

## Quarterly Update

Rating

# BUY

LATAM (Caribbean)

Sector: Finance

Industry: Insurance


 Guardian Group  
Guardian Life Limited

JSE

GHJ

**Guardian Group Limited**

Bloomberg

GHJJA

## 9M 2022: Technological Investments drive strong profitability in Guardian Group

### Financial Overview

#### Revenues & Profitability

For the nine months period ended September 30, 2022 (9M-2022), net income realised from all activities for the Guardian Group (the Group), amounted to TT\$2.39B, a 26.2% increase over the prior year's comparable period. 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 9M-2022 increased by TT\$73.44M or 6.8% for the period. The increase was predominantly due to costs associated with the implementation of the IFRS 17 standard and technical initiatives around the Group. Given the strong revenue generation for the period, in addition to operational efficiencies, it's not surprising that the group's 9M-2022 operating profit amounted to almost double the prior year's outturn. For 9M-2022, operating profits increased to TT\$1.18B from TT\$592.28M in 9M-2021 or jumped 99% over the period.

While global financial markets remained volatile, Guardian Group continued to show resilience and strong profitability over the period. In the first three quarters in FY 2022 (9M-2022), its net profits attributable to equity holders was reported at TT\$1.05B which was 131.0% above the previous year's outturn and already almost 35.0% above the profits generated for the entire FY2021.

#### Balance Sheet

For 9M-2022, the asset base for the Group showed a slight drop (<1.0%), when compared to the end of FY2021. Total assets at the end of 9M-2022 fell to TT\$34.46B, driven by the falloff in global asset prices and overall uncertainty in financial markets. Similar to its assets, the Group liabilities also declined between the end of FY2021 and 9M-2022. The period's decline in liabilities was driven mainly by a drop in insurance contracts which moved from TT\$19.50B down to TT\$19.10B in 9M-2022, or a contraction of 2.1%. Equity attributable to shareholders was TT\$5.39B in 9M-2022, up 8.4% on the amount reported at the end of FY2021.

### November 18, 2022

Current price	529.6
Forecast Dividend	21.5
Target price	647.2
Previous recommended price	887.2
<b>TOTAL RETURN</b>	<b>17.5%</b>

#### Company Data

Outstanding shares	232,024,923
Market Cap	122,873,438,473
52-Week (Hi/Lo)	650.00/485.25
12M Daily Average Volumes	3,015

#### Major Shareholders

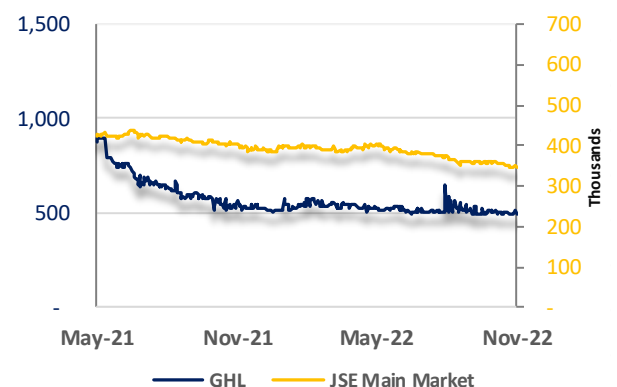
NCB Global Holdings Limited	61.8%
Tenetic Limited	5.6%
Guardian Holdings ESOP Nominee Limited	2.1%

#### Key Financials

TT\$ Mn	FY20	FY21	FY22e	FY23e
Net Income (All Segments)	2,546	2,817	2,518	2,538
Operating Profit	1,004	979	1,073	1,006
Net Profit	774	782	897	808
Net Profit Change (%)	11.9%	1.0%	14.7%	-10.0%
EPS	3.34	3.37	3.87	3.48
Dividend Yield	0%	3.04%	4.06%	3.65%
ROE	16.6%	15.7%	15.2%	12.4%
ROA	2.3%	2.3%	2.7%	2.4%

#### Price Performance

	1MTH	3MTH	1YR
GHL	-0.8%	-23.7%	-12.2%
Main Index	-3.3%	-6.9%	-13.7%



Source: Bloomberg; JN Fund Managers Limited

#### Valuation

	P/B	P/E
Industry	7.47X	1.46X
GHL	5.36X	1.06X

Gross Written Premium YTD 2022	Net Written Premium YTD 2022	Net Insurance Activities YTD 2022
<b>5,566</b> + 4%	<b>3,571</b> + 5%	<b>1,333</b> +112%
2021: 5,369	2021: 3,389	2021: 630

## 9M 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 the first nine months of FY2022, the operational realignment across the group created favourable reserve movements for the LHP segment. Gross written premiums for 9M-2022 came in at TT\$3.1B, 6.5% higher than the previous year, pushing the net results from insurance activities to TT\$888.72M or 242.3% higher than in the similar period in FY2021. However, net income from investing activities of the LHP segment came in at TT\$812.41 for 9M-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\$95.25M net impairment gain in 9M-2022 versus a TT\$62.12M loss in the similar period last year. Additionally, operating expenses, which saw an increase of 8.1% over the comparable period in FY2021, was TT\$591.83M. 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\$1.20B in 9M-2022 or 92.9% above the amount generated over the similar period in FY2021.

### 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 33.7%. This growth came on the back of the segment's insurance activities, which grew by 22.1%, to overcome the moderate (5.0%) fall off in net investment income and fee and commission from brokerage activities and the 7.2% increase in operating expenses.

### Asset Management (AM) Segment

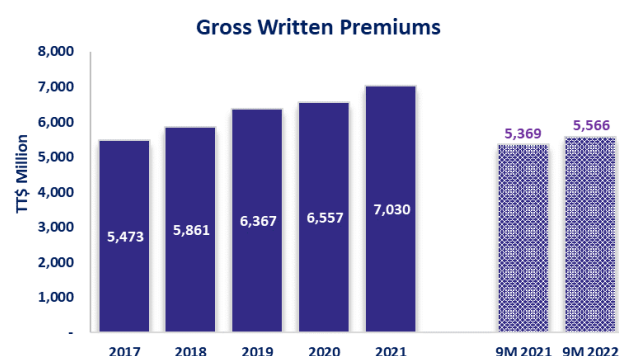
Uncertainties within financial markets accelerated in the first nine months of FY2022, triggered by high inflation from the widescale increase in business activities post Covid-19, the war in Ukraine and the acceleration of monetary tightening by major central banks globally. During the period, both equity and fixed income markets saw significant declines and as a result the Group's AM segment recorded a 32.0% decline in operating profit.

## 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 pandemic.
- **Ukraine War** - In February 2022, Russian troops invaded Ukraine. The war in Ukraine and related events have exacerbated the effects of current market conditions, increased inflationary pressures and weakened the global post-pandemic recovery. This is also expected to negatively impact the value of GHJ's assets going forward and could increase the risk of illiquidity.
- **Recession Fears** - With inflationary pressures mounting, central banks have tightened monetary policy, increasing the risk of a severe slowdown in economic activities in FY2023/24.

## 9M Highlights

- **Gross Written Premium (GWP)** - GWP continued its upward trend with a 7.0% CAGR over the last 5 years. GWP increased 4.0% in 9M-2022 vs 9M-2021.
- **Insurance activities (Ins. Act.)** - Ins. Act. contributed TT\$1.33B in 9M-2022, an uplift of TT\$703M to the Group's profit before tax (PBT), over the similar period last year.
- **Investing activities (Inv. Act.)** - Inv. Act. declined by TT\$211M year on year in 9M-2022, impacted by global financial markets
- **Operating Expenses (OpEx)** - OpEx increased by TT\$73M, largely due to the effects of the technological transformations and IFRS 17 implementation.
- **Revenues & Profits** - Total revenue up 5.0% YoY for 9M-2022. Revenue generation was largely concentrated in T&T. However, profits were led by the Jamaican operations, mainly from the LHP business.



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