

Valuation Summary

- We recommend an Accumulate for the CIC Group stock with a target price of Kshs 4.7, representing an upside of 12.8% from the current price of Kshs 4.3, inclusive of a dividend yield of 2.2%
- CIC Group is currently trading at a price to book value of 1.5x and a price to earnings of 8.6x compared to the insurance industry average of 1.5x and 8.9x respectively.

Key Highlights – H1'2016

- During the period under review, CIC implemented its new IT system that has seen their medical business operation and profitability enhanced. The system was acquired in 2015 as part of a new IT system at a cost of Kshs 60 mn in order to enhance its medical business and enable the company to manage claims processing, premium costing and compute business data.

Earnings Update:

- Adjusted earnings per share grew by 48.2% to Kshs 0.12 in H1'2016, from Kshs 0.08 in H1'2015. This growth was driven by a 25.8% decline in net claims and policy holders benefits to Kshs 3.2 bn from Kshs 4.3 bn in H1'2015 while other operating expenses remained flat at Kshs 2.3 bn. Total expenses declined by 16.6% to Kshs 5.5 bn from Kshs 6.6 bn in H1'2015, effectively offsetting the 13.1% decline in total revenue
- Gross written premiums declined by 9.6% to Kshs 6.3 bn in H1'2016 from Kshs 6.9 bn in H1'2015 driven by competition within the insurance industry that led to low uptake of CIC Groups's insurance products, leading to a decline in their retention ratio to 80.2% in H1'2016 from 81.1% in H1'2015. Net earned premiums declined by 10.6% to Kshs 5.0 bn in H1'2016, compared to Kshs 5.6 bn in H1'2015
- Investment income declined by 21.8% to Kshs 1.2 bn in H1'2016 from Kshs 1.6 bn in H1'2015, with investment income contributing 19.8% to the total income in H1'2016 compared to 22.0% in H1'2015. The decline in investment income can be attributed to the poor performance of both equities and bonds market during the H1'2016. Total revenue declined by 13.1% to Kshs 6.3 bn in H1'2016 from Kshs 7.2 bn in H1'2015
- Total expenditure declined 16.6% to Kshs 5.5 bn in H1'2016 from Kshs 6.6 bn in H1'2015, translating to a combined ratio of 110.1%. This was as a result of 25.8% decline in net claims and policy holders benefits to Kshs 3.2 bn in H1'2016 from Kshs 4.3 bn in H1'2015
- Profit before tax (PBT) grew by 48.2% to Kshs 399.0 mn in H1'2016 from Kshs 269.3 mn in H1'2015, while profit after tax (PAT) was up 75.5% to Kshs 367.4 mn from Kshs 209.4 mn in H1'2015. The disparity between PBT and PAT growths was as a result of a lower effective corporate tax which came in at 7.9% in H1'2016 compared to 22.2% in H1'2015.

Balance Sheet:

- Total assets grew by 2.1% to Kshs 25.4 bn in H1'2016 from Kshs 24.9 bn in H1'2015 driven by (i) a 53.1% growth in cash and bank balances to Kshs 511.6 mn in H1'2016 from Kshs 334.0 mn in H1'2015, (ii) a 45.4% growth in receivables to Kshs 5.8 bn in H1'2016 from Kshs 4.0 bn in H1'2015, and (iii) a 10.5% rise in investment properties to Kshs 5.6 bn from Kshs 5.1 bn in H1'2015
- Total liabilities grew by 0.3% to Kshs 17.8 bn from Kshs 17.7 bn in H1'2015; with insurance liabilities increasing by 2.9% to Kshs 11.9 bn from Kshs 11.6 bn in H1'2015 despite borrowings and payables declining by 0.8% and 22.5%, respectively. Shareholders' funds increased by 6.4% to Kshs 7.6 bn in H1'2016 from Kshs 7.2 bn in H1'2015

Even though the adjusted EPS grew by 48.2%, CIC Group results were characterized by poor performance of the core business areas. Key metrics recorded poor results and the adjusted EPS growth can only be explained on account of cost reduction. Going forward, we expect CIC Group to continue tapping into the life business, to complement its general business. We also expect CIC Group to have a firm focus on property market and asset management as it seeks to diversify its revenue streams and grow the business.

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

Balance Sheet	HY'15A	HY'16	y/y change	HY'16E	Projected y/y change	Variance in growth vs
Investment assets	18.4	16.8	(8.8%)	14.1	(23.4%)	14.6%
Total Assets	24.9	25.4	2.1%	23.2	(6.8%)	8.9%
Total liabilities	17.7	17.8	0.3%	13.5	(23.9%)	24.2%
Shareholders' Funds	7.2	7.6	6.4%	9.3	29.9%	(23.5%)

Income Statement	HY'15A	HY'16	y/y change	HY'16E	Projected y/y change	Variance in growth vs projection
Gross written premiums	6.9	6.3	(9.6%)	6.9	(0.4%)	(9.2%)
Net earned premiums	5.6	5.0	(10.6%)	5.8	3.2%	(13.8%)
Total income	7.2	6.3	(13.1%)	7.8	8.2%	(21.2%)
Net claims and policyholder benefits	4.3	3.2	(25.8%)	4.4	2.3%	(28.1%)
Total expenditure	6.6	5.5	(16.6%)	6.8	2.5%	(19.1%)
Profit before tax	0.27	0.40	48.2%	0.50	85.7%	(37.5%)
Profit after tax	0.21	0.37	75.5%	0.40	91.0%	(15.6%)
EPS (Adjusted)	0.08	0.12	48.2%	0.15	91.0%	(42.9%)

Ratios	HY'15A	HY'16	HY'16E
Loss ratio	76.5%	63.5%	75.9%
Combined ratio	118.0%	110.1%	117.2%
ROE	3.0%	5.0%	4.9%
ROA	1.0%	1.5%	1.7%