

11th August 2016

Insurance

Zurich Insurance Group

Price CHF242.90

Strong Q2, driven by P&C. Waiting for 17th Nov. Investors' Day

Fair Value CHF270 (+11%)

NEUTRAL

Bloomberg	ZURN VX
Reuters	ZURN.VX
12-month High / Low (CHF)	291.6 / 196.0
Market Cap (CHF)	36,564
Avg. 6m daily volume (000)	685.9

	1 M	3 M	6 M	31/12/15
Absolute perf.	6.1%	12.9%	18.2%	-6.0%
Insurance	10.4%	-3.0%	0.9%	-18.0%
DJ Stoxx 600	5.1%	2.3%	9.1%	-6.0%

	2015	2016e	2017e
P/E	18.9x	10.4x	9.8x
Div yield (%)	6.8%	6.8%	6.8%

ANALYSIS

- Q2 2016 net income came at USD739m, down 12% yoy, consensus (USD710bn), mainly driven by lower capital gains, restructuring charges and a higher tax rate. Q2 operating profit came at USD1,107m, up 17% yoy, way above consensus (USD0.9bn), driven by P&C.
- Operating profit in P&C was USD663m, up 44% yoy, driven by the underwriting performance and FX gains. The reported combined ratio is 99.0% vs. 100.0% in Q2 2015, but excluding natcats (5.8 points vs. 3.4 points) and run-offs (1.5 point vs. 1.3 point), the underlying combined ratio was 94.7% vs. 97.9% in Q2 2015, which is more in line with competition following a terrible 2015.
- Operating profit in Life was down 2% yoy to USD349m. NBV margin was 24.0% vs. 18.7% in Q2 2015. Inflows were USD2.2bn vs. USD1.6bn in Q2 2015.
- Operating profit at Farmers was up 2% to USD335m, mainly driven by the Management Services (up 6% to USD350m) whereas Reinsurance is slightly negative (108.4% combined ratio).
- Annualised H1 RoI was 3.8% vs. 4.0% in H1 2015.
- Solvency (internal model) at end-June was 107% vs. 108% at end-March and 121% at end-2015, driven by poor financial markets, and still within the 100-120% targeted range. Total cash remittances for the 2014-2016 are still on track to exceed USD10bn, which is good news for the dividend.

VALUATION

- Based on our current estimates, our SOTP valuation is CHF270.

NEXT CATALYSTS

- Q3 2016 numbers on 10th November. Investors' Day on 17th November.

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