

Peña Verde

2Q14

Quarterly Report

Last Price 9.20 MXN

Target Price 8.90 MXN

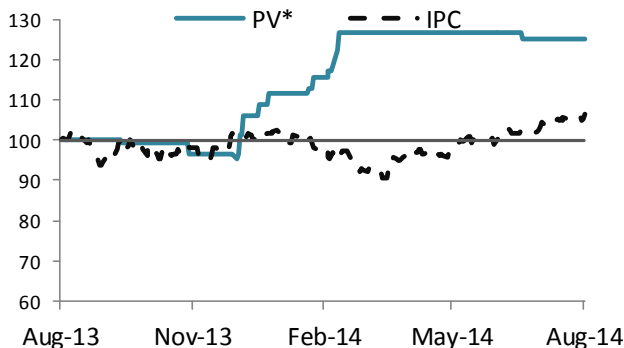
August 4th, 2014

Net income surges due to a jump in financial products. The underwriting income is favored by low claims in Patria-Re and growth in General de Seguros. We improved our target price to Ps 8.90 from Ps 8.06.

Key Data

Local Ticker	PV*
12 M Target Price	MXN 8.90
Last Price	MXN 9.20
Expected Return	-3.3%
2014 Div. Yield	0.0%
Total Expected Return	-3.3%
MEXBOL Expected Return	6.5%
LTM Return PV*	25%
Outstanding Shares (million)	476.7
Free Float	3.0%
Beta	0.1
Marketability	Low
Average Daily Trade (thousand)	USD 25.5
Market Cap (USD Million)	USD 332
LTM Price Range	(7.00 - 9.30)

- Despite the fact that 2H14 net income represents 71% of our full-year estimate, we did not modify it given the volatile nature of its main component, financial products.
- However, the year-end book value of the holding company will increase more than expected. Recognizing this, we increased our "fair" P/BV and therefore our target price for the next 12 months at 8.90 pesos per share, from 8.06 ps.
- The "technical" part of the business is running healthy, with *General de Seguros* successfully orchestrating its growth strategy and *Patria Re* not needing to use its catastrophic reserves.
- The liquidity of the stock remains low, limiting the universe of potential investors of PV*.



Gross Written Premiums

Written premiums from Peña Verde totaled 938.1 million pesos (mp) in the second quarter of 2014, a robust annual increase of 20%. Written premiums accumulated to June 2014 totaled 1.8 billion pesos a semi-annual increase of 18.2%, led by the subsidiary "General de Seguros", which seems to be implementing a good strategy for growth, despite the economic weakness of the country in the 1H14.

The divisions that showed higher sales growth in the first half of the year were "Life" growing 169% derived from the assignments of new tenders in the states of Zacatecas and Mexico City and the "Agricultural" division showing an increase of 76.1%, mainly by obtaining business in the states of Coahuila and Chihuahua.

	2011	2012	2013f	2014f
Valuation				
EV/EBITDA	1.3x	74.5x	29.3x	15.7x
P/E	0.31x	134x	1.2x	1.12x
Estimates (MXN)				
Gross Written Premiums	3,462	3,321	3,678	4,172
YoY%	7.3%	-4.1%	10.8%	13.4%
Net Premiums Retained	2,779	2,675	2,963	3,407
YoY%	9.8%	-3.8%	10.8%	15.0%
Underwriting (technical) inc	505	461	491	448
YoY%	148.8%	-8.9%	6.6%	-8.8%
Net income	760	59	151	282
EPS	3.80	0.12	0.32	0.59
YoY%	-74%	-97%	155%	86%
Profitability				
Combined Ratio	91.9%	89.5%	92.4%	93.3%
Acquisition Ratio	28.0%	29.5%	29.0%	26.6%
Claims Ratio	51.6%	50.8%	51.8%	58.2%
Operation Ratio	12.2%	9.1%	11.6%	8.6%
ROE	23.5%	1.8%	4.4%	7.4%

Peña Verde

2T14

Reporte Trimestral

Último Precio 9.20 MXN
Precio Objetivo 8.90 MXN

4 de agosto del 2014

Cost of acquisition, Claims and Underwriting (Technical) Income

The net acquisition cost in the 2Q14 was virtually identical to the 2Q13 and 17.8% lower than the 1Q14. The loss ratio was 332.2 mp about 9% higher than the 2Q13 and the 1Q14. However, good sales made technical income increase 25.8% to 141.5 mp in the 2Q14.

The consolidated technical income of Peña Verde to June 2014 totaled 265.9 mp, an increase of 4.1% compared to 255.3 mp to June 2013. The company believes that this positive technical income is due largely to the low claims of the subsidiary "Patria Reinsurance". As it is known, the catastrophic events that affect the reinsurers are impossible to predict. For now, low volatility benefits PV.

Operating Income

In the 2Q14 there was an operating loss of -42.5 mp, because although technical reserves increased at a normal rate, operating expenses spiked to 107.9 mp. In the 1H14 operating expenses increased 52%, largely due to higher actual and deferred PTU (Workers share on earnings).

Financial Income and Net Income

In the 2Q14 a very favorable performance of the stock and bond markets in Mexico favored a comprehensive financing result of +463.5 mp, contrasting with the loss of -49.9 mp in the previous quarter.

Primarily due to the good performance of the investment portfolio but also due to lower claims, Peña Verde posted a net profit of 219.6 mp in the 2Q14 versus a loss of 18.6 mp in 2Q13. In the first half of 2014 PV* has a net income of \$213.1 million pesos.

Book Value and New Target Price

At the end of June 2014, the shareholder's equity of PV reached a total of \$ 3.8 billion pesos, an annual increase of 8.8%, mainly due to the accumulated profit in the period. Despite the fact that the 2H14 net income represents 71% of our full-year estimate, we did not modify it given the volatile nature of its main component, financial products. Nevertheless, we increased our target price for PV* to 8.90 pesos per share, from \$8.06 for the next 12 months, recognizing their higher potential value, and therefore an improvement in our target P/BV multiple.

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	2014f	2015f
Gross Written Premiums	3,226.2	3,461.5	3,320.6	3,677.6	4,171.6
Premiums Ceded	695.2	682.0	646.0	714.4	764.8
Net Premiums Retained	2,531.0	2,779.5	2,674.6	2,963.2	3,406.7
<i>Net Premiums Retained rate</i>	78%	80%	81%	81%	82%
Net Increase in Provision for Unaccrued Premiums	137.4	125.3	132.7	159.2	168.9
Retention Premiums Accrued	2,393.6	2,654.2	2,541.9	2,804.0	3,237.8
Acquisition Costs	679.4	779.4	789.2	859.2	907.0
<i>Aquisition ratio</i>	27%	28%	30%	29%	27%
Insurance claims incurred	1,511.0	1,369.3	1,292.2	1,453.7	1,882.9
<i>Claims ratio</i>	63%	52%	51%	52%	58%
Underwriting (technical) income (loss)	203.1	505.5	460.5	491.1	447.9
Net Increase in Other Technical Reserves	277.1	315.2	315.6	322.9	373.1
Gross Income	-74.0	190.5	145.0	168.3	74.9
Net Operating Expenses	231.6	339.9	243.9	343.7	291.5
<i>Operating ratio</i>	9%	12%	9%	12%	9%
Operating income (loss)	-305.5	-149.3	-98.9	-175.4	-216.6
Comprehensive Financing Result	445.7	1,238.1	109.6	755.5	655.9
Earnings before income tax	140.6	1,088.8	10.8	580.1	439.3
Income tax payment provision	-41.5	268.0	-59.6	186.4	129.8
Income tax rate	-29.5%	24.6%	-553.5%	32.1%	29.5%
Net profit (loss)	182.1	820.8	59.5	180.7	309.5
Minority interest	110.0	61.3	10.9	228.0	27.9
Majority Net Profit	71.7	759.5	59.5	151.4	281.7
EPS	14.64	3.80	0.12	0.32	0.59
Number of shares (million)	4.9	200.0	476.7	476.7	476.7
Gross Written Premiums growth		7.3%	-4.1%	10.8%	13.4%
Net profit growth		958.7%	-92.2%	154.6%	86.0%
EPS growth		-74.1%	-96.7%	154.6%	86.0%
Cost index					
Aquisition Ratio	26.8%	28.0%	29.5%	29.0%	26.6%
Claims Ratio	63.1%	51.6%	50.8%	51.8%	58.2%
Operation Ratio	9.1%	12.2%	9.1%	11.6%	8.6%
Combined Ratio	99.1%	91.9%	89.5%	92.4%	93.3%
Other Indicators					
Dividends	16.9	0.0	0.0	0.0	0.0
ROE	6.9%	23.5%	1.8%	4.4%	7.4%
P/E	0.34x	1.32x	74.52x	29.27x	15.74x
P/BV	0.02x	0.31x	1.34x	1.21x	1.12x
BV per share	213.3	16.2	6.9	7.7	8.3
Balance Sheet Summary (million MXN)					
Assets	9,624.9	10,715.8	10,952.6	12,269.6	14,022.4
Investments	7,441.6	8,615.6	8,855.8	9,885.6	11,083.5
Cash and Deposits	89.7	162.0	147.3	184.0	210.3
Liabilities	6,591.1	7,214.7	7,366.2	8,293.7	9,737.0
Technical Reserves	5,450.1	5,558.9	5,856.3	6,883.8	8,081.7
Total Equity	3,033.8	3,501.1	3,586.4	3,975.9	4,285.4
Shareholder's Equity (majority)	1,044.9	3,231.1	3,304.4	3,657.8	3,942.5

Source: Prognosis and BMV



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