

**Valuation Summary**

- We are of the view that the Jubilee Holdings stock is a “**Hold**” with an upside of 6.7% with a target price of Kshs 490.5, inclusive of a dividend yield of 1.9%, against a current price of Kshs 468.0, as at 1<sup>st</sup> September, 2017,
- Jubilee is currently trading at a P/TBV of 1.5x and a P/E of 8.3x, compared to an industry average of 1.4x and 9.7x, respectively,

**Key Highlights – H1'2017**

- Jubilee Holdings collaborated with private and public institutions for medical initiatives set to impact needy children and young adults. In conjunction with the Kenya Society for the Blind they will facilitate corrective surgery, free eye screening, medication and spectacles to children, with visual impairment, in public schools
- Jubilee Holdings established its footprint in the Democratic Republic of Congo (DRC) through partnership with Sona, a state owned insurance company to provide medical insurance products. Management highlighted that this move was in a bid to tap into a non-competitive insurance market in the DRC that has exposed the citizens to expensive and overpriced policies by providing innovative and affordable insurance solutions

**Income Statement**

- Core earnings per share (EPS) increased by 23.2% coming in at Kshs 26.1, from Kshs 21.2 in H1'2016, attributed to a 30.1% growth in total income to Kshs 14.9 bn from Kshs 11.4 bn in H1'2016 despite a 31.0% growth in total expenses and commissions to Kshs 13.1 bn from Kshs 10.0 in H1'2016. The increased profitability is attributable to growth in other comprehensive income to Kshs 0.3 bn from Kshs (0.4) bn in H1'2016,
- The 30.1% rise in total income was driven by a 14.5% growth in gross earned premium to Kshs 15.6 bn from Kshs 13.6 bn in H1'2016 and a 7.3% increase in commissions earned to Kshs 1.1 bn from Kshs 0.9 bn in H1'2016,
- Investment income declined marginally by 1.6% to Kshs 3.4 bn from Kshs 3.5 bn in H1'2016, while investment in equities returned fair value gains amounting to Kshs 1.3 bn compared to a loss of Kshs 0.4 mn in H1'2016, driven by the stock price rally at the Nairobi Securities Exchange (NSE),
- The 31.0% growth in total expenses is attributable to a 38.7% rise in net insurance benefits and claims to Kshs 10.4 bn from Kshs 7.5 bn in H1'2016,
- The loss ratio worsened to 101.8 from 89.6%, while the expense ratio worsened to 50.4% from 42.9% in H1'2016, owing to a faster increase in operating expenses as compared to net premiums. The combined ratio thus worsened to 139.1% from 132.5%,
- Profit before tax (PBT) increased by 18.6% to Kshs 2.3 bn from Kshs 2.0 bn in H1'2016, while profit after tax (PAT) improved by 18.9% to Kshs 1.9 bn from Kshs 1.6 bn in H1'2016,
- The Board of Directors recommended the payment of an interim dividend of Kshs 1.0 per share, the same recommended over the same period last year. The dividend translates into a projected full year dividend of Kshs 7.5 and dividend yield of 1.6%, at the current price of Kshs 468.0, as at 1<sup>st</sup> September 2017.

**Balance Sheet:**

- Total assets grew by 11.6% to Kshs 101.1 bn from Kshs 90.6 bn in H1'2016, driven by an 8.3% growth in investment assets to Kshs 27.4 bn from Kshs 25.3 bn in H1'2016, and a 9.3% rise in government securities investments to Kshs 43.2 bn from Kshs 40.0 bn in H1'2016,
- Total liabilities grew by 11.6% to Kshs 77.1 bn, from Kshs 69.1 bn in H1'2016, driven by a 25.0% rise in insurance contract liabilities to Kshs 23.4 bn, from Kshs 18.7 bn in H1'2016 and a 14.7% growth in payables under deposit administration contracts to Kshs 38.0 bn from Kshs 33.2 bn in H1'2016,

- Shareholders' funds grew by 11.9% to Kshs 24.0 bn, from Kshs 21.4 bn in H1'2016, better than our expectations of a 5.4% growth,
- Jubilee Holdings currently has a return on average assets of 4.5% and a return on average equity of 18.2%, compared to 3.8% and 16.8%, respectively, recorded in H1'2016, against an industry average of 3.3% and 10.9% in H1'2017 compared to an average of 3.0% and 9.0% in H1'2016, for return on average assets and return on average equity, respectively.

### Key Take Outs:

- In a bid to adhere to best practices of corporate governance, Jubilee Holdings rotated their auditors shifting from KPMG to PWC, after KPMG served for 6 years,
- Going forward, Jubilee's growth will be driven by: (i) new and growing market segments such as provision of maritime insurance, (ii) continued product development, pricing efficiency and adaptability to the evolving market trends, and (iii) expansion into new regions that will drive growth, e.g. DRC,
- Challenges the group is likely to face include: (i) slow uptake of insurance in the Kenyan and regional markets, largely attributed high premium rates, (ii) high combined ratios meaning currently their insurance business is not profitable, and (iii) a large increase in net claims and benefits with the insurer having a high exposure to motor and medical classes, which are the highest loss ratio segments,

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	H1'201717E	Projected y/y change	Variance in growth vs projection
Investment Assets	65.3	70.6	8.1%	66.9	2.4%	5.7%
Total Assets	74.5	101.1	35.7%	89.1	19.6%	16.1%
Total Liabilities	58.0	77.1	32.9%	66.7	14.9%	18.1%
<b>Shareholders' Funds</b>	<b>16.5</b>	<b>24.0</b>	<b>45.5%</b>	<b>22.6</b>	<b>37.0%</b>	<b>8.4%</b>

Income Statement	H1'2016	H1'2017	y/y change	H1'201717e	Projected y/y change	Variance in growth vs projection
Gross earned premiums	13.6	15.6	14.5%	14.8	8.5%	6.0%
Net earned premiums	8.4	10.2	22.0%	8.9	6.2%	15.8%
Investment Income	3.1	3.4	10.0%	3.7	19.3%	(9.2%)
Total income	12.4	16.0	28.3%	13.4	8.0%	20.2%
Net claims and benefits	7.5	10.4	38.7%	8.4	12.6%	26.1%
Total expenses	11.1	14.2	28.1%	12.3	11.0%	17.1%
Profit before tax	2.0	2.4	19.3%	1.8	(11.3%)	30.6%
<b>Profit after tax</b>	<b>1.6</b>	<b>1.9</b>	<b>18.9%</b>	<b>1.4</b>	<b>(13.5%)</b>	<b>32.4%</b>
<b>Core EPS</b>	<b>21.2</b>	<b>26.1</b>	<b>23.2%</b>	<b>22.8</b>	<b>7.8%</b>	<b>15.4%</b>

Ratios	H1'2016	H1'2017
Loss Ratio	89.6%	110.0%
Expense Ratio	42.9%	50.4%
Combined Ratio	132.5%	160.4%
ROaE	16.8%	18.2%
ROaA	3.8%	4.5%

