

**Valuation Summary**

- We recommend a **LIGHTEN** for the Liberty Holdings stock with a target price of Kshs. **16.7**, representing an upside of 1.8% from the current price of Kshs 16.4 as at March 30, 2016
- Liberty Kenya Holdings is trading at a price to book ratio of 1.4x and a price to earnings ratio of 11.9x, compared to the insurance industry average of 1.5x and 8.9x, respectively

**Key Highlights – 2015**

- During the year 2015, Liberty Kenya Holdings issued a profit warning stating that their profits will be at least 25% lower than that of the previous year's, on account of poor performance of both equities and fixed income market where they are heavily invested in.

**Income Statement:**

- Core earnings per share (EPS) recorded a decline of 35.7% to Kshs. 1.4 per share from Kshs. 2.1 per share against our projection of a 31.0% decline
- EPS drop was driven by a decline in total income by 0.3% to Kshs. 8.3 bn from Kshs 8.3 bn in 2014. This was driven by a 35.8% decline in investment income to Kshs. 1.8 bn from Kshs. 3.0 bn in 2014 vs our projection of a 5.7% decline. This was attributed to a bearish equities and fixed income market where they are heavily invested, accounting for 55.2% of the asset base
- Gross earned premiums grew by 16.4% to Kshs. 9.4 bn from Kshs. 8.0 bn in 2014 against our projections of a 20.0% increase. Net earned premiums however increased at a faster rate by 17.8% to Kshs. 5.5 bn from Kshs. 4.7 bn vs our projections of a 23.3% increase; as a result of a decline in the ceded ratio to 40.9% from 41.6% in 2014. This was underpinned by (i) the group's focus on customers with prudent underwriting and benefits management, and (ii) great synergy in their distribution networks
- Net claims and benefits declined by 9.6% to Kshs. 3.1 bn from Kshs. 3.5 bn in 2014 vs our projection of a 24.7% increase. This subsequently led to the decline of the loss ratio to 56.6% from 73.7% in 2014
- Total expenses increased by 19.6% to Kshs. 4.2 bn from Kshs. 3.5 bn vs our projections of a 17.6% increase, leading to an increase of the expense ratio to 75.9% from 74.7% in 2014. This increase was driven by 28.2% increment in commissions payable to Kshs. 1.2 bn from Kshs. 0.9 bn in 2014. This eventually lead to a combined ratio of 132.4% from 148.4% in 2014
- The retention ratio increased marginally to 59.1% from 58.4% 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 declined 29.2% to Kshs 1.0 bn in 2015 from Kshs 1.3 bn in 2014, while profit after tax was down 35.7% to Kshs 0.7 bn in 2015, from Kshs 1.1 bn in 2014
- The board recommended no dividend payment on account of poor earnings

**Balance Sheet:**

- Total assets increased by 5.6% to Kshs. 34.5 bn from Kshs. 32.7 bn in 2014, against our projection of a 12.2% increment, driven by a 10.6% increase in investment property to Kshs. 1.0 bn from Kshs. 0.9 bn in 2014
- Total liabilities increased by 6.7% to Kshs. 28.3 bn from Kshs. 26.5 bn in 2014, against our projection of a 12.5% increment, driven by a 13.8% increase in insurance contract liabilities to Kshs. 11.1 bn from Kshs. 9.7 bn in 2014
- Total shareholder funds increased by 0.9% to Kshs. 6.2 bn from Kshs 6.2 bn vs our projections of an 11.0% 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	20.0	20.1	0.3%	23.1	15.2%	(14.9%)
Total Assets	32.7	34.5	5.6%	36.7	12.2%	(6.6%)
Total Liabilities	26.5	28.3	6.7%	29.8	12.5%	(5.8%)
Shareholders' Funds	6.2	6.2	0.9%	6.9	11.0%	(10.1%)

Income Statement	FY'14A	FY'15A	y/y change	FY'15E	Projected y/y change	Variance in growth vs projection
Gross earned premiums	8.0	9.4	16.4%	9.6	20.0%	(3.6%)
Net earned premiums	4.7	5.5	17.8%	5.8	23.3%	(5.6%)
Investment Income	2.9	1.8	(35.8%)	2.7	(5.7%)	(30.1%)
Total income	8.3	8.3	(0.3%)	9.6	15.2%	(15.5%)
Net claims and benefits	3.5	3.1	(9.6%)	4.3	24.7%	(34.2%)
Total expenses	3.5	4.2	19.6%	4.1	17.6%	2.0%
Profit before tax	1.3	1.0	(29.2%)	1.1	(16.1%)	(13.1%)
Profit after tax	1.1	0.7	(35.7%)	0.8	(31.0%)	(4.8%)
Core EPS	2.1	1.4	(35.7%)	1.5	(31.0%)	(4.8%)

Ratios	FY'14	FY'15A
Loss Ratio	73.7%	56.6%
Expense Ratio	74.7%	75.9%
Combined Ratio	148.4%	132.4%
ROaE	19.7%	11.9%
ROaA	3.6%	2.2%