

15th April 2016

SAVA RE D.D.

www.sava-re.si

Reinsurance

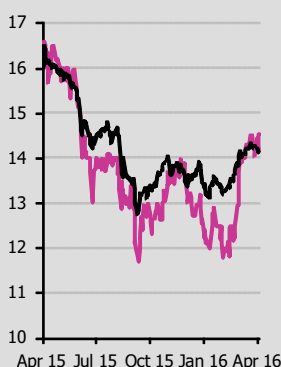
LJSE ticker: POSR
Bloomberg: POSR SV

Target price:
EUR 16.0

Previous target price:
17.8 EUR, BUY (20.11.2015)

Recommendation:
HOLD

12 months stock
performance in EUR



— POSR — SBI TOP

**Second biggest
Slovenian and West
Balkan insurance
Group.**

**Improved
profitability.**

Synergy potentials.

**More transparent
dividend policy.**

A- rating

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Stock data as of 15.04.2016

Market price (EUR)	14.6	Market Cap (EUR)	239.8
52 week range (EUR)	11.7-16.6	No. of Shares	16.5
Avg. daily trade vol., EUR(k)	38.37	Free float	71%
Average daily % of stock traded	0.017%	Dividend yield	5.5%

Price performance	3 months	12 months	Multiples:	TTM	2016F
price change in %	19.3%	-9.1%	P/E	7.2	7.1
SBI TOP index change in %	6.8%	-11.6%	P/B	0.84	0.81
relative to SBI TOP index in %	11.7%	2.9%	P/GWP	0.49	0.49

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

Income statement:

million €	FY2014	FY2015	2016F	2017F
GPW	468.2	486.3	488.8	504.8
Growth YoY	21.1%	3.9%	0.5%	3.3%
NPE	437.6	447.6	455.9	471.0
Growth YoY	15.4%	2.3%	1.9%	3.3%
Claims paid	257.1	273.1	291.8	301.6
Claims ratio	58.8%	61.0%	64.0%	64.0%
Net income	30.6	33.4	33.9	31.1
Growth YoY	433.8%	9.1%	1.5%	-8.3%
EPS	1.82	2.03	2.10	1.93

Balance sheet:

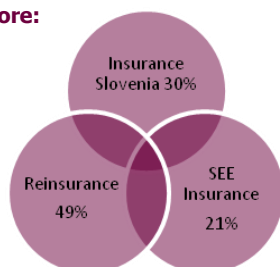
million €	FY2014	FY2015	TTM
Equity Inv.	21.0	18.9	18.9
Fin.assets	982.8	1,023.1	1,023.1
Tech.prov.	1,065.7	1,094.7	1,094.7
Equity	269.6	285.4	285.4
Assets	1,454.4	1,607.3	1,607.3
Inv./Prov.	0.92	0.93	0.93
E/A	18.5%	17.8%	17.8%
E/Prov.	25.3%	26.1%	26.1%
ROE	11.3%	11.7%	12.7%

* Financials and valuation multiples are significantly affected by Zavarovalnica Maribor acquisition and consolidation in 2013.

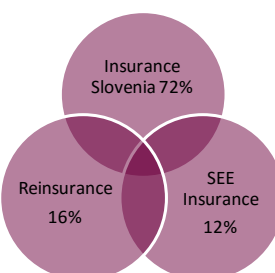
Investment Thesis:

- Second biggest domestic insurance:** Sava Re Group has a 16.65% market share in Slovenia (2015 data from Slovenian Insurance Association) with 17.65% market share in non-life and 14.17% market share in life insurance. Only Zavarovalnica Triglav is bigger on Slovenian insurance market.
- Zavarovalnica Maribor acquisition:** In 2013 Sava RE successfully carried out capital increase in the amount of EUR 55m at a price of EUR 7 per share and acquired the remaining 51% stake in Zavarovalnica Maribor (Sava Re already owned 48.86% before 2013). With the acquisition Sava Re Group became the second biggest insurance group in Slovenia and West Balkan region.
- Shift in business segment mix.** Namely Sava RE main business shifted from reinsurance to domestic insurance. Slovenian insurance GWP in total gross premiums increased from 30% to 72%. Here we note this is the most profitable segment of Sava RE. SEE insurance share in GWP dropped from 21% to 12%. While this segment is barely profitable it still gives an opportunity for long term growth. We view this as positive in terms of profitability stabilisation since there is some cyclical mismatch between business segments.

Before:



After:



- Synergy potential** between Tilja (Slovenian insurance company of Sava RE) and Zavarovalnica Maribor. Initially management expected that before tax synergies would amount to EUR 6.2m in 2014 (EUR 3.2 related to product synergies, EUR 2.1m related to lower labour costs etc.), however actually achieved EUR 6.8m of synergies. For following years management expected synergies slightly below initial plans, however still in line with expectations: EUR 6.8m (initially EUR 7.4m) for 2015 and EUR 8.6m (initially 8.7m) for 2016.

The management did not reveal what were the numbers for 2015, however, Sava Re has in 2015 already started making further steps toward optimisation of insurance operations and announced consolidation and centralisation of two Slovenian insurance companies (Zavarovalnica Maribor and Tilia) and two insurers which operate in Croatia (Velebit osiguranje and Velebit životno osiguranje). Combined insurance company will be formed by end of 2016, it will be headquartered in Maribor and will likely operate under one (possibly new) brand name. The management expects that after transition period of 3 years annual synergies will amount between EUR 5m to EUR 6m. According to management presentation total synergies related to acquisition of Zavarovalnica Maribor and latest centralisations will amount to EUR 56m (period vague).

- **Realistic management guidance.** For 2016 the management guidance is GWP of EUR 487.9m or 0.3% more than in 2015. Weak growth will be mainly due to weak growth on domestic market (partly due to centralisation process) and limited opportunities on reinsurance markets, however, growth should recover on foreign SEE insurance markets. The management expects that net profit will remain at 2015 level and amount to EUR 33.4m. Due to consolidation process expense ratio is likely to increase while investment return could be influenced by low interest rate environment. Group's ROE should remain above long term strategic goal of more than 11%.

On the long run Sava Re Group expects 2% growth of GWP or EUR 520m of GWP in 2019. This is slightly below 2015 plans when management targeted to reach EUR 500m for 2018.

	2014	2015	Plan 2016	Strategy
Gross premiums written	EUR 468.2m	EUR 486.3m	EUR 487.9m	Growth >2%
Net profit/loss	EUR 31m	EUR 33.4m	EUR 33.4m	
Expense ratio*	32.8%	32.5%	33.2%	
Net claims ratio*	59.4%	61.3%	58.2%	<30%
Combined ratio*	95.5%	95.9%	94.8%	<95%
Investment return**	2.8%	2.4%	2.1%	>1.5%
ROE	11.9%	12.0%	11.6%	>11%

* reinsurance & non-life

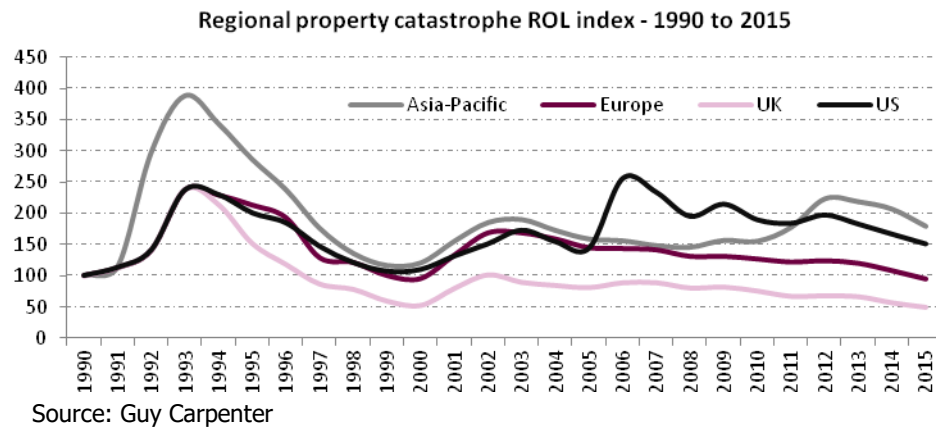
** excluding FX

- **Dividend initiation & share buyback program.** On the suggestion of some largest shareholders, the management decided to propose some changes of dividend policy which was tied to unconsolidated profit and increases in time from 30% to 40%. Proposed dividend policy is now tied to consolidated profit while the level of profit payout somewhere around 30%. This translated into EUR 0.55 per share dividend for 2014. However for 2015 the management proposed EUR 0.8 per share - EUR 0.65 gross per share of regular dividend for 2015 and EUR 0.15 gross per share as extraordinary dividend. This translates in to dividend yield of around 5.5%.

Additionally, already in 2014 general assembly authorized the management board of Sava Reinsurance Company to acquire treasury shares. The authorisation is for acquiring up to a total of 1.721.966 shares, representing 10% of the Company's share capital. As of the end of December 2015, Sava Re held 741,521 own shares or 4.303% of all issued shares quarter. Similar to 2014, also in 2016 Sava Re decided to speed up share buyback process with programme for the repurchase of shares outside the regulated market. Existing shareholders are invited to submit their binding offers in the indicative price range between EUR 13.06 to EUR 15.02. While Sava Re can acquire up to around 5.7% of outstanding shares, the company has the discretion right to determine the quantity of POSR shares it shall acquire in this process. In the similar process in 2014 Sava Re acquired 349,790 shares or 2.03% of issued shares.

- **The global reinsurance as diversification and guarantee for active risk management:** Although there are pressures on reinsurance pricing, reinsurance operations on foreign markets are giving Sava Re the opportunity to diversify their revenues and is hence less dependent on macroeconomic and political changes in the region. Very important factor in reinsurance is also credit rating, hence Sava Re as a Group have to maintain strong capital position and low risk profile in order to have at least A- rating. After regaining S&P A- rating in July 2015 (they fell below A- rating in 2012), growth on some foreign markets increased substantially, however, future growth will depend on global opportunities.
- **Reinsurance pricing dynamic is an opportunity for small flexible players:** The situation on the global reinsurance market is still relatively unfavourable at the moment. Large capital inflows and lack of significant catastrophic events affected reinsurance rates which continue to drift lower. According to Guy Carpenter in 2014 it was the first renewal in over a decade where all

major regions saw pricing move in the same direction. Downward trend was largely driven by lack of costly CAT events (global insured losses for 2014 fell by 25% YoY and were the lowest in four years) and influx of capital from investors which are hit by ZIRP environment and are searching for yield in alternative segments like reinsurance and reinsurance linked products. Although Guy Carpenter for 2016 indicated that level of capital on the reinsurance market stabilised there is still pressure on prices. However, there are opportunities for smaller reinsurers (especially with diversified GWP source) to be more flexible and exploit different opportunities across the global reinsurance market.

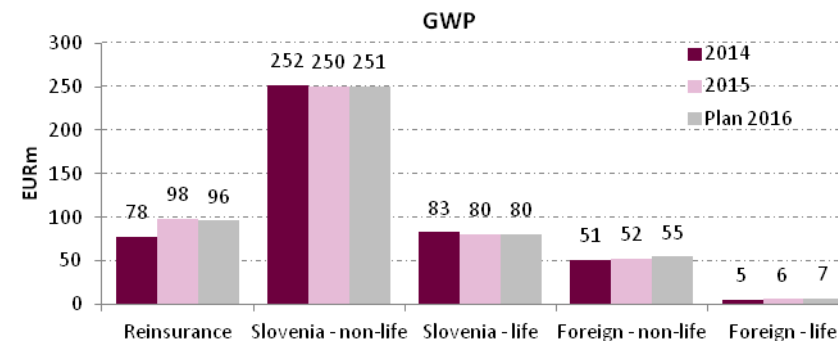


- Growth through regional presence:** In 2013 and 2014 Sava Re Group generated EUR 56m of GWP in the region (SEE excluding Slovenia), or 12% of total GWP in 2014. Therefore Sava Re Group has, through its subsidiaries, only a small presence in the SEE region, but with a significant growth potential since insurance and reinsurance services are still underdeveloped in the region (in terms of consolidation, insurance density and the legal framework). For 2015, Sava Re is planning to achieve 10.7% growth and increase GWP to EUR 62.1m.

Ins. premium per capita (EUR)	2010	2011	2012	2013	2014	2015
Kosovo	32.7	43.9	39.2	43.4	44.7	42.8
Macedonia	50.8	52.6	54.2	55.3	59.0	64.2
Serbia	76.4	78.1	75.5	78.8	82.5	89.4
Montenegro	103.6	108.0	111.5	121.3	120.7	128.2
Croatia	288.3	285.9	279.5	278.5	264.6	265.6
Slovenia	1,047.2	1,046.1	1,018.2	960.9	922.5	940.6

Source: Sava Reinsurance Company (Annual report 2015)

Management still believes that focusing on these markets is an appropriate long-term growth strategy, however currently growth is more organically-based as Sava Re Group is focused on the consolidation of previous expansion and short term growth potential is offset by current adverse environment (especially for life insurance). Nevertheless, the company is following the M&A market and will consider new acquisitions if there will be some opportunities. Here we must note that regional drivers for growth of net income are seen from two sources: improving penetration and growth of GWP on one hand and cost rationalizations and increasing economies of scale to improve combined ratios on the other.



Risks:

- **High Slovenian exposure:** Regional diversification of Sava Re Group's investment portfolio is increasing however the core is still mainly allocated in Slovenia and actually intensified with Zavarovalnica Maribor acquisition. The exposure to domestic country is gradually decreasing and through 2015 lowered from 39.3% to 34.5% of total investment portfolio. It is expected that Sava Re will further decrease exposure to Slovenia with maturities of currently held bonds. Although situation in Slovenia calmed down after bank bail outs and normalisation in the European periphery, we cannot ignore any possible extreme scenarios regarding financial conditions in Slovenia, especially in case of new global economic crisis.

Group Portfolio Exposure	2015	2014	2013
EU	48.1%	46.3%	42.2%
Other European countries	9.3%	9.5%	8.8%
Other World countries	8.1%	4.8%	3.2%
Slovenia	34.5%	39.3%	45.7%
Total	100%	100%	100%

Source: Sava Reinsurance Company

- **The region is still unstable and subsidiaries could need capital injections:** 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). This is clearly visible in profitability levels as the regional companies and subsidiaries are known for having difficulties transferring a potential good top line into a good bottom line. Tight cost control is needed and a better legal framework, which is only slowly improving in the EU conversion processes. Nevertheless, it is expected that results of subsidiaries in Western Balkan region will remain volatile and that possible high growth will have to be supported by capital injections from mother company. In addition to strengthening market presence in Croatia and Serbia, Sava Re is also considering entering some other markets like Bosnia and Albania.
- **Share buybacks:** As we mentioned, Sava Re management have the authorisation for acquiring up to a total of 1.721.966 own shares, representing 10% of the Company's share capital, however there could be some risks related to this program. The company does not have any specific limitations regarding price and more importantly does not intend to retire acquired shares. Therefore while currently the effects on the valuations are positive, sale of own shares on foreign exchange (as promised during in the process of recapitalisation) would have a negative effect.
- **The low rate environment:** This could negatively affect long-term investment revenues. Over the last few decades interest rates in OECD countries (with the exception of the rates on the European periphery where also default risk increased – but even here last two years brought significant decrease in yields) have been trending downward and negatively affecting investment income from the fixed income part of the portfolio. This is especially affecting the future return on assets that are invested in the current environment (reinvestment activity and growth of premiums). Since it is hard to predict which scenario we will see in the next few years, insurance companies (especially in the life segment) are in a difficult position and have to look for higher interest rates in long-term bonds or keep money in deposits or high quality short-term zero-yield bonds. Although the re-pricing of products can somewhat offset lower investment income, it cannot prevent the overall effect on profitability and also puts pressure on valuations in the insurance industry. In Slovenia situation in the last few years was better, since deposit rates and sovereign yields were slightly elevated, however, with stabilisation of banking sector and ECB moving forward with QE, excess liquidity pushed rates significantly lower. It's also very possible deposit rates will contract further during the year and for institutional clients slide into negative territory.
- **Interest rate risk:** Due to large exposure to bonds, second quarter 2015 exposed risks related to sudden negative moves of interest rates. These risks were recognised already in last few years, however, trends were relatively slow and positively affected valuations either through higher net investment income due to realised gains or through building of fair value reserves which led to higher book value per share. Period in 2015 indicated that low liquidity and fear against raising rates could lead to relatively large moves in very short timeframe and can have relatively large negative impact on capital strength of the insurer and also negative effect on the valuations.

Yield on 10 year bonds	1Q2016	4Q2015	3Q2015	2Q2015	1Q2015	4Q2014	3Q2014
Slovenia	1.321	1.692	1.822	2.316	1.113	2.206	2.685
Germany	0.153	0.629	0.587	0.764	0.18	0.541	0.947
Spain	1.221	1.596	1.725	2.334	1.242	1.89	2.333
Italy	1.221	1.596	1.725	2.334	1.242	1.89	2.333
France	0.486	0.988	0.985	1.195	0.476	0.826	1.285
Netherlands	0.358	0.793	0.781	1.035	0.344	0.685	1.087
EUR Europe Corporate IG	1.169	1.792	1.891	1.888	1.126	1.33	1.717
EUR Europe Covered Bonds IG	0.68	0.982	0.922	1.122	0.599	1.009	1.379

Yield on 5 year bonds	1Q2016	4Q2015	3Q2015	2Q2015	1Q2015	4Q2014	3Q2014
Slovenia	0.301	0.687	0.889	1.225	0.604	1.497	1.669
Germany	-0.328	-0.045	-0.006	0.075	-0.1	0.017	0.148
Spain	0.278	0.504	0.75	1.249	0.548	0.952	1.023
Italy	0.278	0.504	0.75	1.249	0.548	0.952	1.023
France	-0.202	0.083	0.22	0.325	0.052	0.177	0.332
Netherlands	-0.337	-0.04	0.046	0.15	-0.047	0.098	0.307
EUR Europe Corporate IG	0.505	0.934	1.069	1.028	0.673	0.752	0.935
EUR Europe Covered Bonds IG	0.105	0.355	0.36	0.447	0.19	0.406	0.536

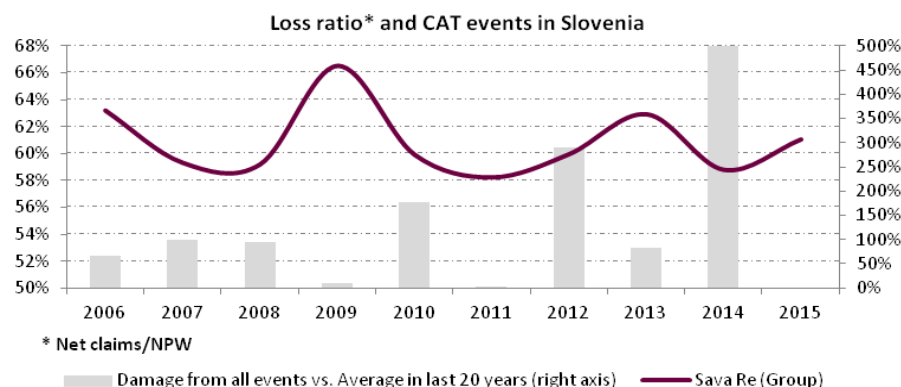
Source: Bloomberg

Interest rate sensitivity analysis for life and non-life for Sava Re

In EURm	+200 bp			+200 bp		
Type of security	Value	Post-stress value	Change in value	Value	Post-stress value	Change in value
Government bonds	339.0	319.4	-19.6	339.0	368.7	29.8
Corporate bonds	421.2	396.8	-24.4	421.2	448.8	27.6
Total	760.2	716.2	-44.0	760.2	817.6	57.4
Effect on equity		-43.4			56.7	
Effect on the income statement		-0.6			0.7	

Source: Sava RE Annual report 2015

- **Above average loss events:** At the beginning of 2014, Slovenia was hit by sleet combined with freezing rain and frost. Sava Re gross damages from sleet and ice in February amounted to EUR 20m (Zavarovalnica Maribor and Tilia), however, consolidated net effect was EUR 6m. In 2014 Slovenia was affected also by major floods in autumn, however, results were not significantly affected, although catastrophic loss events were considerably higher than on average in the last 20 years. Technical result was relatively strong also due to limited number of small loss events, especially lack of hailstorms, which were much more common in previous years.



Source: Annual reports, SURS, URSZR, Alta

2015 fared much better; nevertheless, trend of ever more frequent weather-related natural catastrophes could significantly impact P&L statements through the rise in claims. Also due to reinsurance segment Sava RE Group is exposed to catastrophe events over the whole world. It's true however that this segment is more diversified which leads to lower exposure to a single event.

- **Alternative investments:** As we mentioned insurance companies are under pressure due to low interest rates and are searching for alternative investments. In the last year also Sava Re decided to enter this space and on the long run increase real-estate investments from currently 2% to 4% of financial investments. We believe that alternative investments are appropriate approach to fight against interest rates especially through investments in real-estate space where post crisis recovery in Slovenia has been very slow. While we are estimating that commercial real estate market is very depressed and a lot of large companies are in financial position which is forcing them to divest real-estate assets, we should also note that there are also some risks related to more active investing in this segment. Illiquidity of real-estates and know-how about managing acquired assets are probably the major threats and only track record will show if Sava Re will be able to achieve higher returns than for instance on global bond markets. Additionally, operating in real-estate space (also in private equity) can be challenging due to asset valuations which are in a lot of cases affected by subjective assumptions. Although we do believe Sava Re will approach every transaction with high level of professionalism there are still risks for misevaluation and for public/media pressures regarding the transaction specifics. Especially later can also affect stock price.

2015 Results

Low domestic claims and strong results from investments (also due to FX)

million €	FY2014	FY2015	YOY	4Q14	3Q15	4Q15	QoQ	YOY
GPW	468.2	486.3	3.9%	97.0	107.9	101.7	-5.8%	4.8%
NPE	437.6	447.6	2.3%	116.2	115.8	112.7	-2.7%	-3.1%
Claims	257.1	273.1	6.2%	67.8	72.6	64.9	-10.6%	-4.2%
Claims Ratio*	58.8%	61.0%		58.3%	62.7%	57.6%		
Net Expenses	134.8	127.2	-5.7%	36.2	33.0	34.4	4.3%	-5.0%
Expense Ratio*	30.8%	28.4%		31.1%	28.5%	30.5%		
Net income	30.6	33.4	9.1%	5.6	5.9	10.4	76.6%	85.7%
Margin	6.5%	6.9%		5.8%	5.5%	10.2%		

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

** Net income for 2013 adjusted for one-time revaluation effect.

- In the full year Sava Re achieved GPW in total amount of EUR 486.3m which is 3.9% more than in 2014 and also above our estimates. The main reason for strong growth of premiums was reinsurance segment where Sava Re collected EUR 98.2m consolidated gross premiums. Growth of 27% was due to successful efforts on Asian markets. On the other hand weaker top-line result was recorded in other segments, where growth was slow due to difficult market environment on certain markets of the Western Balkans, cleaning of portfolio and loss of some larger clients in non-life in Slovenia, where life segment was under pressure due to more policy maturities.
- Gross claims amounted to EUR 273.1m (+6.3%) in 2015 and similar increase was reported also for net claims which totaled EUR 271m. Increase of claims was mainly due to effects in reinsurance segment, or to be exact, due to catastrophic event in China (EUR 5.6m provisioning for explosion in the port of Tianjin in China) while also due to FX movements which were neutralized through investments (FX matching of assets and liabilities).

	GWP			Claims		
Non-consolidated in EURm	2015	2014	YoY	2015	2014	YoY
Reinsurance	152.0	131.3	15.7%	89.7	70.2	27.8%
Zavarovalnica Maribor (non-life)	177.8	176.2	0.9%	104.1	105.3	-1.2%
Zavarovalnica Tilia (non-life)	72.5	76.0	-4.6%	40.3	40.9	-1.6%
Sava Montenegro	11.2	11.5	-2.5%	3.7	3.5	6.6%
Sava osiguranje, Belgrade	14.4	12.4	16.2%	5.3	4.4	20.8%
Sava osiguruvanje, Skopje	11.4	10.8	5.8%	4.8	4.2	13.3%
Velebit osiguranje	7.0	7.2	-3.5%	3.6	3.8	-7.3%
Illyria	8.1	8.9	-9.2%	3.2	3.5	-9.5%
Zavarovalnica Maribor (life)	72.3	74.4	-2.9%	43.6	41.2	5.8%
Zavarovalnica Tilia (life)	8.0	8.4	-5.4%	6.1	6.1	-0.6%
Velebit životno osiguranje	3.3	2.6	27.1%	1.0	0.5	107.6%
Illyria Life	1.5	1.5	-6.1%	0.2	0.2	36.5%
Sava životno osiguranje	1.2	1.1	9.3%	0.4	0.3	59.9%

	GWP			Claims		
Consolidated in EUR	2015	2014	YoY	2015	2014	YoY
Reinsurance	98.2	77.5	26.7%	55.7	41.4	34.8%
Non-life insurance	302.4	302.7	-0.1%	165.0	165.7	-0.5%
Life insurance	86.1	88.0	-2.2%	51.4	63.8	-19.5%
Total	486.6	468.2	3.9%	272.1	270.9	0.4%

- Higher claims affected reported net incurred loss ratio, which in 2015 stood at 61.3% versus 59.5% in 2014. Slovenian non-life claims were very low and overall contributed to strong profitability of insurance segment in Slovenia.
- Although Sava Re had some additional costs related to consolidation of insurance operations and Solvency II requirements, operating expenses increased only by 1.6% YoY and totaled EUR 148.9m. Reported expense ratio was 0.3 p.p. lower and in 2015 stood at 32.5%.
- Group's reported net combined ratio in 2015 stood at 95.9% and was 0.4 p.p. higher than in 2014.
- Net investment income for 2015 amounted to EUR 26.9m and was 7.8% lower than in 2014. Low interest rates are affecting investment income, however, overall contribution from investment activities was still above 2015 management plans. FX differences contributed EUR 3.3m.
- On the bottom line Group delivered net income in the amount of EUR 33.4m or 9.1% more than in 2014. That was above our expected EUR 30.8m. Consequently EPS for 2015 was EUR 2.02 per share.

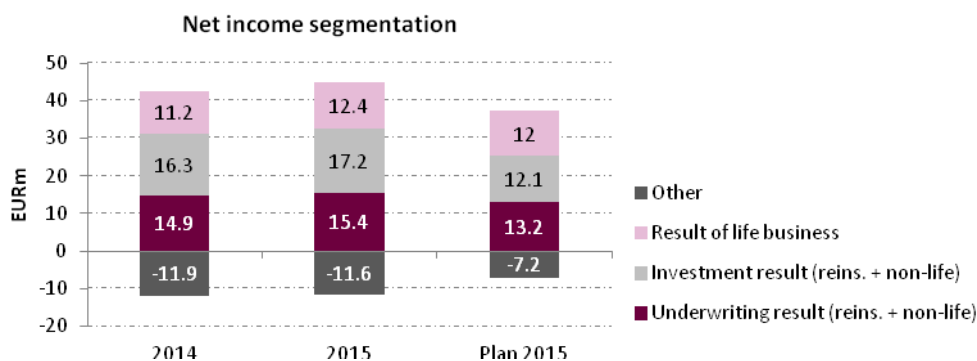
Strong growth of premiums in reinsurance segment.

Higher claims and FX resulted in increased claims ratio...

... but expense ratio lowered.

Net investment result affected by low interest rate.

All in all earnings beat.



- ROE for the year was around 11.7% and hence above planned 11%.
- At the end of 2015 total assets amounted to EUR 1,607.3m or 10% more than in 2015. Increase was mainly due to acquisition and full consolidation of pension insurer Moja naložba.
- Technical provisions amounted to EUR 1,094.7m which is 2.7% more than in 2014.
- Invested portfolio stood at EUR 1,023.1m. The major change was almost 45% decrease of deposits which resulted in larger exposure to other segments of investing.

The consolidated investment portfolio in EURm	31.12.2016	30.12.2014	Index	Structure
Deposits and CDs	53.1	95.6	55.5	5.2
Government bonds	502.3	486.9	103.1	48.9
Corporate bonds	421.3	359.0	117.4	41.0
Shares	18.9	21.0	89.9	1.8
Mutual funds	12.8	5.7	225.0	1.2
Loans granted and other	1.1	0.9	123.4	0.1
Deposits with cedants	5.7	5.6	102.0	0.6
Total financial investments	1,015.1	974.7	104.1	98.8
Financial investments in associates	0.0	3.1	0.0	0.0
Investment property	8.0	5.1	157.5	0.8
Cash and cash equivalents	4.7	5.6	83.5	0.5
Total investment portfolio	1,027.8	988.5	104.0	100.0
Investments for the benefit of life-insurance policyholders who bear the investment risk	214.2	202.9	105.6	

Book value per share increased to EUR 17.32 per share.

Unchanged solvency ratio.

- Shareholders' equity amounted to EUR 285.4m or 5.9% more than at the end of 2014. Therefore book value per share stood at EUR 17.32.
- Through 2015 Sava Re also successfully adopted new regulations regarding Solvency II. According to the statements from the Annual Report 2015 solvency ratio remained at the level for 2014 when ratio stood at 192%.

Trades at a discount...

Only dividend yield slightly below average.

Peer valuation target:
17.5 EUR

Relative valuation:

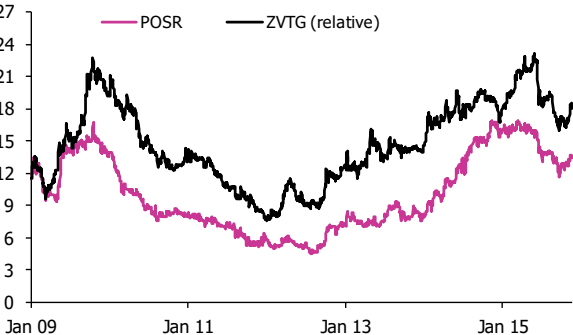
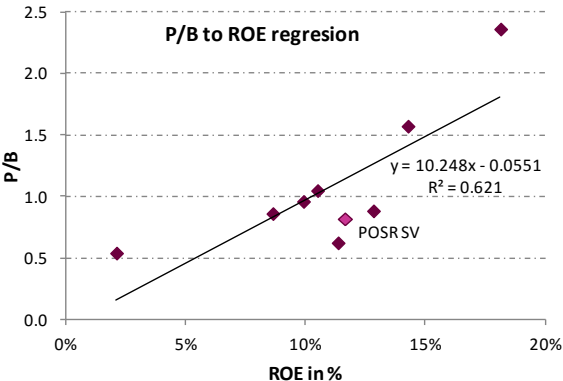
Company name	P/E			P/B			ROE TTM		
	TTM	2016F	2017F	TTM	2016F	2017F	TTM	2016F	2017F
Zavarovalnica Triglav	6.9	8.5	9.7	0.9	0.9	0.9	12.8%	10.5%	9.2%
PZU SA	13.1	11.8	11.7	2.4	2.3	2.2	18.1%	19.6%	19.2%
Aksigorta	neg.	9.2	6.3	1.9	1.5	1.2	-92.5%	17.8%	21.2%
Generali	10.0	8.0	7.8	0.9	0.8	0.8	8.6%	10.4%	10.1%
VIG	25.7	7.2	8.1	0.5	0.5	0.5	2.1%	7.2%	5.9%
Uniqua	5.5	8.2	7.6	0.6	0.6	0.6	11.3%	7.4%	7.7%
Allianz	10.0	9.5	8.9	1.1	1.0	0.9	10.5%	10.6%	10.7%
Hannover Re	11.0	12.2	11.8	1.6	1.4	1.4	14.3%	12.3%	11.9%
MunichRe	9.7	10.6	10.4	1.0	0.9	0.9	9.9%	8.8%	8.6%
Sava Re	7.2	7.0	7.6	0.8	0.8	0.8	11.7%	11.8%	10.4%
Median	10.0	9.2	8.9	1.0	0.9	0.9	10.5%	10.5%	10.1%

Company name	Div. yield (%)			Assets/ Equity (%)	Price to GWP	Price to Net Prem. Earned
	TTM	2016F	2017F			
Zavarovalnica Triglav	9.3	9.3	3.9	5.0	0.66	0.73
PZU SA	36.7	7.7	7.3	8.2	1.67	1.76
Aksigorta	3.1	3.7	5.7	5.4	0.40	0.56
Generali	4.6	6.6	7.0	21.2	0.28	0.30
VIG	7.1	6.0	5.9	9.7	0.28	0.31
Uniqua	6.7	8.2	9.0	10.8	0.33	0.34
Allianz	4.7	5.3	5.7	13.4	0.87	0.94
Hannover Re	4.0	4.4	4.5	7.8	0.77	0.87
MunichRe	4.3	4.8	5.0	9.0	0.58	0.63
Sava Re	3.8	5.5	5.0	5.6	0.52	0.56
Median	4.7	6.0	5.7	9.0	0.58	0.63

* P/E calculated based on sum of quarterly adjusted EPS

Sava Re operates in both, insurance and reinsurance business, but with acquisition of Zavarovalnica Maribor the dominant segment is now insurance business (68% of GWP in Slovenia; 12% in SEE). Nevertheless peer group still consists of the comparable insurers which operate in CEE and SEE countries and reinsurers which collect its premiums mostly in developed countries.

Best local comparison is to Zavarovalnica Triglav since they both changed its focus to profitability a couple of years ago and they both have regional exposure. On the other hand Zavarovalnica Triglav is a bigger insurance company with more exposure on SEE region while Sava Re has relatively more exposure on reinsurance. The comparison is currently more appropriate since the acquired insurance company Zavarovalnica Maribor is fully consolidated in trailing results. We can see that in general Sava Re trades with slight discount to Triglav, however, it also has lower TTM ROE and dividend yield. On the other hand we believe that future projections indicates that Sava Re has more potential for profit growth due to synergy potential (plan). We believe that on the long run also dividend yield will be more in line with Triglav. Based on Triglav and above four multiples in the table above (P/E, P/B, P/GWP and P/NPE), target price would be implied at EUR 17.2 and hence 18% above current stock price.



The peer comparison analysis shows that Sava Re currently trades at discount on all multiples. With slightly higher ROE and also lower dividend yield, Sava Re’s discounted ratios probably aren’t justified. However, there are risks that growth and cost savings will not be delivered. This will be even more important in a low rate environment which both Slovenian insurers are now facing on the domestic market. Based on our peer group valuation model we derived to a target price of EUR 17.5 per share.

Outlook:

- For 2016, the Sava Re Group is planning to write EUR 487.9m of GWP. Representing a 0.3% growth compared to 2015 and in line with our expectations. The management guidance for foreign insurance segment growth is 4.8% for non-Slovenian non-life business and 11.7% for non-Slovenian life business. In Slovenia Group's plan is to maintain the current level of premium income. On the presentation the company commented that guidance on the domestic markets is conservative due to high level of competition and limited market opportunities. In addition growth on domestic life segment will stagnate due to expected policy maturities, which will be somewhat offset by newly acquired pension insurance segment. Management also noted that as Group is consolidating and will possibly even rebrand its insurance operations in Slovenia and Croatia. This can consequently result in somewhat lower sales incentive and hence negatively affect domestic insurance GWP for 2016. The management commented that reinsurance market is still soft and that there is still pressure on prices.

Given the mentioned activities regarding domestic insurance and planned purchase of new premises for the Slovenian part of the group, Sava Re is planning a minor increase in the expense ratio, but a decrease in the incurred loss ratio. Thus they expect that planned combined ratio could fall below 95 percent.

The Group’s net profit target for 2016 is EUR 33.4m (ROE of 11.6%). Sava Re is planning to continue with share-buybacks and they expect to increase dividends per share (current dividend payout ratio is 30% of consolidated net income; in 2016 a EUR 0.8 dividend per share is proposed to shareholders).

- Given the dynamic on Sava Re’s markets, we believe GWP on the less important markets will remain very volatile and especially in the case of life insurance under significant influence of macroeconomic conditions. It is expected the growth of the insurance market in the region which will be slow and influenced by regulatory environment and marketing approaches. For now we are remaining cautious.

GDP growth in %, constant prices	2014	2015	2016	2017	2018	2019	2020
Slovenia	3.0	2.9	1.9	2.0	1.7	1.5	1.5
Croatia	-0.4	1.6	1.9	2.1	2.2	2.3	2.3
Serbia	-1.8	0.7	1.8	2.3	3.5	3.5	4.0
Bosnia and Herzegovina	1.1	2.8	3.0	3.2	3.7	3.9	4.0
Albania	2.0	2.6	3.4	3.8	4.1	4.1	4.1
FYR Macedonia	3.5	3.7	3.6	3.6	3.7	3.7	3.8
Montenegro	1.8	4.1	4.7	2.5	2.5	2.2	3.8
Kosovo	1.2	3.3	3.4	4.3	4.1	3.7	4.0

Source: IMF October 2015 World Economic Outlook

- Due to global reinsurance operations and hence FX exposure, claims will remain volatile. Due to favorably low level of larger loss events in 2015 in Slovenia, we are also remaining cautious and thereby expect that insurance segment claims ratio is likely to increase in future years.
- Especially on the long run the main question will be, how Sava Re will perform in low interest rate environment. Beside portfolio allocation and searching for yield, capital allocation will also be a very important tool to drive valuations into the right direction. Slower growth of insurance and reinsurance premiums and low interest rates are negatively affecting return on equity, hence, we believe that currently relatively aggressive activities of returning capital to shareholders could remain in place also in future years.

Realistic plans for 2016.

GWP growth in "emerging" SEE will remain volatile.

Claims in Slovenia likely to increase.

Low interest rate will be the greatest challenge.

all data in EURm

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	640.6	1378.3	1454.4	1607.4	1622.2	1681.7	1764.6	1839.5	1923.8
Total investment assets	355.4	936.7	979.8	1023.1	1038.3	1076.4	1131.2	1179.6	1234.6
Financial investments in assoc.	55.3	2.9	3.1	0.0	0.0	0.0	0.0	0.0	0.0
Cash and cash equivalents	1.1	3.4	5.6	4.7	4.2	4.3	4.5	4.7	4.9
Technical reserves	387.2	1017.0	1065.7	1094.7	1106.2	1148.7	1195.1	1243.5	1294.9
Equity	169.3	238.1	269.6	285.4	295.9	304.7	332.1	349.0	371.7
Solvency ratio	69.6%	63.3%	62.1%	64.0%	65.1%	65.0%	68.4%	69.5%	71.5%

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Gross written premiums	270.8	386.7	468.2	486.3	488.8	504.8	522.3	540.4	559.8
Growth (%)	4.8%	42.8%	21.1%	3.9%	0.5%	3.3%	3.5%	3.5%	3.6%
Net earned premiums	246.2	379.1	437.6	447.6	455.9	471.0	487.4	504.4	522.7
Growth (%)	6.9%	45.5%	21.1%	3.4%	0.9%	3.3%	3.5%	3.5%	3.6%
Net claims	149.9	229.0	257.1	273.1	291.8	301.6	312.3	328.4	340.5
Loss ratio	60.9%	60.4%	58.8%	61.0%	64.0%	64.0%	64.1%	65.1%	65.1%
Expense ratio	32.4%	31.4%	30.8%	28.4%	27.5%	26.1%	25.0%	24.3%	23.6%
Combined ratio	93.3%	91.8%	89.6%	89.4%	91.5%	90.2%	89.1%	89.4%	88.7%
Net investment result	14.5	-2.4	53.5	25.3	21.9	22.3	23.2	24.4	25.5
Profit/(loss) before tax	14.3	8.2	53.8	40.1	40.9	37.6	48.2	42.1	46.5
Net income	12.1	5.7	30.6	33.4	33.9	31.1	39.8	34.8	38.4
Growth (%)	102.5%	-52.8%	433.8%	9.1%	1.5%	-8.3%	28.2%	-12.6%	10.3%

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
EPS	1.54	0.61	1.78	2.03	2.10	1.93	2.48	2.17	2.40
EPS growth	102.5%	-60.3%	190.2%	14.0%	3.7%	-8.1%	28.6%	-12.4%	10.6%
ROE	7.7%	2.8%	12.1%	12.0%	11.7%	10.3%	12.5%	10.2%	10.6%
ROA	2.0%	0.6%	2.2%	2.2%	2.1%	1.9%	2.3%	1.9%	2.0%
BVPS	21.5	25.4	15.7	17.3	18.3	18.9	20.7	21.8	23.3
Dividenda	0.00	0.00	0.26	0.55	0.80	0.74	0.77	1.12	0.98

Excess Return Valuation:

Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Net profit	33.9	31.1	39.8	34.8	38.4	39.0	39.8	40.6	41.4	42.2
Cost of Equity	-29.2	-32.1	-33.0	-36.0	-37.8	-39.8	-41.7	-43.4	-45.0	-46.0
Excess return	4.7	-1.0	6.8	-1.2	0.6	-0.8	-1.9	-2.8	-3.6	-3.8
Long-term cost of capital						Cost of equity	2015	TV		
Equity Invested	269.2						Leveraged beta	1.2	1.2	
Period PV of Equity Excess Return	2.7						Risk free rate	0.7%	0.7%	
Terminal PV of Equity Excess Return	-19.6						Premiums	8.7%	7.9%	
Value of Equity	252.3						Cost of equity	10.8%	10.1%	
Equity value per share	15.6						Perpetuity growth rate		2.0%	

ERM target price is set at EUR 15.6...

... with risk premium increasing.

Based on our excess return model we set Sava Re Group’s target price at EUR 15.6, with long term cost of equity at 10.1% and long term growth at 2.0%. We should note that this target price still depend on cost optimisation and is based on the expectations that management of Sava Re will deliver promised synergies which could offset lower investment income.

We should add that in comparison to previous valuation, ERM target price was lowered partly due to adjustment of long term profitability (lower interest rates etc.) and also changes of cost of equity - we increased market risk premium from 5.34% to 6.24% (based on Damodaran data).

We believe that in current market environment adjustment of cost of equity is justified also from the perspective of higher risk. 2015 showed that large volatility spikes are possible even on the “low risk” bond market. This should not be overlooked especially since bond movement could have large impact in valuation of insurance companies.

Implied multiples:

	2016		2017	
	P/B	P/E	P/B	P/E
Current price	0.79	6.93	0.77	7.54
Target price	0.85	7.45	0.83	8.10

Our final target price is therefore set at EUR 16.0 while recommendation lowered to hold as upside just dropped below 10%.

Final target price calculation:

For our final target price we used a combination of relative and excess return valuation model. Since we believe that excess return is more appropriate approach (Sava Re's business model is somewhat unique) we assign 80% weight to excess return valuation and 20% to relative valuation target price. Accordingly we set our new target price at EUR 16.0. This target price implies that currently Sava Re trades at 9.6% discount to fair value, hence we are lowering our recommendation to hold (10% being a border).

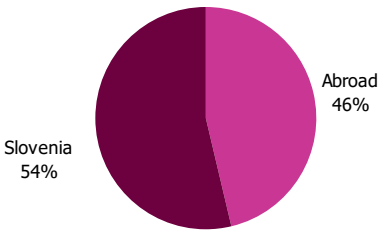
We note our target price implies roughly P/B of 0.92, P/GWP of 0.54 and P/E of 7.9 with Sava Re ROE around 12%.

Top5 shareholders:	
SDH	25.0%
Zagrebačka Banka Fid.	14.3%
EBRD	6.2%
Sava RE	5.1%
Raiffaisen Bank Fid.	4.5%

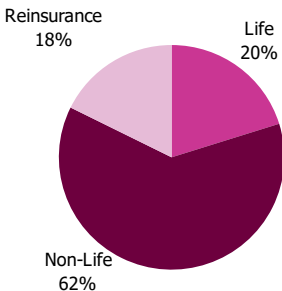
Brief Company profile

Sava Reinsurance Company is the leading Slovenian reinsurer with a 31% domestic market share and is the largest locally-based non-captive reinsurer in the CEE region. Through consolidation of Zavarovalnica Maribor it now has a 12.6% 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 2,489 employees.

Group sales by region (2015)



Group sales by segment (2015)



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

First release of the recommendation was performed on 13.04.2010.
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