

PEÑA VERDE

Quarterly Report 1Q16

Current Price MXN 10.45

Target Price 2016 MXN 9.90

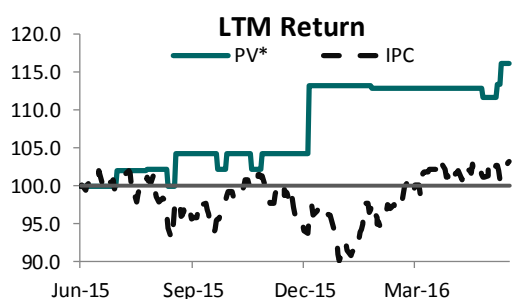
Friday, May 27, 2016

New accounting methodology requires the creation of greater technical reserves. Technical, operational and net profit losses were recorded. The company continues its expansion plan and has begun to operate in the Lloyd's market in London

- Gross written premiums increased +25% y/y, but the creation of more technical reserves due to a new methodology included in a new Lawm and increasing claimsm affected the results.
- The technical loss reached -107 mp. Operating loss and Net Profit loss totaled respectively -322 mp and -103 mp in 1Q16. The growth strategy advances gradually.

Key Data

Local Ticker	PV*
12 M Target Price	MXN 9.90
Last Price	MXN 10.45
Expected Return	-5.3%
LTM Return PV*	16%
Outstanding Shares (million)	476.7
Free Float	3.0%
Marketability	Low
Market Capitalization (MXN million)	MXN 4,981
LTM Price Range	(8.80 - 10.45)



	2013	2014	2015	2016F
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Valuation

P/E	65.7x	95.0x	7.9x	12.1x
P/BV	1.18x	1.32x	1.23x	1.13x

Estimates (MXN)

Gross Written Premiums	3,321	4,190	5,143	5,914
YoY%	-4.1%	26.2%	22.7%	15.0%
Net Premiums Retained	2,675	3,204	3,923	4,485
YoY%	-3.8%	19.8%	22.5%	14.3%
Underwriting income	461	287	270	558
YoY%	-8.9%	-37.7%	-6.0%	106.8%
Net income	59	46	613	365
EPS	0.12	0.10	1.29	0.84
YoY%	-97%	-22%	1228%	-34%

Profitability

Combined Ratio	89.5%	97.0%	103.7%	96.9%
Acquisition Ratio	29.5%	28.3%	25.6%	25.9%
Claims Ratio	50.8%	58.7%	66.6%	61.0%
Operation Ratio	9.1%	10.0%	11.5%	10.0%

- **Target Price.** We maintain our 2016 y-e T.P. of 9.90 pesos, equivalent to 1.1X our 2016-majority-book-value forecast and 12.0X our EPS for the same year. This T.P. is based on the assumption that written premiums will grow 15%, the combined ratio would improve to 96.9% and a 7% expected return of the investment portfolio (CETES + 300bp).

- **Balance between growth and risk quality.** In our opinion, the main challenge for the company is to increase its market share and scale, while controlling the claims ratio and operating expenses.

- **PV* is the only Mexican company to achieve registration at the prestigious Lloyd's market to subscribe risks.** Last December, PV* announced the creation of a company named "Patria Corporate Member, Ltd.", with an investment of 8.78 million pounds (~220 mp). We believe that this strategy/alliance is the result of a good corporate governance by the management and the company's financial strength. It represents an opportunity to develop product lines in specialized fields (energy, aircrafts, maritime, satellites, art and jewelry, international trade credit, among others), while the company expands and diversifies its reinsurance capacity. The operation tries to position *General de Seguros* as the insurer of the Mexican entrepreneur sector.

- **Low capitalization and trading volume.** The market capitalization of the company is approximately MXN 4,838 million, its trading volume is minimal and its free float is about 3%, these features limit the universe of potential investors in PV*.

- **Risks.** The main risks faced by PV* are economic, competition, the implementation of new strategies and the behavior of financial markets. Others risks include the cost of reinsurance, claims rate, liquidity, loans (counterpart, strategic partners) and credit investments.

Company's description:

PV* is a holding company. Its main business consists in managing its subsidiary companies General de Seguros and Reaseguradora Patria through a third subsidiary, "Servicios Administrativos Peña Verde", with the purpose of improving management, regulatory compliance and generating economies of scale. General de Seguros operates all insurance segments except for pensions in all states of the Mexican Republic. The company's health segment is managed by its subsidiary "General de Salud". Reaseguradora Patria provides reinsurance services in all its forms in Mexico, Latin America and the rest of the world.

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1. 1Q16 Report

- **Written premiums increase + 25%, but the creation of technical reserves related to new financial and insurance law methodology, and high claims, affected results.**
- **PV registered a Technical Loss of -107 mp, operating loss of -322 mp and a net loss of -103 mp in the quarter. The growth strategy progresses gradually.**

Although written premiums of Peña Verde grew + 24.9% YoY in 1Q16, a technical loss was registered mainly due to a sharp increase in the reserve for unexpired risks because of the new methodology based on "Solvency II", and an important increase in claims. Operating loss increased due to the above and because of a significant increase in operating expenses.

PV written premiums totaled 1,417.1 million pesos (mp) in 1Q16, in line with our estimate of 1,478 mp. It is noteworthy that written premiums in "General de Seguros" rose 10.4% YoY in 1Q16, because of the "annualization" of premiums from the life branch, since the new Law on Insurance and Finance Institutions entered into force. Meanwhile, "Reaseguradora Patria" premiums increased by 24.6% YoY, due to the growth of the branches of fire, diverse and transportation branches.

Ceded premiums increased 58.9%, from 160.3 mp to 254.7 mp in 1Q16, while premiums grew 19.3% YoY, from 974 mp1 to 1,162.4 mp.

It is noteworthy, that the difference between the retained premiums (1,162.4 mp) and earned premiums (956.8 mp) are explained by the unexpired risks reserve, which amounted to 205.7 million pesos, increasing 93.2% YoY in 1Q16. This increase resulted from a change in the methodology for the establishment of the unexpired risks reserve, based on Solvency II models, added the reserve constituted by written premiums by the syndicate 6125.

The technical loss of -106.8 mp in 1Q16, contrasts with the profit of 33.7 mp in 1Q15, as the net acquisition costs registered a 31.8% YoY growth, influenced by a growth on reinsurance commissions paid to the ceding companies and the costs of excess loss coverage. In addition, net claims costs rose 25.5% annually in the first quarter of 2016. It is noteworthy that the loss ratio increased 9.1 percentage points to 75.1%, due to the increase of 145 mp in the reserve to meet outstanding obligations for claims incurred but unreported (IBNR) of "Reaseguradora Patria". The gross loss was increased significantly 232% to -160.8 mp.

Operating loss increased 172.8% to -322.4 mp, driven by an increase of 131.7% YoY in net operating expenses. This figure exceeded our operating loss estimate of -78.3 mp.

The comprehensive financing fell -8.5% YoY to 293.2 mp from 320.2 mp.

Finally, the loss for the year totaled -103.1 mp in 1Q16, while a profit of 109.0 mp was recorded in 1T15.

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As described above this loss was impacted mainly by the following factors: (1) 25% increase in claims, which is the main cost of the company and new factors such as: (2) Increase in technical reserves as mandated by the methodology of the new Insurance and Finance Institutions Law, (3) the incorporation of the 6125 union in the Lloyd's market operations, which also involved creating reserves.

Income Statement	1Q16	1Q15	1Q16 vs 1Q15 %
<i>(in current million pesos)</i>			
Gross Written Premiums	1,417.1	1,134.3	24.9%
Premiums Ceded	254.7	160.3	58.9%
Net Premiums Retained	1,162.4	974.1	19.3%
Retention Premiums Accrued	956.8	867.6	10.3%
(-) Acquisition Costs	345.2	261.8	31.8%
(-) Insurance claims incurred	718.2	572.1	25.5%
Underwriting (technical) income (loss)	(106.6)	33.7	N.D.
Gross Income	(160.8)	(48.4)	232.0%
(-) Net Operating Expenses	161.6	69.7	131.7%
Operating income (loss)	(322.4)	(118.2)	172.8%
Comprehensive Financing Result	293.2	320.3	-8.5%
Net Profit/Loss	(103.1)	109.0	N.D.
Majority Net Profit	(13.7)	4.1	N.D.
Minority Interest	(103.1)	109.0	N.D.

Source: PV y Prognosis

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Peña Verde's Annual Income Statement (million MXN)

	2011	2012	2013	2014	2015	2016f
Gross Written Premiums	3,226.2	3,461.5	3,320.6	4,190.0	5,142.6	5,913.9
Premiums Ceded	695.2	682.0	646.0	986.1	1,219.2	1,428.6
Net Premiums Retained	2,531.0	2,779.5	2,674.6	3,203.9	3,923.3	4,485.3
<i>Net Premiums Retained rate</i>	78%	80%	81%	76%	76%	76%
Net Increase in Provision for Unaccrued Premiums	137.4	125.3	132.7	314.7	107.0	80.2
Retention Premiums Accrued	2,393.6	2,654.2	2,541.9	2,889.2	3,816.3	4,405.1
Acquisition Costs	679.4	779.4	789.2	907.5	1,004.2	1,160.5
<i>Aquisition ratio</i>	27%	28%	30%	28%	26%	26%
Insurance claims incurred	1,511.0	1,369.3	1,292.2	1,694.9	2,542.5	2,687.1
<i>Claims ratio</i>	63%	52%	51%	59%	67%	61%
Underwriting (technical) income (loss)	203.1	505.5	460.5	286.9	269.6	557.5
Net Increase in Other Technical Reserves	277.1	315.2	315.6	282.9	330.8	375.4
Gross Income	-74.0	190.5	145.0	4.3	-61.0	182.3
Net Operating Expenses	231.6	339.9	243.9	320.1	451.3	448.5
<i>Operating ratio</i>	9%	12%	9%	10%	12%	10%
Operating income (loss)	-305.5	-149.3	-98.9	-315.8	-512.3	-266.3
Comprehensive Financing Result	445.7	1,238.1	109.6	363.6	1,369.7	840.0
Earnings before income tax	140.6	1,088.8	10.8	47.8	857.4	573.7
Income tax payment provision	-41.5	268.0	-59.6	-9.9	204.2	172.1
Income tax rate	-29.5%	24.6%	-553.5%	-20.8%	23.8%	30.0%
Net profit (loss)	182.1	820.8	59.5	46.2	613.1	401.6
Minority interest	110.0	61.3	10.9	11.6	40.1	36.1
Majority Net Profit	71.7	759.5	59.5	46.2	613.1	365.5
EPS	37.16	4.10	0.12	0.10	1.29	0.84
Number of shares (million)	4.9	200.0	476.7	476.7	476.7	476.7
Gross Written Premiums growth			-4.1%	26.2%	22.7%	15.0%
Net profit growth		958.7%	-92.2%	-22.4%	1228.1%	-40.4%
EPS growth		-89.0%	-97.0%	-22.4%	1228.1%	-34.5%
Cost index						
Aquisition Ratio	26.8%	28.0%	29.5%	28.3%	25.6%	25.9%
Claims Ratio	63.1%	51.6%	50.8%	58.7%	66.6%	61.0%
Operation Ratio	9.1%	12.2%	9.1%	10.0%	11.5%	10.0%
Combined Ratio	99.1%	91.9%	89.5%	97.0%	103.7%	96.9%
Other Indicators						
Dividends	16.9	0.0	0.0	0.0	0.0	0.0
ROE	6.9%	23.5%	1.8%	1.4%	16.9%	8.9%
P/E	0.13x	1.21x	65.70x	95.00x	7.92x	12.08x
P/BV	0.02x	0.31x	1.18x	1.32x	1.23x	1.13x
BV per share	213.3	16.2	6.9	7.0	8.3	9.0
PV's share price	5.0	5.0	8.2	9.2	10.2	10.2
Balance Sheet Summary (million MXN)						
Assets	9,624.9	10,715.8	10,952.6	12,568.9	15,224.2	16,966.6
Investments	7,441.6	8,615.6	8,855.8	9,741.0	11,735.4	13,031.0
Cash and Deposits	89.7	162.0	147.3	147.3	289.0	254.5
Liabilities	6,591.1	7,214.7	7,366.2	8,949.5	10,938.8	12,279.6
Technical Reserves	5,450.1	5,558.9	5,856.3	7,354.5	8,896.5	10,192.1
Total Equity	3,033.8	3,501.1	3,586.4	3,619.4	4,285.4	4,687.0
Shareholder's Equity (majority)	1,044.9	3,231.1	3,304.4	3,326.6	3,939.7	4,312.0

Source: Prognosis and BMV

ESTADO DE RESULTADOS DE ASEGURADORAS
DEL 01 DE ENERO AL 31 DE MARZO DE 2015 Y 2016
PESOS

CUENTA / SUBCUENTA	CONSOLIDADO	
	CIERRE PERIODO ACTUAL IMPORTE	TRIMESTRE AÑO ANTERIOR IMPORTE
Primas		
Emitidas	1,417,083,106	1,134,307,801
(-) Cedidas	254,682,910	160,251,746
De Retención	1,162,400,195	974,056,055
(-) Incremento Neto de la Reserva de Riesgos en Curso y de Fianzas en Vigor	205,639,255	106,426,419
Primas de Retención Devengadas	956,760,940	867,629,636
(-) Costo Neto de Adquisición	345,169,222	261,812,383
Comisiones a Agentes	64,390,508	63,264,219
Compensaciones Adicionales a Agentes	40,709,751	40,498,667
Comisiones por Reaseguro y Reafianzamiento Tomado	119,198,590	83,693,941
(-) Comisiones por Reaseguro Cedido	-29,081,865	-38,576,079
Cobertura de Exceso de Pérdida	63,765,407	41,941,855
Otros	86,186,831	70,989,779
(-) Costo Neto de Siniestralidad, Reclamaciones y Otras Obligaciones Pendientes de Cumplir	718,229,738	572,102,942
Siniestralidad y Otras Obligaciones Pendientes de Cumplir	728,410,060	562,604,713
(-) Siniestralidad Recuperada del Reaseguro No Proporcional	-22,618,659	834,126
Reclamaciones	12,438,337	8,664,103
Utilidad (Pérdida) Técnica	-106,638,020	33,714,311
(-) Incremento Neto de Otras Reservas Técnicas	54,224,689	82,167,050
Reserva para Riesgos Catastróficos	49,717,576	78,679,005
Reserva de para Seguros Especializados	0	0
Reserva de Contingencia	4,507,114	3,488,045
Otras Reservas	0	0
Resultado de Operaciones Análogas y Conexas	30,793	9,670
Utilidad (Pérdida) Bruta	-160,831,916	-48,443,069
(-) Gastos de Operación Netos	161,589,577	69,745,439
Gastos Administrativos y Operativos	72,751,163	-22,963,863
Remuneraciones y Prestaciones al Personal	83,678,579	89,713,989
Depreciaciones y Amortizaciones	5,159,834	2,995,313
Utilidad (Pérdida) de la Operación	-322,421,492	-118,188,508
Resultado Integral de Financiamiento	293,189,571	320,251,947
De Inversiones	74,824,858	57,216,228
Por Venta de Inversiones	2,767,264	-1,930,729
Por Valuación de Inversiones	225,876,562	261,167,707
Por Recargo sobre Primas	7,253,010	6,533,502
Por Emisión de Instrumentos de Deuda	0	0
Por Reaseguro Financiero	0	0
Intereses por Créditos	0	0
(-) Castigos Preventivos por importes recuperables de reaseguro	-109,335	0
(-) Castigos preventivos por riesgos crediticios	-1,452,795	0
Otros	2,917,007	1,832,229
Resultado Cambiario	-18,887,000	-4,566,989
(-) Resultado por Posición Monetaria	0	0
Participación en el Resultado de Inversiones Permanentes	0	0
Utilidad (Pérdida) antes de Impuestos a la Utilidad	-29,231,922	202,063,439
(-) Provisión para el Pago del Impuesto a la Utilidad	60,151,506	89,020,952
Utilidad (Pérdida) antes de Operaciones Discontinuas	-89,383,428	113,042,487
Operaciones Discontinuas	0	0
Participación no Controladora	-13,672,924	4,075,671
Utilidad (Pérdida) del Ejercicio	-103,056,351	108,966,816
Participación no controladora en la Utilidad (Pérdida) del Ejercicio	-13,672,924	4,075,671
Participación controladora en la Utilidad (Pérdida) del Ejercicio	-103,056,351	108,966,816



Prognosis

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