Insurance Sector Report: Bottom-lines retreat in FY18

- **The Kenyan Insurance industry's bottom lines gave way in FY18 weighed down by the increase in net claims & benefits and depressed investment incomes in 2018.** In FY18 investment incomes declined industry wide with interest rates falling, equity returns suppressed in 2018 and subdued returns from a tight Real Estate market. Claims paid out in FY18 increased driven by increased in risk underwritten in FY18 but exacerbated by soft underwriting conditions. The two industry headwinds are likely to temper off in the medium term as underwriting conditions harden amid economic recovery and as a global chase for yields prop up investment returns in emerging markets.
- We have updated valuations for listed Insurance companies (Britam, CIC, Jubilee, Kenya Re, Liberty and Sanlan).
- **We issue BUY recommendations** on Britam, Jubilee and Liberty, whose valuations have fallen to prices below fundamentals.
- **We issue HOLD recommendations** for CIC and Kenya Re. CIC's current valuation now reflects the entire information on the counter and we expect very little upside. We have downgraded Kenya Re from a BUY to a HOLD due to the evaporation of catalysts that could drive the market valuation towards its fair value.
- **We also finally issue a SELL recommendation** on Sanlam because we believe the market is yet to price in the 70% erosion of book value in FY18.
- **Gross premiums in FY18 grew marginally industry helped on by the recovery of the economy in FY18**. We expect premiums to continue to grow in the medium helped on by the increased need for risk mitigation in Non-life insurance as economic intensifies. We also see Life insurance continue to grow at double figures as the national disposable income grows and as awareness on available products in the sector grows.

24th April 2019

Britam Holdings Plc

Target Price	10.79
Current price	8.70
Recommendation	BUY

CIC Insurance Group

Target Price	3.66
Current price	3.54
Recommendation	HOLD

Jubilee Holdings

Target Price	504.71
Current price	415.00
Recommendation	BUY

Kenya Reinsurance

Target Price	40.60
Current price	10.75
Recommendation	HOLD

Liberty Kenya Holdings

Target Price	12.00
Current price	10.00
Recommendation	BUY

Sanlam Kenya Plc

Target Price	11.00
Current price	19.35
Recommendation	SELL

Analyst
Victor Koech

CERTIFICATIONS& REQUIRED DISCLOSURES BEGIN ON PAGE 29

Table of Contents

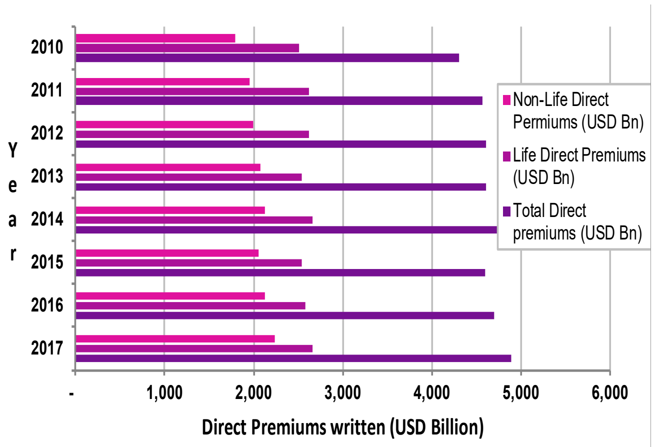
The Global Insurance Sector

» **The global insurance industry in 2018 is expected to continue on its steady path of growth.** Global primary non-life premiums are expected to maintain a steady growth rate of 3% throughout the 2018 and 2019 period, urged on by the current above average global economic growth environment.

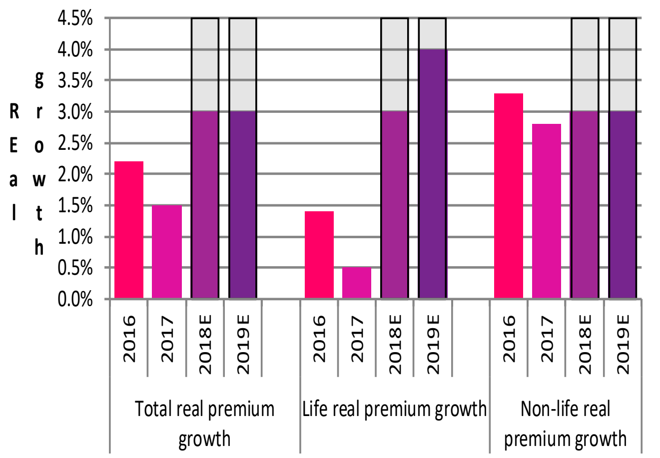
» **The record large number of natural catastrophic (nat cat) events in 2017 is also expected to spark some growth into the non-life segment.** The record number of insured losses in 2017 will drive the premiums of primary Property and casualty insurance (P&C) and reinsurance premiums higher in 2018 and 2019.

» **Geopolitical risks and the global slowdown remain a threat.** The escalating trade tensions and declining volumes of trade, however, have the potential to affect premiums from marine and trade credit lines. Emerging markets non-life premium growth in 2018 is expected to be 6% but escalate to 7% by 2019.

» **Global life premiums are estimated to grow by 3% in 2018 and hit 4% by 2019.** The growth will be propelled by the prosperity of savings products in the emerging markets especially from Asia. We also expet the current relatively accommodative global monetary policy to create challenges to profitability within the global primary life insurance field. The low-interest rate environment could continue to put downward pressure on investment returns of life insurance companies.



Source: Swiss Re Institute, AIB Capital



Source: Swiss Re Institute, AIB Capital

Global Insurance: Emerging Markets

» **The emerging market still remains the growth engine of the insurance industry.** Emerging Asia in particular is likely to retain its notoriety as the global insurance industry growth hotspot. In terms of overall contribution to premiums from emerging markets, China and emerging Asia as a whole are the major players.

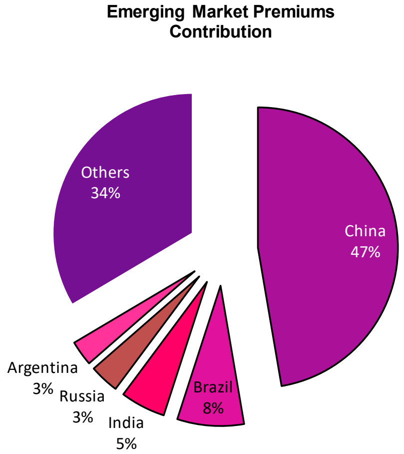
» **Upheaval in commodity and crude oil prices likely to hurt Latin America and Africa.** After recording productive growth in 2017, prospects in Latin America and Africa have now become mixed. The decline in oil and commodity prices in the medium term is likely to slow down the growth of total direct premiums in Latin America and Africa.

» **Premiums in emerging markets will most likely continue to grow.** The Insurance sector in Emerging market will likely to maintain its momentum of growth despite the change in global economic prospects, Non-life premiums are still expected to grow by 7% by 2019 from the 6% registered in 2017. The primary Life premiums in emerging markets are likely to continue to grow by double digits. Primary life premiums in emerging markets are forecasted to grow by 12% in 2018 and marginally decelerate to 11% in 2019. The downward risk to the forecasts, however, still exists with the emerging markets facing headwinds from a diminishing global demand for their crude oil and commodities.

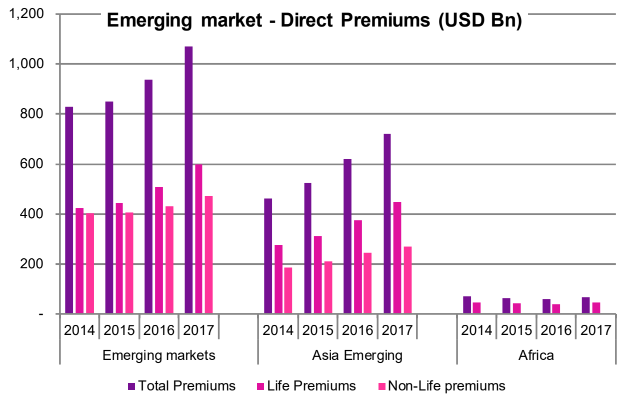
» **Widespread RBC adoption in emerging markets is a positive.** The reinsurance industry in the emerging market is likely to continue to benefit immensely from the adoption of risk-based regulatory regimes in the majority of emerging markets. Risk-based regulatory regimes have improved reinsurers visibility and management of risks.

» **Protectionist policies in Reinsurance remain a grave threat to growth of reinsurance in emerging markets.** In the longer term the reinsurance sector in the emerging markets face fallout from the unintended consequences of protectionist policies. Protectionist policies that favoured local reinsurance in emerging markets limit the growth of reinsurance premiums in the long term. Protectionist policies stifle competition and increase the cost of doing business, upending potential growth.

» **Expect the premium growth in emerging markets to become less eratic.** The volatility of premium growth of both the non-life and life business line in emerging will continue to decline as a result of the maturing of insurance market regulation, improvement in product development and increased consumer awareness



Source: Swiss Re Institute, AIB Capital



Source: Swiss Re Institute, AIB Capital

Sub-Saharan Africa:

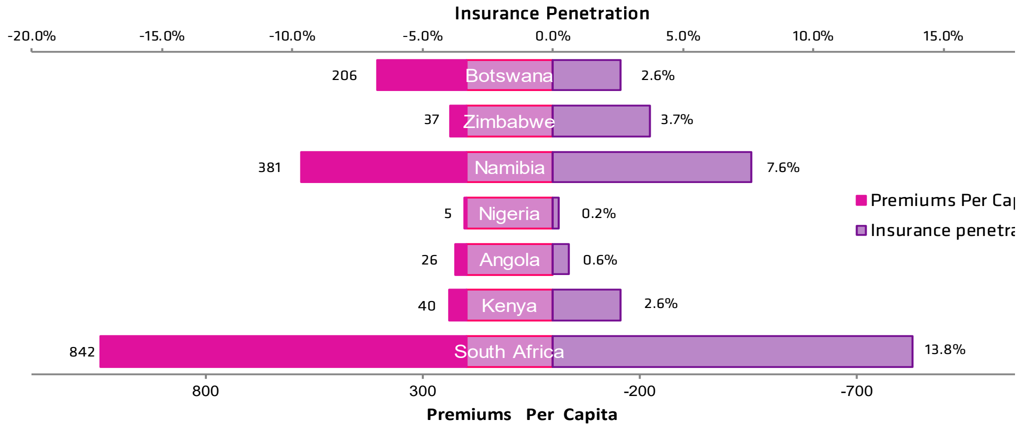
» **The insurance sector in Sub-Saharan Africa s is still a minnow in global insurance.** Despite a firm 4.2% growth of direct premiums written during the 2010-2016 period, the SSA insurance industry size remains small. SSA primary insurance and reinsurance sector is estimated to currently collect only 0.2% of the global insurance premiums.

» **Potential of growth in SSA is still there.** Sub-Saharan Africa (SSA) insurance sector despite the low direct premiums contribution still harbours a great growth potential suggested by its low insurance penetration levels, high population growth and rising incomes. Insurance penetration in the region in SSA remains low, estimated to be 0.9% in 2016. Investors should note that that despite the huge insurance potential that the region enjoys, there is still an abundance of under-capitalized companies that has resulted in excessive competition.

» **Excessive competition is softening underwriting conditions.** The excessive competition in most of SSA has seen companies face weak underwriting conditions caused by price undercutting. The other risks that the insurance industry in the region continues to grapple with are: fraud, access to skilled labour, lack of adequate reinsurance and cyclical macro-economic instability inherent to the region.

» **SSA Non-life is dominated by four countries.** In the Non-life insurance segment, four of the largest markets ranked by the direct premiums written: are South Africa (USD 9.51Bn - 2017), Kenya (USD 1.20Bn - 2017), Angola (USD 0.76Bn – 2017) and Nigeria (USD 0.76Bn – 2017) accounting over 50% of SSA Non-Life premiums. Motor segment of non-life remains the largest followed by property.

» **Life insurance is outgrowing Non-life insurance in SSA, in line with other emerging markets.** Life insurance continues to grow faster than Non-life, growing by about 15% annually since 2010 compared to 3.5% annual growth of non-life. In SSA's life insurance business line, South Africa still dominates with the Life insurance direct premiums written in 2017 of USD 38.3Bn, almost comparable to Tunisia's GDP of USD 40.3Bn. Other noteworthy market players in SSA's Life insurance space, ranked by direct premiums written, are: Kenya (USD 807Mn - 2017), Namibia (USD 686Mn – 2017), Zimbabwe (USD 382Mn – 2017) and Botswana (USD 335Mn – 2017).



Source: Swiss Re Institute, AIB Capital

Country in Focus: Kenya:

Highlights

» **Kenya's real GDP growth in 2017 slowed.** Real GDP growth declined to 4.9%, from 5.9% logged in the previous year. The economic growth was hampered by a slowdown in private sector credit, a prolonged electioneering period and drought.

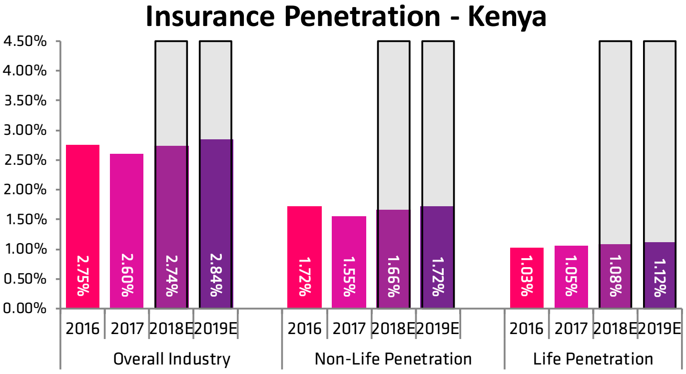
» **Underwriting conditions suffered in 2017.** The decline in private spending and worsening of general business conditions in 2017 led to a softening of underwriting conditions in Kenya. The gross written premium in 2017 in Kenya grew by 6.5% to hit KES 209.7 Bn from KES 197Bn recorded in 2016. The growth of total premiums written adjusted for inflation in 2017 was, however actually -2%. The decline in real growth of total premiums written to -2%, was mainly driven by the general decline of real premium growth in both the Life and Non-life segment as consumer discretionary spending contracted in 2017.

» **Excessive competition is softening underwriting conditions.** The excessive competition in most of SSA has seen companies face weak underwriting conditions caused by price undercutting. The other risks that the insurance industry in Kenya and the region continues to grapple with are: fraud, access to skilled labour, lack of adequate reinsurance and cyclical macro-economic instability.

» **SSA Non-life is dominated by four countries.** In the Non-life insurance segment, four of the largest markets ranked by the direct premiums written: are South Africa (USD 9.51Bn - 2017), Kenya (USD 1.20Bn - 2017), Angola (USD 0.76Bn – 2017) and Nigeria (USD 0.76Bn – 2017) accounting over 50% of SSA Non-Life premiums. Motor segment of non-life remains the largest followed by property.

» **The Non-life segment in Kenya retained its dominance in 2017** by recording a growth of 2.4% in gross written insurance premium to KES 126.05Bn or 60.1% of the total gross written premiums. The inflation adjusted growth or real premium growth of Non-Life written premiums in 2017, however, fell to -6.2% from the real premium growth of 3.6% growth in 2016. Life insurance Gross written premiums terms grew 13.2% to KES 83.65Bn in 2017. The premium real growth within the Kenyan Life insurance business line was 5.1%, a significant drop from the 11.4% real premium growth in 2016.

» **Insurance uptake in Kenya still remains low.** Kenya, just like its Sub-Saharan peers, still has the space to grow. The growth in the insurance industry in Kenya is still underpinned by underinsurance and low insurance uptake. The 2017 overall Insurance penetration in Kenya stood at 2.6%. The General or Non-life insurance segment penetration is estimated to have hit 1.55% in 2017, down from the 1.72% recorded the previous year. Life insurance penetration remained unchanged in 2017 at 1.05%.



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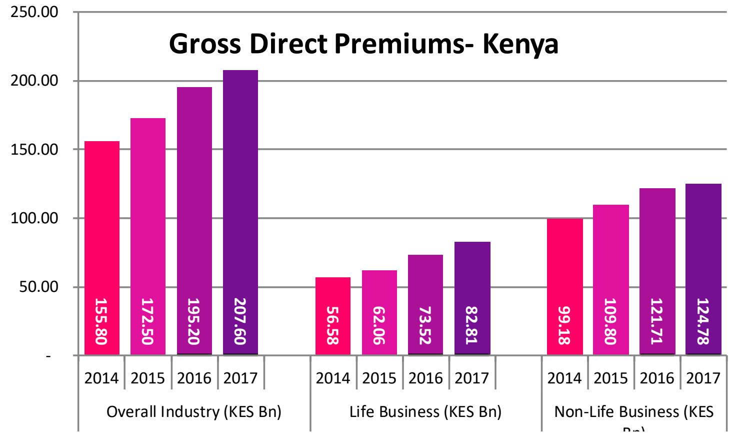


Source: IRA, AIB Capital

» **The stay order on the interest caps is a blow to the Kenyan insurance industry.** The fallout from the capping of interest rates is most likely to continue being felt by the Kenyan industry. The curtailing of credit to the private sector will prevent crucial investments into insurable projects or insurable assets. The ripple effect from decline in growth of insurable opportunities will cap the growth of the insurance sector as a whole.

» **Industry implementation of IFRS 17 implementation will improve clarity.** The IFRS 17 expected to be implemented by 1st January 2021 is expected to promote greater transparency and encourage better product design in the insurance industry globally. The implementation of the accounting standards in Kenya will likely have the same desired effect.

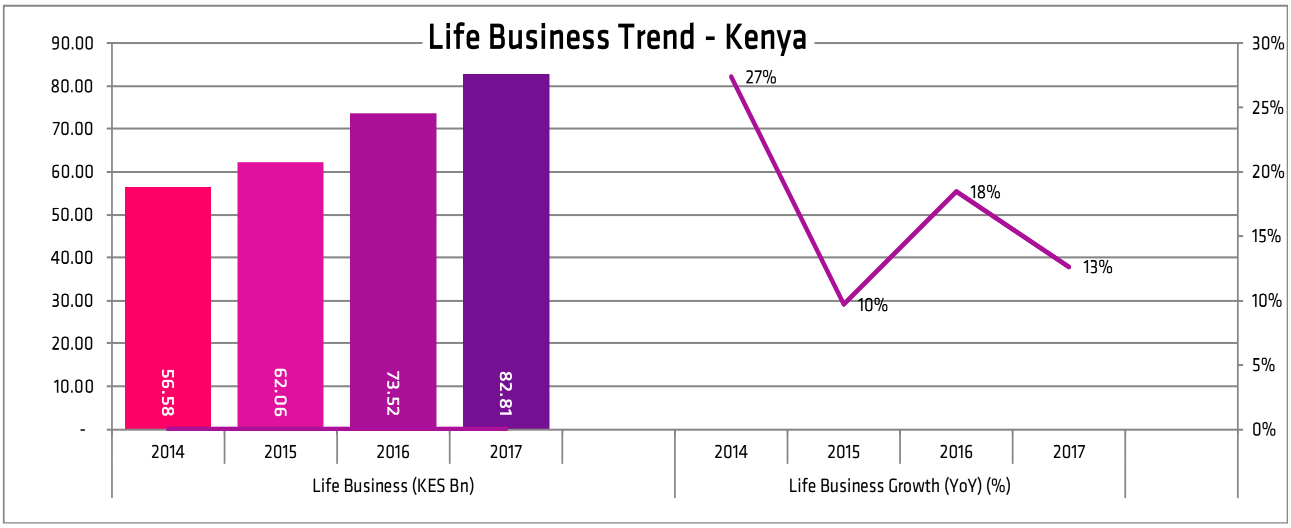
» **Insurance agencies still have a big role to play in the growth of insurance in Kenya.** The low levels of awareness and low penetration of insurance services means that sales agents remain key in growing the insurance sector. Personalized service is needed to deliver the insurance product to the consumer despite cheaper emerging digital avenues. The importance of insurance, however, means that cost reduction of insurance commissions paid may continue to be elusive in the short run.

» **Big data and technology could be a game changer if adoption accelerates.** Big data and new technology are causing disruptions the global insurance. InsurTech adoption is quickly heating, up with more and more insurance companies globally embracing the approach to: speed up claims, automate their back-office processes and improve customer experience. Great rewards await the first successful adopters of InsurTech in Kenya.

» **The continued general recovery of Kenya's economic growth will provide crucial tailwinds in the medium term.** General Business could benefit from its sensitivity to the growth of the Kenyan GDP in the medium term as the economy recovers. .

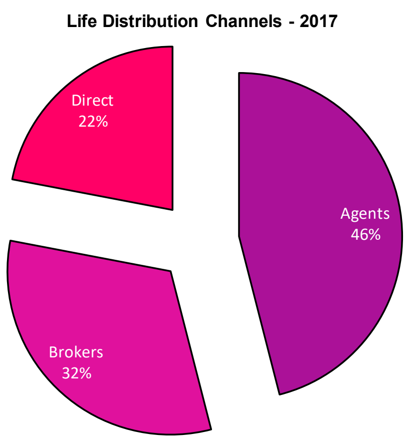
Kenya: Insurance Trends
Life Business

» **The Kenyan long-term insurance business (Life Business) continues to grow in double digits.** The demand for Life insurance products continues to grow aided by rising disposable incomes in Kenya. The Life business will likely continue to grow at the current momentum as a young demographic and a rising population provide demand for Life Insurance products.

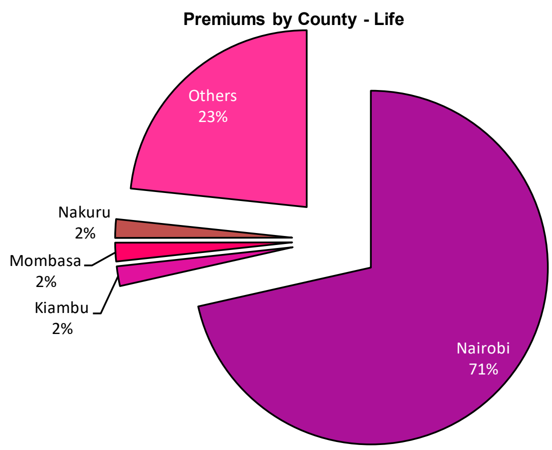


Source: Swiss Re Institute, AIB Capital

» **Agents and Brokerage still remain the key source of business in the sector:** Owing to the developing nature and relatively low insurance product awareness, Life business growth continues to be driven by direct customer interactions such as agents and insurance brokers. The Life Insurance channels can be divided into three, namely: Agents, Brokers and directly sourced by the insurance companies themselves. Of the three insurance, Agents source approximately 46% of the Long-Term business, while brokers are responsible for 32% of the same. The current business sourcing channels means that stakeholder engagement, especially agents and brokers, remains a crucial ingredient in growing Life insurance's Gross Direct Premiums.

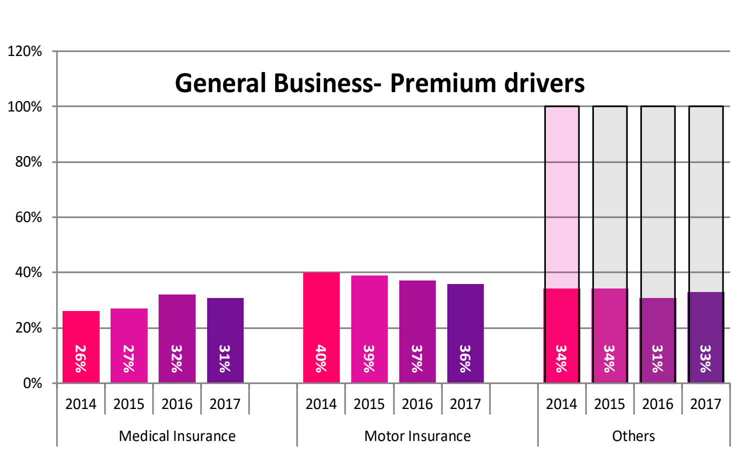


Source: AKI, AIB Capital



Source: AKI, AIB Capital

» **Pensions and Life assurance remain key Life business segments.** The Pension and life Assurance products remain key revenue drivers in the Life Business. The two business segments constituted 61% of Life Business Gross Direct Premiums in 2017. The two products have consistently provided over 50% of Life's Gross Direct Premiums. Bar a significant shift in consumer preferences Life Assurance and Pension products will continue to outperform the other Life insurance products such as Annuities, Group Life, Group Credit and Investments



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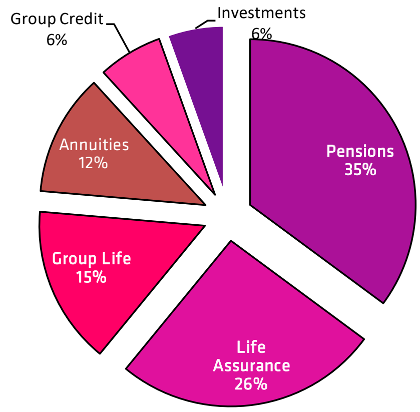
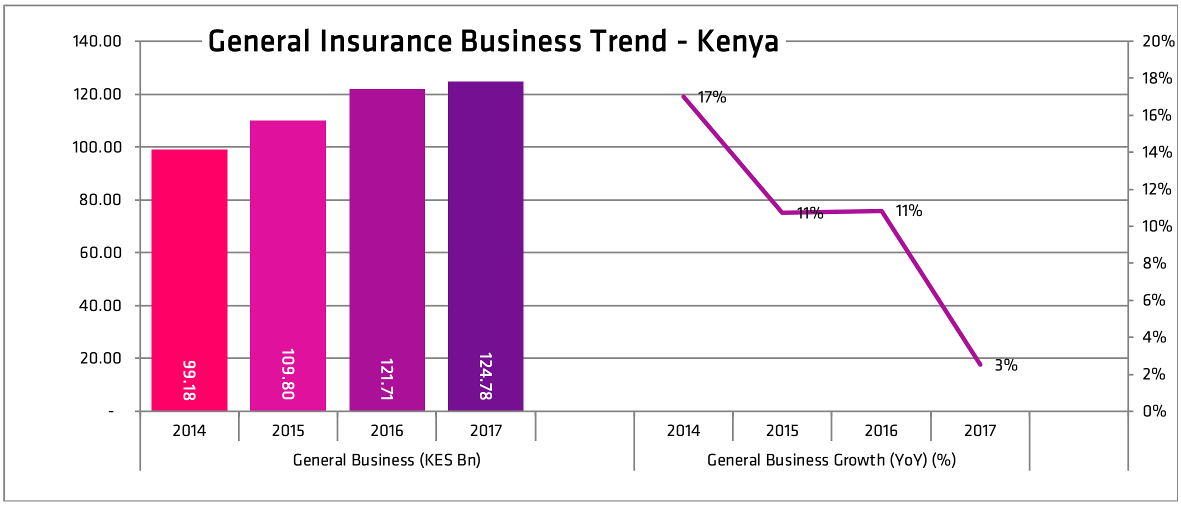


Life Insurance Business Premiums by Classes

Source: IRA, AIB Capital

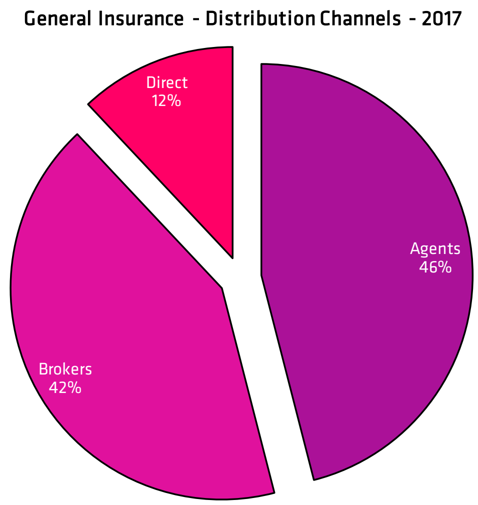
Kenya: Insurance Trends General Business

» **The growth in General Insurance ground to a halt in 2017.** The Gross Direct Premiums in 2017 grew by only 3% to KES 124.78Bn from KES 121.71Bn registered in the previous year. The suppressed growth underlines the sensitivity of Non-Life insurance to the growth of economy. The Kenyan economy slowed down in 2017 succumbing to significant headwinds to grow only by 4.9% from 5.9% in 2016. Prevailing drought, high inflation, slowing credit to the private sector and political uncertainty all combined to impede growth of Kenya's Gross Domestic Product (GDP) in 2017. General insurance business growth will likely recover as business activity increases and household incomes improves in the medium term.

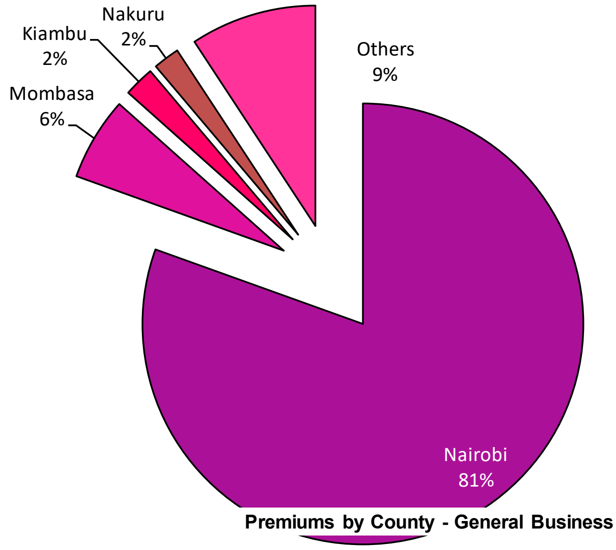


Source: IRA, AIB Capital

» **Just like the Life insurance business, the General insurance business channels still remain biased towards agents and brokers.** The premiums distribution channels of the General insurance business players still rely on third party participants. The General insurance business still relies on insurance agents for the 46% of their premiums. This is a reflection of the nascent nature of the insurance industry in Kenya. Direct channels to consumer are still a minor source of General insurance premiums contributing to only 12%. The current distribution channels provide little avenues for insurance companies to manage and differentiate their consumer experiences.

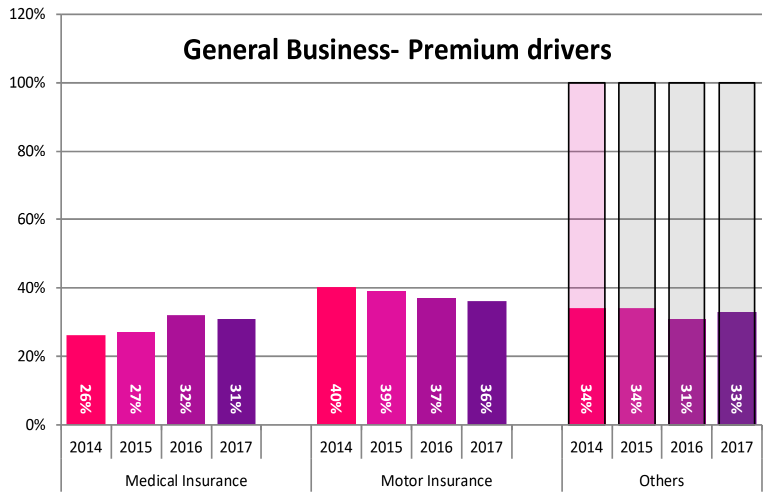


Source: IRA, AIB Capital



Source: IRA, AIB Capital

» **The fortunes of the general insurance business still hinge on only a trilogy of product segments namely: Medical insurance, Motor Commercial and Motor Private.** The General Insurance Business ability to Gross Direct Premiums generation is still heavily concentrated around the three classes due to regulatory requirements and the need to manage the high cost of health services in Kenya. The concentration of the Gross Direct Premiums to only three product lines breeds the potential for industry fragmentation, increases the industry's systematic vulnerability to fraud and accelerates price undercutting.



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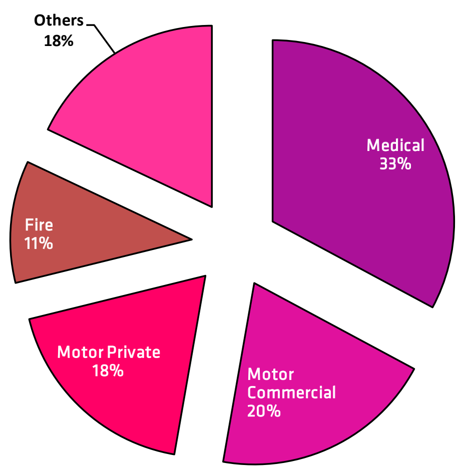


Source: IRA, AIB Capital

Britam Holdings Plc

When the punishment Doesn't fit the crime

» **We upgrade our recommendation from a HOLD to a BUY.** Our investment recommendation for Britam Holdings has turned into a BUY from a HOLD driven by an over bearish investor sentiments on the stock. The investor low valuation we believe is unjustified despite disappointing FY17 and FY18 numbers. The stock currently trades at an attractive P/B trading multiple of 0.91x, compared to the SSA peer trading P/B multiple of 1.27x. We encourage long term investors to gain an investment in the stock to benefit from a possible EPS recovery in the medium term .

» **The life insurance business continues to grow.** The Life insurance business continues to be the bright spot for Britam growing by 6% in FY18. The life insurance business we believe holds the key for future Premium growth in the medium term. We see Britam's Life Business growing at 13.1% CAGR, driven by the recovery of Gross National Disposable Income in the medium term.

» **Gross earned premium and the fund management fees grew by 4.4%** to KES 24.3Bn in FY18 from KES 23.3. The Insurance company recorded a marginal growth of 4.4% on its top line. The growth of the Gross earned premiums was most likely inspired by the hardening of underwriting conditions over the FY18 that enabled the insurer price in risk effectively.

» **Fund management Fees were down 13%.** With AUM struggling under the weight of a bearish market, management fees gained by Britam suffered in FY18. We expect managements to tick up in the medium term as the equity markets recover. Global macro conditions, such as easy accommodative monetary policy is set to give emerging markets such as Kenya, support in the medium term.

» **Unrealised loss of listed equities stood at KES 3.2Bn in FY18.** The equities market in Kenya took a beating in second half of 2018 after parliament voted to leave rate caps untouched and as foreign investors turned their focus elsewhere put off by a strong KES performance in 2018. This combination of factors drove the valuation of equities held by Britam from a gain position of KES 0.9 Billion to weaken to a loss position of KES 3.2 Billion in just 12 months.

» **AfricInvest US$ 55 Million dilution will continued to be felt for a long time to come.** AfricInvest partnered with DEG to plug in KES 5.56 Billion into Britam in return for 14.3% of Britam. The investment is expected to help Britam in its restructuring efforts, help in digitalization and improve its product offering across its regional presence. The benefit may be in the long-term but its cost would be immediate. Investors should expect to be diluted in the medium term, with the issued shares up to 2.52Billion shares from 1.99Bn. This significant increase means that Earnings Per Share and Dividend Per Share will be diluted in the short term until the investments pay off.

» **Dividend pay-out in FY18 goes to zero:** Management indicated that they wouldn't be paying a dividend for the FY18 financial period. The decision will most likely not go down well in the current dispensation where investors are leaning towards dividends to improve the returns of their portfolio. We believe that management in likely to keep the zero pay-out in the next year as well as they focus on spending to cut costs, focus on transforming consumer experiences and optimize their microinsurance business.

» **We rationalize our outlook to reflect a dimmer outlook than we had envisioned in our last report.** At a FY18 EPS of KES - 0.26, Britam's FY18 actual EPS results came in lower than our FY18 EPS expectation of KES 1.73. We have realigned our FY19 EPS expectation lower due to cost overhangs from business restructuring, dimer investment outlook and a depressed property market. We have lowered our FY19 EPS to KES 0.87 from KES 1.87, to account for dilution and dimmer outlook on Britam. We have also downgraded out Target Price to KES 12.52 from KES 11.19, revealing a potential upside of 32% but we expect no dividends for FY19.

BRIT

Rating:
BUY

Target Price:
KES 10.79

Upside:
25%

Current Price:
KES 8.62

52 week range:
8.74 to 15.85

FY18 EPS:
KES (0.92)

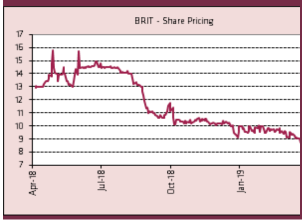
P/E:
NM

P/B:
0.91

ROaE
-9.48%

ROaA:
-2.18%

Dividend Yield:
0%



BRITISH AMERICAN INVESTMENT COMPANY					
CONSOLIDATED INCOME STATEMENT					
(AMOUNTS IN KES '000)	2017A	2018E	2019E	2020E	2021E
GROSS PREMIUMS	23,298,311	24,325,111	25,975,484	30,573,379	36,070,774
Less: reinsurance premium ceded	(3,000,191)	(3,263,451)	(3,766,664)	(4,433,398)	(5,230,566)
NET PREMIUMS EARNED	20,298,120	21,061,660	22,208,820	26,139,981	30,840,208
NET EARNED PREMIUMS AND MGMT FEE	21,058,750	21,722,773	23,205,329	27,312,882	32,224,007
Investment Income	5,771,547	3,618,315	4,101,649	4,827,677	5,695,741
TOTAL INCOME	27,836,674	26,393,611	28,789,000	33,884,913	39,977,754
NET INSURANCE BENEFITS AND CLAIMS	12,498,761	14,247,140	12,037,169	14,167,857	16,715,377
Operating & Other Expenses	7,605,574	8,244,558	7,170,975	8,418,226	9,906,805
Total expenses and commissions	13,588,685	13,247,118	13,324,610	15,661,110	18,452,031
Financing costs	1,186,147	905,567	1,407,234	1,366,709	1,321,322
TOTAL EXPENSES	27,273,593	28,399,825	26,769,013	31,195,675	36,488,730
Profit/ (loss) before share of the profit of the associate	563,081	(2,006,214)	2,019,987	2,689,237	3,489,024
Share of profit of the associates	53,006	(289,656)	(289,656)	(289,656)	(289,656)
PBT	616,087	(2,295,870)	1,730,331	2,399,581	3,199,368
Income tax expense	(338,369.00)	85,585	(519,099)	(719,874)	(959,810)
PROFIT/(LOSS) FOR THE YEAR	277,718	(2,210,285)	1,211,232	1,679,707	2,239,558
EPS	0.26	- 0.92	0.48	0.67	0.89
DPS	0.35	-	-	0.17	0.22
Dividend Payout	272.5%	24%	24%	25%	25%
Retention Rate(b)	-172.5%	76.5%	76.5%	75.0%	75.0%
ROE	1.37%	-9.48%	4.93%	6.46%	8.07%

BRITISH AMERICAN INVESTMENT COMPANY					
CONSOLIDATED BALANCE SHEET					
(AMOUNTS IN KES '000)	2017A	2018A	2019E	2020E	2021E
TOTAL EQUITY	22,670,010	23,956,170	26,150,640	28,852,390	31,146,374
REPRESENTED BY:					
Property & Equipment	1,503,409	1,365,422	1,292,768	1,214,302	1,129,558
Intangible assets	2,093,587	2,122,184	2,354,523	2,633,329	2,967,896
Investment property	5,912,091	7,651,596	7,651,596	7,651,596	7,651,596
Other assets	71,730,926	76,203,911	75,782,441	75,695,875	75,648,316
Receivables arising out of direct reinsurance arrangements	645,487	703,320	1,136,070	1,333,387	1,568,604
Receivables arising out of direct insurance arrangements	2,161,466	2,317,194	3,154,875	3,702,826	4,356,024
Reinsurers'share of insurable liabilities	3,726,914	3,145,058	4,561,611	5,353,889	6,298,343
Deferred acquisition costs	464,148	482,053	482,053	482,053	482,053
Deferred income tax	450,398	633,484	633,484	633,484	633,484
Current income tax receivable	221,139	320,498	320,498	320,498	320,498
Other receivables	1,644,946	1,944,610	1,944,610	1,944,610	1,944,610
Restricted Cash	47,191	45,601	45,601	45,601	45,601
Cash & bank balances	8,423,155	6,721,401	3,762,567	15,150,556	31,993,442
TOTAL ASSETS	99,024,857	103,656,332	103,122,697	116,162,005	135,040,025
Deferred Income Tax Liability	3,424,054	2,831,319	2,831,319	2,831,319	2,831,319
Insurance contract liabilities	23,896,282	28,221,461	30,368,199	35,642,662	41,930,217
Amount payable under deposit administration contracts	28,017,662	34,174,911	24,924,523	28,207,304	31,922,456
Liabilities under investment contracts	4,025,507	3,003,326	7,054,767	7,983,942	9,035,498
Unearned premium	4,572,067	4,696,248	6,578,399	7,720,960	9,082,978
Creditors arising from reinsurance arrangements	752,226	1,252,887	1,130,325	1,326,644	1,560,671
Borrowings	7,963,470	2,786,861	1,351,377	863,634	4,797,363
Other payables	3,551,853	2,726,947	2,726,947	2,726,947	2,726,947
Current income tax payable	151,726	6,202	6,202	6,202	6,202
TOTAL LIABILITIES	76,354,847	79,700,162	76,972,058	87,309,615	103,893,650

Valuation Assumptions	
Variable	Assumed
Rfr (10-yr T-bond)	12.250%
Equity Risk Premium	4.5%
Adjusted Beta	0.99
Cost of Equity (Based on CAPM)	16.7%
Cost of Debt	12.0%
Equity/Debt Ratio	70.0%
Terminal Growth	6.0%
Tax Rate	30.0%
WACC	14.2%
No of Shares	2,523,486,816
Valuation Day	29-Apr-19
Share Price	8.62

1.0 BRIT Summary	31-Dec-18	31-Dec-19	31-Dec-20	31-Dec-21	31-Dec-22	31-Dec-23
Beginning BVPS		9.49	10.36	11.27	12.28	13.58
EPS		0.87	1.07	1.18	1.48	1.84
DPS		-	0.16	0.17	0.18	0.20
Changes in Retained Earnings		0.87	0.91	1.01	1.30	1.64
Ending BVPS	9.45	10.36	11.27	12.28	13.58	15.22

2.0 Excess Equity Return						
EPS		0.87	1.07	1.18	1.48	1.84
After Tax Salvage Value						1.14
Equity Charge		0.15	0.18	0.20	0.25	0.50
Excess Equity Return		0.72	0.89	0.98	1.23	2.48
Time (t)		0.66	1.65	2.64	3.62	4.61
Discounting Factor		0.92	0.80	0.70	0.62	0.54
PV or Residual Income		0.66	0.72	0.69	0.76	1.35
Present BVPS (BV0)	9.45					
PV of Residual Income	4.18					
Estimated Fair Value	13.63					

3.0 Dividend Discount Model		31-Dec-19	31-Dec-20	31-Dec-21	31-Dec-22	31-Dec-23
Dividend Per Share (DPS)		-	0.27	0.29	0.37	0.46
Add Terminal Value						8.13
DPS+Terminal Value		-	0.27	0.29	0.37	8.59
Time (t)		0.66	1.65	2.64	3.62	4.61
Discounting Factor		0.92	0.80	0.70	0.62	0.54
PV or Residual Income		-	0.21	0.21	0.23	4.66
Estimated Fair Value	5.31					

4.0 Relative Valuation				
4.1 P/E			4.2 P/B	
Median P/E	12.79		Median P/B	1.27
FY 2019 EPS	0.87		BVPS 2019	10.36
Fair Value	11.12		Fair Value	13.11

5.0 Valuation			
Methodology	Fair Value Estimates	Weighting	Weighted Average
Excess Return on Equity	13.63	25.00%	3.41
Dividend Discount Model	5.31	25.00%	1.33
Relative Valuation (P/E)	11.12	25.00%	2.78
Relative Valuation (P/B)	13.11	25.00%	3.28
Target Price			10.79

6.0 Recommendation	
Upside/(Downside)	25%
Total Return	25%
Recommendation	BUY

CIC Insurance Group

FY18 top performer

» **Our investment recommendation on CIC insurance has been upgraded to a HOLD from a SELL** due to the persistent decline in price, it has lost a cumulative of.10.19% in the last month. The stock currently is selling at a demanding P/E multiple of 14.97x and a P/B multiple of 1.22X compared to the peer SSA median P/E of 12.79x and the peer SSA P/B median of 1.27x. We advise investors to take-profit at the current valuation levels because its current price leaves little room for upside.

» **CIC's bias to the Non-life business classes especially motor and medical insurance will benefit from a recovery of underwriting conditions.** General insurance business is especially sensitive to business conditions and the economy in general. The increase in insurable activity and the increase in household income in the medium term will provide the tailwinds for the insurance Group to increase premiums.

» **Gross written Premiums increased by 11% in FY18 to KES 16.6Bn from KES 14.3 Bn reported in FY17.** The recovery of previously soft underwriting conditions in FY18 saw most insurers increase their Gross written Premiums, CIC Insurance group was no different. We see growth CIC's Gross Written Premium's growth slowing down to 6% in FY19 but to about 9% accelerate by FY23. The growth in premiums for the next four years will be supported by a rise in household incomes and an increase in demand for risk mitigation in the medium term.

» **Headwinds from valuation of CIC's investments in the equity market and investment property affected the bottom-line.** Investment income in FY18 was flat as headwinds in the equity market and Real Estate suppressed potential fair value gains. The trend we opine, is, however, industry wide. A reversal in market sentiments in the equity market in the medium term a potential recovery of the property market could boost investment incomes.

» **Management increase of dividends by 8.3% to KES 0.13 in FY18 from KES 0.12 will be welcomed by investors.** As other insurers deciding against paying dividends, CIC insurance increased its dividends on the back of a 31% firming of FY18 EPS. The dividend may have increased but the dividend pay-out decreased to 50.5% of EPS compared to the dividend pay-out of 55.4% in FY17. We expect the dividend pay-out to remain within the range 0f 40% to 50% in the next four years as management increase dividends consistently.

» **The claims and benefit expenses in FY18 grew by 18% to KES 9.25Bn.** Claims and benefit expenses increased in FY18 to KES 9.25Bn from the KES 7.86Bn reported in FHY17. The increase in Premiums is likely the cause of the increase in claims and policy holders benefits in FY18. The loss ratio however remained flat at 65%, reflecting no change in the quality of business underwritten by CIC insurance.

» **Non-Core incomes all declined in FY18. Non-core incomes including: Fees & commission income,** foreign exchange gains and other gains all declined in FY18. This positively reflected the sustainability of CIC's earnings growth going forward. The 31% growth of FY18 Profit After Tax in FY18 to. KES 625Mn from KES 478Mn in FY17. The low reliance on Non-core income and flat investment income means that the growth of Profit After Tax in FY18 was mainly driven by a better core business outcome.

» **We have revised our outlook to reflect the stronger than expected EPS earnings in FY18.** The 31% increase in FY18 EPS was a stronger than expected performance from CIC insurance. We have now revised our projections to reflect a stronger outlook than our previous expectation. We see EPS growth in FY19 slowing to 27% and continue to grow at 15% all through to FY23. The stronger EPS performance also means that we have upgraded out Target Price to KES 3.66 from KES 2.78.

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CIC

Rating:
HOLD

Target Price:
KES 3.66

Upside:
3%

Current Price:
KES 3.54

52 week range:
3.20 to 5.40

FY18 EPS:
KES 0.24

P/E:
14.57x

P/B:
1.22x

ROaE
8.09%

ROaA:
0.9%

Dividend Yield:
4%

CIC GROUP CONSOLIDATED INCOME STATEMENT (AMOUNTS IN KES '000)	2017	2018	2019	2020	2021
TOTAL GROSS WRITTEN PREMIUMS	14,886,887	16,627,384	17,638,262	19,282,376	21,106,117
TOTAL GROSS EARNED PREMIUMS	14,336,192	16,945,301	17,581,240	19,220,040	21,037,884
Less: Reinsurance premiums ceded	(2,241,195)	(2,683,815)	(2,685,929)	(2,936,292)	(3,214,009)
Net Earned Premiums	12,094,997	14,261,486	14,895,311	16,283,747	17,823,875
Fees and Commission Income	1,023,407	903,839	899,937	983,823	1,076,874
Investment Income	1,543,581	1,517,464	1,784,122	1,950,426	2,134,898
Other Gains/(Losses)	704,373	354,096	371,958	391,004	411,061
Foreign Exchange Gain	233,904	41,826	-	-	-
Total Income	15,600,262	17,078,711	17,951,328	19,609,000	21,446,708
Commission Expense	2,122,470	2,384,012	2,325,519	2,542,287	2,782,738
Net benefits and claims	7,856,468	9,250,055	9,739,547	10,647,399	11,654,437
Operating and other expenses	4,264,736	4,601,816	3,858,852	4,223,869	4,629,278
Total Expenses	14,431,152	16,235,883	16,148,123	17,658,658	19,334,739
Finance Cost	(650,000)	-	(675,590)	(647,595)	(616,242)
Share of Profits/ (Loss) on Associate	46	8,793	8,793	8,793	8,793
Profits for the Year	519,156	851,621	1,136,409	1,311,540	1,504,520
Income tax expense	(40,683)	(226,258)	(340,923)	(393,462)	(451,356)
PROFIT/(LOSS) FOR THE YEAR	478,473	625,363	795,486	918,078	1,053,164
Dividends: On Ordinary Shares	313,869	340,020	392,331	418,486	418,486
Retained Earnings	164,604	285,343	403,156	499,592	634,678
Ordinary Shares: Weighted Average	2,615,539	2,615,539	2,615,539	2,615,539	2,615,539
EPS	0.18	0.24	0.30	0.35	0.40
DPS	0.12	0.13	0.15	0.16	0.17

CIC GROUP CONSOLIDATED BALANCE SHEET (AMOUNTS IN KES '000)	2017	2018	2019	2020	2021
TOTAL EQUITY	7,637,108	7,882,486	8,285,642	8,785,233	9,419,911
Property & Equipment	1,204,738	1,128,384	1,104,801	1,099,081	1,092,847
Intangible assets	171,257	249,261	266,687	287,163	311,221
Investment property	6,686,483	7,231,475	7,593,049	7,972,701	8,371,336
Investment in Associate	137,924	146,717	155,510	164,303	173,096
Receivables arising out of direct reinsurance arrangements	1,429,216	1,902,239	1,580,544	1,727,871	1,891,294
Receivables arising out of direct insurance arrangements	1,527,331	1,627,426	1,765,876	1,930,478	2,113,064
Reinsurers 'share of insurable liabilities	2,252,569	2,146,606	2,767,903	3,025,908	3,312,100
Other Assets	11,996,257	12,833,625	12,862,474	12,862,474	12,862,474
Deposits with financial institutions	4,836,107	5,253,988	4,836,107	4,836,107	4,836,107
Cash & bank balances	263,494	456,012	448,916	925,219	1,572,696
TOTAL ASSETS	30,505,376	32,975,733	33,381,867	34,831,305	36,536,236
LIABILITIES					-
Insurance contract liabilities	4,697,857	5,242,071	5,122,973	5,600,501	6,130,200
Amount payable under deposit administration contracts	2,113,915	3,124,116	3,124,116	3,124,116	3,124,116
Unearned premiums reserve	4,510,237	4,192,320	4,249,342	4,311,678	4,379,911
Actuarial value of policyholder liabilities	4,268,880	5,166,952	4,965,293	5,636,555	6,401,509
Unit linked contracts	536,926	474,554	474,554	474,554	474,554
Payables arising from direct insurance arrangements and insurance bodies	132,403	245,047	245,047	245,047	245,047
Borrowings	5,106,529	5,129,914	5,396,628	5,135,348	4,842,715
Other payables	949,764	1,014,747	1,014,747	1,014,747	1,014,747
Current income tax payable	43,341	7,702	7,702	7,702	7,702
TOTAL LIABILITIES	22,868,268	25,093,247	25,096,226	26,046,072	27,116,325

Valuation Assumptions						
Variable	Assumed					
Rfr (10-yr T-bond)	12.250%					
Equity Risk Premium	4.5%					
Adjusted Beta	1.45					
Cost of Equity (Based on CAPM)	18.8%					
Cost of Debt	12.0%					
Equity/Debt Ratio	56.9%					
Terminal Growth	6.0%					
Tax Rate	30.0%					
WACC	14.3%					
No of Shares	2,615,539					
Valuation Day	30-Apr-19					
Share Price	3.54					
1.0 CIC Summary	31-Dec-18	31-Dec-19	31-Dec-20	31-Dec-21	31-Dec-22	31-Dec-23
Beginning BVPS		3.01	3.17	3.36	3.59	3.88
EPS		0.30	0.35	0.40	0.46	0.53
DPS		0.15	0.16	0.17	0.18	0.20
Changes in Retained Earnings		0.15	0.19	0.23	0.28	0.33
Ending BVPS	3.01	3.17	3.36	3.59	3.88	4.21
2.0 Excess Equity Return						
EPS		0.30	0.35	0.40	0.46	0.53
After Tax Salvage Value						0.63
Equity Charge		0.06	0.07	0.08	0.09	0.22
Excess Equity Return		0.25	0.29	0.33	0.38	0.94
Time (t)		0.66	1.65	2.64	3.62	4.61
Discounting Factor		0.92	0.80	0.70	0.62	0.54
Present BVPS (BV0)	3.01	0.23	0.23	0.23	0.23	0.51
PV of Residual Income	1.43					
Estimated Fair Value	4.44					
3.0 Dividend Discount Model		31-Dec-19	31-Dec-20	31-Dec-21	31-Dec-22	31-Dec-23
Dividend Per Share (DPS)		0.15	0.16	0.16	0.17	0.18
Add Terminal Value						3.18
DPS+Terminal Value		0.15	0.16	0.16	0.17	3.36
Time (t)		0.66	1.65	2.64	3.62	4.61
Discounting Factor		0.92	0.80	0.70	0.62	0.54
PV or Residual Income		0.14	0.13	0.11	0.10	1.81
Estimated Fair Value	2.30					
4.0 Relative Valuation						
4.1 P/E			4.2 P/B			
Median P/E	12.79		Median P/B	1.27		
FY 2019 EPS	0.30		BVPS 2019	3.17		
Fair Value	3.89		Fair Value	4.01		
5.0 Valuation						
Methodology	Fair Value Estimates	Weighting	Weighted Average			
Excess Return on Equity	4.44	25.00%	1.11			
Dividend Discount Model	2.30	25.00%	0.57			
Relative Valuation (P/E)	3.89	25.00%	0.97			
Relative Valuation (P/B)	4.01	25.00%	1.00			
Target Price			3.66			
6.0 Recommendation						
Upside/(Downside)	3%					
Total Return	8%					
Recommendation	HOLD					

Jubilee Holdings Limited

Ground set for Jubilee's revival...

JUB

Rating:
BUY

Target Price:
KES 504.71

Upside:
20%

Current Price:
KES 420

52 week range:
366 to 540

FY18 EPS:
KES 52.52

P/E:
8.00x

P/B:
1.06x

ROaE
16.80%

ROaA:
3..8%

Dividend Yield:
2.2%

» **Jubilee trading at attractive trading multiples inspired by overall low market sentiments.** The counter is currently trading attractive P/E multiple of 8.00x and a P/B multiple of 1.06x compared to the peer SSA median P/E of 12.79x and the peer SSA median of P/B of 1.27x. The low valuations on Jubilee is unjustified given the company maintains its moot as the largest composite insurer in East Africa. The company is best place to ride the hardening of underwriting conditions to grow its EPS in FY18.

» **Jubilee's Gross Written Premiums fell by 5.7% to KES 26.70Bn.** Gross Written Premiums collected in FY18 was also 6.08% below our expectation for Jubilee. We had expected Gross Written Premiums in FY18 to be flat from FY17 levels as the losses from the discontinuation of non-profitable schemes in FY18 would be offset by tailwinds from a firming up of underwriting conditions during the year. We believe that the drop in premiums may have been driven by the rationalization of business underwritten by management.

» **Results of operating activities grew by 2% on decline of claims:** The group's operating profits improved slightly as Net claims and Benefits fell by 18.95% in FY18. Gross Claims and Policy Holders' benefits expenses fell pushing Jubilee's Loss ratio lower to 83.7% in FY18 from FY17's 84.12%. Better quality of business undertaken by management was the most likely reason for the fall of claims and benefits in FY18.

» **EPS declined by a mute 3.2% in FY18 suppressed by higher burden of income tax** . Jubilee's FY18 income tax grew by 32% to KES 1.23Bn from KES 0.93Bn in FY17. The tax paid was 23% of Jubilee's FY18 Profit Before tax, slightly higher than the 18% reported in FY17. The higher income tax expense wiped out the marginal 4,83% growth of Profit Before Tax in FY18 to KES 5.4Bn from KES 5.2Bn.

» **Jubilee remains vulnerable to regulatory disruption in the East African regions.** Jubilee's subsidiary in Tanzania was hit by a decision by the Tanzanian government decision to mandate all government agencies to buy medical insurance from the state insurer, NHIF in 2016. This exposes Jubilee insurance to a resurgence of protectionist wave in region if countries in the region such as Uganda and Burundi follow suit.

» **Jubilee's exposure to Non-Life insurance business will potentially benefit from growth in the region:** The SSA non-resource intensive countries in the East African region in expected to continue to enjoy at least 5% growth of their GDP in the medium term. The expansion in activity in the region should give Jubilee insurance with ample tailwinds to grow their Premiums in the medium term as incomes improve and demand for risk mitigation increases. We see the group continuing to improve the quality of the business they do underwrite as a hardening of underwriting conditions improves Jubilee's negotiating power as medical schemes come up for renewal.

» **Investment in improving risk management systems and process optimization should lead to a faster growth of EPS in FY 20.** We see Jubilees investments into such as using fraud detection using enhanced ICT, electronic transmission of claims and a wide use of biometric cards as key cost & time saving initiatives that will help Jubilee Insurance to grow their bottom-line faster in the medium term. We see EPS growth recovery in FY20 after a slight correction of FY19 growth. The growth of EPS should however taper off to 5% by FY23.

» **We upgrade our target price to KES 504.71 per share to reflect an improved outlook for Jubilees insurance.** We see a recovery of Gross Written Premiums (GWP) by 13% in FY19 as the underwriting conditions improve towards pre FY16 levels. The better risk priicing conditions combined with a focus on business quality should help FY EPS to grow to KES 57.62. Upward risks to our valuation, however, exists. The improvement in the investment environment in the medium term as global investors chase yields in emerging markets could life EPS higher levels beyond our expectations.

JUBILEE HOLDINGS CONSOLIDATED INCOME STATEMENT (AMOUNTS IN KES '000)	2017	2018	2019	Forecasts 2020	2021
GROSS PREMIUMS	28,328,848	26,706,654	30,382,431	32,824,052	35,510,755
Less:reinsurance premium ceded	(9,134,984)	(9,385,170)	(10,229,879)	(10,943,611)	(11,968,860)
NET PREMIUMS EARNED	19,193,864	17,321,484	20,152,552	21,880,441	23,541,895
Investment Income	7,162,008	8,720,734	7,569,638	8,177,956	8,847,336
Fee income	413,352	-	256,011	276,585	299,224
TOTAL INCOME	31,273,148	28,011,844	30,067,436	32,592,113	35,130,336
NET CLAIMS & POLICYHOLDER BENEFITS PAYABLE	19,653,896	15,929,910	16,952,554	18,314,910	19,814,016
Share of associate's profit	1,182,702	1,339,513	1,339,513	1,339,513	1,339,513
PBT	5,160,970	5,410,008	6,418,468	6,932,821	7,258,893
Income tax expense	(930,660)	(1,233,057)	(1,925,540)	(2,079,846)	(2,177,668)
PROFIT/(LOSS) FOR THE YEAR	4,230,310	4,176,951	4,492,927	4,852,975	5,081,225
Non-controlling interest	298,168	294,407	316,678.26	342,056	358,144
Attributed to:					
Equity Holders of the company	3,932,142	3,806,450	4,176,249	4,510,919	4,723,081
Non-controlling interest	298,168	370,501	316,678	342,056	358,144
EPS	54.26	52.52	57.62	62.24	65.17
ROE	16.77%	15%	14%	14%	13%

JUBILEE HOLDINGS CONSOLIDATED BALANCE SHEET (AMOUNTS IN KES '000)	2017A	2018F	2019F	2020F	2021F
TOTAL EQUITY	25,230,650	29,444,414	34,026,222	38,991,310	44,185,289
Property & Equipment	281,187	373,596	485,968	622,072	786,352
Intangible assets	158,341	152,749	146,450	139,354	131,362
Investment property	6,270,940	6,690,721	7,143,661	7,633,001	8,162,394
Loans to policy holders	788,958	767,262	827,870	894,400	967,608
Receivables arising out of direct reinsurance arrangements	3,071,800	2,448,036	2,641,410	2,853,681	3,087,260
Receivables arising out of direct insurance arrangements	4,204,795	5,167,865	5,576,082	6,024,192	6,517,282
Reinsurers'share of insurable liabilities	7,250,563	7,019,884	7,574,395	8,183,095	8,852,895
Other Assets	70,837,477	72,020,179	73,202,881	74,385,583	75,568,285
Deposits with financial institutions	10,585,597	10,585,597	10,585,597	10,585,597	10,585,597
Cash & bank balances	1,517,872	5,092,442	14,995,934	26,102,726	38,428,002
TOTAL ASSETS	104,967,530	110,318,332	123,180,247	137,423,702	153,087,036
Deferred Income Tax Liability	199,550	199,550	199,550	199,550	199,550
Insurance contract liabilities	24,983,504	25,734,403	27,767,199	29,998,652	32,454,091
Amount payable under deposit administration contracts	42,214,336	40,565,010	45,907,781	51,954,243	58,797,077
Dividend Payable	369,176	369,176	369,176	369,176	369,176
Unearned premium	7,571,212	8,912,616	9,616,636	10,389,457	11,239,851
Creditors arising from reinsurance arrangements	2,006,921	2,810,679	2,994,133	3,203,032	3,503,107
Payables arising from direct insurance arrangements	325,730	216,033	233,098	251,831	272,443
Borrowings	-	-	-	-	-
Other payables	1,995,468	1,995,468	1,995,468	1,995,468	1,995,468
Overdraft		-	-	-	-
Current income tax payable	70,983	70,983	70,983	70,983	70,983
TOTAL LIABILITIES	79,736,880	80,873,918	89,154,024	98,432,391	108,901,746

Valuation Assumptions	
Variable	Assumed
Rfr (10-yr T-bond)	12.250%
Equity Risk Premium	4.5%
Adjusted Beta	0.68
Cost of Equity (Based on CAPM)	15.3%
Cost of Debt	12.0%
Equity/Debt Ratio	100.0%
Terminal Growth	6.0%
Tax Rate	30.0%
WACC	15.3%
No of Shares	72,472,950
Valuation Day	30-Apr-19
Share Price	420

1.0 JUB Summary	31-Dec-18	31-Dec-19	31-Dec-20	31-Dec-21	31-Dec-22	31-Dec-23
Beginning BVPS		361.30	413.92	470.68	530.06	593.81
EPS		61.99	66.96	70.11	75.36	78.71
DPS		9.37	10.20	10.73	11.61	12.17
Changes in Retained Earnings		52.62	56.76	59.38	63.75	66.54
Ending BVPS	361	413.92	470.68	530.06	593.81	660.35

2.0 Excess Equity Return						
EPS		57.62	62.24	65.17	70.05	73.16
After Tax Salvage Value						99.05
Equity Charge		8.82	9.53	9.98	10.72	26.37
Excess Equity Return		48.80	52.71	55.19	59.32	145.85
Time (t)		0.66	1.64	2.63	3.62	4.60
Discounting Factor		0.91	0.79	0.69	0.60	0.52
PV or Residual Income		44.44	41.71	37.95	35.44	75.71
Present BVPS (BV0)	361.30					
PV of Residual Income	235.24					
Estimated Fair Value	596.54					

3.0 Dividend Discount Model		31-Dec-19	31-Dec-20	31-Dec-21	31-Dec-22	31-Dec-23
Dividend Per Share (DPS)		10.37	11.20	11.73	12.61	13.17
Add Terminal Value						232.66
DPS+Terminal Value		10.37	11.20	11.73	12.61	245.82
Time (t)		0.66	1.64	2.63	3.62	4.60
Discounting Factor		0.91	0.79	0.69	0.60	0.52
PV or Residual Income		9.45	8.86	8.06	7.53	127.60
Estimated Fair Value	161.51					

4.0 Relative Valuation				
4.1 P/E			**4.2 P/B**	
Median P/E	12.79		Median P/B	1.27
FY 2019 EPS	57.62		BVPS 2019	413.92
Fair Value	737.02		Fair Value	523.78

5.0 Valuation			
Methodology	Fair Value Estimates	Weighting	Weighted Average
Excess Return on Equity	596.54	25.00%	149.13
Dividend Discount Model	161.51	25.00%	40.38
Relative Valuation (P/E)	737.02	25.00%	184.26
Relative Valuation (P/B)	523.78	25.00%	130.94
Target Price			504.71

6.0 Recommendation	
Upside/(Downside)	20%
Total Return	23%
Recommendation	BUY

Kenya Reinsurance Corporation

Controversies deepens the gap between fundamentals and market...

- **The market valuation of Kenya Re on the NSE continues to dwindle** as the P/E ratio slipped down further this month, with P/E falling down to 3.37x. The counter remains undervalued as the trading P/B multiple of 0.27x and a trading P/E multiple of 3.36x remains below SSA peer median multiples. Management indication of a FY18 profit warning in March may have further soured investor sentiments on the stock.

- **We downgrade Kenya Re from a BUY to a HOLD** despite the counter being undervalued we believe the catalysts that could drive the valuation towards fair value are missing. The issues surrounding corporate governance at the state reinsurer and protectionist regulation may continue to hamper Kenya Re's upside. Intrigues surrounding the Board and the current MD is likely to drag down the investor's perception on Kenya Re. We therefore advise investors to remain neutral on the stock and seek opportunities elsewhere.

- **The current consolidation trend in the insurance sector threatens the reinsurance industry as the sector's demand for reinsurance decreases.** Bigger insurance and more diversified insurance companies have little need for third party risk mitigation from reinsurance companies. We expect that the impending adoption of Risk Based Capital may help reinsurance companies to have visibility over the pricing of risk but there is a potential for the industry to consolidate and reduce the regional tax credit.

- **Protectionist headwinds are brewing for Kenya Re**. In the countries that Kenya Re operates in the Asian and African region protectionist regulation has accelerated over the last few years. Kenya Reinsurance business has suffered loss of market share in Uganda and Ethiopia as compulsory cessations to the national reinsurers ate into the premiums collected by Kenya Re in FY18. The reinsurer also lost business as the India domesticated its insurance.

- **FY18 bottom-line was dented by the 16.2% growth of net-claims:** the increase in Net-claims was mainly driven by the 21% increase in gross claims incurred during the 2018 Full Year (FY18). The company witnessed a significant increase in claims despite growing premiums by only 4%. We expect claims management for Kenya Re to remain a blind spot given the challenges that plague the industry as a whole. Pricing risks in the market they operate is likely to remain challenging despite management investment into risk management software. Price undercutting remains a key threat to pricing risks to Kenya Re especially in Non-life insurance business. Kenya Re remains vulnerable to industry wide insurance fraud especially in the medical insurance, property insurance and motor private insurance.

- **Other factors were also at play in the 32% decline of FY18 PBT** to KES 3.1Bn from KES 4.6Bn. On top of a firming up of net-claims Kenya Re's FY18 bottom-line performance was hampered by an impairment of an asset held for sale, increase in operating expenses, forex losses in South Sudan and a 64% decline share of profits from Zep Re. All the above factors drove EPS to decline by 36.3% to KES 3.25 in FY18 from KES 5.11. recorded in FY17. We see EPS remain flat in FY19 at KES 3.30 as the rise in premiums is offset by the rise in net-claims in the short-term. We, however, opine that EPS will continue to grow in the medium term to KES 4.74 by FY23 as management's current investment in pricing pays dividends.

- **We have downgraded our target price to KES 40.60 per share after FY18 performance fell below our expectation**. The FY18 performance of an EPS of KES 3.25 fell way below our KES 4.22 per share expectation for FY18 and with headwinds accelerating we have revised our Profitability outlook for Kenya Re downwards. With the outlook for Kenya Re now weaker in the medium term we have revised our Target price (TP) downwards to KES 37.30, 10% lower than our previous TP of KES 41.59.

KNRE

Rating:
HOLD

Target Price:
KES 40.60

Upside:
278%

Current Price:
KES 10.70

52 week range:
10.50 to 19.00

FY18 EPS:
KES 3.25

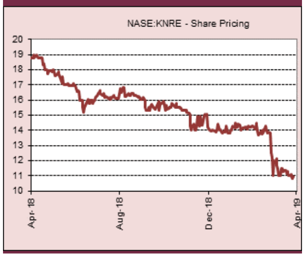
P/E:
3.29x

P/B:
0.26x

ROaE
8.20%

ROaA:
5.23%

Dividend Yield:
4.1%



KENYA RE CONSOLIDATED INCOME STATEMENT (AMOUNTS IN KES '000)	2017A	2018	2019F	2020F	2021F
GROSS PREMIUMS	14,827,296	14,838,393	17,861,512	19,570,155	21,472,157
Less: change in unearned premiums	(600,239)	190,991	(1,160,777)	(1,271,818)	(1,395,424)
Less: retrocession premiums	(547,481)	(823,408)	(775,238)	(849,398)	(931,950)
NET PREMIUMS EARNED	13,679,576	14,205,976	15,925,497	17,448,939	19,144,783
Investment Income	3,165,314	3,386,177	3,367,474	3,726,568	4,088,749
Share of associates profits	504,069	180,865	180,865	180,865	180,865
TOTAL INCOME	18,189,734	18,266,334	19,731,338	21,638,507	23,723,952
NET CLAIMS & POLICYHOLDER BENEFITS	(7,598,542)	(8,830,250)	(9,544,988)	(10,458,067)	(11,474,475)
Operating & Other Expenses	(1,709,036)	(2,019,834)	(1,756,619)	(1,926,940)	(2,116,642)
TOTAL EXPENSES	(13,631,183)	(15,164,484)	(16,435,909)	(18,010,459)	(19,763,301)
PBT	4,558,551	3,101,850	3,295,429	3,628,048	3,960,651
Income tax expense	(981,211)	(823,568)	(988,629)	(1,088,414)	(1,188,195)
PROFIT/(LOSS) FOR THE YEAR	3,577,340	2,278,282	2,306,800	2,539,634	2,772,456
EPS	5.11	3.25	3.30	3.63	3.96
DPS	0.85	0.45	0.85	0.85	0.85
ROE	13.94%	8.20%	7.89%	8.18%	8.37%

KENYA RE INSURANCE COMPANY MODEL CONSOLIDATED BALANCE SHEET (AMOUNTS IN KES '000)	2017A	2018A	2019F	2020F	2021F
TOTAL EQUITY	27,205,084	28,373,033	30,084,877	32,029,554	34,207,053
Property & Equipment	76,559	91,631	102,685	115,396	130,015
Intangible assets	536,122	588,256	597,929	608,569	620,274
Investment property	9,622,000	10,105,000	10,105,000	10,105,000	10,105,000
Investment in Associate	4,399,320	4,473,962	4,654,827	4,835,692	5,016,557
Inventories	19,897	13,590	13,590	13,590	13,590
Receivables arising out of direct reinsurance arrangements	4,315,378	3,673,176	4,278,859	4,688,177	5,143,816
Premium and loss reserves	306,956	271,655	434,218	475,755	521,994
Mortgage loans receivable	658,425	725,862	725,862	725,862	725,862
Other Assets	19,162,420	18,622,242	18,622,242	18,622,242	18,622,242
Deposits with financial institutions	3,408,386	5,459,225	5,459,225	5,459,225	5,459,225
Cash & bank balances	227,204	338,035	4,374,353	7,328,337	10,649,501
TOTAL ASSETS	42,732,667	44,362,634	49,368,790	52,977,846	57,008,075
Deferred Income Tax Liability	944,987	1,083,782	1,083,782	1,083,782	1,083,782
Insurance contract liabilities	8,129,561	8,632,071	10,374,906	11,367,375	12,472,158
Unearned premium	5,113,942	4,922,951	6,128,180	6,714,405	7,366,970
Creditors arising from reinsurance arrangements	670,487	549,466	895,715	981,400	1,076,781
Retirement benefit liability		-	-	-	
Other payables	643,380	745,869	745,869	745,869	745,869
Employee defined benefit liability	25,226	55,462	55,462	55,462	55,462
Current income tax payable		-	-	-	
TOTAL LIABILITIES	15,527,583	15,989,601	19,283,913	20,948,292	22,801,022

Valuation Assumptions	
Variable	Assumed
Rfr (10-yr T-bond)	12.250%
Equity Risk Premium	4.5%
Adjusted Beta	0.50
Cost of Equity (Based on CAPM)	14.5%
Cost of Debt	12.0%
Equity/Debt Ratio	100.0%
Terminal Growth	6.0%
Tax Rate	30.0%
WACC	14.5%
No of Shares	699,949,068
Valuation Day	30-Apr-19
Share Price	10.70

1.0 KNRE Summary	31-Dec-18	31-Dec-19	31-Dec-20	31-Dec-21	31-Dec-22	31-Dec-23
Beginning BVPS		40.54	42.98	45.76	48.87	52.20
EPS		3.30	3.63	3.96	4.33	4.74
DPS		0.85	0.85	0.85	1.00	1.00
Changes in Retained Earnings		2.45	2.78	3.11	3.33	3.74
Ending BVPS	40.54	42.98	45.76	48.87	52.20	55.95

2.0 Excess Equity Return						
EPS		3.30	3.63	3.96	4.33	4.74
After Tax Salvage Value						8.39
Equity Charge		0.48	0.53	0.57	0.63	1.90
Excess Equity Return		2.82	3.10	3.39	3.70	11.23
Time (t)		0.66	1.64	2.63	3.62	4.60
Discounting Factor		0.91	0.80	0.70	0.61	0.54
PV or Residual Income		2.58	2.48	2.37	2.27	6.02
Present BVPS (BV0)	40.54					
PV of Residual Income	15.72					
Estimated Fair Value	56.26					

3.0 Dividend Discount Model		31-Dec-19	31-Dec-20	31-Dec-21	31-Dec-22	31-Dec-23
Dividend Per Share (DPS)		0.85	0.85	0.85	1.00	1.00
Add Terminal Value						17.67
DPS+Terminal Value		0.85	0.85	0.85	1.00	18.67
Time (t)		0.66	1.64	2.63	3.62	4.60
Discounting Factor		0.91	0.80	0.70	0.61	0.54
PV or Residual Income		0.78	0.68	0.60	0.61	10.01
Estimated Fair Value	12.68					

4.0 Relative Valuation				
4.1 P/E			**4.2 P/B**	
Median P/E	12.79		Median P/B	1.27
FY 2019 EPS	3.30		BVPS 2019	40.54
Fair Value	42.15		Fair Value	51.29

5.0 Valuation			
Methodology	Fair Value Estimates	Weighting	Weighted Average
Excess Return on Equity	56.26	25.00%	14.07
Dividend Discount Model	12.68	25.00%	3.17
Relative Valuation (P/E)	42.15	25.00%	10.54
Relative Valuation (P/B)	51.29	25.00%	12.82
Target Price			40.60

6.0 Recommendation	
Upside/(Downside)	279%
Total Return	287%
Recommendation	HOLD

Liberty Kenya Holdings

HOLD gives way to a BUY as CFCI yields to souring sentiments...

- **We now update our recommendation on Liberty Kenya Holdings to a BUY from a HOLD** due to the persistent decline in its price in the last year to levels unsupported by fundamentals. The stock is now trading at attractive multiples of a P/E of 9.71x and a P/B multiple of 0.95x compared to the SSA median P/E and SSA median P/B of 12.79x and 1.27x respectively.

- **Liberty Kenya holdings reported a 3% decline in Gross premiums:** Liberty announced disappointing FY18 results posting a marginal decline in Gross Premiums. Gross premiums declined marginally to KES 10.2Bn in FY18 from KES 10.5Bn. The decline of Gross Premiums was most likely driven by the challenging insurance business environment in Tanzania and managements inability to capitalize on improving underwriting conditions in Kenya. We see the outlook for Liberty Insurance's gross premiums remain bleak as the competition for premiums heats up in the short term. Medium term prospects, however, remain positive as incomes rise and growth in insurable economic activity intensifies.

- **Net Insurance Benefits and Claims were down 16% to KES 4.2Bn.** The decline in Net insurance benefits and claims was driven by a 13% decline in claims & benefits during the FY18 financial year. The decline in claims over the financial year may have been driven by the improvement in the quality of insurance business in FY18. We expect Liberty Kenya to continue to witness firming up of business quality over the medium term as underwriting conditions improves over the medium term.

- **Commission Payable stayed flat over the FY18.** Commission payable stayed flat on account of a flat growth in Gross Premiums. Commission payable should continue to be in control in the medium term as increasing demand for insurance products in the medium-term shift leverage towards the insurance companies and away from agents.

- **Liberty Insurance exposure to risk remains conservative:** Liberty Holdings Kenya in FY18 ceded 38% of their Gross earned Premiums to reinsurance providers. The high level of reinsurance use relative to the industry has pushed the retention ratio lower from 89% in FY12 to settle at 62% by FY18. The retention ratio should continue to remain low as management seek reinsurance solutions from third party providers rather than managing risks in house. The relatively conservative risk retention policy may help smoothen the probability of insurance claims overruns and help reduce the company's exposure to fraud in the medium term. The long-term prospects of the relatively conservative risk retention policy is that Liberty Kenya may be surrendering a portion of their upside to reinsurance and foregoing opportunities to grow shareholder's equity

- **The fall of investment ratio in FY18 to 23% helped drive earnings to a new low of KES 0.6Bn.** Investment performance for all insurance companies in FY18 was dismal as the equity market fell over the year and yields fell over the 12 months available in FY18. Given the tighter retention ratio of Liberty Kenya, our earnings expectation of an EPS recovery in FY18 didn't come into fruition. The earning of KES 608Mn is the lowes the company has achieved since 2012. The actual EPS performance of KES 1.03 was 36% lower than our FY18 expectation of KES 1.61. We see Liberty Kenya Holdings Holding's core EPS earnings continue to fall in FY19 to KES 1.02 as management struggles to cope with the new dispensation in Tanzania and Liberty lag behind other market players in the battle for premiums in Kenya.

- **We have trimmed our target price to KES 12.00 from our previous TP of KES 15.47.** A dimmer outlook for Liberty Kenya reflecting its minority share in the competitive Kenyan insurance sector and new stifling regulations in Tanzania. We see the dip in performance continuing for Liberty in the short term but project a recovery in EPS performance in the medium term.

CFCI

Rating:
BUY

Target Price:
KES 12.00

Upside:
20%

Current Price:
KES 9.98

52 week range:
9.50 to 15.00

FY18 EPS:
KES 1.03

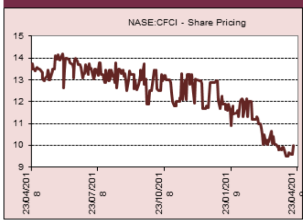
P/E:
9.71x

P/B:
0.95x

ROaE
8.34%

ROaA:
1.65%

Dividend Yield:
5%



LIBERTY KENYA HOLDINGS CONSOLIDATED INCOME STATEMENT (AMOUNTS IN KES '000)	2017A	2018F	2019F	2020F	2021F
GROSS PREMIUMS	10,493,560	10,217,603	9,751,121	10,792,222	11,960,939
Less:reinsurance premium ceded	(4,162,811)	(3,908,377)	(4,004,885)	(4,432,476)	(4,912,480)
NET PREMIUMS EARNED	6,330,749	6,309,226	5,746,236	6,359,746	7,048,459
NET EARNED PREMIUMS AND MGMT FEE	6,330,749	6,309,226	5,746,236	6,359,746	7,048,459
Investment Income	3,123,192	2,143,171	2,738,487	3,030,868	3,359,088
TOTAL INCOME	10,423,492	9,312,050	9,371,352	10,371,907	11,495,106
Net insurance benefits and claims	4,982,709	4,193,501	4,172,044	4,617,482	5,117,520
Commisions Payable	1,171,902	1,166,084	1,229,206	1,360,445	1,507,771
Operating & Other Expenses	3,164,611	3,027,509	3,190,873	3,531,554	3,913,994
TOTAL EXPENSES	9,319,222	8,387,094	8,592,122	9,509,480	10,539,285
PBT	1,104,270	924,956	779,230	862,427	955,821
Income tax expense	(429,697)	(316,534)	(233,769)	(258,728)	(286,746)
PROFIT/(LOSS) FOR THE YEAR	674,573	608,422	545,461	603,699	669,075
EPS	1.22	1.03	1.02	1.13	1.25
DPS	0.50	0.50	0.50	0.60	0.60
ROE	9.90%	8.34%	7.24%	7.72%	8.23%

LIBERTY KENYA HOLDINGS CONSOLIDATED BALANCE SHEET (AMOUNTS IN KES '000)	2017A	2018F	2019F	2020F	2021F
TOTAL EQUITY	7,493,565	7,678,036	7,955,643	8,237,917	8,585,568
Property & Equipment	1,251,319	1,218,612	1,239,467	1,260,679	1,282,254
Intangible assets	150,362	168,577	175,320	182,333	189,626
Investment property	876,434	760,855	934,048	1,125,733	1,338,176
Goodwill	1,254,995	1,254,995	1,254,995	1,254,995	1,254,995
Financial Investment	24,983,002	22,456,803	22,456,803	22,456,803	22,456,803
Receivables arising from reinsurance	764,875	161,224	552,586	611,584	677,814
Receivables arising from Direct Insurance	925,690	824,923	1,396,862	1,546,002	1,713,422
Reinsurers' share of insurable liabilities	2,379,010	2,701,761	2,929,049	3,241,776	3,592,836
Deferred acquisition costs	26,588	72,268	72,268	72,268	72,268
Deferred income tax	228,172	221,494	221,494	221,494	221,494
Current income tax receivable	25,471	94,922	94,922	94,922	94,922
Other receivables	783,548	276,682	276,682	276,682	276,682
Non-Current assets held for sale		125,000	125,000	125,000	125,000
Cash & bank balances	3,689,506	6,240,923	9,726,398	12,605,048	15,702,491
TOTAL ASSETS	37,338,972	36,579,039	41,455,895	45,075,319	48,998,783
LIABILITIES					
Deferred Income Tax Liability	1,085,120	1,048,660	1,048,660	1,048,660	1,048,660
Insurance contract liabilities	6,187,786	6,643,294	10,035,045	11,106,460	12,309,206
Investment contract Liabilities	16,759,719	15,753,044	16,990,971	18,802,985	20,666,716
Unearned premium	3,007,402	3,054,112	3,158,952	3,496,225	3,874,840
Creditors arising from reinsurance arrangements	842,072	673,563	590,703	653,771	724,570
Creditors arising from direct insurance	585,119	552,382	499,972	553,352	613,276
Other liabilities	1,348,278	1,069,396	1,069,396	1,069,396	1,069,396
Current income tax payable	36,511	106,552	106,552	106,552	106,552
TOTAL LIABILITIES	29,852,007	28,901,003	33,500,252	36,837,402	40,413,216

Valuation Assumptions	
Variable	Assumed
Rfr (10-yr T-bond)	12.250%
Equity Risk Premium	4.5%
Adjusted Beta	0.27
Cost of Equity (Based on CAPM)	16.3%
Cost of Debt	12.0%
Equity/Debt Ratio	100.0%
Terminal Growth	6.0%
Tax Rate	30.0%
WACC	16.3%
No of Shares	699,949,068
Valuation Day	30-Apr-19
Share Price	9.98

1.0 CFCI Summary	31-Dec-18	31-Dec-19	31-Dec-20	31-Dec-21	31-Dec-22	31-Dec-23
Beginning BVPS		10.57	11.09	11.61	12.26	12.95
EPS		1.02	1.13	1.25	1.38	1.53
DPS		0.50	0.60	0.60	0.70	0.70
Changes in Retained Earnings		0.52	0.53	0.65	0.68	0.83
Ending BVPS	10.57	11.09	11.61	12.26	12.95	13.77

2.0 Excess Equity Return						
EPS		1.02	1.13	1.25	1.38	1.53
After Tax Salvage Value						2.07
Equity Charge		0.17	0.18	0.20	0.23	0.59
Excess Equity Return		0.85	0.94	1.05	1.16	3.01
Time (t)		1.57	2.55	3.54	4.53	5.51
Discounting Factor		0.79	0.68	0.59	0.50	0.44
PV or Residual Income		0.67	0.64	0.61	0.59	1.31
Present BVPS (BV0)	10.57					
PV of Residual Income	3.82					
Estimated Fair Value	14.39					

3.0 Dividend Discount Model		31-Dec-19	31-Dec-20	31-Dec-21	31-Dec-22	31-Dec-23
Dividend Per Share (DPS)		0.50	0.60	0.60	0.70	0.70
Add Terminal Value						12.37
DPS+Terminal Value		0.50	0.60	0.60	0.70	13.07
Time (t)		1.57	2.55	3.54	4.53	5.51
Discounting Factor		0.79	0.68	0.59	0.50	0.44
PV or Residual Income		0.39	0.41	0.35	0.35	5.69
Estimated Fair Value	7.19					

4.0 Relative Valuation				
4.1 P/E			**4.2 P/B**	
Median P/E	12.79		Median P/B	1.27
FY 2019 EPS	1.02		BVPS 2019	10.57
Fair Value	13.02		Fair Value	13.37

5.0 Valuation			
Methodology	Fair Value Estimates	Weighting	Weighted Average
Excess Return on Equity	14.39	25.00%	3.60
Dividend Discount Model	7.19	25.00%	1.80
Relative Valuation (P/E)	13.02	25.00%	3.26
Relative Valuation (P/B)	13.37	25.00%	3.34
Target Price			12.00

6.0 Recommendation	
Upside/(Downside)	20%
Total Return	25%
Recommendation	BUY

Sanlam Kenya Plc

Twice Beaten, Thrice brave...

- **We maintain our investment recommendation on Sanlam Kenya as a SELL due to Sanlam Kenya's persistent failure to meet our earnings expectations.** The rating drop is also because the market is yet price the poor FY18 results that wiped out most of Sanlam's Shareholders' equity. Fair value losses combined with an acceleration of claims paid out during FY18 forced earnings to slip into negative territory. The Profit After Tax in FY18 declined to KES -1.98Bn from KES 247Mn achieved in FY17. In total disregard to fundamentals, the stock of Sanlam Kenya has moved into overvalued territory, currently trading at a demanding P/B multiple of 2.09x compared to the peer SSA median P/B of 1.27x. the sentiments remain positive despite the consistent slew of negative bottom-line performance, we however believe sentiments will correct over the next 12 months.

- **Gross Premiums were flat against our expectation of an FY18 recovery.** The FY18 Gross Premiums declined by 1% in FY18 to settle at KES 6.35Bn lower than KES 6.37Bn in FY17. The growth of Premium seems to have remained intact for a business that is still in the midst of heavy headwinds. Our outlook for Sanlam's Gross Premiums remains positive in the medium term as its Life Business picks up steam driven by the improvement in the Kenyan National Disposable Income as drought conditions dissipates and GDP activity picks up in the medium term.

- **Net Benefits and claims rose by 13%in FY18 to KES 5.1Bn from KES 4.5Bn.** The acceleration of Net benefits and claims reported by Sanlam in FY18 was driven by the rise of Gross benefits and claims paid out to KES 5.5Bn, higher than the KES 5.4Bn witnessed in FY17. The acceleration of gross benefits and claims during the FY18 was in term likely driven by the increase in industrywide claims. The increase in claims and benefits during the period drove the Net Benefit and Claims Ratio to hit 95.4% in FY18 from 88.75%.

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- **A perfect storm of headwinds in FY18 drove earnings to a new low of KES -1.98Bn, down from KES 53Mn last year.** Sanlam suffered a perfect storm of headwinds in FY18 to drive FY18 EPS to KES -14.01 from KES 0.21 in FY17. target. The KES 1.14 Bn impairment of investment assets, a 13% increase in net benefits claims and the 8% increase in Operating Expenses in FY18 negated the growth in Gross Premiums forcing PAT into the red. The EPS performance was way below our FY18 expectations

- **We have now downgraded Sanlam's target price down to KES 11.00 from the TP of KES 25.65** after the company missed our FY18 earnings expectations. The new valuation takes into consideration the corrosive effect of the negative FY18 earnings. In FY19 we see a possible recovery of the EPS to KES 0.18 as the one-off impairment of investment asset normalises to zero and claims pay-out reduces in FY19. Therefore, we advise investors with an exposure to Sanlam to SELL the counter for now.

PAFR

Rating:
SELL

Target Price:
KES 11.00

Downside:
42%

Current Price:
KES 19.00

52 week range:
18.00 to 26.50

FY18 EPS:
KES (14.01)

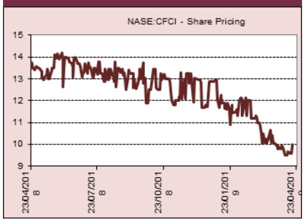
P/E:
NM

P/B:
2.09x

ROaE
-70.2%

ROaA:
-4.0%

Dividend Yield:
0.00%



SANLAM Kenya PLC CONSOLIDATED INCOME STATEMENT (AMOUNTS IN KES '000)	2017A	2018F	2019F	2020F	2021F
GROSS PREMIUMS	6,369,847	6,345,825	9,771,073	11,258,863	12,933,608
Less:reinsurance premium ceded	(953,632)	(974,017)	(849,554)	(978,911)	(1,124,523)
NET PREMIUMS EARNED	5,416,215	5,371,808	8,921,519	10,279,952	11,809,085
Investment Income	2,285,310	2,183,767	4,014,382	4,625,632	5,313,690
Total Other Revenues	1,958,546	541,615	3,485,683	4,016,430	4,613,870
TOTAL INCOME	7,374,761	5,913,423	12,407,202	14,296,383	16,422,955
NET BENEFITS AND CLAIM	(4,534,482)	(5,124,182)	(7,665,719)	(8,832,939)	(10,146,830)
Other Expenses	(745,613)	(726,831)	(1,215,918)	(1,401,060)	(1,609,466)
Operating & Other Expenses	(1,843,601)	(2,000,047)	(2,939,430)	(3,383,087)	(3,882,301)
Commissions and Operating Expenses	(2,589,214)	(2,726,878)	(4,155,349)	(4,784,147)	(5,491,767)
TOTAL EXPENSES	(7,123,696)	(8,042,923)	(12,240,760)	(14,120,038)	(16,174,801)
Profit/ (loss) before share of the profit of the associate	251,065	(2,129,500)	166,442	176,344	248,154
Share of associate's profit	(4,107)	314	314	314	314
PBT	246,958	(2,129,186)	166,756	176,658	248,468
Income tax expense	(193,913)	149,760	(50,027)	(52,998)	(74,540)
PROFIT/(LOSS) FOR THE YEAR	53,045	(1,979,426)	116,729	123,661	173,928
EPS	0.21	-14.01	0.81	0.86	1.21
DPS	-	-	-	-	
ROE	1.3%	-70.2%	7.1%	7.0%	9.1%

SANLAM Kenya PLC CONSOLIDATED BALANCE SHEET (AMOUNTS IN KES '000)	2017A	2018F	2019F	2020F	2021F
TOTAL EQUITY	4,051,950	1,587,038	1,703,767	1,827,428	2,001,356
Intangible assets	109,035	98,721	102,966	107,636	112,773
Property and equipment	157,361	232,514	244,802	258,318	273,186
Investment property	3,180,700	3,440,700	3,440,700	3,440,700	3,440,700
investment in associate	17,465	17,779	18,093	18,407	18,721
Land & Development	118,734	109,189	109,189	109,189	109,189
Deferred acquisitions cost	153,049	151,292	151,292	151,292	151,292
Deferred tax	192,843	236,551	236,551	236,551	236,551
Policy Loans and Mortgages	758,234	504,851	504,851	504,851	504,851
Financial instruments held to maturity	9,463,228	14,746	14,746	14,746	14,746
Financial assets at fair value through P&L	9,934,526	19,001,260	19,001,260	19,001,260	19,001,260
Reinsurance assets	633,226	819,376	545,127	628,130	721,564
Other Assets	4,686,723	4,071,022	3,336,604	3,421,784	3,517,668
Cash & bank balances	301,567	403,629	2,176,640	2,915,584	3,204,023
TOTAL ASSETS	29,811,484	29,101,630	29,882,820	30,808,448	31,306,524
Insurance contract liabilities	13,561,183	14,816,647	13,069,008	11,055,264	8,741,979
Investment contract liabilities	6,568,158	5,340,462	6,734,380	8,340,542	10,185,619
Amounts payable under deposit administration	1,433,027	1,107,372	2,068,278	2,279,679	2,512,860
Deferred tax	747,449	360,397	360,397	360,397	360,397
Provision for unearned premium	655,110	899,653	666,743	768,265	882,543
Current tax liabilities	230,684	47,322	47,322	47,322	47,322
Insurance payables	759,006	688,646	784,994	904,521	1,039,068
Provisions	51,925	51,925	51,925	51,925	51,925
Payables and other charges	722,251	704,736	704,736	704,736	704,736
Borrowings	1,030,741	3,497,432	3,691,270	4,468,369	4,778,720
TOTAL LIABILITIES	25,759,534	27,514,592	28,179,053	28,981,020	29,305,169

Valuation Assumptions					
Variable	Assumed				
Rfr (10-yr T-bond)	12.250%				
Equity Risk Premium	4.5%				
Adjusted Beta	0.93				
Cost of Equity (Based on CAPM)	19.9%				
Cost of Debt	12.0%				
Equity/Debt Ratio	80.0%				
Terminal Growth	6.0%				
Tax Rate	30.0%				
WACC	17.6%				
No of Shares	144,000,000				
Valuation Day	30-Apr-19				
Share Price	19.00				
1.0 PAFR Summary	31-Dec-18	31-Dec-19	31-Dec-20	31-Dec-21	31-Dec-22
Beginning BVPS		9.22	10.03	10.89	12.10
EPS		0.81	0.86	1.21	1.57
DPS		-	-	-	-
Changes in Retained Earnings		0.81	0.86	1.21	1.57
Ending BVPS	9.22	10.03	10.89	12.10	13.66
2.0 Excess Equity Return					
EPS		0.81	0.86	1.21	1.57
After Tax Salvage Value					2.05
Equity Charge		0.16	0.17	0.24	0.72
Excess Equity Return		0.65	0.69	0.97	2.89
Time (t)		1.57	2.55	3.54	4.53
Discounting Factor		0.78	0.66	0.56	0.48
PV or Residual Income		0.50	0.45	0.54	1.39
Present BVPS (BV0)	9.22				
PV of Residual Income	2.89				
Estimated Fair Value	12.11				
3.0 Relative Valuation					
4.1 P/E			**4.2 P/B**		
Median P/E	12.79		Median P/B	1.27	
FY 2019 EPS	0.81		BVPS 2019	9.22	
Fair Value	9.17		Fair Value	11.67	
4.0 Valuation					
Methodology	Fair Value Estimates	Weighting	Weighted Average		
Excess Return on Equity	12.11	33.33%	4.04		
Dividend Discount Model	-	0.00%	-		
Relative Valuation (P/E)	9.17	33.33%	3.06		
Relative Valuation (P/B)	11.67	33.33%	3.89		
Target Price			10.99		
6.0 Recommendation					
Upside/(Downside)	-42%				
Total Return	-42%				
Recommendation	SELL				

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