

Insurance

Coface

Price EUR6.14

3-year strategic plan: execution will be key

Fair Value UNDER REVIEW

NEUTRAL

Coface is presenting today its three-year "Fit to Win" strategic plan. No strategic surprises as the company plans to strengthen its underwriting processes and optimise its cost structure. Growth is not the key target, which is good news. Financial targets look aggressive to us at this stage, but the shareholder return policy is favourable. We place our Fair Value under review pending more details on the plan. Following a strong rally over the last few weeks, the stock is still 11 pts short of best-in-class Euler Hermes over six months. However, we consider most of the outperformance is now behind us as the company is set to enter the most critical phase: execution.

ANALYSIS

- Coface is presenting today its 3-year "Fit to Win" strategic plan, with 3 key priorities:
 - 1/ Strengthen risk management and information. Coface will further invest in its information quality and data tools in order to improve its underwriting risk processes. The company plans to invest in technology, recruitment and training. This is probably a good idea, considering risk management and information is key in credit insurance and that Coface has been quite disappointing in this area over the last quarters.
 - 2/ Improve operational efficiency and client service. Coface will streamline its organisation with better sourcing and real estate utilisation, improve service and productivity, simplify and automatise processes. The expected cost savings are EUR30m in 2018, which will fully offset the loss of the French state guarantees. 170 jobs or 4% of total staff should be made redundant. We continue to see this target as aggressive. Restructuring costs (EUR35m) and additional investments (EUR35m) will be funded by the severance costs to be paid by the French state (EUR70m) for the loss of the state guarantees business.
 - 3/ Implement differentiated growth strategies. The company wants to focus on value creation over growth, which is good news. The growth strategy will be "adapted to the realities of each market".
- The company aims at generating an 83% combined ratio across the cycle, which is consistent with our numbers provided the EUR30m cost savings are there.
- Bottom line, the target for RoATE (return on tangible equity) is above 9% across the cycle, which looks optimistic to us as we currently plan a 7.6% RoATE (or 6.7% ROE) in 2018 assuming an 83% combined ratio.
- The company will continue to improve its capital efficiency, in particular through the increased use of reinsurance. The target for solvency ratio is 140-160% vs. 155% at end-June 2016. The pay-out ratio is set at 60% minimum, and any excess capital beyond the upper-end of the targeted solvency level (i.e. 160%) will be addressed with special dividends and share buybacks. We see the optimisation of the capital position as a way to manage the equity base in order to improve RoATE over time.

VALUATION

- We place our fair value under review pending further details on the plan.
- Following a strong rally over the last few weeks, the stock is still 11 pts short of best-in-class Euler Hermes over 6 months. Yet we consider most of the outperformance is now behind us as the company will enter the most critical phase: execution.

NEXT CATALYSTS

- Q3 2016 numbers on 3rd November.

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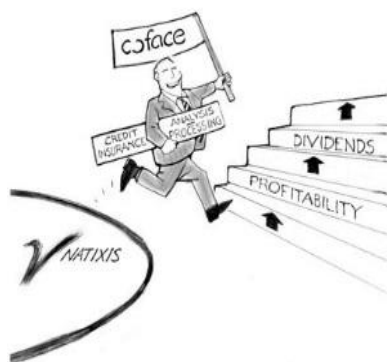
Bloomberg	COFA.FP
Reuters	COFA.PA
12-month High / Low (EUR)	9.3 / 4.2
Market Cap (EUR)	966
Emb. Value (BG Est.) (EUR)	1,537
Avg. 6m daily volume ('000)	157.8
3y EPS CAGR	-0.7%

	1 M	3 M	6 M	31/12/15
Absolute perf.	37.0%	-10.2%	-15.5%	-34.2%
Insurance	5.2%	-2.0%	-7.1%	-17.0%
DJ Stoxx 600	0.7%	0.7%	0.5%	-6.4%

(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	7.6x	13.4x	12.6x	7.8x
P/NAV (%)	0.5x	0.5x	0.5x	0.5x
ROE	7.3	4.0	4.3	6.7
Dividends	0.5	0.3	0.3	0.5
Div yield (%)	7.8%	5.4%	5.4%	7.7%



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NEUTRAL ratings 33.1%

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