

16th March 2016

Insurance

Munich Re

Price EUR185.50

Strong solvency, new share buy-back programme, but shy 2016 outlook

Fair Value EUR200 (+8%)

SELL

Bloomberg	MUV2 GR
Reuters	MUVGn.DE
12-month High / Low (EUR)	205.9 / 158.7
Market Cap (EUR)	30,950
Avg. 6m daily volume (000)	744.9

	1 M	3 M	6 M	31/12/15
Absolute perf.	9.4%	2.0%	11.8%	0.5%
Insurance	8.6%	-9.7%	-4.1%	-11.4%
DJ Stoxx 600	5.9%	-5.2%	-4.4%	-6.8%

	2015	2016e	2017e	2018e
P/E	9.6x	10.8x	10.2x	
Div yield (%)	4.4%	4.4%	4.4%	

ANALYSIS

- Definitive, detailed Q4 2015 numbers were consistent with the preliminary numbers released on 4th February. FY net income was EUR3.11bn vs. EUR3.15bn in 2014. FY combined ratio was 89.7% vs. 92.7% in 2014. Excluding large losses and run-offs, the adjusted FY combined ratio would have deteriorated 90bps to 91.7% after a 200bps deterioration in 2014, highlighting the challenging P&C Re environment. FY investment income was EUR7.5bn, leading to a 3.2% ROI (vs. 3.6% in 2014).
- Solvency II margin at end-2015 was a very strong 302%. Remember that the dividend of EUR8.25 (vs. EUR7.75 last year), offers a 4.4% yield. The current share buy-back programme (EUR1bn before April 2016 AGM) is on track. The company plans to launch a new programme of EUR1bn (3.2% of share capital at current market price), to be implemented before the April 2017 AGM.
- 2016 guidance is for net income of EUR2.3-2.8bn (vs. the consensus at EUR2.7-2.8bn and BG at EUR2.7bn), including a 98% combined ratio in P&C Re vs. 89.7% in 2014 (challenging environment, expected higher natcats and lower run-offs) and a c. 3% ROI vs. 3.2% in 2014.
- Nikolaus von Bomhard, CEO since 2004, will step down in April 2017 at the age of 60 and be replaced by Joachim Wenning (51), currently responsible for the Life Re business and Human Resources. Nikolaus von Bomhard's leadership of the company will be remembered as a great run, and we expect no major shift in strategy, especially in the short term.

VALUATION

- Based on our current estimates, our SOTP valuation is EUR200.

NEXT CATALYSTS

- AGM on 27th April. Q1 2016 numbers on 10th May.

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