

Q4 2019 Sanlam Ltd Operational Update Call For the Four Months ended 30 April 2019

Company Participants

- Heinie Carl Werth, Financial Director & Executive Director
- Ian Maxwell Kirk, Group CEO & Executive Director
- Patrick Hartnic, Unknown
- Wikus Olivier, Group Executive Finance

Other Participants

- Francois Du Toit, Director
- Larissa Van Deventer, Analyst
- Unidentified Participant, Analyst

Presentation

Operator

Good day, ladies and gentlemen. Welcome to the Sanlam 4-Month Operational Update. (Operator Instructions) Please also note that this call is being recorded.

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

Ian Maxwell Kirk {BIO 1778703 <GO>}

Thank you, Chris. Good afternoon, ladies and gentlemen. And thank you for joining us in the conference call. I'm joined on the call by my finance and actuarial colleagues, Heinie Werth, Anton Gildenhuys, Wikus Olivier and Patrick Hartnic, all are well known to you. Dealing first with overview of the results. We released details of the results of the 4-month period earlier this afternoon. I'd like to make a couple of comments before we proceed to questions.

From a strategic perspective, we are pleased with the progress we have made in the first four months. We concluded the 5% share issue to the new Broad-Based BEE entity as approved by our shareholders at the end of 2018. We are now the foremost empowered insurance and investment management group in South Africa having a Level 1 status. The issuance also raised net cash of ZAR 4.5 billion, which was stored by discretionary capital to the acceptable position.

The SAHAM finance integration is going well, there's continued progress in bedding down the acquisition. The business had a good start to the year with top line performance

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exceeding the targets. Its contribution to net result from financial services was, however, below expectations due to persistency -- persistent high claims experience in Morocco and in the Ivory Coast. And some exposure to the reinsurance business to the cyclone damage in Mozambique, which resulted in an overall underwriting margin at the lower end of the 5% to 9% target range. We are addressing this through a pricing and claims management. We have seen an improvement in the float return in some markets and we've had good progress made in evaluating the optimal strategic asset allocation on the float in Morocco and in the Ivory Coast.

From an operational perspective, the group's clusters delivered an overall satisfactory performance for the four months ended the 30th of April 2019, despite persistent headwinds in South Africa and pressure in emerging markets in general from international, political and economic turmoil.

Lower average equity markets in the first four months of the year, weaker claims experience at Santam and at SEB in the group risk and depressed investor confidence in South Africa had a noticeable effect on our results. The Capitec Bank credit life business, which was subject to annual renewal unlike the strategic multiyear arrangement on funeral business, this was not renewed effective May 1, as our pricing was not competitive given how we forecast market conditions and, in particular, the risks (entrenchment).

Some of the salient features of our performance are as follows. New business volumes of ZAR 72 billion, were up 7% on the first four months of the 2018 financial year. That represents 3% in constant currency where we exclude SAHAM Finances. Net value of new life business VNB increased by 17%, on a constant economic basis with all clusters contributing good growth and an improvement in overall net margins.

Overall, net fund inflows of ZAR 15.9 billion were 30% higher than the ZAR 12.2 billion achieved in the comparable 4-month period in 2018. Persistency experienced trends remained in line to the second half of 2018. Net results from financial services increased by 9% on the first four months of the 2018 financial year. Up 3%, excluding SAHAM Finances and in constant currency.

Diluted headline earnings per share increased by 9% per share, excluding the one-off accounting cost of ZAR 1.7 billion in respect of the B-BBEE share issuance and -- on the 40% down, including the IFRS 2 charge. Overall, we are satisfied with our performance for the four months to April, which reflects our resilience and our ability to maintain value creation for our shareholders in the difficult times faced.

Conclusion, looking ahead, we do not expect a major recovery in the economic conditions in South Africa and Namibia for the remainder of 2019. Our ability to grow a new business will commensurately remain under pressure. Investment market volatility is also expected to persist, especially in the light of recent escalation in trade war involving United States and China. A recovery in the South African mass affluent and high net worth new business performance is largely dependent on developments in the political and economic environment.

New business growth in the South African entry-level market for the remainder of the year will be impacted by the diminishing basis as we launch the Capitec Bank funeral product in May 2018. And will also be impacted by the loss of the credit life business from the 1st of May.

Outside of South Africa, we expect new business growth in other emerging markets to remain strong. Average investment market levels, the relative strength of the rand exchange rates and the level of long-term interest rates, these are key factors that may have an impact on the growth in net result from financial services.

Normalized headline earnings and group equity value to be reported for the six months to 30 June. The focus will remain on delivering results from the SAHAM Finances acquisition and to deliver value from the package of B-BBEE transactions, which was approved in December 2018, once implemented. Thank you.

I will now open the call for questions.

Questions And Answers

Operator

(Operator Instructions) Our first question is from Francois Du Toit of Citi.

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

Ian, first question just relates to the funeral business. Your ZCC scheme renews every second year, has that renewal been successful? If you can just confirm that. Can you be also maybe -- second question, just express the new business volumes on the life side, the growth there relative to -- on a PVNBP basis or APE basis. So we can get a sense of the margin changes as well there. Then the B-BBEE rights issue, does that now -- have you confirmed that, that gives you BEE Level 1 status, if you can address that for me as well?

Then just in terms of the acquisition accounting at Sanlam. By my estimation your earnings will be very significantly impacted this year from the first time amortization of the SAHAM intangibles. Can you maybe quantify that's the annual amortization in headline earnings from that?

And maybe just -- will you in future exclude that from normalized earnings, all your peers exclude amortization of acquired intangibles from their preferred headline earnings numbers? Or will that remain included in normalized earnings? Then -- I think those are fine for now.

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

Okay. Francois, let's deal with the easy one. The B-BBEE deal and the rights. We were at Level 1. This deal makes us a very strong Level 1, puts us well ahead of anyone -- of the

other parties who is Level 1. And it will protect us in the event that some of the conditions tighten, which we anticipate in 2020.

Then on the ZCC scheme, Wikus do you want to deal with that one?

A - Wikus Olivier {BIO 20074722 <GO>}

Yes, Francois, at ZCC, starting the April numbers, its renewal usually comes through in early May. So you'll only see that in the June interim results.

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

So that renewal has been successful?

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

I don't think it's a case of being successful, I think it's just the arrangement that's in place. So it does come through.

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

The scheme will definitely be with us for the next year. Yes.

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

Then the new business on the life?

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

The PVNBP

A - Wikus Olivier {BIO 20074722 <GO>}

The PVNBP is on a net basis of the minority shares by about 7%.

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

Okay. The acquisition accounting. And then the SAHAM intangibles, you want to deal with that, Heinie?

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

Yes, Francois, I mean the intangible on the SAHAM acquisition, the VOBA. I think within the credit will be written down over 10 years. So you've seen the first little bit already last year. And then this year you can take the number on the income statement divided by 10%, I think it's close to ZAR 400 million per year.

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

For SAHAM.

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

For SAHAM.

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

So I think, if you look at it in total, you should work on the amortization number of around ZAR 600 million.

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

It includes variety of concerns. Across the group here.

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

On your question whether we are going to show it like the other insurers, whether we will show earnings without VOBA, Wikus can also respond. But (he won't) take a proposal until August to our audit committee. And we may then consider in anticipation of IFRS 17 to make some changes, Wikus?

A - Wikus Olivier {BIO 20074722 <GO>}

No. That's correct. So we -- in the last few months we've responded to IFRS 17 program, we've looked at future disclosure under the new accounting standard, which will include changes to our shareholders' fund income statement. So we will likely to make changes to the normalized headline earnings number. Even considering potentially dropping it from the disclosure.

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

So we may end with, what you refer to as (overall) be below -- will not include it in operational earnings. But it's all subject to the committee agreeing to when we do it.

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

At a question there, Wikus, on whether -- how we're going to treat the B-BBEE charge with regard to disclosure in our headline earnings?

A - Wikus Olivier {BIO 20074722 <GO>}

Yes. So it must be included in JSE headline earnings number. But depending on what we do on the format of the disclosure, if we're trying to current normalize headline earnings definition it will also be excluded. It could essentially be treated similar to what we do with other amortization.

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

Okay. So both issues, we'll take them -- and we'll address it by the interim.

A - Wikus Olivier {BIO 20074722 <GO>}

Yes.

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Operator

The next question is from Larissa Van Deventer of Macquarie.

Q - Larissa Van Deventer {BIO 20764470 <GO>}

One quick question from my side. And then a follow-up on one of franchise. You state that next results from financial services increased by 9%. And this is up 3%, excluding SAHAM and in constant currency. Can you tell us what it was up, if you just exclude SAHAM. So we have an indication of where it sits if you include the currency movements, please?

Then a second -- the clarifying question on (Francois), if the PVNBP was moved up 7% is that in constant currency or in actual numbers?

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

While Wikus thinks about your second question, Patrick, you can take the first one on the 9% becoming 3%.

A - Patrick Hartnic {BIO 20482012 <GO>}

Larissa, net operating profit increased by 5% if you just exclude SAHAM.

Q - Larissa Van Deventer {BIO 20764470 <GO>}

5%.

A - Patrick Hartnic {BIO 20482012 <GO>}

Yes.

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

And on your second question the 7% is actual exchange rates. It is not in constant currency.

Operator

(Operator Instructions) Our next question is from (Petra Sadnam).

Q - Unidentified Participant

It's actually not (Petra), it's (Lundy) from Business Day, I just couldn't register. My question relates to just new business volume from SAHAM. So its contribution is up 173% and I see that when you include them on SEM. So their new business volumes are up 34%. But if they were excluded, volumes went down (3%). So I just want to isolate SAHAM Finances' contribution to the Group's new business volumes, not as part of SEM. But just them specifically, how much does this entire group are they -- did they contribute in new business volumes?

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Then another thing I need clarity on is, Ian, you just mentioned that SAHAM, you're impressed with the performance. But I was a bit disappointed with the net results of some financial services. So I want to get a sense of it might be where, I don't understand quite CLA, what the difference is in net result from financial services because when you look at the new business volumes, it's quite impressive. So how does it differ from their net results from financial services.

And lastly, just SEM as a whole, how much do they now contribute to Sanlam's profit? Is it still over 50%? And just to confirm if SPF is still over 50%?

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

Yes, okay. So when the guys are working on question 1 and 3, let me deal with 2. Okay. So SAHAM is 86% general insurance, right? Only 14% life, that will obviously change as we build life. Now what happened in the first four months is the growth was very acceptable in line with what we expected. But the underwriting margin in General Insurance was at just below the bottom end of the range. 5% to 9% is what we guide, that's in our model and we were just below the 5% to 9%. And therefore, that's why I say, it's a bit disappointing for us. But that happens in General Insurance it is volatile. You have seen in Santam. Last year, we made 9.2%, this year we made less than 4%. So by its nature it's volatile and we have to accept that volatility. But that's why we say it's a bit below our expectation. On the profit side. Okay, the other one.

A - Wikus Olivier {BIO 20074722 <GO>}

On the isolating SAHAM, if I understood your question correctly, you actually want to know the actual new business contribution from SAHAM volumes regarding which we didn't disclose that in specific in operational update. So I wouldn't want to disclose it outside of a SENS announcement.

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

Okay, fine. Then the same contribution just remind me that one. The SAHAM profit.

Q - Unidentified Participant

An SEM contribution to the profits?

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

As a percentage? We have a significant in SEM.

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

I think it's worthwhile just pointing out while calculating the number, that SEM is now the largest in terms of group equity value.

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

Yes. It's about 20%. And all of SEM is about 20% of our profits.

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

20%, Wikus?

A - Wikus Olivier {BIO 20074722 <GO>}

25%.

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

25%, my apologies.

Q - Unidentified Participant

And I wanted to also confirm if SPF was still accounting for more than 50% or if that has changed?

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

No. If won't be 50%.

A - Wikus Olivier {BIO 20074722 <GO>}

No. It's -- we work roughly on around 50%.

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

(inaudible)

A - Wikus Olivier {BIO 20074722 <GO>}

Yes. But for the first four months the pro forma insurance will be likely...

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

Okay. Yes. Chris?

Operator

Sorry, sir. I thought you were kind of answering another question.

(Operator Instructions) Sir, it would appear that we have no further questions in the queue.

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

Okay. 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 to you again when we announce the group's interim results first week of September. Thank you very much.

Operator

Thank you very much, sir. Ladies and gentlemen, that then concludes this conference call. And you may now disconnect your lines.

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