

9th August 2016

Insurance

## Munich Re

Price EUR152.60

Q2 numbers way above consensus, driven by non-technical items

Fair Value EUR185 (+21%)

SELL

Bloomberg	MUV2 GR
Reuters	MUVGn.DE
12-month High / Low (EUR)	190.8 / 141.2
Market Cap (EUR)	24,577
Avg. 6m daily volume (000)	699.5

	1 M	3 M	6 M	31/12/15
Absolute perf.	5.2%	-6.2%	-9.9%	-17.3%
Insurance	8.4%	-3.5%	-0.3%	-19.5%
DJ Stoxx 600	4.3%	3.0%	8.6%	-6.6%

	2015	2016e	2017e	2018e
P/E	8.0x	9.8x	8.6x	8.0x
Div yield (%)	5.4%	5.4%	5.4%	5.4%

### ANALYSIS

- Q2 2016 net income is EUR974m, down 9%, but way ahead of consensus (EUR475m). It benefited from EUR340m positive FX gains (long USD, short GBP). Operating profit is EUR1,463m, down 20%, also way above consensus (EUR868m), mainly driven by the investment result.
- In P&C reinsurance, operating profit is EUR788m (down 37% yoy), mainly driven by the underwriting performance (down 55%). The reported combined ratio is 99.8% vs. 93.3% in Q2 2015. Excluding natcats (7.6 pts vs. 0.5 pt) and run-offs (5.1 pts vs. 3.1 pts), the Q2 adjusted combined ratio is 97.3% vs. 95.9% in Q2 2015.
- In primary insurance (Ergo), the operating profit is EUR445m, up 24% yoy, mainly driven by Life/Health.
- Group investment result is EUR2.75bn (consensus EUR1.93bn), up 9% yoy, i.e. a 4.7% annualised total return, driven by derivative result (due to falling interest rates) and high disposal gains.
- FY guidance (net income c. EUR2.3bn) has been confirmed. Given H1 net income is EUR1.4bn, we see this as fairly achievable, and in the end the initial FY guidance (prior to Q1 profit warning the FY guidance was EUR2.3-2.8bn) looks accurate. We expect consensus (currently EUR2.3-2.4bn) to move slightly up.

### VALUATION

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

### NEXT CATALYSTS

- Q3 2016 numbers on 9<sup>th</sup> November.

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## Distribution of stock ratings

BUY ratings 55.7%

NEUTRAL ratings 33.6%

SELL ratings 10.7%

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