



## BRITAM – Update Note

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## BRITAM Update Note

### Recommendation: NEUTRAL

Current Market price (26.08.2014)	KES 24.00
Trailing BVPS: FY2014	KES 7.88
Trailing P/B	1.86X
Target Price	KES 25.37
Upside Potential	5.7%

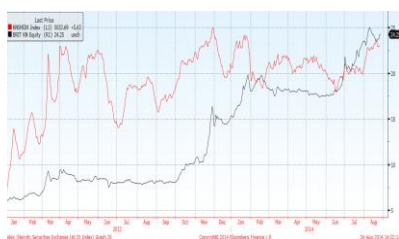
Since our last report on the insurance sector we have seen the share price for Britam rise 33.3% to KES 24.00 (Monday August 25<sup>th</sup> 2014) from KES 18.00 (as at 14<sup>th</sup> April 2014).

**Given the envisaged target price KES 25.37, we downgrade our recommendation from BUY to NEUTRAL with a 5.7% upside potential from the current share price of KES 24.00.**

However, in the medium to long term, we believe the company's strategy of acquiring Real insurance is likely to see the company record significant gains after the consolidation of both businesses. In addition, the property investments the company is looking to make with its partner Acorn, are likely to see the firm achieve high returns in the long term as is characterized with real estate investments in the country.

Our recommendation is also informed by the following highlights of the 1H2014 results:

- ✓ **Gross earned premium grows in line with expectation:** Gross earned premiums grew by 27.5% to KES 5.6 billion (KES 4.4 billion in FY2013). This was inline with our FY2014 gross earned premium growth expectations of KES 11.4 billion.
- ✓ **Net Claims also in line with expectation:** The net claims for the group went up by 44.1% to KES 3.6 billion compared to KES 2.5 billion (1H2013). This was in line with our forecasted FY2014 claims of KES 6.3 billion.
- ✓ **Operating expenses buoyed up by acquisition costs:** Operating expenses increased by 49.1% to KES 1.8 billion, compared to KES 1.2 billion (1H2013) due to the acquisition phase the company is going through during the current financial year.



	FY2011	FY2012	FY2013	FY2014F
Gross Earned premium (KES '000)	5,607,622	6,849,693	8,847,166	11,389,992
Return on Average Equity (ROaE)	-24.5%	24.0%	18.0%	16.1%
Return on Average Assets (ROaA)	-8.5%	8.2%	6.4%	6.4%
P/E x	-6.5X	5.12X	11.87X	15.75X
P/B x	1.41X	1.03X	1.86X	2.13X
EPS	-0.91	1.17	1.23	1.56
BVPS	3.98	5.80	7.88	11.48

Source: Company Filings & Faida Estimates

## BRITAM 1H2014 NOTE

British American Investment Company (Kenya) Ltd				
KES '000	Jun-13	Jun-14	% Change	FY2014
Gross Revenue	4,402,259	5,611,457	27.5%	11,389,992
Reinsurance	(577,578)	(583,881)	1.1%	(1,357,458)
<u>Earned Income</u>	<u>3,824,681</u>	<u>5,027,576</u>	<u>31.5%</u>	<u>10,032,534</u>
Investment & other income	4,161,564	5,215,332	25.3%	8,839,935
Net claims payable	(2,497,180)	(3,598,834)	44.1%	(6,322,799)
Commissions Payable	(887,553)	(1,093,675)	23.2%	(2,585,609)
Operating expenses	(2,407,594)	(2,693,305)	11.9%	(4,133,883)
Share of profits of associate	86,408	152,503		180,928
<u>Profit before tax</u>	<u>2,280,326</u>	<u>3,009,597</u>	<u>32.0%</u>	<u>4,028,869</u>
Income Tax	(121,984)	(263,208)		(683,678)
<b><u>Profit after Tax</u></b>	<b><u>2,158,342</u></b>	<b><u>2,746,389</u></b>	<b><u>27.2%</u></b>	<b><u>3,345,191</u></b>

Balance Sheet	Dec-13	Jun-14	6 month growth	FY2014
<b><u>Shareholder funds</u></b>	<b><u>16,934,797</u></b>	<b><u>22,527,467</u></b>	<b><u>33.0%</u></b>	<b><u>24,676,439</u></b>
Total Assets	46,902,578	55,150,516	17.6%	57,957,599
Total Liabilities	29,967,781	32,623,049	8.9%	33,281,160
<b><u>Net Assets</u></b>	<b><u>16,934,797</u></b>	<b><u>22,527,467</u></b>	<b><u>33.0%</u></b>	<b><u>24,676,439</u></b>

Britam released its 1H2014 results which showed a 32.0% gain in profit before tax to KES 3.0 billion compared to KES 2.3 billion recorded during the first half of the previous financial year.

### The Key Group Results Highlights:

The total income by the group increased by 28.3% to KES 10.2 billion compared to KES 8.0 billion recorded during the previous financial year. This was in line with our FY2014 expectation of KES 18.9 billion..

### Asset Management

The Asset management business recorded a 64.8% growth to KES 440.0 million compared to KES 267.0 million (1H2013) This growth was boosted by an increased product offering by the firm. We are likely to see the FY2014 revenues for the asset management to grow by 52.0% (in line with the 5year compounded annual growth rate) to KES 957.6 million.

The profit before tax for the asset management grew by 22.4% to KES 153.0 million compared to KES 125.0 million (1H2013). We forecast a profit before tax of KES 289.5 million, a 19.2% growth compared to KES 243.0 million in FY2013.

### Insurance Business

**Gross earned premium grows in line with expectation:** Gross earned premiums grew by 27.5% to KES 5.6 billion (KES 4.4 billion in FY2013). This was inline with our FY2014 gross earned premium growth expectations of KES 11.4 billion.

The various insurance business recorded growth as follows:-

- ✓ Ordinary life revenues up 27% to KES 2.4 billion
- ✓ Micro insurance & bancassurance up by 58% to KES 1.1 billion
- ✓ General insurance up by 30% to KES 835 million.

- ✓ Britam Uganda up by 63% to KES 125 million.
- ✓ South Sudan up 183% to KES 22 million.

In addition, the subsidiary businesses contributed 4.0% to the revenues of the firm. Britam Uganda contributed KES 125 million while Britam South Sudan and Rwanda contributed to KES 116 million and KES 22 million respectively.

We note that the take over of real insurance was completed on 31<sup>st</sup> July 2014 and on 1<sup>st</sup> August 2014 became a subsidiary of Britam. Going forward, we expect to see the company boost its income by incorporating the Real Insurance results.

According to management, the general insurance business recorded an underwriting profit of over KES 170 million with all insurance classes in general business recording positive returns.

### Claims and Expenses

**Net Claims also in line with expectation:** The net claims for the group went up by 44.1% to KES 3.6 billion compared to KES 2.5 billion (1H2013). This was in line with our forecasted FY2014 claims of KES 6.3 billion.

Consequently, the claims ratio increased to 71.6% compared to 65.3%.

**Operating expenses buoyed up by acquisition costs:** Operating expenses increased by 49.1% to KES 1.8 billion, compared to KES 1.2 billion (1H2013) due to the acquisition phase the company is going through during the current financial year. This saw the expense ratio for the firm increase to 36.5% compared to 32.1% recorded during the first half of the previous financial year.

**Increased investment yield:** The total investment income for the firm increased by 59.8% to KES 1.7 billion compared to KES 1.1 billion recorded during the previous financial year. The investment income yield on total assets also increased to 3.1% compared to 2.5% recorded during the same period the previous year.

### VALUATION

We valued Britam using P/B multiple methodology. We used the 2014 forecasted BVPS and a sample Sub-Saharan trailing P/B to arrive at our price target.

<b>P/B Multiple Valuation</b>	
Current Market Price (25.08.14)	KES 24.00
Trailing sample BVPS	2.21X
Trailing company P/B	3.11X
Forecasted BVPS: 2014	KES 11.48
<b>Target Price</b>	<b>KES 25.37</b>
<b>Upside Potential</b>	<b>5.7%</b>

## RECOMMENDATION

Since our last report on the insurance sector we have seen the share price for Britam rise 33.3% to KES 24.00 (as at Monday August 25<sup>th</sup> 2014) from KES 18.00 (as at 14<sup>th</sup> April 2014).

**Given the envisaged upside potential (5.7%), we downgrade our recommendation from BUY to NEUTRAL which represents a 5.7% upside from the current share price of KES 24.00.**

However, in the medium to long term, we believe the company's strategy of acquiring Real insurance is likely to see the company record significant gains after the consolidation of both businesses. In addition, the property investments the company is looking to make with its partner Acorn, are likely to see the firm achieve high returns in the long term as is characterized with real estate investments in the country.

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