

3rd August 2016

Insurance

Euler Hermes

Price EUR73.24

Solid Q2 numbers, technical beta adjustments drive FV downwards

Fair Value EUR89 vs. EUR99 (+22%)

BUY

Bloomberg	ELE FP
Reuters	ELER.PA
12-month High / Low (EUR)	95.6 / 70.3
Market Cap (EURm)	3,123
Avg. 6m daily volume (000)	21.30

	1 M	3 M	6 M	31/12/15
Absolute perf.	-5.1%	-12.5%	-5.8%	-17.3%
Insurance	-0.9%	-10.8%	-10.9%	-22.5%
DJ Stoxx 600	1.0%	-1.7%	0.3%	-8.3%

	2015	2016e	2017e	2018e
P/E	10.7x	10.0x	10.1x	9.4x
Div yield (%)	6.4%	6.4%	6.4%	6.8%

ANALYSIS

- In the current challenging macro environment, Euler Hermes continues to deliver solid quarterly numbers, far better than those of Coface. Action plans initiated in 2015 continue to deliver. Total group exposure was reduced for the fourth quarter in a row (down 4.5% since June 2015), especially on lower-quality risks, while new claims arrivals have started to decline.
- The Q2 net loss ratio was 52.6% vs. 53.9% in Q1 2016 and 58.8% in H2 2015, including an improved current-year net loss ratio at 60.6% vs. 61.5% in Q1 2016 and 67.8% in H2 2015. The cost ratio was up slightly, pushing the combined ratio 100bp above its Q1 level (80.3% vs. 79.3%) but way below the H2 2015 level (85.3%). Q2 underwriting result came in at EUR74m, down 5% qoq but up 36% vs. Q3/Q4 2015. Q2 net income was EUR69m (including EUR6m pre-tax restructuring charge).

VALUATION

- We have fine-tuned our 2016-2018 estimates with an average downward revision of 1%. We are sticking to our 2016e combined ratio of 79.5% (vs. 79.8% in H1 2016), pretty much in line with the company's guidance ("slightly below 80%").
- Underwriting profitability is set to improve on a yearly basis as of Q3 and gradually expand in 2017.
- Our Fair Value is adjusted to EUR89 to take into consideration the small changes made to our estimates and some beta adjustments (lower grades mainly for industry appeal and potential shareholder returns).
- The dividend yield is attractive and secure.

NEXT CATALYSTS

- Q3 2016 numbers on 8th November.

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