

Peña Verde

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Patrimonial Value: MXN 18.54
12-month target price: MXN 10.18
(No liquidity risk discount applied).



**4Q20 quarterly report and
2021 outlook**
March 5, 2021

Notable recovery after the strong loss in 1Q20, related to COVID-19, shows the company's resilience

- **Solid operating numbers and recovery of financial products makes the 2020 net loss of -130 mp, lower than our forecast.**
- **Stellar performance of “Reaseguradora Patria, whose written premiums increased +42% in the year, indicates the level of ambition the management has. In turn, “General de Seguros” stabilizes thru good control of costs and expenses.**
- **In a difficult year, the 2020- 2025 Transformation Plan began with an important progress in the digital and organizational areas. The improvement in investors' relations is outstanding and reflects the company's commitment with the stock market.**
- **For 2021, we estimate written premiums of 11,333 million pesos, an adjusted combined ratio of 98.0%, and a net profit of 80 mp.**
- **PV introduced the concept of “Patrimony” adding 60% of the catastrophic reserve to the stockholder's equity. Thus, the estimated book value per share for 2021 is 10.1 pesos, while the patrimonial value as of 4Q20 is 18.54 pesos.**

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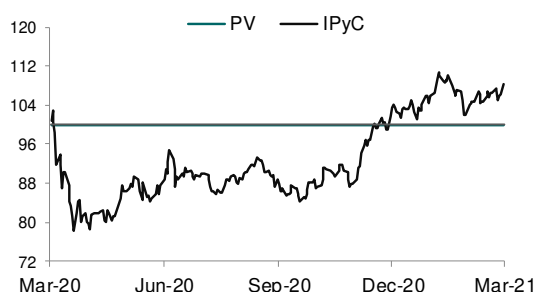
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Key Data

Ticker	PV* MM
Exchange	BMV
12 Month T.P. (Estimated Fair Value)	MXN 10.18
Last Price	MXN 10.18
Expected Return	0.0%
12 M Dividend Yield	0.0%
Expected Dividend Yield	0.0%
Total Expected Return	0.0%
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 234.91
P/E (TTM)	-36.7X
Price/Book Value	1.0X
Official Website	www.corporativopv.mx

12M Return vs IPyC



	2018	2019	2020	2021f
Valuation				
P/E	-8.7x	10.9x	-36.7x	60.5x
P/BV	1.1x	1.0x	1.0x	1.0x
ROE	-13.3%	9.4%	-2.8%	1.7%

	2018	2019	2020	2021f
Estimates (MXN million)				
Gross Written Premiums	7,259	8,163	10,210	11,333
YoY%		12.4%	25.1%	11.0%
Net Retained Premiums	5,908	6,615	8,070	8,956
YoY%		12.0%	22.0%	11.0%
Underwriting Income	680	796	815	1,017
YoY%		17.1%	2.4%	24.8%
Net income	-561	446	-132	80
YoY%		n.m.	n.m.	n.m.
EPS	-1.2	0.9	-0.3	0.2
YoY%		n.m.	n.m.	n.m.

	2018	2019	2020	2021f
Cost Structure				
Adjusted Combined Ratio	96.9%	101.4%	101.2%	98.0%
Acquisition Ratio	31.5%	30.0%	31.7%	30.5%
Claims Ratio	56.5%	57.1%	57.5%	57.0%
Operation Ratio	8.9%	14.3%	11.9%	10.5%

Source: Peña Verde, Bloomberg and Prognosis estimates

Note: Adjusted combined ratio is calculate over net retained premiums

n.m.: not meaningful

- 2020/2019 results³.** Written premiums totaled 10,210 mp (million pesos), an increase of +25.1%, driven by the rise in written premiums issued by the reinsurance business (+42%) which offset the slightly fall in insurance premiums. Technical profit rose +2.4% to 815 mp; while operating expenses increased +36.1% with an operating loss of -1,030 mp. On the other hand, the comprehensive financing result recorded gains of 884 mp. Thus, in 2020 net profit was 132 mp, lowers than our forecast of 417 mp.
- 2021 Forecasts.** We expect written premiums to grow approximately +11.0%, in line with the company's guidance. This assumes the tempering of the strong pace of growth in Patria Re in 2020 and a gradual recovery of the insurance business after the organizational restructuring. We anticipate an adjusted combined index of around 98%, improving compared to 2020, in line with the slowdown of the written premiums. Thus, with an expected return on the portfolio of around 4.9%, we reached an estimated net profit of 80 mp, an EPS of 0.2 pesos.
- 2020-2025 Plan.** Despite the COVID-19 emergency, the company maintained the execution of its digital, cultural and organizational transformation plan that could catalyze growth in the medium-term. This plan main objective is "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".
- 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 MXN 4,853 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 increase its stock's float that improve the marketability of the stock in the future. In fact, the company has developed a professional investor relations area that is open to market questioning.
- Target price.** Given the scant trading of the shares, the stock price has been at 10.18 pesos for a long time. We believe that it is reasonable to expect that this price will remain during 2021. We point out that this price is very similar to the book value per share that we estimate for 4Q21. This multiple is slightly lower than the implicit multiple that results from the Damodaran model, which is 1.05X. However, we do not incorporate a liquidity discount, which is usually 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, liquidity, ceded reinsurances and credit risk in their investments.

³ Note: The figures presented in the report are preliminary. They do not include the fourth quarter of 2018 and 2019 of Patria Corporate Member LTD given the difference in reporting times of the operation in the United Kingdom.

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1. 4T20 report, preliminary figures⁴

Income Statement

	Accumulated data			Non-accumulated data		
	4Q20	4Q19	YoY Change	4Q20	4Q19	YoY Change
Gross Written Premiums	10,210	8,163	+25.1%	3,204	2,493	+28.5%
Net Retained Premiums	8,070	6,615	+22.0%	2,416	1,966	+22.9%
Retention Premiums Accrued	7,574	6,184	+22.5%	1,981	1,686	+17.5%
Acquisition Costs	2,404	1,858	+29.4%	688	509	+35.0%
Insurance Claims Incurred	4,355	3,530	+23.4%	966	722	+33.8%
Underwriting (Technical) Income (Loss)	815	796	+2.4%	327	454	-28.1%
Net Operating Expenses	903	885	+2.1%	380	297	+27.8%
Operating Income (Loss)	-1,030	-757	+36.1%	-240	36	n.m.
Comprehensive Financing Result	884	1,343	-34.2%	685	428	+60.0%
Net Profit (Loss)	-132	446	n.m.	277	392	-29.4%
<i>Acquisition Ratio</i>	29.8%	28.1%	+170 bp	28.5%	25.9%	+257 bp
<i>Claims Ratio</i>	57.5%	57.1%	+42 bp	48.8%	42.8%	+595 bp
<i>Operating Ratio</i>	8.8%	10.8%	-199 bp	11.9%	11.9%	-06 bp
Consolidated Combined Ratio	96.1%	96.0%	+13 bp	11.9%	11.9%	-06 bp
Adjusted Combined Ratio	101.2%	101.4%	-26 bp	89.1%	80.7%	+845 bp
<i>Investments (1)</i>	17,947.0	15,882.2	13.0%			
<i>Catastrophic reserve (1)</i>	6,921.2	5,563.0	24.4%			
Patrimony (1)(2)	8,630.5	7,740.5	11.5%			

Source: Prognosis and PV

(1) Investments, Catastrophic Reserve and Patrimony 2019 with figures as of December 2019

(2) Patrimony = Equity + (Catastrophic Reserve x 60%)

Note: The Adjusted Combined Ratio is calculated over Retention Premiums Accrued

n.m.: not meaningful

Peña Verde's written premiums totaled 3,204 million pesos (mp) in 4Q20, an increase of +28.5% y/y against the 2,493 mp in 4T19. This variation is mainly explained by the annual growth of +41.3% and +7.4% in **“Reaseguradora Patria”** and **“General de Seguros”**, respectively.

For the whole year, Peña Verde's written premiums reached 10,210 mp in 2020, an annual increase of +25.1% against the 8,163 mp in 2019, derived from the good dynamism in **Patria Re**, which reached 7,311.2 million of written premiums (an annual increase of +41.9%). This compensated the slight decrease in **“General de Seguros”**, which issued premiums of 2,551.3 mp, a decrease of less than 1% compared to the previous year, mainly due to **“falls in the auto and property casualty lines, which fell 109.2 mp and 20.7 mp, respectively”**.

⁴ Note: The figures presented in the report are preliminary. They do not include the fourth quarter of 2018 and 2019 of Patria Corporate Member LTD given the difference in reporting times of the operation in the United Kingdom.

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The **net consolidated acquisition cost** of PV * amounted 688 mp in 4Q20, growing +35% compared to the same period of the previous year. For the whole year, the net acquisition cost of PV * stood at 2,404 mp in 2020, which compared to 1,858 mp in 2019 showed a strong jump of +29.4%, as a result of growth in reinsurance commissions paid to ceding companies and the costs associated with "excess losses" from hedges that protect retention.

The **net cost of consolidated claims** increased +33.8%, standing at 966 mp in 4Q20. For the whole year, the cost of consolidated claims rose +23.4%, reaching 4,355.3 mp. Thus, the adjusted claims ratio of PV * was 57.5%, an increase of 4.2 percentage points.

The **technical profit** in 2020, increased +2.4% y/y to 815 mp. In addition, net operating expenses totaled 903 mp and considering the net increase in technical reserves, PV recorded an **operating loss** of -1,030 mp.

The **comprehensive financial result** recorded gains of 884 mp, that compares unfavorably against the higher gains of 1,343 mp in 2019 (-34.2% y/y). This was the result of "the effects of the current COVID-19 pandemic, specifically, due to falling stock markets and the fall in rates".

As a result of all the above, **PV reported a net loss** of 132 mp, mainly due to the "negative impact of the pandemic on the performance of the portfolio within the stock markets during 1Q20, which was partially compensated by higher written premiums". However, with non-accumulated figures, in the 4Q20 the company totaled a net profit of 277 mp, thanks to the good performance of the investment portfolio.

Financial situation

Summary of the Balance Sheet (MXN million)

	4Q20	%	4Q19	%	YoY Change
Investments	17,882	67.2%	15,943	69.4%	+12.2%
Receivables	3,390	12.7%	2,494	10.9%	+35.9%
Reinsurers	4,259	16.0%	3,546	15.4%	+20.1%
Other Assets	516	1.9%	459	2.0%	+12.3%
Total Assets	26,609	100.0%	22,978	100.0%	+15.8%
Technical Reserves	16,392	61.6%	13,995	77.0%	+17.1%
Reinsurers	3,181	12.0%	2,018	11.1%	+57.6%
Other Liabilities	1,154	4.3%	1,139	6.3%	+1.3%
Total Liabilities	21,897	82.3%	18,186	79.1%	+20.4%
Stockholder's Equity	4,712	17.7%	4,792	20.9%	-1.7%
Total Liabilities + Equity	26,609	100.0%	22,978	100.0%	+15.8%

Source: Prognosis based on GNP

Assets totaled 26,609 mp, an increase of +15.8% in relation to the one recorded in 2019. The increase of investments securities showed a healthy rose of +12.2% in 2020.

Stockholder's equity. As of December 2020, the majority stockholders' equity reached an amount of 4,712 mp (BV of 9.89 pesos per share), a decrease of -1.7% y/y.

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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".

October 2, 2020. "The company announced that Capital Finance International (CFI) magazine awarded its subsidiary Patria Re the recognition of the Most Responsible Reinsurer Mexico 2020".

November 6, 2020. "AM Best ratified credit ratings of Peña Verde S.S.B., Reaseguradora Patria S.A., General de Seguros S.A".

November 12, 2020. "Peña Verde Group announced the run-off process of Patria Corporate Member at the Lloyd's Reinsurance Market in the United Kingdom".

November 18, 2020. "Peña Verde S.A.B. joined the network of the United Nations Global Compact – Mexico 2020".

December 18, 2020. "Peña Verde S.A.B. announced Board changes".

3. 2021 Forecasts

After discussing with the management, we believe that consolidated premiums can grow around +11% in 2021. This rate would result from a slowdown of growth in the reinsurance business in 2021 and a gradual recovery of "General de Seguros", after the restructuring. For its part, the subsidiary Patria Corporate Member LTD, will only maintain the inertial business, after the process of run off from Lloyd's UK reinsurance market.

We assume an improvement in the cost structure compared to 2020, in line with the reduction we anticipate in the rhythm of written premiums. The adjusted combined index we estimate for 2021 is 98.0%. This is the breakdown: an acquisition rate of 30.5%, claims ratio of 57% and operating ratio of 10.5%.

We anticipate an estimated return of 4.9% on PV's consolidated investments. We use a conservative assumption of 4% for the debt portfolio (70%) and 7% for the equity portfolio (30%). Therefore, we get a comprehensive financing result of 882 mp and a net profit of 80 mp at the end of 2021, equivalent to an EPS of 0.2 pesos.

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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, attention to the potential investor has increased, given the richer and clearer information reported. After talking with the new management – strengthened with new members with experience- it became clear that a transformation, not only organizational, but cultural and modernizing through investment commitments in digital technology, is underway.

Despite the emergency caused by Covid 19, the company maintained the execution of its digital transformation, cultural and organizational plan to catalyze growth in the medium term.

Progress was made in the establishment of the ERP system that will provide vital information for better management. The organizational transformation is taking shape and the new team has begun to add value, according to the company. Finally, cultural transformation faced confinement and extensive use of home office, but the purpose of a greater professionalization in the processes of subscription and operation was maintained, with measurement parameters that did not exist before.

The main objective of the transformation embodied in the 5-year Business Plan is to generate value for PV shareholders, customers and employees. The plan contemplates that around 2023 the company could be growing at high and sustained rates, maintaining good profitability. A very important additional aim 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*.

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 million)

	2016	2017	2018	2019	2020	2021f
Gross Written Premiums	6,865	6,965	7,259	8,163	10,210	11,333
(-) Ceded Premiums	1,990	1,444	1,351	1,548	2,140	2,377
Net Retained Premiums	4,876	5,521	5,908	6,615	8,070	8,956
<i>Retention rate</i>	<i>71.0%</i>	<i>79.3%</i>	<i>81.4%</i>	<i>81.0%</i>	<i>79.0%</i>	<i>79.0%</i>
(-) Net Increase in Provision for Unaccrued Premiums	367	497	224	431	496	806
Retention Premiums Accrued	4,508	5,025	5,683	6,184	7,574	8,150
(-) Acquisition Costs	1,317	1,550	1,792	1,858	2,404	2,487
<i>Acquisition ratio</i>	<i>29.2%</i>	<i>30.9%</i>	<i>31.5%</i>	<i>30.0%</i>	<i>31.7%</i>	<i>30.5%</i>
(-) Insurance claims incurred	3,065	3,117	3,211	3,530	4,355	4,646
<i>Claims ratio</i>	<i>68.0%</i>	<i>62.0%</i>	<i>56.5%</i>	<i>57.1%</i>	<i>57.5%</i>	<i>57.0%</i>
Underwriting (technical) income (loss)	126	357	680	796	815	1,017
(-) Net Increase in Other Technical Reserves	90	349	689	668	941	929
Gross Income	36	9	-9	128	-127	88
(-) Net Operating Expenses	605	720	503	885	903	853
<i>Operating ratio</i>	<i>13.4%</i>	<i>14.3%</i>	<i>8.9%</i>	<i>14.3%</i>	<i>11.9%</i>	<i>10.5%</i>
Operating income (loss)	-569	-712	-512	-757	-1,030	-765
Comprehensive Financing Result	921	1,368	-304	1,343	884	882
Earnings before income tax	352	657	-816	586	-146	117
(-) Income tax payment provision	90	63	-250	137	-20	35
<i>Income tax rate</i>	<i>25.5%</i>	<i>9.7%</i>	<i>30.6%</i>	<i>23.4%</i>	<i>13.7%</i>	<i>30.0%</i>
Net profit (loss)	256.6	583	-561	446	-132	80
Minority interest	5.3	10	-6	4	6	2
Majority Net Profit	256.6	583	-561	446	-132	80
EPS (LTM)	0.5	1.2	-1.2	0.9	-0.3	0.2
Number of shares (million)	476.7	476.7	476.7	476.7	476.7	476.7
<i>Gross written premiums growth</i>		<i>+1.5%</i>	<i>+4.2%</i>	<i>+12.4%</i>	<i>+25.1%</i>	<i>+11.0%</i>
<i>Net retained premiums growth</i>		<i>+13.2%</i>	<i>+7.0%</i>	<i>+12.0%</i>	<i>+22.0%</i>	<i>+11.0%</i>
<i>Retention premiums accrued growth</i>		<i>+11.5%</i>	<i>+13.1%</i>	<i>+8.8%</i>	<i>+22.5%</i>	<i>+7.6%</i>
<i>Net profit growth</i>		<i>+127.2%</i>	<i>n.m.</i>	<i>n.m.</i>	<i>n.m.</i>	<i>n.m.</i>
<i>EPS growth</i>		<i>+127.2%</i>	<i>n.m.</i>	<i>n.m.</i>	<i>n.m.</i>	<i>n.m.</i>

Other Indicators

	2016	2017	2018	2019	2020	2021f
ROE	6.0%	12.2%	-13.3%	9.4%	-2.8%	1.7%
P/E	18.7	8.3	-8.7	10.9	-36.7	60.5
P/BV	1.1	1.0	1.1	1.0	1.0	1.0
Book Value Per Share	9.0	10.2	9.0	10.1	9.9	10.1

Balance Sheet Summary (MXN million)

	2016	2017	2018	2019	2020	2021f
Assets	18,397	20,681	20,086	22,978	26,609	28,555
Investments	13,407	14,756	14,586	15,943	17,882	18,189
Liabilities	14,092	15,841	15,819	18,186	21,897	23,762
Technical Reserves	11,043	12,610	12,458	13,995	16,392	19,010
Total Equity	4,305	4,840	4,267	4,792	4,712	4,792
Shareholder's Equity (majority)	4,263	4,792	4,228	4,748	4,676	4,756

Source: Prognosis and BMV

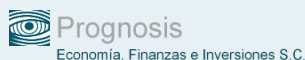
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Economía, Finanzas e Inversiones S.C.

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