

Q1 2014 Sales and Revenue Call - Operational Update

Company Participants

- Johan van Zyl, Group Chief Executive
- Wilkus Oliver, Head of Group Finance

Other Participants

- Brian Mushonga, Analyst
- Hanna Barry, 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 the 30th of April 2014. All participants are now in listen-only mode, and there will be an opportunity for you to ask questions after today's presentation. (Operator Instructions) Please also note that this conference is being recorded.

I would now like to hand the conference over to Johan van Zyl. Please go ahead, sir.

Johan van Zyl {BIO 4080290 <GO>}

Thank you very much. Good afternoon, ladies and gentlemen. Welcome to this conference call. I'm joined on the call by the Sanlam Financial Director, Kobus Moller; and also Wilkus Oliver, the Head of Group Finance.

By way of introduction, I'd like to say that it was a very pleased -- it is very pleasing to report a solid start to the 2014 financial year to shareholders this afternoon. The South African operating environment proved particularly challenging in the first four months of the year. But I am very happy to say that the diversified profile of the Group across products, market segments and geographies stood us in very good state yet again and enabled us to achieve strong growth in most performance metrics.

A number of factors impacted on the Group's results for the first four months and I think before we get to the results, let me just highlight few of those. Firstly, disposable income of consumers in the middle-income and entry-level market segments in South Africa remained under pressure from particularly high debt levels and inflation, and in particular, in this case, I think administered inflation like electricity rates and taxes, healthcare and

things like that has gone up quite a bit. This was aggravated by unprecedented industrial action in the mining sector and particularly in the platinum mines.

Sanlam Sky's largest branch is located in Rustenburg, which is the heart of the platinum belt. The region accounts for about 10% of Sanlam's price value of new business and this was adversely affected by the strike action from a new business production perspective. I must say, in spite of the difficulties experienced in the economy, that the other Sanlam Sky branch has performed in line with our expectations. Also, weather conditions in South Africa were more favorable in 2014 than the comparable period last year, translating into a significant improvement in the margins and from crop insurance.

The Indian economy is currently growing below its potential with a (inaudible) impact on the growth achieved at Shriram Transport Finance Company, which is fairly large and matured in being its context. The other operations in the Shriram Capital Group continued to deliver strong growth.

Persistency experience across the Group is holding up very nicely and remains within the Group's assumptions. Long-term interest rates increased by 0.4% since the end of December 2013, but more importantly for this reporting period is that they were 2.2% higher than in April 2013. This had a marked negative effect on value of new business growth reported for the first four months on 2014 on a like-for-like basis.

Investment market volatility continued amidst uncertainty around the tapering of quantitative easing in the US and gross prospects of the China economy. And lastly, the weakening of the rand exchange rate against most currencies during 2013 resulted in a much weaker average exchange rate for the four months to 30 April, 2014 compared to the same period last year. This, of course, has been -- had a positive impact on the translated earnings of the non-South African operations.

In this context then let's have a look at the results. The details of the Group's performance for the four-month period are included in the SENS announcement released earlier today. Still things need to be highlighted, firstly, overall new business volumes excluding white label increased by 21% with new business -- life business, up 20% new investment business up 24%, and general insurance short-term insurance business increasing by 9% when compared to the first four months of 2013. Within Sanlam Personal Finance, Glacier delivered another sterling performance with growth of more than 30% in the mass-affluent space.

The individual life business, operating predominantly in the mature middle market -- middle income market achieved satisfactory growth of 11%, driven by single premiums and recurring premium retirement annuity business. Traditional guaranteed plan and annuity products did well in the higher interest rate environment. Sanlam Sky operating the South African entry level market had a difficult start to the year, being adversely affected by the industrial action in the mining industry that I already alluded to. Despite this, it managed to achieve good growth in individual life recurring premiums.

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Recurring premium group business in this market segment had a slow start to the year with less new schemes written in 2014 than fairly high base that we have from last year. This is however a normal feature of the segment and we expect improvement in the remainder of the year.

In Sanlam emerging markets, we achieved another stellar performance with new business growth of 58%. Excluding the impact of acquisitions during 2013, growth of 47% is still higher than our own targets. In that respect, I think it's important to note that all regions contributed to this growth.

Sanlam investments delivered growth of 29%, an exemplary performance in a very competitive market. Wealth management and the international business were the main contributors. 12% [ph] growth at the South African asset management operations is particularly satisfactory, again, given a very competitive market.

Growth in Santam, gross written premiums were satisfactory, considering the competitive environment, the tough conditions experienced in the economy and the low GDP growth in South Africa. In particular, the motor car sales numbers released during the last week would give you an indication of how tough it is in this space. But in my way, in spite of this continued on its solid growth bar.

Overall, net fund inflows of 10.7 billion, that is excluding the white label; labels represents a very good performance in light of the 2.5 billion outflows experienced from Sanlam private investments and particularly low margin business. As I said, these outflows do come from low margin share incentive portfolios with net inflows into the more profitable discretionary mandates. So, we're very happy with the mix of business there.

This brings us to the financial results. The net result from financial services or the net operating profit, as we used to know it, increased by some 40% from last year. This includes maiden contributions from corporate transactions concluded in 2013. All operations contributed strong growth with Santam in particular posting that welcome turnaround in its underwriting performance.

Asset-based fee income was, in general, supported by higher average level of assets under management, following strong market performances in the latter part of 2013 and also the positive performance that we've had so far this year. A few remarks on our capital. We still remain well capitalized with the healthy solvency level. The Group's discretionary capital amount to some ZAR3 billion at the end of April. Our focus remains on concluding value-adding opportunities to utilize discretionary capital. We have a pipeline of opportunities that are currently being investigated and we will make announcements to the market on these in due course.

In conclusion, looking ahead to the remainder of the year, we expect investment market volatility to persist. Growth in the South African economy is also not expected to improve and downside risks exist should industrial action continue at the current sched. New business production will be challenging under these conditions.

In addition, the second half of 2013 was a great strong period for most business units in the group, its together with the contribution of acquisitions concluded last year, sets a very high hurdle for growth. So the base effect is pretty high.

Growth rates are therefore expected to moderate going forward from these current levels. We would like to 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.

Q - Risto Ketola {BIO 4929572 <GO>}

Yes. Afternoon. I've got three questions, if I may. The first thing, I just wanted to check, you said all regions had more than 40% growth in EM. I mean, does that imply that Namibia and Botswana also grew individually of more than 40%?

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

No. I didn't say -- I said overall the growth with all regions contributing towards the 40%, not all growing at 40%.

Q - Risto Ketola {BIO 4929572 <GO>}

Okay, all right. Okay, that makes more sense. And the second thing is, there's no commentary on the EB business, I just wanted to know how that is growing.

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

Yeah. I think, it's doing fairly well. The recurring premiums did fairly well. And it's on track, I don't think there is anything funny there, it made its contribution and it's nicely up.

Q - Risto Ketola {BIO 4929572 <GO>}

Okay. And --

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

(Technical Difficulty)

A - Wilkus Oliver

Volumes are slightly down on last year, but the profitability is higher, so we have good quality business, that's (inaudible).

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Q - Risto Ketola {BIO 4929572 <GO>}

Okay, perfect. And the last thing is, you mentioned surplus capital of some 3 [ph] billion. I mean, would that be closer to 3.5 or 2.5, I mean, I'm just trying to get -- the numbers are little but low compared to what I had. I'm just wondering whether it's 3.0 or whether it's 3 something?

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

It's close to 3 billion. That is the number; it's not -- its pleasure to see them 2.5 or 3.5.

Q - Risto Ketola {BIO 4929572 <GO>}

Okay, alright perfect. And then the last question is, is life insurance becoming like MTN? This is endless pools of money. The single premium volumes are just unbelievable across all the companies.

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

No, it's not like MTN. But you should think about what are the options. I mean, a lot of the money is still being pulled short-term interest rates, which is a good indicator for what people can get from cash flows. Really low -- in the past, we had a lot of money going to housing, buy-to-rent type of an approach. That money isn't going there. And thirdly, if we really look at the retirement and the whole movement in the '90s towards guaranteed contributions rather than with the whole pool of money being retailer -- becoming retails (inaudible) people retire and particularly the last three years that we've had with assets in retirement fronts actually just exploded with close -- in South African base of close to 20% compounded over the three years.

As these people retire, it's easier for them to retire, because they have more assets, as the economy becomes under pressure, people moved up. So a lot of these effects combined actually create the pool, which means that as the -- while the sun is shining, people should make hay and that is reflected in the numbers, but it can't continue.

Q - Risto Ketola {BIO 4929572 <GO>}

Yeah, I mean, I think you're leading this something it's quite interesting -- it sounds almost like you're saying that the number of people retiring year-to-year isn't very constant, you saying that people actually elect to retire in times like this. And if the market --

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

They elect to retire, because they have the assets on the one hand and because it's not going well at where they work.

Q - Risto Ketola {BIO 4929572 <GO>}

Yeah.

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

Essentially opt out and things combined have created an above normal trend and (technical difficulty).

Q - Risto Ketola {BIO 4929572 <GO>}

All right. That's a good point, Johan, I'll put in my notebook. Alright. Okay. Thanks. That's all.

Operator

Our next question comes from Brian Mushonga of Credit Suisse. Please go ahead.

Q - Brian Mushonga {BIO 16209522 <GO>}

Good afternoon guys.

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

Good afternoon.

Q - Brian Mushonga {BIO 16209522 <GO>}

Few questions. If you take out the acquisitions from last year (Technical Difficulty) from financial services?

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

What's the number if you --

A - Wilkus Oliver

The impact is around 5% to 7% of the growth.

Q - Brian Mushonga {BIO 16209522 <GO>}

First (inaudible) from the acquisition -- acquisitions.

A - Wilkus Oliver

Yeah.

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

Yes.

Q - Brian Mushonga {BIO 16209522 <GO>}

And then the 3 billion in discretionary capital, I assume, it's now something closer to 2.7 after the transaction in Uganda, would that be correct?

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

Yeah. This is the end of April number, it's not anything that we have announced since --

A - Wilkus Oliver

From sum [ph] 3 to sum 2.7.

Q - Brian Mushonga {BIO 16209522 <GO>}

Okay, fair enough. And then just in terms of that 2.7, should we be thinking more in terms of we're likely to see ten more wonders or two more MCIS?

A - Wilkus Oliver

No. I think MCIS would be on the higher side. The idea is to really deepen and strengthen our existing relationships with partners. And therefore, we are unlikely to -- we have one or two territories on the -- particularly in Africa, where we're still building our footprint and so, but by and large, it's the existing deals, and then the amounts are relatively small.

Q - Brian Mushonga {BIO 16209522 <GO>}

Okay. Thank you.

A - Wilkus Oliver

Thank you.

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

Sir, can I just -- on Brian's question, I think it's -- I mean, I think something that to keep in mind when you look at something like our six months results, is that do we have merger acquisitions last year, we started to account from May and from April, PNO business and also some of the acquisitions in India. So I think just keep that in mind when you look at the half year results for example. And the impact will be bigger on the six month basis than on the four month basis.

Q - Brian Mushonga {BIO 16209522 <GO>}

Okay. Thank you.

Operator

Our next question comes from Hanna Barry of Moneyweb. Please go ahead.

Q - Hanna Barry

Hi, Johan. Thanks very much. I also have three questions. So the first one relates to the corrective action in Sanlam's intermediated business. If you could just comment on that whether that was sort of across the board rate increases or selected rate increases on higher risk?

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And then I now expect Sanlam life insurance has the capital adequacy four times higher than the statutory requirements, which seems quite high and that in effect of use of capital. So I just like to know that the reason why it's so high?

And then the last point is just on the too low margin share incentive scheme portfolio at Sanlam Private Investments and as such on those, if possible, could you elaborate a bit on the those low margins in --

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

Yeah surely.

Q - Hanna Barry

Thanks.

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

Thank you. In terms of the corrective action on the intermediate business in general insurance, a big part of that would be increases, but not across the board. I think, we are very careful in that; we don't want to chase particularly good times to the direct players, who are fairly aggressive. So premium increases would be one way of addressing it, but simply better underwriting and better management of the risk that we do; we spoke particularly about crop insurance.

We've done much better and so forth, but in that whole space, the corrective action that we're actually thinking. Partly underwriting, particularly, if you assumed payment and things like that means you do run a higher risk there, that is where we've addressed some, but not across the board, where it's been fairly selective.

Q - Hanna Barry

Okay.

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

In the -- on the capital of Sanlam Life being four times, this statutory requirement, of course, this includes, remember, also what we call surplus or discretionary capital [ph]. I'd just spread spending that -- stripping that out, we've spoken about the pipeline and so. It will come down and it will come down, I think, to around three times, which is still a high number.

But then you have to look at the whole San process. This is on the old system, which is not risk-based; we're moving to the new Solvency II risk based San system in South Africa. And I think it's much more prudent to look at, it's not going to require less capital.

And in that context, we think the capital is appropriate. It may be -- but too high, but we're very happy that for the moment that is the amount of capital that is required in our business.

We haven't really sorted out all the issues around San, particularly diversification and one or two other things, not inside a particular license, but between licenses and participations and things like that.

This is, there is still a great area that we're sorting out and so forth. One on the Sanlam --

Q - Hanna Barry

Private investments --

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

Yeah, yeah. Private investments.

A - Wilkus Oliver

I think, we should distinguish in that business between put through mandatory, we have discretionary mandates which is the higher margin business, and then we will provide a Field Administration Service. And this (inaudible) division, it's fairly accessed on our books, or what we managed on behalf of third parties but it's very low margin. So if we lose, we doesn't even given impact on our profitability, really.

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

Just on that, we have just north of 100 billion in the book. And about 40 billion is where we have the mandate our self, that is worth much more, charge a higher fee and we manage the money. On the rest, we simply provide administration services. And we do trade in some portfolios if that people so want us to do that. But we don't do the asset management from that.

So -- and if you lose part of that, it looks like a big effect but in reality, it is such -- it's a few basis points that you lose.

Q - Hanna Barry

Okay. Just to clarify, was that because he was answering last?

A - Wilkus Oliver

Can you just run again?

Q - Hanna Barry

Okay. So -- the answer to the first and second questions?

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

Yes, between (inaudible).

Q - Hanna Barry

Okay, great. Okay, great. That's all. Thank you.

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

Okay, great.

Operator

Our next question comes from Francois Detoi [ph] of JP Morgan. Please go ahead.

Q - Unidentified Participant

In the first half of last year, you have some ones option investment income, or I think, capital gains from the bank transaction. Those were not in the four month base right. Just want to confirm they took place in the last two months of sales in the (Technical Difficulty)

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

It should be the level, that would be in (inaudible) operating profit Francois, so it will be a charge --

Q - Unidentified Participant

(inaudible)

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

It happens in the -- not in the first four months but in the next two months.

Q - Unidentified Participant

That's fine. And then your 40% increase in operating earnings, can you give us a sense of what's your increase in your cash operating earnings was, because that's probably more important for us, that's the value of the dividends?

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

Yeah. This is a very detailed stuff. Do we have that number?

A - Wilkus Oliver

I don't have that. I'll try to answer before the end of the call, I'll send it quickly if I can.

Q - Unidentified Participant

I guess it's about the management if your asset management business, and if your life businesses are growing strongly and then that cash earnings (inaudible).

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

The difficulty there's been I think as we have said that there is the big -- one of the big reasons for the turnarounds in last year to this year (inaudible) for example something like Santam. In Santam, there's no underwriting here, first quarter last year and that recovered quite strongly. But that didn't necessarily change the dividend potential. And so, it's difficult, we forecast an (inaudible) the dividend, for example, say, it's not that easy to really calculate a cash earnings for a four-month period. And so --

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A - Wilkus Oliver

But I give you until the end of the call.

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

It might take longer.

Q - Unidentified Participant

Okay, great.

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

Anything else?

A - Wilkus Oliver

Nothing much.

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

Okay.

Operator

(Operator Instructions) Our next question comes from (inaudible). Please go ahead.

Q - Unidentified Participant

Good afternoon. Johan. Good afternoon, Kobus and everybody.

A - Wilkus Oliver

(inaudible)

Q - Unidentified Participant

Johan, in last year, SEM invested about close to a quarter of a billion in Capricorn. What's your current holding there and what are your intentions with Bank Windhoek going forward, I mean, is there likely with that some of the existing discretionary capital, will it be invested in Capricorn and how much?

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Secondly, how much of the capital is likely to go to your partnership with Ubuntu-Botho and what's the status of Ubuntu-Botho Financial Services?

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

Yeah. Okay. On the first question in terms of Capricorn Bank Windhoek, they are partnering in Namibia. By and large of the Sanlam business, we own 55% of the Sanlam business, Capricorn owns about 25% -- 30% of business there, which is the Bank Windhoek Coding company. And then we have local players there, broker and we'll also have NEMIC, the federation of -- the labor federation over there as a partner in the Sanlam business.

As they own about 30% in us, we own about 23% in them at different levels. In the holding company of Capricorn, allowed that directly at Bank Windhoek level and we've also ruled and we do asset management and in particularly our unit trust business, we've taken from the Sanlam side and we've given that (inaudible) that increased our stake over there.

So we are strategic stakeholder in them, just above 20%, and the idea then is we get the bank insurance business, we do their life stuff, they do our asset management and/or the unit trust business and increasingly also in the general insurance side, there is a similar arrangement.

And that works fairly well for us. So the idea is to increase that or to become a bank or any of that. But just to cement that partnership and I think so far, things have been working very well. We've been partners for a long time over there.

If we talk -- speak about UB [ph], we haven't really allocated any specific money towards UB. We've agreed that we'll support them in a number of areas, but it's up to UB to see what needs to be done, what they would like to do and where they ahead. And as soon as they clarify their own strategic positioning and so, we will have a look in to see what we can support and where we would like to support them. Of course, and what works for Sanlam. It can't be seen, there are separate company, they have their own views, they already are empowerment partners, they own a substantial stake in us, 14%, which is worth around 16 billion at this moment in time, they agree to paid all the debts. I think it's a good story. But they still have to clarify their own future.

And as far as I understand, that busy with that, and hopefully next time, when we speak, we can provide some more insight into the future.

Q - Unidentified Participant

Thank you.

Operator

Johan, we have no further questions. Do you have any closing comments?

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

Yes, just one in closing, I'd like to just thank everybody for participating on this call. We appreciate the continued support and we look forward to communicating the Group's Interim Results to you in September and of course we also hope that it would be as good as these results that we've just communicated to you. So good luck and best wishes. Thank you.

Operator

Thank you, sir. On behalf of Sanlam, that concludes this conference. Thank you for joining us. You may now disconnect your lines.

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