

Thursday 02nd November 2016 –3:35 pm

Regional

Prepared by: Yuri Seedial, Analyst I (Research and Analytics)

Guardian Holdings Limited (GHL) Q3 2016 Update

Performance Recap

As at Q3 2016 GHL reported a 23% uptick in EPS (Q3 2016: TTD1.12 VS Q3 2015: TTD0.91). Underpinning this increase was Net Income from investing activities, which rose 49% on account of a TTD139Mn favorable fair value movement and the strategic realignment of the company's investment portfolio which saw a net movement of TTD798.7Mn of cash being channeled into purchases of financial assets and investment properties. Net Income from insurance underwriting activities declined 25% to TTD375Mn mainly due to a non-recurring reserve movement in 2015 and challenging conditions in Trinidad and Tobago. In the absence of this item Insurance activities would have been broadly in line with the comparative period in 2015. While gross premiums written for Life, Health and Pension (LHP) and Property & Casualty (P&C) business lines registered declines (0.12% and 6.0% respectively) net, premiums written, for both business lines, saw modest increases as a result of the strategic realignment of insurance portfolios in 2015. The company's Asset Management line saw a significant increase in contribution to operating profit as the company deployed cash into investment securities.

Outlook

For the remainder of 2016 and looking ahead to 2017 we are cautious on the contributions from insurance activities to the profitability of GHL. It is commendable that despite the economic contraction in Trinidad and Tobago the company was still able to register marginal growth in insurance underwriting revenue and we see some improvement in this line for 2017. The financial

results for the remainder to 2016 and 2017 are projected to be driven by non-core investment income as the soft market rates in the P&C segments are expected to persist.

GHL having over TTD1.76Bn in cash has the potential to incrementally ramp up financial investment and further improve Net Income from investing activities as interest rates in the US is expected to trend upwards in 2017. Additionally, we see GHL driving bottom line improvement by increasing non-core acquisitions of well-managed, profitable organizations across the Caribbean with an attractive risk adjusted return over the medium to long term.

Taking into account the fact that in the last quarter of 2016, GHL may see an increase in the number of claims received, due to the passage of Hurricane Matthew, we expect a direct effect on the company's profitability, offset somewhat by investment income.

We see GHL ending 2016 at an EPS in the range of TTD1.51-1.60. Current P/E stands at 8.13X and given the sentiment around the stock we see P/E potential between 8X and 9X. As a result, the intrinsic value of GHL is calculated at TTD12.80-13.60 compared to its current price of TTD13.00, suggesting that it is currently at “market.”



Follow us on Twitter [@FCISResearch](https://twitter.com/FCISResearch)

Disclaimers

All information contained in this article has been obtained from sources that First Citizens Investment Services believes to be accurate and reliable. All opinions and estimates constitute the Author's judgment as of the date of the article; however neither its accuracy and completeness nor the opinions based thereon are guaranteed. As such, no warranty, express or implied, as to the accuracy, timeliness or completeness of this article is given or made by First Citizens Investment Services in any form whatsoever. First Citizens Investment Services and/or its employees or directors may, where applicable, make markets and effect transactions, or have positions in securities or companies mentioned herein. Neither the information nor any opinion expressed shall be construed to be, or constitute an offer or a solicitation to buy or sell.

