

Valuation Summary

- We recommend a “SELL” for the Kenya Re stock with a downside of 8.5%, inclusive of a dividend yield of 3.7%, and a fair value of Kshs 18.7 per share against a current price of Kshs 21.5 per share,
- Kenya Re is currently trading at a price to book value of 0.6x, compared to the insurance industry average of 1.2x.

Key Highlights – H1'2017

- The Global Credit Ratings (GCR) agency affirmed Kenya Re’s national and international scale ratings at AA and BB, respectively, on ability to pay claims, with the outlook accorded as stable and negative, respectively,

Income Statement

- Earnings per share rose by 4.0% to Kshs 2.3 from Kshs 2.2 in H1'2016, driven by total revenue that grew by 7.1% to Kshs 8.8 bn from Kshs 8.2 bn in H1'2016, despite being outpaced by the growth in total expense, which grew by 8.3% to Kshs 6.5 bn from Kshs 6.0 bn in H1'2016,
- Total revenue grew by 7.1% to Kshs 8.8 bn from Kshs 8.2 bn, attributed to a 9.5% growth in net earned premiums to Kshs 7.1 bn from Kshs 6.5 bn, despite a 2.9% decline in Investment income, that came in at Kshs 1.67 bn from Kshs 1.72 bn in H1'2016,
- Gross written premiums rose by 5.8% to Kshs 7.5 bn from Kshs 7.1 bn, mainly attributed to a 6.5% growth in gross written premium from the short-term business to Kshs 6.7 bn from Kshs 6.3 bn in H1'2016. Retention ratio declined to 94.5% from 96.6% in H1'2016,
- Investment income declined by 2.9% to Kshs 1.67 bn from Kshs 1.72 bn, with investment income from the short-term business growing by 5.6% to Kshs 1.5 bn from Kshs 1.4 bn, while that from the long-term business declined by 44.2% to Kshs 0.2 bn from Kshs 0.3 bn in H1'2016,
- Total expenses increased by 8.3% to Kshs 6.5 bn from Kshs 6.0 bn, attributed to a 25.3% increase in operating and other expenses to Kshs 0.7 bn from Kshs 0.6 bn, as well as a 1.6% growth in net claims and benefits to Kshs 3.6 bn from Kshs 3.5 bn in H1'2016,
- The loss ratio improved to 51.0% from 54.9% due to the 9.5% growth in net earned premiums, to Kshs 7.1 bn from Kshs 6.5 bn, which outpaced gross benefits and claims that grew at 1.7% to Kshs 3.62 bn from Kshs 3.56 bn in H1'2016. The combined ratio improved to 92.0% from 92.9% in H1'2016,
- Profit before tax (PBT) rose by 3.7% to Kshs 2.3 bn from Kshs 2.2 bn, while profit after tax (PAT) rose by the same rate, to Kshs 1.62 bn from Kshs 1.56 bn. The effective tax rate remained unchanged at 29.3%.

Balance Sheet:

- Total assets grew by 7.2% to Kshs 40.7 bn from Kshs 38.0 bn in H1'2016, driven by a 10.7% growth in receivables arising from re-insurance arrangements to Kshs 4.6 bn from Kshs 4.2 bn and a 10.8% increase in Investment Property to Kshs 8.9 bn from Kshs 8.1 bn in H1'2016,
- Total liabilities grew by 0.5% to Kshs 14.83 bn from Kshs 14.75 bn in H1'2016, driven by a 6.6% rise in short-term reinsurance contract liabilities to Kshs 5.6 bn from Kshs 5.2 bn in H1'2016. Shareholders’ funds grew by 11.4% to Kshs 25.9 bn from Kshs 23.3 bn in H1'2016,
- Kenya Re currently has a return on assets of 8.5% and a return on equity of 13.6%, compared to 10.0% and 16.2%, respectively, in H1'2016.

Key Take Outs:

- Kenya Re performed better than our expectations, recording improved profitability, largely attributed to the short-term business that recorded an 8.4% growth in PAT to Kshs 1.4 bn from Kshs 1.3 bn in H1'2016, despite the dismal performance of the long-term business that recorded a 20.1% decline in PAT to Kshs 0.20 bn from Kshs 0.26 bn in H1'2016,

- Investment income declined by 2.9%, with the long-term business declining by 44.2%, despite the short-term business registering a 5.6% increase, which was worse than our expectation of an 11.8% increase. Kenya Re should work on improving this line of income to boost growth in total income,
- Going forward, Kenya Re's growth is largely pegged on the performance of the short-term business given the short-term/long-term profit mix of 89:11, and hence for future EPS growth, Kenya-Re needs to look into ways to improve the short-term business profitability.

Below is a summary of the key line items in the balance sheet and income statement.

Figures in Kshs bn unless otherwise stated

Balance Sheet	H1'2016	H1'2017	y/y change	H1'2017e	Projected y/y change	Variance in growth vs projection
Investment Assets	27.3	29.2	7.0%	31.7	15.9%	(8.8%)
Total Assets	38.0	40.7	7.2%	40.9	7.6%	(0.4%)
Total Liabilities	14.8	14.8	0.5%	15.2	3.3%	(2.8%)
Shareholders' Funds	23.3	25.9	11.4%	25.6	10.3%	1.1%

Income Statement	H1'2016	H1'2017	y/y change	H1'2017e	Projected y/y change	Variance in growth vs projection
Gross written premiums	7.1	7.5	5.8%	7.4	4.0%	1.8%
Net earned premiums	6.5	7.1	9.5%	7.1	9.4%	0.1%
Investment Income	1.7	1.7	(2.9%)	1.9	11.8%	(14.7%)
Total income	8.2	8.8	7.1%	9.0	9.8%	(2.8%)
Net claims and benefits	3.5	3.6	1.6%	3.9	10.1%	(8.5%)
Total expenses	6.0	6.5	8.3%	6.9	14.6%	(6.3%)
Profit before tax	2.2	2.3	3.7%	2.1	(3.2%)	6.9%
Profit after tax	1.6	1.6	3.7%	1.5	(3.2%)	6.9%
Core EPS	2.2	2.3	3.7%	2.2	(3.2%)	6.9%

Ratios	H1'2016	H1'2017
Loss Ratio	54.9%	51.0%
Expense Ratio	38.0%	41.0%
Combined Ratio	92.9%	92.0%
ROaE	16.2%	13.6%
ROaA	10.0%	8.5%