

Company Update

Slovenia Insurance

BUY

(previously BUY)

Share Price (2 September 2011)

EUR 6.49

Current fair value

EUR 8.36

Upside/Downside

+29%

Key figures	2010	1H 2011	2011E	2012E	2013E
GWP reinsurance (EURm)	142.9	81.0	137.5	139.8	143.9
GWP non-life (EURm)	125.8	68.9	131.8	139.0	146.7
GWP life (EURm)	12.5	6.4	12.9	13.8	15.2
Net investment income (EURm)	11.4	1.9	7.2	12.1	14.4
SRF est net income (EURm)	7.5	4.9	7.8	8.7	9.9
EPS (EUR)	0.80	0.52	0.84	0.92	1.06
ROE %	4.93	6.40	5.07	5.33	5.84
Combined Ratio (reinsurance) %	95.0	90.1	98.0	97.0	97.0
Combined Ratio (non-life) %	105.5	105.2	102.0	99.5	98.5

Source: Bloomberg, SRF Research

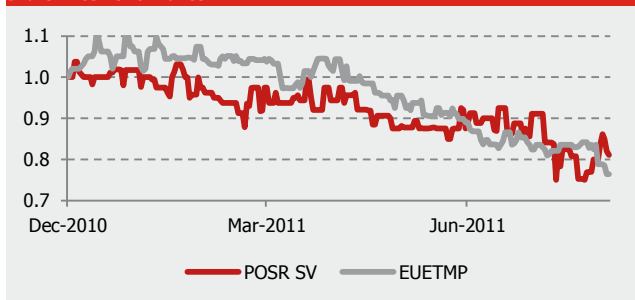
Valuation multiples	2010	2011E	2012E	2013E
EPS (EUR)	0.80	0.84	0.92	1.06
PER	11.7	7.8	7.0	6.1
Peers average		7.6	5.3	
BVPS (EUR)	16.05	16.88	17.81	18.61
P/BV	0.5	0.4	0.4	0.3
Peers average		0.7	0.6	

Source: Bloomberg, SRF Research

Stock information			
Bloomberg code	POSR SV	Key shareholdings	
Reuters code	N.A.	State	25%
Shares outstanding (m)	9.4	Free float	75%
Market cap (EURm)	60.8	Value of float (EURm)	45.6
Market cap (US\$m)	86.3	Value of float (US\$m)	64.7

Source: Bloomberg, SRF Research

Share Price Performance



Source: Bloomberg, SRF Research

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Sava Re Group

1H Earnings reflect profitable growth in reinsurance and non-life insurance, slowdown in life insurance and lower investment income

On 31 August, Sava Re Group announced the 1H earnings results which were in line with our expectations. We are keeping the BUY recommendation on the shares unchanged.

The earnings were EUR 4.87m, reflecting the strong performance in the reinsurance segment, and in the direct non-life insurance segment in Slovenia. The global reinsurance prices have hardened in 1H 2011, especially for the property CAT business, and are expected to harden even further in 2012. The reinsurance segment generated EUR 81m of GWP (of which 84% was external), and EUR 4.2m in net earnings with a 90% CR. The GWP from Asia were up by EUR 13.3m, and Sava Re also began to write in Africa and in Australia. We conservatively expect 2011 external GWP to reach EUR 122m, up 1% YOY, and the CR to reach 98%.

The Slovenian non-life direct business added EUR 40m to GWP, and EUR 0.7m to the bottom line. Direct non-life operations outside of Slovenia added EUR 29m to GWP, and generated a loss of EUR 1.8m in 1H. The Serbian operations are now expected to break even in 1Q 2012, while the Croatian business is scheduled to break even in 2013. Overall, the total non-life business had a CR of 105.2% in 1H. For 2011 we expect it to generate EUR 131m in GWP (up 5% YOY), with a CR of 102%.

In the life insurance segment, the new business production has slowed down due to lower demand for the unit-linked products, so the total GWP was down 2% YOY, to EUR 6.4m (80% from Slovenia). At the same time, there was a jump in redemptions, up 59% YOY, driven by maturities of unit-linked life policies (many of them being sold for a 10-year term, and have now matured). This was accompanied by a EUR 5m release of technical reserves. While Slovenian-based life operations remained profitable at EUR 0.1m, the non-Slovenian life business had a loss of EUR 0.8m. We expect the life GWP to reach EUR 13m in 2011, up 3% YOY.

The net investment income was down sharply by 65% YOY, to EUR 1.9m, due to a number of write-downs on Slovenian equities, as well as on Sava Tabak. We expect it to reach EUR 7.2m in 2011, down 37% YOY. The Group's total exposure to non-Slovenian European debt remains less than EUR 25m, or ~8% of its own investment portfolio.

Finally, ZM (accounted for as an associate) generated EUR 151m in GWP in 1H, and added EUR 2.4m to the Group's net income. We expect this contribution to grow to EUR 5.5m, up 9% YOY.

As a result, our earnings forecast and the fair value for Sava Re Group remain unchanged, implying a 29% upside to its current trading level. At 0.4x 2011 Book Value, Sava Re Group remains a BUY.

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