

Peña Verde

Current price: MXN 10.18
 Patrimonial Value: MXN 18.63
 12-month target price: MXN 10.18
 (No liquidity risk discount applied).



2Q21 quarterly report

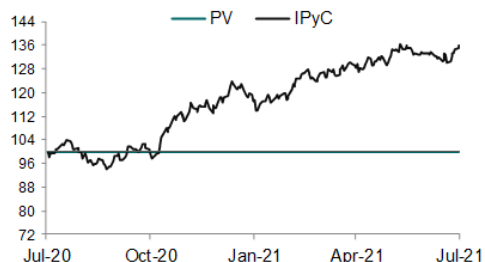
August 5, 2021

Solid 1H21 with expansion of premiums in direct insurance and reinsurance, costs reduction and positive returns in the investment portfolio. Operating income in line with our forecast and net income significantly higher: Patrimonial value continues growing

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 243.02
P/E (2021)	23.26
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	23.3x
P/BV	1.1x	1.0x	1.0x	1.0x
ROE	-13.3%	9.4%	-2.8%	4.3%
Estimates (MXN million)				
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.
Cost Structure				
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

- 1H21/1H20 results².** Written premiums totaled 5,503 million pesos (mp), a +26% y/y jump, driven by the dynamism of Reaseguradora Patria which grew +33% compared to 1H20 and General de Seguros +21%/y. Technical profit added 688 mp. Operating loss fell -42% to 362 mp, while the comprehensive financing result registered a capital gain of 584 mp. Thus, the net profit was 187 mp, 78% higher than our estimate for the period.
- 2021 Forecasts.** We conservatively reiterate 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, which, in light of the net result as of 1H21, seems short.
- 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". The goal is to reach revenues of 20 billion pesos in 2025, with double-digit profitability.
- 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 actions that could improve the marketability of its shares in the future. In fact, the company has developed a professional investor relations area that is open to market scrutiny.
- 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.

² Note: The figures presented in the report are preliminary. They do not include 2Q20 and 2Q21 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.

Peña Verde

Current price: MXN 10.18
 Patrimonial Value: MXN 18.63
 12-month target price: MXN 10.18
 (No liquidity risk discount applied).



2Q21 quarterly report

August 5, 2021

1. 2Q21 report

Income Statement

	Accumulated data			Non-accumulated data		
	2Q21	2Q20	YoY Change	2Q21	2Q20	YoY Change
Gross Written Premiums	5,503	4,373	+25.8%	3,224	2,421	+33.2%
Net Retained Premiums	4,523	3,533	+28.0%	2,564	1,968	+30.3%
Retention Premiums Accrued	4,236	3,528	+20.1%	2,288	1,785	+28.2%
Acquisition Costs	1,306	997	+31.0%	727	554	+31.2%
Insurance Claims Incurred	2,242	2,326	-3.6%	1,208	1,160	+4.2%
Underwriting (Technical) Income (Loss)	688	205	+235.3%	353	71	+395.1%
Net Operating Expenses	524	336	+55.8%	320	236	+35.7%
Operating Income (Loss)	-362	-621	-41.7%	-240	-435	-44.8%
Comprehensive Financing Result	584	-82	n.m.	262	931	-71.9%
Net Profit (Loss)	187	-443	n.m.	30	418	-92.9%
<i>Acquisition Ratio</i>	28.9%	28.2%	+66 bp	28.4%	28.2%	+19 bp
<i>Claims Ratio</i>	52.9%	65.9%	-1,299 bp	52.8%	65.0%	-1,217 bp
<i>Operating Ratio</i>	9.5%	7.7%	+183 bp	9.9%	9.7%	+18 bp
Consolidated Combined Ratio	91.3%	101.8%	-1,050 bp	9.9%	9.7%	+18 bp
Adjusted Combined Ratio	96.1%	103.7%	-758 bp	91.1%	102.9%	-1,180 bp
<i>Investments (1)</i>	18,461.1	17,793.2	3.8%			
<i>Catastrophic reserve (1)</i>	7,086.9	6,877.0	3.1%			
Patrimony (1)(2)	8,881.0	8,594.2	3.3%			

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 5,503 million pesos (mp) in 1H21, a solid jump of +25.8% y/y, against the 4,373 mp in 1H20. This variation is mainly explained by the dynamism in **Reaseguradora Patria**, that recorded sales of 4,081.1, an increase of +33.4% compared to 1Q20, as a result of its business lines expansion.

The subsidiary **General de Seguros**, issued premiums for 1,372.8 mp, an increase of 235.3 mp compared with 1H20. This growth was attributed to the progress of the business lines of 1) life, "generated by the commercial area monitoring to finalize various new businesses and conversions of all listed businesses" and, 2) autos, "because of the number of quotes and conversions for the individual car business continues to improve significantly, reaching levels above expectations".

The net consolidated acquisition cost of PV * amounted 1,306 mp in 1H21, +31% vs the 997 mp in 1H20. This resulted from an increase in reinsurance commissions paid to ceding companies and the costs associated with "excess losses" that protect retention.

The net cost of consolidated claims fell -3.6%, to 2,242 mp. This decline was mainly due to lower claims of *Reaseguradora Patria* and better control of costs by *General de Seguros*. Peña Verde's claims ratio over accrued-retained premiums was of 52.9%, showing a collapse of 1,299 percentage points.

Peña Verde

Current price: MXN 10.18
Patrimonial Value: MXN 18.63
12-month target price: MXN 10.18
(No liquidity risk discount applied).



2Q21 quarterly report

August 5, 2021

The **technical profit** rose +235.3% y/y to 688 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 524 mp, which compared to 336 mp in 1H20, increased +55.8%. 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 9.5% in 1H21. 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 439 mp in 1H21, +13.1% y/y.

The **comprehensive financial result** recorded a gain of 584 mp over a portfolio of 18,461 mp, that compares favorably against the loss of 82 mp in 1H20. This is explained "mainly due to a better stability of the stock markets as a consequence of an improvement in the control over the pandemic worldwide, due to the applications of vaccines".

PV reported a net profit of 187 mp. This result is mainly based on 1) the performance of the equity portfolio, 2) an increase in written premiums and, 3) lower net cost of claims.

Financial situation

Summary of the Balance Sheet (MXN million)

	2Q21	%	2Q20	%	YoY Change
Investments	18,461	65.9%	17,494	68.1%	+5.5%
Receivables	3,694	13.2%	3,243	12.6%	+13.9%
Reinsurers	4,688	16.7%	3,714	14.5%	+26.2%
Other Assets	521	1.9%	484	1.9%	+7.8%
Total Assets	27,993	100.0%	25,683	100.0%	+9.0%
Technical Reserves	17,384	62.1%	16,646	78.3%	+4.4%
Reinsurers	3,858	13.8%	2,925	13.8%	+31.9%
Other Liabilities	1,107	4.0%	784	3.7%	+41.1%
Total Liabilities	23,364	83.5%	21,255	82.8%	+9.9%
Stockholder's Equity	4,629	16.5%	4,429	17.2%	+4.5%
Total Liabilities + Equity	27,993	100.0%	25,683	100.0%	+9.0%

Source: Prognosis based on PV

Total assets amounted 27,993 mp in 2Q21, growing +9% y/y. Investments grew +5.5%, reinsurers increased +13.9% y/y and receivables advanced +26.2%.

Regarding **liabilities**, technical reserves increased +4.4% to 17,384 mp in 2Q21 vs. 2Q20. Meanwhile, **stockholder's equity** totaled 4,629 mp (a book value per share of 9.71 pesos), an increase of +4.5%, compared to 2Q20.

2. Relevant events

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

May 31, 2021. "Peña Verde S.A.B. published its 2020 Sustainable Annual Report".

June 7, 2021. "Fitch Ratings upgrades Peña Verde's rating (to BBB from BBB-) and affirms the rating of its subsidiaries *Reaseguradora Patria* and *General de Salud*".

June 8, 2021. "Exit announcement of Peña Verde's subsidiary *General de Seguros* from the Mexican Stock Exchange"

Peña Verde

Current price: MXN 10.18
Patrimonial Value: MXN 18.63
12-month target price: MXN 10.18
(No liquidity risk discount applied).



2Q21 quarterly report

August 5, 2021

June 8, 2021. “Peña Verde announced that its subsidiary *General de Seguros*, had authorization from the National Banking and Securities Commission (CNBV) to delist its shares from the stock market”.

June 18, 2021. “Peña Verde S.A.B announced dividend payment to its shareholders”.

July 20, 2021. “Two board members of Peña Verde S.A.B resigned, effective as of August 26, 2021”

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. **The plan contemplates that in 2025 revenues will reach 20 billion pesos, twice those of 2020, maintaining double-digit 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* shares.

Peña Verde

Current price: MXN 10.18
 Patrimonial Value: MXN 18.63
 12-month target price: MXN 10.18
 (No liquidity risk discount applied).



2Q21 quarterly report

August 5, 2021

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	11,231
(-) Ceded Premiums	1,990	1,444	1,351	1,548	2,140	2,355
Net Retained Premiums	4,876	5,521	5,908	6,615	8,070	8,875
<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
Retention Premiums Accrued	4,508	5,025	5,683	6,184	7,574	8,077
(-) 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%
Operating income (loss)	-569	-712	-512	-757	-1,030	-722
Comprehensive Financing Result	921	1,368	-304	1,343	884	1,027
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%
Net profit (loss)	256.6	583	-561	446	-132	209
Minority interest	5.3	10	-6	4	6	4
Majority Net Profit	256.6	583	-561	446	-132	209
EPS (LTM)	0.5	1.2	-1.2	0.9	-0.3	0.4
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
Assets	18,397	20,681	20,086	22,978	26,609	28,854
Investments	13,407	14,756	14,586	15,943	17,882	18,025
Liabilities	14,092	15,841	15,819	18,186	21,897	23,934
Technical Reserves	11,043	12,610	12,458	13,995	16,392	19,147
Total Equity	4,305	4,840	4,267	4,792	4,712	4,921
Shareholder's Equity (majority)	4,263	4,792	4,228	4,748	4,676	4,883

Source: Prognosis and BMV

Peña Verde

Current price: MXN 10.18
Patrimonial Value: MXN 18.63
12-month target price: MXN 10.18
(No liquidity risk discount applied).




- 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

Carlos Fritsch
cfritsch@prognosismex.com

Daniela Márquez
dmarquez@prognosismex.com

Rubi Grajales
rgrajales@prognosismex.com

 +52 (55) 1013 7353
+52 (55) 2922 5483

Campos Eliseos 400 Piso 601-B
Col. Polanco 11560
Ciudad de México

Relevant information on Prognosis, its analysts and this report

The company Prognosis Economía, Finanzas e Inversiones, S. C. (Prognosis) has been approved by the BMV (Mexican Stock Exchange) to act as an Independent Analyst and it is subject to the norms of the Internal Bylaws of the BMV. Such an approval by no means implies that Prognosis has been authorized or is supervised by the National Banking and Securities Commission (Comisión Nacional Bancaria y de Valores).

The partners, analysts and the entire staff of Prognosis, represent that: (1) we are morally solvent, both in our professional activity and at a personal level; (2) we comply with the independence criteria indicated by the internal rules of the BMV, which among other criteria includes that we do not engage in brokerage activities for any issuer, and neither do we have a business relationship with said issuers; (3) we conform and comply at all times with the Professional Ethics Codes of the Mexican Stock Exchange community and Prognosis; (4) we are free of conflicts of patrimonial or economic interest with regard to the issuers we cover.

We, Carlos Fritsch and Daniela Márquez certify that the opinions stated in this document are a faithful reflection of our personal opinion on the company(ies) or business(es) that are the subject of this report, its affiliates and/or the securities it has issued. Likewise, we certify that we haven't received, we don't receive and we will not receive any direct or indirect compensation whatsoever in exchange for stating any opinion on any specific regard in this document. The analysts who prepared this report have no positions in the aforementioned securities. The fundamental analysts involved in the preparation of this document receive compensations based on the quality and accuracy of this report and competitive factors.

The target price included in this report reflects the forecasted performance of the shares in a specific period. This performance may be related to the valuation method and other factors. The fundamental valuation method used by Prognosis is based in a combination of one or more generally accepted financial analysis methodologies that may include valuation using multiples, discounted cash flows (DCF), sum of the parts, liquidation value and any other methodology that may be adequate for each particular case. Other factors include the flow of general or specific news on the company, the perception of the investors regarding the right moment to invest, merger and acquisition operations and the appetite of the market in specific industries, among others. Any of these factors, or all of them combined, may lead to a recommendation that contradicts the one prescribed by the fundamental valuation on its own. Likewise, the forecasts included in this report are based on assumptions that may or not be realized. Past returns do not guarantee future returns. Constant updates may be published by any issuer depending on -the frequency of the events, announcements, market conditions or any other public information.

This report is based on public information and sources considered trustworthy; we do not guarantee the accuracy, truthfulness or thoroughness of said information. The information and opinions in this report do not constitute an offer to buy or sell nor an invitation to make an offer to buy or sell securities or any other financial instrument. This document does not provide personalized advice and it doesn't take into consideration specific investment strategies and goals, financial situation, or particular needs of any person that may receive the report. The recipient of this report shall make his/her own decisions and consider it as a factor among many others in their decision making.