

Britam Holdings Ltd “Adjusting the sails”

Britam’s FY16 PAT surged from a loss of KES 1.0B to a profit of KES 2.5B. The increase was mainly attributable to a 52% y/y decline in claims and policyholders’ benefits expense to KES 5.0B and an 11.1% y/y increase in total income to KES 22.4B to KES 2.5B. Gross earned premiums grew 3.5% y/y to KES 20.3B. The company held dividend constant at KES 0.30.

Top-line up on diversification of product portfolio: Britam posted a 3.5% y/y increase in gross earned premium to KES 20.3B. This was due to increased diversification of product portfolio beyond life, general and health with strong growth of the asset management, property and micro-insurance business.

Total income boosted by an increase in fund management fees and interest and dividend income: Total income went up 11.1% y/y to KES 22.4B. The increase was mainly attributable to a 29.3% y/y rise in fund management fees to KES 929.2M and a 35.3% y/y acceleration in interest and dividend income to KES 4.2B. Commissions earned slightly declined 2.3% y/y to KES 718.8M. Additionally, net income from investment property dropped 18.2% y/y to KES 991.1M.

Claims and policyholders’ benefits expense slump on change to GPV methodology of accounting for long term insurance business liabilities: Claims and policyholders’ benefits expense declined 52.9% y/y to KES 5.0B. This was as a result of a shift in method used to value long term insurance business liabilities from Net Premium Valuation (NPV) to Gross Premium Valuation (GPV) methodology. Unlike the NPV method, the GPV method takes into account future expenses associated with maintaining the policy, hence increasing the accuracy of reserving.

Total expenses decline undeterred by an increase in finance costs and interest payments: Total expenses dropped 11.1% y/y to KES 18.6B. However, finance cost leapt 46.8% y/y to KES 1.2B as borrowings increased 34.6% y/y to KES 9.4B. Interest payments/increase in unit value rose by 251.6% y/y to KES 1.7B. These increases were offset by the drop (-52.9%) in claims and policyholders’ benefits expense to KES 5.0B. Britam also achieved operational efficiency through centralizing information technology operations.

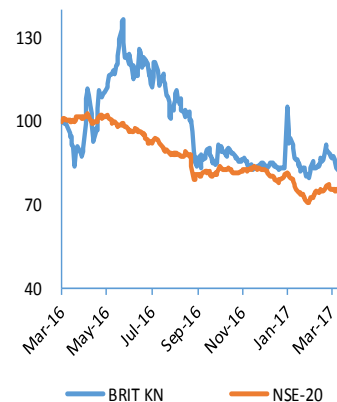
Looking Ahead: As per the new regulation, all imports to Kenya are to be insured through local insurers. Consequently, marine insurance premiums are estimated to hit KES 20B in FY17. According to the Insurance Regulatory Authority (4Q16) Britam stood as the market leader in marine insurance with a 12.8% market share. Therefore we anticipate Britam to leverage on its established market share, hence boosting the group’s top line. Britam’s current price of KES 10.10 sees it trade at a P/E of 7.9x and P/B of 1.1x against an industry average of 10.4x and 2.3 respectively. The company has an ROE of 13.9%. These metrics portray a fairly priced stock. The burgeoning top-line coupled with cost savings measures undertaken by the insurer, point to a widening bottom-line, making it a viable investment venture for a long-term yield hunting investor.

Bloomberg Ticker :	BRIT KN
Reuters Ticker:	BRIT.NR

Share Statistics	
Current Price (KES)	10.10
Issued shares (M)	1,938.4
Market cap (USD M)	190.0
Year end	31 Dec
3-month avg traded val (USD)	3,834
Free float (%)	47.8

Price Trend

BRIT vs NSE-20



Source: Bloomberg, ApexAfrica Research

Research Analyst

Dorcas Mwangi

dmwangi@apexafrica.com

+254 20 760 2543

FY 16 Financials

	FY15	1H16	FY16	% chg
	KES '000	KES '000	KES '000	
Income Statement				
Gross earned premiums	19,605,675	11,010,588	20,291,844	3.5%
Net earned premiums	16,373,722	9,371,220	17,393,585	6.2%
Fund management Fees	718,537	*	929,234	29.3%
Commissions earned	735,788	416,941	718,839	-2.3%
Net income from investment property	1,211,502	*	991,129	-18.2%
Interest and dividend income	3,128,572	2,407,229	4,232,846	35.3%
Net unrealized fair value losses on financial assets	(2,836,211)		(2,444,727)	-13.8%
Other income	799,077	491,893	539,308	-32.5%
Total income	20,130,987	12,687,283	22,360,214	11.1%
Claims and policyholders' benefits expense	(10,614,215)	(3,608,468)	(5,001,165)	-52.9%
Commissions expense	(3,291,904)	(1,825,156)	(3,547,258)	7.8%
Interest payments/increase in unit value	(495,774)	(639,912)	(1,742,978)	251.6%
Operating and other expense	(6,716,741)	(3,141,072)	(7,094,697)	5.6%
Finance costs	(802,155)	(902,629)	(1,177,264)	46.8%
Total expenses	(21,920,789)	(10,117,237)	(18,563,362)	-15.3%
Share of profit from associate	594,864	303,252	442,281	-25.7%
Profit before tax	(1,194,938)	2,873,298	4,239,133	
Profit after tax	(1,009,458)	1,778,895	2,480,204	
EPS (KES)	(0.50)	0.92	1.28	
DPS (KES)	0.30	-	0.30	-

Balance Sheet

Government securities at amortized cost	15,910,936	*	18,640,422	17.2%
Investment in associates	6,821,327	*	6,308,503	-7.5%
Financial assets at fair value through profit or loss	17,312,366	*	18,397,260	6.3%
Other assets	37,587,903	*	40,296,609	7.2%
Total assets	77,632,352	81,714,237	83,642,609	7.7%
Retained earnings	2,221,480	3,983,885	897,351	-59.6%
Total equity	17,685,235	18,964,036	17,810,373	0.7%
Insurance contracts liabilities	21,786,744	49,791,011	18,744,957	-14.0%
Unearned premiums reserve	5,261,170	*	4,360,351	-17.1%
Payable under deposit administration contracts	14,964,027	*	21,839,735	45.9%
Borrowings	6,968,161	6,000,000	9,379,826	34.6%
Liabilities under investment contracts	5,486,194	6,959,190	4,910,059	-10.5%
Total liabilities	59,957,904	62,750,201	65,765,013	9.7%

Cash Flow

Net cash (used in)/ generated from operating activities	4,926,503	*	5,017,387	1.8%
Net cash (used in)/ generated from investing activities	(6,026,583)	*	(4,470,511)	-25.8%
Net cash (used in)/ generated in financing investments	(961,525)	*	652,888	
Cash and cash equivalents at end of period	4,767,253	*	5,967,017	25.2%

FY 16 Financials cont'd

Ratios	FY15	1H16	FY16
Expense Ratio	-20.1%		-20.4%
Loss Ratio	-64.8%		-28.8%
Combined Ratio	-84.9%		-49.1%
Return on Equity (ROE)	-5.7%		13.9%
Return on Assets (ROA)	-1.3%		3.0%
Net margin	-5.1%		12.2%
Debt to Equity	39.4%		52.7%
P/E (x)			7.9
P/B (x)			1.1
Dividend Yield			3.0%

Source: Company Filings, ApexAfrica Research

* - implies missing information

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ApexAfrica Capital Ltd
A The Riverfront, 1st Floor, Prof. David Wasawo Drive, Off Riverside Drive | P.O. Box 43676-00100 | Nairobi | Kenya |
T: +254-20-2226440 | **Fax:** +254-20-2319092 | **Cell:** +254-723-420204 |
W : www.apexafrica.com
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