

21st January 2016

Insurance

## Zurich Insurance Group

Price CHF220.00

Cutting our numbers and FV, but a very attractive dividend yield

Fair Value CHF295 vs. CHF310 (+34%)

NEUTRAL

Bloomberg	ZURN VX
Reuters	ZURN.VX
12-month High / Low (CHF)	332.9 / 220.0
Market Cap (CHF)	33,089
Avg. 6m daily volume (000)	639.4

	1 M	3 M	6 M	31/12/15
Absolute perf.	-12.6%	-12.7%	-27.9%	-14.9%
Insurance	-12.1%	-7.3%	-15.9%	-12.8%
DJ Stoxx 600	-10.8%	-11.1%	-20.8%	-11.9%

	2014	2015e	2016e	2017e
P/E	8.6x	14.2x	8.7x	8.1x
Div yield (%)	7.8%	11.4%	7.8%	7.8%

### ANALYSIS

- Following yesterday's profit warning, we have taken another look at our 2015-2017 numbers.
- 2015 will definitely be remembered as an *annus horribilis* for the company. H2 combined ratio in the P&C division is expected at around 105-110%, i.e. 100-105% for the FY. FY P&C operating profit is expected at c. USD0.9bn vs. USD3.1bn on average for the 2006-2014 period and USD2.1bn at the lowest in 2012. Bottom line, at the group level, we now expect net income of USD2.4bn, down 43% yoy.
- We have lowered our P&C operating profit expectations for 2016 and 2017 by 9% and 6% respectively, considering the recovery will take more time than previously expected. At the group level, we have revised net income downwards by 4% for 2016 and 3% for 2017.
- The impact on the group's capital position is marginal, and we still expect the company to pay a CHF17 regular dividend (stable) and a CHF8 extraordinary dividend, i.e. a 11.4% global yield (of which 7.7% for the regular part). Remember the company has c. USD3bn (i.e. CHF3bn) in excess capital and will take the opportunity to communicate on its deployment at the FY results publication (CHF8 extraordinary dividend = CHF1.2bn).

### VALUATION

- Based on our new numbers, our SOTP is now CHF295 (vs. CHF310).
- At this stage we see no reason to adopt a more positive view on the equity story despite significant theoretical upside potential. The appointment of a new CEO is now urgent.

### NEXT CATALYSTS

- Q4/FY numbers on 11th February.

Olivier Pauchaut, [opauchaut@bryangarnier.com](mailto:opauchaut@bryangarnier.com)

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## Distribution of stock ratings

BUY ratings 59.4%

NEUTRAL ratings 31.6%

SELL ratings 9%

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Beaufort House	26 Avenue des Champs Elysées	750 Lexington Avenue	rue de Grenus 7	The Imperial Hotel
15 St. Botolph Street	75008 Paris	New York, NY 10022	CP 2113	Janpath
London EC3A 7BB	Tel: +33 (0) 1 56 68 75 00	Tel: +1 (0) 212 337 7000	Genève 1, CH 1211	New Delhi 110 001
Tel: +44 (0) 207 332 2500	Fax: +33 (0) 1 56 68 75 01	Fax: +1 (0) 212 337 7002	Tel +4122 731 3263	Tel +91 11 4132 6062
Fax: +44 (0) 207 332 2559	Regulated by the	FINRA and SIPC member	Fax+4122731 3243	+91 98 1111 5119
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