

**Valuation Summary**

- We recommend a SELL for the CIC Group stock with a target price of Kshs. 5.8, representing a downside of 1.7% from the current price of Kshs 6.0, inclusive of a dividend yield of 1.8%
- CIC trades at a price to book value of 2.2x and a price to earnings of 13.9x compared to the insurance industry average of 1.5x and 8.9x respectively. CIC is a penny stock, exposing it to frequent speculative trading rallying the price.

**Key Highlights – 2015**

- During the year 2015, CIC acquired a new IT system at a cost of Kshs 60 mn to enhance its medical business to enable the company to manage claims processing, premium costing and computing business data. The automation of the process backed by this new platform will lead to an improvement in customer service experience while at the same time bringing down costs associated with claims processing
- The group continued with its expansion strategy by opening several branches locally including opening a branch in Kitengela and other major cities. We expect CIC to start consolidation of its business after having expanded into new areas and having diversified its business, particularly into life business

**Earnings Update:**

- Earnings per share grew by 4.4% to Kshs 0.43 in 2015, from 0.42 in 2014, despite a 4.8% decline in total income, which was outpaced by a 4.9% decline in total expenses
- Gross earned premiums declined 5.4% to Kshs 12.6% in 2015 from Kshs 13.4 bn in 2014 driven by i) a tough economic environment that led to low uptake of insurance, and ii) CIC's strategy to streamline its medical business as well as its group life business which reportedly saw a number of large loss making accounts exit its portfolio, leading to a decline in their retention ratio to 84.9% in 2015 from 92.1% in 2014
- We expect the retention ratio to improve going forward, and to be above the industry average as the company takes in more life business. The industry retention ratio for the life business stands 92.1% while that of general business stands at 73.7%
- Consequently, net earned premiums declined by 12.8% to Kshs 10.7 bn in 2015, compared to Kshs 12.3 bn in 2014 driven by a tough economic environment that led to low uptake of insurance and competition from other insurance companies
- Investment income grew by 46.2% to Kshs 1.5 bn from Kshs 1.1 bn in 2014, with investment income contributing 11.1% for the total income in 2015 compared to 7.2% in 2014. The growth in investment income can be attributed to i) the increase in investment assets, which grew by 26.3% in 2015 to Kshs 13.6 bn from Kshs 10.8 bn in 2014, and ii) the favorably high interest income on bank deposits and commercial paper placements during the second and third quarters, higher than our projection of Kshs 1.3 bn
- Investment in the public markets account for 31.5% of the total investment assets, a portfolio which remained resilient against the harsh market environment. Despite the growth in investment income, the fall in net earned premiums led to a 4.8% decline in total income to Kshs 13.8 bn in 2015 from Kshs 14.5 bn in 2014
- Net claims and policyholder benefits declined 15.7% to Kshs 7.3 bn from Kshs 8.6 bn, driven by the topline decline in premiums leading to a decline in loss ratio to 67.9% in 2015 from 70.2% in 2014
- Total expenses declined 3.8% to Kshs 12.5% from Kshs 13.0 bn in 2014, translating to a combined ratio of 116.4% on account of growth 15.8% growth in commissions and operating expenses associated with the business reorganization in 2015 to Kshs 5.2 bn in 2015 from Kshs 4.5 bn in 2014

- Profit before tax declined 3.1% to Kshs 1.3 bn in 2015 from Kshs 1.4 bn in 2014, while profit after tax was up 4.4% to Kshs 1.14 bn, from Kshs 1.09 bn in 2014 on account of a slightly lower taxation charge. Dividend per share improved by 5% to Kshs 0.11 from Kshs 0.10 in 2014

### Balance Sheet:

- Total assets grew by 4.7% to Kshs 24.8 bn in 2015 from Kshs 23.7 bn in 2014 driven by a 17.9% growth in investment property to Kshs 5.4 bn in 2015
- Total liabilities grew by 3.0% to Kshs 17.0 bn from Kshs 16.5 bn in 2015; with borrowings remaining flat at Kshs 5.1 bn. Shareholders' funds grew by 8.6% to Kshs 7.8 bn in 2015.

Below is a summary of the key line items in the balance sheet and income statement.

Balance Sheet	FY'14A	FY'15A	y/y change	FY'15E	Projected y/y change	Variance in growth vs projection
Investment assets	10.8	13.6	26.3%	13.9	28.7%	-2.5%
Total Assets	23.7	24.8	4.7%	29.0	22.5%	-17.7%
Total liabilities	16.5	17.0	3.0%	20.5	24.2%	-21.2%
<b>Shareholders' Funds</b>	<b>7.2</b>	<b>7.8</b>	<b>8.6%</b>	<b>8.5</b>	<b>18.6%</b>	<b>-9.9%</b>

Income Statement	FY'14A	FY'15A	y/y change	FY'15E	Projected y/y change	Variance in growth vs projection
Gross earned premiums	13.4	12.6	-5.4%	15.4	15.0%	-20.4%
Net earned premiums	12.3	10.7	-12.8%	13.8	12.3%	-25.1%
<b>Total income</b>	<b>14.5</b>	<b>13.8</b>	<b>-4.8%</b>	<b>16.0</b>	<b>10.3%</b>	<b>-15.1%</b>
Net claims and policyholder benefits	8.6	7.3	-15.7%	10.4	20.0%	-35.7%
Total expenses	13.0	12.5	-3.8%	14.3	10.1%	-14.0%
<b>Profit before tax</b>	<b>1.4</b>	<b>1.3</b>	<b>-3.1%</b>	<b>1.9</b>	<b>37.3%</b>	<b>-40.5%</b>
<b>Profit after tax</b>	<b>1.1</b>	<b>1.1</b>	<b>4.4%</b>	<b>1.3</b>	<b>22.9%</b>	<b>-18.4%</b>
EPS	0.4	0.4	4.4%	0.5	22.9%	-18.4%
DPS	0.1	0.1	5.0%	0.1	0.0%	5.0%

Ratios	FY'14	FY'15A	FY'15E
Loss Ratio	70.2%	67.9%	67.0%
Combined Ratio	105.5%	116.4%	102.1%
ROE	15.1%	14.5%	15.7%
ROA	4.6%	4.6%	4.6%