

22nd Ashadh 2080

# SuryaJyoti Life Insurance Company Limited (SJLIC)

Sector  
Life InsuranceMomentum  
UpLatest Price  
Rs. 602Fair Value  
Rs. 725Recommendation  
Buy**Report Limitation:**

Financial Modeling and Valuation of the Company is not carried out owing to data and information limitation.

**Foreword:**

First merged company in life insurance sector of Nepal following the requirement of Regulatory body, Nepal Insurance Authority, to increase the paid-up capital to NPR. 5 billion; Merger between Surya Life Insurance and Jyoti Life Insurance Companies at 100:82.45 Swap ratio; Joint transaction started from 7<sup>th</sup> Poush 2079.

**Stock Profile**

LTP (06/07) (Rs.)	602
O/s Shares (Nos.)	45,455,721
Market Cap (Rs.)	27.36 billion
Market Cov. (NEPSE)	0.91%

**Market Profile**

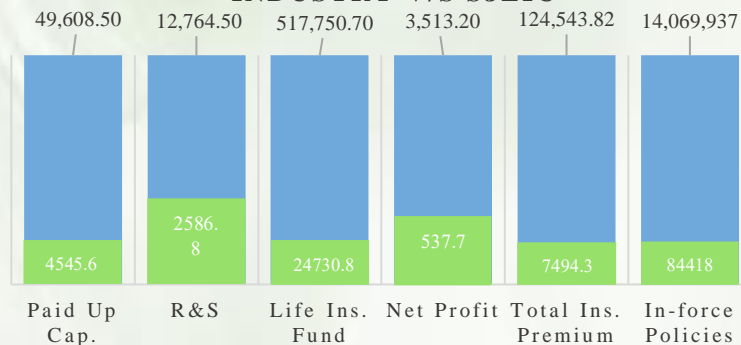
NEPSE Index	2049.38
Total Market Cap (Mill.)	3,008,721.41

Statistical Measure	SJLIC	NEPSE
Mean Return	80.38%	-13.17%
Standard Deviation	38.70%	19.97%
Beta	1.14	
Correlation	0.59	
5% VaR (Historical)	-2.93%	

# Data taken from 25.01.2023 – 06.07.20203.  
# 220 Trading days a year assumed.

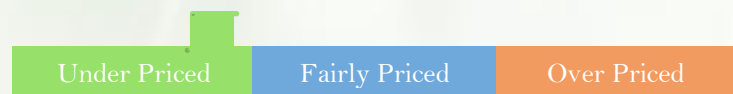
**Key Ratios from Q3 2079/80 .....**

Ratios	SJLIC	Industry
EPS	15.77	9.74
BVPS	156.91	140.32
ROE	7.54%	5.45%
Earning Yield	2.54%	NA
Net Profit/Share	11.83	7.30
Loss Ratio	24.97%	40.43%
Expense Ratio	25.46%	16.98%
Combined Ratio	50.43%	57.41%
Net Profit Margin	6.62%	4.45%
Op. Leverage	0.84	1.55
Current Ratio	3.62	3.37
Solvency Ratio	-	-

**INDUSTRY V/S SJLIC**

\* As per Q3 2079/80 Report.  
\* Peer Count: 17

\* As of Jestha 2080 data  
\* Peer Count: 15 (GLICL, PLI, and ULI merged to form HLI)



Basis:	SJLIC	Peer Co.(7)	Fair Price
P/E	38.15	82.54	<b>1,301</b>
P/B	3.84	5.65	<b>887</b>
Graham No.	235.97	138.13	<b>236</b>
106 days avg.	473.36	-	<b>473</b>
<b>Average Price</b>			<b>725</b>

\*Harmonic mean is used for Peer Co. average

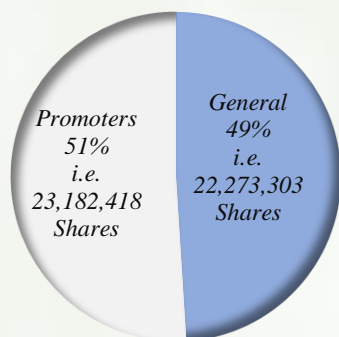
**\* Disclosure is made at the end.**

Key Excerpt from Q3 79/80 Report		
	<b>Balance Sheet Size</b>	<b>32,201,858,924 100.00%</b>
1	Paid Up Capital	4,545,572,100 14.12%
2	R&S	2,586,812,244 8.03%
3	Life Insurance Fund	24,730,813,531 76.80%
4	Long Term Investment	23,199,287,236 72.04%
5	Loan against Policy	3,498,617,144 10.86%
6	Short Term Invest. & Loans	4,648,810,905 14.44%

**Company's Motto: 'जीवनको लागि'**

**Chairman** Mr. Keshav Prasad Bhattarai  
**CEO** Mr. Prakash Bikram Khatri

Shareholding

**As per latest available reports**

No. of Branches	188
No./Name of Subsidiary/Associate	None
No. of Employees	639 +
No. of Agents	86,926
No. of Policy Holders	NA
No. of Policies	8,44,181
Total No. of Claims	6,040
Total No. of Outstanding Claims	141

**Product and Services Offered**

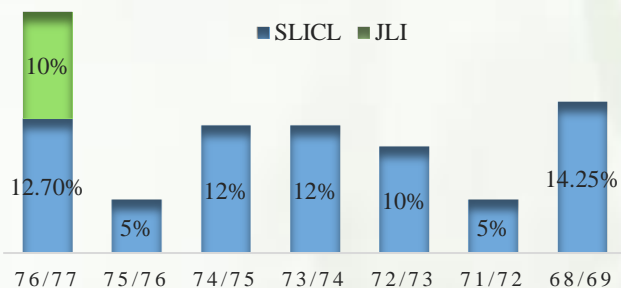
Product and Services Offered	No. of Plans
1. Endowment Plan	3
2. Child Plan	2
3. Money Back Plan	5
4. Single and Limited Plan	2
5. Term Plan	3
6. Rider – Critical Illness Rider	1

**Key Product**

Key Product	Approx. % of Prem.
1. Endowment Plan	60%
2. Anticipated Endowment	24%

**Reinsurance Partners**

Reinsurance Partners	Remarks
1. Nepal Re (NRIC)	-
2. Himalayan Re	-
3. Hannover Re	Top 3 Global Re-insurer

**BONUS DIVIDEND HISTORY OF SLICL AND JLI****Key Excerpt from Q3 79/80 Report****Profit & Loss A/C (For Shareholders)**

	Total Income	903,324,249	100.00%
1	Transferred from Revenue A/C	245,165,531	27.14%
2	Management Expenses	365,640,420	40.48%
3	Net Profit	537,683,829	59.52%

**Revenue A/C (For Policyholders)**

	Total Revenues	8,126,812,333	100.00%
1	Net Insurance Premium	5,967,478,737	73.43%
2	Income from Investment & Loans	1,379,467,072	16.97%
3	Net Claim Payment	1,490,009,739	18.33%
4	Net Saving	4,842,788,986	59.59%

**INVESTMENT THESIS**

Despite the limited data off the back of limited operational history of the Company, SJLIC, the fundamental dissection of the at hand public reports and information, concludes the **BUY** recommendation. The comparative check of the Q3 report position the company's fundamental among the elite group. The stock is underpriced based on fair pricing approached used herein. The stock has been making an upward momentum since June, holding up our recommendation. However, the market/business coverage of the company is sub-par given the below average policy issue and premium collection. Yet, we expect the stock to yield at least 33% in next one-year windows.

**FUNDAMENTAL SYNOPSIS**

**About Fair Pricing:** We determine the fair price of the stock as Rs.725 which indicate the stock to be underpriced as compared to its LTP. We have considered 7 peer company which are trading as on date. The company has the lowest P/E and P/B ratio while the Graham No. value is highest. Since the stock traded for 106 days as SJLIC, we averaged the daily prices of 106 days. The value as per all 4 methods are averaged to get the fair price. The valuation of the stock is not performed owing to limited records.

**Bonus likely to honor Capital Gap:** Even after the merger, SJLIC paid up capital falls short by approx. 10%. The revised 'Directive on Merger, Merger & Acquisition of Insurers, 2076' offers one-year windows to satisfy the capital gap. Pre-merger, both SLICL and JLI has distributed average 10% dividend (bonus) which we determine to be below par of approx. 15% (bonus). We expect the company's dividend policy to incline toward bonus over cash and fulfill the capital gap with FY 79/80 bonus.

**FUNDAMENTAL SYNOPSIS**

**Size of Balance Sheet Items and allocation as on Q3:** As on Q3 79/80, company's balance sheet size amounts Rs. 32.2 billion, which is only 5.5% of Industry size. It's an increment of 5.4% from Q2. Paid up capital stands Rs.4.54 billion, weighing 9.16% of industry. R&S sizes approx. 57% of Paid-capital, factoring 20.17% of industry. However, Life insurance fund computes only 4.78% of industry i.e. Rs.24.73 billion, basically due to low operating history of Jyoti Life. Company has made long-term investment of approx. 72% of its balance sheet size.

**Revenues predominantly contributed by Endowment and Anticipated Endowment Policies:** Pre-merger analysis of the audited report of both Surya and Jyoti Life manifest the Endowment and Anticipated Endowment Policies as key premium contributor, having an approx. 80% - 85% gross/net premium coverage. It is fitting to assume SJLIC premiums to be attributed at parallel by two business segments.

**Limited policies and premium collection :** As of Jestha 2080, the gross premium collected by SJLIC is Rs.7.49 billion, which is only 6% of total Rs.124.54 billion collected by all Life Insurers. Further, the in-force number of policies also records 6% of total 14 million policies reported by Nepal Insurance Authority.

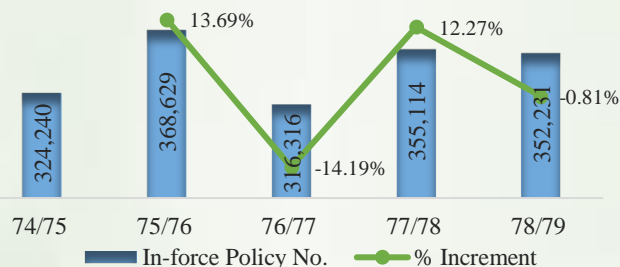
**Revenue boosted by lower loss ratio and higher investment yield:** Although the lower premium collected, the company is able to maintain relatively lower combined ratio as per Q3 report. The company has the lowest loss ratio after Mahalaxmi Life, although the expense ratio is on a higher zone. The company has the second highest management expense (after NLIC) which exceeds Rs.830 million. Further, approx. 17% total income is contributed by investment return. The overall investment yield i.e. is approx. 5%, which is still comparatively better among the 17 peers. Approx. 85% of total investment and loan is of long-term nature.

**Approx. 95% of Net Saving Transferred to Life Insurance Fund:** The company realizes approx. 60% of revenues (from consolidated revenue account of policyholders) out of which approx. 95% amount are transferred to Life Insurance Fund (Gross Insurance Contract Liabilities). Rest 5% amount are transferred to Profit & Loss Account for Shareholders.

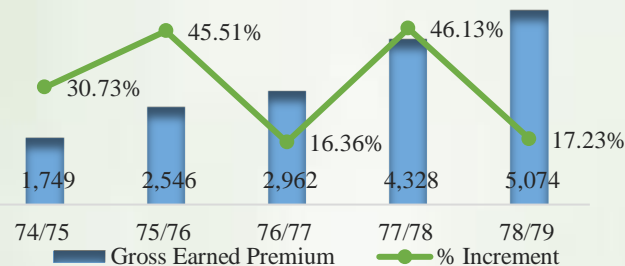
**Second highest EPS, BVPS, and ROE as per Q3:** Q3 report of SJLIC portrays the second highest EPS, BVPS and ROE among the 16 Life Insurers. Met Life reports no paid-up capital and hence excluded from the computation. Sun Life Insurance has the highest EPS and ROE while Rastriya Beema Sansthan top in BVPS. Further, company has second highest net profit per share ratio after Sun Life.

**SLICL Fundamental Growth**

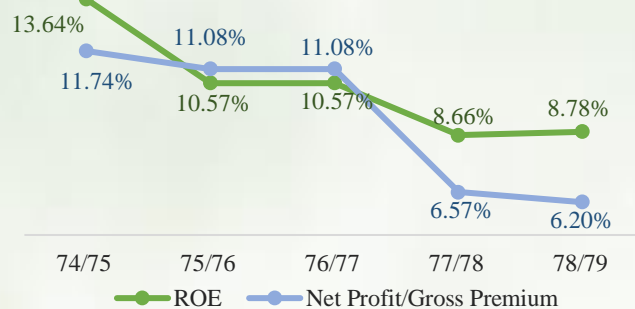
**No. of Inforce Policy**



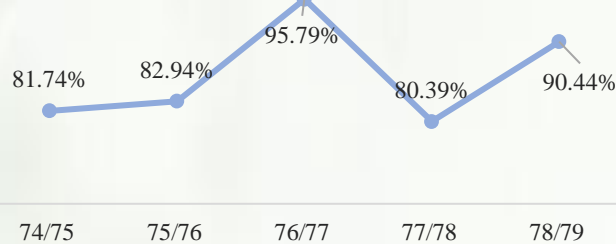
**Gross Premium Earned (Rs.Million)**



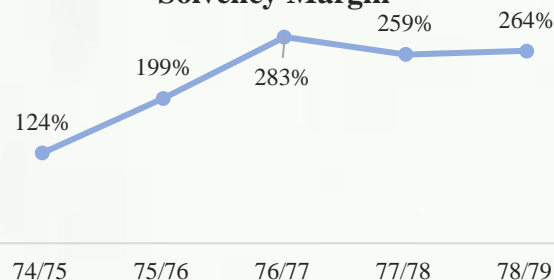
**Net Profit to Gross Premium Vs ROE**



**% of Renewed Policy**



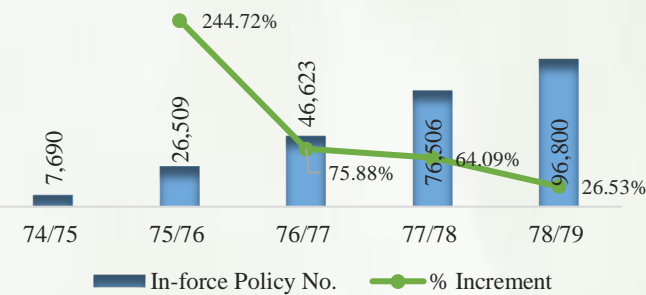
**Solvency Margin**



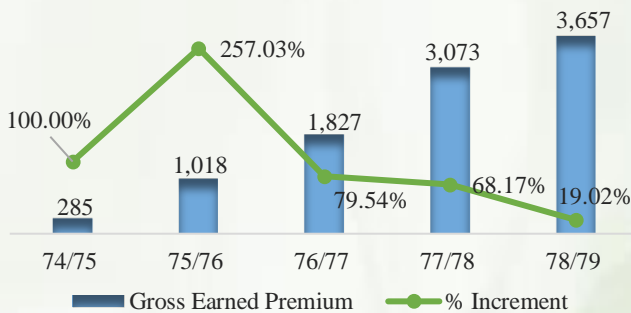


### JLI Fundamental Growth

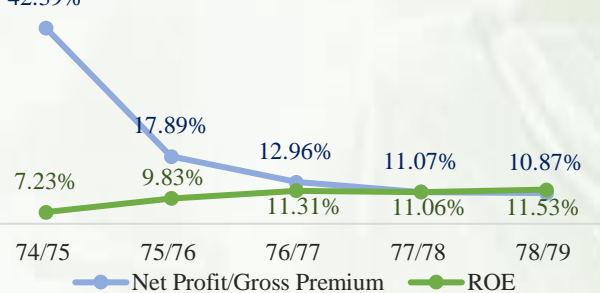
**No. of Inforce Policy**



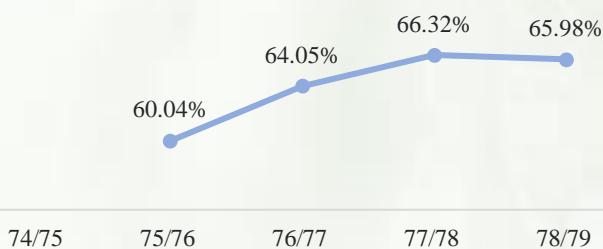
**Gross Premium Earned (Rs. Million)**



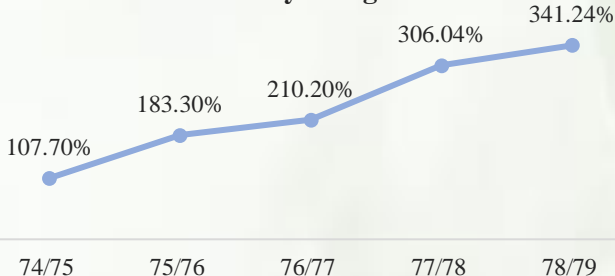
**Net Profit to Gross Premium Vs ROE**



**% of Renewed Policy**



**Solvency Margin**



### FUNDAMENTAL SYNOPSIS

**Pre-Merger Reports Comfortable Solvency Margin:**

Both the Surya and Jyoti Life maintained the adequate solvency margin against the minimum 1.5x requirement. We expect SJLIC to continue having higher solvency margin, especially after the capital increments, that will strength its financial position and claim payment abilities.

**Probable tax implication on bargain purchase gain:**

As required by Finance Bill, 2080 companies who recognizes bargain purchase gain in its books following M&A deal shall come under the purview of income tax. The bargain purchase gain from the M&A deal, which is non-distributable and amortizing in nature, is supposed to be the fair value of the difference of 1:0.8245 swap ratio. Although merged companies have voiced up against the rationality of government taxation on such non-cash gains, yet company may find stress equivalent to 25% of such gain in FY 2080/81 books.

**Downward sloping interest rate could severely hit the revenues:**

Life Insurance companies key earning sources is also the management of its investment activities. Unlike Non-life sectors, Life insurance has the predictable cash outflows which entails it to yield more from its investment. Audited report 2078/79 shows both Surya Life and Jyoti Life before merger had approx. 75% of total assets invested out of which again approx. 75% invested into the Fixed Deposit of BFI's. The investment yield is tentatively 10% while on total income the contribution is roughly 20%. The ameliorating liquidity with declining FD rate could hit the profitability ahead.

**Surrender issues likely to be healing:**

The case of Surrender i.e. pre-mature termination of insurance policies can be expected to lessen ahead, positive facet for the overall industry. The industry had suffered the disintermediation risks due to soaring interest rate and illiquidity scenario. Since the economy is under recovering mode, liquidity scenario has improved along with down-sloping interest rates, the purchasing power of people can be expected to enhance, thus limiting the chances of early policy surrender and augmenting the premium collection size.

**Distributable profit to be boosted by M&A facility:**

M&A Directives 2076 of Insurance provides 50% waive off (for three years subsequent to the M&A transaction) to the requirement to transfer the required fund out of distributable amount to the Catastrophe Reserve. Thus, SJLIC which needed to allocate 10% of distributable amount to such reserve can now transfer only 5% which is going to boost the retained earnings, although not significantly.

**Merger synergy yet to be observed:**

The synergy benefit of merger is perhaps long to be observed in the industry, including SJLIC. The merger and acquisition activities pursued out of regulatory pressure in satisfying the increased capital requirement instead of search of real synergies could be counterproductive in the long run.

**Pre-Merger Major Financial Indicator**  
(Excerpt From the Audited Report of 2078/79)

S. N.	Particular	2076-077		2077-078		2078-079	
		Surya Life	Jyoti Life	Surya Life	Jyoti Life	Surya Life	Jyoti Life
1	Book value per shares	131.96	135.89	133.47	139.79	126.15	142.43
2	Net Profit (Million)	328.312	236.726	284.191	340.013	314.488	397.462
3	Earning per Shares (EPS)	18.14	15.00	13.13	20.00	13.31	16.00
4	Solvency Margin	283%	210.20%	259%	306.04%	264%	341.24%
5	Return on Equity	10.57%	11.31%	8.66%	11.06%	8.78%	11.53%
6	Net Ins. Premium/ Gross Ins. Premium	97.61%	95.73%	97.98%	96.06%	97.15%	95.53%
7	Net Profit/Gross Ins. Premium	11.08%	12.96%	6.57%	11.07%	6.20%	10.87%
8	Income from Investment & loan/ Total investment & loan amount	9.00%	8.64%	10.84%	7.46%	8.39%	7.88%
9	Management expenses/ Gross Insurance Premium	20.01%	26.75%	16.41%	22.53%	16.42%	21.04%
10	Agent Related Expenses/ Gross Insurance Premium	19.00%	25.88%	18.45%	24.31%	17.84%	21.01%
11	Number of Agents	41,932	11,247	46,680	18,126	53,331	12,277
12	No. of Branch/Sub-Branch	93	117	111	120	150	129
13	Employee expenses/ Management expenses	43.81%	38.25%	41.87%	39.31%	42.04%	41.14%
14	Outstanding Claim/ Claim Paid	0.48%	104.10%	0.18%	20.12%	0.29%	11.79%
15	Total Number of In Force Insurance Policies	3,16,316.00	46,623.00	3,55,114.00	76,506.00	3,52,231.00	96,800.00
16	Gross Premium Growth Rate	17.80%	85.67%	46.13%	68.17%	17.23%	19.02%
17	Technical Provisions/ Total Equity	249.37%	91.78%	326.21%	130.71%	392.94%	193.09%
18	Reinsurance Ratio	2.39%	-	2.02%	-	2.85%	-
19	Liquidity Ratio (Current Ratio)	6.06:1	1.4:1	15.41:1	1.8:1	2.84:1	0.5:1
20	Number of Renewed Policy/ Last Year's Total Number of In Force Policies	95.79%	64.05%	80.39%	66.32%	90.44%	65.98%
21	Number of Intimated Claim/ Total Number of In Force Policy	1.34%	0.08%	0.76%	0.54%	0.85%	0.85%
22	Declared Bonus Rate	38-73	4,375.00	40-90	2,075.00	40-90	2,075.00
23	Interim Bonus Rate	38-73	4,375.00	40-90	2,075.00	40-90	2,075.00

## Technical Outlook



### Technical Indicator (06/07/2023)

RSI	64.87	Exponential Moving Average (12 Day)	597.04
MACD line	39.56	Exponential Moving Average (26 Day)	557.48
Signal line	40.81	Exponential Moving Average (50 Day)	518.3
Bollinger Upper Band	671.68	Exponential Moving Average (200 Day)	528.56
Bollinger Middle Band	571.92	Volumes	67.347K
Bollinger Lower Band	472.17	On Balance Volumes	146.503K
ADX	49.19	Super trend	542.47

### Technical Overview:

The stock trended down after peaking the high of Rs.646 on 26<sup>th</sup> June. Subsequently the stock ended with the doji candle for a week, implying the indecisiveness among the investors. Red candle on 5<sup>th</sup> and 6<sup>th</sup> July shifted the downward sentiment of the stock that made upward momentum with fine volumes since beginning of June. The stock had risen approx. 53% when it touched Rs.646. The short- term momentum indicators inks the correction ahead. RSI is relatively on over-sold zone while price is marching towards the middle Bollinger band. MACD line has just crossed the Signal Line from above and the histogram has entered the negative territory, suggesting the downtrend. EMA indicators are below the current price level, indicating the bullish outlook in the stock. The crossover of 26-day EMA by 12-day EMA from below has suggested the bullishness but the potential crossover of converging 200-day EMA by 50-day EMA will give more clarity of the long-run sentiment. Beside the current price is above the Super-trend level i.e. 542, further signaling the bullish sentiment. The stock is currently floating at 23.6% Fibonacci retracement level, breach of which could potentially pull-down the stock to Rs.525 level (50% retracement). On other hand, the up-turn could allow the stock to find new high at above Rs.700.

*Note: Since the stock record low history of trades after formation as SJLIC, technical analysis is impaired.*

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**Further, the Author hold the stock received after merger of Jyoli Life Insurance and purchased subsequent to resume of trade of SJLIC.**

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The information set forth herein has been obtained or derived from sources generally available to the public through the medium like Company website, Annual and Quarterly Report, data published by the Regulatory body Insurance Authority Nepal, and Insurance related News and Articles in various News portals.

Besides, the Author(s) maintained the direct communication with the concerned officials of the company to ensure no other material public information are left in the analysis process.

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The author(s) / Research Analysts acknowledge that this Equity Research Report is not free from limitation and errors, including inherent ones. Major limitation exist in the financial modeling process and subsequent valuation since the team lacks the financial data and information of newly formed SJLIC for such modeling.

The Author(s) / Research Analysts believes to have applied prudent judgment, analysis, care and diligent in preparation of this Report.

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