

Peña Verde

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



2Q19 quarterly report

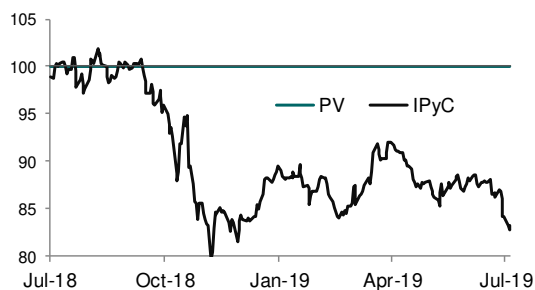
August 1, 2019

The investment portfolio continues to recover, supporting the advance in net income, in line with our forecasts

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*	0.0%
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 254.53
P/E (TTM)	-7.7X
Price/Book Value	1.1X
Official Website	www.corporativpv.mx

12M Return vs IPyC



	2016	2017	2018	2019f
Valuation				
P/E	18.7x	8.3x	-8.7x	19.2x
P/BV	1.1x	1.0x	1.1x	1.1x
ROE	6.0%	12.2%	-13.3%	5.6%
Estimates (MXN million)				
Gross Written Premiums	6,865	6,965	7,259	7,882
YoY%		1.5%	4.2%	8.6%
Net Retained Premiums	4,876	5,521	5,908	6,560
YoY%		13.2%	7.0%	11.0%
Underwriting Income	126	357	680	634
YoY%		184.2%	90.3%	-6.7%
Net income	257	583	-561	253
YoY%		127.2%	n.m.	n.m.
EPS	0.5	1.2	-1.2	0.5
YoY%		127.2%	n.m.	n.m.
Profitability				
Combined Ratio	103.8%	100.5%	93.8%	98.9%
Aquisition Ratio	27.0%	28.1%	30.3%	29.0%
Claims Ratio	68.0%	62.0%	56.5%	60.5%
Operation Ratio	8.8%	10.3%	6.9%	9.4%

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

- 2H19/2H18 results.** Written premiums totaled 3,423 million pesos (mp), a +6.8% y/y increase, driven by Reaseguradora Patria (+15.5% y/y). Technical profit reached 231 mp. The operating loss was -559 mp and the integral result of financing totaled +776 mdp. Thus, the net profit reached 112 mp, an EPS (trailing 12 months) of -1.32 pesos per share.
- 2019 forecasts.** We recognize that the results in General de Seguros need to improve considerably, although we anticipate that written premiums of PV will grow approximately +9% in the year, supported by the good dynamism in Re-Patria. We estimate that the combined ratio will approach 98.9%. We also assume that investments will perform more normally during 2019. Thus, we reach an estimated net profit of 249 mp, an EPS of 0.5 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 256 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 our opinion, a private transaction would make sense if a strategic partner would add value to the PV business.
- Target price.** We reiterate our 12-month T.P at 9.80 pesos, equivalent to 1.02X the estimated 2019 book value. This multiple is lower to the implicit multiple that results from Damodaran model (1.05X). 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. 2H19 (2Q accumulated) report

Income Statement			
	Accumulated data		
	2Q19	2Q18	YoY Change
Gross Written Premiums	3,423	3,206	+6.8%
Net Retained Premiums	2,861	2,581	+10.8%
Retention Premiums Accrued	2,906	2,745	+5.9%
Acquisition Costs	830	805	+3.2%
Insurance Claims Incurred	1,845	1,630	+13.2%
Underwriting (Technical) Income (Loss)	231	311	-25.8%
Net Operating Expenses	427	218	+96.2%
Operating Income (Loss)	-559	-241	+131.9%
Comprehensive Financing Result	776	411	+88.7%
Net Profit (Loss)	112	179	-37.5%
<i>Acquisition Ratio</i>	29.0%	31.2%	-216 bp
<i>Claims Ratio</i>	63.5%	59.4%	+413 bp
<i>Operating Ratio</i>	12.5%	6.8%	+569 bp
Combined Ratio	105.0%	97.3%	+766 bp

Source: Prognosis and PV

n.m.: not meaningful

Note: The acquisition and operating ratios consider the net retained premiums, while the claims ratio considers the retention premiums accrued.

Peña Verde's accumulated written premiums totaled 3,423 million pesos (mp) in 2Q19, an increase of +6.8% y/y, against the 3,206 mp in 2Q18. This variation is mainly explained by the dynamism in **Reaseguradora Patria**, that recorded sales of 1,952 mp, +15.5% y/y, resulting from the implementation of the expansion strategy in each business line.

On the other hand, the subsidiary **General de Seguros**, which as of June 2019, recorded sales of 569.1 mp, a drop of -11.0% y/y, "originated mainly by agricultural, fire and life businesses which showed respectively [annual] decreases of -45.6%, -23.0% and -13.4%".

The net consolidated acquisition cost of PV * amounted 830 mp in 2Q19, +3.2% vs the 805 mp in 2Q18. 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 +13.2%, to 1,845 mp. Peña Verde's claims ratio was 63.5%, showing an increase of 4.13 percentage points.

The technical profit fell -25.8% y/y to 231 mp. This is explained by the net cost of consolidated claims recorded in the period.

"Operating expenses" amounted 427.3 mp, which represent 12.5% of the written premiums. The figure in 2Q19 grew +96.2% y/y vs the 217.8 mp in 2Q18, mainly due to monthly reinsurance accounts that recorded a benefit of 7.7 mp at the end of June 2018 and a deficit of 11.2 mp at the end of June 2019. In addition, operating expenses

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include participation of workers in profits which amounted 76.3 mp. Moreover, it includes the recovery in investment portfolios and expenses in IT projects.”

The **comprehensive financial result** recorded a profit of 776 mp, +88.7% y/y vs the 411 mp in 2Q19. This is explained “mainly due to the increase in the valuation of investments securities from the Mexican Stock Exchange recovered”.

PV reported a net profit of 112 mp.

Financial situation

Summary of the Balance Sheet (MXN millions)

	2Q19	%	2Q18	%	YoY Change
Investments	14,933	70.8%	14,527	70.3%	+2.8%
Receivables	2,724	12.9%	1,930	9.3%	+41.1%
Reinsurers	2,419	11.5%	3,130	15.1%	-22.7%
Other Assets	379	1.8%	337	1.6%	+12.4%
Total Assets	21,080	100.0%	20,670	100.0%	+2.0%
Technical Reserves	12,936	61.4%	12,444	79.6%	+4.0%
Reinsurers	1,692	8.0%	1,114	7.1%	+51.9%
Other Liabilities	1,098	5.2%	1,363	8.7%	-19.4%
Total Liabilities	16,660	79.0%	15,631	75.6%	+6.6%
Stockholder's Equity	4,420	21.0%	5,039	24.4%	-12.3%
Total Liabilities + Equity	21,080	100.0%	20,670	100.0%	+2.0%

Source: Prognosis based on GNP

n.m.: not meaningful

According to the company's information, **total assets** amounted 21,080 mp in 2Q19, growing +2.0% y/y. Investments grew +2.8%, reinsurers fell -22.7% y/y and receivables advanced +41.1%.

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	7,882
(-) Ceded Premiums	1,219	1,990	1,444	1,351	1,322
Net Retained Premiums	3,923	4,876	5,521	5,908	6,560
<i>Retention rate</i>	<i>76.3%</i>	<i>71.0%</i>	<i>79.3%</i>	<i>81.4%</i>	<i>83.2%</i>
(-) Net Increase in Provision for Unaccrued Premiums	107	367	497	224	139
Retention Premiums Accrued	3,816	4,508	5,025	5,683	6,421
(-) Acquisition Costs	1,004	1,317	1,550	1,792	1,903
<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	3,884
<i>Claims ratio</i>	<i>66.6%</i>	<i>68.0%</i>	<i>62.0%</i>	<i>56.5%</i>	<i>60.5%</i>
Underwriting (technical) income (loss)	270	126	357	680	634
(-) Net Increase in Other Technical Reserves	331	90	349	689	723
Gross Income	-61	36	9	-9	-89
(-) Net Operating Expenses	451	605	720	503	742
<i>Operating ratio</i>	<i>8.8%</i>	<i>8.8%</i>	<i>10.3%</i>	<i>6.9%</i>	<i>9.4%</i>
Operating income (loss)	-512	-569	-712	-512	-831
Comprehensive Financing Result	1,370	921	1,368	-304	1,247
Earnings before income tax	857	352	657	-816	416
(-) Income tax payment provision	204	90	63	-250	159
<i>Income tax rate</i>	<i>23.8%</i>	<i>25.5%</i>	<i>9.7%</i>	<i>30.6%</i>	<i>38.3%</i>
Net profit (loss)	613	256.6	583	-561	253
Minority interest	40	5.3	10	-6	4
Majority Net Profit	613	256.6	583	-561	253
EPS (TTM)	1.3	0.5	1.2	-1.2	0.5
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%	+8.6%
<i>Net retained premiums growth</i>		+24.3%	+13.2%	+7.0%	+11.0%
<i>Retention premiums accrued growth</i>		+18.1%	+11.5%	+13.1%	+13.0%
<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%	5.6%
P/E	7.9	18.7	8.3	-8.7	19.2
P/BV	1.2	1.1	1.0	1.1	1.1
Book Value Per Share	8.3	9.0	10.2	9.0	9.6

Balance Sheet Summary (MXN millions)

	2015	2016	2017	2018	2019f
Assets	15,224	18,397	20,681	20,086	21,785
Investments	11,733	13,407	14,756	14,586	15,725
Liabilities	10,939	14,092	15,841	15,819	17,224
Technical Reserves	8,897	11,043	12,610	12,458	13,951
Total Equity	4,285	4,305	4,840	4,267	4,561
Shareholder's Equity (majority)	3,954	4,263	4,792	4,228	4,518

Source: Prognosis and BMV



Prognosis

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