

# Peña Verde

## Quarterly Report

Last Price 9.30 MXN  
Target Price 8.06 MXN

# 4Q13

March 4<sup>th</sup>, 2014

## PV \*: A tough economic environment, strong competition and weak financial gains impacted 2013 profit

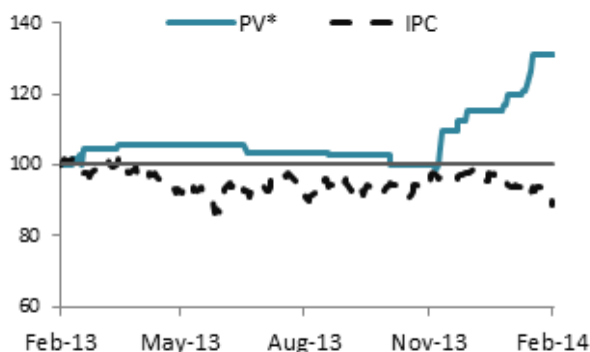
### Key Data

Local Ticker	PV*
2014 Target Price	MXN 8.06
Last Price	MXN 9.30
Expected Return	-13.3%
2014 Div. Yield	0.0%
Total Expected Return	-13.3%
MEXBOL Expected Return	16.2%
LTM Return PV*	31%
Outstanding Shares (million)	476.7
Free Float	3.0%
Beta	0.7
Marketability	Low
Average Daily Trade (thousand)	USD 3.5
Market Cap (USD Million)	USD 334
Book Value per Share	MXN 6.9
LTM Price Range	(6.90 - 9.30)

• A difficult economic environment, strong competition, the MXN/USD appreciation and the cancellation of strategic contracts in the agricultural business impacted PV\*'s 2013 consolidated sales, that posted an annual fall of -4.1 %, below our -7.9% forecast.

• Low claims ratios in both PV and GENSEG reflected in a combined ratio of 89.5%, down 240pb compared to last year, but above our expectations.

• Net income in 2013 was MX\$ 59.5 million, below our estimate of MX\$105 million and well below the extraordinary MX\$ 759.5 million posted last year, as the fall in the valuation of its investment portfolio hurt profits.



### Written premiums

Written premiums reached a total of 3,320.6 million pesos in 2013, compared to 3,461.5 million pesos in 2012, a decline of 4.1%. This fall is integrated in part by the subsidiary *Patria*, which had sales of 1,650.5 million, 4.68 % lower compared to the previous year, while *General de Seguros* had sales of MX\$1,635.2 million, a decrease of 0.5%.

The lower sales in *Patria* were due to a lower participation in some of its markets (Mexico, Latin America and Overseas), while the appreciation of the MXN/USD also impacted sales negatively. Operations and branches most affected were accidents and diseases, general liability, fire and others, showing declines of 57%, 14%, 9% and 21%, respectively.

GENSEG posted good results in the segments of health and life insurance, with annual growth of 16.60% and 19.70 % respectively. However these numbers were offset by a 63.9% drop in "others", because the extended warranty business with Nissan and Renault is no longer part of GENSEG's portfolio. The segment of agriculture also showed a fall of 11.8% due to lower renewals. Moreover, premiums taken (mainly in agriculture business) reached a total 34.9 million pesos, a decrease of 60.1% compared with the previous year, as contracts with high claims ratios were cancelled.

Valuation	2011	2012	2013f	2014f
EWBITDA	1.3k	74.5k	14.8k	15.7k
PIE	0.31k	1.34k	1.23k	1.14k
Estimates (MXN)				
Gross Written Premiums	3,462	3,321	3,731	4,172
YoY%	7.3%	-4.1%	12.4%	11.8%
Net Premiums Retained	2,779	2,675	3,051	3,407
YoY%	9.8%	-3.8%	14.1%	11.7%
Underwriting (technical)	505	461	465	448
YoY%	148.8%	-8.9%	1.0%	-3.7%
Net income	760	59	299	282
EPS	3.80	0.12	0.63	0.59
YoY%	-74%	-97%	402%	-6%
Profitability				
Combined Ratio	91.9%	89.5%	94.0%	93.3%
Acquisition Ratio	28.0%	29.5%	27.1%	26.6%
Claims Ratio	51.6%	50.8%	55.5%	58.2%
Operation Ratio	12.2%	9.1%	11.5%	8.6%
ROE	23.5%	1.8%	8.6%	7.5%

# Peña Verde

## Quarterly Report

Last Price 9.30 MXN

Target Price 8.06 MXN

# 4Q13

March 4<sup>th</sup>, 2014

### Cost Indices

The absence of catastrophic events in the countries in which PV\* operates and improvement in the claims ratio of GENSEG resulted in a combined ratio of 89.5%, 240pb down against last year. However this ratio was below our estimate of 86%

### Comprehensive Financing Result

The comprehensive financing result reached 109.6 million pesos, compared to 1,238.1 million in 2012, a decrease of 91% in nominal terms. The valuation of the portfolio of long-term debt and equities is largely responsible for this decline.

### Net Income

The consolidated net profit for 2013 was 59.5 million pesos, below our forecast of 105 million ps. and plunging 92.2% compared to 2012. The decline in financial gains, on Mexican government bonds and equities, compared to extraordinary gains in 2012, was the main reason of the fall.

## 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	3,731.5	4,171.6
Premiums Ceded	695.2	682.0	646.0	680.8	764.8
Net Premiums Retained	2,531.0	2,779.5	2,674.6	3,050.6	3,406.7
<i>Net Premiums Retained rate</i>	78%	80%	81%	82%	82%
Net Increase in Provision for Unaccrued Premiums	137.4	125.3	132.7	150.7	168.9
Retention Premiums Accrued	2,393.6	2,654.2	2,541.9	2,899.9	3,237.8
Acquisition Costs	679.4	779.4	789.2	825.4	907.0
<i>Aquisition ratio</i>	27%	28%	30%	27%	27%
Insurance claims incurred	1,511.0	1,369.3	1,292.2	1,609.2	1,882.9
<i>Claims ratio</i>	63%	52%	51%	55%	58%
Underwriting (technical) income (loss)	203.1	505.5	460.5	465.3	447.9
Net Increase in Other Technical Reserves	277.1	315.2	315.6	336.4	373.1
Gross Income	-74.0	190.5	145.0	129.0	74.9
Net Operating Expenses	231.6	339.9	243.9	350.0	291.5
<i>Operating ratio</i>	9%	12%	9%	11%	9%
Operating income (loss)	-305.5	-149.3	-98.9	-221.0	-216.6
Comprehensive Financing Result	445.7	1,238.1	109.6	681.2	655.9
Earnings before income tax	140.6	1,088.8	10.8	460.2	439.3
Income tax payment provision	-41.5	268.0	-59.6	132.1	129.8
Income tax rate	-29.5%	24.6%	-553.5%	28.7%	29.5%
Net profit (loss)	182.1	820.8	59.5	328.1	309.5
Minority interest	110.0	61.3	10.9	29.5	27.9
Majority Net Profit	71.7	759.5	59.5	298.6	281.7
EPS	14.64	3.80	0.12	0.63	0.59
Number of shares (million)	4.9	200.0	476.7	476.7	476.7
Gross Written Premiums growth		7.3%	-4.1%	12.4%	11.8%
Net profit growth		958.7%	-92.2%	401.9%	-5.7%
EPS growth		-74.1%	-96.7%	401.9%	-5.7%
<b>Cost index</b>					
Aquisition Ratio	26.8%	28.0%	29.5%	27.1%	26.6%
Claims Ratio	63.1%	51.6%	50.8%	55.5%	58.2%
Operation Ratio	9.1%	12.2%	9.1%	11.5%	8.6%
Combined Ratio	<b>99.1%</b>	<b>91.9%</b>	<b>89.5%</b>	<b>94.0%</b>	<b>93.3%</b>

## Other Indicators

Dividends	16.9	0.0	0.0	0.0	0.0
ROE	6.9%	23.5%	1.8%	8.6%	7.5%
P/E	0.34x	1.32x	74.52x	14.85x	15.74x
P/BV	0.02x	0.31x	1.34x	1.23x	1.14x
BV per share	213.3	16.2	6.9	7.6	8.2
PV's share price (current)	5.0	5.0	9.3		

## Balance Sheet Summary (million MXN)

Assets	9,624.9	10,715.8	10,952.6	12,378.0	14,130.8
Investments	7,441.6	8,615.6	8,855.8	10,024.2	11,222.1
Cash and Deposits	89.7	162.0	147.3	185.7	212.0
Liabilities	6,591.1	7,214.7	7,366.2	8,463.5	9,906.8
Technical Reserves	5,450.1	5,558.9	5,856.3	7,024.7	8,222.6
Total Equity	3,033.8	3,501.1	3,586.4	3,914.5	4,224.0
Shareholder's Equity (majority)	1,044.9	3,231.1	3,304.4	3,601.4	3,886.1

Source: Prognosis and BMV



## Prognosis

Economía, Finanzas e Inversiones S.C.

- 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](mailto:cfritsch@prognosismex.com)

Erick Urtuzuástegui  
[ericku@prognosismex.com](mailto:ericku@prognosismex.com)

Fernando Lamoyi  
[lamoyi@prognosismex.com](mailto:lamoyi@prognosismex.com)

Rubí Grajales  
[rigrhajales@prognosismex.com](mailto:rigrhajales@prognosismex.com)



+52 (55) 5202 9964  
+52 (55) 5202 95 71

Av. Paseo de las Palmas 755 - 901  
Col. Lomas de Chapultepec 11000  
México D.F.

## 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, Erick Urtuzuástegui, and Fernando Lamoyi 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.