BRIT HY19 EARNINGS UPDATE:

The bear run still opens the way for the opportunist

August 26, 2019

BRIT

Rating:	**BUY**
Target Price	**10.53**
Current Price	**6.98**
Upside	**51%**
Dividend Yield(ntm)	**0%**
Forecast Total Return	**51%**
52- Week trading range	**6.80 to 13.80**

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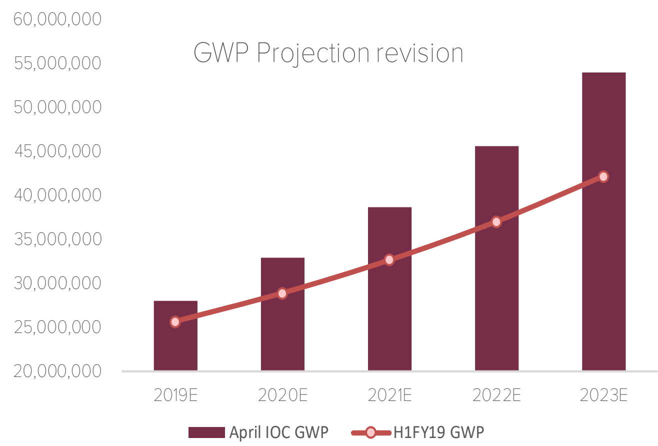
» **We maintain our BUY recommendation but update our valuation to reflect a faster than expected recovery in earnings and also improved non-core earnings**: We have now updated our assumptions to include a slower than expected improvement in BRIT's underwriting business. We also have increased our previous projected impact of net claims & benefits in the medium term. Britam **H1Y19** results beat all our Half Year expectations except for the Net Claims & Benefits numbers and Gross Written Premiums (GWP). We have incorporated the new information from results into our updated assumptions yielding a new Target Price of **KES 10.53** flat from on our April IOC Target Price of **KES 10.79**.

» **Market premiums on the Kenya insurance industry remain unjustified and BRIT is no exception**: The current negative sentiments on the insurance industry still pervade following a sharp, sector-wide drop in profitability in 2018 Full Year (**FY18**) . Britam is currently trading at **KES 6.98**, very close to its 52-week low of **KES 6.80,** creating an opportunity for value investors to gain exposure to an industry in recovery. The counter is also trading at an attractive **P/B multiple** of **0.66x** when compared to the current **Sub Saharan African P/B median multiple** of **0.93x**. The current market prices also reveal a potential **51%** upside supporting our **BUY** rating.

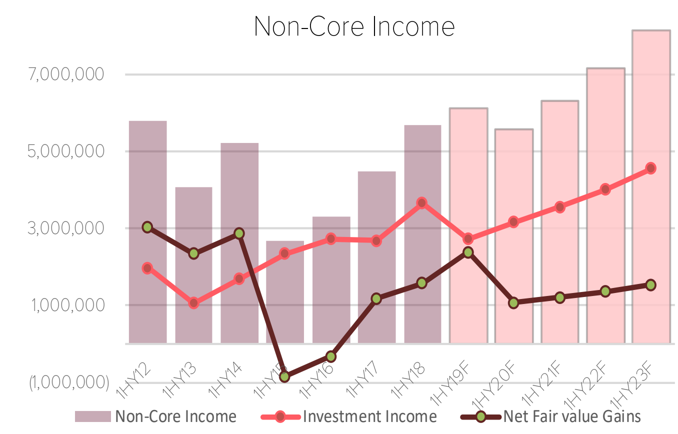
» **BRIT HY19 GWP grew by a flat 0.7%, slower than the 11.2% we had anticipated**: The Gross Written Premium (GWP) was in positive territory, growing by **0.7%** to hit **KES 12.62Bn** by the end of June 2019. The growth itself was in-line with our previous expectation of the hardening of underwriting conditions. The pace of growth for Britam was, however, slower than expected during the first Half-Year 2019 **(H1FY19.) GWP** fell below our **KES 14.0Bn** expectation. The 2019 industry contraction of the previously soft insurance pricing of **FY18** is turning out to be slower than we had anticipated. We have now cut down for Britam Holdings Plc (**BRIT**) **FY19 GWP** expectations to match the reality of a slow recovery**.** We have now revised the **2019 Full Year (FY19) GWP** to **KES 25.67Bn** from **KES 28.70Bn.**



Source: BRIT H1FY19 Financials, AIB Capital

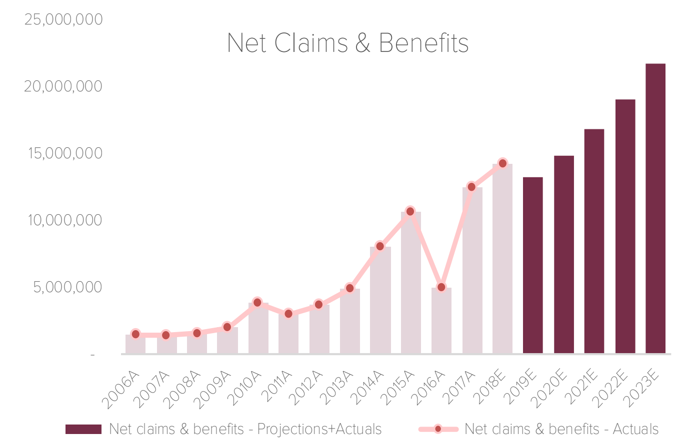
CERTIFICATIONS& REQUIRED DISCLOSURES BEGIN ON PAGE 19

» **Britam's investment income and non-core income performance in H1FY19 was stronger than we had envisioned:** Investment and other non-core income grew by only **1%** to hit **KES 6.13Bn** from **KES 6.07Bn** recorded over the same Half Year period in FY18. That meant that the actual Non-core income was way above our expectation of **KES 3.55Bn.** The discrepancy between the actual and our projection was mainly driven by net unrealised fair value gains that grew by **52.0%** in **H1FY19** to **KES 2.38Bn.**. We have now adjusted our Non-core Income upwards to cater for a better than expected outcome in **FY19**. We now project the **FY19** Non-core Income at **KES 10.92Bn** from the **KES 7.10Bn** we had previously projected in April.



Source: BRIT H1FY19 Financials, AIB Capital

» **Net Claims and policyholder benefits was down 12.1% in-line with our expectations.** 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 of the insurance market would help the insurance companies price risk better than in **FY18**. Britam Holding Plc seems to have witnessed the improvement in its underwriting outcomes in **H1FY19** recording a decrease in payouts to **KES 6.63Bn** from the **KES 7.54Bn** recorded in **H1FY18.** The actual outcome matched our expectations. We had held out for a net claims of **KES 6.50Bn,** only **2.08%** below the actual results for **H1FY19**. We therefore maintain our previous net claims and benefits for Britam.



Source: BRIT H1FY19 Financials, AIB Capital

» **BRIT PAT in H1FY19 grew by 70.5%** . BRIT's **H1FY19 PAT** was **KES 2.42Bn,** above our expectation of **KES 2.00Bn.** The recovery of **PAT** in **H1FY19** was driven by a decline in net claims & benefits and a very beneficial increase in unrealised fair value gains. The **1HFY19 PAT** outcome was better that the **KES 2.00Bn** 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 3.24Bn** and we see the level of profitability remaining elevated but leveling off from FY20.

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