

Insurance

Coface

Price EUR6.76

A lot of work to do!

Fair Value EUR10.5 (+55%)

NEUTRAL

Bloomberg	COFA.FP
Reuters	COFA.PA
12-month High / Low (EUR)	11.9 / 6.8
Market Cap (EUR)	1,071
Emb. Value (BG Est.) (EUR)	1,537
Avg. 6m daily volume ('000)	135.6
3y EPS CAGR	5.7%

Q4/FY 2015 are pretty much in line with expectations, with a EUR126m FY net income and an 83.1% FY combined ratio (vs. 79.7% in 2014). The dividend is stable at EURO.48 (7.1% yield). As expected, most 2016 targets (announced in 2014 during the IPO process) have been dropped. The solvency II ratio at end-2015 is 147% using the standard formula (the internal model will wait one more year). No detail on the restructuring plan to contain (at least partially) the loss of the public guarantee business. For sure, incoming CEO Xavier Durand has a lot of work to do! Our theoretical model shows upside potential, yet we stick to a Neutral recommendation as the business momentum is not supportive and we lack visibility on the restructuring plan.

	1 M	3 M	6 M	31/12/15
Absolute perf.	-23.5%	-22.5%	-29.0%	-27.6%
Insurance	-14.8%	-21.0%	-22.6%	-21.4%
DJ Stoxx 600	-9.4%	-17.7%	-22.1%	-15.4%

ANALYSIS

- FY 2015 net income is EUR126m (consensus EUR128m), up 1% yoy, including a 14% drop in underwriting results (combined ratio at 83.1% vs. 79.7% in 2014 and consensus 82.3%) and a 24% rise in investment income. The proposed dividend is EURO.48, which is similar to last year, implying a 60% pay-out ratio (in line with guidance and consensus) and a 7.1% yield.
- As for Q4 2015, net income is up 21% to EUR28m, driven by a favourable tax rate (21% vs. 39% in Q4 2014). Operating profit is down 4%, driven by an 18% drop in underwriting result.
- As expected, most 2016 targets announced at the time of the IPO in 2014 have been dropped, especially concerning growth and profitability (ROTE > 12% vs. 8.4% reported in 2015, not taking into account the negative impact of the loss of the public guarantee business). But the company is sticking to its 60% pay-out ratio target.
- The work to transfer the public guarantee business to Bpifrance is still underway and is expected to be completed in 2016 (a change in law is needed). Remember the operation will translate into a EUR72m positive one-off (compensation net of depreciation), but the ongoing shortfall is EUR33m in operating profit (lost margin EUR12m, retained fixed costs EUR21m). The company will need to adapt its cost structure and a restructuring plan will be presented later (it was initially expected late 2015...). Our model is based on a EUR15m FY shortfall net of cost savings. The company stated that the 2015 net income, excluding the contribution of the public guarantee business, would have been EUR104m (17% negative impact), leading to a pro-forma c. 6% ROE.
- The Solvency II capital ratio is 147% vs. 144% at end-2014. Contrary to market expectations, this calculation is not based on a partial internal model, but using the standard formula, as the company decided to wait one more year before submitting its internal model to the regulator (ACPR). In the current market climate, this cannot be seen as a good news... Anyway, as expected for a credit insurer, the Solvency II ratio shows a low sensitivity to financial markets (-3 points for a 100bps rise in interest rates or spreads, -4 points for a 25% drop in equity markets), but a stronger one to the macro environment (-35 points for a 2008-2009 macro crisis equivalent).

VALUATION

- Based on our current numbers, which include a EUR15m FY negative impact from the loss of the public guarantee business, our valuation stands at EUR10.5.

NEXT CATALYSTS

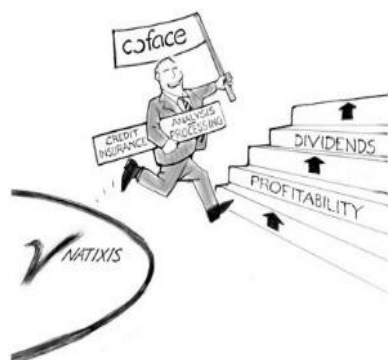
- Q1 2016 numbers on 4th May 2016.

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(EURm)	2015	2016e	2017e	2018e
Total gross prem.	1,269	1,330	1,366	1,374
% change		4.8%	2.7%	2.1%
Insurance op. profit	194	207	227	235
Total operating profit	175	189	208	216
Underlying PTP	176.0	189.6	209.6	216.0
% change		7.8%	10.6%	8.7%
Net attributable profit	126.2	131.6	145.5	148.8
% Change		4.2%	10.6%	8.7%

(EURm)	2015	2016e	2017e
Shareholders' equity	1,761	1,817	1,883
Technical reserves :			
-Life net (excl. UL)		NM	NM
-UL contracts		NM	NM
-P&C net	1,515	1,515	1,515
NAV net of intangibles	1,537	1,593	1,659
Embedded value	1,537	1,593	1,659

(EUR)	2015	2016e	2017e
EPS (€)	0.80	0.84	0.93
% change		-	4.2%
P/E	8.4x	8.1x	7.3x
P/NAV (%)	0.6x	0.6x	0.6x
ROE	NM	NM	NM
Dividends	0.5	0.5	0.6
Div yield (%)	7.1%	7.4%	8.2%



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BUY ratings 61.2%

NEUTRAL ratings 29.9%

SELL ratings 9%

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