

Insurance

Euler Hermes

Price EUR83.00

Moving in the right direction

Fair Value EUR96 (+16%)

BUY

Bloomberg	ELE FP
Reuters	ELER.PA
12-month High / Low (EUR)	105.2 / 70.7
Market Cap (EUR)	3,763
Emb. Value (BG Est.) (EUR)	2,482
Avg. 6m daily volume ('000)	15.70
3y EPS CAGR	

	1 M	3 M	6 M	31/12/15
Absolute perf.	4.8%	5.1%	-4.5%	-6.3%
Insurance	-0.9%	-4.8%	-12.8%	-13.7%
DJ Stoxx 600	1.4%	-0.2%	-9.1%	-6.7%

(EURm)	2015	2016e	2017e	2018e
Total gross prem.	2,372	2,449	2,528	
% change		3.2%	3.2%	
Insurance op. profit	386	391	425	
Total operating profit	378	383	417	
Underlying PTP	427.7	422.3	456.9	
% change		-1.3%	8.2%	
Net attributable profit	302.5	297.8	322.0	
% Change		-1.5%	8.1%	

(EURm)	2015	2016e	2017e	2018e
Shareholders' equity	2,715	2,822	2,953	
Technical reserves :				
-Life net (excl. UL)	NM	NM	NM	
-UL contracts	NM	NM	NM	
-P&C net	2,388	2,507	2,632	
NAV net of intangibles	2,482	2,588	2,719	
Embedded value	2,482	2,588	2,719	

(EUR)	2015	2016e	2017e	2018e
EPS (€)	6.86	6.74	7.28	
% change	-	-1.8%	8.1%	
P/E	12.1x	12.3x	11.4x	
P/NAV (%)	1.4x	1.3x	1.3x	
ROE	NM	NM	NM	
Dividends	4.4	4.4	4.5	
Div yield (%)	5.3%	5.3%	5.4%	



Q1 2016 net income rose 16% yoy, driven by a capital gain on the sale of the Bürgel entities. Underwriting result fell 17% yoy but up 44% qoq, with a combined ratio that clearly showed that action plans initiated in 2015 have started to deliver (79.3% in Q1 2016 vs. 76.1% in Q1 2015 and 85.3% in H2 2015). Management reaffirmed its commitment to address the excess capital issue (up to EUR191m at end-2015, but bear in mind that Euler Hermes' current leverage is 0) at some point later this year. At this stage, we maintain our FY numbers. We are making no change to our Buy recommendation and EUR96 FV.

ANALYSIS

- Q1 2016 sales fell 1.5% (up 0.7% at constant scope and FX). New business was pretty much at the same level as last year, driven by the US, Italy and new products. Customer retention fell slightly as a result of the action plans implemented in non-mature markets. Pricing was down 1.5% overall, but prices have increased in all emerging markets and North America.
- Action plans initiated in 2015 have started to deliver. For the third quarter in a row, total group exposure has come down (down 3.2% since December 2015), especially on the lower-quality risks (grades between 6 and 10).
- Reported combined ratio was 79.3% vs. 76.1% in Q1 2015 and 85.3% in H2 2015. The current year net claims ratio is 61.5% vs. 61.7% in Q1 2015 and 67.8% in H2 2015. Run-offs (7.6% vs. 10.9% in Q1 2015 and 9.0% in H2 2015) are pretty low by company standards. Underwriting result fell 17% to EUR78m, but remember that it was EUR54m in both Q3 and Q4 2015 (i.e. up 44% qoq).
- Investment income (EUR26m) fell 9% yoy, with negative FX marked-to-market more than compensating for higher realised capital gains.
- The company benefited from a pretax EUR24m gain on the sale of the Bürgel entities (which also had a positive impact on the overall tax rate), such that net income rose 16% to EUR101m.
- No mention was made of the Solvency II margin at end-March, which is consistent with company guidance to communicate twice a year on this metric. But note that credit insurers are sensitive to the macro environment, not interest rates (contrary to other insurers), so the 173% level at end-2015 should not have changed much. Management stated again during the conference call that the use of excess capital (up to EUR191m at end-2015, but keep in mind that Euler Hermes' current leverage is 0) will be dealt with at some point later this year.
- NAV at end-March 2016 is EUR61.4.

VALUATION

- At this stage, no have no reason to change our FY numbers, including a 79.8% combined ratio (consistent with the company's c. 80% guidance). Based on our current estimates, our valuation is EUR96.
- Dividend (EUR4.4) is attractive (5.3% yield), to be paid on 31st May (trading ex-dividend on 27th May).

NEXT CATALYSTS

- AGM on 25th May. Q2 2015 numbers on 2nd August.

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BUY ratings 57.6%

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