

2nd June 2016

Insurance

Munich Re

Price EUR167.10

The Ergo restructuring plan is not much attractive

Fair Value EUR185 (+11%)

SELL

Bloomberg	MUV2 GR
Reuters	MUVGn.DE
12-month High / Low (EUR)	190.8 / 157.0
Market Cap (EURm)	26,912
Avg. 6m daily volume (000)	734.6

	1 M	3 M	6 M	31/12/15
Absolute perf.	3.2%	-8.9%	-12.4%	-9.5%
Insurance	2.3%	1.8%	-15.3%	-11.8%
DJ Stoxx 600	0.8%	1.6%	-10.4%	-5.9%

	2015	2016e	2017e	2018e
P/E	8.8x	10.8x	9.4x	8.7x
Div yield (%)	4.9%	4.9%	4.9%	4.9%

ANALYSIS

- Munich Re has presented its restructuring plan for its primary insurance subsidiary Ergo, which is currently loss-making and has generated below cost of capital returns for years.
- The aim is to invest c. EUR1bn up to 2020, mainly to modernise IT (inc. digitalisation). The plan is also to lower the cost base by c. EUR540m (c. EUR280m net) by 2020 (mainly by reorganising the sales force), leading to the loss of 1,800 jobs in Germany. A restructuring charge of EUR0.3bn will be included in 2016 numbers (already included in Munich Re's revised net profit guidance of c. EUR2.3bn for 2016).
- Munich Re expects Ergo to contribute more than EUR500m to the group's results from 2021 at the latest. Taking into account the fact that Ergo's SCR is EUR5.2bn, the 5-year expected return is not higher than the cost of capital. Yet this is a lot of energy for a business that should remain below group's standards.
- We stick to our Sell recommendation on the stock: the dividend is solid but priced in, and earnings momentum remains poor (Ergo not exiting + challenging reinsurance environment).

VALUATION

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

NEXT CATALYSTS

- Q2 numbers on 9th August.

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