

Q3 2017 Sales and Revenue Call - Operational Update

Company Participants

- Anton Gildenhuys, Chief Actuary & Group Risk Officer
- Heinie Carl Werth, Executive Director & Group Financial Director
- Ian Maxwell Kirk, Group Chief Executive Officer & Executive Director

Other Participants

- Francois Du Toit, Analyst
- Michael Christelis, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good day, ladies and gentlemen, and welcome to the Sanlam 10-Month Operational Update. All participants will be in listen-only mode. There will be an opportunity to ask questions later during the conference. Please note that this call is being recorded.

I would now like to turn the conference over to Mr. Ian Kirk. Please go ahead, sir.

Ian Maxwell Kirk {BIO 1778703 <GO>}

Thank you. Good afternoon, ladies and gentlemen. Thank you for joining us on the conference call. I'm joined on the call by my colleagues from Finance and Actuarial, Heinie Werth, the FD, Anton Gildenhuys, Head of Risk and Chief Actuary, and Patrick Hartnic who is Head of Investor Relations.

Dealing first with overview of results. We've released details of the results for the 10 months period earlier this afternoon, just one or two comments before we proceed to question. As anticipated, the business environment remained challenging in the second half of the year, in particular, South Africa, which is our biggest market. In Namibia and in Botswana and in Malaysia also continued to experience some pressure.

New business performance trends for the 10 months were largely in line with the first half results. Particularly satisfactory was our ability to increase our overall new life business margin through favorable changes in mix of business despite these conditions.

Growth in net result from financial services also showed a pleasing improvement since the end of June. We were 7% up compared to only 1% for the six months to June, with the 7% being 10% in constant currency. Some of the salient features of our performance are as

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follows: new business volumes declined by 2%, Glacier inflows remained under pressure as in the position at June in the uncertain environment and declined by 11%. The comparable period also included a large ZAR 4.6 billion mandate from the Botswana Public Officers Pension Fund.

Net VNB increased by 13%, 17% in constant currency, which is a particularly pleasing performance. Net fund flows of 32%, that was in line with 2016. Net operating earnings increased by 7%, up 10% in constant currency. Overall, we're satisfied with our performance for the 10 months to October, which reflects the resilience of the business and the ability to maintain robust value creation for our shareholders in the challenging times we face.

So, in conclusion, looking ahead, we do not expect any major improvement in the operating environment in the short term in South Africa. Volatility in the currency and investor markets is also expected to persist, which may impact on most of our performance metrics. Over the medium to longer term we remain confident of the growth potential in all of our markets, including South Africa, and we'll continue to deliver value to our shareholders and other stakeholders.

Thank you. I'll now open the call for questions.

Q&A

Operator

Thank you, sir. The first question we have is from Michael Christelis of UBS. Please go ahead.

Q - Michael Christelis {BIO 15233664 <GO>}

Good afternoon, guys. Yeah, just three questions, if I can. I guess, the first one on everybody's mind and I wonder if there is anything you can't say is your exposure to Steinhoff in terms of the shareholder balance sheet, I mean, do you have significant debt exposure is particularly what I'm interested in through the SEM business? So that's the first question.

Second question, if I look at your commentary around SEM's operating earnings, so you talk about 22% up and you specifically flag that you expect this to moderate into the full year. Now, I'm struggling to get anywhere north of sort of 13% even the line (00:04:26) for things like the provision. So maybe if you can just talk about whether perhaps this year or last year had any particular one-offs in the four months through the end of October, it would be quite useful. I was just trying to understand what the trajectory is there particularly in light of the Ghanaian business has been stalled?

And then lastly, maybe if you just give a comment about risk variances. I mean, they were quite strong at the half year. You do mention that there is still some strain I think in the EB

business, but I mean, can you talk about the run rate there relative to what we saw in the half year? Thanks.

A - Ian Maxwell Kirk {BIO 1778703 <GO>}

Okay, Michael. Anton will handle one and three, Heinie will handle two.

Q - Michael Christelis {BIO 15233664 <GO>}

Okay.

A - Anton Gildenhuys {BIO 4058523 <GO>}

Hi, Michael.

Q - Michael Christelis {BIO 15233664 <GO>}

Hi.

A - Anton Gildenhuys {BIO 4058523 <GO>}

Let's start with Steinhoff. Clearly, Steinhoff is a – or at least used to be a very large (00:05:14) exposure debt on the equity exposure to Steinhoff. Of course, we know exactly what it is. But we don't disclose our specific exposures to the market of individual campus. I don't think it's out of line or anything but we're monitoring the development. We'll see how...

Q - Michael Christelis {BIO 15233664 <GO>}

But this would be covered by your (00:05:33) structures, right, on the last license, something about the shareholder exposure.

A - Anton Gildenhuys {BIO 4058523 <GO>}

(00:05:38) I mean, that's a normal. That's easy to fix, rating of Steinhoff was, what, 2% the last week. So we would have had 2% off our hedged equity exposure, which is about 80% off the Sanlam Life banking capital.

Q - Michael Christelis {BIO 15233664 <GO>}

Okay. Yeah, that's why I was getting on the equity side. And on the debt side, you can't really comment?

A - Anton Gildenhuys {BIO 4058523 <GO>}

Yeah, I can't really comment, I mean, clearly (00:05:58) debt and we have some of that debt on our balance sheet as well. In terms of three, the run rate isn't particularly different overall from the June numbers, (00:06:10) deterioration or improvement, so the trends are pretty much similar to what we've seen in the first half of the year.

Q - Michael Christelis {BIO 15233664 <GO>}

Right. Thanks.

A - Heinie Carl Werth {BIO 7529974 <GO>}

Michael, if you don't mind, just repeat your question specifically (00:06:22) emerging markets, you mentioned the 22% operating profit for the first 10 months?

Q - Michael Christelis {BIO 15233664 <GO>}

Yeah. Now, if we look at the half year – at the run rate at the half year and you add back the provision, that's running at above 13-odd-percent run rate, so it looks like there's been a very strong uptick in the growth rate for the last three months and over the last four months in operating results. So I'm just trying to understand is there a particular sort of lumpy either positive or negative, either positive in this year or negative in last year, for that four-month period that's skewing the numbers? Because if I look at the run rate, I mean, 22% just seems way too high even with the reversal of that provision.

A - Heinie Carl Werth {BIO 7529974 <GO>}

Yeah. I think you must remember that we do like accounting in India and then also (00:07:12), so it depends which quarter their results going through. And, for example, I think when you were at the Investor Day, we did say the last quarter in (00:07:24) was a good one which would now have come through in our October results and then also in India, we had a good quarter. I would always (07:33) suggest, Patrick, one can just give Michael possible – or just look but there is not specific one-offs in either periods that I can – other than the reversal obviously of this...

(07:47)

Q - Michael Christelis {BIO 15233664 <GO>}

The enterprise business is that...

A - Heinie Carl Werth {BIO 7529974 <GO>}

We don't – I think, actually, it will be difficult. The 22% is not sustainable for the full year.

Q - Michael Christelis {BIO 15233664 <GO>}

Okay. But I mean, the enterprise numbers, they are out of these numbers. Is that right?

A - Heinie Carl Werth {BIO 7529974 <GO>}

From the 1st of July, they're out of the numbers.

Q - Michael Christelis {BIO 15233664 <GO>}

Yeah.

A - Heinie Carl Werth {BIO 7529974 <GO>}

So, for the full year, they will be basically just in for the first six months.

A - Anton Gildenhuys {BIO 4058523 <GO>}

And I don't think there will be (00:08:09) pressure on the full year numbers.

A - Heinie Carl Werth {BIO 7529974 <GO>}

Yeah.

A - Ian Maxwell Kirk {BIO 1778703 <GO>}

Yeah, for the last quarter - the last two months.

A - Heinie Carl Werth {BIO 7529974 <GO>}

Yeah.

Q - Michael Christelis {BIO 15233664 <GO>}

Right. Thanks, guys. Thanks very much,

Operator

Thank you. The next question we have is from Francois Du Toit of Renaissance Capital. Please go ahead.

Q - Francois Du Toit {BIO 16128719 <GO>}

Thank you for that answer on the Emerging Market business, that was certainly my first question as well. On the new business value, that's up 13%, I guess, that's in constant economic assumption terms, right, rather than the actual 31 October interest rate that was quite a bit higher than the corresponding period than at 30th June? The first question just if you can clarify the economic assumption base you've used in.

The second question, you can may be give us a little bit more detail around the Absa Consultants acquisition if you're paying around close to ZAR 400 million for that, that's quite a big amount for consulting business. But also in terms of the impact you think that could have on your business and on flows, and maybe give us a bit of indication of how much of your flows currently come from the Absa Consultants and Actuaries, and whether you think that will change after the acquisition, what you're going to do with the brand, et cetera?

A - Heinie Carl Werth {BIO 7529974 <GO>}

Ian, if I can perhaps just start with the last one on the Absa Actuaries and Consultants. Francois, just a correction, we've mentioned in the write-up that we've spent ZAR 400 million, but out of that, about ZAR 300 million had to do with Absa. The other ZAR 100 million more had to do with the acquisition in Uganda - sorry...

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A - Ian Maxwell Kirk {BIO 1778703 <GO>}

EasyEquities, yeah.

A - Heinie Carl Werth {BIO 7529974 <GO>}

EasyEquities was part. Uganda is only post the - so the ZAR 400 million is a combination of those two numbers. I think, in terms of - we already get some flows from them. But obviously, the business ratio and why there should be another likelihood of flows and then obviously, over time, we don't yet have Competition Commission approval. But then over time, your biggest savings also come in cost synergies when you bring the two platinum (00:10:28) platforms closer to one another. So it will take time to unlock the value, but we feel relative to the synergies, we should be able to achieve the price was reasonable.

A - Ian Maxwell Kirk {BIO 1778703 <GO>}

Yeah. We'll - I mean, the job now is to get the approval. Once we get that, we will be able to give you more detail on the flows and the volumes and all that sort of stuff. So we'll do that at the end of the year. Hopefully, we'll get approval before the end of the year. That's our plan.

Q - Francois Du Toit {BIO 16128719 <GO>}

Okay. Just related to the numbers again, your discretionary capital didn't change in the four months. Is that because you hadn't factored in these acquisitions or the amounts earmarked for these acquisitions at that point?

A - Heinie Carl Werth {BIO 7529974 <GO>}

That's correct.

A - Ian Maxwell Kirk {BIO 1778703 <GO>}

Yeah.

A - Anton Gildenhuys {BIO 4058523 <GO>}

And sorry, Francois, just on your first question, the VNB, the 13 percentage after the economic pressure changes (00:11:30). So before economic pressure changes (00:11:32), the VNB would have been up about 15.6%.

A - Heinie Carl Werth {BIO 7529974 <GO>}

Yeah.

Q - Francois Du Toit {BIO 16128719 <GO>}

Okay. Thank you.

Operator

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Thank you. We have a follow-up question from Michael Christelis of UBS.

Q - Michael Christelis {BIO 15233664 <GO>}

(00:12:06) nobody else wants to ask. So, let me try another one. Just in terms of your SEB and Healthcare commentary, you're up 14% on operating earnings. If I'm right, you were up 73% at the first half. So, there's obviously some base effect in there. I mean, can you comment as to how that's changed so dramatically from positive 73% to only up 14%?

A - Ian Maxwell Kirk {BIO 1778703 <GO>}

Yes.

A - Heinie Carl Werth {BIO 7529974 <GO>}

(00:12:33)

A - Ian Maxwell Kirk {BIO 1778703 <GO>}

No. I mean, it's a runoff situation. We had a significant improvement in the first half. So, the business is trading well in the second half, but not at the same level. That's the health business Afrocentric. In EB terms, I'd say we had a reasonable – it's not quarter, nothing much different there.

A - Heinie Carl Werth {BIO 7529974 <GO>}

But last year, the first six months of results there is still (12:54) a lot of the claims. Anton, (00:12:56)

A - Anton Gildenhuys {BIO 4058523 <GO>}

The coming of Afrocentric acquisition as well. That was also...

A - Heinie Carl Werth {BIO 7529974 <GO>}

Yeah. But if you split that two – but the base loss here was low because of the negative experience – the risk experiences in EB.

A - Anton Gildenhuys {BIO 4058523 <GO>}

So, EB first half profit during the 2016 was quite a bit.

A - Ian Maxwell Kirk {BIO 1778703 <GO>}

Yeah.

Q - Michael Christelis {BIO 15233664 <GO>}

Okay. Great. Thanks, guys.

Operator

At this stage, sir, it seems that we have no questions.

A - Ian Maxwell Kirk {BIO 1778703 <GO>}

Okay. Then, in closing, I'd like to thank you for participating in the call and for your continued support to Sanlam. We look forward to speaking with you at the announcement of the group's results, which should be in early March next year.

Take a well-earned break and we look for a good outcome in December and we wish you and your families a blessed festive season. Thank you.

Operator

Thank you, sir. Ladies and gentlemen, that concludes today's conference. Thank you for joining us. You may now disconnect your lines.

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