

EQUITY INSIGHTS

Santam Limited: A Stable Long Term Compounder

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A LEADING GENERAL INSURER SINCE 1918

Santam is a 100-year-old South African general insurer with a presence in selected emerging markets. Income is derived from general (non-life) insurance operations and from investment activities. The business is well-diversified with 10 classes of insurance offered across 5 business units. Motor and property insurance lines account for 39% and 30% of gross written premiums ('GWP') respectively. The business boasts an enviable financial track record having maintained average returns on capital of 25.3% over the last 10 years - well in excess of its cost of capital - whilst also delivering dividend growth of 8.9% per annum and paying 3 special dividends along the way.[†]

A HIGH QUALITY, RESILIENT INSURANCE OPERATION

Santam's insurance business has generated an underwriting profit in every year since founding in 1918 in South Africa. Over the last decade Santam has delivered premium growth in the region of 7% per annum whilst maintaining a largely consistent 4-8% underwriting profit margin. The key to this success stems from years of institutional learning and an unwavering commitment to prudent underwriting practices and stringent capital management. Prudent underwriting manifests in healthy pricing discipline, which in turn supports balance sheet strength and ensures that Santam is able to consistently honour insurance claims in a consistent, timeous manner with limited disputes from claimants and intermediaries. In the rare instances where underwriting discipline has waned, Santam has demonstrated the ability to react relatively quickly to mitigate against further mispricing. For example, Santam experienced an extraordinary high level of catastrophic events and commercial fires in 2017. The business committed to improving underwriting within the affected insurance classes, later reporting a saving of at least R200 million on known avoided fire claims in 2018.

Initiating a claim is often called the "moment of truth" in a client's relationship with an insurer. A positive claims experience encourages client loyalty and persistence, whereas a negative experience can cause far-reaching reputational damage for the insurer. Santam has managed to garner significant support among its 3600 intermediaries, through which approximately 90% of its insurance business is written, and also reports to insure 85 of South Africa's top 100 listed companies. We view Santam's commitment to sound underwriting and the reciprocal support this generates from clients as a key competitive advantage that has seen the business consistently dominate in excess of 22% of the general insurance market in South Africa – a noteworthy achievement for a business that explicitly prioritises profitability over market share gains.

SUPPORTED BY SOLID INVESTMENT ACTIVITIES

Santam's strong insurance operation is supported by credible investment activities that have delivered approximately 6% return on capital on average through the cycle. Santam's ~R4.2 billion partnership with Sanlam Emerging Markets provides international diversification capabilities and access to growing insurance markets across Africa, India and South East Asia.[†]

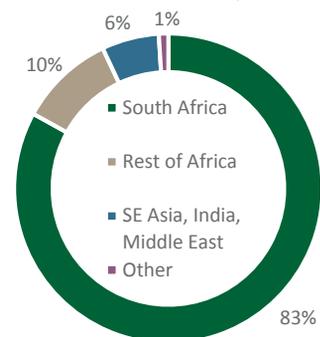
TRANSLATES INTO A LONG TERM STABLE COMPOUNDER

We expect Santam's attractive underwriting profitability and stable returns on capital well in excess of its cost of capital to allow the business to continue to compound shareholder value over the long term. As such, we view Santam as an important inclusion in a quality focused equity portfolio and will be adding at appropriate valuation levels.

	Santam Limited
Market Cap	R 34.7bn
Current Share Price	R 307.52
5Y Total Return	+96.8%
Forward PB	3.2x
Forward DY	3.8%
Next Financial Year End	31 December 2019

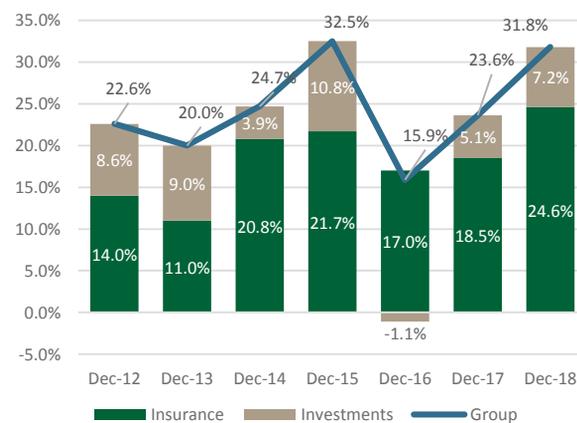
*Past performance is not a reliable indicator of future results.
Sources: FactSet, June 2019*

Gross Written Premiums (2018: R27.7b)



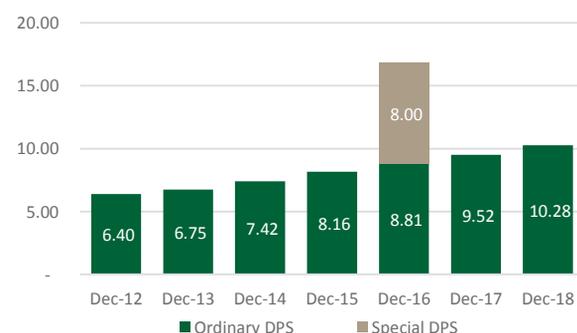
Sources: Santam 2018 Integrated Annual Report

Average Returns on Capital of +24% p.a.



*Net income as % weighted average shareholder funds
Sources: Santam 2018 Integrated Annual Report*

Ordinary DPS growth of +8% p.a.



Sources: Factset, Stonehage Fleming, June 2019

FOR MORE INFORMATION PLEASE CONTACT:



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