COVERAGE INITIATION - Sava RE Group

InterCapital Research

InterCapital

Insurance

November 30th 2015

Opportunity to buy stability in soft times

(EURk)	2013	2014	2015 F	2016 F	2017 F	2018 F
Gross written premium	386,705	468,179	475,202	486,131	497,798	507,257
Gross claims settled	-221,224	-255,340	-263,000	-270,890	-279,017	-286,829
EBT	15,774	38,956	36,077	44,548	48,463	50,631
Net profit / loss after M.I.	15,660	30,596	30,003	37,035	40,286	42,086
Total assets	1,378,300	1,454,374	1,506,759	1,537,732	1,576,005	1,615,492
Equity	240,099	271,529	305,777	320,929	336,511	353,645
Technical provisions	846,225	869,983	887,573	903,820	918,593	932,805
ROA	1.1%	2.1%	2.0%	2.4%	2.6%	2.6%
ROE	6.5%	11.3%	9.8%	11.5%	12.0%	11.9%
EBT margin	3.5%	7.7%	7.1%	8.6%	9.1%	9.4%
P/GWP	0.6	0.5	0.5	0.5	0.5	0.5
P/E*	14.6	7.5	7.6	6.2	5.7	5.4
P/B*	1.0	0.8	0.7	0.7	0.7	0.6

* Multiples were calculated based on the market price on November 27th 2015

We initiate coverage on Sava RE Group ("Sava RE") with a STRONG BUY recommendation and a EUR 17.22 price target. Our PT is summed up from our excess return model and peer analysis of EUR 19.31 and EUR 15.14, respectively. As a starting point in the ERM valuation we have used the cost of equity (CoE) of 8.8%, while the return on equity span from 9.8% to 12%. Sava RE trades on 7.6x 2015e PE, 0.5x 2015e GWP and 0.7x 2015e PB while the sector average is 9.3x, 0.8x and 1.2x, respectively.

Strong domestic position with potential for growth in the region: Slovenian market, where the company holds 17.2% market share, provides the strong base for the further business development. Although the insurance sector in Slovenia is more mature compared to the rest of the region with insurance penetration (as % of GDP) of 5.2% (compared to 2.8% in Croatia and 2.0% in Serbia), it is still lagging Western Europe average of 7.8%. Due to the aforementioned we expect penetration rates across the markets to converge to Western European standards in years to come.

Dividend policy and share buyback programme: since the company has a strong balance sheet we see further room for returning excess cash to shareholders. Namely, the current dividend policy stands at 30% of the consolidated net profit while the Company has a share buyback programme up to 10% of the total number of shares. At the same time the sector payout ratio in Europe is around 52% and if we implied this payout ratio to Sava RE in 2015 we would derive to the yield of around 7% - 42% higher than the industry average.

Shareholder structure implies an opportunity to consolidate ownership: since the company has a diversified ownership structure there is a potential for shareholders to consolidate their positions and thus we believe there could be some shuffling of the ownership stakes, especially if the Government decides to dispose its shareholding.

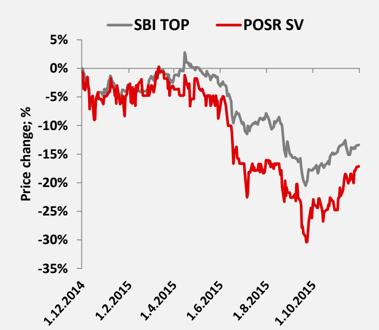
Better credit rating due to improved capital adequacy and position on the domestic market due to successful integration of ZM: the rating agency Standard & Poor's has upgraded its rating on Sava RE to "A-" from "BBB+" with stable outlook this year, which could bring up to EUR 5m of new GWP.

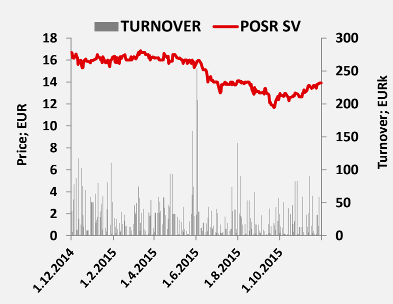
STRONG BUY

1 Y target price:	EUR 17.22
Price Nov 27th 2015:	EUR 13.90
Potential growth:	23.9%

GENERAL SHARE INFORMATION

Bloomberg ticker	POSR SV
Number of shares	17,219,662
Market capitalization (EURm)	239.4
1Y high/low (EUR)	16.99/11.60
1Y average daily turnover (EURk)	29.18
Free Float	44.1%
Index member	YES
Website	www.sava-re.si/en/

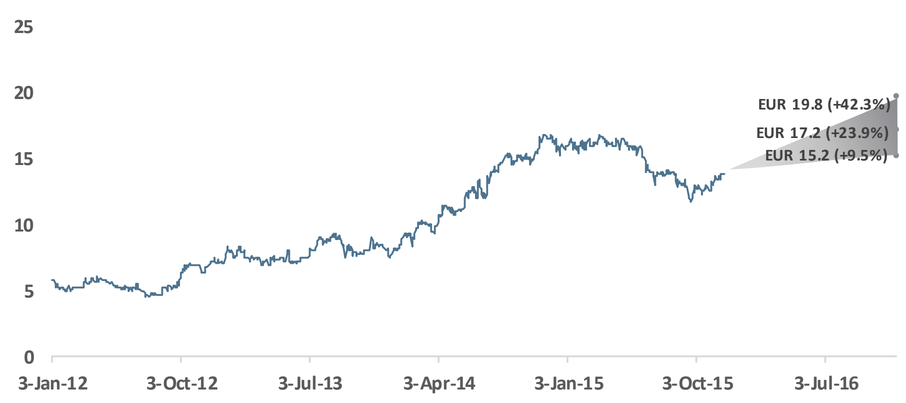




Tomislav Bajic
Head of Research
Tel. +385 1 4825 858
tomislav.bajic@intercapital.hr

Valuation Snapshot: Sava RE Group, STRONG BUY, EUR 16.85

Exhibit 2 Development of share price



Source: Bloomberg, InterCapital estimates

Why recommendation BUY?
Trading at 7.6x P/E @ 2015 and 6.2x @ 2016 Sava RE looks attractive comparing the peer group trading multiples

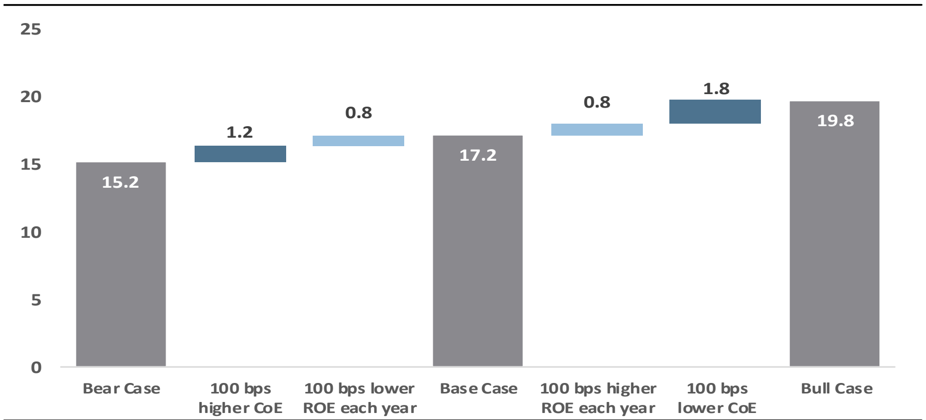
Exhibit 3 Scenario analysis

Target price **EUR 17.22**		Calcualted based on ERM (8.8% CoE and terminal ROE) and peer analysis
Bull Case **EUR 19.79**	ERM+Peer Analysis	**Better market conditions:** - ROE growth increase by 100 bps; - CoE decrease by 100 bps.
Base Case **EUR 17.22**	ERM+Peer Analysis	**Stable business operations in period 2015-2019**
Bear Case **EUR 15.22**	ERM+Peer Analysis	**Pressure on profitability and adverse market conditions:** - ROE decrease by 100 bps; - CoE increase by 100 bps.

Source: InterCapital estimates

If we change base case assumptions regarding to ROE and CoE Sava RE Group still has higher projected price than current market price

Exhibit 4 Bear to Bull scenario



Source: InterCapital estimates

Risks to our model are prolonged recession, adverse market conditions, catastrophic event, changes in legislation and methods of their implementation

Investment Case

Sava Re Group is the 2nd largest insurance group in the region. In addition to the controlling company Sava Reinsurance Company, the insurance part of the Sava Re Group comprises of ten insurers based in Slovenia and other South-East European. The Group also includes an associate company, namely a pension fund based in Slovenia. Sava acquired Zavarovalnica Maribor in 2013 and it is reaching the final stage of integration which creates room and management capacity for stronger focus on growth and expansion of regional operations. Therefore, besides building on strong position in Slovenia, Sava Re Group strategy is aimed at increasing the market share in regional countries where insurance penetration is still standing at low levels.

Key themes related to the current operations include: (i) potential for growth on the regional markets; (ii) future dividend policy; (iii) potential for ownership consolidation; (iv) potential acquisitions; (v) investment grade rating; (vi) low yield environment.

Slovenian market provides a strong base for the further business development. The insurance sector in Slovenia is more mature compared the rest of the region with insurance penetration (as % of GDP) of 5.2%, compared to 2.8% in Croatia and 2.0% in Serbia. However, it is still lagging Western Europe average of 7.8%. Since there are different penetration rates between the markets we expect the convergence process in the years to come. Based on empirical models when GDP per capita approaches level of USD 10.000, GWP per capita starts to take off at much faster pace.

At the end of December 2014 the solvency ratio stood at 227%. The new Solvency II regime, which will come into force on January 1st 2016 will fundamentally change the calculation of solvency capital. The estimated solvency ratio according to Solvency II at December 31st 2014 also exceeded the 200% limit. According to the Group's strategy, until 2019 the company plans to pay out dividends in the amount of approximately 30% of the Group's net profit. Since the company has adequate capital levels and fully complies with solvency regime we believe there is potential to increase the dividend pay-out or to intensify the share buyback programme (currently the company has around 4.3% of treasury shares but has an authorization for acquiring up to 10%). As a comparison, if we implied the Europe's average payout ratio of 52% to Sava RE's consolidated net profit for 2015 we would derive to a yield of around 7%, which is 42% higher than industry average.

Shareholder structure implies an opportunity to consolidate ownership. By examining Sava RE's fairly diversified shareholder structure we can note that there is a potential for ownership consolidation and thus we believe there could be some shuffling of the stakes in years to come. Furthermore, we note a general trend of consolidation in the insurance industry for which we expect to be further intensified due to large number of players with fairly small market shares.

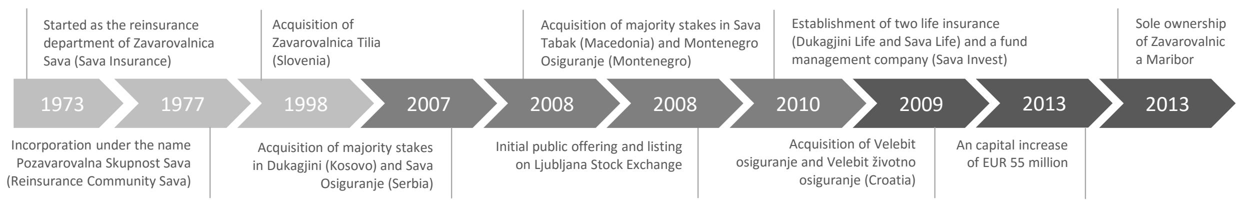
Potential for growth in the region through acquisitions in order to increase the current market shares. Besides the potential M&A in the core segments, the company plans to explore opportunities in the pension and health insurance. We support the strategy to further consolidate operations outside Slovenia to gain scale and improve efficiency. However, unfortunately there are currently not many appropriate targets, so the company needs to remain patient and selective in order not to overpay potential target.

Rating agencies A.M. Best and Standard & Poors's issued credit ratings of A- with a stable outlook. According to the management, the increase of the rating from BBB+ to A- could bring up to 5m EUR of new GWP.

In the current low yield environment, generating strong investment income remains a challenge. Due to the current situation on the financial markets we believe that the company will have lower yield on the investments in the next few years.

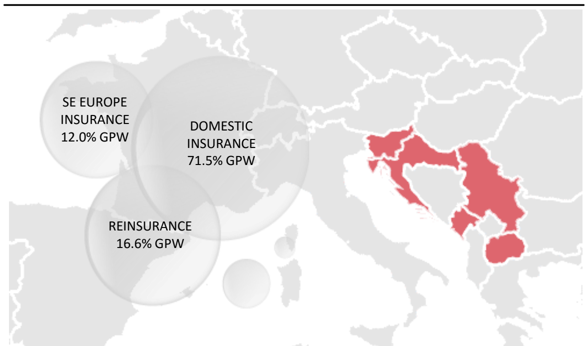
Company overview in seven charts

Exhibit 5 Brief history of the company



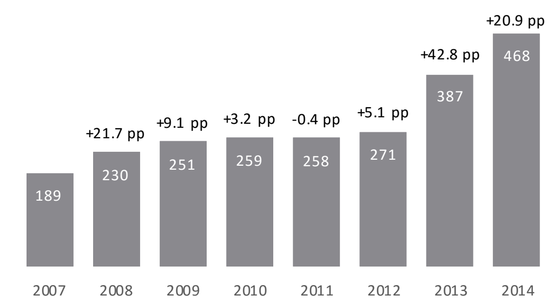
Source: Sava Re Group

Exhibit 6 Breakdown of Gross written premiums (Dec 2014)



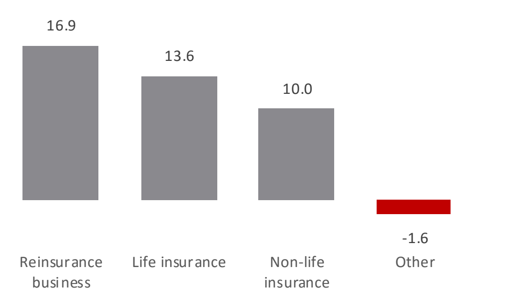
Source: Sava Re Group, InterCapital Research

Exhibit 7 Gross written premiums (in EURm)



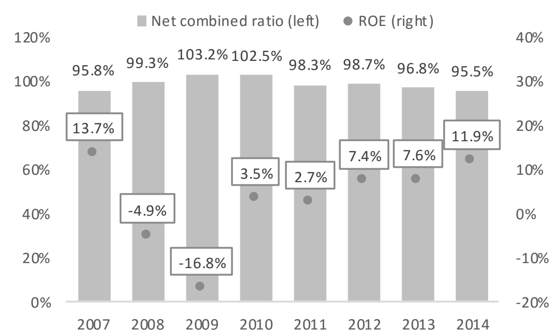
Source: Sava Re Group, InterCapital Research

Exhibit 8 Net profit/loss by segments (in EURm; Dec 2014)



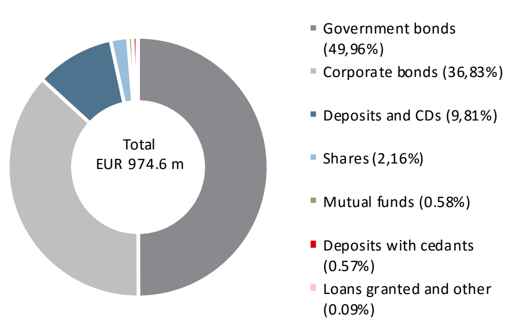
Source: Sava Re Group, InterCapital Research

Exhibit 9 Net combined ratio and ROE



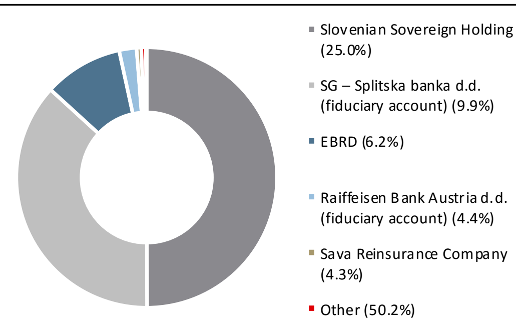
Source: Sava Re Group, InterCapital Research

Exhibit 10 Investments portfolio (Dec 2014)



Source: Sava Re Group, InterCapital Research

Exhibit 11 Shareholders structure of Sava RE



Source: Sava Re Group, InterCapital Research

Insurance market in Europe

The improving economic outlook has been reflected in the gross written premiums in European countries, where figures show growth of 3.5%, reaching EUR 1,169b in 2014. The life insurance segment gained momentum in 2014, as the premiums grew by 5.5% to the amount of EUR 714b while non-life premiums went up by 1% reaching EUR 455b. Since economic growth and wealth are the most important factors for insurance market density and penetration, we can still note a large discrepancy between WE and regional countries. The weak economic environment in regional countries has been one of the main reasons for low levels of insurance market growth, penetration and lower premiums per capita. However, with an expected recovery in CEE and improvements in other regions, Swiss Re expects that demand for insurance is going to increase. Munich Re also continues to see significant catch-up potential in the emerging economies.

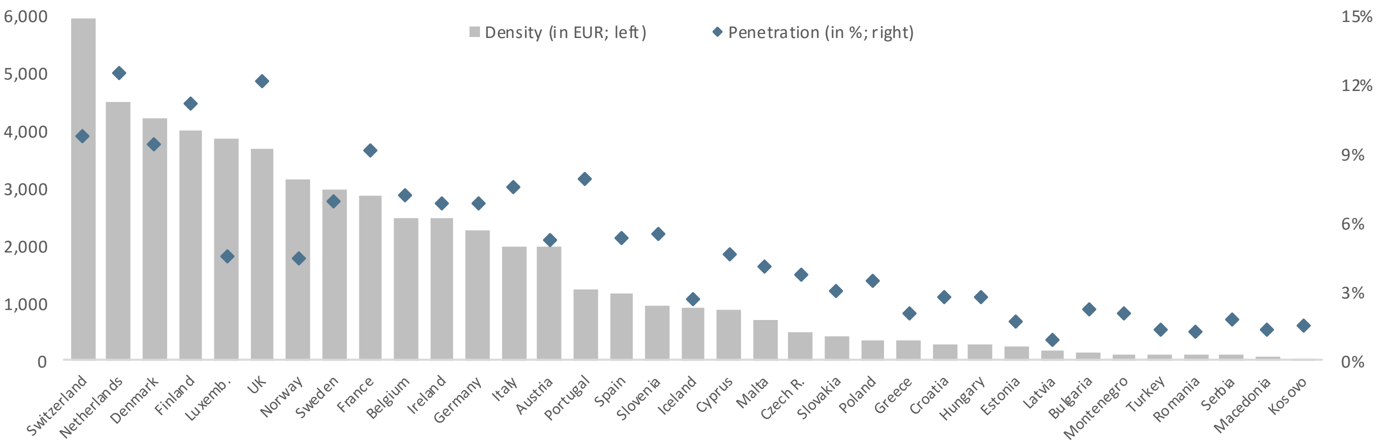
Demand for life insurance should increase in the following years, given the improving economic outlook. **Growth in the Eastern Europe is forecasted at 5.2% in 2016, a strong increase from 3.0% over this year.** Primary life insurers face a modest growth outlook in Western Europe. Specifically, the premiums are about to rise by 2.5% in 2015 and by 1.8% in 2016. In the long-term, the strongest growth will continue to come from the emerging markets of Asia, while **Western and Eastern Europe are expected to experience 2015-2025 CAGRs of 1.6% and 4.2%, respectively.** P&C premium growth is expected to remain fairly solid in the advanced economies and to accelerate further in the emerging countries, according to Munich Re. Eastern Europe is forecasted to rise by 1.4% in 2015 and 3.6% in 2016, while 2015-2025 CAGR is 4.2%.

A key driver of insurers' outperformance in recent years has been superior EPS and DPS growth, regardless of the fact that the earnings were under pressure from low yields as current investment returns remain lower than the yield on the 'back book'. Overall profitability was below pre-crisis levels, but the industry remains well capitalized. Insurances are likely to continue to suffer from low interest rates for a while but in the environment of ultra-low interest rates, unrealized gains on bonds are providing solid support. More specifically, insurers' investment portfolio has grown by 9.3% to EUR 9,842b in 2014. Both life and non-life portfolios contributed to this trend: life insurers' investments grew by 9.8% totalling EUR 8,164b, while non-life investments rose by 7.1% to reach EUR 1,678b.

Amid the still low interest rate environment, the insurers' investment returns are unlikely to be sustainable. The pressure on insurance (especially life segment) companies to reconcile investment guarantees with low yields has been further increasing. Hence, more profits are expected to be generated by the technical account. Furthermore, life insurers in current times need to intensify their efforts to make in-force business more profitable and more cash-generating. In addition, insures need to maintain tighter underwriting standards as low investment returns will not compensate for potential claims losses made elsewhere. The key risk remains a short-term but large-scale increase in interest rates and thus some insurers are hedging against this risk while others are altering their portfolio of products to reduce the risk of write-offs in bond portfolios. Lastly, with the improved economic outlook and expected monetary policy tightening in the US and UK government bond yields will probably rise. This will also affect European insurance players in the following year.

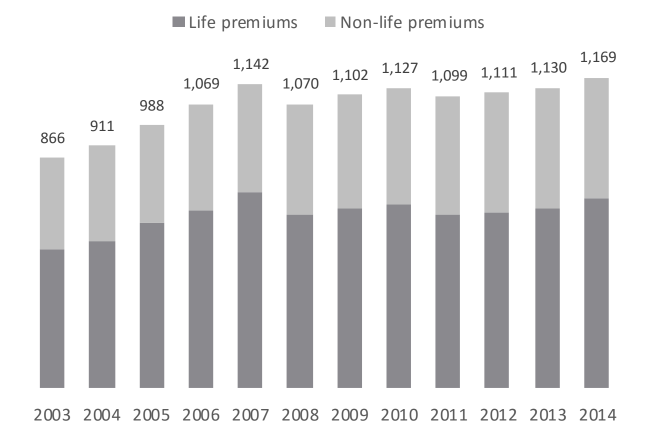
Besides the new paradigm of ultra-low interest rates, insurers have mostly been under continuous pressure to adapt their business models a new regulatory treadmill. Solvency II will be applied as of 1 January 2016 and the insurance companies have been responding and adapting the business model to new qualitative and quantitative requirements of the Solvency framework. However, the implementation of Solvency II should not be seen as the end of regulatory pressures. As such, a great deal of effort and vigilance will be needed over the coming years during which regulators and supervisors will be enforcing Solvency II in order to achieves their objectives of strong sector capitalization and systematic risk management.

Exhibit 12 Insurance density (premium per capita) and penetration in European countries



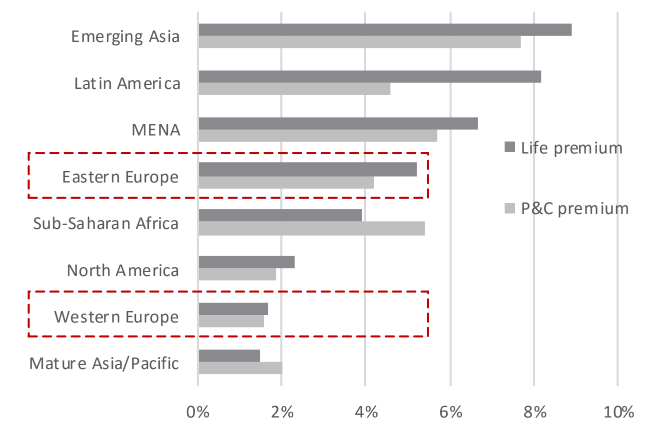
Source: Insurance Europe, InterCapital Research

Exhibit 13 Total premiums (in EURb)



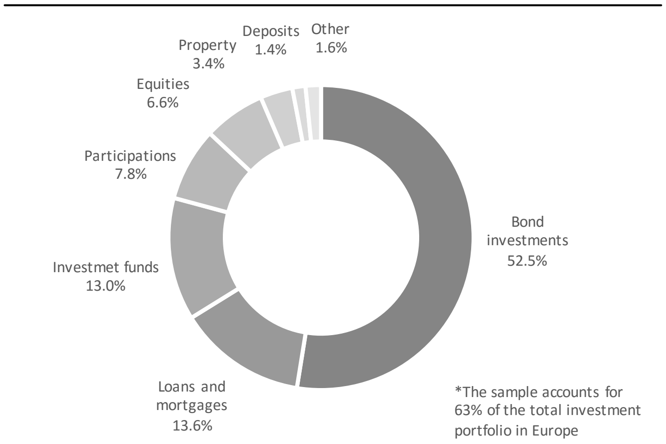
Source: Insurance Europe, InterCapital Research

Exhibit 14 Expected CAGR 2015-2025 (in %)



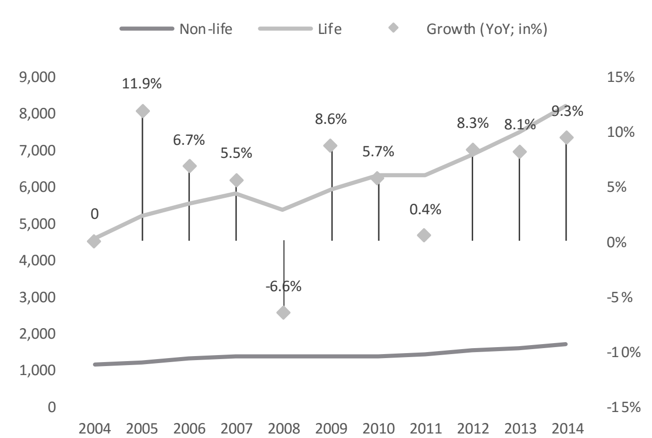
Source: Munich Re Research, InterCapital Research

Exhibit 15 Structure of insurers' investment portfolio in 2013*



Source: Insurance Europe, InterCapital Research

Exhibit 16 Growth of total investment portfolio in Europe



Source: Insurance Europe, InterCapital Research

Global reinsurance market

Unlike the insurance business, which is mostly country and region-orientated, Sava Re's reinsurance segment largely reflects the development of internationally generated business.

Non-life reinsurance

The non-life reinsurance industry is currently in a period of stable outlook but potentially with a cloudy future. The industry is in its fourth year of strong underwriting results and assuming there are no large catastrophes in the rest of the year, the combined ratio for 2015 is expected to be around 90% again, according to Swiss Re. Such performance is mostly a result of increasing reserve releases and below-average natural catastrophe losses.

Up to date there is still an abundance of reinsurance capital with strong supply in both traditional and alternative capital (AC) with a trend of convergence which tends to blur line between the two. Such trend implies that capital markets are finding ways to enter the reinsurance business through solutions like catastrophe bonds, sidecars, ILWs, collateral reinsurance etc. For example, **the alternative capacity as percentage of global property catastrophe reinsurance has grown from 8% in 2008 to 18% in 2014**. Although these trends undoubtedly increase competition for traditional reinsurers Morgan Stanley notes that the AC within property cat bonds have not yet been tested by a large loss event.

The investment environment for reinsurers is as challenging as it is for insurers. The industry achieved a mere average 3.4% annualized investment yield in H1 2015, unchanged from 2014. **Swiss Re sees overall ROE of around 13% for non-life reinsurance in FY 2015** (6-7% if adjusted for the special factors that boost underwriting result).

Exhibit 17 Real growth of non-life and life reinsurance premiums

Non-life	2013	2014	2015	2016E	2017F
Advanced markets	1.1%	-2.7%	0.8%	0.7%	1.7%
Emerging markets	8.8%	0.4%	1.6%	-4.0%	6.3%
World	3.0%	-1.9%	1.0%	-0.6%	2.9%
Life	**2013**	**2014**	**2015**	**2016E**	**2017F**
Advanced markets	-0.3%	1.1%	0.8%	-0.1%	-0.2%
Emerging markets	2.5%	5.1%	8.4%	7.5%	7.6%
World	0.0%	1.5%	1.6%	0.8%	0.7%

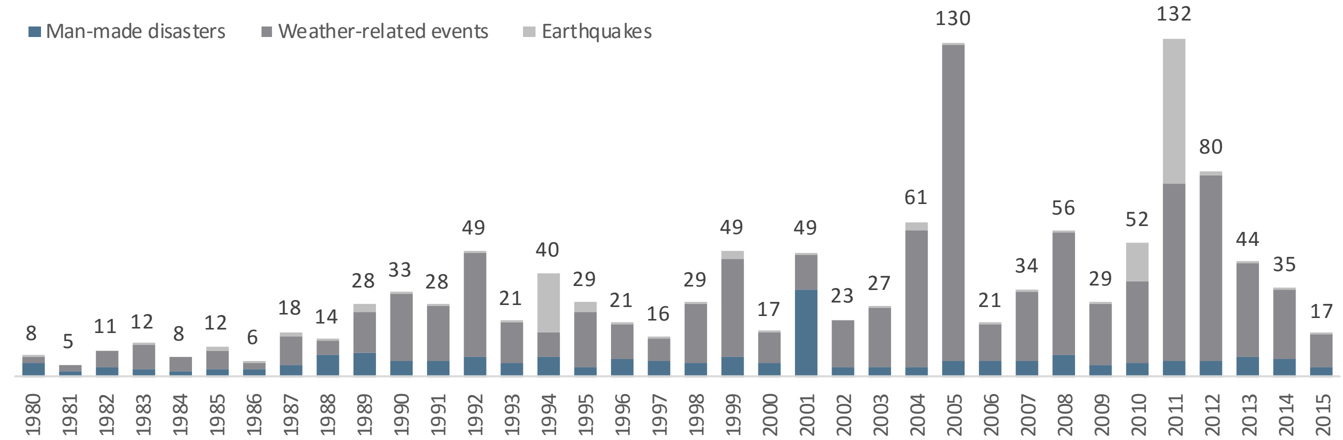
Source: Swiss Re Economic Research & Consulting

Life reinsurance

World premiums in traditional life reinsurance are expected to increase only marginally over the next two years, according to Swiss Re. Growth will be driven by emerging markets while the advanced markets will see a slight decline. **However, the emerging markets are expected to increase by about 7.5% annually in the next two years**. In these markets, life insurers' main value proposition could be linked to support primary insurance in product development, underwriting and claims management.

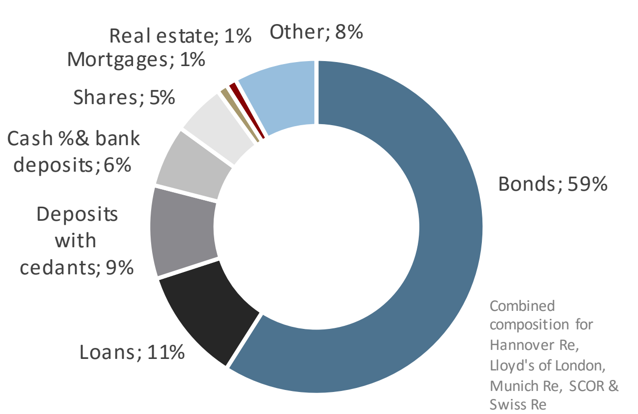
Life reinsurers are increasingly developing solutions to take longevity risk from primary firms with annuity business as well as from private and public pension plans. This market is traditionally most active in the UK but we have seen transactions with Australian, Canadian and French insurers. Longevity reinsurance is expected to develop in other markets as well, most notably the Netherlands, Switzerland and the US, where there is significant demand potential, particularly from pension funds.

Exhibit 18 Insured losses (USDb) globally



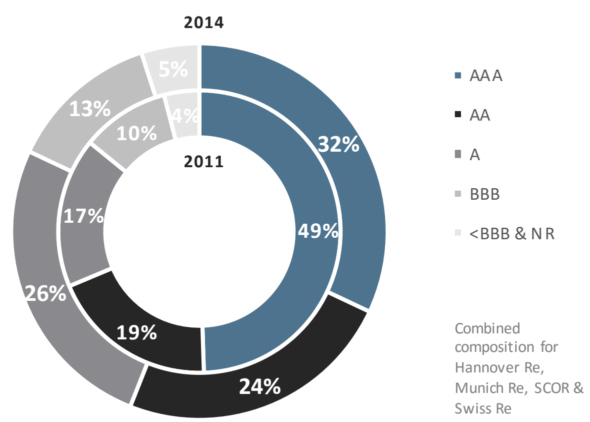
Source: Swiss Re

Exhibit 19 Major asset classes (2014)



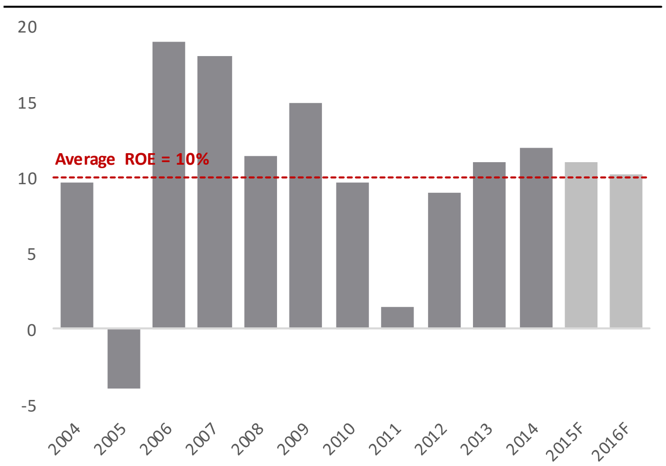
Source: Fitch

Exhibit 20 Fixed income credit quality



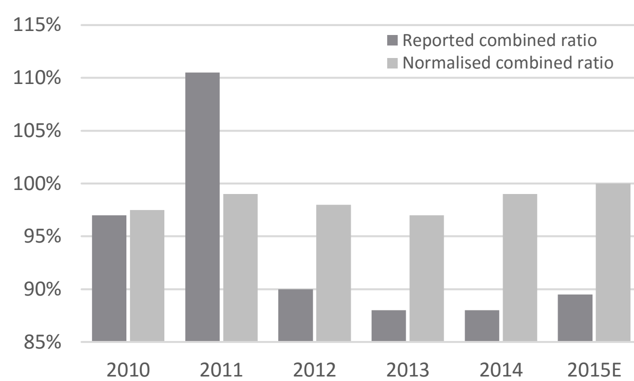
Source: Fitch

Exhibit 21 Past and expected ROE



Source: Fitch

Exhibit 22 Past and expected combined ratios



*Normalised combined ratio excludes the impact of lower than expected natural catastrophe losses and reduced claims ratio caused by positive reserve releases from redundant reserves from prior years' claims

Source: Swiss Re

Situation on the local markets

Slovenia
Although gross written premiums (GWP) in the Slovenian market have been falling for the fifth year in a row, the market still remained the most developed one among the countries in which Sava Re Group operates. Currently, the gross written premiums amount up to EUR 1,937m or 922 per capita. The insurance penetration (GWP as % of GDP) has also decreased and accounted for 5.2% in 2014 implying the lowest share in the last five years. Sava Re Group had a stable market share until 2013 (about 3-4%) which in turn significantly changed after the acquisition of Zavarovalnica Maribor in 2013, reaching a solid 17.2% in 2014.

Serbia
The Serbian insurance sector remained underdeveloped and substantially below the average for EU member states, but the moderately positive trend was maintained. This is corroborated by insurance market development indicators – the ratio of total premium to GDP rose to 2% and premiums per capita were about EUR 82.2 in 2014, which is 4.5% higher than the previous year. Moreover, the total gross written premiums grew at a rate of 4.7% to EUR 589.9m. According to the Sava Re Group, the market share in year 2014 stood at 2.3%, which represents a slight increase compared to the previous year.

Macedonia
The insurance market has been continuously growing during the period 2009-2014. In 2014 alone the market showed an increase of 6% in the total written premium. Written premiums in 2014 totalled EUR 123.9m or EUR 59.1 GWP per capita. The insurance penetration in 2014 was about 1.4% of GDP and Triglav, Eurolink, Makedonija VIG, Sava and Winner VIG remain the leading players in the insurance market. The total market share of Sava Re Group on Macedonia's insurance market is 8.7% in 2014.

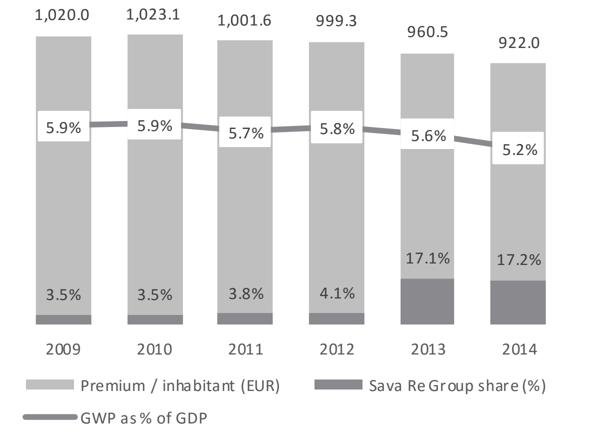
Montenegro
In Montenegrin insurance market there has been a slight decline of key market indicators. More specifically, after a constant growth in gross written premiums in the previous period, the 2014 showed a mild drop of 0.5% to EUR 72.4m. Furthermore, the premium per capita decreased to EUR 111.9, with a penetration rate of 2.1%. Although Sava Re Group is not the market leader in Montenegro, with a solid 15.8% Macednonian market is second to Slovenia when looking merely at the market share data.

Kosovo
The total insurance market in Kosovo recorded EUR 44.3 per capita in 2014 (1.5% of GDP) putting is at the back of the line in the region in terms of regional market development. The value of gross written premiums was around EUR 82.5m in 2014 which represents an increase of 3.9% compared to the previous year. Sava Re Group's market share has been continuously decreasing during the last years, from 21.2% in 2011 to 10.7% in 2014.

Croatia
Although Croatia is the second most developed country in the region, the premiums per capita notably dropped in 2014 mostly because of macroeconomic circumstances. Premium per capita was EUR 251.2, while the penetration was around 2.8%. The total GWPs recorded by insurance companies in Croatia reached their peak in 2010 to about EUR 1.268m, but steadily decreased afterwards. In 2014, the liberalisation of the motor liability insurance showed its full effect and resulted in an 18% premiums decline in motor liability insurance class. Liberalisation therefore heavily impacted he market and resulted in overall gross written premium decline in by 6.4% to EUR 1,121m. Lastly, Sava Re Group had a market share of around 0.9% in 2014 which implies the lowest market share out of any markets in which the Group operates.

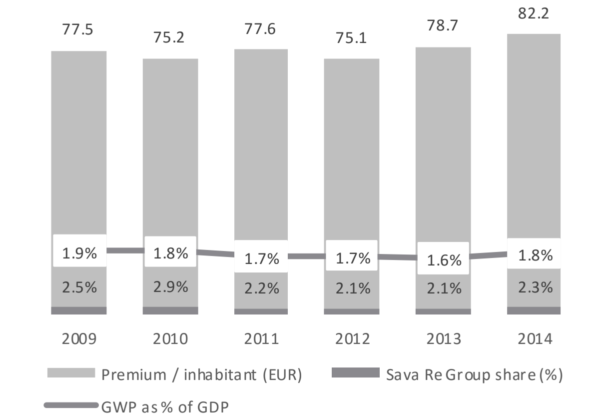
Markets overview in six charts

Exhibit 23 Slovenia



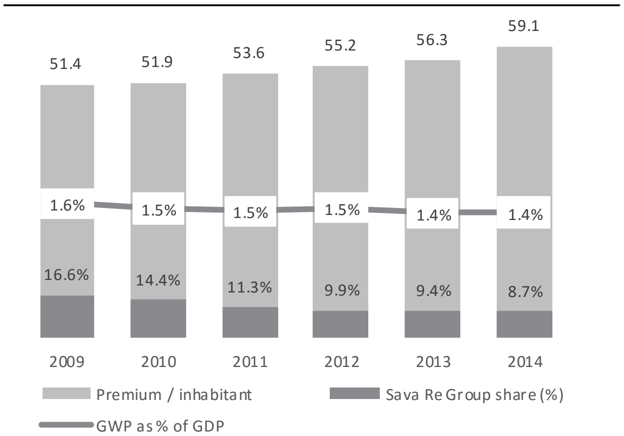
Source: Sava Re Group, InterCapital Research

Exhibit 24 Serbia



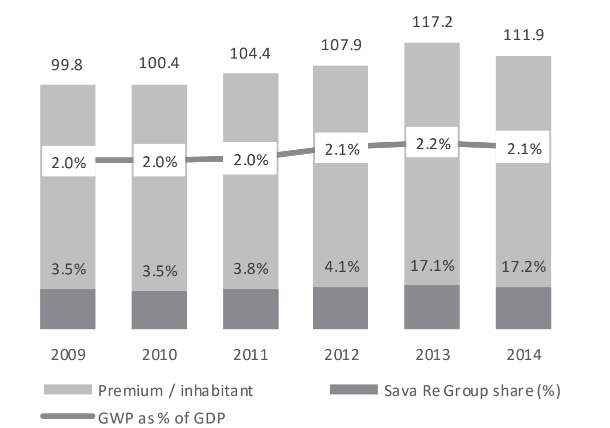
Source: Sava Re Group, InterCapital Research

Exhibit 25 Macedonia



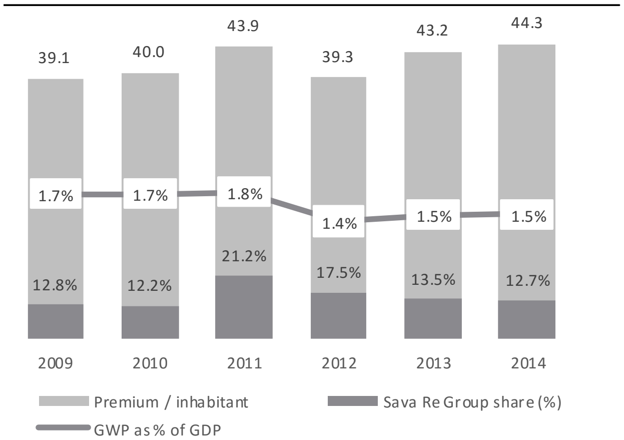
Source: Sava Re Group, InterCapital Research

Exhibit 26 Montenegro



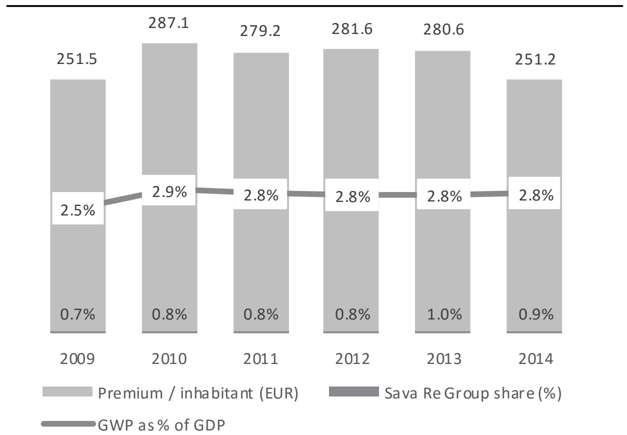
Source: Sava Re Group, InterCapital Research

Exhibit 27 Kosovo



Source: Sava Re Group, InterCapital Research

Exhibit 28 Croatia



Source: Sava Re Group, InterCapital Research

Market vs. our view

Key question	Market view	Our opinion
Lower profitability of regional operations	The home market, Slovenia, is Sava Re's main generator of profitability. The Group gets most of its GWPs from Slovenia (9M 2015 results show other markets account for less than 17%). The current situation raises the question whether Sava Re should keep and continue to invest in regional markets (Serbia, Macedonia, Montenegro, Kosovo, Croatia).	Although currently the regional markets seem to cause more trouble than gain, there is potential for trend reversal. Unlike Slovenia, regional markets have quite low premiums per inhabitant and much lower insurance penetration (in relation to GDP). This could be translated into new growth possibilities, especially if the recent economic recovery of regional markets continues.
Remaining synergies due to ZM acquisition	In 2014 Sava Re recorded synergies from the Zavarovalnica Maribor acquisition in the amount of EUR 6.8m, which is almost double than planned. According to Group's plan, further consolidation should enable realiazation of additional yearly cost savings in the amount of EUR 0.6m in 2015 and EUR 1.2m in 2016.	In our view Sava Re did an excellent job in consolidating Zavarovalnica Maribor. Other than cost reductions, this also gives it credibility for possible M&As in the future.
Soft market	Reinsurance business is currently going through soft market period due to no major catastrophic events on the international markets (the CR is likely to be around 90% and ROE double-digit at 12%). No major catastrophes were recorded in the insurance business but profitable investments are still hard to find as interest rates remain low.	In the years to come we expect that Sava RE would look for growth opportunities in markets that major players ignore because due to low premium volumes.
Portfolio structure	Most of Sava Re's portfolio is composed out of government (48%) and corporate bonds (41%). The only remaining category worth mentioning are deposits and CDS (6%). Compared to the beginning of the year (up to the end of September) deposits and CDS gained 3.4 pps and government bonds 1.6 pps in the portfolio structure, while corporate bonds lost 4.5 pps.	In our recent visit to the management they communicated the intention to put more focus on corporate bonds. Furthermore, in order to deal with low interest rates we assume the company would use the following strategies: (i) reduce the duration gap; (ii) take more investment risk to extract more yield; (iii) switch new business sales to less capital intensive policies.
New opportunities in pension and health insurance	According to the rumors the government plans to terminate voluntary health insurance and transfer it back to public institutions. In addition, Sava Re recently acquired the majority stake in the pension company Moja Nalozba.	We see the recent acquisition of Moja Nalozba as positive, especially if the pensions insurance market becomes less regulated and more open to private companies. By acquiring Moja Nalozba Sava Re builds a strong position for competing with other market players.
Regulatory risk	Regulatory risk refers to changes in legislation and the method of their implementation. Regulatory risk is present in all segments in which the company operates. The main goal in risk management is compliance with Solvency II regulatory requirements (as of 1 January 2016).	We believe that the company has enough resources to adhere to the change of the relevant regulation.
Distribution channels	Sava RE's insurance products are sold mainly by agents and employees of the company. The bancassurance channel is not yet developed and it accounts for only a small amount of total premium.	We believe it would be wise for Sava Re to find a partner bank in order to widen its distribution channel and to profit from the potentials of the regional markets which offer growth opportunities.

Sava Re Group Results for 9M 2015

Sava Re posted gross written premiums in the amount of EUR 384.2m, up by 3.6% YoY in the period from January until September 2015, which was mostly boosted by international reinsurance segment (+18.4%) with the largest growth contribution coming from South Korea (approximately EUR 8m).

Exhibit 29 Sava RE Group results for 9M 2015

Key financials (EURm)	9M 2014	9M 2015	Change (%)
Gross written premiums	371.2	384.6	3.6%
Net premium earned	321.3	334.9	4.2%
Gross claims settled	187.6	196.4	4.7%
Net claims incurred	189.3	208.2	10.0%
Operating expenses	103.5	105.2	1.7%
EBT	30.9	27.0	-12.5%
Net profit	25.0	23.0	-7.9%
Combined ratio	97.0%	97.2%	310 bp
EURm	**31 Dec 2014**	**30 Sep 2015**	**%**
Assets	1,454	1,497	3.0%
Equity	271.5	275.7	1.5%
Number of employees	2,519	2,442	-3.1%
Insurance technical provisioi	870	911	4.7%

Source: Sava RE Group

Consolidated GWP in the reinsurance segment grew by almost 25% YoY to reach EUR 77.5, whereas international markets were the main contributors. Non-life insurance segment in Slovenia fell by 0.7% YoY, while the total increase in non-Slovenian market was 2.9%, which resulted in the total amount of EUR 243m of GWP (in line with the same period of the previous year). Gross life insurance premiums reached EUR 64.4m. In Slovenia, the life insurance segment was weaker by 3.4% YoY. On the other hand, the highest growth was recorded by the Croatian life insurer Velebit zivotno osiguranje (+21.4 % YoY).

Gross claims paid went up to EUR 196.4m (+ 4.7% YoY). The growth in gross claims paid relating to Slovenian business is due to increased claims by Zavarovalnica Maribor (more maturities), while Zavarovalnica Tilia recorded a decline in gross claims paid. International gross claims paid rose in all non-Slovenian Group companies. The combined ratio went up by 20bp. This increase would be twice as big in case we excluded the effect of FX difference. Lower interest rates pushed down net investment income to EUR 19.96m or a mere decline of 2.7% YoY. Return on investment portfolio went down from 3.6% to 2.7% in 9M 2015.

At 30 September 2015 assets and liabilities were 95.5% matched, which is why the realized exchange losses from liabilities were largely offset by exchange gains from investments so profits were affected only to a minor degree. The impact on profit for the period was merely EUR 0.1m.

Bottom line result of EUR 23.0m represents a decrease of 7.9% YoY. The largest contribution to group profit was from the non-life insurance segment in Slovenia. On the other hand, reinsurance profits were slightly weaker due to a major loss in the international reinsurance portfolio (China), leading to a EUR 5m increase in the claims provision.

Assumptions for Model Development

Top line

We project Sava RE's GWP to grow by 1.5% in the current year, and at 5Y CAGR of 2.1% between 2014 and 2019. Given the average premiums in Slovenia are around EUR 922, we do not see high growth potential for Save Re Group in domicile market. For this reason, we believe regional presence is of vital importance for Sava's growth potential. Specifically, insurance market penetration in Croatia is around EUR 251, Montenegro EUR 112, Kosovo EUR 44, Serbia EUR 82 and Macedonia EUR 59. Faster growth of life segment can be expected once economic conditions improve and tax subsidies are implemented in all regional countries, which would enable employers to include insurance payments under operational costs. This would support the social role of life insurance as this segment is one of the fundamental grounds for the insurance industry.

Given higher gross written premium, we have estimated that Sava RE will engage higher amounts from gross written premium into reinsurance and coinsurance. For this reason, "other" category, under which we placed premiums for coinsurance and reinsurance, is growing.

Financial results

Considering the extremely high returns earned recently, which are unlikely to happen in the years to come, we were conservative in projections of net financial income. Specifically, we have estimated income from investments to decrease by 10.0% in 2015 YoY, and at 5y CAGR between 2014 and 2019 -3.0%. We expect investment costs to be between EUR 9.3m and EUR 10.3m.

Operating expenses

We expect gross claims payments to increase by 3.0% in 2015, and at 5y CAGR of 2.9% between 2014 and 2019. Operating expenses include costs of acquisition of insurance policies and other costs. We believe this cost will be in line of the business development, thus we projected them to slightly increase by CAGR 0.9% in the projected period.

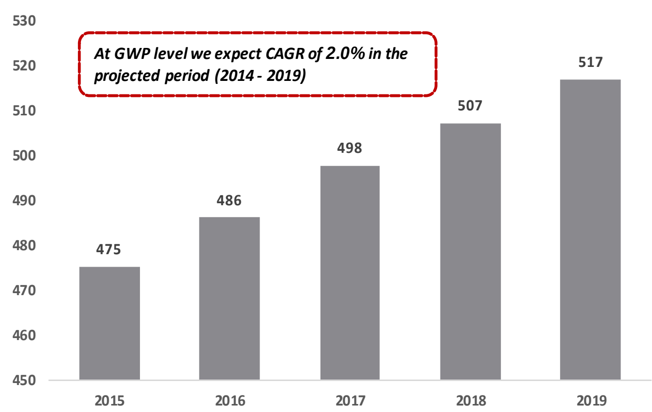
Bottom line

In line with aforementioned, we expect decrease of net income in 2015, while in the remaining period we expect stable growth. More precisely we expect Sava RE to record net income in amount of EUR 30m after minority interest in 2015 and further growth in by CAGR 7.7% in the projected period. In the period to 2019, Sava RE plans to achieve a return of equity above 11% which we believe is achievable.

Balance sheet

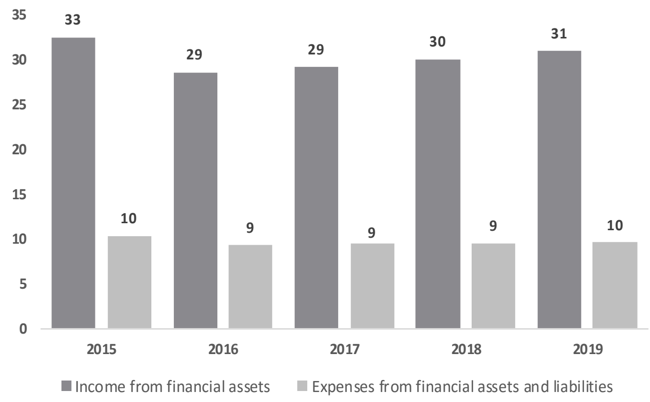
In the structure of total assets financial investments represent the largest share and at the end of 2014 the value of financial investments amounted to EUR 974.7m (4.7% - YoY mainly because of positive cash flow from core operations). For 2015 we estimate an increase of 1.0% which is in line with current development. Taking into account the situation in Slovenian and regional markets and further development of the business, we expect an increase in the receivables at CAGR of 4.0% between 2014 and 2019. Technical provisions relate to unearned premiums, mathematical provisions, claims provisions and other technical provisions. We expect them to increase by 2% in the current year and in the remaining period at CAGR 1.7%. Realization of positive operating results in the projected period is expected to result growth of the equity by CAGR of 6.5%. According to information received from the Company, the dividend policy is around 30% of consolidated net income. For this reason, we have estimated EUR 0.55 – EUR 0.77 dividend per share in the period 2016 to 2019.

Exhibit 30 GWP projections until 2018 (EURm)



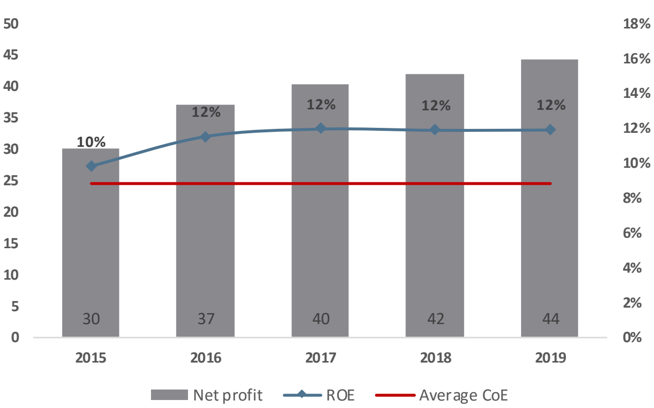
Source: InterCapital estimates

Exhibit 31 Projections of financial results



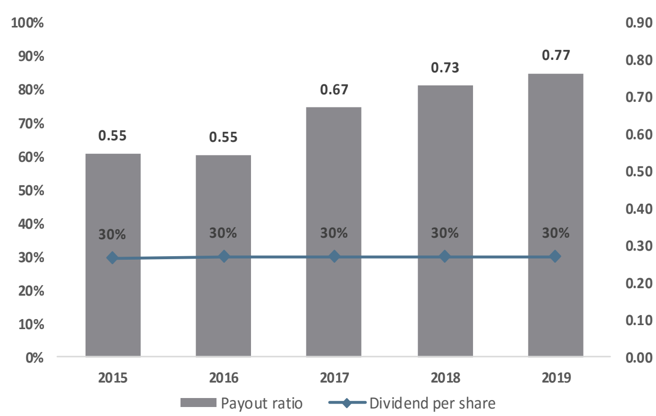
Source: InterCapital estimates

Exhibit 32 Comparison of profitability and cost of equity



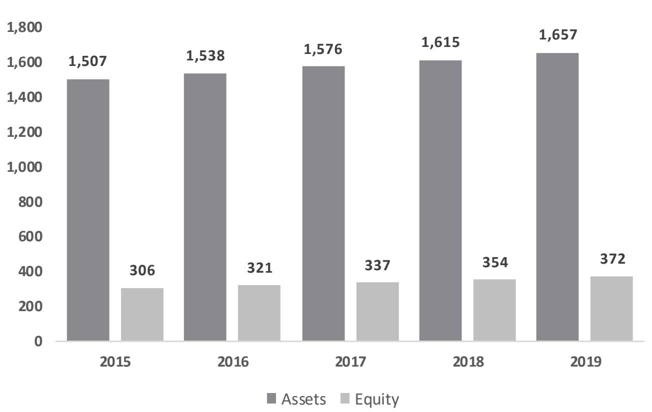
Source: InterCapital estimates

Exhibit 33 Projection of dividend and payout ratio



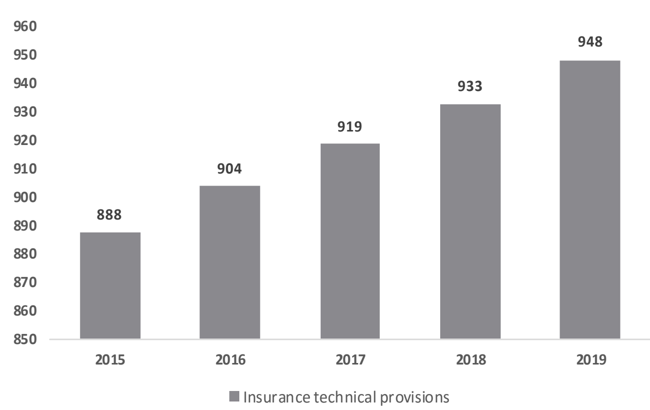
Source: InterCapital estimates

Exhibit 34 Development of assets and equity (EURm)



Source: InterCapital estimates

Exhibit 35 Projections of insurance technical provisions (EURm)



Source: InterCapital estimates

Valuation

Excess Return Model

The excess return model calculates the value of the company as the sum of current invested capital plus the present value of excess returns which the company is expected to generate in the future.

The two inputs needed to determine the value of the equity under the excess return model are the capital currently invested in the company and the excess (deficit) of value in future periods.

The capital currently invested in the company is usually measured as the book value. Although it represents an accounting measures and is therefore influenced by accounting decisions, it should be much more reliable in valuing financial rather than manufacturing companies, because the assets of financial companies is often marked to market.

As a starting point in the valuation we have used the cost of equity (CoE) of 8.8%.

Exhibit 36 Valuation based on excess return model

(EURk)	*2014e*	*2015f*	*2016f*	*2017f*	*2018f*
Net income	30,003	37,035	40,286	42,086	44,329
- Cost of equity	23,954	26,976	28,312	29,687	31,199
Excess Equity Return	6,049	10,060	11,974	12,399	13,131
BV of capital	271,529	305,777	320,929	336,511	353,645

Growth rate (perpetual)	1.5%
Cost of equity (perpetual)	8.8%
Return on equity (perpetual)	9.0%
PV of Equity Excess Return	46,716
Equity Value	**318,245**
Price per share (EUR)	**19.31**

Source: InterCapital estimates

By using excess return model we calculated the Company's equity value in the amount of EUR 318.2m.

Comparables Method

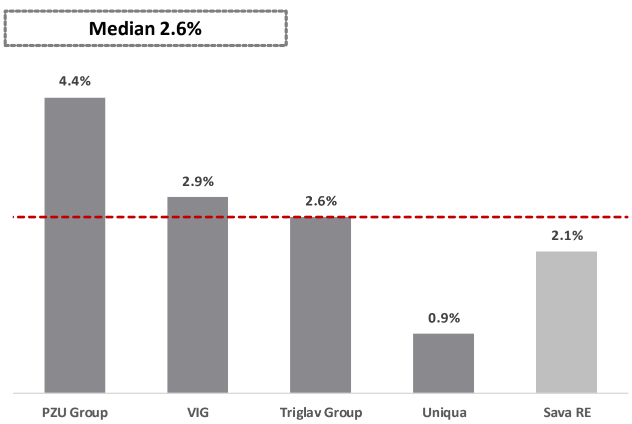
In selecting comparable companies, we have emphasized the business model and markets covered by comparable companies. The fundamental characteristic of all comparables is that they operate in the region, and that they are leaders in their respective domestic markets.

We compared the ROA, ROE, leverage ratio and combined ratio recorded by the peer companies in 2014.

According to all these indicators the PZU Group performed best, followed by the Triglav Group which is on the second place.

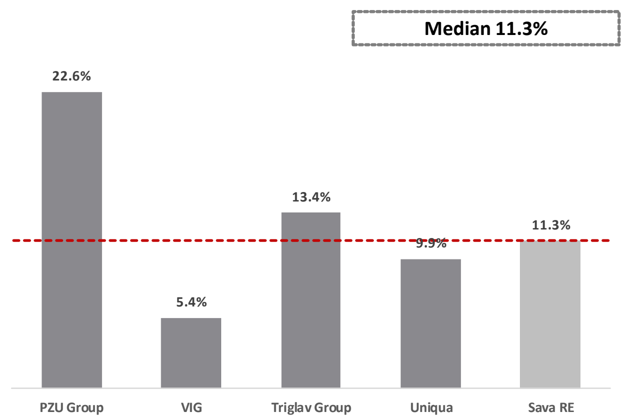
Financial indicators of peer group and Sava RE Group

Exhibit 37 ROA (%) in 2014



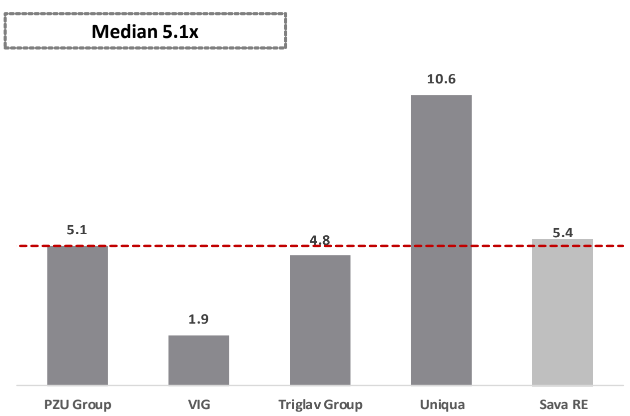
Source: Bloomberg, financial reports of selected companies

Exhibit 38 ROE (%) in 2014



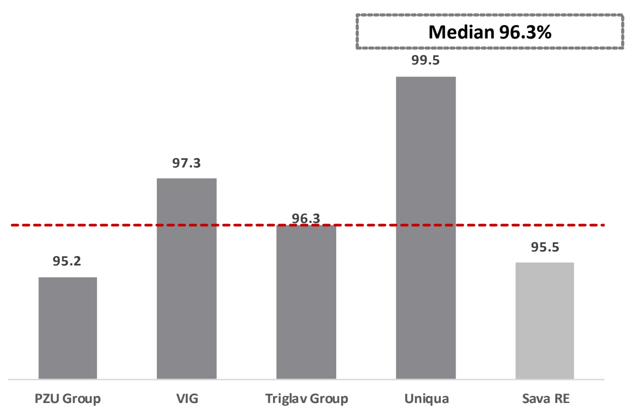
Source: Bloomberg, financial reports of selected companies

Exhibit 39 Leverage ratio 2014



Source: Bloomberg, financial reports of selected companies

Exhibit 40 Combine ratio in 2014



Source: Bloomberg, financial reports of selected companies

Exhibit 41 Comparables – key data

COMPARABLES	Est. P/GWP	Est. P/E	Est. P/B
Uniqua (UQA AV Equity)	0.4	7.9	0.8
VIG (VIG AV Equity)	0.4	10.1	0.8
PZU Group (PZU PW Equity)	1.8	12.1	2.5
Triglav (ZVTG SV Equity)	0.6	7.1	0.8
Average	**0.8**	**9.3**	**1.2**
Median	**0.5**	**9.0**	**0.8**
Sava RE Group	**0.5**	**7.6**	**0.7**
Discount / Premium	*-7.37%*	*-15.05%*	*-7.49%*
	444,289	30,003	305,777
EQUITY VALUE	**231,261**	**269,726**	**247,679**
AVE EQUITY value	249,556		
Number of shares	16,483,596		
Price per share (EUR)	***15.14***		

Source: Bloomberg, InterCapital estimates

Using comparables method and applying the market multiples on expected results from the company in 2015, we have generated a value of Sava RE Group of EUR 249.6m.

Valuation conclusion

Given the questionable assumption about future profit distribution i.e. regular dividend, the traditional model of discounting dividends was not taken into account. Also, we could not take into account the cash flow to equity discount model due to the difficult defining of cash flow, CAPEX and working capital.

Since excess return method reflects future business results, it is optimal for determining company's value. This model favorizes profit margin movements. However we were conservative in estimating profit margin which is line with business expectations. For this reason, that method has been given a weight of 50% in Sava RE's valuation. Given Sava RE's business environment the comparables method has also been given a weight of 50% in valuation, since peer companies are mostly comparable with Sava RE.

Exhibit 42 Summarized calculation

Valuation - summary			
DCF Model		**Multiple @ 2015**	
Equity value	**318,245**	**Equity value**	**249,556**
Weight	50%	Weight	50%
TOTAL EQUITY VALUE	**283,900**		
Number of shares outstanding	16,483,596		
PRICE PER SHARE (EUR)	**17.22**		

Source: InterCapital estimates

By summing up the two standalone values we have estimated the fundamental equity value of Sava RE at EUR 283.9m which corresponds to EUR 17.22 per share, offering upside in relation to the market price as of 27 November 2015 of 23.9%.

Exhibit 43 Results 2013 - 2014 and projections until 2019

(EURm)	Audited		InterCapital's projections					CAGR
INCOME STATEMENT	2013	2014	2015	2016	2017	2018	2019	14 - 19
Net earned premiums	**379,148**	**437,572**	**444,289**	**454,909**	**466,264**	**475,407**	**484,726**	**2.1%**
Gross written premium	**386,705**	**468,179**	**475,202**	**486,131**	**497,798**	**507,257**	**516,895**	**2.0%**
Other	-7,557	-30,607	-30,913	-31,222	-31,534	-31,850	-32,168	1.0%
Income from investments in associates	12,106	154	169	0	0	0	0	-100.0%
Investment income	36,438	36,125	32,513	28,611	29,183	30,059	30,960	-3.0%
Other income	22,220	33,463	33,798	34,474	35,163	35,866	36,584	1.8%
TOTAL INCOME	**449,912**	**507,314**	**510,768**	**517,994**	**530,610**	**541,332**	**552,270**	**1.7%**
NET CLAIMS INCURRED	**-229,010**	**-257,079**	**-263,962**	**-271,646**	**-279,558**	**-287,147**	**-294,086**	**2.7%**
Gross claims payments less income from recourse receivables	-221,224	-255,340	-263,000	-270,890	-279,017	-286,829	-294,000	2.9%
Reinsurers' and co-insurers' shares	9,093	10,619	10,778	11,102	11,435	11,778	12,131	2.7%
Changes in claims provisions and other	-16,879	-12,358	-11,740	-11,858	-11,976	-12,096	-12,217	-0.2%
Change in other technical provisions	5,788	-3,566	-3,637	-2,364	-2,246	-2,134	-2,198	-9.2%
Expenses for bonuses and rebates	-370	-337	-344	-351	-361	-372	-383	2.6%
Operating expenses	-129,401	-146,622	-147,302	-148,578	-150,064	-151,564	-153,080	0.9%
Expense for investments in associates	-1,073	-1,901	-951	-979	-1,008	-1,039	-1,070	-10.9%
Expenses for financial assets and liabilities	-42,010	-6,897	-10,346	-9,311	-9,404	-9,498	-9,593	6.8%
Other technical expenses	-13,998	-16,394	-16,558	-16,889	-17,058	-17,229	-17,401	1.2%
Other expenses	-24,064	-35,562	-31,592	-23,328	-22,448	-21,718	-21,127	-9.9%
EBT	**15,774**	**38,956**	**36,077**	**44,548**	**48,463**	**50,631**	**53,333**	**6.5%**
Income tax	-152	-8,418	-6,133	-7,573	-8,239	-8,607	-9,067	1.5%
Net income before minority interest	15,622	30,538	29,944	36,975	40,224	42,024	44,266	7.7%
Minority interest	-38	-58	-59	-60	-62	-63	-63	1.8%
NET INCOME	**15,660**	**30,596**	**30,003**	**37,035**	**40,286**	**42,086**	**44,329**	**7.7%**

(EURm)	Audited		InterCapital's projections					CAGR
BALANCE SHEET	2013	2014	2015	2016	2017	2018	2019	14 - 19
Intangible assets	40,226	34,941	34,592	35,110	35,637	36,172	36,714	1.0%
Property and equipment	46,043	44,474	48,921	49,655	50,400	51,156	51,923	3.1%
Deffered tax assets	3,497	1,202	2,644	2,666	2,684	2,703	2,717	17.7%
Investment property	5,566	5,103	4,848	4,896	4,945	4,995	5,045	-0.2%
Financial investment in associates	2,867	3,072	3,164	3,259	3,422	3,593	3,881	4.8%
Financial investments	931,121	974,668	984,415	1,005,087	1,028,204	1,053,910	1,081,311	2.1%
Funds for the benefit of policyholders who bear investment risk	175,776	202,913	219,146	223,529	230,235	237,142	244,256	3.8%
Reinsurers' share of technical provisions	33,491	38,673	34,806	35,502	36,212	36,936	37,675	-0.5%
Receivables	116,213	124,396	145,543	146,999	148,469	149,953	151,453	4.0%
Deferred acquisition costs	17,752	17,489	19,588	19,784	19,981	20,181	20,383	3.1%
Other assets	1,593	1,351	1,621	1,670	2,588	2,976	3,066	17.8%
Cash and cash equivalents	3,433	5,643	7,054	9,170	12,838	15,405	18,486	26.8%
Non-current assets held for sale	722	449	418	405	389	369	351	-4.8%
TOTAL ASSETS	**1,378,300**	**1,454,374**	**1,506,759**	**1,537,732**	**1,576,005**	**1,615,492**	**1,657,261**	**2.6%**
EQUITY	**240,099**	**271,529**	**305,777**	**320,929**	**336,511**	**353,645**	**371,977**	**6.5%**
Share capital	71,856	71,856	71,856	71,856	71,856	71,856	71,856	0.0%
Reserves	150,617	167,162	202,290	210,393	222,709	238,025	254,098	8.7%
Net profit/loss for the year	15,660	30,596	30,003	37,035	40,286	42,086	44,329	7.7%
Non-controlling interests	1,966	1,915	1,628	1,644	1,660	1,677	1,694	-2.4%
Subordinate liabilities	30,467	28,699	22,959	22,753	22,298	21,629	20,980	-6.1%
Technical provisions	846,225	869,983	887,573	903,820	918,593	932,805	947,780	1.7%
Technical provision for the benefit of life insurance policyholders who bear the investment risk	170,787	195,685	203,512	211,653	220,119	228,924	238,081	4.0%
Other provisions	5,879	6,940	7,287	7,360	7,470	7,597	7,749	2.2%
Deffered tax liabilities	4,009	5,749	5,462	5,363	5,283	5,204	5,125	-2.3%
Other financial liabilities	5,007	79	58	52	52	53	53	-7.6%
Liabilities from operating activities	44,991	49,365	51,833	46,650	47,583	48,535	49,505	0.1%
Other liabilities	30,836	26,345	21,076	17,915	16,840	15,829	14,721	-11.0%
TOTAL EQUITY AND LIABILITIES	**1,378,300**	**1,454,374**	**1,507,164**	**1,538,137**	**1,576,409**	**1,615,897**	**1,657,666**	**2.7%**

Source: Sava RE Group, InterCapital estimates

Disclaimer

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InterCapital Securities Ltd uses various methods in Company valuations. Among the rest are comparative analyses of peer companies, discounted cash flow methods and other.

Fundamental analysis is a financial analysis of industries and companies based on factors such as sales, assets, profit, products or services, markets and management. In conducting fundamental analysis, InterCapital Securities Ltd uses various methods to determine a value of the Issuer. Among the rest, analysis of comparable companies, discounted cash flow and other methods are being used. Although InterCapital Securities Ltd uses models commonly accepted in the financial industry and theory, the results of these models depend on plans and information obtained from the Issuer as well as subjective opinions of analysts.

InterCapital Securities Ltd owns the following issues:

The author of fundamental analyses in this report is Tomislav Bajic. Tomislav Bajic is employed in InterCapital Securities Ltd registered in Zagreb, Masarykova 1 as Head of Research. InterCapital Securities Ltd is supervised by Croatian Financial Services Supervisory Agency (HANFA).

Tomislav Bajic has no ownership interest in Sava RE Group. He doesn't own any shares of Sava RE Group, and neither do his immediate family members.

The company InterCapital Securities Ltd. acts as a market maker for ADPLRA ZA, ATGRRA ZA, HTRA ZA, KOEIRA ZA, PODRRA ZA, RIVPRA ZA and TPNGRA ZA.

Fundamental rating values of an Issuer are given according to the following scale:

Strong buy - equities with expected absolute revenue of more than 20% in the monitored time period

Buy - equities with expected absolute return of 10%-20% in the monitored time period

Hold - equities with expected absolute return of -10% to 10% in the monitored time period

Sell - equities with expected absolute return below -10% in the monitored time period

Under review - an issuer might be placed Under Review due to new information which is not included in the analysis.

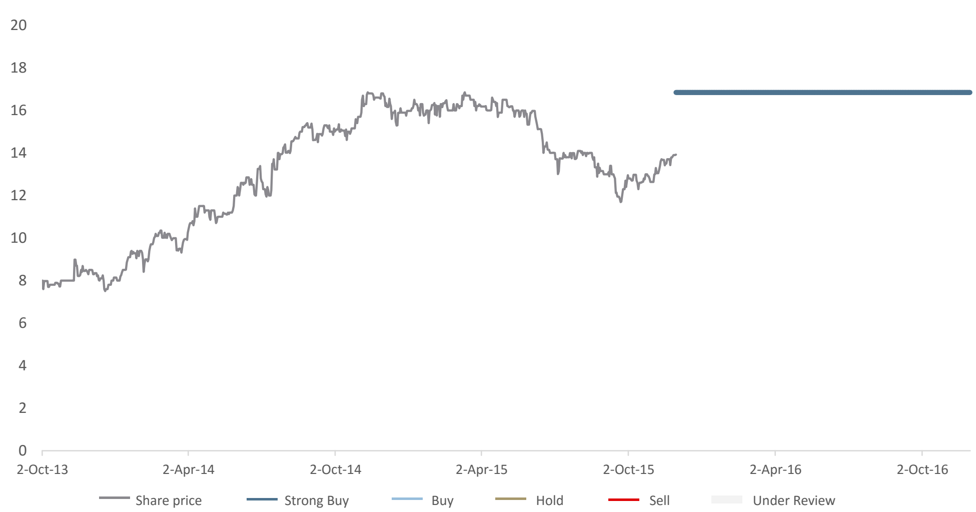
Up to August 14, 2014 the Hold recommendation was used for equities with an expected return of 0% to 10%, while the Sell recommendation was used for equities with an expected negative absolute return. Criteria for other recommendation remained unchanged.

3Q 2015 (1 July - 30 September 2015)

	Number	Share	Companies which InterCapital Securities Ltd. provided investment banking service within last 12 months
Strong Buy	4	25.0%	RIVP-R-A
Buy	5	31.3%	TPNG-R-A
Hold	1	6.3%	-
Sell	2	12.5%	-
Under Review	4	25.0%	-

Any investments indicated in the report constitute risk, are not readily available in all jurisdictions, can be illiquid and may not be suitable for all investors. Value or income realized on any one investment mentioned in the report may vary. If a financial instrument is denominated in a currency other than an investor's currency, a change in exchange rates may adversely affect the investment. Past performance is not necessarily indicative of future results. Investors must make their own informed investment decisions without depending on this Recommendation. Only investors with sufficient knowledge and expertise in financial dealings who are able to evaluate risk and return may consider investing in any form of securities or markets indicated herein.

Chronology of share recommendations



InterCapital Securities Research contacts

Tomislav Bajic, Head of Research, +385 (0)1 4825 858, tomislav.bajic@intercapital.hr

Kreso Vugrincic, Analyst, +385 (0)1 4825 864, kreso.vugrincic@intercapital.hr

Divo Pulitika, Analyst, +385 (0)1 4825 867, divo.pulitika@intercapital.hr

Margareta Maresic, Junior Analyst, +385 (0)1 4825 857, margareta.maresic@intercapital.hr