

Valuation Summary

- We recommend a **SELL** for the Jubilee Holdings stock with a target price of Kshs. **440.7**, representing a downside of 7.3%, with a dividend yield of 1.9%, from the current price of Kshs 473.0 as at March 31, 2016
- Jubilee Holdings trades at a price to book ratio of 1.5x and a price to earnings ratio of 9.9x, compared to the insurance industry average of 1.5x and 8.9x, respectively

Key Highlights – 2015

- Jubilee Insurance partnered with Diamond Trust Bank in a specialist referral model of bancassurance to increase uptake of life insurance among the bank's customers
- Jubilee Insurance partnered with state-owned DR Congo insurer Sonas to offer medical and life cover products
- Jubilee Holdings named Mr. Dietmar Raich as their new Group CEO
- Jubilee Insurance partnered with Simba Colt Motors to offer 1-year insurance covers to owners of new Mitsubishi L200 single and double cab pick-ups

Income Statement:

- Core earnings per share (EPS) recorded an increase of 0.6% to Kshs. 47.4 per share from Kshs. 47.1 per share, against our projection of a 4.8% increase
- EPS increased despite a 11.0% decline in total income to Kshs 21.7 bn, from Kshs 24.4 bn in 2014, which was outpaced by an increase in total expenses, which grew 17.0% to Kshs 7.0 bn, from Kshs 6.0 bn in 2014. This was on the back of a reduction in claims by 27.1% y/y to Kshs. 11.6 bn from Kshs 15.9 bn in 2014
- Gross earned premiums declined by 7.1% y/y to Kshs. 23.0 bn from Kshs. 24.8 bn in 2014 against our projections of a 22.5% increase
- Net earned premiums however declined at a faster rate by 8.9% y/y to Kshs. 14.9 bn from Kshs. 16.3 bn vs. our projections of a 19.0% increase; as a result of an increase in the ceded premium ratio to 35.4% from 34.1% in 2014, with the insurer ceding a larger percentage to reinsurers to cover their risks, following the penetration into new foreign markets
- Net claims and benefits declined by 27.1% y/y to Kshs. 11.6 bn from Kshs. 15.9 bn in 2014 vs. our projection of a 7.1% increase. This led to a decline of the loss ratio to 77.7% from 125.4% in 2014
- Total expenses increased by 17.0% to Kshs. 7.0 bn from Kshs. 6.0 bn vs our projections of a 33.0% increase, leading to an increase in the expense ratio to 47.1% from 36.7% in 2014
- Investment income registered a 12.4% growth to Kshs. 6.8 bn from Kshs. 6.1 bn in 2014 vs our projection of a 2.0% decline. This was attributed to capital gains from equity instruments, interest from fixed income instruments and rent, following a 22.0% increase in investment assets to Kshs 54.2 bn
- The retention ratio declined to 64.6% from 65.9% and we expect it to remain stable at this level as they are not expanding their business lines in the near future. The industry retention ratio for the life business stands 92.1% while that of general business stands at 73.7%
- Reported profit before tax increased 0.6% to Kshs 4.2 bn in 2015 from Kshs 4.0 bn in 2014, while profit after tax was up 0.6% to Kshs 3.1 bn in 2015, from Kshs 3.1 bn in 2014
- The board recommended a final dividend payment of Kshs 7.5 per share, following an interim dividend of Kshs 1.0 per share, presenting a dividend yield of 1.9% and a payout ratio of 17.9%

Balance Sheet:

- Total assets increased by 10.6% to Kshs. 82.4 bn from Kshs. 74.5 bn in 2014, lower than our projection of a 20.9% increment, driven by a 22.0% increase in investment property to Kshs. 54.2 bn from Kshs. 44.4

bn in 2014

- Total liabilities increased by 6.8% to Kshs. 62.0 bn from Kshs. 58.0 bn in 2014, against our projection of a 23.3% increment
- Total shareholder funds increased by 23.7% to Kshs. 20.4 bn from Kshs 16.5 bn vs our projections of an 12.6% increment

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

Balance Sheet	FY'14A	FY'15A	y/y change	FY'15E	Project y/y change	Variance in growth vs projection
Investment Assets	44.4	54.2	22.0%	60.0	35.3%	(13.2%)
Total Assets	74.5	82.4	10.6%	90.1	20.9%	(10.4%)
Total Liabilities	58.0	62.0	6.8%	71.6	23.3%	(16.5%)
Shareholders' Funds	16.5	20.4	23.7%	18.6	12.6%	11.1%

Income Statement	FY'14A	FY'15A	y/y change	FY'15E	Projected y/y change	Variance in growth vs projection
Gross earned premiums	24.8	23.0	(7.1%)	30.4	22.5%	(29.6%)
Net earned premiums	16.3	14.9	(8.9%)	19.4	19.0%	(27.9%)
Investment Income	6.1	6.8	12.4%	5.9	(2.0%)	14.4%
Total income	24.4	21.7	(11.0%)	27.7	13.5%	(24.5%)
Net claims and benefits	15.9	11.6	(27.1%)	17.0	7.1%	(34.2%)
Total expenses	6.0	7.0	17.0%	8.0	33.3%	(16.4%)
Profit before tax	3.9	4.1	5.0%	4.6	17.7%	(12.8%)
Profit after tax	3.1	3.1	0.6%	3.3	4.8%	(4.3%)
Core EPS	47.1	47.4	0.6%	49.4	4.8%	(4.3%)

Ratios	FY'14	FY'15A
Loss Ratio	125.4%	77.7%
Expense Ratio	36.7%	47.1%
Combined Ratio	162.1%	124.8%
ROaE	20.8%	16.9%
ROaA	4.6%	4.0%