

# 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.

### KENYA RE: FY19 EARNINGS UPDATE

Dear All,

Kenya Re-insurance Corporation (KENYA-RE) released its FY19 earnings, recording a **74.1% increase in profit after tax (PAT) to KES 3.96 BN** primarily driven by fair value gains on revaluation of investment properties to KES 2.2 BN (+448.0% y-o-y). Earnings per share (EPS) for the period stands at KES 1.42 (+74.1%). Directors recommend a dividend of KES 0.10 per share (Dividend yield of 4.5%).

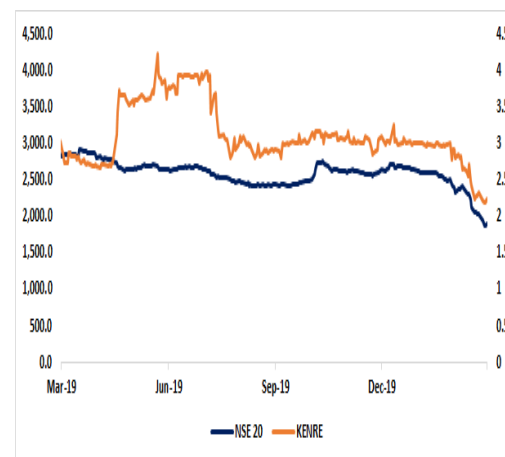
Below please find key highlights:

**Gross written premiums grew 18.1% y-o-y to KES 17.5 BN** while outward re-insurance premiums rose 30.9% y-o-y to KES 1.1 BN. As a result, net written premiums rose 17.3% y-o-y to KES 16.4 BN. Net earned premiums rose 9.3% y-o-y to KES 15.5 BN on the back of a 578.2% fall in the change in unearned premiums to KES (913.3) MN. Cessation rate rose 60 bps y-o-y to 6.1% placing net retention rate at 93.9% (down 60 bps y-o-y).

**Total income rose 19.0% y-o-y to KES 21.5 BN** on the back of a 9.3% y-o-y rise in net earned premium to KES 15.5 BN, a 9.7% y-o-y rise in investment income to KES 3.7 BN and a 448.0% y-o-y increase in fair value gains to KES 2.2 BN. Investment income ratio remained fairly flat at 23.9% to see the operating ratio rise 863 bps y-o-y to 91.3%.

**Total expenses rose 18.3% y-o-y to KES 17.9 BN** mainly on the back of a 25.3% y-o-y rise in net claims and benefits to KES 11.1 BN, and a 5.2% y-o-y rise in cedant acquisition costs to KES 4.1 BN. Operating and other expenses marginally rose 1.2% y-o-y to KES 2.0 BN. The group's claims ratio rose 907 bps y-o-y to 71.2%, the expense ratio rose 74 bps y-o-y to 17.9%, while the net acquisition ratio declined 110 bps y-o-y to 26.0%. As a result, the combined ratio rose 871 bps y-o-y to 115.2%.

### KENYA RE: 52 WEEK PRICE PERFORMANCE



(Source: NSE, DBIB Research)

PRICE	ABSOLUTE	EXCESS
RETURN	RETURN	RETURN
3 months(%)	(27.5)	1.0
6 months(%)	(23.0)	(0.7)
12 months(%)	(26.0)	7.7

### KEY METRICS

Current Price (KES)	2.24
52 week Range (KES)	2.19-4.24
YTD Return (%)	(26.1)
Issued Shares (Mn)	2,799.80
Market Cap (USD Mn)	59.7

Recommendation	BUY
Target Price	Under Review
Trailing EPS (KES)	1.42
NAV (KES)	11.41
P/E (x)	1.58
P/B (x)	0.20
Dividend Yield (%)	4.5

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**Total assets rose 13.5% y-o-y to KES 50.4 BN** mainly on the back of a 19.5% y-o-y rise in investment in government securities to KES 17.1 BN, a 19.5% y-o-y rise in investment property to KES 12.1 BN, and a 24.3% y-o-y rise in deposits with financial institutions to KES 6.8 BN. Investment assets to total assets ratio rose 249 bps y-o-y to 76.6%. In line with the group's conservative investment strategy, equities to total assets ratio declined 54 bps y-o-y to 3.5%.

**Total liabilities rose 15.2% y-o-y to KES 18.4 BN** mainly due to an 18.6% y-o-y rise in unearned premiums to KES 5.8 BN, and a 3.0% y-o-y rise in insurance contract liabilities to KES 8.9 BN.

**Net assets rose 12.6% y-o-y to KES 32.0 BN.** Our estimated market risk charge declined 1.4% y-o-y to KES 12.4 BN (38.9% of net assets, down 432 bps y-o-y). Claims paid to net assets ratio rose 350 bps y-o-y to 34.6%. Net asset value per share rose 128 bps y-o-y to KES 11.40 (currently trading at KES 2.20 to 2.25 levels).

**Going forward:** We have placed the company under review ahead of a discussion with management on their strategy and outlook moving forward. Kenya Re is currently trading at a **P/E** and a **P/B multiple of 1.58x and 0.20x** compared to an industry median **P/E** and **P/B of 5.9x and 0.7x** respectively. Its ROE and ROA multiples stand at 12.4% and 7.9% against industry median multiples of 7.7% and 1.3% respectively. We issue a **BUY** recommendation.

## PROFIT AND LOSS SUMMARY (KES MN)

	FY19	FY18	y-y % chg	2H19	2H18	1H19	y-y% chg	h-h % chg
Gross written premium	17,521	14,838	18.1	8,662	8,506	8,860	1.8	(2.2)
Outward Reinsurance Premium	(1,077)	(823)	30.9	(483)	(427)	(594)	13.2	(18.7)
Net written premium	16,444	14,015	17.3	8,178	8,079	8,265	1.2	(1.1)
Change in unearned premiums	(913)	191	(578.2)	(77)	(245)	(836)	(68.5)	(90.8)
Net earned premium	15,531	14,206	9.3	8,101	7,834	7,429	3.4	9.0
Investment income	3,715	3,386	9.7	1,769	1,482	1,945	19.4	(9.1)
Fair value gains	2,177	397	448.0	2,177	397	-	448.0	0.0
Commissions recovered	54	41	32.1	39	41	16	(5.8)	144.7
Other income	53	55	(3.5)	23	19	30	18.2	(24.5)
Total Income	21,529	18,085	19.0	12,109	9,773	9,421	23.9	28.5
Net insurance benefits & claims	(11,062)	(8,830)	25.3	(6,067)	(5,468)	(4,995)	10.9	21.4
Cedant acquisition costs	(4,092)	(3,890)	5.2	(2,064)	(2,062)	(2,028)	0.1	1.7
Operating & other expenses	(2,043)	(2,020)	1.2	(1,127)	(1,275)	(917)	(11.6)	22.9
Provisions for doubtful debts	(743)	(424)	75.3	(643)	196	(101)	0.0	0.0
Total expenses	(17,941)	(15,164)	18.3	(9,900)	(8,609)	(8,041)	15.0	23.1
Profit before share of the associate	3,588	2,921	22.9	2,209	1,164	1,380	89.7	60.1
Share of profit of the associate	587	181	224.8	587	181	-	224.8	0.0
Profit before tax	4,176	3,102	34.6	2,796	1,345	1,380	107.9	102.7
Income tax expense	(210)	(824)	(74.5)	94	(297)	(304)	(131.6)	(130.9)
Profit for the year	3,966	2,278	74.1	2,890	1,049	1,076	175.6	168.5
Profit Attr to Owners	3,966	2,278	74.1	2,890	1,049	1,076	175.6	168.5
EPS	2.55	3.25	(21.5)	1.01	1.49	1.54	(32.4)	(34.4)

(Source: Company, DBIB Research)

## BALANCE SHEET SUMMARY (KES MN)

Balance sheet (KES m)	FY19	1H19	FY18	y-y % ch	h-h% ch
Property & equipment	89	93	92	(3.0)	(4.7)
Intangible assets	474	528	588	(19.5)	(10.3)
Investment in associate	5,170	4,523	4,474	15.6	14.3
Investment property	12,080	10,174	10,105	19.5	18.7
Quoted ordinary shares	1,565	1,364	1,599	(2.1)	14.7
Unquoted ordinary shares	206	202	202	1.7	1.7
Corporate bonds	156	476	476	(67.1)	(67.1)
Government Securities	17,113	15,041	14,315	19.5	13.8
Deferred acquisition costs	1,409	1,417	1,363	3.4	(0.6)
Mortgage loans and receivables	677	697	726	(6.7)	(2.8)
Reinsurance receivables	2,626	3,180	3,673	(28.5)	(17.4)
Premium and loss reserves	282	273	272	3.8	3.5
Deposits with financial institutions	6,787	6,393	5,459	24.3	6.2
Cash and bank balances	585	976	338	73.0	(40.1)
Other assets	1,145	491	680	68.3	133.2
<b>Total assets</b>	<b>50,363</b>	<b>45,828</b>	<b>44,363</b>	<b>13.5</b>	<b>9.9</b>
Insurance contract liabilities	8,892	8,922	8,632	3.0	(0.3)
Unearned premium	5,836	5,759	4,923	18.6	1.3
Reinsurance liabilities	1,808	290	549	229.0	522.8
Other liabilities	1,876	1,694	1,885	(0.5)	10.7
<b>Total liabilities</b>	<b>18,412</b>	<b>16,666</b>	<b>15,990</b>	<b>15.2</b>	<b>10.5</b>
<b>Net assets</b>	<b>31,951</b>	<b>29,163</b>	<b>28,373</b>	<b>12.6</b>	<b>9.6</b>
Estimated Market Risk Charge	12,436	11,544	12,270	1.4	7.7
% of Net Assets	38.9	39.6	43.2	(432)	(2)

(Source: Company, DBIB Research)

## INSURANCE RATIOS

	FY19	1H19	FY18	y-y bps ch	h-h bps chg
Cessation Rates	6.1	6.7	5.5	60	(56)
Net Retention Rates	93.9	93.3	94.5	(60)	56
Maximum Event Retentions Ratio	3.6	3.3	3.3	31	32
Reinsurance Recoveries	1.6	6.3	7.0	(542)	(468)

(Source: Company, DBIB Research)

## FINANCIAL STABILITY, CAPITAL ADEQUACY AND LIQUIDITY

	FY19	1H19	FY18	y-y bps ch	h-h bps chg
Claims Paid: Net assets	34.6	34.3	31.1	350	36
Asset mix: Equities/Total Assets	3.5	3.4	4.1	(54)	10
Investment assets to total assets	76.6	74.9	74.1	249	166
Liquidity	48.0	45.0	49.9	(189)	301
Capital Adequacy (as a % of GWP)*	182.4	164.6	191.2	(886)	1,777
NAV/share	11.4	10.4	10.1	128	100

(Source: Company, DBIB Research)

## PROFITABILITY & QUALITY OF INVESTMENT RESULT

	FY19	1H19	FY18	y-y bps ch	h-h bps chg
Claims Ratio	71.2	67.2	62.2	907	399
Expense Ratio	17.9	13.7	17.2	74	425
Net acquisitions ratio	26.0	27.1	27.1	(110)	(110)
Combined Ratio	115.2	108.0	106.5	871	714
Investment Income Ratio	23.9	26.2	23.8	8	(227)
Operating Ratio	91.3	81.8	82.6	863	941
PAT margin	18.4	11.4	12.6	582	700
Investment income reliance ratio	17.3	20.7	18.7	(147)	(340)
Unearned Premium Reserve to Earned Premium	37.6	38.8	34.7	292	(118)
Underwriting ratio	28.8	32.8	37.8	(907)	(399)
Realized gains/(Loss) ratio	10.1	-	2.2	791	1,011

(Source: Company, DBIB Research)

## INVESTMENT RETURN

	FY19	1H19 *	FY18	y-y bps ch	h-h bps chg
Return on Invested Assets	9.8	11.6	10.5	(73)	(176)
Return on Total Assets	7.9	4.7	5.1	274	318
Return on Equity	12.4	7.4	8.0	438	503

\*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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