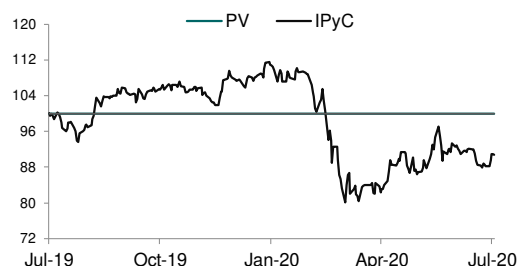


## Significant recovery of the investment portfolio in 2Q helps trim out the net loss, related to the COVID-19 crisis in 1Q, to -443 mp in 1H20. We anticipate an EPS of -1.1 pesos at the end of the year, and a material improvement in 201

### 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 217.77
P/E (TTM)	-21.2X
Price/Book Value	1.1X
Official Website	www.corporativopv.mx

### 12M Return vs IPyC



	2017	2018	2019	2020f
<b>Valuation</b>				
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%
<b>Estimates (MXN million)</b>				
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	695
YoY%	184.2%	90.3%	9.4%	-6.5%
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.
<b>Profitability</b>				
Adjusted Combined Ratio	100.5%	93.8%	102.6%	102.0%
Acquisition Ratio	28.1%	30.3%	28.7%	28.0%
Claims Ratio	62.0%	56.5%	59.6%	62.0%
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

- 1H20/1H19 results<sup>2</sup>.** Written premiums totaled 4,373 million pesos (mp), a +28% y/y increase, driven by the good dynamism of *Reaseguradora Patria*. Technical profit added 205 mp, -11% y/y. Operating loss was of 621 mp and the integral result of financing trimmed out the loss to just 82 mp. Thus, the net loss was of 861 mp, an EPS (trailing 12 months) of -0.3 pesos per share.
- 2020 Estimates.** Guided by the company, 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 102% in 2020, with acquisition, claims and operation ratios of 28.1%, 62% and 11.9%.
- New 2020-2025 Plan.** The company has launched a new digital, cultural and organizational transformation plan that could be a catalyst for solid growth in the medium-term. This plan encompasses all Peña Verde's divisions with a horizon of 5 years, in which the company proposes; among other things, 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 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 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 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, in our opinion, this will gradually result in an increase in the market value of the PV\* securities.
- Target price.** We maintain our 12-month T.P at 9.0 pesos, equivalent to 1.6X the estimated 2020 book value. This multiple is higher 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.

<sup>2</sup> Note: The figures presented in the report are preliminary. They do not include the second quarter of 2019 and 2020 of Patria Corporate Member LTD given the difference in reporting times of the operation in the United Kingdom.

### 1. 2Q20 report

#### Income Statement

	Accumulated data			Non-accumulated data		
	2Q20	2Q19	YoY Change	2Q20	2Q19	YoY Change
<b>Gross Written Premiums</b>	4,373	3,423	+27.7%	2,421	1,967	+23.1%
<b>Net Retained Premiums</b>	3,533	2,861	+23.5%	1,968	1,643	+19.8%
<b>Retention Premiums Accrued</b>	3,528	2,906	+21.4%	1,785	1,530	+16.7%
Acquisition Costs	997	830	+20.1%	554	443	+25.0%
Insurance Claims Incurred	2,326	1,845	+26.0%	1,160	1,011	+14.7%
<b>Underwriting (Technical) Income (Loss)</b>	205	231	-11.1%	71	76	-5.9%
Net Operating Expenses	336	427	-21.3%	236	249	-5.3%
<b>Operating Income (Loss)</b>	-621	-559	+11.0%	-435	-356	+22.2%
Comprehensive Financing Result	-82	776	n.m.	931	426	+118.7%
<b>Net Profit (Loss)</b>	-443	112	n.m.	418	41	+920.5%
<i>Acquisition Ratio</i>	28.2%	29.0%	-81 bp	28.2%	27.0%	+119 bp
<i>Claims Ratio</i>	65.9%	63.5%	+244 bp	65.0%	66.1%	-112 bp
<i>Operating Ratio</i>	7.7%	12.5%	-479 bp	9.7%	12.7%	-292 bp
<b>Consolidated Combined Ratio</b>	<b>101.8%</b>	<b>105.0%</b>	<b>-316 bp</b>	<b>9.7%</b>	<b>12.7%</b>	<b>-292 bp</b>
<b>Adjusted Combined Ratio</b>	<b>103.7%</b>	<b>106.8%</b>	<b>-304 bp</b>	<b>102.9%</b>	<b>105.7%</b>	<b>-285 bp</b>

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 4,373 million pesos (mp) in 1H20, an increase of +27.7% y/y, against the 3,423 mp in 1H19. This variation is mainly explained by the dynamism in **Reaseguradora Patria**, that recorded sales of 3,060 mp, +53% y/y compared to 1H19, 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 1,138 mp, a decrease of -4% y/y.

**The net consolidated acquisition cost** of PV \* amounted 997 mp in 1H20, +14.4% vs the 830 mp in 1S19. This came 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 +26%, to 2,326 mp. Such cost grew due to several incidents that affected the results from Re Patria, that were partially compensated by the reduction in the claims of General de Seguros. Peña Verde's claims ratio over retain premiums accrued was of 65.9 in the first half of the year, showing an increase of 2.4 percentage points.

The **technical profit** fell -11% y/y to 205 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 306 mp, -21% y/y. It is important to mention that the above is mainly attributed to the Employee Participation in Profits account, which fell significantly, in line with the net loss. Thus, operating expenses on written premiums represented 7.7% in 1H20.

The **comprehensive financial result** accumulates a loss of 82 mp, that compares negatively against the gain of 776 mp in 1H19. This is explained mainly due to the effects of the current COVID-19 pandemic, specifically, for its impact on the stock markets in the 1Q20 which were not totally compensated by the generalized recovery during 2Q20. In this last quarter, the financial gains were of 931 mp over a portfolio of 17,494.3 million. This profit was driven by a rise in the FX rate, a better valuation of the debt instruments due to lower rates, and the rebound of equities during the 2Q20.

**PV reported a cumulative net loss** of 443 mp in 1H20. However, with non-accumulated figures, in the 2Q20 the company totaled a net profit of 418 mp, thanks to the good performance of the investment portfolio and the increase in written premiums.

### Financial situation

#### Summary of the Balance Sheet (MXN millions)

	2Q20	%	2Q19	%	YoY Change
Investments	17,494	68.1%	14,933	70.8%	+17.2%
Receivables	3,243	12.6%	2,724	12.9%	+19.0%
Reinsurers	3,714	14.5%	2,419	11.5%	+53.6%
Other Assets	484	1.9%	379	1.8%	+27.7%
<b>Total Assets</b>	<b>25,683</b>	<b>100.0%</b>	<b>21,080</b>	<b>100.0%</b>	<b>+21.8%</b>
Technical Reserves	16,646	64.8%	12,936	77.6%	+28.7%
Reinsurers	2,925	11.4%	1,692	10.2%	+72.9%
Other Liabilities	784	3.1%	1,098	6.6%	-28.6%
<b>Total Liabilities</b>	<b>21,255</b>	<b>82.8%</b>	<b>16,660</b>	<b>79.0%</b>	<b>+27.6%</b>
<b>Stockholder's Equity</b>	<b>4,429</b>	<b>17.2%</b>	<b>4,420</b>	<b>21.0%</b>	<b>+0.2%</b>
Total Liabilities + Equity	25,683	100.0%	21,080	100.0%	+21.8%

Source: Prognosis based on GNP

n.m.: not meaningful

According to the company's information, **total assets** amounted 25,683 mp by 2Q20, growing +22% y/y. Investments grew +17%, reinsurers rose 54% y/y and receivables advanced +19%.

Regarding **liabilities**, technical reserves increased +29% to 16,646 mp in 2Q20 vs. 2Q19. Meanwhile, **stockholder's equity** totaled 4,429 mp (a book value per share of 9.29 pesos), a slight increase of +0.2%, compared to 2Q19.

## 2. Relevant events

**January 15, 2020.** "The company announced that, with 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, with 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 measures implemented in the face of 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 102% in 2020, with acquisition, claims and operation ratios of 28.1%, 62% and 11.9%. 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.

# Peña Verde

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

 Prognosis

**2Q20 quarterly report**

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## 4. 5-year Peña Verde Group 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 the conference 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.** To begin with, the company announced the hiring of Andres Millan to Peña Verde Group, 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. Realistically, 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\*.

# Peña Verde

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



2Q20 quarterly report

July 30, 2020

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

	2015	2016	2017	2018	2019	2020f
<b>Gross Written Premiums</b>	<b>5,143</b>	<b>6,865</b>	<b>6,965</b>	<b>7,259</b>	<b>8,214</b>	<b>9,047</b>
(-) Ceded Premiums	1,219	1,990	1,444	1,351	1,579	1,807
<b>Net Retained Premiums</b>	<b>3,923</b>	<b>4,876</b>	<b>5,521</b>	<b>5,908</b>	<b>6,635</b>	<b>7,240</b>
<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
<b>Retention Premiums Accrued</b>	<b>3,816</b>	<b>4,508</b>	<b>5,025</b>	<b>5,683</b>	<b>6,309</b>	<b>6,960</b>
<b>(-) Acquisition Costs</b>	<b>1,004</b>	<b>1,317</b>	<b>1,550</b>	<b>1,792</b>	<b>1,808</b>	<b>1,947</b>
<i>Acquisition ratio</i>	26.3%	29.2%	30.9%	31.5%	28.7%	28.0%
<b>(-) Insurance claims incurred</b>	<b>2,543</b>	<b>3,065</b>	<b>3,117</b>	<b>3,211</b>	<b>3,757</b>	<b>4,318</b>
<i>Claims ratio</i>	66.6%	68.0%	62.0%	56.5%	59.6%	62.0%
Underwriting (technical) income (loss)	270	126	357	680	743	695
<b>(-) Net Increase in Other Technical Reserves</b>	<b>331</b>	<b>90</b>	<b>349</b>	<b>689</b>	<b>668</b>	<b>776</b>
Gross Income	-61	36	9	-9	75	-81
<b>(-) Net Operating Expenses</b>	<b>451</b>	<b>605</b>	<b>720</b>	<b>503</b>	<b>907</b>	<b>831</b>
<i>Operating ratio</i>	11.8%	13.4%	14.3%	8.9%	14.4%	11.9%
<b>Operating income (loss)</b>	<b>-512</b>	<b>-569</b>	<b>-712</b>	<b>-512</b>	<b>-832</b>	<b>-913</b>
<b>Comprehensive Financing Result</b>	<b>1,370</b>	<b>921</b>	<b>1,368</b>	<b>-304</b>	<b>1,301</b>	<b>198</b>
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%	26.7%
<b>Net profit (loss)</b>	<b>613</b>	<b>256.6</b>	<b>583</b>	<b>-561</b>	<b>326</b>	<b>-519</b>
Minority interest	40	5.3	10	-6	4	-5
Majority Net Profit	613	256.6	583	-561	326	-519
<b>EPS (TTM)</b>	<b>1.3</b>	<b>0.5</b>	<b>1.2</b>	<b>-1.2</b>	<b>0.7</b>	<b>-1.1</b>
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
<b>Assets</b>	<b>15,224</b>	<b>18,397</b>	<b>20,681</b>	<b>20,086</b>	<b>22,917</b>	<b>27,112</b>
Investments	11,733	13,407	14,756	14,586	15,882	18,547
<b>Liabilities</b>	<b>10,939</b>	<b>14,092</b>	<b>15,841</b>	<b>15,819</b>	<b>18,217</b>	<b>23,068</b>
Technical Reserves	8,897	11,043	12,610	12,458	13,957	18,454
<b>Total Equity</b>	<b>4,285</b>	<b>4,305</b>	<b>4,840</b>	<b>4,267</b>	<b>4,700</b>	<b>4,045</b>
<b>Shareholder's Equity (majority)</b>	<b>3,954</b>	<b>4,263</b>	<b>4,792</b>	<b>4,228</b>	<b>4,657</b>	<b>4,009</b>

Source: Prognosis and BMV

# Peña Verde

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



2Q20 quarterly report

July 30, 2020



Prognosis

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The partners, analysts and the entire staff of Prognosis, represent that: (1) we are morally solvent, both in our professional activity and at a personal level; (2) we comply with the independence criteria indicated by the internal rules of the BMV, which among other criteria includes that we do not engage in brokerage activities for any issuer, and neither do we have a business relationship with said issuers; (3) we conform and comply at all times with the Professional Ethics Codes of the Mexican Stock Exchange community and Prognosis; (4) we are free of conflicts of patrimonial or economic interest with regard to the issuers we cover.

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