

3rd February 2016

Insurance

Hannover Re

Price EUR96.27

Satisfactory January 2016 renewals in a challenging environment

Fair Value EUR107 (+11%)

SELL

Bloomberg	HNR1 GY
Reuters	HNRGn.DE
12-month High / Low (EUR)	111.5 / 80.6
Market Cap (EURm)	11,610
Avg. 6m daily volume (000)	189.0

	1 M	3 M	6 M	31/12/15
Absolute perf.	-8.9%	-8.5%	-0.3%	-8.9%
Insurance	-10.2%	-9.3%	-10.5%	-10.2%
DJ Stoxx 600	-6.6%	-9.0%	-13.8%	-6.6%

	2014	2015e	2016e	2017e
P/E	11.8x	11.4x	12.0x	11.5x
Div yield (%)	4.4%	4.7%	4.4%	4.4%

ANALYSIS

- January 2016 renewals (65% of FY P&C premiums) ended up with a 1.5% decrease in premium volume to EUR4.355bn (at unchanged exchange rates). The price impact was not quantified overall but the company has confirmed the overall price erosion, with a “considerable” price decline in some markets (including aviation and marine) and “pleasing outcomes in US business and in the German market”.
- This 1.5% decrease was mainly due to price pressure on the non-proportional business (-4.8%), which represents 30% of business. However, this compares well to Partner Re, which just reported a 5% decrease from the renewable premium base.
- In a challenging interest rate environment, the company continues to be very strict with underwriting terms and conditions in order to keep underwriting profitability under control. Its leading position in Germany is a positive here. As a consequence, overall underwriting profitability is expected to remain largely stable relative to 2015 (combined ratio below 96%), which is good news.
- For the full year 2016, the company confirms its previous guidance: EUR950m in net income, including a EUR825m natcat budget (vs. EUR690m budgeted for 2015) and a 2.9% ROI (vs. 3.0% budgeted for 2015).

VALUATION

- Based on our current 2016 estimates, the SOTP valuation is EUR107.

NEXT CATALYSTS

- Q4/FY 2015 numbers will be reported on 10th March 2016.

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BUY ratings 72%

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