Peña Verde

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

## Patria-Re maintains good dynamism, while General de Seguros continues to face renewal challenge. Financial products continued to recover, supporting a net profit of 54 mp. We tweak 2019 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.corporativopv.mx

12M Return vs IPyC
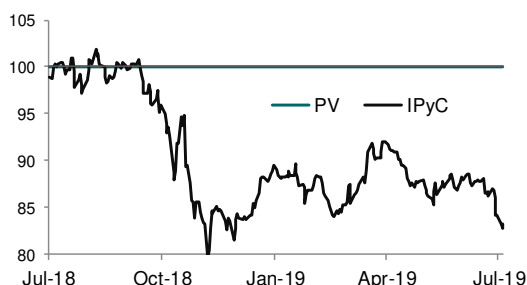
	2016	2017	2018	2019f
Valuation				
P/E	18.7x	8.3x	- 8.7x	63.8x
P/BV	1.1x	1.0x	1.1x	1.1x
ROE	6.0%	12.2%	- 13.3%	1.7%
Estimates (MXN million)				
Gross Written Premiums	6,865	6,965	7,259	8,007
YoY%		*1.5%*	*4.2%*	*10.3%*
Net Retained Premiums	4,876	5,521	5,908	6,573
YoY%		*13.2%*	*7.0%*	*11.3%*
Underwriting Income	126	357	680	524
YoY%		*184.2%*	*90.3%*	*-22.9%*
Net income	257	583	- 561	76
YoY%		*127.2%*	*n.m.*	*n.m.*
EPS	0.5	1.2	- 1.2	0.2
YoY%		*127.2%*	*n.m.*	*n.m.*
Profitability				
Combined Ratio	103.8%	100.5%	93.8%	100.8%
Aquisition Ratio	27.0%	28.1%	30.3%	29.0%
Claims Ratio	68.0%	62.0%	56.5%	61.6%
Operation Ratio	8.8%	10.3%	6.9%	10.2%

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

- **Accumulated 3Q19/3Q18 results**. Written premiums totaled 5,669 million pesos (mp), a +12.2% y/y increase, driven by Reaseguradora Patria (+26.6% y/y) good dynamism. Technical profit reached 342 mp. The operating loss was -793 mp while the integral result of financing totaled 915 mdp, +52.7% y/y. Thus, net profit reached 54 mp, an EPS (trailing 12 months) of -1.03 pesos per share.

- **We adjust our 2019 forecast.** Even though the results in General de Seguros need to improve, we anticipate that written premiums of PV will grow approximately +10% in the year, supported by the good dynamism in Re-Patria. We estimate that the combined ratio will approach 100.8%. Thus, with the expected behavior in the portfolio value, we reach an estimated net profit of 76 mp, an EPS of 0.2 pesos, lower that our previous estimate 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. Potential accelerating growth rates are possible, 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, that is normally significant.

- **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.

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Prognosis

3Q19 quarterly report
November 4, 2019

1. 3Q19 (3Q accumulated) report

Income Statement

	Accumulated data		
	3Q19	**3Q18**	**YoY Change**
Gross Written Premiums	5,669	5,053	+12.2%
Net Retained Premiums	4,648	4,086	+13.7%
Retention Premiums Accrued	4,498	4,099	+9.7%
Acquisition Costs	1,349	1,207	+11.7%
Insurance Claims Incurred	2,808	2,564	+9.5%
Underwriting (Technical) Income (Loss)	342	329	+4.1%
Net Operating Expenses	587	387	+51.6%
Operating Income (Loss)	-793	-567	+39.8%
Comprehensive Financing Result	915	599	+52.7%
Net Profit (Loss)	54	-17	n.m.
Acquisition Ratio	29.0%	29.5%	-53 bp
Claims Ratio	62.4%	62.5%	-12 bp
Operating Ratio	10.4%	7.7%	+269 bp
Combined Ratio	**101.8%**	**99.7%**	**+205 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 5,669 million pesos (mp) in 3Q19, an increase of +12.2% y/y, against the 5,053 mp in 3Q18. This variation is mainly explained by the dynamism in **Reaseguradora Patria**, that recorded sales of 3,492 mp, +26.6% y/y, resulting from the implementation of the expansion strategy in each business line.

On the other hand, the subsidiary **General de Seguros** recorded sales of 1,798 mp, a drop of -9.6% y/y, "originated mainly by agricultural, fire and automobiles which showed respectively [annual] decreases of -54.4%, -18.1% and -4.0%".

Net consolidated acquisition cost of PV * amounted 1,349 mp in 3Q19, +11.7% vs the 1.207 mp in 3Q18, resulted from an "increase in reinsurance commissions paid to ceding companies and the costs associated with "excess losses" that protect retention". The acquisition ratio was 29%, -53bp y/y.

Net cost of consolidated claims increased +9.5%, to 2,808 mp. Peña Verde's claims ratio was 62.4%, showing a decrease of -12 bp.

The technical profit rose +4.1% y/y to 342 mp. This is explained by the increase in premiums income.

"**Operating expenses** amounted 587.3 mp, which represent 10.4% of the written premiums, +51.6% y/y vs the 387.4 mp in 3Q18, mainly due to monthly reinsurance accounts that recorded a benefit of 52.3 mp at the end of September 2018 and a deficit of 1 mp at the end of September 2019. In addition, operating expenses include participation of workers in profits which amounted 35.2 mp. Moreover, it includes the recovery in investment portfolios and expenses in IT projects."

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The **comprehensive financial result** recorded a profit of 915 mp, +52.7% y/y vs the 600 mp in 3Q19. This is explained "mainly due to the increase in the valuation of investments securities from the Mexican Stock Exchange".

PV reported a net profit of 53.7 mp.

Financial situation

Summary of the Balance Sheet (MXN millions)

	3Q19	%	3Q18	%	YoY Change
Investments	15,716	69.6%	14,696	72.9%	+6.9%
Receivables	2,546	11.3%	2,026	10.0%	+25.7%
Reinsurers	3,343	14.8%	2,465	12.2%	+35.6%
Other Assets	410	1.8%	334	1.7%	+22.7%
Total Assets	**22,574**	**100.0%**	**20,171**	**100.0%**	**+11.9%**
Technical Reserves	14,320	63.4%	12,066	78.2%	+18.7%
Reinsurers	1,919	8.5%	1,219	7.9%	+57.5%
Other Liabilities	1,069	4.7%	1,441	9.3%	-25.8%
Total Liabilities	**18,202**	**80.6%**	**15,438**	**76.5%**	**+17.9%**
Stockholder's Equity	**4,372**	**19.4%**	**4,733**	**23.5%**	**-7.6%**
Total Liabilities + Equity	22,574	100.0%	20,171	100.0%	+11.9%

Source: Prognosis based on GNP

n.m.: not meaningful

According to the company's information, **total assets** amounted 22,574 mp in 3Q19, growing +11.9% y/y. Among the biggest changes in the year are the rebound of the investments, receivables and reinsurers.

As for the **liabilities**, technical reserves showed and annual growth of +18.7%, standing at 14,320 mp.

Finally, as September 2019, **stockholder's equity**, reached 4,372 mp (a book value per share of 9.17 pesos), an annual increase of +7.6%.

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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Peña Verde´s Annual Income Statement (MXN millions)

	2015	2016	2017	2018	2019f
Gross Written Premiums	**5,143**	**6,865**	**6,965**	**7,259**	**8,007**
(-) Ceded Premiums	1,219	1,990	1,444	1,351	1,435
Net Retained Premiums	**3,923**	**4,876**	**5,521**	**5,908**	**6,573**
Retention rate	*76.3%*	*71.0%*	*79.3%*	*81.4%*	*82.1%*
(-) Net Increase in Provision for Unaccrued Premiums	107	367	497	224	246
Retention Premiums Accrued	**3,816**	**4,508**	**5,025**	**5,683**	**6,326**
(-) Acquisition Costs	**1,004**	**1,317**	**1,550**	**1,792**	**1,907**
Aquisition ratio	*25.6%*	*27.0%*	*28.1%*	*30.3%*	*29.0%*
(-) Insurance claims incurred	**2,543**	**3,065**	**3,117**	**3,211**	**3,895**
Claims ratio	*66.6%*	*68.0%*	*62.0%*	*56.5%*	*61.6%*
Underwriting (technical) income (loss)	270	126	357	680	524
(-) Net Increase in Other Technical Reserves	**331**	**90**	**349**	**689**	**729**
Gross Income	-61	36	9	-9	-205
(-) Net Operating Expenses	**451**	**605**	**720**	**503**	**818**
Operating ratio	*8.8%*	*8.8%*	*10.3%*	*6.9%*	*10.2%*
Operating income (loss)	**-512**	**-569**	**-712**	**-512**	**-1,023**
Comprehensive Financing Result	**1,370**	**921**	**1,368**	**-304**	**1,177**
Earnings before income tax	857	352	657	-816	154
(-) Income tax payment provision	204	90	63	-250	75
Income tax rate	*23.8%*	*25.5%*	*9.7%*	*30.6%*	*48.8%*
Net profit (loss)	**613**	**256.6**	**583**	**-561**	**76**
Minority interest	40	5.3	10	-6	3
Majority Net Profit	613	256.6	583	-561	76
EPS (TTM)	**1.3**	**0.5**	**1.2**	**-1.2**	**0.2**
Number of shares (million)	476.7	476.7	476.7	476.7	476.7
Gross written premiums growth		*+33.5%*	*+1.5%*	*+4.2%*	*+10.3%*
Net retained premiums growth		*+24.3%*	*+13.2%*	*+7.0%*	*+11.3%*
Retention premiums accrued growth		*+18.1%*	*+11.5%*	*+13.1%*	*+11.3%*
Net profit growth		*-58.1%*	*+127.2%*	*n.m.*	*n.m.*
EPS growth		*-58.1%*	*+127.2%*	*n.m.*	*n.m.*

Other Indicators

	2015	2016	2017	2018	2019f
ROE	15.5%	6.0%	12.2%	-13.3%	1.7%
P/E	7.9	18.7	8.3	-8.7	63.8
P/BV	1.2	1.1	1.0	1.1	1.1
Book Value Per Share	8.3	9.0	10.2	9.0	9.2

Balance Sheet Summary (MXN millions)

	2015	2016	2017	2018	2019f
Assets	**15,224**	**18,397**	**20,681**	**20,086**	**22,740**
Investments	11,733	13,407	14,756	14,586	16,261
Liabilities	**10,939**	**14,092**	**15,841**	**15,819**	**18,345**
Technical Reserves	8,897	11,043	12,610	12,458	14,860
Total Equity	**4,285**	**4,305**	**4,840**	**4,267**	**4,395**
Shareholder´s Equity (majority)	**3,954**	**4,263**	**4,792**	**4,228**	**4,352**

Source: Prognosis and BMV

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Prognosis
Economía, Finanzas e Inversiones S.C.

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