

JUB VALUATION UPDATE:

Non-life King is still underestimated

- » **The gulf between the market price and fundamentals for Jubilee continues to widen.** Jubilee Holdings Limited is now trading at a **36.4%** discount to our target price of **KES 484.12**. The market pricing of the group has tanked despite the premiums growing by **7.1%** over the **H1FY19** period. The decline of the market pricing since our last update may be a response to the flat net income growth over the period under review.
- » **Despite the change in market appetite for the equities, we reiterate** our **BUY** rating for the JUB as we believe fundamentals can reverse in **H2FY19**. There is also a possibility of earnings growth accelerating over the rest of the year as the insurance market continues to harden.
- » **Jubilee's bottom-line was lower than we had previously expected.** Jubilee's **HY1FY19** net-profit result was **18.5%** below our expectation of **KES 2.25Bn**. The actual Profit After Tax performance was below our projections due to a slower than expected revenue growth amidst stubborn claims. Despite missing our revenue targets for the **HY1FY19**, the group's results were generally within our realm of expectation.
- » **Total Income collected by the group declined by 6.7% over the period** under review to hit **KES 13.63Bn**. The actual Total Income performance was in sharp contrast to our expectation of **2.9%** growth we had initially expected. This slow top-line growth was the main driver of Jubilee's negative profit surprise.
- » **JUB HY19 Gross Written Premium grew by 10.8%, faster than the 7.0% growth we had expected:** The Gross Written Premium (**GWP**) grew by **10.8%** to hit **KES 20.71Bn** by the end of June 2019. The growth itself was in-line with our previous expectation of a better pricing environment. The rate of growth for JUB was firmer than we had expected. Gross Written Premium (**GWP**) for Jubilee Holdings was more than our previous projection of **1HYFY19 GWP** of **KES 20.0Bn** expectation. It appears the group efforts in the first half of **2019** was much more successful than we had initially expected.
- » **We have now adjusted our expectations to reflect the new reality for JUB.** We, however, expect the growth in the long term falling towards the current industry growth of **4.5%**. We have now revised the 2019 Full Year (FY19) GWP to KES 30.38Bn from KES 30.69Bn. .

November 27, 2019

Rating:
BUY

Target price:
KES 484.12

Current upside:
36.4%

Current price:
KES 355.00

52-Week range:
KES 460.25 to KES 330.00

FY 18 EPS:
KES 50.42

P/E:
6.90x

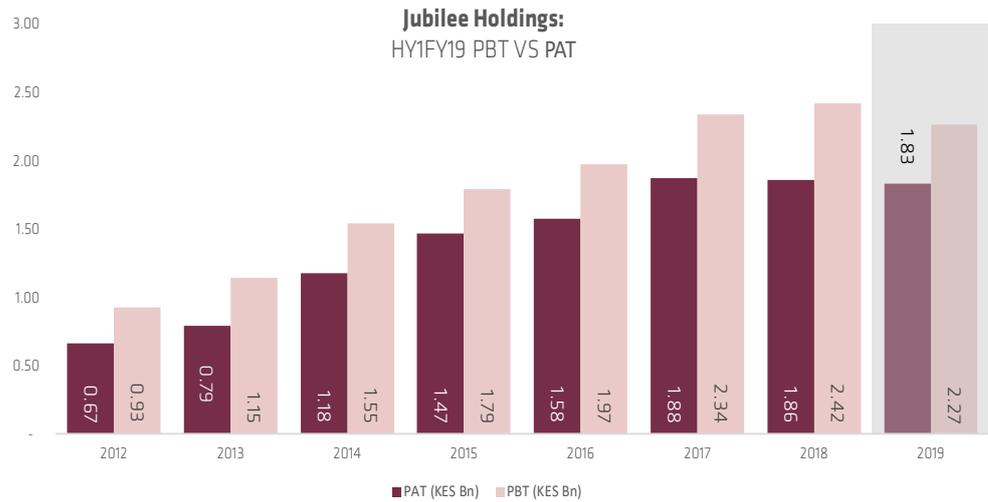
P/B:
1.1x

ROaE:
14.8%

ROaA:
1.8%

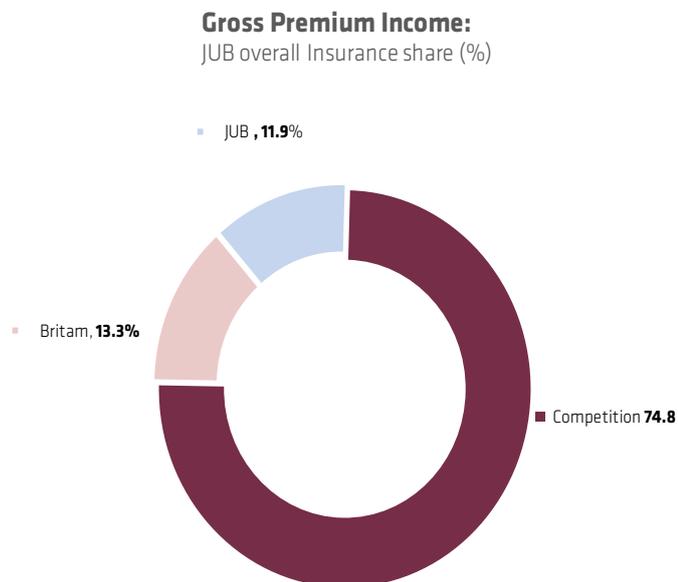
Dividend Yield:
2.54%

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Source: Jubilee Holding's Financial Statements, AIB Capital

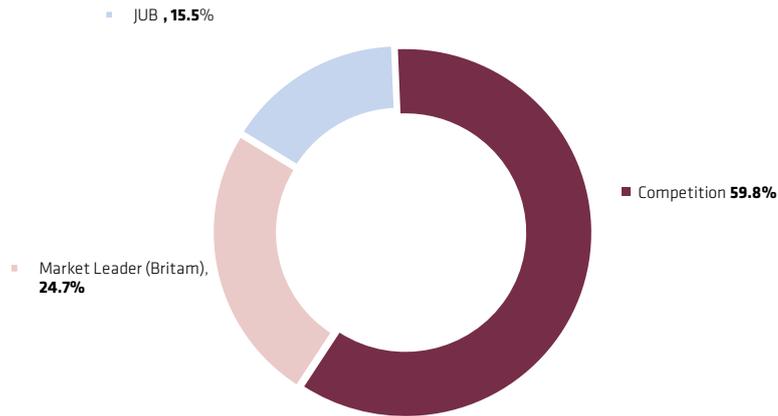
- » **JUB HY1FY19 overall insurance market share stood at 11.9%, second to only Britam:** From the data, we have collected from the Insurance Regulatory Authority we estimate that Jubilee's overall Gross Premium Income (GPI) market share in **Q2 of 2019** stood at **11.9%**. The **Q2 of 2019 GPI** market share means that JUB currently holds the second-largest market share in the entire Kenya insurance industry. The market share for Jubilee, in fact, is almost comparable to the market leader, Britam's share of **13.3%**.



Source: Insurance Regulatory Authority, AIB Capital

- » **Jubilee is currently the second largest in the life insurance business.** JUB Insurance group's life subsidiary owns the second-largest market in the life insurance industry measured by **G.P.I. Q2 of 2019** insurance data indicate that Jubilee Insurance held about **15.54%** of the Kenyan Life Insurance market. In the six-months available in **HY1FY19**, the company collected the fourth biggest amount Gross Premium Income amounting to **KES 3.00Bn**. The size of the group exposure to the life business is only superseded by three competitors: Britam Life, Jubilee, and ICEA Lion Life. The market share in **Q2 of 2019** was, however, smaller than **7.64%** recorded in **Q2 of 2018**.

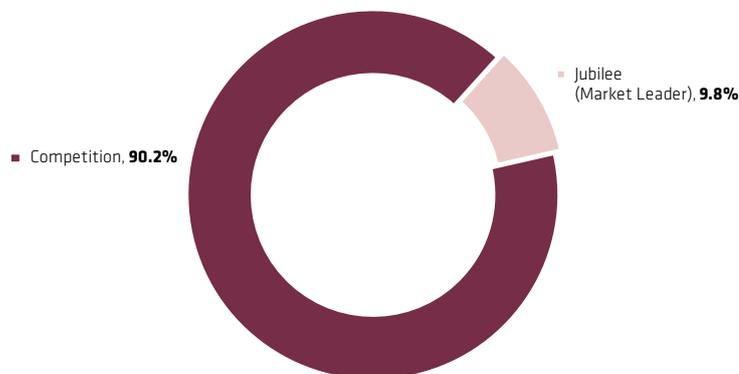
Gross Premium Income:
JUB Life Insurance share (%)



Source: Insurance Regulatory Authority, AIB Capital

- » **Jubilee is currently the market leader in the non-life insurance business.** JUB Insurance group's non-life segment is currently holding on to the largest market in the general insurance industry. Market share computed from **Q2 of 2019** Gross Premium Income (GPI) show that Jubilee Insurance achieved about **9.76%**. In the six-months available in **HY1FY19**, Jubilee collected the biggest amount of general insurance **GPI** amounting to **KES 7.13Bn**. The size of the group exposure to the non-life business is currently not superseded by any other general insurer. The market share in **Q2 of 2019** was, however, flat from the **9.25%** recorded in **Q2 of 2018**.

Gross Premium Income:
JUB General Insurance share (%)



Source: Insurance Regulatory Authority, AIB Capital

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- » **JUB's non-core income performance in H1FY19 was below our expectations:** Jubilee's Investment and other non-core income declined by **29.9%** to **KES 4.06Bn** from the **KES 5.73Bn** recorded over the **H1FY18** period. The actual Non-core income results for **HY1FY19** was below our previous projection of **KES 4.96Bn**. We have now adjusted our **FY19** non-core Income projections downwards to cater to our new weaker outlook. We now project the **FY19** Non-core Income at **KES 6.97Bn** from the **KES 9.91Bn** we had previously projected in April.

 - » **Jubilee's net claims and policyholder benefits over the HY1FY19 period was 13.9% weaker in contrast with our expectations.** In our April report we had expected that in **HY1FY19**, claims reported for Jubilee would shrink by **8.5%**. The current actual **13.9%** decline of JUB's net benefit and claims was better than we had projected in **HY1FY19**. We, however, see the decline of claims normalizing in the Second Half of 2019 (**HY2FY19**) therefore we maintain our previous projection for net claims & policyholder benefits. We, however, the possibility of an increase in claims as premiums collected continues to rise. We project net benefit & claims to continue growing at a **CAGR of 7.2%** in the next four years.

 - » **Jubilee reported flat earnings growth as PAT fell by 1.5% in HY1FY19 to hit KES 1.83Bn.** JUB's **H1FY19 PBT** also came in lighter than our expectations. JUB's **H1FY19 PBT** of **KES 2.27Bn** was **18.5%** below our expectation of **KES 3. 21Bn**. The weak performance of **PAT & PBT** in **H1FY19** was mainly driven by the above trend increase in operating expenses. The fact that the growth of expenses outstripped the growth of Total Income in **HY1FY19** led to **PAT** remaining static. We have now decreased our expectations for **FY19 PAT** to **KES 4.07Bn**. The flat earnings in the first half of 2019, however, may be tempered down by a better **HY2FY19** performance. The group could continue to benefit from the continued hardening of the insurance market.

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