MMI HOLDINGS

2019

21 May 2019

OPERATIONAL UPDATE

For nine months ended 31 March 2019

momentum multiply METROPOLITAN GUARDRISK EBIS

The third quarter financial results for MMI Holdings (MMI) reflect pleasing performance and good progress with the Reset and Grow strategy that MMI announced in September 2018. Diluted normalised headline earnings[1] per share increased by 26% relative to the prior period, marginally better than expectations. This increase should be viewed in the context of poor results for the comparative prior period, but would not have been possible without efficiency improvements as well as appropriate investments in strategies for future growth. MMI remains cautiously confident that the group is on track to achieve the three-year financial targets set for 2021, namely to deliver normalised headline earnings between R3.6 billion and R4.0 billion.

In line with the financial results published in 1Q2019 and 1H2019, the prior period numbers are restated to provide meaningful comparisons for the operating segments that were implemented under the Reset and Grow strategy.

Group financial performance

Shareholders are advised that the diluted normalised headline earnings, the group's main earnings measure, increased by 19% to R 2.4 billon for the nine months relative to the prior period. Diluted normalised headline earnings per share increased by 26%, reflecting the impact of the share buy-back programme that was completed earlier in the 2019 financial year.

Diluted normalised headline earnings improved during the nine months mainly as a result of solid profitability in Momentum Life, the contribution from large corporate deals and improved group risk underwriting secured in Momentum Corporate, as well as strong underwriting profits in Non-life Insurance. This was partly offset by lower than expected asset-based fee income in Momentum Investments, a decline in profitability at Metropolitan Retail, and an increase in MMI's share of losses on new initiatives – albeit in line with business plans. The plans to exit certain countries in Africa are progressing according to plan.

Group embedded value per share was R27.41 on 31 March 2019. The individual solvency cover ratio for MMI Group Limited remained at 2.0 times under the new regulatory framework for solvency, which became effective on 1 July 2018.

Group new business performance

The present value of new business premiums (PVNBP) for the nine months was R40.6 billion, an increase of 11% from the prior period. Momentum Corporate delivered outstanding growth of 62% with both single and recurring premium business contributing to the growth. Momentum Life PVNBP increased by 6%, partly due to good sales in the long-term savings business. Africa had a much improved third quarter and grew new business by 1% over the nine months, a significant improvement from the decline evident in the first two quarters. PVNBP for Momentum Investments was marginally down, while for Metropolitan Retail it declined by 14%.

Value of new business (VNB) for the nine months was R417 million, which represents an increase of 10% from the prior period, maintaining the new business margin at 1%.

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[1] Normalised headline earnings adjust the standard JSE definition of headline earnings for the impact of treasury shares and the amortisation of intangible assets arising from corporate activity. MMI is of the opinion that these adjustments present a more realistic picture of underlying performance and remove distortions that might arise from elimination of treasury shares (potential distortions that are peculiar to financial institutions that invest in their own securities on behalf of clients).

Rm	3Q19	Restated 3Q18	Δ%
Recurring premiums	2 734	2 617	4
Single premiums	25 877	22 123	17
PVNBP	40 578	36 410	11
VNB	417	379	10
New business margin	1.0%	1.0%	0.0%

Segmental performance

The following sections provide more detail on the performance of the individual operating segments.

Momentum Life

Momentum Life PVNBP increased by 6%. This was due to good volumes from recurring premium savings business, specifically retirement savings products resulting from the good take-up of the recently launched Investo Retirement Annuity product. Protection business volumes remained under pressure and were relatively flat compared to the prior period.

VNB increased significantly to R65 million from R21 million achieved in the prior period. This was supported by good expense management and updated product pricing.

The new business margin increased to 1.1%.

Rm	3Q19	Restated 3Q18	Δ%
Recurring premiums	756	733	3
Single premiums	1 480	1 458	2
PVNBP	6 079	5 754	6
VNB	65	21	>100
New business margin	1.1%	0.4%	0.7%

Momentum Life's normalised headline earnings improved strongly compared to the prior period. This was on the back of poor performance in the prior period, but also reflects good expense management, a positive new business contribution and the improvement in margins resulting from updated product pricing.

Momentum Investments

PVNBP for Momentum Investments of R16 962 million was down marginally by 1%, mainly due to subdued new business volumes on the Wealth platform. This was largely offset by strong sales growth in guaranteed investments and annuities.

The decline in VNB to R61 million can be attributed to lower new business volumes on the local and offshore Wealth platforms and strengthening of renewal expense assumptions at the start of the financial year. These contributed significantly to the decline in the new business margin to 0.4%.

Rm	3Q19	Restated 3Q18	Δ%
Recurring premiums	138	144	-4
Single premiums	16 436	16 563	-1
PVNBP	16 962	17 151	-1
VNB	61	129	-53
New business margin	0.4%	0.8%	-0.4%

Notwithstanding the difficult economic environment, Momentum Investments delivered good normalised headline earnings growth relative to the prior period. This was mainly due to a significant reduction in the funding strain on guaranteed products, active credit portfolio management and strict cost discipline. The weakening of the Rand exchange rate supported the overall results of the offshore asset management business.

As markets recovered moderately in the latter half of 2018, average assets under management increased, with noticeable growth of assets managed on behalf of local and offshore retail clients.

Metropolitan Retail

Metropolitan Retail PVNBP of R3 620 million has declined by 14% from the prior period. Recurring premiums reduced by 3%, with the call centres and broker distribution channels the main contributors to the decline. Metropolitan Retail's tied agency force saw a pleasing increase in productivity per agent compared to the prior period; however total sales were flat year-on-year due to the lower number of agents. It is encouraging that the proportion of new business for which premiums are collected via salary deduction has improved – this bodes well for future persistency.

The decline of 55% in VNB was driven by a reduction in new business volumes and an increase in per policy expenses. These factors are partly offset by an increase in the take-up rates of policies for which premiums are collected via salary deduction. The new business margin declined to 1.7%.

Rm	3Q19	Restated 3Q18	Δ%
Recurring premiums	916	946	-3
Single premiums	811	1 101	-26
PVNBP	3 620	4 203	-14
VNB	63	141	-55
New business margin	1.7%	3.4%	-1.7%

Normalised headline earnings were down on the prior period, and continued to be negatively impacted by the increased costs related to upgrading the branch infrastructure and the change to more conservative capitalisation of systems development costs.

Momentum Corporate

Momentum Corporate PVNBP of R12 068 million increased by 62% from prior period. This result was supported by the substantial single premium with-profit annuity transaction in 1Q2019, as well as strong growth of 36% on recurring premium volumes. This was driven by group risk new business from a variety of large corporate clients.

VNB of R216 million was significantly better (>100%) than the previous period, reflecting the improvement in volumes. The increased focus on the quality of new business contributed to the improved new business margin to 1.8%.

Rm	3Q19	Restated 3Q18	Δ%
Recurring premiums	637	470	36
Single premiums	6 762	2 682	>100
PVNBP	12 068	7 466	62
VNB	216	45	>100
New business margin	1.8%	0.6%	1.2%

For Momentum Corporate the normalised headline earnings improved significantly on the back of positive underwriting experience on the group life book, strong persistency within the FundsAtWork umbrella fund, as well as higher than expected investment fee income arising from new business written during the nine months.

MMI Health delivered another strong set of results. The business continued to grow its membership, supported by steady growth from the public sector and further growth in low cost products. Stringent cost management further supported the improved profitability within Health.

Africa

PVNBP for Africa was R1 849 million, up by 1% from the previous period. This reflects a strong third quarter, and is an improvement on lower sales that were reported at the half-year results. Lesotho delivered strong single premium business from annuities, while Namibia has shown increased recurring premium risk business from corporate clients.

Although VNB declined from the prior period, it is the first quarter in financial year 2019 that the VNB is positive. The decline from prior period was driven by lower sales volumes in several countries, as well as the new business mix tilting towards lower margin long-term savings products. This led to the decline in new business margin.

Rm	3Q19	Restated 3Q18	Δ%
Recurring premiums	287	324	-11
Single premiums	388	319	22
PVNBP	1 849	1 836	1
VNB	12	43	-72
New business margin	0.6%	2.3%	-1.7%

The Africa covered normalised headline earnings were down on prior period, largely due to lower investment returns in Namibia and Botswana.

The business is pleased with the performance from the non-covered business in Africa. The Health operations produced particularly strong results for the nine months.

Non-life Insurance

Guardrisk continued on its growth trajectory through organic growth and strong new business in the mining rehabilitation and underwriting manager divisions. Improved underwriting results also made a strong contribution to the growth.

Momentum Short-term Insurance delivered an improved claims ratio and 18% growth in net earned premiums compared to the prior period.

New Initiatives

The India joint venture (JV), in partnership with Aditya Birla, is performing in line with expectations. The India JV continued its focus on growing retail business through channel expansion and productivity, resulting in excellent growth of the retail business. Share of losses was negatively impacted by the Rand depreciation; however, it remains largely in line with the business plan.

The spending on other new initiatives also remained in line with our business plans.

Shareholders

Normalised headline earnings growth for the nine months was supported by fair value gains, following revaluations of some of the underlying investments in our venture capital investment held through Exponential Ventures. Investment income on the shareholder portfolio declined following the successful completion of the share buy-back programme which resulted in a decline in the average balance of income earning assets.

Outlook

MMI believes that its current emphasis on financial discipline and on improving client service is starting to have a positive impact. Good progress has been made with the Reset component of its Reset and Grow strategy, and the focus will increasingly shift towards the Grow component.

The operating environment remains difficult in both South Africa and in the rest of Africa. Although the normalised headline earnings for the final quarter are expected to be lower than the run-rate as seen in the first nine months, MMI is confident that normalised headline earnings will be in line with the Reset and Grow targets for 2019. MMI also expects new business volumes to be broadly similar as those seen for the first nine months, once adjusted for the single large annuity contract written in 1Q2019.

21 May 2019

CENTURION

The information in this operational update has not been reviewed and reported on by MMI's external auditors.

Conference call

The executive management of MMI will be hosting a conference call for shareholders, investors and analysts on 21 May 2019.

We kindly request callers to pre-register using the following link www.diamondpass.net/7551129.

A passcode and pin will be generated following registration. We advise callers to dial in 5 minutes before the conference call starts at 13h00.

Access numbers for participants dialling live from their country:

South Africa	011 535 3500 (Neotel)
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UK	0 333 300 1417
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Recorded playback will be available for three days after the conference call.

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