

## Insurance

## Scor

Price EUR27.35

## Cost of capital should ease over time due to strong fundamentals and nice dividends

Fair Value EUR35 vs. EUR38 (+28%)

BUY

Bloomberg	SCR FP
Reuters	SCOR.PA
12-month High / Low (EUR)	37.2 / 24.9
Market Cap (EUR)	5,250
Emb. Value (BG Est.) (EUR)	7,458
Avg. 6m daily volume ('000)	431.0
3y EPS CAGR	-6.8%

The targets Scor presented yesterday with its new 2016-2019 "Vision in Action" plan are achievable, especially for solvency one, while ROE will depend on how much pressure return on investments will have to deal with. We believe the company is fully aware of that, as it decided to apply a more normalised, less risk-adverse investment strategy (less cash, higher duration, slightly higher risk profile on bonds). Short-term momentum is not exciting (not only a Scor issue), yet fundamentals remain very solid and the reinsurance industry still offers growth drivers. We have fine-tuned our estimates (5% down on average) and cut our fair value to EUR35. We remain at Buy.

## ANALYSIS

- The company insisted that despite the current challenging environment (mainly ROI and P&C pricing), the reinsurance sector enjoys solid foundations and long-term prospects: expansion of the risk universe, protection gap to close, limited exposure to technological "contestability", innovation potential.
- In P&C, over the course of the plan, Scor is targeting 3-8% premium growth per annum, depending on the dynamics of the business and the pricing environment. The main growth drivers should be: i/ the US, with the aim of achieving a Tier 1 position (vs. #13 currently); ii/ developing the Lloyd's "Channel Syndicate" to grow international positions; iii/ developing business with large corporates (through the repositioning of Scor Business Services); iv/ developing the MGA platform (agents) to promote new business. From a profitability standpoint, the goal is to generate a 95-96% combined ratio (vs. 93-94% target in the previous plan), mainly due to changes in the business mix, in particular the increase in expense ratio due to the relative weight of long-tail and Lloyd's.
- In Life, Scor is targeting 5-6% annual growth in premiums, building on its leading position in the US market and expanding in fast-growing Asia-Pacific markets (GWP +16% CAGR expected). The company will continue to optimise its in-force book, expand longevity transactions (GWP x2 expected) and enhance its Global Distribution Solutions capabilities. From a profitability standpoint, the goal is to generate a 6.8-7.0% technical margin (vs. 7% target in the previous plan).
- The main breakthrough came from Investments, as the company intends to rapidly normalise its investment policy by reducing liquidity to the target level of 5% (vs. 14% at end-June), closing the duration gap (i.e. higher duration) and becoming less risk-adverse. For instance, the average rating of the bond portfolio is expected to drop from AA- to A+ (fewer govies, more corporate bonds and structured/securitised products), and bottom line, capital intensity (VaR 99.5% 1-year) should increase from 6.6% of invested assets to 8.5%. Remember Scor's investment portfolio is 47% USD, so a hike in rates by the FED would be good news. Scor's goal is to generate a 2.5%-3.2% ROI over the plan. At this stage, given the current rate environment and despite Scor's less risk-adverse strategy, we consider it is wise to focus on the low-end of that range.
- In the end, the main objectives of the new 2016-2019 "Vision in Action" plan are: i/ an ROE of 800bps over the 5-year risk-free rate over the plan (vs. 1,000bps above the 3-month risk-free rate in the last plan); and ii/ a Solvency II ratio in the 185-220% range (same as in the last plan, vs. 210% at end-June). We are rather comfortable with solvency, while we consider the ROE target is achievable but is highly dependent on how much pressure the ROI will have to deal with.
- No change in the dividend policy: 35% payout minimum and low variation from year to year.
- Denis Kessler's mandate as Chairman and CEO, due to expire at the next AGM in April 2017, will be extended for four more years (-> 2021).

## VALUATION

- We have fine-tuned our estimates (down 5% on average over the 2016-2018 period). Our SOTP valuation is revised downwards to EUR35 vs. EUR38, using an 8.1% cost of equity (with a 0.9 beta derived from our proprietary methodology).
- Scor is currently trading on a 10% discount vs. reinsurance peers.

## NEXT CATALYSTS

- Q3 2016 numbers on 27th October.

## Analyst :

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	1 M	3 M	6 M	31/12/15
Absolute perf.	6.4%	-6.5%	-14.3%	-20.8%
Insurance	5.3%	-3.8%	-4.5%	-16.5%
DJ Stoxx 600	2.7%	1.2%	2.8%	-4.2%

(EURm)	2015	2016e	2017e	2018e
Total gross prem.	13,421	13,843	14,419	15,080
% change		3.1%	4.2%	4.6%
Insurance op. profit	1,173	1,038	978	1,004
Total operating profit	1,049	914	854	880
Underlying PTP	869.0	694.7	652.2	677.7
% change		-20.1%	-6.1%	3.9%
Net attributable profit	642.0	521.0	495.6	521.9
% Change		-18.8%	-4.9%	5.3%

(EURm)	2015	2016e	2017e	2018e
Shareholders' equity	6,330	6,498	6,215	5,958
Technical reserves :				
-Life net (excl. UL)	13,744	14,019	14,369	14,729
-UL contracts	0	0	0	0
-P&C net	14,095	14,236	14,449	14,738
NAV net of intangibles	2,504	2,855	2,375	1,905
Embedded value	7,458	7,818	7,586	7,376

(EUR)	2015	2016e	2017e	2018e
EPS (€)	3.45	2.81	2.66	2.79
% change		-18.7%	-5.1%	5.0%
P/E	7.9x	9.7x	10.3x	9.8x
P/NAV (%)	0.8x	0.8x	0.9x	0.9x
ROE	10.7	8.1	7.8	8.6
Dividends	1.5	1.5	1.5	1.5
Div yield (%)	5.5%	5.5%	5.5%	5.5%



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BUY ratings 55.3%

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SELL ratings 11.3%

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