

25th July 2019

## COFACE

| Technology  
| Financials & Fintech

BUY

**Fair Value** EUR11 vs. EUR10,5 (+3%)  
**Share price** EUR10.66  
**EPS 3Y Cagr** 8.7%

### The story is not over

#### Very satisfactory Q2 performance

Q2 2019 net income came in at EUR42m, up 55% yoy, driven by investment income and, more importantly, the underwriting performance. Note that the Q2 net income is ahead of consensus (EUR37m), mainly due to lower taxes and EUR3m goodwill on the PKZ acquisition.

The technical result is pretty much in line with expectations at EUR47m, up 32% yoy, driven by strong top-line growth (up 8% yoy due to client activity, higher new business and retention, and easing price pressure) and a very satisfactory 77.5% combined ratio, way below the 83% across-the-cycle target.

#### We increase our 2019-2021 estimates by 5%, new EUR11 FV

We have updated our model, mainly to take into consideration the higher-than-expected top-line growth. On average, our net income estimates for 2019-2021 have been revised up by 5%. In particular, we anticipate a FY combined ratio of 77.5%, slightly better than last year (79.6%), but suggesting a c. 79% combined ratio for H2 after 76% in H1.

We strongly believe the current consensus for 2019 (80.3% combined ratio, suggesting a 84%+ combined ratio for H2, and EUR123m net profit) and beyond is too timid, and expect some upwards revisions across the board.

We have upgraded our fair value to EUR11. Note that our fair value excludes any speculation premium, even if there is no doubt speculation is a reality as Natixis is a seller ("financial participation").

#### Internal model and new strategic plan to support the case

As expected, the company has filed its partial internal model to the regulator (ACPR), paving the way for formal approval by year-end. We currently assume the company will be able to reduce its capital requirement to 1x net premiums vs. 1.17x in 2018 with the standard formula (remember Euler Hermes' was 0.75x), and based on a 160% solvency margin target (high-end of the current 140-160% comfort range, while the June-2019 level was 162%), the excess capital could reach c. EUR0.35bn, supporting renewed high dividend and/or share buy-backs.

On that basis, we believe the 100% pay-out ratio the company granted shareholders for 2018 is sustainable for the next 2-3 years, offering a 9%+ yield.

The management is likely to announce a new strategic plan by year-end or so. It will definitely benefit from the strong credit of the success of the current "Fit to Win" plan. Buy maintained.

#### Market Data

Bloomberg / Reuters	COFA FP/COFA.PA
Market Cap.	EUR1,641m
E.V.	EUR1,641m
Free Float	23,4%
Avg. Daily volume (6m)	158.8
12m high / low	EUR10.7 / EUR7.2
Ytd Perf.	34.4%

eurM	2018	2019	2020	2021
Total gross prem.	1,263	1,339	1,402	1,455
% change		6%	5%	4%
Insurance op. profit	202	213	227	236
Total operating profit	185	193	207	216
Underlying PTP	187	203	214	223
% change		9%	5%	4%
Net attributable profit	122	145	152	158
% Change		18%	5%	4%
Embedded value	1,586	1,662	1,667	1,671

	mm/yye	03/20e	03/21e	03/22e
EPS (€)	0.81	0.95	1.00	1.04
% change		18%	5%	4%
P/E	13.12	11.12	10.63	10.21
ROE	6.78%	7.86%	8.05%	8.36%
Dividends	0.79	0.95	1.00	0.70
Div yield (%)	7.4%	9.0%	9.4%	6.6%
EPS (€)	0.81	0.95	1.00	1.04

Next Catalyst : Q3 numbers on 23 October

Last FV Change:

[2017-10-26, Convincing recovery](#)

Last Reports:

[2019-4-25, Very nice Q1, but the key driver remains the capital management](#)

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## COFACE

RATING	
Fair Value	EUR11 vs. EUR10,5 (+3%)
Share price	EUR10.66
Market Cap.	EUR1,641m
EPS 3Y CAGR	8.7%

Profit & Loss (Meur)	2017	2018	2019e	2020e	2021e
Sales	1,355	1,385	1,468	1,537	1,595
Total gross premiums written	1,220	1,263	1,339	1,402	1,455
o/w P&C insurance	1,220	1,263	1,339	1,402	1,455
% change GPW	1,4%	3,6%	6,0%	4,7%	3,8%
Total net premiums earned	808	815	863	904	938
Operating profit, insurance	151	202	213	227	236
o/w P&C insurance	151	202	213	227	236
Operating profit, other	-18	-18	-20	-20	-20
Total operating profit	133	185	193	207	216
% change net underlying earnings	220,8%	38,9%	4,6%	7,1%	4,3%
Other non-operating items	6	2	10	7	7
Profit before tax and minority interests	139	187	203	214	223
Tax	-56	-64	-58	-62	-64
Minority interests	0	0	0	0	0
Net attributable profit, reported	83	122	145	152	158
Net attributable profit, adjusted	83	122	145	152	158
% change net income	100,3%	47,0%	18,5%	4,7%	4,1%
Intangible assets					
o/w Goodwill	155	155	155	155	155
Shareholders' equity, group share (excl. TSS/TSDI)	1,803	1,806	1,881	1,886	1,890
o/w Gross unrealised capital gains	76	57	110	110	110
Total shareholders' equity	1,803	1,806	1,881	1,886	1,891
Subordinated debt and other debt	388	389	381	381	381
P&C net technical reserves	1,682	1,746	1,827	1,827	1,827
NAV net of intangible assets	1,585	1,586	1,662	1,667	1,671
Embedded value	1,585	1,586	1,662	1,667	1,671
Adjusted, diluted EPS					
NAV per share	11,46	11,74	12,22	12,25	12,28
EV per share	11,46	11,74	12,22	12,25	12,28
Net dividend	0,34	0,79	0,95	1,00	1,04
P&C insurance combined ratio (%)					
ROE (%)	4,68%	6,78%	7,86%	8,05%	8,36%
P&C insurance RoAC (%)	6,4%	9,8%	11,4%	11,3%	11,3%
Tax rate (%)	40,8%	34,4%	29,0%	29,0%	29,0%
Payout (%)	64,1%	97,7%	100,0%	100,0%	100,0%

Source: Company Data; Bryan, Garnier & Co ests.

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### Stock rating

<b>BUY</b>	Positive opinion for a stock where we expect a favourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential upside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.
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BUY ratings 49,1%

NEUTRAL ratings 44,4%

SELL ratings 6,5%

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