

Pick of the week



SBI Life Insurance Company

Recommendation

Buy

Time Period

12 Months

Current Price

₹ 832

Target Price

₹ 1100

Potential Upside

32.2%

Investment Argument

- In 2QFY21, SBI Life reported 0.5% yoy / 0.2% qoq expansion in value of new business (VNB) margin to 18.9% on the back of sharp growth in the protection business at 70% yoy; individual protection was up 58%yoy.
- Embedded value (EV) was up 21% yoy. ULIPs were down 13% yoy on expected lines, the company reported sequential growth in ULIP (up38%) as investment appetite increased a bit.
- We expect SBI Life's VNB margins to expand 0.3% yoy to 19% in FY21E and further increase to 21% by FY23E led by (1) increasing share of protection mix, (2) pick-up in growth of high-margin non-par savings post slowing down in 2Q & (3) margin expansion in protection and non-par businesses.
- We expect improving business momentum in the 2nd half. Strong persistency trends will cushion operating variance. Revival in APE (Average Premium Equivalent) growth from 2HFY21E (~15-16% over FY22-23E).
- SBI Life trades at ~2.25x & ~1.92x Price/EV in FY22E & FY23E, respectively. We value the business at 2.8x EV on September 2022E.