

Sava RE (POSR SV)

ALTA

 NEW
INVESTMENT
CULTURE

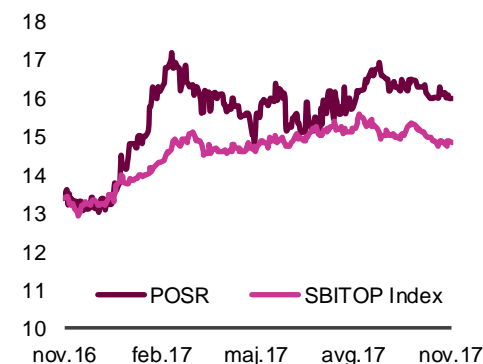
12M Target price: 20 EUR Recommendation: BUY

Previous target price: 20.0 EUR, BUY (28.8.2017)

KEY MARKET DATA:

Stock data as of 20.11.2017 :		Price performance:		3M	12M
Market price (EUR)	16.0	Price change in %	1.6%	19.7%	
52 week range (EUR)	13.0 - 17.2	SBI 20 index change in %	-2.6%	10.9%	
Market Cap (EUR)	275.5	Relative to SBI 20 index in %	4.3%	7.9%	
		Valuation multiples:		TTM	Forward
Avg. daily trade vol., EUR(k)	39	P/GWP	0.5	0.5	
Average daily % of stock traded	0.014%	P/E	8.0	8.5	
No. of Shares in millions	17.2	P/B	0.8	0.8	
Dividend yield		5.0%			

SHARE PRICE DYNAMIC:



KEY COMPANY DATA & ESTIMATES:

million €	FY2015	FY2016	TTM	2017F	2018F
GPW	486.3	490.2	508.9	506.2	523.8
NPE	447.6	458.1	464.9	469.3	486.0
Claims paid	273.1	268.4	284.0	298.4	302.0
Net income	33.4	32.8	31.1	29.1	30.1
ROE	11.7%	11.1%	10.1%	9.3%	9.1%
EPS	2.00	2.10	2.00	1.88	1.95
DPS	0.80	0.80		0.80	0.84
Equity Inv	18.9	17.0	17.3		
Fin. Assets	1,023.1	1,038.2	1,028.3		
Tech. Prov.	1,094.7	1,138.2	1,189.9		
Equity	285.4	296.3	306.6	313.0	330.0
Assets	1,607.3	1,671.2	1,718.1	1,694.1	1,757.9
Equity/Assets	18%	18%	18%	18%	19%
P/E	7.8	7.2	8.0	8.5	8.2
P/B	0.8	0.8	0.8	0.8	0.8

KEY CURRENT DEVELOPMENT:

- Sava RE has squeezed minority shareholders (less than 0.5%) in Zavarovalnica Sava (former Zavarovalnica Maribor) and is now a 100% owner. They squeezed the minorities at a EUR 23.94 per share which consequently values the company (Zavarovalnica Sava) at EUR 368m (valuation done by KPMG and confirmed by PWC).
- Adris (and/or Croatia Osiguranje) is still being prevented by Insurance Supervision Agency (AZN) to acquire more than 20% of Sava RE (and up to 33%). So the battle rages on and till it gets resolved this will prevent any major sentiment change.
- A.M. Best affirmed A- Ratings of Sava Re (with stable outlook). S&P later on also released its revision giving Zavarovalnica Sava A- issuer credit rating while outlook is positive. This is positive.
- Sava Re is also revamping its strategy. This is a logical step due to consolidation processes made in last few years and changes in the management board. The strategy will be released on 23rd November.
- For now, based on 9M17 results, we see that strong top-line growth will not be transformed into bottom line, as claims increased. However we have already adjusted our estimates in 1H17 report, consequently no change is further warranted. Recommendation remains buy.

9M17 Results

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- Net claims decreased in reinsurance business (-2.1% YoY; 2016 paid claims for Tianjin explosion) but increased in non-life and life segment. Highest YoY increase was in land vehicles casco, which is mainly due to storm event in Skopje region in Macedonia and one major motor liability loss in Croatia. However in absolute terms, hail storms in Slovenia were the most damaging (+EUR 7.9m) and took a toll on 9M17.
- Net incurred loss ratio (FX adjusted) increased by 3.3 p.p. in reinsurance due to American storm losses and a large loss in Russia for which higher provisions were set.
- Excluding FX, net investment result decreased by EUR 1.1m YoY 9M17, mainly due to lower interest income by EUR 1.9m YoY 9M17.

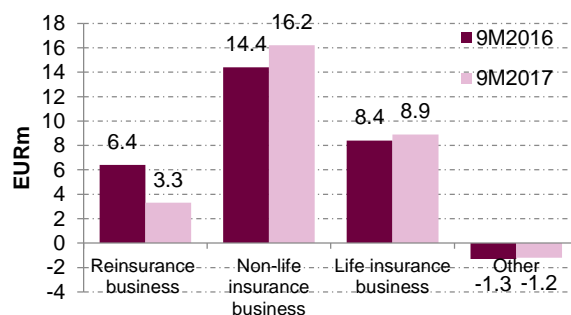
Income statement	9M2016	9M2017	YoY
Gross written premiums	390.6	409.2	4.8%
Reinsured premiums	-25.8	-29.3	13.7%
Net earned premiums	343.8	350.6	2.0%
Net claims	-204.1	-219.7	7.7%
Net operating expenses	-114.1	-114.2	0.1%
Net inv. Income	17.8	11.4	-36.1%
EBT	27.8	27.1	-2.4%
Net profit	22.6	20.9	-7.5%
Total Assets	1,671.2	1,718.1	2.8%
Shareholders' equity	296.3	306.6	3.5%

- Increase in total assets is driven by growth of cash assets by 71.7% YoY 9M17, due to the reclassification of certain investments as cash and decrease of (mainly Slovenian) government bonds by 10.5% YoY. Management is expected to continue increasing share in corporate bonds due to rising debt securities prices (up 8.3% YoY).
- GWP growth in Sava pokojninska pension due to single premiums paid for annuities. Business is expected to continue growing as policyholders reach retirement age.

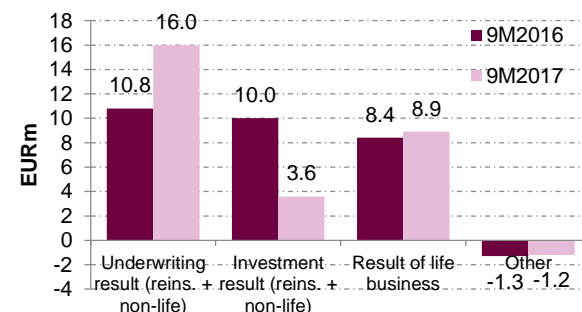
- GWP growth on all markets and in all segments except reinsurance, which has stagnated. Non-life in Slovenia increased by 5.3% YoY and was a driver of growth.
- The highest growth was reported for health insurance premiums (+110.6% or up by EUR 3.1m), while the highest nominal contribution came from land vehicles casco (EUR 5.0m; +8.4% YoY). Motor liability up EUR 2.3m or by 3.2%. The decrease was seen in personal accident (EUR 2.3; -10%) and for other property damages.
- EBT decreased less than net profit, which is partly reflection of 4.4 p.p. higher effective tax rate.
- Reported net combined ratio is at 94.5% versus 96.3% a year ago (FX adjusted 95.9% vs 96.2%).
- Book value per share now stands at EUR 19.83 with TTM 12m ROE at 9.1%.
- While top line dynamic is strong, profit disappointed (64% of 2017 plan), however our estimates were below planned level.

Unconsolidated GWP	9M16	9M17	YoY
Reinsurance	123.0	125.0	1.6%
Zavarovalnica Sava (SLO NL)	207.4	218.3	5.3%
Sava Montenegro	8.9	9.6	7.1%
Sava osiguranje, Belgrade	11.2	12.5	10.8%
Sava osiguruvanje, Skopje	9.5	9.7	2.2%
Zavarovalnica Sava (CRO NL)	6.7	8.3	23.6%
Illyria	5.5	6.1	11.8%
Zavarovalnica Sava (SLO life)	59.0	61.1	3.5%
Zavarovalnica Sava (CRO life)	2.5	2.7	10.8%
Illyria Life	1.2	1.3	2.3%
Sava životno osiguranje	1.0	1.2	25.1%
Sava pokojninska	0.8	1.6	107.8%

Gross income statement by operating segment

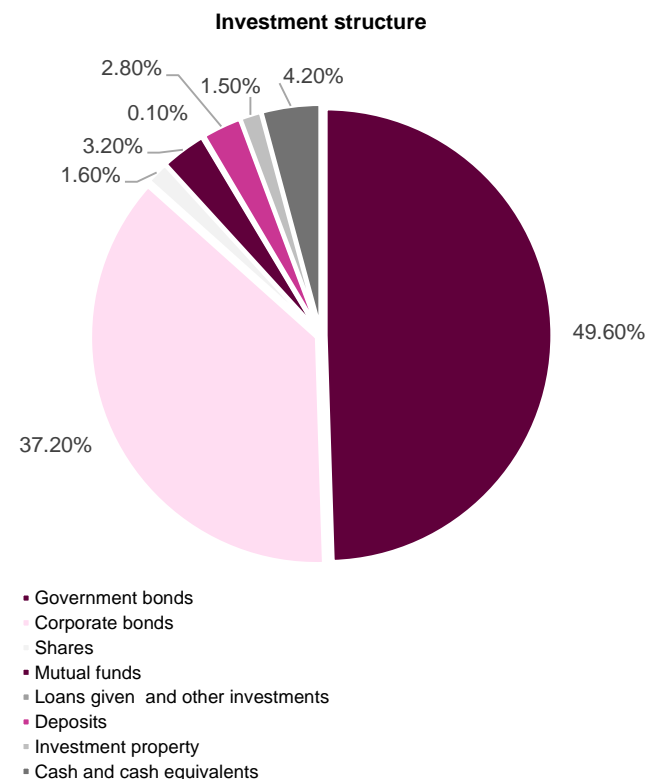


Composition of consolidated gross profit



9M17 Group Financial Asset Allocation

Financial investments	Index		Structure	
	9M16	9M17	9M16	9M17
Government bonds	595.1	532.6	89.5	49.6%
Corporate bonds	368.4	399.0	108.3	37.2%
Shares	17.0	17.3	101.7	1.6%
Mutual funds	16.5	34.1	206.2	3.2%
Bond and money market	9.6	31.2	326.2	2.9%
Mixed	1.7	1.7	97.3	0.2%
Equity funds	5.3	1.2	23.3	0.1%
Loans given and other investments	0.66	0.64	96.7	0.1%
Deposits with banks	24.7	23.1	93.5	2.2%
Deposits with cedants	7.8	6.0	76.0	0.6%
Financial investments	1,030.2	1,012.7	98.3	94.4%
Investment property	7.9	15.6	196.4	1.5%
Cash and cash equivalents	21.5	45.0	209.5	4.2%
Investment portfolio	1,059.6	1,073.3	101.3	100.0%



- Investment portfolio increased by EUR 13.6m YoY 9M17, while financial investments decreased by EUR 17.5m YoY 9M17.

Significant changes in investment portfolio allocations:

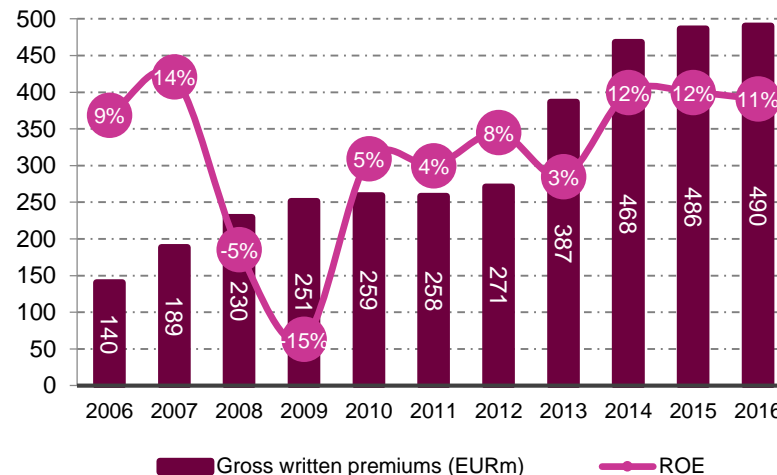
- Disposal of government bond due to change of strategy;
- Increased allocations to corporate bonds and cash and cash equivalents;
- Share in mutual funds increased by 1.6 p.p. with purchase of ETF money market funds;
- Increased share in investment property, which is a consequence of accounting reclassification of buildings owned in Slovenia.
- Investment portfolio is mainly exposed to sovereigns 49.6% vs. 51.7% for FY 2016 and banking sector 22.2% (vs. 19.8% for FY 2016).
- 34.4% of government (sovereign) exposure is due to Republic of Slovenia.
- 71.6% of investments were rated A- or better compared to 73.6% FY 2016.

Investment Thesis

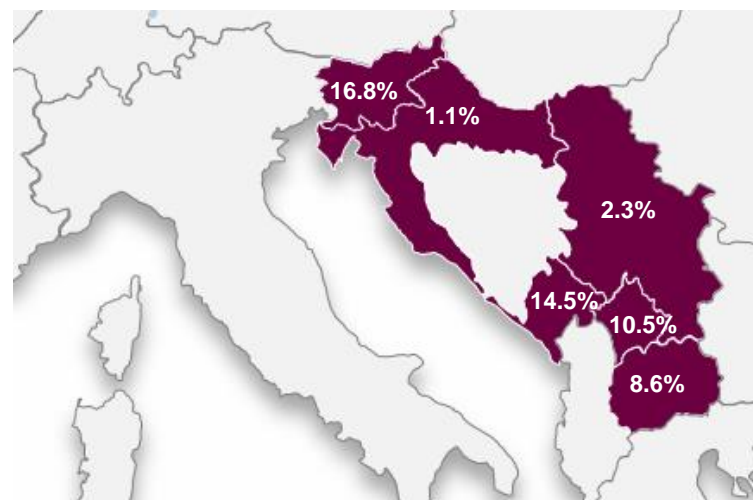
POSITIVE:

- In recent years it transformed itself from reinsurance player to **2nd largest insurance group in Adria region** with insurance presence in 6 countries. Sava Re Group is also second largest insurer in Slovenia where it generates majority of its premiums and **held 17% market share in 2016**.
- With acquisition of **Zavarovalnica Maribor** the Group took an opportunity to consolidate Slovenian insurance industry and to benefit from synergies. While takeover was concluded already in 2013, in 2016 Sava Re started with further centralization of insurance segment. The management expects that after transition period of 3 years, **annual synergies will amount between EUR 5m to EUR 6m**.
- Sava Re group stable profitability and positive effects following the acquisition activities led to high capital adequacy ratio which enabled group to pay out **above normal dividend payout** and also initiate share buybacks which ended in 2016.
- Majority of Sava Re premiums are generated on the domestic market, however the Group has also an **exposure to other SEE markets** where future GDP growth will be faster and Sava Re could benefit from development of insurance market.
- Sava Re Group generates a part of premiums also on global **reinsurance** market. Although pricing trends are negative, this segment provide positive diversification effects.
- While Triglav Group will be very likely the preferred **takeover target** for large insurance groups, the acquisition of Sava Re is likely to be much easier since it would be more politically and publicly acceptable. While there are no signs of privatization process which would be necessary for the takeover, in 2016 Croatian company Adris Group have already stated acquiring shares and currently holds around 21% of voting shares and requested regulators for clearance to increase its ownership above 33% (albeit later being denied).

Acquisition of ZM led to improved profitability and higher stability



Market share in 2016



Investment Thesis

NEGATIVE:

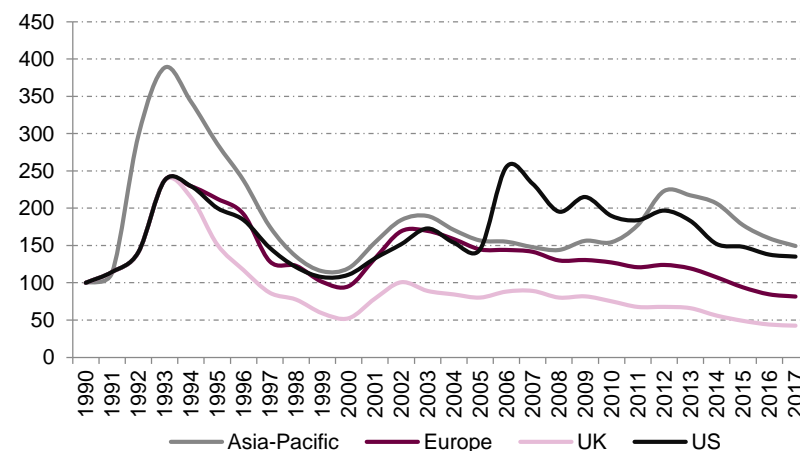
- Although Sava Re Group is the second largest insurance group in Adria region, that is mainly due to domestic Slovenian premiums which is also the most developed country in the region. The **importance of GWP outside Slovenia still very low**.
- Although the region presents an opportunity for above average growth of Sava Re Group, the **SEE region is also a highly macroeconomically and politically unstable** region with the legal systems and controlling mechanisms still in earlier stages of development (the lag in development varies from country to country).
- During the Slovenian banking crisis insurers had an opportunity to benefit from higher interest rates on domestic market. However, currently also Slovenian insurance companies can feel the effects of zero interest rate central bank policy. **Low interest environment (reinvestment and interest rate risk) will weigh on investment returns** and consequently on profit level versus past few (excellent) years.
- In 2016 Sava Re ended the share buyback program with reaching maximum of 10% minus 1 of all issued shares. Since there is **no plan of retiring own shares** and could even be used for M&A, this could eventually negatively weigh in on EPS and the valuations.
- We believe reinsurance business is positive for diversification of operational risk, however, current environment is relatively unfavourable. Due to low interest rates capital inflows on **global reinsurance market** pressured prices, which were already **in a negative trend** due to low level of mass loss events.
- Although we consider Sava Re Group as most likely takeover target, we cannot get pass the fact that around 40% of shares are directly or indirectly **owned by the government influenced entities**. Since privatization is not supported by the public it is unlikely that politicians will support any takeover attempts, at least not before Parliament elections in 2018. Additionally, there is also a risk of politically motivated influence on strategic focus and management stability, which could be seen also in the latest management shake-up.

Interest rate sensitivity analysis for life and non-life (AR 2016)

	+100bp		-100bp	
	Value	Change in value	Value	Change in value
Government bonds	421.2	-17.1	421.2	18.7
Corporate bonds	390.7	-13.8	390.7	14.9
Bond mutual funds	6.6	-0.3	6.6	0.3
Total	818.5	-31.1	818.5	33.8







	+100bp		-100bp	
	Value	Change in value	Value	Change in value
Value of mathematical provision	252.7	-25.2	252.7	-6.7

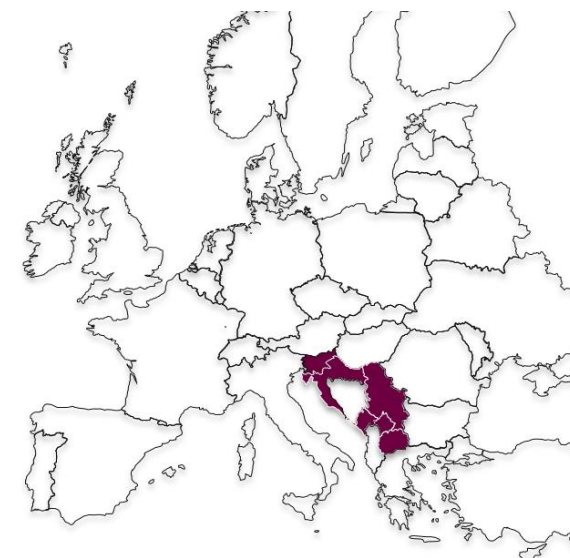
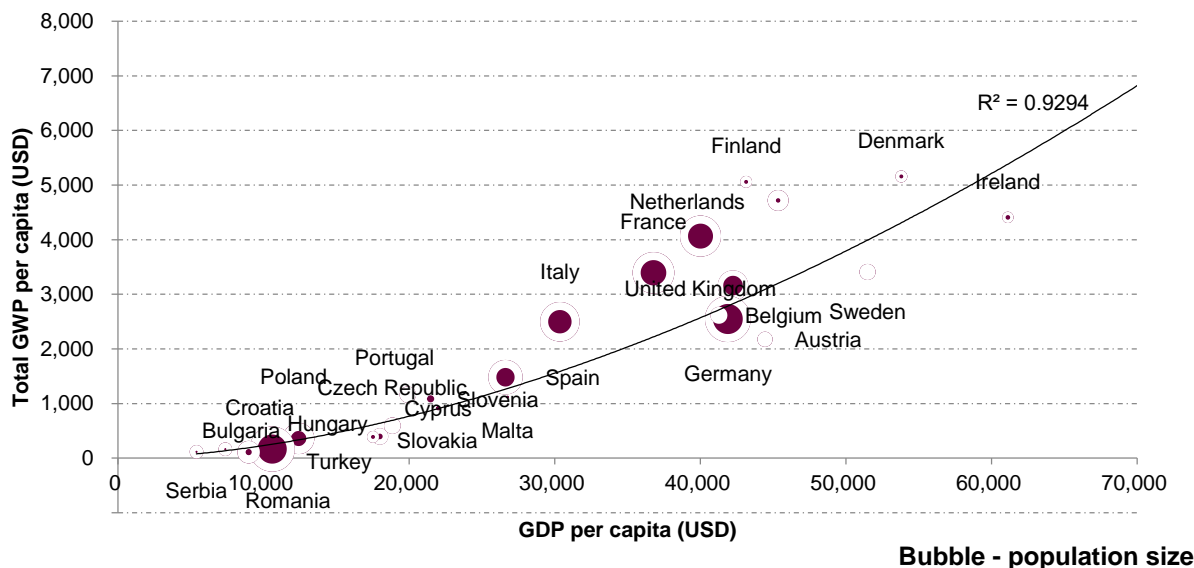
Regional property catastrophe ROL index - 1990 to 2017



Source: Guy Carpenter

Market overview

		Insurance penetration 2016	Sava RE GWP 9M17 in EURm	Insurance density in EUR per capita 2016	Market Share In 9M17	Market Share In 1H17
Slovenia		5.0%	281.0	980	16.8%	17.6%
Croatia		2.6%	11.0	278	1.2%	1.2%
Serbia		2.1%	13.7	103	n.a	2.2%
Montenegro		2.1%	9.6	129	n.a	16.3%
Macedonia		1.4%	9.7	68	n.a.	9.8%
Kosovo		1.4%	7.4	44	n.a.	n.a.



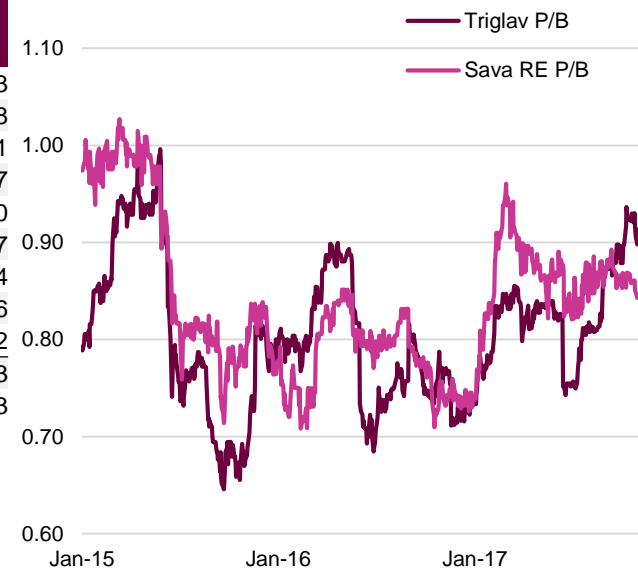
Relative valuation

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Company name	P/E			P/B			ROE TTM		
	TTM	2017F	2018F	TTM	2017F	2018F	TTM	2017F	2018F
Zavarovalnica Triglav	8.0	8.9	9.0	0.89	0.86	0.82	11.1%	9.8%	9.3%
PZU SA	14.4	12.3	11.6	3.01	2.37	2.24	20.9%	21.5%	19.8%
Aksigorta	8.0	9.4	8.8	2.08	n.a.	n.a.	25.9%	n.a.	n.a.
Generali	11.2	9.9	9.5	1.00	0.91	0.89	9.0%	9.7%	9.5%
VIG	12.0	11.3	10.6	0.74	0.67	0.64	6.1%	6.3%	6.2%
Uniqua	26.9	11.6	10.8	0.88	0.83	0.82	3.3%	7.4%	7.7%
Allianz	12.4	11.6	11.2	1.35	1.23	1.17	10.9%	11.1%	10.7%
Hannover Re	14.1	12.0	11.3	1.60	1.42	1.37	11.3%	12.5%	12.3%
MunichRe	95.1	11.6	10.6	1.07	0.95	0.91	1.1%	8.7%	8.8%
Sava Re	8.0	8.5	8.2	0.81	0.79	0.75	10.1%	9.4%	9.4%
Median	12.4	11.6	10.6	1.07	0.93	0.90	10.9%	9.8%	9.4%

Company name	Div. yield (%)			Assets/ Equity (%)	Price to GWP	Price to Net Prem. Earned
	TTM	2017F	2018F			
Zavarovalnica Triglav	8.8	8.8	5.6	5.1	0.65	0.73
PZU SA	3.1	5.1	5.7	22.4	1.80	1.98
Aksigorta	0.0	6.0	5.3	4.9	0.61	0.81
Generali	5.3	6.0	6.3	22.4	0.36	0.37
VIG	3.1	3.5	3.7	11.6	0.36	0.40
Uniqua	5.7	6.2	6.6	9.6	0.59	0.57
Allianz	3.9	4.3	4.5	13.7	1.02	1.24
Hannover Re	4.6	4.8	5.0	7.5	0.76	0.86
MunichRe	4.5	4.8	4.9	9.6	0.62	0.62
Sava Re	5.0	5.0	5.3	5.6	0.49	0.53
Median	4.5	5.1	5.3	9.6	0.62	0.73



Historic Financial Data

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in EURm	2010	2011	2012	2013	2014	2015	2016
Assets	578.4	582.0	640.6	1,378.3	1,454.4	1,607.3	1,671.2
Intangibles	23.3	18.3	17.8	40.2	34.9	30.5	25.5
Property, plant and equipment	26.7	24.5	24.6	46.0	44.5	47.2	51.9
Investment property	4.9	6.1	5.1	5.6	5.1	8.0	7.9
Investments in associates	42.3	49.1	55.3	2.9	3.1	0.0	
Financial investments	324.2	325.2	350.2	931.1	974.7	1,015.1	1,030.2
Unit-linked insurance assets	23.7	24.1	27.6	175.8	202.9	214.2	224.2
Cash and cash equivalents	4.0	4.7	4.1	3.4	5.6	4.7	33.9
Equity	154.7	148.1	171.4	240.1	271.5	286.4	297.0
Equity of non-controlling interests	4.4	2.5	2.0	2.0	1.9	1.0	0.8
Subordinated liabilities	31.2	31.2	31.2	30.5	28.7	23.5	23.6
Insurance technical provisions	303.3	320.9	360.1	846.2	870.0	887.1	911.2
Insurance technical provisions for unit-linked insurance contracts	23.6	23.7	27.0	170.8	195.7	207.6	227.0
Book Value per share	8.7	8.5	9.8	13.8	15.7	16.6	17.2
in EURm	2010	2011	2012	2013	2014	2015	2016
GWP	259.1	258.4	270.8	386.7	468.2	486.3	490.2
ceded written premium	-25.3	-24.4	-20.6	-22.6	-27.4	-30.3	-31.2
change in unearned premiums	-1.9	1.1	-3.9	15.6	-4.2	-8.0	-1.8
change in unearned premiums for the reinsurance and co-insurance part				-0.5	0.9	-0.4	1.0
NPE	231.9	235.1	246.2	379.1	437.6	447.6	458.1
Net claims incurred	-140.0	-136.2	-149.9	-229.0	-257.1	-273.1	-268.4
gross claims settled	-131.3	-128.4	-136.3	-221.2	-255.3	-271.5	-269.4
reinsurers' and co-insurers' share	13.3	8.6	5.4	9.1	10.6	17.7	14.8
changes in claims provisions	-22.0	-16.4	-19.0	-11.6	-16.9	-5.4	-15.8
change in the provision for outstanding claims for the reinsurance and co-insurance part				-5.3	4.6	-14.0	2.1
Operating expenses	-85.3	-87.9	-87.7	-129.4	-146.6	-148.9	-159.6
Acquisition cost	-44.3	-53.5	-54.8	-46.9	-47.5	-49.9	-51.9
Investment Income	19.9	17.8	21.7	36.4	36.1	39.6	33.1
Net unrealised gains on investments of life insurance policyholders who bear the investment risk		2.5	3.5	9.2	19.1	26.6	18.0
Expenses for financial assets and liabilities	-10.2	-14.2	-10.7	-42.0	-6.9	-13.0	-8.6
Net unrealised losses on investments of life insurance policyholders who bear the investment risk		-5.5	-2.3	-9.5	-7.9	-25.9	-11.3
EBT	8.8	7.7	14.3	15.8	39.0	40.1	40.7
Total taxes	-3.3	-3.7	-2.5	-0.2	-8.4	-6.7	-7.8
Net profit / loss	5.5	4.1	11.8	15.6	30.5	33.4	32.9
Attributable to equity holders of the parent	7.5	6.0	12.1	15.7	30.6	33.4	32.8
in EURm	2010	2011	2012	2013	2014	2015	2016
Loss ratio	60.4%	57.9%	60.9%	60.4%	58.8%	61.0%	58.6%
Expense ratio	36.8%	37.4%	35.6%	34.1%	33.5%	33.3%	34.8%
Combined ratio	97.2%	95.3%	96.5%	94.5%	92.3%	94.3%	93.4%
Net margin	2.9%	2.3%	4.5%	4.0%	6.5%	6.9%	6.7%
Assets Turnover	0.45	0.44	0.42	0.28	0.32	0.30	0.29
ROA	1.3%	1.0%	1.9%	1.1%	2.1%	2.1%	2.0%
Assets to Equity	3.85	4.00	3.78	5.79	5.39	5.63	5.64
ROE	5.0%	4.1%	7.2%	6.6%	11.3%	11.7%	11.1%

Company & ALTA Description

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COMPANY DESCRIPTION:

- A leading Slovenian reinsurer with a 31% domestic market share while it is also the largest locally-based non-captive reinsurer in the CEE region.
- Through consolidation of Zavarovalnica Maribor and Tilia which ended with forming Zavarovalnica Sava the Group became second largest insurance company in Slovenia.
- It also operates on foreign markets in the Western Balkans (Croatia, Kosovo, Macedonia, Montenegro, and Serbia).
- 63% of total GWP tied to non-life, 19% to life, 18% to reinsurance (2016).

OWNERSHIP STRUCTURE:

SDH d.d.	25.0%
Zagrebačka Banka (Fiduciary)	14.2%
Sava RE d.d.	10.0%
EBRD	6.2%
Raiffaisen Bank (Fiduciary)	4.6%

Source: KDD

RESEARCH REPORT:

Prepared by:

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Completion date and time:

20.11.2017 14:20

First release:

20.11.2017 14:30

Market data capture date:

20.11.2017 11:30

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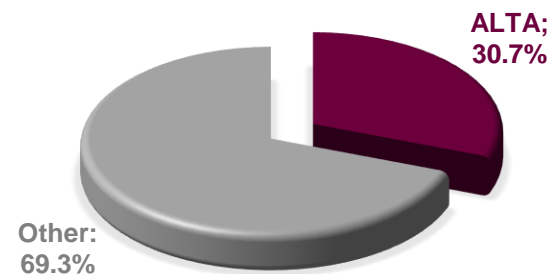
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ABOUT ALTA INVEST:

- ✓ Our trading advantage is our execution of large trading blocks with low impact on the market.
- ✓ 38,300 brokerage clients with EUR 3.3 bn of assets.
- ✓ European Banking award: Best Broker & Best Asset Manager in 2015 and 2016.

TTM market share:



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Sašo Stanovnik, Head of research. On the day of the public release, the author of the recommendation did not hold securities of the relevant issuer.

First release of the recommendation was performed on 13.4.2010.

Quarterly updates are planned for data, valuation, target price and recommendation.

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