

CIG Pannonia

Recommendation: Neutral (unch.)

Target price (e-o-y): HUF 355 (unch.)

Share price: HUF 362

Share price as of 23/02/2022	HUF 353	Bloomberg	PANNONIA HB
Number of diluted shares [million]	94.4	Reuters	CIGP.BU
Market capitalization [HUF bn/EUR mn]	33,323/92.6	Free float	49%
Daily turnover 12M [HUF million]	0.08	52 week range	HUF 305 – 425

Promises have been delivered

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- CIG Pannonia (Pannonia) posted consolidated after-tax profit of HUF 838 mn for Q4/2021 (on GWP of HUF 6.9 bln (+20% YoY) compared to losses of HUF 85 mn on GWP 5.71 bln in the same period a year earlier. Life insurance segment posted after-tax profit of HUF 259 mln (+55% YoY) due to a significant growth in unit-linked income, while non-life business generated loss of HUF 170 mln as against loss of HUF 555 mln in the same period a year earlier. Other activities went into black, with after tax profit of HUF 299 mln compared to after-tax profit of HUF 92 mln in Q4/20. In 2021, Pannonia reached consolidated after-tax profit of HUF 1.68 bln on GWP 22.71 bln, up by 154.8% and 17.7% YoY, respectively, compared to our estimate of HUF 1.65 bln and HUF 21.47 bln.
- Total comprehensive loss amounted to HUF 757 mln in Q4/21 versus profit of HUF 497 mln in the same period of last year. Other comprehensive loss was HUF 1.64 bln compared to HUF 582 mln profit in the same period a year ago and included a decrease in the fair value of available-for-sale financial assets, out of which HUF 1.32 bln was the unrealized loss on government securities, while there were unrealized losses to the tune of HUF 325 mln on OPUS shares held by Pannonia.

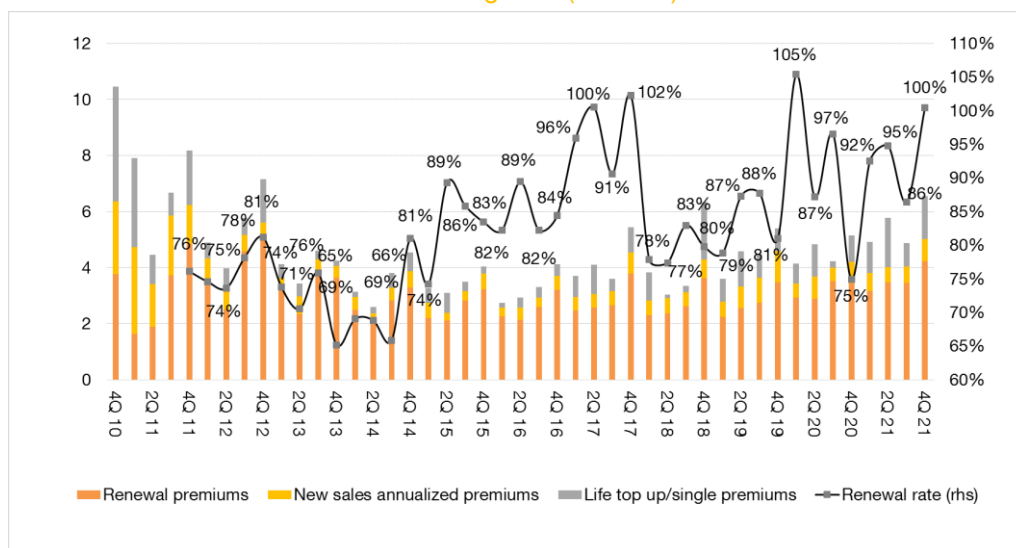
Breakdown of the Group's GWP and after tax profit (HUF mln)

	Life		Non-life		Other		Cons.		Total	
	Q1-4	Q4	Q1-4	Q4	Q1-4	Q4	Q1-4	Q4	Q1-4	Q4
	2021									
GWP	22 080	6 542	633	316	0	0	0	0	22 713	6 858
Reported after-tax profit	1 161	259	-703	-173	140	299	1 084	1 666	1 682	-1 281
After-tax adjustments	0	0	3	0	0	0	0	0	3	0
Adjusted after-tax profit	1 161	259	-706	-170	140	299	1 084	1 666	1 679	-1 278
Reported total comprehensive inc	-1 031	-1 283	-887	-275	140	299	1 084	1 666	-694	-2 925
	Life		Non-life		Other		Cons.		Total	
	2020									
GWP	19 104	5 638	215	76	0	0	0	0	19 319	5 714
Reported after-tax profit	717	-167	-759	-903	380	92	322	-582	16	-396
After-tax adjustments	0	0	0	0	0	0	0	0	0	0
Adjusted after-tax profit	717	-167	-759	-555	380	92	322	-582	660	-48
Reported total comprehensive inc	384	350	-802	-838	380	92	322	-582	284	186
Change in adj. after-tax profit	62%	n.a.	-7%	-69%	-63%	225%	n.a.	n.a.	154%	2548%
Change in GWP (YoY)	16%	16%	194%	316%	n.a.	n.a.	n.a.	n.a.	18%	20%

Source: CIG Pannonia, Concorde's estimate

- Despite accelerated GWP growth Pannonia's businesses remained financially stable and fundamentally solid: the consolidated solvency II capital adequacy ratio stood at as high as 273% at the end of 2021 compared to 309% at the end of 30 September, 2021. EMABIT's (non-life segment) standalone solvency II capital adequacy ratio might have been around 170% compared to National Bank of Hungary's minimum requirement of 150%.
- At the Group level, group life insurance products (+76% YoY) driven by the sales contracts with the Hungarian MVM Group contributed the most to net premium income growth in absolute terms last year, with unit-linked products also seeing a healthy 13% increase (mainly top-up- products: +230% YoY). Traditional life insurance products sales remained flat, while non-life segment saw a 49% decrease in GWP. We note that a significant increase in non-life insurance sales is not yet reflected in the net premiums written, as they appear time proportionally over the period covered by the insurance in accordance with the reporting standards in force
- The year-on-year profit increase on the unit-linked products was mainly a result of a higher yield and benign stock market environment. A significant part of this return is booked for customers, ie as an increase in provision recorded as an expense in P&L, at the same time having a positive impact on the amount of assets under management, therefore Pannonia also indirectly benefited from it through higher management fees. In the life segment, due to the increase in the portfolio, the creation of reserves led to higher expenses, but this could be offset by higher premium income.
- As a whole, life insurance GWP rose by 16% YoY in Q4/21 from HUF 5.64 bln to HUF 6.54 bln. Unit-linked life insurance represented 54% of new sales in Q4/21 vs. 56% YoY. Unit-linked life insurance amounted to HUF 4.99 bln in Q4/21 (thereof 42%, ie. HUF 2.07 bln was pension insurance policies), HUF 1.3 bln were traditional life products (thereof HUF 0.33 bln came from pension insurance policies), and HUF 0.25 bln were fast-growing health insurance policies. GWP from renewals amounted to HUF 4.23 bln (+24% YoY), while GWP from the first annual premiums of policies sold was HUF 0.78 bln (-0.6% YoY) powered by new UL insurance contracts (+40% YoY). Top-up and single premiums came in at HUF 1.53 bln (+65% YoY), accounting for 23% of total life insurance GWP in Q4/21 compared to 18% YoY. Renewal ratio improved QoQ from 75% to 100% YoY.

GWP breakdown in the life insurance segment (HUF bln)

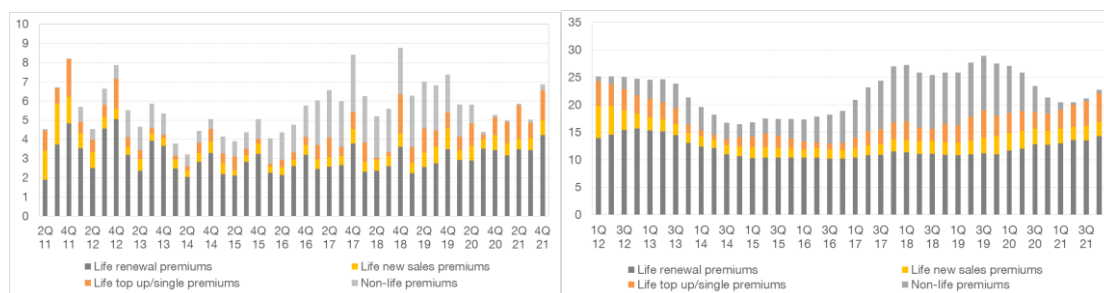


Source: Pannonia, Concorde estimate

- The annualized amount of traditional life insurance new sales jumped 37% YoY, which might be attributed to considerably higher group insurance policy sales.
- In the non-life segment, GWP rose by 316% YoY in Q4/21 and 194% YoY in 2021. Despite significantly lower claims provision (mainly on the Italian surety insurance portfolio) than in the previous year losses increased in Q4 due to the cost of implementing the new growth strategy which was announced this summer.
- 12-month rolling GWP appeared to have started increasing thanks to the improved renewal ratio, higher top-up income and recuperating non-life business sales.

Quarterly consolidated GWP breakdown (HUF bn)

12-m rolling GWP breakdown (HUF bn)



Source: Pannonia, Concorde estimate

- Indeed, all sales channels increased their sales volume, with the banking channel generating an outstanding 55% growth YoY followed by independent brokers who delivered 49% growth and the own network 31% YoY, supported by the increased sales network and newly launched products in line with the new growth-driven business strategy. The share of own network was 11% in 2021 (2020: 12%), independent brokers brought in 46% (2020: 42%) and the bank and other business developments represented 53% of new business sales of HUF 4.54 bln (+37% YoY) compared to 54% in 2020.
- Investment results were positive at HUF 3.53 bln in Q4/21 (vs. HUF -5.85 bln in Q4/20) as a result of continued good performance in the global stock markets on the back of the cyclical recovery from the economic shock in the aftermath of the coronavirus pandemic, while increased inflation expectations triggered higher bond yields and therefore lower bond prices.
- Total operating costs rose 18% in Q4/21 compared to the corresponding period of last year, while remaining broadly flat at around 27.5% of GWP, which was a consequence of the achieved economics of scale, ie. the larger scale of operation and thus the improved productivity. Acquisition costs rose by 14% YoY, accounting for 78% of new businesses in Q4/21 vs. 106% YoY, while other operating costs jumped 26% YoY driven by HR and IT costs related to the implementation of the new growth strategy.
- Net claims and related settlement expenses increased by 18% YoY in Q4/21 partly due to higher life segment claims expenditures in the aftermath of the surrenders of unit-linked products. As a result, the amount of net decrease in insurance reserves, which is made up almost entirely by the increase of unit-linked life insurance reserves, was HUF 2.35 bln.

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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%)
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