

## Insurance

## Euler Hermes

Price EUR82.10

## Excess capital to be returned to shareholders

Fair Value EUR99 vs. EUR96 (+21%)

BUY

Bloomberg	ELE FP
Reuters	ELER.PA
12-month High / Low (EUR)	105.2 / 70.7
Market Cap (EURm)	3,723
Emb. Value (BG Est.)	2,482
Avg. 6m daily volume ('000)	15.40
3y EPS CAGR	4.2%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-0.2%	5.0%	-1.7%	-7.3%
Insurance	-4.2%	0.6%	-16.1%	-15.2%
DJ Stoxx 600	-1.9%	2.6%	-11.0%	-7.7%

(EURm)	2015	2016e	2017e	2018e
Total gross prem.	2,372	2,374	2,420	2,465
% change		0.1%	1.9%	1.9%
Insurance op. profit	386	367	395	422
Total operating profit	378	360	388	415
Underlying PTP	427.7	427.7	433.6	461.8
% change		0.0%	1.4%	6.5%
Net attributable profit	302.5	324.3	305.9	325.7
% Change		7.2%	-5.7%	6.5%

(EURm)	2015	2016e	2017e	2018e
Shareholders' equity	2,715	2,625	2,949	3,081
Technical reserves :				
-Life net (excl. UL)	NM	NM	NM	NM
-UL contracts	NM	NM	NM	NM
-P&C net	2,388	2,507	2,632	2,764
NAV net of intangibles	2,482	2,392	2,715	2,848
Embedded value	2,482	2,392	2,715	2,848

(EUR)	2015	2016e	2017e	2018e
EPS (€)	6.86	7.52	7.28	7.75
% change	-	9.7%	-3.2%	6.5%
P/E	12.0x	10.9x	11.3x	10.6x
P/NAV (%)	1.4x	1.3x	1.2x	1.1x
ROE	NM	NM	NM	NM
Dividends	4.7	4.7	4.7	4.7
Div yield (%)	5.7%	5.7%	5.7%	5.7%

We upgraded Euler Hermes in January to play i/ the gradual improvement in underwriting performance (and clearly, Q1 2016 was better than H2 2015), and ii/ potential use of excess capital through shareholder return. Yesterday, the company announced its intention to i/ buy-back 2.2m shares (4.85% of the capital) out of a 3.88m shares (8.56% of the capital) by Allianz Vie, ii/ cancel 2.7m shares (2.2m bought-back + 0.5m already held as treasury shares), and iii/ increase the 2015 dividend to EUR4.68 (5.7% yield) vs. EUR4.4 initially. Our FV is adjusted upwards to EUR99.

## ANALYSIS

- Allianz Vie (French life subsidiary of Allianz group) has launched a share placement of its 8.56% stake (3.88m shares) on Euler Hermes, through an accelerated book building. Euler Hermes has decided to participate and buy-back 2.2m shares, or 4.85% of the capital.
- Euler Hermes has also decided to:
  - i/ Cancel these 2.2m shares, on top of 0.5m (out of 1.1m) shares already held as treasury stock. Following this operation, the total number of shares of Euler Hermes will drop from 45.3m to 42.6m (down 6.0%), and from 44.2m to 42.0m excluding treasury shares (down 5.0%). Allianz group aggregate shareholding will be reduced from 67.8% to 63.0%.
  - ii/ Increase the 2015 dividend to EUR4.68 (5.7% yield) vs. EUR4.4 initially. In fact, it is more like an adjustment to the new number of shares.
- Depending on the pricing of the placement, we calculate that this operation will cost Euler Hermes c. EUR170-175m, to be compared to EUR191m theoretical excess capital at end-2015 based on a 160% target solvency II margin (173% reported). As a consequence, we do not expect other shareholder return operations in the short term.
- Following this move by Allianz, the scenario of a minority buy-out is definitely not on the agenda, but at current share price we consider the buy-out probability was minimum.

## VALUATION

- We have adjusted our numbers accordingly (mainly EPS, dividend and shareholders' equity).
- Our fair value has been revised upwards to EUR99.

## NEXT CATALYSTS

- AGM on 25<sup>th</sup> May. Q2 2016 numbers on 2<sup>nd</sup> August.

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## Distribution of stock ratings

BUY ratings 57.4%

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