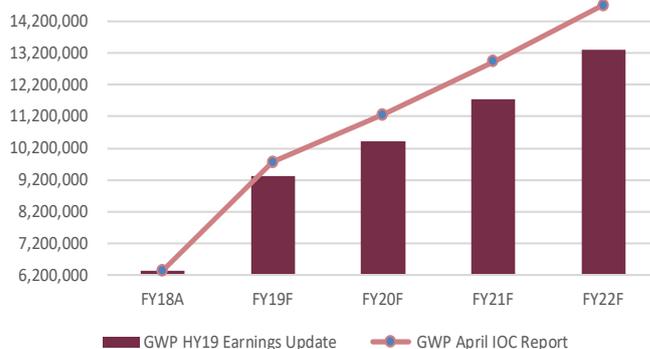


SANLAM EARNINGS UPDATE:

Earnings surprise bulldoze expectations.

- » We maintain our **SELL** recommendation but update our valuations to reflect a faster than expected recovery in earnings: We have now updated our assumptions to include a faster than expected improvement in Sanlam's underwriting business quality. We also have reduced our previous projected impact of claims in the medium term. The new information from **H1FY19** Sanlam's results and our updated assumptions have necessitated the new Target Price of **KES 15.60**. Which is a **47%** increase on our April IOC Target Price of **KES 10.37**. The counter currently trades at **KES 18.35** or at an aggressive **P/B multiple of 1.99x** when compared to the current **Sub Saharan African P/B median multiple of 0.93x**. The current market prices also reveal a potential **15%** downside helping PAFR maintain its previous **SELL** rating.
- » Sanlam (PAFR) reported a positive earnings surprise for the First Half- Year 2019 (H1Y19), reporting a recovery of Half Year (HY) Earnings Per Share (EPS). The **H1FY19 EPS** stood at **KES 4.40**, up from the HY18 EPS loss of **KES 10.35**. The **142%** increase in **HY19 EPS** was mainly boosted by the absence of financial assets write-offs undertaken in HY18 and a **19%** decline in net claims & benefits paid. The EPS increase was, however, way better than even our **FY19 EPS** expectation of **KES 0.81**.
- » Sanlam HY19 GWP grew supported by a hardening of underwriting conditions: The Gross Written Premium (GWP) was in positive territory, growing by **17%** to hit **KES 3.65Bn** by the end of June 2019. The growth may underline our previous expectation of hardening of underwriting condition but the first Half-Year 2019 (**H1FY19**) **GWP** still fell below our **KES 4.89Bn** expectation. The 2019 industry dissipation of the previously soft insurance pricing of **FY18** is turning out to be slower than we had previously anticipated. We have now cut down our **FY19 GWP** expectations to align it with this new reality. We have now revised the **2019 Full Year (FY19) GWP** to **KES 9.3Bn** from **KES 9.7Bn**.

GWP Projection revision



Source: PAFR Financials, AIB Capital

August 23, 2019

PAFR

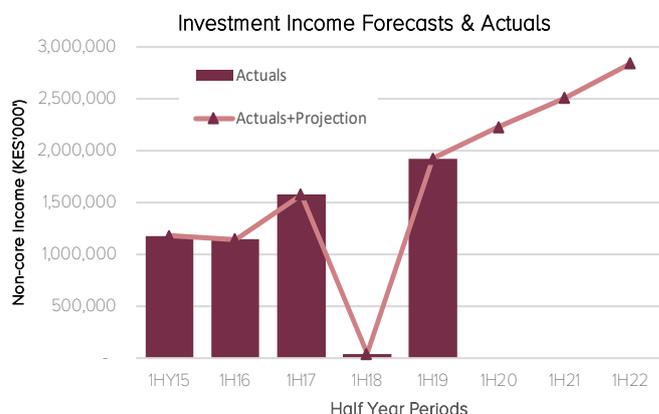
Rating:	SELL
Target Price	15.60
Current Price	18.35
Downside	15%
Dividend Yield(ntm)	0%
Forecast Total Return	-15%
52- Week trading range	17.30 to 26.50

Analysts:

Victor c. Koech,

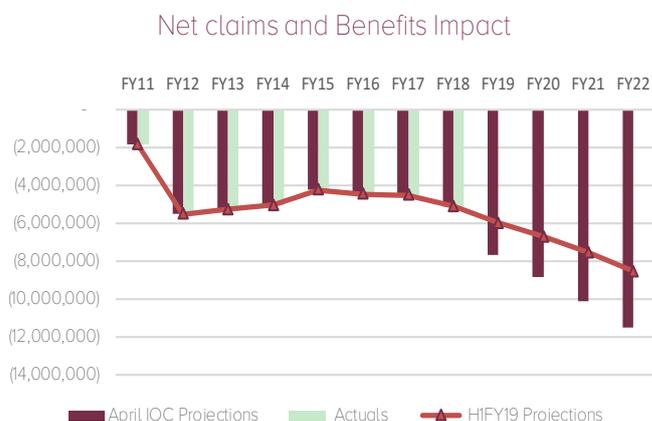
+254711047133,
koechv@aibcapital.com

- » Sanlam's HY19 non-core incomes were **10.35%** stronger than we had envisioned: Investment and other income grew by over 4000% helped on by a small HY18 base. The HY18 financial assets write of investments, in Kaluwork's bonds (**KES 169Mn**), Athi River Mining equity (**KES 574Mn**) and Real People (**KES 398Mn**), resulted in non-core income hitting **KES 41Mn**. **HY19** results benefited from the lack of the **HY18** one-off financial asset write-offs to achieve **KES 1.9Bn**. The total non-core income was **10%** more than the **KES 1.7Bn** we had projected in our Kenyan Insurance sector report released in April.



Source: PAFR Financials, AIB Capital

- » Net Claims and policy holder benefits was down **19%** as the quality of underwritten business improved from a soft **HY18**. As we pointed out in our IOC report, we expect the **FY19** insurance market to harden as economic activity picks up and consumer consumption expands. A hardening in the insurance sector would help the insurance companies price risk better than in **FY18**. Sanlam seem to have witnessed the improvement in its underwriting outcomes in **H1FY19** recording a decrease in payouts to **KES 1.99Bn** from the **KES 2.45Bn** recorded in **H1FY19**. The actual outcome was, however, better than we had expected for Sanlam. We had held out for a net claims of **KES 3.83Bn**. The gap between projections and actuals was driven partly because we had expected more GWP than actual (**KES 4.89Bn** vs **KES 3.65Bn**) and better quality business that we had anticipated.



Source: PAFR Financials, AIB Capital

- » Sanlam records one of the highest Half Year Profit After Tax (**PAT**) in **H1FY19**. PAFR's **H1FY19 PAT** was **KES 0.64Bn**, the highest recorded since **H1FY13**. The recovery of **PAT** in **H1FY19** was driven by a decline in net claims & benefits and a very beneficial increase in total income. The **H1FY19 PAT** outcome was better than the **KES 0.12Bn** we had envisioned in our previous April projections. With **PAT** now at a trajectory above our previous expectations, we have reevaluated our model to encompass the higher than expected level of profitability. We have now increased the **FY19 PAT** to **KES 1.01Bn** and we see the level of profitability remaining elevated but leveling off from **FY20**.

RESEARCH DISCLOSURE

Though utmost care has been taken in the preparation of this report, we do not guarantee the accuracy or completeness of the information contained herein nor will AIB Capital Ltd be held liable for the information contained herein.

The views expressed in this report are solely those of the Research Department and are subject to change without notice.

The information in this report is not an offer for the sale or purchase of any security. This document should only be considered a single factor used by investors in making their investment decisions.

This publication may not be distributed to the public media or quoted or used by the public media without prior and express written consent of AIB Capital Ltd.

NOTICE TO US INVESTORS

This report was prepared, approved, published and distributed by AIB Capital Limited Company located outside of the United States (a non-US Group Company"). This report is distributed in the U.S. by LXM LLP USA, a U.S. registered broker-dealer, on behalf of AIB Capital Limited only to major U.S. institutional investors (as defined in Rule 15a-6 under the

U.S. Securities Exchange Act of 1934 (the "Exchange Act")) pursuant to the exemption in Rule 15a-6 and any transaction effected by a U.S. customer in the securities described in this report must be effected through LXM LLP USA.

Neither the report nor any analyst who prepared or approved the report is subject to U.S. legal requirements or the Financial Industry Regulatory Authority, Inc. ("FINRA") or other regulatory requirements pertaining to research reports or research analysts. No non-US Group Company is registered as a broker-dealer under the Exchange Act or is a member of the Financial Industry Regulatory Authority, Inc. or any other U.S. self-regulatory organization.

Analyst Certification. Each of the analysts identified in this report certifies, with respect to the companies or securities that the individual analyses, that (1) the views expressed in this report reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly dependent on the specific recommendations or views expressed in this report. Please bear in mind that (i) AIB Capital Limited is the employer of the research analysts responsible for the content of this report and (ii) research analysts preparing this report are resident outside the United States and are not associated persons of any US regulated broker-dealer and that therefore the analysts are not subject to supervision by a US broker-dealer, and are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with US rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

Important US Regulatory Disclosures on Subject Companies. This material was produced by Analysis AIB Capital Limited solely for information purposes and for the use of the recipient. It is not to be reproduced under any circumstances and is not to be copied or made available to any person other than the recipient. It is distributed in the United States of America by LXM LLP USA and elsewhere in the world by AIB Capital Limited or an authorized affiliate of AIB Capital Limited. This document does not constitute an offer of, or an invitation by or on behalf of AIB Capital or its affiliates or any other company to any person, to buy or sell any security. The information contained herein has been obtained from published information and other sources, which AIB Capital Limited or its Affiliates consider to be reliable. None of AIB Capital Limited accepts any liability or responsibility whatsoever for the accuracy or completeness of any such information.

All estimates, expressions of opinion and other subjective judgments contained herein are made as of the date of this document. Emerging securities markets may be subject to risks significantly higher than more established markets. In particular, the political and economic environment, company practices and market prices and volumes may be subject to significant variations. The ability to assess such risks may also be limited due to significantly lower information quantity and quality. By accepting this document, you agree to be bound by all the foregoing provisions.

LXM LLP USA assumes responsibility for the research reports content in regards to research distributed in the U.S. LXM LLP USA or its affiliates has not managed or co-managed a public offering of securities for the subject company in the past 12 months, has not received compensation for investment banking services from the subject company in the past 12 months, does not expect to receive and does not intend to seek compensation for investment banking services from the subject company in the next 3 months. LXM LLP USA has never owned any class of equity securities of the subject company. There are not any other actual, material conflicts of interest of LXM LLP USA at the time of the publication of this research report. As of the publication of this report LXM LLP USA, does not make a market in the subject securities.