

Recommendation	BUY		
Current Price (BWP)	16.01		
12 Month High/Low	16.01;11.84		
PER (x)	7.53		
PBV (x)	1.53		
PEV (x)	1.05		
Div. yield (%)	7.27		
Earnings Yield (%)	13.35		
Income Statement (BWP'm)	FY 15	FY 14	%change
Total premium income	2,487.27	1,986.68	25.20%
Other income	1,868.06	906.59	106.05%
Total income	4,355.33	2,893.27	50.53%
OPEX	647.13	575.14	12.52%
Net insurance and investment contract benefits and claims	3,173.30	1,944.80	63.17%
Operating Profit	534.90	373.34	43.27%
Share of profit of associates and JV'S	186.73	253.62	-26.37%
PBT	721.63	626.96	15.10%
PAT	597.68	505.65	18.20%
EPS (thebe)	212.65	183.00	16.20%
DPS (thebe)*	122.00	87.00	40.23%
NAV/share (thebe)	1,046.38	962.26	8.74%
Embedded value per share (thebe)	1,530.74	1,360.40	12.52%
Balance sheet			
Cash on hand	1,055.09	658.47	60.23%
Fixed assets	265.58	126.50	109.94%
Financial assets at fair value	10,931.58	12,094.91	-9.62%
Other assets	2,088.44	1,975.11	5.74%
Total Assets Employed	14,340.68	14,854.99	-3.46%
Shareholders Equity	2,922.61	2,686.07	8.81%
Minorities	18.47	18.57	-0.52%
Policyholder liabilities	10,933.11	11,641.70	-6.09%
Current liabilities	466.49	508.66	-8.29%
Total Funds Employed	14,340.68	14,854.99	-3.46%
Ratios			
Premium income-total income	57.11%	68.67%	
Fee & investment income- total income	17.74%	37.45%	
Fair value gains- total income	25.15%	-5.57%	
Cost - income	87.72%	87.10%	
Retention ratio	52.97%	57.20%	
Loss ratio*	52.55%	60.52%	
Underwritten Profit (loss)/NEP*	25.64%	16.70%	
Expenses/NEP	22.20%	23.28%	
Combined ratio**	94.75%	135.07%	
Investment Yield	16.23%	7.72%	
Roae	21.17%	19.66%	
Roaa	4.09%	3.50%	
RoEV	13.89%	13.22%	
Div yield*	7.82%	7.56%	
Div cover (x)	2.13	2.34	

*without changes in policyholder liabilities
**short term insurance

Botswana Insurance Holdings Ltd Full Year Results to 31 December 2015

The group remains buoyant despite a challenging market....

The company released stellar results for the financial year ended 31 December 2015, reporting a 19.13% growth in EPS to BWP 2.18 from BWP 1.83 at FY 14. The four principal business areas, namely Botswana Life Insurance Ltd (BLIL), Botswana Insurance Fund Management Ltd (BIFM), BIHL Insurance Company Ltd; and associate holdings in Letshego Holdings Ltd (LHL) and Funeral Services Group Ltd (FSG), all contributed positively to the entity's bottom line. Net insurance premium income was at BWP 2.5bn, 25.20% higher than the BWP 2.0bn at FY 14, underpinned by a 16.32% increase in insurance contracts, while investment income rose significantly by 106.05%, despite the loss of a key client which eroded fee income (-20.25% y-o-y). Net gains on financial assets held at fair value through profit or loss and investment properties reflected their inherent volatility, registering a surplus of BWP 1.1bn from a loss of BWP 161.0m at the corresponding period in 2014, driven by the depreciation of the Botswana Pula which increased the Pula value of offshore investments, and the lower interest rate environment.

Insurance and investment contract benefits and claims grew by 63.16% on the back of a 119.48% increase in policyholder liabilities under insurance contracts to BWP 1.2bn (FY 14: BWP 547.4m). Despite increases of 12.52% and 63.17% in opex and net insurance and investment contract benefits and claims y-o-y, respectively, the group maintained its operational efficiency as mirrored by a contained cost - income ratio of 87.72% (FY 14: 87.10%). However, since total revenue grew at a faster pace (+50.53%) than operating profit (+43.27%), operating margins dropped by a marginal 0.62pp to 12.28% (FY 14: 12.90%). Although the effective tax rate was relatively flat at 17.18%, after accounting for inter segmental eliminations of BWP 732.1m on consolidation, PAT increased by 18.20% which subsequently underpinned the rise in RoaE and RoaA to 21.17% and 4.09%, from 19.66% and 3.50% at FY 14, respectively.

Equity Research

Botswana

15 April 2016

Financial Services



A final dividend of 67 thebe was declared (the highest in its 40 year history) for the period under review, implying a dividend yield of 7.82% (FY 14: 7.56%) and a dividend cover of 2.13x (FY 14: 2.34x) when combined with the interim dividend of 55 thebe.

Life insurance arm remains solid: BLIL continued to be the largest contributor to group earnings, accounting for 79.20% of total PAT (FY 14: 62.57%) with a contribution of BWP 473.4m vs. BWP 316.4m at FY 14. Net recurring premium income breached the BWP 1.0bn mark for the first time to close at BWP 1.02bn and together with a strong single premium income performance anchored the 25.38% growth in the division's premium income revenue to BWP 2.4bn (FY 14: BWP 1.9bn). Moreover, BLIL further penetrated the uninsured market and recorded an 89% y-o-y rise in new business premiums for micro insurance which contributed positively to the growth in net premium income.

The division benefitted from a rise in fair value gains on financial assets and investment properties to BWP 564.3m from BWP 150.3m, which aided the 40.22% increase in its net revenues. As a result, its contribution to the group's topline remained solid at 82.12% (FY 14: 88.15%). On the operational side, BLIL experienced improved annuities which assisted the growth in premium revenue and this, together with a 9.34% decrease in the outlay on claims and benefits, resulted in a 7.70pp decrease in its loss ratio to 52.55% (FY 14: 60.25%). The strong operating performance saw a significant growth in operating profits from BWP 317m at FY 14 to BWP 390m at FY 15 (+23%).

Asset Management Division: BIFM attained satisfactory results for FY 15, reporting a 158.09% growth in net revenues to BWP 829.0m at FY 15 vs. BWP 321.2m at FY 14, consequently increasing its stake in overall group revenues by 794bps to 19.04% (FY 14: 11.10%). It reported a solid rise in fair value gains to BWP 528.0m at FY 15 from a fair value loss of BWP 311.3m at FY 14, which management attributed to the depreciation of the pula which aided the offshore returns; improved performances of local equities reflected by the strengthening of the DCI which was up 11.85% y-o-y, and higher bond prices which ultimately assisted the growth in net income.

However, a mandate withdrawal in the first half of FY 15 translated into a BWP 8.1bn decrease in assets under management (AUM) to BWP 20.8bn at FY 15. As a result, fee income declined by 7.14% year-on-year and investment income significantly decreased to BWP 195.9m (FY 14: BWP 535.8m). Furthermore, subsequent to the mandate withdrawal, the division embarked on and concluded realignment processes which resulted in a once-off restructuring expenditure. This, together with a 229.02% increase in changes in liabilities under investment contracts to BWP 674.7m at FY 15 (FY 14: BWP 205.1m) anchored the 20% contraction of operating profits year-on-year. Nonetheless, despite the challenges the company faced in FY 15, BIFM remained profitable reporting a 24.15% increase in PAT to BWP 113.9m at FY 15 from BWP 91.7m at FY 14.

Other divisions: 2015 marked the first full year of BIHL Insurance Company Ltd operating purely as a legal expenses insurer, “*Legal Guard*”, following the sale of its general insurance business in 2014. The division saw a significant turnaround from a loss making position to profitability due to renewed focus on the single business line and this was reflected by the improvement of its combined ratio to 94.75% (FY 14: 135.07%). The segment’s revenue grew by 13.67% to BWP 45.6m, thus contributing 1.05% to consolidated income and its PAT improved to BWP 2.8m vs. FY 14 (loss of BWP 25.9m). Share of associate profit from a 23% holding in Letshego was down by 8% y-o-y, but up by 13% from the 35% stake in Funeral Services Group. Total accrued profit from associate holdings stood at BWP 156.2m (26.14% of group’s bottom line). The Unit Trust Business, Holding Company and Corporate Social Investment Trust produced a PAT of BWP 583.5m, a 64.90% increase on the corresponding year’s BWP 353.8m.

Balance sheet: The balance sheet remained solid, despite a moderate 3.46% decrease in total assets to BWP 14.4bn (FY 14: BWP 14.9bn). Investments held at fair value contributed 76.22% to total assets, while financial assets declined by 9.62% - largely attributable to a 34.95% decrease in equity investments (local and foreign), the latter anchoring the decrease in total assets. Consequential to the central bank decreasing the bank rate by 150 bps to 6.00% at FY 15, the value of bonds increased by 17.24% to BWP 6.4bn (FY 14: BWP 5.4bn) given the inverse relationship between interest rates and bond prices. Despite the low interest rate environment, which could suggest a reduced incentive to hold cash, BIHL increased its cash balances by 60.23% to BWP 1.1bn from BWP 658.5m at FY 14 to build up cash for the BIC transaction and for bond auction participation - during FY 15, Government issued a new 25 year bond, the longest tenor since issuance of Government bonds started in the early 2000s.

Total liabilities fell by 6.18% to BWP 11.4bn, in line with a 6.09% decrease in policyholder liabilities, which contribute the lion’s share of 95.91% to total liabilities. Despite a 16.33% increase in insurance contracts to BWP 8.6bn (FY 14: BWP 7.4bn), total policyholder liabilities declined on the back of investment contracts almost halving year-on-year, registering a 44.53% reduction to BWP 2.4bn (FY 14: BWP 4.3bn). Shareholder’s equity increased by 8.54% to BWP 2.9bn, therefore yielding an NAV per share of BWP 10.46 vs. BWP 9.62 at FY 14. The group maintained adequate solvency levels, with the required capital for the life business covered 8.8 times (FY 14: 11.29 times).

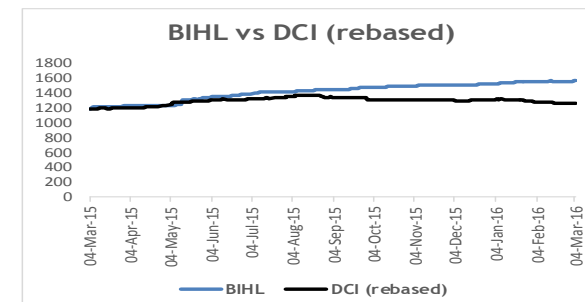
Increased Group value estimate: The group’s Embedded Value (EV) which represents an estimate of the value of the group excluding the value attributable to minority interests and goodwill for future business, increased by a 12.52% to BWP 4.3bn from BWP 3.8bn at FY 14. The result of this was an EV per share of BWP 15.31 at FY 15, and a Return on Group Embedded Value of 21.9% (FY 14: 23.9%). The value of in-force business - the present value of the profits that the company expects to emerge from life insurance policies over time, also rose by 30.72% to BWP 1.3bn (FY 14: BWP 974,758).

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We recommend a BUY on BIHL: The group acquired a 25.1% shareholding in Nico Holdings Ltd, a Malawian company which was founded in 1971 and operates its business through six segments - general insurance, life insurance & pensions, banking, asset management, information technology and investment holdings. Nico is listed on the Malawian Stock Exchange and operates in Malawi, Tanzania, Uganda, Zambia and Mozambique and reported a PAT equivalent to USD 5.9m at H1 15 (+38.49% y-o-y) and a balance sheet worth USD 32.2m. Although BIHL just exited short term insurance in 2014, the group acquired a 50% indirect ownership of Botswana Insurance Company (BIC) in January 2016. This was because, although the disposed general lines could not gain sufficient market share (FY 14: 1%), management still considered general insurance a viable business although largely dependent on feasible scale - hence the subsequent acquisition of BIC, the largest short term insurer in the country with management’s estimate of a 20% market share as at 2015. It is our view that these transactions will allow BIHL to enhance its product offering and diversify its earnings base from Botswana, thus creating greater shareholder value.

According to statistics from the *Non-Bank Financial Institutions Regulatory Authority (NBFIRA)*, Botswana has an insurance penetration rate of 3.2% reflecting a vastly untapped insurance market. Moreover, *Business Monitor International* forecasts that life insurance will record healthy annual growth in premiums of just over 8% between 2016 and 2020 (in local currency terms). These factors support the investment case for the core business, with investment income of course remaining subject to market volatility. The counter is trading at a PER of 7.53x, a PBV of 1.53x and a PEV of 1.05x, which are below its peer average in Africa. Using the relative valuation method we arrive at a target price of BWP 18.71, which represents a 16.86% upside. Accordingly we recommend a **BUY** call on the stock.



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