

Kenya Reinsurance Corporation

‘Topline dwindles, expenses flat, PBT down’

Kenya Re announced a staggering 24.2% y/y plunge in 1H18 net profit to KES 1.2B. The steep decline was occasioned by a 10.1% y/y contraction in net earned premiums to KES 6.4B, whose effect spiraled down resulting in a 23.4% y/y erosion in PBT to KES 1.8B. The Board of directors did not recommend payment of an interim dividend.

Topline shrinks on lower written premiums

Kenya Re posted a 15.6% y/y decline in gross written premiums to KES 6.3B along with net earned premiums which fell 10.1% y/y to KES 6.4B, highlighting a poor topline performance in 1H18. The receding of net earned premiums was due to overall loss of business across key markets including Ghana, Nigeria, India, Ethiopia and Nepal due to domestication.

Investment income balloons, offsetting slow topline growth

Investment income posted an impressive 14.0% y/y jump to KES 1.9B buoyed by the general recovery in economic activity combined with a strong performance in government securities. The surge in investment income was, however, offset by the dismal topline performance resulting in a 5.6% y/y reduction in the company’s total income to KES 8.3B.

Total expenses remain flat, bottom-line slackens

Net claims decreased 6.8% y/y to KES 3.4B attributable to no major claims incurred during the period. The fall off in net claims was neutralized by a 6.6% y/y leap in operating expenses to KES 745.1M precipitating a flat performance in total expenses. In light of the diminishing topline coupled with a flat expense line, PBT took a hefty blow falling 23.4% y/y to KES 1.7B. Consequently, PAT stood at KES 1.2B highlighting a 24.2% y/y drop.

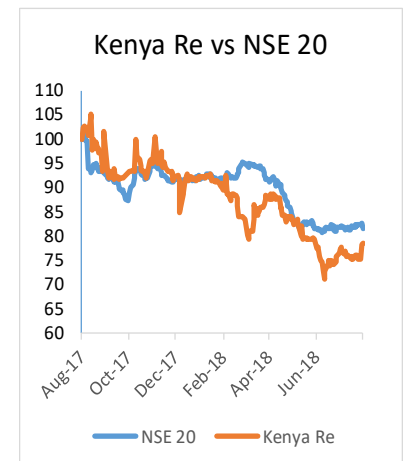
Looking ahead: The loss of business in key markets as a result of domestication is expected to subdue topline growth in the short to medium term. However, the resurgence of local business activity combined with increased government spending may boost the uptake of insurance products which, should eventually trickle down to the reinsurance business through elevated insurance premiums ceded by insurers. The counter which trades with multiples P/E 9.5x and P/B 0.5x at the local bourse has seen the share price shed 8.8% YTD to KES 16.5.

Bloomberg Ticker: KNRE KN
Reuters Ticker: KNRE.NR

Share Statistics

Current Price (KES)	16.50
Issued shares (M)	699.9
Market cap (USD M)	114.5
Year end	31-Dec
3-month avg traded val (USD)	63,013
Free float (%)	39.9%

Price Trend



Source: Bloomberg, ApexAfrica Research

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Financials forecasts

Income Statement (KES M)	1H17	FY17A	1H18	Δ%/y
Gross witten premium	7,504	14,827	6,332	-15.6
Net earned premium	7,089	13,680	6,372	-10.1
Investment income	1,671	3,165	1,905	14.0
Total income	8,806	18,190	8,312	-5.6
Net claims and policyholders benefits	-3,607	-7,599	-3,362	-6.8
Operating and other expenses	-699	-1,709	-745	6.6
Total expenses	-6,511	-13,631	-6,555	0.7
Profit/ (loss) before tax	2,294	4,559	1,757	-23.4
Profit for the year	1,622	3,577	1,230	-24.2
EPS	2.32	5.11	1.76	-24.1
Statement of Financial Position				
Assets				
Government securities	11,925	14,563	16,688	39.9
Investment in associate	3,998	4,399	4,399	10.0
Investment property	8,918	9,622	9,622	7.9
Quoted equity instruments	2,205	2,108	1,755	-20.4
Other assets	13,690	12,041	11,150	-18.6
Total assets	40,736	42,733	43,614	7.1
Liabilities				
Reinsurance contract liabilities	7,810	8,129	8,344	6.8
Unearned premiums	4,756	5,114	4,678	-1.6
Deferred tax liability	903	945	945	4.7
Total liabilities	14,828	15,527	15,474	4.4
Net assets	25,908	27,205	28,140	8.6
Ratios and Margins				
Expense Ratio (%)	41.0	44.1	50.1	
Claims Ratio (%)	50.9	55.5	52.8	
Combined Ratio (%)	91.8	99.6	102.9	
Insurance margin (%)	49.1	44.5	47.2	
Return on Equity (ROE) (%)	6.3	13.1	4.4	
Return on Assets (ROA) (%)	4.0	8.4	2.8	
P/E		9.4		
P/B		0.5		
Dividend yiled (%)		4.3		

Source: Company Filings, ApexAfrica Research

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