

17th November 2016

Insurance

Zurich Insurance Group

Price CHF262.60

2019 targets: strong commitment on the dividend / payout ratio

Fair Value CHF270 (+3%)

NEUTRAL

Bloomberg	ZURN.VX
Reuters	ZURN.VX
12-month High / Low (CHF)	272.1 / 196.0
Market Cap (CHFm)	39,530
Avg. 6m daily volume (000)	569.1

	1 M	3 M	6 M	31/12/15
Absolute perf.	3.4%	5.2%	13.4%	1.6%
Insurance	7.2%	9.9%	6.6%	-11.2%
DJ Stoxx 600	-0.4%	-1.4%	1.1%	-7.5%

	2015	2016e	2017e	2018e
P/E	19.8x	10.9x	10.3x	
Div yield (%)	6.5%	6.5%	6.5%	

ANALYSIS

- Zurich has just unveiled its 2017-2019 plan. Unsurprisingly we see no strategic breakthrough, as the plan is mainly based on expense savings (USD1.5bn net savings by 2019 compared to 2015 baseline) and technical excellence in both P&C and Life.
- The main financial targets are:
 - 1/ An operating ROE in excess of 12% from 2017 (vs. 11.9% for 9M 2016 and a 12-14% target for the previous plan) and growing over the period, with market pressure and lower investment income more than compensated for by technical excellence (1.5-2% expected positive impact) and expense savings (2.5-3% expected positive impact).
 - 2/ Cash remittances in excess of USD9.5bn (vs. >USD10bn expected for the 2014-2016 period) and a solvency ratio (Z-ECM internal model) in the 100-120% range (same as the target of the previous plan and compared to 113% at end-September), leading to a 75% payout ratio target with a CHF17 (= current level) floor.
- The commitment on the dividend / payout ratio is positive as there has been a recurring question on Zurich's ability to deliver on its higher-than-average payout ratio. Other announcements are not surprising. We continue to prefer stocks like AXA (Buy, FV EUR29) and Scor (Buy, FV EUR35) to play the current trends on rates and USD.

VALUATION

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

NEXT CATALYSTS

- FY 2016 numbers on 9th February 2017.

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