

Peña Verde

3Q14

Quarterly Report

Last Price 9.25 MXN

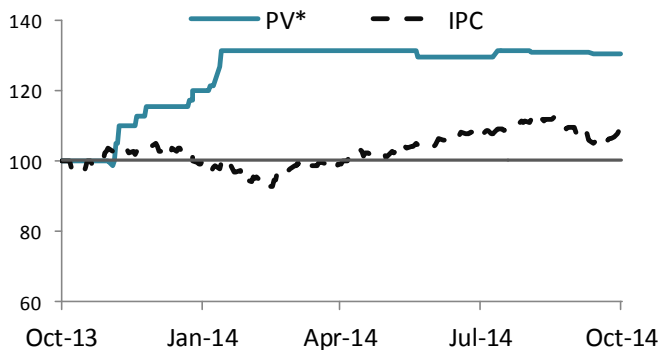
Target Price 9.32 MXN

October 31th, 2014

3Q14 results and a quick view into the medium term

Key Data

Local Ticker	PV*
Target Price	MXN 9.32
Last Price	MXN 9.25
Expected Return	0.8%
2014 Div. Yield	N.A.
Total Expected Return	0.8%
MEXBOL Expected Return	12.4%
LTM Return PV*	30%
Outstanding Shares (million)	476.7
Free Float	2.3%
Beta	N.A.
Marketability	Low
Average Daily Trade 6M (thousand)	USD 1,786.8
Market Cap (USD Million)	USD 327
Book Value per Share	MXN 8.1
Enterprise Value (Million)	USD 323
Net Debt	-MXN 147
LTM Price Range	(7.00 - 9.30)



	2011	2012	2013f	2014f
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Valuation

P/E	13x	81.0x	13.8x	12.5x
P/BV	0.31x	1.34x	1.12x	1.02x

Estimates (MXN)

Gross Written Premiums	3,462	3,321	4,058	4,464
YoY%	7.3%	-4.1%	22.2%	10.0%
Net Premiums Retained	2,779	2,675	3,151	3,453
YoY%	9.8%	-3.8%	17.8%	9.6%
Underwriting (technical) inc	505	461	546	437
YoY%	148.8%	-8.9%	18.6%	-19.9%
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%	89.0%	95.3%
Acquisition Ratio	28.0%	29.5%	28.0%	27.9%
Claims Ratio	51.6%	50.8%	50.5%	57.3%
Operation Ratio	12.2%	9.1%	10.6%	10.1%
ROE	23.5%	1.7%	8.9%	8.5%

- Growth strategy towards 2018.** We are pleasantly surprised with the implementation of the company's growth strategy so far in 2014, considering the adverse macroeconomic environment. The management of PV* seems to have left aside its conservative perspective of privileging profitability and has chosen to draw a bigger share of the market with a new and more friendly products' offering. In our view this is the appropriate strategy for the company's sustainability in the long term.
- 3Q14 results.** *General de Seguros* grows strongly, while *Reaseguradora Patria* numbers come below our forecasts. PV's written premiums increased 36% in 3Q4. A slight operating profit and a net profit of 82.6 mp is recorded while book value rises 8.8% to September 2014.
- Target Price.** We introduce our Target Price for year 2015 at MXN 9.32 per share based on the average of two components: (1) the fair book value multiple by our 2015 BV forecast and (2) An average peer P/E multiple of 12X our 2015 EPS estimate. Our TP is 3.8% above the current price of the PV* shares.

1 Medium term strategy ongoing

Better than expected. We are pleasantly surprised with the implementation of the company's growth strategy. Our model assumes that management guidance is accomplished at a slower pace than this guidance indicates. Nevertheless, at least for 2014, results have exceeded our expectations, particularly for *General de Seguros*. In *Patria Re.* the competitive environment has increased substantially affecting profitability.

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A more aggressive strategy. It looks like the experienced management of PV* has left aside the conservative perspective that privileges profitability and has chosen to draw a bigger share of the market with new and more friendly products offering for a market that has good growth prospects, although it is fiercely competed. In our view this is the appropriate strategy for the company's sustainability in the long term.

General de Seguros management plans to duplicate its portfolio by y-e 2018, which is their five year goal since the end of 2013. This would require reaching around 3.1 billion pesos in gross written premiums. Our original forecast for 2018 is in line with this goal, although after the explosive growth in 2014 we will look over our predicted growth rates for the following years. With a more dynamic overall market the management goal would be accomplished with annual increases of ~ 11.0% in written premiums beginning in 2015. In the view of **Prognosis** if Mexican economic growth in fact speeds up steadily towards 2018, **General de Seguros goal might be conservative.**

Patria-Re's management goal is to reach USD 210 million in written premiums at y-e 2018 –a goal somewhat more aggressive than our estimations. They also pose a USD 400 million objective at y-e 2023. In spite of the global concentration of the business and of narrow margins, Patria-Re has managed to obtain a solvency grade of A, coming from A-. This is a high rating that might help to underwrite business. On the other hand, the management keeps looking to grow outside Mexico up to 25% of their topline from the current 12%. They plan to focus on Latin America, giving preference to the entrance to the complex Brazilian Market and to maintain their subscription efforts in the European market.

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.

2. 3Q14 report.

General de Seguros growth strategy keeps bearing dividends. PV's written premiums increase 36% in 3Q14. A slight operation profit and a net profit of 82.6 mp are registered at the same time that the book value rises 8.8% up to September 2014.

PV's written premiums have reached the 1,231.4 million pesos (mp) in the 3Q14, a strong annual growth of 36%. Sum up to September is 3,043.4 mp, a 25% increase in the first nine months of the year.

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.

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The increment is led by the subsidiary “General de Seguros”, who seems to be appropriately enforcing their growth strategy in spite of the economic weakness of the country in the first nine months of the year. In fact, up to September General de Seguros has registered almost a 60% growth in writing premiums.

The divisions that registered a bigger growth in sales up to September were Vida with a 142% due to the new assignments of new tenders in the Ministry of Public Security and the Mexico City Banking Police and the Agricultural division that shows an increase of 176%, mainly due to attaining business in the states of Tabasco, Michoacán, Nayarit and Coahuila.

Meanwhile the subsidiary "Reaseguradora Patria", reported sales of \$ 1.2 bp to September, a decrease of 4.7% resulting from decreases in the fire, diverse and refinancing operation divisions sales. Therefore, it is highly improbable that the company will achieve their 10% growth goal in underwritten premiums.

The net acquisition cost in the 3Q14 was 204.4 million pesos (mp), 4% lower than the 2Q13 and also smaller than in the 2Q14. Claims totaled 404.3 mp, 35.6% higher than the 3Q13 and also greater than the 2Q14. The higher claims caused the technical income to fall 10% to 161.2 mp in the 3Q14; however it was higher than the 2Q14.

The consolidated technical income of Peña Verde to September 2014 totaled 427.0 mp, a decrease of 1.8% for the first nine months of 2014. The company believes that the fall was due largely to higher acquisition costs (directly related to growth in sales) and higher losses in the 3Q14.

In the 3Q14 there was an unusual operating income of 12.7 mp, although operating expenses have increased as a result of an increased real and deferred PTU.

The 3Q14 showed a favorable financial markets’ performance in Mexico, which impacted positively the comprehensive financing result of +82.6 mp, slightly higher than the 3Q13. In the first 9 months of 2014 the financial income reached 496.2 mp, an increase of \$ 455.4 million pesos compared to 2013, derived from the gains in the stock and bond markets.

Primarily due to the good performance of the investment portfolio, Peña Verde posted a net profit of 261.9 mp to September 2014. However, the net profit was only 2.3 mp in the 3Q14, less than the nearly 5 mp from the 3Q13.

As of September 2014, the shareholders equity of PV reached a total of 3.86 bp or 8.1 ps per share, an annual increase of 8.8%, mainly due to the accumulated profit in the period.

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3. Target price

Using the fair multiple of 1.073X, introduced in our IC report, by 9.1 ps., our forecast BV for 2015, we arrive at a value of 9.76 ps. per share. On the other hand, using 12X our 2015-EPS we get a 8.88 pesos value per share. The average of these two values is our TP of 9.32 pesos for the shares of PV* at y-2015.

Income Statement	3Q13	3Q14	3Q14 vs 3Q13%
(en millones de pesos nominales)			
Gross Written Premiums	905.5	1,231.4	36.0%
Net Premiums Retained	757.0	917.7	21.2%
Retention Premiums Accrued	691.1	769.9	11.4%
Acquisition Costs	213.5	204.4	-4.3%
Insurance claims incurred	298.1	404.3	35.6%
Underwriting (technical) income (loss)	179.5	161.2	-10.2%
Gross Income	101.0	87.1	-13.8%
Net Operating Expenses	104.9	74.4	-29.1%
Operating income (loss)	(3.9)	12.7	-425.6%
Comprehensive Financing Result	80.3	82.6	2.9%
Majority Net Profit	4.9	2.3	-53.0%

Source: PV and Prognosis

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	4,057.8	4,463.6
Premiums Ceded	695.2	682.0	646.0	857.9	764.8
Net Premiums Retained	2,531.0	2,779.5	2,674.6	3,151.0	3,453.2
<i>Net Premiums Retained rate</i>	78%	80%	81%	78%	77%
Net Increase in Provision for Unaccrued Premiums	137.4	125.3	132.7	269.4	168.9
Retention Premiums Accrued	2,393.6	2,654.2	2,541.9	2,881.6	3,284.3
Acquisition Costs	679.4	779.4	789.2	881.4	964.0
<i>Aquisition ratio</i>	27%	28%	30%	28%	28%
Insurance claims incurred	1,511.0	1,369.3	1,292.2	1,454.1	1,882.9
<i>Claims ratio</i>	63%	52%	51%	50%	57%
Underwriting (technical) income (loss)	203.1	505.5	460.5	546.1	437.3
Net Increase in Other Technical Reserves	277.1	315.2	315.6	312.9	373.1
Gross Income	-74.0	190.5	145.0	233.3	64.3
Net Operating Expenses	231.6	339.9	243.9	334.0	347.8
<i>Operating ratio</i>	9%	12%	9%	11%	10%
Operating income (loss)	-305.5	-149.3	-98.9	-100.7	-283.5
Comprehensive Financing Result	445.7	1,238.1	109.6	667.5	655.9
Earnings before income tax	140.6	1,088.8	10.8	566.8	372.5
Income tax payment provision	-41.5	268.0	-59.6	200.6	133.8
Income tax rate	-29.5%	24.6%	-553.5%	35.4%	35.9%
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%	22.2%	10.0%
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%	28.0%	27.9%
Claims Ratio	63.1%	51.6%	50.8%	50.5%	57.3%
Operation Ratio	9.1%	12.2%	9.1%	10.6%	10.1%
Combined Ratio	99.1%	91.9%	89.5%	89.0%	95.3%
Other Indicators					
Dividends	16.9	0.0	0.0	0.0	0.0
ROE	6.9%	23.5%	1.7%	8.9%	8.5%
P/E	0.34x	1.32x	81.00x	13.80x	12.54x
P/BV	0.02x	0.31x	1.34x	1.12x	1.02x
BV per share	213.3	16.2	6.9	8.3	9.1
Balance Sheet Summary (million MXN)					
Assets	9,624.9	10,715.8	10,952.6	12,283.2	13,965.2
Investments	7,441.6	8,615.6	8,855.8	9,759.1	10,957.0
Cash and Deposits	89.7	162.0	147.3	184.2	209.5
Liabilities	6,591.1	7,214.7	7,366.2	8,336.7	9,780.0
Technical Reserves	5,450.1	5,558.9	5,856.3	6,919.5	8,117.4
Total Equity	3,033.8	3,501.1	3,586.4	3,946.5	4,185.1
Shareholder's Equity (majority)	1,044.9	3,231.1	3,304.4	3,947.7	4,331.9

Source: Prognosis and BMV



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