



International Finance Corporation invests in Britam

Britam Holdings Ltd. (Britam) announced a deal where the International Finance Corporation (IFC), an investment arm of the World Bank, will acquire a 10.4% stake in Britam Holdings Ltd. The transaction, which is subject to approval from both regulators and shareholders, will see IFC inject Kshs 3.6 bn for an allocation of 224.2 mn ordinary shares at a subscription price of Kshs 15.9 per share, a 58.5% premium to the previous closing price of Kshs 10.0 per share.

Britam is a diversified financial services group with operations in Kenya, Tanzania, South Sudan, Uganda, Rwanda, Malawi and Mozambique. Britam is Kenya's largest player in the life segment with a market share of 23.0%. Britam Holdings Ltd is yet to disclose how they intend to use the proceeds from this transaction, but the mostly likely driver is to boost capital.

The transaction details are as below:

1. IFC is acquiring a 10.4% equity stake in Britam for Kshs 3.6 bn,
2. This is through the issuance of additional new 224.2 mn ordinary shares, bringing the total to 2.2 bn outstanding shares,
3. As at H1'2016, the group had a book value of Kshs 18.9 bn,
4. As such, the transaction is being carried out at a 1.5x Price-to-book post money valuation, which is about 37.5% discount to the average insurance sector transaction multiple of 2.4x over the last six-years, hence a relatively cheaper transaction valuation,
5. Following the new issued shares, current shareholders will have their ownership stake diluted by 10.4%,

Insurance Sector Transaction Multiples over the last 6 years						
Date	Acquirer	Insurance Acquired	Book Value (bn Kshs)	Transaction Stake	Transaction Value (bn Kshs)	P/Bv Multiple
Dec-10	Africa Development Corporation	Resolution Health East Africa	N/A	25.1%	0.2	N/A
Dec-11	Leapfrog Investments	Apollo Investments	0.3	26.9%	1.1	15.6x
Jan-13	Saham Finances	Mercantile Insurance	0.5	66.0%	Undisclosed	N/A
May-13	Swedfund	AAR	0.4	20.0%	0.4	5.4x
Apr-14	BAAM	Continental Re Kenya	0.7	30.0%	0.3	1.4x
May-14	Union Insurance of Mauritius	Phoenix of East Africa	1.8	66.0%	2.0	1.6x
Sep-14	UK Prudential	Shield Assurance	0.1	100.0%	1.5	10.2x
Oct-14	Swiss Re	Apollo Investments	0.6	26.9%	Undisclosed	N/A
Nov-14	Britam	Real Insurance Company	0.7	99.0%	1.4	2.1x
Nov-14	Leap Frog Investments	Resolution Insurance	0.2	61.2%	1.6	11.7x
Jan-15	Old Mutual Plc	UAP Holdings	9.6	60.7%	25.6	4.4x
Jan-15	MMI Holdings	Cannon Assurance	1.7	75.0%	2.4	1.9x
Mar-15	Pan Africa Insurance Holdings	Gateway Insurance	1.0	51.0%	0.6	1.1x
Jun-15	Barclays Africa	First Assurance	2.0	63.3%	2.9	2.2x
Dec-16	IFC	Britam	22.5	10.4%	3.6	1.5x
Harmonic Mean				35.2%		2.4x
Median				60.7%		2.2x

Key take-aways from this transaction:

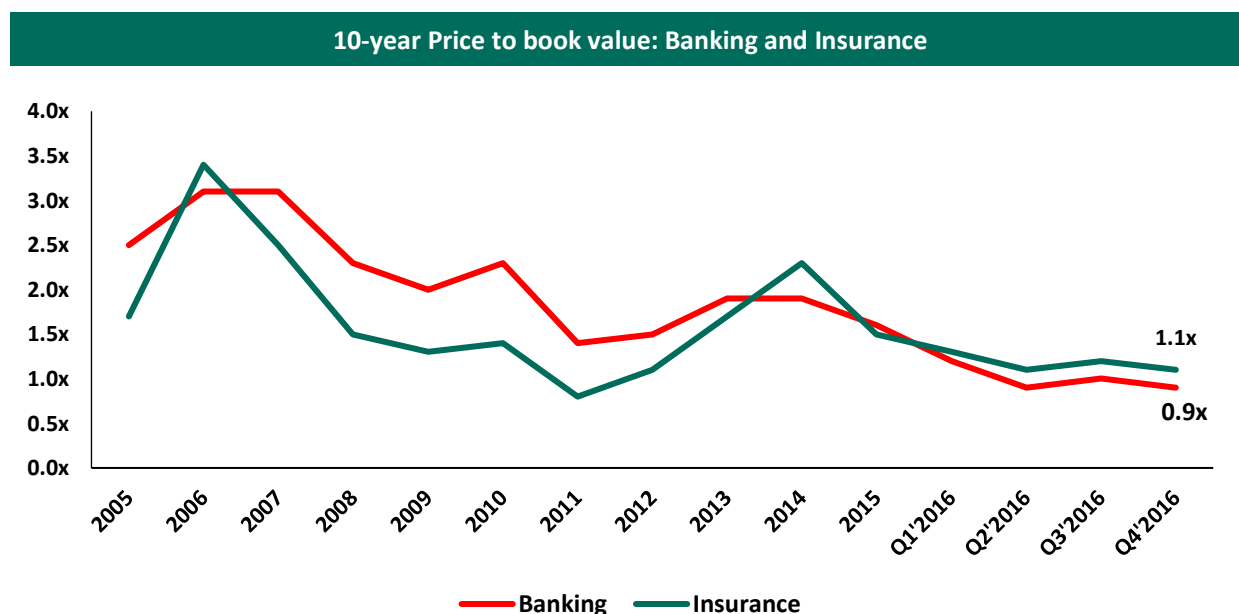
- i. There is value in the insurance sector. Sophisticated investors are willing to pay 1.5x Price-to-book for a sector trading at 1.1x Price-to-book value, a premium of 36.4%.
- ii. On the corporate governance (CGI) front, the transaction will shed positive light, given that Britam will be bringing on board an internationally renowned organisation. This transaction should see Britam Group's CGI score improve to 56.0% from 54.2% given the change in shareholder composition. The overall ranking, however, remains unchanged at position 38 out of the 50 companies taken into consideration.
- iii. The transaction will see the top shareholder, British American Holdings Ltd, diluted to 20.9% from the current 23.3% stake in the company, a stake now temporarily held by Plum Holdings.
- iv. This was a good transaction for both parties: For IFC they get to pick a compelling asset, with the best distribution platform in the region at a very attractive valuation of 1.5x Price-to-book, at less than half the 4.4x Price-to-book that Old Mutual paid for UAP. And for Britam, they get a very pristine name as a significant shareholder, effectively putting a floor on a stock that has been on a consistent decline over the last two years

This deal has wider implications to the financial services sector:

1. It shows that smart money, such as IFC, is seeing value in the financial services sector where valuations are currently at 0.9x Price-to-book for the banking sector and 1.1x Price-to-book for insurance, compared to the 10-year average of 2.1x and 1.7x Price-to-book, respectively
2. Financial services have been out of favour for a while now, we believe this transaction puts a floor on the valuation of financial services sector

The lower valuations coupled with increased capital requirements across the sector and regulatory demand for more discipline, especially in the banking sector, will most likely lead to more mergers and acquisitions transactions over the coming year; on one hand are capital hungry businesses at close to decade low valuations and on the other is smart money seeking attractive returns, this should make for an active deal environment

Below is a graph of the 10-year price-to-book value of listed banking and insurance companies, which suggests that listed insurance stocks are at present, relatively expensive as compared to listed banking stocks



For more information or any further clarification required, kindly contact the research team at investment@cytonn.com