October - 2018

Jubilee Holdings Ltd—Initiation of coverage

"Good to Great"

Recommendation: BUY

We initiate coverage on Jubilee Holdings with a **BUY** recommendation based on a **fair value of KES 530.00.** This represents a **16.7% upside based on the current price of KES 454.00.** Our recommendation is informed by Jubilee's sustained top line growth, unlevered cash flows backing investment diversification and a positive net earnings growth trajectory. Jubilee is aggressively tapping into micro insurance to give impetus to its top line growth as focus shifts from the corporate business to Kenya's low-income and largely under-insured population. Similarly, technological investments will aid in remodelling the insurer's distribution channels, enhancing product penetration. The current low price following the bear run at the bourse also presents an alluring entry point with potential upside for capital gains in the short to medium term.

Jubilee's net earned revenues are expected to dip marginally in FY18F as the effects of the long electioneering period in FY17 ripple into the current year. We, however, estimate an impressive 4-year CAGR of 15.7% in investment income which should bolster its top-line. Management's efforts in curbing insurance fraud are expected to pay off highlighted by declining claims in the forecast period.

Positives

- Largest insurer in East Africa with a wide regional presence
- Innovation and technology to drive corporate and retail business and increase insurance penetration. The adoption of technology is anticipated to improve distribution of insurance products.
- Heightened focus on micro-insurance aimed at growing its client base and increasing market share.
- Unlevered and cash rich gives it muscle to fund new investment ventures.

Challenges

- Low insurance penetration in Kenya and the East African region.
- Saturated concentration by market players on the already insured market segment leading to price undercutting.

Multiples table	2016A	2017A	2018F	2019F	2020F	2021F
Expense + Commission Ratio (%)	43.3	39.8	42.2	43.4	44.6	46.0
Loss Ratio (general) (%)	67.0	61.7	66.4	69.4	69.0	69.0
Combined Ratio (%)	110.3	101.6	108.6	112.7	113.6	115.0
Insurance margin (%)	20.6	-2.4	17.1	13.2	15.5	15.8
Return on Equity (ROE) (%)	17.2	18.1	20.1	18.7	20.0	20.2
Return on Assets (ROA) (%)	4.1	4.3	5.0	5.0	5.5	5.9
Operating profit margin (%)	14.9	12.7	19.8	20.5	23.8	26.4
Net margin (%)	14.9	13.5	19.8	20.5	23.8	26.4

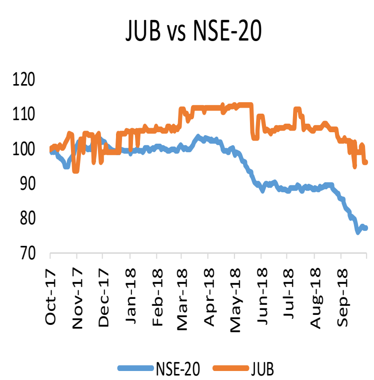
Source: Company fillings, ApexAfrica Research

Share Statistics

Bloomberg Ticker	JBIC KN
Reuters Code	JBIC.NR
Fair value	530.00
Current Price (KES)	454.00
Issued shares (M)	72.47
52 week low/high (KES)	400.00/535.00
Market cap (KES B)	33.0
Market cap (USD M)	327.5
Free float (%)	54.2
Foreign ownership (%)	55.0
Financial year end	Dec
3-month Av Traded Vol (USD)	11,482

Price Return (%)	JUB	NSE-20
3m	-9.6	-11.9
6m	-13.9	-24.7
12m	-3.9	-22.7

Price Trend



Source: Bloomberg, ApexAfrica Estimates

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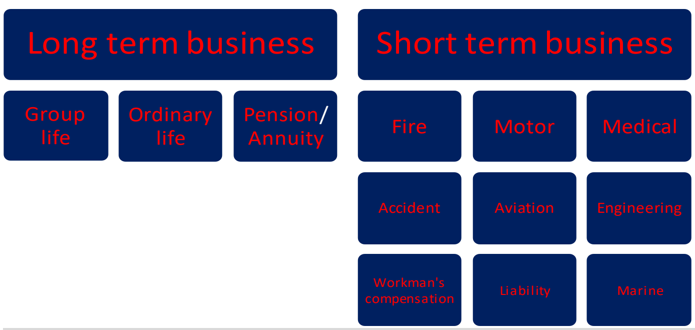
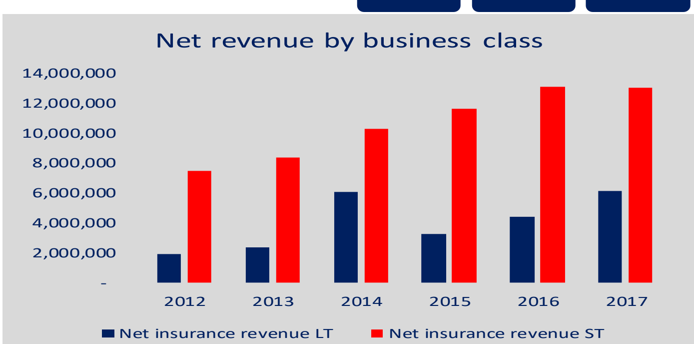
Financial Outlook

Topline to register slow but steady growth

Jubilee Insurance Ltd posted a 5.0% y/y growth in gross earned premiums in FY17 to KES 28.3B, making it the largest insurer in East Africa. Jubilee's insurance business is divided into long term and short term (general) business segments with the latter contributing 75.9% of gross premiums. The long term business which mainly features life products is made up of group life, ordinary life and pension/ annuities. On the other hand, the short term business is comprised of motor, fire, accident, medical, aviation, engineering, workmen's compensation and liability insurance.

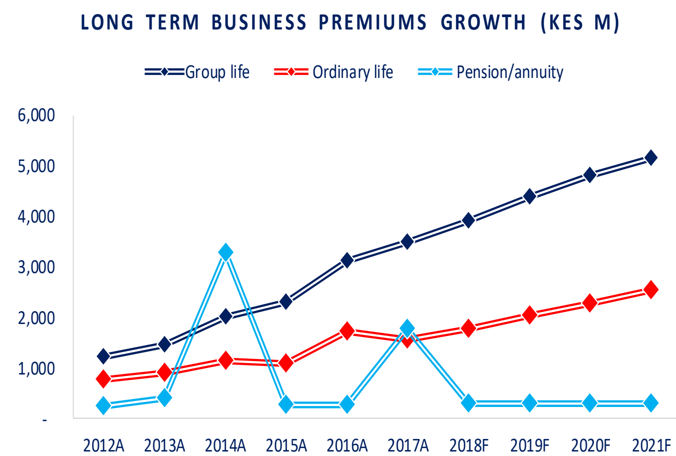




Source: Company filings, Apex Africa Research

Long term business

We project a 4-year CAGR of 1.6% in net earned premiums to KES 20.5B in FY21F. Net earned premiums from long term business are expected to realize a 4-year CAGR of 4.0% to KES 8.0B in FY21F. Anticipated slow growth in the long-term business is informed by the low uptake of life products such as pension and annuities as a result of inflationary pressure on disposable income. Life business contributed 24.1% to gross earned premiums in FY17 with group life and ordinary life premiums standing at KES 3.5B and KES 1.6B respectively. We forecast a normalization of the pension business premium resulting in a 4-year CAGR of -36.7% in pension and annuity premiums to KES 226.3M in FY21F. We however forecast galloping growth in group and ordinary life premiums (4-year CAGR of 11.6%) in light of the industry's intensified efforts to lift consumption of life products. Pension and annuities premiums have remained conservatively low in the past 5 years except for FY17 which saw a 584.6% y/y hike in pension premiums to KES 1.8B which we believe to be a one-off surge as witnessed in FY14.



Source: Company filings, Apex Africa Research

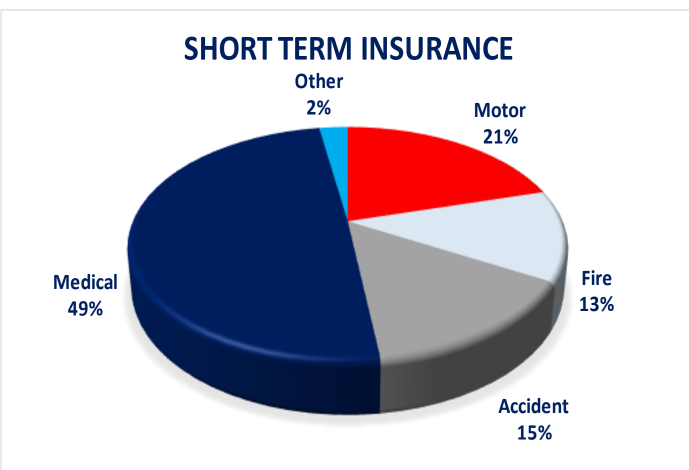
Short term business

According to data from the IRA (1Q18), Jubilee Insurance was the largest general insurer by gross premiums earned, commanding 9.6% market share equivalent to KES 4.2B. Net earned premiums from Jubilee's short term business fell marginally by 1.3% y/y to KES 21.5B in FY17 on the back of a tumultuous FY17 which was characterized by the long drought experienced in 1H17, combined with a slump in economic activity due to heightened political tensions surrounding the repeat general elections. In light of improved agricultural production following the long rains in 1H18, projected calm political temperatures, increased FDI's and a general recovery in economic activity, we forecast a 4-year CAGR of 1.2% to KES 22.5B in FY21F. This growth will be mainly driven by rising medical (4-year CAGR +0.8%) and motor commercial PSV (4-year CAGR +3.2%) premiums which constitute 70.0% of Jubilee's short term business. Marine insurance, which received a great amount of focus from insurance players in the past year grew 8.7% y/y in 1Q18, with plenty of headroom for expansion. The insurer will be keen to capitalize on its 10.32% market share in this business to further propel its topline growth.

General Business Classwisee Gross Premium Income				
	2018 Q1	2017 Q1	2016 Q1	Annual Change (2018/2017)
Class	KES '000	KES '000	KES '000	(%)
Aviation	497,007	496,976	399,143	0.0
Engineering	1,076,551	1,111,150	1,069,186	-3.1
Fire Domestic	567,059	567,121	497,162	-0.0
Fire Industrial	4,119,432	3,844,508	3,818,078	7.2
Liability	966,610	966,096	864,382	0.1
Marine	1,127,989	1,037,377	885,469	8.7
Motor Private	6,449,414	6,100,284	5,896,941	5.7
Motor Commercial	5,647,906	5,705,352	5,611,718	-1.0
Motor Commercial PSV	1,103,051	865,533	1,420,125	27.4
Personal Accident	1,279,257	1,498,569	1,498,618	-14.6
Theft	1,874,785	1,820,249	1,831,529	3.0
Workmens' Compensation	2,326,200	2,231,098	2,109,830	4.3
Medical	15,313,231	14,288,674	11,082,878	7.2
Miscellaneous	959,127	1,026,085	930,876	-6.5
Total	**43,307,618**	**41,559,061**	**37,915,941**	**4.2**

Source: IRA 1Q18 Industry release

Insurance penetration in Kenya has stagnated below 3.0% on the back of a narrow formal market and a low savings ratio to GDP of 5.4%. We opine that a disruption is offing in the insurance sector, despite the apparent lag vis a vis other financial sectors. The disruption is to be driven by product innovation and digitization of distribution channels availing the products to the mass markets whilst aiding product acceptance.

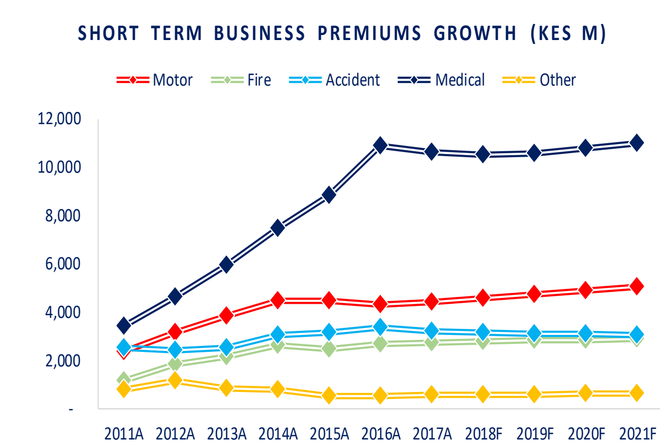


Source: Company filings, Apex Africa Research

Jubilee recently launched 'Imarisha Jamii', a product that will insure policy holders against personal accident, disability and medical. More so, the product which is accessible through the mobile phone targets low income citizens with monthly rates of as low as KES 150 and weekly rates of up to KES 20. Management believes that a critical focus on SME's and the informal sector that is predominantly characterized by the risky nature of their incomes, will play a pivotal role in enhancing insurance penetration in SSA. In order to increase insurance uptake in under-served markets, Jubilee insurance is betting on technology to redefine the insurance landscape in the region with huge capital investments made in cutting-edge technology that will improve processes, tighten controls and help actuaries in risk profiling and pricing. The insurer launched 'Julie'- an AI-powered chatbot (a first in the Kenyan insurance space) which will assist customers with their queries. Jubilee Holdings Regional CEO Julius Kipnge'tich said Julie – is a revolution in the insurance industry in Kenya.

"We want to disrupt the way insurance companies and customers interact. Today's insurance customer wants a quick, easy and personal service. A chat bot automates simple tasks like updating a policy or getting a quote and it'll take pressure off our customer service team and give them more time to handle complex enquiries."

The projected slowed growth in short-term businesses is anticipated to override the faster growth in long-term businesses resulting in a 4-year CAGR of 1.6% in net earned premiums to KES 20.5B in FY21F.



Source: Company filings, Apex Africa Research

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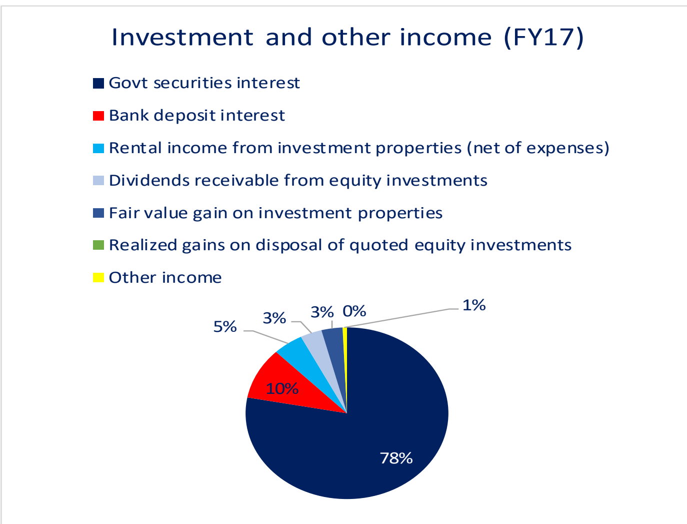
Investment income to bolster topline performance

The emergence of high underwriting losses incurred by players in the Kenyan insurance space raises key concerns over the future of the industry. As a result, insurers rely heavily on investment income to boost their revenues. Jubilee, however, is a clear outlier, highlighted by its ability to churn underwriting profits in most of its business segments. Jubilee's impressive investment income contributes 23.0% to total income, further shoring up its bottom-line. Government securities takes up the biggest chunk of the insurer's investments ensuring a consistent, risk-free return.

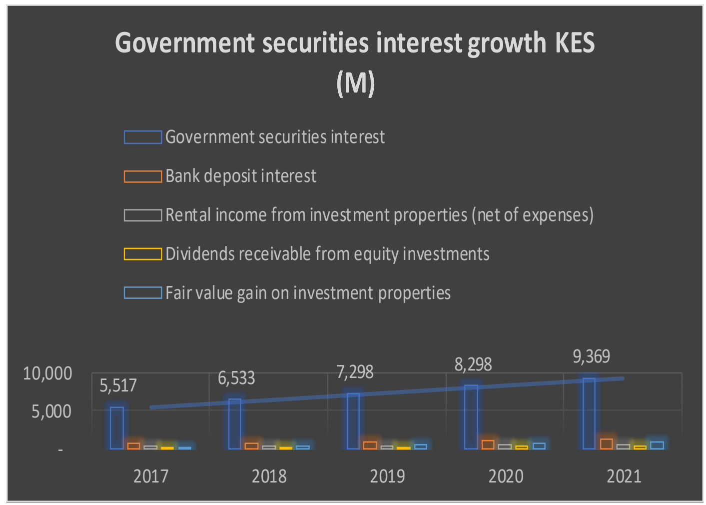


Source: Company filings, Apex Africa Research

We forecast an impressive 15.7% 4-year CAGR in investment and other income to KES 12.8B in FY21F. This growth will be driven by intensive investments in government securities, for which we estimate a conservative 4-year CAGR of 14.6% to KES 81.5B. Jubilee increased its government securities assets by 19.0% y/y in FY17 to KES 47.2B registering a 77.1% contribution to investment and other income.

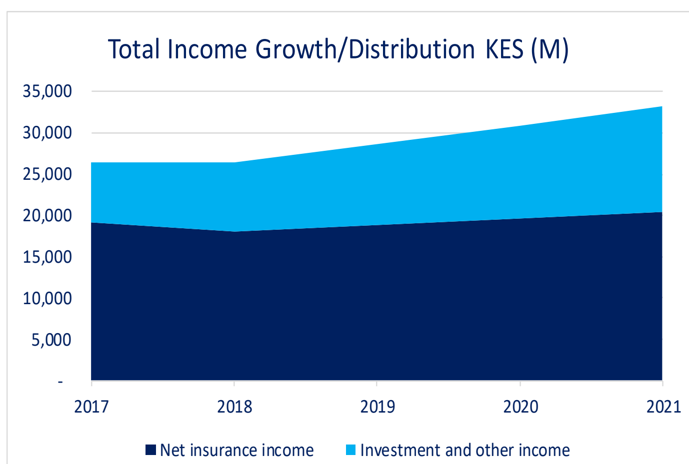
Informed by the lack of a clear indication of an imminent repeal of the interest rate cap, we estimate a 4-year CAGR of 14.3% in bank deposit interest to KES 1.2B. This is pegged on our 4-year CAGR forecast of 14.3% on bank deposits. Coming from a high base in FY17 (KES 2.7B), we project a loss of KES 77.3M on net fair value gains on financial assets at fair value through profit or loss in FY18F. This is guided by the poor performance in the equities stock market which has seen the NSE-20 index shed 16.5% YTD. Nonetheless, we project a recovery in the equities market resulting in a resurgence in gains to KES 1.6B in FY21F.

In line with the dismal performance in the equities market, we anticipate a 25.3% y/y decline in dividends receivable from equity investments in FY18F to KES 182.3M. The dip is expected to be short-lived as indicated by a 4-year CAGR of 11.7% to KES 379.4M in FY21F.



Source: Company filings, Apex Africa Research

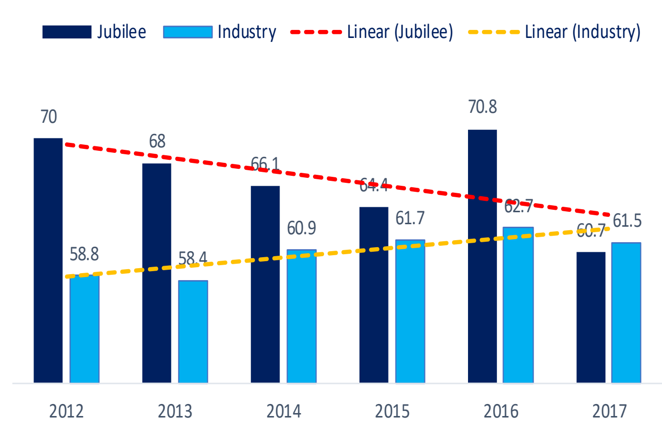
Finally, we project a general recovery in the property market driven by heightened government spending (Housing Agenda under Big 4) and improvement in the credit market. Informed by this, we forecast rental income fair value gains on investment properties to see a 4-year CAGR of % to KES 1.3B.



Source: Company filings, Apex Africa Research

Claims and increase in policy holder benefits to ease off
Insurance claims have been on a steep rise in recent years on the back of heightened fraudulent claims resulting in high loss ratios across the industry. These claims have been more prevalent in the general business with motor and medical claims constituting the lion share of gross claims incurred. According to data from the IRA, the loss ratio under general insurance for 1Q18 stood at 64.6%, a decline of 50bps y/y attributed to the 4.3% y/y drop in industry claims. This may indicate that the measures being taken to curtail claims growth across the industry are bearing fruit.
Jubilee's loss ratio under general business in FY17 was 60.3% against an industry average of 60.9%. The insurer also posted an impressive 478.0% y/y jump in underwriting profit in the medical business in FY17, defying the general trend of underwriting losses witnessed in the medical segment. This growth was attributed to management's investment in human capital and technology aimed at curbing insurance fraud while ensuring efficiency in claims processing and settlement.

Jubilee vs Industry claims ratio

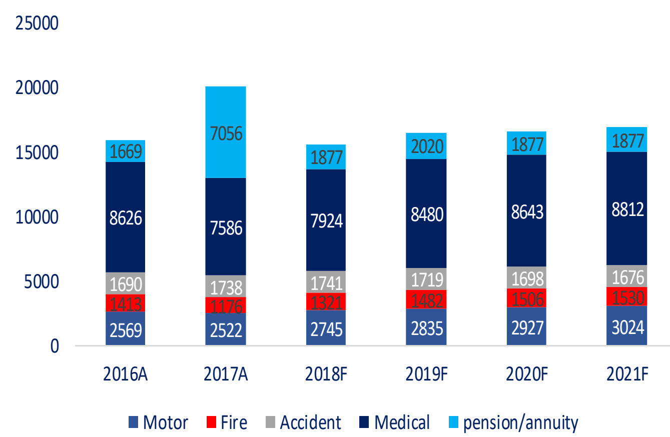


Source: IRA Annual reports

We forecast a 4-year CAGR of 7.0% in long term business net claims to KES 3.5B in FY21F driven by growth in group (4-year CAGR of 10.3%) and ordinary (4-year CAGR of 13.9%) life claims. We opine that Jubilee's general business claims will grow conservatively going forward as the insurer's efforts to curb insurance fraud keep its loss ratio under check. As such, we forecast a 4-year CAGR of 3.8% in general business net claims to KES 9.3B in FY21F. Growth in short-term business claims will be driven by a 4-year CAGR of 5.7% in motor and fire claims to KES 4.5B in FY21F.

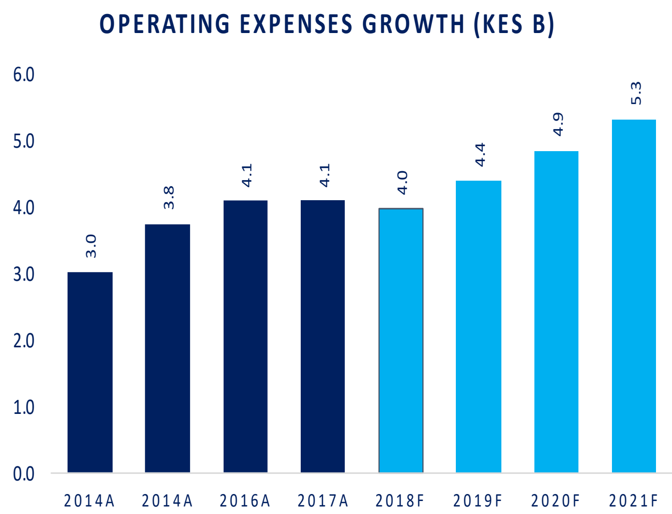
We estimate a 4-year CAGR of 3.8% in medical claims to KES 8.8B in FY21F in line with the projected growth in medical premiums. This is informed by the 12.1% y/y decline in medical claims in FY17 to KES 7.6B. A contraction in medical claims, which accounts for 57.1% of total short-term claims, is expected to realize lower loss ratios for the insurer and consequent underwriting profits under the general business.
Pension/annuity business saw a 322.8% y/y increase in policy holders benefits to KES 7.1B. Management guidance termed this hike as a one-off cost attributable to the El-Ade attack on KDF soldiers. In this light, we expect the claims to normalize; resulting in a 4-year CAGR of -16.2% to KES 1.9B in FY21F.

Claims paid under general business (KES M)



Source: Company filings, Apex Africa Research

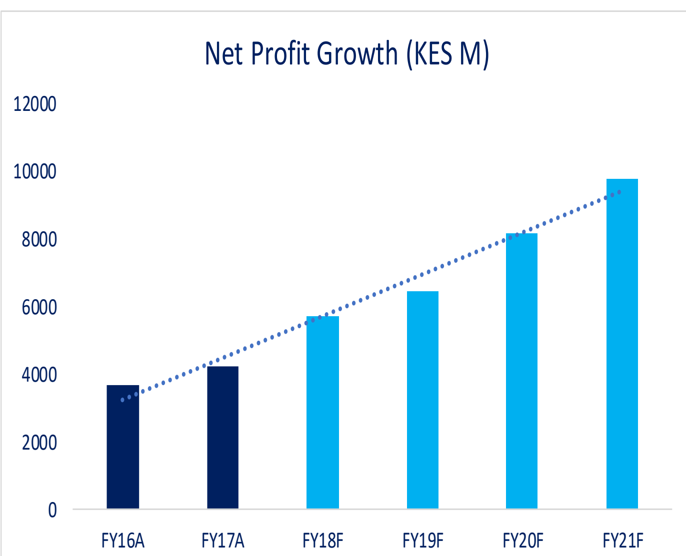
Operating expenses under check
Jubilee has employed stringent cost management practices over the past few years highlighted by the declining opex intensity to 14.5% (FY17) from 16.3% in FY15. The decline was also boosted by investments in technology which have improved efficiency in the group's operations. In cognizance of Jubilee's ability to keep its cost –base in check and impressively low, we estimate operating expenses to dip in FY18F (-2.8% y/y to KES 4.0B) and rise moderately over the next 3 years. We forecast a 4-year CAGR of 6.8% in operating expenses to KES 5.3B in line with premium growth while continued investment in technology is anticipated to drive up the insurer's depreciation and amortization costs to KES 224.9M in FY21 (4-year CAGR of 11.6%). The insurer's unlevered cash position leaves the company with nil finance costs further boosting its bottom-line performance.



Source: Company filings, Apex Africa Research

Bottom-line to register steady growth

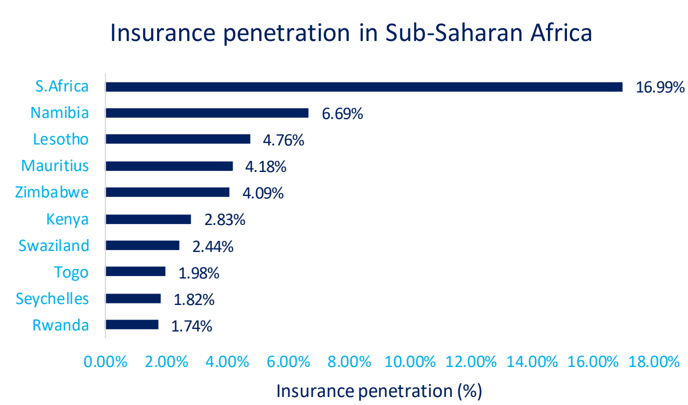
We project a 4-year CAGR of 23.4% in net profit to KES 9.8B in FY21F on the back of surging investment income (4-year CAGR of 15.7%) which outpaces claims (4-year CAGR of – 3.2%) and operating costs (4-year CAGR of 6.8%).



Source: Company filings, Apex Africa Research

Insurance Industry in Sub-Saharan Africa

Insurance penetration, measured as a percentage of premiums to GDP, stands at 3.5% for Africa as at FY17. This is relatively higher than the average emerging markets average of 2.65%, but much lower than the advanced markets of 8.07% and a global average of 6.13%. South Africa accounts for almost 80% of all premiums in sub-Saharan Africa and the country has an insurance penetration rate (the total value of insurance premiums as a proportion of GDP) of about 17.0%, well above the developed world average (6.2%). While Kenya is considered as one of the more developed insurance markets in Africa, penetration remains quite low at 2.83% of GDP. However, Kenya's performance leads its East African peers with Uganda's and Tanzania standing at 0.8% and 1.0% respectively. According to Ernst and Young, Kenya, Zambia and Ghana offer the best mix of market rewards and risks through 2018 for global insurers seeking to tap into the vast and under-insured population in Sub-Saharan Africa. Nonetheless, insurance uptake remains low on the continent mainly due to low disposable incomes and lack of capital and expertise within insurance companies that would help tap into the market. In addition, inadequate human capital development in the insurance market, ineffective judicial and regulatory systems coupled with immature financial markets and a pervasive informal economy have also been cited as key contributing factors to the low insurance penetration. Going forward, technology will have a massive impact on the whole insurance value chain, including, but not limited to customer acquisition, product distribution, pricing, risk management and predictive analytics. The technological revolution will also require a new understanding of traditional risks, such as motor, and emerging risks, such as cyber which offer potential headroom for revenue growth to the current and prospective insurance players.



Insurance Industry in Kenya

The insurance business in Kenya is profitable with sufficient headroom for growth but also comes along with its fair share of challenges. It is one of the most developed and best-regulated insurance markets in Africa supported by an equally vibrant financial services sector. Like any other industry going through a rapid growth phase, the Kenyan insurance market is characterized by a host of market players and cut-throat competition. According to data from IRA, Kenya has a total of 37 insurance companies and 3 reinsurance companies. The insurance industries also comprises 200 insurance brokers, 250 service providers and about 4,000 insurance agents. Of the 37 insurance companies only 5 are listed on the Nairobi Securities Exchange;

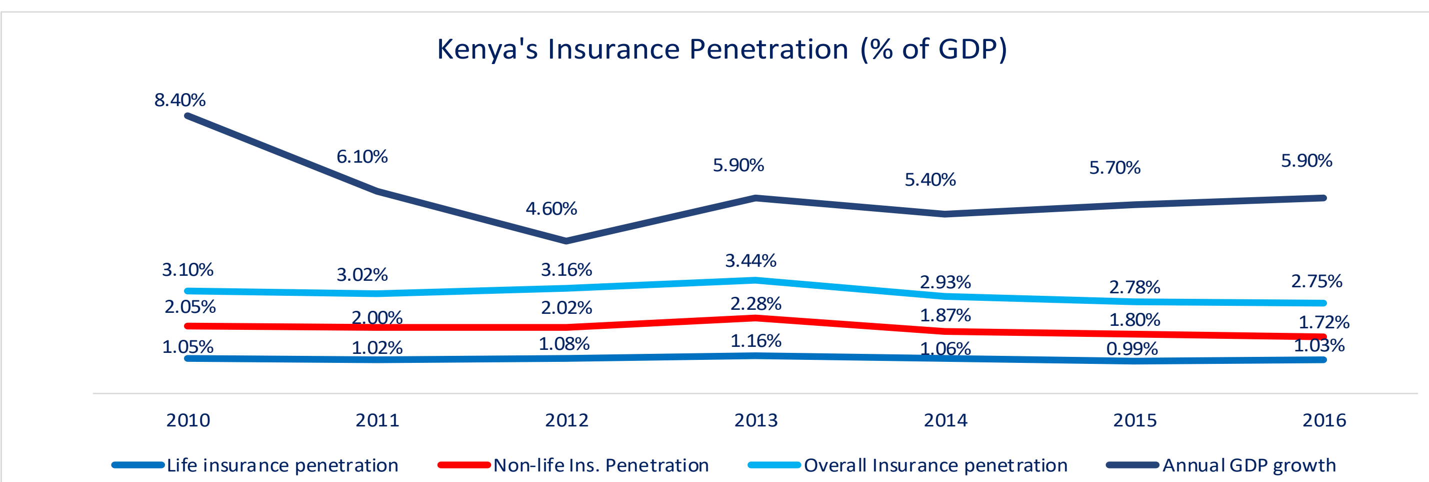
- Britam Holdings Ltd
- Jubilee Holdings Ltd
- CIC Insurance Group Ltd
- Sanlam Kenya Plc
- Liberty Kenya Holdings Ltd

Kenya Reinsurance Corporation is the only listed (NSE) reinsurance company in Kenya. The great domestic potential coupled with high growth in the regional economies provide alluring incentives for continued inflows of domestic and foreign capital into the industry.

Distribution and penetration

The uptake of insurance products in Kenya had been steady up to 2013 at 3.44% of GDP. In 2014, insurance penetration dropped to 2.93% after the GDP was rebased by 25.0% and has since stagnated at below 3.0% levels. While Kenya's insurance industry sits among the top in the continent, it still compares dismally to Africa's penetration level of c.3.5%, 'South Africa's c.17.0% and the global insurance growth of c.3-4.0% in 2017 - 2019 period. The low penetration levels present significant growth potential in the sector for both existing and prospecting firms.

Kenya's economy has experienced steady growth in recent years. The government is in the process of implementing its hallmark Big 4 Agenda project which is set to give key priority to health, education, manufacturing and housing sectors of the economy. The sustained and deliberate growth focus in these sectors will deepen the market for insurance products uptake. While most insurance firms target the rising middle and high income market segment, there still lies great potential in the underserved lower end of the spectrum. There is a growing need for insurance firms to innovate and create products that match their clients' needs in terms of relevance and pricing in order to give impetus to the growth of the insured population in the country.



Source: IRA, ApexAfrica Research

Source: IRA, ApexAfrica Research

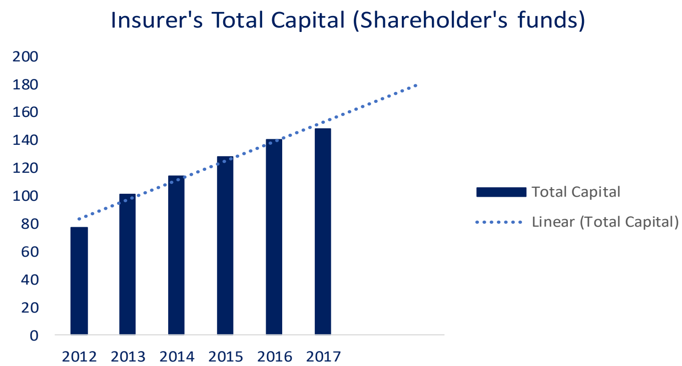
The number of Kenyans who have access to insurance products is more positive news. A 2013 survey – the most recent – showed that 16.0% of the population had access to insurance, up from 9.0% in 2011. Figures from the IRA show that insurance premium rose 3.2% y/y in 1Q18 to KES 65.24B with 66.4% of the industry business comprising of general insurance premium. Long-term and general insurance business grew by 1.3% and 4.2% respectively.

However, the industry's combined profit before tax in 1Q18 was KES 2.6B, down 17.9% from the 1Q17 figure of KES 2.6B, partly because of a 45.4% y/y PBT decline in the life business. The general business posted a 22.2% y/y increase in PBT to KES 1.2B.

Regulation

The Insurance Regulatory Authority is the statutory government agency established under the Insurance Act (Amendment) 2006, CAP 487 of the Laws of Kenya to regulate, supervise and develop the insurance industry. It covers registration, assets, liabilities, solvency and investments, inspection, rates, claims, assignment, brokers, reinsurance and other aspects. In addition, the regulator sets minimum capital requirements; it mandates that at least a third of the ownership must be East African and blocks any one person from owning more than 25% except in exceptional circumstances.

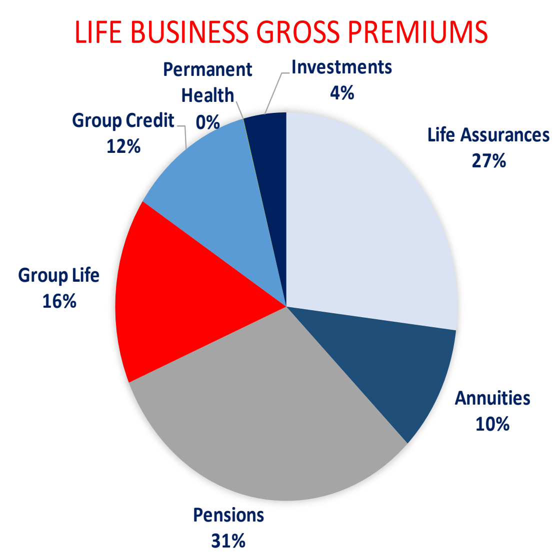
Treasury enacted a new law in mid-2016 which will require general insurance companies to have total capital or shareholders' funds at a minimum of KES 600M while long-term must be capitalized to the tune of KES 400M by 2021. In line with these new requirements, insurance companies have increased their capital by a total of KES 20B in the past two years as data from the Insurance Regulatory Authority (IRA) indicates the underwriters hit KES 148.2B in FY17. The proposed increase in minimum capital requirements is set to cushion consumers from losses by ensuring that underwriters are adequately capitalized to meet their insurance risk.



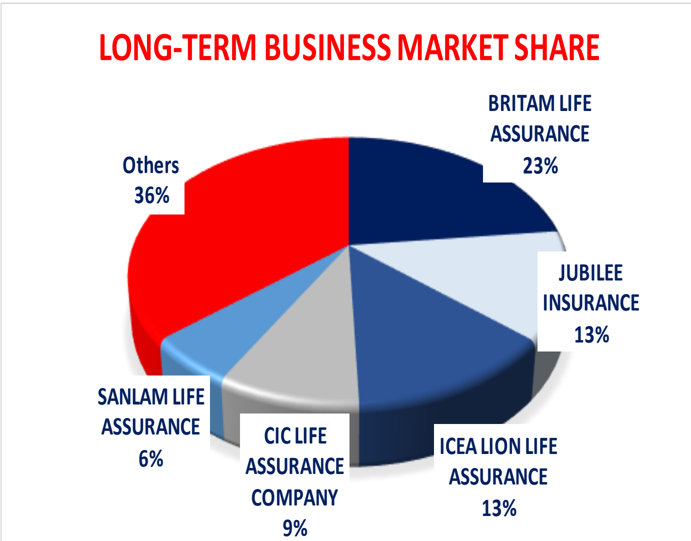
Source: IRA, ApexAfrica Research

Long-term/ Life business

Life insurance gross premium income grew 13.6% y/y to KES 83.0B in FY17 , according to the IRA. The first quarter of 2018 posted a rather slow growth of 1.3% y/y in gross premiums to KES 21.9B compared to a 24.8% y/y growth in 1Q17. The IRA listed 25 long-term insurance underwriters and three reinsurers in March 2018. The top five companies accounted for nearly 64.0% of the gross premium income over the quarter, according to IRA figures, leaving 20 companies to share 36.0%. British American Investments Company (Britam) dominates, holding 23.2% of the market in the 1Q18. Jubilee Insurance had 13.1% followed very closely by ICEA Lion with 13.0% market share.



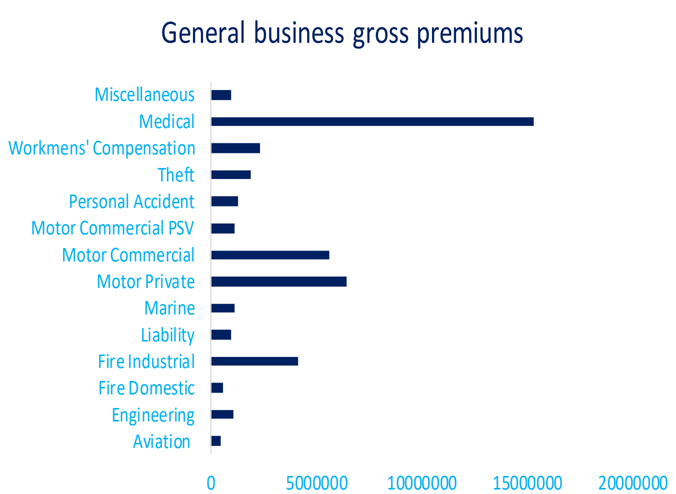
Source: IRA, ApexAfrica Research



Source: IRA, ApexAfrica Research

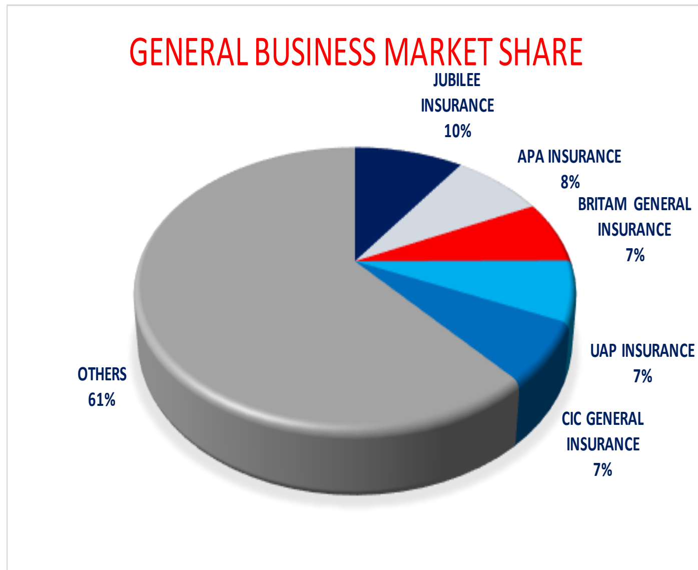
Non-life business

The IRA lists 37 short-term or general-insurance companies and three reinsurers in 1Q18. The top 10 firms accounted for nearly 64.0% of gross premium income in 1Q18. Total gross premium income edged up 4.2% y/y in 1Q18 to KES 43.3B compared to a growth of 9.6% y/y in 1Q17. The slower growth in 1Q18 may be attributed to the slow economic growth in the beginning of the year following the long electioneering period in 4Q17. Net claims were down 4.3% to KES 13.9B in 1Q18.



Source: IRA, ApexAfrica Research

The five largest insurers include Jubilee Insurance (9.6%) at , APA Insurance (8.1%) and Britam General Insurance with 7.1%. UAP had 6.9% and CIC closed the top 5 bracket with 6.8% market share in the 1Q18.



Source: IRA, ApexAfrica Research

Foreign invasion

Kenya has a population of more than 47M people. The emergence of a middle class, an aggressive development agenda combined with the implementation of huge infrastructural projects and a liberal foreign policy have progressively improved Kenya's attractiveness to foreign investment. As a result, many foreign insurance companies have come into the local scene hoping to get a slice of the highly contested underwriting business pie.

UK financial services group Old Mutual bought 23.3% of life insurer UAP group for KES 8.9B (USD 97.9M) in January 2015 and a few weeks later announced it would pay KES 14.2B (USD 156.2M) to buy another 37.3% from private-equity investors such as Africinvest, Abraaj and Swedfund, as well as local investor Centum Investment – bringing its total holding to 60.7%. In September 2014, the UK's Prudential insurance announced it had bought Shield Assurance, the life assurance arm of Blue Shield Insurance Company, for KES 1.5B (USD 16.5M). South Africa's Sanlam controls Pan Africa Insurance Holdings. Private equity fund, AfricInvest and the World Bank's IFC acquired 14.3% and 10.7% stakes in local insurer Britam Holdings for KES 5.7B and KES 3.7B in 2017.

Challenges facing the insurance industry

1.Fraud

Fraudulent claims are the largest challenge facing insurers, forcing them to record underwriting losses. Industry participants estimate that c. 20.0% of motor insurance claims could be fraudulent while fraudulent claims in medical insurance are estimated to be between 15-40% of claims. A 2017 survey by audit firm KPMG says fraud swallows some c.25.0% of premiums, pushing up prices and depressing demand. Motor claims fraud often involves collusion with loss assessors, garages and sometimes staff from insurance companies. Some hospitals are supporting fraudulent claimants by providing documents for false claims of major surgery and overpricing other treatments. Some have also passed off relatives and friends as the insured persons. IRA has been encouraging insurers to share data on fraudulent cases, as insurers leverage on human capital and technology to combat the vice. Some insurers have set up their own motor inspection centres in addition to fostering partnerships with other stakeholders in the industry to curb collusion by employees and service providers in claims validation and processing.

2. Price undercutting

Price undercutting or predatory pricing is defined as a dubious strategy where the price of a product or service is set very low, with an intention to drive competitors out of the market, or create barriers for potential new competitors. The rise of many small insurance underwriters has contributed significantly to the occurrence of price undercutting as competition stiffens in the insurance industry. Low pricing of insurance products has often led to massive underwriting losses forcing some players out of the business. Informed by the unsustainability of the practice, IRA is encouraging some of the small players to merge in order to increase their competitive advantage in the market.

3. High medical costs

Rising costs of pharmaceutical products, outpatient consultation fees and bed charges are some of the issues affecting medical insurance in Kenya. Insurance companies are now in a dilemma as they are struggling to cover the additional expenses without increasing premiums. When management fees, which include commissions to the agents and brokers and office expenses are factored in, most, if not all of the net earned premiums are wiped out. Drug costs and other imported utilities in the hospital are dependent on foreign currency which also affects the predictability of the cost of treatment.

4. Low market penetration

Kenya has a low insurance penetration of 2.83%. However, in comparison with other African countries, Kenya still has one of the highest insurance penetration rates. A probable solution to this quagmire is a critical revaluation of the insurance business model going forward. In addition, a better understanding of the market composition may inform the creation of more relevant products while more effective distribution channels may lower the cost of insurance products thus encouraging consumer uptake.

5. Long periods of claims settlement

According to statistics by the IRA, on average only 2 out of 10 claims are paid within a month. Generally, most insurance companies take more than 60 days to settle compensation claims. IRA found that 53% of the general business liability claims (such as medical costs to injured employees) took over 90 days to be paid, wrecking the lives of hundreds of Kenyan workers. Another 27% were paid between 30 and 90 days. Claims settlement was difficult in terms of volumes, claimant's pressure and fraud which led to increased loss ratio. The government has proposed to set a 30-day claim settlement policy which is anticipated to help build trust in Kenyan insurance companies.

6. General mistrust and misunderstanding of Insurance

A large number of people have a general negative perception of the insurance industry. High cost of insurance products, delayed compensation, insurance is for the rich—are some of the notions that have been perpetuated against the insurance case. A good number also righteously believe that there is no insurance policy that meets their needs. The government has worked to introduce insurance as a topic in schools aimed at creating early exposure on the topic. In addition, with shorter claims period, the insurance sector will clean up its name in the public and enhance goodwill which will raise the demand for insurance products.

Emerging trends in the insurance industry

1.Regulation

Risk Based Capital (RBC) regime

The RBC model will see the regulator ensure that insurance firms maintain their capital resources at a level that matches the nature, scale, complexity and risk profile of the business.

Initial published regulations required underwriters to comply with the minimum capital requirements (MCR) by June 2018, however, after deliberations with industry stakeholders the deadline was pushed to 2021. General insurers must boost their capitalization from KES 300M to KES 600M while life insurers will increase their capitalization to KES 400M from KES 150M. On the other hand, general re-insurers will be required to raise capitalization from KES 500M to KES 1B while life re-insurers' MCR will be KES 500M, up from KES 300M. This move is aimed at ensuring that all underwriters are adequately capitalized to mitigate against defaulting on their underwriting obligations. -

IFRS 17 for insurers

Starting January 2021, insurance companies will be switching from 13-year old International Financial Reporting Standard (IFRS) 4 to IFRS 17. Some of the highlights of IFRS 17 include: the separate presentation of underwriting and finance results, providing more transparency on an insurer's sources of profits and quality of earnings. Furthermore, premium volumes will no longer drive the top line, while investment components and cash received will no longer be considered as revenue. Under IFRS 17, insurance performance will stick to profit or loss that a firm books for providing insurance services while financial results will be on net investment income earned from managing the underling financial assets like premiums.

The switch to IFRS 17 will enhance comparability of insurance companies' results in any country in the world. Due to this move insurers will have to acquire new IT systems, actuarial processes and financial reporting processes raising operating costs and increase cash used in investing activities

Takaful rules

The IRA also introduced new guidelines for takaful insurance products. Islamic insurance is based on the principle of mutuality, in which the takaful company oversees a pool of funds contributed by all policyholders. Companies that offer both forms of insurance will need to report their takaful windows from the parent firm and keep the funds separate.

Moreover the operating model must be approved by a board of religious scholars, the Sharia Supervisory Council. The new rules took effect in December 2015. Muslims make up c.15% of Kenya's population. In the past, the structure of conventional insurance has hindered the take-up of the product as it conflicts with Islam faith. However, Takaful insurance is poised to attract demand from this segment which may bolster the earnings for the insurance sector as a whole.

2. Technology and the new digital economy

Use of mobile apps

The proliferation of technology and the ubiquity of the mobile phone is revolutionizing the insurance landscape as insurers tussle to create products that will disrupt the market. Mobile penetration currently stands at a whooping 78% in Kenya. Insurers are keen to leverage on technology to improve distribution and uptake of insurance products through use of mobile phone apps. Heavy investment in technological infrastructure will impact positively on efficiency and lower operational costs in the industry, in addition to curbing fraud cases.

Micro-insurance

There is increased use of technology by insurance companies to offer micro insurance products. With a significant percentage of Kenya's population located in the rural areas and highly dependent on rain-fed agriculture, insurance companies are consistently rolling out customized products for this low end market.

Use of social media

Insurance companies can use social media platforms to improve modelling and communication with customers. Technology may draw in the tech-savvy youth raising premiums. Tech may also result in lower operating costs and may ease the reliance on intermediaries, saving up on commission costs going forward.

Jubilee Holdings Ltd Background

Jubilee Insurance Ltd, was established as the first incorporated Insurance Company based in Mombasa in August 1937. It has since widened its wings beyond the Kenyan borders setting up offices in Kenya, Uganda, Tanzania, Burundi and Mauritius. It is currently the largest composite insurer in East Africa serving more than 450,000 clients in the region.

History and growth 1937 - date

After its incorporation in 1937, Jubilee spread its sphere of influence throughout East Africa, and opened branches in Dar-es-Salaam, Kampala, Bombay, Karachi, Mauritius and Zanzibar. Jubilee Insurance moved its offices to Nairobi in 1968 and launched its famous 4Js logos in 1972. In 1973, in keeping with its mission of contributing to the development of the region Jubilee took the bold step of converting into a public company to broaden its ownership base, and it was listed on the Nairobi Stock Exchange. In 1990, Jubilee crossed the corporate asset mark of KES 1B.

The operations of the Jubilee Insurance Company of Uganda Limited were revived in 1992, following a period of stability and economic growth in the country. Today, Jubilee Uganda is considered one of the leading insurance companies in the country. Again in cooperation with local shareholders, the Jubilee Insurance Company of Tanzania Limited was formed and in June 1998 earned the distinction of being the first private sector insurance company to be licensed following liberalization of the insurance market in Tanzania. In addition to its primary listing on the Nairobi Stock Exchange, Jubilee Holdings was cross listed in 2006 on the Uganda Securities Exchange and on the Dar-es-Salaam Stock Exchange.

Jubilee Insurance registered stellar growth in the following years necessitating a split between its long term and short term business which was finalized in 2014. Despite a rapidly changing regulatory environment and an oversaturated insurance industry, Jubilee has continued to out-shine the market, delivering steady earnings and value to its shareholders. Jubilee won company of the year in 2015 and marked its 80th anniversary in 2017 on a high with an impressive 15.1% y/y jump in net earnings to KES 4.2B. Total asset value stood at a whooping KES 104.9B, cementing its position as the largest insurer in the region.

Jubilee Holdings Board of Directors

Nizar Juma
(Chairman)

Zul Abdul
(Board Member)

Jane Mwangi
(Board Member)

Shabir Abji
(Board Member)

Sultan Allana
(Board Member)

Lutaf Kassam
(Board Member)

Margaret Kipchumba
(Company Secretary)

Juma Kissame
(Board Member)

John Metcalf
(Board Member)

List of 10 largest shareholders as at 31st December 2017

	Names	No. of shares held	% shareholding
1	Aga Khan Fund for Economic Development	27,528,739	37.98
2	Pyrus Investments Limited	7,469,980	10.31
3	Freight Forwarders Kenya Limited	1,416,580	1.95
4	United Housing Estates Limited	1,314,947	1.81
5	Adam's Brown and Co. Limited	1,294,830	1.79
6	Standard Chartered Kenya Nominees Ltd	904,754	1.25
7	Aunali Fidahussein Rajabali & Fidahussein	690,000	0.95
8	Gulshan Noorali Sayani	362,507	0.50
9	Gulzar Shamshudeen Somji	250,151	0.35
10	Gulbanu Akbarali Gulamhusein Nanji	237,710	0.33
	Total	**41,470,198**	**57.22**

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Peer Comparables

Name	Country	P/E	P/B	Div/yld	ROE
		x	x	%	%
Jubilee	**KN**	**9.2**	**1.5**	**1.9**	**18.1**
Abu Dhabi National	UA	8.6	0.7	6.7	12.8
Emirates Insurance	UA	9.9	1.0	8.5	10.6
Qatar Insurance	QA	13.6	0.7	4.6	5.3
Rand Merchant	SA	15.9	2.9	2.9	18.7
Average		**11.4**	**1.4**	**4.9**	**13.1**
Median		**9.9**	**1.0**	**4.6**	**12.8**

P/B Valuation		Weighting
Historical Avg (x)	1.2	0.5
Insurance Avg (x)	1.4	0.5
Weighted Avg (x)	1.3	
NAV/Share	392.3	
Fair Value (KES)	**508.54**	

P/E Valuation		Weighting
Historical Avg (x)	6.6	0.5
Insurance Avg x()	11.4	0.5
Weighted Avg (x)	9.0	
EPS (KES)	58.37	
Fair Value (KES)	**527.09**	

FCFE Valuation	FY18	FY19	FY20	FY21	Terminal
FCFE (KES M)	3,019.2	2,271.6	3,041.6	2,775.5	50,885.8
Period	0.3	1.3	2.3	3.3	3.3
P. V (KES M)	2,896.5	1,878.7	2,168.6	1,705.9	31,275.9
Sum (PV of Divs) (KES M)	39,925.6				
Shares in issue (KES '000)	72473				
Fair value (KES)	**550.90**				
Upside(%)	**20.8**				

Blended fair value	KES
P/B Valuation	508.54
P/E Valuation	527.09
Free Cash Flow to Equity (FCFE)	555.63
Blended fair value	**530.42**
Current price	**456.00**
Upside(%)	**16.3**

FY17 Financial Highlights

Income Statement (KES M)	FY16A	1H17	2H17	FY17A	Δ%y/y
Gross earned premium	26,908	15,601	12,728	28,329	5.3
Net insurance premium	**17,581**	**10,193**	**9,001**	**19,194**	**9.2**
Net fair value gain through profit/loss	(1,612)	1,298	1,402	2,700	267.5
Investment income	6,689	3,396	3,766	7,162	7.1
Commission earned	2,034	1,068	735	1,803	-11.4
Total income	**24,979**	**15,955**	**15,318**	**31,273**	**25.2**
Net Insurance Claims and benefits	(14,242)	(10,381)	(9,273)	(19,654)	38.0
Total expenses and commission	(7,606)	(3,812)	(3,829)	(7,641)	0.5
Operating profit	3,132	1,761	2,217	3,978	27.0
Share of profit of the associates	1,431	579	603	1,182	-17.4
Profit/ (loss) before tax	4,563	2,340	2,821	5,161	13.1
Profit for the year	**3,676**	**1,876**	**2,354**	**4,230**	**15.1**
EPS	45.49	26.05	28.21	54.26	19.3
DPS	8.50	1.00	8.00	9.00	5.9

Statement of Financial Position					
Assets					
Fixed assets	381	361	78	439	15.2
Investment assets	64,868	70,645	4,901	75,546	16.5
Insurance assets	15,447	17,858	(2,394)	15,464	0.1
Other assets	1,545	2,372	(958)	1,414	-8.5
Cash and cash equivalents	8,213	9,873	2,231	12,104	47.4
Total assets	**90,568**	**101,108**	**3,859**	**104,967**	**15.9**
Liabilities					
Insurance contract liabilities	66,607	73,646	3,456	77,102	15.8
Other liabilities	2,539	3,493	(858)	2,635	3.8
Total liabilities	69,146	77,139	2,598	79,737	15.3
Total equity	**21,422**	**23,969**	**1,261**	**25,230**	**17.8**

Statement of Cash Flow					
Cash inflow from operating activities	1,675	2,505	1,510	4,015	139.7
Cash inflow/(outflow) from investing activities	(3,365)	(594)	3,608	3,014	189.6
Cash outflow from financing activities	(560)	(494)	(73)	(567)	1.3
Net increase/ (decrease) in cash & equivalents	(2,250)	1,416	5,047	6,463	387.2
Cash and cash equivalents at end of year	**8,327**	**9,872**	**4,925**	**14,797**	**77.7**

Ratios and Margins					
Expense Ratio (%)	43.3	37.4	42.5	39.8	-8.0
Loss Ratio (%)	81.0	101.8	103.0	102.4	26.4
Combined Ratio (%)	124.3	139.2	145.6	142.2	14.4
Insurance margin (%)	61.1	54.7	67.2	60.5	-0.9
Return on Equity (ROE) (%)	17.2	7.8	186.7	16.8	-2.3
Return on Assets (ROA) (%)	4.1	1.9	61.0	4.0	-0.7
Operating profit margin (%)	17.8	17.3	24.6	20.7	16.3
Net margin (%)	20.9	18.4	26.2	22.0	5.4
P/E (x)				**9.03**	
P/B (x)				**1.41**	
Dividend yield (%)				**1.8**	

Source: Company Filings, ApexAfrica Research

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Financials

Income Statement (KES M)	2016A	2017A	2018F	2019F	2020F	2021F	4-yr CAGR(%)
Gross earned premium	26,908	28,329	27,536	28,463	29,518	30,522	1.9
Net insurance premium	**17,581**	**19,194**	**18,087**	**18,875**	**19,707**	**20,483**	**1.6**
Net fair value gain through profit/loss	(1,612)	2,700	(77)	820,728	1,177	1,637	-11.8
Investment income	6,701	7,162	8,367	9,697	11,194	12,819	15.7
Commission earned	2,034	1,803	2,094	2,125	2,174	2,225	5.4
Total income	**24,704**	**31,273**	**28,873**	**31,517**	**34,251**	**37,164**	**4.4**
Net Insurance claims and benefits	(13,966)	(19,654)	(14,991)	(16,376)	(16,645)	(17,243)	-3.2
Total expenses and commission	(7,606)	(7,641)	(7,630)	(8,186)	(8,797)	(9,414)	5.4
Operating profit	**3,676**	**3,978**	**5,715**	**6,468**	**8,152**	**9,806**	**25.3**
Share of profit of the associates	1,431	1,182	1,372	1,673	2,064	2,574	21.5
Profit/ (loss) before tax	**4,563**	**5,161**	**7,623**	**8,627**	**10,874**	**13,080**	**26.2**
Profit for the year	**3,676**	**4,230**	**5,715**	**6,468**	**8,152**	**9,806**	**23.4**
EPS	50.04	54.26	72.86	82.46	103.93	125.02	23.2
DPS	8.50	9.00	10.81	12.23	15.42	18.54	19.8

Statement of Financial Position	2016A	2017A	2018F	2019F	2020F	2021F	4-yr CAGR(%)
Assets							
Fixed assets	381	439	467	499	532	566	6.5
Investment assets	64,983	75,546	87,569	99,969	112,576	127,674	14.0
Insurance assets	15,447	15,464	17,765	19,650	21,683	23,867	11.5
Other assets	1,414	1,414	1,597	1,862	2,146	2,461	14.9
Cash and cash equivalents	8,213	12,104	13,445	16,882	18,323	21,202	15.0
Total assets	**90,568**	**104,967**	**121,724**	**138,861**	**155,761**	**175,973**	**13.8**
Liabilities							
Insurance contract liabilities	66,607	77,102	87,094	97,297	107,962	118,551	11.4
Other liabilities	2,539	2,635	3,001	3,403	3,838	4,333	13.2
Total liabilities	69,146	79,737	90,095	101,145	111,800	122,884	11.4
Total equity	**21,422**	**25,230**	**31,629**	**37,715**	**43,961**	**53,089**	**20.4**

Statement of Cash Flow	2016A	2017A	2018F	2019F	2020F	2021F	4-yr CAGR(%)
Cash inflow from operating activities	1,675	4,015	3,182	2,442	3,219	2,960	-7.3
Cash inflow/(outflow) from investing activities	(3,365)	3,014	(3,663)	1,449	2,770	2,775	-2.0
Cash outflow from financing activities	(560)	(567)	(845)	(957)	(1,206)	(1,450)	26.5
Net increase/ (decrease) in cash & equivalents	(2,250)	6,463	(1,326)	2,935	4,784	4,285	-9.8
Cash and cash equivalents at end of year	**8,327**	**14,797**	**13,479**	**16,423**	**21,217**	**25,514**	**14.6**

Ratios and Margins	2016A	2017A	2018F	2019F	2020F	2021F	4-yr CAGR(%)
Expense + commission ratio (%)	43.3	39.8	42.2	43.4	44.6	46.0	
Loss ratio (general) (%)	67.0	61.7	66.4	69.4	69.0	69.0	
Combined ratio (%)	110.3	101.6	108.6	112.7	113.6	115.0	
Insurance margin (%)	20.6	-2.4	17.1	13.2	15.5	15.8	
Return on Equity (ROE) (%)	17.2	18.1	20.1	18.7	20.0	20.2	
Return on Assets (ROA) (%)	4.1	4.3	5.0	5.0	5.5	5.9	
Operating profit margin (%)	14.9	12.7	19.8	20.5	23.8	26.4	
Net margin (%)	14.9	13.5	19.8	20.5	23.8	26.4	

Source: Company Filings, ApexAfrica Research

Appendix

Investment ratings

✦ **Buy:** A total return is anticipated in excess of the market's long-term historic annual rate (approximately 10%). Total return expectations should be higher for stocks that possess greater risk.

✦ **Accumulate:** Buy stock on price dips

✦ **Hold:** Hold the shares with neither a materially positive total return nor a materially negative total return anticipated.

✦ **Sell:** Stock should be sold as materially negative total return is anticipated.

Disclaimer

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