

**SAVA RE D.D.**

**LJSE ticker: POSR**  
**Bloomberg: POSR SV**

**18<sup>th</sup> November 2016**

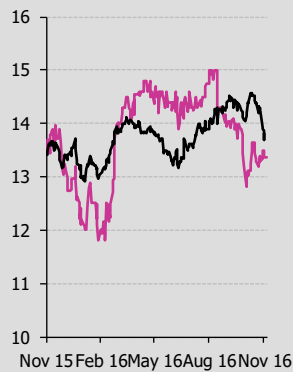
[www.sava-re.si](http://www.sava-re.si)

**Target price:**  
**16.8 EUR**

**Previous target price:**  
**16.8 EUR, BUY (5.9.2016)**

**Recommendation:**  
**BUY**

**12 months stock performance in EUR**



**Stock data as of 18.11.2016**

Market price (EUR)	13.4	Market Cap (EUR)	220.4
52 week range (EUR)	11.8-15.0	No. of Shares	16.5
Avg. daily trade vol., EUR(k)	34.06	Free float	70%
Average daily % of stock traded	0.015%	Dividend yield	6.0%

**Price performance**

	3 months	12 months	Multiples:	TTM	2016F
price change in %	-10.8%	-1.0%	P/E	6.3	6.3
SBI TOP index change in %	-1.2%	3.0%	P/B	0.70	0.70
relative to SBI TOP index in %	-9.7%	-3.8%	P/GWP	0.42	0.42

**Key figures (According to International Accounting Standards) Consolidated data in EURm**

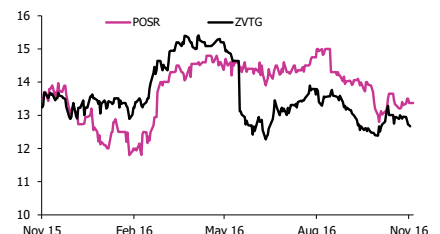
Income statement:					Balance sheet:				
	million €	FY2014	FY2015	2016F	2017F	million €	FY2014	FY2015	TTM
GPW	468.2	486.3	488.8	504.8	Equity Inv.	21.0	18.9	0.0	
Growth YoY	21.1%	3.9%	0.5%	3.3%	Fin.assets	982.8	1,023.1	1,030.5	
NPE	437.6	447.6	455.9	471.0	Tech.prov.	1,065.7	1,094.7	1,164.5	
Growth YoY	15.4%	2.3%	1.9%	3.3%	Equity	269.6	285.4	295.2	
Claims paid	257.1	273.1	291.8	301.6	Assets	1,454.4	1,607.3	1,571.4	
Claims ratio	58.8%	61.0%	64.0%	64.0%	Inv./Prov.	0.92	0.93	0.88	
Net income	30.6	33.4	33.1	26.3	E/A	18.5%	17.8%	18.8%	
Growth YoY	433.8%	9.1%	-0.8%	-20.5%	E/Prov.	25.3%	26.1%	25.4%	
<b>EPS</b>	<b>1.82</b>	<b>2.03</b>	<b>2.14</b>	<b>1.70</b>	ROE	11.3%	11.7%	11.2%	

**Recent news and outlook revision:**

- In the previous analysis we mentioned that several Slovenian media sources reported that Adris Group in March acquired 4.4% of Sava Re shares and with connected entities reached just below 20% ownership in Slovenian insurance group. In June 2016 the speculation was also officially confirmed with the Announcement of a change in a major holding. Together with its subsidiaries, the Adris Group had in custodial accounts 3,278,049 POSR shares issued by Sava Re, d. d., which represented 19.04% of all shares constituting the issuer's share capital and 21.15% of all issuer's voting shares. Adris also requested for the regulatory approval which would enable them to increase its ownership up to 33%, however, in October media reports indicated that Slovenian Insurance supervision Agency denied the request from Croatian company. No official / additional news is found on the topic.
- On 2 November the process of combining the four insurance companies – Zavarovalnica Maribor, Zavarovalnica Tilia, Velebit osiguranje and Velebit životno osiguranje –, all members of the Sava Re Group, was officially completed. On that day, the above business combination was entered in the register of companies as well as the change in company name from "Zavarovalnica Maribor, d.d." to "Zavarovalnica Sava, d.d.".

**Valuation commentary:**

- After weaker than expected first quarter, Sava Re managed to deliver strong third quarter and reached our expectations for the first nine months. While domestic life segment contracted, growth was achieved in other SEE markets. In line with that trend growth in gross claims and operating expenses was expected.
- Given the months after the end of the 3Q16 we expect underwriting result should be in line with expectations and company plans. Looking at domestic market we see continuation of GWP growth in non-life and falling life premiums (albeit at slower pace). Although at the beginning of November The National Environment Agency issued severe flood warning issued for Western Slovenia there was no major catastrophic event. On the other hand, end of the year results will reveal the effects of yield movements seen on global bond market in the last two months. That could somewhat affect investment income, while majority of the mentioned impact should be directly translated into Shareholders' equity.
- Given that the results were in line with our expectations and given the above mentioned trends which could affect end-year results, we are maintaining our previous target price of EUR 16.8 and a buy recommendation.



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18.11.2016 15:30

## 9M16 Results

### With strong third quarter Sava Re Group back on track

million €	9M15	9M16	YOY	3Q15	2Q16	3Q16	QoQ	YOY
GPW	384.6	390.5	1.5%	107.9	280.8	390.5	39.1%	262.0%
NPE	334.9	343.8	2.6%	115.8	114.6	117.8	2.8%	1.7%
Claims	208.2	204.1	-2.0%	72.6	65.3	72.2	10.5%	-0.5%
Claims Ratio*	62.2%	59.4%		62.7%	57.0%	61.3%		
Net Expenses	92.8	99.9	7.6%	33.0	35.9	34.0	-5.4%	3.0%
Expense Ratio*	27.7%	29.0%		28.5%	31.3%	28.8%		
Net income	23.0	22.6	-1.5%	5.9	7.2	8.3	14.6%	40.8%
Margin	6.0%	5.8%		5.5%	2.6%	2.1%		

\* For this calculation, we use our own ALTA Invest methods, which are not completely comparable to those used by Sava Reinsurance Company.

- In the first three quarters 2016, Sava Re Group increased YoY gross premiums written by 1.5% to EUR 390.5m. Premium growth was contributed mainly by Slovenian non-life insurance business (especially by Zavarovalnica Maribor which grew by 3.2%) and non-Slovenian insurance business (4.0 percent growth) in both, life and non-life. Among them the highest growth was achieved by Croatian insurer Velebit Osiguranje (27.2%). This growth was partly offset by a YoY decline in reinsurance premiums (-0.6%) and Slovenian life insurance premiums (-0.8%). To date the Group wrote 80.0 percent of the total Group premium target for 2016. GWP for the first nine months was slightly below our estimate of EUR 396m.
- Gross claims amounted EUR 195.3m and were 0.6% lower than in the same period last year. On unconsolidated basis gross claims grew especially on faster growing SEE markets, however, this increase was offset by the decline on domestic market. Net claims fell by 2% and amounted EUR 204.1m and were hence better than expected. We should note that although gross claims on domestic non-life market decreased, the company formed additional provisions in the amount of EUR 4.1m for possible claims related to the hail storm event in August 2016.
- Reported net loss ratio for the first nine months was 61.0% versus 62.6%. Loss ratio improved even excluding FX effects – from 61.8% to 61.2%.

*Growth in most markets led to a joint 1.5% GWP growth.*

*Lower gross claims offset by additional provisions related to August hail storms.*

Non-consolidated in EURm	GWP			Gross Claims		
	9M16 GWP	9M2015	YoY	9M16 Claims	9M2015	YoY
Reinsurance	123.0	120.7	1.9%	62.6	63.5	-1.4%
Zavarovalnica Maribor (non-life)	149.2	144.6	3.2%	73.6	77.9	-5.5%
Zavarovalnica Tilia (non-life)	58.4	58.1	0.4%	31.3	30.5	2.6%
Sava Montenegro	8.9	8.6	3.6%	2.7	2.6	3.2%
Sava osiguranje, Belgrade	11.2	11.1	0.9%	4.4	3.8	17.0%
Sava osiguruvanje, Skopje	9.5	8.8	8.1%	3.3	3.3	0.3%
Velebit osiguranje	6.7	5.3	27.2%	2.9	2.5	17.3%
Illyria	5.5	6.4	-14.7%	2.6	2.4	11.5%
Zavarovalnica Maribor (life)	53.3	54.3	-1.8%	26.1	30.9	-15.5%
Zavarovalnica Tilia (life)	5.7	6.0	-4.4%	4.9	4.4	11.8%
Velebit životno osiguranje	2.5	2.2	10.8%	0.5	0.5	5.5%
Illyria Life	1.2	1.1	16.2%	0.2	0.1	62.1%
Sava životno osiguranje	1.0	0.9	13.0%	0.3	0.3	-19.5%
Moja naložba	0.8	0.0		0.2	0.0	

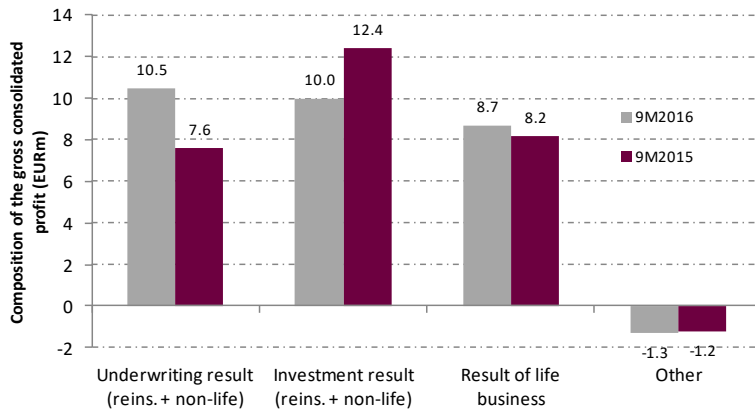
Consolidated in EUR	GWP			Gross Claims		
	9M16 GWP	9M2015	YoY	9M16 Claims	9M2015	YoY
Reinsurance	77.0	77.5	-0.6%	42.6	37.6	13.3%
Non-life insurance	249.1	243.0	2.5%	120.4	122.5	-1.7%
Life insurance	64.5	64.4	0.0%	32.2	36.2	-11.1%
Total	390.5	384.9	1.5%	195.3	196.4	-0.6%

- Operating expenses amounted EUR 111.3m and YoY increased by 5.8% YoY. Accordingly, net expense ratio increased by 1 percentage point to 32.4%. Growth was mostly a result of higher expenses on markets outside Slovenia and in reinsurance segment where expenses increased also due to personnel costs.
- Net investment income amounted EUR 17.8m and was only EUR 2m lower than in the same period last year. Decrease was a result of FX effect and lower interest income.
- Compared to the same period last year, weaker investment result (last year boosted by FX) was offset by stronger underwriting result, especially in the reinsurance. We should mention that although underwriting result in 2015 was pressured due to FX, 2016 was better even excluding foreign exchange.

*Low interest rate environment affecting net investment income, albeit less than expected.*

Profit of EUR 22.6m in line with our expectations.

- Net profit attributed to Shareholders totaled EUR 22.6m in 9M16 and was 1.5% lower than in the same period 2015. Net profit was in line with our expectations for the first nine months.



- Sava Re Group investment portfolio totaled EUR 1,072.8m or 4.4% more than at the end of 2015. Among noticeable changes we should mention lower share of deposits and larger level of cash and cash equivalents, however, that is mainly due to requalification of sight deposits, which are now included in cash and cash equivalents.

The consolidated investment portfolio in EURm	30.9.2016	31.12.2015	Index	Structure
Deposits and CDs	24.1	53.1	45.5	2.2
Government bonds	577.3	502.3	114.9	53.8
Corporate bonds	385.9	421.3	91.6	36.0
Shares	18.4	18.9	97.5	1.7
Mutual funds	8.3	12.8	65.0	0.8
Loans granted and other	0.8	1.1	74.0	0.1
Deposits with cedants	7.6	5.7	133.2	0.7
<b>Total financial investments</b>	<b>1,022.5</b>	<b>1,015.1</b>	<b>100.7</b>	<b>95.3</b>
Financial investments in associates	0.0	0.0	n.a.	0.0
Investment property	7.9	8.0	98.6	0.7
Cash and cash equivalents	42.3	4.7	898.5	3.9
<b>Total investment portfolio</b>	<b>1,072.8</b>	<b>1,027.8</b>	<b>104.4</b>	<b>100.0</b>
Investments for the benefit of life-insurance policyholders who bear the investment risk	222.5	214.2	103.9	
Assets from investment contracts	118.1	111.4	106.1	

Portfolio structure changed due to different reporting of demand deposits.

- At the end of the quarter consolidated gross technical provisions totaled EUR 943.3m or 6.3% more than at the end of the year. The increase is a result of dynamic of reinsurance, growth in business and higher provisions in domestic non-life.
- At the end of September 2016 total Shareholders' equity amounted EUR 295.2m or 3% more than at the end of 2015. The increase was a result of an increase through net income (EUR 22.6m) and AFS revaluations (EUR 14.5m) and decrease due to dividend payout (12.4m) and share buyback (14.6m). Book value per share increased to EUR 19.05.
- Given latest movement on the global market we should mention that at the end of the quarter the value of interest-sensitive financial investments stood at EUR 858.9m. Sava Re revealed that the sensitivity analysis for data at 30 September 2016 showed that in the event of an upward shift of the yield curve by 50 basis points, the value of non-life insurance investments would drop by EUR 11.4m or 1.9% (31/12/2015: EUR 4.5m or 0.9%). The value of life insurance investments would decline by EUR 6.3m or 2.4% (31/12/2015: EUR 4.7m or 2.0%).

Book value per share stood at EUR 19.05 per share.

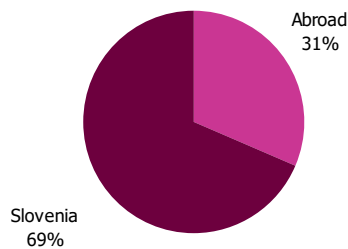
Top5 shareholders:

SDH	25.0%
Zagrebačka Banka Fid.	14.3%
Sava RE	10.0%
EBRD	6.2%
Raiffaisen Bank Fid.	4.5%

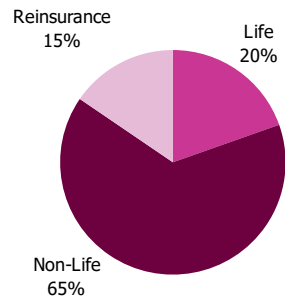
## Brief Company profile

Sava Reinsurance Company is the leading Slovenian reinsurer and is the largest locally-based non-captive reinsurer in the CEE region. Through consolidation of Zavarovalnica Maribor it now has a 17% market share on the domestic Slovenian insurance market. It also transacts primary insurance business (life and non-life) in Slovenia and the Western Balkans (Croatia, Kosovo, Macedonia, Montenegro, and Serbia). The company has a 38-year history. In 1992 it was only in reinsurance business, but then started to penetrate the insurance market in Slovenia and the Western Balkans. It has 2,504 employees.

Group sales by region (9M16)



Group sales by segment (9M16)



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Hold	12	29%	2%
Sell	2	5%	2%

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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 13.04.2010.

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

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