

PEÑA VERDE

Quarterly Report 2Q16

Current Price MXN 10.0

Target Price 2016 MXN 9.90

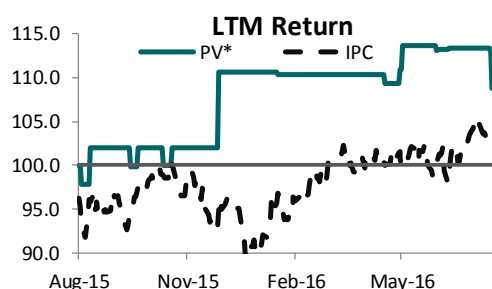
Thursday, August 04, 2016

Outstanding Financial gains drive net income, despite a higher than expected combined ratio. Written premiums maintain a rate of + 16% in 1H16, in line with our forecasts. The company has begun to operate in the London Lloyd's market.

- Stellar Financial products by +975 mp outshine an operating loss of -275 mp in the 1H16. Net income reaches our annual estimate, while PV * book value in June (9.90 ps) is 10% higher than our December 2016 estimate and identical to our target price.
- Despite the superb report, we decided to maintain our 2016 estimates unchanged, given the volatile nature of the Mexican stock market, where a large share of PV portfolio is invested.

Key Data

Local Ticker	PV*
2016 Target Price	MXN 9.90
Last Price	MXN 10.00
Expected Return	-1.0%
LTM Return PV*	9%
Outstanding Shares (million)	476.7
Free Float	3.0%
Marketability	Low
Market Capitalization (MXN million)	MXN 4,767
LTM Price Range	(9.00 - 10.45)



	2013	2014	2015	2016F
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%
Aquisition 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 4,767 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. 2Q16 Report

• **Written premiums increase +16.1% in 1H16, but the creation of technical reserves related to new financial and insurance law methodology, and high claims, affected results. However, a strong investment portfolios appreciation boost net profit to 415.2 mp**

PV written premiums totaled 1,524.3 million pesos (mp) in 1Q16, a +8.9%YoY increase. Written premiums rose +16.1% in 1H16 to 2,941 mp in line with our estimates.

General de Seguros subsidiary contributed with 1,710 mp, mainly due to annualized premiums and Life operations, since the new Insurance Institutions Law and the placement of a new business in the Health field started. *Reaseguradora Patria* written premiums increased by 18.4% QoQ in 2Q16 reaching 1,131.6 mp driven by growth in fire, diverse and transportation business lines.

Ceded premiums increased sharply to 687.4 mp in 1H16, while retention premiums accrued totaled 2,253.9 mp. It is noteworthy, that the difference between the retained premiums and earned premiums are explained by the unexpired risks reserve, which amounted to 269.3 million pesos. 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 -61.75 mp (vs +169 mp in 1H15), was 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 in 2Q16 42.8% QoQ. It is noteworthy that the loss ratio increased to 72.6% due to the increase of 145 mp in the reserve to meet outstanding obligations for claims incurred but unreported (IBNR) of “Reaseguradora Patria” and the earthquake that hit Ecuador last April.

Operating loss amounted to -275.3 mp, driven by an increase of 60% in net operating expenses in 1H16 vs 1H15. This figure exceeded our estimate considerably.

The comprehensive financing cost in the 2Q16 was +681.8 mp, an impressive result compared to both the 1Q16 (293.2 mp) and the the 2Q15 (177.6 mp). Thus, in the 1H16 net financial gains amounted +975 mp, exceeding our estimate for all 2016 of +840 mp. The main reason for this stellar performance has been the appreciation of the company’s stock portfolio.

Thus, net income totaled +415.2 mp in the 1H16, 14 mp higher than our estimate for the full year 2016. Despite this fact, we decided to keep our estimates unchanged for 2016, given the volatile nature of the Mexican stock market where a large share of PV portfolio is invested.

Stockholders equity rose +22.3% YoY to 4,714.5 mp in the 2Q16 corresponding to the net income generated in the last 12 months. The book value of PV * in June 2016 is 9.90 pesos per share, 10% higher than our estimate for December 2016.

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NOTE: FIGURES ARE NOT COMPARABLE ACCORDING TO MANAGEMENT

Income Statement	2Q16	2Q15	2Q16 va 2Q15 %
<i>(in current million pesos)</i>			
Gross Written Premiums	1,524.3	1,399.8	8.9%
Premiums Ceded	432.7	367.8	17.7%
Net Premiums Retained	1,091.5	978.0	11.6%
Retention Premiums Accrued	1,027.9	894.7	14.9%
(-) Acquisition Costs	259.2	253.2	2.4%
(-) Insurance claims incurred	722.8	506.2	42.8%
Underwriting (technical) income (loss)	44.9	135.3	-66.8%
Gross Income	181.2	49.9	263.0%
(-) Net Operating Expenses	134.1	114.8	16.9%
Operating income (loss)	47.1	(64.8)	N.A.
Comprehensive Financing Result	681.9	177.6	284.0%
Net Profit/Loss	518.3	123.4	319.9%
Majority Net Profit	56.6	7.8	626.5%
Minority Interest	518.3	123.4	319.9%

Source: PV y Prognosis

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%	12%	10%	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

Income Statement January 1st to June 30th

CUENTA / SUBCUENTA	TRIMESTRE AÑO ACTUAL	TRIMESTRE AÑO ANTERIOR
	IMPORTE	IMPORTE
Primas	0	0
Emittidas	2,941,404,572	0
(-) Cedidas	687,419,795	0
De Retención	2,253,984,777	0
(-) Incremento Neto de la Reserva de Riesgos en Curso y de Fianzas en Vigor	269,285,147	0
Primas de Retención Devengadas	1,984,699,629	0
(-) Costo Neto de Adquisición	605,418,704	0
Comisiones a Agentes	121,676,962	0
Compensaciones Adicionales a Agentes	76,602,260	0
Comisiones por Reaseguro y Reafianzamiento Tomado	228,272,463	0
(-) Comisiones por Reaseguro Cedido	-133,065,274	0
Cobertura de Exceso de Pérdida	126,042,691	0
Otros	185,889,602	0
(-) Costo Neto de Siniestralidad, Reclamaciones y Otras Obligaciones Pendientes de Cumplir	1,441,028,359	0
Siniestralidad y Otras Obligaciones Pendientes de Cumplir	1,445,455,612	0
Siniestralidad Recuperada del Reaseguro No Proporcional	-32,798,897	0
Reclamaciones	28,371,643	0
Utilidad (Pérdida) Técnica	-61,747,433	0
(-) Incremento Neto de Otras Reservas Técnicas	-82,035,032	0
Reserva para Riesgos Catastróficos	-91,278,585	0
Reserva para Seguros Especializados	0	0
Reserva de Contingencia	9,243,553	0
Otras Reservas	0	0
Resultado de Operaciones Análogas y Conexas	82,893	0
Utilidad (Pérdida) Bruta	20,370,491	0
(-) Gastos de Operación Netos	295,716,857	0
Gastos Administrativos y Operativos	76,525,966	0
Remuneraciones y Prestaciones al Personal	210,111,556	0
Depreciaciones y Amortizaciones	9,079,334	0
Utilidad (Pérdida) de la Operación	-275,346,365	0
Resultado Integral de Financiamiento	975,076,978	0
De Inversiones	232,260,204	0
Por Venta de Inversiones	2,733,480	0
Por Valuación de Inversiones	705,843,985	0
Por Recargo sobre Primas	14,286,238	0
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	-548,839	0
Castigos preventivos por Riesgos Crediticios	-1,245,193	0
Otros	5,071,079	0
Resultado Cambiario	16,676,023	0
Resultado por Posición Monetaria	0	0
Participación en el Resultado de Inversiones Permanentes	0	0
Utilidad (Pérdida) antes de Impuestos a la Utilidad	699,730,613	0
Provisión para el pago del Impuestos a la Utilidad	241,540,339	0
Utilidad (Pérdida) antes de Operaciones Discontinuas	458,190,273	0
Operaciones Discontinuas	0	0
Utilidad (Pérdida) del Ejercicio	415,215,593	0
Participación No Controladora	42,974,681	0
Participación Controladora	415,215,593	0



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