Kenya's Listed Insurance Companies Analysis

Cytonn H1'2016 Insurance Sector Report

"Given transition in the banking sector, what next for insurance?"

18th September, 2016

Table of Contents

I. Introduction to Cytonn Investments

160 Members, 1 Agenda – The Client

Introduction - Layout of the Business

Cytonn Investments runs its business across Africa, North America and Europe

Investments	Real Estate	Diaspora	Technology	Cooperative
Alternative investment manager, focused on private equity and real estate	Development arm focused on developing institutional grade real estate projects for investment	Our platform to connect East Africans in the diaspora to attractive investment opportunities in the region	Our technology affiliate, focused on delivering world-class web & platforms to automate all business lines	Investment society providing retail investors access to attractive alternative investment opportunities

Cytonn INVESTMENTS

Introduction to Cytonn Investments

Cytonn Investments is an independent investments management company

- Our mission is that ***"we work to deliver innovative & differentiated financial solutions that speak to our clients needs"***

- Cytonn Investments is differentiated in several respects:

  1. **Independence & Investor Focus:** Cytonn is solely focused on serving the interest of clients, which is best done on an independent investment management platform to minimize conflicts of interest

  2. **Alternative Investments:** Specialized focus on alternative assets - real estate, private equity, and structured products

  3. **Partnerships with Global Institutional Investors:** Such as Taaleri of Finland

  4. **Strong Alignment:** Every staff member participates in ownership. When clients do well, the firm does well; and when the firm does well, staff do well

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Cytonn's Corporate Structure – Kshs 74 bn Under Mandate

Cytonn Investments

- **Kenya**
  - **Cytonn Investments Ltd**
    - Independent investment management company, serving HNW & institutional clients
  - **Cytonn Real Estate**
    - Development affiliate providing investment grade real estate development solutions
  - **Private Equity**
    - Financial Services
    - Education
    - Technology
- **United States**
  - **Cytonn Diaspora**
    - Diaspora platform connecting investors in the diaspora with opportunities in the East African Region
  - **Cytonn Investments LLC**
    - US advisory and investment management company

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Board of Directors

The board is comprised of 10 members from diverse backgrounds, each bringing in unique skill-sets

Prof. Daniel Mugendi,
Chairman

Antti – Jussi Ahveninen,
Non-executive Director

Madhav Bhalla,
Non-executive Director

James Maina,
Non-executive Director

Nasser Olwero,
Non-executive Director

Rose Kimotho, M.B.S
Non-executive Director

Mike Bristow,
Non-executive Director

Edwin H. Dande,
Managing Partner & CEO

Elizabeth N. Nkukuu,
Partner & CIO

Patricia N. Wanjama,
Partner & Head of Legal

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The Management Team

The team brings in diverse global and local experience in investments, real estate, finance and brand

Edwin H. Dande,
Managing Partner & CEO

Elizabeth N. Nkukuu,
Partner & CIO

Patricia N. Wanjama,
Partner & Head of Legal

Josephat Gichimu,
Finance Manager

Maurice Oduor,
Investment Manager

Johnson Denge,
Real Estate Services Manager

Frank Ndubi,
Quality Assurance Manager

Shiv Arora,
Head of Private Equity
Real Estate

The Management Team

The team brings in diverse global and local experience in investments, real estate, finance and brand

Robert M Mwebi,
Project Manager

Martin Gitonga
Project Manager

Peter Karenju,
Project Manager

David Mutua,
Project Manager

Nyambura Kiarie,
Real Estate Agency Manager

Gaurang Chavda,
Head of Private Wealth Management

Winfred Ndung'u,
Brand & Business Admin Manager

Beverlyn Naliaka,
PR & Communication

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Cytonn Investment Solutions

We offer differentiated investment solutions in four main areas

High Yield Solutions

- The Team's expertise and market knowledge enable us to offer investors higher yields than the market average
- Regular credit analysis, quick dealing capability and the large banking spread in the market allow the team to capitalize on investment opportunities

Real Estate Investment Solutions

- Our unique strategic partnerships with Cytonn Real Estate, our development affiliate, enables us to find, evaluate, structure and deliver world class real estate investment products for investors
- Our platform connects global capital seeking attractive return with institutional grade development opportunities in the East African region

Private Regular Investment Solutions

- We understand that investors have varying financial goals. Our highly customized and simple to understand investment products will enable you to achieve your investment objective
- We offer solutions to both local investors, and those in the diaspora interested in the investment opportunities back in Kenya and the region

Private Equity

- Cytonn seeks to unearth value by identifying potential companies and growing them through capital provision and partnering with their management to drive strategy
- We primarily invest in the Financial Services, Education and Technology sectors

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Cytonn Real Estate's Unrivalled & Unique Capabilities

Cytonn has all the necessary capabilities to deliver the very best real estate investment product

Fundraising

- The global market exposure combined with local experience networks have it easier to raise funds
- Our investors comprise of global and local institutions, local high-net-worth investors and Kenyans in the diaspora
- An experienced and passionate team to collect and manage funds, bringing about diverse investment portfolios with good returns

Market Research & Site Acquisition

- Research team is an essential part of any investment, helping identify the highest and best use and concept for the different land deals received and taken up by the company
- Cytonn has one of the best research teams in the region who carry out intensive market research for internal use and uses the data to release the data for guidance of external customers as well
- Our Site Acquisition team uses the market research to find the best sites for development given the opportunity in the economy

Concept Design

- Cytonn has unique concept designs that arise from partnerships with global institutions in countries like Dubai giving superior quality products to the market
- The internal concept team in collaboration with the project management function work tirelessly to deliver the products of the firm

Project Management

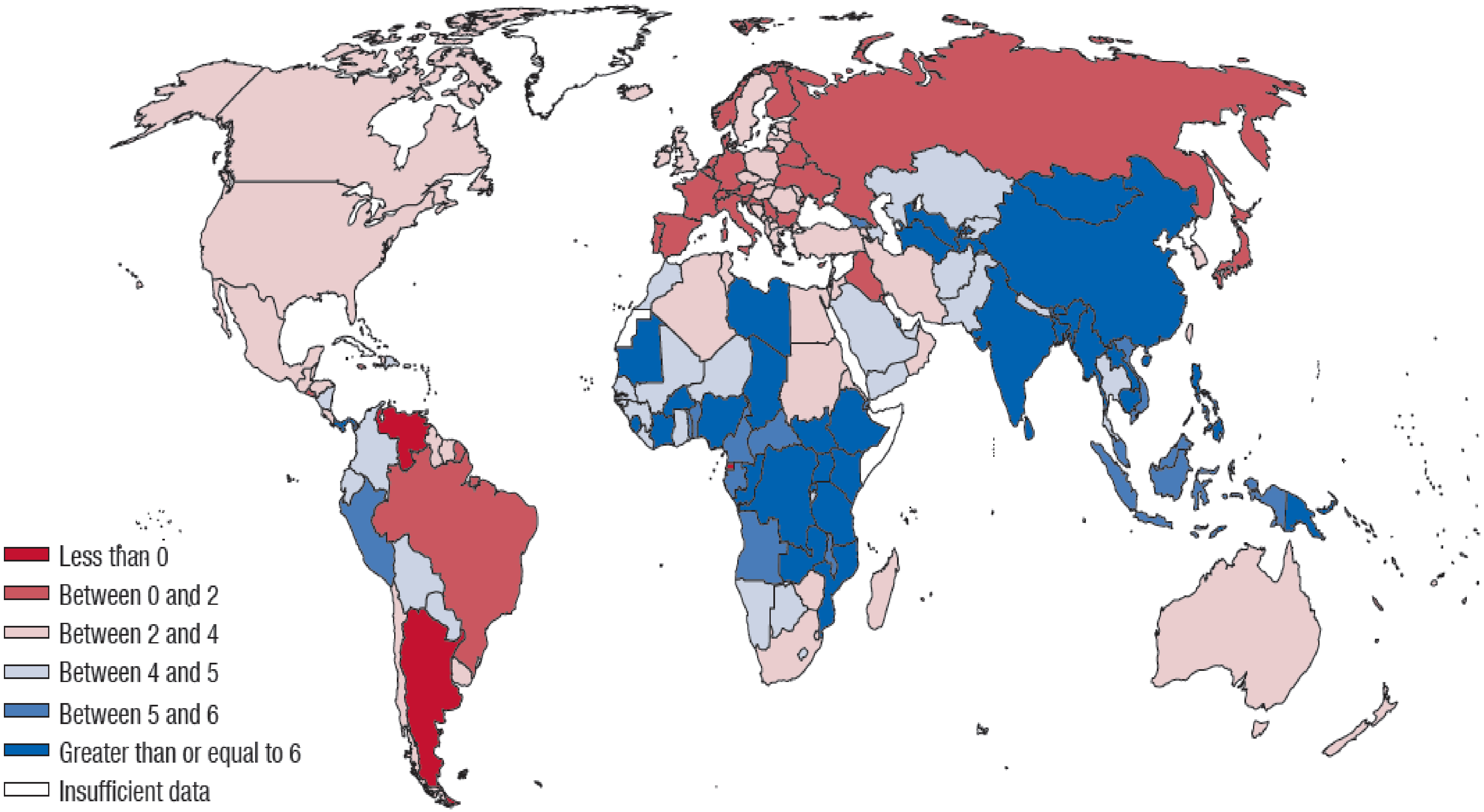
- The project management function is a vital part of real estate whose role is to ensure projects are delivered in the best quality, within scope and the most efficient resource use
- Cytonn boasts of a large PM team with diverse experience in the various aspects of project management to deliver world class real estate products

Sales and Marketing

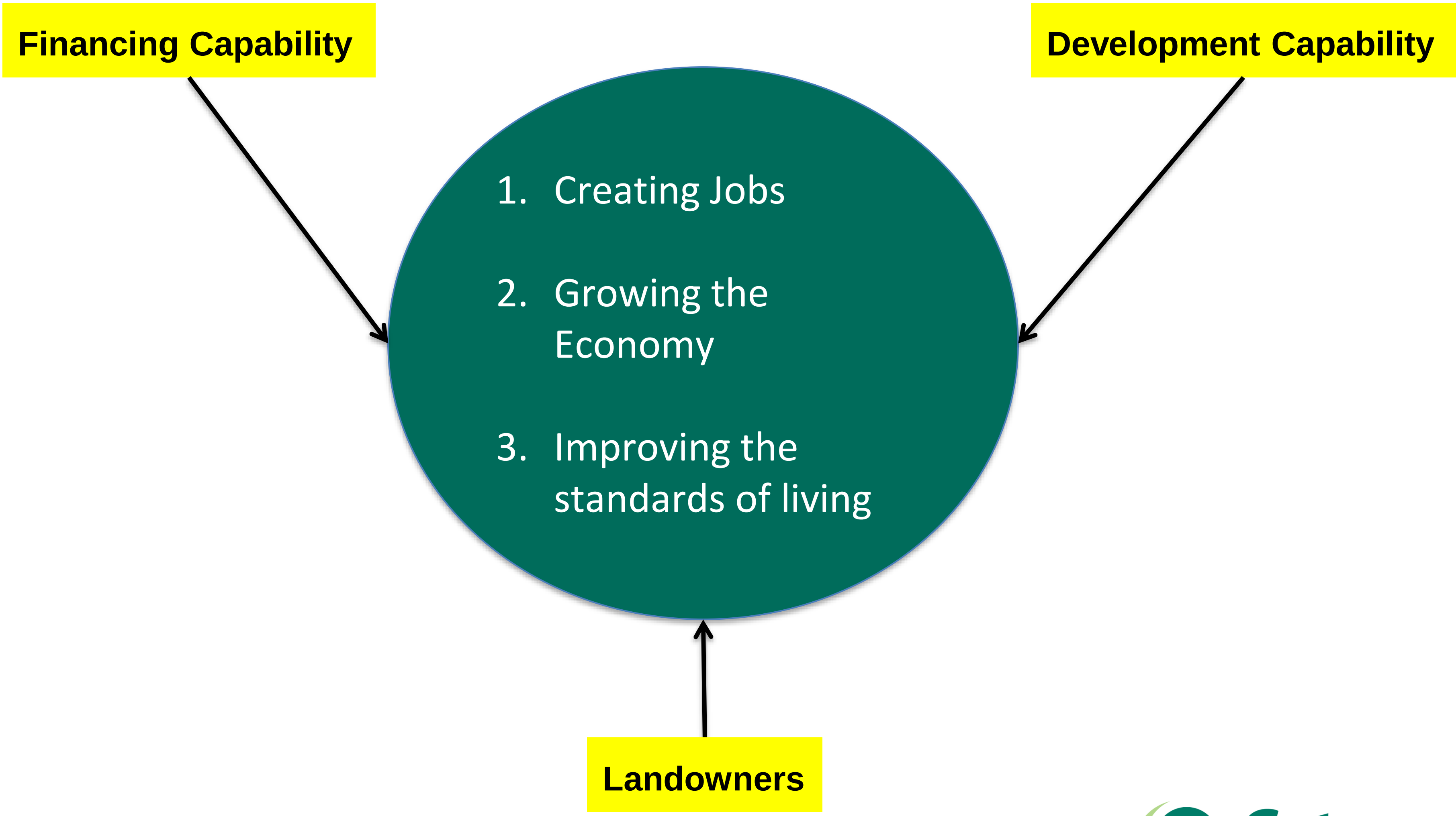
- The marketing and brand team have enabled the brand reach great heights and visibility locally and globally by employing their experience, passion and innovation
- The firm has one of the best distribution teams that ensure our products reach far and wide. Their experience is backed by success stories of making sales of up to 45% even before start of construction developments

Global view of economic growth determines regions of focus

There is demand from global capital (light colors) looking for attractive returns (dark colors)



Cytonn's strategy brings three key pillars together



Deal pipeline overview – 85% to low and mid-income housing

Kshs 74 Billion Deal Pipeline

Low to mid-income Housing
85%

- Masterplanned Development
- Comprehensive Development
- Low to mid-income Modular Housing

Prime Residential and Mixed-use
15%

- High Density Integrated Mixed-use
- Gated Communities

Summary of Projects – Kshs 74 bn Deal Pipeline Details

- **Set 1:** Projects are in the market, construction phase and being sold
- **Set 2:** Projects are in design stage
- **Set 3:** Projects are in acquisition stage

	Projects	Concept	Project Size (Kshs mn)
	SET 1		
1	Athi Sharpland	Site & Service Scheme	644.7
2	Amara Ridge	Gated community	1,000.00
3	Taraji	Integrated lifestyle development	2,508.00
4	The Alma	Integrated lifestyle development	3,826.60
5	Situ Village	Gated masterplanned community	5,500.00
	Sub - Total		**13,479.30**
	SET 2		
6	The Annex	Integrated lifestyle development	522.9
7	Project Kitale	Masterplanned development	700
8	Rongai Sharpland II	Site & Service Scheme	937.4
9	Project Westlands	Serviced apartment concept	1,000.70
10	Project Ridgeways	High density mixed-use development	9,317.00
11	NewTown by Cytonn Real Estate	Low to mid income masterplanned city	22,500.00
	Sub - Total		**34,978.00**
	SET 3		
12	Project Mombasa	High density mixed-use development	3,750.00
13	Project Hurlingham	Mixed Used Office complex	7,000.00
14	Project Upper Hill	Mixed used office complex	15,000.00
	Sub - Total		**25,750.00**
	GRAND TOTAL		**74,207.30**

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II. Economic Review and Outlook

Kenya Summary Economic Outlook

Our outlook for the year remains positive with key indicators pointing to a strong closing performance

Macro-Economic Indicators	2015 Experience	2016 Experience	Going Forward	Outlook as at the beginning of the Year	Current Outlook
GDP	Kenya's GDP for the full year 2015 came in at 5.6%	5.9% growth in Q1'2016. IMF, WB and Treasury expect GDP to come in at c 6.0%	We expect GDP growth for 2016 to come in at 5.8% driven by government spending on infrastructure and the recovery of the tourism sector	**Positive**	**Positive**
Interest Rates	The CBR increased 300 bps to 11.5% in August 2015 with the 91-day starting the year at a rate of 11.7%	The CBK reduced the CBR by 100 bps to 10.5% and the 91-day T-Bill hit a low of 7.1% before bottoming out and starting on an upward trend.	Interest rates expected to start on a downward trend, at least for the short term following the signing of the Banking (Amendment) Act, 2015, as banks will prefer loaning to the government	**Negative**	**Positive**
Inflation	December inflation at 8.0% (highest for year)	Inflation declined from the high of 8.0% in December through January to August at 6.3%	We expect Inflation rate to remain below the CBK's upper limit of 7.5%	**Neutral**	**Neutral**
Exchange Rate	The shilling depreciated 13.0% against the dollar from 90.7 in Jan to 102.3 in Dec 2015 The foreign reserves improved to 4.5months by Dec 2015	The shilling has appreciated 0.9% against the dollar YTD. Forex reserves hit a high of 5.2 months import cover during H1'2016	The shilling to remain stable in the short to medium term supported by (i) foreign exchange reserves equivalent to 5.1 months of import cover, and (ii) increased dollar inflows from tourism and remittances. We are however likely to see upward pressure in the short term driven by volatility in the stock market	**Negative**	**Neutral**

Kenya Summary Economic Outlook

Key indicators point to a sustained strong economic performance in 2016

Macro-Economic Indicators	2015 Experience	2016 Experience	Going Forward	Outlook as at the beginning of the Year	Current Outlook
Corporate Earnings	The year experienced weak earnings from the banking sector with a growth of 9.3% in Q3'2015 17 listed and 1 unlisted company issued profit warnings as a result of tough operating environment and high interest	Several companies have released positive H1’2016 results, mainly banking sector with weighted average growth in core EPS of 15.8%, above expectation of 12.5%	We expect corporate earnings to be better than 2015, exhibiting growth in profits owing to better macroeconomic conditions. We expect corporate earnings to come in at c12.5%	**Neutral**	**Positive**
Foreign Investor Sentiments	Increased flows out of Kenya owing to the US interest rate hike compared to inflows into equity markets as a result of volatility in interest rates	Investor sentiment has been high with foreign investors being net buyers throughout the year with inflows of USD 54.0 mn	With banking stocks declining whilst holding a large percentage of the market cap, and foreign investor participation, we are likely to see decreased activity as uncertainty looms	**Neutral**	**Neutral**
Security	Improvement witnessed in levels of security with tourism levels increasing in the month of December compared to the previous year and reduced terrorist attacks	Kenya has received an upgrade in credit rating by Moody’s as a positive indicator that the environment is safe to carry out business operations	Insecurity remains a concern informed by the few isolated pockets of attacks in the country. However, we appreciate the Government’s initiatives to improve security	**Positive**	**Neutral**

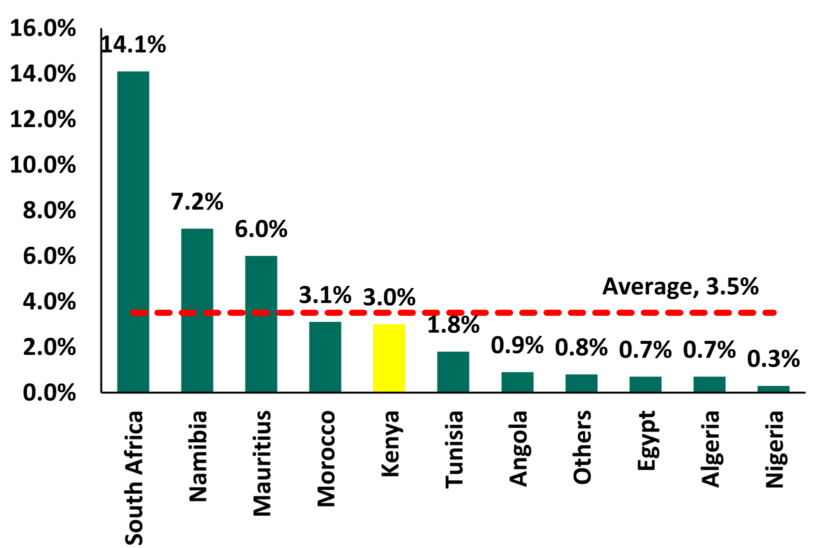
III. Kenya Insurance Sector Overview

Kenya's Insurance Sector Overview

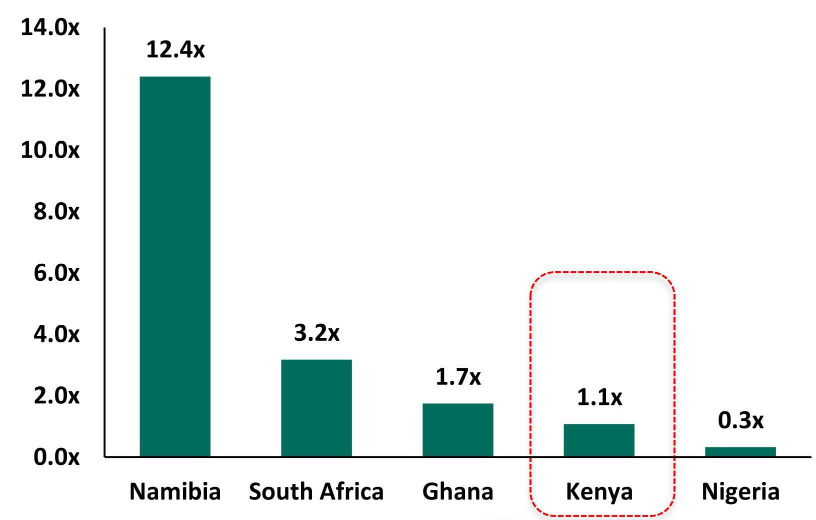
Kenya currently has 51 insurance companies regulated by the Insurance Regulatory Authority

- In Kenya there are a total of 51 insurance companies, 3 reinsurance companies and 144 insurance brokers. There are a total of 6,428 insurance agents in Kenya. The Insurance Regulatory Authority (IRA) is the regulator of all insurance companies in Kenya, with a mandate to regulate, supervise and develop the insurance industry in Kenya
- The minimum paid-up capital have been set at Kshs. 150 mn, Kshs 300 mn and Kshs 800 mn for the life, general and reinsurance business
- Kenya's insurance penetration stands at 3.0% compared to Africa's insurance penetration rate average of 3.5%
- Kenya's ratio of insurance companies to total population stands at 1.1x, with 51 insurers serving 47 mn people, compared to South Africa's 175 for 55 mn, Ghana's for 49 for 28 mn, Nigeria's 60 for 188 mn and Namibia's 31 for 3 mn

Insurance Penetration – Africa 2015



Insurance Companies to Total Population



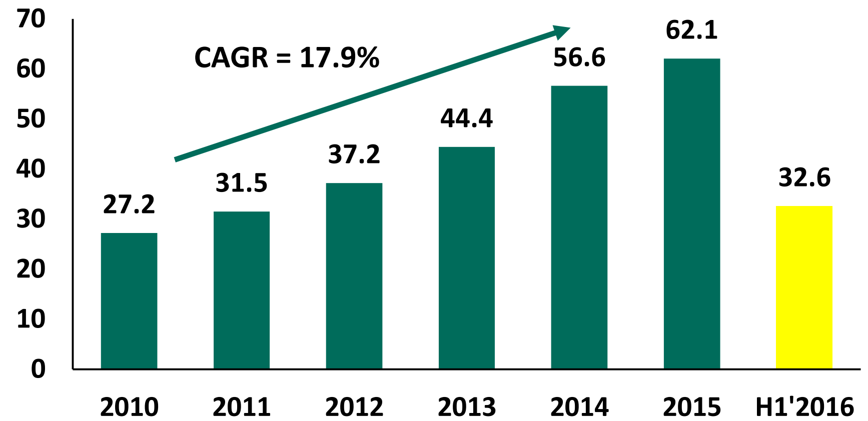
Source – Cytonn Research

Growth in the Insurance Sector

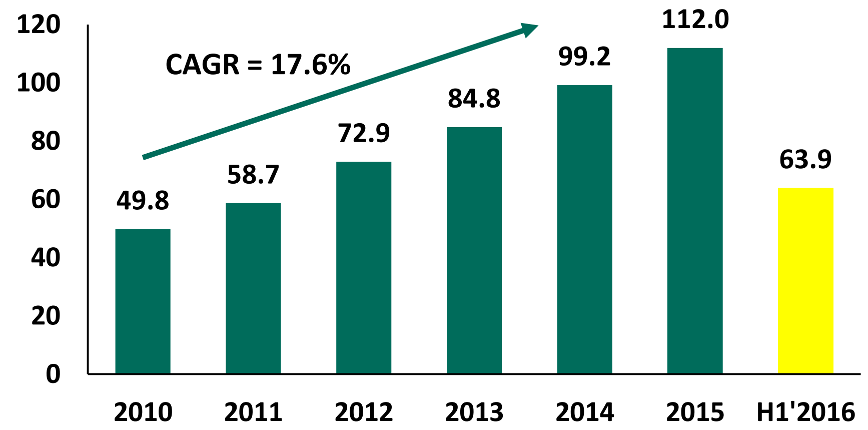
Alternative channels have been adopted to drive growth in insurance products in Kenya

- The Kenya Insurance Balance sheet stood at Kshs 501.6 bn as of June 2016. The balance sheet recorded a 10.1% y/y growth to June 2016
- Total gross premiums stood at Kshs 106.0 bn at June 2016, with general business accounting for 66.2% of the total gross written premiums
- Gross reinsured premium accounts for 6.4% of the total industry written premiums. The industry Retention Ratio for the life business stands at 92.2% while the general business stands at 75.2%
- Life business has registered a much stronger growth in premiums, posting a 17.9% CAGR compared to 17.6% growth in general business

Gross written premiums – Life business



Gross written premiums – General business



Source: Insurance Regulatory Authority Q2 '2016 Insurance Report

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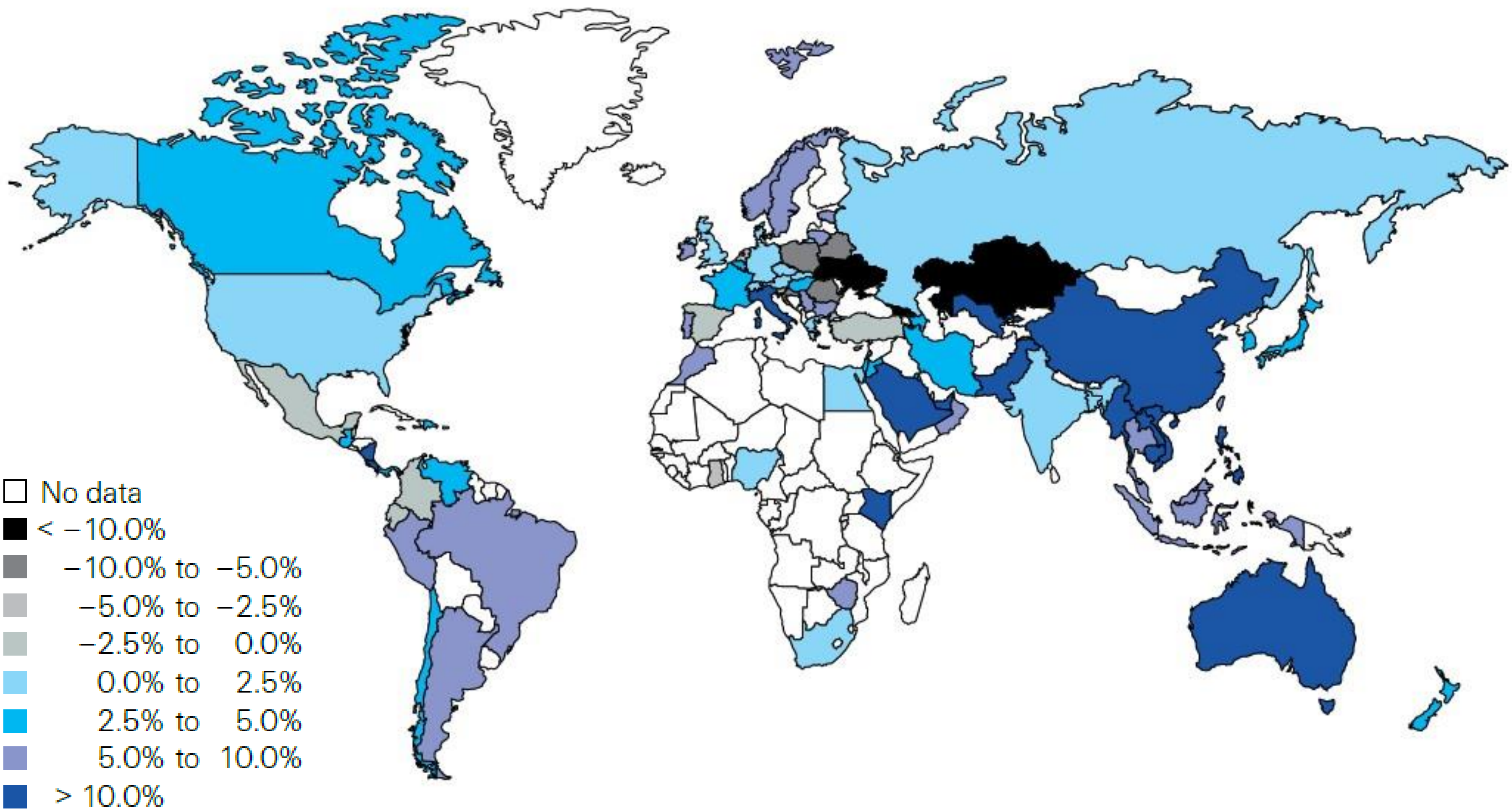
Global Insurance Premium Growth

Kenya ranks high in premium growth globally and is leading in Sub-Saharan Africa



Source: Swiss Re Economic Research & Consulting for 2015

Kenya Insurance Sector – Global Ranking Comparison

Kenya ranks at par with global players in most metrics, despite low penetration. However, in terms of combined ratio – we are worse off, showing the poor profitability of the core insurance business in Kenya

Name	P/B	P/E	ROE	Dividend Yield	Loss Ratio	Combined Ratio	Country
Wafa Assurance	2.6x	16.2x	16.3%	4.3%	62.1%	84.3%	Morocco
Sampo OYJ	2.1x	14.4x	14.2%	5.4%	67.8%	84.5%	Finland
China Pacific Insurance	1.8x	17.9x	9.8%	4.1%	64.8%	99.8%	China
Fairfax Financial Hldgs Ltd	1.4x	19.3x	7.5%	2.0%	62.5%	95.7%	Canada
Porto Seguro SA	1.4x	10.7x	14.0%	4.1%	66.6%	67.6%	Brazil
Zurich Insurance Group AG	1.2x	27.9x	4.4%	6.7%	68.8%	99.1%	Switzerland
Aviva PLC	1.1x	34.4x	6.6%	4.8%	64.5%	94.6%	Britain
Allianz SE-REG	0.9x	10.0x	9.4%	5.5%	68.1%	96.5%	Germany
American International Group	0.7x	54.0x	-0.4%	2.1%	70.5%	102.6%	United States
Assicurazioni Generali	0.7x	9.4x	8.0%	6.4%	65.4%	92.7%	Italy
AXA SA	0.7x	7.7x	8.5%	5.9%	69.0%	96.0%	France
Select Global Average	**1.3x**	**20.2x**	**8.9%**	**4.7%**	**66.4%**	**92.1%**	
Kenya Average (Listed)	**1.1x**	**7.3x**	**8.6%**	**1.7%**	**70.0%**	**127.3%**	

** - Metrics for Kenyan listed insurance companies only.*

Source: Cytonn Research, Bloomberg

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Insurance Sector Growth Drivers

Alternative Channels of premium collection and regional expansion contribute significantly to premium growth in the sector

1) **Technology and Innovation**: The industry players continue to innovate products. This increased competition has led to companies embracing technology by making it possible to make payments through mobile phone and the internet. However, much more needs to be done to target the growing middle class of uninsured Kenyans
2) **Growth of the Middle Class**: In a region with one of the fastest population and economic growth rates, the rise in disposable income is a great driver for the sector. Demand for insurance products and services has grown, for instance, motor insurance, driven by the high rate of car importation into the country recently
3) **Adoption of Alternative distribution Channels:** Insurance companies have been dynamic and fast in adopting to the new alternative channels for both distribution and premium collection. With at least 2/3 of the countries' population having access to banking services, improved agency networks through avenues like bancassurance will greatly shape the future of the sector
4) **Regional Expansion**: Given the low penetration rate in the region, global insurance companies have moved into the region to try and widen their customer base. However, we hold the view that Kenya has remained under-tapped and more emphasis should be put in growing insurance penetration in Kenya

Recent Developments in the Insurance Sector

Pan Africa rebrands to Sanlam Kenya, cementing 11 years of partnership with Sanlam Group

1) **Adoption of the Risk Based Supervision (RBS)**: The IRA is planning to introduce new capital requirements based on the nature of business carried out by the insurers to try and match the risk activities of organizations to their core-capital
2) **Diversification of Investments:** Insurance companies in Kenya have actively ventured into the real estate segment particularly in the office space segment with the Britam and UAP towers coming up during the year. The adoption of asset management by CIC and Sanlam has also seen the sector further diversify revenue streams aiming to grow their investment incomes
3) **Development and repackaging on new products:** New products have also come into the market to serve specific needs of customers. Such products include the Kenya Livestock Index based Insurance policy by APA insurance and Equiflex Bima life product by Britam Life
4) **Innovative Channels of Distribution:** Insurance companies have come up with alternative channels of distributing their products, including partnering with banks through bancassurance and the introduction of premium payments through mobile channels
5) **Pan Africa rebrands to Sanlam Kenya** - Pan Africa Insurance Holdings rebranded to Sanlam Kenya along with its affiliates. Sanlam Group being the largest non bank financial institution in Africa, will enable Sanlam Kenya to leverage on the brand and the great perception it brings to both investors and customers

Insurance Sector Outlook

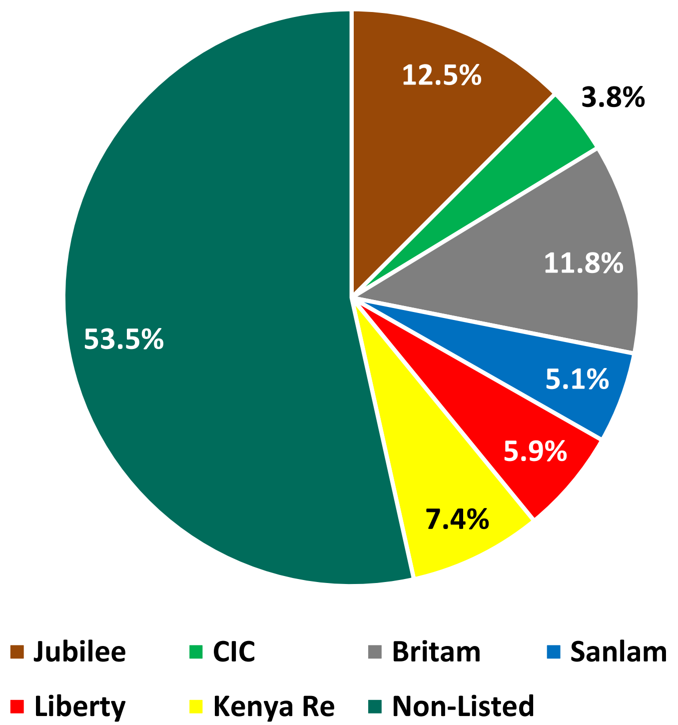
Insurance sector expected to consolidate following adoption of a risk-based capital framework

- **Mergers & Acquisitions:** We expect consolidation in the sector given the amended Insurance Act which came into effect in June and has adopted a risk-based capital adequacy system, with insurers covering high-risked businesses forced to raise their capital levels
- **New Products Targeting Specific sector:** With increased level of oil exploration and mining activities in the country, we expect insurance players to come up with products targeting these sector
- **Devolved Government:** With the establishment of a devolved system of governance, we expect insurance uptake to increase at the county level, with (i) county governments taking up insurance services, and (ii) increased economic activity in the county level, driven by more economic activities at the county level
- **Increased Regulation:** Following the new Capital Adequacy guidelines that introduced the concept of Tier I and Tier II capital, capital can only be invested in Government bonds, Treasury bills, deposits, cash and cash equivalents that constitute Tier I capital. This will significantly lower participation of Insurance companies in the Corporate Bonds market, as corporate bonds are not eligible investments for Tier I Capital. The Risk Based Supervision framework will also prompt Insurance companies to assess their risk appetite as the minimum capital requirements will largely be based on their appetite for risk

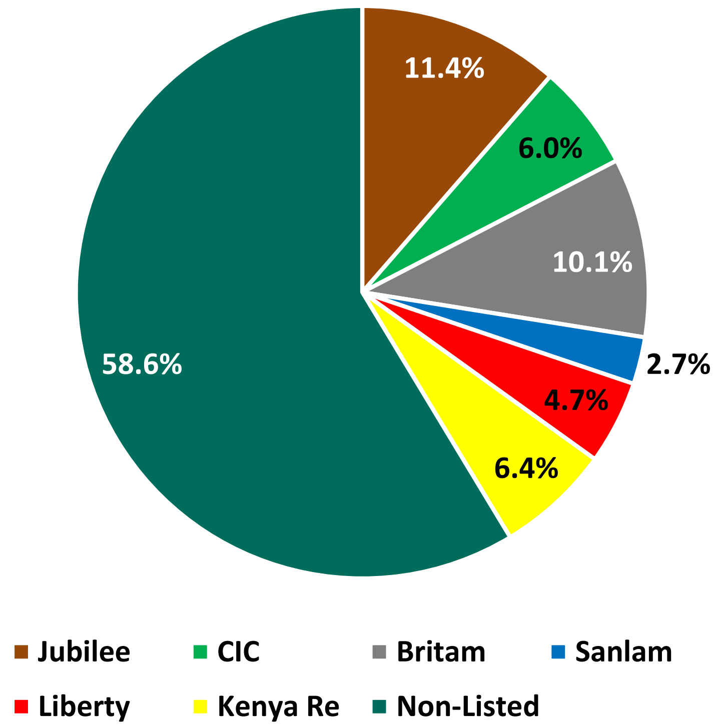
Insurance Sector Market Share – Total Assets and Gross Premiums

Non listed insurance companies, with 53.5% of industry assets, control 58.6% of gross premiums

Total Assets Market Share



Gross Written Premiums Market Share



Non listed insurance companies are more efficient in asset utilization to derive premium growth – they have 53.5% of assets, and have 58.6% of premiums. However, efficiency of non-listed companies has declined; in Q1'2016 they controlled 62.2% of premiums with 53.8% of assets

Source – IRA, as at June 2016

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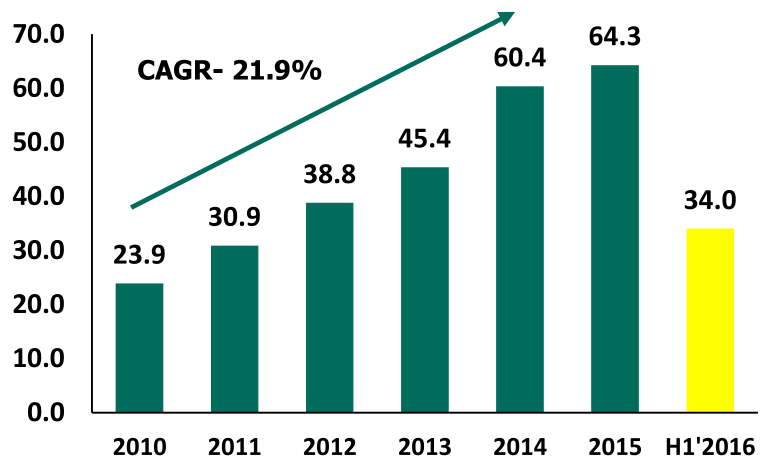
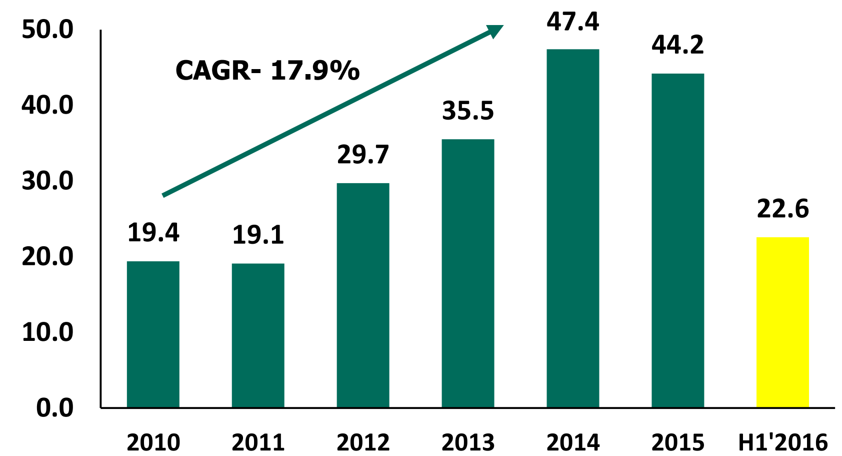
Listed Insurance Sector Metrics

The insurance sector continues to register robust growth in terms of premiums, assets and equity, with net claims increasing in H1'2016 by 1.9%. However, premium growth and asset growth has slowed from the steep increase witnessed in 2014

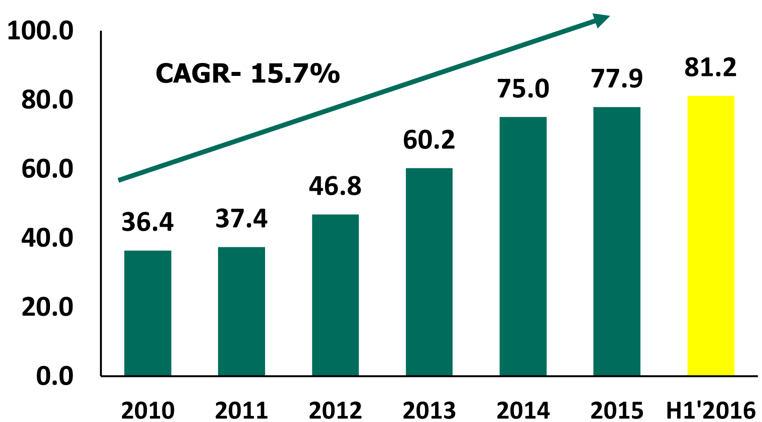
Net premiums (Kshs Bn)



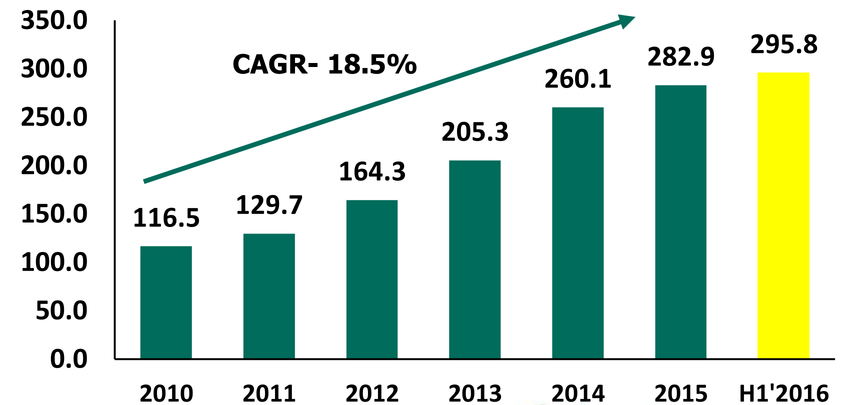
Net Claims (Kshs Bn)



Shareholders Equity (Kshs Bn)



Total Assets (Kshs Bn)

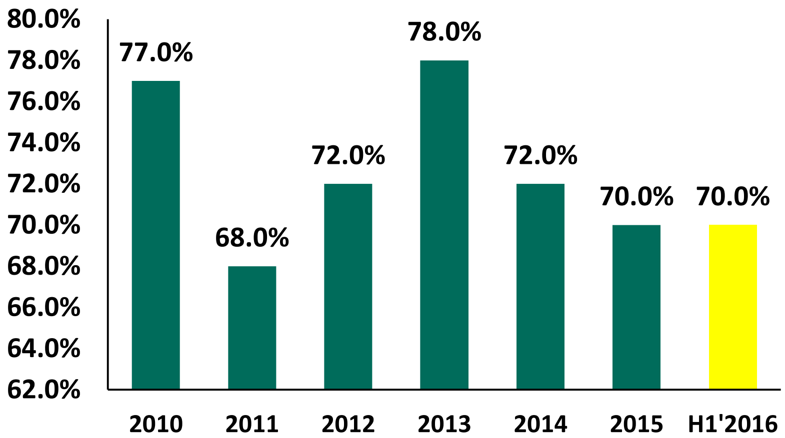


Source: Company Filings

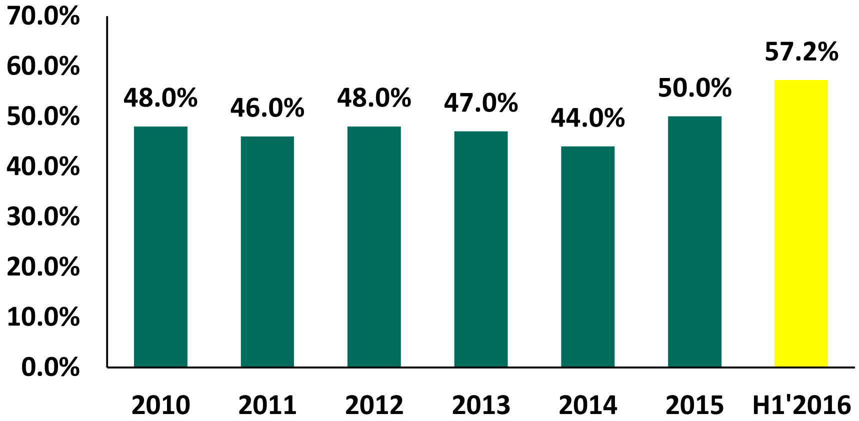
Listed Insurance Sector Metrics, continued…

Loss ratios remain under control, however expense ratios are at a 5 year high. In addition, solvency ratios are declining on the back of asset growth outpacing equity growth

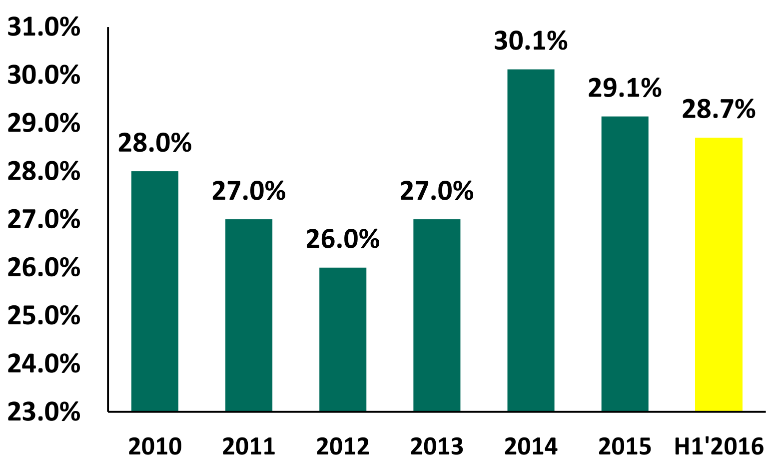
Loss Ratio (%)



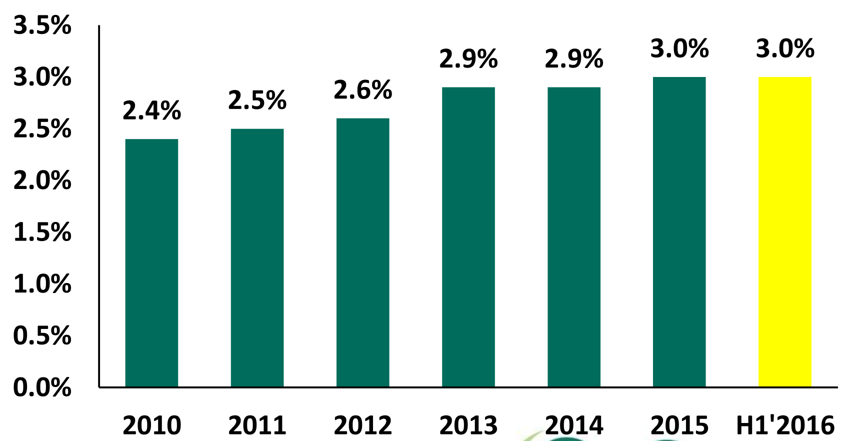
Expense Ratio (%)



Solvency Ratio (%)



Insurance Penetration in Kenya



Source: Company Filings

Insurance Sector Multiples

Kenya's Insurance sector is trading at an average PBV of 1.1x and a PE of 7.3x

Insurance	Share Price*	No. Of Shares Issued (Bn)	Market Cap (Bn)	P/BV	P/E
CIC Insurance Group	4.0	2.6	10.3	**1.3x**	7.9x
Sanlam Kenya	33.0	0.1	4.8	**1.3x**	(a)4.9x
Jubilee Holdings	461.0	0.1	27.6	**1.3x**	8.5x
Liberty Kenya Holdings	13.2	0.5	7.1	**1.2x**	11.6x
Britam	10.5	1.9	20.3	**1.1x**	(a)7.7x
Kenya Re Insurance Corporation	19.6	0.7	13.7	**0.6x**	3.8x
Median				1.3x	**7.8x**
Average				1.1x	**7.3x**

**Share Price as at 14th September 2016*

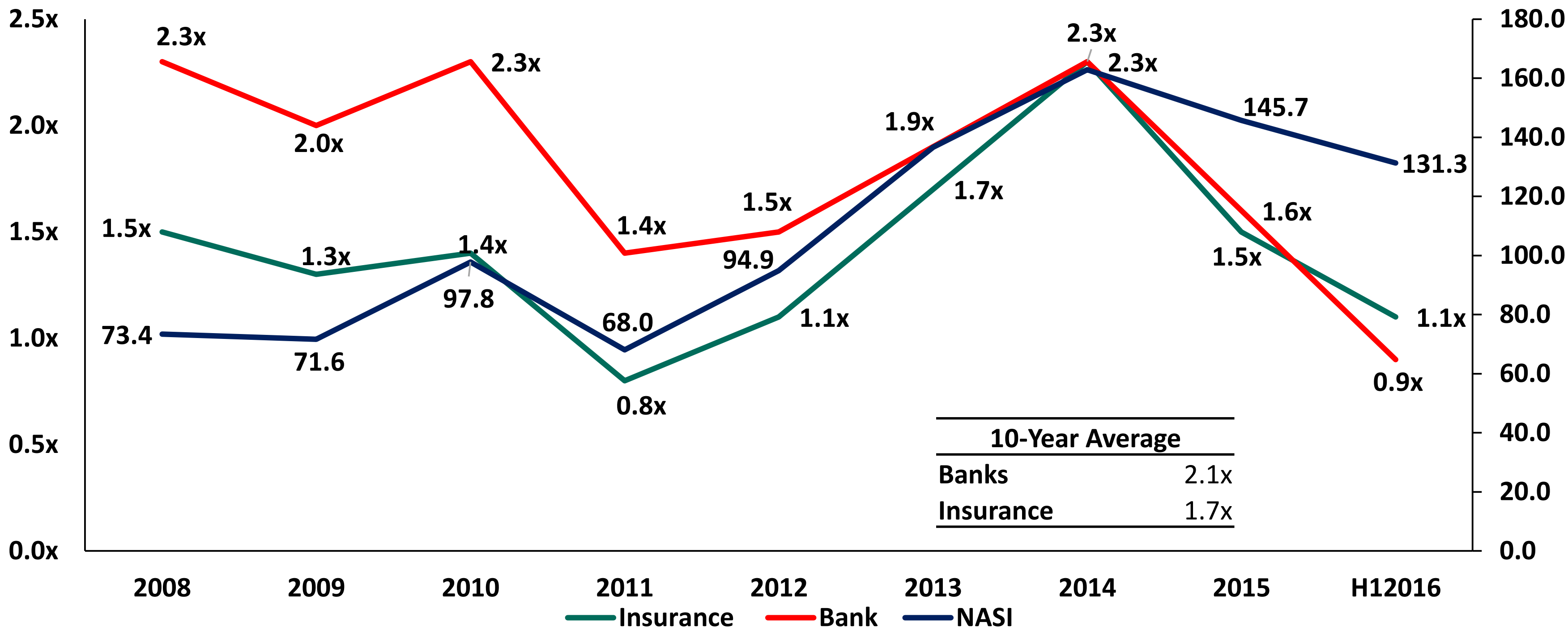
(a) Normalised Earnings using 5 years average

Source: NSE, Cytonn Data

Insurance Sector Multiples

Insurance stocks are currently expensive than banking stocks on a P/B basis

Historical Price to book values: Banking and Insurance vs NASI



On a price to book valuation, listed insurance companies are currently expensive than those in the listed banking sector and currently trading below its historical average of 1.7x. A direct correlation can be seen in the performance of insurance stocks with that of the Nairobi Securities Index

Source – Cytonn Research

IV. Cytonn's Insurance Sector Report

Executive Summary

We undertook this report to offer investors a comprehensive view of the listed insurance companies

- All listed insurance in the Kenyan market were analysed by the Cytonn Investment Team
- The analysis was brought about by a need to be able to offer our investors, especially global investors, which insurance companies in our view are the most stable from a franchise value and from a future growth opportunity perspective
- The analysis covers the health and future expected performance of the financial institution, by highlighting their performance using metrics to measure Profitability, efficiency, diversification, risk appetite and solvency
- For insurance companies which are part of a group structure, the financials of the group were utilised to take into consideration the listed counter which an investor will purchase
- Ranking based on a weighted average ranking of Franchise value* (40%) and Intrinsic value* (60%)
- All the listed insurance companies are composite insurance companies, offering both life and general business. Kenya Re Insurance is the only listed reinsurer

**See appendix for definition*

Kenya's Insurance Sector – *Given the transition in the banking sector, what next for insurance?*

Focus Area	Summary	Impact on Insurance Sector
Over-insured with low Penetration	• Similar to banking, the insurance sector is filled with too many players, with 51 insurance firms serving 47 million people, with no diversity in product offerings • However, unlike banking where financial inclusion is at 75% in Kenya, insurance penetration is only at 3%, and has been this way for long, with little signs of improvement • Like banking, the market has begun to see signs of consolidation, with firms that are strong on distribution such as Britam, Pan Africa and Liberty acquiring Real, Gateway and East Africa Underwriters, respectively	• Insurance as a product still needs to be sold in Kenya compared to financial services such as banking, which have become a necessity in Kenya • The sector still has a lot of opportunity for growth, if correct distribution mechanisms are employed to grow awareness and subsequently grow premiums • With a positive correlation to disposable income, majority of Kenyan's are still priced out of policies • We are entering into a period of consolidation in the insurance industry evidenced by the recent corporate actions. However their strategy is confused as companies which are life are venturing into general
Regulation	• Proposed changes to the Insurance Act stipulates guidelines on capital adequacy and risk charges on respective investment options • Following the recent turbulence in the banking sector, where improved supervision has exposed poor governance practices, insurance could suffer a similar fate as regulation tightens • Annulment of law capping accident victims pay, which placed maximum victim compensation at Kshs 3 mn is an example of tough times for the sector	• Increased risk based analysis on investments and deeper supervision on internal practices by insurance companies is expected to shed shed light on companies that are poorly run • The increased supervision will lead to a tighter regulated sector, bringing confidence to investors, • In our view, limiting claims for accidents is not the correct way to bring discipline to the sector. A national registry of drivers linked to their insurance and claim history will be more efficient. Premiums can then be priced off, and increased, for poor driving records
Revenue Diversity and Product Innovation	• Insurance companies are largely not profitable from their core business and are diversifying their incomes into property as seen with Britam, UAP etc. • Insurance products are not tailored to the common citizen and not innovative enough to target citizens with low disposable income	• Increased penetration may not be a reality as citizens are unable to take up insurance • Increased competition as insurance companies become more innovative with their products and their distribution channels, while those that cannot shall be acquired or leave the industry

We expect increased regulation in the sector, as well as increased consolidation to reduce duplication of products by insurance companies with key focus on revenue diversification

Rankings by Franchise Value

CIC Group emerged top in the franchise value rankings*, with Sanlam coming last

Company	ROaTE **	Investment Income/Total Income	Loss Ratio	Expense Ratio	Combined Ratio	Ceded Premium Ratio	Solvency Ratio	Underwriting Leverage	Reserve Leverage	Corporate Governance Score	Total	H1'16 Rank	FY'15 Rank
CIC	1	6	3	1	1	3	2	1	5	4	**27**	**1**	**3**
Kenya Re	3	5	2	2	2	6	1	6	1	2	**30**	**2**	**1**
Jubilee	2	3	5	3	3	2	4	5	4	3	**34**	**3**	**2**
Britam	5	4	1	5	4	4	3	3	2	6	**37**	**4**	**5**
Liberty	4	2	4	6	4	1	5	4	3	5	**38**	**5**	**4**
Sanlam	6	1	6	4	5	5	6	2	6	1	**42**	**6**	**6**

- **The Insurance ranking assigns a value of 1 for the best performing insurance company, and a value of 6 for the worst**
- The rankings highlights profitability, efficiency, diversification, risk appetite and governance
- CIC emerged top improving from position 3 on the back of a low expense and combined ratios well as a high underwriting leverage
- Kenya Re dropped from top position to position 2, affected by a poor ceded premium ratio as well as low underwriting leverage
- Sanlam retained its bottom position plagued by poor return on tangible equity, high loss ratio after acquiring a general business line, low solvency ratio and a high reserve leverage

Source: Cytonn Research

****   All metrics in the franchise value rankings are explained in slides 41 - 44***

***** ROaTE- Return on Tangible Equity***

Rankings by Total Potential Return

Kenya Re was a clear leader in intrinsic value ranking, followed by Britam Holdings

Company	Current Price	Intrinsic Valuation	Upside	Dividend Yield FY16e	Total Potential Return
Kenya Re Insurance	19.5	26.9	**37.9%**	3.8%	**41.7%**
Britam Holdings	10.5	13.2	**25.7%**	2.9%	**28.6%**
CIC Insurance	3.9	4.4	**12.8%**	1.6%	**14.4%**
Jubilee Holdings	461.0	482.2	**4.6%**	1.8%	**6.4%**
Liberty Kenya Holdings	13.8	13.9	**0.7%**	0.0%	**0.7%**
Sanlam Kenya	33.5	30.5	**-9.0%**	0.0%	**-9.0%**

- Kenya Re has the highest total potential return at 41.7%, which includes the highest dividend yield in the insurance market of 3.8%
- Britam Holdings had the second highest total potential return of 28.6%, with a dividend yield of 2.9%
- Sanlam Kenya registered the lowest total potential return, with a downside of 9.0%

Source – Cytonn Research

Cytonn's Insurance Sector Report – Comprehensive Rankings

When combining franchise and intrinsic rankings, Kenya Re and CIC tied at top position

CYTONN'S H1'2016 INSURANCE REPORT RANKINGS					
Company	**Franchise Value Total Score**	**Total Return Score**	**Composite H1'16 Score**	**H1'16 Rank**	**FY'15 Rank**
Kenya Re Insurance	**30**	**1**	**13**	**1**	**1**
CIC Insurance	**27**	**3**	**13**	**1**	**4**
Jubilee Holdings	**34**	**4**	**16**	**3**	**2**
Britam Holdings	**37**	**2**	**16**	**3**	**5**
Liberty Kenya Holdings	**38**	**5**	**18**	**5**	**3**
Sanlam Kenya	**42**	**6**	**20**	**6**	**6**

- In H1'2016, franchise value was assigned a weighting of 40% while the intrinsic value was assigned 60% weight, same as in FY'2015
- Kenya Re and CIC tied at top position ranking top in the total return score category and franchise score category, respectively. A point to note is that CIC was ranked 4th in the FY'2015 report
- Sanlam retained its bottom position ranking bottom in both the total return score category and franchise score category

Source – Cytonn Research

Cytonn INVESTMENTS

V. Appendix

A. Metrics Used - Definitions

Insurance Sector Report – Metrics Used

Cytonn has undertaken the analysis of listed insurance companies in Kenya using 10 metrics

- **Return on Average Tangible Equity** – An Insurance Company's return on average tangible equity (ROaTE), is the amount of profit the company earns as a percentage of average tangible shareholders' equity. It's a profitability measure that shows how much a company generates with the money shareholders have invested
  - Output – Insurance firms with higher ROaTEs are better at utilizing capital to generate profits

- **Investment Income/ Total Income Ratio –** This ratio indicates the proportion of investment income that makes up total income generated by the company. It is a measure of revenue diversification that shows how much revenue a company generates away from its underwriting business
  - Output – Insurance firms with higher investment income to total income ratios have more diversified revenue streams, and are less reliant on their underwriting business

- **Loss Ratio –** An insurance company's loss ratio is the ratio of its net claims to the net premiums. It is a measure of the company's ability to settle the claims from the premiums generated from policyholders
  - Output – A higher loss ratio indicates that the insurance company is using more of its premiums to pay out claims and are more likely to be less profitable

- **Expense Ratio –** This is the ratio of a companies operating expenses to its net premiums. It is a measure of efficiency of management in generating premiums for the business written by the company
  - Output – A higher loss ratio indicates that the company is incurring more expenses in mobilizing more premiums, an indicator of inefficiency of operations

Insurance Sector Report – Metrics Used, continued…

Cytonn has undertaken the analysis of listed insurance companies in Kenya using 10 metrics

- **Combined Ratio** - The combined ratio reflects both the cost of protection and the cost of generating and maintaining the business
  - Output - When the combined ratio is under 100%, underwriting results are considered profitable; when the combined ratio is over 100%, underwriting results are considered unprofitable
- **Ceded Premium Ratio –** Ceded premium ratio indicates the amount of gross premiums which insurance companies cede to reinsurance. It is a measure of how much risk an insurance company is willing to take and diversify to reinsurance companies
  - Output – A low ceded premium ratio indicates a company has a high risk appetite to a company with a higher ratio. Also extremely high ratios also indicates that the company may not be able to run its operations effectively
- **Solvency Ratio –** This ratio is the amount of policy holder surplus to assets which indicates the amount of assets not required for the payment of claim
  - Output – A higher ratio indicates that the company is more solvent and less likely to go bankrupt
- **Underwriting Leverage Ratio**– This is the ratio of net premiums to shareholder's funds. This ratio is **inversely** related to the capacity of companies to write additional business because new policies generate liabilities, which must be supported by surplus due to the limited liability of insurance companies
  - Output – A high ratio indicates that the capacity to write new business is low

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Insurance Sector Report – Metrics Used, continued…

Cytonn has undertaken the analysis of listed insurance companies in Kenya using 10 metrics

- **Reserve Leverage Ratio** – This is the ratio of net claims to shareholder's funds. This ratio represents an insurer's major unpaid obligations as a percentage of net worth, and is inversely related to the firm's ability to bear loss shocks and errors in loss forecasting
  - Output – A higher ratio indicates that the company has a lower ability to absorb sudden large shocks

- **Corporate Governance Score** – Given the recent developments in the Financial services sector, which include Dubai Bank and Imperial Bank being put under receivership due to poor governance, we developed a 13th metric to measure corporate governance. This is a ranking system where we analyse 25 metrics to rank listed companies on their corporate governance. Main areas of analysis are in the board composition, audit functions, CEO tenor and evaluation, remuneration and transparency

  - **Output:** The score assumes a diffusion index with 50% as the base. Anything below 50% should be flagged as having serious corporate governance issues while anything above is skewed towards proper governance. However the variance from 100% gives the risk associated with corporate governance

Insurance Sector Report – Metrics Used, continued…

The rating of the insurance companies was done using franchise and intrinsic value

a. **Franchise Value Total Score:** In this ranking, the insurance companies are ranked by health, by looking at metrics for profitability, efficiency, diversification and risk appetite. The insurance companies are then assigned scores ranging from 1, which is the best performing (re)insurer in the metric, till 6, which is the worst performing (re)insurer. The scores from each (re)insurer are then summated, with the (re)insurer with the lowest total score emerging on top, and that with the highest score emerging at the bottom

b. **Total Return Score:** Potential upside for each (re) insurer based on the intrinsic valuation, and the current market price. The (re)insurer with the highest upside was ranked 1st, and that with the lowest upside, or greatest downside, was ranked last. Cytonn's Analysts carry out this valuation, arriving at the actual value of each (re) insurer based on an underlying perception of its true value, including all aspects of the business, in terms of both tangible and intangible factors, and future growth expectations. This value may or may not be the same as the current market value

c. **Overall Rank:** Using the Franchise Value and Total Return, insurance companies are given a score. Franchise value was assigned a weighting of 40%, while the intrinsic value was assigned a 60% weight

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B. Listed Insurance Companies

Insurance Companies’ Value Drivers and Cons

Bank	Value Drivers	Cons
CIC Group	• Adoption of alternative channels, such as Sacco distributions, mobile and internet platform • CIC’s underwriting discipline as highlighted by a strong underwriting leverage is bound to derive value for the company going forward	• Increased exposure to short term business characterized by high and fraudulent claims • Credit risk with high levels of unpaid premium increasing a liability load on the balance sheet
Britam	• Regional business coupled with efficient distribution channels will drive premium growth, • Asset management business will drive and diversify growth for the overall group	• Increased exposure to the risky assets, like equites is likely to increase the company’s risk adjusted losses • Fuzzy strategy to diversify income, with no firmed up real estate projects apart from the Britam Tower
Liberty	• Venture into alternative channels of distribution like bancassurance and internet insurance • Customized insurance products that fit the needs of the clients such as motor insurance tailor-made for women	• Credit risk with high levels of unpaid premium increasing a liability load on the balance sheet • Pricing and undercutting risk with increased competition, particularly in the short term business, growth in the premiums is expected to slow down
Sanlam	• Has a strong in-house actuarial risk function • Acquisition of Gateway Insurance, now Sanlam General gives it the chance to venture into the general business space	• Credit risk with high levels of unpaid premium increasing a liability load on the balance sheet • Their venture into general insurance will stifle growth given the high loss ratios in this business line
Jubilee	• Jubilee has been able to consolidate its market leadership in Kenya, Uganda and Tanzania making important market share gains in Burundi and increased regional expansion including its recent partnership with state owned Sonas of DRC	• Jubilee still maintains high combined ratios at 90% during the year 2015 with the underwriting business in the industry not being very profitable • Slow uptake of insurance in the Kenyan and regional markets, driven by low education levels and high premium rates
Kenya Re	• Kenya Re is Retakaful Compliant. This is the Islamic insurance that is an alternative for conventional insurance. It has enabled Kenya Re to capture the Muslim segment of the market	• Kenya Re management being subject to political approval may be subject to bureaucratic procedures hindering performance

Cytonn INVESTMENTS

I. CIC Group

Financial Statement Extracts – Income Statement

CIC Insurance is projected to grow at a CAGR of 6.9% for the next 5 years

Income Statement	FY13	FY14	FY15	FY16	FY17	FY18	Projected 5-Year to 2020 CAGR
Gross Premium Income	10.1	13.4	12.6	12.8	14.8	17.3	**14.3%**
Premium Ceded to Reinsurers	(0.9)	(1.1)	(1.9)	(1.9)	(2.2)	(2.6)	**14.4%**
Net Premium Income	**9.2**	**12.3**	**10.7**	**10.9**	**12.5**	**14.7**	**14.3%**
Commission Income	0.3	0.4	0.7	0.7	0.7	0.9	**14.4%**
Investment Income	0.7	1.1	1.5	1.6	1.9	1.6	**0.5%**
Total Other Revenue	**10.9**	**14.5**	**13.8**	**13.4**	**15.5**	**17.7**	**12.2%**
Total Revenue	**21.1**	**28.3**	**26.7**	**26.6**	**30.5**	**34.8**	**12.6%**
Net Benefits and Claims	**6.0**	**8.6**	**7.3**	**7.8**	**9.0**	**10.4**	**15.4%**
Fees and Commission Expense	0.8	1.1	1.4	1.1	1.3	1.5	**8.8%**
Operating Expenses	2.4	3.2	3.8	2.9	3.3	3.9	**6.9%**
PBT	**1.7**	**1.5**	**1.3**	**1.6**	**1.9**	**1.9**	**11.1%**
Income Tax Expense	(0.4)	(0.3)	(0.2)	(0.5)	(0.6)	(0.6)	**27.4%**
PAT	**1.3**	**1.2**	**1.1**	**1.1**	**1.3**	**1.3**	**6.9%**
Core EPS	**0.5**	**0.5**	**0.4**	**0.4**	**0.5**	**0.5**	**6.9%**

Source – Company Financials & Cytonn Estimates

Financial Statement Extracts – Balance Sheet

CIC Insurance balance sheet is projected to grow at a CAGR of 9.6% for the next 5 years

Balance Sheet	FY13	FY14	FY15	FY16	FY17	FY18	Projected 5-Year to 2020 CAGR
Property and Equipment	1.1	1.3	1.3	1.3	1.3	1.3	**-0.4%**
Investment Properties	3.7	4.6	5.4	5.6	5.6	5.6	**0.6%**
Financial Investments	1.1	2.7	3.9	12.3	12.3	12.3	**25.9%**
Other Assets	11.2	15.1	14.2	9.3	10.6	12.4	**7.3%**
Total Assets	**17.0**	**23.7**	**24.8**	**28.5**	**29.8**	**31.6**	**9.6%**
Insurance Contract Liabilities	5.4	6.0	6.4	13.7	15.8	18.2	**30.9%**
Borrowings	0.0	5.1	5.1	5.1	3.2	1.4	**0.0%**
Other Liabilities	5.3	5.5	5.5	1.1	1.2	1.3	**(22.0%)**
Total Liabilities	**10.7**	**16.5**	**17.0**	**19.9**	**20.1**	**20.9**	**9.0%**
Total Equity	**6.3**	**7.2**	**7.8**	**8.6**	**9.7**	**10.7**	**11.0%**
Total Capital and Liabilities	**17.0**	**23.7**	**24.8**	**28.5**	**29.8**	**31.6**	**9.6%**

Source – Company Financials & Cytonn Estimates

Valuation Summary

CIC is undervalued with a total potential return of 14.4%

Cost of Equity Assumptions:	14/Sept/16
Risk free rate	13.0%
Beta	0.9
Mature Market Risk Premium	6.7%
Extra Risk Premium	0.0%
Cost of Equity	19.1%

Terminal Value Assumptions	
Terminal Growth Rate	5.0%
Terminal Return on Equity	13.4%
Terminal Beta	1.0
Terminal Cost of Equity	19.7%
Terminal P/B	0.6x
Terminal value	7.9

Valuation Methodology	Implied Price	Weighting	Weighted Value
Intrinsic Valuation	4.6	80%	3.7
Price to Book Approach	3.2	15%	0.3
Price to Earnings Approach	3.9	5%	0.4
Fair Value			**4.4**
Current Price			**3.9**
Upside/(Downside)			**12.9%**
Dividend Yield			**1.6%**
Total Potential Return			**14.4%**

Source – Company Financials & Cytonn Estimates

II. Britam

Financial Statement Extracts – Income Statement

Britam's net premiums is expected to grow at a CAGR of 14.1% for the next 5 years

Income Statement	FY13	FY14	FY15	FY16	FY17	FY18	Projected 5-Year to 2020 CAGR
Gross Premium Income	8.8	14.0	19.6	19.8	22.3	24.9	**13.9%**
Premium Ceded to Reinsurers	(1.1)	(2.3)	(3.2)	(3.3)	(3.6)	(4.0)	**12.8%**
Net Premium Income	**7.8**	**11.8**	**16.4**	**16.5**	**18.7**	**21.0**	**14.1%**
Commission Income	1.0	1.3	1.5	1.8	2.0	2.3	**12.9%**
Investment Income	2.8	3.3	4.3	1.9	2.7	3.8	**10.2%**
Total Other Revenue/Losses	**3.6**	**4.3**	**(2.6)**	**(0.7)**	**0.8**	**1.4**	**-12.8%**
Total Revenue	**15.1**	**20.7**	**19.5**	**19.5**	**24.3**	**28.4**	**10.0%**
Gross Benefits and Claims Paid	3.3	4.0	10.3	10.6	11.9	13.2	**26.2%**
Net Benefits and Claims	**4.9**	**8.0**	**10.6**	**10.0**	**11.2**	**12.4**	**11.1%**
Fees and Commission Expense	1.9	2.7	3.3	3.4	4.2	5.2	**18.9%**
Operating Expenses	3.2	4.6	6.7	6.4	7.3	8.2	**14.0%**
PBT	**2.9**	**3.0**	**(1.8)**	**(0.0)**	**1.9**	**3.0**	**5.5%**
Share of Profit from Associate	0.2	0.3	0.6	0.6	0.7	0.8	**33.4%**
Income Tax Expense	(0.8)	(0.7)	0.2	0.0	(0.6)	(0.9)	**9.4%**
PAT	**2.3**	**2.5**	**(1.0)**	**0.6**	**2.0**	**2.9**	**9.5%**
Core EPS	**1.2**	**1.3**	**(0.5)**	**0.3**	**1.0**	**1.5**	**9.5%**

Source – Company Financials & Cytonn Estimates

Cytonn INVESTMENTS

Financial Statement Extracts – Balance Sheet

Britam balance sheet is expected to grow at a CAGR of 13.8% for the next 5 years

Balance Sheet	FY13	FY14	FY15	FY16	FY17	FY18	Projected 5-Year to 2020 CAGR
Property and Equipment	1.2	1.3	1.7	4.6	6.0	7.2	**42.2%**
Investment Properties	3.8	5.6	8.2	10.5	11.5	12.7	**13.5%**
Financial Investments	9.6	18.6	15.0	20.0	27.4	35.7	**31.2%**
Other Assets	32.3	46.9	52.7	52.6	54.4	57.2	**4.0%**
Total Assets	**46.9**	**72.5**	**77.6**	**87.7**	**99.2**	**112.8**	**13.8%**
Insurance Contract Liabilities	26.9	34.0	42.2	56.7	66.9	78.3	**19.9%**
Borrowings	0.0	6.2	6.6	6.0	6.0	6.0	**-1.9%**
Other Liabilities	5.2	10.9	11.1	6.1	6.4	6.8	**-7.5%**
Total Liabilities	**32.2**	**51.0**	**60.0**	**68.7**	**79.4**	**91.1**	**14.6%**
Total Equity	**14.8**	**21.4**	**17.7**	**19.0**	**19.9**	**21.7**	**10.8%**
Total Capital and Liabilities	**46.9**	**72.5**	**77.6**	**87.7**	**99.2**	**112.8**	**13.8%**

Source – Company Financials & Cytonn Estimates

Cytonn INVESTMENTS

Valuation Summary

Britam is undervalued with a total potential return of 28.8%

Cost of Equity Assumptions:	14/Sept/16
Risk free rate *	13.0%
Beta	1.4
Country Risk Premium	6.7%
Extra Risk Premium	0.0%
Cost of Equity	22.2%

Terminal Value assumptions	
Terminal growth rate	5.0%
Terminal Return on Equity	17.4%
Terminal Beta	1.0
Terminal Cost of Equity	19.7%
Terminal P/B	0.8x
Terminal Value	24.5
Terminal Book value	29.1

Valuation Methodology	Implied Price	Weighting	Weighted Value
Residual Income approach	12.1	50%	6.0
Sum of The Parts	14.3	50%	7.1
Fair Value			**13.2**
Current Price			**10.5**
Upside/(Downside)			26.0%
Dividend Yield			2.9%
Total Potential Return			**28.8%**

Source – Company Financials & Cytonn Estimates

** Five years average yields on a 10 year Treasury bond*

Cytonn INVESTMENTS

III. Liberty

Financial Statement Extracts – Income Statement

Liberty is expected to grow at a CAGR of 7.8% for the next 5 years

Income Statement	FY13	FY14	FY15	FY16	FY17	FY18	Projected 5-Year to 2020 CAGR
Gross Premium Income	7.4	8.0	9.4	9.5	10.3	11.3	**7.9%**
Premium Ceded to Reinsures	(3.3)	(3.3)	(3.8)	(3.8)	(4.1)	(4.5)	**7.4%**
Net Premium Income	**4.1**	**4.7**	**5.5**	**5.7**	**6.2**	**6.8**	**8.3%**
Commission Income	0.7	0.7	0.8	0.8	0.9	1.0	**9.2%**
Investment Income	2.6	2.9	1.8	2.1	2.5	2.8	**13.9%**
Total Other Revenue	**0.0**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**7.0%**
Total Revenue	**7.4**	**8.3**	**8.3**	**8.8**	**9.7**	**10.7**	**9.7%**
Net Insurance Benefits and claims	**(3.1)**	**(3.5)**	**(3.1)**	**(4.0)**	**(4.4)**	**(4.9)**	**14.1%**
Fee and Commission Expense	(0.8)	(0.9)	(1.2)	(1.2)	(1.3)	(1.5)	**8.6%**
Operating Expenses	(2.2)	(2.6)	(3.0)	(2.8)	(2.9)	(3.2)	**5.5%**
PBT	**1.3**	**1.3**	**1.0**	**0.7**	**1.0**	**1.1**	**7.5%**
Income Tax Expense	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	**6.8%**
PAT	**1.1**	**1.1**	**0.7**	**0.6**	**0.8**	**0.9**	**7.8%**
Core EPS	**2.1**	**2.1**	**1.4**	**1.1**	**1.5**	**1.6**	**7.8%**

Source – Company Financials & Cytonn Estimates

Financial Statement Extracts – Balance Sheet

Liberty balance sheet is expected to grow at a CAGR of 7.8% for the next 5 years

Balance Sheet	FY13	FY14	FY15	FY16	FY17	FY18	Projected 5-Year to 2020 CAGR
Property and Equipment	1.1	1.1	1.1	1.1	1.1	1.1	**0.1%**
Investment Property	0.8	0.9	1.0	1.1	1.3	1.4	**12.9%**
Financial Investments	15.9	19.1	19.1	25.7	29.3	33.2	**17.0%**
Other Assets	13.6	11.6	13.3	9.7	8.5	7.5	**-16.1%**
Total Assets	**31.5**	**32.7**	**34.5**	**37.6**	**40.2**	**43.1**	**7.8%**
Insurance Contract Liabilities	10.3	9.7	11.1	12.6	13.2	13.9	**7.4%**
Borrowings	0.0	0.0	0.0	0.0	0.0	0.0	**0.0%**
Other Liabilities	15.7	16.8	17.2	17.9	19.2	20.6	**6.6%**
Total Liabilities	**26.0**	**26.5**	**28.3**	**30.5**	**32.4**	**34.5**	**6.9%**
Total Equity	**5.5**	**6.2**	**6.2**	**7.0**	**7.8**	**8.7**	**11.5%**
Total Capital and Liabilities	**31.5**	**32.7**	**34.5**	**37.6**	**40.2**	**43.1**	**7.8%**

Source – Company Financials & Cytonn Estimates

Valuation Summary

Liberty is fairly valued with a total potential return of 1.1%

Cost of Equity Assumptions:	14/Sept/16
Risk free rate	13.0%
Beta	0.7
Mature Market Risk Premium	6.7%
Extra Risk Premium	0.5%
Cost of Equity	18.3%

Terminal Value Assumptions	
Terminal Return on Equity	10.0%
Terminal Beta	1.0
Terminal P/B	0.4x
Terminal Price (2020)	4.2
Terminal Book Value	10.7

Valuation Methodology	Implied Price	Weighting	Weighted Value
Intrinsic Valuation	14.3	80%	11.4
Price to Book Approach	13.8	15%	2.1
Price to Earnings Approach	8.9	5%	0.4
Fair Value			**13.9**
Current Price			**13.8**
Upside/(Downside)			**1.1%**
Dividend Yield			**0.0%**
Total Potential Return			**1.1%**

Source – Company Financials & Cytonn Estimates

IV. Sanlam

Financial Statement Extracts – Income Statement

Sanlam's net premiums is expected to grow at a CAGR of 12.7% for the next 5 years

Income Statement	FY13	FY14	FY15	FY16	FY17	FY18	Projected 5-Year to 2020 CAGR
Gross Premium Income	5.3	5.2	5.2	5.4	6.3	7.2	**12.9%**
Premium Ceded to Reinsurers	(0.2)	(0.3)	(0.4)	(0.4)	(0.5)	(0.6)	**16.0%**
Net Premium Income	**5.1**	**5.0**	**4.8**	**5.0**	**5.7**	**6.6**	**12.7%**
Fee and Commission income	0.1	0.0	0.1	0.1	0.1	0.1	**12.2%**
Investment Income	2.7	2.6	2.4	1.7	2.4	3.1	**12.1%**
Total Other Revenue	**3.4**	**3.0**	**2.4**	**2.1**	**2.5**	**3.3**	**14.7%**
Total Revenue	**8.5**	**8.0**	**7.2**	**7.1**	**8.3**	**9.9**	**13.4%**
Net Benefits and claims	**(5.3)**	**(5.1)**	**(4.3)**	**(4.9)**	**(5.6)**	**(6.4)**	**15.4%**
Fee and Commission Expense	(0.7)	(0.8)	(1.0)	(0.7)	(0.8)	(1.1)	**8.7%**
Operating Expenses	(1.0)	(1.0)	(1.8)	(1.5)	(1.7)	(1.9)	**6.1%**
PBT	**1.5**	**1.2**	**0.1**	**(0.0)**	**0.2**	**0.4**	**73.2%**
Income Tax expense	(0.3)	(0.3)	(0.0)	0.0	(0.0)	(0.1)	**47.2%**
PAT	**1.3**	**0.9**	**0.0**	**(0.0)**	**0.1**	**0.3**	**89.0%**
Core EPS	**8.7**	**6.0**	**0.2**	**(0.0)**	**0.9**	**2.2**	**89.0%**

Source – Company Financials & Cytonn Estimates

Cytonn INVESTMENTS

Financial Statement Extracts – Balance Sheet

Sanlam's balance sheet is expected to grow at a CAGR of 18.0% for the next 5 years

Balance Sheet	FY13	FY14	FY15	FY16	FY17	FY18	Projected 5-Year to 2020 CAGR
Property and equipment	0.3	0.2	0.1	0.2	0.2	0.2	**3.1%**
Investment properties	0.9	1.1	2.7	3.5	4.2	5.0	**21.9%**
Financial Investments	13.7	17.5	18.2	22.6	26.6	31.4	**19.2%**
Other Assets	6.3	5.8	6.1	6.2	6.8	7.8	**12.5%**
Total Assets	**21.2**	**24.6**	**27.1**	**32.3**	**37.7**	**44.3**	**18.0%**
Insurance contract liabilities	14.9	17.4	19.7	24.6	29.5	35.4	**21.0%**
Borrowings	0.0	0.0	0.0	0.0	0.0	0.0	**0.0%**
Other Liabilities	2.9	3.4	3.6	4.1	4.4	4.8	**0.0%**
Total Liabilities	**17.8**	**20.8**	**23.3**	**28.7**	**33.9**	**40.2**	**19.5%**
Total Equity	**3.3**	**3.8**	**3.8**	**3.6**	**3.8**	**4.1**	**6.6%**
Total Capital and Liabilities	**21.2**	**24.6**	**27.1**	**32.3**	**37.7**	**44.3**	**18.0%**

Source – Company Financials & Cytonn Estimates

Cytonn INVESTMENTS

Valuation Summary

Sanlam is overvalued with total potential return of (9.0%)

Cost of Equity Assumptions:	14/Sept/16
Risk free rate *	13.0%
Beta	0.9
Country Risk Premium	6.7%
Extra Risk Premium	0.0%
Cost of Equity	19.0%

Terminal Assumptions:	
Growth rate	5.0%
Mature Company Beta	1.0
Terminal Cost of Equity	19.7%
Return on Average Equity	13.5%
Terminal P/B	0.6x
Shareholder Equity – FY20e	5.2

Valuation Summary:	Implied Price	Weighting	Weighted Value
Intrinsic Valuation	29.4	80%	23.5
Price to Book Approach	28.4	15%	4.3
Price to Earnings Approach	54.8	5%	2.7
Fair Value			**30.5**
Current Price			**33.5**
Upside/(Downside)			(9.0%)
Dividend Yield			0.0%
Total Potential Return			**(9.0%)**

Source – Company Financials & Cytonn Estimates

** Five years average yields on a 10 year Treasury bond*

Cytonn INVESTMENTS

V. Jubilee

Financial Statement Extracts – Income Statement

Jubilee is expected to grow by a CAGR of 9.5% in the next 5 years

Income Statement	FY13	FY14	FY15	FY16	FY17	FY18	Projected 5-Year to 2020 CAGR
Gross Premium Income	18.1	24.8	23.0	25.8	28.9	32.4	**12.0%**
Premium Ceded to reinsurers	(7.3)	(8.5)	(8.2)	(10.3)	(11.6)	(12.9)	**14.8%**
Net Premium Income	**10.8**	**16.3**	**14.9**	**15.5**	**17.3**	**19.4**	**10.4%**
Commission Income	1.7	2.0	1.8	1.7	1.9	2.3	**9.1%**
Investment Income	3.7	4.8	6.1	3.7	4.3	5.1	**2.9%**
Total Other Revenue	**7.3**	**8.0**	**6.8**	**5.0**	**5.8**	**7.0**	**6.8%**
Total Revenue	**18.0**	**24.4**	**21.7**	**20.5**	**23.2**	**26.4**	**9.3%**
Net Benefits and claims	**(11.0)**	**(15.9)**	**(11.6)**	**(10.0)**	**(11.2)**	**(12.4)**	**6.2%**
Fee and Commission Expense	(2.3)	(2.9)	(3.1)	(3.6)	(4.0)	(4.6)	**15.5%**
Operating Expenses	(2.5)	(3.1)	(3.9)	(3.3)	(3.9)	(4.8)	**9.5%**
PBT	**3.2**	**3.9**	**4.1**	**4.2**	**4.7**	**5.2**	**8.8%**
Income Tax expense	(0.6)	(0.8)	(1.0)	(0.9)	(1.0)	(1.2)	**6.3%**
PAT	**2.5**	**3.1**	**3.1**	**3.2**	**3.6**	**4.1**	**9.5%**
Core EPS	**41.8**	**51.8**	**52.1**	**54.2**	**60.8**	**68.1**	**9.5%**

Source – Company Financials & Cytonn Estimates

Cytonn INVESTMENTS

Financial Statement Extracts – Balance Sheet

Jubilee's balance sheet is expected to grow by a CAGR of 11.5%

Balance Sheet	FY13	FY14	FY15	FY16	FY17	FY18	Projected 5-Year to 2020 CAGR
Property and equipment	0.2	0.2	0.2	0.2	0.2	0.2	**-2.3%**
Investment properties	4.4	5.1	5.5	6.2	6.9	7.7	**11.6%**
Financial Investments	30.0	36.2	42.6	51.2	61.4	73.7	**20.0%**
Other Assets	26.5	33.1	34.0	32.8	34.5	32.5	**-5.1%**
Total Assets	**61.2**	**74.5**	**82.4**	**90.3**	**102.9**	**114.0**	**11.5%**
Insurance contract liabilities	15.1	19.6	18.7	17.8	17.0	16.2	**-4.8%**
Borrowings	1.3	1.4	0.0	0.0	0.0	0.0	**0.0%**
Other Liabilities	31.4	37.0	43.3	50.2	60.7	69.2	**16.0%**
Total Liabilities	**47.8**	**58.0**	**62.0**	**68.0**	**77.6**	**85.4**	**11.2%**
Total Equity	**13.3**	**16.5**	**20.4**	**22.3**	**25.3**	**28.7**	**12.3%**
Total Liabilities and Equity	**61.2**	**74.5**	**82.4**	**90.3**	**102.9**	**114.0**	**11.5%**

Source – Company Financials & Cytonn Estimates

Valuation Summary

Jubilee is currently undervalued with a total potential return of 6.4%

Cost of Equity Assumptions:	14/Sept/16
Risk free rate *	13.0%
Beta	0.8
Mature Market Risk Premium	6.7%
Extra Risk Premium	0.5%
Cost of Equity	18.6%

Terminal Value Assumptions	
Terminal Return on Equity	14.3%
Terminal Beta	1.0
Terminal P/B	0.6x
Terminal Price	22.3
Terminal Book Value	36.4

Valuation Methodology	Implied Price	Weighting	Weighted Value
Intrinsic Valuation	518.1	80%	414.5
Price to Book Approach	329.9	15%	49.5
Price to Earnings Approach	363.7	5%	18.2
Fair Value			**482.2**
Current Price			**461.0**
Upside/(Downside)			**4.6%**
Dividend Yield			**1.8%**
Total Potential Return			**6.4%**

Source – Company Financials & Cytonn Estimates

* Five years average yields on a 10 year Treasury bond

VI. Kenya Re

Financial Statements Extracts – Income Statement

Kenya Reinsurance has a high net premium growth with a 5-year CAGR of 11.9%

Income Statement	FY13	FY14	FY15	FY16	FY17	FY18	Projected 5-Year to 2020 CAGR
Gross Premium Income	9.6	11.6	13.1	14.8	16.3	18.6	**11.9%**
Premium Ceded to Reinsurers	(0.4)	(0.5)	(1.0)	(1.2)	(1.3)	(1.5)	**11.9%**
Net Premium Income	**8.6**	**10.3**	**12.0**	**13.6**	**15.0**	**17.1**	**11.9%**
Investment Income	2.3	2.6	3.0	3.3	3.8	4.3	**13.3%**
Total Other Revenue	**0.8**	**1.1**	**1.4**	**0.0**	**0.0**	**0.0**	**-53.8%**
Total Revenue	**11.7**	**14.0**	**16.4**	**17.0**	**18.8**	**21.4**	**10.3%**
Net Benefits and Claims	**(4.7)**	**(6.0)**	**(7.1)**	**(7.5)**	**(8.3)**	**(9.4)**	**10.4%**
Fee and Commission Expense	(2.5)	(3.0)	0.0	(3.7)	(4.1)	(4.6)	**11.3%**
Operating Expenses	(1.2)	(1.1)	(1.4)	(1.7)	(1.9)	(2.2)	**13.9%**
PBT	**3.3**	**3.9**	**4.5**	**4.1**	**4.6**	**5.2**	**8.2%**
Income Tax Expense	(0.5)	(0.8)	(1.0)	(1.0)	(1.2)	(1.3)	**11.8%**
PAT	**2.8**	**3.1**	**3.6**	**3.1**	**3.5**	**3.9**	**7.2%**
Core EPS	**4.0**	**4.5**	**5.1**	**4.4**	**4.9**	**5.5**	**7.2%**

Source – Company Financials & Cytonn Estimates

Financial Statements Extracts – Balance Sheet

Kenya Reinsurance balance sheet expected to grow by a CAGR of 10.7%

Balance Sheet	FY13	FY14	FY15	FY16	FY17	FY18	Projected 5-Year to 2020 CAGR
Property and Equipment	0.1	0.1	0.1	0.1	0.1	0.1	**5.8%**
Investment Properties	6.5	7.2	8.0	9.0	10.0	11.1	**11.5%**
Financial Investments	11.6	12.3	13.1	15.0	17.5	20.4	**16.4%**
Other Assets	9.5	12.6	14.8	15.7	16.4	17.0	**3.9%**
Total Assets	**27.6**	**32.2**	**36.0**	**39.7**	**43.9**	**48.6**	**10.7%**
Insurance Contract Liabilities	5.8	6.6	7.3	8.2	9.1	10.2	**11.6%**
Borrowings	0.0	0.0	0.0	0.0	0.0	0.0	**0.0%**
Other Liabilities	4.8	5.6	6.7	7.7	8.6	9.5	**11.4%**
Total Liabilities	**10.6**	**12.2**	**14.0**	**15.9**	**17.7**	**19.6**	**11.5%**
Total Equity	**17.0**	**20.0**	**21.9**	**23.8**	**26.2**	**29.0**	**10.2%**
Total Capital and Liabilities	**27.6**	**32.2**	**36.0**	**39.7**	**43.9**	**48.6**	**10.7%**

Source – Company Financials & Cytonn Estimates

Cytonn INVESTMENTS

Valuation Summary

Kenya Reinsurance is undervalued with a total potential return of 41.6%

Cost of Equity Assumptions:	14/Sept/16
Risk free rate *	13.0%
Beta	0.7
Country Risk Premium	6.7%
Extra Risk Premium	0.5%
Cost of Equity	17.9%

Terminal Assumptions:	
Growth rate	5.0%
Mature Company Beta	1.0
Terminal Cost of Equity	20.2%
Return on Average Equity	15.6%
Terminal P/B	0.7x
Terminal Book value	35.6

Valuation Methodology	Implied Price	Weighting	Weighted Value
Intrinsic Valuation	27.3	80%	21.8
Price to Book Approach	25.6	15%	3.8
Price to Earnings Approach	24.7	5%	1.2
Fair Value			**26.9**
Current Price			**19.5**
Upside/(Downside)			**37.8%**
Dividend Yield			**3.8%**
Total Potential Return			**41.6%**

Source – Company Financials & Cytonn Estimates

** Five years average yields on a 10 year Treasury bond*

Cytonn INVESTMENTS

Q&A

In case of any queries or clarifications on this Listed Insurance Report, kindly contact the Team at:

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