

KINGDOM SECURITIES

Kenya Re announced a 45.8% increase in H1-2020 Profits after tax (PAT) to KES 1.57Bn from KES 1.08Bn in H1-19. Profit before tax (PBT) increased by 51.6% from KES 1.38Bn to KES 2.09Bn. The counter traded at 16.5% below 52-week average of KES 2.74. Normalized EPS increased by 45.7% to 0.56 from 0.38 on increase in number of shares after the 3 for 1 share bonus share.

Profit and Loss: Gross premiums grew by 2.4% to KES 9.07Bn in H1-2020 from KES 8.86Bn in H1-19. The growth was boosted by 17% growth in life business while general business was up 2%. Net earned premium witnessed flat growth of 16.6%.

- Negative economic and business environment impacted by COVID-19 pandemic saw investment income shrink by 2.1% on low yields. This led to contribution by investment to total income shrink to 17.9% from 20.7% seen in H1-19.
- The reinsurer retention rate improved to 95.4% from 83.9% on lower movement in unearned premiums.
- Net claims expense increased by 3.1% while total expense was up 6.0% on 5.8% increase in cedant acquisition cost and 169.2% increase in provision for doubtful debt.
- Net claims ratio eased to 98.4% from 108.2% in H1-19 on faster growth in Net Earned Premiums (+16.6%) compared 3.1% growth in net claims and benefits. Expense ratio eased to 11.0% from 12.9%.

Balance Sheet: Assets improved by 5.9% from 66.4% increase in reinsurance receivables and 25.6% addition in investment in short term securities. Shareholders funds were up by 3.6% boosted by increased in retained earnings.

- Return on average Assets (ROaA) doubled to 8.4% from 4.1% in H1-19 while Return on average equity (ROaE) jumped to 13.5% from 6.4% on better PAT performance.

Cash Flow: Decline in yield returns saw cash generated from operating activities decline by 51.1% while net cash increased by 19.2%.

Regional Contribution: Kenyan subsidiary saw its contribution to PAT increase to 99.3% from 92.2% in H1-2019 driven by lower net claims and benefits participation of 92.8% from 95.3% over the same period.

Kenya Reinsurance Corp Plc Earnings Update H1 - 2020

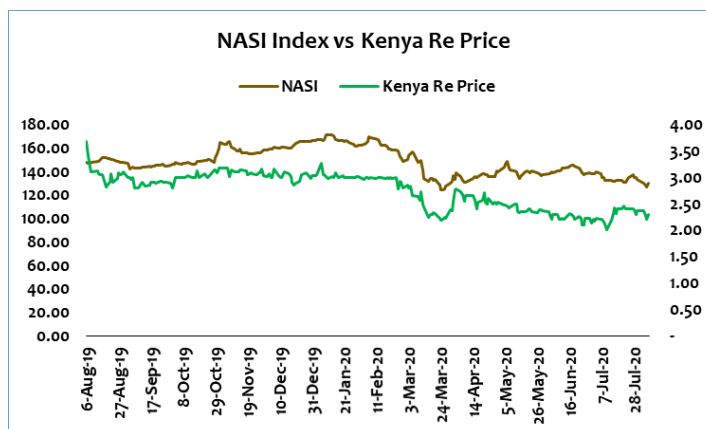
Bloomberg Ticker: KNRE
Reuters Ticker: KNRE:NAI
Company Statistics

Current Price	2.29
52 Week Ave	2.74
12 Week High	3.68
12 Week Low	2.00
No of Shares (Mn)	2,799.80
Market Cap (Mn)	6,411.53
Free Float	40.0%
EPS	0.56
PE	4.09
PB	0.19

P&L KES Mn	H1-2018	H1-2019	H1-2020
Gross Premiums	6,332	8,860	9,074
Net Earned Premiums	6,372	7,429	8,660
Investment Income	1,905	1,945	1,905
Total Income	8,312	9,421	10,614
Net Claims and Benefits	(3,362)	(4,995)	(5,148)
Claims and Other	(6,555)	(8,041)	(8,522)
Operating Expense			
PBT	1,757	1,379	2,091
Tax	(527)	(304)	(523)
PAT	1,230	1,076	1,568
EPS	1.76	0.38	0.56

Balance Sheet KES Mn	H1-2018	H1-2019	H1-2020
Total Asset	42,733	50,363	53,346
Total Liabilities	15,528	18,412	20,249
Shareholders' Fund	27,205	31,951	33,098

Cash Flow KES Mn	H1-2018	H1-2019	H1-2020
Net Cash from Operations	1,977	4,333	2,121
Net Cash from Investing	(2,428)	(2,444)	(245)
Net Cash from Financing	(560)	(315)	-
Net Increase (Decrease in Cash)	(1,011)	1,574	1,876



Outlook:

- With the current economic environment, we project gross premiums growth to flat at 2% in Q3-2020.
- Total income to continue to be affected by poor returns in the stock market and tight yields from government security performance.
- Claims ration will remain tight at c.100% with profits to depend on investment income.

% Growth	H1-2018	H1-2019	H1-2020
Gross Premiums	-15.6%	39.9%	2.4%
Net Earned Premiums	-10.1%	16.6%	16.6%
Investment Income	13.9%	2.1%	-2.1%
Total Income	-5.6%	13.3%	12.7%
Net Claims and Benefits	-6.8%	48.6%	3.1%
Claims and Other Operating Expense	0.7%	22.7%	6.0%
PBT	-23.4%	-21.5%	51.6%
Tax	-21.6%	-42.4%	72.2%
PAT	-24.2%	-12.5%	45.8%
EPS	-47.0%	-78.2%	45.7%
Total Asset	4.9%	17.9%	5.9%
Total Liabilities	4.7%	18.6%	10.0%
Shareholders' Fund	5.0%	17.4%	3.6%
Key Ratio	H1-2018	H1-2019	H1-2020
Claims Ration	102.9%	108.2%	98.4%
Expense Ratio	15.0%	12.9%	11.0%
Investment to Total Income	22.9%	20.7%	17.9%
PBT Margin	27.6%	18.6%	24.1%
PAT Margin	19.3%	14.5%	18.1%
ROaA	7.5%	4.1%	8.4%
ROaE	11.8%	6.4%	13.5%

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Analysts' stock ratings are defined as follows:

- **Buy** – A buy rating reflects 1) An analyst has a bullish conviction on a stock 2) A 10% 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 5% and 10%.
- **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 +5%.
- **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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