

**Euler Hermes**

Price EUR78.43

**Solid Q3 underwriting results, preparing for the future****Fair Value EUR89 (+13%)****BUY**

Bloomberg	ELE FP
Reuters	ELER.PA
12-month High / Low (EUR)	88.6 / 70.3
Market Cap (EUR)	3,344
Avg. 6m daily volume (000)	22.60

	1 M	3 M	6 M	31/12/15
Absolute perf.	3.7%	6.1%	-5.5%	-11.5%
Insurance	1.0%	3.8%	0.1%	-16.4%
DJ Stoxx 600	-1.4%	-1.9%	1.0%	-8.4%

  

	2015	2016e	2017e	2018e
P/E	11.4x	10.7x	10.9x	10.1x
Div yield (%)	6.0%	6.0%	6.0%	6.4%

**ANALYSIS**

- Q3 2016 net income is up 3% yoy to EUR56m, with a satisfactory underwriting performance (up 37% yoy). The reported combined ratio is 79.5% vs. 85.2% last year and 79.8% in H1 2016. The CY net loss ratio for Q3 is 60.4%, which is the best quarterly performance since Q2 2015, confirming the quality of the fundamentals of the company. The risk exposure has stabilised in Q3 vs. Q2 (but still down 4% yoy), with the share of low quality grades still slightly down (13.8% vs. 14.0%).
- The company booked a EUR37m pretax restructuring charge (compensated by EUR35m capital gains booked in Q1 on Bürgel and Q3 on Graydon, two minority-held information companies), with the aim to generate EUR32-35m FY savings by 2019 (300 FTE reduction). The main goal of this restructuring is to free-up capacity to invest in international, product development, digital and to deal with the ongoing negative trend of investment income (down 9% in Q3). We see this plan as very positive.
- No news on Solvency II margin as expected (165% at end-June).
- -> Contrary to Coface, which is struggling with poor overall underwriting performance and the need to adjust to its new perimeter, Euler Hermes is generated convincing underwriting result and is preparing for the future. We continue to prefer Euler Hermes' story.

**VALUATION**

- Based on our current estimates, our SOTP valuation is EUR89.

**NEXT CATALYSTS**

- FY 2016 numbers on 9<sup>th</sup> February 2017.

Olivier Pauchaut, opauchaut@bryangarnier.com



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## Distribution of stock ratings

BUY ratings 56.7%

NEUTRAL ratings 31.8%

SELL ratings 11.5%

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<b>London</b>	<b>Paris</b>	<b>New York</b>	<b>Munich</b>	<b>New Delhi</b>
Beaufort House 15 St. Botolph Street London EC3A 7BB Tel: +44 (0) 207 332 2500 Fax: +44 (0) 207 332 2559 Authorised and regulated by the Financial Conduct Authority (FCA)	26 Avenue des Champs Elysées 75008 Paris Tel: +33 (0) 1 56 68 75 00 Fax: +33 (0) 1 56 68 75 01 Regulated by the Financial Conduct Authority (FCA) and the Autorité de Contrôle prudentiel et de résolution (ACPR)	750 Lexington Avenue New York, NY 10022 Tel: +1 (0) 212 337 7000 Fax: +1 (0) 212 337 7002 FINRA and SIPC member	Widenmayerstrasse 29 80538 Munich Germany +49 89 2422 62 11	The Imperial Hotel Janpath New Delhi 110 001 Tel +91 11 4132 6062 +91 98 1111 5119 Fax +91 11 2621 9062 <b>Geneva</b> rue de Grenus 7 CP 2113 Genève 1, CH 1211 Tel +4122 731 3263 Fax+4122731 3243 Regulated by the FINMA

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