CONCORDE RESEARCH

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CIG Pannonia

Recommendation: Neutral (unch.)
Target price (e-o-y): HUF 340 (unch.)
Share price: HUF 333

Share price as of 23/02/2021	HUF 333	Bloomberg	PANNONIA HB
Number of diluted shares [million]	94.4	Reuters	CIGP.BU
Market capitalization [HUF bn/EUR mn]	31,445/89.7	Free float	49%
Daily turnover 12M [HUF million]	0.08	52 week range	HUF 137 – 388

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Back to growth under new leadership

- CIG Pannonia Life Insurance (Pannonia) reported in Q1/21 HUF 383mn after-tax profit compared to HUF 243mn in the same period a year earlier. The increase of after-tax profit was mainly attributable to higher GWP (+19% YoY), lower net claims and stricter control over OpEx (+5% YoY), with acquisition costs declining by 3% YoY.
- Comprehensive income came to HUF -67mn versus HUF -1.19bn in the same period a year ago. Other comprehensive income included a HUF 450mn decrease in the fair value of available-for-sale financial assets, of which HUF 205mn is the unrealized loss on OPUS shares held by Pannonia and the remaining HUF 245mn was the unrealized loss on government securities.
- Life insurance business w/o subsidiaries generated after-tax profit of HUF 444mn (+22% YoY), while individual non-life insurance operation (EMABIT) had a loss of HUF 50mn versus HUF 73mn loss YoY. It should be noted that, at the end of 2020 Pannonia took steps at the operational level to restart EMABIT, with providing the required Group-level warranty elements followed by the recovery plan stabilize EMABIT's capital position. Also importantly, the criteria for the Italian guarantee portfolio are no longer valid due to the unlikely scenario of the sale of the portfolio. Consequently, definition of IFRS 5 held for sale is no longer appropriate for the entire non-life segment. The held for sale criteria can only be interpreted for the smaller Hungarian and Polish extended warranty and gap casco portfolio that are still actually on sale. Profit before tax on these non-life assets was HUF 32mn in Q1/21. Loss of the other segments was HUF 11mn, or HUF 37mn less than in the same period of the previous year.

Breakdown of after tax profit (HUF mn)

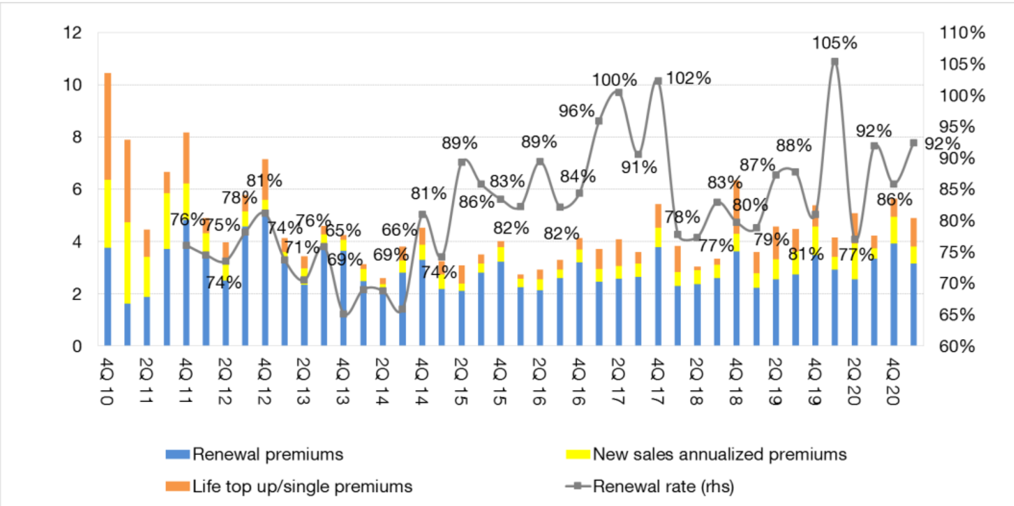
	Life	Non-life*	Other	Total
After tax profit	444	-50	-11	383
Ch. YoY	25%	32%.	77%	58%

Note: Non-life operation's after-tax profit includes the results from assets held for sales.
Source: CIG Pannonia, Concorde's estimate

- Pannonia's life insurance business remained financially stable and fundamentally solid, with a solvency II capital adequacy ratio staying as high as 340%. The consolidated capital adequacy ratio was 344% at the end of March, 2021.

- In the life insurance segment, the total annualized amount of new sales was HUF 1.06bn, 25% higher than in the same period a year earlier, driven by increasing premium of group contracts, on which the commission rate is relatively lower compared to other products. The annualized amount of traditional life insurance new sales rose by 25% YoY, which might be attributed to increasing group insurance policy sales, while the amount of new sales of unit-linked products declined by 8% YoY mainly due to the COVID-19 pandemic.
- As a whole, life insurance GWP rose by 18% YoY from HUF 4.15bn to HUF 4.9bn in Q1/21. GWP of unit-linked life insurance reached HUF 3.56bn (thereof 36%, ie. HUF 1.28bn was pension insurance policies), HUF 1.27bn were traditional life products (thereof HUF 0.3bn came from pension insurance policies), and HUF 0.08bn were health insurance policies. GWP from renewals was HUF 3.16bn (+8% YoY), while GWP from the first annual premiums of policies sold was HUF 0.65bn (+32% YoY)). Top-up and single premiums amounted to HUF 1.1bn (+50% YoY), accounting for 22% of total life insurance GWP in Q1/21 compared to 18% YoY. Renewal ratio improved QoQ from 86% to 92%.

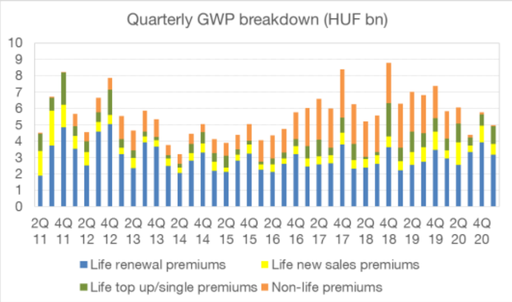
GWP breakdown in the life insurance segment (HUF bln)



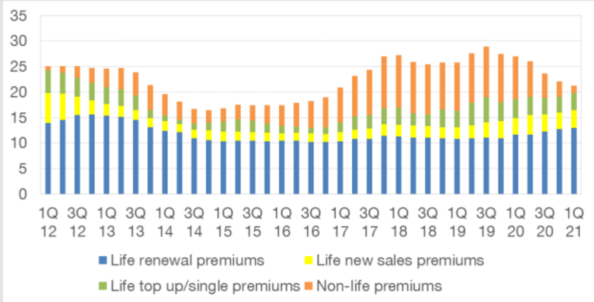
Source: Pannonia, Concorde estimate

- Non-life GWP dropped by 96% YoY to HUF 74mn mainly because of the divestment of some major activities.
- Although 12-month rolling GWP continued sliding for the fourth consecutive quarter due to deteriorating non-life premium income as a consequence of divestments, but the improved renewal ratio and new life business sales are supportive to consolidated GWP.

Quarterly consolidated GWP breakdown (HUF bn)



12-m rolling GWP breakdown (HUF bn)



Source: Pannonia, Concorde estimate.

- The other operating income of HUF 232mn came mainly from fund management operation (HUF 144mn), which decreased by 8% YoY due to a previously sold unit-linked product portfolio.
- Investment results were positive at HUF 5.63bn in Q1/21 (vs. HUF -7.53bn in Q1/20) as a result of an unprecedented recovery in the stock and bond market valuation after a collapse globally triggered by the outbreak of the coronavirus pandemic early last year. In contrast, in the first quarter of 2021 inflation expectations increased, which led to rising bond yields and therefore lower bond prices.
- Operating costs rose by 5% YoY in Q1/21 and accounted for 32% of GWP (vs. 28% in Q4/20 and 36% in Q1/20), of which fees, commissions and other acquisition costs represented 59% (vs. 63% in Q4/20 and 64% in Q1/20), while admin costs and other expenses (mainly provisions) accounted for the rest. Acquisition costs decreased by 3% YoY mainly due to the increasing sale of traditional insurance products with lower commission rates, and accounted for ca. 88% of annualized premium of new sales compared to 115% YoY.
- Net claims and related settlement expenses dropped by 5% YoY in Q1/21 partly due to a decrease in non-life segment expenses, and also due to life segment claims expenditures mainly due to the surrenders of unit-linked products.
- The amount of net change in reserves was HUF 4.66bn, which is made up almost entirely by the increase of unit-linked life insurance reserves.
- As for life insurance policies sold in 2020 the share of the tied agent network is 11% (vs. 13% in Q1/20), independent brokers bring in 50% (vs. 36% in Q4/20) and the bank and other business developments represented 39% of new sales (vs. 51% in Q4/20).
- Pannonia appears to have delivered on its strategy of focusing external growth and transparency. We are also confident that CIG Pannonia remains on track to achieve efficiency gains through diversification of its product mix and distribution channels. We hold the view that the first quarter results should serve reason for investors to place more confidence in Pannonia's new strategy and management's ability to develop growth of businesses on a sustainable basis. **We maintain our TP at HUF 340 a share and reiterate our Neutral rating on Pannonia.**

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Accumulate	Total return is expected to be in the range of 10-20%
Neutral	Total return is expected to be in the range of 10%-(-10%)
Reduce	Total return is expected to be in the range of -10-(-20%)
Sell	Total return is expected to be lower than -20%
Under Revision	The stock is put Under Revision if the covering analyst considers new information may change the valuation materially and if this may take more time.

Coverage in transition	Coverage in transition rating is assigned to a stock if there is a change in analyst.

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Valuations and risks:

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