Cytonn Kenya's Listed Insurance Companies Analysis

November 2, 2015

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Cytonn INVESTMENTS

I. Introduction to Cytonn Investments

Client Focus drives the Team

Introduction to Cytonn Investments

Cytonn Investments is an independent investments management company

- Our mission is that ***"we work to deliver innovative & differentiated financial solutions that speak to our clients needs***"

- Cytonn Investments is differentiated in several respects:

  1. **Independence & Investor Focus:** Solely focused on serving the interest of clients, which is best done on an independent investment management platform to minimize conflicts of interest. All deals are for third party investors and all partners cannot be involved in any other business

  2. **Alternative Investments:** Specialized focus on alternative assets - real estate, private equity, and structured products

  3. **Partnerships with Global Institutional Investors:** Such as NASDAQ listed Taaleritehdas of Finland

  4. **Strong Staff Alignment:** Every staff member participates in ownership. When clients do well, the firm does well; and when the firm does well, staff do well

  5. **Capture Market Opportunity:** Huge opportunity for private capital to drive economic growth, while creating above average returns for investors

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Everything We Do Is Rooted in Our Core Operating Values

Our 6 core values help us drive a high performing culture

- To achieve our vision that "***we will be Africa's leading investment manager by consistently exceeding client expectations***," we have key values which propel us forward:
    - **People** – we look for the best people who thrive in a team context
    - **Excellence** – delivering the best at all times
    - **Client focus** – putting the clients interest first at all times
    - **Entrepreneurship** – using innovation and creativity to deliver differentiated financial solutions
    - **Accountability** – every day we are committing our resources and reputation and we must be accountable
    - **Integrity** – do the right things

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Global Corporate Structure – Kshs 50 bn Under Mandate

Cytonn Investments

Kenya

Cytonn Investments Ltd

- Independent investment management company, serving HNW & institutional clients

Cytonn Real Estate

- Development affiliate providing investment grade real estate development solutions

Private Equity

- Financial Services
- Education & HR
- Technology

United States

Cytonn Diaspora

- Diaspora platform connecting investors in the diaspora with opportunities in the East African Region

Cytonn Investments LLC

- US advisory and investment management company

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Corporate Governance – The Board

The board is comprised of 8 members from diverse backgrounds, each bringing unique skill-sets*

Professor Daniel Mugendi Njiru serves as the Chairman of the Board of Directors

Prof. Daniel Mugendi,
Chairman

Antti – Jussi Ahveninen,
Non-executive Director

Madhav Bhalla,
Non-executive Director

James Maina,
Non-executive Director

Nasser Olwero,
Non-executive Director

Edwin H. Dande,
Managing Partner & CEO

Elizabeth N. Nkukuu,
Partner & CIO

Patricia N. Wanjama,
Partner & Head of Legal

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**See website, www.cytonn.com for Bios of the Board Members*

Strong Management Team With Diverse, Global & Local Experience

Diverse experience in investments, finance, real estate and legal, with deep commitment to client servicing*

Edwin H. Dande,
Managing Partner & CEO

Elizabeth N. Nkukuu,
Partner & CIO

Patricia N. Wanjama,
Partner & Head of Legal

Maurice Oduor,
Investment Manager

Andrew Ayuya,
Project Manager

Johnson Denge,
Real Estate Services Manager

Robert M Mwebi,
Project Manager

Shiv Arora,
Head of Private Equity Real Estate

Boniface W. Gichimu,
Finance Manager

Julius Kibanya,
Distribution Manager

Winfred Ndung'u,
Business Administration Manager

Beverlyn Naliaka,
PR & Communication

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For Bios of the Team, visit http://cytonn.com/the-team

Cytonn Investment Solutions

We offer differentiated investment solutions in four main areas

High Yield Solutions

- The Team's expertise and market knowledge enable us to offer investors higher yields than the market average
- Regular credit analysis, quick dealing capability and the large banking spread in the market allow the team to capitalize on investment opportunities

Real Estate Investment Solutions

- Our unique strategic partnerships with Cytonn Real Estate, our development affiliate, enables us to find, evaluate, structure and deliver world class real estate investment products for investors
- Our platform connects global capital seeking attractive return with institutional grade development opportunities in the East African region

Private Regular Investment Solutions

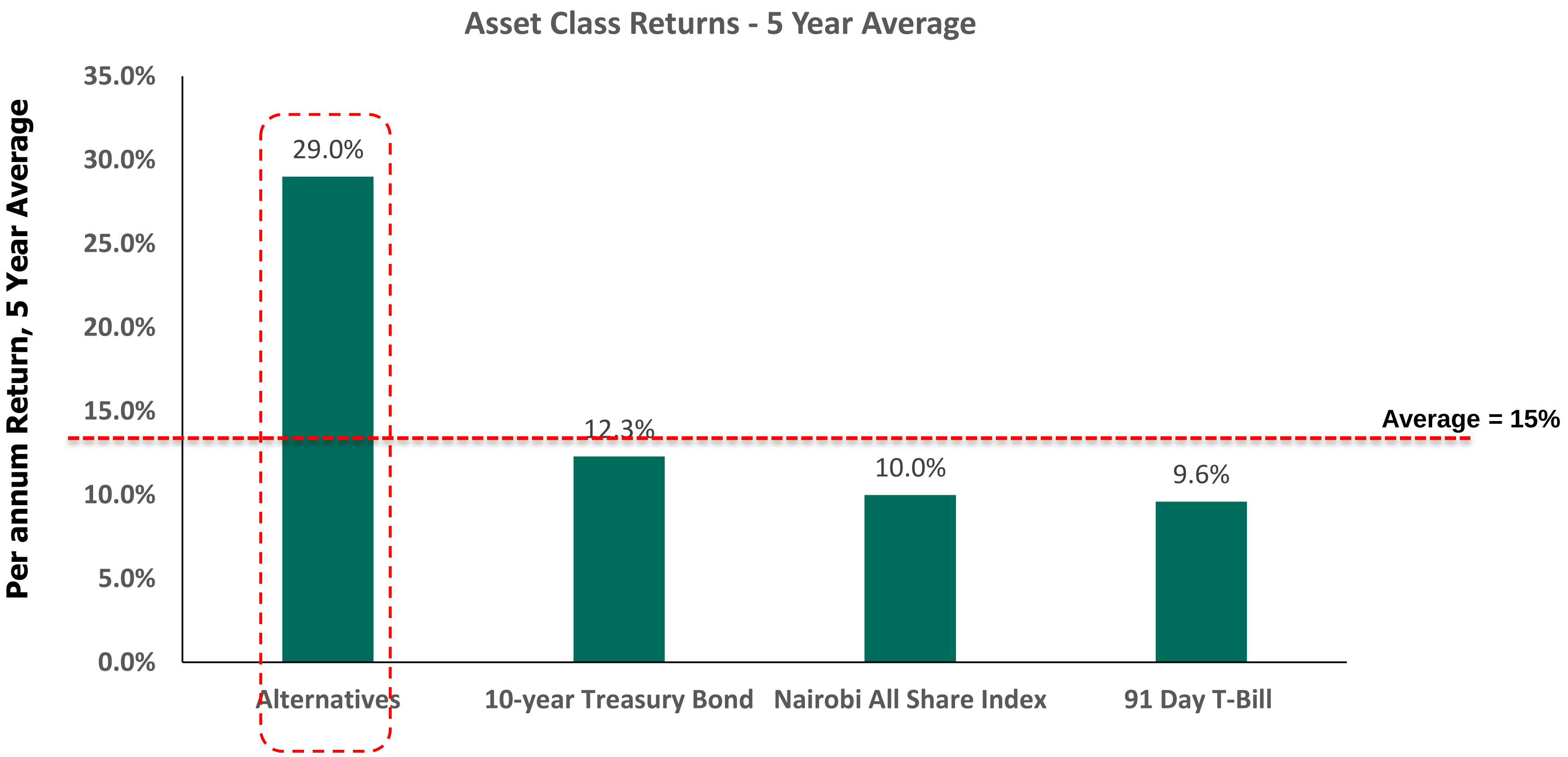
- We understand that investors have varying financial goals. Our highly customized and simple to understand investment products will enable you to achieve your investment objective
- We offer solutions to both local investors, and those in the diaspora interested in the investment opportunities back in Kenya and the region

Private Equity

- Cytonn seeks to unearth value by identifying potential companies and growing them through capital provision and partnering with their management to drive strategy
- We primarily invest in the Financial Services, Education and Technology sectors

Cytonn Focuses on the Highest & Stable Returning Asset Class

Traditional investments returning 10% compared to 29% for alternatives & projected to continue

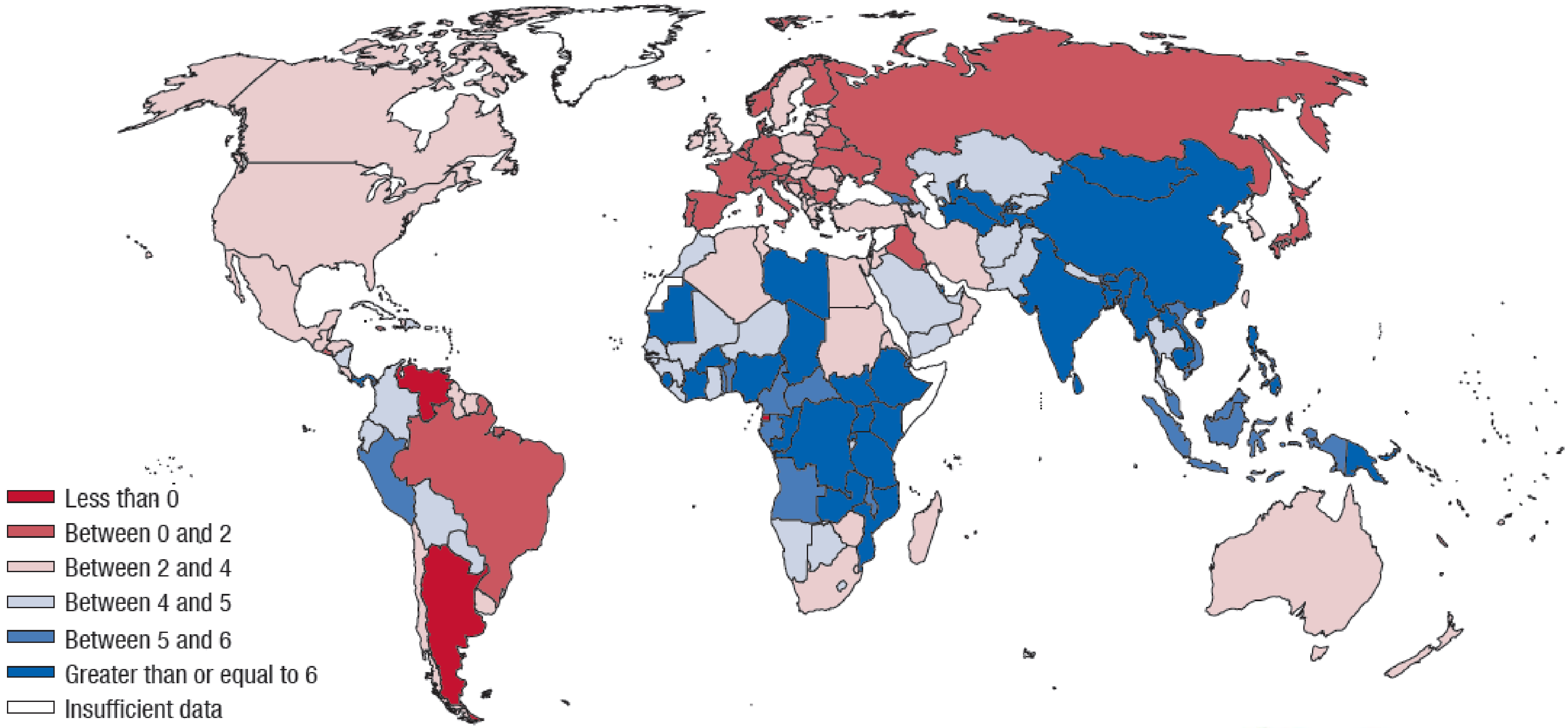


Global view of economic growth determines regions of focus

We focus on addressing demand from global capital (light colours) looking for attractive returns (dark colours)

Figure 2.1. 2015 GDP Growth Forecasts and the Effects of a Plausible Downside Scenario

1. 2015 GDP Growth Forecasts[1] (percent)



Deal pipeline overview – 85% to low and mid-income housing

Kshs 49 Billion Deal Pipeline

Low to mid-income Housing
85%

- Masterplanned Development
- Comprehensive Development
- Low to mid-income Modular Housing

Prime Residential and Mixed-use
15%

- High Density Integrated Mixed-use
- Gated Communities

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Kshs 49 billion Deal pipeline details

- **Set 1:** Real estate projects where the design, concept, agreements and funding are all secured, and have ground broken or in the process of ground breaking. All set 1 projects are in the market.
- **Set 2:** Real estate projects where the Cytonn Real Estate team is in advanced stages of negotiations with the landowners, and where consultants have been appointed to begin market research and concept design

all values in Kshs Millions unless stated

Projects	Concept	Project Size
SET 1		
Amara Ridge	Gated community	625.0
Situ Village	Gated masterplanned community	3,050.0
Project Ruaka	Middle-class residential development	1,600.0
Sub - Total		**5,275.0**
SET 2		
Project Mombasa	High density mixed-use development	3,750.0
Project Juja	Middle-class gated community	3,832.0
Project Mount Kenya	Masterplanned development	1,200.0
Project Mavoko	Low to mid income masterplanned city	12,500.0
Project Lukenya	Low to mid income masterplanned city	22,500.0
Sub - Total		**43,782.0**
TOTAL		**49,057.0**

Cytonn's strategy brings three key pillars together

Beyond building wealth for our investors, shareholders and team members, Cytonn is also a platform to create jobs, grow the economy and thereby improve the standards of living in the region

Financing Capability

Development Capability

1. Creating Jobs
2. Growing the Economy
3. Improving the standards of living

Landowners

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II. Economic Review and Outlook

Economic review

Kenya’s GDP growth to be supported by stable inflation and high infrastructure development

- Kenya’s GDP grew by **5.5%** in Q2’2015 supported by high spending on infrastructure by the government and globally low oil prices which boosts the manufacturing and the construction sectors since Kenya is a net oil importer. Kenya is expected to grow by **6.5%** in 2015 according to the IMF, and **5.4%** according to the World Bank
- Inflation has remained stable during the year and within the CBK range of 2.5% to 7.5%. The inflation rate started the year at **5.5%**, moved on to hit a high of **7.1%** in April on the back of rising fuel prices but declined to **6.72%** in October
- On the currency, the Kenya Shilling has depreciated by 12.5% YTD on account of;
  - (i) a strengthening Dollar globally and expectations that the Fed may increase rate,
  - (ii) a widening current account deficit driven by increased government spending on importation of capital goods to support infrastructure development, and
  - (iii) declining foreign exchange inflows on the back of poor revenues from tea, horticulture and tourism

Economic review… continued

Kenya's 2015 GDP growth downgraded, owing to poor operating environment and higher debt burden

- As of October, the import cover stood at 4.1 months which is marginally above the mandatory requirement of 4 months, having declined to a 27 month low of 3.9 months
- However the government is yet to utilise IMF credit facility of Kshs. 63 bn, which can be tapped into to complement the monetary policy in supporting the shilling
- We have seen a number of downgrades to the Kenyan economy. The IMF and World Bank reduced their forecasts to 6.0% and 5.4% respectively from close to 7.0% at the beginning of the year
- S&P also downgraded the credit outlook for Kenya from stable to negative maintaining the credit rating at B+
- **We forecast the 2015 Kenya GDP growth at between 4.7 – 4.9%, below IMF and World Bank forecast, as a result of poor operating environment and the increased debt burden by the government**

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Outlook

Key indicators point to a slow down in economic performance

Outlook on Key Economic Indicators				
Drivers	**Expectations at Start of 2015**	**YTD 2015 Experience**	**Medium-term Outlook**	**Effect**
GDP	5.0% - 6.9% growth in 2015	(i) 4.9% growth in Q1' 2015 (ii) 5.5% growth in Q2'2015 (iii) IMF and World Bank downgrade their GDP projections to 6.0% and 5.4%, respectively	Growth to be below target, with Cytonn's estimate for GDP growth at 4.9%	
Interest rates	Low and stable	(i) CBR increased 300 bps to 11.5% (ii) 91 day T-bill hitting a high of 22.5%	Rates to remain high given government's heavy borrowing	
Inflation	Low and stable at 6.02% as at December	(i) April inflation at 7.08% (highest for year) (ii) October inflation at 6.72%	Expected to remain relatively stable within the CBK target of 2.5% - 7.5%	
Exchange rate (USD/Kshs)	Shilling to remain under pressure	Shilling depreciated 12.0% against the dollar YTD	Further depreciation given the increased foreign debt liabilities and Kenya's structural weaknesses	
Corporate earnings	Improve on credit expansion and a favourable macroeconomic environment	(i) Weak earnings from listed companies. Banks recorded slowest growth in 6 years of 8.3% (15.6% in 2014) (ii) (ii) Weak shilling affected import reliant companies	Weak earnings given the high interest rates and depreciating shilling	

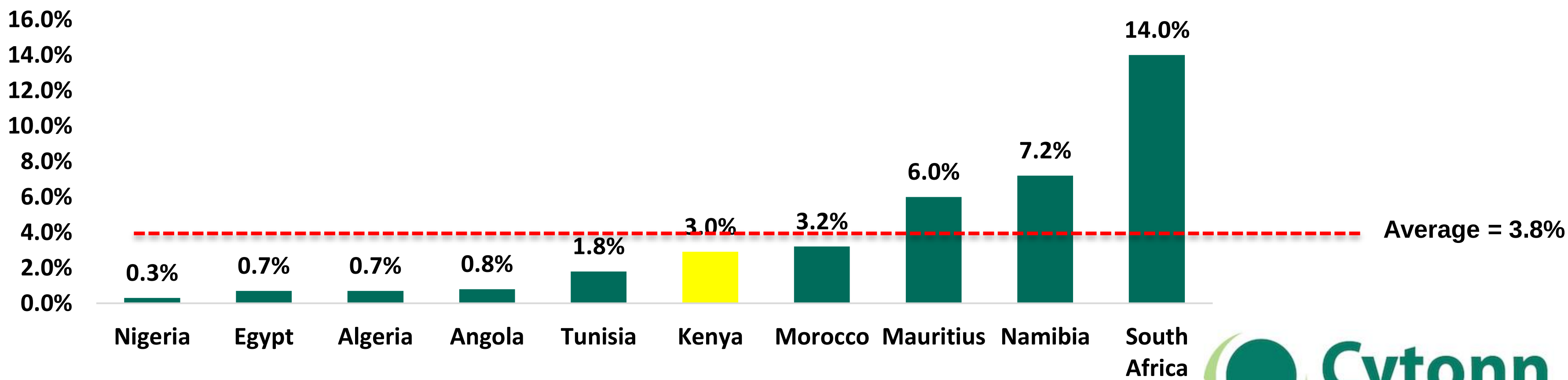
III. Kenya Insurance Sector Overview

Kenya’s Insurance Sector Overview

Kenya currently has 50 insurance companies, regulated by the Insurance Regulatory Authority

- In Kenya there are a total of 50 insurance companies, 3 reinsurance companies, 198 insurance brokers and 4 reinsurance brokers. There are a total of 5,155 insurance agents in Kenya
- The Insurance Regulatory Authority (IRA) is the regulator of all insurance companies in Kenya, with a mandate to regulate, supervise and develop the insurance industry in Kenya
- Kenya’s insurance penetration stands at 3.0% compared to its peer-countries in the Sub-Saharan Africa region
- The revised insurance act seeks to introduce new capitalization requirements for the (re) insurance companies in Kenya. The minimum paid-up-capital have been set at Kshs. 600 mn, Kshs. 400 mn, Kshs. 1.0 billion and Kshs. 500 mn for the general, long term, general business reinsurance and long term business reinsurance
- Insurance penetration in Kenyan is 3.0%, below the Africa average of 3.8%

Insurance Penetration – Africa 2014



Source – Cytonn Research

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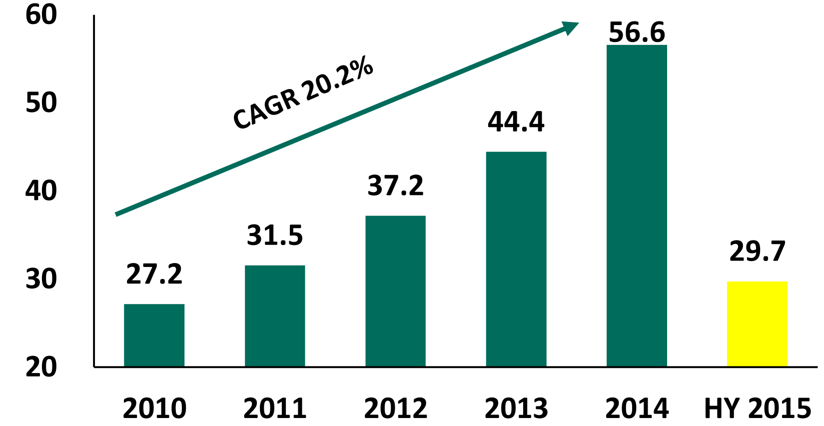
Growth in the Insurance Sector

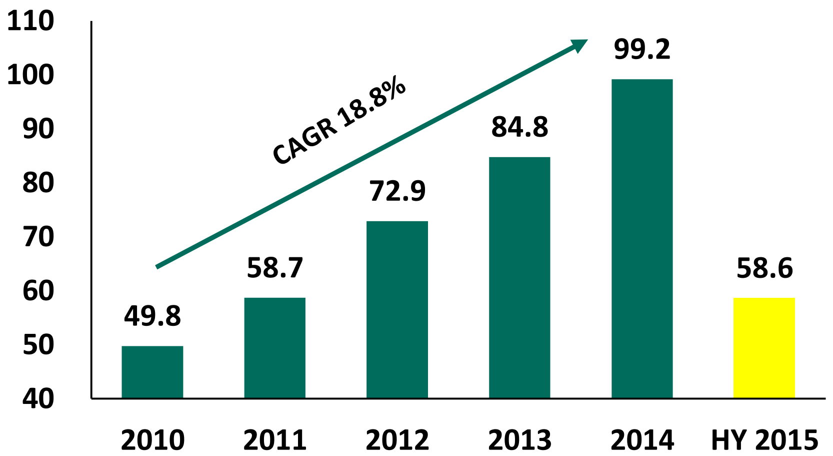
Alternative channels have been adopted to drive growth in insurance & insurance products in Kenya

- The Kenyan Insurance balance sheet stood at Kshs 455.5 bn as of June 2015. The balance sheet recorded a 16.1% year-on-year growth compared to June 2014.
- Total gross premium stood at Kshs 88 billion at June 2015, with general business accounting for 66.4% of the total gross written premium
- Gross reinsured premium accounts for 10.5% of the total industry written premium. The industry Retention Ratio for the life business stands 92.1% while the general business stands at 73.7%
- Life business has registered a much stronger growth in premium, posting a 20.2% CAGR compared to 18.8% growth in general business

Gross Written Premium - Life

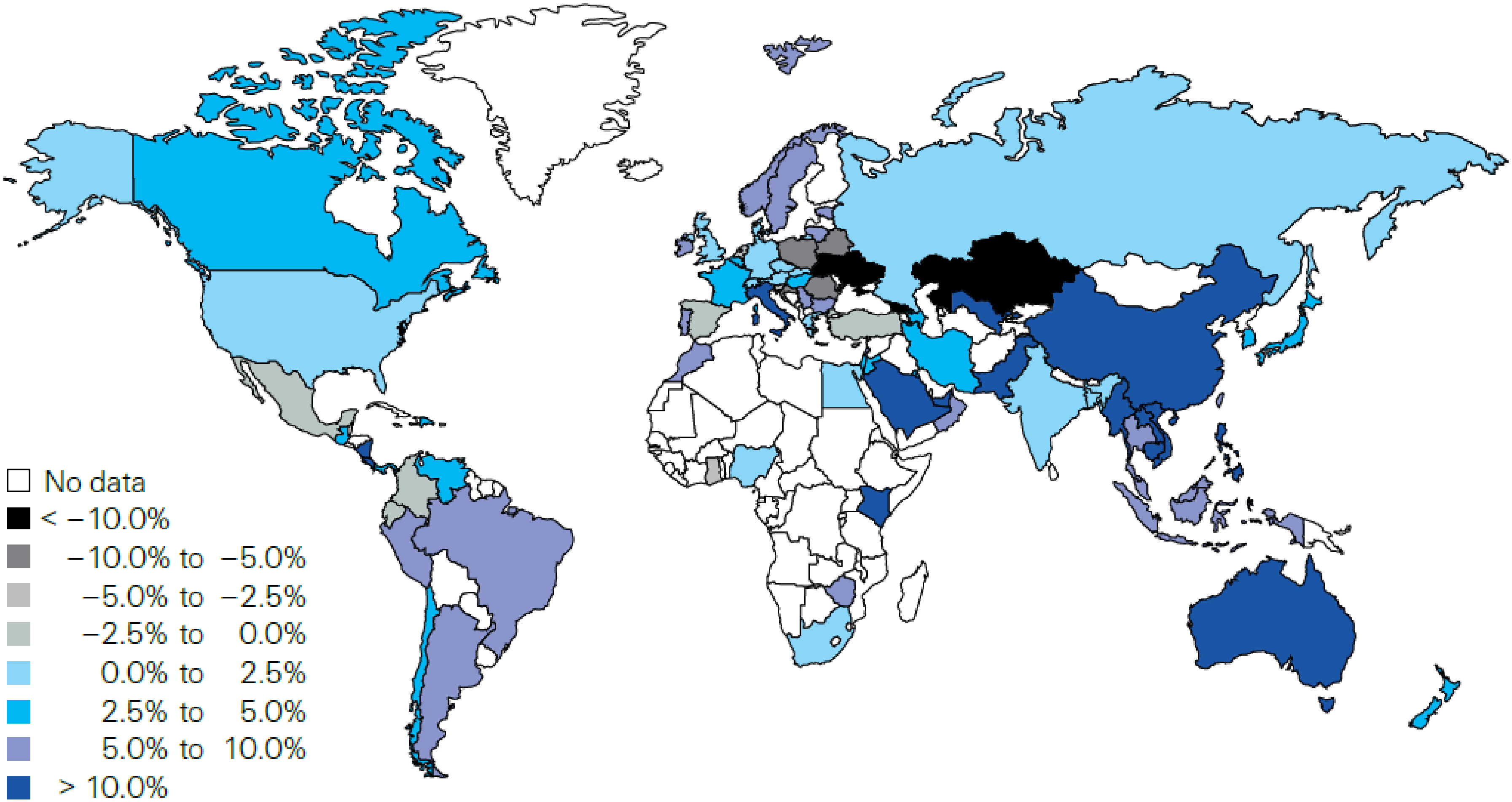


Gross Written Premium - General Business



Global Insurance Growth (%)

Kenya Ranks high in premium growth globally, leading in Sub-Saharan Africa



Source: Swiss Re Economic Research & Consulting.

Kenya Insurance Sector – Global Ranking Comparison

Kenya ranks at par with global players in most metrics, despite low penetration. However, in terms of losses – loss ratio and combined ratio – we are materially sub-par

Name	P/B	P/E	ROE	Dividend Yield	Loss Ratio	Combined Ratio	Country
Allianz SE-REG	1.2x	10.9x	11.5%	4.3%	65.7%	93.5%	Germany
American International Group	0.8x	13.4x	6.7%	1.0%	63.9%	98.5%	United States
Assicurazioni Generali	1.2x	13.2x	8.4%	3.5%	64.8%	92.0%	Italy
Aviva PLC	1.3x	13.6x	9.7%	3.9%	62.8%	93.1%	Britain
AXA SA	1.0x	12.3x	8.5%	3.9%	69.0%	95.2%	France
Bajaj Finserv Ltd	2.8x	18.5x	16.4%	0.1%	-	-	India
China Pacific Insurance	1.8x	13.1x	14.4%	2.0%	-	-	China
Fairfax Financial Hldgs Ltd	1.2x	18.3x	5.0%	1.9%	57.3%	90.9%	Canada
Porto Seguro SA	1.7x	10.3x	16.8%	5.1%	60.3%	61.2%	Brazil
Sampo OYJ	2.3x	14.8x	15.7%	4.4%	72.7%	81.0%	Finland
Wafa Assurance	3.0x	16.9x	18.7%	6.3%	57.1%	72.5%	Morocco
Zurich Insurance Group AG	1.2x	10.2x	11.7%	6.5%	68.4%	100.0%	Switzerland
Select Global Average	**1.6x**	**13.8x**	**12.0%**	**3.6%**	**64.2%**	**87.8%**	
Kenya Average (Listed)*	**1.5x**	**9.4x**	**15.9%**	**1.8%**	**73.9%**	**101.6%**	

** - Metrics for Kenyan listed insurance companies only.*

Source: Cytonn Research, Bloomberg.

Insurance Sector Growth Drivers

Innovation and alternative channels are the thematic drivers for growth

There are a number of factors which will drive growth in Kenya's Insurance sector:

1) **Insurance Products Innovation**: The industry players have continued to innovate products. With increased competition in the insurance sector, companies have come up with a number of insurance products to tap the narrow client base
2) **Favorable Demographics**: The Kenyan and regional population has a potential middle-class, which continues to demand insurance products and services. With increase in income levels and disposable, the population bracket is the key demographical driver for insurance industry growth
3) **Adoption of alternative channels:** Insurance players have been dynamic and fast in adopting to the new alternative channels for both distribution and premium collection. Banc-assurance, mobile and internet platforms have been the primary alternative channels which will drive down the cost of premium collection. For instance Britam collected 47% of gross written premium through bancassurance in 2014. The amendment in the Insurance Act has further allowed foreign banks to run the bancassurance model
4) **Regional Expansion**: Synonymous to Kenya, the general Sub-Saharan Africa insurance penetration remains low. Kenyan Listed insurance companies are looking to tap into this low penetration to drive further growth. However, we hold the view that Kenya has remained under-tapped and more emphasis should be put in growing insurance penetration in Kenya

Recent Developments in the Insurance Sector

Risk Based Supervision to determine the future of the industry

There were a number of developments in the insurance sector:

1) **Mergers, Acquisitions and Restructuring**: The insurance sector in Kenya has seen several mergers, acquisitions and restructuring activities. Notably, Real Insurance Company was acquired by British-American Investments Company Limited while Pan Africa insurance has acquired 51% stake into Gateway insurance to grow its general business line

2) **Entry of Global brands:** Kenya insurance sector has attracted global brands, with Saham Group acquiring Mercantile Insurance, Prudential Financial Company (UK) acquiring Shield Assurance Company and Swiss Re buying a stake into Apollo Group. Allianz Africa, a subsidiary of Allianz France plans to open a Kenya office to tap into the insurance sector

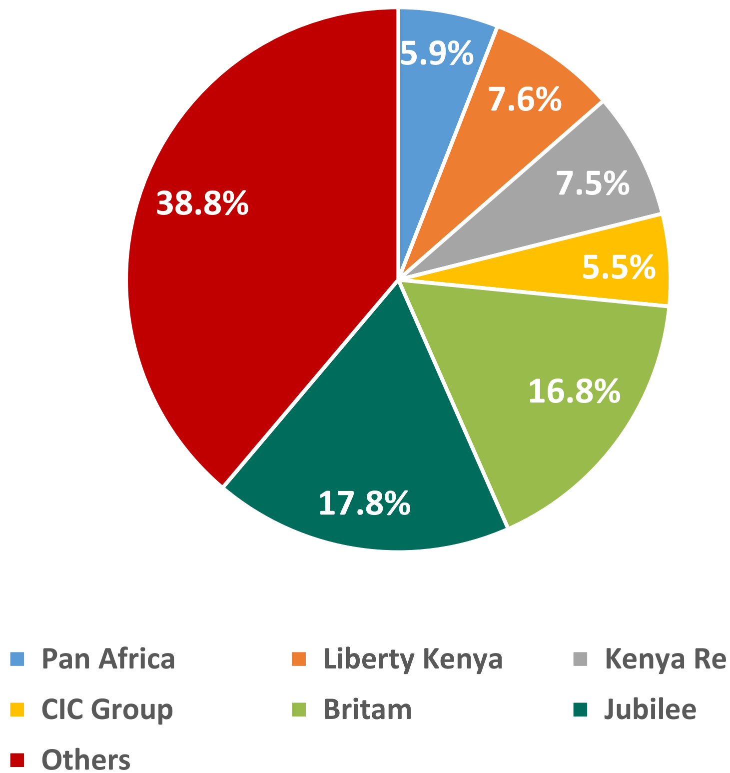
3) **Risk Based Supervision (RBS)**: The IRA has adopted an RBS framework placing strong emphasis on understanding the adequacy of (re)insurer's risk management systems, with (re)insurer companies being capitalized based on their risk profile. The framework captures insurance risk, market risk, counterparty default risk and operational risk

4) **Group Structure & Diversification:** Insurance companies in Kenya have in the recent years diversified their lines of business from the main premium based model. The adoption of asset management by CIC and Pan Africa insurance companies will continue to drive and diversify revenue streams. In addition to asset management, Britam have increased their strategic holding in HF Group, to support its bancassurance and property investment

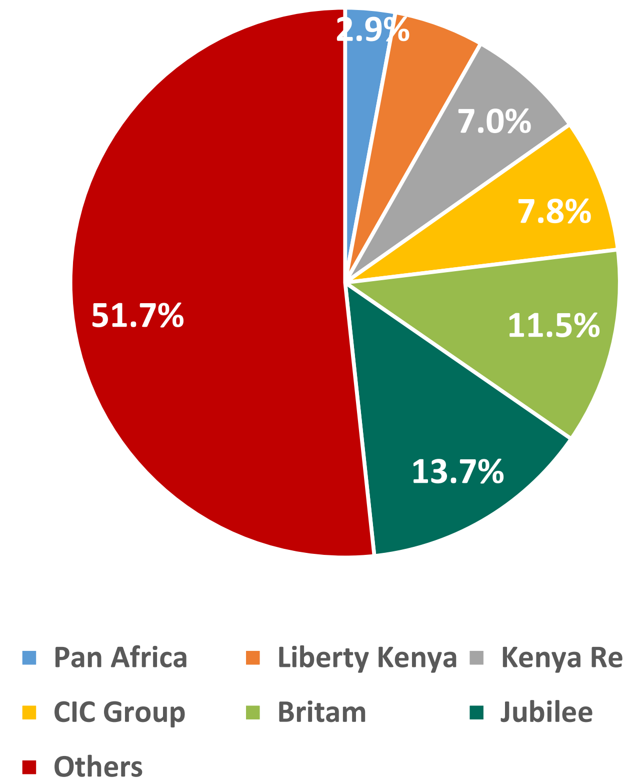
Insurance Sector Market Share – Total Assets & Gross Premiums

Non listed insurance companies, with 38.8% of industry assets, control 51.7% of gross premiums

Total Assets Market Share



Gross Written Premium Market Share



Non listed insurance companies are more efficient in asset utilization to derive premium growth – they have 39% of assets, but have 52% of premiums

Source – Cytonn Research, as at June 2015

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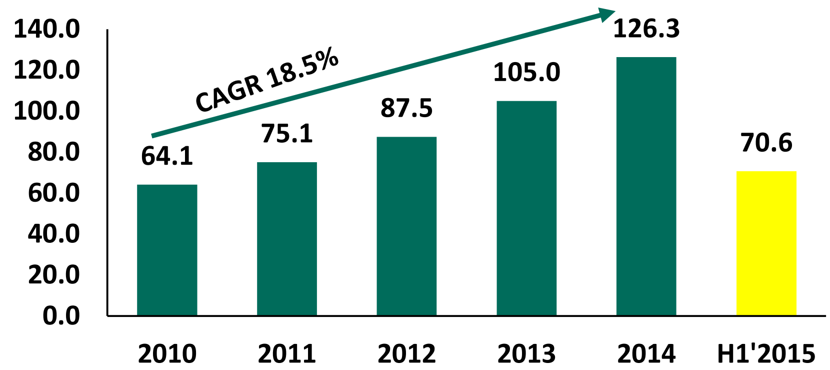
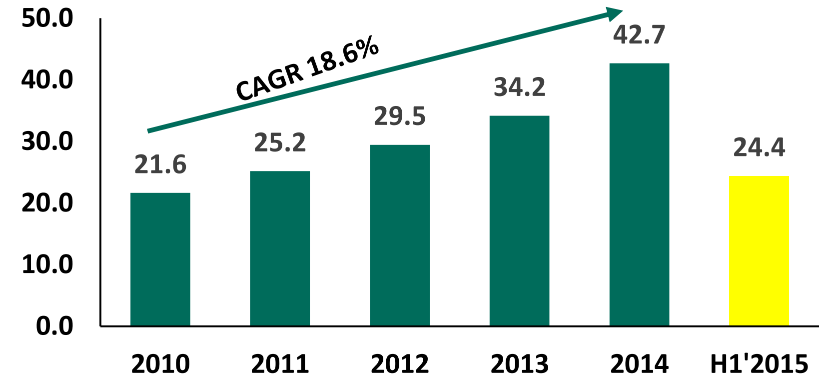
Insurance Sector Metrics

Robust growth in the insurance sector as evidenced by growth in premiums, compared to global

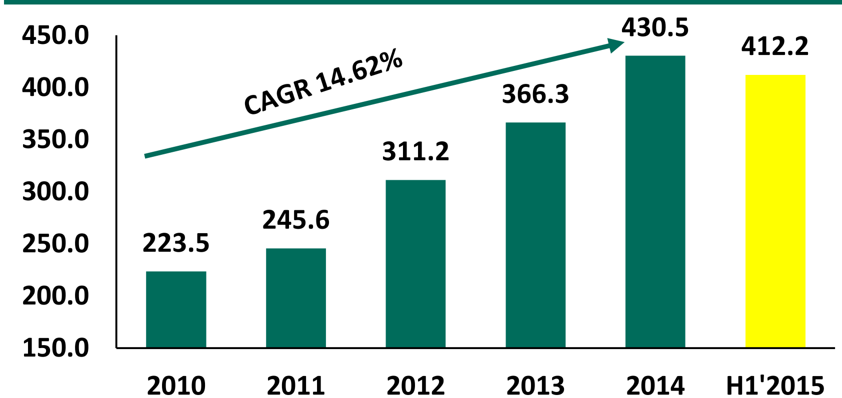
Net Premiums



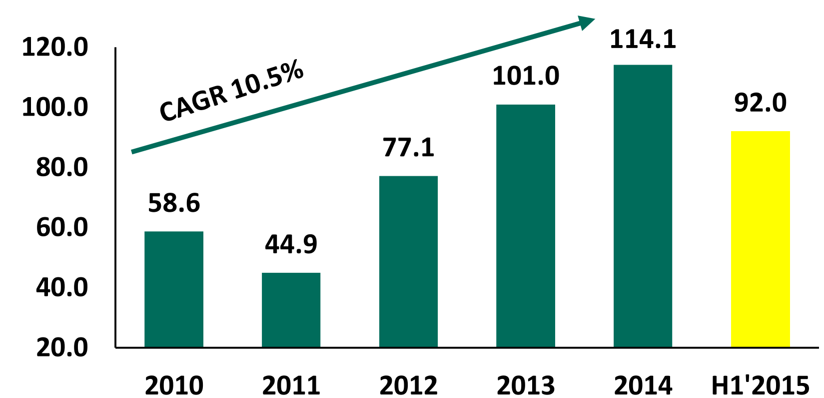
Net Claims



Assets



Shareholder's Funds



Premiums growing at same rate as claims, further confirms the need for diversification of revenue streams

Source – IRA, Cytonn Research

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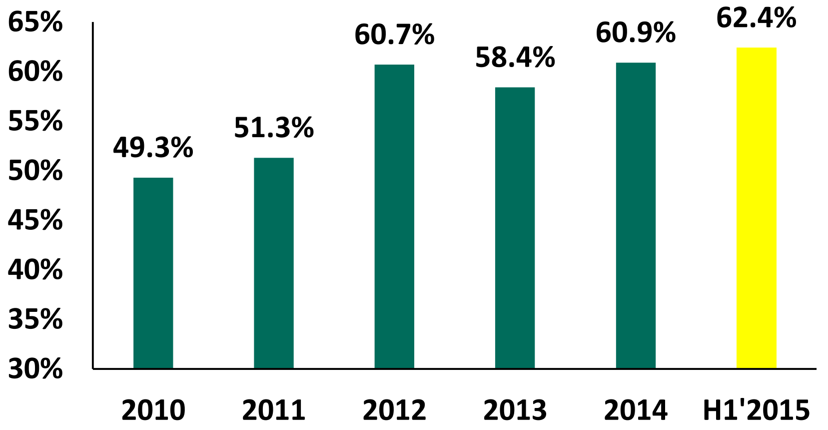
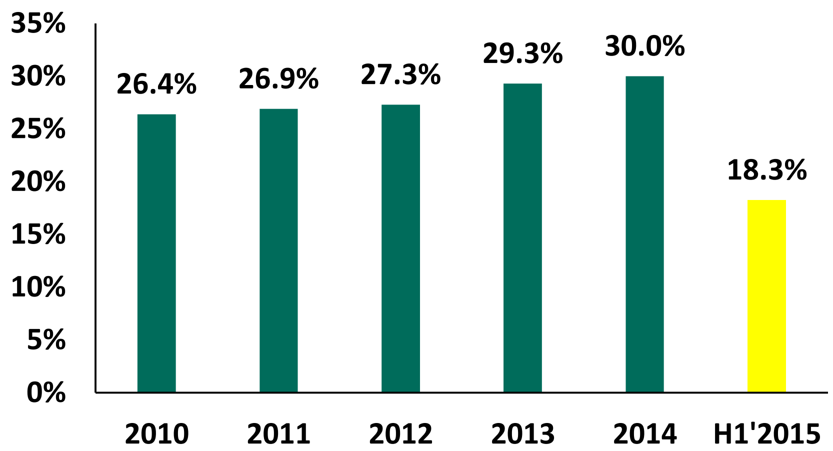
Insurance Sector Metrics

Insurance Penetration in Kenya has been on the rise currently at 3.0%

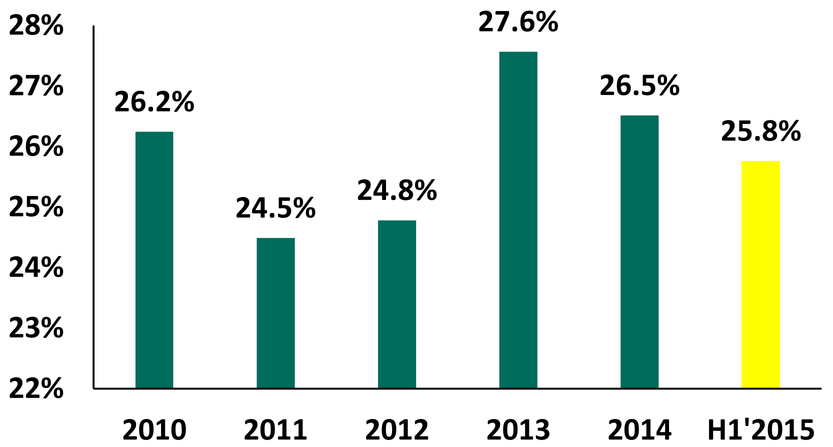
Loss Ratio



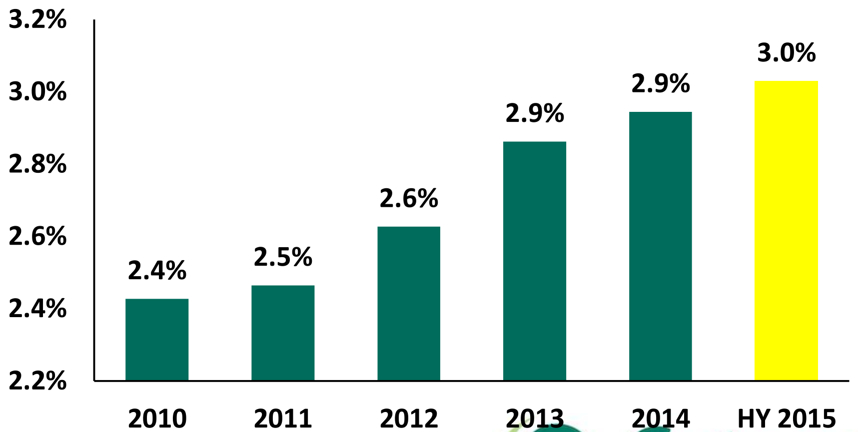
Expense Ratio



Solvency Ratio



Insurance Penetration in Kenya



Source – Cytonn Research

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Insurance Sector Multiples

Kenya's Insurance Sector is trading at an average P/BV of 1.5x and a P/E of 9.4x

Insurance	Share Price*	No. Of Shares Issued (Bn)	Market Cap (Bn)	P/BV	P/E**
Kenya Re Insurance Corporation Ltd	20.5	0.7	14.3	0.7x	4.6x
Jubilee Holdings Ltd	414.0	0.1	24.8	1.4x	8.0x
Pan Africa Insurance Holdings Ltd	64.0	0.1	6.1	1.4x	7.1x
British-American Investments Ltd	16.0	1.9	30.9	1.5x	12.4x
Liberty Kenya Holdings Ltd	19.1	0.5	10.2	1.7x	8.9x
CIC Insurance Group Ltd	6.4	2.6	16.7	2.3x	15.4x
Median				**1.5x**	**8.5x**
Average				**1.5x**	**9.4x**

***2014 EPS*

**Share Price as at 29th October 2015*

Source – Cytonn Research

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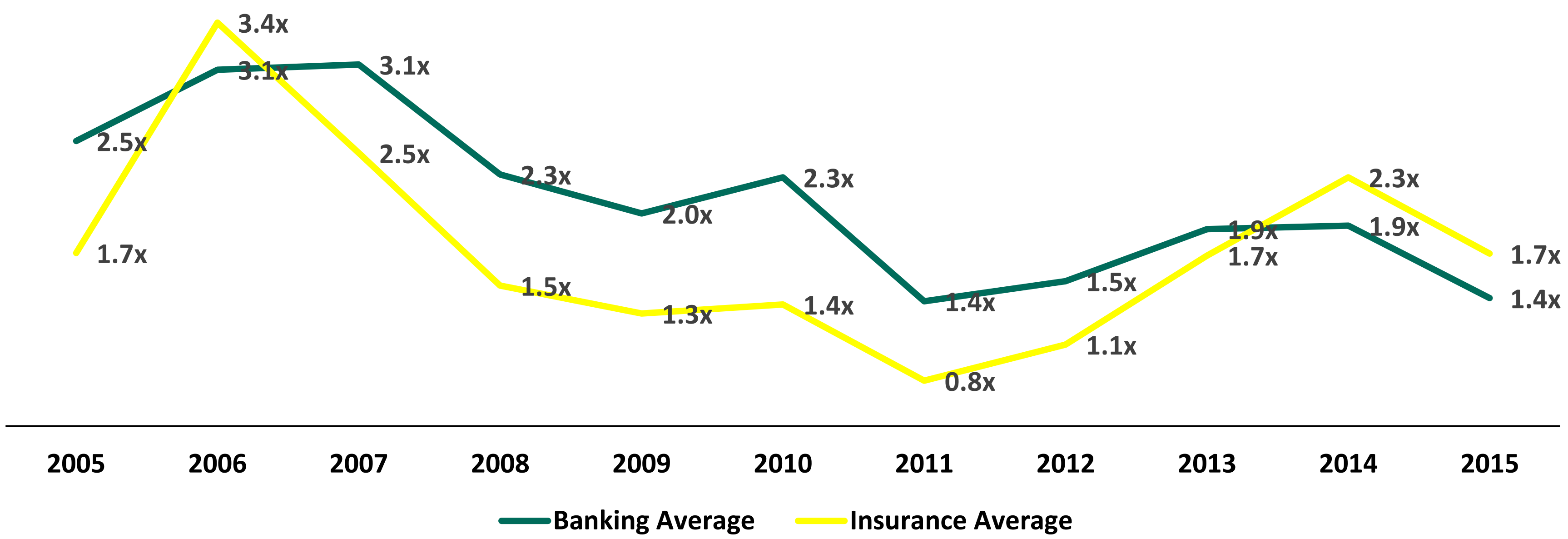
Insurance Sector Multiples

Comparative look at Kenya financial sector shows banking stocks getting cheaper than insurance

10 year Price to book value: Banking and Insurance



Between banks and insurance companies, we current prefer investing in banks rather than insurance companies based on valuation.

Source – Cytonn Research

IV. Cytonn's Insurance Sector Report

Executive Summary

We undertake this report to offer investors a comprehensive view of the listed insurance companies

- All listed insurance in the Kenyan market were analysed by the Cytonn Investment Team
- The analysis was brought about by a need to be able to recommend to our investors, especially global investors, which insurance companies are the most stable from a franchise value and from a future growth opportunity perspective
- The analysis covers the health and future expected performance of the financial institution, by highlighting their performance using metrics to measure Profitability, efficiency, diversification, risk appetite and solvency
- For insurance companies which are part of a group structure, the financials of the group were utilised to take into consideration the listed counter which an investor will purchase
- Ranking based on a weighted average ranking of Franchise value* (40%) and Intrinsic value* (60%)
- All the listed insurance companies are composite insurance companies, offering both life and general business. Kenya Re Insurance is the only listed reinsurer
- All companies had an opportunity to meet and give feedback to the investment team for the report

** - See appendix for definition*

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Cytonn's Insurance Sector Report – The Rankings

We analyzed the listed insurance on a franchise value perspective

Company name	ROaTE	ROaA	Investment Income / Total Income	Loss Ratio	Expense Ratio	Combined Ratio	Ceded Premium Ratio	Solvency Ratio	Underwriting Leverage	Governance Score	Reserve Leverage	Total
Kenya Re	4	1	5	1	1	1	5	1	1	5	1	**26**
Liberty Kenya	2	4	1	3	6	5	1	5	3	2	3	**35**
Jubilee Hldgs	1	3	3	5	2	4	2	4	4	3	4	**35**
Britam	6	6	4	2	5	2	3	3	2	6	2	**41**
CIC Group	5	2	6	4	4	3	4	2	6	4	6	**46**
Pan Africa	3	5	2	6	3	6	6	6	5	1	5	**48**

- **The Insurance ranking assigns a value of 1 for the best performing insurance company, and a value of 6 for the worst**
- **The ranking highlights;**
    - **Profitability**
    - **Efficiency**
    - **Diversification**
    - **Risk appetite**
    - **Governance**

**ROaTE – Return on Tangible Equity*

Source – Cytonn Research

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Cytonn's Insurance Sector Report – The Rankings

The insurance companies were also ranked on **Intrinsic value** perspective

Company	Current Price	Intrinsic Valuation	Upside	Dividend Yield FY15e	Total Return	Rank	Recommendation
Kenya Re	20.50	24.15	17.8%	3.4%	21.2%	1	**Buy**
Jubilee Holdings	414.00	428.85	3.6%	1.7%	5.3%	2	**Hold**
Britam	15.95	15.93	(0.1%)	0.6%	0.5%	3	**Lighten**
Pan Africa	64.00	61.93	(3.2%)	0.0%	(3.2%)	4	**Sell**
CIC Group	6.40	5.79	(9.5%)	1.2%	(8.3%)	5	**Sell**
Liberty Kenya	19.10	16.62	(13.0%)	0.0%	(13.0%)	6	**Sell**

- Kenya Re is the only company with a Buy rating, having an upside, at 21.2%
- Liberty Kenya Holdings registered the highest downside of 13.0%

Source – Cytonn Research

Cytonn's Insurance Sector Report – The Rankings

Overall, Kenya Re was ranked 1st while Pan Africa Insurance Holdings was ranked 6th

Company	Franchise Value Total Score	Total Return Score	Weighted Score	Rank
Kenya Re	26	1	11.0	1
Jubilee Holdings	35	2	15.2	2
Liberty Kenya	35	6	17.6	3
Britam	41	3	18.2	4
CIC Group	46	5	21.4	5
Pan Africa	48	4	21.6	6

- In this analysis, franchise value was assigned a weighting of 40% while the intrinsic value was assigned 60% weight
- Kenya Re ranked position 1 based on a high upside and on the franchise value backed by a low combined ratio of 66.8% vs. an industry average 101.6% and a high solvency ratio of 61.8% vs an industry average of 30.1%
- Pan Africa Insurance Holdings ranks position 6 given its high combined ratio of 118.4% vs a listed industry average of 101.6% and a low solvency ratio of 15.9% vs a listed industry average of 30.1%

Source – Cytonn Research

Insurance Sector Outlook

Insurance sector expected to continue growing, while consolidating businesses

- **Risk Based Supervision:** With the proposed risk based supervision framework, we expect a consolidation of insurance companies, as the industry players synergize their books to meet the required statutory minimum requirements
- **Micro insurance:** We expect the insurance players to progress towards tapping into this segment. The Kenyan informal sector offers a rich platform to tap into, with increasing disposable incomes. We expect the industry players to innovate on products that will be affordable and relevant to this segment
- **Devolved government:** With the establishment of a devolved system of governance, we expect insurance uptake to increase at the county level, with (i) county governments taking up insurance services, and (ii) increased economic activity in the county level, driven by more economic activities at the county level
- **Mergers & Acquisitions:** We expect mergers and acquisitions in the industry to accelerate in the medium term owing to the increase in the minimum capital requirements as highlighted in the finance bill 2015. Already a number of players have already merged and restructured to meet this new requirements

V. Appendix

A. Metrics Used

Insurance Sector Report – Metrics Used

Cytonn has undertaken the analysis of listed insurance companies in Kenya using 8 metrics

- **Loss Ratio –** An insurance company's loss ratio is the ratio of its net claims to the net premiums. It is a measure of the company's ability to settle the claims from the premiums generated from policyholders
  - Output – A higher loss ratio indicates that the insurance company is using more of its premiums to pay out claims and are more likely to be less profitable

- **Expense Ratio –** This is the ratio of a companies operating expenses to its net premiums. It is a measure of efficiency of management in generating premiums for the business written by the company
  - Output – A higher loss ratio indicates that the company is incurring more expenses in mobilizing more premiums, an indicator of inefficiency of operations

- **Combined Ratio** - The combined ratio reflects both the cost of protection and the cost of generating and maintaining the business
  - Output - When the combined ratio is under 100%, underwriting results are considered profitable; when the combined ratio is over 100%, underwriting results are considered unprofitable

- **Return on Average Tangible Equity** – An Insurance Company's return on average tangible equity (ROaTE), is the amount of profit the company earns as a percentage of average tangible shareholders' equity. It's a profitability measure that shows how much a company generates with the money shareholders have invested
  - Output – Insurance firms with higher ROaTEs are better at utilizing capital to generate profits

Insurance Sector Report – Metrics Used…continued

Cytonn has undertaken the analysis of listed insurance companies in Kenya using 8 metrics

- **Ceded Premium Ratio –** Ceded premium ratio indicates the amount of gross premiums which insurance companies cede to reinsurance. It is a measure of how much risk an insurance company is willing to take and diversify to reinsurance companies
  - Output – A low ceded premium ratio indicates a company has a high risk appetite to a company with a higher ratio. Also extremely high ratios also indicates that the company may not be able to run its operations effectively
- **Solvency Ratio –** This ratio is the amount of policy holder surplus to assets which indicates the amount of assets not required for the payment of claim
  - Output – A higher ratio indicates that the company is more solvent and less likely to go bankrupt
- **Underwriting Leverage**– This is the ratio of net premiums to shareholder’s funds. This ratio is **inversely** related to the capacity of companies to write additional business because new policies generate liabilities, which must be supported by surplus due to the limited liability of insurance companies
  - Output – A high ratio indicates that the capacity to write new business is low
- **Reserve Leverage Ratio** – This is the ratio of net claims to shareholder’s funds. This ratio represents an insurer's major unpaid obligations as a percentage of net worth, and is inversely related to the firm's ability to bear loss shocks and errors in loss forecasting
  - Output – A higher ratio indicates that the company has a lower ability to absorb sudden large shocks
- **Governance Score:** This ratio measures the company’s internal controls, strength, integrity and experience of the board and management, and quality of strategic shareholding

Insurance Sector Report – Metrics Used…continued

The rating of the insurance companies was done using franchise and intrinsic value

a. **Franchise Value Total Score:** In this ranking, the insurance companies are ranked by health, by looking at metrics for profitability, efficiency, diversification and risk appetite. The insurance companies are then assigned scores ranging from 1, which is the best performing (re)insurer in the metric, till 6, which is the worst performing (re)insurer. The scores from each (re)insurer are then summated, with the (re)insurer with the lowest total score emerging on top, and that with the highest score emerging at the bottom

b. **Total Return Score:** Potential upside for each (re) insurer based on the intrinsic valuation, and the current market price. The (re)insurer with the highest upside was ranked 1st, and that with the lowest upside, or greatest downside, was ranked last. Cytonn's Analysts carry out this valuation, arriving at the actual value of each (re) insurer based on an underlying perception of its true value, including all aspects of the business, in terms of both tangible and intangible factors, and future growth expectations. This value may or may not be the same as the current market value

c. **Overall Rank:** Using the Franchise Value and Total Return, insurance companies are given a score. Franchise value was assigned a weighting of 40%, while the intrinsic value was assigned a 60% weight

B. Listed Insurance Companies

I. CIC Insurance Group

Company Description

CIC is an insurance company, leverage on the co-operative model to drive distribution and growth

Company Description

- CIC Insurance started off as an insurance agency in 1968 as a department within the Kenya National Federation of Co-operatives ("KNFC"). It was later licensed as a composite insurance company in 1978 to write all classes of business trading in the name of Co-operative Insurance Services Limited ("CIS").
- In 2010 the Company changed its name to CIC Insurance Group Limited in preparation for the demerger of its life and general business operations. By the end of 2011 the Company had fully demerged resulting in the following subsidiaries:
    - CIC Life Assurance Limited
    - CIC General Insurance Limited
    - CIC Asset Management Limited

	Shareholder	%
1.0	Coop Insurance Society	74.30%
2.0	Muriuki Gideon	3.6%
3.0	Weda Welton	0.9%
4.0	Nelson Kuria	0.6%
5.0	Peter Mwaura	0.5%
6.0	Norman Nyagah	0.5%
7.0	Kenya Re Corp	0.4%
8.0	David Ronoh	0.3%
9.0	Rosemary Githaiga	0.1%
10.0	Others	18.9%
	Total	100.0%

Pros

- Adoption of alternative channels, including banc-assurance, Sacco distributions, mobile and internet platform will drive further growth while keeping the costs low
- The entry into pension and annuity business expected to drive further growth in the long term business premium
- Diversification into property to help secure and diversify the earnings and gains from investment
- Expansion into regional markets to continue to offer extra growth and diversification from the main domiciled market, Kenya

Cons

- Increased exposure to short term business characterized by high and fraudulent claims
- Credit risk: High levels of unpaid premium increasing a liability load on the balance sheet
- Pricing and undercutting risk. With increased competition, particularly in the short term business, growth in the premiums is expected to slow down.

Source – Annual Reports

Financial Statements Extracts

CIC has a strong PAT growth with a 5 year CAGR of 19%

Income Statement	2013A	2014A	2015F	2016F	2017F	2018F	2019F
Gross earned premium	10.1	13.4	15.4	18.4	21.5	25.1	29.2
Less: Outward reinsurance	(0.9)	(1.1)	(1.5)	(1.9)	(2.2)	(2.5)	(2.9)
Net Insurance Premium Revenue	9.2	12.3	13.8	16.6	19.3	22.5	26.3
Commissions earned	0.3	0.4	0.4	0.5	0.6	0.7	0.9
Investment Income	0.7	1.1	1.3	1.9	2.3	2.8	3.9
Total Income	10.9	14.5	16.0	19.5	22.9	26.8	31.8
Claims and policyholder benefits payable	6.7	9.8	10.4	12.4	14.3	16.5	19.5
Net Insurance Benefits and claims	6.0	8.6	9.3	11.0	12.7	14.6	17.3
Commissions payable	0.8	1.1	1.3	1.6	1.8	2.1	2.5
Profit before Tax	1.7	1.4	1.9	2.6	3.3	4.2	5.2
Income Tax Expense	(0.4)	(0.3)	(0.6)	(0.8)	(1.0)	(1.3)	(1.6)
Profit for the Year	1.3	1.1	1.3	1.8	2.3	2.9	3.6
% change in PAT	(6%)	(17%)	23%	37%	28%	25%	24%

Balance Sheet	2013A	2014A	2015F	2016F	2017F	2018F	2019F
Assets							
Property and Equipment	1.1	1.3	1.9	2.5	3.1	3.9	4.7
Total Assets	17.0	23.7	29.0	35.3	42.9	51.6	61.6
Liabilities							
Total Liabilities	10.7	16.5	20.5	25.2	30.7	36.9	43.9
Total Equity	6.3	7.2	8.5	10.2	12.2	14.7	17.7

Cytonn INVESTMENTS

Valuation Summary

CIC is overvalued with a downside of 9.5%

Cost of Equity Assumptions:	
Risk free rate *	12.10%
Beta	1.08
Country Risk Premium	6.0%
Extra Risk Premium	0.0%
Cost of Equity	18.6%

Terminal Value assumptions	
Terminal growth rate	5%
Terminal ROE	28.3%
Terminal Beta	1.00
Terminal COE	18.1%

	2015F	2016F	2017F	2018F	2019F
Net return	1.3	1.8	2.3	2.9	3.6
Dividends paid	0.2	0.3	0.5	0.6	0.7
Cost of equity	1.3	1.6	1.8	2.2	2.6
Opening equity	7.2	8.3	9.9	11.7	14.1
Add net earnings	1.3	1.8	2.3	2.9	3.6
Less dividends paid	(0.2)	(0.3)	(0.5)	(0.6)	(0.7)
Closing equity	8.3	9.9	11.7	14.1	17.0
Cashflows excess returns					
Excess returns	(0.0)	0.3	0.5	0.8	1.0
Discounting factor	1.0	0.8	0.7	0.6	0.5
Terminal value					13.1
PV of cashflows	(0.0)	0.2	0.4	0.4	6.9

Current book value of equity	**7.2**
PV of cashflow	**8.0**
PV of equity	**15.2**
Number of shares	**2.6**
Value per share	**5.8**
Current price per share	**6.4**
Upside	**(0.1)**

* Five years average yields on a 10 year Treasury bond

Cytonn INVESTMENTS

II. Britam Group

Company Description

Growth pegged on regional expansion and consolidation

Company Description

- Britam is a financial services group, listed on the Nairobi Securities Exchange with interests across the East and South African region and offers a range of financial products and services in Insurance, Asset Management, Banking and Property.
- The company operates in Kenya, Tanzania, Uganda, Rwanda, South Sudan, Mozambique and Malawi.
- Britam recently acquired Real insurance, a Pan African financial services group with presence in seven countries, to grow its general business in line with its expansion plan.

	Shareholder	
1.0	British American (Kenya) Holdings Limited	23.34%
2.0	Equity Holdings Limited	20.9%
3.0	Jimnah M. Mbaru	10.3%
4.0	Benson I. Wairegi	5.2%
5.0	Kenya Commercial Bank Nominees A/C 915f	4.7%
6.0	Peter K. Munga	3.9%
7.0	James N. Mwangi	3.9%
8.0	Coop Bank Custody A/C 4012	3.1%
9.0	Filimbi Limited	3.0%
10.0	Others	21.7%
	Total	100.0%

Pros

- Strong growth in premiums continue to support growth both in long term and short term business.
- Regional business will continue to drive premium growth, as the region continues to offer growth opportunity.
- Asset management business will continue to drive and diversify growth for the overall group driven by increased uptake of investment management products.

Cons

- Exposure to the risky assets, like equites is expected to increase the company's risk adjusted losses
- Competition, particularly in the long term business line will continue to exert pressure on the premium growth
- Acquisition of Real Insurance will drive top-line growth, but claims in general business remain high, offsetting this growth.

Source – Annual Reports

Cytonn INVESTMENTS

Financial Statements Extracts

Britam expected to record a stable growth in premium, 5 Yr CAGR of 16%

Income Statement	2013A	2014A	2015F	2016F	2017F	2018F	2019F
Gross earned premium	8.8	14.0	17.7	20.7	23.6	26.8	30.0
Less: Outward reinsurance	(1.1)	(2.3)	(2.6)	(2.9)	(3.1)	(3.2)	(3.0)
Net Insurance Premium Revenue	7.8	11.8	15.0	17.8	20.6	23.6	27.0
Commissions earned	0.4	0.6	0.8	0.9	0.9	1.0	0.9
Investment Income	2.8	3.3	2.7	1.9	2.3	2.2	3.6
Total Income	11.5	16.4	19.3	21.5	24.9	27.9	32.8
Claims and policyholder benefits payable	3.3	4.0	9.3	11.2	12.8	14.3	15.8
Net Insurance Benefits and claims	4.9	8.0	8.8	10.5	12.0	13.4	14.9
Commissions payable	1.9	2.7	3.7	4.3	5.0	5.6	6.3
Profit before Tax	2.9	3.0	0.5	1.7	2.3	2.5	4.5
Income Tax Expense	(0.8)	(0.7)	(0.2)	(0.5)	(0.7)	(0.7)	(1.4)
Profit for the Year	2.3	2.5	0.9	1.8	2.3	2.6	4.1
	(8%)	8%	(64%)	97%	29%	11%	61%

Balance Sheet	2013A	2014A	2015F	2016F	2017F	2018F	2019F
Assets							
Property and Equipment	1.2	1.3	3.2	3.8	4.5	5.3	4.0
Total Assets	46.9	72.5	76.9	83.3	94.5	106.8	111.2
Liabilities							
Total Liabilities	32.2	51.0	55.6	60.4	69.7	80.1	83.7
Total Equity	14.8	21.4	22.2	23.4	24.9	26.5	28.7

Cytonn INVESTMENTS

Valuation Summary

Britam is fairly valued at 15.9

Cost of Equity Assumptions:	
Risk free rate*	12.13%
Beta	1.11
Country Risk Premium	6.00%
Cost of Equity	18.77%

Terminal Value assumptions	
Terminal growth rate	5%
Terminal ROE	16.0%
Terminal Beta	1.00
Terminal COE	18.13%

		2015F	2016F	2017F	2018F	2019F
Net return		0.1	0.7	1.2	1.6	3.2
Dividends paid		0.0	0.2	0.3	0.5	1.1
Cost of equity		4.0	4.0	4.1	4.3	4.5
Opening equity		21.4	21.5	22.1	23.0	24.1
Add net earnings		0.1	0.7	1.2	1.6	3.2
Less dividends paid		(0.0)	(0.2)	(0.3)	(0.5)	(1.1)
Closing equity	21.4	21.5	22.1	23.0	24.1	26.2
Cashflows excess returns						
Excess returns		(3.9)	(3.3)	(2.9)	(2.7)	(1.3)
Timing		0.2	1.2	2.2	3.2	4.2
Discounting factor		1.0	0.8	0.7	0.6	0.5
Terminal value						41.2
PV of cashflows		(3.8)	(2.7)	(2.0)	(1.6)	19.5

Current book value of equity	**21.4**
PV of cashflow	**9.5**
PV of equity	**30.9**
Number of shares	**1.9**
Value per share	**15.9**
Current price per share	**16.0**
Upside	**0.0%**

* Five years average yields on a 10 year Treasury bond

III. Liberty Kenya Holdings

Company Description

Liberty Kenya Holdings Limited is a subsidiary of Liberty Holdings Limited S.A

Company Description

- Liberty Kenya Holdings Limited was formed in 1964 as the Kenya American Insurance Company Limited as part of the AIG Group of companies. In 2008, CfC Bank holdings merged with Stanbic Bank to form CfC Stanbic Bank Holdings which was now a subsidiary of The Standard Bank Group. This in turn converged CfC Life Assurance Company Limited with Heritage Insurance
- In 2011, Liberty Holdings Limited became the majority shareholder of CfC Life and Heritage with the listing of CfC Insurance Holdings on the NSE

No.	Shareholders	%
1.	Liberty Holdings Limited	57.7%
2.	African Liaison and Consultants Services Limited	29.1%
3.	Sovereign Trust Limited	2.9%
4.	Standard Chartered Nominees Non-RESD A/C 9866	2.0%
5.	Archer and Wilcock Nominees Limited	1.2%
6.	The Government of Kenya	0.9%
7.	Standard Chartered Nominees A/C KE 22446	0.4%
8.	Standard Chartered Nominees A/C KE 22816	0.3%
9.	Standard Chartered Nominees A/C KE 001958	0.3%
10.	CfC Stanbic Nominees Limited A/C 1030653	0.2%
11.	Others	5.1%
	Total	**100%**

Pros

- Venture into alternative channels of distribution like bancassurance and internet insurance
- Customized insurance products that fit the needs of the clients such as motor insurance tailor-made for women

Cons

- Competition from Key players who take up Liberty's market share
- Credit risk: High levels of unpaid premium increasing a liability load on the balance sheet
- Pricing and undercutting risk. With increased competition, particularly in the short term business, growth in the premiums is expected to slow down.

Source – Annual Reports

Key Metrics

Liberty's PAT growth is expected to decline by 3.8% in 2015

Income Statement	FY13	FY14	FY15	FY16	FY17	FY18	FY19
Gross earned premium reserve	7.4	8.0	9.6	11.6	14.1	17.1	20.7
Less: Outward reinsurance	(3.3)	(3.3)	(3.9)	(4.6)	(5.9)	(7.0)	(8.5)
Net Insurance Premium Revenue	**4.1**	**4.7**	**5.8**	**6.9**	**8.2**	**10.1**	**12.2**
Commissions earned	0.7	0.7	1.0	1.2	1.4	1.7	2.1
Investment Income	2.6	2.9	3.4	4.0	4.6	5.3	6.0
Total Income	**7.4**	**8.3**	**10.3**	**12.2**	**14.3**	**17.3**	**20.6**
Claims and policyholder benefits payable	(8.1)	(2.5)	(4.6)	(5.3)	(6.1)	(7.3)	(8.5)
Net Insurance Benefits and claims	**(3.1)**	**(3.5)**	**(4.4)**	**(5.0)**	**(5.8)**	**(6.8)**	**(8.0)**
Commissions payable	(0.8)	(0.9)	(1.3)	(1.5)	(1.8)	(2.2)	(2.7)
Operating Expenses	(2.1)	(2.6)	(3.1)	(3.7)	(4.3)	(5.2)	(6.2)
Profit before Tax	**1.3**	**1.3**	**1.6**	**2.0**	**2.4**	**3.0**	**3.7**
Income Tax Expense	(0.2)	(0.2)	(0.5)	(0.6)	(0.7)	(0.9)	(1.1)
Profit for the Year	**1.1**	**1.1**	**1.1**	**1.4**	**1.7**	**2.1**	**2.6**
% change in PAT		**3.6%**	**(3.8%)**	**28.7%**	**20.4%**	**23.6%**	**22.6%**

Balance Sheet	FY13	H114	FY14	H115	FY15	FY16	FY17	FY18	FY19
Assets									
Property and Equipment	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Investment Property	0.8	0.8	0.9	0.9	1.1	1.3	1.5	1.7	2.0
Investments in Associates	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial Investments	15.9	18.4	19.1	20.9	22.0	25.3	29.0	33.4	38.4
Total Assets	**31.5**	**31.8**	**32.7**	**34.8**	**37.0**	**41.7**	**47.2**	**53.5**	**61.0**
Liabilities									
Insurance Contract Liabilities	10.3	9.5	9.7	10.4	11.1	12.6	14.4	16.4	18.7
Deposit administration liabilities	11.1	11.6	12.0	11.9	13.0	14.1	15.2	16.4	17.7
Unearned premium reserve	2.7	3.0	2.8	3.6	3.3	4.0	4.9	5.9	7.1
Total Liabilities	**26.0**	**25.9**	**26.5**	**28.3**	**29.8**	**33.1**	**36.9**	**41.1**	**46.0**
Total Equity	**5.5**	**5.9**	**6.2**	**6.5**	**7.2**	**8.6**	**10.3**	**12.4**	**15.0**

Source – Company Financials

Key Metrics

Liberty Holdings is undervalued with an intrinsic value of Kshs. 16.6

Cost of Equity Assumptions:	
Risk free rate*	12.1%
Beta	0.7
Mature Market Risk Premium	6.0%
Extra Risk Premium	0.0%
Cost of Equity	16.5%

Terminal Assumptions:	
Growth rate	5.0%
Mature Company Beta	1.0
Terminal Cost of Equity	18.1%
Return on Average Equity	20.5%
Justified P/B	1.2x

Terminal Price (2019)	17.6
BV(2019)	15.0
Terminal Residual CF (a)	2.7

Residual Income	31-Dec-15	31-Dec-16	31-Dec-17	31-Dec-18	31-Dec-19
Beginning book value of equity	6.2	7.2	8.6	10.3	12.4
Cost of equity	16.5%	16.5%	16.5%	16.5%	16.5%
Equity cost	1.0	1.2	1.4	1.7	2.0
Net Income	1.1	1.4	1.7	2.1	2.6
Equity cost	1.0	1.2	1.4	1.7	2.0
Residual Income	**0.1**	**0.2**	**0.3**	**0.4**	**0.5**
Terminal Value					**2.7**
Time	0.2	1.2	2.2	3.2	4.2
Discount Factor	1.0	0.8	0.7	0.6	0.5
Present value	**0.1**	**0.2**	**0.2**	**0.3**	**1.7**

Book Value of equity	6.5
PV of equity excess return	2.4
Value of equity	8.9
Number of shares	0.5
Value per share	**16.6**
Current Price per share	19.1
Upside/(Downside)	**(13.0%)**

* Five years average yields on a 10 year Treasury bond

Cytonn INVESTMENTS

IV. Pan Africa Insurance Holdings

Company Description

Pan Africa Insurance Holdings was the first listed insurance company in Kenya

Company Description

- Pan Africa Insurance Holdings was founded in October, 26th 1946 as the Indo Africa Insurance Company Limited.
- It was the first insurance company to list its shares on the Nairobi Securities Exchange and changed its name to Pan Africa Insurance company
- The group became part of the Sanlam Group in 2005 when Pan African Life Assurance was acquired by Sanlam
- Pan Africa Insurance Holdings Limited acquired a controlling stake in unlisted Gateway Insurance a move that would see the group re-enter the general insurance market since it disposed its 39.97% stake in APA Insurance

No.	Shareholders	%
1.	Hubris Holdings Limited	55.8%
2.	Patel Baloobhai Chhotabhai	20.0%
3.	Mayfair Insurance Company Limited	0.9%
4.	Thammo Holdings Limited	0.8%
5.	APA Insurance Limited	1.0%
6.	Anjay Vithalbhai Patel	0.5%
7.	Financial Futures Limited	0.6%
8.	Standard Chartered Nominees A/C 9595	0.6%
9.	Cannon Assurance Kenya	0.6%
10.	Leverton Limited	0.5%
11.	Others	18.7%
	Total	**100%**

Pros

- Venture into alternative channels of distribution such as bancassurance
- Has a strong actuarial risk function and was among the first Insurance companies in Kenya to embrace this
- Acquiscition of gateway insurance gives it the chance to venture into the general business space

Cons

- Competition from Key players who take up Pan Africa's market share
- Credit risk: High levels of unpaid premium increasing a liability load on the balance sheet
- Pricing and undercutting risk. With increased competition, particularly in the short term business, growth in the premiums is expected to slow down.

Source – Annual Reports and H1' 2015 Investor Brief

Key Metrics

Pan Africa Insurance Holdings' PAT is expected to decline by 7.8% in 2015

Income Statement	FY13	FY14	FY15	FY16	FY17	FY18	FY19
Gross Premium Income	5.3	5.2	6.3	7.6	9.3	11.4	14.1
Premium Ceded to reinsurers	(0.2)	(0.3)	(0.4)	(0.5)	(0.7)	(0.8)	(1.0)
Net Premium Income	**5.1**	**5.0**	**5.9**	**7.1**	**8.6**	**10.6**	**13.1**
Fee and Commission income	0.1	0.0	0.1	0.1	0.1	0.2	0.2
Investment Income	2.7	2.6	2.8	3.7	4.7	5.9	7.5
Total Other Revenue	**3.4**	**3.0**	**3.4**	**4.4**	**5.6**	**7.0**	**8.8**
Total Revenue	**8.5**	**8.0**	**9.3**	**11.5**	**14.2**	**17.6**	**21.9**
Gross Benefits and claims paid	(2.3)	(2.7)	(3.0)	(3.7)	(4.5)	(5.5)	(6.8)
Net Benefits and claims	**(5.3)**	**(5.1)**	**(5.9)**	**(7.2)**	**(8.9)**	**(11.2)**	**(14.1)**
Fee and Commission Expense	(0.7)	(0.8)	(1.0)	(1.2)	(1.5)	(1.8)	(2.2)
Operating Expenses	(1.0)	(1.0)	(1.2)	(1.5)	(1.8)	(2.3)	(2.8)
PBT	**1.5**	**1.2**	**1.1**	**1.5**	**1.8**	**2.2**	**2.5**
Income Tax expense	(0.3)	(0.3)	(0.3)	(0.4)	(0.6)	(0.7)	(0.8)
PAT	**1.3**	**0.9**	**0.8**	**1.0**	**1.3**	**1.5**	**1.8**
% change in PAT		**(30.3%)**	**(7.8%)**	**29.7%**	**23.7%**	**17.8%**	**17.6%**

Balance Sheet	FY13	H114	FY14	H115	FY15	FY16	FY17	FY18	FY19
				Assets					
Property and equipment	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Investment properties	0.9	0.9	1.1	2.2	2.7	3.1	3.4	3.8	4.3
Investment in Associates	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial Investments	13.7	14.9	17.5	17.2	22.3	28.6	36.6	46.9	60.0
Total Assets	**21.2**	**23.0**	**24.6**	**27.1**	**31.7**	**40.2**	**51.1**	**65.2**	**83.3**
				Liabilities					
Insurance contract liabilities	14.9	16.3	17.4	19.2	22.7	29.5	38.3	49.8	64.8
Amounts payable under deposit administration contracts	1.4	1.5	1.6	1.4	2.1	2.7	3.5	4.5	5.9
Total Liabilities	**17.8**	**19.3**	**20.8**	**22.8**	**26.9**	**34.3**	**44.0**	**56.5**	**72.8**
Total Capital and Reserves	**3.3**	**3.7**	**3.8**	**4.2**	**4.8**	**5.8**	**7.1**	**8.6**	**10.4**

Source – Company Financials

Key Metrics

Pan Africa Insurance Holdings is overvalued with an intrinsic value of Kshs. 61.9

Cost of Equity Assumptions:	
Risk free rate	12.1%
Beta	0.9
Mature Market Risk Premium	6.0%
Extra Risk Premium	0.0%
Cost of Equity	17.5%

Terminal Assumptions:	
Growth rate	5.0%
Mature Company Beta	1.0
Terminal Cost of Equity	18.1%
Return on Average Equity	20.4%
Justified Price to Book value per share	1.2x

Terminal Price (2019)	12.2
BV(2019)	10.4
Terminal Residual CF (a)	1.7

Residual Income	31-Dec-15	31-Dec-16	31-Dec-17	31-Dec-18	31-Dec-19
Beginning book value of equity	3.8	4.8	5.8	7.1	8.6
Cost of equity	17.5%	17.5%	17.5%	17.5%	17.5%
Equity cost	0.7	0.8	1.0	1.2	1.5
Net Income	0.8	1.0	1.3	1.5	1.8
Equity cost	0.7	0.8	1.0	1.2	1.5
Residual Income	**0.1**	**0.2**	**0.3**	**0.3**	**0.3**
Terminal Value					**1.8**
Time	0.2	1.2	2.2	3.2	4.2
Discount Factor	1.0	0.8	0.7	0.6	0.5
Present value	**0.1**	**0.2**	**0.2**	**0.2**	**1.0**

Book Value of equity	4.3
PV of equity excess return	1.7
Value of equity	6.0
Number of shares	0.1
Value per share	**61.9**
Current Price per share	64.0
Upside/(Downside)	**(3.2%)**

V. Jubilee Insurance

Company Description

Jubilee Insurance has the largest market share in Kenya

Company Description

- Jubilee Insurance is a wholly owned subsidiary of Jubilee Holdings Limited, a multinational insurance holding company, which maintains its headquarters in Nairobi, Kenya and has subsidiaries in Kenya, Tanzania, Uganda, Mauritius and Burundi
- Jubilee Insurance offers both General and Life insurance policies in all countries it operates. Its main growth driver has been life assurance
- Jubilee Insurance company of Kenya was ranked first in market share with 11.9%

No.	Shareholders	%
1.	Aga Khan Fund for Economic Development	37.98
2.	Pyrus Investments Limited	9.47
3.	United Housing Estates Limited	1.81
4.	Adam's Brown and Company Limited	1.79
5.	Freight Forwarders Kenya Limited	1.75
6.	Pulin Mahendrakumar	0.53
7.	Gulshan Sayani	0.50
8.	Ariff Aziz Shamji& Farah Ukani	0.49
9.	Gulzar Somji	0.35
10.	Others	45.33
	Total	**100**

Pros

- The continued usage of bancassurance where it has written the second highest amount of premiums at Kshs 1 bn
- Increased regional expansion including its recent partnership with state owned Sonas of DRC
- Strategic partnerships with Micro-insurance company CITADEL micro insurer aimed at increasing insurance penetration in Kenya

Cons

- Expensive costs of doing business characterized by high combined ratios that exceed 100%
- Pricing and undercutting risk. With increased competition, particularly in the short term business, growth in the premiums is expected to slow down
- Slow uptake of insurance in the Kenyan and regional markets, driven by low education levels and high premium rates

Source – Annual Reports

Financial Statements Extracts

Jubilee Insurance has a high PAT growth with a CAGR of 22%

Income Statement	FY13	FY14	FY15	FY16	FY17	FY18	FY19
Gross Premium Income	18.1	24.8	30.4	37.2	45.6	55.8	68.4
Premium Ceded to reinsurers	(7.3)	(8.5)	(10.9)	(13.4)	(16.4)	(20.1)	(24.6)
Net Premium Income	**10.8**	**16.3**	**19.4**	**23.8**	**29.2**	**35.7**	**43.8**
Fee and Commission income	1.7	2.0	2.3	2.8	3.4	4.2	5.1
Investment Income	3.7	4.8	5.9	6.7	7.6	8.7	9.9
Total Other Revenue	**7.3**	**8.0**	**8.2**	**9.5**	**11.0**	**12.9**	**15.0**
Total Revenue	**18.0**	**24.4**	**27.7**	**33.3**	**40.2**	**48.6**	**58.8**
Gross Benefits and claims paid	(16.6)	(20.5)	(24.3)	(28.8)	(34.2)	(40.5)	(47.9)
Net Benefits and claims	**(11.0)**	**(15.9)**	**(17.0)**	**(20.2)**	**(23.9)**	**(28.3)**	**(33.5)**
Operating and other expenses	(2.5)	(3.1)	(4.2)	(5.1)	(6.3)	(7.7)	(9.4)
Fee and Commission Expense	(2.3)	(2.9)	(3.8)	(4.6)	(5.7)	(7.0)	(8.5)
PBT	**2.2**	**2.5**	**2.7**	**3.4**	**4.3**	**5.6**	**7.3**
Income Tax expense	(0.6)	(0.8)	(1.4)	(1.8)	(2.3)	(2.8)	(3.5)
PAT	**2.5**	**3.1**	**3.3**	**4.2**	**5.3**	**6.6**	**8.2**
% change in PAT		**24.0%**	**4.8%**	**27.6%**	**26.7%**	**25.6%**	**24.4%**

Balance Sheet	FY13	H114	FY14	H115	FY15	FY16	FY17	FY18	FY19
Assets									
Property and equipment	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Investment properties	4.4	4.5	5.1	5.1	5.7	6.4	7.1	8.0	8.9
Investment in Associates	6.5	6.6	7.7	8.1	10.2	12.9	16.3	20.6	26.1
Financial Investments	29.5	32.0	35.8	38.1	41.9	46.1	50.8	55.8	61.4
Total Assets	**61.2**	**68.9**	**74.5**	**81.0**	**105.1**	**109.6**	**129.4**	**153.3**	**182.1**
Liabilities									
Insurance contract liabilities	15.1	16.9	19.6	20.7	23.8	27.4	31.5	36.3	41.7
Payable under deposit administration	21.0	24.8	26.9	29.1	34.9	41.9	50.3	60.3	72.4
Total Liabilities	**47.8**	**56.2**	**58.0**	**63.8**	**86.6**	**87.5**	**102.8**	**121.1**	**142.8**
Total equity	**13.3**	**12.7**	**16.5**	**17.2**	**18.6**	**22.1**	**26.6**	**32.3**	**39.3**

Source – Company Financials

Cytonn INVESTMENTS

Valuation Summary

Jubilee Insurance Holdings has a upside of 3.6%

Cost of Equity Assumptions:	
Risk free rate*	12.1%
Beta	0.7
Country Risk Premium	6.0%
Extra Risk Premium	0.5%
Cost of Equity	16.8%

Terminal Assumptions:	
Growth rate	5%
Mature Company Beta	1.0
Terminal Cost of Equity	18.6%
Return on Average Equity	23.0%
Justified Terminal Price	51.9
BV (2019)	39.3
Terminal Residual Cash flow	12.6

Residual Income	31-Dec-15	31-Dec-16	31-Dec-17	31-Dec-18	31-Dec-19
Beginning book value of equity	16.5	18.6	22.1	26.6	32.3
Cost of equity	16.8%	16.8%	16.8%	16.8%	16.8%
Equity cost	2.8	3.1	3.7	4.5	5.4
Net Income	3.3	4.2	5.3	6.6	8.2
Equity cost	2.8	3.1	3.7	4.5	5.4
Residual Income	**0.5**	**1.0**	**1.5**	**2.1**	**2.8**
Terminal Value					**12.6**
Time	0.2	1.2	2.2	3.2	4.2
Discount Factor	1.0	0.8	0.7	0.6	0.5
Present value	**0.5**	**0.9**	**1.1**	**1.3**	**8.0**

Book Value of equity	16.5
PV of equity excess return	11.8
Value of equity	28.3
Number of shares	0.1
Value per share	**428.9**
Current Price per share	414.0
Upside/(Downside)	**3.6%**

* Five years average yields on a 10 year Treasury bond

Cytonn INVESTMENTS

VI. Kenya Reinsurance

Company Description

Kenya Reinsurance is the only listed Reinsurer in Kenya

Company Description

- Kenya Re-insurance Corporation was formed in December 1970 under the State Reinsurance Corporation Act and listed on the NSE in August 2007
- It offers a full range of reinsurance services, including short term and long term products to insurance companies in 45 countries spread across Africa, the Middle East and Asia
- Kenya Reinsurance is the second largest reinsurance company in Kenya by premiums, having 34.7% of the market, and only trailing Africa Reinsurance which leads at 37.2%

No.	Shareholders	%
1.	Cabinet Secretary to the National Treasury of Kenya	60.00
2.	CfC Stanbic Nominees Ltd A/C NR 1030624	1.64
3.	National Social Security Fund	1.53
4.	CfC Stanbic Nominnees /C 1030685	1.49
5.	Cooperative Bank Custody A/C 4003A	1.32
6.	NIC custodial services	1.19
7.	Standard Chartered Nominees Ltd 9389	1.11
8.	Rakash Prakash Gadani	1.09
9.	Others	30.63
	Total	**100**

Pros

- Kenya Re is Retakaful Compliant. This is the Islamic insurance that is an alternative for conventional insurance. It has enabled Kenya Re to capture the Muslim segment of the market. Takaful Insurance of Africa
- Mandatory cessation as per government regulations ensures Kenya Re has regular premium flows
- Proactive approach in building industry capacity. By building local capacity in the industry, Kenya Re is ensuring that insurance for the oil and gas sector can be handled by local firms instead of international insurance companies

Cons

- Kenya Re management is politically elected as this may affect the overall performance of the management
- Insurance companies heavily reinsuring the insurance business lines with the highest risks, thus increasing the amounts Kenya Reinsurance has to pay out as claims

Source – Annual Reports

Financial Statements Extracts

Kenya Reinsurance has a high net premium growth with a CAGR of 20%

Income Statement	FY13	FY14	FY15	FY16	FY17	FY18	FY19
Gross Premium Income	9.6	11.6	13.8	16.6	19.9	23.9	28.6
Premium Ceded to reinsurers	(1.1)	(1.3)	(1.5)	(1.8)	(2.1)	(2.5)	(3.0)
Net Premium Income	**8.6**	**10.3**	**12.4**	**14.8**	**17.8**	**21.3**	**25.6**
Investment Income	2.3	2.6	3.1	3.4	3.8	4.2	4.7
Total Other Revenue	**3.1**	**2.6**	**3.1**	**3.4**	**3.9**	**4.3**	**4.8**
Total Revenue	**11.7**	**12.9**	**15.5**	**18.3**	**21.7**	**25.7**	**30.4**
Gross Benefits and claims paid	(5.2)	(6.4)	(7.0)	(8.4)	(10.1)	(12.2)	(14.6)
Net Benefits and claims	**(4.7)**	**(6.0)**	**(6.5)**	**(7.8)**	**(9.4)**	**(11.2)**	**(13.5)**
Operating and other expenses	(1.2)	(1.1)	(1.5)	(1.7)	(2.1)	(2.5)	(3.0)
Fee and Commission Expense	(2.5)	(3.0)	(3.1)	(3.6)	(4.2)	(5.0)	(5.8)
PBT	**3.3**	**3.9**	**4.5**	**5.2**	**6.0**	**7.0**	**8.1**
Income Tax expense	(0.5)	(0.8)	(1.3)	(1.6)	(1.8)	(2.1)	(2.4)
PAT	**2.8**	**3.1**	**3.1**	**3.6**	**4.2**	**4.9**	**5.7**
% change in PAT		**12.3%**	**(0.3%)**	**15.7%**	**15.7%**	**16.8%**	**16.6%**

Balance Sheet	FY13	H114	FY14	H115	FY15	FY16	FY17	FY18	FY19
Assets									
Property and equipment	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Investment properties	6.5	6.5	7.2	7.2	8.0	8.9	9.9	11.0	12.2
Investment in Associates	1.7	1.7	2.0	2.0	2.4	3.0	3.6	4.4	5.3
Financial Investments	11.6	11.5	12.3	12.9	14.1	15.4	16.9	18.5	20.3
Total Assets	**27.6**	**30.6**	**32.2**	**34.2**	**37.9**	**41.8**	**47.4**	**54.1**	**61.8**
Liabilities									
Long term reinsurance contract liabilities	2.1	2.1	2.1	2.1	2.1	2.2	2.2	2.2	2.3
Short term reinsurance contract liabilities	3.7	3.7	4.5	4.6	5.2	5.9	6.8	7.7	8.8
Total Liabilities	**10.6**	**11.1**	**12.2**	**12.8**	**15.4**	**16.2**	**18.3**	**20.9**	**23.8**
Total Equity	**17.0**	**18.7**	**20.0**	**21.4**	**22.5**	**25.6**	**29.1**	**33.2**	**38.0**

Source – Company Financials

Cytonn INVESTMENTS

Valuation Summary

Kenya Reinsurance is undervalued with a potential upside of 17.8%

Cost of Equity Assumptions:	
Risk free rate*	12.1%
Beta	0.9
Country Risk Premium	6.0%
Extra Risk Premium	0.3%
Cost of Equity	17.5%

Terminal Assumptions:	
Growth rate	5%
Mature Company Beta	1.0
Terminal Cost of Equity	18.4%
Return on Average Equity	17.0%
Justified Terminal Price	33.9
BV (2019)	38.0
Terminal Residual Cash flow	(4.1)

Residual Income	31-Dec-15	31-Dec-16	31-Dec-17	31-Dec-18	31-Dec-19
Beginning book value of equity	20.0	22.5	25.6	29.1	33.2
Cost of equity	17.5%	17.5%	17.5%	17.5%	17.5%
Equity cost	3.5	3.9	4.5	5.1	5.8
Net Income	3.1	3.6	4.2	4.9	5.7
Equity cost	3.5	3.9	4.5	5.1	5.8
Residual Income	**(0.4)**	**(0.3)**	**(0.3)**	**(0.2)**	**(0.1)**
Terminal Value					**(4.1)**
Time	0.2	1.2	2.2	3.2	4.2
Discount Factor	1.0	0.8	0.7	0.6	0.5
Present value	**(0.4)**	**(0.3)**	**(0.2)**	**(0.1)**	**(2.2)**

Book Value of equity	20.0
PV of equity excess return	(3.1)
Value of equity	16.9
Number of shares	0.70
Value per share	**24.2**
Current Price per share	20.5
Upside/(Downside)	**16.4%**

* Five years average yields on a 10 year Treasury bond

Cytonn INVESTMENTS

Q&A