

23rd February 2016

Insurance

Swiss Re

Price CHF93.45

Solid numbers, although the reinsurance environment is challenging

Fair Value CHF110 (+18%)

NEUTRAL

Bloomberg	SREN.VX
Reuters	SREN.VX
12-month High / Low (CHF)	99.7 / 78.9
Market Cap (CHFm)	34,643
Avg. 6m daily volume (000)	1,504

	1 M	3 M	6 M	31/12/15
Absolute perf.	0.9%	-3.3%	13.1%	-4.8%
Insurance	-5.9%	-17.2%	-9.1%	-15.3%
DJ Stoxx 600	-1.9%	-13.1%	-8.2%	-9.3%

	2014	2015e	2016e	2017e
P/E	10.1x	7.2x	10.3x	9.8x
Div yield (%)	7.7%	8.0%	5.9%	5.9%

ANALYSIS

- Q4 2015 net income was USD938m, slightly higher than consensus (USD0.88bn).
- Q4 P&C net result was USD703m (vs. USD1.2bn in Q4 2014 and consensus USD569m), mainly driven by lower capital gains. The Q4 combined ratio remained very solid (89.6%) in a low natcat environment. However, adjusted for expected natcat (reported natcats are 8.7pts below budget) and prior-year development (5.1pts), the FY combined ratio would have been 99.8% vs. 94.1% last year, which is consistent with a less attractive reinsurance environment and a larger impact from man-made losses.
- FY 2015 RoI stood at 3.5% vs. 3.7% in 2014, driven by lower running yields in fixed income assets (3.0% vs. 3.3%).
- SST (solvency) is estimated at around 205% at end-2015. The regular dividend is CHF4.6 (vs. CHF4.25 last year and consensus CHF4.55), offering a 4.9% yield. No exceptional dividend this year, but the company has announced a new CHF1bn share buy-back programme (3% of end-2015 shareholder's equity).
- January 2016 renewals were up 3%, with risk-adjusted price quality down 3% (same as last year). This should weigh on underwriting profitability, confirming the lacklustre environment for P&C reinsurance, especially as 2013-2015 numbers benefited from a benign natcat environment.

VALUATION

- Based on our current 2016 estimates, our SOTP valuation is CHF110.

NEXT CATALYSTS

- AGM on 22nd April 2016. Q1 2016 numbers to follow on 29th April 2016.

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