

**Valuation Summary**

- We are of the view that the CIC Group stock is a “Sell” with a target price of Kshs 3.7 representing a downside of 20.3%, from the current price of Kshs 4.9, as at 28th July, 2017,
- CIC Group Insurance is currently trading at a price to book value of 1.4x compared to the insurance industry average of 1.2x.

**Key Highlights – H1'2017**

- CIC Insurance launched CIC Bima Credo, a mobile platform in which policy subscribers can do all the transactions from the mobile phone. This is aimed at boosting their business by expanding access, through diversification of revenue channels.

**Income Statement**

- Core Earnings per share (EPS) declined by 3.5% to Kshs 0.16 from Kshs 0.17 in H1'2016, against our expectations of a 6.7% increase. The decline in EPS is attributed to a 25.5% increase in total expenses to Kshs 7.1 bn from Kshs 5.7 bn in H1'2016 despite a 24.2% increase in total revenue to Kshs 7.9 bn from Kshs 6.3 bn,
- Total revenue increased by 24.2% to Kshs 7.9 bn from Kshs 6.3 bn attributed to a 16.6% increase in net premiums to Kshs 5.9 bn from Kshs 5.0 bn in H1'2016, and a 53.6% increase in investment income to Kshs 2.0 bn from Kshs 1.3 bn, primarily due to its South Sudanese business, where the group made dollar investments so as to combat hyper – inflation in unstable country,
- Gross written premiums rose by 20.4% to Kshs 7.6 bn from Kshs 6.3 bn mainly attributed to improved quality of business in most of the business lines, especially in the medical cover business,
- Investment income increased by 53.6% to Kshs 2.0 bn from Kshs 1.3 bn attributed to a recovery of their investments on the Nairobi Securities Exchange, the investment assets grew by 4.8% to Kshs 6.3 bn from Kshs 6.1 bn in H1'2016,
- Investment income currently accounts for 25.2% of the total income, compared to 20.3% in H1'2016,
- Total expenses grew by 25.5% to Kshs 7.1 bn from Kshs 5.7 bn attributed to an increase in claims and policyholders' benefits expense by 27.2% to Kshs 4.1 bn from Kshs 3.2 bn, and a 25.2% increase in operating and other expenses to Kshs 2.9 bn from Kshs 2.3 bn,
- The faster growth in claims as compared to net premiums resulted in the loss ratio worsening to 69.0% from 63.3%,
- Profit before tax increased by 28.1% to Kshs 0.4 bn from Kshs 0.3 bn, while profit after tax increased by 14.5% to Kshs 0.35 bn from Kshs 0.30 bn after restatement of financials.

**Balance Sheet**

- Total assets grew by 10.9% to Kshs 29.9 bn from Kshs 26.9 bn in H1'2016, driven by a 4.8% growth in investment assets to Kshs 6.3 bn from Kshs 6.0 bn in H1'2016, an 8.6% increase in other investments to Kshs 13.1 bn from Kshs 12.1 bn in H1'2016 and a 27.5% increase in other receivables to Kshs 7.5 bn from Kshs 5.9 bn in H1'2016,
- Total liabilities grew by 14.6% to Kshs 22.3 bn from Kshs 19.4 bn in H1'2016 driven by a 19.6% rise in insurance contract liabilities to Kshs 15.6 bn from Kshs 13.0 bn in H1'2016,
- Shareholders' funds grew by 1.1% to Kshs 7.4 bn from Kshs 7.3 bn in H1'2016,
- CIC Group currently has a Return on average Assets of 0.3% and a Return on average equity of 1.2%.

**Key Take Outs**

- CIC Insurance Group recorded an 8.3% increase in core earnings per share to Kshs 0.13 from Kshs 0.12 in H1'2016, better than our expectation of a 6.7% increase,
- This was attributed to a 24.2% increase in total revenue to Kshs 7.9 bn from Kshs 6.3 bn,
- Going forward, CIC Group's growth will be driven by (i) adoption of innovation and information technology, (ii) increase in its equities and property investments portfolio through its asset management subsidiary to grow the investment income, and (iii) the strategic plan of settling their regional businesses with a key focus on expanding to Malawi.

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	H1'16A	H1'17A	y/y change	H1'17E	Projected y/y change	Variance in growth vs projection
Investment assets	17.8	20.4	14.7%	15.8	(11.0%)	25.7%
Total assets	25.4	29.9	17.5%	28.4	11.7%	5.8%
Total liabilities	17.8	22.3	25.3%	20.5	15.2%	10.0%
<b>Shareholders' Funds</b>	<b>7.5</b>	<b>7.6</b>	1.1%	<b>7.9</b>	5.2%	<b>(4.0%)</b>

Income Statement	H1'16A	H1'17A	y/y change	H1'17E	Projected y/y change	Variance in growth vs projection
Gross earned premiums	6.3	7.6	21.1%	6.6	5.0%	16.1%
Net earned premiums	5.0	5.9	16.9%	5.6	11.2%	5.7%
Investment Income	1.2	2.0	59.0%	1.6	26.6%	32.5%
<b>Total income</b>	<b>6.3</b>	<b>7.9</b>	25.3%	<b>8.2</b>	30.6%	<b>(5.3%)</b>
Net claims and policyholder benefits	(3.2)	(4.1)	27.2%	(3.6)	13.9%	13.3%
Total expenses	(5.5)	(7.0)	26.0%	(7.3)	32.6%	(6.6%)
<b>Profit before tax</b>	<b>0.4</b>	<b>0.4</b>	5.3%	<b>0.5</b>	28.0%	<b>(22.7%)</b>
<b>Profit after tax</b>	<b>0.36</b>	<b>0.35</b>	(3.5%)	<b>0.4</b>	6.7%	<b>(10.2%)</b>

Ratios	H1'16A	H1'17A	H1'17E
Loss Ratio	(63.5%)	(65.0%)	(65.0%)
Combined Ratio	(116.6%)	(126.3%)	(137.0%)
ROaE	9.0%	1.2%	1.6%
ROaA	2.6%	0.3%	0.5%

