

Peña Verde

Current price: MXN 10.18
12-month target price: MXN 9.0
(No liquidity risk discount applied).



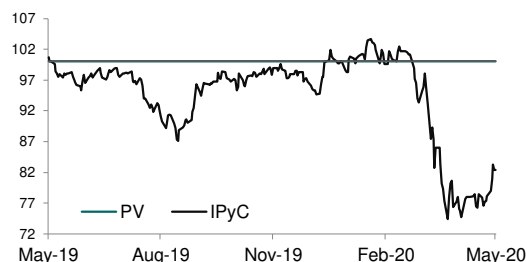
1Q20 quarterly report
May 22, 2020

Despite an improvement in the combined index, there is a net loss of 861 million pesos due to a drop in the investment portfolio, given the fall in equity positions related to the COVID-19 crisis

Key Data

Ticker	PV* MM
Exchange	BMV
12 Month T.P. (Estimated Fair Value)	MXN 9.00
Last Price	MXN 10.18
Expected Return	-11.6%
12 M Dividend Yield	0.0%
Expected Dividend Yield	0.0%
Total Expected Return	-11.6%
LTM Return PV*	0.0%
LTM Price Range (MXN)	(10.18 - 10.18)
Outstanding Shares (Million)	476.7
Free Float	1.22%
Trading Volume	Low
Market Cap (USD Million)	USD 212.23
P/E (TTM)	8.0X
Price/Book Value	1.3X
Official Website	www.corporativopv.mx

12M Return vs IPyC



	2017	2018	2019	2020f
Valuation				
P/E	8.3x	-8.7x	14.9x	-9.3x
P/BV	1.0x	1.1x	1.0x	1.2x
ROE	12.2%	-13.3%	7.0%	-13.0%
Estimates (MXN million)				
Gross Written Premiums	6,965	7,259	8,214	9,047
YoY%	1.5%	4.2%	13.2%	10.1%
Net Retained Premiums	5,521	5,908	6,635	7,240
YoY%	13.2%	7.0%	12.3%	9.1%
Underwriting Income	357	680	743	832
YoY%	184.2%	90.3%	9.4%	11.9%
Net income	583	-561	326	-519
YoY%	127.2%	n.m.	n.m.	n.m.
EPS	1.2	-1.2	0.7	-1.1
YoY%	127.2%	n.m.	n.m.	n.m.
Profitability				
Adjusted Combined Ratio	100.5%	93.8%	102.6%	100.0%
Acquisition Ratio	28.1%	30.3%	28.7%	28.1%
Claims Ratio	62.0%	56.5%	59.6%	60.0%
Operation Ratio	10.3%	6.9%	14.4%	11.9%

Source: Peña Verde, Bloomberg and Prognosis estimates

Note: Adjusted combined ratio is calculate over net retained premiums

n.m.: not meaningful

- 1Q20/1Q19 results².** Written premiums totaled 1,952 million pesos (mp), a +34% y/y increase, driven by the dynamism of Reaseguradora Patria. Technical profit added 134 mp, -13.7% y/y. Operating loss was of 186 mp and the integral result of financing registered a significant drop in valuation of 1,013 mp. Thus, the net loss was of 861 mp, an EPS (trailing 12 months) of -1.3 pesos.
- 2020 Estimates.** We expect written premiums to grow approximately +10%, driven by: (1) The dynamism of Patria Re, this year influenced by a probable positive FX rate effect and (2) a gradual return to growth path in General de Seguros. We foresee an adjusted combined ratio of 100% in 2020, with acquisition, claims and operation ratios of 28.1%, 60% and 11.9%, respectively. We estimate a net loss of -519 mp, assuming a recovery of the stock portfolio.
- New 2020-2025 Plan.** The company has launched a digital, cultural and organizational transformation plan that could be a catalyst for growth in the medium-term. This plan encompasses all Peña Verde's divisions with a horizon of 5 years, in which the company proposes to generate value, consolidate solid and sustainable growth and seek greater visibility in the stock market in order to access additional sources of financing that leverage future growth. The Covid-19 health emergency will make planning more difficult, but its results will likely be stronger.
- 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 212 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 substantially improving its visibility, as evidenced by the hiring of Andrés Millán to spearhead the financial strategy and that of Miguel A. Murcio as head of investors relations. In Prognosis's opinion, PV would be open to possibilities to increase its floating capital and leverage its future growth. Over time, this will gradually result in an increase in the market value of the PV* securities.
- Target price.** Our new 12-month T.P is 9.0, equivalent to 1.6X the estimated 2020 book value. This multiple is similar than the implicit or fair multiple that results from the Damodaran model, which is 1.05X. However, we do not incorporate a 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.

² Note: The figures presented in the report are preliminary. They do not include the first quarter of 2020 of Patria Corporate Member LTD given the difference in reporting times of the operation in the United Kingdom. Additionally, the comparative statement of income does not include PCM in any of the two years. While in the comparative of the Balance Sheet, the figures for the end of 2019 include PCM.

1. 1Q20 report

Income Statement

	Accumulated data		
	1Q20	1Q19	YoY Change
Gross Written Premiums	1,952	1,457	+34.0%
Net Retained Premiums	1,565	1,217	+28.5%
Retention Premiums Accrued	1,743	1,376	+26.6%
Acquisition Costs	443	387	+14.4%
Insurance Claims Incurred	1,166	834	+39.8%
Underwriting (Technical) Income (Loss)	134	155	-13.7%
Net Operating Expenses	101	178	-43.5%
Operating Income (Loss)	-186	-204	-8.5%
Comprehensive Financing Result	-1,013	351	n.m.
Net Profit (Loss)	-861	71	n.m.
<i>Acquisition Ratio</i>	28.3%	31.8%	-350 bp
<i>Claims Ratio</i>	66.9%	60.6%	+631 bp
<i>Operating Ratio</i>	5.2%	12.2%	-709 bp
Consolidated Combined Ratio	100.4%	104.7%	-428 bp
Adjusted Combined Ratio	98.1%	101.7%	-359 bp

Source: Prognosis and PV

n.m.: not meaningful

Note: The Adjusted Combined Ratio is calculated over Retention Premiums Accrued

Peña Verde's written premiums totaled 1,952 million pesos (mp) in 1Q20, an increase of +34% y/y, against the 1,457 mp in 1Q19. This variation is mainly explained by the dynamism in **Reaseguradora Patria**, that recorded sales of 886 mp, an added of 422.7 mp compared to 1Q19, as a result of the pursuit of increasing participation in the places in which the company operates by expanding its business lines.

For its part, the subsidiary **General de Seguros**, issued premiums for 642.9 mp, an increase of 12.7% y/y. This result was attributed to the increase in all lines -except transportation- with the automobile, life and "accident and disease" registering the greatest increases.

The net consolidated acquisition cost of PV * amounted 433 mp in 1Q20, +14.4% vs the 387 mp in 1Q19. 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 rose +39.8%, to 1,166 mp. It grew due to several incidents that affected the results from Re Patria and for a significant increase in the automobile claims of General de Seguros. Peña Verde's claims ratio over retain premiums accrued was of 66.9, showing an increase of 6.31 percentage points.

The **technical profit** fell -13.7% y/y to 134 mp. This is explained by the increase in the cost of claims and the net acquisition cost, although being partially offset by the rise in written premiums.

In addition to the above, **net operation expenses** totaled 101 mp, which compared to 178 mp in 1T19, showed a decrease of -43.5%. It is important to mention that the above is mainly attributed to the Employee Participation in Profits account, which fell significantly. Thus, operating expenses on written premiums represented 5.2% in 2020. It should be mentioned that, "excluding the extraordinary effect of the Employee Participation in Profits and the timely registration of the monthly account statements of the reinsurance taken", operating expenses were 165 mp in 1Q20, +21.1% y/y, derived from investments related to the transformation plan undertaken by the company.

The **comprehensive financial result** recorded a loss of 1,013 mp over a portfolio of 16,363 mp, that compares negatively against the gain of 351 mp in 1Q19. This is explained "mainly to the effects of the current COVID-19 pandemic, specifically, due to the its impact on the stock markets"

PV reported a net loss of 861 mp. This result is mainly based on "the poor performance of the stock markets as a result of the COVID-19, partially offset by the increase in written premiums".

Financial situation

Summary of the Balance Sheet (MXN millions)

	1Q20	%	1Q19	%	YoY Change
Investments	16,363	67.7%	14,786	73.0%	+10.7%
Receivables	2,791	11.5%	2,346	11.6%	+18.9%
Reinsurers	3,878	16.0%	2,296	11.3%	+68.9%
Other Assets	461	1.9%	370	1.8%	+24.9%
Total Assets	24,174	100.0%	20,267	100.0%	+19.3%
Technical Reserves	16,227	67.1%	12,528	79.0%	+29.5%
Reinsurers	2,509	10.4%	1,454	9.2%	+72.5%
Other Liabilities	699	2.9%	1,078	6.8%	-35.1%
Total Liabilities	20,471	84.7%	15,865	78.3%	+29.0%
Stockholder's Equity	3,703	15.3%	4,402	21.7%	-15.9%
Total Liabilities + Equity	24,174	100.0%	20,267	100.0%	+19.3%

Source: Prognosis based on GNP

n.m.: not meaningful

According to the company's information, **total assets** amounted 24,174 mp in 1Q20, growing +19.3% y/y. Investments grew +10.7%, reinsurers rose 68.9% y/y and receivables advanced +18.9%.

Regarding **liabilities**, technical reserves increased +29.5% to 16,277 mp in 1Q20 vs. 1Q19. Meanwhile, **stockholder's equity** totaled 3,703 mp (a book value per share of 7.77 pesos), a decrease of -15.9%, compared to 1Q19.

2. Relevant events

January 15, 2020. "The company announced that, whit effect from November 1, 2019, Andrés Millán Drews joined Grupo Peña Verde as Vice President of Asset Management and Financial Strategy".

January 15, 2020. "The company announced that, whit effect from February 3, 2020, María Cristina Rohde Faraudo, decided to leave the Company after more than 4 years as General Director of Administrative Services for Peña Verde".

April 15, 2020. "The company announced the measures it implemented to face the COVID-19 health emergency".

3. 2020 Estimates

We expect written premiums to grow approximately +10%, driven by: (1) The dynamism of Patria Re, this year influenced by a probable positive FX rate effect and (2) a gradual return to growth path in General de Seguros

We also expect the cost structure to remain well-behaved. We estimate an adjusted combined ratio of 100% in 2020, with acquisition, claims and operation ratios of 28.1%, 60% and 11.9%, respectively. We believe that there will be increases in operating expenses related to the transformation of the company, but that they will be offset by a decrease in expenses related to the Employee Participation in Profits.

Thus, assuming a gradual recovery of the stock portfolio that results in a slightly positive financial income, we estimate a net loss of -519 mp, or -1.1 pesos per share.

4. Peña Verde-5-year business plan

Since the publication of the 4Q19 PV report in the BMV stock market, it has become clear that attention to the potential investor has increased, given the richer and clearer information reported. After talks with the management – strengthened with new members with experience- it became clear that a transformation, not only organizational, but cultural and modernizer (through investment commitments in digital technology), is underway.

Organizational. The company announced the hiring of Andres Millan, an executive with experience – among other places, in the World Bank – as Vice President of Asset Management and Financial Strategy, with the departure of María Cristina Rohde, who until November had served as General Director of Administrative Services of PV. In addition to that, the function of investor relations is formalized with the hiring of Miguel Angel Murcio (Corporate Finance Manager).

On the other hand, the role of the SAPV holding is transformed with two important functions to support the companies: 1) Business support and transformation and 2) asset management and financial strategy. It is worth mentioning that the Group is divided into two divisions, that of Insurance, which brings of Health and the Call Center and the Reinsurance division formed by Patria and Patria Corporate Member LTD in London.

Cultural. A greater professionalization of the subscription of risks and operation processes is sought, with measurements parameters that did not exist before.

Digital. The administration decided to promote a digital transformation of all its processes. To do this, it will invest 4% of its total revenues in cutting-edge technology to compete more strongly in the Mexican financial market. Of this total, between 15 and 25% of the resources will be classified as investment (CAPEX) and the remaining as operating expense.

The main objective of the transformation embodied in the 5-year Business Plan is to generate value for PV shareholders, customers, and employees. The plan sees that around 2023 the company could be growing at high and sustained rates, maintaining good profitability. A particularly important additional objective is to improve the visibility of the Group and its relationship with the stock market, in order to help leverage future growth. Over time, in our view, this will result in actions that gradually increase the stock market value of PV*.

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Peña Verde's Annual Income Statement (MXN millions)

	2015	2016	2017	2018	2019	2020f
Gross Written Premiums	5,143	6,865	6,965	7,259	8,214	9,047
(-) Ceded Premiums	1,219	1,990	1,444	1,351	1,579	1,807
Net Retained Premiums	3,923	4,876	5,521	5,908	6,635	7,240
<i>Retention rate</i>	76.3%	71.0%	79.3%	81.4%	80.8%	80.0%
(-) Net Increase in Provision for Unaccrued Premiums	107	367	497	224	326	281
Retention Premiums Accrued	3,816	4,508	5,025	5,683	6,309	6,960
(-) Acquisition Costs	1,004	1,317	1,550	1,792	1,808	1,956
<i>Acquisition ratio</i>	26.3%	29.2%	30.9%	31.5%	28.7%	28.1%
(-) Insurance claims incurred	2,543	3,065	3,117	3,211	3,757	4,172
<i>Claims ratio</i>	66.6%	68.0%	62.0%	56.5%	59.6%	60.0%
Underwriting (technical) income (loss)	270	126	357	680	743	832
(-) Net Increase in Other Technical Reserves	331	90	349	689	668	776
Gross Income	-61	36	9	-9	75	55
(-) Net Operating Expenses	451	605	720	503	907	831
<i>Operating ratio</i>	11.8%	13.4%	14.3%	8.9%	14.4%	11.9%
Operating income (loss)	-512	-569	-712	-512	-832	-776
Comprehensive Financing Result	1,370	921	1,368	-304	1,301	62
Earnings before income tax	857	352	657	-816	469	-714
(-) Income tax payment provision	204	90	63	-250	139	-190
<i>Income tax rate</i>	23.8%	25.5%	9.7%	30.6%	29.8%	26.6%
Net profit (loss)	613	256.6	583	-561	326	-519
Minority interest	40	5.3	10	-6	4	-5
Majority Net Profit	613	256.6	583	-561	326	-519
EPS (TTM)	1.3	0.5	1.2	-1.2	0.7	-1.1
Number of shares (million)	476.7	476.7	476.7	476.7	476.7	476.7
<i>Gross written premiums growth</i>		+33.5%	+1.5%	+4.2%	+13.2%	+10.1%
<i>Net retained premiums growth</i>		+24.3%	+13.2%	+7.0%	+12.3%	+9.1%
<i>Retention premiums accrued growth</i>		+18.1%	+11.5%	+13.1%	+11.0%	+10.3%
<i>Net profit growth</i>		-58.1%	+127.2%	n.m.	n.m.	n.m.
<i>EPS growth</i>		-58.1%	+127.2%	n.m.	n.m.	n.m.

Other Indicators

	2015	2016	2017	2018	2019	2020f
ROE	15.5%	6.0%	12.2%	-13.3%	7.0%	-13.0%
P/E	7.9	18.7	8.3	-8.7	14.9	-9.3
P/BV	1.2	1.1	1.0	1.1	1.0	1.2
Book Value Per Share	8.3	9.0	10.2	9.0	9.9	8.5

Balance Sheet Summary (MXN millions)

	2015	2016	2017	2018	2019	2020f
Assets	15,224	18,397	20,681	20,086	22,917	26,942
Investments	11,733	13,407	14,756	14,586	15,882	18,547
Liabilities	10,939	14,092	15,841	15,819	18,217	22,897
Technical Reserves	8,897	11,043	12,610	12,458	13,957	18,318
Total Equity	4,285	4,305	4,840	4,267	4,700	4,045
Shareholder's Equity (majority)	3,954	4,263	4,792	4,228	4,657	4,009

Source: Prognosis and BMV



Prognosis

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