

Sava RE (POSR SV)

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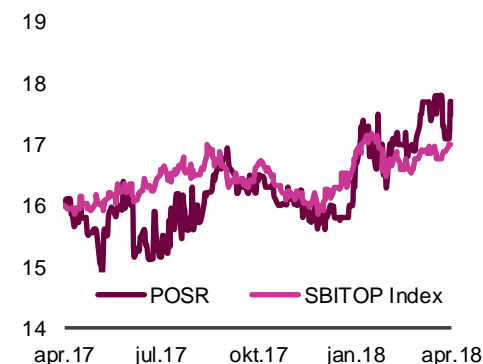
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12M Target price: 23.9 EUR Recommendation: BUY

Previous target price: 20.0 EUR, BUY (9.3.2018)

KEY MARKET DATA:

Stock data as of 12.04.2018 :		Price performance:		3M	12M
Market price (EUR)	17.7	Price change in %		6.0%	10.6%
52 week range (EUR)	14.8 - 17.8	SBI 20 index change in %		0.9%	6.7%
Market Cap (EUR)	304.8	Relative to SBI 20 index in %		5.1%	3.7%
		Valuation multiples:		TTM	Forward
Avg. daily trade vol., EUR(k)	38	P/GWP		0.52	0.51
Average daily % of stock traded	0.014%	P/E		8.7	7.6
No. of Shares in millions	17.2	P/B		0.86	0.80
Dividend yield	4.6%	S&P Global Ratings rating A-/positive outlook A.M. Best rating A-/stable outlook			

SHARE PRICE DYNAMIC:



KEY COMPANY DATA & ESTIMATES:

million €	FY2015	FY2016	FY2017	2018F	2019F
GPW	486.3	490.2	517.2	533.2	549.1
NPE	447.6	458.1	470.9	487.9	502.3
Claims paid	273.1	268.4	296.1	304.6	314.9
Net income	33.4	32.8	31.1	35.9	35.9
ROE	11.7%	11.1%	9.8%	10.6%	9.9%
EPS	2.00	2.10	1.96	2.31	2.31
DPS	0.80	0.80	0.80	0.80	0.93
Equity Inv	18.9	17.0	17.5		
Fin. Assets	1,023.1	1,038.2	1,038.1	1,080.1	1,116.6
Tech. Prov.	1,094.7	1,138.2	1,157.9	1,181.7	1,211.6
Equity	285.4	296.3	315.8	339.2	360.8
Assets	1,607.3	1,671.2	1,708.3	1,757.9	1,812.0
Equity/Assets	18%	18%	18%	19%	20%
P/E	6.3	8.2	8.7	7.6	7.6
P/B	0.73	0.91	0.86	0.80	0.75

KEY CURRENT DEVELOPMENT:

- 2017 results were lighter on the bottom line due to several CAT events, however still in the bottom of the guided range. On the other hand a **2018 net profit guidance was a positive surprise**. Namely while we have expected similar level of GWP as Sava RE is planning, we believed profit would stagnate at EUR 30m levels. Sava RE on the other hand guided EUR 37-39m, consequently significantly higher profitability is envisioned. **This warranted some positive adjustments to our valuation model.**
- Sava RE strategy confirms the company is looking to seek new opportunities while still delivering synergies from past streamlining.
- Trading at P/B 0.84, ROE around 10% and hefty dividend yield (latest management proposal is a repeat of the EUR 0.8 dividend), we believe upside remains attractive. **Therefore a buy recommendation is still warranted. Target price was raised to EUR 23.9.**
- The Administrative Court granted Adris an appeal against the Insurance Supervision Agency decision, which refused to issue a consent to increase the stake in Sava Re to 33% last September. It annulled the decision and returned the case for a fresh decision. **Therefore shareholder battle continues and this could influence sentiment / speculations during 2018.**

2018 Plan & Strategy

- Sava RE issued its 2018 guidance in December:

	2016	2017 Plan	2017	2018 plan
GWP in EURm	490.2	494	517.2	>520
Net combined ratio	94.6%	94.6%	95.5%	94.0%-94.5%
Net incurred loss ratio	58.2%	59.4%	60.5%	59.4%-59.9%
Net expense ratio	34.0%	32.6%	32.7%	31.4%-31.7%
Return on investment portfolio	2.2%	1.8%	2.0%	1.7%
Profit in EURm	32.9	31-33	31.1	37-39
ROE	11.3%	10.3%	10.1%	>11%



- Key strategic guidelines for 2017-2019 period are:
 - Digitalization and technological modernization of operation to place the client at the center;
 - Growth through acquisitions;
 - Seeking opportunities in environmental/sustainable-oriented investment projects;
 - Closing the gap between the intrinsic value and the market price of shares.
- Additional notes on 2018 plan and 2017-2019 document:
 - Sava RE launched health insurance products in Slovenia at 2017 end year. We expect slow but steady gaining of this business which definitely has a growth potential (in Slovenia and the region). Also this health insurance products are pure, not a supplementary health insurance products where there is an elevated regulatory risk in Slovenia.
 - Bank assurance is also mentioned in sense of new partnerships and improving processes in existing partners.
 - In international reinsurance markets, Sava Re mentions that it will continue to position itself as a specialist in non-life short-tail business and will seek growth opportunities in Africa and Latin America Asset management.
 - It will maintain a capital position of between 170 % and 230 % (between the lower limit of the optimal range and the upper limit of the adequate range of capital).
 - Sava Re also aims at generating a 10 % growth in dividends over the 2017–2019 period for its shareholders, but no more than 40 % of the net profit of the Sava Re Group. Logically priority is solvency ratios and maintaining good ratings.

2017 Results

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- GWP growth by markets was driven by growth on Slovenian market by EUR 16.6m or 4.8% YoY, Serbian market by EUR 2.15m or 13.4% YoY and Croatian market by EUR 2.05m or 16.6% YoY. These three key markets accounted for 75.2% of all GWP in 2017 versus 75.0% a year ago.

GWP by markets (in € mio)	2016	2017	YoY
Reinsurance (global)	92.7	96.2	3.8%
Slovenia	342.9	364.5	4.8%
Slovenia Insurance	335.0	351.4	4.9%
Slovenia Pension	12.9	13.1	1.4%
Croatia	12.3	14.4	16.6%
Serbia	16.0	18.2	13.4%
Montenegro	11.7	12.4	6.0%
Kosovo	8.8	10.0	13.5%
Macedonia	12.2	12.7	4.4%

- Reported net combined ratio is at 94.3% versus 95.0% a year ago (FX adjusted 95.5% vs 94.6%) as a result of increased claims.

- Net inv. income, which was under pressure due to low interest rates performed better than expected. Excluding exchange rates differences net investment income only decreased by 6.3% or EUR 1.5m.

GWP by segments (in € mio)	2016	2017	YoY	Plan 2017
Reinsurance	92.7	96.2	3.8%	98.3
Non-life Slovenia	255.8	270.4	5.7%	253.1
Non-life International	55.1	60.6	10.0%	56.5
Life Slovenia	80.1	83.0	3.6%	79.4
Life International	6.5	7.1	9.2%	6.9

- Return on investment portfolio excluding exchange differences was by 0.2 p.p. lower YoY and stood at 2.0%, which was above the plan for 2017.

- EBT decreased by EUR 0.8m or 1.9% YoY but still less than net profit. Net profit amounted EUR 31.1m, which was 5.5% percent lower YoY but still within Sava RE initial forecast range for 2017 and even EUR 2.0m higher than our last expectations.

Income statement	2016	2017	YoY
Gross written premiums	490.2	517.2	5.5%
Reinsured premiums	-31.2		
Net earned premiums	458.1	470.9	2.8%
Net claims	-268.4	-296.1	10.3%
Net operating expenses	-155.8	-154.1	-1.1%
Net inv. Income	24.6	15.7	-36.1%
EBT	40.7	39.9	-1.9%
Net profit	32.9	31.1	-5.5%
Total Assets	1,671.2	1,708.3	2.2%
Shareholders' equity	297.0	316.1	+6.4%

- Book value per share now stands at EUR 20.40 with ROE at 10.1%, which is in line with Sava Re strategy.

- GWP growth on all markets and in all segments. Non-life in Slovenia increased by 5.7% or EUR 14.6m YoY and was a main driver of growth.

- Life: +4.0% (EUR 90.1m / 17.4%)
- Non-life: +6.5% (EUR 331m / 64.0%)
- Reinsurance: +3.8% (EUR 96.2m / 18.6%)

- GWP growth in segments exceeded plans for 2017 except reinsurance, which lagged due to challenges sector is facing. Reinsurance segment grew by 3.8% YoY however planned growth was 5.7% YoY. The largest surprise was Non-life Slovenia that exceeded plans for EUR 17.3m.

- Net claims increased by 10.3% YoY, which had a significant negative impact on bottom line. Higher net claims are a consequence of major international claims, relating to hurricane losses in the Caribbean and the USA in amount of EUR 4m, and a major loss event in Russia of EUR 3.8m.

- Net incurred loss ratio (FX adjusted) consequently increased by 0.8 p.p. in reinsurance and non-life.

- Sava Re managed to reduce negative effect of increased net claims through optimization of costs, synergies etc, which is reflected in lower net operating expenses by 1.1% or EUR 1.7m. Net expense ratio lowered by 1.3 p.p. to 32.7%.

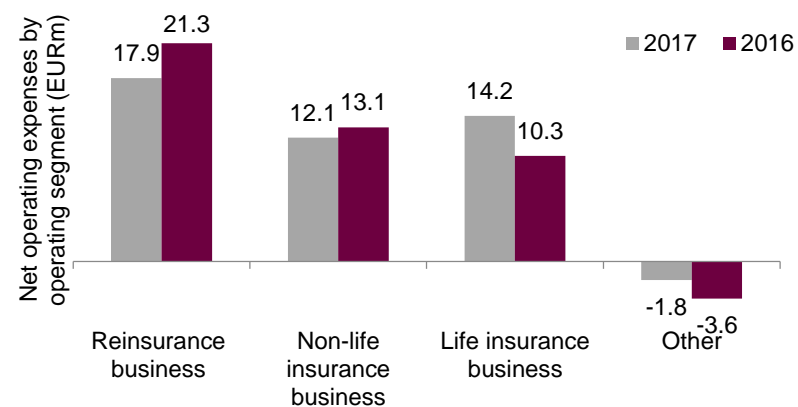
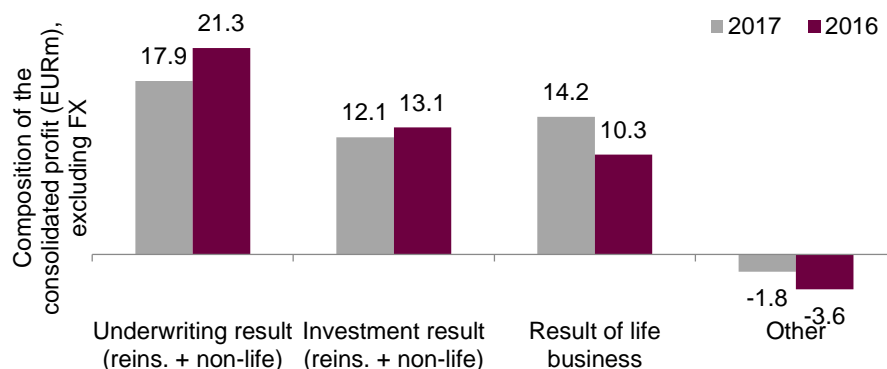
2017 Results - Supplemental

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Non-consolidated in EURm	2017 GWP	2016 GWP	YoY	2017 Claims	2016 Claims	YoY
Reinsurance	153.2	147.4	3.9%	83.5	85.2	-1.9%
Zavarovalnica Sava (SLO non-life)	270.5	256.0	5.7%	155.4	144.3	7.7%
Sava Montenegro	12.4	11.7	6.0%	4.3	4.2	3.5%
Sava osiguranje, Belgrade	16.6	14.7	12.3%	6.3	6.2	2.3%
Sava osiguruvanje, Skopje	12.7	12.2	4.4%	8.9	4.9	82.6%
Zavarovalnica Sava (CRO non-life)	10.6	8.8	20.8%	4.5	3.8	19.9%
Illyria	8.3	7.1	16.5%	4.5	3.5	29.0%
Zavarovalnica Sava (SLO life)	80.9	79.0	2.4%	70.3	43.2	62.7%
Zavarovalnica Sava (CRO life)	3.7	3.5	6.2%	0.9	1.1	-20.6%
Illyria Life	1.7	1.7	0.9%	0.5	0.3	83.0%
Sava životno osiguranje	1.7	1.3	26.0%	0.4	0.4	-2.3%
Sava pokojninska	2.1	1.1		0.5	0.3	

Consolidated in EUR	2017 GWP	2016 GWP	YoY	2017 Claims	2016 Claims	YoY
Reinsurance	96.2	92.7	3.8%	54.2	58.0	-6.6%
Non-life insurance	330.9	310.9	6.4%	183.0	166.2	10.1%
Life insurance	90.1	86.6	4.0%	72.6	45.3	60.2%
Total	517.2	490.2	5.5%	309.7	269.4	14.9%



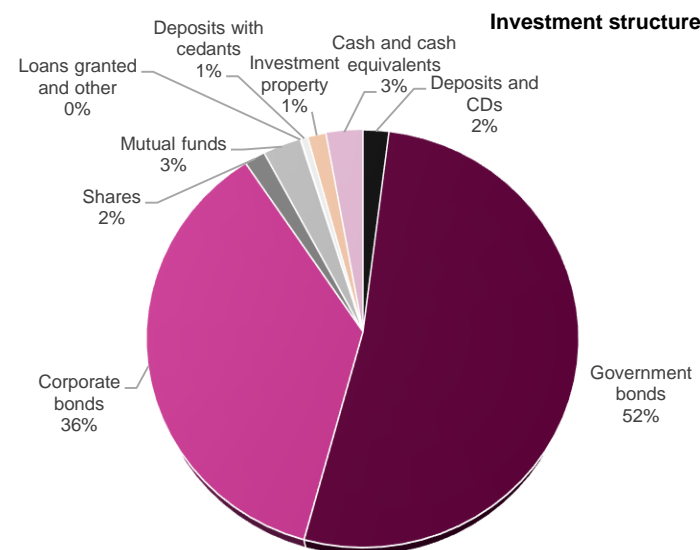
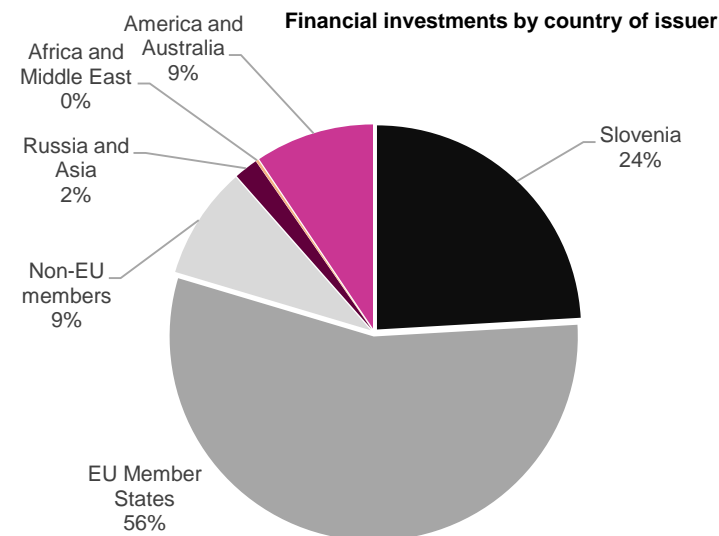
2017 Group Financial Asset Allocation

Investment portfolio			Index	Structure	
	2016	2017		2016	2017
Deposits and CDs	24.7	21.6	87.3	2.3%	2.0%
Government bonds	595.1	566.5	95.2	56.2%	52.3%
Corporate bonds	368.4	394.2	107.0	34.8%	36.4%
Shares	17.0	17.5	103.2	1.6%	1.6%
Mutual funds	16.5	31.9	192.7	1.6%	2.9%
bond and money market	9.6	29.5	307.9	0.9%	2.7%
mixed funds	1.7	0.2	9.8	0.2%	0.0%
equity funds	5.3	2.2	42.5	0.5%	0.2%
Loans granted and other	0.7	0.6	89.8	0.1%	0.1%
Deposits with cedants	7.8	5.8	74.4	0.7%	0.5%
Total financial investments	1,030.2	1,038.1	100.8	97.2%	95.7%
Investment property	7.9	15.4	193.7	0.7%	1.4%
Cash and cash equivalents	21.5	30.7	143.1	2.0%	2.8%
Total investment portfolio	1,059.7	1,084.2	102.3	100.0%	100.0%

Fixed-income investments			Index	Structure	
	2016	2017		2016	2017
Credit rating					
AAA	236.5	279.0	118	23.2%	27.4%
AA	119.4	132.4	111	11.7%	13.0%
A	393.0	344.2	88	38.6%	33.8%
BBB	110.7	111.4	101	10.9%	10.9%
Below BBB	91.3	75.6	83	9.0%	7.4%
Not rated	67.2	76.8	114	6.6%	7.5%
Total	1,018.2	1,019.5	100	100.0%	100.0%

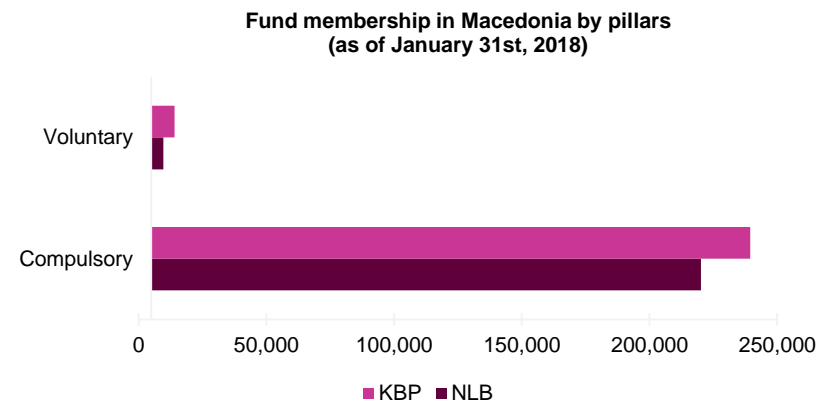
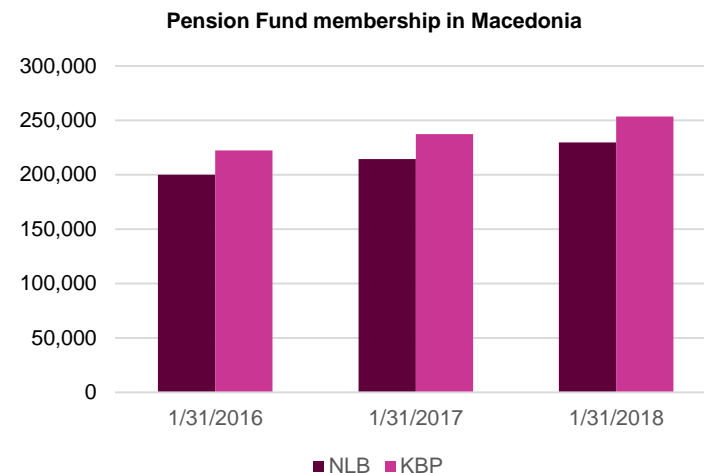
Financial investments			Index	Structure	
	2016	2017		2016	2017
Country of issuer					
Slovenia	329.1	261.1	79	31.1%	24.1%
EU Member States	548.2	602.1	110	51.7%	55.5%
Non-EU members	94.3	96.4	102	8.9%	8.9%
Russia and Asia	18.9	20.4	108	1.8%	1.9%
Africa and the Middle East	2.6	2.1	81	0.2%	0.2%
America and Australia	66.4	102.1	154	6.3%	9.4%
Total	1,059.7	1,084.2	102	100.0%	100.0%

Financial investments			Index	Structure	
	2016	2017		2016	2017
Industry					
Banking	210.3	219.0	104	19.8%	20.2%
Government	595.2	566.5	95	56.2%	52.3%
Finance & insurance	65.5	95.2	145	6.2%	8.8%
Industry	62.4	55.7	89	5.9%	5.1%
Consumables	48.6	66.1	136	4.6%	6.1%
Utilities	77.6	81.8	105	7.3%	7.5%
Total	1,059.7	1,084.2	102	100.0%	100.0%



NLB Nov penziski fond AD Skopje

- Sava Re signed a contract to acquire NLB Nov penziski fond AD Skopje. Target company manages two pension funds in Macedonia, namely:
 - a compulsory second pillar pension fund (Otvoren zadolžitelen penziski fond – NLB Penziski fond) and
 - a voluntary third pillar pension fund (Otvoren dobrovolen penziski fond - NLB Penzija plus).
- NLB Nov penziski fond AD Skopje was sold as a part of an agreement between NLB d.d. Ljubljana and European Commission that demanded the sale of non-core activities in order to allow state aid to the Bank in 2013.
- Move is in line with Sava RE strategy of expanding insurance operations in Western Balkans. Also its in line with a belief pension insurance products have significant long term growth potential.
- According to unaudited annual report for FY 2017 NLB Nov Penziski fond AD Skopje had EUR 7.8m of assets and revenue of EUR 3.2m, representing an increase of 4.7% YoY. Net income amounted to EUR 1.2m and increased by 21.0% YoY.
- Pension fund market in Macedonia is currently a duopoly, consisting of NLB and KBP pension funds.
- As of January 31st, 2018 KBP had a 52% market share on pension fund market in Macedonia, while NLB had a 48% market share.



- On 9th March Sava Re also acquired 92.94% of the insurer Energoprojekt Garant a.d., a small Serbian insurer specialising in construction and liability insurance. Sava Re is trying to further diversify its Serbian non-life insurance portfolio (away from motor business) and strengthen its presence on existing markets. This company will be eventually merged in the existing Serbian subsidiary.
- On 13th April Sava RE signed a deal with Ergo Austria International AG and Ergo Versicherung Aktiengesellschaft for 100% of the shares in the Croatian-based companies ERGO osiguranje d.d. and Ergo životno osiguranje d.d.. The ownership of the companies' shares will be transferred to Sava RE after all suspensive conditions have been satisfied.

Investment Thesis

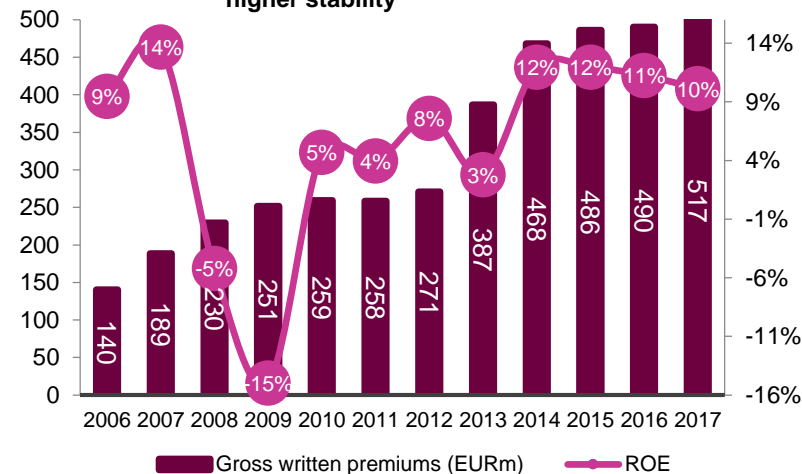
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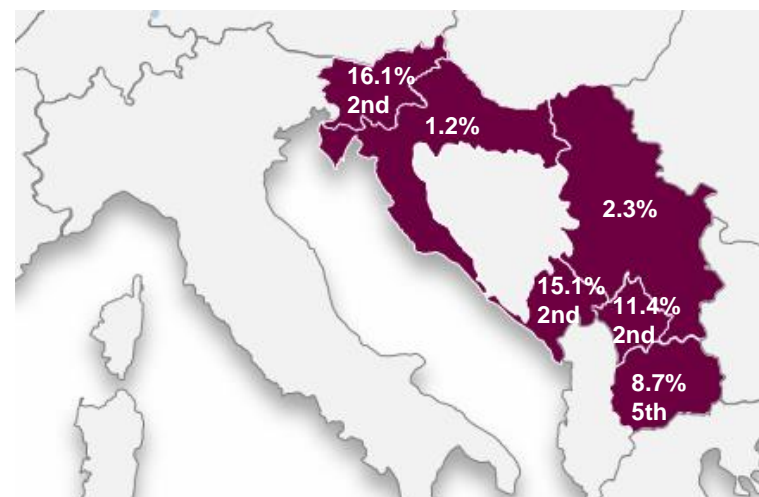
POSITIVE:

- 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 16.1% market share in 2017**, trailing only Triglav.
- 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, connecting its Slovenian and Croatian operations. Operations have become more streamlined. While previously announced synergies were delivered, Sava RE expects there will be a further add-on in 2018.
- 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. For this year management proposed a repetition of dividend in the amount of EUR 0.8, **yielding 4.6%**.
- Majority of Sava Re premiums are generated on the domestic market, however the Group also has 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% - the first denial was overturned on Slovenian courts, so battle rages on.

Acquisition of ZM led to improved profitability and higher stability

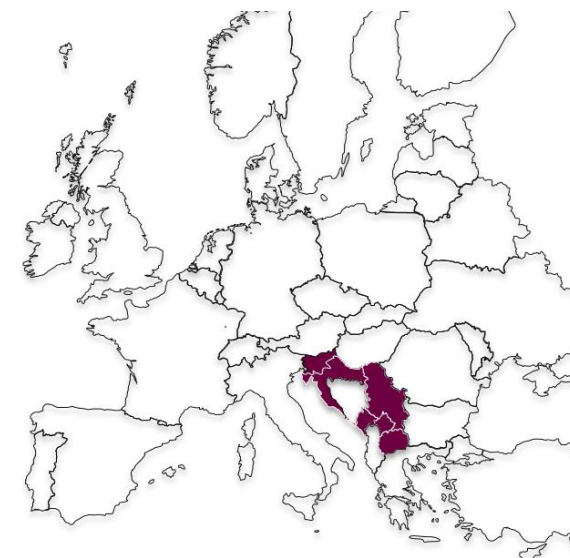
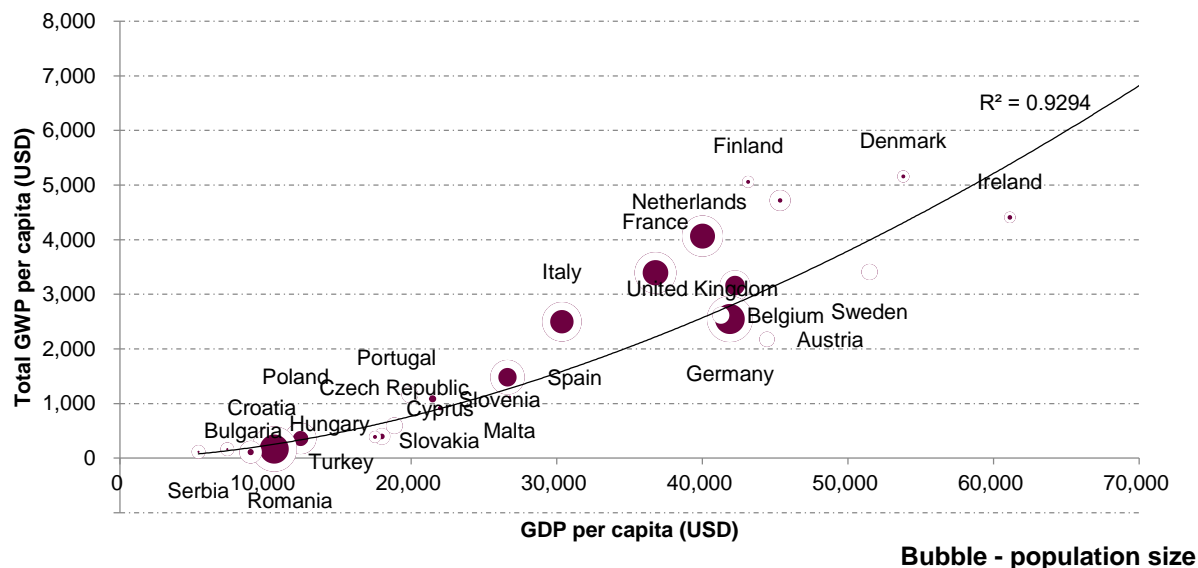


Market share in 2017



Market overview

		Insurance penetration 2017 (NL / Life)	Insurance density in EUR per capita 2017 (NL / Life)	Sava RE GWP 2017 in EURm	Market Share In 2017	Market GWP growth in 2017 (NL / Life)
Slovenia		5.1% (3.6%/1.5%)	1,037 (728/308)	364.5 (+5.2%)	16.1%	7.7% (5.5%/13.5%)
Croatia		2.6% (1.8%/0.8%)	293 (198/95)	14.4 (+16.6%)	1.2%	5.4% (6.9%/2.4%)
Serbia		2.3% (1.8%/0.5%)	116 (90/26)	18.2 (+13.4%)	2.3%	11.7% (16.9%/-3.3%)
Montenegro		2.1% (1.7%/0.4%)	136 (113/24)	12.4 (+6.0%)	15.1%	2.0% (1.7%/3.5%)
Macedonia		1.4% (1.2%/0.2%)	70 (59/11)	12.7 (+4.4%)	8.7%	3.4% (1.8%/12.2%)
Kosovo		1.4%	47	10.0 (+13.5%)	11.4%	4.4 (4.6%/-2.2%)



Investment Thesis

NEGATIVE:

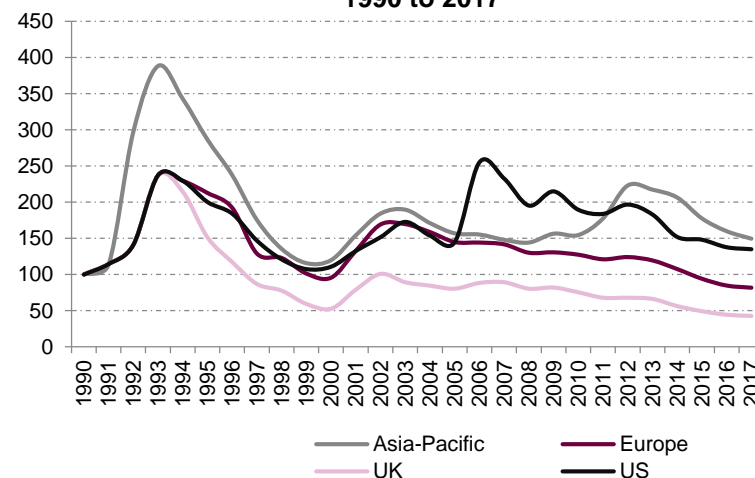
- Although Sava Re Group is the second largest insurance group in Adria region, that is mainly due to domestic Slovenian premiums which is also the most developed country in the region. The **importance of GWP outside Slovenia still very low**.
- Although the region presents an opportunity for above 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.
- Adriatic Slovenica is in a sale process. While the company severely lagged in performance behind Triglav, a new owner can be more aggressive or successful.

Interest rate sensitivity analysis for life and non-life (2017)

	+100bp		-100bp	
	Value	Change in value	Value	Change in value
Government bonds	460.4	-16.1	460.4	17.4
Corporate bonds	394.0	-12.5	394.0	13.5
Bond mutual funds	28.4	-1.0	28.4	1.0
Total	882.8	-29.7	882.8	31.9

	+100bp		-100bp	
	Value	Change in value	Value	Change in value
Value of mathematical provision	263.8	-10.5	277.3	13.5

Regional property catastrophe ROL index - 1990 to 2017



Source: Guy Carpenter

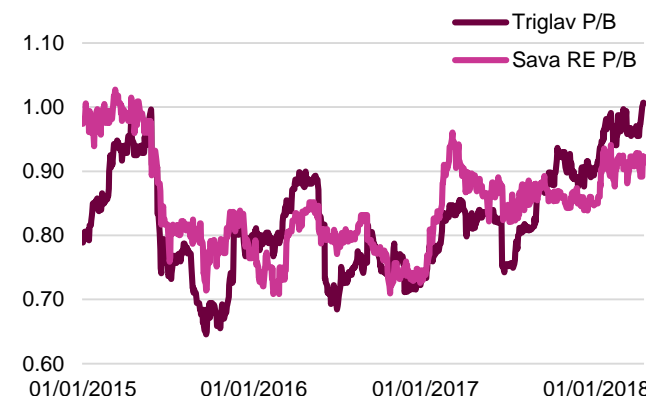
Relative valuation

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Company name	P/E			P/B			ROE TTM		
	TTM	2018F	2019F	TTM	2018F	2019F	TTM	2018F	2019F
Zavarovalnica Triglav	10.9	10.5	10.2	1.01	0.99	0.97	9.2%	9.5%	9.6%
PZU SA	12.1	10.6	9.5	2.42	2.10	1.90	19.9%	21.3%	21.1%
Aksigorta	9.7	5.6	5.1	2.52	1.46	1.36	25.9%	33.1%	27.4%
Generali	11.8	10.0	9.7	0.99	0.92	0.90	8.4%	9.6%	9.4%
VIG	12.0	10.6	10.2	0.69	0.67	n.a.	5.8%	6.4%	n.a.
Uniqua	17.0	12.3	11.4	0.15	0.92	0.97	0.9%	2.0%	8.3%
Allianz	12.2	10.2	9.8	1.24	1.13	1.08	10.2%	11.6%	11.3%
Hannover Re	14.2	11.5	11.0	1.60	1.44	1.38	11.2%	13.2%	12.8%
MunichRe	80.2	10.5	9.4	1.03	0.95	0.93	1.3%	9.4%	10.0%
Sava Re	8.7	7.6	7.6	0.86	0.80	0.75	9.6%	10.9%	10.2%
Median	12.1	10.5	9.8	1.03	0.99	1.03	9.2%	9.6%	10.7%

Company name	Div. yield (%)			Assets/ Equity (%)	Price to GWP	Price to Net Prem. Earned
	TTM	2018F	2019F			
Zavarovalnica Triglav	7.5	7.5	7.8	4.9	0.75	0.85
PZU SA	3.4	6.3	7.8	21.7	1.55	1.66
Aksigorta	0.0	13.2	14.0	4.9	0.74	0.98
Generali	5.0	6.0	6.2	21.4	0.37	0.39
VIG	3.1	3.8	4.0	10.7	0.36	0.39
Uniqua	5.1	5.8	6.1	1.4	0.56	0.64
Allianz	4.1	4.9	5.2	13.7	1.05	1.14
Hannover Re	4.4	4.8	5.0	7.2	0.77	0.87
MunichRe	4.5	5.1	5.4	9.5	0.59	0.61
Sava Re	4.6	4.6	5.3	5.4	0.52	0.58
Median	4.4	5.8	6.1	9.5	0.74	0.85

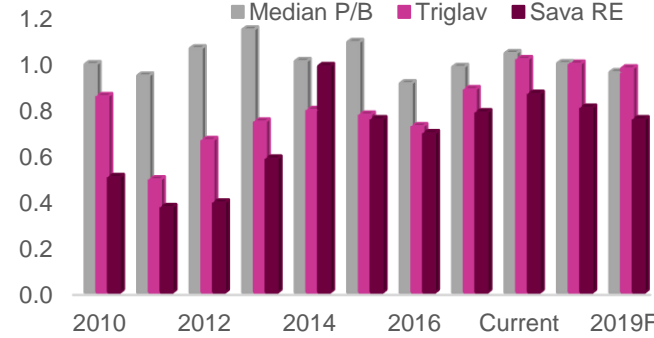
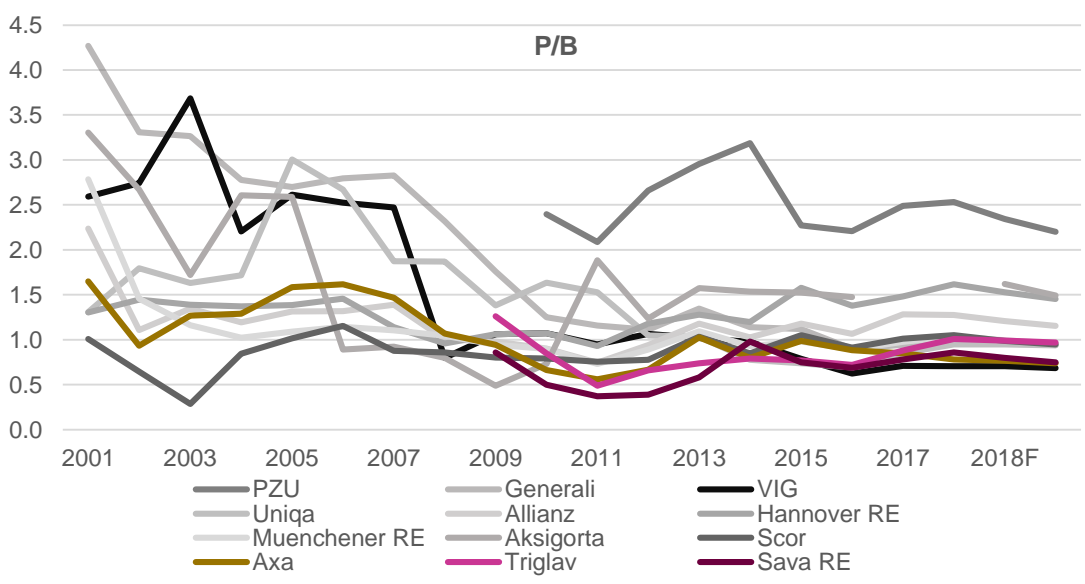
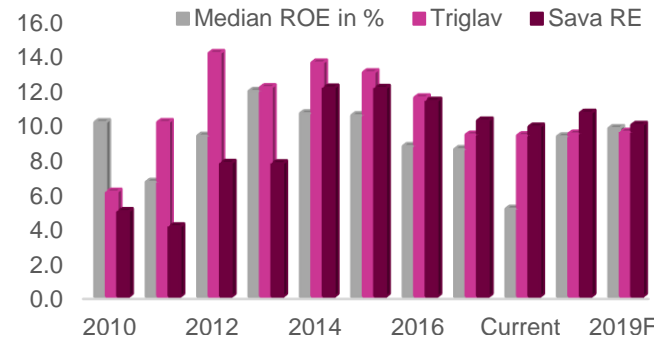
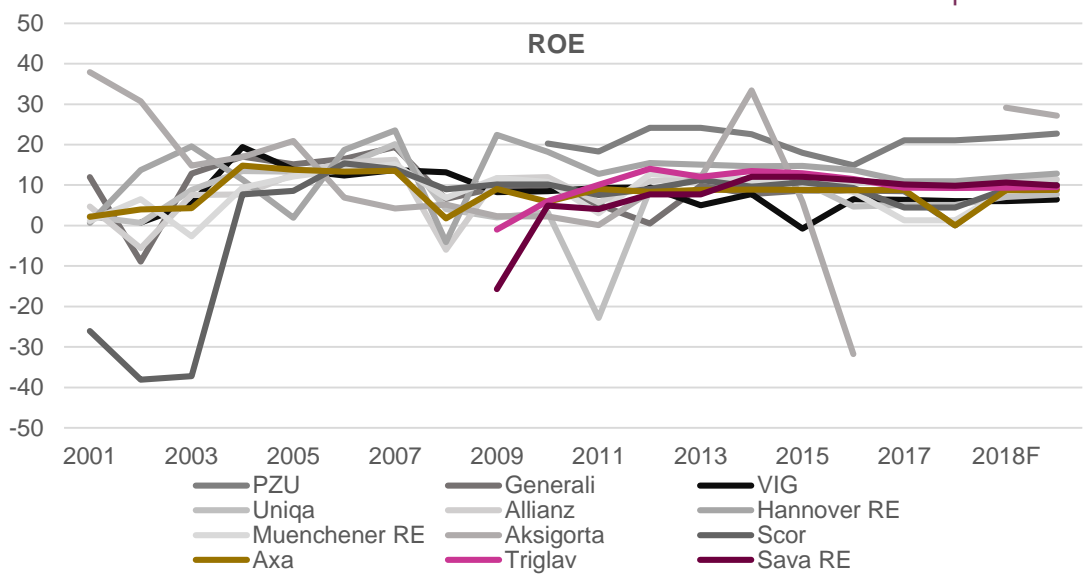
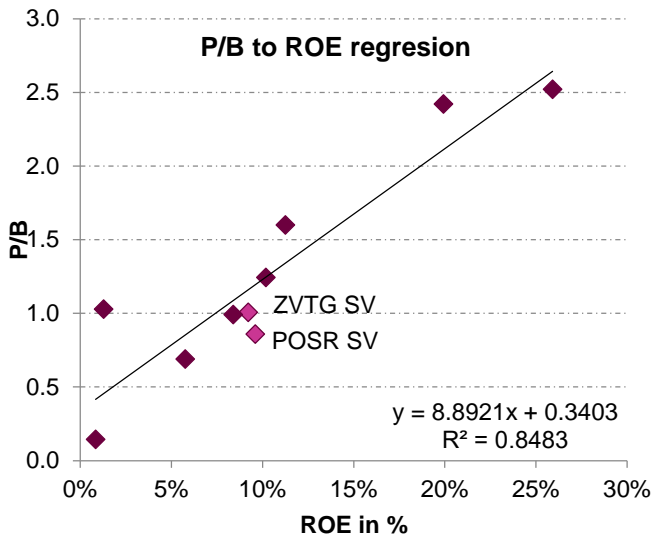


	ZVTG	POSR
Current P/E	10.8	8.7
2018 guided P/E	7.2	7.1
Current dividend yield	7.5%	4.6%
Current P/B	1.01	0.86

- Our relative analysis implies an upside as target price based on P/E, P/B, P/GWP and P/NPE stands at EUR 23.4, slightly higher vs previous report. When accounting for only Zavarovalnica Triglav, target price derives to EUR 22.7.

- All in all we believe Zavarovalnica Triglav has advantage over Sava RE in sense of risk (being more dominating on the markets) while also providing a higher dividend yield (7.5% vs 4.6%). However from growth and ROE perspective, valuation should be similar. Also Triglav has a risk regarding supplementary healthcare system in Slovenia, which does not apply to Sava RE. Consequently Sava RE has started to trail Triglav multiples, thereby creating an opportunity.

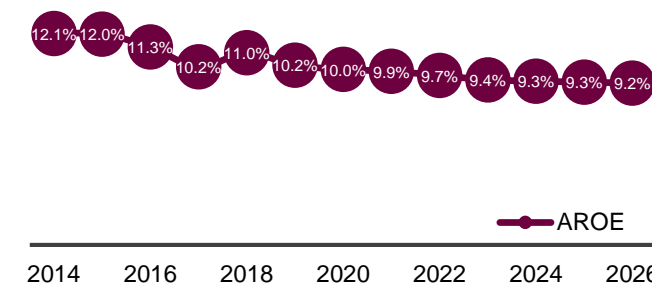
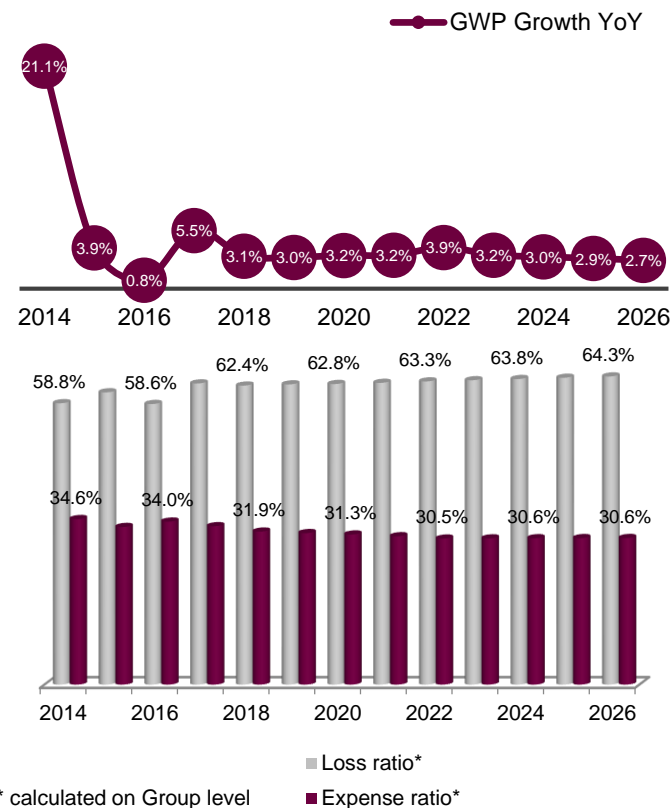
Peer Comparison



FCF valuation - Assumptions

MAIN ASSUMPTIONS:

- Sava RE guided for GWP in excess of EUR 520 in 2018, net combined ratio of 94.5%-94.5%, a gain mostly due to lower expense ratio, and a 1.7% return on investment portfolio. This should together add to a profit of EUR 37m to EUR 39m in 2018.
- We have also increased our projections for 2018, partly due to acquisition of Energoprojekt garant and NLB Nov penziski fond AD, which by our estimates should increase their GWP by additional EUR 3.5m. On the other hand we also expect continuation of organic growth in all segments except in Life Slovenia, where we predict stagnation.
- In reinsurance we see further growth as Sava Re has a good credit rating.
- We expect a lower loss ratio in 2018 vs difficult 2017, albeit in the long term, loss ratio should increase (and with it combined ratio), partially as long term weather trends are worsening and partially as we believe competition will improve, especially once investment results will show improvement. Note this improvement in investment result can be hoped for only gradually through reinvestment (which takes time).
- Expense ratio should further improve in 2018 and also onwards (albeit at a slower pace), in 2018 due to already announced synergies in combining Slovene and Croatian operations, and afterwards due to economies of scale.
- Combined ratio is targeted between 94.0% and 94.5% in the next 5 years.
- For now we have calculated in effective tax rate achieved in last two years, which can provide some upside risk through lowering it.
- Our forecasted net income for 2018 has increased and is set at EUR 35.9 below management guidance. As we believe management guidance was ambitious in terms of bottom line, demanding optimal environment, this again opens up for more upside than downside risk.
- Solvency ratio should remain strong ... as we have appropriately set the dividend payout ratio as Sava RE strategy implies. However as we used 40% dividend policy and given the profit level, we see pressure on ROE. Higher dividend would improve ROE and hence valuation.
- Note Sava Re ended 2016 with the Solvency ratio of 200%. Since Sava Re's calculations do not include „Loss-absorbing capacity of deferred taxes“, adequacy ratio is in line with Triglav Group which ended 2016 with ratio of 246%.



FCF valuation - Forecasts

ESTIMATES:

Year	2018F	2019F	2020F	2021F	2022F	2023F	2024F	2025F	2026F
Total Assets	1,757.9	1,812.0	1,872.0	1,938.6	2,023.2	2,094.7	2,165.2	2,234.1	2,301.1
Total investment assets	1,080.1	1,116.6	1,157.2	1,210.8	1,241.6	1,289.0	1,335.8	1,381.3	1,425.5
Financial investments in assoc.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash and cash equivalents	27.0	22.3	23.1	24.2	24.8	25.8	26.7	27.6	28.5
Technical reserves	1,181.7	1,211.6	1,245.7	1,285.0	1,340.3	1,386.6	1,433.0	1,479.1	1,524.9
Equity	339.2	360.8	383.7	407.9	432.9	454.3	474.7	493.6	510.8

Year	2018F	2019F	2020F	2021F	2022F	2023F	2024F	2025F	2026F
Gross written premiums	533.2	549.1	566.4	584.3	607.2	626.6	645.5	664.0	681.9
Growth (%)	3.1%	3.0%	3.2%	3.2%	3.9%	3.2%	3.0%	2.9%	2.7%
Net earned premiums	487.9	502.3	518.1	536.2	557.4	575.5	593.3	610.6	627.5
Growth (%)	3.6%	3.0%	3.1%	3.2%	4.0%	3.2%	3.0%	2.9%	2.7%
Net claims	304.6	314.9	325.2	337.9	352.9	365.7	378.5	391.2	403.7
Loss ratio*	62.4%	62.7%	62.8%	63.0%	63.3%	63.6%	63.8%	64.1%	64.3%
Expense ratio*	31.9%	31.6%	31.3%	31.0%	30.5%	30.5%	30.6%	30.6%	30.6%
Combined ratio*	94.4%	94.3%	94.1%	94.0%	93.8%	94.1%	94.4%	94.7%	94.9%
Net investment result	22.0	23.1	24.9	27.0	29.6	31.9	34.8	37.8	40.9
Profit/(loss) before tax	45.2	45.1	46.9	49.3	51.1	52.6	54.6	56.6	58.4
Net income	35.9	35.9	37.3	39.2	40.6	41.7	43.4	44.9	46.4
Growth (%)	15.5%	0.0%	3.9%	5.1%	3.7%	2.8%	3.9%	3.6%	3.2%

* calculated on Group level

Year	2018F	2019F	2020F	2021F	2022F	2023F	2024F	2025F	2026F
EPS	2.31	2.31	2.40	2.53	2.62	2.69	2.80	2.90	2.99
EPS growth	15.5%	0.0%	3.9%	5.1%	3.7%	2.8%	3.9%	3.6%	3.2%
ROE	11.0%	10.2%	10.0%	9.9%	9.7%	9.4%	9.3%	9.3%	9.2%
ROA	2.1%	2.0%	2.0%	2.1%	2.1%	2.0%	2.0%	2.0%	2.0%
BVPS	21.9	23.3	24.8	26.3	27.9	29.3	30.6	31.9	33.0
Dividend	0.80	0.93	0.93	0.96	1.01	1.31	1.48	1.68	1.88

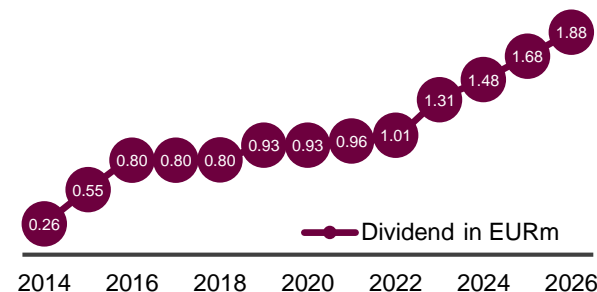
Excess return - Commentary

VALUATION TABLE:

Year	2018F	2019F	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2017F
Net profit	35.9	35.9	37.3	39.2	40.6	41.7	43.4	44.9	46.4	45.7
Cost of Equity	-25.2	-28.3	-30.1	-32.0	-34.1	-36.2	-37.9	-39.6	-41.2	-42.7
Excess return	10.7	7.5	7.1	7.1	6.5	5.6	5.4	5.3	5.1	3.0

Long-term cost of capital	
Equity Invested	301.3
Period PV of Equity Excess Return	48.3
Terminal PV of Equity Excess Return	23.0
Value of Equity	372.6
Equity value per share	24.0

Cost of equity	2018	TV
Leveraged beta	1.0	1.0
Risk free rate	1.25%	1.25%
Premiums	6.92%	6.92%
Cost of equity	8.4%	8.4%
Perpetuity growth rate	2.0%	

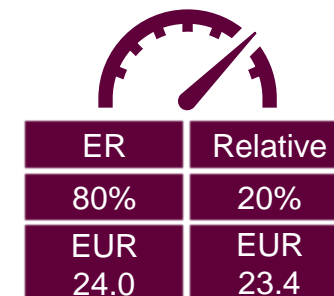


- Given the stability of capital adequacy ratio we adjusted dividend payout policy which is now more linked to estimated future capital needs and return of the excess capital. Dividend payout ratio could be around 40% in the next few years.
- Target price increased also due to lower cost of equity where there were improvements in data practically in all variables (same methodology was used vs previous reports). For example country risks severely decreased in the period. With ROE remaining around 10%, this has opened up excess return calculations.

Solvency 2 ratio	Capital
> 230%	Overcapitalization Additional engagement
200% – 230%	Appropriate capitalization Potential reallocation
170% - 200%	Optimal capitalization Optimization of operations
140% – 170%	Still appropriate capitalization Potential reallocation
< 140%	Undercapitalization Safeguarding the solvency

WEIGHTING SCHEME & END COMMENTARY:

- Our baseline target price consists of peer (20% weight) and excess return valuation (80% weight) method. Combination of both valuation methods derives to a target price of EUR 23.9 and hence higher from our previous research report where we set our price target at EUR 20.0 per share.
- Note that while relative valuation points to a book value and a 14% upside (plus dividends), excess return model (which includes dividend return potential) is pointing to a similar upside due to a sweet spot between RoE and CoE. Also we believe Sava RE has more upside versus the closest peer, that is Zavarovalnica Triglav (however Triglav is delivering a better dividend yield).
- Note that investor sentiment could be under the influence of possible shareholder structure change news and/or rumors (that is Adris M&A story).



Historic Financial Data

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in EURm	2010	2011	2012	2013	2014	2015	2016	2017
Assets	578.4	582.0	640.6	1,378.3	1,454.4	1,607.3	1,671.2	1,708.3
Intangibles	23.3	18.3	17.8	40.2	34.9	30.5	25.5	22.7
Property, plant and equipment	26.7	24.5	24.6	46.0	44.5	47.2	51.9	45.4
Investment property	4.9	6.1	5.1	5.6	5.1	8.0	7.9	15.4
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	1,038.1
Unit-linked insurance assets	23.7	24.1	27.6	175.8	202.9	214.2	224.2	227.2
Cash and cash equivalents	4.0	4.7	4.1	3.4	5.6	4.7	33.9	38.0
Equity	154.7	148.1	171.4	240.1	271.5	286.4	297.0	316.1
Equity of non-controlling interests	4.4	2.5	2.0	2.0	1.9	1.0	0.8	0.3
Subordinated liabilities	31.2	31.2	31.2	30.5	28.7	23.5	23.6	0.0
Insurance technical provisions	303.3	320.9	360.1	846.2	870.0	887.1	911.2	931.4
Insurance technical provisions for unit-linked insurance contracts	23.6	23.7	27.0	170.8	195.7	207.6	227.0	226.5
Book Value per share	8.7	8.5	9.8	13.8	15.7	16.6	17.2	18.3

in EURm	2010	2011	2012	2013	2014	2015	2016	2017
GWP	259.1	258.4	270.8	386.7	468.2	486.3	490.2	517.2
ceded written premium	-25.3	-24.4	-20.6	-22.6	-27.4	-30.3	-31.2	-34.2
change in unearned premiums	-1.9	1.1	-3.9	15.6	-4.2	-8.0	-1.8	-13.8
change in unearned premiums for the reinsurance and co-insurance part				-0.5	0.9	-0.4	1.0	1.6
NPE	231.9	235.1	246.2	379.1	437.6	447.6	458.1	470.9
Net claims incurred	-140.0	-136.2	-149.9	-229.0	-257.1	-273.1	-268.4	-296.1
gross claims settled	-131.3	-128.4	-136.3	-221.2	-255.3	-271.5	-269.4	-309.7
reinsurers' and co-insurers' share	13.3	8.6	5.4	9.1	10.6	17.7	14.8	15.8
changes in claims provisions	-22.0	-16.4	-19.0	-11.6	-16.9	-5.4	-15.8	-2.9
change in the provision for outstanding claims for the reinsurance and co-insurance part				-5.3	4.6	-14.0	2.1	0.7
Operating expenses	-85.3	-87.9	-87.7	-129.4	-146.6	-148.9	-159.6	-157.0
Acquisition cost	-44.3	-53.5	-54.8	-46.9	-47.5	-49.9	-51.9	-51.9
Investment Income	19.9	17.8	21.7	36.4	36.1	39.6	33.1	27.4
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	16.8
Expenses for financial assets and liabilities	-10.2	-14.2	-10.7	-42.0	-6.9	-13.0	-8.6	-11.9
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	-8.3
EBT	8.8	7.7	14.3	15.8	39.0	40.1	40.7	39.9
Total taxes	-3.3	-3.7	-2.5	-0.2	-8.4	-6.7	-7.8	-8.8
Net profit / loss	5.5	4.1	11.8	15.6	30.5	33.4	32.9	31.1
Attributable to equity holders of the parent	7.5	6.0	12.1	15.7	30.6	33.4	32.8	31.1

in EURm	2010	2011	2012	2013	2014	2015	2016	2017
Loss ratio	60.4%	57.9%	60.9%	60.4%	58.8%	61.0%	58.6%	62.9%
Expense ratio	36.8%	37.4%	35.6%	34.1%	33.5%	33.3%	34.8%	33.3%
Combined ratio	97.2%	95.3%	96.5%	94.5%	92.3%	94.3%	93.4%	96.2%
Net margin	2.9%	2.3%	4.5%	4.0%	6.5%	6.9%	6.7%	6.0%
Assets Turnover	0.45	0.44	0.42	0.28	0.32	0.30	0.29	0.30
ROA	1.3%	1.0%	1.9%	1.1%	2.1%	2.1%	2.0%	1.8%
Assets to Equity	3.85	4.00	3.78	5.79	5.39	5.63	5.64	5.41
ROE	5.0%	4.1%	7.2%	6.6%	11.3%	11.7%	11.1%	9.8%

Source: Annual and Interim reports

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).
- 64% of total GWP tied to non-life, 17% to life, 19% to reinsurance (2017).

OWNERSHIP STRUCTURE:

SDH d.d.	17.7%
Zagrebačka Banka (Fiduciary)	14.2%
Republic of Slovenia	10.1%
Sava RE d.d.	10.0%
EBRD	6.2%

Source: KDD

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Completion date and time:

13.4.2018 14:00

First release:

13.4.2018 14:30

Market data capture date:

12.4.2018 12:00

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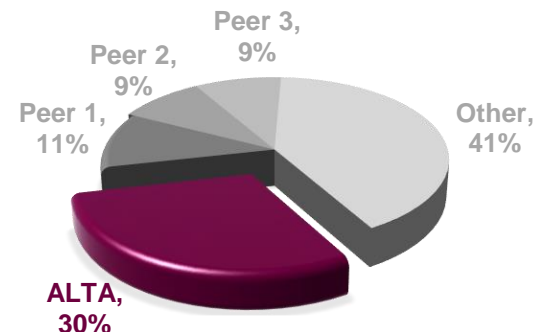
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