

PEÑA VERDE

Quarterly Report 3Q16

Current Price: MXN 9.90

2016 Target Price: MXN 9.90

2017 Target Price: Under review

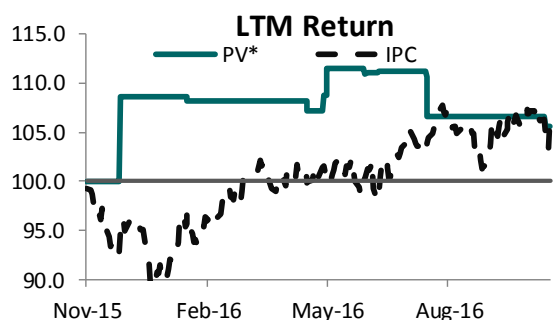
Monday, November 07, 2016

Written premiums grew +22.2% YoY in the first nine months of 2016, while operating income recovered and net income continues to improve favorably based on strong financial products.

- **Written premiums grew significantly +33.5% YoY in 3Q16, reaching 1,852.2 mp.**

Key Data

Local Ticker	PV*
2016 Target Price	MXN 9.90
Last Price	MXN 9.90
Expected Return	0.0%
LTM Return PV*	6%
Outstanding Shares (million)	476.7
Free Float	3.0%
Marketability	Low
Market Capitalization (MXN million)	MXN 4,719
LTM Price Range	(9.20 - 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%
Acquisition 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%

- **Jan-September 2016 data.** Written premiums grew +22.2% YoY 4,793.6 mp in the first 3 quarter of 2016. Technical profit decreased -12.4% YoY to 257.4 mp, while the operating loss reached -203.7 mp, improving vs the loss of 324.7 mp in the first 3 quarters of 2015. Finally, net income increased +13.7% YoY to 649.4 mp.
- **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.
- **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*.
- **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.
- **Target Price.** The PV shares are currently trading at the level of our 2016 target price. We will introduce a target price for 2017, once we have revised the company's outlook for next year, considering the new insurance legislation and the implementation of its strategy in the medium term.
- **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.- 3Q16 Report

PV written premiums totaled 1,852.5 million pesos (mp) in 3Q16, a +33.5% YoY increase. Written premiums rose +22.2% in the first 3 quarters of 2016, to 4,793.6 mp.

General de Seguros (subsidiary) accumulated 2,595.8 mp, a +14.3% YoY increase, originated by the increase of sales in the "fire" branch, in addition, the "health" operation was strengthened with the implementation of the new Insurance Institutions Law and the consolidation of a new business. *Reaseguradora Patria* written premiums increased by +19.7% in the first 3 quarters of 2016, compared to the equivalent period of 2015, reaching 1,975.9 mp, driven by growth in fire, diverse and earthquakes business lines.

Ceded premiums increased sharply to 1,143.5 mp in the January-September period of 2016, while retention premiums accrued totaled 3,261.8 mp. It is noteworthy, that the difference between the retained premiums and earned premiums are explained by the unexpired risks reserve, which amounted to 388.3 million pesos, a +118.8% YoY jump. 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 -257.5 mp (vs +294.0 mp in the first 3 quarters of 2015), is explained by the increase in the reserve for unliquidated and unreported claims, the increase in the risk reserve in progress and higher catastrophic claims. In addition, net claims costs rose +20.9% YoY in the first 9 months of 2016. It is noteworthy that the claims ratio increased +1.1 points, to 63.7%, due to the increase of 140 mp in the reserve to meet outstanding obligations for claims incurred but unreported (IBNR) of "Reaseguradora Patria", the earthquake that hit Ecuador last April and other events.

Operating loss amounted to -203.7 mp in the January September period of 2016, improving vs the loss of -324.7 in the same period of 2015.

The comprehensive financing cost recorded a gain of +1,179.5 mp in the first 9 months of 2016, remaining similar the figure of +1,179.5 in 2015.

Thus, net income totaled +649.4 mp in the first 3 quarters of 2016, +13.7% higher than that of the equivalent period of 2015.

Stockholders equity rose +17.2% YoY to 4,933.8 mp in 3Q16, corresponding to the net income generated in the last 12 months.

Target Price

The good performance of the earnings in 2016 may predict good results for 2017. However, we will introduce a target price for 2017, once we have revised the company's outlook for next year considering the new insurance legislation and the implementation of its strategy in the medium term.

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NOTICE: THE FIGURES OF 2016 ARE NOT COMPARABLE AGAINST THOSE OF 2015.

Income Statement	3Q16	3Q15	3Q16 vs 3Q15 %
<i>(in current million pesos)</i>			
Gross Written Premiums	1,852.2	1,387.3	33.5%
Premiums Ceded	456.1	332.2	37.3%
Net Premiums Retained	1,396.1	1,055.1	32.3%
Retention Premiums Accrued	1,277.1	1,067.4	19.6%
(-) Acquisition Costs	320.8	248.2	29.3%
(-) Insurance claims incurred	701.0	694.2	1.0%
Underwriting (technical) income (loss)	319.2	125.0	155.4%
Gross Income	298.0	28.7	938.1%
(-) Net Operating Expenses	226.3	170.4	32.8%
Operating income (loss)	71.7	(141.7)	N.A.
Comprehensive Financing Result	203.0	681.7	-70.2%
Net Profit/Loss	234.1	338.9	-30.9%
Majority Net Profit	(0.7)	20.8	N.D.
Minority Interest	234.1	338.9	-30.9%

Source: PV y Prognosis

Income Statement	Jan-Sep 2016	Jan-Sep 2015	2016 vs 2015 %
<i>(in current million pesos)</i>			
Gross Written Premiums	4,793.6	3,921.4	22.2%
Premiums Ceded	1,143.5	914.2	25.1%
Net Premiums Retained	3,650.1	3,007.2	21.4%
Retention Premiums Accrued	3,261.8	2,829.7	15.3%
(-) Acquisition Costs	926.2	763.2	21.4%
(-) Insurance claims incurred	2,142.0	1,772.5	20.9%
Underwriting (technical) income (loss)	257.4	294.0	-12.4%
Gross Income	318.4	30.2	954.8%
(-) Net Operating Expenses	522.1	354.9	47.1%
Operating income (loss)	(203.7)	(324.7)	N.A.
Comprehensive Financing Result	1,178.1	1,179.5	-0.1%
Net Profit/Loss	649.4	571.3	13.7%
Majority Net Profit	42.2	32.7	29.2%
Minority Interest	649.4	571.3	13.7%

Source: PV y Prognosis

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Peña Verde's Annual Income Statement (million MXN)

	2014	2015	2016f	2017f
Gross Written Premiums	4,190.0	5,142.6	5,913.9	6,446.2
Premiums Ceded	986.1	1,219.2	1,428.6	1,562.9
Net Premiums Retained	3,203.9	3,923.3	4,485.3	4,883.3
<i>Net Premiums Retained rate</i>	76%	76%	76%	76%
Net Increase in Provision for Unaccrued Premiums	314.7	107.0	80.2	205.1
Retention Premiums Accrued	2,889.2	3,816.3	4,405.1	4,678.2
Acquisition Costs	907.5	1,004.2	1,160.5	1,261.9
<i>Acquisition ratio</i>	28%	26%	26%	26%
Insurance claims incurred	1,694.9	2,542.5	2,687.1	2,853.7
<i>Claims ratio</i>	59%	67%	61%	61%
Underwriting (technical) income (loss)	286.9	269.6	557.5	562.6
Net Increase in Other Technical Reserves	282.9	330.8	375.4	406.9
Gross Income	4.3	-61.0	182.3	155.8
Net Operating Expenses	320.1	451.3	448.5	490.5
<i>Operating ratio</i>	10%	12%	10%	10%
Operating income (loss)	-315.8	-512.3	-266.3	-334.7
Comprehensive Financing Result	363.6	1,369.7	1,450.0	921.9
Earnings before income tax	47.8	857.4	1,183.7	587.2
Income tax payment provision	-9.9	204.2	355.1	176.1
Income tax rate	-20.8%	23.8%	30.0%	30.0%
Net profit (loss)	46.2	613.1	828.6	411.0
Minority interest	11.6	40.1	74.6	37.0
Majority Net Profit	46.2	613.1	754.0	374.0
EPS	0.10	1.29	1.74	0.86
Number of shares (million)	476.7	476.7	476.7	476.7
Gross Written Premiums growth	26.2%	22.7%	15.0%	9.0%
Net profit growth	-22.4%	1228.1%	23.0%	-50.4%
EPS growth	-22.4%	1228.1%	35.2%	-50.4%
Other Indicators				
P/E	95.00x	7.92x	5.86x	11.81x
P/BV	1.32x	1.23x	1.01x	0.99x
BV per share	7.0	8.3	10.1	10.2



Prognosis

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