

**Valuation Summary**

- We are of the view that Britam Holdings stock is a **SELL** with a downside of 10.3% and a fair value of Kshs 13.3 per share, inclusive of a dividend yield of 1.8%, against a current price of Kshs 15.1 per share,
- Britam is currently trading at a P/TB of 1.9x and a P/E of 19.3x, compared to an industry average of 1.4x and 9.7x, respectively,

**Key Highlights – H1'2017**

- Britam Holdings Plc broke ground on its proposed Kshs 3.3 bn serviced apartment project in Kilimani. Sitting on 1.6 acres, the development will comprise 46 one-bedroom and 117 two-bedroom fully furnished and serviced apartments, set to complete in 2019. The venture into Real estate is part of the group's strategy to diversify and reduce portfolio risk by reducing exposure to the Equities market and target Real estate exposure of between 20.0% and 30.0%,
- Britam Holdings Plc launched an asset management company in Uganda as it extends its asset management expertise in the region, which will offer investment management and advisory services to pension funds, insurance companies, corporates, government entities and retail investors in Uganda,
- The chairman of the board, Mr. Francis Muthaura, stepped down, having attained the CMA recommended retirement age of 70 years and will be replaced by Walter Andrew Hollas who is part of the board.

**Income Statement**

- Earnings per share (EPS) declined by 44.1% coming in at Kshs 0.5, from Kshs 0.9 in H1'2016, attributed to a 33.3% growth in Total expenses to Kshs 13.5 bn from Kshs 10.1 bn in H1'2016 and undisclosed effect in the change in the valuation policy from Net Premium Valuation to Gross Premium Valuation. Revenue increased by 15.8% to Kshs 14.7 bn from Kshs 12.7 bn in H1'2016,
- The 15.8% rise in total revenue was driven by a 6.8% growth in gross earned premium to Kshs 11.2 bn from Kshs 10.5 bn in H1'2016 and a 23.5% increase in commissions earned to Kshs 0.5 bn from Kshs 0.4 bn in H1'2016,
- Investment income grew by 1.7% to Kshs 2.8 bn from Kshs 2.7 bn in H1'2016, driven by more proactive portfolio allocation taking advantage of the high yields in the fixed income market. Investment in equities returned fair value gains amounting to Kshs 2.1 bn compared to a loss of Kshs 0.3 mn in H1'2016,
- The 33.3% growth in total expenses was primarily brought about by an 84.8% rise in net insurance benefits and claims to Kshs 6.7 bn from Kshs 3.6 bn in H1'2016. The significant rise in expenses was due to the change in the accounting method for long-term insurance liabilities to the Gross Premium Valuation from the Net Premium Valuation, which had the impact of reducing the long term business liabilities for 2016, necessitated by the Insurance Act (Cap. 487) and amendments by the Finance Act 2015. As a result, the loss ratio increased to 54.7% from 48.0% in H1'2016,
- Profit before tax (PBT) declined by 53.1% to Kshs 1.2 bn, from Kshs 2.6 bn in H1'2016, while profit after tax (PAT) declined by 44.1% to Kshs 1.0 bn from Kshs 1.8 bn in H1'2016.
- The Board did not recommend an interim dividend.

**Balance Sheet:**

- Total assets grew by 10.9% to Kshs 90.6 bn from Kshs 81.7 bn in H1'2016, in line with our expectations of a 10.1% increase, driven by a 47.1% growth in investment property to Kshs 5.2 bn from Kshs 3.6 bn in H1'2016, and a 25.1% rise in receivables arising from direct insurance arrangements that came in at Kshs 3.0 bn from Kshs 2.4 bn in H1'2016,
- Total liabilities grew by 13.8% to Kshs 71.4 bn, from Kshs 62.8 bn in H1'2016, driven by a 41.6% rise in short

term insurance contract liabilities to Kshs 24.2 bn, from Kshs 17.1 bn in H1'2016 and a 10.8% growth in unearned premium to Kshs 5.8 bn from Kshs 5.2 bn in H1'2016,

- Shareholders' funds grew by 0.7% to Kshs 19.1 bn, from Kshs 19.0 bn in H1'2016, lower than expectations of a 23.8% growth,
- Britam Holdings currently has a ROaA of 2.0% and a ROaE of 8.9%, compared to 0.2% and 0.7%, respectively, recorded in H1'2016.

**Key Take Outs:**

- Britam underperformed our expectations, mainly attributed to a change in the methodology used to account for long-term insurance liabilities to the Gross Premium Valuation from the Net Premium Valuation as per the IRA requirements. This had the one-off effect of reducing the claims in H1'2016, due to the decline in Long-Term Insurance Liabilities by Kshs 2.2 bn in the period brought about by the change, and hence the normalization in net insurance benefits and claims in H1'2017. Britam, however, did not disclose the full impact of the valuation change on their Income Statement,
- Britam's growth will be driven by: (i) solid regional presence to drive growth as evidenced by operations in Uganda, Rwanda and the subsequent acquisition of Real Insurance Company Ltd in 2014 that led to expansion into Tanzania, Malawi and Mozambique, (ii) a strong distribution channel, coupled with the roll out of the first phase of its financial advisor portal, (iii) a diversified business strategy as evidenced in the Holdings' interests in insurance, asset management, real estate and strategic holdings in banks enabling the group to respond effectively to shifting market dynamics. The key risk is the overexposure to equities, particularly banking stocks, which tends to adversely affect the performance of the group when they dip.

**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	H1'2016	H1'2017	y/y change	H1'2017e	Expected y/y change	Variance in growth vs projection
Property and Equipment	2.0	1.6	(23.1%)	1.7	(17.0%)	(6.1%)
Total Assets	81.7	90.6	10.9%	90.0	10.1%	0.8%
Total Liabilities	62.8	71.4	13.8%	66.5	6.0%	7.8%
Total Equity	19.0	19.2	1.3%	23.5	23.8%	(22.5%)

Income Statement	H1'2016	H1'2017	y/y change	H1'2017e	Projected y/y change	Variance in growth vs projection
Gross earned premium	10.5	11.2	6.8%	11.9	13.0%	(6.2%)
Net Earned Premium	8.9	9.7	9.7%	9.9	11.4%	(1.6%)
Investment Income	2.7	2.8	1.7%	3.3	20.9%	(19.2%)
Total Income	12.7	14.7	15.8%	14.8	16.8%	(1.0%)
Net Insurance Benefits and claims	3.6	6.7	84.8%	4.3	20.2%	64.6%
Total Expenses	10.1	13.5	33.3%	12.3	21.3%	12.0%

Profit before tax	2.6	1.2	(53.1%)	2.5	(0.9%)	(52.3%)
<b>Profit after tax</b>	<b>1.8</b>	<b>1.0</b>	<b>(44.1%)</b>	<b>2.0</b>	<b>14.7%</b>	<b>(58.7%)</b>
<b>EPS</b>	<b>0.9</b>	<b>0.5</b>	<b>(44.1%)</b>	<b>1.1</b>	<b>14.7%</b>	<b>(58.7%)</b>

Ratios	H1'2016	H1'2017
Loss Ratio	48.0%	54.7%
Combined Ratio	121.3%	124.7%
ROaE	0.7%	8.9%
ROaA	0.2%	2.0%