

IPO



Co-operative Insurance Company Limited



IPO DETAILS

Issue price	LKR 3.60
Issue Value (Mn)	LKR 600.30
% of total shareholding	10.09%
IPO shares (Mn)	166.75
Post IPO shares (Mn)	1,652
Subscription open date	20/12/2021
Subscription close date	07/01/2022
CSE Listing	Divi Savi Board
Managers to the issue	Merchant Bank of Sri Lanka & Finance PLC

UTILIZATION OF IPO PROCEEDS

1 Investment in capital assets and to strengthen the Company's investment portfolio to leverage the GWP growth and RBC Level.

LKR 325,000,000

2 Development of a new core system and to enhance the online business platform.

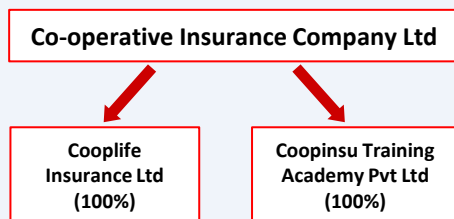
LKR 250,000,000

3 10,000 sq.ft building to be constructed as Company owned salvage yard at Ja-Ela.

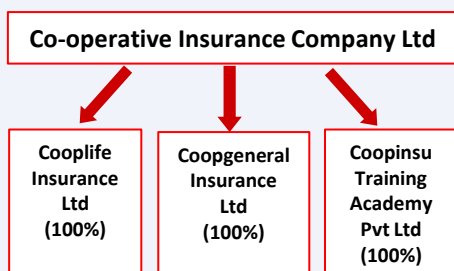
LKR 25,300,000

TOTAL LKR 600,300,000

GROUP STRUCTURE



PROPOSED RESTRUCTURING



COMPANY OVERVIEW

Incorporated in 1997, Co-operative Insurance Company Limited started with a mission to support individuals in the co-operative sector and those from the rural communities of Sri Lanka. With over 2 decades of experience. The Company, currently ranks as one of top 10 Insurance Service providers in the industry. A clear focus and direction on access to affordable premiums coupled with revolutionary insurance products through the use of evolving technology and increased efficiency is paving the way for a strong business model for the Company.

PRODUCT PORTFOLIO



PERFORMANCE HIGHLIGHTS

Financial Year (LKR MN)	FY18	FY19	FY20	6ME FY21
Total assets	7,540	9,265	10,859	11,466
Total liabilities	4,839	6,169	6,925	7,218
Total equity	2,701	3,097	3,934	4,249
Gross written premium	4,368	5,075	5,172	2,380
		16.2%	1.9%	
Net written premium	3,764	4,338	4,454	2,012
		15.3%	2.7%	
Total net revenue	4,115	5,015	5,374	2,700
		21.9%	7.2%	
Profit Before Tax	415	427	940	524
		2.9%	120.2%	
Profit for the year	412	273	695	428
		-33.8%	155.1%	

Fiscal year 2020 has been a significantly better year for the Company, specifically on the bottom line due to the implementation of effective internal cost saving strategies as well as decrease in claims over the pandemic period. Reporting a CAGR of 12% in Gross Written Premiums over 2017-2020 and a CAGR of 23% in PAT, the Company has been portraying strong historical performance.

FUTURE STRATEGIES

- The utilization of a mobile app to increase the efficiency in the services provided is expected to bring in additional revenue with the revenue growth expected to continue at a CAGR of 12.2% over the period 2021-24E
- Further, improving customer touch points by collaborating with commercial banks across the country is expected to increase the efficiency and profitability. We expected the Company's bottom line to grow at a CAGR of 12.6% over the period 2021-24E.
- Thirdly, restructuring of Group Structure through segregation of Life and Non-Life insurance business will allow to eliminate the adverse financial impact of one company to another company thereby allowing each segment to perform and develop on its core competencies as independent entities



RESIDUAL INCOME VALUATION

LKR (000)	FY '21E	FY '22E	FY '23E	FY '24E	FY '25E
Explicit period RI					
Beginning book value	3,933,665	4,853,139	5,772,613	6,706,775	7,794,676
Net Profit	919,474	919,474	934,162	1,087,901	1,313,829
Forecast book value	4,853,139	5,772,613	6,706,775	7,794,676	9,108,505
Cost of equity	13.62%	13.62%	13.62%	13.62%	13.62%
Equity charge	535,765	660,997	786,230	913,463	1,061,635
RI	383,709	258,476	147,932	174,438	252,194
Discount factor	0.8801	0.7746	0.6818	0.6000	0.5281
Discounted RI in explicit period	337,712	200,222	100,855	104,670	133,187
PV of RI in explicit period					876,647

Terminal value	(LKR 000)
Net Profit	1,313,829
Equity charge	1,061,635
Terminal year RI	252,194
Terminal growth rate	5.00%
Terminal period RI	3,071,972
Discounted terminal period RI	1,622,345

Equity value	(LKR 000)
Current Book value	3,933,665
Explicit Period	876,647
Terminal Period	1,622,345
Value of Cooperative Insurance	6,432,657
No. of shares (000)	1,652,178
Value per share	3.89

Based on the Residual Income method, the Value Per Share is **LKR 3.89**. The Issue Price which is **LKR 3.60** is at a **discount** of **8%**.

Assumptions

- Nominal growth of 5.00% has been considered.
- Beginning book value for FY21E was as at 31/12/2020.
- Cost of Equity of 13.62% has been considered.



FORWARD PRICE TO EARNINGS & PRICE TO BOOK BASED VALUATION

Forward P/E Based Valuation		Forward P/B Based Valuation	
PER Multiple	8.00	P/BV Multiple	1.20
Forward EPS CICL (LKR)	0.56	Forward BVPS CICL (LKR)	2.91
Value Per Share (LKR)	4.45	Value Per Share (LKR)	3.49
IPO Share Price	3.60	IPO Share Price	3.60
Upside %	24%	Downside %	(3%)

Intrinsic Value Based on P/E & P/B Valuation

Average Price (P/E, P/B)	3.94
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IPO Share Price (LKR)	3.60
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Upside %	10%
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- Based on the Forward P/E method, the Value Per Share is **LKR 4.45** calculated after considering an Earnings per Share of **LKR 0.56**. The Issue Price is at a **discount of 24%**.
- Based on the Forward P/BV method, the Value Per Share is **LKR 3.49** calculated after considering a Book Value per Share of **LKR 2.91**. The issue price is at a **premium of 3%**.
- Intrinsic Value is calculated by taking the average of P/E & P/BV Values Per Share. Therefore, Value Per Share arrived at is **LKR 3.94**. The Issue Price is at a discount of **10%**.



FORECASTED FINANCIAL STATEMENTS

LKR (000)	FY '21E	FY '22E	FY '23E	FY '24E	FY '25E
Gross written premium	5,779,548	6,609,732	7,400,337	8,167,504	9,001,890
Premium ceded to reinsurers	(794,233)	(910,236)	(1,032,460)	(1,153,881)	(1,281,082)
Net Written Premium	4,985,315	5,699,497	6,367,877	7,013,623	7,720,809
Net change in reserves for unearned premium	(107,151)	(122,542)	(137,200)	(151,423)	(166,892)
Net Earned Premium	4,878,164	5,576,955	6,230,677	6,862,200	7,553,917
Other Income					
Investment Income	792,220	863,520	945,554	1,040,109	1,196,126
Policy Administration Fees	287,548	328,852	368,187	406,355	447,868
Other Income	15,912	21,330	28,593	38,329	51,381
Total Other Income	1,095,680	1,213,701	1,342,333	1,484,794	1,695,375
Total Net Revenue	5,973,844	6,790,656	7,573,010	8,346,994	9,249,291
Benefits, Claims and Expenses					
Net Benefits and Claims	2,579,705	3,236,030	3,632,705	3,839,365	4,345,038
Underwriting and Policy acquisition cost	404,568	462,681	518,024	571,725	630,132
Other operating and administrative expenses	1,727,116	1,809,393	1,937,442	2,153,790	2,281,145
Finance Cost	52,620	53,391	53,391	53,391	53,391
Total Benefits, Losses and Expenses	4,764,010	5,561,495	6,141,562	6,618,272	7,309,706
Profit Before Income Tax Expense	1,209,834	1,229,161	1,431,449	1,728,723	1,939,586
Income Tax Expense	(290,360)	(294,999)	(343,548)	(414,893)	(465,501)
Profit For The Year	919,474	934,162	1,087,901	1,313,829	1,474,085

**EQUITY RESEARCH TEAM**

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