

Q3 2019 Sales and Revenue Call

Company Participants

- Anton Gildenhuys, Chief Actuary & Group Risk Officer
- Ian Maxwell Kirk, Group Chief Executive Officer & Executive Director
- Unidentified Speaker

Other Participants

- Analyst
- Michael Christelis

Presentation

Operator

(Operator Instructions) Good day, ladies and gentlemen, and welcome to the Sanlam 10-month Operational Update. All participants are currently in listen-only mode and there will be an opportunity to ask questions later during the conference. (Operator Instructions). Please also note that this call is being recorded.

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

Ian Maxwell Kirk {BIO 1778703 <GO>}

Good afternoon, ladies and gentlemen. Thank you for joining us on the conference call for the operational update for the 10-months ended 31 October, 2019. I'm joined on this call by Wikus Olivier, Anton Gildenhuys, and Patrick Hartnic.

We released details of the results for the 10-month period earlier this afternoon. I'd just like to make a couple of comments before we proceed to the questions. From a strategic perspective, I'm pleased with our progress in the second half -- four months of the second half. The SAHAM Finances' integration is going fairly well, and there's continued progress in bearing down the acquisition under the new leadership arrangement that we announced earlier this year.

Furthermore, whilst there have been delays in finalizing the third party asset management B-BBEE transaction, which is approved by shareholders at the end of last year, we expect this to be concluded in the first half of 2020 and the delay has been for good reasons, which we'll explain at that time. We remain focused on building our capabilities in entry-level life insurance, asset management, employee benefits and healthcare. We continue to deliver a shareholder value in the changing conditions, whilst at the same time executing our future growth strategies.

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Then from an operational perspective, the group maintained a solid operational performance in the 10 months to 31 October, especially in the context of the challenging operating conditions in all of our largest markets. The South African equity market recorded muted growth in the first 10 months of 2019, compared to global indices, which would have been a bit better. Average equity markets were as a result still lower than the comparable 10-month period in 2018.

Some of the salient features of our performance are as follows. New business volumes of R199 billion, is up 6% on the first 10 months of 2018, up 3% in constant currency, and if we exclude the SAHAM structural impact. Net value of new business increased by 13%, up 6% on a constant economic basis, with all classes contributing good growth. Overall net VNB margins improved by some 21 basis points on a constant economic basis, again on the comparable 2018 period.

Overall net fund inflows of R43.5 billion were 20%, on the R36.2 billion achieved in the comparable 10-month period in 2018. Sanlam Investment Group attracted strong net inflows of R18.5 billion, compared to R8.7 billion in the comparable period and that's a good credible relative performance.

Persistency experience trends remained in line with the first half of 2019. Again, which is very acceptable in the economic conditions we are in. Net results from financial services increased by 12% on the comparable period up 6% excluding some structural impact and in constant currency.

Claims experience in SAHAM remains under pressure with the overall general insurance underwriting margin still below to 5% to 9% target range. SAHAM continues to implement corrective measures during repricing and tied to improved claims management. However, this year, the investment performance has been better than we expected, which partially offsets the lower underwriting result.

Diluted headline earnings per share declined by 20%, but if we transfer the B-BBEE IFRS 2 charge when you exclude that, it's up by 2% per share. Overall, I'm satisfied with our performance for the 10 months to October, reflects the resilience and the diversification of the business and our ability to maintain value creation for our shareholders in the difficult times that we're in.

So now in conclusion if I look ahead, we do not expect any major improvement in the economic conditions in the territories, where the group operates in the short term. New business growth potential will remain under pressure. Investment market volatility is also expected to persist, which is aggravated by the international situation, dominated by Brexit and finalization of a trade deal between U.S. and China.

Continuation of any recovery in the South African mass affluent new business is largely dependent on developments in the political and economic environment in South Africa. New business growth in the South African entry-level market will be impacted by the diminishing base effect on the launch of the Capitec Bank funeral product, which I remember was in May 2018. Outside of South Africa, new business growth in other

emerging markets is expected to remain strong, supported by the base effect of the SAHAM structural impact.

Average investment market levels, the relative strength of the Rand and the level of long-term interest rates, those 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 year to 31 December 2019.

Currency volatility in Angola and the weakening operating environment in Lebanon are particular risk factors for our business. Over the medium to long term, we remain confident of the growth potential in all our markets including South Africa, and we will continue to deliver value to our shareholders and other stakeholders.

Thank you, and I'll now open the call for questions from the audience.

(Question And Answer)

Operator

Thank you very much, Sir. (Operator Instructions) Our first question is from Michael Christelis of UBS. Please, go ahead.

Michael Christelis {BIO 15233664 <GO>}

Good afternoon, guys. Thanks very much for the call. Three questions, if I can. The first one is split into two around SAHAM, and you mentioned that it's still exceeding your top-line target. I'm wondering if you can just elaborate on what you mean by top-line target just sort of -- what sort of growth rates are you looking for both in either constant currency or in Rand?

And then secondly, your comment maybe on your views around the ability to actually influence pricing, particularly where you look at some of -- Morocco where a lot of the third-party liability business is actually priced contained (Inaudible) by the regulator, and you're already more profitable in the rest of the industry on how. I'm just curious, your views about how you will be able to improve the underwriting conditions in the SAHAM business?

The second question really around Mozambique and Zimbabwe. So you mentioned Angolan and Lebanon, Zambia's currency is also taken a bit of a hit and I believe in Zimbabwe, you're not currently half in sizing -- half in price and accounting for that business yet, so maybe you can just talk to me a little about the two sizes of Zambia and Zimbabwe in both your annual earnings for FY '18, just to get an idea of what sort of -- we can expect there?

And then lastly just on Capitec, it looks to me like the run rate of new business has accelerated since June. If I look at it sort of on a very crude monthly basis, I mean, do you

think the sort of current level of 100 million a month is sustainable? And if you actually look out three four years on this particular line of business, what sort of level of -- you know even number of policies or premium do you expect this business to stabilized at? Thanks.

Ian Maxwell Kirk {BIO 1778703 <GO>}

Okay. Wikus maybe have a go at the SAHAM one and then also the Zambia, Zimbabwe, I'll talk to -- Anton and I will talk to the third one on Capitec. So for SAHAM when we refer to top-line growth, that's essentially the budget for the year, and those are for the businesses that we are looking at double-digit growth figures.

Michael Christelis {BIO 15233664 <GO>}

In Rand or in --.

Ian Maxwell Kirk {BIO 1778703 <GO>}

In Rands. Then we look at the break in insurance pricing that's essentially referring to the multiple query of experiencing the weak lines experience and they have started to do reprice, but of course you -- it's something that they need to do carefully in a measured approach, because if they reprice too aggressively, then of course you can lose new business as well. So it's kind of managing the trade-off between improving the profitability and maintaining a fair play in market share.

Anton Gildenhuys {BIO 4058523 <GO>}

I think it's also about -- still on track with our claims management.

Ian Maxwell Kirk {BIO 1778703 <GO>}

Yes, inclusive of the tariffs.

Michael Christelis {BIO 15233664 <GO>}

On the damaged part of the business, right?

Ian Maxwell Kirk {BIO 1778703 <GO>}

Yes, but the claim stuff, we can make a difference too. In Zambia and Zimbabwe and [ph] specifically with essentially written off the investment to a very small amount at the end of last year. If you look at the other key measures from new business VNB and operating profit perspective, they're small enough that you don't really notice the currency impact in the overall group numbers.

Michael Christelis {BIO 15233664 <GO>}

That for B-BEE and IFRS 2 --

Ian Maxwell Kirk {BIO 1778703 <GO>}

Yes. (Multiple Speakers) Zimbabwe particularly, we took a significant [ph] last year, so the remaining GE evaluation is small enough that you won't notice the further deterioration.

Michael Christelis {BIO 15233664 <GO>}

Zambia?

Ian Maxwell Kirk {BIO 1778703 <GO>}

Zambia has some other.

Michael Christelis {BIO 15233664 <GO>}

All right.

Anton Gildenhuys {BIO 4058523 <GO>}

Okay, then on Capitec, yeah, look I mean, the run rate to the last couple of months has built up to the level that is really quite significant. I mean, we were writing over a 100,000 policies a month, we didn't expect that. So they'll be some acceleration and then, I wouldn't think it's going to get much beyond that, that's not our -- we don't assume it's going to go much beyond that. But of course that will give you a significant base effect because in the prior period, we were writing plus or minus half of that I think.

Ian Maxwell Kirk {BIO 1778703 <GO>}

We started reaching about our 100,000 policies per month, and then in the April May this year, so in the comfort -- in the previous period you heard that [ph] and the average premium is sort of what -- 180 now -- come back a little bit of depth of -- 200, it's now closer to 180 and mortality is better than we expect but of course it's still a new book and expense, clearly at that level of production. The expense efficiencies are quite significant. So, I mean, it's been a wonderful story, Michael, better than we expected.

But I wouldn't think, we're not -- I'd say this to you, we know where that ends number is, right? But we don't -- and we think that's doable. What we don't know is the period of time that we're going to get there. So we are really happy with the budget level that we've set for next year is actually lower than the current levels.

Michael Christelis {BIO 15233664 <GO>}

So, what that end level is?

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Ian Maxwell Kirk {BIO 1778703 <GO>}

Now I will not tell you what the end level is, but it's a fairly substantial percentage of the book to which they can market to. That was a substantial, I'm not talking about over 50%, it's still less than 30%. But very confident that it's not 25% to put it that way.

Michael Christelis {BIO 15233664 <GO>}

All right, great. Thank you, guys.

Ian Maxwell Kirk {BIO 1778703 <GO>}

Anton, do you want to add anything to this?

Anton Gildenhuys {BIO 4058523 <GO>}

No, I'll just -- also still (Inaudible) quality business, and so -- seems to out of our assumptions.

Ian Maxwell Kirk {BIO 1778703 <GO>}

And also what's quite pleasing is the service levels that we're holding up at these volumes, I mean, it's quite a substantial thing that the systems that have been engineered between us and Capitec.

Michael Christelis {BIO 15233664 <GO>}

Okay, thanks guys.

Operator

Thank you very much. Our next question is from Warrick Ban[ph] of -- Capital Markets.

Analyst

Hi guys, just want to confirm that you can hear me.

Ian Maxwell Kirk {BIO 1778703 <GO>}

Yes.

Analyst

Fantastic. Thanks very much for the call. Just two questions from my side. Can you elaborate on what corporate transactions you have done first year -- first half year to in terms of the \$770 million discretionary capital that you've utilized, that's question one.

And questions two, if you could just provide the growth figure for Glacier within Sanlam Personal Finance on the net result from financial services line item?

Ian Maxwell Kirk {BIO 1778703 <GO>}

Okay. Let me have a go at the first one and then my colleagues, because you can have a look at the Glacier growth. Okay, so I mean, it was 770 -- it was mainly that this is still in the UK, it is in the wealth management advisory space, that was about 500 was just over 500, it's not a lot of Rands but it's a few Rands and that was one that we had in the pipeline for quite a while so to say we had a good working on. So we don't see much more of that in the short to medium term. We also put some money into African Rainbow Life, I think and I mean that's largely it --

Unidentified Speaker

-- biggest transactions, I am back up there by far the bulk of year 2017. I think, on the African Rainbow Life just to clarify our commitment, we still saying it's around 300 odd, it that right? 300 -- I know it will be in total just over 400.

Ian Maxwell Kirk {BIO 1778703 <GO>}

Over 400, okay. That's related to -- and 400 and we'll be funding 51% of that and then our partner African Rainbow, they will be using some of the facilities -- some of that 2 billion facility to fund, and that's out over the next three years --, yes that is terrifying. And then on Glacier?

Unidentified Speaker

Glacier is been probably north of 30% on a 10 months.

Analyst

Thanks very much guys.

Operator

Thank you very much. (Operator Instructions) Sir, it appears like we have no further questions. Do you have any closing comments?

Ian Maxwell Kirk {BIO 1778703 <GO>}

Yes. Just I'd like to thank you for participating in the call and for your continued support to Sanlam. So those of you who are going away, have a good festive season, and we look forward to speaking to you when we announce our annual results early in March 2020. Thank you.

Operator

Thank you very much. Ladies and gentlemen, that conclude today's conference call. You may now disconnect your lines.

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