

PEÑA VERDE

Quarterly Report 3Q15

Current Price MXN 9.20

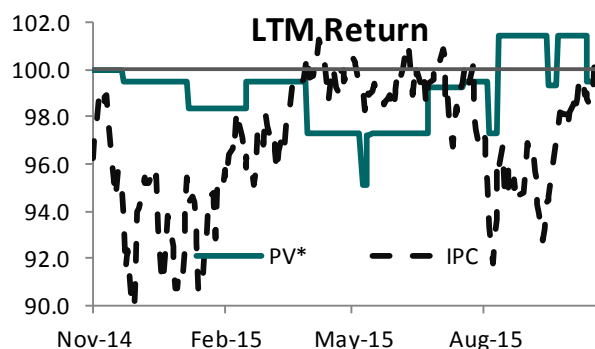
Target Price MXN 9.00

Wednesday, November 04, 2015

Written premiums increase 12.7%, but underwriting income falls 22% due to a higher claims ratio. The Net Profit skyrockets 805% due to portfolio revaluation and foreign exchange gains

Key Data

Local Ticker	PV*
12 M Target Price	MXN 9.00
Last Price	MXN 9.20
Expected Return	-2.2%
MEXBOL Expected Return	2.5%
LTM Return PV*	-1%
Outstanding Shares (million)	476.7
Free Float	2.3%
Beta	N/A
Marketability	Low
Avrg Daily Trade 6M (MXN)	MXN 59,676.7
Market Capitalization (MXN million)	MXN 4,385
Book Value per Share	MXN 8.2
LTM Price Range	(8.80 - 9.38)



	2012	2013	2014	2015f
Valuation				
P/E	1.3x	81.0x	13.6x	8.3x
P/BV	0.31x	1.34x	1.32x	1.12x
Estimates (MXN)				
Gross Written Premiums	3,462	3,321	4,190	5,283
YoY%	7.3%	-4.1%	26.2%	26.1%
Net Premiums Retained	2,779	2,675	3,204	4,039
YoY%	9.8%	-3.8%	19.8%	26.1%
Underwriting (technical) i	505	461	287	344
YoY%	148.8%	-8.9%	-37.7%	19.9%
Net income	760	55	321	526
EPS	3.80	0.11	0.67	1.10
YoY%	-74%	-97%	487%	64%
Profitability				
Combined Ratio	91.9%	89.5%	97.0%	101.3%
Acquisition Ratio	28.0%	29.5%	28.3%	25.5%
Claims Ratio	51.6%	50.8%	58.7%	64.1%
Operation Ratio	12.2%	9.1%	10.0%	11.8%
ROE	23.5%	1.7%	9.7%	14.6%

- Target Price.** Although written premiums but especially net earnings exceeds 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. Once we tweak our 2016 forecasts, we will introduce a TP for the end of that year.
- 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.
- The company's growth strategy is on track by 2018.** The 3Q15 had a tougher base of comparison, registering a 12.7% written premiums growth, which is positive. Although our model is more conservative than the company's, 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 seek greater visibility in the future.

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3Q15 Report

Written premiums totaled 1,231.4 million pesos (mp) in the third quarter of 2015, a strong annual increase of 12.7%, this rise is led by the subsidiary "General de Seguros", which seems to be successfully orchestrating its growth strategy with sales growing across all business lines, but especially the car division due to new truck fleet sales and public service. In fact, up to September, "General de Seguros" showed an increase of 23.4% in sales.

Meanwhile the subsidiary "Reaseguradora Patria" increased sales 37.1% to \$ 1,651.1 mp in the first 9 months 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 3Q15 totaled 248.2 mp, 21.4% higher than in 3Q14, because of an increase in the income of written premiums. Claims rose to 694.2 mp, 71.7% higher than in 3Q14. With higher claims and net acquisition costs, technical income decreased -22.4% to 125 mp. Added to this, Net Operating expenses jumped 129%, leading to PV to record a technical loss of -141.7 mp.

The comprehensive financing result registered a solid gain of \$ 681.6 mp, an increase of 752.2% generated by the revaluation of the stock portfolio, and a positive FX result.

As a result of the above, PV reported net income of \$ 338.9 mp, an increase of 805% compared to 3Q14.

According to company information, assets totaled \$ 14,765.5 million in 3Q15, increasing 20.1% YoY Investments in securities increased \$ 1,804.1 mp.

At the end of March 2015, the PV's Equity reached \$ 4.208 bp, a strong annual increase of 9.1%, generated by net profit.

Income Statement	3Q14	3Q15	3Q15 vs 3Q14 %
(in current million pesos)			
Gross Written Premiums	1,231.4	1,387.3	13%
Premiums Ceded	313.7	332.2	6%
Net Premiums Retained	917.7	1,055.1	15%
Retention Premiums Accrued	769.9	1,067.4	39%
(-) Acquisition Costs	204.4	248.2	21%
(-) Insurance claims incurred	404.3	694.2	72%
Underwriting (technical) income (loss)	161.2	125.0	-22%
Gross Income	87.1	28.7	-67%
(-) Net Operating Expenses	74.4	170.4	129%
Operating income (loss)	12.7	(141.7)	-1218%
Comprehensive Financing Result	82.6	681.6	725%
Net Profit/Loss	48.9	338.9	593%
Majority Net Profit	2.3	20.8	805%
Minority Interest	48.9	338.9	593%

Source: PV y Prognosis

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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	5,283.1
Premiums Ceded	695.2	682.0	646.0	986.1	1,105.4
Net Premiums Retained	2,531.0	2,779.5	2,674.6	3,203.9	4,038.9
<i>Net Premiums Retained rate</i>	78%	80%	81%	76%	76%
Net Increase in Provision for Unaccrued Premiums	137.4	125.3	132.7	314.7	219.7
Retention Premiums Accrued	2,393.6	2,654.2	2,541.9	2,889.2	3,819.2
Acquisition Costs	679.4	779.4	789.2	907.5	1,028.4
<i>Aquisition ratio</i>	27%	28%	30%	28%	25%
Insurance claims incurred	1,511.0	1,369.3	1,292.2	1,694.9	2,447.0
<i>Claims ratio</i>	63%	52%	51%	59%	64%
Underwriting (technical) income (loss)	203.1	505.5	460.5	286.9	343.8
Net Increase in Other Technical Reserves	277.1	315.2	315.6	282.9	357.2
Gross Income	-74.0	190.5	145.0	4.3	-13.3
Net Operating Expenses	231.6	339.9	243.9	320.1	475.4
<i>Operating ratio</i>	9%	12%	9%	10%	12%
Operating income (loss)	-305.5	-149.3	-98.9	-315.8	-488.7
Comprehensive Financing Result	445.7	1,238.1	109.6	363.6	1,344.7
Earnings before income tax	140.6	1,088.8	10.8	47.8	856.0
Income tax payment provision	-41.5	268.0	-59.6	-9.9	251.0
Income tax rate	-29.5%	24.6%	-553.5%	-20.8%	29.3%
Net profit (loss)	182.1	820.8	59.5	349.3	572.3
Minority interest	110.0	61.3	10.9	27.9	45.8
Majority Net Profit	71.7	759.5	54.7	321.3	526.5
EPS	14.64	3.80	0.11	0.67	1.10
Number of shares (million)	4.9	200.0	476.7	476.7	476.7
Gross Written Premiums growth		7.3%	-4.1%	26.2%	26.1%
Net Profit Growth		958.7%	-92.8%	487.1%	63.9%
EPS growth		-74.1%	-97.0%	487.1%	63.9%
Cost index					
Aquisition Ratio	26.8%	28.0%	29.5%	28.3%	25.5%
Claims Ratio	63.1%	51.6%	50.8%	58.7%	64.1%
Operation Ratio	9.1%	12.2%	9.1%	10.0%	11.8%
Combined Ratio	99.1%	91.9%	89.5%	97.0%	101.3%

Other Indicators

Dividends	16.9	0.0	0.0	0.0	0.0
ROE	6.9%	23.5%	1.7%	9.7%	14.6%
P/E	0.34x	1.32x	81.00x	13.65x	8.33x
P/BV	0.02x	0.31x	1.34x	1.32x	1.12x
BV per share	213.3	16.2	6.9	7.0	8.2
PV's share price (current)	5.0	5.0	9.3	9.2	9.2

Balance Sheet Summary (million MXN)

Assets	9,624.9	10,715.8	10,952.6	12,568.9	14,882.1
Investments	7,441.6	8,615.6	8,855.8	9,741.0	11,757.7
Cash and deposits	89.7	162.0	147.3	147.3	223.2
Technical Reserves	6,591.1	7,214.7	7,366.2	8,949.5	10,672.8
Technical Reserves	5,450.1	5,558.9	5,856.3	7,354.5	8,858.4
Shareholder's Equity (majority)	3,033.8	3,501.1	3,586.4	3,619.4	4,209.3
Shareholder's Equity (majority)	1,044.9	3,231.1	3,304.4	3,326.6	3,898.9

Source: Prognosis and BMV



Prognosis

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