

FOCUS

22nd June 2016

Insurance

Bloomberg	CS FP
Reuters	AXAF.PA
12-month High / Low (EUR)	25.8 / 18.9
Market capitalisation (EURm)	50,450
Embedded value	53,779
Avg. 6m daily volume ('000 shares)	7,065
Free Float	100%
3y EPS CAGR	2.3%

YE December	12/15	12/16e	12/17e	12/18e
Premium (EURm)	91,938	93,823	95,748	97,713
Diluted EPS (EUR)	2.48	2.49	2.57	2.66
P/E	8.4x	8.3x	8.1x	7.8x
EV per share (EUR)	21.11	21.94	22.81	23.72
P/EV	1.0x	0.9x	0.9x	0.9x
ROE	9.95	9.52	9.39	9.24
Dividend per share	1.10	1.20	1.25	1.30
Div yields	5.3%	5.8%	6.0%	6.3%



AXA

Ready for the next run

Fair Value EUR29 (price EUR20.77)

BUY-Top Picks

We are maintaining our Buy rating on AXA following the presentation of the 2020 strategic plan by the new Buberl-led management team. As expected, earnings growth is unlikely to be spectacular in the current low rates environment, yet AXA is a more than decent investment proposal, which combines visibility, track record, diversification, high yields and an undemanding valuation.

- A new management team and a new five-year strategic plan: this is quite an event! Even if in the end, as expected, there is no strategic breakthrough and most financial targets are pretty much in line with expectations, the overall impression is positive to us as Thomas Buberl and his team have passed the financial community's exam. And we have long been convinced by the powerful internal positive effects of such a plan (and its preparation) for a large organisation.

- Insurance players have been dealing with major constraints (mainly solvency II and low interest rates), which limit their ability to adopt materially different strategies from one another. AXA aims to “focus” (growth in operations in selected areas, leveraging strengths and best practices, improving cost efficiency and technical margins) and “transform” (accelerating business innovation to meet customers’ rapidly evolving needs in the digital world and developing further in areas such as prevention and care), which are common goals by industry standards. And funny enough, AXA’s 3-7% earnings growth target by 2020 (supported by 8% growth linked to management-controlled actions) is dramatically close to Allianz’s 5% earnings growth target by 2018. So to put it simply: execution will be key. And AXA’s track record has been pretty convincing over the last years as far as management-controlled actions are concerned.

- At this stage we see no reason to move our numbers, which are pretty consistent with company guidance, yet in the low-end of the range so far considering markets have been pretty adverse since the beginning of 2016. We also keep our EUR29 fair value. AXA still suffers from an unjustified 10-15% discount to major peers like Allianz and Zurich.

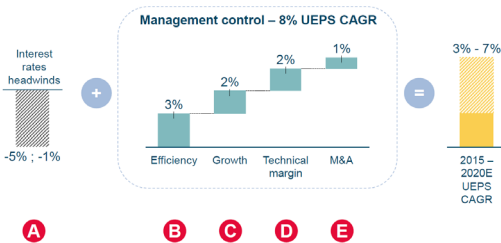


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AXA major keys to focus on

1. One Chart

Building blocks of underlying earnings per share CAGR 2015 – 2020E



■ AXA's ambition for the 2015-2020 period is to deliver a 3-7% underlying earnings per share CAGR, which is consistent with current market expectations.

■ The plan includes major headwinds from interest rates (A), which are expected to have a negative impact in the range of -5% (US and European rates stay where they currently are) to -1% (German Bund up to 2% and US T-Bonds up to 4% gradually by 2020).

- So management-controlled actions (self-help) are expected to drive earnings up 8% on average over the period, and AXA's track record in this matter over the last plan makes us pretty comfortable.
- Efficiency gains (B) are expected to bring 3% on average. The company is targeting EUR2.1bn in cost savings over the period (c. 50-50 P&C and Life&Health), mainly stemming from administrative expenses, claims handling costs and acquisition expenses. This compares to EUR1.9bn saved between 2011 and 2015. Note that this EUR2.1bn number is net of EUR3bn investments redirected to transformation initiatives, i.e. it is really for shareholders.
- Organic growth (C) is expected to bring "at least" 2% on average. Main areas of growth include both P&C (commercial lines and retail) and Life&Protection (where the transformation of the business model is mostly over) with a strong emphasis on Asia (+10-12% expected).
- Technical margin (D) is expected to bring 2% on average, from both P&C (combined ratio to drop from 96.2% in 2015 to 95-94% by 2020) and Protection (combined ratio to drop from 95.4% in 2015 to 94-93% by 2020).
- External growth (E) is expected to bring 1% on average, with the company aiming to spend EUR1bn per annum. This number is net of potential divestments and should be balanced between mature and emerging markets.
- Assuming guidance for a EUR300-500m yearly capital gain budget (not included in underlying earnings), AXA's adjusted earnings projections should gradually increase from EUR6.0bn in 2015 to a EUR6.75-8.3bn range in 2020. This leads to 1/ a P/E structurally below 8.5x over the period and 2/ a yield structurally above 5.5% (based on a 50% pay-out ratio, in the middle of the 45-55% guidance). AXA's valuation looks definitely undemanding to us!
- Our estimates point to EUR6.44bn in adjusted earnings in 2018, which is consistent with a EUR6.85bn trajectory by 2020. We deliberately choose to remain at the lower end of the theoretical range as the markets have been pretty adverse ytd.

2. One Sentence

"My longer term vision is for AXA to empower people to live a better life."

The expression of such a strong ambition for his company does not come from a Silicon Valley guy heading a GAFAs or a Unicorn. It comes from Thomas Buberl, AXA's incoming CEO. True, insurance players have been under pressure due to falling interest rates and remain inherently sensitive to financial markets. True, they need to adapt to a moving environment. But true as well, on top of a convincing track record, companies like AXA continue to stand, no matter what, at the very center of the game as more people around the world have been seeking for more protection for their health, their goods, their savings and their pensions. And no doubt AXA intends to grab its share of it.

3. One Figure

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■ In terms of cash flows, the company aims at generating EUR28-32bn cumulative free cash flows at operating level over the 2016-2020 period, compared to EUR25.4bn achieved over the 2011-2015 period.

- Considering a 75-85% remittance ratio and usual, ongoing capital management actions (management of the life inforce book for example, where EUR12bn in capital intensive reserves should be transformed and optimised over the period), the cumulative amount of cash remitted to the holding should be in the EUR24-27bn area. After taking into consideration holding costs and debt interests, the cumulative available amount should be in the region of EUR21-24bn.
- Depending on the dynamics of earnings growth, and considering a theoretical stable 50% pay-out ratio over the period (vs. 45-55% guidance), we calculate that the cumulative cash-out for dividends should stand at around EUR16-18.5bn. This leaves a theoretical EUR5-5.5bn pie, which is consistent with AXA's plan to spend EUR1bn in acquisition (net of potential divestments) a year over the period.
- What about solvency? As expected, the target range for solvency margin remains at 170-230%, compared to 205% at end-2015 and 200% at end-March 2016. The main drivers will remain 1/ operating return, 2/ dividends, and 3/ interest rates movements. AXA presented a 216% "target" margin in 2020, but we give little credit to this theoretical long-term projection. What we care about is that dividends are 1.7x covered by operating return, which means that solvency margin should gradually improve by 30-35 points over the period before potential M&A operations and negative market impacts. Bottom line, we remain very confident with AXA's 170-230% target range.

4. How does this new plan impact our investment case

Basically it does not. It confirms our view that AXA is one of the best-in-class insurers and offers an interesting value proposition: convincing management team, proven track record as far as management-controlled actions are concerned, strong cash flows and capital position, high yield (> 5.5%) and undemanding valuation (10-15% discount to peers).

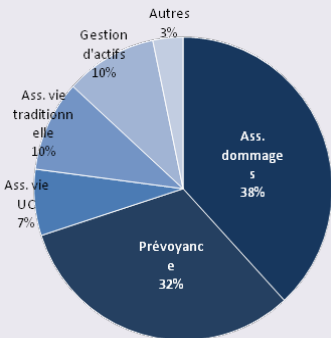
EURm	Operating profit	Allocated capital	RoRAC	CoE	Beta	LT growth	Multiple	Valuation	Valuation per share
Life insurance	3,716	25,138	14.9%	8.6%	1.00	2.0%	2.0	48,695	19.9
P&C insurance	2,348	11,924	19.9%	8.6%	1.00	1.5%	2.6	30,507	12.4
International insurance	223	1,791	12.7%	8.6%	1.00	1.5%	1.6	2,772	1.1
Asset management	488	3,455	14.4%	8.6%	1.00	2.0%	1.9	6,357	2.6
Total Operating divisions	6,775	42,307	16.2%	8.6%	1.00	1.8%	2.1	88,331	36.0
Other	-743	17,693	-3.9%	8.6%	1.00	1.8%	-0.9	-16,280	-6.6
Total	6,033	60,000	9.9%	8.6%	1.00	1.8%	1.2	72,052	29.4

Source: Company Data; Bryan, Garnier & Co ests.

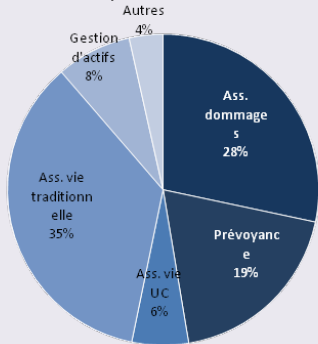
Next Catalysts

3rd August H1 results

Resultat opérationnel avant impôt 2012



Capital alloué 2012



Company description

AXA is one of the world's leading financial protection groups focused mainly on life insurance and third-party asset management. With premium income of EUR90bn and a total of EUR930bn in assets under management, it has key positions in the US, Europe (France, Belgium, Germany, Switzerland) and Asia.

	2013	2014	2015	2016e	2017e	2018e
Profit & Loss (EURm)						
Premium income	91,248	91,878	98,477	100,613	102,684	104,797
Total gross premiums written	85,509	86,266	91,938	93,823	95,748	97,713
o/w Life insurance	53,918	53,872	57,501	58,651	59,824	61,021
o/w P&C insurance	29,022	29,699	31,448	32,077	32,718	33,373
% change GPW	1.1%	0.9%	6.6%	2.1%	2.1%	2.1%
Underlying earnings, insurance	6,843	7,197	7,743	7,833	8,069	8,312
o/w life insurance	3,786	4,105	4,517	4,625	4,735	4,848
of which P&C insurance	3,057	3,092	3,226	3,208	3,334	3,464
Underlying earnings, banking	89.0	114	109	113	116	120
Underlying earnings, financial services	805	809	950	997	1,027	1,045
Underlying earnings, other	(947)	(1,012)	(922)	(916)	(896)	(874)
Total net underlying earnings	6,790	7,108	7,880	8,027	8,316	8,603
% change net underlying earnings	15.7%	4.7%	10.9%	1.9%	3.6%	3.5%
Other non-operating items	434	442	434	335	335	335
Profit before tax and minority interests	7,224	7,550	8,314	8,362	8,651	8,938
Tax	(1,762)	(1,725)	(1,942)	(1,957)	(2,031)	(2,106)
Minority interests	(305)	(322)	(361)	(373)	(383)	(390)
Net attributable profit	4,479	5,024	5,619	5,433	6,066	6,272
Net attributable profit, adjusted	5,157	5,503	6,011	6,033	6,236	6,442
% change net income	13.4%	6.7%	9.2%	0.4%	3.4%	3.3%
Balance sheet (EURm)						
Intangible assets	39,711	42,618	46,731	47,198	47,670	48,147
o/w Goodwill	14,819	16,053	17,062	17,233	17,405	17,579
Shareholders' equity, group share (excl. TSS/TSDI)	47,572	58,801	61,964	64,730	68,092	71,333
Total shareholders' equity	49,963	61,616	66,130	69,104	72,685	76,156
Subordinated debt and other debt	15,758	15,151	14,601	14,747	14,894	15,043
Life net technical reserves (excl. unit-linked policies)	317,973	337,649	361,513	368,743	376,118	383,640
P&C net technical reserves	49,303	51,690	54,221	55,305	56,412	57,540
Technical reserves from unit-linked policies	162,528	181,347	195,011	200,861	206,887	213,094
NAV net of intangible assets	7,861	16,183	15,233	17,531	20,422	23,186
Value of life portfolio	27,794	25,262	27,983	29,382	30,851	32,394
New business value	2,192	2,221	2,492	2,592	2,695	2,803
Embedded value	43,026	47,157	51,218	53,779	56,468	59,291
Data per Share (EUR)						
Adjusted, diluted EPS	2.1	2.3	2.5	2.5	2.6	2.7
NBV per share	0.91	0.91	1.0	1.1	1.1	1.2
NAV per share	19.7	24.1	25.5	26.4	27.5	28.5
EV per share	17.8	19.3	21.1	21.9	22.8	23.7
Net dividend	0.81	0.95	1.1	1.2	1.3	1.3
Financial Ratios						
Life insurance operating margin (based on technical reserves, %)	0.78	0.82	0.84	0.82	0.82	0.82
P&C insurance combined ratio (%)	96.58	96.94	96.24	96.41	96.11	95.81
ROE (%)	10.79	10.35	9.95	9.52	9.39	9.24
Life insurance RoAC (%)	14.11	15.39	15.80	14.94	14.96	14.98
P&C insurance RoAC (%)	20.57	21.02	20.78	19.88	20.23	20.57
Tax rate (%)	26.41	24.85	25.20	24.92	24.98	25.03
Payout (%)	43.65	46.17	47.46	53.56	49.96	50.25

Source: Company Data; Bryan, Garnier & Co ests.

Price Chart and Rating History

AXA



Ratings

Date	Ratings	Price
26/10/12	BUY	EUR4.22
09/09/11	NEUTRAL	EUR10.02
07/04/11	BUY	EUR14.9

Target Price

Date	Target price
07/04/16	EUR29
21/03/16	EUR31
06/01/16	EUR32
15/04/15	EUR29
08/01/15	EUR23.5
06/01/14	EUR23
04/11/13	EUR21.5
25/10/13	Under review
24/05/13	EUR18.5
28/03/13	EUR18
11/01/13	EUR16.5
09/03/12	EUR15.5
11/10/11	EUR14.5
09/09/11	EUR15
30/06/11	EUR18.5

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Stock rating

BUY	Positive opinion for a stock where we expect a favourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential upside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.
NEUTRAL	Opinion recommending not to trade in a stock short-term, neither as a BUYER or a SELLER, due to a specific set of factors. This view is intended to be temporary. It may reflect different situations, but in particular those where a fair value shows no significant potential or where an upcoming binary event constitutes a high-risk that is difficult to quantify. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.
SELL	Negative opinion for a stock where we expect an unfavourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential downside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

Distribution of stock ratings

BUY ratings 56.5%

NEUTRAL ratings 34%

SELL ratings 9.5%

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