

Peña Verde

Current price: MXN 10.18
12-month target price: MXN 9.80
(No liquidity risk discount applied).



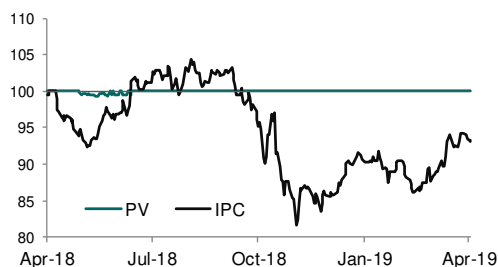
1Q19 quarterly report
May 8, 2019

The investment portfolio recovers and helps net profit to reach 71 million pesos. The operating result was lower than our forecast, due to a sluggish start in the recently restructured GENSEG

Key Data

Ticker	PV* MM
Exchange	BMV
12 Month T.P. (Estimated Fair Value)	MXN 9.80
Last Price	MXN 10.18
Expected Return	-3.7%
12 M Dividend Yield	0.1%
Expected Dividend Yield	0.0%
Total Expected Return	-3.7%
LTM Return PV*	0.1%
LTM Price Range (MXN)	(10.18 - 10.09)
Outstanding Shares (Million)	476.7
Free Float	1.22%
Trading Volume	Low
Market Cap (USD Million)	USD 256.24
P/E (TTM)	-10.2X
Price/Book Value	1.2X
Official Website	www.corporativopv.mx

12M Return vs IPC



	2016	2017	2018	2019f
Valuation				
P/E	18.7x	8.3x	-8.7x	12.2x
P/BV	1.1x	1.0x	1.1x	1.0x
ROE	6.0%	12.2%	-13.3%	8.6%
Estimates (MXN million)				
Gross Written Premiums	6,865	6,965	7,259	8,348
YoY%		1.5%	4.2%	15.0%
Net Retained Premiums	4,876	5,521	5,908	6,814
YoY%		13.2%	7.0%	15.3%
Underwriting Income	126	357	680	743
YoY%		184.2%	90.3%	9.3%
Net income	257	583	-561	399
YoY%		127.2%	n.m.	n.m.
EPS	0.5	1.2	-1.2	0.8
YoY%		127.2%	n.m.	n.m.
Profitability				
Combined Ratio	103.8%	100.5%	93.8%	93.9%
Acquisition Ratio	27.0%	28.1%	30.3%	29.0%
Claims Ratio	68.0%	62.0%	56.5%	58.0%
Operation Ratio	8.8%	10.3%	6.9%	6.9%

Source: Peña Verde, Bloomberg and Prognosis estimates
n.m.: not meaningful

- 1Q19/1Q18 results.** Written premiums totaled 1,456.7 million pesos (mp), a +4.7% y/y increase, driven by Reaseguradora Patria (+28% y/y). Technical profit reached 155 mp, -18.6% y/y.
- The operating loss was -203.6 mp and the integral result of financing totaled +350.7 mp. Thus, the net profit reached -70.7 mp, an EPS (trailing 12 months) of -0.65 pesos per share.
- We maintain our 2019 forecasts,** although we recognize that the results in General de Seguros need to improve considerably. We anticipate that written premiums of PV will grow approximately +15% in the year, supported by the good dynamism in Re-Patria and a recovery in GENSEG. We estimate that the combined ratio will approach 93.9%, a similar level to that observed in 2018. We also assume that investments will perform more normally during 2019. Thus, we reach an estimated net profit of 399 mp, an EPS of 0.84 pesos.
- Profitable growth.** The company's challenge continues to be to increase its market share and scale, while controlling its cost structure, particularly the claims ratio. We anticipate accelerating growth rates, given the relative low base of comparison.
- Risk management.** The company visualizes itself as a specialist in risk management and plans to capitalize on this expertise, including a successful historical management of its investment portfolios.
- Low market cap. and trading volume.** The capitalization value of the issuer is approximately USD 255.2 million, its trading volume is minimal, and its free float is only 1.2%, which limits the universe of potential PV* investors.
- Commitment to the stock market.** The company is open to possibilities to increase its stock's float. In Prognosis view, a private transaction would make sense if a strategic partner adds value to the PV business.
- Target price.** We reiterate our 12-month T.P at 9.80 pesos, equivalent to 1.0X the estimated 2019 book value. This multiple is lower to the implicit multiple that results from Damodaran model. However, we do not apply a liquidity discount, due to the low trading volume of the shares.
- Risks.** The main risks are: slow economic growth, competition, the execution of new strategies and the behavior of financial markets. Others may include the cost of reinsurance, a higher claims ratio, shares liquidity, ceded reinsurances (counterparty, strategic partners) and credit risk in their investments.

1. 1Q19 report

Income Statement			
	Accumulated data		
	1Q19	1Q18	YoY Change
Gross Written Premiums	1,457	1,391	+4.7%
Net Retained Premiums	1,217	1,104	+10.2%
Retention Premiums Accrued	1,376	1,287	+7.0%
Acquisition Costs	387	361	+7.3%
Insurance Claims Incurred	834	735	+13.4%
Underwriting (Technical) Income (Loss)	155	190	-18.6%
Net Operating Expenses	178	73	+143.8%
Operating Income (Loss)	-204	-47	+333.8%
Comprehensive Financing Result	351	-172	n.m.
Net Profit (Loss)	71	-181	n.m.
<i>Acquisition Ratio</i>	31.8%	32.7%	-86 bp
<i>Claims Ratio</i>	60.6%	57.2%	+345 bp
<i>Operating Ratio</i>	12.2%	5.3%	+698 bp
Combined Ratio	104.7%	95.1%	+957 bp

Source: Prognosis and PV

n.m. = not meaningful

Note: The acquisition ratio is calculated over net retained premiums, the claims ratio is calculated over retention premiums accrued and the operating ratio considers gross written premiums.

Peña Verde's written premiums totaled 1,457 million pesos (mp) in 1Q19, an increase of +4.7% y/y, against the 1,391 mp in 1Q18. This variation is mainly explained by the dynamism in **Reaseguradora Patria**, that recorded sales of 886.4 mp, +28.0% y/y, resulting from the implementation of the expansion strategy in each business line. "The most important increase in 1Q19 was recorded in the reinsurance premiums and property casualty operations in the maritime transports and agricultural businesses".

On the other hand, the subsidiary **General de Seguros**, which as of March 2019, recorded sales of 569.1 mp, a drop of -18.4% y/y, "originated mainly by agricultural and life businesses, but also by other legal operations, which showed respectively [annual] decreases of -75.4%, -33.9% and -14.5%. In the case of the agricultural business, the decreases were mainly caused by the lack of subsidies and the lack of loans from development banks. In the case of the life segment, the drop was mainly because a contract is no longer available this year. In the area of other legal operations, the decrease is due to the non-renewal of certain premiums".

The net consolidated acquisition cost of PV * amounted 387 mp in 1Q19, +7.3% vs the 361 mp in 1Q18. This resulted from an increase in reinsurance commissions paid to ceding companies and the costs associated with "excess losses" that protect retention.

The net cost of consolidated claims increased +13.4%, to 834 mp. Such cost grew due to several incidents that affected the results from Re Patria. However, Peña Verde's claims ratio was 56.5%, showing a decrease of 5.5 percentage points.

The technical profit fell -18.6% y/y to 155 mp. This is explained by the following: a) an increase in the net cost of acquisition and b) the net cost of consolidated claims recorded in the period.

Peña Verde

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The **comprehensive financial result** recorded a profit of 351 mp, that compares positively against the loss of -172 mp in 1Q18. This is explained "mainly by the recovery of stock and bond investments, given the good start of the Mexican Stock Exchange [in 2019]".

PV reported a net profit of 71 mp. This result is supported by the gains in the valuation of bond and stock portfolios.

Financial situation

Summary of the Balance Sheet (MXN millions)

	1Q19	%	1Q18	%	YoY Change
Investments	14,786	73.0%	13,762	71.2%	+7.4%
Receivables	2,346	11.6%	1,785	9.2%	+31.4%
Reinsurers	2,296	11.3%	2,717	14.0%	-15.5%
Other Assets	370	1.8%	358	1.9%	+3.2%
Total Assets	20,267	100.0%	19,341	100.0%	+4.8%
Technical Reserves	12,528	61.8%	11,638	79.3%	+7.6%
Reinsurers	1,454	7.2%	954	6.5%	+52.4%
Other Liabilities	1,078	5.3%	1,386	9.4%	-22.3%
Total Liabilities	15,865	78.3%	14,681	75.9%	+8.1%
Stockholder's Equity	4,402	21.7%	4,660	24.1%	-5.5%
Total Liabilities + Equity	20,267	100.0%	19,341	100.0%	+4.8%

Source: Prognosis based on GNP

n.m. = not meaningful

According to the company's information, **total assets** amounted 20,273 mp in 1Q19, growing +4.8% y/y. Investments grew +7.4%, reinsurers fell -15.5% y/y and receivables advanced +31.4%.

Stockholder's equity. As of March 2019, stockholders' equity reached 4,402 mp (a book value per share of 9.23 pesos), an annual decrease of -5.5%.

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.

Peña Verde's Annual Income Statement (MXN millions)

	2015	2016	2017	2018	2019f
Gross Written Premiums	5,143	6,865	6,965	7,259	8,348
(-) Ceded Premiums	1,219	1,990	1,444	1,351	1,534
Net Retained Premiums	3,923	4,876	5,521	5,908	6,814
<i>Retention rate</i>	<i>76.3%</i>	<i>71.0%</i>	<i>79.3%</i>	<i>81.4%</i>	<i>81.6%</i>
(-) Net Increase in Provision for Unaccrued Premiums	107	367	497	224	341
Retention Premiums Accrued	3,816	4,508	5,025	5,683	6,473
(-) Acquisition Costs	1,004	1,317	1,550	1,792	1,976
<i>Acquisition ratio</i>	<i>25.6%</i>	<i>27.0%</i>	<i>28.1%</i>	<i>30.3%</i>	<i>29.0%</i>
(-) Insurance claims incurred	2,543	3,065	3,117	3,211	3,755
<i>Claims ratio</i>	<i>66.6%</i>	<i>68.0%</i>	<i>62.0%</i>	<i>56.5%</i>	<i>58.0%</i>
Underwriting (technical) income (loss)	270	126	357	680	743
(-) Net Increase in Other Technical Reserves	331	90	349	689	697
Gross Income	-61	36	9	-9	45
(-) Net Operating Expenses	451	605	720	503	579
<i>Operating ratio</i>	<i>8.8%</i>	<i>8.8%</i>	<i>10.3%</i>	<i>6.9%</i>	<i>6.9%</i>
Operating income (loss)	-512	-569	-712	-512	-534
Comprehensive Financing Result	1,370	921	1,368	-304	1,110
Earnings before income tax	857	352	657	-816	576
(-) Income tax payment provision	204	90	63	-250	173
<i>Income tax rate</i>	<i>23.8%</i>	<i>25.5%</i>	<i>9.7%</i>	<i>30.6%</i>	<i>30.0%</i>
Net profit (loss)	613	256.6	583	-561	399
Minority interest	40	5.3	10	-6	4
Majority Net Profit	613	256.6	583	-561	399
EPS (TTM)	1.3	0.5	1.2	-1.2	0.8
Number of shares (million)	476.7	476.7	476.7	476.7	476.7
<i>Gross written premiums growth</i>		+33.5%	+1.5%	+4.2%	+15.0%
<i>Net retained premiums growth</i>		+24.3%	+13.2%	+7.0%	+15.3%
<i>Retention premiums accrued growth</i>		+18.1%	+11.5%	+13.1%	+13.9%
<i>Net profit growth</i>		-58.1%	+127.2%	n.m.	n.m.
<i>EPS growth</i>		-58.1%	+127.2%	n.m.	n.m.

Other Indicators

	2015	2016	2017	2018	2019f
ROE	15.5%	6.0%	12.2%	-13.3%	8.6%
P/E	7.9	18.7	8.3	-8.7	12.2
P/BV	1.2	1.1	1.0	1.1	1.0
Book Value Per Share	8.3	9.0	10.2	9.0	9.8

Balance Sheet Summary (MXN millions)

	2015	2016	2017	2018	2019f
Assets	15,224	18,397	20,681	20,086	22,699
Investments	11,733	13,407	14,756	14,586	16,371
Liabilities	10,939	14,092	15,841	15,819	18,032
Technical Reserves	8,897	11,043	12,610	12,458	14,606
Total Equity	4,285	4,305	4,840	4,267	4,667
Shareholder's Equity (majority)	3,954	4,263	4,792	4,228	4,623

Source: Prognosis and BMV



Prognosis

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