

4th February 2016

Insurance

**Munich Re**

Price EUR168.95

**Strong Q4 numbers driven by reserve releases, higher than expected dividend**

**Fair Value EUR200 (+18%)**

**SELL**

Bloomberg	MUV2 GR
Reuters	MUVGn.DE
12-month High / Low (EUR)	205.9 / 158.7
Market Cap (EUR)	28,188
Avg. 6m daily volume (000)	789.6

	1 M	3 M	6 M	31/12/15
Absolute perf.	-8.5%	-7.0%	0.0%	-8.5%
Insurance	-14.9%	-15.0%	-15.8%	-14.9%
DJ Stoxx 600	-9.9%	-12.9%	-17.5%	-9.9%

  

	2014	2015e	2016e	2017e
P/E	9.0x	8.8x	10.0x	9.5x
Div yield (%)	4.6%	4.7%	4.7%	4.7%

#### ANALYSIS

- Preliminary Q4 2015 net income came in at EUR0.7bn, in line with expectations (EUR0.73bn). Q4 operating profit was EUR1.4bn, way ahead of the consensus (EUR1.09bn), driven by higher reserve releases in P&C reinsurance. FY net income was EUR3.1bn, in line with the consensus and slightly ahead of company guidance (c. EUR3bn).
- Q4 2015 reinsurance combined ratio was 78.6% (vs. consensus 91.5%), driven by low large losses (c. 4.8 pts) and very high reserve releases (20.9 pts). The reported FY combined ratio was 89.7% vs. 92.7% in 2014. Excluding large losses and reserve releases, it stood at 91.7% vs. 90.8% last year. The normalised combined ratio was c. 98.7% vs. c. 98% last year, illustrating the underlying deterioration in the P&C reinsurance business. FY investment income was EUR7.5bn (consensus EUR7.7bn), leading to a 3.2% return (vs. 3.6% in 2014).
- The dividend was EUR8.25 vs. EUR7.75 last year, higher than consensus (EUR8.1). The current share buy-back programme (EUR1bn from April 2015 to April 2016) is on track (EUR0.8bn currently). No mention of a new programme at this stage.
- Concerning January 2016 renewals (more than 50% of FY treaty business), the volume of business written was up 0.7% to EUR9.2bn, including a negative price impact of c. 1%.
- -> Operating numbers were strong but mainly driven by than expected higher reserve releases. The really good news concerned the dividend (4.9% yield).

#### VALUATION

- Based on our current 2016 estimates, our SOTP valuation works out to EUR200.

#### NEXT CATALYSTS

- Full reporting for Q4/FY 2015 is due on 16th March 2016.

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## Distribution of stock ratings

BUY ratings 61.2%

NEUTRAL ratings 29.9%

SELL ratings 9%

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