

**Valuation Summary**

- We recommend a **LIGHTEN** for the Pan Africa Insurance Holdings stock with a target price of Kshs. 52.8, representing an upside of 4.6% from the current price of Kshs 50.5 as at 17<sup>th</sup> March 2016
- Pan Africa Insurance Holdings trades at a price to book ratio of 1.9x and a price to earnings ratio of 12.3x, compared to the insurance industry average of 1.5x and 8.9x, respectively

**Key Highlights – 2015**

- During the year 2015, Pan Africa acquired 51.0% of Gateway Insurance, offering them an entry into the general insurance space. In our view, Pan Africa's acquisition of Gateway will only be beneficial if they can build on the combined platform of both life and general insurance to enhance their distribution network
- Pan Africa issued a profit warning stating that their FY'2015 results will be at least 25% less than what they reported the previous year, mainly as a result of a bearish equities market where it is heavily invested, accounting for 20% of its total asset base

**Income Statement:**

- Reported earnings per share (EPS) recorded a decline of 96.8% to Kshs 0.2 per share from Kshs 6.0 per share in FY'2014. Core EPS, stripping off the one off impairment of goodwill amounting to Kshs. 0.6 bn in 2015, declined by 32.1% to Kshs. 4.1 in 2015, from Kshs. 6.0 in 2014, compared to our projected decline of 10.5%
- EPS decline was driven by a 9.3% y/y decline in total income to Kshs 7.2 bn from Kshs 8.0 bn in FY'2014, which was further outpaced by a 65.4% y/y increase in total expenses to Kshs 7.2 bn, from Kshs 6.8 bn in FY'2014
- Gross earned premiums declined 1.2% y/y to Kshs 5.2 bn in 2015 from Kshs 5.2 bn in 2014 driven by i) a tough economic environment that led to low uptake of insurance, and ii) challenges faced by the distribution network of the life business. We projected an increase of 20.0% to Kshs. 6.3 bn driven by expectations of a strong premium growth owing to their acquisition of Gateway Insurance
- Net claims and policyholder benefits declined 15.8% to Kshs 4.3 bn from Kshs 5.1 bn, resulting into a decline in loss ratio to 88.7% in 2015, from 101.3% in 2014.
- Total expenses increased by 65.4% to Kshs 2.9 bn from Kshs 1.8 bn in 2014, resulting into an expense ratio of 61.1% in 2015 from 35.5% in 2014. This eventually translates to a combined ratio of 149.8% in 2015, up from 136.8% in 2014, on account of a 31.4% growth in commissions and operating expenses to Kshs. 2.3 bn in 2015 from Kshs. 1.8 bn in 2014
- Net earned premiums declined by 3.9% to Kshs 4.8 bn in 2015, from Kshs 5.0 bn in 2014 driven by a tough economic environment that led to low uptake of insurance and competition from other insurance companies
- Investment income grew by 19.8% y/y to Kshs 2.4 bn, from Kshs 2.0 bn in 2014, with investment income contributing 33.0% for the total income in 2015 compared to 25.0% in 2014. This was against our projection of a 7.3% increase, which was based on a tough macroeconomic environment and a bearish equities market. The growth in investment income is attributed to i) the increase in investment assets, which grew by 10.0% in 2015 to Kshs 24.6 bn from Kshs 22.3 bn in 2014, and ii) the favorably high interest income on bank deposits and commercial paper placements during the second half of 2015, which contributed 15.0% of the total investment assets
- The retention ratio increased to 93.0% from 92.0% and though we expect it to decline going forward, but to still be above the industry average as the company takes in more general business following the

acquisition of Gateway Insurance. 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 95.3% to Kshs 0.1 bn in 2015 from Kshs 1.2 bn in 2014, while profit after tax was down 96.9% to Kshs 0.0 bn in 2015, from Kshs 0.9 bn in 2014
- There was no dividend payment on account of poor earnings

## **Balance Sheet:**

- Total assets grew by 10.2% to Kshs 27.1 bn in 2015 from Kshs 24.6 bn in 2014 driven by a 10.0% growth in investment assets to Kshs 24.6 bn in 2015 from Kshs. 22.3 bn in 2014
- Total liabilities grew by 11.9% to Kshs 23.3 bn in 2015 from Kshs 20.8 bn in 2014; with insurance contract liabilities growing by 12.7% to Kshs. 19.7 bn in 2015 from Kshs. 17.4 bn in 2014
- Shareholders' funds remained relatively flat, at Kshs 3.8 bn in 2015 from Kshs. 3.8 bn in 2014

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	22.3	24.6	10.0%	29.4	31.6%	(21.6%)
Total Assets	24.6	27.1	10.2%	31.4	27.7%	(17.5%)
Total Liabilities	20.8	23.3	11.9%	26.9	29.3%	(17.4%)
Shareholders' Funds	3.8	3.8	0.6%	4.5	19.2%	(18.5%)

Income Statement	FY'14A	FY'15A	y/y change	FY'15E	Projected y/y change	Variance in growth vs projection
Gross earned premiums	5.2	5.2	(1.2%)	6.3	20.0%	(21.2%)
Net earned premiums	5.0	4.8	(3.9%)	5.9	17.3%	(21.2%)
Total income	8.0	7.2	(9.3%)	9.1	13.8%	(23.1%)
Net claims and benefits	5.1	4.3	(15.8%)	6.1	20.6%	(36.4%)
Total expenses	1.8	2.9	65.4%	2.2	26.3%	39.0%
Profit before tax	1.2	0.1	(95.3%)	0.7	(35.6%)	(59.7%)
Profit after tax	0.9	0.0	(96.9%)	0.5	(40.3%)	(56.5%)
Core EPS	6.0	4.1	(32.1%)	5.4	(10.5%)	(21.6%)

Ratios	FY'14	FY'15A
Loss Ratio	101.3%	88.7%
Expense Ratio	35.5%	61.1%
Combined Ratio	136.8%	149.8%
ROaE	24.5%	0.7%
ROaA	3.8%	0.1%