

11th February 2016

Insurance

Zurich Insurance Group

Price CHF205.50

Waiting for Mario Greco

Fair Value CHF295 (+44%)

NEUTRAL

Bloomberg	ZURN VX
Reuters	ZURN.VX
12-month High / Low (CHF)	332.9 / 199.4
Market Cap (CHF)	30,910
Avg. 6m daily volume (000)	683.2

	1 M	3 M	6 M	31/12/15
Absolute perf.	-14.9%	-22.0%	-29.8%	-20.5%
Insurance	-12.0%	-18.3%	-20.7%	-18.8%
DJ Stoxx 600	-7.7%	-16.2%	-21.2%	-13.8%

	2014	2015e	2016e	2017e
P/E	8.2x	13.6x	8.3x	7.7x
Div yield (%)	8.1%	8.1%	8.1%	8.1%

ANALYSIS

- Q4 2015 net income came in at -424USDm, below consensus (c. -USD0.22bn). Q4 operating profit came in at +USD422m, down 48% yoy, ahead of consensus (c. USD0.34bn).
- Q4 operating profit in P&C was -USD120m vs. +USD511m in Q4 2014, driven by poor underwriting results. The reported combined ratio was 108.6% vs. 99.3% in Q4 2014. Excluding major losses (6.7 pts, due to flooding in the UK and Ireland in December) and run-offs (0.5 pt), the underlying combined ratio was 102.5% vs. 98.2% in Q4 2014, roughly in line with the January warning.
- Q4 operating profit in Life was down 3% yoy to USD299m (negative FX impact). Q4 NBV was up 6%. Q4 operating profit at Farmers was down 16% to USD351m, mainly driven by Farmers Re. The Management Services business contribution was up 3% to USD355m.
- The proposed dividend is stable at CHF17 (8.1% yield). Given current restructuring context, and the future arrival of Mario Greco (7th March instead of 1st May), the company has decided not to return additional capital to investors "at this time". NAV per share stood at CHF205.2.
- The company acknowledges that the profitability target for 2016 (12-14% operating ROE) will not be achieved, which is not a surprise. But target for solvency is confirmed (ECM 100-120% vs. 114% currently), while the cash remittances target has been increased (>USD10bn vs. >USD9bn previously), which is good news for dividend prospects.

VALUATION

- Based on our current 2016 estimates, our SOTP valuation is CHF295.

NEXT CATALYSTS

- AGM on 30th March 2016. Q1 2016 numbers on 12th May 2016.

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Distribution of stock ratings

BUY ratings 61.9%

NEUTRAL ratings 29.1%

SELL ratings 9%

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