

PEÑA VERDE

Quarterly Report 1Q17

Current Price MXN 10.17

2017 Target Price MXN 10.64 (no discount for illiquidity applied)

Wednesday, May 10, 2017

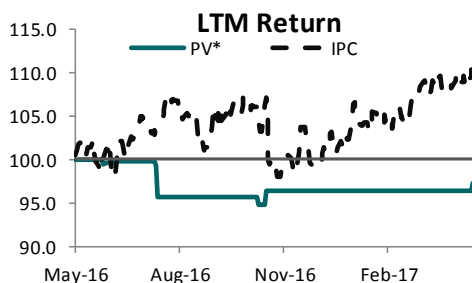
Spectacular First Quarter: Net income reached 500 million pesos, exceeding by 25% our estimate for all 2017

- Solid technical and operational results reached respectively +301 mp and +47 mp, reversing the losses in 1Q16. Written premiums advanced +18%.
- The net financial result rose +75% to +515 mp, supported by a strong performance of the investment portfolios.
- Net income of +500 mdp (EPS of 1.05 ps) is a record.

Key Data

| Local Ticker | PV* |
|-------------------------------------|----------------|
| 2017 Target Price | MXN 10.64 |
| Last Price | MXN 10.17 |
| Expected Return | 4.6% |
| LTM Return PV* | -3% |
| Outstanding Shares (million) | 476.7 |
| Free Float | 3.0% |
| Marketability | Low |
| Market Capitalization (MXN million) | MXN 4,848 |
| LTM Price Range | (9.90 - 10.45) |

Regulatory changes and cost structure. The regulatory changes in 2016 that increased the PV* cost structure will be reversed in 2017. An example can be observed in the declining the claims ratio which reached 46.2% in the quarter, partly supported by a change in methodology in the calculation of claims incurred but not reported (IBNR).



Target Price. For now, conservatively, as our estimates have been exceeded, and because of the volatile nature of financial gains, we maintain our 2017 y-e target price at 10.64 pesos, equivalent to 1.06X the estimated controlling book value in 2017 and to 12.0x the expected EPS for that same year. This target price is based on the following estimates: an increase of +22% in written premiums, an improvement in the combined ratio vs 2016, to 96.0%, and a return on the investment portfolio of 9.75% (CETES + 300bp). We did not incorporate a discount due to the low trading volume of the shares.

Balance between growth and quality of risks. The company's challenge continues to be to increase its market share and scale, while controlling costs and operating expenses.

| | 2013 | 2014 | 2015 | 2016 |
|--|------|------|------|------|
|--|------|------|------|------|

Valuation

| | | | | |
|------|-------|-------|-------|-------|
| P/E | 65.7x | 95.0x | 7.9x | 18.7x |
| P/BV | 1.18x | 1.32x | 1.23x | 1.13x |

Estimates (MXN)

| | | | | |
|------------------------|-------|--------|-------|--------|
| Gross Written Premiums | 3,321 | 4,190 | 5,143 | 6,866 |
| YoY% | -4.1% | 26.2% | 22.7% | 33.5% |
| Net Premiums Retained | 2,675 | 3,204 | 3,923 | 4,876 |
| YoY% | -3.8% | 19.8% | 22.5% | 24.3% |
| Underwriting income | 461 | 287 | 270 | 126 |
| YoY% | -8.9% | -37.7% | -6.0% | -53.4% |
| Net income | 59 | 46 | 613 | 257 |
| EPS | 0.12 | 0.10 | 1.29 | 0.54 |
| YoY% | -97% | -22% | 1228% | -58% |

Profitability

| | | | | |
|-------------------|-------|-------|--------|--------|
| Combined Ratio | 89.5% | 97.0% | 103.7% | 107.4% |
| Acquisition Ratio | 29.5% | 28.3% | 25.6% | 27.0% |
| Claims Ratio | 50.8% | 58.7% | 66.6% | 68.0% |
| Operation Ratio | 9.1% | 10.0% | 11.5% | 12.4% |

The only Mexican company with registration to write risks in the well-known Lloyd's market. Patria Corporate Member, Ltd., with an investment of 8.78 million pounds, reported a +55% quarterly increase in revenue.

Low capitalization and marketability. The market capitalization of the issuer is 4.805 billion pesos (bp), its trading volume is minimal and its free float is only 3%, which limits the universe of potential investors of PV*. However, following the acquisition of the 12.2% of the total outstanding shares in 4Q16, the purpose of adding a strategic partner becomes effective, potentially increasing the float and improving the visibility of the shares.

Relevant events 2017. We anticipate: (1) the ambitious telephone medical orientation call center project will enter a commercial phase, although currently small, it could be a major revenue generator in the future and (2)

the listing of the shares of *General de Seguros* will be withdrawn the Mexican Stock Exchange.

Risks. The main risks are: economic, competition, execution of new strategies and the behavior of the securities markets. Others may include: reinsurance costs, claims levels, liquidity, ceded reinsurance (counterparty, strategic partners) and credit risk in investments.

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1. 1Q17 Report

Peña Verde's written premiums totaled 1,675 billion pesos (bp) in 1Q17, an increase of +18.2% y/y against the 1,417 bp in 1Q16. This variation is mainly explained by the dynamism of "General de Seguros", whose sales grew +9.8% y/y in 1Q16, reaching 823.4 million pesos (mp). The business lines with the greatest growth were: health, automobiles and fire.

On the other hand, the subsidiary "**Reaseguradora Patria**" reached sales of 697.2 mp, which represented a jump of +22.8%, due to the increase in written premiums by the following divisions: fire, agricultural and the refinancing of operations.

The subsidiary **Patria Corporate Member Ltd**, which operates since January 2016 in the Lloyd's market in London, reported sales equivalent to 304.4 mp.

Net increase in reserves. The variation of the reserve provision amounted 92.7 mp, +54.9% y/y, because of the implementation of the methodology for the constitution of the current risk reserve based on the Solvency II models.

Claims incurred fell -19.3% y/y to 579.3 mp and the claims ratio was 46.2%, which represents a drop of 28.9 percentage points compared to 1Q16. This is explained by the change in the methodology of the reserves for claims IBNR. The accident rate remains at a very low historical level.

The technical profit increased to 301.2 mp from a loss of 106.6 mp. This recovery is the result of: 1) a higher revenue, 2) lower increase in the risk reserve and 3) a decrease in claims.

Operating income was positive at 47.2 mdp vs. the loss of 322.4 million in 1Q16. This was a result of all the previous and a drop in net operating expenses amounting 124.8 mp.

The comprehensive financing result posted a gain of 514.7 mp, mainly due to an increase of +75.6% from investment valuation.

Finally, PV* reported a **net income** of 499.9 mp, which improves the loss of -103.1 mp from a year ago.

Total assets amounted to 18.237 bp, an increase of +16.9% y/y. Among the major changes in the year, there was an increase in investments in the securities market, an increase in accounting availability and reinsurers.

Stockholders' equity. As of March 2017, the stockholders' equity reached 4.825 bp, + 15.2% y/y.

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 (million MXN)

| | 2014 | 2015 | 2016 | 2017f |
|--|--------------|---------------|---------------|--------------|
| Gross Written Premiums | 4,190.0 | 5,142.6 | 6,865.5 | 8,375.9 |
| Premiums Ceded | 986.1 | 1,219.2 | 1,989.8 | 2,429.0 |
| Net Premiums Retained | 3,203.9 | 3,923.3 | 4,875.7 | 5,946.9 |
| <i>Net Premiums Retained rate</i> | <i>76%</i> | <i>76%</i> | <i>71%</i> | <i>71%</i> |
| Net Increase in Provision for Unaccrued Premiums | 314.7 | 107.0 | 367.3 | 448.1 |
| Retention Premiums Accrued | 2,889.2 | 3,816.3 | 4,508.3 | 5,498.8 |
| Acquisition Costs | 907.5 | 1,004.2 | 1,317.1 | 1,575.9 |
| <i>Aquisition ratio</i> | <i>28%</i> | <i>26%</i> | <i>27%</i> | <i>27%</i> |
| Insurance claims incurred | 1,694.9 | 2,542.5 | 3,065.5 | 3,271.8 |
| <i>Claims ratio</i> | <i>59%</i> | <i>67%</i> | <i>68%</i> | <i>60%</i> |
| Underwriting (technical) income (loss) | 286.9 | 269.6 | 125.7 | 651.1 |
| Net Increase in Other Technical Reserves | 282.9 | 330.8 | 90.1 | 475.7 |
| Gross Income | 4.3 | -61.0 | 35.6 | 269.0 |
| Net Operating Expenses | 320.1 | 451.3 | 604.9 | 594.7 |
| <i>Operating ratio</i> | <i>10%</i> | <i>12%</i> | <i>12%</i> | <i>10%</i> |
| Operating income (loss) | -315.8 | -512.3 | -569.2 | -325.7 |
| Comprehensive Financing Result | 363.6 | 1,369.7 | 920.8 | 921.9 |
| Earnings before income tax | 47.8 | 857.4 | 351.6 | 596.2 |
| Income tax payment provision | -9.9 | 204.2 | 89.7 | 178.9 |
| Income tax rate | -20.8% | 23.8% | 25.5% | 30.0% |
| Net profit (loss) | 46.2 | 613.1 | 256.6 | 417.3 |
| Minority interest | 11.6 | 40.1 | 5.3 | 8.6 |
| Majority Net Profit | 46.2 | 613.1 | 256.6 | 408.8 |
| EPS | 0.10 | 1.29 | 0.54 | 0.88 |
| Number of shares (million) | 476.7 | 476.7 | 476.7 | 476.7 |
| Gross Written Premiums growth | 26.2% | 22.7% | 33.5% | 22.0% |
| Net profit growth | -22.4% | 1228.1% | -58.1% | 59.3% |
| EPS growth | -22.4% | 1228.1% | -58.1% | 62.6% |
| Cost index | | | | |
| Aquisition Ratio | 28.3% | 25.6% | 27.0% | 26.5% |
| Claims Ratio | 58.7% | 66.6% | 68.0% | 59.5% |
| Operation Ratio | 10.0% | 11.5% | 12.4% | 10.0% |
| Combined Ratio | 97.0% | 103.7% | 107.4% | 96.0% |
| Other Indicators | | | | |
| P/E | 95.00x | 7.92x | 18.72x | 11.51x |
| P/BV | 1.32x | 1.23x | 1.13x | 1.01x |
| BV per share | 7.0 | 8.3 | 8.9 | 10.0 |
| PV's share price | 9.2 | 10.2 | 10.1 | 10.1 |
| Balance Sheet Summary (million MXN) | | | | |
| Assets | 12,569 | 15,224 | 18,397 | 20,760 |
| Investments | 9,741 | 11,735 | 13,407 | 15,239 |
| Liabilities | 8,949 | 10,939 | 14,092 | 15,937 |
| Total Equity | 3,619 | 4,285 | 4,305 | 4,823 |
| Shareholder's Equity (majority) | 3,327 | 3,940 | 4,263 | 4,775 |

Source: Prognosis and BMV

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Prognosis

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