

**Valuation Summary**

- We are of the view that the Sanlam stock is a “**Sell**” with a target price of Kshs 21.1 representing a downside of 26.7%, from the current price of Kshs 28.8, as at 1<sup>st</sup> September, 2017,
- Sanlam Insurance is currently trading at a price to tangible book value of 1.2x and a P/E of 5.3x compared to the insurance industry average of 1.4x and 9.7x, respectively.

**Income Statement**

- Core Earnings per Share (EPS) increased to Kshs 0.6 from Kshs (0.9) in H1'2016, against our expectations of an EPS growth to Kshs 0.1. The increase in EPS is attributed to an 18.8% increase in total income to Kshs 4.3 bn from Kshs 3.6 bn in H1'2016, despite a 10.2% increase in total expenses to Kshs 4.1 bn from Kshs 3.8 bn,
- The 18.8% rise in total revenue was driven by a 27.4% growth in gross earned premium to Kshs 3.4 bn from Kshs 2.6 bn in H1'2016
- Gross earned premiums rose by 27.4% to Kshs 3.4 bn from Kshs 2.6 bn mainly attributed to strong growth in the general insurance business with significant gains recorded in corporate client engagement. Gross written premiums in the general business grew by 225.0% to Kshs 1.3 bn from Kshs 0.4 bn in H1'2016,
- Investment income declined by 3.6% to Kshs 1.20 bn from Kshs 1.25 bn, mainly attributable to a 19.3% increase in expenses in their investments arm to Kshs 57.9 bn from Kshs 48.5 bn in H1'2016. Investment income currently accounts for 28.1% of the total income, compared to 34.6% in H1'2016,
- Total expenses grew by 10.2% to Kshs 4.1 bn from Kshs 3.8 bn attributed to an increase in claims and policyholders' benefits expense by 5.0% to Kshs 2.8 bn from Kshs 2.6 bn, and a 33.2% increase in operating and other expenses to Kshs 1.0 bn from Kshs 0.7 bn,
- The faster growth in net premiums as compared to claims resulted in the loss ratio improving to 101.0% from 107.4%, while the expense ratio increased to 51.1% from 46.8%. The combined ratio therefore increased to 135.0% from 124.1% in H1'2016,
- Profit before tax (PBT) increased to Kshs 0.2 bn from a loss before tax of Kshs 0.1 bn, while profit after tax (PAT) increased to Kshs 0.1 bn from a loss after tax of Kshs 0.1 bn in H1'2016,
- The Board of directors did not recommend payment of an interim dividend, same as in H1'2016.

**Balance Sheet**

- Total assets grew by 6.5% to Kshs 29.8 bn from Kshs 28.0 bn in H1'2016, driven by a 4.1% growth in investment assets to Kshs 22.6 bn from Kshs 21.7 bn in H1'2016 and a 11.9% increase in government securities to Kshs 9.4 bn from Kshs 8.4 bn in H1'2016,
- Total liabilities grew by 6.0% to Kshs 25.8 bn from Kshs 24.3 bn in H1'2016 driven by a 9.3% rise in insurance contract liabilities to Kshs 13.2 bn from Kshs 12.1 bn in H1'2016,
- Shareholders' funds grew by 9.5% to Kshs 4.0 bn from Kshs 3.7 bn in H1'2016, lower than our expectation of 10.4% growth,
- Sanlam currently has a return on average assets of 0.3% and a return on average equity of 2.4% compared to (0.5%) and (3.3%) 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**

- Sanlam Kenya's performance exceeded our expectations, recording an increase in core earnings per share (EPS) to Kshs 0.6, against our projected EPS growth to Kshs 0.1. This is partly attributed to strong growth in the general business that recorded a 225% y/y growth in gross premiums to Kshs 1.3 bn from Kshs 0.4 bn
- Going forward, Sanlam Kenya's growth is likely to be driven by the general insurance unit and continued implementation of its 5-year growth strategy headlined by restructuring of the rest of the business to grow the non-premium income, which now contributes 36.6% to total income. The continued integration of the Sanlam

Emerging Markets asset management business in the region is expected to be concluded within the year.

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	HY'16A	HY'17A	y/y change	HY'17E	Projected y/y change	Variance in growth vs projection
Investment Property	2.9	3.1	3.5%	3.1	5.0%	(1.5%)
Total Assets	28.0	29.8	6.5%	30.8	10.1%	(3.6%)
Total liabilities	24.3	25.8	6.0%	26.9	10.5%	(4.4%)
<b>Shareholders' Funds</b>	<b>3.6</b>	<b>3.8</b>	<b>8.0%</b>	<b>3.9</b>	<b>10.4%</b>	<b>(2.4%)</b>

Income Statement	HY'16A	HY'17A	y/y change	HY'17E	Projected y/y change	Variance in growth vs projection
Gross earned premiums	2.6	3.4	27.4%	2.7	2.0%	25.4%
Net earned premiums	2.4	2.7	11.7%	2.5	1.6%	10.2%
Investment Income	1.3	1.2	(3.6%)	1.4	14.4%	(18.0%)
<b>Total income</b>	<b>1.2</b>	<b>1.6</b>	<b>33.3%</b>	<b>1.5</b>	<b>25.6%</b>	<b>7.7%</b>
Net claims and policyholder benefits	(2.6)	(2.8)	5.0%	(2.7)	3.6%	1.4%
Total expenses	(3.8)	(4.1)	10.2%	(5.2)	37.1%	(26.9%)
<b>Profit before tax</b>	<b>(0.1)</b>	<b>0.2</b>	<b>N/A</b>	<b>0.02</b>	<b>N/A</b>	<b>N/A</b>
<b>Profit after tax</b>	<b>(0.13)</b>	<b>0.09</b>	<b>N/A</b>	<b>0.01</b>	<b>N/A</b>	<b>N/A</b>
<b>EPS</b>	<b>(0.9)</b>	<b>0.6</b>	<b>N/A</b>	<b>0.1</b>	<b>N/A</b>	<b>N/A</b>

Ratios	HY'16A	HY'17A	HY'17E
Loss Ratio	77.3%	83.9%	81.0%
Combined Ratio	124.1%	135.0%	130.3%
ROaE	(3.3%)	2.4%	0.4%
ROaA	(0.5%)	0.3%	0.0%