

DYER & BLAIR INVESTMENT BANK

EARNINGS UPDATE

Founder Member of the Nairobi Securities Exchange

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DYER & BLAIR
INVESTMENT BANK

WE KNOW. YOU KNOW.

BRITAM HOLDINGS: FY19 EARNINGS UPDATE

Dear All,

Britam Holdings Plc released its FY19 earnings recording a profit after tax of KES 3.5 BN, up from a loss after tax of KES 2.2 BN in FY18 on the back of growth in fair value gains to KES 4.8 BN from a loss of KES 3.0 BN in FY18. Britam Life saw a return to profitability of KES 2.5 BN from a loss of KES 567.6 MN in FY18, Britam General's loss position worsened to KES 185.4 MN from KES 52.0 MN in FY18 while the asset management business saw a loss of KES 124.3 MN from a profit of KES 41.9 MN in FY18. The Directors recommend a dividend per share of KES 0.25 (dividend yield of 3.8%).

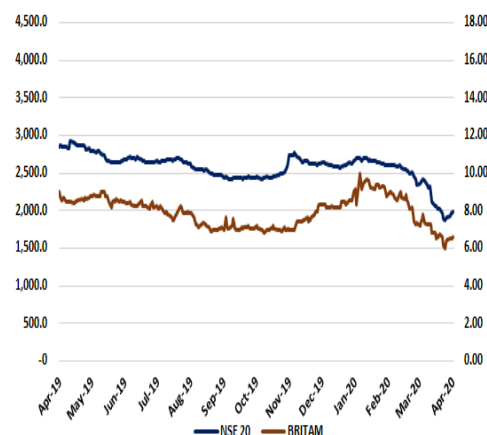
Below please find key highlights:

Gross written premiums rose 11.5% y-o-y to KES 27.1 BN whereas ceded premiums rose 23.2% y-o-y to KES 4.0 BN. As a result net earned premiums rose 9.7% y-o-y to KES 23.1 BN.

Total income rose 38.1% y-o-y to KES 36.4 BN. Net unrealized gains on financial assets held at fair value through profit or loss (FVPL) rose to KES 4.8 BN from a loss of KES 3.0 BN in FY18. Investment income rose 25.2% y-o-y to KES 7.7 BN. Investment income ratio rose 3,364 bps y-o-y to 50.8% whereas investment income reliance ratio rose 1,075 bps y-o-y to 32.2%.

Net insurance benefits and claims rose 8.4% y-o-y to KES 15.4 BN. The group's claims, expense and acquisition ratios declined 82 bps, 109 bps and 101 bps y-o-y to 66.8%, 38.1% and 10.7% respectively. As a result, the group's combined ratio declined 293 bps y-o-y to 115.5%. We are of the view that the drop in the expense ratio was driven by improved efficiency following the group's staff rationalization last year and its increased distribution channels (mobile and online). Finance costs declined 74.1% y-o-y to KES 234.8 MN attributable to the reduction in debt on account of the group's early redemption of its KES 6.0 BN medium term note which was to mature in July 2019.

BRITAM : 52 WEEK PRICE PERFORMANCE



(Source: NSE, DBIB Research)

PRICE	ABSOLUTE	EXCESS
RETURN	RETURN	RETURN
3 months(%)	(21.2)	5.5
6 months(%)	(6.0)	12.2
12 months(%)	(24.9)	5.7

KEY METRICS

Current Price (KES)	6.56
52 week Range (KES)	6.00-9.94
YTD Return (%)	(27.1)
Issued Shares (Mn)	2,523.49
Market Cap (USD Mn)	156.66

Recommendation	BUY
Target Price	Under Review
Trailing EPS (KES)	1.42
NAV (KES)	11.64
P/E (x)	4.6
P/B (x)	0.6
Dividend Yield(%)	3.8

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Total liabilities stood at KES 95.9 BN, representing a 20.3% increase. Payables under deposit administration contracts edged up 24.4% y-o-y (up 13.0% h-o-h) to KES 42.5 BN as insurance contract liabilities rose 19.7% y-o-y to KES 33.8 BN. Borrowings declined 15.6% y-o-y to KES 2.4 BN following the group's settlement of its KES 6.0 BN medium term note.

Total assets rose 20.8% y-o-y to KES 125.2 BN. Financial assets at FVPL rose 47.0% y-o-y to KES 57.8 BN, government securities and corporate bond holdings declined 3.0% y-o-y to KES 15.7 BN. Direct insurance receivables declined 27.1% y-o-y to KES 1.7 BN whereas reinsurance receivables declined 28.5% y-o-y to KES 502.7 MN.

Britam Life Assurance saw a return to profitability of KES 2.5 BN from a loss of KES 567.6 MN in FY18 on the back of a 51.0% y-o-y rise in total income to KES 22.4 BN which followed a 17.1% y-o-y rise in net earned premiums to KES 13.6 BN and a 182.6% y-o-y rise in investment income to KES 8.7 BN. Life's net claims and benefits rose 27.2% y-o-y to KES 13.7 BN bringing the total expenses to KES 18.7 BN, up 21.4% y-o-y. Management reported life's solvency ratio at 149% against a required solvency ratio of 100%.

Britam General saw its loss position worsen to KES 185.4 MN from a loss of KES 52.0 MN in FY18 as total income held fairly flat at KES 7.7 BN vis-à-vis a 3.7% y-o-y rise in total expenses to KES 8.0 BN. The rise in expenses remains attributable to competitive pressure and unfavorable claims experience in motor lines. Gross earned premiums declined 1.8% y-o-y to KES 8.0 BN, while net earned premiums declined 4.1% y-o-y to KES 6.4 BN. Investment income rose 40.7% y-o-y to KES 836.7 MN. Net claims and benefits rose 6.5% y-o-y to KES 4.3 BN. Management reported a general solvency ratio of 161%, up from 146% in FY18 against a required solvency ratio of 100%.

Britam Asset Management saw a loss of KES 124.3 MN from a profit of KES 41.9 MN in FY18 following a 26.5% y-o-y decline in total income to KES 562.4 MN vis-à-vis a 9.6% y-o-y rise in total expenses to KES 694.0 MN. While AUMs rose 55.0% y-o-y to KES 227.0 BN, fund management fees declined 21.2% y-o-y to KES 568.2 MN reflecting the low margin nature of institutional assets with circa 64.0% of the fees arising from retail assets despite a retail contribution of 32.0% to total AUMs.

Going forward: In light of the COVID-19 pandemic, management anticipates a slow growth of premiums occasioned by low production and business activity amid constant claims, a weak performance from strategic investments in equities, a weak performance by HF on the back of potential deterioration of asset quality as well as delayed improvement of the property business.

On a trailing basis: Britam is trading at a **P/E** and **P/B multiple of 4.6x** and **0.6x** compared to an industry median **P/E** and **P/B of 5.7** and **0.6x** respectively. We maintain our **BUY** recommendation.

PROFIT AND LOSS SUMMARY (KES MN)

Year End: December	FY19	FY18	y-y% ch	2H19	1H19	2H18	y-y% ch	q-q% ch
Gross Written Premiums	27,132	24,325	11.5	14,516	12,616	11,799	23.0	15.1
Premiums Ceded	(4,022)	(3,263)	23.2	(2,217)	(1,805)	(1,515)	46.3	22.8
Net earned premiums	23,110	21,062	9.7	12,299	10,811	10,284	19.6	13.8
Fund management fees	535	661	(19.1)	222	313	267	(17.0)	(29.3)
Investment Income	7,714	6,160	25.2	4,990	2,724	2,499	99.7	83.2
Net income from invest-properties	(747)	507	(247.3)	(874)	127	488	(279.1)	(789.2)
Net unrealised gains on assets at FVPL	4,778	(3,049)	256.7	2,396	2,381	(4,616)	151.9	0.6
Commission earned	1,000	857	16.6	491	509	369	33.2	(3.4)
Other income	57	195	(71.0)	(20)	77	255	(107.9)	(126.2)
Total income	36,446	26,393	38.1	19,504	16,942	9,545	104.3	15.1
Net claims and benefits	15,443	14,247	8.4	8,812	6,631	6,707	31.4	32.9
Interest payment in unit value	3,889	1,689	130.3	1,904	1,986	260	632.1	(4.1)
Operating and other expenses	8,794	8,245	6.7	4,629	4,165	3,895	18.8	11.1
Finance cost	235	906	(74.1)	213	22	413	(48.4)	877.2
Commission payable	3,461	3,314	4.4	1,796	1,666	1,640	9.5	7.8
Total expenses	31,822	28,400	12.1	17,353	14,469	12,914	34.4	19.9
Operating profit	4,624	(2,006)	330.5	2,151	2,473	(3,369)	163.8	(13.0)
Share of associate profit	(53)	(290)	(81.7)	(6)	(47)	(293)	97.9	(87.0)
Profit before tax	4,571	(2,296)	299.1	2,145	2,426	(3,662)	158.6	(11.6)
Tax charge/credit	(1,028)	86	(1,301.6)	(275)	(753)	471	(158.5)	63.5
Profit after tax	3,542	(2,211)	260.3	1,869	1,673	(3,192)	158.6	11.7
Profit attributable to parent	3,542	(2,211)	260.3	1,875	1,667	(3,192)	158.8	12.5
EPS	1.42	(0.92)	254.3	0.76	0.66	(1.31)	157.8	14.2
DPS	0.25	0.00	0.00	0.25	-	-	-	-

(Source: Company, DBIB Research)

BALANCE SHEET SUMMARY (KES MN)

Year End: December	FY19	1H19	FY18	y-y% ch	h-h%ch
Property& equipment	1,135	1,414	1,365	(16.9)	(19.8)
Intangible assets	2,100	2,182	2,122	(1.0)	(3.7)
Investment property & property funds	16,414	15,866	16,503	(0.5)	3.5
Financial assets at FVOCI	7,232	5,265	4,711	53.5	37.4
Government securities & corporate bonds	15,680	15,881	16,157	(3.0)	(1.3)
Financial assets at FVPL	57,752	48,303	39,282	47.0	19.6
Investment in associate	2,870	2,877	2,924	(1.8)	(0.2)
Mortgage loans, Loans to policyholders	2,683	2,626	2,511	6.9	2.2
Reinsurance receivables	503	510	703	(28.5)	(1.3)
Direct insurance receivables	1,689	2,445	2,317	(27.1)	(30.9)
Reinsurer's share of Insurance liabilities	3,742	4,112	3,145	19.0	(9.0)
Other receivables	1,624	1,958	1,945	(16.5)	(17.0)
Cash and bank balances	7,575	6,115	6,721	12.7	23.9
Other assets	4,244	4,235	3,251	30.6	0.2
Total assets	125,244	113,786	103,656	20.8	10.1
Liabilities					
Insurance contract liabilities	33,784	30,466	28,221	19.7	10.9
Payables under admin contracts	42,516	37,638	34,175	24.4	13.0
Unearned premium	5,358	5,795	4,696	14.1	(7.5)
Payables from reinsurance	1,319	1,643	1,253	5.3	(19.7)
Borrowings	2,353	2,163	2,787	(15.6)	8.8
Other liabilities	10,537	10,262	8,568	23.0	2.7
Liabilities	95,867	87,968	79,700	20.3	9.0
Net Assets	29,377	25,818	23,956	22.6	13.8

(Source: Company, DBIB Research)

INSURANCE RATIOS

Year end: Dec	FY19	1H19	FY18	y-y% ch	h-h% ch
Cessation Rates	14.82	14.31	13.42	141	52
Net retention rates	85.18	85.69	86.58	(141)	(52)

(Source: Company, DBIB Research)

FINANCIAL STABILITY, CAPITAL ADEQUACY AND LIQUIDITY

Year end Dec	FY19	1H19	FY18	y-y% ch	h-h% ch
Investment assets to total assets	79.8	77.5	76.8	303	230
Liquidity	52.2	47.8	44.4	778	434
Capital adequacy (as a & of GWP)	127.1	119.4	56.9	7,025	771
TBVPS	10.8	9.4	8.7	216	144
BKV/share	11.6	10.2	9.5	215	141

(Source: Company, DBIB Research)

PROFITABILITY & QUALITY OF INVESTMENT RESULT

Year End: Dec	FY19	1H19	FY18	y-y% ch	h-h% ch
Claims Ratio	66.8	61.3	67.6	(82)	549
Expense Ratio	38.1	38.5	39.1	(109)	(48)
Acquisition ratio	10.7	10.7	11.7	(101)	(5)
Combined ratio	115.5	110.6	118.5	(293)	497
Investment income Ratio	50.8	48.4	17.2	3,364	242
Operating Ratio	20.0	22.9	(9.5)	2,953	(287)
PAT Margin	15.3	15.5	(10.5)	2,582	(15)
Investment income reliance ratio	32.2	30.9	21.5	1,075	134

(Source: Company, DBIB Research)

INVESTMENT RETURN

Year end: Dec	FY19	1H19*	FY18	y-y% ch	h-h% ch
Return on invested assets	4.1	4.5	(3.4)	753	(35)
Return on total asset	2.8	2.9	(2.1)	496	(11)
Return on equity	12.1	13.0	(9.2)	2,129	(90)

*Annualized ratios

(Source: Company, DBIB Research)

APPENDIX

COMPANY INVESTMENT RATINGS

Buy: Share price may generate more than 15.0% upside over the next 12 months

Overweight: Share price may generate between 5.0% and 15.0% upside over the next 12 months

Hold: Share price may fall within the range of <+5.0/ -10.0% over the next 12 months

Take Profit: Target price has been attained. Look to accumulate at lower levels. Company fundamentals however remain strong

Underweight: Share price may generate between 10.0% and 15.0% downside over the next 12 months

Sell: Share price may generate more than 15.0% downside over the next 12 months, significant business and/or financial risks present, industry concerns

Not Rated: Counter is not within regular research coverage

SECTOR INVESTMENT RATINGS

Overweight: Industry performance better than that of the whole market

Equal weight: Industry performance about the same as that of the whole market

Underweight: Industry performance worse than that of the whole market

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