

Valuation Summary

- We recommend a BUY for the Britam stock with a target price of Kshs 14.2, representing an upside of 25.3% from the current price of Kshs 11.6, inclusive of a dividend yield of 2.4%
- Britam is currently trading at a price to book value of 1.2x compared to the insurance industry average of 1.5x.

Key Highlights – H1'2016

- Britam has implemented the first phase of the IT enabled business transformation
- Britam has increased its focus on real estate through the continued construction of the Britam Tower and the development of a property strategy and enhancement of the property team.

Income Statement

- Earnings per share grew by 184.8% to Kshs 0.9 from Kshs 0.3 in H1'2015 against our projection of Kshs 0.4. This growth was driven by a 14.8% growth in total revenue to Kshs 12.7 bn and a 0.9% decline in total expenses to Kshs 11.1 bn. The 0.9% decline in total expenses was as a result of a 29.4% decline in net claims due to a change in valuation methodology for the long term business. However, without the decline in net claims of Kshs 2.3 bn as a result of the change in valuation methodology, the performance was poor, recording a 41.9% decline in adjusted core EPS to Kshs 0.2 from Kshs 0.3
- Total revenue grew by 14.8% to Kshs 12.7 bn from Kshs 11.0 bn in H1'2015 supported by a 6.4% growth in net earned premiums to Kshs 9.4 bn and a 37.9% growth in investment income to Kshs 2.4 bn from Kshs. 1.7 bn in H1'2015
- Gross written premiums rose marginally by 3.5% to Kshs 11.0 bn from Kshs 10.6 bn in H1'2015 on account of moderate uptake of Britam's insurance products. Retention ratio improved to 85.1% from 82.8% in H1'2015
- Investment income rose by 37.9% to Kshs 2.4 bn from Kshs 1.7 bn in H1'2015, driven by more proactive portfolio allocation taking advantage of the high yields in the fixed income market, while scaling back from the equities market. Investment income currently accounts for 19.0% of the total income, improving from 15.8% in H1'2015
- Total expenses declined by 0.9% to Kshs 10.1 bn from Kshs 10.2bn in H1'2015, driven by a 29.4% decline in net claims and loss adjustment expenses to Kshs 3.6 bn from Kshs 5.1 bn. The decline in net claims and loss adjustment expenses was due to a change in valuation methodology for the long term business, from the Net Premium Valuation (NPV) methodology to Gross Premium Valuation (GPV), necessitated by the Insurance Act (Cap. 487) and amendments by the Finance Act 2015. This translated to a combined ratio of 108.0%, down from 115.9% in H1'2015. Without the change in valuation methodology to GPV from NPV, total expenses would have grown by 21.5% to Kshs 12.4 bn from Kshs 10.2 bn in H1'2015
- PBT grew by 175.3% to Kshs 2.9 bn from Kshs 1.0 bn in H1'2015, while PAT was up 184.8% to Kshs 1.8 bn from Kshs 0.6 bn in H1'2015. Adjusted PAT, removing the impact of the change in valuation methodology, declined by 41.9% to Kshs 0.4 bn from Kshs 0.6 bn in H1'2015.

Balance Sheet:

- Total assets grew by 6.7% to Kshs 81.7 bn from Kshs 76.6 bn in H1'2015 driven by 2.0% growth in Investment Assets to Kshs 60.7 bn from Kshs 59.6 bn in H1'2015
- Total liabilities grew by 12.8% to Kshs 62.8 bn from Kshs 55.6 bn in H1'2015 driven by a 10.8% rise in insurance liabilities to Kshs 49.8 bn from Kshs 45.0 bn in H1'2015 with other liabilities increasing by 48.3% to Kshs 7.0 bn. Shareholders' funds decreased by 9.6% to Kshs 19.0 bn from Kshs 21.0 bn in H1'2015.

Key Take Outs:

- Britam results were below our expectations, characterized by a poor performance as a result of a 21.5% growth in total expenses (adjusted). The reported 0.9% decline is only attributed to the change in valuation

- Going forward, cost containment measures will be key in driving Britam's growth.

Below is a summary of the key line items in the balance sheet and income statement.

Figures in Kshs billions unless otherwise stated

Balance Sheet	H1'2015	H1'2016	y/y change	H1'2016e	Project y/y change	Variance in growth vs projection
Investment Assets	59.6	60.7	2.0%	61.5	3.2%	(1.3%)
Total Assets	76.6	81.7	6.7%	83.1	8.5%	(1.8%)
Total Liabilities	55.6	62.8	12.8%	62.4	12.1%	0.6%
Total Equity	21.0	19.0	(9.6%)	20.7	(1.3%)	(8.3%)

Income Statement	H1'2015	H1'2016	y/y change	H1'2016e	Projected y/y change	Variance in growth vs projection
Gross earned premium	10.6	11.0	3.5%	9.9	(7.2%)	10.7%
Net Earned Premium	8.8	9.4	6.4%	8.2	(6.5%)	13.0%
Investment Income	1.7	2.4	38.0%	1.4	(20.4%)	58.3%
Total Income	11.0	12.7	14.8%	10.7	(3.4%)	18.2%
Net Insurance Benefits and claims	5.1	3.6	(29.4%)	5.6	9.9%	(39.3%)
Total Expenses	10.2	10.1	(0.9%)	11.1	8.4%	(9.2%)
Profit before tax	1.0	2.9	175.3%	0.6	(46.9%)	222.2%
Profit after tax	0.6	1.8	184.8%	0.7	12.6%	172.3%
EPS	0.3	0.9	184.8%	0.4	12.6%	172.3%
<i>Adjusted EPS</i>	<i>0.3</i>	<i>0.2</i>	<i>(41.9%)</i>	<i>0.4</i>	<i>12.6%</i>	<i>(54.5%)</i>

Ratios	H1'2015	H1'2016
Loss Ratio	61.1%	38.5%
Combined Ratio	115.9%	108.0%