

## Britam Holdings Plc

### ‘Expense surge eats into bottom-line’

**Britam Holdings Plc (Britam) posted a 1.4% y/y decline in net earnings to KES 981M in 1H18 despite registering a 10.5% y/y growth in gross earned premiums to KES 12.9B. The rather dismal bottom-line performance is attributable to a 13.1% y/y rise in net claims, 11.6% y/y jump in operating expenses and the 580bps y/y hike in the effective tax rate to 28.8%. The Board of Directors did not recommend an interim dividend.**

#### Topline growth steady in 1H18

Britam posted an impressive 10.5% y/y increase in gross earned premiums to KES 12.9B. The topline expansion was realized on the back of a stable macroeconomic environment experienced in 1H18 which offset effects of the slump in economic activity in 2H17. Insurance premiums ceded to reinsurers ballooned 17.2% y/y to KES 1.7B in line with the rise in gross earned premiums. Consequently, the group posted a 9.6% y/y jump in net earned premiums to KES 11.2B.

#### Investment income and fair value gains on financial assets boost total income

Investment income burgeoned 36.6% y/y to KES 3.7B in tandem with the 20.1% y/y rise in investment assets to KES 89.7B. Similarly, fair value gains on financial assets at fair value through profit and loss posted a 34.2% y/y jump to KES 1.6B riding on the resurgence of the equities and fixed income market in 1Q18. Overall, total income grew 14.7% y/y to KES 16.8B.

#### Rising insurance claims and operating expenses subdue bottom-line growth

The impressive top-line performance was undone by surging insurance claims and loss adjustments (13.1% y/y) and an 11.6% y/y leap in operating expenses. Interest payments skyrocketed 177.9% y/y to KES 1.4B as ramifications attributable to the Britam term note issued in 2014 continue to exert pressure on the insurer’s balance sheet. This resulted in a 6.6% y/y rise in PBT to KES 1.4B. The 580bps y/y rally in the effective tax rate to 28.8% led to a 1.4% y/y ebb in net earnings to KES 0.9B. The poor performance registered in the group’s associates (95.6% y/y nose-dive to KES 3.4M) further exacerbated the situation exerting negative pressure on the bottom-line.

#### Outlook for 2018:

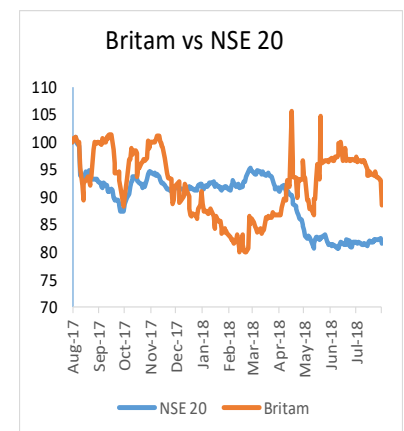
Rejuvenated business activity in Kenya coupled with the positive growth in regional economies projected in FY18 is expected to boost the Group’s topline growth going forward. Sustained broadening of insurance claims together with unchecked operating costs may, howev-

**Bloomberg Ticker:** BRIT KN  
**Reuters Ticker:** BRIT.NR

#### Share Statistics

Current Price (KES)	13.25
Issued shares (M)	2163
Market cap (USD M)	284.4
Year end	31-Dec
3-month avg traded val (USD)	19,711
Free float (%)	17.3%

#### Price Trend



Source: Bloomberg, ApexAfrica Research

#### Research Analyst

**Gift Kori**

kgift@apexafrica.com

020 760 2533

er, eat into the insurer's profit margins. The steady growth in Britam's asset base presents opportunities for investment income expansion and its consequent contribution to the top-line. The Group's shares at the bourse have risen 4.9% YTD with multiples P/E 30.1x, P/B 1.2x and a low dividend yield of 2.5%, deeming the counter fairly priced given the industry's average of P/E 35.4x and P/B 1.1x.

### Financials

Income Statement (KES M)	1H17	FY17A	1H18	Δ%y/y
Gross earned premium	11,688	24,059	12,920	10.5
Less: Insurance premium ceded	(1,491)	(3,000)	(1,748)	17.2
<b>Net insurance premium</b>	<b>10,197</b>	<b>21,059</b>	<b>11,172</b>	9.6
Investment income	2,681	5,054	3,662	36.6
<b>Total income</b>	<b>14,693</b>	<b>27,837</b>	<b>16,848</b>	14.7
Net Insurance Claims and loss adjustment expenses	(6,669)	(12,499)	(7,540)	13.1
Operating and other expenses	(3,899)	(7,356)	(4,350)	11.6
Interest payments/ Increase in unit value	(514)	(2,463)	(1,429)	177.9
<b>Total expenses and commission</b>	<b>13,488</b>	<b>27,023</b>	<b>15,486</b>	14.8
Share of profit of the associates	78	53	3.4	-95.6
<b>Profit/ (loss) before tax</b>	<b>1,282</b>	<b>866</b>	<b>1,366</b>	6.6
<b>Profit for the year</b>	<b>995</b>	<b>527</b>	<b>981</b>	-1.4
EPS	0.51	0.26	0.44	-13.7
DPS	0	0.35	0	
<b>Statement of Financial Position</b>				
<b>Assets</b>				
Fixed and Intangible assets	3544	3597	3582.5	1.1
Investment assets	74,655	81,769	89,671	20.1
Insurance assets	7,618	8,074	9,029	18.5
Other assets	2,921	2,538	2,459	-15.8
<b>Total assets</b>	<b>90,623</b>	<b>99,025</b>	<b>112,419</b>	24.1
<b>Liabilities</b>				
Insurance liabilities & deposit administration contracts	56,104	61,264	68,024	21.2
Borrowings	9,392	7,963	8,556	-8.9
Other liabilities	5,924	7,128	7,057	19.1
Total liabilities	71,421	76,354	83,637	17.1
<b>Total equity</b>	<b>19,202</b>	<b>22,670</b>	<b>28,782</b>	49.9
<b>Ratios and Margins</b>				
Expense Ratio (%)	38.2	34.9	38.9	
Loss Ratio (%)	65.4	59.4	67.5	
Combined Ratio (%)	103.6	94.3	106.4	
Insurance margin (%)	34.6	40.6	32.5	
Return on Equity (ROE) (%)	5.2	2.3	3.4	
Return on Assets (ROA) (%)	1.1	0.5	0.9	
Net margin (%)	9.8	2.5	8.8	
Debt to Equity (%)	48.9	35.1	29.7	
<b>P/E(x)</b>		<b>30.1</b>		
<b>P/B(x)</b>		<b>1.23</b>		
<b>Dividend Yield %</b>		<b>2.7</b>		

Source: Company Filings, ApexAfrica Research

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ApexAfrica Capital Ltd  
**A** The Riverfront, 1<sup>st</sup> Floor, Prof. David Wasawo Drive, Off Riverside Drive | P.O. Box 43676-00100 | Nairobi | Kenya |  
**T**: +254-20-2226440 | **F**ax: +254-20-2319092 | **C**ell: +254-723-420204|  
**W** : [www.apexafrica.com](http://www.apexafrica.com)  
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