

10th May 2016

Insurance

Munich Re

Price EUR163.25

Poor Q1 overall, FY guidance adjusted downwards as expected

Fair Value EUR185 (+13%)

SELL

Bloomberg	MUV2 GR
Reuters	MUVGn.DE
12-month High / Low (EUR)	190.8 / 158.7
Market Cap (EUR)	28,261
Avg. 6m daily volume (000)	731.9

	1 M	3 M	6 M	31/12/15
Absolute perf.	-6.6%	-1.7%	-8.6%	-11.5%
Insurance	0.2%	6.8%	-15.7%	-16.0%
DJ Stoxx 600	0.4%	7.7%	-11.3%	-8.9%

	2015	2016e	2017e	2018e
P/E	8.6x	9.6x	9.3x	
Div yield (%)	5.1%	5.1%	5.1%	

ANALYSIS

- Q1 2016 net income came in at EUR430m, down 46%, below consensus (c. EUR0.5bn). Operating profit of EUR726m was down 27%, mainly due to major strains on the investment result (write-downs, mainly on equities, and low disposal gains).
- In P&C reinsurance, operating profit stood at EUR514m (down 32% yoy). The reported combined ratio is 88.4% vs. 92.3% in Q1 2015. Excluding large losses (2.4 points) and run-offs (6.0 points), the Q1 adjusted combined ratio is 92.0% vs. 90.1% in Q1 2015.
- In primary insurance (Ergo), operating profit was EUR192m, down 12% yoy.
- Group investment result was EUR1.6bn, down 14% yoy, i.e. a 2.7% annualised total return vs. 3.0% last year.
- In light of this poor set of Q1 numbers, FY guidance for net income has been adjusted downwards to EUR2.3bn vs. the previous guidance of EUR2.3-2.8bn (consensus EUR2.6bn). This is consistent with what the CEO said at the AGM on 27th April. This new guidance now includes expenses for the strategy programme on Ergo to be announced in June.

VALUATION

- Based on our current estimates, our SOTP valuation is EUR185.

NEXT CATALYSTS

- Q2 2016 numbers on 9th August.

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