

Peña Verde

Quarterly Report

Last Price 9.00 MXN

Target Price 9.00 MXN

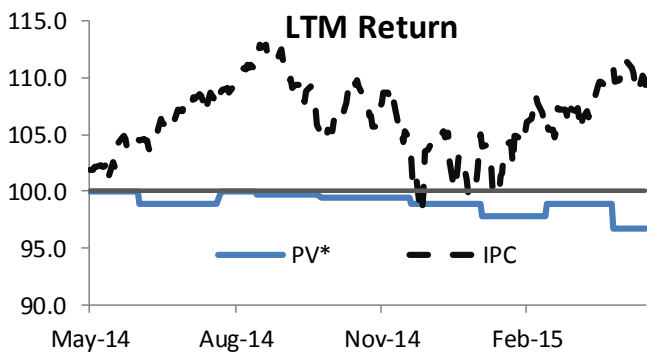
1Q15

May 6th, 2015

High insurance claims hit technical income, but strong financial products allow a net profit of MXN 109 million, which is higher than our forecast.

Key Data

Local Ticker	PV*
12 M Target Price	MXN 9.00
Last Price	MXN 9.00
Expected Return	0.0%
2015f Div. Yield	N.A.
Total Expected Return	0.0%
MEXBOL Expected Return	3.7%
LTM Return PV*	-3%
Outstanding Shares (million)	476.7
Free Float	2.3%
Beta	N.A.
Marketability	Low
Average Daily Trade 6M (thousand)	USD 798.5
Market Cap (USD Million)	USD 279
Book Value per Share	MXN 7.83
Enterprise Value (Million)	USD 288
LTM Price Range	(9.00 - 9.30)



	2012	2013	2014	2015f
Valuation				
P/E	13x	810x	13.6x	12.4x
P/BV	0.31x	1.34x	1.32x	1.18x
Estimates (MXN)				
Gross Written Premiums	3,462	3,321	4,190	4,591
YoY%	7.3%	-4.1%	26.2%	9.6%
Net Premiums Retained	2,779	2,675	3,204	3,665
YoY%	9.8%	-3.8%	19.8%	14.4%
Underwriting (technical) inc	505	461	287	442
YoY%	148.8%	-8.9%	-37.7%	54.1%
Net income	760	55	321	353
EPS	3.80	0.11	0.67	0.74
YoY%	-74%	-97%	487%	10%
Profitability				
Combined Ratio	91.9%	89.5%	97.0%	94.0%
Acquisition Ratio	28.0%	29.5%	28.3%	27.3%
Claims Ratio	51.6%	50.8%	58.7%	57.9%
Operation Ratio	12.2%	9.1%	10.0%	8.7%
ROE	23.5%	1.7%	9.7%	10.0%

•**Target Price.** We reiterate our MXN 9.0 per share Target Price for y-e 2015. Our TP is in line with the current price of the PV* shares, which does not include any potential new business diversification of the holding company.

•**Balance between growth and quality of risks taken.** In the short term, we believe that the management's main challenge is to continue growing the company while controlling the claims ratio.

•**Growth strategy on track by 2018.** As of Q315 PV's growth strategy will be tested as written premiums comparisons will be more difficult. We believe that General de Seguros will approach \$ 3 billion pesos in premiums generated by 2018 and Patria will reach USD 200 million by the same year.

•**New projects.** Judging from our conversations with the company, they have the intention to continue using the PV platform for potential new businesses. Although they do not reveal its nature; it is clear, in our view, that the company seeks greater visibility in the future.

1Q15 Earnings Report.

Written premiums grow vs 1Q14 but remain flat vs 3Q and 4Q 2014. Written premiums totaled 1,134.3 million pesos (mp) in the first quarter of 2015, a strong annual increase of 28.9%. Yet, they fell slightly versus the 2H14. "General de Seguros", seems to be successfully orchestrating its growth strategy despite the economic weakness of the country in the first 3 months of the year. In fact, in March, "General de Seguros" showed an increase of almost 33.4% in revenues.

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[Versión en español](#)

Meanwhile subsidiary “Reaseguradora Patria”, increased 24.8% revenues to \$ 455.3 mp in March, which was driven by the issuing of more reinsurance premiums in the fields of other catastrophic risks, like automobile and life operation and refinancing.

Costs and Underwriting (technical) Income. The net acquisition cost in the 1Q15 totaled 268.1 mp, 6.1 % higher than in 1Q14, because of an increase in written premiums.

Claims rose to 572.1 bp, 86.5% higher than in 1Q14, but 12.2% lower than 4Q14. The rise in claims caused the net profit to decrease -72.9% to 33.7 mp in 1Q15, but higher to the registered loss in 4Q14.

In our view, PV’s challenge is to strike the right balance between higher premiums and good risks taken so the claims ratio remains under control.

Peña Verde’s consolidated technical income totaled 33.7 mp in March 2015, decreasing 72.9 % in the first three months of 2015. The fall is due largely to increased claims.

Assets kept growing. Assets totaled \$13.1. bp in 1Q15, increasing 20.1% YoY. Investments in securities rose to \$1,27 bp.

Equity portfolio gains drive financial income. The Comprehensive Financing Result totaled 320.3 mp, increasing from -49.9 mp in 1Q14, a difference of \$370.2 mp. This was driven by an increase of 375.5 mp in the company’s portfolio valuation, in turn driven by a good performance in equities.

Net profit grows. As a result, PV reported a net profit of \$109 mp, a jump of 287.3% compared to last year, mainly due to the recovery of portfolio income. The quarterly EPS was MXN 0.29, significantly higher than our estimate. Given high volatility in PV’s portfolio, we are maintaining our 2015-EPS forecasts.

Book value per Share. At the end of March 2015, the net worth of PV reached a total of \$ 3,730.3 mp, representing an annual increase of 5.9%, equivalent to 7.84 pesos per share.

Income Statement	1Q14	1Q15	1Q15 vs 1Q14 %
<small>(In current million pesos)</small>			
Primas Emitidas	873.8	1,134.3	30%
Primas Cedidas	132.9	160.3	21%
Primas de Retención	741.0	974.1	31%
(-) Incremento Neto de la Reserva de Riesgos en Curso y de Fianzas en Vigor	63.0	106.4	69%
Primas de Retención Devengadas	677.9	867.6	28%
(-) Costo Neto de Adquisición	246.8	261.8	6%
(-) Costo Neto de Siniestralidad, Reclamaciones y Otras Obligaciones Contractuales	306.8	572.1	86%
Utilidad (Pérdida) Técnica	124.4	33.7	-73%
(-) Incremento Neto de Otras Reservas Técnicas	78.6	82.2	5%
Resultado de Operaciones Análogas y Conexas	0.0	0.0	65%
Utilidad (Pérdida) Bruta	45.8	(48.4)	N/A
(-) Gastos de Operación Netos	71.6	69.7	-3%
Utilidad (Pérdida) de la Operación	(25.7)	(118.2)	359%
Resultado Integral de Financiamiento	(49.9)	320.3	N/A
Utilidad (Pérdida) del Ejercicio	(58.2)	109.0	N/A
Participación no controladora en la Utilidad (Pérdida) del Ejercicio	(6.6)	4.1	N/A
Participación controladora en la Utilidad (Pérdida) del Ejercicio	(58.2)	109.0	N/A

Source: PV y Prognosis

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 with the exception of the USA.

Peña Verde's Annual Income Statement (million MXN)

	2011	2012	2013	2014	2015f
Gross Written Premiums	3,226.2	3,461.5	3,320.6	4,190.0	4,591.1
Premiums Ceded	695.2	682.0	646.0	986.1	733.9
Net Premiums Retained	2,531.0	2,779.5	2,674.6	3,203.9	3,665.3
<i>Net Premiums Retained rate</i>	78%	80%	81%	76%	80%
Net Increase in Provision for Unaccrued Premiums	137.4	125.3	132.7	314.7	233.1
Retention Premiums Accrued	2,393.6	2,654.2	2,541.9	2,889.2	3,432.2
Acquisition Costs	679.4	779.4	789.2	907.5	1,001.8
<i>Aquisition ratio</i>	27%	28%	30%	28%	27%
Insurance claims incurred	1,511.0	1,369.3	1,292.2	1,694.9	1,988.1
<i>Claims ratio</i>	63%	52%	51%	59%	58%
Underwriting (technical) income (loss)	203.1	505.5	460.5	286.9	442.2
Net Increase in Other Technical Reserves	277.1	315.2	315.6	282.9	362.0
Gross Income	-74.0	190.5	145.0	4.3	80.3
Net Operating Expenses	231.6	339.9	243.9	320.1	318.8
<i>Operating ratio</i>	9%	12%	9%	10%	9%
Operating income (loss)	-305.5	-149.3	-98.9	-315.8	-238.5
Comprehensive Financing Result	445.7	1,238.1	109.6	363.6	813.3
Earnings before income tax	140.6	1,088.8	10.8	47.8	574.8
Income tax payment provision	-41.5	268.0	-59.6	-9.9	254.5
Income tax rate	-29.5%	24.6%	-553.5%	-20.8%	44.3%
Net profit (loss)	182.1	820.8	59.5	349.3	384.2
Minority interest	110.0	61.3	10.9	27.9	30.7
Majority Net Profit	71.7	759.5	54.7	321.3	353.4
EPS	14.64	3.80	0.11	0.67	0.74
Number of shares (million)	4.9	200.0	476.7	476.7	476.7
Gross Written Premiums growth		7.3%	-4.1%	26.2%	9.6%
Net profit growth		958.7%	-92.8%	487.1%	10.0%
EPS growth		-74.1%	-97.0%	487.1%	10.0%
Cost index					
Aquisition Ratio	26.8%	28.0%	29.5%	28.3%	27.3%
Claims Ratio	63.1%	51.6%	50.8%	58.7%	57.9%
Operation Ratio	9.1%	12.2%	9.1%	10.0%	8.7%
Combined Ratio	99.1%	91.9%	89.5%	97.0%	94.0%
Other Indicators					
Dividends	16.9	0.0	0.0	0.0	0.0
ROE	6.9%	23.5%	1.7%	9.7%	10.0%
P/E	0.34x	1.32x	81.00x	13.65x	12.41x
P/BV	0.02x	0.31x	1.34x	1.32x	1.18x
Balance Sheet Summary (million MXN)					
Assets	9,624.9	10,715.8	10,952.6	12,568.9	14,421.5
Investments	7,441.6	8,615.6	8,855.8	9,741.0	10,941.4
Cash and Deposits	89.7	162.0	147.3	147.3	216.3
Liabilities	6,591.1	7,214.7	7,366.2	8,949.5	10,484.0
Technical Reserves	5,450.1	5,558.9	5,856.3	7,354.5	8,701.7
Total Equity	3,033.8	3,501.1	3,586.4	3,619.4	3,937.5
Shareholder's Equity (majority)	1,044.9	3,231.1	3,304.4	3,326.6	3,710.8

Source: Prognosis and BMV



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