

# Peña Verde

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



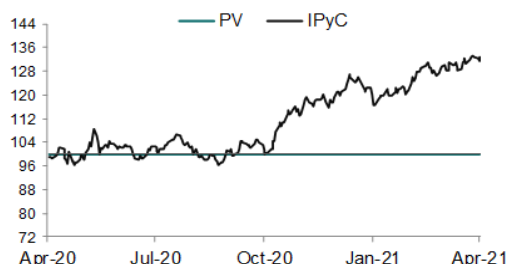
1Q21 quarterly report  
 May 7, 2021

## Solid results confirm the issuer's resilience Net income recovered after a significant loss in 1Q20, with 175 million pesos in 1Q21 above our estimate, therefore we improved our forecast for all 2021

### 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 243.69
P/E (TTM)	4.8X
Price/Book Value	1.0X
Official Website	www.corporativopv.mx

### 12M Return vs IPyC



	2018	2019	2020	2021f
<b>Valuation</b>				
P/E	-8.7x	10.9x	-36.7x	23.3x
P/BV	1.1x	1.0x	1.0x	1.0x
ROE	-13.3%	9.4%	-2.8%	4.3%
<b>Estimates (MXN million)</b>				
Gross Written Premiums	7,259	8,163	10,210	11,231
YoY%		12.4%	25.1%	10.0%
Net Retained Premiums	5,908	6,615	8,070	8,875
YoY%		12.0%	22.0%	10.0%
Underwriting Income	680	796	815	1,052
YoY%		17.1%	2.4%	29.1%
Net Income	-561	446	-132	209
YoY%		n.m.	n.m.	n.m.
EPS	-1.2	0.9	-0.3	0.4
YoY%		n.m.	n.m.	n.m.
<b>Cost Structure</b>				
Adjusted Combined Ratio	96.9%	101.4%	101.2%	97.4%
Acquisition Ratio	31.5%	30.0%	31.7%	30.0%
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

- 1Q21/1Q20 results<sup>2</sup>.** Written premiums totaled 2,279 million pesos (mp), a +17% y/y jump, driven by the dynamism of Reaseguradora Patria. Technical profit added 334 mp, +150% y/y. Operating loss fell -34% to 334 mp, while the comprehensive financing result registered a capital gain of 322 mp. Thus, the net profit was 157.2 mp, based on the higher written premiums, lower net loss cost and the financial products recovery.
- New 2021 Forecasts.** We expect written premiums to grow approximately +10%. This rate assumes the slowdown of growth in Patria Re in 2020 and a gradual recovery of "General de Seguros", after the restructuring. We also estimate an adjusted combined ratio of 97.4%, an improvement of 380 bp compared to 2020, in line with the slowdown in written premiums. Thus, with capital gain of the portfolio forecast to yield around 5.7%, we estimate a net profit of 209 mp, EPS of 0.44 pesos.
- 2020-2025 Plan.** The company continues its digital, cultural and organizational transformation plan that could be a catalyst for growth in the medium-term. This plan proposes "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 floating capital and other shares that could 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 PV 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, 10.3 ps. This suggests a P/BV multiple that 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, shares liquidity, ceded reinsurances and credit risk in their investments.

<sup>2</sup> Note: The figures presented in the report are preliminary. They do not include the first quarter of 2020 of Patria Corporate Member LTD given the difference in reporting times of the operation in the United Kingdom. Additionally, the comparative statement of income does not include PCM in any of the two years. While in the comparative of the Balance Sheet, the figures for the end of 2019 include PCM.

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## 1. 1Q21 report

### Income Statement

	Non- Accumulated data		
	1Q21	1Q20	YoY Change
<b>Gross Written Premiums</b>	2,279	1,952	+16.7%
<b>Net Retained Premiums</b>	1,959	1,565	+25.2%
<b>Retention Premiums Accrued</b>	1,948	1,743	+11.8%
Acquisition Costs	579	443	+30.8%
Insurance Claims Incurred	1,035	1,166	-11.3%
<b>Underwriting (Technical) Income (Loss)</b>	334	134	+150.0%
Net Operating Expenses	205	101	+103.1%
<b>Operating Income (Loss)</b>	-122	-186	-34.4%
Comprehensive Financing Result	322	-1,013	n.m.
<b>Net Profit (Loss)</b>	157	-861	n.m.
<i>Acquisition Ratio</i>	29.6%	28.3%	+127 bp
<i>Claims Ratio</i>	53.1%	66.9%	-1,381 bp
<i>Operating Ratio</i>	9.0%	5.2%	+381 bp
<b>Consolidated Combined Ratio</b>	<b>91.6%</b>	<b>100.4%</b>	<b>-873 bp</b>
<b>Adjusted Combined Ratio</b>	<b>93.3%</b>	<b>98.1%</b>	<b>-477 bp</b>
<i>Investments (1)</i>	18,609.1	17,793.2	4.6%
<i>Catastrophic reserve (1)</i>	6,959.4	6,598.1	5.5%
<b>Patrimony (1)(2)</b>	<b>8,814.0</b>	<b>8,426.8</b>	<b>4.6%</b>

Source: Prognosis and PV

(1) Investments, Catastrophic Reserve and Patrimony with figures as of December 2020

(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 2,279 million pesos (mp) in 1Q21, a jump of +16.7% y/y, against the 1,952 mp in 1Q20. This variation is mainly explained by the dynamism in **Reaseguradora Patria**, that recorded sales of 1,704.4 mp 369.8 mp more compared to 1Q20, as a result of its business lines expansion.

The subsidiary **General de Seguros**, issued premiums for 599.9 mp, a fall of -6.7% y/y. This result was attributed to "problems in the conversion and preservation of businesses, mainly in the automobile and accident lines", likewise, the agricultural line reported a contraction in the collection of premiums, due to the "subscription closure that lasted for several days, as a result of the exceptional frosts presented at the beginning of the year".

**The net consolidated acquisition cost** of PV \* amounted 579 mp in 1Q21, +30.8% vs the 443 mp in 1Q20. This resulted from an increase in reinsurance commissions paid to ceding companies and the costs associated with "excess losses" that protect retention.

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The **net cost of consolidated claims** fell -11.3%, to 1,035 mp. This decline was mainly due to lower claims of *Reaseguradora Patria and General de Seguros*. Peña Verde's claims ratio over accrued-retained premiums was of 53.1%, showing a collapse of 13.81 percentage points.

The **technical profit** rose +150% y/y to 334 mp. This is explained by the increase in written premiums and the fall in net insurance claims, which offset the growth in acquisition cost.

In addition to the above, **net operation expenses** totaled 205 mp, which compared to 101 mp in 1T20, a jump of +103.1%. It is important to mention that is mainly attributed to the Employee Participation in Profits account, which grew significantly. Thus, operating expenses on written premiums represented 9.0% in 1Q21. It should be mentioned that "excluding the extraordinary effect of the Employee Participation in Profits and the timely registration of the monthly account statements of the reinsurance taken", operating expenses were 205 mp in 1Q21, +24.6% y/y.

The **comprehensive financial result** recorded a gain of 322 mp over a portfolio of 18,609 mp, that compares favorably against the loss of 1,013 mp in 1Q20. This is explained "mainly due to an increase in the exchange rate, in addition to a benefit in the fixed income instruments valuation within a low interest rates environment, and a recovery of the stock market during 1Q21".

**PV reported a net profit** of 157 mp. This result is mainly based on "an increase in written premiums, lower net cost of claims and a favorable comprehensive financing result. These increases completely offset the higher technical reserves and acquisition costs".

## Financial situation

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

	1Q21	%	1Q20	%	YoY Change
Investments	18,609	68.9%	16,363	67.7%	+13.7%
Receivables	3,279	12.1%	2,791	11.5%	+17.5%
Reinsurers	4,170	15.4%	3,878	16.0%	+7.5%
Other Assets	478	1.8%	461	1.9%	+3.6%
<b>Total Assets</b>	<b>27,014</b>	<b>100.0%</b>	<b>24,174</b>	<b>100.0%</b>	<b>+11.7%</b>
Technical Reserves	16,917	62.6%	16,227	79.3%	+4.3%
Reinsurers	3,400	12.6%	2,509	12.3%	+35.5%
Other Liabilities	1,138	4.2%	699	3.4%	+62.9%
<b>Total Liabilities</b>	<b>22,376</b>	<b>82.8%</b>	<b>20,471</b>	<b>84.7%</b>	<b>+9.3%</b>
<b>Stockholder's Equity</b>	<b>4,638</b>	<b>17.2%</b>	<b>3,703</b>	<b>15.3%</b>	<b>+25.3%</b>
Total Liabilities + Equity	27,014	100.0%	24,174	100.0%	+11.7%

Source: Prognosis based on GNP

**Total assets** amounted 27,014 mp in 1Q21, growing +11.7% y/y. Investments grew +13.7%, reinsurers increased +7.5% y/y and receivables advanced +17.5%.

Regarding **liabilities**, technical reserves increased +4.3% to 16,917 mp in 1Q21 vs. 1Q20. Meanwhile, **stockholder's equity** totaled 4,638 mp (a book value per share of 9.73 pesos), an increase of +25.3%, compared to 1Q20.

## 2. Relevant events

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

**March 11, 2021.** "General de Salud is recognized with the *Celent Model Insurer 2021* award".

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**April 30, 2021.** “Grupo Peña Verde announces changes in its Organizational Structure. Reaseguradora Patria’s board ratified that, from April 1 of the current year, Mtro. Francisco Martinez Cillero assumes the position of CEO at Reaseguradora Patria”.

### 3. 2021 Forecasts

We believe that PV’s consolidated premiums can grow ~10%. This rate assumes a slowdown of Patria Re in 2020 and a gradual recovery of “**General de Seguros**”, after its 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.

Regarding the cost structure, we estimate an adjusted combined ratio of 97.4%, a decline of 380 bp compared to 2020, in line with the slowdown in written premiums.

Thus, considering a forecast 5.7% gain of the portfolio, we estimate a net profit of 209 mp.

### 4. Peña Verde-5-year 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 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 was 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.** Management is digitalizing all its processes. To do this, it invests 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 a gradual increase in the stock market value of PV\*.

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

	2016	2017	2018	2019	2020	2021f
<b>Gross Written Premiums</b>	<b>6,865</b>	<b>6,965</b>	<b>7,259</b>	<b>8,163</b>	<b>10,210</b>	<b>11,231</b>
(-) Ceded Premiums	1,990	1,444	1,351	1,548	2,140	2,355
<b>Net Retained Premiums</b>	<b>4,876</b>	<b>5,521</b>	<b>5,908</b>	<b>6,615</b>	<b>8,070</b>	<b>8,875</b>
<i>Retention rate</i>	71.0%	79.3%	81.4%	81.0%	79.0%	79.0%
(-) Net Increase in Provision for Unaccrued Premiums	367	497	224	431	496	799
<b>Retention Premiums Accrued</b>	<b>4,508</b>	<b>5,025</b>	<b>5,683</b>	<b>6,184</b>	<b>7,574</b>	<b>8,077</b>
(-) Acquisition Costs	1,317	1,550	1,792	1,858	2,404	2,421
<i>Acquisition ratio</i>	29.2%	30.9%	31.5%	30.0%	31.7%	30.0%
(-) Insurance claims incurred	3,065	3,117	3,211	3,530	4,355	4,604
<i>Claims ratio</i>	68.0%	62.0%	56.5%	57.1%	57.5%	57.0%
Underwriting (technical) income (loss)	126	357	680	796	815	1,052
(-) Net Increase in Other Technical Reserves	90	349	689	668	941	929
Gross Income	36	9	-9	128	-127	123
(-) Net Operating Expenses	605	720	503	885	903	845
<i>Operating ratio</i>	13.4%	14.3%	8.9%	14.3%	11.9%	10.5%
<b>Operating income (loss)</b>	<b>-569</b>	<b>-712</b>	<b>-512</b>	<b>-757</b>	<b>-1,030</b>	<b>-722</b>
<b>Comprehensive Financing Result</b>	<b>921</b>	<b>1,368</b>	<b>-304</b>	<b>1,343</b>	<b>884</b>	<b>1,027</b>
Earnings before income tax	352	657	-816	586	-146	304
(-) Income tax payment provision	90	63	-250	137	-20	91
<i>Income tax rate</i>	25.5%	9.7%	30.6%	23.4%	13.7%	30.0%
<b>Net profit (loss)</b>	<b>256.6</b>	<b>583</b>	<b>-561</b>	<b>446</b>	<b>-132</b>	<b>209</b>
Minority interest	5.3	10	-6	4	6	4
Majority Net Profit	256.6	583	-561	446	-132	209
<b>EPS (LTM)</b>	<b>0.5</b>	<b>1.2</b>	<b>-1.2</b>	<b>0.9</b>	<b>-0.3</b>	<b>0.4</b>
Number of shares (million)	476.7	476.7	476.7	476.7	476.7	476.7
<i>Gross written premiums growth</i>		+1.5%	+4.2%	+12.4%	+25.1%	+10.0%
<i>Net retained premiums growth</i>		+13.2%	+7.0%	+12.0%	+22.0%	+10.0%
<i>Retention premiums accrued growth</i>		+11.5%	+13.1%	+8.8%	+22.5%	+6.6%
<i>Net profit growth</i>		+127.2%	n.m.	n.m.	n.m.	n.m.
<i>EPS growth</i>		+127.2%	n.m.	n.m.	n.m.	n.m.

## Other Indicators

	2016	2017	2018	2019	2020	2021f
ROE	6.0%	12.2%	-13.3%	9.4%	-2.8%	4.3%
P/E	18.7	8.3	-8.7	10.9	-36.7	23.3
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	10.3

## Balance Sheet Summary (MXN million)

	2016	2017	2018	2019	2020	2021f
<b>Assets</b>	<b>18,397</b>	<b>20,681</b>	<b>20,086</b>	<b>22,978</b>	<b>26,609</b>	<b>28,854</b>
Investments	13,407	14,756	14,586	15,943	17,882	18,025
<b>Liabilities</b>	<b>14,092</b>	<b>15,841</b>	<b>15,819</b>	<b>18,186</b>	<b>21,897</b>	<b>23,934</b>
Technical Reserves	11,043	12,610	12,458	13,995	16,392	19,147
<b>Total Equity</b>	<b>4,305</b>	<b>4,840</b>	<b>4,267</b>	<b>4,792</b>	<b>4,712</b>	<b>4,921</b>
<b>Shareholder's Equity (majority)</b>	<b>4,263</b>	<b>4,792</b>	<b>4,228</b>	<b>4,748</b>	<b>4,676</b>	<b>4,883</b>

Source: Prognosis and BMV

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- Over 30 years of direct experience analyzing debt and equity securities
- IPO and secondary market reports and promotion
- Solid team of analysts with experience in Wall Street, the "City", Latin America and Mexico
- Leader in the coverage of medium and small sized companies
- Renown independent provider of economic and financial forecasts

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