



BRITAM – FY2012 Results Note

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Summary

We place a LONG-TERM BUY recommendation on Britam.

We place a **LONG-TERM BUY** recommendation

Going forward we are positive about the cautious approach the group is taking with regards to the expansion. We expect good performance from the insurance business and the asset management business in the mid-term and strong gains from property development in the long term.

Key highlights to note include:

- Core insurance and asset management operations gross revenues grew by 24%
- Insurance Business registered a Profit before Tax of KES 1.5 billion in FY2012 from KES 1.1 billion in FY2011 representing a 36.3% growth while life insurance business gained by 40% to KES 848 million.
- Asset Management business achieved a Profit before Tax of KES 115.9 million in FY2012 as compared to KES 43.9 million in FY2011.
- The Asset Management Business has KES 28.1 billion in Assets Under Management (AUM),
- The company targets to increase the property portfolio to about 30% within the 2012 to 2016 period.

	FY2011	FY2012
Net Income (KES '000)	-1,957,305	2,519,461
Return on Equity (ROE)	-22.9%	20.2%
Return on Assets (ROA)	-7.6%	7.0%
P/E x	-7.71	6.00
P/B x	1.81	1.24
BVPS	4.65	6.77

BRITAM Earnings Update

Income Statement (KES '000)	FY2011	FY2012	% Change
Gross earned premiums	5,607,621	6,849,692	22.1%
Reinsurance premium ceded	(670,914)	(893,001)	33.1%
Fund management fees	238,315	377,208	58.3%
Investment income	1,296,171	1,971,016	52.1%
Fair Value gains on financial assets at fair value through profit and loss	(3,306,063)	3,032,092	191.7%
Commissions earned	237,900	307,639	29.3%
Net income	3,382,684	11,743,384	247.2%
Net insurance benefits and claims	(2,999,016)	(3,669,331)	22.4%
Operating and other expenses	(1,760,544)	(2,286,578)	29.9%
Commissions payable	(1,192,335)	(1,476,086)	23.8%
Share of profit of the associate	79,436	146,845	84.9%
Profit before Tax	(1,724,086)	2,849,406	265.3%
Total comprehensive income for the year	(4,186,381)	4,184,734	200.0%
Basic and diluted Earnings Per Share	(1.09)	1.40	228.4%
Balance Sheet (KES '000)	FY2011	FY2012	% Change
Shareholders' funds	8,557,448	12,472,324	45.7%
Assets			
Investment in associate	1,360,608	1,459,826	7.3%
Investment property	1,405,294	1,706,057	21.4%
Financial assets at fair value through profit or loss:			
- Quoted ordinary shares	4,281,483	6,084,289	42.1%
- Unit trusts	4,378,902	6,064,687	38.5%
- Corporate bonds	-	28,253	
Government securities held to maturity	4,374,453	6,685,780	52.8%
Total assets	25,639,244	35,820,165	39.7%
Liabilities			
Insurance contract liabilities	7,370,421	10,467,211	42.0%
Unearned premium	982,778	1,292,195	31.5%
Total liabilities	17,081,796	23,347,841	36.7%
Net assets	8,557,448	12,472,324	45.7%
Ratio Analysis	FY2011	FY2012	
Loss Ratio (Net claims/Net earned premiums)	45.2%	61.6%	
Expense Ratio (Operating Expenses/Net earned premiums)	35.7%	38.4%	
Profit Before Tax Margin	-36.5%	45.4%	
Return on Equity (ROE)	-22.9%	20.2%	
Return on Assets (ROA)	-7.6%	7.0%	

Income Statement Analysis

Gross earned premium rose by 22.1% to KES 5.6 billion

Gross earned premium rose by 22.1% y-o-y from KES 5.6 billion in FY2011 to KES 6.8 billion in FY2012. The Compounded Annual Growth Rate (CAGR) of gross earned premium is 21.3% from FY2008 to FY2012. The rise in gross earned premium could be attributed to an extensive distribution network that comprises of over 1,000 agents and 140 brokers who have helped penetrate the market.

Underwriting Profit	FY2011	FY2012
Net earned premium	4,936,707	5,956,691
Net Claims & Benefits Payable	2,380,224	4,282,914
Commissions earned	237,900	307,639
Commissions payable	1,192,335	1,476,086
Operating & other expenses	1,760,544	2,286,578
<u>Underwriting profit/ (Loss)</u>	<u>(158,496)</u>	<u>(1,781,248)</u>

Bancassurance helped access more customers

Bancassurance extensively helped in accessing more customers through the use of banks' branch networks. The group's bancassurance premium from Equity Bank amounted to KES 1.8 billion comprising of general business – KES 1.1 billion, medical – KES 104 million, credit life – KES 605 million, besides pension administration fees of KES 2.3 million. Business from Housing Finance amounted to KES 49 million comprising KES 25 million general business and KES 20 million credit life.

Investment income grew by 52.1%

Fund management fees grew by 58.3% to KES 377 million in FY2012 while investment income grew by 52.1% to KES 1.9 billion in FY2012. The major component of the investment income is from fixed income. The group plans to have 30% of its asset mix exposed to equities as compared to 31% in FY2012 in order to be less vulnerable to volatile earnings.

Fair value gains on financial assets at fair value through profit and loss registered a 191.7% increase to KES 3.0 billion from a loss position of KES 3.3 billion in FY2011. The increase could be attributable to the rebound in the equities market in FY2012. For instance, the fair value gains on investments in the British American Equity Fund stood at KES 742 million in FY2012 from a loss position of KES 863 million in FY2011.

Commissions earned rose by 29.3% to KES 307 million in FY2012 from KES 238 million in FY2011.

Net insurance benefits and claims rose by 22.4%

Net insurance benefits and claims rose 22.4% to KES 3.7 billion in FY2012 from KES 3.0 billion in FY2011. Consequently, the loss ratio (net claims/net earned premiums) increased to 61.6% in FY2012 as compared to 45.2% in FY2011.

Operating and other expenses grew by 29.9%

Operating and other expenses grew by 29.9% to KES 2.3 billion in FY2012 from KES 1.8 billion in FY2011. As a result, the expense ratio (operating expenses/net earned premium) rose to 38.4% in FY2012 from 35.7% in FY2011.

Share of profit of associate increased by 84.9% to KES 146 million in FY2012 from KES 79 million in FY2011. The group holds a 10.64% stake in Equity Bank and recently increased its stake in Housing Finance to 21.46%. The two financial services providers recently posted improved earnings and have high growth potential.

Balance Sheet Analysis

Total assets grew by 39.7% to KES 35.8 billion in FY2012 from KES 25.6 billion in FY2011.

Investment in associate grew by 7.3%

Investment in associate grew by 7.3% to KES 1.5 billion in FY2012 from KES 1.4 billion in FY2011. Britam increased its stake in Housing Finance to 21.46% in FY2012 from 20.68% in FY2011.

Investment property grew by 21.4%

Investment property grew by 21.4% to KES 1.7 billion in FY2012 from KES 1.4 billion in FY2011. Britam aims to increase its investment property with increased involvement in office development and residential property.

Quoted ordinary shares increased by 42.1% to KES 6.1 billion in FY2012 from KES 4.3 billion in FY2011 while government securities held to maturity increased by 52.8% to KES 6.7 billion in FY2012.

Insurance contract liabilities edged up 42.0% to KES 10.5 billion in FY2012 as unearned premium rose by 31.5% to KES 1.3 billion in FY2012.

Growth prospects

KES 10 billion property fund to be utilized

- KES 10 billion property fund to be used in office development and residential property. Britam recently launched the Iconic Upper Hill Office building in March 2012.
- Following the successful rollout of bancassurance with Equity Bank and Housing Finance, Britam aims to enhance relations with banks in order to fully utilise their branches to sell products
- Britam plans to have an established presence in the newly formed counties through the opening of 8 new branches, increased sales force to 1,354 financial advisors and signing of 12 new franchise agreements with independent insurance agencies.
- Strategic regional expansion in countries with high potential for growth such as Uganda and South Sudan.

Signed on 12 new franchise agreements

Outlook

Going forward we are positive about the cautious approach the group is taking with regards to expansion. We expect good performance from the insurance business and the asset management business in the mid-term and strong gains from property development in the long term. We therefore place a **LONG-TERM BUY** recommendation.

We recommend a **LONG-TERM BUY**