

12th May 2016

Insurance

Zurich Insurance Group

Price CHF216.30

Waiting for Mario Greco's action plan

Fair Value CHF270 (+25%)

NEUTRAL

Bloomberg	ZURN VX
Reuters	ZURN.VX
12-month High / Low (CHF)	308.4 / 196.0
Market Cap (CHF)	32,550
Avg. 6m daily volume (000)	726.4

	1 M	3 M	6 M	31/12/15
Absolute perf.	7.9%	8.2%	-19.0%	-16.3%
Insurance	-0.8%	9.3%	-17.0%	-16.2%
DJ Stoxx 600	0.6%	10.3%	-11.6%	-8.5%

	2015	2016e	2017e	2018e
P/E	16.9x	9.3x	8.8x	
Div yield (%)	7.6%	7.6%	7.6%	

ANALYSIS

- Q1 2016 net income came in at USD875m, down 28% yoy, driven by operating performance and higher taxes. Operating profit of USD1.1bn was down 16% yoy, mainly driven by P&C.
- In P&C, the reported combined ratio stood at 97.7% vs. 96.7% in Q1 2015. Excluding catastrophes (1.1 point vs. 1.4 point) and run-offs (1.5 point, flat), the underlying combined ratio reached 98.1% vs. 96.8% in Q1 2015. Operating profit in P&C of USD542m was down 23%, but much better than the USD0.3bn loss in H2 2015.
- In Life, operating profit was flat at USD317m, with strong performances in Latam (Zurich Santander). The NBV margin stood at 27.0% vs. 19.2% in Q1 2015.
- At Farmers, operating profit was down 12% to USD343m, driven by reinsurance (8.9 points of catastrophes vs. 1.2 point in Q1 2015). Operating profit from the management services of the Exchanges (the operating company which Zurich manages but does not own) rose 5%. GWP reported by the Exchanges was up 3.6%.
- Solvency (internal model Z-ECM) was 110% at end-March (in line with 100-120% guidance) vs. 121% at end-2015.
- Solvency and cash remittance targets are ok, but profitability remains an issue. Waiting for Mario Greco's action plan.

VALUATION

- Based on our current estimates, our SOTP valuation is CHF270.

NEXT CATALYSTS

- Q2 2016 numbers on 11th August.

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