Kenya's Listed Insurance Companies Analysis
Cytonn H1'2019 Insurance Sector Report

"Regulation and Consolidation to Drive Attractiveness"

Cytonn

Sunday, 17th November 2019

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1. Overview of the Firm

About Us

Cytonn Investments is an alternative investment manager with a primary focus on real estate investments in the high growth East African Region. In addition to real estate, Cytonn invests in educational facilities and hospitality, which are complimentary to its real estate developments. We have a unique strategy of coupling two compelling demand areas - the lack of high yielding investment products due to the large banking spread, and the lack of institutional grade real estate; by manufacturing high yielding instruments to attract funding from investors, and we deploy that funding to investment grade, well planned and comprehensive real estate developments that are largely pre-sold.

82 Over Kshs. 82 billion worth of projects under mandate

7 Seven offices across 2 continents

500 Over 500 staff members, including Cytonn Distribution

10 10 investment ready projects in real estate

A unique franchise differentiated by:

Independence & Investor Focus

Focused on serving the interest of clients, which is best done on an independent platform to minimize conflicts of interest

Alternative Investments

Specialized focus on alternative assets - Real Estate, Private Equity, and Structured Solutions

Strong Alignment

Every staff member is an owner in the firm. When clients do well, the firm does well; and when the firm does well, staff do well

Committed Partners

Strong global and local partnerships in financing, land and Cytonn Real Estate, our development affiliate

Why We Exist

Africa presents an attractive investment opportunity for investors seeking attractive and long-term returns. Despite the alternative markets in Africa having high and stable returns, only a few institutional players serve the market. Cytonn is focused on delivering higher returns in the alternative markets, while providing the best client service and always protecting our clients' interests.

WE SERVE THREE MAIN CLIENT SEGMENTS:

- High Net-worth Individuals through Cytonn Private Wealth. This is done through our captive Distribution Network
- East Africans in the Diaspora through Cytonn Diaspora
- Global and Local Institutional Clients. These clients are served from our Investment & Fundraising Team

WE INVEST OUR CLIENT FUNDS IN:

- Real Estate, and Real Estate Related Businesses
- Private Equity
- Fixed Income Structured Solutions
- Equities Structured Solutions

We collect funds from our clients → **We invest them in high growth opportunities** → **We deliver the best possible returns**

Our Business Structure

Cytonn Investments Management Plc

- **Cytonn Capital Partners** (Private Markets)
  - Private Offers and Real Estate Investments
  - Cytonn Hospitality
  - Cytonn Education Services
  - Superior Homes Kenya
  - Serviced Offices
- **Cytonn Asset Managers** (Regulated by Capital Markets Authority)
  - Unit Trust Funds
  - Cytonn Africa Financial Fund
  - Cytonn Advisory
  - Pension Fund Management
- **Cytonn Real Estate**
  - Research and Deal Origination
  - Project Management
  - Quality Assurance/ Control
  - Cytonn Procurement - Cymatt
  - Cytonn Real Estate Legal
  - Cytonn Properties
  - Cytonn Centre for Affordable Housing
- **Other Strategic Initiatives**
  - Cytonn Distribution
  - East African Forum for Alternative Investments

Cytonn's Business Overview

Where we Raise Money

- **Local High-net-worth Investors via a captive distribution of 250 Financial Advisors and 300 Independent Financial Advisors**
- **Global & Local Institutions such as Taaleri of Finland**
- **Diaspora via our office in the Washington DC Metro Area**
- **Retail & Pension via Cytonn Asset Managers**

Where we Invest

- **Real Estate –** 84.8%
- **Financial Services** - 4.6%
- **Education** – 0.8%
- **Hospitality -** 9.8%
- **Procurement –** Just Started

How we Exit

- **Individuals i.e. Cytonn Distribution**
- **Institutions**
- **Investment Vehicles**
  - Partnership Units (LLP)
  - REIT's Fund
  - Other Income Funds

Strategic Support Services	**1. Finance**	**2. ICT**	**3. Legal & Compliance**	**4. Brand (PR & Communication)**	**5. CS**
	6.HR	**7. Risk**	**8. Business Admin**	**9. Fund Operations**	**10. Internal Audit**

2. Economic Review and Outlook

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Kenya Macro-Economic Review

Of the 7 indicators we track, 3 are positive and 4 are neutral. We maintain our positive outlook on the 2019 macroeconomic environment

Macro-Economic & Business Environment Outlook			
Macro-Economic Indicators	**YTD 2019 Experience and Outlook Going Forward**	**Outlook - Beginning of Year**	**Current Outlook**
GDP Growth	• In Q2'2019, the country's economic activity experienced relatively slower growth, expanding by 5.6%, in line with the 5-year average growth rate of 5.4%, but slower compared to the 6.4% growth recorded in Q2'2018 • In 2019, GDP growth is projected to range between 5.7%-5.9%, lower than the 6.3% growth in 2018, but higher than the 5-year historical average of 5.4%, driven by; i. Growth in the agriculture sector, ii. Implementation of the Big 4 Agenda projects by the Kenyan Government and, iii. Relatively stable business environment evidenced by the Stanbic Bank Monthly Purchasing Manager's Index (PMI), which fell to 53.2 in October 2019 from 54.1 recorded in September, an indication of improving business conditions	**Positive**	**Positive**
Inflation	• The average inflation rate increased to an average of 5.9% in H1'2019, as compared to 4.0% in H1'2018, a hike attributable to higher food prices and rising transportation costs during the quarter • We expect inflation to remain within the government target range of 2.5% - 7.5%, with inflationary pressure expected to emanate from the effects of the rise in electricity tariffs and fuel prices	**Positive**	**Positive**

Kenya Macro-Economic Review (cont..)

Of the 7 indicators we track, 3 are positive and 4 are neutral. We maintain our positive outlook on the 2019 macroeconomic environment

Macro-Economic & Business Environment Outlook			
Macro-Economic Indicators	**YTD 2019 Experience and Outlook Going Forward**	**Outlook - Beginning of Year**	**Current Outlook**
Government Borrowing	• We remain neutral on domestic borrowing, due to the levels of domestic debt maturities in FY'2019/20 currently at Kshs 640.2 bn, coupled with the historical underperformance of ordinary revenues, with the Government having met 26.4% of its target as per the FY'2019/2020 budget outturn • Despite the underperformance, the Government raised its total revenue target by 14.2% to Kshs 2.1 tn for FY'2019/20 which we doubt it will meet, thus exert slight pressure on the domestic borrowing front to plug in the deficit	**Neutral**	**Neutral**
Exchange Rate	• We expect the Kenyan Shilling to remain relatively stable against the dollar, supported by; i. CBK's activities in the money market, such as repurchase agreements and selling of dollars, ii. High levels of forex reserves, currently at USD 9.0 bn (equivalent to 5.6-months of import cover) iii. Improving diaspora remittances, which have increased cumulatively by 8.0% in the 12-months to September 2019 to USD 2.8 bn, from USD 2.6 bn recorded in a similar period of review in 2018	**Neutral**	**Neutral**

Kenya Macro-Economic Review (cont..)

Of the 7 indicators we track, 3 are positive and 4 are neutral. We maintain our positive outlook on the 2019 macroeconomic environment

Macro-Economic & Business Environment Outlook			
Macro-Economic Indicators	**YTD 2019 Experience and Outlook Going Forward**	**Outlook - Beginning of Year**	**Current Outlook**
Interest Rates	• The interest rate environment has remained stable in 2019, with the CBR having been retained at 9.0% in the 4 MPC meetings held in 2019 • With the heavy domestic maturities in 2019, we expect slight upward pressure on interest rates going forward, as the government tries to meet its domestic borrowing targets for the 2019/2020 fiscal year • With a repeal in the interest rate cap, we expect an improvement in private sector credit growth and increased competition for bank funds, which will in turn lead to tightened liquidity in the money market and an upward pressure on interest rates	**Neutral**	**Neutral**
Investor Sentiment	• The May 2019 Kenya Eurobond issue was 4.5x oversubscribed partly showing the appetite for Kenyan securities by the foreign community, and investor confidence in Kenya's stable and relatively diversified economy • We expect improved foreign inflows from the negative position in 2018, mainly supported by long-term investors who enter the market looking to take advantage of the current cheap valuations in select sections of the market	**Neutral**	**Neutral**
Security	• The political climate in the country has eased. Despite the recent terror attack experienced during the first half of 2019, Kenya was spared from travel advisories, evidence of the international community's confidence in the country's security position	**Positive**	**Positive**

3. Kenya Insurance Sector Overview

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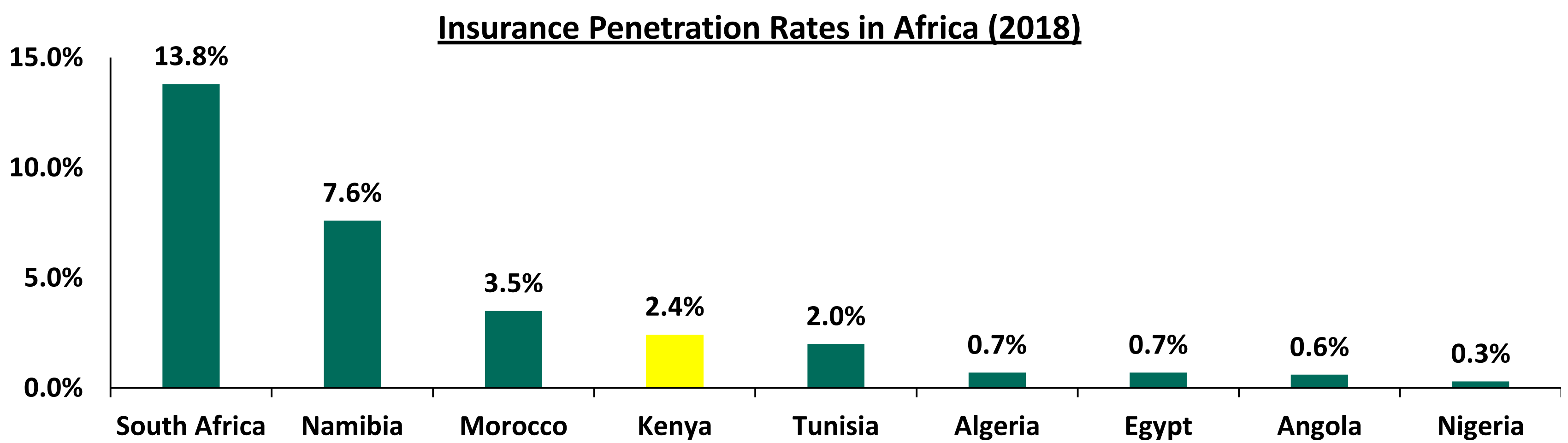
Kenya's Insurance Sector Overview

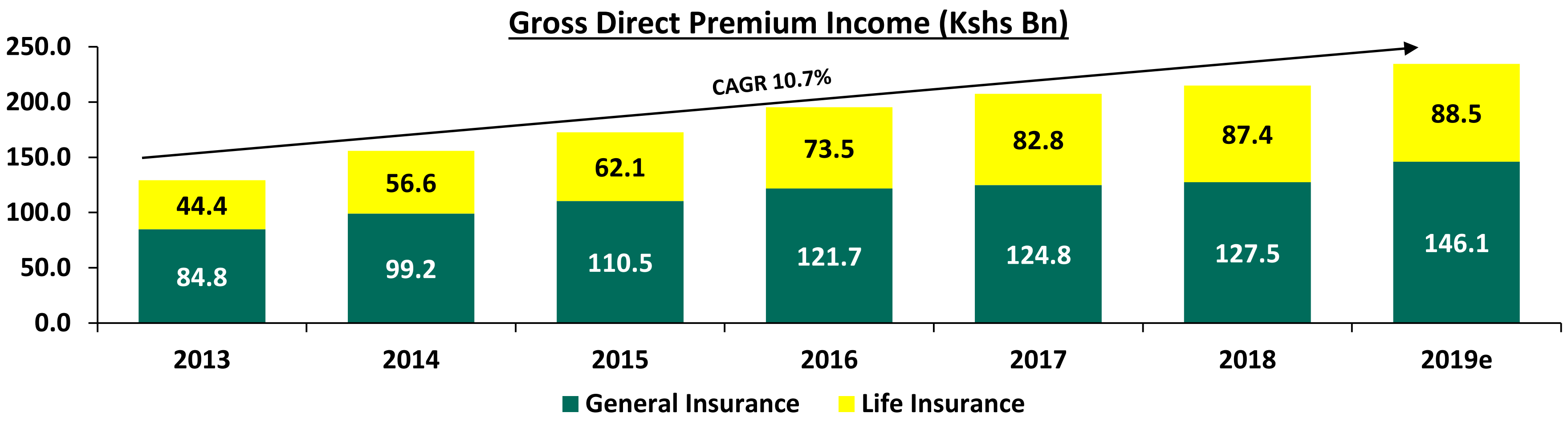
The Insurance penetration in Kenya stands at 2.4%

- The industry is regulated by Insurance Regulatory Authority which is responsible for licensing, regulating and developing the insurance sector
- In the last five years, the life insurance market in Kenya has experienced growth in both the level of direct premiums as well as in the equity held by the industry constituents
- In 2018, Kenya had 53 insurance companies, 5 reinsurance companies and
- Insurance penetration in Kenya stood at 2.4% of Gross Domestic Product (GDP) in 2018 down from 2.6% recorded in 2017, on the back of price undercutting in an industry where players are facing increasingly tough competition



Kenya's Insurance Sector Overview (cont..)

General insurance business remains the largest contributor to industry insurance activity at 62.3%



- Industry gross written premium stood at Kshs 117.28 bn as at end of H1'2019 representing an increase of 4.4% from Kshs 112.39 bn in H1'2018. Long term insurance and general insurance segments grew by 6.9% and 2.9% respectively
- General insurance business remained the largest contributor to industry insurance activity contributing 62.3% of the total premium. Motor insurance and medical insurance classes of business account for 66.8% of the gross premium income under the general insurance business
- In the long term insurance segment, pensions and life assurance classes were the biggest contributors to the life gross premium income, accounting for 66.5% in H1'2019, compared to the 66.4% contribution by the two classes recorded in H1'2018,

Insurance Sector Growth Drivers

Financial sector deepening has lead to an improved method of distribution of insurance products

The drivers of growth in the insurance sector in H1’2019 include;

a) **Technology and Innovation**: The industry players continue to innovate products while leveraging on technology to remain competitive. In the East African context, there have been several digital innovations mostly observed by developments of smartphone apps that streamline how insurance is provided for instance MY DAWA, M-Tiba and Hello Doctor

b) **Adoption of Alternative Distribution Channels**: Insurance companies have been dynamic and fast in adopting new alternative channels for both distribution and premium collection with financial sector deepening leading to an improved method of distribution of insurance products, collection and payment of premiums like banck assurance, online and mobile payment

c) **Growth of the Middle Class**: In a region with one of the fastest population and economic growth rates, the rise in disposable income is a great driver for the sector. Demand for insurance products and services has grown, for instance, motor insurance, driven by the high rate of car importation into the country recently

Insurance Sector Growth Drivers (cont..)

New regulations and the use of block chain have also contributed to growth in the insurance sector

d) **Regulation:** The newly introduced regulations in the insurance sector have helped most companies improve their capital management systems. The new compliance requirements as stipulated in IFRS 17 come at a high implementation cost but they also assist companies manage their risks and capital in a better way

e) **Redirection in Core Operations-** With the limited growth of the insurance industry, insurers are moving their focus to growing investment income which involves and increase in the assets under management segments and investments in property. Most insurance companies are now moving into asset management to boost their group revenues

Recent Developments in the Insurance Sector

IRA made amendments under valuation of technical provisions for life insurance business and capital adequacy guidelines

The following are the most recent developments witnessed in the Insurance sector;

1. **Amendments to the Kenya Insurance Act:** In June 2019, IRA made amendments under valuation of technical provisions for life insurance business and capital adequacy guidelines. The assumption under interest rate risk for life valuation was revised from 20.0% to 10.0%, and the insurance risk factors relating to interest rate risk margin for capital adequacy was revised from 10.0% to 18.0%. The implication of this amendment is that that insurers will need to be wary and look out for and manage various interest rate stress factors to remain well within the assumptions set forth in the guidelines,

2. **Increasing Price Wars**: Insurers have seen a decline in group life business as well as ordinary business as a result of price wars that have been prevalent among the players in the industry. Price wars have negatively impacted performance in the insurance sector. The price wars are as a result of low penetration rate in the country which has led to players in the market undercutting product pricing in order to gain market share. The undercutting continues to be a major challenge in the industry as well as increasing the risk that comes with product mispricing

Recent Developments in the Insurance Sector (Cont..)

The insurance sector is booming with mergers and acquisitions mainly with companies trying to protect their market share in a competitive environment

3. **Increasing Demand for Life Insurance Products:** There has been a continuous growth in the life insurance market relative to GDP and life insurance premiums have been increasing. Life business was generally less affected by the economic downturn of the past few years

4. **Merger & Acquisition activity:** The insurance sector is booming with mergers and acquisitions mainly with companies trying to protect their market share in a competitive environment. Some of the M&A deals include the acquisition of a 13.8% stake in Britam by Swiss Re, acquisition of Kenya First Assurance by Barclays Africa Group for $29.0 mn and Africa Merchant Assurance seeking to raise USD 5 mn - USD 7 mn through a stake sale. The insurance sector is likely to experience more mergers and acquisitions with many insurers trying to meet the solvency requirements by June 2020

Insurance Sector Market Share

Jubilee leads in General Insurance business, while Britam dominates in Long term Insurance market

Market Share as at H1'2019			
Insurer	**General Insurance Business Market Share**	**Insurer**	**Long-Term Insurance Business Market Share**
Jubilee Insurance	9.8%	Britam Holdings	24.7%
APA Insurance	8.3%	Jubilee Insurance	15.6%
Britam Holdings	7.4%	ICEA Lion Insurance	13.9%
CIC Group	7.1%	CIC Group	6.8%
UAP OldMutual	6.4%	Sanlam Insurance	5.7%
Others	61.0%	Others	33.3%
Total	**100.0%**	**Total**	**100.0%**

- The top 5 insurance companies control 39.0% of the General Insurance market share
- In terms of long term insurance, the top 5 insurers control 66.7% of the market share

4. Listed Insurance Sector Metrics

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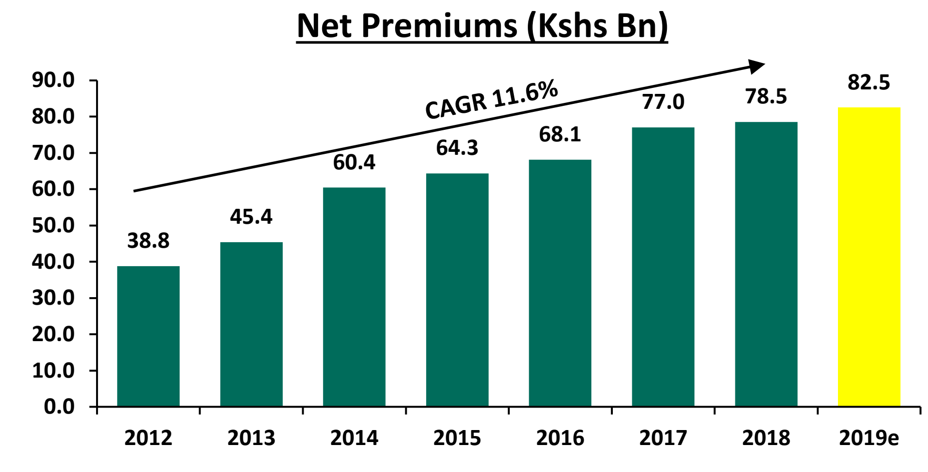
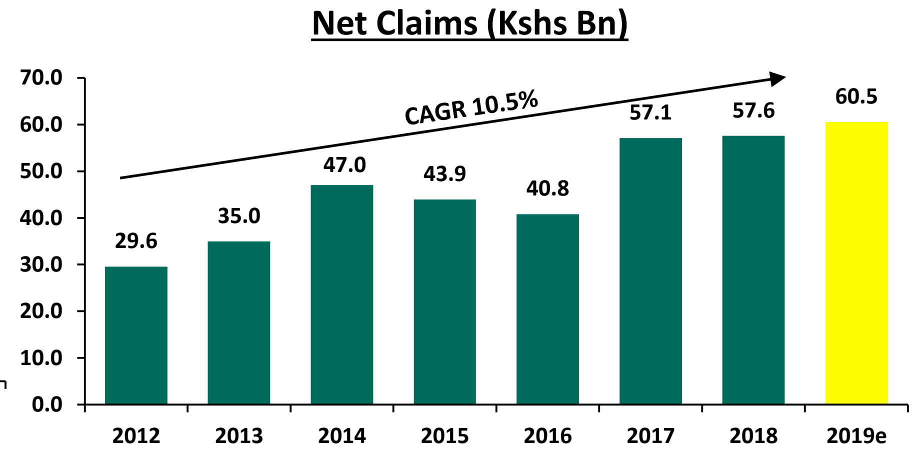
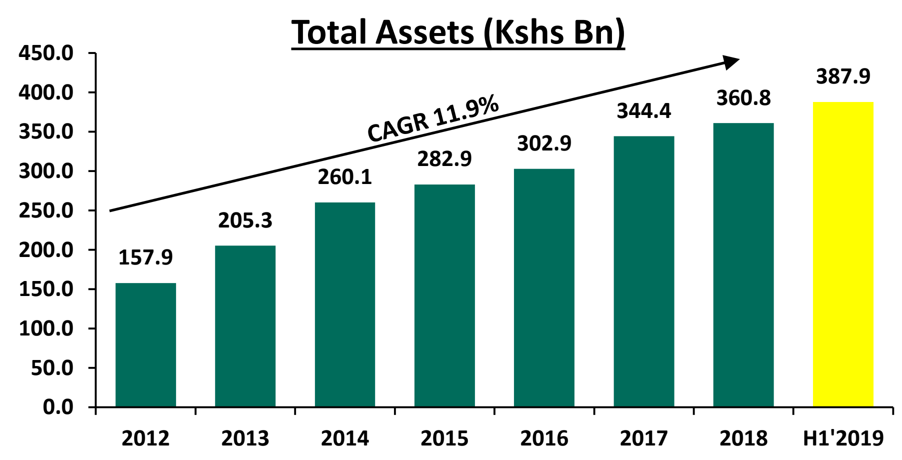
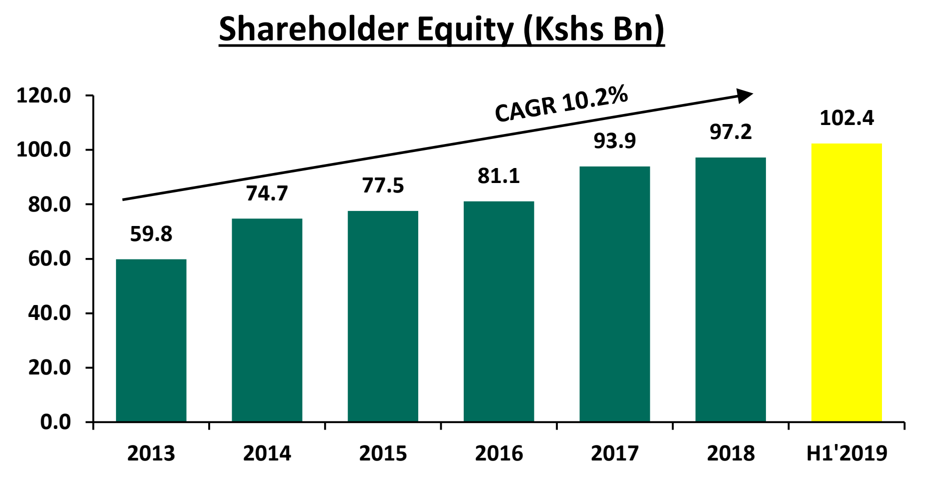
Listed Insurance Sector Metrics

Net premiums, Net Claims, Total Assets and Shareholder Equity have recorded all steady growth over the years





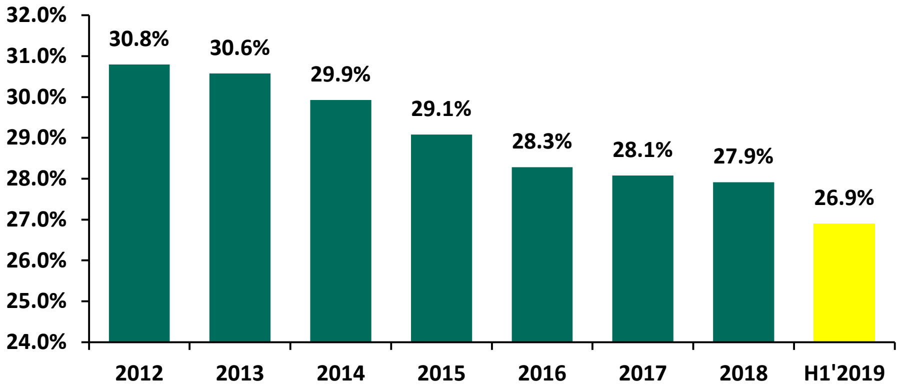




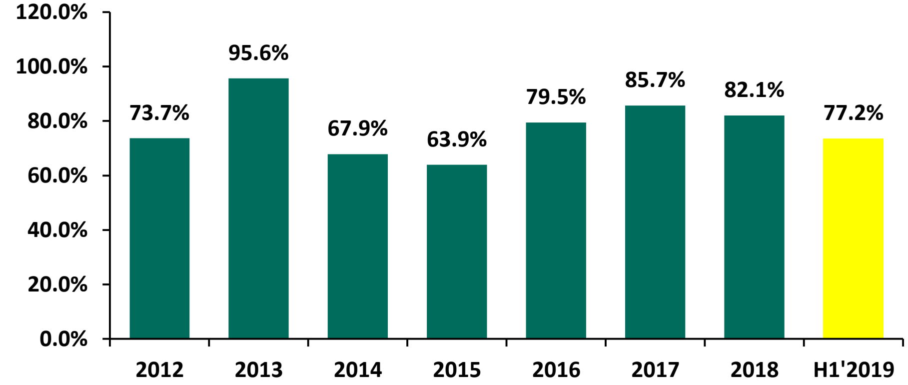
Listed Insurance Sector Metrics (cont..)

Loss ratios remain under control, however, Solvency ratios have been on a decline on the back of Assets growth outperforming Shareholder's Equity growth

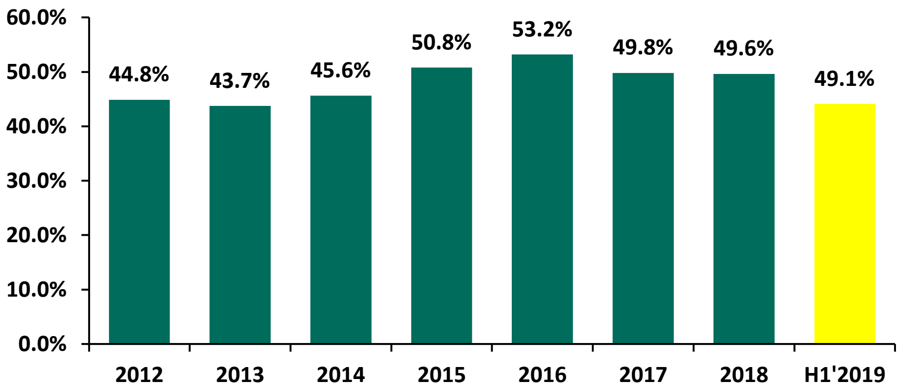
Solvency Ratio



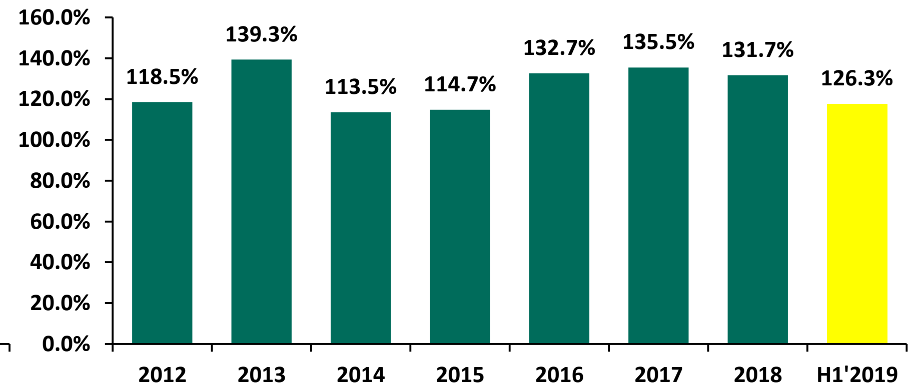
Loss Ratio



Expense Ratio



Combined Ratio



Listed Insurer's Earnings and Growth Metrics

Kenya's listed Insurance sector H1'2019 core EPS increased by 3.2%, compared to a decline of 0.6% recorded in H1'2018

Listed Insurance Companies H1'2019 Earnings and Growth Metrics								
Insurance Company	Core EPS Growth	Net Premium Growth	Claims Growth	Loss Ratio	Expense Ratio	Combined Ratio	ROaA	ROaE
Britam Holdings	**50.0%**	(0.4%)	(12.1%)	59.3%	70.5%	129.8%	(1.4%)	(6.1%)
Liberty Holdings	**45.8%**	3.4%	(0.5%)	80.3%	71.7%	152.0%	1.8%	8.9%
Jubilee Holdings	**(1.6%)**	7.7%	(8.5%)	94.1%	31.4%	125.5%	3.5%	14.4%
Kenya Re	**(12.5%)**	16.6%	48.8%	67.3%	41.0%	108.3%	2.4%	3.7%
CIC Group	**(95.2%)**	0.4%	7.9%	70.9%	49.9%	184.8%	(0.9%)	(3.8%)
Sanlam Kenya*	**N/A**	10.8%	(18.8%)	72.1%	63.4%	135.5%	0.6%	9.9%
H1'2019 Weighted Average**	**3.2%**	**5.7%**	**0.0%**	**77.2%**	**49.1%**	**133.7%**	**1.4%**	**5.1%**
H1'2018 Weighted Average**	**(0.6%)**	**(8.2%)**	**(1.8%)**	**84.2%**	**60.2%**	**144.4%**	**0.9%**	**3.9%**

Insurance Sector Multiples

Kenya's Insurance sector is trading at an average P/TBV of 0.8x and a P/E of 6.7x

(all values in Kshs unless stated otherwise)

Insurance	Share Price*	No of Shares Issued	Market Cap (Bn)	P/TBV	P/E
Kenya Re	3.1	2.8	8.8	0.3x	4.1x
Liberty	10.0	0.5	5.4	0.7x	7.3x
Britam	7.0	2.5	17.7	0.7x	21.8x**
Jubilee	370.0	0.1	26.8	0.9x	6.2x
CIC	3.1	2.6	8.0	1.0x	11.6x**
Sanlam	17.1	0.1	2.5	1.1x	3.3x
Median				**0.8x**	**6.7x**
Weighted Average H1'2019* **				**0.8x**	**10.5x**

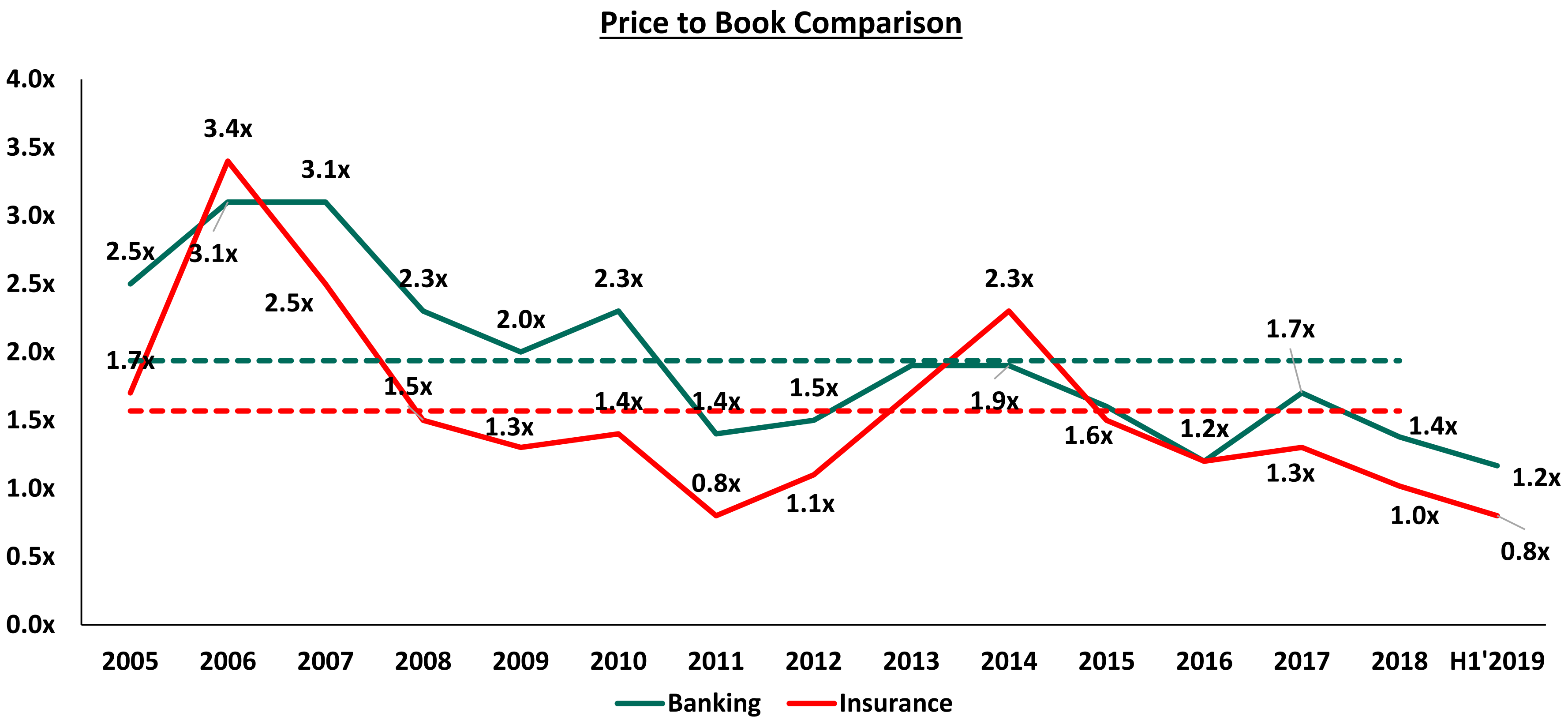
*Share Price as at 22nd Oct 2019

** 5 year normalized P/E

*** The weighted average is based on Market Cap as at 22nd October 2019

Listed Insurance and Banks Trading Metrics

Listed Insurance trade at an average P/B of 0.8x, lower than the banking sector which is priced at 1.2x. Both sectors are trading below their 14-year averages of 1.6x and 1.9x, respectively



On a price to book valuation, listed Insurance companies are currently priced at a PBV of 0.8x, lower than listed banks at 1.2x, with both lower than their historical averages of 1.6x for the insurance sector and 1.9x for the banking sector

5. Cytonn's Insurance Sector Report

Executive Summary

- All listed insurance companies in the Kenyan market were analyzed by the Cytonn Investment Team
- The analysis was brought about by a need to be able to offer our investors, especially global investors, which insurance companies in our view are the most stable from a franchise value and from a future growth opportunity perspective
- The analysis covers the health and future expected performance of the financial institution, by highlighting their performance using metrics to measure Profitability, efficiency, diversification, risk appetite and solvency
- For insurance companies which are part of a group structure, the financials of the group were utilized to take into consideration the listed counter which an investor will purchase
- Ranking based on a weighted average ranking of Franchise value (40%) and Intrinsic value (60%)
- All the listed insurance companies are composite insurance companies, offering both life and general business.
- Kenya Re Insurance is the only listed reinsurer and was not considered as part of the rankings, given it does not participate in the general life and general insurance underwriting

Regulation and Consolidation to Drive Attractiveness

Focus Area	Summary	Effect on Insurance Sector
Regulation	• **Risk Based-Supervision:** The IRA is implementing risk-based supervision which looks at the risk exposure of a company • **IFRS 17**: Effective January 2021, changes will encompass a new profit recognition approach, and immediate recognition of losses	• Regulatory changes are foreseen to impact the sector positively in line with international best practices, thus buoying investor confidence in the capitalization and future position of the Insurance sector • IFRS 17 will affect the volatility of profits, net assets and equity in the Insurance sector
Digital Innovations	• **Digital Innovations:** High mobile phone penetration rates in Kenya have aided in the digitization of distribution channels, shifting focus to the customer. Insurtechs continue to disrupt competition in the industry	• Leveraging more on technology will transform how the insurance business is conducted. The use of Blockchain technology, AI and Big Data will also help prevent fraudulent claims by enabling early detection and audit trails
Consolidation	• **Increase in Mergers & Acquisitions: I**ncreased competition amongst players in the insurance sector has seen companies looking for ways to protect their market share in an evolving environment	• With most insurance companies finding it hard to comply with capital adequacy requirements, we expect the deadline set for June 2020 will force many insurers to merge in order to meet the minimum requirements
Insurance Fraud	• **Fraudulent claims:** It is estimated that 25.0% of the insurance industry's income fraudulently claimed. In Q2, 30 fraud cases were reported to the Insurance Fraud Investigation Unit, with Motor Insurance Claims being the most prevalent	• Fraudulent claims have had the effect of hurting the profitability, translating into high premium rates and huge claim reserve ratios. As a result, verification of claims has resulted in the slowing down of the settlement pace

Regulatory trends in the Insurance sector will very much determine growth and investments prospects. Newer minimum capital requirements are expected to set off mergers and acquisitions in the sector, with many insurers failing to meet the minimum. The regulatory reforms also present an opportunity to international firms to enter into the Kenyan market, given it has strong economic growth prospects

Rankings by Franchise Value

Jubilee Holdings presents the most attractive insurance franchise, with a Score of 9

Insurance Company	Loss Ratio	Expense Ratio	Combined Ratio	ROaA	ROaE	Total	Rank
Jubilee Holdings	5	1	1	1	1	**9**	**1**
Sanlam Kenya	3	2	3	3	2	**13**	**2**
Britam Holdings	1	3	2	5	5	**16**	**3**
Liberty Holdings	4	4	4	2	3	**17**	**4**
CIC Group	2	5	5	4	4	**20**	**5**

Valuation Summary of Listed Insurers

Kenya Re presents the highest upside with an expected total return of 57.5%, however is not considered as part of the ranking

(all values in Kshs unless stated otherwise)

Insurer	Current Price	Target Price	Dividend Yield	Upside/Downside	Total Return
Kenya Re	3.1	4.8	4.6%	52.9%	**57.5%**
Jubilee	350.0	453.4	2.6%	29.5%	**32.1%**
Sanlam	17.0	21.7	0.0%	27.6%	**27.6%**
Liberty	10.5	10.1	4.8%	(4.2%)	**0.6%**
CIC	3.0	2.6	4.3%	(13.1%)	**(8.8%)**
Britam	7.5	6.8	0.0%	(9.5%)	**(9.5%)**

Cytonn Insurance Report – Comprehensive Rankings

Jubilee Holdings emerged top of the rankings, leading in both Franchise & Instrinsic Valuation

CYTONN H1'2019 COMPREHENSIVE RANKINGS TABLE				
Insurance Company	Franchise Value Total Score	Intrinsic Value Total Score	Weighted Score	Rank
Jubilee Holdings	9	1	4.2	1
Sanlam Kenya	13	2	6.4	2
Liberty Holdings	17	3	8.6	3
Britam Holdings	16	5	9.4	4
CIC Group	20	4	10.4	5

- Jubilee Holdings took the Top Position, ranking top in the franchise score category on the back of a strong combined ratio, indicating better capacity to generate profits from its core business. The only factor holding Jubilee back is its loss ratio, which is the highest among listed companies,
- Sanlam Kenya took 2nd Position, on the back of a strong franchise score, driven by the highest Return on Average Equity, and,
- Liberty & Britam Holdings came in 3rd and 4th Position, respectively, with weaker franchise scores, as a result of lower returns on assets and equity (Britam Holdings) and high loss and expense ratios (Liberty),
- CIC came in 5th Position on the back of weak franchise rankings scores.

Appendix – Valuation Summaries

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Valuation Summary – Britam Holdings

Britam is overvalued with a potential downside of 9.5%

(all values in Kshs unless stated otherwise)

Cost of Equity Assumptions:	14-Nov-19
Default Spread Adjusted Risk free rate	13.20%
Beta	1.21
Mature Market Risk Premium	7.6%
Extra Risk Premium	1.5%
Cost of Equity	24.2%

Terminal Assumptions:	
Growth rate	5%
Mature Company Beta	1.00
Terminal Cost of Equity	22.30%
Return on Average Equity	10.5%
Justified Price to Book value per share	0.3x
Share holder Equity 2023	37.68
Terminal value	12.5

Valuation Methodology	Implied Price	Weighting	Weighted Value
Dividend Discount	4.3	40%	1.7
Residual Income	9.8	40%	3.9
PBV	6.6	15%	1.0
PE	2.3	5%	0.1
Fair Value		**100%**	**6.8**
Current Price			**7.5**
Upside/(Downside)			(9.5%)
Dividend Yield			0.0%
Total Return			(9.5%)

Valuation Summary - CIC

CIC is overvalued with a potential downside of 8.8%

(all values in Kshs unless stated otherwise)

Cost of Equity Assumptions:	14-Nov-19
Default Spread Adjusted Risk free rate	13.20%
Beta	1.29
Mature Market Risk Premium	7.6%
Extra Risk Premium	1.5%
Cost of Equity	23.0%

Terminal Assumptions:	
Growth rate	5%
Mature Company Beta	1.00
Terminal Cost of Equity	20.80%
Return on Average Equity	13.2%
Justified Price to Book value per share	0.5x
Share holder Equity 2023	12.1
Terminal value	6.6

Valuation Summary:	Implied Price	Weighting	Weighted Value
Dividend Discount	1.93	40%	0.77
Residual Income	3.55	40%	1.42
PBV Multiple	2.18	15%	0.33
PE Multiple	2.39	5%	0.12
Fair Value		**100%**	**2.6**
Current Price			**3.0**
Upside/(Downside)			(13.1%)
Dividend Yield			4.3%
Total Return			**(8.8%)**

Valuation Summary - Jubilee

Jubilee is undervalued with total return of 32.1%

(all values in Kshs unless stated otherwise)

Cost of Equity Assumptions:	14-Nov-19
Default Spread Adjusted Risk free rate	13.20%
Beta	0.63
Mature Market Risk Premium	7.6%
Extra Risk Premium	2.5%
Cost of Equity	18.01%

Terminal Assumptions:	
Growth rate	5%
Mature Company Beta	1.00
Terminal Cost of Equity	20.84%
Return on Average Equity	12.2%
Justified Price to Book value per share	0.5x
Shareholder Equity FY23e	50.3
Terminal Value- Year 2023	24.04

Valuation Summary:	Implied Price	Weighting	Weighted Value
Residual Income	595.02	40%	238.0
Dividend Discount Model	239.36	40%	95.7
PBV Multiple	594.10	15%	89.1
PE Multiple	610.17	5%	30.5
Fair Value			**453.4**
Current Price			**350.0**
Upside/(Downside)			29.5%
Dividend Yield			2.6%
Total Upside/(Downside)			**32.1%**

Valuation Summary – Kenya Re

Kenya Re is undervalued with a total return of 57.5%

(all values in Kshs unless stated otherwise)

Cost of Equity Assumptions:	16-Nov-19
Default Spread Adjusted Risk free rate	13.2%
Beta	0.52
Mature Market Risk Premium	7.60%
Extra Risk Premium	1.5%
Cost of Equity	17.15%

Terminal Assumptions:	
Growth rate	5%
Mature Company Beta	1.00
Terminal Cost of Equity	21%
Return on Average Equity 2023	5%
Justified Price to Book value per share	0.0x
Shareholder Equity- FY23e	36.2
Terminal Value- Year 2023	1.1

Valuation Summary:	Implied Price	Weighting	Weighted Value
Dividend Discount Method	0.7	40%	0.3
Residual Income	6.9	40%	2.8
PBV Multiple	8.9	15%	1.3
PE Multiple	7.9	5%	0.4
Fair Value			**4.8**
Current Price			**3.1**
Upside/(Downside)			**52.9%**
Dividend Yield			**4.6%**
Total Return			**57.5%**

Valuation Summary - Liberty

Liberty is fairly valued with a total return of 0.6%

(all values in Kshs unless stated otherwise)

Cost of Equity Assumptions:	16-Nov-19
Risk free rate	13.2%
Beta	0.7
Mature Market Risk Premium	7.6%
Extra Risk Premium	1.5%
Cost of Equity	18.8%

Terminal Assumptions:	
Growth rate	5.0%
Mature Company Beta	1.0
Terminal Cost of Equity	20.8%
Return on Average Equity	8.9%
Justified Price to Book value per share	0.2x
Persistency Factor	0.5
Justified Terminal Price (2023)	3.2

Valuation Summary:	Implied Price	Weighting	Weighted Value
Residual Income	13.7	40.0%	5.5
Dividend Discount	5.5	40.0%	2.2
PBV Multiple	12.0	15.0%	1.8
PE Multiple	11.8	5.0%	0.6
Fair Value			**10.1**
Current Price			**10.5**
Upside/(Downside)			(4.2%)
Dividend Yield			4.8%
Total Return			**0.6%**

Valuation Summary - Sanlam

Sanlam is undervalued with a total return of 27.6%

(all values in Kshs unless stated otherwise)

Cost of Equity Assumptions:	16-Nov-19
Default Spread Adjusted Risk free rate	13.3%
Beta	0.89
Mature Market Risk Premium	7.6%
Extra Risk Premium	1.5%
Cost of Equity	20.1%

Terminal Assumptions:	
Growth rate	5%
Mature Company Beta	1.0
Terminal Cost of Equity	22.4%
Return on Average Equity	23.0%
Justified Price to Book value per share	1.0x
Persistency Factor	0.50
Justified Terminal Price (2023)	5.8

Valuation Summary:	Implied Price	Weighting	Weighted Value
Residual Income	22.0	40.0%	8.8
Dividend Discount	25.4	40.0%	10.2
PBV Multiple	12.8	15.0%	1.9
PE Multiple	16.4	5.0%	0.8
Fair Value			**21.70**
Current Price			**17.00**
Upside/(Downside)			27.6%
Dividend Yield			0
Total Return			**27.6%**

Thank You!

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

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