JUBILEE HOLDINGS LIMITED

We initiate coverage with a **BUY** recommendation based on a target price of KES 257.37 implying a 39.1% upside, from the current price of KES 185.0 as of 31st July 2023, inclusive of dividend yield.

The recommendation is based on the insurer's sound and organic growth due to continued innovation, digital transformation, operational efficiency and expense management. Partnership with bancassurance has increased the distribution channels hence strong performance despite the Group divesting from General Insurance business. The stock is currently trading at a discount to its value but presents a value pick for long-term investments.

Upsides

- **Strong brand**: Jubilee has a strong brand name and reputation across its subsidiaries and is regarded as a leading healthcare provider in the region. The Group is third in position for long term insurance with a market share of 11.0%, according to IRA Q1'2023 Report.
- **Strategic Partnerships** – Jubilee finalized its partnership with Allianz in 2022. The latter acquired the General Insurance business. Allianz is now regarded as an associate of Jubilee Holdings Ltd.. Allianz will leverage on Jubilee's brand recognition in the regional market while Jubilee benefits from global expertise of the former to drive growth.
- **Huge Asset base**: Jubilee has an asset base of KES 170.52Bn which it can leverage to fund its expansion as well as take advantage of technology to get an edge in the industry.
- **Regional diversification:** The Company has international presence in Tanzania, Uganda, Burundi and Mauritius. This footprint gives it an edge in the distribution of its products.

Downsides

- **Economic slowdown:** Low disposable income among households due to the prevailing macroeconomic conditions and expected impact of the Finance Act 2023.
- **Operational inefficiencies**: Jubilee's Expense ratio, inclusive of commissions payable, is high. It stood at 38.46% in 2022 compared to 41.27% in 2021.
- **Decline in Short Term Insurance**: Jubilee short term business, accounting for 59.64%, declined by a 5-year CAGR of 5.9% to **KES 15.2Bn** in 2022 from **KES 20.5Bn** in 2018 due to the sale of its general business. We however expect the reduction to be offset by increased investment income and profits from associates.

Share Data

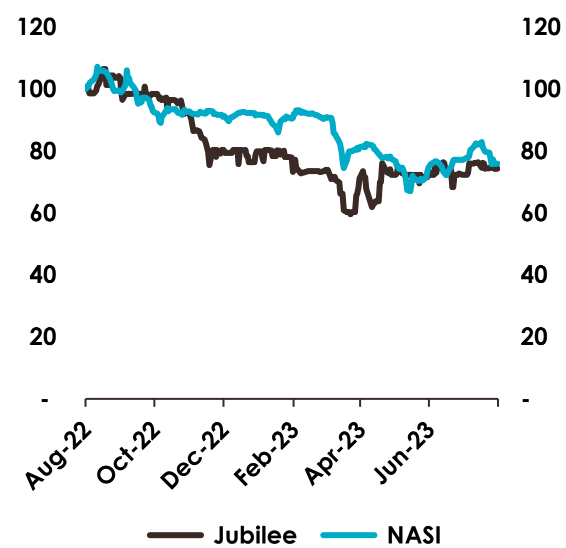
Recommendation	**BUY**
Current Price (KES) - 31 Jul '23	**185.0**
Target Price (KES)	**250.6**
Upside	**38.9%**
52WK High (KES)	**273.0**
52WK Low (KES)	**142.0**
Market Cap (Bn)	**13.41**
Current P/E (Normalized)	**2.11x**

Source: Bloomberg, NSE, NCBA IB Research

Financial Performance – FY'2022 Snip

PAT	**KES 6.6 Bn**
Dividend	**KES 12**
Gross Premium	**KES 25.4 Bn**
Claims	**KES 23.7 Bn**
Combined Ratio	**153.0%**
Assets	**KES 170.5Bn**

Jubilee Vs NASI since 2022

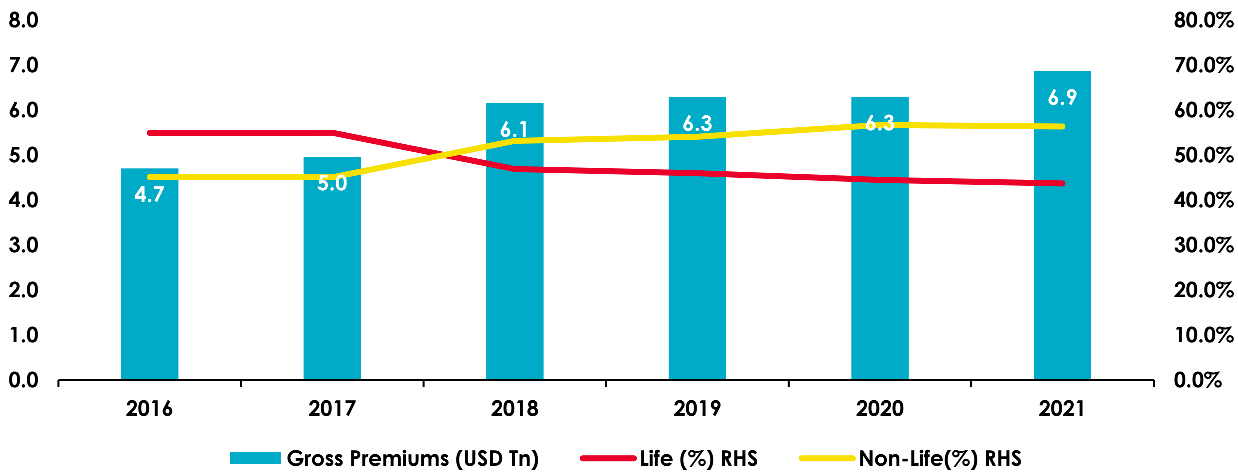


Global insurance

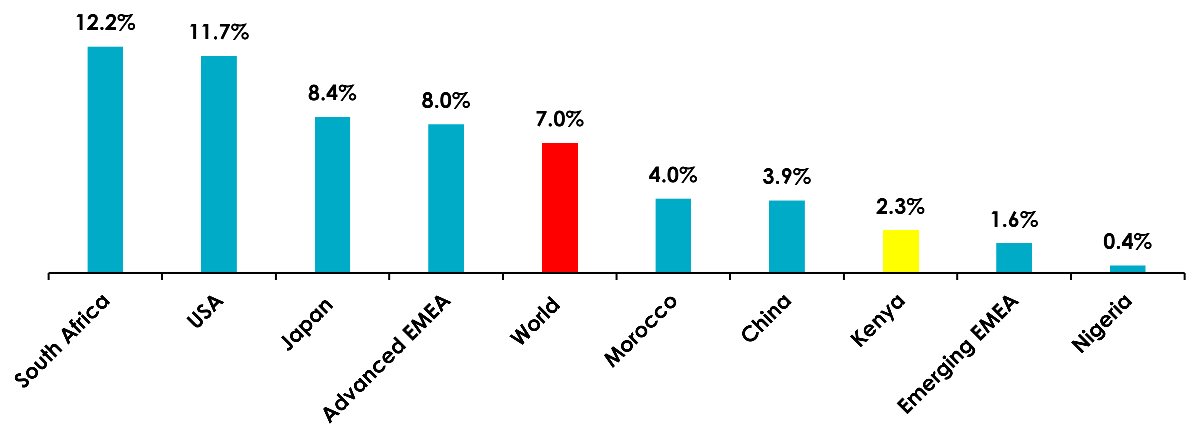
Insurance is a vital element of any functioning economy as it allows institutions and individuals alike to pass on risks to insurers thus promoting financial stability in the process. For retail consumers, it is primarily a function of disposable income and level of stakeholder education. The latter element is evidently seen when looking at the insurance penetration rates in different regions worldwide. OECD members have an average insurance penetration rate of 9.4% while Sub-Saharan African countries have an average of 3.0% against the world average rate of 7.0%.

Globally, the insurance industry has maintained steady growth in premiums recording a CAGR of 7.2% over a 5-year period. Growth has been faster in developing economies but markets like the USA, China and Japan dominated premium volumes contributing 39.6%, 10.1% and 5.9%, respectively, of total global volume in 2021, according to Swiss Re. General Insurance remains the leader accounting for 56.3% of gross written premium while life accounts for 43.7%.

Global Insurance Gross Premiums



Insurance Penetration rate-2021



Source: McKinsey, Swiss Re, IRA Kenya, NCBA IB Research

Sub-Saharan Africa

Africa has one of the lowest insurance penetration levels of below 3% compared to the global average of 7.0%. Overall, Sub-Saharan Africa contributes less than 2% of global written premiums. The low penetration is associated with low levels of disposable income in the region. South Africa accounts for over 70% of the region's total written premium.

Risk-Based Capital (RBC): Over the past decade, there has been an increasing emphasis on adoption of a Risk based approach when assessing the financial capability of insurers on the continent. This has led regulators in different countries such as Kenya, Ghana, Uganda and Nigeria issuing new regulations with increased minimum capital requirements. The new approach is expected to bolster the stability of the insurance sector by increasing their capability to withstand large-ticket claims.

The implementation of the RBC approach has not been smooth. Many insurers lack internal expertise and experience to reach full compliance. As a result of this, regulators have extended a grace period for lowly capitalized insurers to comply. Relatedly, they have also provided guidance for Mergers and Acquisitions arising from a smaller firm's incapacity to raise own capital.

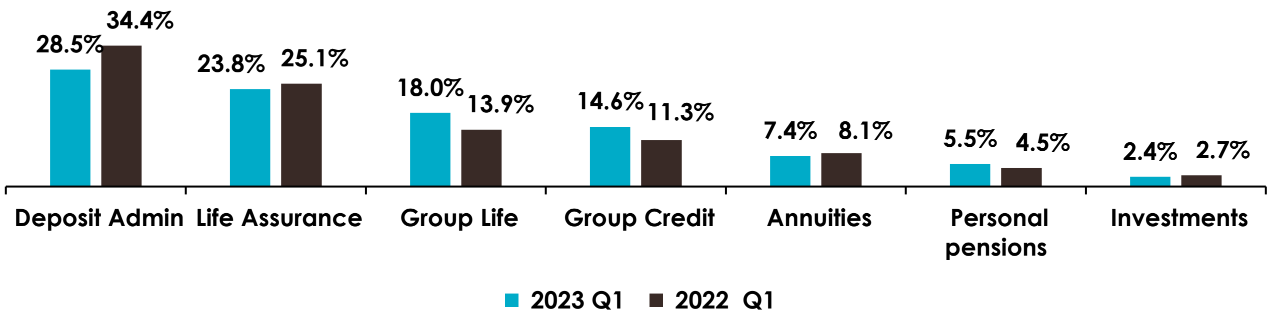
Kenyan Insurance Industry

The Insurance industry in Kenya is a highly competitive scene characterized by a high number of insurance providers and low penetration rate. There are currently 57 licensed insurance companies and 5 reinsurance firms. The rate of penetration has however lagged behind at 2.3% as of 2021, exclusive of the universal health cover offered by the National Hospital Insurance Fund, which has grown tremendously in the last five years.

The low penetration rate is attributable to many Kenyans viewing insurance as a non-essential thus allocating negligible amounts of their income to insurance and pension schemes. The slower growth in premiums compared to the country's GDP growth has led to insurance firms redesigning their product offerings with a focus on insurtech and micro-insurance products.

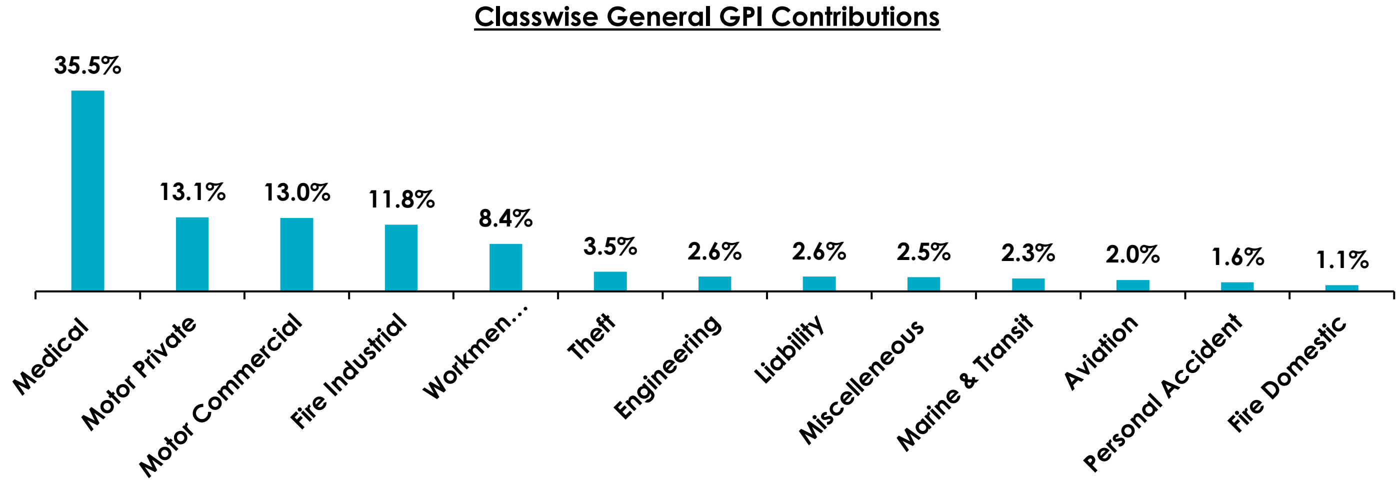
Deposit administration and Life Assurance constituted the largest contributors of Gross Premium Income as of Q1'2023 for Long term insurance products. Life Assurance and Group Credit contributions, however increased by 4.1% and 3.3%, respectively, compared to Q1'2022. The chart below shows the long-term class-wise contributions to Gross Premium Income (GPI);

Class-wise Contributions to Long-Term GPI



Source: IRA Kenya, NCBA IB Research

Similar to Q1'2022, medical and motor insurance classes maintained their position as the largest contributors in general insurance business premiums recording 35.5% and 26.2%, respectively, in Q1'2023. The chart below shows the general class-wise contributions to Gross Premium Income (GPI):



Source: IRA Kenya, NCBA IB Research

The table below shows the top-ranking firms in regard to market share:

Insurance Gross Premiums and Market Share-Q1'2023					
Long Term Insurance			General Insurance		
Company	Gross Premiums (KES Bn)	Market Share	Company	Gross Premium	Market Share
1. Britam	7.2	18.5%	1. GA	6.5	10.3%
2. ICEA Lion	6.3	16.1%	2. Old Mutual	6.4	10.3%
3. Jubilee	4.3	11.0%	3. APA	6.0	9.5%
4. CIC	3.5	9.0%	4. CIC	4.7	7.6%
5. Absa	2.4	6.1%	5. Britam	4.1	6.6%
Others	15.3	39.3%	Others	34.8	55.7%
Total	**39.0**		**Total**	**62.5**	
% of Total Premiums		**38.4%**	**% of Total Premiums**		**61.6%**

Source: Insurance Regulatory Authority (IRA), NCBA IB Research

Key Developments in the Kenyan Insurance Industry

- **Regulation**

The regulator – Insurance Regulatory Authority (IRA) has been implementing risk-based supervision through guidelines that require insurers to maintain a capital adequacy ratio of at least 200.0% of minimum capital. General insurers are required to have at least KES 600Mn while Life Insurance providers are required to have KES 400Mn in minimum capital.

Finance Act 2023 introduced 16% VAT on insurance compensation for claims paid out in regard to particular insurance products. The 16% VAT will only be applicable to bona fide owners of taxable supplies who had deducted input tax. As such, not all insurance claims paid out will be subject to this tax. The regulation will however reduce the insurer's actual compensation, consequently hurting the already low insurance penetration rate in the country.

IFRS 9, ties into the Risk Based Supervision (RBS) by requiring insurance companies to provide for and impair uncollected premiums. There have been emerging regulations in the industry such as the **IFRS 17** Insurance Contracts, which requires the reporting of more granular and standardized data. The point is to ensure that more data is available for a better understanding of the company and industry. We expect insurance firms to apply IFRS 17 in 2023 half year results.

- **Technology**

The offering of insurtech services such as mobile claims and mobile policy payments has grown exponentially as the industry takes advantage of mobile phone penetration which stands at 133.1% according to Communications Authority of Kenya. An example is Bima which provides insurance policies and telemedicine and, M-TIBA which allows clients to access specific health facilities through a health wallet on mobile phones.

- **Innovation**

As insurance companies take a more defined customer-centric approach, made possible by emerging technologies such as Artificial Intelligence (AI) and Block chain, the result has been providing customers with more efficient and personalized services. An example is Blue Wave, which provides micro-insurance services via mobile phones and Coverpause offering motor insurance in which premiums are calculated depending on the number of days one drives.

- **Mergers and acquisitions**

Following market uncertainty brought about by the pandemic, a fragmented industry competing for a niche market as well as the revision of the minimum capital requirements, M&A's have been witnessed with companies trying to protect and increase market share. An example is the concluded transaction between Allianz and Jubilee.

- **Takaful insurance**

This is a type of insurance that is based on Islamic principles where the insured seeks guarantee from a group of persons who are participants in the insurance. Members who share in this product insure each other's losses on the basis of legitimate cooperation. It has attracted the Muslim population and individuals who have reservations on conventional insurance.

- **Product bundling**

Several insurance products from the same company are sold to one client. An example is the Stansure Bundle by Stanbic Bank offering insurance plans at convenient and flexible rates.

COMPANY OVERVIEW – JUBILEE HOLDINGS LIMITED

Jubilee Holdings Limited is a leading insurer domiciled in Kenya and established in 1937 to offer insurance and related financial services. The Group's services are organized into three segments: Short-term Business, Health Business and Long-Term (Life) Business.

The Group has presence in four countries in Africa namely: **Kenya, Uganda, Burundi** and **Tanzania** and has significant stakes in companies in **Mauritius.**

Jubilee is listed in the NSE, as a large cap stock included in both NSE-20 and NSE-25 indices. It is also cross listed in both Uganda and Dar-es-Salaam Securities Exchanges.

It is one of the market leaders in the long-term insurance with a market share of 11% by gross premiums as of Q1'2023.

Share Ownership	Percentage
Aga Khan Fund for Economic Development	37.98%
Pyrus Investments Limited	10.60%
Stanbic Nominees Ltd. A/c NR3530153-1	3.32%
Freight Forwarders Limited	2.24%
United Housing Estates Limited	1.81%
Adam's Brown and Company Limited	1.79%
Investments & Mortgages Nominees Limited A/c 003746	0.56%
Investments & Mortgages Nominees Limited A/c 003745	0.56%
Gulshan Noorali Sayani	0.50%
Standard Chartered Nominees Non-resd. A/c KE10085	0.48%
Others	40.16%
Total	100.0%
Total Number of Shares	**72,472,950**

Associates	Ownership
Bujagali Holding Power Company Limited	40.90%
PDM (Holding) Limited	37.10%
FCL Holdings Limited	30.00%
IPS Cable Systems Limited	33.30%
IPS Power Investment Limited	27.00%
Jubilee Allianz General Insurance (Ke) Limited	34.00%
Jubilee Allianz Insurance Company (U) Limited	34.00%
Jubilee Allianz General Insurance (B) Limited	19.00%
Jubilee Allianz Insurance Company (T) Limited	15.00%
Jubilee Allianz General Insurance (MU) Limited	34.00%

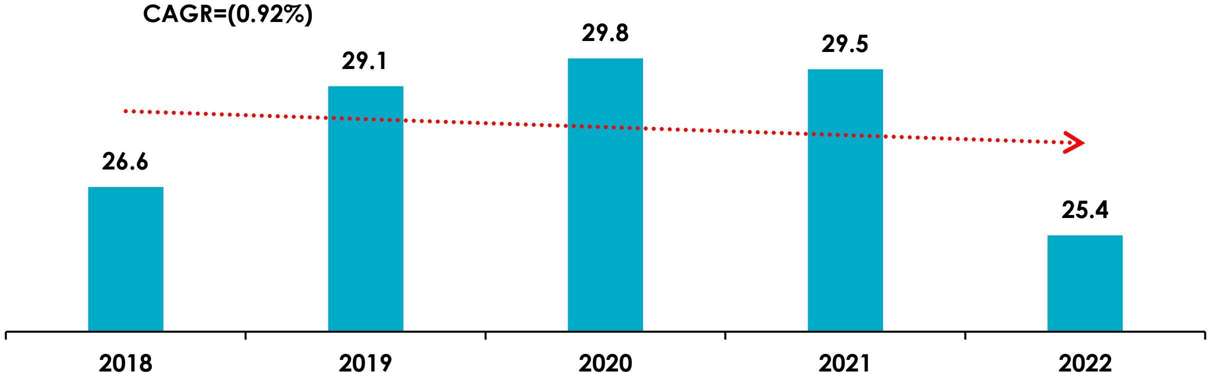
Source: Annual Report, NCBA IB Research

KEY THEMES

Diminished growth in Gross Premiums

Jubilee Holdings has recorded a decline in Gross premiums at a 5-year CAGR of 0.92% to KES 25.4Bn in 2022 from KES 26.6Bn in 2018 due to the transfer of a major stake of General Business to Allianz in 2022. The Group however continued to experience improved profits and is expected to record strong growth by leveraging on regional knowledge and brand, digital transformation and strategic partnerships. Innovation plays an important role in the growth journey. Products such as project **Changamk@**, that is focused on robotics, AI, among others aims at improving business efficiency and security. The second phase of the project is focused on enhancing customer experience through data analytics.

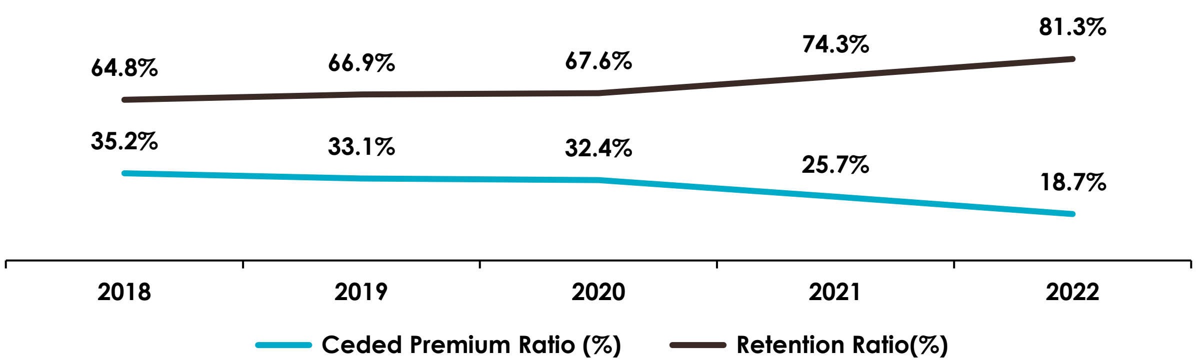
Gross Earned Premiums (KES Bn)



Source: Annual Report, NCBA IB Research

The ceded premium ratio has declined since 2021 on the back of reduced risks due to transfer of a majority stake of the General business to Jubilee-Allianz.

Retention vs Ceded Premium Ratio

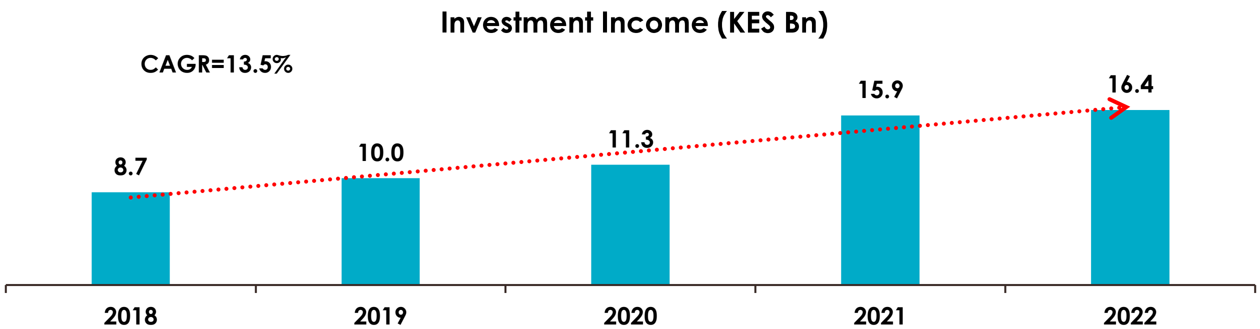


Source: Annual Report, NCBA IB Research

Net Earned Premium Main Revenue Contributor

Short Term insurance is the largest revenue contributor accounting for **36%** of total Gross Income in 2022, with medical premium contributing over 50% of the Short-Term business. Long-term insurance contributed **24%** to the revenue with ordinary life and group life businesses accounting for the largest share.

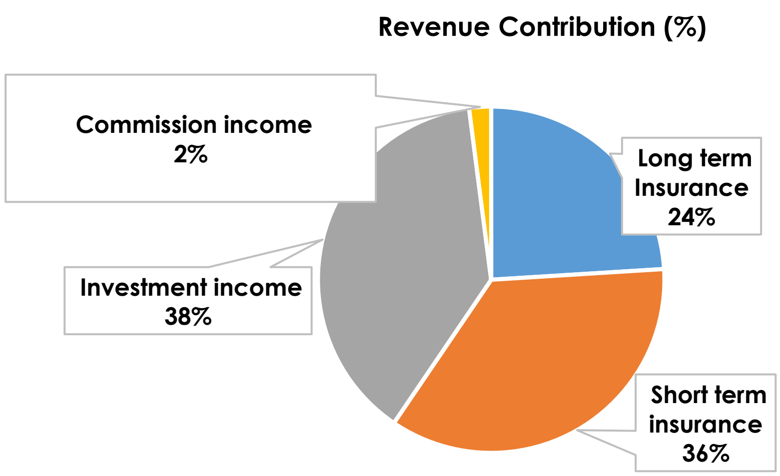
Investment income contributed **38%** of the total revenue with the main investment holdings being in government securities (70-75% investments), quoted and unquoted equities, and real estate. We expect investment income to grow significantly and offset the previous contribution that was attributable to the general insurance business. Going forward, Jubilee has mandated its asset management arm to look for alternative investment opportunities such as green energy to align with its ESG Framework. Below is a graphical representation of investment income between 2018-2022;



Source: Annual Report, NCBA IB Research

Short term insurance growth has been muted, declining by 26.6% to KES 15.2Bn in 2022 from KES 20.6Bn in 2021 due the transfer of a majority stake of General business to Jubilee-Allianz. Additionally, the slow growth is attributable to intense pricing competition, fraud and increased utilization levels since COVID-19. Long-Term insurance has on the other hand, experienced strong growth, increasing by 15.4% to KES 10.3Bn in 2022 from KES 8.9Bn in 2021. This is attributable to growth in sales and increased awareness on mortality protection.

Commission income accounted for **2%** of the revenue mainly supported by income from short-term and long-term businesses.



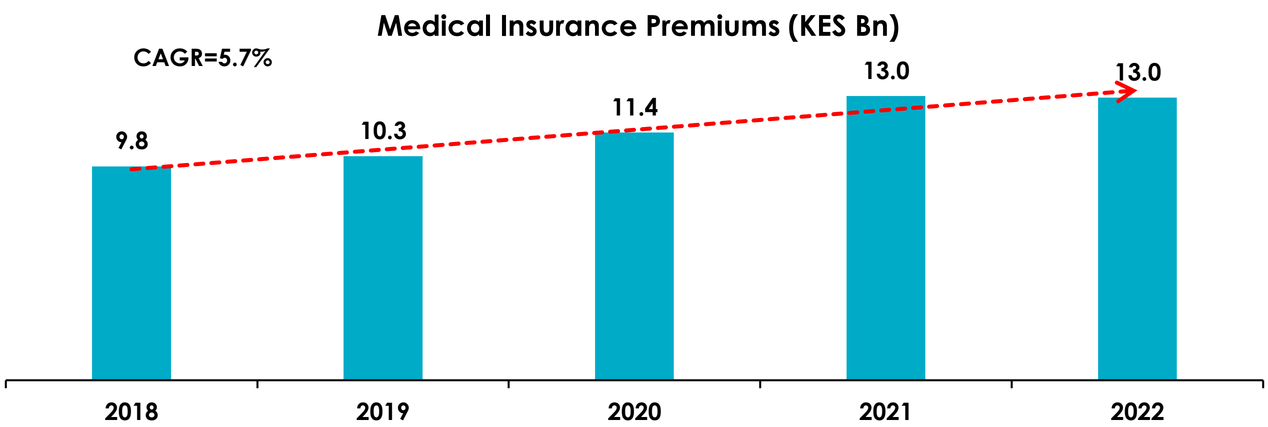
Source: Annual Report, NCBA IB Research

Medical Insurance Growth

Medical insurance l remains a challenging business despite contributing more than 50% of Gross earned premiums having grown by a **5-year CAGR of 5.7% to KES 13.0Bn** in 2022 from KES 9.8Bn in 2018. The business heavily relies on corporate clients with the current proportion being at 80% compared to 20% for SME and retail clients. The management is working towards reducing the over reliance on corporate business with a target to attain a 50%-50% balance in the next 3-years through the following interventions;

- Product innovation specific to a particular sector,
- Effective distribution channels to target the more than 40Mn Kenyan uninsured population, and,
- Ascertain operational efficiency to improve customer experience and attract the young generation who are tech savvy.

The chart below shows medical insurance growth since 2018;



Source: Annual Report, NCBA IB Research

Subsidiary Performance

- **General Insurance Business –** Gross earned premium declined by 86.64% to KES 1.53Bn in 2022 from KES 11.44Bn in 2021. Profit also declined by 91.1% to KES 0.06Bn in 2022 from KES 0.72Bn due to transfer of a majority stake of General business to Allianz coupled with muted growth.
- **Health Insurance-** Gross earned premium grew by 48.89% to KES 13.82Bn in 2022 from KES 9.29Bn in 2021. Profits however declined to KES 0.65Bn in 2022 from KES 0.84Bn the previous year.
- **Ordinary, Group Life and Pensions –** Gross earned premium increased by 14.06% to KES 10.05Bn in 2022 from KES 8.81Bn in 2021. Profit increased by 3.24% to KES 1.32Bn in 2022 from KES 1.27Bn in 2021. This was on the back of improved efficiency and customer experience through digital transformation.
- **Completion of Jubilee-Allianz Strategic partnership:** Jubilee finalized its strategic partnership with Allianz by completing the Jubilee Allianz transactions for Mauritius and Tanzania in 2022. The deal will ensure that both partners leverage on brand recognition. The Group maintains a positive outlook for both bottom-line and topline as they expect income from associates and investments to offset the proportion of business sold to Allianz.

The **regional subsidiaries** contributed a combined 11.45% of the consolidated PBT for the group and accounted for 18.64% of the Total Income from general, health and long term for the group in 2022.

Jubilee Uganda, Tanzania, Mauritius and Burundi's Profit Before Tax declined by 57.85%, 66.32%, 54.42% and 96.30%, respectively in 2022.

Going forward, we expect continued stable performance from Kenyan subsidiaries with Health Insurance accounting for higher revenue. The driver for this is an h increasing awareness on the importance of insurance covers by the populace and improved efficiency through digital transformation.

Underwriting Losses Symptomatic of Sector-wide Issues

Jubilee Holdings Ltd, similar to other insurance players in the Kenyan market, has recorded underwriting losses over the last few years. The combined ratio in 2022 stood at 153.01%, 3.29% higher than 2021 and also greater than the firm's 146.92%, 5-year historical average. Unprofitability of the underwriting business has increased the importance of investment margins in the industry.

Business Efficiency

Jubilee's efficiency improved with the expense Ratio coming in at 38.46% in FY'2022, lower than the 41.27% recorded in 2021. The underwriter should still be concerned about exposure to catastrophic perils. The business has migrated all core applications and infrastructure to the cloud resulting in business efficiency, agility and security to mitigate against possible losses and enhance performance.

Outlook

Jubilee remains focused on improving its performance and has initiated activities that will improve customer experience and ensure efficiency. Geographical diversification is expected to cushion and improve the Group's market share. Future growth will be pegged on the following factors:

- **Digital Transformational Agenda** – Jubilee launched the **Changamk@** project to transform its services to the current digital age. The project aims to drive innovations and streamline operations consequently enhancing general customer experience. Leveraging on technology will enable the firm to remain competitive and relevant in the industry and improve performance by unlocking new revenue streams.
- **Diversification and strategic partnerships** – Jubilee Holdings Ltd has presence in different countries within Africa and has partnered with several associates to diversify income streams and to bolster against industry risks. Allianz's global presence will improve brand recognition beyond the region.
- **Investment Income Growth** – Jubilee's investment income has grown by a 5-year CAGR of 13.5% to KES 16.4Bn in 2022 from KES 8.7Bn in 2018. We expect exponential growth driven by investment income generated through its asset management arm.

Disclaimer

This report has been prepared without the application of International Financial Reporting Standard 17 (IFRS 17) - Insurance Contracts. The absence of IFRS 17 in this report is solely for the purpose of analysis and presentation based on the limitations of available data. It is important to note that the exclusion of IFRS 17 may impact the measurement and presentation of the financial information presented herein.

Valuation

We derive our target price by blending Residual Income and Relative Valuation approaches to arrive at a 12-month target price of KES 257.37 for Jubilee Holdings LTD as an aggregate business comprised of both long term and short-term business units.

The target price implies an upside of 39.1% to the current trading price of KES 185.0 as of 31st July 2023.

Assumptions

- Risk free rate of 14% based on the 10-year Treasury bond historical yields.
- Tax rate of 30%
- Equity risk premium of 15.43%
- Beta of 0.76 on stock's relative volatility on the index.
- Long term growth rate of 5.0% based on GDP growth forecast for 2023.

Valuation Methodology	Implied Price	Weighting	Weighted Value
Residual Income	181.98	60%	109.19
P/BV	346.96	20%	69.39
P/E	393.93	20%	78.79
Fair Value		**100%**	**257.37**
Current Price			**185.00**
Upside/(Downside)			39.1%

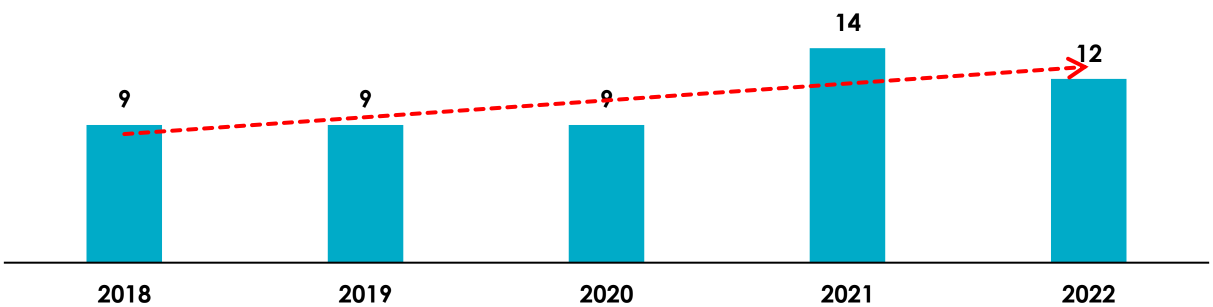
Investment Recommendation

We recommend a **BUY** for the stock based on a target price of KES 257.37 implying a 39.1% return on the current market price of KES 185.0 as of 31st July 2023, inclusive of dividend yield.

The recommendation is based on the insurer's sound and organic premium growth on the back of continued execution of the transformational agenda under the 2021-2025 strategic plan.

We expect a dividend payment in FY'2023. Our assumption is derived from the historical payout ratio as well as the projected financial performance. Below is the Group's dividend payment since 2018;

Dividend Per Share (KES per Share)



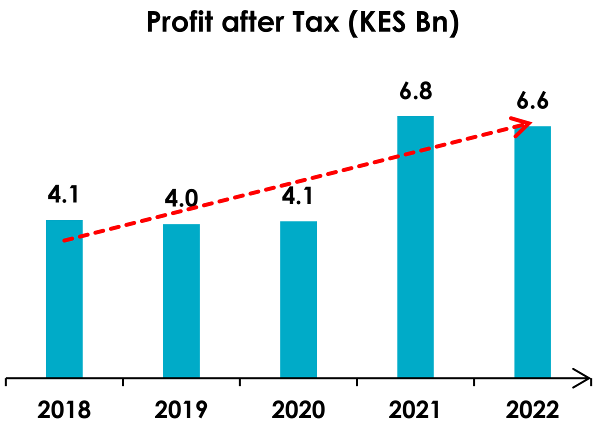
Source: Annual Report, NCBA IB Research

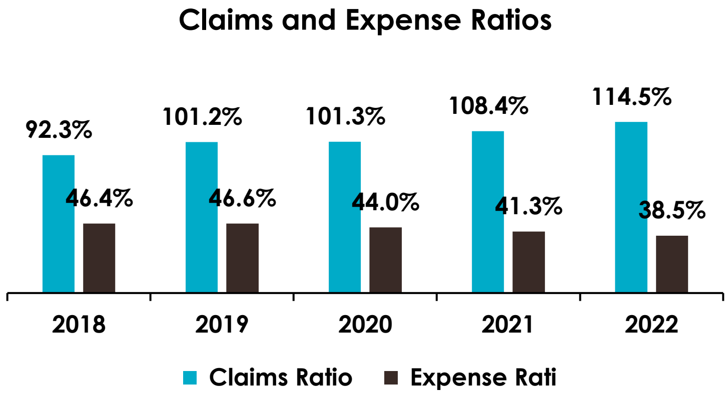
Appendix 1: Financial Statements

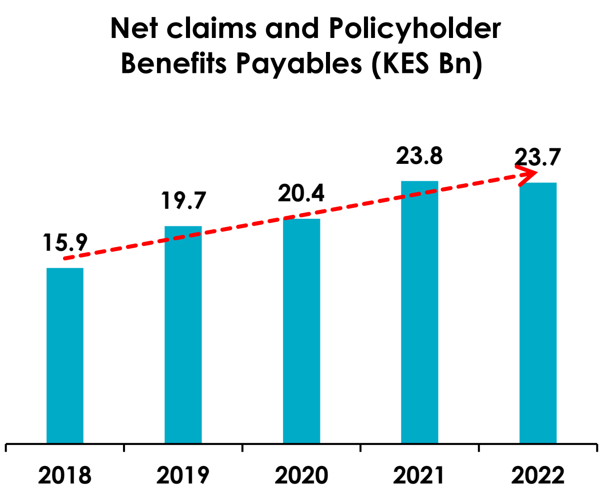
Income Statement (KES Bn)	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22	Y/Y Growth	5-YR CAGR
Gross earned premiums	26.61	29.12	29.82	29.54	25.40	(13.99%)	(0.92%)
Reinsurance premium ceded	(9.36)	(9.63)	(9.67)	(7.58)	(4.76)	(37.26%)	(12.66%)
Net Earned Premium	**17.25**	**19.49**	**20.14**	**21.95**	**20.65**	(5.95%)	3.66%
Investment income actuals	8.72	10.03	11.30	15.93	16.43		
Net fair value (loss) on financial assets at fair value through profit or loss actuals	(0.37)	1.03	(0.65)	(0.30)	(1.16)		
Commission income actuals	2.34	2.28	2.33	1.95	0.87	(55.20%)	(17.92%)
Gross Income	**27.94**	**32.83**	**33.11**	**39.53**	**36.78**	(6.94%)	5.65%
Net claims and policyholder benefits	15.93	19.73	20.40	23.81	23.65	(0.65%)	8.22%
Operating and other expenses actuals	4.68	5.45	5.27	5.55	4.76	(14.16%)	0.33%
Commission Expense actuals	3.33	3.64	3.58	3.51	3.18	(9.51%)	(0.91%)
Total Expense	**23.94**	**28.81**	**29.26**	**32.87**	**31.59**	(3.88%)	5.70%
Operating profit	**4.00**	**4.02**	**3.86**	**6.66**	**5.19**	(22.04%)	5.37%
Finance Costs	-	-	(0.11)	(0.11)	(0.15)	38.73%	
Share of profit from associate	1.34	0.99	1.33	1.88	2.49	32.45%	13.18%
(Loss)/profit before tax	**5.34**	**5.01**	**5.08**	**8.43**	**7.53**	(10.69%)	7.12%
Income tax expense	(1.21)	(0.99)	(0.99)	(1.60)	(0.96)	(40.04%)	(4.52%)
(Loss)/profit after tax	**4.13**	**4.02**	**4.09**	**6.83**	**6.57**	(3.80%)	9.75%

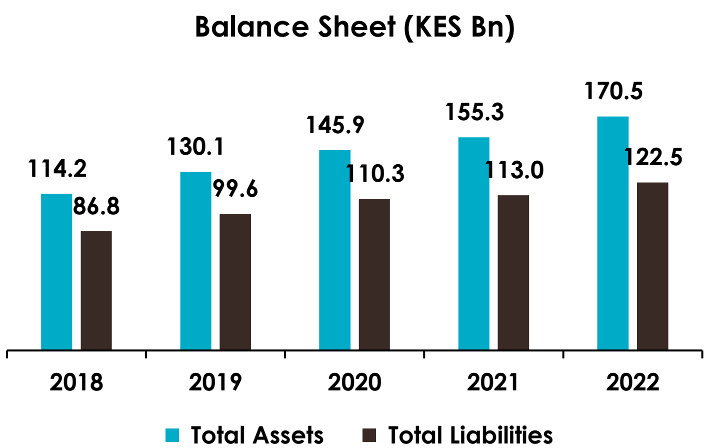
Balance Sheet (KES Bn)	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22
Assets					
PPE& Intangible Assets	0.47	0.44	0.22	1.15	1.79
Investment Assets	82.80	95.63	109.88	129.04	147.09
Insurance Assets	13.44	13.93	3.40	4.33	4.94
Other Assets	17.49	20.08	32.36	20.75	16.70
Total Assets	**114.19**	**130.08**	**145.86**	**155.27**	**170.52**
Liabilities					
Insurance Liabilities	83.00	94.92	91.10	101.27	115.45
Borrowings	-	-	2.27	1.84	1.23
Other Liabilities	3.83	4.63	16.96	9.89	5.81
Total Liabilities	**86.83**	**99.56**	**110.33**	**112.99**	**122.49**
Shareholders' Funds	25.47	28.25	32.72	39.46	45.57
Non-Controlling Interest	1.89	2.27	2.81	2.82	2.46
Total Equity	**27.35**	**30.52**	**35.54**	**42.28**	**48.03**
Total Liabilities & Equity	**114.19**	**130.08**	**145.86**	**155.27**	**170.52**

Appendix 11: Additional Key Financial Items









About NCBA Investment Bank

NCBA Investment Bank is a subsidiary of NCBA Group. The services offered by the brokerage department include equities trading for listed securities, fixed income trading for both corporate and government bonds, Over the Counter (OTC) equity transactions as well as execution of equities transactions across the East African countries. Additionally, NCBA Investment Bank backs these activities with solid advice from the research team to enable investors meet their return objectives. NCBA Investment Bank deploys simple and convenient client driven technologies, robust risk management, highly competent and experienced staff and has the backing of robust research capabilities to differentiate itself from other players in the market.

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Certification

The following analyst(s) who prepared this research report hereby certifies(y) that: (i) all of the views and opinions expressed in this research report accurately reflect the research analyst's(s') personal views about the subject investment(s) and companies (y) and (ii) no part of the analyst's(s') compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed by the analyst(s) in this research report.

Rating Definitions

BUY – Total expected 12-month return (incl. dividends) greater than 20%
ACCUMULATE - Total expected 12-month return (incl. dividends) between 10% - 20%
HOLD – Total expected 12-month return (incl. dividends) between 0% -10%
SELL – Total expected 12-month return (incl. dividends) less than 0%

Disclaimer

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