

Company Background

Express Insurance Limited (EIL) is a general insurance company. Its services include fire insurance, marine insurance, motor insurance, and miscellaneous insurance. EIL was incorporated in 2000 as a public limited company. Its corporate office is located in Bijoynagar, Dhaka and it has 20 branches in four districts of the country. 15 of its 20 branches are situated in the capital city, Dhaka. EIL has no subsidiary or associate company.

EIL has 14 directors in its board. All of its directors are experienced professionals and most of them sit in the board of other private and public companies. The chairman of EIL is Md Abdul Awal who is also a sponsor shareholder of Mercantile Bank. K. M. Saidur Rahman is the MD & CEO of EIL. He is 47 years old and has been working as the CEO of EIL for 14 years.

The revenue breakdown of EIL is provided below:

Particulars	Revenue in BDT Mn (2018)	Revenue Contribution
Fire Insurance	129	31.5%
Marine insurance	107	26.1%
Motor Insurance	121	29.6%
Misc Insurance	53	12.9%
Total	409	100.0%

IPO Details

Express Insurance Limited will raise BDT 260.79 Mn as initial public offering (IPO) through the fixed price method. The fund will be used for investing in FDR of nationalized commercial banks, treasury bonds, mutual funds, and listed securities of A category. The remainder of the fund will be used as IPO expense.

The breakdown of the IPO proceeds is shown below:

Use of IPO Proceeds	BDT mn	% of Proceed
Investment in FDR	194	74.2%
Investment in Treasury Bonds	20	7.7%
Investment in Mutual Funds	10	3.8%
Investment in Secondary Market	22	8.5%
Sub Total	246	94.2%
IPO Expense	15	5.8%
Total	261	100.0%

Key Points

- Bangladesh's insurance industry is a supply-driven industry rather than a demand-driven one. The insurance agents have to provide extra efforts to convince people and organizations to purchase policies. The culture of Bangladesh is such that people prefer to go along with more risk rather than opting for insurance. The people here think that the money spent on premiums is a waste if it cannot be claimed later rather than considering it as a premium for feeling safe. The sentiment against insurance companies is also fueled by the possibility of unapproved claims and hidden charges. The bulk of the insurance policies sold by the general insurance companies are due to the insurance being a requirement for other services — motor insurance for traffic law, fire insurance for bank loans etc. Moreover, there are 46 general insurance companies in an industry of BDT 30 Bn gross premium (as of Dec'17) which makes the industry extremely competitive. Only 5 players have a market share of greater than 5% with the market leader, Green Delta Insurance, having a market share of 11%. Express Insurance has a market share of only 1.34% as of Dec'17.
- Among the company's 14 directors, only two are independent directors. This is not compatible with the rule for listed companies having one-fifth independent directors. Moreover, EIL has a substantially higher payout ratio than its peers which can pose a concern as well. However, there is no family relationship among the directors which is certainly a positive sign.
- Even though EIL managed to keep its gross premium CAGR flat in the last four years, the CAGR of its NPAT showed an 8% decline in the last 4 years. EIL's peers show a 12.5% decline in NPAT of 2018 which indicates the competitive scenario of the small players of the industry.
- The profitability ratios of EIL show slightly declining trend and also weaker performance than its peers. EIL has a lower claims ratio than its peers but the higher management expense ratio pulled the combined ratio at a ~600 basis points higher level than its peers. The operating efficiency of EIL is significantly lower than its peers.

Comparable & Trading Multiples

Trailing P/E multiples of other listed comparable stocks (having similar market share) in the Insurance sector are given below:

DSE Ticker	Market Share (2017)	Market Cap (BDT mn)	TTM Earnings (BDT mn)	P/E
AGRANINS	1.25%	532.3	55.2	9.6x
EASTERNINS	1.40%	1284.7	163.0	7.9x
TAKAFULINS	1.33%	1201.0	53.0	22.7x
UNITEDINS	1.50%	1544.1	150.4	10.3x

Company Summary

Post IPO No. of Shares (Mn)	65.20
Post IPO Paid up capital (BDT Mn)	651.97
Pre IPO Paid up capital (BDT Mn)	391.18
New Shares Issued (Mn)	26.08
IPO Proceeds (BDT Mn)	260.79
Face Value	10
Market Lot	500
Free Float	40%
Accounting Year End	December
Auditor	Ahmed Zaker & Co.
Issue Manager	AAA Finance & Investments Ltd. IIDFC Capital Ltd. BLI Capital Ltd.

Income Statement

MM BDT	2015	2016	2017	2018
Gross Premium Income	400	385	401	409
Net Premium Income	266	245	252	244
Commission on re-insurance Ceded	39	43	38	46
Total Insurance Income	306	288	291	290
Gross Claim	(113)	(55)	(56)	(96)
Net Claim	(26)	(24)	(19)	(21)
Agency Commission	(60)	(52)	(57)	(52)
Expense of Management	(156)	(164)	(171)	(165)
Total Cost of Service	(239)	(230)	(250)	(235)
Underwriting Profit	67	57	41	55
Investment Income	42	35	34	38
General & Administrative Expense	(21)	(20)	(16)	(17)
Profit before Tax	87	74	70	77
Tax Provision	(30)	(25)	(20)	(29)
Net Profit after Tax	57	49	47	44
EPS	1.44	1.26	1.20	1.12
Diluted EPS	0.87	0.76	0.72	0.67

Balance Sheet

MM BDT	2015	2016	2017	2018
Investments (Incl. Fixed Deposit)	515	528	557	551
Cash & Cash Equivalent	28	65	54	46
Other Assets	490	493	476	511
Total Assets	1,032	1,087	1,087	1,108
Paid Up Capital	391	391	391	391
Reserves	255	263	266	254
Profit & Loss Appropriation A/C	48	88	86	87
Shareholders' Equity	694	742	743	732
Balance of Fund Accounts	107	98	102	98
Reserve for WPPF	-	-	3	7
Total Liabilities	232	247	239	271
Total Equity & Liabilities	1,032	1,087	1,087	1,108
NAVPS	17.74	18.97	18.99	18.72

Cash Flow Statement

MM BDT	2015	2016	2017	2018
Operating activities	7	57	65	30
Investing activities	(7)	(10)	1	4
Financing activities	-	(1)	(46)	(39)
Net Cash Flow	(1)	45	19	(4)

Ratios

	2016	2017	2018	Peer Avg (2018)
Underwriting Profit Margin	14.9%	10.2%	13.5%	13.4%
Net Profit Margin	12.8%	11.7%	10.7%	19.7%
Return on Asset	4.6%	4.3%	4.0%	6.2%
Return on Equity	6.9%	6.3%	5.9%	8.3%
Return on Investments	6.7%	6.3%	6.9%	7.2%
Retention Ratio	63.5%	63.0%	59.6%	53.0%
Administrative Exp. Ratio	75.5%	74.3%	74.8%	58.7%
Management Exp. Ratio	79.2%	81.6%	77.2%	63.1%
Claims Ratio	9.7%	7.7%	8.7%	17.1%
Combined Ratio	88.9%	89.3%	85.9%	80.1%
Payout Ratio	79.4%	83.7%	89.2%	31.4%
Gross Premium Growth	-3.8%	4.0%	2.1%	6.6%
Net Premium Growth	-8.2%	3.1%	-3.4%	8.4%
Underwriting Profit Growth	-14.2%	-28.7%	34.7%	55.2%
NPAT Growth	-12.8%	-5.1%	-6.2%	-12.5%

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