

# Peña Verde

# 2Q15

## Quarterly Report

Last Price 9.18 MXN

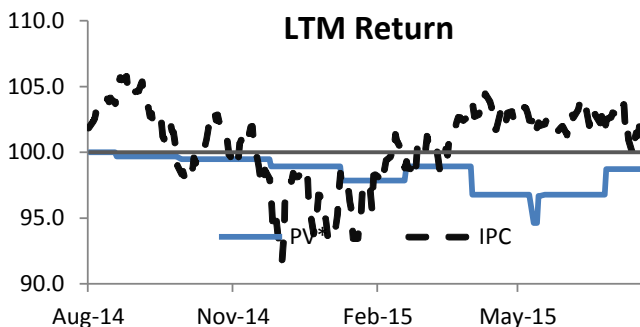
Target Price 9.00 MXN

August 3th, 2015

**The trend of high premia and high claims continued. Strong financial products, despite high volatility, allow a net profit of MXN 232.4 million, in the 1H15**

### Key Data

Local Ticker	PV*
12 M Target Price	MXN 9.00
Last Price	MXN 9.18
Expected Return	-2.0%
2015f Div. Yield	8.1%
Total Expected Return	6.1%
MEXBOL Expected Return	3.6%
LTM Return PV*	-1%
Outstanding Shares (million)	476.7
Free Float	2.3%
Beta	N.A.
Marketability	Low
Avrg Daily Trade 6M (MXN)	MXN 32,603.2
Market Capitalization (MXN million)	MXN 4,376
Book Value per Share	MXN 7.83
Enterprise Value (Million)	MXN 4,454
LTM Price Range	(8.80 - 9.30)



- Target Price.** Although written premia as well as net earnings stand above our forecasts, we reiterate our MXN 9.0 per share Target Price for y-e 2015. Our TP is in line with the current price of the PV\* shares, and does not include any new business diversification. The shares continue to trade very thinly.
- Balance between growth and quality of risks taken.** In the short term, we believe that the management's main challenge is to continue growing the company while controlling the claims ratio.
- Growth strategy on track by 2018.** As of next quarter, PV's growth strategy will be tested as written premiums comparisons will be more difficult. We believe that General de Seguros will approach \$ 3 billion pesos in premiums generated by 2018 and Patria will reach USD 200 million by the same year.
- New projects.** Judging from our conversations with management, there is an intention to continue using the PV platform for potential new businesses. Although the company does not reveal the specific nature of these businesses, it is clear, in our view, that the company seeks greater visibility in the future.

	2012	2013	2014	2015f
<b>Valuation</b>				
P/E	1.3x	81.0x	13.6x	12.4x
P/BV	0.31x	1.34x	1.32x	1.18x
<b>Estimates (MXN)</b>				
Gross Written Premiums	3,462	3,321	4,190	4,839
YoY%	7.3%	-4.1%	26.2%	15.5%
Net Premiums Retained	2,779	2,675	3,204	3,717
YoY%	9.8%	-3.8%	19.8%	16.0%
Underwriting (technical) in	505	461	287	431
YoY%	148.8%	-8.9%	-37.7%	50.4%
Net income	760	55	321	353
EPS	3.80	0.11	0.67	0.74
YoY%	-74%	-97%	487%	10%
<b>Profitability</b>				
Combined Ratio	91.9%	89.5%	97.0%	94.8%
Acquisition Ratio	28.0%	29.5%	28.3%	26.5%
Claims Ratio	51.6%	50.8%	58.7%	58.9%
Operation Ratio	12.2%	9.1%	10.0%	9.5%
ROE	23.5%	1.7%	9.7%	10.0%

### 2Q15 Earnings Report.

**Written premiums totaled 1,399.8 million pesos (mp) in the second quarter of 2015**, a strong annual increase of 49%, this rise is led by the subsidiary "General de Seguros", which seems to be successfully orchestrating its growth strategy with record sales of new cars in the country. In fact, in the first half of the year, "General de Seguros" showed an increase of 45.6% in sales, where the branches with the highest growth in the first half of the year were agriculture (+96%) and automobiles (+66.7 %) by picking truck fleet business.

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Meanwhile subsidiary “**Reaseguradora Patria**”, increased 31.4% sales to \$ 956 mp in the first half of the year, which was driven by the issuing of more premiums for reinsurance in the fields of other catastrophic risks, like automobile fire and others.

The **net acquisition cost** in the 2Q15 totaled 253.2 mp, 25% higher than in 2Q14, because of an increase in the income of written premiums. Claims rose to 506.2 mp, 52% higher than in 2Q14, but -11.5% lower than 1Q15. While claims have risen, affecting the technical income, especially in the last quarter, the management has contained expenses better, boosting technical income 401% vs the 1Q15, and a moderate decrease of -4% over the 2Q14.

According to company’s information, **assets** totaled \$13,844.5 mp in 2Q15, increasing 17.7% YoY. **Investments in securities** rose to \$1,325.1 mp.

The **Comprehensive Financing Result** totaled 177.6 mp, although lower than the 320.3 mp from the last quarter, and also much lower than the 463.5 mp from 2Q14, the accumulated for the first half of the year is 20.4% higher than the same period from last year.

As a result, PV reported a **net income** of \$123.4 mp, down -54% compared to 2Q15 mainly due **to higher expenses and lower investment performance**.

At the end of March 2015, the net worth of PV reached a total of \$ 3,809.4 mp, virtually unchanged from 2Q14.

<b>Income Statement</b>	2Q14	2Q15	2Q15 vs 2Q14 %
<i>(in current million pesos)</i>			
<b>Gross Written Premiums</b>	938.1	1,399.8	49%
Premiums Ceded	241.1	367.8	53%
Net Premiums Retained	697.0	978.0	40%
Retention Premiums Accrued	676.1	894.7	32%
(-) Acquisition Costs	202.4	253.2	25%
(-) Insurance claims incurred	332.2	506.2	52%
<b>Underwriting (technical) income (loss)</b>	141.5	135.3	-4%
Gross Income	65.4	49.9	-24%
(-) Net Operating Expenses	107.9	114.8	6%
<b>Operating income (loss)</b>	(42.5)	(64.8)	52%
Comprehensive Financing Result	463.5	177.6	-62%
<b>Net Profit/Loss</b>	271.2	123.4	-54%
Majority Net Profit	20.8	7.8	-63%
Minority Interest	271.2	123.4	-54%

Source: PV y Prognosis

### 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 with the exception of the USA.

## Peña Verde's Annual Income Statement (million MXN)

	2011	2012	2013	2014	2015f
Gross Written Premiums	3,226.2	3,461.5	3,320.6	4,190.0	4,838.6
Premiums Ceded	695.2	682.0	646.0	986.1	964.4
Net Premiums Retained	2,531.0	2,779.5	2,674.6	3,203.9	3,717.2
<i>Net Premiums Retained rate</i>	78%	80%	81%	76%	77%
Net Increase in Provision for Unaccrued Premiums	137.4	125.3	132.7	314.7	274.2
Retention Premiums Accrued	2,393.6	2,654.2	2,541.9	2,889.2	3,443.0
Acquisition Costs	679.4	779.4	789.2	907.5	984.2
<i>Aquisition ratio</i>	27%	28%	30%	28%	26%
Insurance claims incurred	1,511.0	1,369.3	1,292.2	1,694.9	2,027.4
<i>Claims ratio</i>	63%	52%	51%	59%	59%
Underwriting (technical) income (loss)	203.1	505.5	460.5	286.9	431.4
Net Increase in Other Technical Reserves	277.1	315.2	315.6	282.9	354.2
Gross Income	-74.0	190.5	145.0	4.3	77.3
Net Operating Expenses	231.6	339.9	243.9	320.1	352.5
<i>Operating ratio</i>	9%	12%	9%	10%	9%
Operating income (loss)	-305.5	-149.3	-98.9	-315.8	-275.2
Comprehensive Financing Result	445.7	1,238.1	109.6	363.6	827.4
Earnings before income tax	140.6	1,088.8	10.8	47.8	552.2
Income tax payment provision	-41.5	268.0	-59.6	-9.9	119.3
Income tax rate	-29.5%	24.6%	-553.5%	-20.8%	21.6%
Net profit (loss)	182.1	820.8	59.5	349.3	384.2
Minority interest	110.0	61.3	10.9	27.9	30.7
Majority Net Profit	71.7	759.5	54.7	321.3	353.4
EPS	14.64	3.80	0.11	0.67	0.74
Number of shares (million)	4.9	200.0	476.7	476.7	476.7
Gross Written Premiums growth		7.3%	-4.1%	26.2%	15.5%
Net profit growth		958.7%	-92.8%	487.1%	10.0%
EPS growth		-74.1%	-97.0%	487.1%	10.0%
Cost index					
Aquisition Ratio	26.8%	28.0%	29.5%	28.3%	26.5%
Claims Ratio	63.1%	51.6%	50.8%	58.7%	58.9%
Operation Ratio	9.1%	12.2%	9.1%	10.0%	9.5%
Combined Ratio	<b>99.1%</b>	<b>91.9%</b>	<b>89.5%</b>	<b>97.0%</b>	<b>94.8%</b>
<b>Other Indicators</b>					
Dividends	16.9	0.0	0.0	0.0	0.0
ROE	6.9%	23.5%	1.7%	9.7%	10.0%
P/E	0.34x	1.32x	81.00x	13.65x	12.41x
P/BV	0.02x	0.31x	1.34x	1.32x	1.18x
<b>Balance Sheet Summary (million MXN)</b>					
Assets	9,624.9	10,715.8	10,952.6	12,568.9	14,696.6
Investments	7,441.6	8,615.6	8,855.8	9,741.0	11,193.3
Cash and Deposits	89.7	162.0	147.3	147.3	220.4
Liabilities	6,591.1	7,214.7	7,366.2	8,949.5	10,654.6
Technical Reserves	5,450.1	5,558.9	5,856.3	7,354.5	8,843.3
Total Equity	3,033.8	3,501.1	3,586.4	3,619.4	4,042.0
Shareholder's Equity (majority)	1,044.9	3,231.1	3,304.4	3,326.6	3,710.8

Source: Prognosis and BMV



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