Company Update
12 April 2018
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CEDAR CAPITAL

Equity research | Company Update Report

MALAWI

OLDMUTUAL

Buy One, Get Three – Significant Opportunities in the Managed Separation

BUY	**MK2,360**
Financial Services – Insurance	
Bloomberg Ticker	OML
Reuters Ticker	OML
Target Price	£3.20
Market Data	**12 Apr 18**
Closing Price	MK2,360
52 Week High	MK
52 Week Low	MK
Market Cap (b)	MK11.6
Market Cap (m)	USD16.0
P/E	15.47x
P/B	1.17x
Arbitrage Opportunities	
Old Mutual (MSE)	MK2,360
Old Mutual (JSE)	ZAR40.41
Old Mutual (LSE)	GBP2.376
MSE Premium/(Discount) Vs LSE	(2.52%)

Attractive International blue chips

This is a once in a life time opportunity to end up owning a United Kingdom wealth management business, with over GBP100 billion assets under management, which is far greater that the Malawian GDP; a South African big four bank, with assets over ZAR983 billion and a pan African financial Services behemoth focusing on life assurance and asset management.

Geographical diversification – foreign assets

This is another once in a life time opportunity for Malawian investors to be able to buy one stock and end-up in 18 months' time owning shares that are listed on the London Stock Exchange, and Johannesburg Stock Exchange. Many investors are in the ordinary course of business not able to buy foreign assets and can thus take advantage of this opportunity.

No need for foreign currency

An unbelievable bonus is that these foreign assets are available in local currency for now. The window is open right now.

Currency hedge qualities

All the businesses will have earnings in foreign currency. The United Kingdom business will pay dividends in British Pounds. The South African domiciled businesses will pay Rand denominated dividends.

Attractive Valuations

Old Mutual is currently trading at a P/E of 15.47x and P/B of 1.17x in Malawi Kwacha terms. These valuations are in no way demanding. We estimate a break-up value of between GBP2.90 and GBP3.20, which presents a lot of upside in GBP terms, which should translate to attractive valuations in Malawian Kwacha terms.

Free to fly

We expect the standalone companies after the managed separation (unbundling) to be like doves released from a cage - soar unrestrained creating value for shareholders without onerous head office costs. None of the businesses are weaklings, and hence there would be no need for capitalisation. All of them actually have surplus capital.

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Investment Thesis

We are initiating coverage of Old Mutual Plc with a **BUY** recommendation at the current price of MKW2 360, which implies a potential 38.16% on current business structure which should also be the same on bundling, as we expect the conglomerate discount to dissipate.

Old Mutual Managed Separation ….

Two years ago, after a management change, the board of Old Mutual Plc announced the re-organization of the group in two phases. The first was to improve overall business performance and the second was to deliver a *Managed Separation* of the group. This is the first kind in recent times. The main reason for the dismantling of the group arose from the fact that with increased regulatory complexities in the United Kingdom, the group structure which combined insurance, banking and asset management had become onerous and inefficient and an unprofitable drain on the group's capital resources.

On the first score, for FY17, Old Mutual Plc returned a good performance, spurred on by a strong H2, benefitting from strong capital markets and exchange rates. Adjusted Operating Profits of GBP 2 billion were up an impressive 7% in constant currency terms and 22% in reported. EPS was 24.3p and a second interim dividend 3.57p per share was declared. Underlining the strong performance was 6% growth in the adjusted NAV which closed the year at GBP12 billion.

Managed Separation Road Map

Prior to the unbundling process Old Mutual Plc was a combination of four major businesses;

1. A majority stake (52%) in listed South African banking group; **Nedbank**
2. A non-listed but quite successful United Kingdom (UK) wealth management firm.
3. A majority stake in a listed United States bases asset management company; (OM Asset Management).
4. An emerging markets insurance company headquartered in South Africa; **Old Mutual Emerging Markets.**

With Brexit and increased regulation, it became necessary to unwind the current structure, as such a road map for the Managed Separation was set as;

- Keep and concentrate on Old Mutual Emerging Market (OMEM), which will be listed on the JSE and LSE. The company has head office in South Africa and operations in 17 countries.

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- Unbundle and list through a 9.6% IPO the UK Old Mutual Wealth Management Unit (now called Quilter).
- Demerge the stake in Nedbank to a 20% minority position through a dividend in specie to shareholders. The time table is that this will be done 6 months after the listing of OMEM which will be known as Old Mutual Limited and Quilter Plc.

Post the Managed Separation

After the successful separation anticipated to be completed in 18 months' time, investors will have shares in the following;

1 **Old Mutual Ltd** – this will essentially be the South African domiciled and biggest life assurance company in South Africa, with dominant operations in a number of African countries, including Malawi, Zimbabwe, and Namibia. The company is well capitalized and profitable.

2 **Quilter Plc** – a wealth management firm with £114.4 billion under management and profits of nearly £100 million. The company will be listed on the LSE. This will be the biggest value unlocked for shareholders.

3 **Nedbank Ltd** – the fourth largest bank in South Africa with subsidiaries in a number of countries including a 20% shareholding in Ecobank ETI. Current market capitalization in South Africa is R31.55 billion.

Conclusion

We are seeing a huge opportunity for Malawian investors to kill a lot of birds with one stone, through the purchase of Old Mutual Plc shares on the MSE. It is not every day, that one gets a chance to buy Nedbank, Old Mutual and a London listed stock, through purchasing a local one.

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