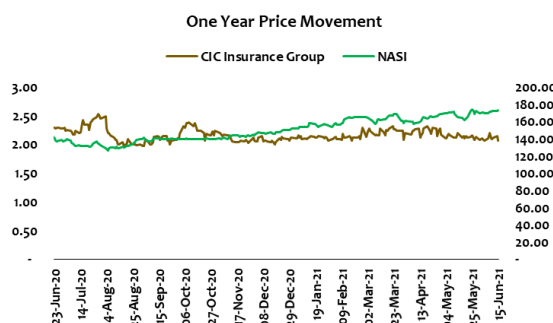


BET ON RECOVERY OF MOTOR PRIVATE AND MOTOR COMMERCIAL PREMIUMS

CIC Insurance Group reported a FY20 loss of KES 296.83Mn from a profit of KES 321.59Mn profit. This was heavily affected by 4.0% dip in gross premiums dipping by 4.0% leaving net earned premiums down 3.2%. The company lost ground on gross premiums from its motor vehicle strong hold. We forecast a positive outlook with an average of 5% growth in gross premiums for the year 2020 on the company on the reopening of the global economy which will aid recovery of the key revenue streams. We forecast long term growth of 5% compared to managements target of 12% in 2021. We recommend a BUY at with a value of KES 2.33 which is 12.6% higher compared to a closing price of KES 2.07 on June 16th, 2021. With aim of conserving cash, we do not foresee payment of dividend for the current financial year.

- According to the World Bank World Economic Outlook (WEO) Update, June 2020, global economy is projected to recover from a 4.9% contraction (1.9% below the April 2020 WEO forecast) to a forecast expansion of 5.4% in 2021. Kenya is set to grow by 4.5% from a contraction of 0.3% in 2020. The revival of the economy will play an important role in the insurance sector for both life and general insurance.
- Increased productivity in the manufacturing and service sectors will lead to a higher employment level which will have a positive effect on pension and other life insurance products while reopening and expansion of the manufacturing will play a key role in general business insurance. According to Report Linker, global insurance is set to grow by a compounded annual growth rate of by 15.1% by 2026.
- The market will continue to remain constrained especially in the rural areas where income levels are lower compared to the urban areas. Urban areas will be affected by low consumer income which will see life insurance struggle as insurance remains a non-key budget item.
- Recovery of equities market and upward shift in government yields will aid the recovery of investment income. The revenue line declined by 23.0% y-y in 2020 mainly affected by fair value losses in equities investment.
- Kenya insurance sector continues to incorporate technology to aid in penetration while at the same time managing risk. This is limited by technology advancement and usage especially in the rural areas. In this regards, sales agency remain key player as the company with largest sales force will continue to dominate the market.
- Low insurance penetration, with concentration in the urban areas will continue to create a cutthroat environment leaving pricing as key factor.
- Growth of Micro-insurance and Bancassurance – Kenya being an agricultural economy, there is need to grow microinsurance to aid with penetration and insurance education especially in the rural areas.

| Recommendation: | BUY |
|--------------------------|---------------|
| Bloomberg Ticker: | CIC KN |
| Share Stats | |
| Valuation | 2.33 |
| Current Price | 2.07 |
| Upside / Downside | 12.6% |
| 6 Month Av. | 2.16 |
| 12 Month Average | 2.17 |
| 52 Week High-Low | 2.53 - 1.98 |
| Issued shares (Mn) | 2,615.54 |
| Free Float | 17.2% |
| Market Cap (KES Bn) | 5,414.16 |
| Market Cap (USD Bn) | 50.24 |
| EPS | 6.10 |
| PE | 0.3 |
| PB | 1.9 |
| Dividend | - |
| Dividend Yield | 0.0% |
| Dividend Payout | 0.0% |



| Price Movement | | |
|----------------|---------------------|-------|
| Period | CIC Insurance Group | NASI |
| 3-Months | 6.8% | 6.7% |
| 6-Months | 0.0% | 18.0% |
| Y-T-D | 1.9% | 14.0% |
| 12-Months | 10.0% | 21.0% |

Willis Nalwenge, CFA

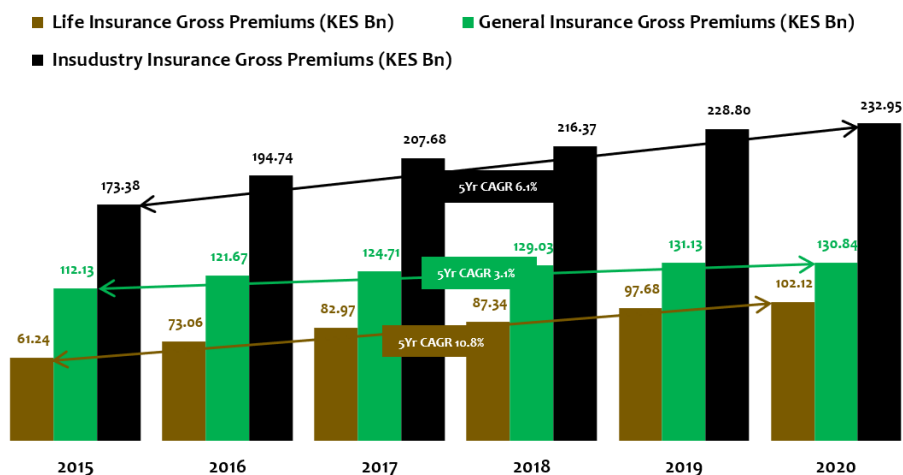
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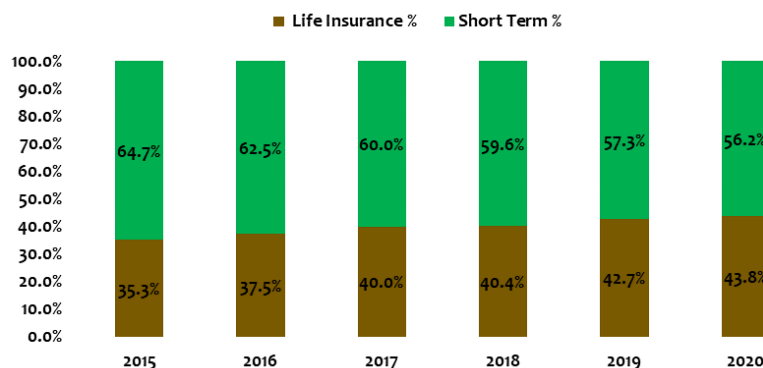
Kenya Insurance Industry

- According to Insurance Regulatory Authority FY-2020, Industry gross premiums increased by 1.8% to KES 232.95Bn from KES 228.80Bn in FY19. With reference to the released Proposed Budget for the fiscal year 2021-22, insurance penetration remained flat at 2.3%.
- The performance was supported by a 4.5% growth in Life Insurance to KES 102.12Bn from KES 97.68Bn in FY19 while General Business Insurance gross premiums eased by 0.2% to KES 130.84Bn from KES 131.13Bn over the period.



- Market Composition saw domination of General Business Insurance cut to 56.2% in FY20 from 57.3% in FY19 while Life Insurance industry share increased to 43.8% from 42.7% in FY19. This is in line with global levels with general insurance at 51.3% and life insurance contributing 48.7%.

Insurance Industry Business Composition



- Industry profitability saw PBT edged downwards by 41.2% to KES 7.79Bn from KES 13.24Bn while PAT declined to 4.93Bn, a 44.7% drop from KES 8.91Bn.
- Profitability performance was supported by General Business with PBT increasing by 14.8% to KES 8.00Bn from KES 6.97Bn. PAT was KES 5.47Bn, up 19.5% from KES 4.57Bn. This was boosted by a decline in main expense lines with Commissions, Claims and Management expenses declining by 9.9%, 0.4% and 4.8% respectively.

- On the contrary, a 21.3% and 3.2% surge in Benefit Payments and Commissions pushed Life Insurance to a pre-tax loss of KES 214.80Mn compared to a profit of KES 6.26Bn in 2019 while loss after tax surged to KES 541.16Mn from KES 4.34Mn.
- Tough economic environment leading to low investment returns saw a shift from high risk assets with proportion of quoted shares shrinking to 4.5% of total investments in FY-20 from 7.4% in FY-19 to government securities which surged to 67.5% from 61.8% in FY-19.

CIC Insurance Group

- Gross premiums declined by 4.0% from KES 16.99Bn from KES 17.70Bn. This was driven by a 4.7% drop in General Insurance to KES 11.68Bn from KES 12.26Bn while Long Term Business saw commissions decline by 2.4% to KES 5.31Bn from KES 5.44Bn in 2019.
- CIC Assurance market share thinned from 6.2% to 5.8% in a market where top 5 companies controlling 63.3% of the market down from 64.2% in 2019.
- CIC General Insurance Company saw it increase market share to 7.8% from 7.1% in 2019 with top five companies managing 35.9% having increased from 33.6%.
- Gross premium contribution saw Life Business share increase to 31.2% from 30.7% in FY19 while General Business share declined from 69.3% to 68.8%.
- Retention ration declined to 80.8% from 83.2% while claims and benefit ratio increased to 86.7% in heavy payout.
- Investment income dipped by 1.7% contributing 8.7% on total income. Performance was affected by declining government yield as 364-day paper lost 93.1bps on annual rate. Deteriorating equities market saw the All Share Index slid 8.6% down while NSE 20 Share Index shed 29.6%.

| Life Insurance KES Mn | CIC Assurance Company | | | Industry | | |
|---------------------------------|-----------------------|--------------|--------------|--------------|--------------|--------------|
| | 2018 | 2019 | 2020 | 2018 | 2019 | 2020 |
| Gross Premium Income | 5,093 | 4,998 | 4,929 | 87,340 | 97,678 | 102,116 |
| Net Premium Income | 4,161 | 4,030 | 3,883 | 80,415 | 90,548 | 95,799 |
| Benefit Payment (LT) | 2,735 | 2,888 | 3,129 | 42,056 | 55,932 | 67,832 |
| Commissions | 403 | 93 | 104 | 5,291 | 5,921 | 6,114 |
| Management Expenses | 1,143 | 1,494 | 1,125 | 13,078 | 15,037 | 14,084 |
| Profit Before Tax (EBT) | 188 | 163 | 86 | 2,675 | 6,264 | (215) |
| Profit After Tax (PAT) | 166 | 114 | 60 | 1,960 | 4,338 | (541) |
| Retention ratio | 81.7% | 80.6% | 78.8% | 92.1% | 92.7% | 93.8% |
| Net Commissions Ratio | 9.7% | 2.3% | 2.7% | 6.6% | 6.5% | 6.4% |
| Management expense Ratio | 27.5% | 37.1% | 29.0% | 16.3% | 16.6% | 14.7% |

- Life insurance business has lagged industry retention ratio with the ratio declining to 78.8% from 80.6% compared to industry growth of 93.8% from 92.7%. This indicate lower willingness to take on risk driven by the unknown of the Covid-19 pandemic.
- Net commission remains below the industry levels contributing to a higher bottom line.
- Management expenses is a challenge for the company. Although stable, as it way above industry levels.
- Individual life declined by 9% with annuities income dipping by 59% compared to 2919.
- Group life growth of 6% but below anticipated budget by 3%.

| General Business Insurance KES Mn | CIC General Insurance | | | Industry Performance | | |
|-----------------------------------|-----------------------|---------------|----------------|----------------------|----------------|----------------|
| | 2018 | 2019 | 2020 | 2018 | 2019 | 2020 |
| Gross Premium Income | 10,210 | 10,654 | 10,196 | 129,027 | 131,126 | 130,836 |
| Net Premium Income | 10,671 | 10,466 | 10,452 | 92,579 | 91,566 | 91,159 |
| Net Earned Premium Income | 9,137 | 9,001 | 8,611 | 91,253 | 90,667 | 90,158 |
| Commissions | 1,148 | 945 | 887 | 6,564 | 6,082 | 5,482 |
| Claims Incurred | 6,023 | 6,472 | 6,003 | 56,777 | 57,601 | 57,362 |
| Management Expenses | 1,845 | 1,911 | 2,176 | 29,563 | 29,956 | 28,511 |
| Underwriting Profits | (39) | (458) | (456) | (1,651) | (2,971) | (1,179) |
| Retention ratio | 104.51% | 98.23% | 102.51% | 71.75% | 69.83% | 69.67% |
| Claims ratio | 65.92% | 71.91% | 69.72% | 62.22% | 63.53% | 63.62% |
| Commissions ratio | 10.75% | 9.03% | 8.48% | 7.09% | 6.64% | 6.01% |
| Management expense ratio | 17.29% | 18.26% | 20.82% | 31.93% | 32.72% | 31.28% |
| Combined ratio | 93.96% | 99.19% | 99.02% | 101.24% | 102.89% | 100.91% |

- General Insurance Business has seen retention rate at above 100% compared to industry levels of 69.7%.
- The market leader in the motor vehicle insurance space, CIC General Business saw premiums heavily affected by lockdown and curfew with premiums from Motor Private and Motor Commercial deteriorating by 9.0% and 14.9% compared to industry dip of 1.9% and 5.2% respectively.
- South Sudan medical business dropped by 48%
- Claims ratio is heavily affected by medical insurance 73.7% and motor private 84.4%.
- Management expense increased to 20.8% though remained below industry rate.
- Combined ratio was marginally below 100% indicating tight underwriting profitability.

Outlook:

- We have positive outlook on CIC General Insurance which, in 2020, controlled 8.7% and 10.4% in Motor Private and Motor Commercial (2019: 9.4% and 11.5% respectively) is bound to benefit from the reopening of the country and growth in the economy. We forecast a long term growth of 5% compared to management targeted growth rate of 12% in 2021.
- Life insurance recovery, which is pegged heavily on pension and life assurance will heavily depend on growth of the industry segment with the company's market share seen to struggle.
- There is need to grow life insurance which currently contributes 31.2% compared to 43.8% for the industry and global contribution of 48.7%.
- Bottomline is heavily dependent on management of expenses with premium growth limited to market space. We anticipate overall claims and benefits paid to ease to long term levels of 65% from current rate of 86.7%.
- Recovery of the stock market with NASI up 13.4% and NSE 20 Share Index 2.1% y-t-d basis and increase in government yields will help boost investment income.
- The management foresees a positive outlook in the property market more so in the land sector driven by the government big four agenda

Valuation

- We value the company at KES 2.56, 23.6% above KES 2.07 as of June 16, 2021. We used three valuation methods, residual income method, relative valuation using PE and PB.
- For risk free rate we used yields on 10-year government bond. With the effects of pandemic expected to run for 3-5 years, we used equity risk premium of 10.1% which has been adjusted for pandemic environment.
- We used Sub-Saharan Africa (SSA) listed companies for comparable in relative valuation.

| Assumptions | | |
|--------------------------------|-----------|---------------------------|
| Risk Free Rate | 12.290% | 10 Year Bond |
| Equity Risk Premium | 10.1% | A. Damodaran |
| Beta 52 Week Average | 0.56 | (Bloomberg) |
| Cost of Equity (Based on CAPM) | 17.9% | |
| Cost of Debt | 13.0% | |
| Terminal Growth | 5.4% | 5 Year Government Average |
| Tax Rate | 30.0% | Corporate Tax Rate |
| Equity/Debt Ratio | 65.9% | |
| WACC | 14.9% | |
| No of Shares | 2,615,539 | |
| Valuation Day | 16-Jun-21 | |
| Days of the Year | 365 | |
| Current Share Price | 2.07 | |

| Valuation Method | Estimated Fair Value | Proportion | Proportionate |
|----------------------------|----------------------|------------|---------------|
| Excess Return on Equity | 3.37 | 33.33% | 1.12 |
| Relative Valuation (P/E) | 1.43 | 33.33% | 0.48 |
| Relative Valuation (P/B) | 2.20 | 33.33% | 0.73 |
| Target Price | 2.33 | | |
| Current Share Price | 2.07 | | |
| Upside/(Downside) | 12.6% | | |
| Recommendation | BUY | | |

Residual Method

| Year | 2019A | 2020A | 2021F | 2022F | 2023F | 2024F | 2025F |
|------------------------------|--------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Financial Year End | 31-Dec-19 | 31-Dec-20 | 31-Dec-21 | 31-Dec-22 | 31-Dec-23 | 31-Dec-24 | 31-Dec-25 |
| Excess Equity Return | | | | | | | |
| Beginning BVPS | 3.00 | 2.92 | 3.18 | 3.44 | 3.73 | 4.03 | 4.34 |
| EPS | 0.12 | (0.11) | 0.26 | 0.26 | 0.29 | 0.30 | 0.31 |
| DPS | - | - | - | - | - | - | - |
| Changes in Retained Earnings | 0.12 | (0.11) | 0.26 | 0.26 | 0.29 | 0.30 | 0.31 |
| Ending BVPS | 3.12 | 2.80 | 3.44 | 3.70 | 4.01 | 4.33 | 4.65 |
| EPS | 0.12 | (0.11) | 0.26 | 0.26 | 0.29 | 0.30 | 0.31 |
| Equity Charge | 0.02 | (0.02) | 0.05 | 0.05 | 0.05 | 0.05 | 0.06 |
| Excess Equity Return | 0.10 | (0.09) | 0.21 | 0.21 | 0.24 | 0.25 | 0.26 |
| Time | | | | | 2.51 | 3.49 | 4.48 |
| Discounting Factor | | | | | 0.71 | 0.62 | 0.54 |
| Estimated Fair Value | 3.37 | | | | 0.17 | 0.15 | 0.14 |
| Current Share Price | 2.07 | | | | | | |
| Upside/(Downside) | 63.0% | | | | | | |

Relative Valuation

| Relative Valuation | | | |
|------------------------|--------|----------------------|------|
| EPS | 0.26 | BVPS | 3.18 |
| SSA Industry Median PE | 5.48 | Industry Median BB | 0.69 |
| Estimated Fair Value | 1.43 | Estimated Fair Value | 2.20 |
| Current Share Price | 2.07 | | 2.07 |
| Upside/(Downside) | -31.2% | | 6.2% |

Forecast: Profit and Loss, Balance Sheet and Cashflows

| CIC INSURANCE COMPANY MODEL | | | | | | | | |
|--|------------|------------|------------|------------|------------|------------|------------|------------|
| Profit and Loss (KES 000) | 2018A | 2019A | 2020A | 2021F | 2022F | 2023F | 2024F | 2025F |
| Total Gross Earned Premiums | 16,945,301 | 17,296,700 | 17,244,119 | 17,837,695 | 18,729,580 | 19,666,059 | 20,649,362 | 21,681,830 |
| Net Premiums Earned | 14,261,486 | 14,396,887 | 13,938,978 | 15,072,852 | 15,826,495 | 16,617,820 | 17,448,711 | 18,321,146 |
| Net Income | 17,078,711 | 17,639,515 | 16,870,916 | 18,499,337 | 19,452,750 | 20,441,666 | 21,498,041 | 22,576,947 |
| Net Claims & Policyholder Benefits Payable | 9,250,055 | 10,040,469 | 9,954,608 | 10,256,675 | 10,769,508 | 11,357,149 | 11,925,006 | 12,521,257 |
| Total Expense | 15,585,883 | 16,564,086 | 16,501,653 | 16,923,202 | 17,828,411 | 18,660,850 | 19,614,082 | 20,598,915 |
| Profits for The Year Before Tax | 851,621 | 385,589 | (79,544) | 971,853 | 973,220 | 1,077,827 | 1,126,745 | 1,164,764 |
| Profit/(Loss) for the Year | 625,363 | 321,591 | (296,832) | 680,297 | 681,254 | 754,479 | 788,722 | 815,335 |

| Balance Sheet (KES 000) | 2018A | 2019A | 2020A | 2021F | 2022F | 2023F | 2024F | 2025F |
|-------------------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Total Equity | 7,882,486 | 7,852,933 | 7,628,469 | 8,308,766 | 8,990,020 | 9,744,499 | 10,533,220 | 11,348,555 |
| Represented By: | | | | | | | | |
| Total Assets | 33,046,419 | 35,303,070 | 38,786,172 | 40,602,998 | 41,988,941 | 44,631,013 | 44,642,341 | 46,940,396 |
| Total Liabilities | 25,093,247 | 27,450,137 | 31,157,703 | 32,294,232 | 32,998,921 | 34,886,514 | 34,109,120 | 35,591,840 |
| Net Assets | 7,953,172 | 7,852,933 | 7,628,469 | 8,308,766 | 8,990,020 | 9,744,499 | 10,533,220 | 11,348,555 |

| Consolidated Statement of Cashflows (KES 000) | 2018A | 2019A | 2020A | 2021F | 2022F | 2023F | 2024F | 2025F |
|---|-----------|-------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Net cash generated from operating activities | 2,066,192 | 2,077,151 | 2,335,833 | 903,174 | 972,922 | 1,772,030 | (443,732) | 1,524,762 |
| Net cash used in investing activities | (134,486) | (89,430) | (85,730) | (171,416) | (829,154) | (677,371) | 180,234 | (323,250) |
| Net cash generated from/ (used in) financing activities | (998,472) | (1,783,798) | (309,073) | 614,221 | 374,690 | 414,963 | 433,797 | 448,434 |
| Net increase/ (decrease) in cash and cash equivalents | 1,549,023 | (2,383,260) | 124,302 | 763,764 | (208,885) | 234,641 | 164,383 | 449,673 |

| GROWTH RATE | 2018A | 2019A | 2020A | 2021F | 2022F | 2023F | 2024F | 2025F |
|----------------------------|-------|-------|-------|-------|-------|-------|-------|-------|
| Gross Premiums Growth Rate | 18.2% | 2.1% | -0.3% | 3.4% | 5.0% | 5.0% | 5.0% | 5.0% |
| Long Terms Insurance | 25.5% | -0.5% | -0.5% | 0.8% | 5.0% | 5.0% | 5.0% | 5.0% |
| Short Term Insurance | 15.1% | 3.3% | -0.2% | 4.6% | 5.0% | 5.0% | 5.0% | 5.0% |
| Net Premiums | 17.9% | 0.9% | -3.2% | 8.1% | 5.0% | 5.0% | 5.0% | 5.0% |

| RATIOS | | | | | | | | |
|------------|-------|--------|---------|---------|-------|-------|-------|-------|
| RETURNS | 2018A | 2019A | 2020A | 2021F | 2022F | 2023F | 2024F | 2025F |
| ROaE | 8.1% | 4.1% | -3.8% | 8.5% | 7.9% | 8.1% | 7.8% | 7.5% |
| Growth YoY | 27.3% | -49.3% | -193.8% | -322.6% | -7.7% | 2.3% | -3.4% | -4.2% |
| ROaA | 2.0% | 0.9% | -0.8% | 1.7% | 1.6% | 1.7% | 1.8% | 1.8% |
| Growth YoY | 18.1% | -52.2% | -185.2% | -313.9% | -3.7% | 5.6% | 1.4% | 0.8% |

| MARGINS | 2018A | 2019A | 2020A | 2021F | 2022F | 2023F | 2024F | 2025F |
|------------------------------|-------|--------|---------|----------|--------|--------|--------|--------|
| PAT Margin | 4.4% | 2.2% | -2.1% | 4.5% | 4.3% | 4.5% | 4.5% | 4.5% |
| Growth YoY | 10.8% | -49.1% | -195.3% | -311.9% | -4.6% | 5.5% | -0.4% | -1.5% |
| Pretax Margin | 6.0% | 2.7% | -0.6% | 6.4% | 6.1% | 6.5% | 6.5% | 6.4% |
| Growth (YoY) | 39.1% | -55.1% | -121.3% | -1229.9% | -4.6% | 5.5% | -0.4% | -1.5% |
| EPS | 23.9% | 12.0% | -11.3% | 26.0% | 26.0% | 28.8% | 30.2% | 31.2% |
| DPS | 13.3% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Pay Out Rate | 55.7% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Retention Rate | 44.3% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |
| PERFORMANCE RATIO | 2018A | 2019A | 2020A | 2021F | 2022F | 2023F | 2024F | 2025F |
| Retention Ratio | 84.2% | 83.2% | 80.8% | 84.5% | 84.5% | 84.5% | 84.5% | 84.5% |
| Commission and Expense Ratio | 44.4% | 45.5% | 44.9% | 44.1% | 44.5% | 43.9% | 44.0% | 44.0% |
| Commission Ratio | 14.1% | 13.0% | 12.5% | 12.5% | 12.8% | 12.7% | 12.7% | 12.6% |
| Claims and Benefit Payout | 64.9% | 69.7% | 71.4% | 68.0% | 68.0% | 68.3% | 68.3% | 68.3% |
| Net Investment Income Ratio | 8.9% | 8.4% | 8.7% | 8.9% | 8.9% | 8.9% | 8.8% | 8.8% |

Relative Valuation Comparable- Sub-Saharan Africa

| Name | P/E | P/B | Name | P/E | P/B |
|------------------------------|-------|------|---------------------------------|--------------|-------------|
| Botswana Insurance Hldgs Ltd | 9.03 | 1.66 | Linkage Assurance Plc | 3.56 | 0.89 |
| Enterprise Group Ltd | 3.43 | 0.49 | Mutual Benefits Assurance Pl | 1.18 | 0.22 |
| Sic Insurance Co Ltd | 1.05 | 0.05 | Niger Insurance Co Plc | | 0.72 |
| Britam Holdings Limited | 78.76 | 0.74 | Prestige Assurance Co Plc | 4.91 | 0.26 |
| Cic Insurance Group | | 0.73 | Regency Alliance Insurance | 5.48 | 0.49 |
| Jubilee Holdings Ltd | 6.10 | 0.68 | Staco Insurance Plc | | 1.23 |
| Liberty Kenya Holding Ltd | 5.50 | 0.47 | Unic Diversified Holdings Pl | | 0.28 |
| Nico Holdings Ltd | 5.74 | 1.44 | Veritas Kapital Assurance Pl | | 0.38 |
| Mua Ltd | | 1.87 | Wapic Insurance Plc | 22.33 | 0.56 |
| Swan General Ltd | 2.91 | 0.71 | Clientele Ltd | 9.24 | 3.60 |
| Aiico Insurance Plc | 3.02 | 0.22 | Discovery Ltd | | 2.03 |
| Consolidated Hallmark Insura | 10.72 | 0.96 | Liberty Holdings Ltd | | 0.94 |
| Cornerstone Insurance Plc | 4.63 | 0.50 | Momentum Metropolitan Holdin | | 1.25 |
| Custodian And Allied Insuran | 3.03 | 0.73 | Santam Ltd | 50.92 | 3.08 |
| Equity Assurance Plc | 9.59 | 0.41 | Nic Holdings Ltd | | 0.26 |
| Guinea Insurance Plc | | 0.58 | Mean | 11.72 | 0.90 |
| Lasaco Assurance Plc | 4.97 | 0.28 | Median | 5.24 | 0.68 |

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Recommendation Guide:

Analysts' stock ratings are defined as follows:

- **Buy** – A buy rating reflects 1) An analyst has a bullish conviction on a stock 2) A 30% or greater expected return.
- **Accumulate** – An accumulate rating reflects 1) An analyst has a lesser bullish conviction on a stock 2) Expected return falls between 10% and 30%.
- **Hold** – A hold rating reflects 1) An analyst has a neutral conviction (lack of bullish or bearish conviction) on a stock 2) Expected return falls within the range of 5% to 10%.
- **Speculative Buy** – A speculative buy rating reflects 1) An analyst has a bullish conviction accompanied by a substantially higher than normal risk 2) Expected return falls above 10%.
- **Sell** – A sell rating reflects 1) An analyst has a bearish conviction on a stock 2) Expected return falls below 5%.

*Expected Return (ER) represents the sum total of both capital appreciation and the dividend yield.

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