

Q1 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
- Patrick Hartnic, Head-Investor Relations
- Wikus Olivier, Group Executive: Finance

Other Participants

- Francois du Toit, Analyst
- Larissa Van-Deventer, Analyst
- Michael Christelis, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good day, ladies and gentlemen, and welcome to the Sanlam Limited Four-Month Operational Update Conference Call. All participants are currently in listen-only mode and there will be an opportunity for you to ask questions later during the conference. Please also 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, Chris. Good afternoon, ladies and gentlemen. Thank you for participating on the conference call. I'm joined in the call by Finance Director, Heinie Werth; Anton Gildenhuys, Chief Actuary and Risk Officer; Patrick Hartnic, Head of Investor Relations. Wikus Olivier is also here.

Let me first deal with the overview of the results. We released detailed results for the four-month period earlier this afternoon. I just like to highlight a few points before we proceed to the questions.

Despite challenging operating conditions which we set out in some detail across various areas of the business in the operational update, the group achieved satisfactory overall results particularly in the South African businesses given the condition.

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Good growth in recurring premium risk products and commensurate value of new business was particularly pleasing. And it was achieved across Sanlam Sky, SPF middle income market and Sanlam Employee Benefits. And all of those are strategic focus areas and that gains – that continue to gain good traction.

Unfortunately single premium, lump-sum savings new business continued to disappoint in an uncertain environment where investor and consumer confidence is very low.

Considerable confidence (00:02:02) experience, post the cabinet reshuffle and the consequent ratings downgrade. But the pressure was already evident at (00:02:14) during 2016. It's now being further solved in the Sanlam Investments Retail business and in Sanlam Private Wealth.

As I mentioned in the 2016 annual results announcement, the performance outside of South Africa, the metrics there are negatively impacted in 2017 from a stronger average rand exchange rate that's cost us about 2% on the bottom line.

Though we've seen an improvement from many of the businesses outside South Africa, there are a few that are still not living up to expectations, our expectations, and that's something that we will be attending to.

Some of the telling pictures of the performance are as follow. New business volume declined by 4% overall, and that's primarily attributable to the lump-sum single premium business as we've indicated. Contributions from Saham Finances and the strong growth in the recurring premium risk business did assist in limiting the decline during the four-month period.

Net value of new business increased by 28% on a constant economic and currency basis driven by a change in mix to the more profitable lines of business. Net fund flows is ZAR 12 billion which is an acceptable performance under current conditions given the slowdown in the retail flows. We've got some reasonable institutional inflows in South Africa.

Net operating earnings increased by 5% in constant currency which was a robust performance given the increase in new business strain this period and we disclosed the effects of that in the operating metrics, and also given the pressure on results in Botswana and Namibia which we also when through.

We are pleased to say that Saham Finances is delivering according to expectations which is important given the significance of the two transactions we've done there notwithstanding difficult trading conditions in Angola and in Nigeria.

So looking ahead, we don't expect any major improvements in operating conditions in the short term. One must appreciate that lack of confidence is a big detractor particularly in the single premium business. We have planned a steady flow, but important recovery in the economy in South Africa, and that's unlikely to materialize and that will remain

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negative for single premium volume. So we're going to have to adjust to that. Volatility in the currency and investment markets is what we expected to pursue, and that impacts on our performance metrics.

Over the medium to longer term targets, however, we remain intact on this and we're confident that we'll continue to deliver value to our shareholders and other stakeholders particularly on a relative basis in the challenging times. As I've indicated, I wanted to underperform the units in the book value and these have been intended to. At all the businesses, all of our businesses, will need to adapt to the challenging conditions across the portfolio.

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

Q&A

Operator

Thank you very much, sir. Our first question is from Michael Christelis of UBS. Please go ahead.

Q - Michael Christelis {BIO 15233664 <GO>}

Good afternoon, everybody, and thanks for the time. Three questions, if I can. First is Saham. You mentioned that the acquisition is running in line with your business plan. I mean, that seems to sound like a bit of a more positive rhetoric than what we heard at end results.

And given that you're not seeing where the numbers lie for your June reporting, I guess, given the three months lag there, I mean, can you talk about whether we're - are we at a higher run rate on a monthly earnings run rate than what we saw last year? So, that's the first question.

Then the new business strength within SPF. I mean, can you give me a sense of (00:06:45) about ZAR 120 million? Firstly, is that a reasonable sort of number? And then, how much of that relates to the large group scheme versus the sort of normal-course business on the individual part? I mean, just a sense of how much I should expect to your peak going into the rest of the year?

And then, lastly on SPF. I'm quite surprised at the level of growth you've achieved in the core earnings given what markets have done, and maybe you can just talk to the sort of average asset levels in that portfolio if you can for the four-month period versus a year ago. Just seems a little bit higher than other would have thought. Thanks, guys.

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

Okay. Thanks, Michael. Heinie - Maybe Heinie will deal with the Saham, then Wikus and Patrick will deal with the new business trend, and then maybe, Anton, deal with the

earnings growth. They're all on (00:07:35).

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

Michael, you're right. We did know that's the benefit of two further (00:07:43) these results basically when we saw it earlier this year. Obviously, we then (00:07:48) the results of December, but that was one good quarter after the few not-so-good quarters. And they trade aside (00:07:57) the first quarter of 2017 also lift up the expectations, and we were particularly pleased that in Angola, especially in local currency, they're doing recently better than what we expected.

And that's why the mix in the business (00:08:19) have changed relative to what we expected remained in the end overall. But I think you must also remember this remain 80%, 85% general insurance business, so volatility can easily come into play again.

But we are - I mean, given the conditions in Angola and then also, let me say, across the wider Africa we saw a level that have slowed down on the continental risk side (00:08:48). But overall, the company - we can't say there won't be surprises in the quarter to come or that, but overall it's good to see that there's good quarters and sometimes there will be a glitch here and there.

A - Patrick Hartnic {BIO 20482012 <GO>}

Michael, on the new business trend, Isn't ZAR 20 million figure that you mentioned, that's an (00:09:15)? The majority of that is actually from the middle income markets, this business class. But also it's a good portion from Sanlam Sky but the majority of Sanlam Sky is actually not related to the large ones (00:09:35) generate as much new business trend than the individual life cycle (00:09:42) in Sanlam Sky. But then again, the majority is actually on the individual life business and not the large scheme.

Q - Michael Christelis {BIO 15233664 <GO>}

Okay.

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

Core earnings.

A - Patrick Hartnic {BIO 20482012 <GO>}

I don't think the we're (00:10:00) as you've described it. I mean you've got the (00:10:03) exposures to bonds as well which performed fairly well compared to last year. I think we actually (00:10:10) on some goods applied to earnings growth.

Q - Michael Christelis {BIO 15233664 <GO>}

Is it safe to say then that asset levels are probably around 10%, 11% up on average.

(00:10:20-00:10:27)

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A - Patrick Hartnic {BIO 20482012 <GO>}

(00:10:25) some benefits on the good mix (00:10:29) over the last two years. These markets have fled from the (00:10:36).

A - Operator

(00:10:38).

Yeah.

Q - Michael Christelis {BIO 15233664 <GO>}

Perfect. Thanks guys. I appreciate it.

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

And I think maybe largely in the base we had (00:10:48-00:10:52).

Q - Michael Christelis {BIO 15233664 <GO>}

Okay. Great. Thank you.

Operator

Does that answer your questions, Michael?

Q - Michael Christelis {BIO 15233664 <GO>}

Yes. Thank you.

Operator

Thanks very much. Our next question is from Francois du Toit of Renaissance Capital. Please go ahead.

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

Hi, guys. The first question, I try to work out the earnings impact on – the earnings performance of the non-life business is more importantly given that we use embedded value for the life valuations. So the 30% corporate plus the growth in earnings that you mentioned, can you split that between EB and Healthcare for us a little bit? And then that's the first question.

Second one, the 38% Sanlam UK earnings growth, again, can you split that between merchant investors or give us an idea of the merchant investors' earnings in there as well which is obviously part of the life business?

And then, Patrick, (00:12:05) if you can give a little bit of – it sounds from your previous answer that the growth in SPF, a lot of that would have been in terms of Non-life earnings,

right? Given the new business trend and the impact that would have had on the life earnings in SPF. So, that's the three questions related to life versus Non-life earnings, (00:12:31).

And then, the fourth question just on your new business value. The increase of 24% is on constant economic terms, right? The risk discount rate has reduced quite a bit compared with the base period and compared with year-end. Can we expect that would add further to your new business value assuming interest rate is there around this level to half year-end? Yeah. That's my four questions. Thank you.

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

Okay. I think, Wikus, Patrick, you have a go at the first three maybe. And then, Anton, you can do with the rest (00:13:12).

A - Patrick Hartnic {BIO 20482012 <GO>}

Yeah. Patrick. We didn't specifically disclose the details split up anything (00:13:17) between life and non-life. And I think on the Sanlam corporate side, I think all that we can say is we've seen good growth in both the RoGEV and EV side.

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

Yeah.

A - Patrick Hartnic {BIO 20482012 <GO>}

On the Sanlam UK side, well, just the improvements (00:13:35) on the non-life side because (00:13:38) the comparative base, we had quite a bit of restructuring cost last year which wasn't – the majority of which said actually in the non-life side and that didn't repeat this, so that's where we've seen a lot of the strong growth coming through. And being liken maybe on the (00:13:58) VNB in escrow with the (00:14:00) also have a positive impact because of the added 4% impact that we've had on the ground.

A - Wikus Olivier {BIO 20074722 <GO>}

I think just to add, I mean, given that 28% is something to be proud of, but it is telling that there's quite a bit of negative impact in 2016 from Sanlam's business set up (00:14:23) to the market. And during last year, we worked out our office (00:14:26) system. So (00:14:28).

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

So, Francois, we won't the 28% to remain 28%. I think the base that you compare it with last year is different. I think it was the (00:14:39) last time.

(00:14:40-00:14:44)

Yeah, we don't...

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A - Anton Gildenhuys {BIO 4058523 <GO>}

No, I think you can (00:14:51) lots of the SPF growth was from the non-life side.

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

And where is the 90% from? The spin-off?

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

The spin-off.

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

And inflation?

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

Yeah. Inflation.

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

Okay. So personal loans are growing again, good. Okay. Just quickly back to your new business, that large team that you've won in Sky, did that contribute meaningfully to this growth? Obviously, that's a one off contribution to new business value growth, right?

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

Yes. It did contribute meaningfully, but let's call it an overall and the total overall (00:15:35). It's less material in the target...

(00:15:43-00:15:47)

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

But the performance came from Sanlam Sky, individualize the middle income market (00:15:57) some Employee Benefits as well, (00:15:58).

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

(00:16:02). So the fact that it won't be reoccurring won't be that dramatic on the results going forward.

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

Yeah. I mean, that's more looking at (00:16:10). Yeah.

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

Yeah.

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

Thank you.

Operator

Thank you very much. Our next question is from Larissa van Deventer of Deutsche Bank. Please go ahead.

Q - Larissa Van-Deventer {BIO 16216920 <GO>}

Thank you. A quick question to clarify on Shriram in India, I believe you mentioned ZAR 110 million of additional IFRS write-offs. Can you please confirm (00:16:36) to help us understand two things. The first one, my understanding is that there were no write-offs in the base, is that correct? And the second one is you comment that it's under a timing issue and that will unwind. Can you help us understand the pace of the unwind part (00:16:49)?

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

Sorry, Larissa, just the first part of your question. We have the second one. Why it will always unwind? The first part of your question?

Q - Larissa Van-Deventer {BIO 16216920 <GO>}

I understand that there were no write-offs in the 1H 2016 base for Shriram. Is that correct?

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

In the what? In the first half of 2016, you're right.

Q - Larissa Van-Deventer {BIO 16216920 <GO>}

Yes.

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

The first half of 2016 there was nothing abnormal. I mean, the business we had in the equipment finance was in 2015. So 2016 was more a normal level.

Basically during this period of the demonetization, IFRS is - they tend to catch you, let's call it, on provisioning and we already, Larissa, I would say, (00:17:42) and released the earnings results, but we already starting to see an improvement.

So, this unwinding that you call, that you talked about, I think one has to be realistic. It won't take of few quarters. But it is more likely that we were going to see some positiveness coming out rather than a tradition will become a reality.

Q - Larissa Van-Deventer {BIO 16216920 <GO>}

Okay. On the life...

(00:18:04-00:18:06)

Yes.

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

We finally see the quarter...

Q - Larissa Van-Deventer {BIO 16216920 <GO>}

Sorry?

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

...turnaround in the first quarter in Shriram.

Q - Larissa Van-Deventer {BIO 16216920 <GO>}

Okay. And those (00:18:13) you mentioned that is specific to SCM, correct? That is SCM share of it?

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

Yes. The SCM share of it. Yeah.

Q - Larissa Van-Deventer {BIO 16216920 <GO>}

Thank you very much.

Operator

Thank you. We have a follow-up question from Francois du Toit. Please go ahead.

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

I might as well try. Can you tell us what the embedded value was at (00:18:55)?

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

I don't know. I think I'll answer this (00:19:02), otherwise we would've (00:19:05) it. Anton, (00:19:06) that?

A - Anton Gildenhuys {BIO 4058523 <GO>}

No, I think it's - I mean, on the more regulated measures, we direct and incentivize the businesses on the drivers (00:19:16) which were previous VNB. I mean, of course, the experience (00:19:19) finances will be captured in the profit itself as well. So, we don't see

there's really a need to calculate the EV on a monthly or quarterly basis. It's something that we - I think we do on a six monthly basis.

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

And I think it's also fair to say, Anton, we're not aware of any big negative impact.

A - Anton Gildenhuys {BIO 4058523 <GO>}

Yeah, and that...

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

I mean, the rest of the drivers at this point has positive risk, so the unwinding should prevail the VNB.

A - Anton Gildenhuys {BIO 4058523 <GO>}

And if they were...

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

Markets are a bit higher. There's more positives other than (00:19:50).

A - Anton Gildenhuys {BIO 4058523 <GO>}

Yeah. So if you look at your profits and your VNB, that should get you the stuff that's under management's control in EBIT single digit (00:19:56). So that's why we don't track that aggregated number on a daily basis.

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

And now actuarial assumptions changes necessary and (00:20:11).

A - Anton Gildenhuys {BIO 4058523 <GO>}

I mean (00:20:12-00:20:17) we tend to make our more significant changes at the yearend in any event. So, I mean, that (00:20:23) we actually need to work on that (00:20:34).

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

But you do monitor trends...

A - Anton Gildenhuys {BIO 4058523 <GO>}

Absolutely.

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

I think this was a concern that we would expect to come through in June.

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A - Anton Gildenhuys {BIO 4058523 <GO>}

Yeah. There's no - if we look at the operating profits, we can track (00:20:45) expected for net profit and so on. And (00:20:52).

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

Thank you.

Operator

Thank you very much. We have a follow up question from Michael Christelis. Please go ahead.

Q - Michael Christelis {BIO 15233664 <GO>}

Hi guys. Sorry, yeah. Just following on from Francois' question there. Obviously, last year half one was (00:21:06) you guys are trying for many, many years. I'm just trying to understand where are we relative to that? I remember correctly a large part of the negative variances that come in last year came in after the first (00:21:23). Can you give me any sort of sense of how the year is looking so far relative to either half one last year or half two just to get an idea of what the variance are doing?

A - Anton Gildenhuys {BIO 4058523 <GO>}

Well, as you stated (00:21:37) after April; and if I knew, I wouldn't be sitting here. But...

Q - Michael Christelis {BIO 15233664 <GO>}

Well, you know there has been an exception for the next three weeks, right?

A - Anton Gildenhuys {BIO 4058523 <GO>}

Yeah. But we are not seeing a repeat of the first half of last year in the numbers. I mean, you can assume that from the operating profit as well.

Q - Michael Christelis {BIO 15233664 <GO>}

And remind me if half two last year was a normalized period; I think it was a little bit - I think it was much higher than it's been than normal run rate, right?

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

What is that?

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

The second half.

Q - Michael Christelis {BIO 15233664 <GO>}

The variance in the half year is much higher.

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

Maybe a little bit. Maybe a little bit higher, but yeah, we had good expense in the second half but...

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

No. And it was also due to other factors, I mean.

A - Anton Gildenhuys {BIO 4058523 <GO>}

Yes.

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

It was due to the (00:22:25) profit which you see in...

(00:22:27-00:22:30)

Michael, should come through again.

A - Anton Gildenhuys {BIO 4058523 <GO>}

Yeah.

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

And I think why Anton is more hesitant (00:22:33). What can still happen in May and June (00:22:36)?

(00:22:37-00:22:39)

A - Anton Gildenhuys {BIO 4058523 <GO>}

Well, that's the point.

Q - Michael Christelis {BIO 15233664 <GO>}

All right. Great.

Operator

Thank you. Gentlemen, we have no further questions in the queue. Do you have any closing comments?

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

Okay. Thank you, Chris. Thanks to all of you for participating on the call and for your continued support to Sanlam. We look forward to speaking with you at the announcement of the interim results. That will be in early September. Thanks very much.

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Operator

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

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