

## Quarterly Update

Rating

**BUY**

LATAM (Caribbean)

Sector: Finance

Industry: Insurance



Guardian Group  
Guardian Life Limited

JSE

GHL

**Guardian Group Limited**

Bloomberg

GHLJA

## FY 2022: Technological investments drive strong profitability in Guardian Group

### Financial Overview

#### Revenues & Profitability

For the financial year ended December 31, 2022 (FY 2022), net income realised from all activities for the Guardian Group (the Group), amounted to TT\$3.03 billion, a 7.54% increase over the prior year. This increase was mainly attributable to a combination of factors, including the expansion of premiums written, a decline in the total benefit claims paid out during the period and operational synergies created through technological advancements.

Operating expenses for FY 2022 increased by TT\$39.48 million or 2.60% for the period. The increase was predominantly due to costs associated with the implementation of the IFRS 17 standard and technical initiatives throughout the Group. The IFRS 17 provides consistent principles for all aspects of accounting for insurance contracts. It removes existing inconsistencies and enables investors, analysts and others to meaningfully compare companies, contracts and industries. Given the central economic role of the industry, proper accounting for insurance contracts is of crucial importance thus the implementation of IFRS 17 is timely.

While global financial markets remained volatile, Guardian Group continued to show resilience and strong profitability over the period. For FY 2022, operating profits increased 28.30%, to TT\$1.26 billion from TT\$979.35 million in FY 2021. Its net profits attributable to equity holders was reported at TT\$1.10 billion, which was 40.65% above the previous year's outturn.

#### Balance Sheet

For FY 2022, the asset base for the Group advanced slightly when compared to the end of FY 2021. Total assets in FY 2022 rose to TT\$34.81 billion, driven by the growth in its loan and receivables portfolios and reinsurance assets. Conversely, the Group liabilities also declined between the end of FY-2021 and FY-2022. The period's decline in liabilities was driven mainly by a drop in insurance contracts which moved from TT\$19.50 billion, down to TT\$19.18 billion in FY-2022, or a contraction of 1.66%. Equity attributable to shareholders was TT\$5.57 billion in FY-2022, up 11.79% on the amount reported at the end of FY-2021.

### March 21, 2023

Current price	480.0
Forecast Dividend	22.0
Target price	638.2
Previous recommended price (Nov 18, 2022)	647.2
<b>TOTAL RETURN</b>	<b>32.95%</b>

#### Company Data

Outstanding shares	232,024,923
Market Cap	111,381,244,037
52-Week (Hi/Lo)	650.00/470.00
12M Daily Average Volumes	2,424

#### Major Shareholders

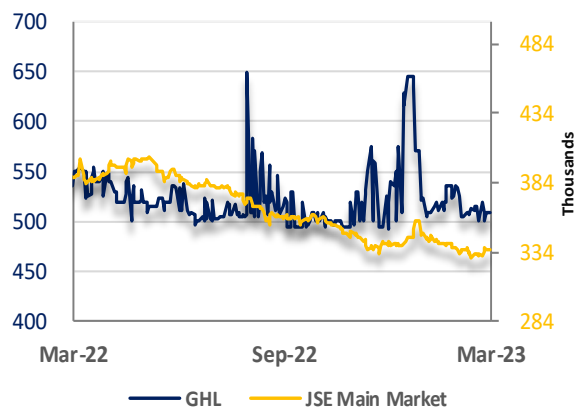
NCB Global Holdings Limited	61.8%
Universal Investments Limited	2.8%
First Citizens Asset Management Limited	2.2%

### Key Financials

TT\$ Mn	FY21	FY22	FY22e	FY23e
Net Income (All Segments)	2,817	3,029	2,610	2,634
Operating Profit	979	1,257	1,121	1,052
Net Profit	782	1,100	936	857
Net Profit Change (%)	1.0%	40.7%	-15.0%	-8.5%
EPS	3.37	4.74	4.03	3.69
Dividend Yield	0%	3.04%	4.50%	4.12%
ROE	15.7%	19.8%	15.4%	12.7%
ROA	2.3%	3.2%	2.7%	2.5%

### Price Performance

	1MTH	3MTH	1YR
GHL	-4.6%	-4.7%	-4.7%
Main Index	0.2%	-1.0%	-13.2%



Source: Bloomberg; JN Fund Managers Limited

Gross Written Premium FY 2022	Net Written Premium FY 2022	Net Insurance Activities FY 2022
7,297 + 4%	5,385 + 5%	1,537 + 45%
2021: 7,006	2021: 5,139	2021: 1,061

## FY 2022: Segment results at a glance

Having undergone a technological transformation over the last few years, the Guardian Group is now positioned to leverage the scale of the Group and is expected to see improvements in its cost structure going forward. In FY 2022, with the alignment of its Jamaican and Trinidadian operations, the group implemented many initiatives for its Life, Health and Pensions (LHP) segment, in the process realizing many synergies and cost savings.

### Life Health and Pensions (LHP) Segment

During FY 2022, the operational realignment across the group created favourable movements in profitability and efficiency for the LHP segment. Gross written premiums for FY 2022 came in at TT\$4.20 billion, 8.60% higher than the previous year, pushing the net results from insurance activities to TT\$916.27 million or 74.60% higher than FY 2021. However, net income from investing activities of the LHP segment came in at TT\$1.17 billion for FY 2022. This was lower than the amount generated in FY2021, as the uncertainty in financial markets had a negative effect on both equities and fixed-income assets generally. Notwithstanding, the group recorded a TT\$33.65 million net impairment loss in FY 2022 versus a TT\$118.13 million loss in the similar period last year. Additionally, operating expenses, which saw an increase of 2.82% over the comparable period in FY2021, was TT\$786.90 million. Overall, the strong results of the insurance activities, the moderate decline in investing activities and cost containment, resulted in the LHP segment reporting an operating profit of TT\$1.27 billion in FY 2022 or 29.04% above the amount generated over the comparable period in FY2021. The outturn produced in FY 2022 was

### Property and Casualty (P&C) Segment

The P&C segment also showed strong growth on a YTD basis with operating profits over the period advancing by a commendable 41.47%. This growth came on the back of the segment's insurance activities, which grew by 16.90%, to overcome the 31.60% fall off in net investment income and fee and commission from brokerage activities and the 0.63% increase in operating expenses.

### Asset Management (AM) Segment

Uncertainties within financial markets accelerated in FY2022, triggered by high inflation from the widescale increase in business activities post COVID-19, the war in Ukraine and the acceleration of monetary tightening by major central banks globally. During the period, both equity and fixed-income markets saw significant declines and as a result, the Group's AM segment recorded a loss which was 16.52% larger than the amount generated in FY 2021.

## FY-2022 Highlights

- **Gross Written Premium (GWP)** – GWP continued its upward trend with a 5.6% CAGR over the last 5 years. GWP increased 4.0% in FY2022 vs FY-2021.
- **Insurance activities (Ins. Act.)** – Ins. Act. contributed TT\$1.53B in FY-2022, an uplift of TT\$475.9M to the Group's profit before tax (PBT), over the similar period last year.
- **Investing activities (Inv. Act.)** – Inv. Act. declined by TT\$275M year on year in FY-2022, impacted by volatility in global financial markets
- **Operating Expenses (OpEx)** – OpEx increased by TT\$39M, largely due to the effects of the technological transformations and IFRS 17 implementation.
- **Revenues & Profits** – Total revenue up 7.5% YoY for FY-2022. Revenue generation was largely concentrated in T&T. However, profits were led by the Jamaican operations, mainly from the LHP business.

## Risks to monitor

- **COVID-19** - While the situation is significantly improved, the Group continues to be exposed to an elevated level of credit risk due to the lingering effects of the pandemic.
- **Ukraine War** - In 2022, Russian's conflict with Ukraine exacerbated the decline of market conditions, increased inflationary pressures, and weakened the global post-pandemic recovery. This has also negatively impacted the value of GHJ's assets. Although asset prices have adjusted to market conditions, uncertainty remains high as the Russia/Ukraine conflict continues, further escalation could increase the risk of illiquidity as asset prices decline.
- **Recession Fears** – With inflationary pressures still high, central banks have tightened monetary policy, increasing the risk of a severe slowdown in economic activities in FY2023/24.
- **Volatility in Financial Markets** – In order to generate investment income, insurance companies invest in financial assets and investment income, usually, forms a large part of their earnings. With high uncertainty in financial markets insurance companies' income could experience significant volatility especially since a significant chunk of their funds is usually invested in fixed income and other securities whose value often exhibit an inverse relationship with increasing interest rates.

## Valuation

### P/E Valuation

Industry Average P/E = 7.15x

GHL's Forward Earnings Per Share = J\$90.79

GHL's P/E Valuation Est. = J\$649.35

### P/B Valuation

Industry Average P/B = 1.16x

GHL's Book Value Per Share = J\$539.43

GHL's P/E Valuation Est. = J\$627.10

**GHL's Average Valuation Est. = \$638.20**

## IFRS 17 update

IFRS 17 is the first comprehensive and truly international IFRS Standard establishing the accounting for insurance contracts issued by a company. It replaces IFRS 4—an interim Standard. IFRS 4 does not prescribe the measurement of insurance contracts and instead allows companies to use local accounting requirements (national GAAP), or variations of those requirements, for the measurement of their insurance contracts issued.

IFRS 17 addresses many inadequacies in the wide, existing range of insurance accounting practices. It requires all insurers to reflect the effect of economic changes in their financial statements in a timely and transparent way. It will also provide improved information about the current and future profitability of insurers. The new Standard will result in a significant increase in global comparability and enhance the quality of financial information. The timely information IFRS 17 requires is expected to be beneficial for capital markets, because it will boost investors' understanding of insurers' expected future profitability, risks and changes in insurance obligations. This should make the insurance industry more attractive to investors, facilitating improved capital allocation.

GHL encountered significant costs in FY 2022 in relation to its implementation of IFRS 17 and is expected to report in accordance with the standard, starting January 2023.

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