

Britam Holdings Ltd - 1H17 Earnings Update

“Net claims spike”

Britam recorded a 44.1% y/y decline in 1H17 net earnings to KES 995.1M. The drop was mainly due to an 84.8% y/y surge in net insurance claims, increase in policyholders’ benefits and loss adjustment expenses to KES 6.7B. The growth in net insurance claims led to a 33.3% y/y increase in total expenses KES 13.5B outpacing the 15.8% y/y rise in Britam’s total income to KES 14.7B.

Top-line up on increased uptake of marine insurance: Britam posted a 7.2% y/y increase in gross earned premium to KES 11.2B. This was due to increased uptake of marine insurance from the start of the year. Starting January 2017, all imports to Kenya are to be insured by local insurers as per the new regulations. According to the Association of Kenya Insurers (AKI) total local marine cargo insurance premiums have grown 64% to KES 1.1B in 1H17 with Britam being the largest marine insurer.

Total income boosted by rise in listed equities share prices: Total income rose 15.8% y/y to KES 14.7B. This is mainly attributable to a surge in gains on financial assets at fair value through profit or loss. In 1H17, NSE-20 rose 13.2% while the broad NASI grew 14.7%. Riding on this wave, the group reported gains on financial assets of 1.1B in 1H17 as compared to a loss of 318.9M loss in 1H16. Following the recently held elections, the market has seen a rally in the indices (NSE-20– 26.4% YTD and NASI– 25.6% YTD). We expect the rally to hold in 2H17 which may see higher gains on financial assets.

Net insurance claims and policyholders’ benefits surge due to change in valuation methodology: Net insurance claims, increase in policyholders’ benefits and loss adjustment expenses increased 84.8% y/y to KES 6.7B. The growth was driven mainly by a change in valuation methodology to Gross Premium Valuation methodology from Net Premium Valuation which was effective January 2016. Unlike the NPV method, the GPV method takes into account future expenses associated with maintaining the policy, hence increasing the accuracy of reserving. The loss ratio increased to 65.4% in 1H17 from 38.5% in 1H16.

Share of profit from associate dips due to effects of cap on lending rates: Share of profit from associate plunged 74.4% y/y to KES 77.6M. Britam owns a 48.82% stake in Housing Finance Corporation Ltd. The mortgage provider bank has been adversely affected by the cap on lending rates implemented in 2016. For 1H17, Housing Finance’s net interest income declined 25.3% to KES 1.6B as net earnings plunged 74.0% to KES 159.0M.

Looking Ahead: We expect the uptake of long-term insurance and marine insurance to boost top line going forward. With the use of GPV methodology, changes in actuarial value of policyholders benefits may increase in FY18 but stabilize in the long-term. In 1H17 IFC bought a 10.37% stake in Britam at a price of KES 15.85 per share. This led to a rally on Britam’s share price in 1H17 touching a new 52-week high of KES 16.00. At the current price of KES 15.45, Britam is trading at 17.8x 1H17 annualized earnings and 1.6x book value against an industry average of 10.8x and 1.2x respectively. These metrics portray an overvalued stock. We expect the price to take a hit in the immediate short term. Britam remains a fundamentally sound company and would be a good buy at lower multiples.

Bloomberg Ticker :	BRIT KN
Reuters Ticker:	BRIT.NR

Share Statistics	
Current Price (KES)	15.45
Issued shares (M)	1,938.4
Market cap (USD M)	290.2
Year end	31 Dec
3-month avg traded val (USD)	339,662
Free float (%)	47.8

Price Trend



Source: Bloomberg, ApexAfrica Research

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IH17 Financials

	1H16	FY16	1H17	% chg
	KES '000	KES '000	KES '000	
Income Statement				
Gross earned premium	10,481,147	20,291,844	11,234,871	7.2
Reinsurance ceded	(1,639,368)		(1,491,205)	-9.0
Net earned premiums	8,841,779	20,291,844	9,743,666	10.2
Fund management Fees	529,441	929,234	453,324	-14.4
Commissions earned	416,941	718,839	514,775	23.5
Investment income	2,726,124	5,223,975	2,772,369	1.7
Gains/ (losses) on financial assets at fair value through profit or loss	(318,895)	(2,444,727)	1,090,362	
Other income	491,893	539,308	118,495	-75.9
Total income	12,687,283	25,258,473	14,692,991	15.8
Net insurance claims, increase in policyholders' benefits and loss adjustment	(3,608,468)	(5,001,165)	(6,669,113)	84.8
Commissions expense	(1,825,156)	(3,547,258)	(1,816,824)	-0.5
Interest payments/increase in unit value	(639,912)	(1,742,978)	(513,893)	-19.7
Operating and other expense	(3,529,665)	(7,094,697)	(3,898,804)	10.5
Finance costs	(514,036)	(1,177,264)	(589,772)	14.7
Total expenses	(10,117,237)	(18,563,362)	(13,488,406)	33.3
Share of profit from associate	303,252	442,281	77,629	-74.4
Profit before tax	2,873,298	7,137,392	1,282,214	-55.4
Profit after tax	1,778,895	2,480,204	995,089	-44.1
EPS (KES)	0.92	1.28	0.51	-44.6
DPS (KES)	-	0.30	-	
Statement of Financial Position				
Fixed and intangible assets	3,680,942	3,680,942	3,543,505	-3.7
Investment assets	63,916,237	63,916,237	69,521,895	8.8
Insurance assets	7,007,477	7,007,477	7,215,907	3.0
Cash and cash equivalent	5,967,017	5,967,017	6,650,412	11.5
Other assets	3,070,936	3,070,936	3,691,118	20.2
Total assets	83,642,609	83,642,609	90,622,837	8.3
Retained earnings	897,351	897,351	1,310,744	46.1
Total equity	17,877,596	17,810,373	19,202,168	7.4
Insurance contracts liabilities	50,411,564	50,411,564	56,104,668	11.3
Borrowings	9,379,826	9,379,826	9,391,619	0.1
Other liabilities	5,973,623	5,973,623	5,924,382	-0.8
Total liabilities	65,765,013	65,765,013	71,420,669	8.6
Ratios				
Expense Ratio (%)	-20.6	-17.5	-18.6	
Loss Ratio (%)	-40.8	-24.6	-68.4	
Combined Ratio (%)	-61.5	-42.1	-87.1	
Return on Equity (ROE) (%)	10.0	13.9	5.2	
Return on Assets (ROA) (%)	2.1	3.0	1.1	
Net margin (%)	17.0	12.2	8.9	
Debt to Equity (%)	52.5	52.7	48.9	
P/E (x)		7.9	17.8	
P/B (x)		1.1	1.6	
Dividend Yield (%)		3.0		

Source: Britam Company Filings, ApexAfrica Research

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