

Valuation Summary

- We recommend a **BUY** for the Kenya Re stock with a target price of Kshs. **23.5**, representing an upside of 19.0%, with a dividend yield of 3.8%, from the current price of Kshs 19.8 as at March 30, 2016
- Kenya Reinsurance trades at a price to book ratio of 0.6x and a price to earnings ratio of 3.9x, compared to the insurance industry average of 1.5x and 8.9x, respectively

Key Highlights – 2015

- During the year 2015, Kenya Re acquired a 5% stake in Uganda Reinsurance company at Kshs 20 mn. This was in order to maintain market share, following the 15% mandatory cession of all reinsurance business in Uganda to the new Uganda Reinsurance company
- Kenya's government increased the mandatory cession to Kenya Re to 20% from 18% and extended the duration for mandatory cessation by 5 years to 2020

Income Statement:

- Core earnings per share (EPS) recorded an increase of 13.3% to Kshs. 5.1 per share from Kshs. 4.5 per share against our projection of an 8.7% increase
- EPS increase was driven by an increase in total income by 16.9% y/y to Kshs. 16.4 bn from Kshs 14.0 bn in 2014. This was driven by a 17.3% growth in investment income to Kshs. 3.0 bn from Kshs. 2.6 bn in 2014 vs our projection of a 23.0% increase. This was attributed to capital gains from equity instruments, interest from fixed income instruments and rent, following an 11.8% increase in investment assets to Kshs 29.0 bn
- Gross earned premiums grew by 12.9% y/y to Kshs. 13.1 bn from Kshs. 11.6 bn in 2014 against our projections of a 26.0% increase, following the increase in mandatory cessations to Kenya Re to 20% from 18%
- Net earned premiums however increased at a faster rate by 16.5% y/y to Kshs. 12.0 bn from Kshs. 10.3 bn vs our projections of a 26.4% increase; as a result of a decline in the ceded premium ratio to 8.0% from 10.9% in 2014
- Net claims and benefits rose by 18.5% y/y to Kshs. 7.1 bn from Kshs. 6.0 bn in 2014 vs our projection of a 14.2% increase. This led to a slight decline of the loss ratio to 61.5% from 62.0% in 2014
- Total expenses increased by 17.6% to Kshs. 11.9 bn from Kshs. 10.1 bn vs our projections of a 13.0% increase, leading to a slight decline in the expense ratio to 40.2% from 40.3% in 2014. This increase was driven by 12.8% increment in commissions payable (cedant acquisition costs) to Kshs. 3.4 bn from Kshs. 3.0 bn in 2014. This eventually lead to a combined ratio of 101.8% from 102.3% in 2014
- The retention ratio increased slightly to 89.4% from 89.1, on account of the reinsurer growing their life business book
- Reported profit before tax increased 15.2% to Kshs 4.5 bn in 2015 from Kshs 3.9 bn in 2014, while profit after tax was up 13.3% to Kshs 3.6 bn in 2015, from Kshs 3.1 bn in 2014
- The board recommended a dividend payment of Kshs 0.75 per share, presenting a dividend yield of % and a payout ratio of 14.8%

Balance Sheet:

- Total assets increased by 18.6% to Kshs. 38.2 bn from Kshs. 32.2 bn in 2014, in line with our projection of an 18.5% increment, driven by a 11.5% increase in investment property to Kshs. 8.0 bn from Kshs. 7.2 bn in 2014
- Total liabilities increased by 25.2% to Kshs. 15.3 bn from Kshs. 12.2 bn in 2014, in line with our projection of a 26.2% increment, driven by a 26.0% increase in unearned premium reserve to Kshs. 5.1 bn from Kshs.

4.0 bn in 2014

- Total shareholder funds increased by 14.5% to Kshs. 22.9 bn from Kshs 20.0 bn vs our projections of an 13.8% increment
- The re-insurer remains well capitalized with a capital adequacy ratio at 219%

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	25.97	29.03	11.8%	29.02	11.7%	0.1%
Total Assets	32.17	38.15	18.6%	38.12	18.5%	0.1%
Total Liabilities	12.18	15.25	25.2%	15.37	26.2%	(1.0%)
Shareholders' Funds	19.99	22.90	14.5%	22.74	13.8%	0.8%

Income Statement	FY'14A	FY'15A	y/y change	FY'15E	Projected y/y change	Variance in growth vs projection
Gross earned premiums	11.57	13.06	12.9%	14.58	26.0%	(13.2%)
Net earned premiums	10.31	12.02	16.5%	13.04	26.4%	(9.9%)
Investment Income	2.59	3.04	17.3%	3.19	23.0%	(5.7%)
Total income	14.04	16.41	16.9%	16.31	16.2%	0.7%
Net claims and benefits	5.96	7.06	18.5%	6.80	14.2%	4.4%
Total expenses	10.12	11.90	17.6%	11.43	13.0%	4.6%
Profit before tax	3.92	4.51	15.2%	4.87	24.3%	(9.1%)
Profit after tax	3.14	3.55	13.3%	3.41	8.7%	4.6%
Core EPS	4.5	5.1	13.3%	4.9	8.7%	4.7%

Ratios	FY'14	FY'15A
Loss Ratio	62.0%	61.5%
Expense Ratio	40.3%	40.2%
Combined Ratio	102.3%	101.8%
ROaE	17.0%	16.6%
ROaA	10.5%	10.1%