

Valuation Summary

- Liberty is currently trading at a price to book value of 1.1x compared to the insurance industry average of 1.2x.

Key Highlights – H1'2016

- Liberty launched its 10th branch in Embu as part of the company's expansion strategy to strengthen its footprint and diversify its distribution channels in the country
- Liberty also launched a new life insurance product that allows existing customers to include their parents on their covers and also give their spouses similar income benefits as the insured.

Income Statement

- Earnings per share declined by 15.4% to Kshs 0.7 from Kshs 0.8 in H1'2015, driven by 19.9% increase in total expenses to Kshs 6.3 bn, which grew faster than the 16.8% growth in total income to Kshs 4.7 bn from Kshs 4.1 bn in H1'2015
- Total revenue grew by 16.8% to Kshs 4.7 bn from Kshs 4.0 bn in H1'2015 supported by a 10.1% growth in net earned premiums to Kshs 2.8 bn and a 56.0% increase in investment income to Kshs 1.5 bn from Kshs. 1.0 bn in H1'2015
- Gross written premiums rose by 11.6% to Kshs 4.8 bn from Kshs 4.3 bn in H1'2015 on account of moderate uptake of Liberty's insurance products. Retention ratio decreased to 59.0% from 59.8% in H1'2015
- Investment income rose by 56.0% to Kshs 1.5 bn from Kshs 1.0 bn in H1'2015, as the company took advantage of the high yields in the fixed income market, despite the downturn in the equities market. Investment income currently accounts for 31.3% of the total income, an improvement from 23.8% in H1'2015
- Total expenses grew by 19.9% to Kshs 4.2 bn from Kshs 3.5 bn in H1'2015 driven by a 36.9% increase in gross benefits and claims to Kshs 2.1 bn from Kshs 1.5 bn in H1'2015. Operating expenses also increased by 13.5% to Kshs 2.1 bn from Kshs 1.9 bn in H1'2015. This led to an increase in the loss ratio to 74.9% from 60.2% in H1'2015
- PBT declined by 4.3% to Kshs 0.49 bn from Kshs 0.51 bn in H1'2015, while PAT declined by 15.4% to Kshs 0.36 bn from Kshs 0.42 bn in H1'2015. The effective tax rate increased to 27.5% from 17.7% in H1'2015.

Balance Sheet:

- Total assets grew by 0.9% to Kshs 35.1 bn from Kshs 34.8 bn in H1'2015 driven by 20.6% growth in investment assets to Kshs 23.0 bn from Kshs 19.1 bn in H1'2015
- Total liabilities grew by 1.2% to Kshs 28.7 bn from Kshs 28.3 bn in H1'2015 driven by an 11.6% rise in insurance contract liabilities to Kshs 11.6 bn from Kshs 10.4 bn in H1'2015. Shareholders' funds remained flat at Kshs 6.5 bn.

Key Take Outs:

- Liberty results were below our expectations, characterized by a poor performance as a result of a 36.9% growth in gross benefits and claims and a 13.5% increase in operating expenses
- Going forward, Liberty's growth will be driven by diversification of their products and introduction of new and competitive products.

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 | 19.1 | 23.0 | 20.6% | 24.0 | 25.9% | (5.3%) |
| Total Assets | 34.8 | 35.1 | 0.9% | 38.3 | 9.9% | (9.1%) |
| Total Liabilities | 28.3 | 28.7 | 1.2% | 31.2 | 10.2% | (9.0%) |
| Total Equity | 6.5 | 6.5 | (0.5%) | 7.0 | 8.7% | (9.2%) |

| Income Statement | H1'2015 | H1'2016 | y/y change | H1'2016e | Projected y/y change | Variance in growth vs projection |
|-----------------------------------|------------|------------|----------------|------------|----------------------|----------------------------------|
| Gross earned premium | 4.3 | 4.8 | 11.6% | 5.6 | 30.9% | (19.3%) |
| Net Earned Premium | 2.6 | 2.8 | 10.1% | 3.4 | 31.3% | (21.2%) |
| Investment Income | 1.0 | 1.5 | 56.0% | 1.9 | 95.5% | (39.5%) |
| Total Income | 4.0 | 4.7 | 16.8% | 5.8 | 44.3% | (27.4%) |
| Net Insurance Benefits and claims | (1.8) | (2.1) | 20.0% | (2.5) | 43.9% | (24.0%) |
| Operating Expenses | (1.9) | (2.1) | 13.5% | (2.5) | 33.3% | (19.8%) |
| Profit before tax | 0.5 | 0.5 | -4.3% | 0.8 | 57.5% | (61.8%) |
| Profit after tax | 0.4 | 0.4 | (15.4%) | 0.6 | 34.5% | (49.9%) |
| EPS | 0.8 | 0.7 | (15.4%) | 1.0 | 34.5% | (49.9%) |

| Ratios | H1'2015 | H1'2016 |
|----------------|---------|---------|
| Loss Ratio | 60.2% | 74.9% |
| Combined Ratio | 137.3% | 149.6% |