

Q1 2015 Sales and Revenue Call - Operational Update

Company Participants

- Johan van Zyl, Group Chief Executive Officer
- Unidentified Speaker

Other Participants

- Brian Mushonga, Analyst
- Francois du Toit, Analyst
- Larissa van Deventer, Analyst
- Risto Ketola, Analyst
- Unidentified Participant

Presentation

Operator

Good day, ladies and gentlemen, and welcome to the Sanlam operational update for the four months ended fiscal April 2015. All participants are now in listen-only mode and there will be an opportunity to ask questions after the presentation. (Operator Instructions) Please also note this conference is being recorded. I'd now like turn the conference over to Johan van Zyl. Please go ahead, sir.

Johan van Zyl {BIO 4080290 <GO>}

Thank you. Good afternoon, ladies and gentlemen, welcome to this conference call. I'm joined on the call by Ian Kirk, the Sunlam Deputy CEO, our Financial Director, Kobus Moller and (inaudible) the Head of Group Finance. Let me give you a brief overview of the results for the first four months. Details of the Group's performance for this period, the first four months of 2015 are included in the SENS announcement released earlier today.

I would like to highlight a few aspects before we proceed to questions. Firstly as anticipated operating conditions in 2015 are not conducive to very strong growth. Economic growth and disposable income levels in South Africa in particular remain under pressure, with electricity supply constraints also weighing heavily on consumer sentiment.

As highlighted in the update, a number of African economies and also India are facing some headwinds with India lagging in terms of infrastructure investments and a whole range of policy reforms.

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Despite these difficult conditions, we were able to deliver a satisfactory underlying growth in most of the group businesses, of course, assisted by our diversified strategy, across geographies, distribution channels and product solutions.

As some of the salient features of the performance that I would like to highlight some of the big issues for us. New business volumes increased by 15%, net fund flows up some 30%, if you exclude the 9 billion (inaudible) withdrawal from the -- by the Botswana Public Officers Pension Fund.

So in spite of that, I think good underlying growth. Our value of new business up by 8% and our net operating earnings that increased by 8%. From a new business perspective, overall growth at the group level was in line with our medium to longer term targets with a South African business compensating for a few challenges that we've experienced in emerging markets, unlike in the past.

The recovery in Sanlam Sky's performance was particularly pleasing. Emerging markets had difficult four months impacted by a number of issues. Firstly, lower unit trust sales in Namibia. Secondly, a slow start at the Malaysian General Insurance Business Pacific & Orient. Thirdly, instability in the Rest of Africa distribution to a number of problems we experience with the implementation of new life administration systems and fourthly some of these challenges are internal and have largely been addressed. I think but for the four months the results were we think suboptimal. We are therefore confident of an improved performance in the remainder of the year and looking forward.

I also would like to stress that growth in operating earnings was lower than that achieved for the last two years. As mentioned on our results announcement, the 2014 financial year was particularly strong for the Group with both underwriting condition and investment markets being exceptionally favorable. Now of course, this set a very high base for 2015, which was further impacted in the first four months of the year by a number of issues. I think, firstly a normalization in Santam's claims experience.

Secondly, lower performance fees at Sanlam Investments and I'd like to point out you know that performance fees are volatile in nature over the shorter term. We did communicate that we lost a big mandate from the PIC and last year we did -- do particularly well on performance fees on that. This year we simply didn't have the money.

We also have invested for future growth at Sanlam Investments with the business incurring additional expenditure on marketing, expanding capacity in its client-facing distribution units and we are also at collective investments outsourcing the administration function.

Some operating earnings dilution after the effective exchanging of a 2% direct interest in Shriram Transport Finance Company which we had in last year and this year we had an increased stake in Shriram Group at the holding level in there. We've also had particular issue in Shriram Transport Finance Company in India, we are a small subsidiary had a negative bad debt experience. These were all particular instances of headwinds that we've encountered.

In conclusion, I'd like to say one or two things. Looking ahead to the remainder of the year, we expect the challenging environment to persist; we don't expect a miraculous improvement. So combined with a high operating earnings base of 2014, the growth in this metric will remain muted for the remainder of the year. A muted and long-term growth targets however remain intact and we are confident that we will continue to deliver substantial value to our shareholders.

At this stage, I'd like to say thank you, and I will now open the call for questions from the audience.

Questions And Answers

Operator

Thank you sir. (Operator Instructions). Our first question comes from Risto Ketola from Standard Bank. Please go ahead Risto.

Q - Risto Ketola {BIO 4929572 <GO>}

Yes, hi. I just wanted to ask the decline in the distributable capital or free surplus, what you want to call it does that include allowance for investing further in India?

A - Johan van Zyl {BIO 4080290 <GO>}

Yes. Risto, thank you. There are two or three deals that we've announced and if we kept the money there -- I mean the money that has not been investigated is around ZAR4 billion and we have quite a few deals that we've announced the one is the Medscheme deal of around 700 million. We have the investment in to India. We've announced transaction into Zimbabwe and one or two smaller ones. And where we've already committed the money, we've simply taken that off and that accounts for the decline that includes India that includes India.

Q - Risto Ketola {BIO 4929572 <GO>}

Can you maybe give us a small indication of what the India numbers?

A - Johan van Zyl {BIO 4080290 <GO>}

India number has not been finalized yet. We are in negotiations. We're going to -- we're working with a range at this moment in time and it is well within what we've communicated.

Q - Risto Ketola {BIO 4929572 <GO>}

Okay. Thank you.

Operator

Thank you. Our next question comes from Larissa van Deventer from Barclays. Please go ahead.

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

Thank you. Good afternoon. A quick question on the rest of Africa. If you exclude Namibia and Botswana from your volume numbers have shown tremendous growth over the last couple of years you did comment on the impact of currency. Can you tell us what the growth was in constant currency for the rest of Africa please?

A - Johan van Zyl {BIO 4080290 <GO>}

We haven't disclosed (inaudible), but I think in the year I mean the rand actually appreciated relative to the Rest of Africa so it had a slightly negative effect for the four months.

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

Okay.

A - Johan van Zyl {BIO 4080290 <GO>}

Yeah just south of 10%.

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

Thank you.

A - Johan van Zyl {BIO 4080290 <GO>}

It's not that material yeah. But in the comments that we have made, we had an issue in one or two countries; Kenya, Zambia and so forth in the systems. And apart from those hiccups I think everything is on (inaudible).

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

So can we assume that the trends from the last few years can always makes to continue or lasting equal? Nothing traditional structurally at this point?

A - Johan van Zyl {BIO 4080290 <GO>}

I think the economic environment is something that you should take into account. I think we do see particularly in those commodity-based economies. They certainly level off of lower growth in those countries -- that all come through in our results.

A - Unidentified Speaker

Yes. If you really take into account our client base in many of these countries, it is essentially -- I don't want to say by and large, but a big chunk of it is the civil service. At the moment you have these commodity-based economies under pressure, people don't get the same kind of increases and therefore you're unlikely to grow. And I think for the first

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year in 20 years, Africa as a whole will probably have a flat growth rate after in the past 10 years having had substantial economic growth. And this all plays into things. Once you be accounted for that, I think we do pretty well.

A - Johan van Zyl {BIO 4080290 <GO>}

Yeah, just on the currency, we also see an impact that should take into account, largely those currency depreciated sharply against the dollar and a lot of those economies are actually reliant on dollars -- yes, so that's really in fact if you look at in the Rand.

For us the Rand, local currency is just a conversion rate that doesn't impact but for them it's actually the dollar.

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

Again at the moment in a way South Africa with the current economic situation or the lack of penetration is the bigger driver of growth?

A - Johan van Zyl {BIO 4080290 <GO>}

I would think the big driver has always been the low penetration rate. And that helps us, it also helps to keep the -- in other way because we don't have much competition, you get the kind of margin that we do get and we think a lot of the underlying trends that we've seen in the past are still there except that economy wise, we have a bit of a headwind.

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

Okay. Thank you very much.

A - Johan van Zyl {BIO 4080290 <GO>}

Thanks, Larissa.

Operator

Our next question from (inaudible) from STANLIB. Please go ahead.

Q - Unidentified Participant

Hi, Johan. Hello?

A - Johan van Zyl {BIO 4080290 <GO>}

Yes, hello.

Q - Unidentified Participant

(inaudible)

A - Johan van Zyl {BIO 4080290 <GO>}

Yeah, very well.

Q - Unidentified Participant

I just wanted to just confirm that you guys don't have any with the, I guess what happened at the Shriram Transport, do you have any -- what is your feeling about how they're going to perform for the rest of the year?

A - Johan van Zyl {BIO 4080290 <GO>}

I think we need to perform fairly well, listen what has happened there is fairly unexpected than you would have seen. A very small subsidiary, it is minuscule in terms of the size of the book, underperformed and these people are extremely prudent and simply assume that none of the money there will be recoverable. And I think subsequently to that it shows that they were fairly prudent, in the next months or two will get the real picture that we don't want to make all sorts of pronouncements now, but my own expectation certainly is that they have been much prudent to simply assume that nothing will be recoverable on that sort of thing, the machines are all there, it's a small company called Shriram Equipment Finance.

The machines are still there, they're not worthless. If you know everything goes badly, we have written off of these loans, but we still have the machines and certainly they have value and I think they've been very prudent in the way that they've addressed the issue but maybe have gone a bit overboard.

A - Unidentified Speaker

Underlying business is actually doing reasonably well there. The normal commercial truck business is doing well. This is a small subsidiary, as Johan indicated its fast moving equipment 80%. And with, our people say from July, we will know where we stand on that one. So we'll be able to give a report back with our interim results.

Q - Unidentified Participant

Okay, thanks.

Operator

Thank you. Credit Suisse's Brian Mushonga has the next question. Please go ahead, Brian.

Q - Brian Mushonga {BIO 16209522 <GO>}

Good afternoon, gents. Two quick questions, the first is the special dividends out of MCIS that you alluded to. Could you give us an indication of it size in relation to how much you paid for that asset. So that's the first question.

And then the second question relates to the deteriorating trends in persistency that you mentioned. Is that in relation to the middle market in particular. Could you elaborate on what you're referring to there?

A - Johan van Zyl {BIO 4080290 <GO>}

I think the special dividend, as you know, we've had a lot of surplus capital and we still have a lot of surplus capital in MCIS. And I've said one of the key things that we would like to do is create through a series of special dividends get that lower. We have to work with the regulator on that. He is of the view that we should take more time to do it but we got a fair amount of the money out.

Q - Brian Mushonga {BIO 16209522 <GO>}

It's around 10% of the investment.

A - Johan van Zyl {BIO 4080290 <GO>}

Around 10% of the investment, but we're not where we would like to be, there is more to come over time. But it's also, we have to build a relationship with regulators you don't simply buy a business and strip all the surplus capital out from the first day that you're there and this is so -- it's part of a process.

Q - Brian Mushonga {BIO 16209522 <GO>}

On the second question persistency?

A - Johan van Zyl {BIO 4080290 <GO>}

On the persistency (inaudible) can also come in on this but we've seen deterioration essentially across the board and it has to do with the pressure that we see in this country that people are near [ph] and in fact it's still within the -- growth within the assumptions that we have, but we have to warn you and we said so and that the consumer is under pressure. We've been monitoring this very carefully and there has been across the board a sort of deterioration.

A - Unidentified Speaker

Yeah it's not a huge thing we're watching it carefully. And in the Sky business there's probably some internal factors not the administration or that sort of stuff, but the volume, the debit order versus the stop order volumes have had a bit of an impact so we have to trade through that. But we're just signaling that it's not that easy there and we're a bit anxious about us. We have to manage a bit tighter, but we have a good handle -- we have a very good handle.

As you know, we have a very good handle on persistency and a lot of it also has to do with what kind of business we have maybe we'll have to make that a little bit higher. But we still have to write business right we can't make it so high that we don't write any business right one policy and maybe keep a 100% of it.

Q - Brian Mushonga {BIO 16209522 <GO>}

Fair enough. Thank you.

A - Unidentified Speaker

Thank you, Brian.

Operator

Thanks. The next question comes from Francois du Toit at JPMorgan.

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

Hi guys. Can you hear me?

A - Johan van Zyl {BIO 4080290 <GO>}

Hi, Francois, yeah very well.

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

Thank you. In the past I think or last time you told us the value of new business was at the corresponding period or at the previous year end economic assumptions that you use FY14 year end economic assumptions in other words interest rates so that you used 30th of April interest rates for that value of new business growth number of 8%?

A - Johan van Zyl {BIO 4080290 <GO>}

We've used the 30th of April number.

A - Unidentified Speaker

But its very similar.

A - Johan van Zyl {BIO 4080290 <GO>}

But it is -- the differences are marginal really, I mean its very similar.

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

Okay. Thank you.

A - Johan van Zyl {BIO 4080290 <GO>}

The end of December sorry.

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

Sorry that you used end of December number?

A - Unidentified Speaker

No, we have used the end of April number, but difference to the end of December is marginal.

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

Okay. Thank you. The agency volumes in the entry level market that was so strong, I would have expected that the group number would be strong with the ZCC renewal that took place in the period, but it seems like the group volumes were actually down. Can you also just talk about the differences in margins between the agency volumes and the group volumes and why the agency volume specifically off to a strong given that, I think your peers aren't seeing growth in the entry level market volumes at the moment?

A - Unidentified Speaker

Yeah. Last year we had the strike and this which put our margins under a bit of a pressure and this year is been a better on the retail side in particular. So we've done pretty well.

A - Johan van Zyl {BIO 4080290 <GO>}

Part of the volume growth is because the low base after the strike. On the group business, obviously we have lost Capitec business which (inaudible) impact. And a big part of sort of new actually come through in May only. And so that's also why you don't see (inaudible).

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

Okay. But ZCC renewal will be positive coming through in future?

A - Unidentified Speaker

Yeah in the past six months, you'll see it, but not in the four months.

A - Johan van Zyl {BIO 4080290 <GO>}

On that it is likely to be less in the past it was always a big number, but we have changed things a little bit and it's likely to be I think the effect of the increase will be a bit smaller. It's positive but it's a smaller positive than in the past.

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

Okay. Thank you. The Glacier volumes that I think in FY14 was also up 30%, now up another 28%. Can you give an idea of how much of that is life insurance and how much of that is investment business. I think in the past it was roughly 50-50, is that still the case and also maybe just speak to the difference in new business margins for the last component versus the rest of the individual life single premiums?

A - Unidentified Speaker

Yeah. I think margin is --

A - Johan van Zyl {BIO 4080290 <GO>}

Maybe just to start your question on the volumes, I think the growth is pretty similar --

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

Glacier growing very quickly on the middle market. I think stronger new business volumes. So if you can just give an indication of how the margins on Glacier compares with your middle market, single premium margins

A - Johan van Zyl {BIO 4080290 <GO>}

It's a little bit lower if you write it on the Glacier platform, but it's been the single premiums (inaudible) is really low so it's not that material in the overall cluster. So the history of cluster [ph] margins are actually marginally up on last year this time.

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

Okay. And then how much of the Glacier volumes on--

A - Johan van Zyl {BIO 4080290 <GO>}

That is -- see similar to what we've seen last year sort of 50-50.

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

Okay. Thank you.

A - Unidentified Speaker

Maybe just one comment to make. I think, we've seen very strong growth in life business in Glacier and not so much in the middle market and I think this part of the business would actually move to Glacier. So one should actually look at the two in combination to get a better feel for the sell off of our -- of our -- of large single premium business.

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

Thank you.

A - Johan van Zyl {BIO 4080290 <GO>}

But in Glacier the value of new business grew quite substantially.

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

That's all the questions from me. Thank you.

A - Johan van Zyl {BIO 4080290 <GO>}

Okay. Thank you, Francois.

Operator

Thank you. (Operator Instructions) We have a follow up question from Larissa van Deventer from Barclays. Please go ahead Larissa.

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

Thank you. Very quick follow-up on one of Brian's questions. On the special dividend on MCIS when you bought (technical difficulty) because you have Pacific & Orient, have you done that yet?

A - Johan van Zyl {BIO 4080290 <GO>}

It has been done but remember we didn't pay for that. So it was never part of our acquisition. So it was actually a ring fence at the time. The asset and the proceeds of the asset was ring fenced. So we -- but it has been done.

A - Unidentified Speaker

That's been done. It's out of the business now and that held back the disposal of that -- held back some of the restructuring that we could do. So effectively we've only been running that business the way we want to and on the road, we would like to run it for the past sort of two months. And the first thing we did was try and get a special dividend out. So there is a whole range of plans and so forth. I'm very happy to report that while growth last year in MCIS has been under pressure. I mean, we've taken some steps and it is doing fairly well now certainly meeting our expectation.

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

Okay. And so the special dividend was not driven by -- was not a result of selling the second (inaudible) it's actually a business decision on next year's capital?

A - Johan van Zyl {BIO 4080290 <GO>}

No, no, no, nothing was to do with that. The timing might be linked, but not the amount.

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

Not the reason. Thank you very much.

Operator

Thank you. Gentlemen, it appears that was our last question. Do you perhaps have any closing comments?

A - Johan van Zyl {BIO 4080290 <GO>}

Yes, just I'd like to thank you all the participants for participating. We look forward to speaking to you again at our interims result in our announcement in September and good luck. Thank you so much.

Operator

On behalf of Sanlam, that concludes today conference. Thank you for joining us. And you may now disconnect your lines.

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