MMI Holdings announces year-end results

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Today MMI Holdings Limited (JSE: MMI) released its results for the twelve months ending 30 June 2018. This set of results follows a financial year in which the MMI Holdings Board initiated turnaround changes, including appointing new executive leaders and tasking them with positioning the business for improved performance and future growth.

The new MMI leadership team has started the process of implementing a new strategy to reset and grow the business by focusing on the basics and addressing structural shortcomings. Hillie Meyer, Group CEO of MMI Holdings says, “We know that we are reporting disappointing financial results. In spite of the strategic reset and the senior management changes, we now have a more stable environment and I have no doubt that we can turn MMI around”.

To achieve this, the leadership team is focusing on a strategy comprising two components, which they termed RESET and GROW. “To reset the business we are focusing on fixing what is wrong and getting the basics right, such as aligning the business’s cost base with its revenue,” says Meyer. Other basic improvements include that MMI changed its operating model to empower end-to-end business units to run their businesses efficiently and effectively, an increased focus on successfully growing the core businesses in South Africa and exiting markets on the African continent that do not deliver shareholder value.

The GROW part of the company's strategy includes increasing the size of its distribution channels and improving productivity, regaining its reputation for developing innovative products, connecting with business partners and clients through excellent service and revitalising the Momentum and Metropolitan client-facing brands.

"Through our turnaround strategy, we are targeting to increase earnings from the current R2.8 billion, to R4.0 billion. It takes time to turn around an insurance company, but I have absolute confidence in the commitment and ability of our management team and employees to not only turn the business around, but to also set MMI up to achieve sustainable, profitable growth within three years," says Meyer.

Salient features of the Group's performance include:

- Diluted core headline earnings declined by 12% to R2.8 billion after being affected by various factors such as increased investment in strategic initiatives, higher expenditure on distribution, and weaker persistency in Metropolitan Retail;
- MMI's investment in new growth initiatives increased by R127 million. If the impact of new investments is excluded, operating profit shows a decline of 5%;
- New business volumes increased by 1% year-on-year to R42.2 billion on a present value of new business premiums (PVNBP) basis. This included year-on-year growth of 3% for Momentum Retail and 1% growth for Momentum Corporate;

- Strong mortality and disability underwriting profits across the group supported weak core earnings in other areas of the business. The risk experience across the group improved by R201 million;
- MMI international's core headline earnings remain negative but showed an improvement of R118 million due to the efforts to streamline the Africa portfolio, improved Permanent Health Insurance (PHI) experience in Namibia and strong profit growth from the UK asset management business;
- The Guardrisk business continues to deliver exceptional results, increasing core headline earnings by 29% to R258 million;
- Momentum Short-term Insurance (MSTI) performed well, mainly due to the continuous improvement in the claims ratio as well as good expense management. The claims ratio reduced from 72.9% to 66.5% year-on-year;
- Value of new business reduced by 45% to R301 million, with a commensurate reduction in the overall new business margin from 1.3% to 0.7%. Momentum Corporate compensated for the weak performance elsewhere and increased its VNB by 82% to R124 million, almost doubling the margin to 1.1%;
- The South African Health business continued to show progress in terms of earnings and membership growth;
- The Return on Embedded Value was -1.1%, driven by negative operating assumption changes and certain businesses not achieving projected earnings numbers; and
- As communicated in the interim results in March 2018, MMI announced a share buyback of up to R2 billion, in lieu of a cash dividend (both interim and final). The total cash dividend for the previous year was 157 cents per share. At 30 June 2018, 47 million shares (R971 million) had been bought back. The repurchases have added, to date, 12 cents to the embedded value per share. The group will continue the buyback programme, provided the shares trade at a discount to embedded value. When dividends resume, MMI will target a dividend cover range centred on 2.5x normalised headline earnings.