



OLD MUTUAL LIMITED

Price (MWK)	2 190
DPS (MWK)	18.04
P/E (x)	N/A
P/B (x)	0.81
DPS Yield (%)	0.82%
Market Cap (USD)	3 607 361 333
Recommendation	SELL

In ZAR mlns	Dec-20	Dec-19	YoY
Gross Premium	81,571	80,758	1%
Reinsurance	(9,109)	(7,998)	14%
Retained Premiums	72,462	72,760	(0%)
Investment Returns	30,063	56,940	(47%)
Income from Banking	4,022	2,108	91%
Fees & Commissions	2,253	686	228%
Total Income	108,800	132,494	(18%)
Net Claims & Benefits	(81,981)	(87,330)	(6%)
Operating Income	26,819	45,164	(41%)
Operating Expenses	(25,049)	(23,407)	
Finance Cost	(484)	(737)	(34%)
3rd party charges	3,479	(8,499)	(141%)
Associates	(8,037)	1,379	
PBT	(3,272)	13,900	(124%)
Tax	(2,076)	(4,245)	(51%)
Minorities	251	(269)	(193%)
Attr Earnings	(5,0970)	9,386	(154%)
Cash & near	33,560	30,474	10%
Invest Property	33,606	34,992	(4%)
Invest Securities	772,037	744,965	4%
Loans	17,798	21,007	(15%)
Total Assets	940,682	910,902	3%
Insurance Liabilities	682,964	653,710	4%
Payables	60,213	52,520	15%
Current Liabilities	1,943	1,809	7%
Borrowings	17,335	18,989	(9%)
Bank Deposits	5,044	4,908	3%
Capital/NAV	66,995	74,763	(10%)
Embedded Value	65,916	72,297	(9%)
Equity Value	98,500	116,500	

The double impact of Covid-19....

The silent and oft forgotten victim of Covid -19 is the life assurance business as revealed by the FY20 results from Old Mutual Limited (OML). The direct hit from the pandemic for OML was R6.1 billion due to an increase in pandemic reserves, business interruption and rescue claims, and mark-to-market losses in the credit and private equity portfolios. Earnings from Nedbank were also lower.

What did it mean ...?

Retained premiums were flat at R72.5bln as disposable incomes shrunk and companies/employment levels were affected by the pandemic. A severe blow was also felt when it came to investment income/returns which declined 47% to R30bln. Other ancillary inflows were positive but not enough to stop the reduction in total income, which dropped 18% to R108.8bln.

Net claims and benefits paid at R82.0bln were 6% lower on the FY19 payout mainly on account of higher reinsurance recoveries. Pandemic related death claims amounted to R13bln in the period. Operating expenses rose 7% - in line with SA inflation - to R25.0bln, resulting in a PBT decline of 124% to an R3.3bln loss, which worsened to R5.1 billion after tax. OML's expense ratio, thus, deteriorated 900bps to 75%.

On the balance sheet, the major asset is the investment portfolio which comprises R772bln in securities and R33.6bln of investment properties. The yield on the portfolio weakened 300bps to 4%, showing the impact of tepid capital market returns. The main liability on the balance sheet is the insurance or policyholder liability of R683bln which is adequately covered by the assets.

At the end of FY20, OML's embedded value was 9% lower at R65.9 billion. Notwithstanding the FY20 losses, OML was able to comfortably surpass all the required solvency ratios.

Overvalued on the MSE ...

On the MSE, OML is currently trading at 3.0x its Embedded Value (EV) which is way above the 0.82x EV on the JSE. This is because the OML price on the MSE has not adjusted not only for the 2017/18 managed separation but also the 40% JSE share price decline in FY20. The MSE price declined only 12%. On an implied exchange rate arbitrage basis, the current MSE price implies a USD1:MWK2 614 exchange rate, suggesting that OML is 3.3x overvalued on the MSE. **SELL.**

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