

20th January 2016

Insurance

Zurich Insurance Group

Price CHF242.30

Profit warning, yet again!

Fair Value CHF310 (+28%)

NEUTRAL

Bloomberg	ZURN VX
Reuters	ZURN.VX
12-month High / Low (CHF)	332.9 / 233.9
Market Cap (CHFm)	36,443
Avg. 6m daily volume (000)	621.4

	1 M	3 M	6 M	31/12/15
Absolute perf.	-3.7%	-4.8%	-20.6%	-6.2%
Insurance	-9.4%	-4.4%	-13.4%	-10.2%
DJ Stoxx 600	-9.0%	-9.5%	-19.0%	-10.2%

	2014	2015e	2016e	2017e
P/E	9.4x	10.8x	9.1x	8.6x
Div yield (%)	7.1%	10.4%	7.1%	7.1%

ANALYSIS

- Prior to the full release of Q4/FY numbers on 11th February, Zurich has announced that Q4 numbers will be negatively impacted by a high level of natcats (including USD275m in costs related to storms Desmond, Eva and Franck in the UK) and large losses (credit & surety + property claims). As such, for the P&C division the company is forecasting a c. USD100m operating loss in Q4 (we were expecting a USD475m profit). Other divisions (Life + Farmers) are expected to report "in line with expectations" (but note that the German life business will suffer a c. USD230m goodwill write-off).
- This is the second profit warning in two quarters (remember Q3 numbers were hit by large losses, including the port of Tianjin, and reserve strengthening).
- As a consequence, the company now aims to exceed the cost cutting target for 2016 (USD300m). Fair enough! But 1/ fixing current issues in P&C, and 2/ finding a new group CEO, have become even more critical...

VALUATION

- Based on our current numbers, our SOTP is CHF310.
- Today's news is not expected to have a material impact on the capital position and we still expect the company to pay a CHF8 extraordinary dividend (on top of its CHF17 ordinary one). However, momentum remains poor, justifying our Neutral recommendation.

NEXT CATALYSTS

- Detailed Q4/FY numbers on 11th February.

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Distribution of stock ratings

BUY ratings 72%

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