Sanlam Kenya FY16 Earnings Update

Sanlam Kenya's FY16 PAT surged 158.2% y/y to KES 70.6M. The increase was mainly attributable to a 5.5% y/y increase in investment income to KES 2.5B and a 4.9% y/y decline in total benefits, claims and other expenses to KES 6.8B. Gross written premiums increased marginally by 0.8% y/y.

Top-line increases marginally on growth of general insurance premiums: Sanlam posted a 0.8% y/y increase in gross written premium to KES 5.2B. Gross premiums from the general business grew by 58.0% y/y to KES 1.0B. This rise was as a result of discontinuing underwriting of PSV business as well as improved non-motor to motor business mix. Non-motor business includes fire insurance, travel insurance and marine insurance. Motor insurance contributes 52.0% of the premiums while non-motor insurance contributes 48.0%. Gross written premiums from life insurance declined by 5.0% y/y to KES 4.4B. The decline was attributed to competitor activity in the market that affected growth in the corporate business segment. The retail business segment was impacted by the expected effects of streamlining the distribution channels and agency force aimed at improving productivity going forward.

Investment income grows on good investment returns from government securities: Investment income grew by 5.5% y/y to KES 2.5B. The increase was mainly from the life insurance investment portfolio earnings that grew by 50.0% y/y to KES 2.1B. The 50.0% y/y growth is due to good investment returns from higher exposure to bonds and a selection of stocks on the NSE.
Investment income from general insurance slumped by 100.0% y/y to KES 0.9M. This was largely attributable to realized fair value losses on investment property disposals.

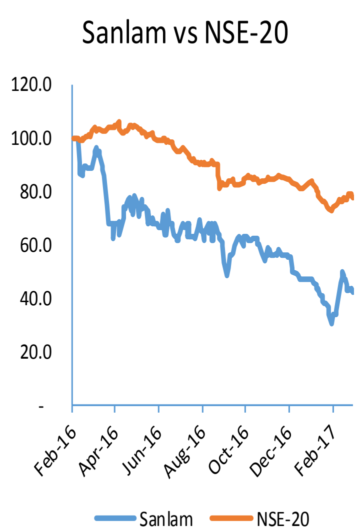
Fee income from asset management increases on growth of assets under management: Fee income from asset management increased 30.4% y/y to KES 154.0M. This was as a result of an impressive 51.0% y/y growth in assets under management (AUM) to KES 20.7B and performance fees earned on significant outperformance of benchmarks. Assets under management in FY16 stood at KES 20.7B (+51% y/y). A higher allocation to bonds and credit instruments drove the performance during the year.

Net claims and policyholders benefits grow on expanding life insurance business: Net claims and policyholders increased 5.2% y/y to KES 4.5B. Life insurance policy holder benefits increased 8.1% y/y to KES 4.3B. The growth was attributed to maturities as well as an increase in annuity payments following strong new annuity business sales. FY16 Claims ratio increased to 86.0% from 74.0% in FY15.
General insurance policyholder benefits and claims decreased by 75.0% y/y to KES 134.7M. The decrease was driven by the decision to discontinue underwriting of the PSV line of business as well as improved non-motor to motor business mix. General insurance claims ratio improved significantly in FY16 to 21.0% from 110.0% in FY15 due to discontinuation of PSV insurance.

Bloomberg Ticker :	**PAIL KN**
Reuters Ticker:	**PAFR.NR**

Share Statistics	
Current Price (KES)	25.00
Issued shares (M)	144.0
Market cap (USD M)	878.3
Year end	31 Dec
3-month avg traded val (USD)	660.0
Free float (%)	11.6

Price Trend



Source: Bloomberg, ApexAfrica Research

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Commission payable declines on restructuring distribution channels: Sanlam Kenya's commission payable decreased by 20.9% y/y to KES 660.7M. Life insurance commission payable decreased 25.3% y/y to KES 569.1M. The decrease was due to streamlining the distribution channels and the agency force.

General insurance commission payable increased 35.7% y/y to KES 91.6M. This is attributable to heightened focus on acquiring new business in the non-motor class. Insuring new business classes such as marine and fire required Sanlam to get experts in those fields and create new agency relationships hence the increase in commission payable.

Sanlam's Kenya FY16 commission ratio declined to 13.0% from 16.0% in FY15.

Operating cash flow registers a sharp gain: The group posted a 206.4% y/y surge in cash generated from operations to KES 2.3B. The increase was attributable to a 158.2% y/y increase in top line.

Looking ahead: We expect top line to grow going forward boosted by growth in business for both general insurance and life insurance. Taking on more business classes (marine, fire and travel) will bolster general insurance premiums.

The company's main customers for life insurance are mainly the lower middle income earners. Going forward management is taking measures to generate higher volumes in the life business to boost top line.

The company is targeting to generate 98.0% of the profits from the core business. This is as a result of continued reduction of reliance on gains on disposal of land.

Sanlam's current price of KES 25.00 sees it trade at a P/E of 39.7x and a P/B of 0.9x against an industry average of 9.5x and 2.8x respectively. Notwithstanding a high P/E, it has an ROE of 1.8% which does not justify the high price. These metrics suggest an expensive stock implying that investors

FY 16 Financials

Income Statement	FY15 KES '000	1H16 KES '000	2H16 KES '000	FY16 KES '000	% chg
Gross written premiums	**5,181,614**	**2,639,297**	**2,585,249**	**5,224,546**	**0.8%**
Net written premiums	4,796,986	2,438,413	2,393,792	4,832,205	0.7%
Fees & commission income	80,220	38,703	36,252	74,955	-6.6%
Investment income	**2,388,531**	**1,250,684**	**1,267,961**	**2,518,645**	**5.4%**
Fair value gains	(637,144)	(151,010)	(299,331)	(450,341)	-29.3%
Other operating income (including property)	608,591	40,055	138,555	178,610	-70.7%
Total income	**7,237,184**	**3,616,845**	**3,537,229**	**7,154,074**	**-1.1%**
Net claims and policyholders' benefits expense	**(4,257,215)**	**(2,620,053)**	**(1,858,414)**	**(4,478,467)**	**5.2%**
Commissions expense	**(834,991)**	**(362,347)**	**(298,384)**	**(660,731)**	**-20.9%**
Operating and other expense	(1,466,658)	(735,246)	(934,348)	(1,669,594)	13.8%
Other expenses	(627,258)	(43,925)	15,916	(28,009)	-95.5%
Total expenses	**(7,186,122)**	**(3,761,571)**	**(3,075,230)**	**(6,836,801)**	**-4.9%**
Profit before tax	51,062	(144,726)	461,999	317,273	-
Profit after tax	**27,350**	**(128,369)**	**198,992**	**70,623**	**158.2%**
Comprehensive income to equity holders of parent	(61,559)	-	-	106,061	-272.3%
EPS (KES)	**-**	**-**	**-**	**0.63**	**-**
DPS (KES)	**-**	**-**	**-**	**-**	**-**

FY 16 Financials cont'd

Statement of Financial Position	FY15 KES '000	1H16 KES '000	2H16 KES '000	FY16 KES '000	% chg
Property & Equipment	**134,138**	**156,019**	**(39,358)**	**116,661**	**-13.0%**
Investment properties	2,674,799	2,948,172	(186,972)	2,761,200	3.2%
Held to maturity financial assets	8,069,169	8,366,283	470,109	8,836,392	9.5%
Fair value through profit or loss financial assets	10,039,667	10,392,802	173,745	10,566,547	5.2%
Deposits with financial institutions	3,693,324	3,341,654	(1,308,173)	2,033,481	-44.9%
Total assets	**27,109,278**	**27,994,882**	**447,708**	**28,442,590**	**4.9%**
Retained earnings	811,364	592,128	(372,382)	219,746	-72.9%
Total equity	**3,802,047**	**3,673,678**	**258,566**	**3,932,244**	**3.4%**
Insurance contracts liabilities	11,397,467	12,106,609	597,439	12,704,048	11.5%
Market linked insurance liabilities	8,269,515	8,338,690	(684,713)	7,653,977	-7.4%
Payable under deposit administration contracts	1,434,573	1,430,469	58,938	1,489,407	3.8%
Total liabilities	**23,307,231**	**24,321,204**	**189,142**	**24,510,346**	**5.2%**
Statement of Cash Flow					
Net cash (used in)/ generated from operating activities	**762,835**	**177,093**	**2,160,339**	**2,337,432**	**206.4%**
Net cash (used in)/ generated from investing activities	(697,707)	(205,108)	(677,267)	(882,375)	26.5%
Net cash (used in)/ generated in financing investments	-	-	-	(36,325)	-
Increase/ (decrease) in cash and cash equivalents	**65,128**	**(28,015)**	**1,446,747**	**1,418,732**	**-**
Ratios					
Expense Ratio	-17.4%	-14.86%	-12.46%	-13.7%	
Loss Ratio	-88.7%	-107.45%	-77.63%	-92.7%	
Combined Ratio	-106.2%	-122.31%	-90.10%	-106.4%	
Insurance Margin	49.8%	51.29%	52.97%	52.1%	
Return on Equity (ROE)	0.7%	-	-	1.8%	
Return on Assets (ROA)	0.1%	-	-	0.2%	
Net margin	0.5%	-4.86%	7.70%	1.4%	
P/E				39.7	
P/B				0.9	

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.

- **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.

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