Coface

Price EUR4.68

Uncertainty will take time to disappear

Fair Value EUR5.4 vs. EUR10 (+15%) **NEUTRAL**

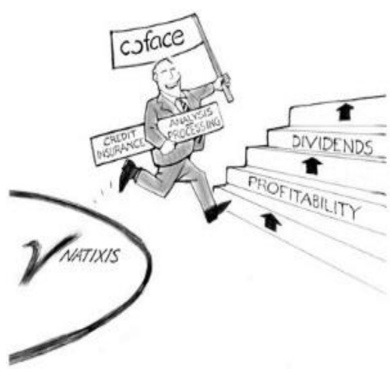
Bloomberg	COFA FP
Reuters	COFA.PA
12-month High / Low (EUR)	11.7 / 4.2
Market Cap (EUR)	736
Emb. Value (BG Est.) (EUR)	1,537
Avg. 6m daily volume ('000)	167.6
3y EPS CAGR	-0.7%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-22.6%	-34.4%	-39.5%	-49.9%
Insurance	9.9%	-11.0%	-11.8%	-21.1%
DJ Stoxx 600	11.0%	-1.6%	0.7%	-6.3%

(EURm)	2015	2016e	2017e	2018e
Total gross prem.	1,269	1,192	1,215	1,244
% change		*-6.1%*	*1.9%*	*2.4%*
Insurance op. profit	194	91	126	192
Total operating profit	175	72	108	173
Underlying PTP	176.0	109.1	107.8	174.5
% change		*-38.0%*	*-1.2%*	*61.9%*
Net attributable profit	*126.2*	*71.7*	*76.4*	*123.6*
% Change		*-43.2%*	*6.5%*	*61.9%*

(EURm)	2015	2016e	2017e	2018e
Shareholders' equity	1,761	1,781	1,804	1,876
Technical reserves :				
-Life net (excl. UL)	NM	NM	NM	NM
-UL contracts	NM	NM	NM	NM
-P&C net	1,515	1,614	1,614	1,614
NAV net of intangibles	1,537	1,560	1,584	1,655
Embedded value	1,537	1,560	1,584	1,655

(EUR)	2015	2016e	2017e	2018e
EPS (€)	0.80	0.46	0.49	0.79
% change	-	*-43.2%*	*6.5%*	*61.9%*
P/E	5.8x	10.2x	9.6x	5.9x
P/NAV (%)	0.4x	0.4x	0.4x	0.4x
ROE	NM	NM	NM	NM
Dividends	0.5	0.3	0.3	0.5
Div yield (%)	10.3%	7.1%	7.1%	10.1%



Coface's terrible year in 2016 and the future loss of the state guarantees business have considerably disrupted short term earnings/dividends projections, causing a very high level of uncertainty. We believe it will take some time before this disappears, and hope that the investor day on 22nd September will help. 2017 is likely to be a transition year. 2018 is more likely to start showing what the new Coface can deliver going forward. Based on our new 2018 numbers, our new Fair Value is EUR5.4 but we are maintaining our Neutral recommendation in view of the still very high level of uncertainty. The ongoing management commitment to a high pay-out ratio is a positive message.

ANALYSIS

- Q2 2016 numbers were consistent with the 4th July pre-announcement and show a significant deterioration in claims development in emerging countries affecting the level of claims of exporting companies located in mature markets. The Q2 net loss ratio stood at 66.9% vs. 54.3% in Q2 2015 and 55.0% in Q1 2016, pushing the combined ratio to 97.7%. Short of underwriting contribution (EUR2m, down 91% yoy), the net income stood at EUR3m, down 87% yoy.
- For FY 2016, Coface confirms the need to move on with risk management actions and accounting reserving policy adjustments (development of loss ratio is longer than before and the reserving policy has to integrate this change in claims pattern), which should lead to a FY net loss ratio of around 63-66% vs. 52.5% in 2015. As a consequence, the FY combined ratio should be around 95%, jeopardising overall FY underlying profitability. We expect a gradual recovery starting in 2017 as we know credit insurance is a low duration cycle.
- The state export guarantees transfer has been postponed due to French state constraints, and is now planned for end-2016 / early-2017. The exceptional gain of EUR73m before tax will be recorded on the effective date of transfer.
- The restructuring plan due to be implemented should offset the entire shortfall linked to this loss, or c. EUR30m, via cost savings by 2018. A restructuring provision can be expected in Q4, and more details will be provided at the investor day on 22nd September.
- In all, we have very limited visibility on the P&L in the short term. By convention, our new numbers include both the exceptional gain and the restructuring provision in 2016, leading to a EUR72m reported net income, and the deconsolidation of the state guarantees business at year-end. Concerning 2017, our numbers are based on a 90% combined ratio including delivery of 40% of the cost savings plan, leading to EUR76m in net income. For 2018, we have an 83% combined ratio including the full cost savings, leading to a EUR124m net income and a 6.7% ROE. This net income level is consistent with what the company generated over the 2012-2015 period. We would like to highlight the very high level of uncertainty surrounding our numbers at this stage, pending more details at the 22nd September investor day.
- The solvency II ratio (standard formula) stood at 155% at end-June vs. 147% at end-2015, compared to the company's 140-160% target, allowing it to confirm its 60% pay-out ratio, and to announce an additional exceptional EUR0.06 distribution for 2016. At this stage, based on our 2016 reported numbers, we assume a EUR0.33 total dividend for 2016 (vs. EUR0.48 for 2015), but once again as visibility is poor on our numbers it is poor on dividends as well.

VALUATION

- We consider 2016/2017 numbers useless for valuing the company. As such, we have focused on our 2018 numbers (83% combined ratio and full cost savings), and discounted back the result, leading to a EUR5.4 Fair Value. But once again, uncertainty is high at this stage for both earnings and dividends projections, justifying a sustained Neutral recommendation.

NEXT CATALYSTS

- Investors' Day on 22nd September. Q3 numbers on 3rd November.

Analyst :
Olivier Pauchaut
33(0) 1 56 68 75 49
opauchaut@bryangarnier.com

Bryan Garnier stock rating system

For the purposes of this Report, the Bryan Garnier stock rating system is defined as follows:

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 54.4% NEUTRAL ratings 34.9% SELL ratings 10.7%

Research Disclosure Legend

1	Bryan Garnier shareholding in Issuer	Bryan Garnier & Co Limited or another company in its group (together, the "Bryan Garnier Group") has a shareholding that, individually or combined, exceeds 5% of the paid up and issued share capital of a company that is the subject of this Report (the "Issuer").	No
2	Issuer shareholding in Bryan Garnier	The Issuer has a shareholding that exceeds 5% of the paid up and issued share capital of one or more members of the Bryan Garnier Group.	No
3	Financial interest	A member of the Bryan Garnier Group holds one or more financial interests in relation to the Issuer which are significant in relation to this report	No
4	Market maker or liquidity provider	A member of the Bryan Garnier Group is a market maker or liquidity provider in the securities of the Issuer or in any related derivatives.	No
5	Lead/co-lead manager	In the past twelve months, a member of the Bryan Garnier Group has been lead manager or co-lead manager of one or more publicly disclosed offers of securities of the Issuer or in any related derivatives.	No
6	Investment banking agreement	A member of the Bryan Garnier Group is or has in the past twelve months been party to an agreement with the Issuer relating to the provision of investment banking services, or has in that period received payment or been promised payment in respect of such services.	No
7	Research agreement	A member of the Bryan Garnier Group is party to an agreement with the Issuer relating to the production of this Report.	No
8	Analyst receipt or purchase of shares in Issuer	The investment analyst or another person involved in the preparation of this Report has received or purchased shares of the Issuer prior to a public offering of those shares.	No
9	Remuneration of analyst	The remuneration of the investment analyst or other persons involved in the preparation of this Report is tied to investment banking transactions performed by the Bryan Garnier Group.	No
10	Corporate finance client	In the past twelve months a member of the Bryan Garnier Group has been remunerated for providing corporate finance services to the issuer or may expect to receive or intend to seek remuneration for corporate finance services from the Issuer in the next six months.	No
11	Analyst has short position	The investment analyst or another person involved in the preparation of this Report has a short position in the securities or derivatives of the Issuer.	No
12	Analyst has long position	The investment analyst or another person involved in the preparation of this Report has a long position in the securities or derivatives of the Issuer.	No
13	Bryan Garnier executive is an officer	A partner, director, officer, employee or agent of the Bryan Garnier Group, or a member of such person's household, is a partner, director, officer or an employee of, or adviser to, the Issuer or one of its parents or subsidiaries. The name of such person or persons is disclosed above.	No
14	Analyst disclosure	The analyst hereby certifies that neither the views expressed in the research, nor the timing of the publication of the research has been influenced by any knowledge of clients positions and that the views expressed in the report accurately reflect his/her personal views about the investment and issuer to which the report relates and that no part of his/her remuneration was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.	Yes
15	Other disclosures	Other specific disclosures: Report sent to Issuer to verify factual accuracy (with the recommendation/rating, price target/spread and summary of conclusions removed).	No

A copy of the Bryan Garnier & Co Limited conflicts policy in relation to the production of research is available at www.bryangarnier.com

London
Beaufort House
15 St. Botolph Street
London EC3A 7BB
Tel: +44 (0) 207 332 2500
Fax: +44 (0) 207 332 2559
Authorised and regulated by the
Financial Conduct Authority (FCA)

Paris
26 Avenue des Champs Elysées
75008 Paris
Tel: +33 (0) 1 56 68 75 00
Fax: +33 (0) 1 56 68 75 01
Regulated by the
Financial Conduct Authority (FCA) and the
Autorité de Contrôle prudential et de
resolution (ACPR)

New York
750 Lexington Avenue
New York, NY 10022
Tel: +1 (0) 212 337 7000
Fax: +1 (0) 212 337 7002
FINRA and SIPC member

Munich
Widenmayerstrasse 29
80538 Munich
Germany
+49 89 2422 62 11

New Delhi
The Imperial Hotel Janpath
New Delhi 110 001
Tel +91 11 4132 6062
+91 98 1111 5119
Fax +91 11 2621 9062

Geneva
rue de Grenus 7
CP 2113
Genève 1, CH 1211
Tel +4122 731 3263
Fax+4122731 3243
Regulated by the FINMA