

JS Bank Limited

Due Diligence Report

Investment in EFU Life Assurance Limited

January 2020

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1. INTRODUCTION

1.1 This due diligence report has been prepared for the purpose of evaluating investment to be made by JS Bank Limited ("JS Bank") in EFU Life Assurance Limited ("EFUL"). EFUL is an associated company of JS Bank by virtue of 20.05% shareholding of Jahangir Siddiqui & Co. Limited (JSCL) the holding company of the Bank and 0.09% shareholding of Energy Infrastructure Holding (Private) Limited ("EIHL"), a wholly owned subsidiary of the JSCL.

1.2 Section 199 of the Companies Act, 2017 ("Act") requires that investment in associated companies shall be made under the authority of a special resolution. Securities and Exchange Commission of Pakistan (SECP) has prescribed the Companies (Investment in Associated Companies or Associated Undertakings) Regulations, 2017 ("2017 Regulations"), which specify such conditions and restrictions on the nature, period, amount of investment and terms and conditions attached thereto and other ancillary matters. The proposed investment, therefore, shall comply with the requirement of Section 199 of the Act and 2017 Regulations.

2. TRANSACTION

Further to the shareholders' resolution dated March 28, 2017 authorising long term equity investment by JS Bank Limited in EFU Life Assurance Limited of up to PKR 675 million that was partly utilized by purchasing 1,189,600 shares of the total amount of PKR 250,734,849, the Bank now intends to renew its long term equity investment limit in EFUL of upto PKR 675 million (inclusive of investment of PKR 250,734,849 already made by the Bank) to authorize the Bank under Section 199 of the Companies Act, 2017 by way of purchase of Ordinary Shares of EFU Life Assurance Limited from time to time from the secondary market at the prevailing market price subject to compliance with all legal requirements. The shares will be purchased within a period of three years and shall be subject to fulfillment of legal, regulatory and corporate requirements.

3. EFU LIFE ASSURANCE LIMITED – HISTORY AND CREDENTIALS

3.1 EFUL is a company listed on the Pakistan Stock Exchange. In 1990, the Government of Pakistan reopened the life insurance business to the private sector organisations and EFUL started operations in November 1992 as the first private sector life insurance company. In early 1993, EFUL commenced its Group life insurance business and by March 1994, the company began writing its individual life business.

3.2 EFUL's Board of Directors comprises of:

- Mr. Rafique R. Bhimjee (Chairman)
- Mr. Taher G. Sachak
- Mr. Saifuddin N. Zoomkawala
- Mr. Muneer R. Bhimjee
- Mr. Hasanali Abdullah
- Mr. Heinz Walter Dollberg
- Mr. Ali Raza Siddiqui
- Mr. Syed Salman Rashid
- Ms. Rukhsana Shah

3.3 In the year 2018, the Company has an individual life branch network of over 200 locations across the country. For Bancassurance, the Company has a partnership with 14 banks.

3.4 As of December 31, 2018 EFUL has net equity of PKR 6,027 million with paid up capital being PKR 1 billion divided into 100 million ordinary voting shares of PKR 10 each. Its gross premium (including Takaful contributions) was PKR. 30.79 billion

3.5 EFUL has a comprehensive claims management system in place which prompts claims payments. During the year 2018, EFUL paid total death and disability claims of PKR. 2.55 billion (2017: 2.60 billion) with individual and group life claims amounting to PKR. 665 million and PKR. 1.882 billion, respectively in 2018.

3.6 EFUL was the first life assurance company in Pakistan to be awarded the ISO 9001:2008 certification. EFUL is the pioneer in introducing the following products and features in Pakistan.

- Unit-linked products
- Critical Illness Products
- Education Planning Product
- Inflation Protection Benefit
- Pension Plans

3.7 JCR-VIS has assigned EFUL Insurer Financial Strength (IFS) rating reaffirmed as AA+ with stable outlook. The rating takes into account the Company's strong capitalization level vis-à-vis the nature of risks underwritten and the very high capacity to meet policyholders' obligations. The rating is also a confirmation of the fact that the Company is on a strong financial footing and is the market leader in the life insurance sector in terms of long term sustainable business strategies, innovative products, superior systems and IT infrastructure, satisfied clients and prudent investment policies resulting in good medium to long term returns to our clients. The prediction for future outlook is 'Stable' this shows that EFUL is low risky investment for JS bank.


4. FINANCIAL POSITION, PERFORMANCE AND FUTURE PROSPECTS

4.1 Since inception, EFUL has had a consistent and growing track record of profitability. During calendar year 2019, EFUL has reported an after tax profit of PKR 1,549 million and earnings per share of PKR 15.49. Currently, EFUL maintains a healthy capital structure with no debt on its balance sheet.

4.2 EFUL has a consistent record of paying dividend to its shareholders and in the last six years the following cash dividend was declared:

2019: 150%
2018: 150%
2017: 150%
2016: 150%
2015: 100%
2014: 75%

4.3 Following is the brief snapshot of historical and financial performance of EFU Life Assurance.

 Key Financial Data For The Last Six Years						
(Rupees ,000)						
	2018	2017	2016	2015	2014	2013
Gross Premium / Contribution	30 790 407	31 420 835	24 676 452	31 033 830	18 219 910	14 058 930
REVENUE ACCOUNT						
Premium-net of reinsurance	30 164 268	30 813 133	23 861 851	30 351 972	17 595 939	13 365 479
Interest and other income	3 266 274	9 438 197	8 128 626	8 117 383	6 796 578	4 748 784
	33 430 542	40 251 330	31 990 477	38 469 355	24 392 517	18 114 263
Claims less reinsurance	13 094 451	14 237 934	17 764 439	8 941 518	4 714 369	3 483 942
Commission and Expense	8 374 022	6 887 965	5 535 953	5 415 109	4 727 382	4 274 210
Provision for (depreciation) / Appreciation on investments	(3 058 297)	(13 094 284)	7 763 528	748 228	3 699 382	1 028 649
Write back / (Provision) for doubtful debts on available for sale fixed income securities				(6 559)	65 379	(160 407)
Provision for Impairment for available for sale Equity Investments			200 407	(22 201)	347 560	12 681
Capital contribution from Shareholders' fund			89 256			
Changes in statutory Funds	6 577 382	3 236 906	13 945 180	22 606 826	17 639 714	9 838 720
Profit before tax	2 326 390	2 794 241	2 798 096	2 225 370	1 423 373	1 398 314
Provision for Taxation	(745 057)	(884 279)	(925 200)	(749 900)	(472 472)	(469 200)
Profit after tax	1 581 333	1 909 962	1 872 896	1 475 470	950 901	929 114
BALANCE SHEET						
Investments	105 820 637	85 388 521	88 831 183	71 941 323	55 534 580	39 585 719
Cash & Bank balances	4 786 362	18 496 913	12 395 589	14 406 587	7 666 369	7 614 047
Other Assets	3 698 947	4 143 723	2 920 367	3 249 775	2 943 929	1 094 258
Fixed Assets	2 458 665	2 208 842	2 154 392	1 667 694	1 083 604	810 235
	116 764 611	110 237 999	106 301 531	91 265 379	67 228 482	49 104 259
Issued, Subscribed and paid-up capital	1 000 000	1 000 000	1 000 000	1 000 000	1 000 000	1 000 000
Accumulated surplus	2 877 596	1 440 648	1 543 383	1 459 743	1 083 773	1 032 872
General Reserve	2 150 000	1 900 000	1 650 000	950 000	750 500	500 500
Balance of Statutory Funds	107 603 537	101 233 038	97 782 063	83 836 320	61 222 367	43 582 653
Other liabilities	3 133 478	4 664 313	4 326 085	4 019 316	3 171 842	2 988 234
	116 764 611	110 237 999	106 301 531	91 265 379	67 228 482	49 104 259



Key Operating and Financial Data

Six years summary
Financial Ratios

Profitability Ratios

		2018	2017	2016	2015	2014	2013
Profitability Ratios							
Profit Before Tax / Gross Premium	%	7.6%	8.5%	11%	7%	8%	10%
Profit Before Tax / Net Premium	%	7.7%	8.7%	12%	7%	8%	10%
Profit After Tax / Gross Premium	%	5.1%	5.8%	8%	5%	5%	7%
Profit After Tax / Net Premium	%	5.2%	5.9%	8%	5%	5%	7%
Gross Yield on Earning Assets	%	6.3%	6.3%	6%	7%	8%	8%
Net Claims / Net Premium	%	43.4%	46.1%	74%	29%	27%	26%
Commission / Net premium	%	14.3%	11.7%	12%	10%	14%	17%
Acquisition Cost / Net premium	%	22.4%	17.7%	18%	14%	21%	25%
Administration Expenses / Net premium	%	5.4%	5.3%	5%	3%	5%	6%
Change in PHL / Net Inflow	%	21.7%	11.9%	35%	57%	61%	52%
Net investment income / Net Premium	%	0.7%	-11.7%	66%	29%	59%	41%
Return On Capital Employed	%	17.7%	20.7%	23%	22%	16%	15%
Return on Equity	%	26.2%	41.8%	45%	43%	34%	37%

Liquidity Ratio

Current Ratio		7.51	4.85	3.54	4.39	3.35	2.91
Quick Ratio		7.51	4.85	3.54	4.39	3.35	2.91
Cash to Current Liability	%	633%	397%	287%	358%	242%	255%

Investment / Market Ratio

Breakup Value Per Share	Rupees	60.28	43.41	41.93	34.10	28.34	25.33
Earnings per share (pre tax) Diluted	Rupees	23.26	26.81	27.98	22.25	14.23	13.98
Earnings per share (after tax) Diluted	Rupees	15.81	18.12	18.73	14.75	9.51	9.29
Price Earning Ratio - PAT	Times	14.41	13.99	11.50	13.49	17.86	8.80
Mkt price per share at end of the year	Rupees	227.92	253.49	215.47	199	169.85	81.71
Mkt price per share - Highest during the year	Rupees	311.48	329.95	247.47	260	177.99	96.45
Mkt price per share - Lowest during the year	Rupees	195.66	209	162.3	140	80.60	68.01
Cash Dividend per Share	Rupees	15	15	15	10	7.50	6.5
Price to book ratio		0.20	0.23	0.20	0.22	0.25	0.17
Cash Dividend %	%	150%	150%	150%	100%	75%	65%
Dividend Yield	%	7%	6%	7%	5%	4%	8%
Dividend Payout	%	94.86%	82.76%	80.09%	67.78%	78.87%	69.97%
Dividend Cover	Times	0.95	0.83	0.80	0.68	0.79	0.70
Stock Dividend per share	Times	fi	fi	fi	fi	fi	fi
Bonus %	%	fi	fi	fi	fi	fi	fi

Capital Structure Ratio

Return on Asset	%	2.0%	2.4%	3%	2.4%	2%	3%
Earning Asset to total asset	%	91%	92%	95%	94%	93%	97%
Total Liabilities / Equity	Times	18.37	24.40	24.35	25.77	22.70	18.38
Paid-up Capital / Total Asset	%	0.86%	0.91%	0.94%	1.10%	1.49%	2.04%
Equity/ total Asset	%	5.2%	3.9%	4%	4%	4%	5%

Comments:

Profitability Ratios:

Net profit after tax have decreased from 1.909 billion to 1.581 billion the decrease in profitability ratios is due to one off transaction in 2017 the Company has managed to underwrite Rs. 30.79 billions of business (new and subsequent) in 2018.

Liquidity Ratio

EFU Life's liquidity position had always been very strong. Increase in liquidity ratios is mainly due to effective working capital management.

Investment / Market Ratio

EPS has gone down by roughly 13% to Rs. 15.81 per share as a result poor economic condition and ill performance of Pakistan Stock Exchange throughout the year relative increase in P/E ratio is due to decrease in share price as well as EPS dividend yield ratio has slightly increased due to decrease in the market value of share despite tough year The Company has announced 112.5% final dividend and 37.5% interim dividend (which sum up to 150% total dividend for 2018), reflecting robust and strong footprint in industry.

Capital Structure Ratio

EFU Life's paid up capital is 1 Billion which is the largest in the life insurance industry in Pakistan. Total assets of the company has increased from 116.76 Billion to 109.54 Billion making an increase of almost 7%.

In addition to this, company has maintained Rs. 2.26 billion in ledger account D, along with 3.28 billion in accumulated surplus and reserves.

5. JUSTIFICATION AND BENEFITS TO JS BANK

5.1 EFUL is one of the nine players of the life insurance industry in Pakistan. It has a history of 27 years of successful business operations. The life insurance industry gross premium has crossed the PKR. 200 Billion mark, registering a 5 year annualized growth of over 20%. EFUL's paid up capital is 1 Billion which is the largest in the life insurance industry in Pakistan. Total assets of the company has increased from 116.76 Billion to 109.54 Billion making an increase of almost 7%. The average share price of EFUL from November 15, 2019 to February 15, 2020 is PKR 199.94 per share and break-up value of securities is 60.28 per share as on December 31, 2018. In addition to this, company has maintained PKR. 2.26 billion in ledger account D, along with 3.28 billion in accumulated surplus and reserves. EFUL is expected to perform exceptionally well going forward. In 2017, JS Bank intends to purchase up to 675 million that was partly utilized by purchasing 1,189,600 shares of the total amount of PKR 250,734,849, the Bank now intends to renew its long term equity investment limit in EFUL of upto PKR 675 million (inclusive of investment of PKR 250,734,849 already made by the Bank) to authorize the Bank under Section 199 of the Companies Act, 2017 by way of purchase of Ordinary Shares of EFUL from time to time from the secondary market at the prevailing market price subject to compliance with all legal requirements. The Bank has sufficient funds which are often invested in instruments like T-Bills, PIBs, term deposits, etc. The investment in EFUL expected to generate above average return in the form of dividends and capital gains.

6. CONCLUSION

6.1 Based on the EFUL's historical performance and future prospects outlined in this report, the Bank now intends to renew the earlier long-term equity investment limit of PKR 675 million in EFUL subject to the consent and approval of the Board and shareholders under Section 199 of the Companies Act, 2017. EFUL is associated undertaking of the Bank by virtue of 20.14% shareholding of Jahangir Siddiqui & Co. Limited (holding company of JS Bank). The proposed investment will be a long term investment to earn dividend and capital gains.