

5th July 2016

Insurance

Coface

Price EUR5.99

Profit warning on increased claims in emerging countries, question mark on FY dividend

Fair Value under review

NEUTRAL

Bloomberg	COFA.FP
Reuters	COFA.PA
12-month High / Low (EUR)	11.7 / 6.0
Market Cap (EURm)	941
Avg. 6m daily volume (000)	135.3

	1 M	3 M	6 M	31/12/15
Absolute perf.	-13.1%	-17.3%	-34.3%	-35.9%
Insurance	-10.8%	-9.4%	-20.2%	-23.0%
DJ Stoxx 600	-3.4%	-1.4%	-7.5%	-9.9%

	2015	2016e	2017e	2018e
P/E	7.4x	7.2x	6.6x	5.7x
Div yield (%)	8.0%	8.0%	9.1%	10.5%

ANALYSIS

- In Q2 2016, Coface experienced a far higher than expected increase in claims in emerging countries, affecting the level of claims of exporting companies located in mature markets, and an increased average cost of claim combined with longer collection times in these emerging regions. As a consequence, the net loss ratio should be in the 67% area, compared to 52.5% in FY 2015 and 55.0% in Q1 2016. Assuming a 32% net cost ratio (as in Q1), the Q2 combined ratio should be very close to 100%.
- For FY 2016, the company expects the net loss ratio to be in the 63-66% area as it has to take into account this situation in its risk management and accounting reserving policies. This means that underwriting result should be barely positive for the FY, with net income (excluding one-off items due to the loss of public guarantees business) at around EUR50m (vs. EUR126m in FY 2015).
- This is bad news for dividend prospects. Remember that credit insurers generate the bulk of their profits from underwriting earnings (investment income is minimum) and that Coface plans a 60% payout ratio. Pending further comments from the company, our view is that the dividend could fall to EUR0.2 (vs. EUR0.48 last year), i.e. a below sector average 3.2% yield, especially as solvency margin (147% at end-2015) could be under pressure (macro sensitive).

VALUATION

- Our valuation remains under review pending further details on the restructuring plan (27/7).
- No doubt the stock will come under further pressure today. But at some point we also expect some deep value investors to start looking at the longer term story.

NEXT CATALYSTS

- Detailed Q2 numbers on 27th July. Investors Day on 22nd September.

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Distribution of stock ratings

BUY ratings 56.8%

NEUTRAL ratings 33.8%

SELL ratings 9.5%

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