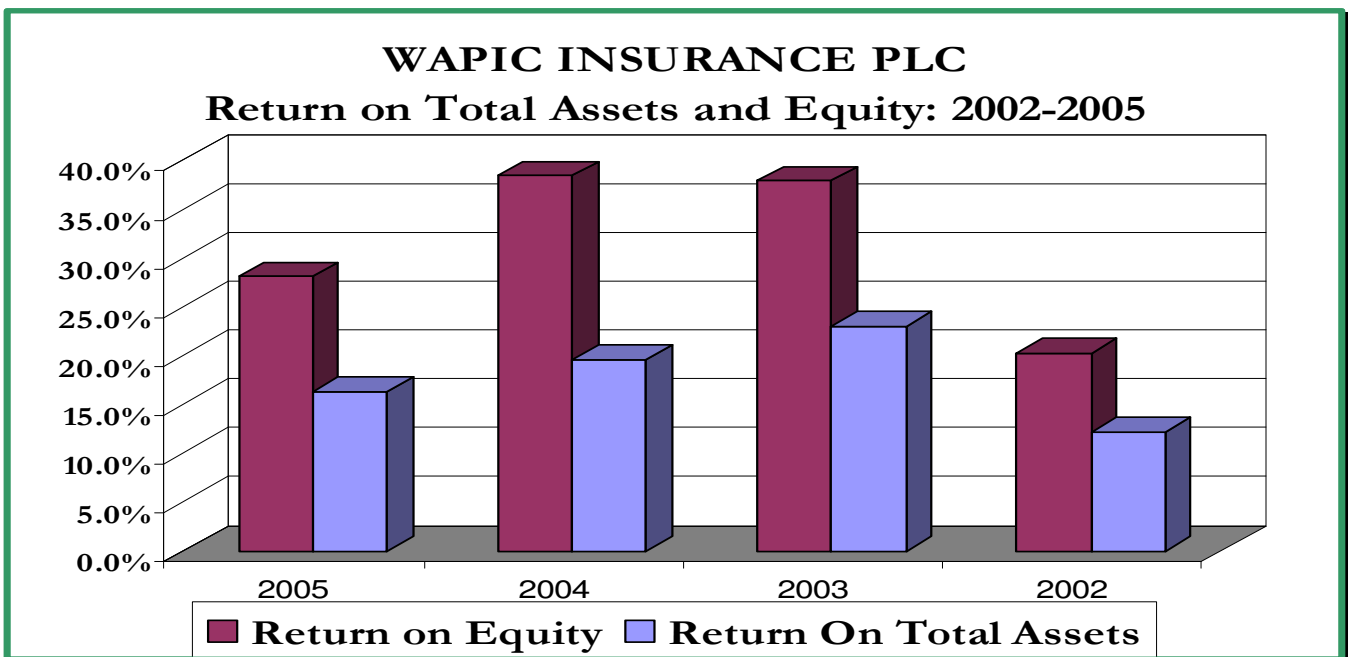
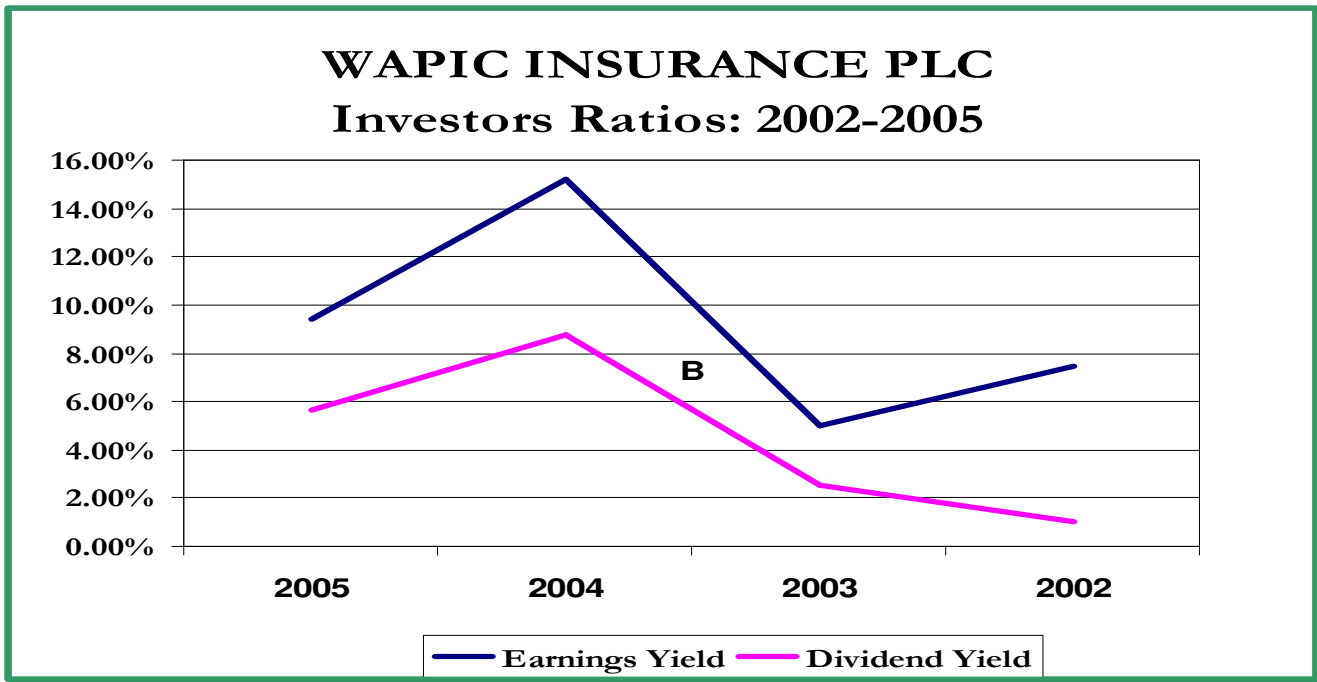
The ratio of equity to permanent assets also shows that the company is in good financial condition in terms of its capital base in relation to the size of its businesses. On average, the company employs only 3.6% of its equity to finance permanent assets.

Further injection of funds into the company in the last Quarter of 2006 in preparation for the Consolidation exercise that greeted the Industry further improves the financial health of the company, position it for bigger businesses and eventually amplified its top-line and bottom-lines.

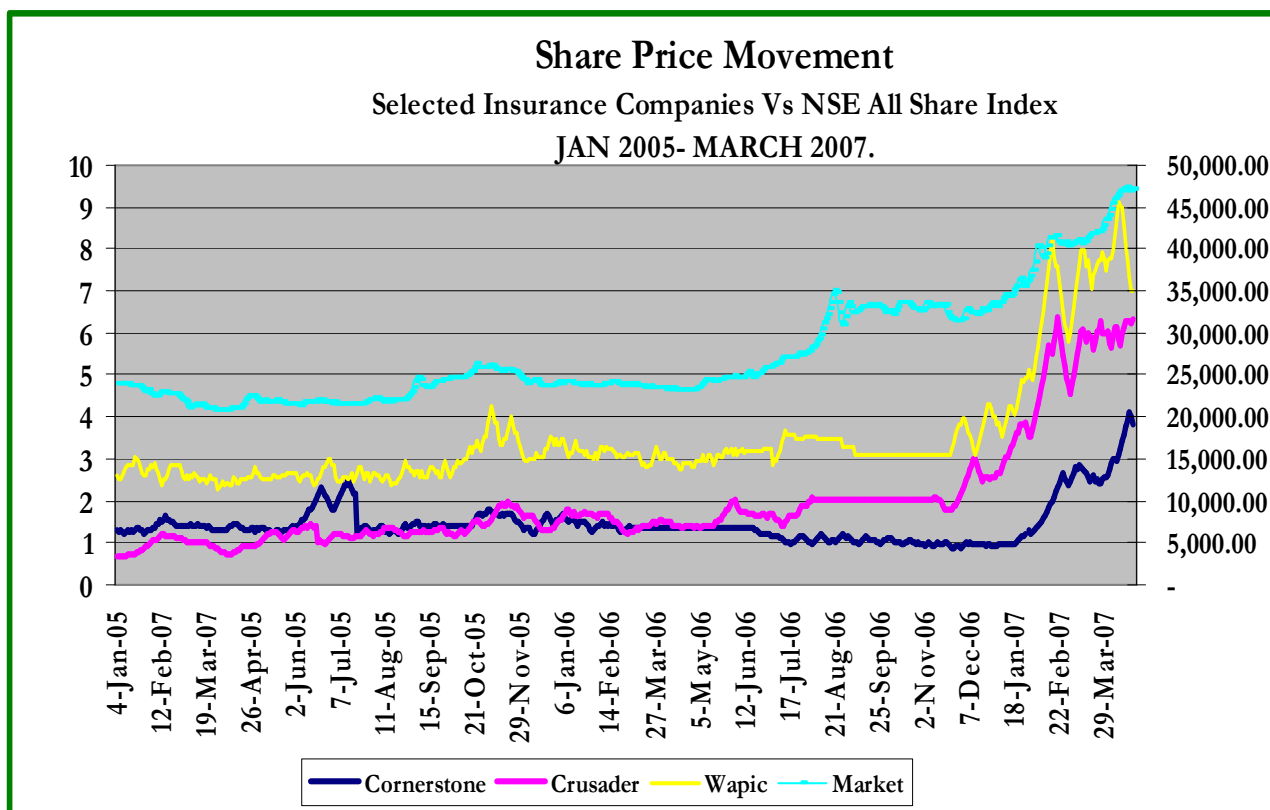


RETURNS TO INVESTORS

From its inception in 1958, the company has declared bonus in not less than 10 times. In the recent past 5 years however, it has declared bonus twice; in 2003 (2 for 3) and 2006 (1 for 5). Besides, its dividend policy has been consistent in the last 5 years. From 2002 till date, the company has maintained average earnings and dividend yields of 12.7% and 4.9% respectively. The dividend policy of the company tends towards an average annual payout of 60% of its earnings.



RELATIVE PERFORMANCE OF INSURANCE STOCKS AGAINST MARKET PERFORMANCE



ANALYSIS OF WAPIC'S TECHNICAL BEHAVIOUR:

Wapic Insurance Plc traded between the year's Low of N2.28 and less than N3.00 for a quite a long period in 2005. It however broke the resistance level of N3.58 to reach a new High of N4.26 for the year on the November 7, 2005. Traded volume for 2005 ranged between 78,000 and 711,000 with the high volumes coming at the trough and pushing up the share price. Year 2006 witnessed lower volume, with traded volume ranging between 96,000 and 320,000 but with less price fluctuation as the High and Low of N4.32 and N2.76 respectively, gave a lower differential compared with that of 2005.

The technical suspension placed on the share price during the period of its public offer in the last quarter of 2005 also accounted for the relative stability of the share price in 2006.

Wapic share price, which opened at N3.80 in January 2007, witnessed a bullish run, a situation peculiar to almost all the insurance stocks over same period. The share price created new successive highs until it reached a resistance level of N8.24 (February 19, 2007), after which it nose-dived to a new support of N5.80 on March 2, 2007.

Subsequently, the stock witnessed a rally to reach a new high for the year at N9.13 on April 18, 2007.

Recent price behaviour has seen the price come down. The last close price is however higher than the most recent trough (Low) and the recent price trend cannot be divorced from the bearish outlook of the market in recent times. A sharp price rise is still expected as the market recovers from the hold of the bears.

On the overall, the stock is more volatile than other insurance stocks with a beta value of 0.34 compared to the industry beta of 0.14.

WAPIC TECHNICAL CHART: NOVEMBER 2004 - APRIL 2007



VALUATION:

Our analysis of the financials of WAPIC Insurance Plc revealed that the stock is currently trading at a discount of about 5% to its trailing market price on May 4, 2007.

We estimated the stock's intrinsic value by employing Embedded Value Approach and other Relative Valuation techniques; viz the Price to Book Value (P/BV) and Price to Earnings (P/E) metrics. In arriving at a fair value, we attached weights to each of the valuation techniques in order of their appropriateness in insurance businesses.

Our weighted forecast price is N8.28. We are more overweight in the Embedded Value method and P/BV given the peculiarity of the industry.

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