

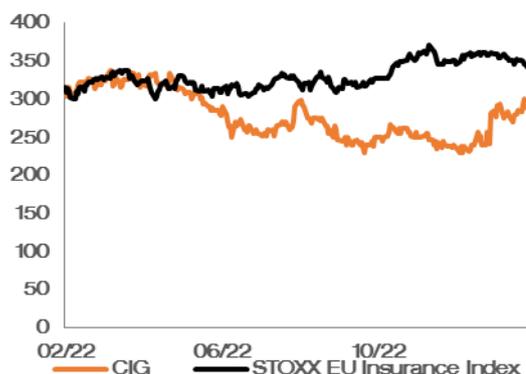
# CIG Pannonia

Recommendation: BUY (unch.)

Target price (e-o-y): HUF 410 (unch.)

Share price: HUF 297

Share price as of 03/03/2023	HUF 297
Number of diluted shares [million]	94.4
Market capitalization [HUF mn/EUR mn]	28,045 / 74.0
Daily turnover 12M [HUF million]	0.02
Bloomberg	PANNONIA HB
Reuters	CIGP.BU
Free float	42.65%
52 week range	HUF 250 – 350



## Adjusted Q4/22 results were as strong as possible

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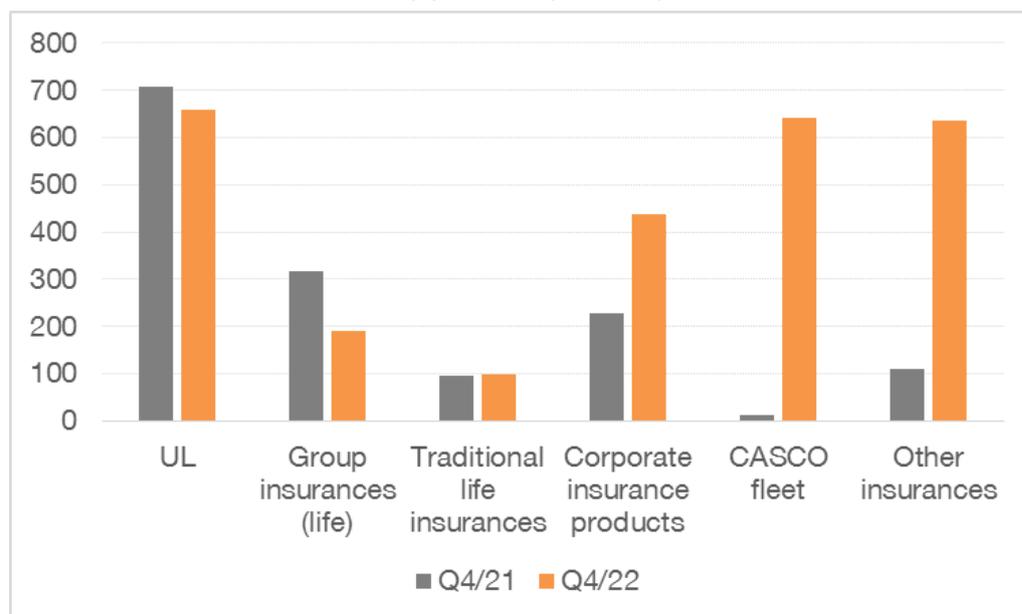
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- CIG Pannonia (Pannonia) consolidated after-tax profit of HUF 383mn for Q4/2022. Adjusted for the impact of extra insurance tax of HUF 324mn, after-tax profit was HUF 707mn on our estimate (+555% YoY and +76% QoQ) on GWP coming in at HUF 9.7bn (+29% YoY). Total reported comprehensive profit amounted to HUF 1.4bn in Q4/22 versus losses of HUF 1.2bn in the same period of last year despite a rising yield environment.
- Life insurance segment had after-tax profit of HUF 0.5bn compared to HUF 0.3bn in Q4/21, while non-life business also generated losses of HUF 241 mn as against losses of HUF 0.2bn in the same period a year earlier due to the cost of aggressive expansion. Other activities remained in the black, with after tax profit of HUF 0.4bn compared to after-tax profit of HUF 0.3bn in Q4/21. Elimination amounted to HUF -0.2bn vs. HUF 1.7bn in the base period.
- Despite rapid cost inflation and rising yields, Pannonia's businesses remained financially stable and fundamentally solid: the consolidated solvency II capital adequacy ratio stood at as high as 206% at the end of December, compared with 200% at the end of last September and 273% at the end of 2021.
- In 2022, Pannonia reached reported after-tax profit of HUF 1.2bn (-28% YoY), while after adjusting for the net impact of extra taxes (of HUF 0.6bn) after-tax profit was HUF 1.8bn (+31% YoY taking into account of the positive impact of provision release of HUF 0.3bn in 2021) on GWP of HUF 32.3bn compared to HUF 22.7bn in 2021.
- In 2022, results were mainly driven by rapid GWP growth (+42% YoY) primarily in UL, CASCO, industrial property insurances and other non-life products. UL products and single life premium products sales and profitability were weaker as yields and insurance taxes increased, while the considerable increase (+64% YoY) in commission led by new business sales growth and cost inflation also put temporarily a drag on results, which however were partly compensated for by i) a decrease in

reserves mainly for single-fee UL products, ii) accounting reserves for traditional products, iii) lower reserves for Italian surety products, and higher interest income (the latter increased by HUF 0.6bn YoY).

- As in the previous quarter, CASCO products of industrial assets and fleet increased significantly in Q4/22, by HUF 2 and 2.7bn, respectively, compared to the same period of 2021. Pannonia almost doubled new acquisitions of group life products in one year, while new acquisitions of other non-life products almost tripled. The insurer was also able to increase the new procurement of traditional products, though to a lesser extent compared to the previous quarters. New business sales were supported by strong sales network, independent sales channels, in particular, by which fee income increased more than three times compared to 2021.
- At the Group level, premium arising from new group product contracts in Q4/22 (+81% YoY) was primarily driven by the sales contracts with larger companies, while unit-linked products saw a 7% decline YoY (mainly due to rising yields). New traditional life insurance products sales remained broadly flat (+3% YoY), while non-life segment saw a stunning increase in GWP, albeit from a very low base, particularly CASCO and corporate property insurances.

New business sales breakdown by products (HUF mln)



Source: CIG Pannonia, Concorde's estimate

- As a whole, life insurance GWP rose by 20% YoY in Q4//22 from HUF 6.5bn to HUF 7.8bn. Total unit-linked life insurance amounted to HUF 5.5bn (thereof 38%, ie. HUF 2.1bn was pension insurance policies), HUF 2.1bn were traditional life products (thereof HUF 0.3bn came from pension insurance policies and HUF 1.8bn were health insurance policies). Non-life GWP increased by 484% YoY, albeit from a low base, as a result of aggressive sales campaign mainly through Bankholding's branch network.

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

	Life		Non-life		Other		Cons.		Total	
	2022									
	Q1-4	Q4	Q1-4	Q4	Q1-4	Q4	Q1-4	Q4	Q1-4	Q4
GWP	26 834	7 838	5 512	1 846	0	0	0	0	32 346	9 684
Reported after-tax profit	1 484	483	-815	-241	-360	372	902	-231	1 211	845
After-tax adjustments	0	0	0	0	0	0	0	0	0	0
<b>Adjusted after-tax profit</b>	<b>1 484</b>	<b>483</b>	<b>-815</b>	<b>-241</b>	<b>-360</b>	<b>372</b>	<b>902</b>	<b>-231</b>	<b>1 211</b>	<b>845</b>
Reported total comprehensive income	-2 247	1 132	-893	81	-360	372	902	-231	-2 598	1 816
<b>Change in adj. after-tax profit (YoY)</b>	<b>28%</b>	<b>86%</b>	<b>15%</b>	<b>42%</b>	<b>n.a.</b>	<b>225%</b>	<b>n.a.</b>	<b>n.a.</b>	<b>154%</b>	<b>n.a.</b>
<b>Change in GWP (YoY)</b>	<b>22%</b>	<b>20%</b>	<b>771%</b>	<b>484%</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>18%</b>	<b>20%</b>

	Life		Non-life		Other		Cons.		Total	
	2021									
	Q1-4	Q4	Q1-4	Q4	Q1-4	Q4	Q1-4	Q4	Q1-4	Q4
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
<b>Adjusted after-tax profit</b>	<b>1 161</b>	<b>259</b>	<b>-706</b>	<b>-170</b>	<b>140</b>	<b>299</b>	<b>1 084</b>	<b>1 666</b>	<b>1 679</b>	<b>-1 278</b>
Reported total comprehensive income	-1 031	-1 283	-887	-275	140	299	1 084	1 666	-694	-2 925

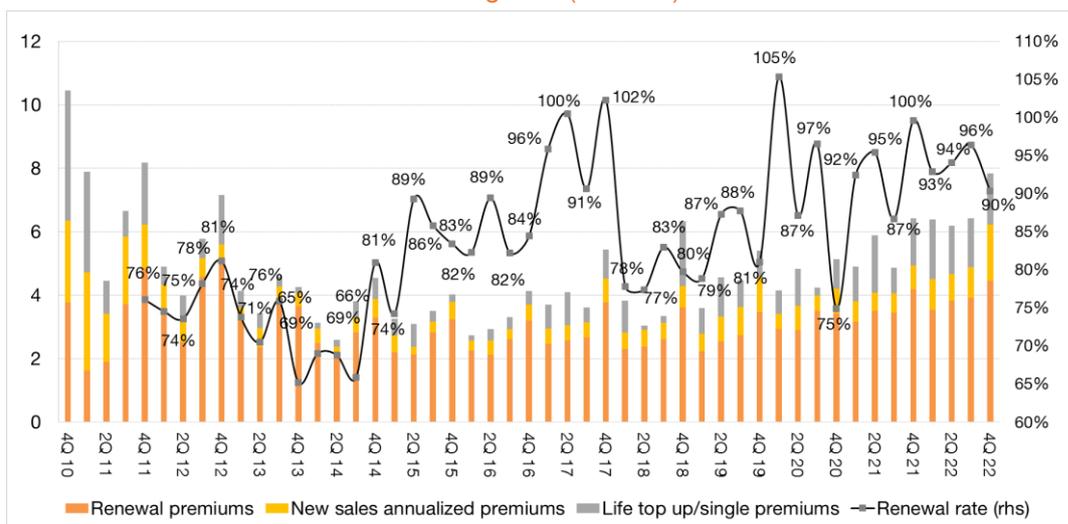
  

	Life		Non-life		Other		Cons.		Total	
	2020									
	Q1-4	Q4	Q1-4	Q4	Q1-4	Q4	Q1-4	Q4	Q1-4	Q4
GWP	19 104	5 638	215	76	0	0	0	0	19 319	5 714
Reported after-tax profit	717	-167	-759	-903	380	92	322	-582	16	-396
After-tax adjustments	0	0	0	0	0	0	0	0	0	0
<b>Adjusted after-tax profit</b>	<b>717</b>	<b>-167</b>	<b>-759</b>	<b>-555</b>	<b>380</b>	<b>92</b>	<b>322</b>	<b>-582</b>	<b>660</b>	<b>-48</b>
Reported total comprehensive income	384	350	-802	-838	380	92	322	-582	284	186

Source: CIG Pannonia, Concorde's estimate

- Life segment benefited mostly from the increase in top-up and single premium income as well as growing income from renewals. GWP from renewals amounted to HUF 4.5bn in Q4/22 (+6% YoY). GWP from the first annual premiums of policies sold was HUF 1.8bn (+237% YoY), and top-up and single premiums came in at HUF 1.6bn (+109% YoY), accounting for 21% of total life insurance GWP in Q4/22 compared to 23% YoY. The renewal ratio declined from 96% to 90% QoQ and from 100% YoY lower propensity of households to save in insurance products amid a rising yield environment and rapid inflation.

GWP breakdown in the life insurance segment (HUF bln)



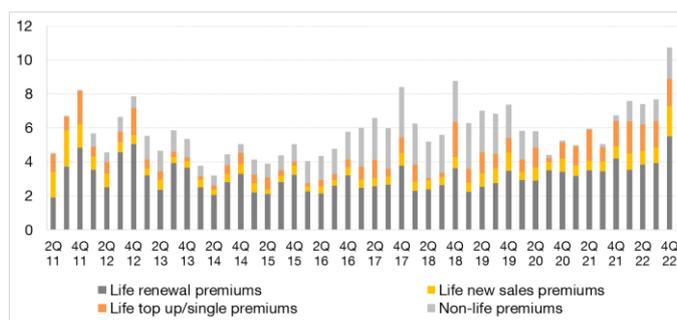
Source: Pannonia, Concorde estimate.

- Investment results were positive at HUF 1.1bn in Q4/22 compared to HUF 2.1bn YoY as a result of rising bond yields and stock prices in the global stock markets.

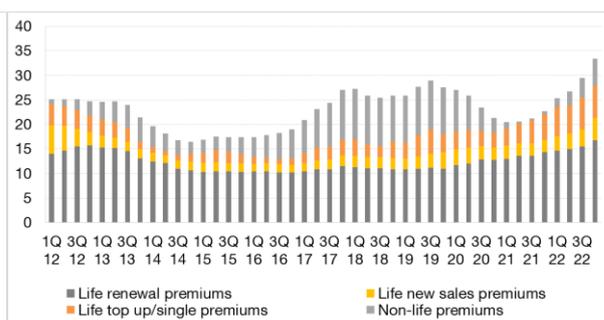
- The total operating cost of the Issuer was HUF 3.5bn in Q4/22, of which HUF 2.2bn was related to the fees, commissions and other acquisition costs (+46% YoY), and HUF 0.7bn was related to other operating costs (+20% YoY) and another HUF 0.6bn was other expenses (+457% YoY). Acquisition costs show a significantly increasing trend overall, driven by fast-growing non-life new business sales, following the development and recruitment of new business lines, organizations and employees, and the related implementation of Pannonia’s medium-term growth strategy. Life acquisition costs remained broadly unchanged YoY, while in the non-life segment acquisition costs jumped by 600% YoY.
- Consolidated net claims and related settlement expenses rose by 5% YoY in Q3/22 due to the combined impact of lower life segment claims expenditures in the wake of the lower number of surrenders of unit-linked products, while traditional and group claims increased, but less than the decrease in unit-linked repurchases, and higher claims in non-life business in line with inflation and business expansion.

The net decrease in insurance reserves was mainly attributed to decrease in reserves for single-fee UL products and accounting reserves for traditional products.
- 12-month rolling GWP appeared to have kept on increasing thanks to higher top-up income and fast-growing new life and non-life business sales.

Quarterly consolidated GWP breakdown (HUF bln)



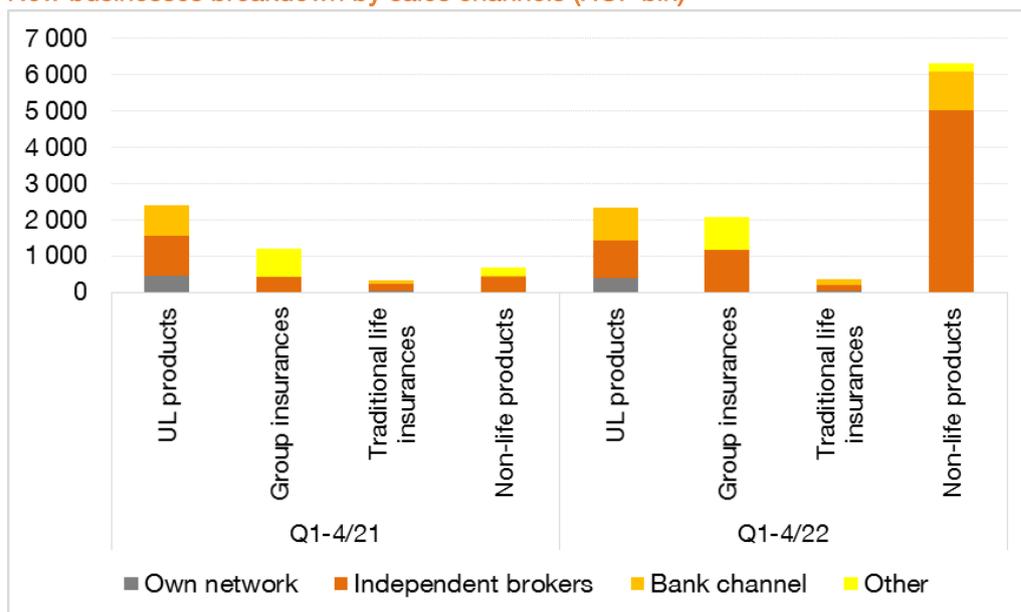
12-m rolling GWP breakdown (HUF bln)



Source: Pannonia, Concorde estimate

- All sales channels increased their sales volume, with the banking channel (Bankholding) generating an outstanding 150% YoY growth in Q4/22 followed by independent brokers which delivered 68% YoY growth, supported by newly launched products in line with the new growth-driven business strategy. Pannonia concluded a framework agreement with the Hungarian Bankholding Group (Bankholding) for a period of 20 years, according to which Bankholding Group member banks, ie. MKB Bank, Budapest Bank and Takarékbank, will sell exclusively the life and non-life insurance products of the CIG Pannonia Group.

New businesses breakdown by sales channels (HUF bln)



Source: Pannonia, Concorde estimate

Outlook

- We reiterate CIG Pannonia (Pannonia) as BUY, as well as our 12-m target price at HUF 410, which leaves a 38% upside potential from the current share price.
- We leave our net income forecasts for 2023 and 2024 unchanged at HUF 1.56bn and HUF 2.04bn, respectively, which reflect the harmful impact of 1) a substantial increase in insurance (“windfall”) tax imposed on Hungarian insurers for the period between 1 July 2022 and 31 December, 2023, and 2) recession as a consequence of the severe energy crisis in Europe and rising yields.
- Consequently, EPS may come in at HUF 17 in 2023 and then to grow again by 31% to HUF 22 in 2024. Dividend will inevitably drop compared to previous year’s payment, albeit from an unsustainably high level, to ca. HUF 11 a share for 2022, implying a DIVY of 4% based on the current share price.
- We remain confident that Pannonia's resilient and flexible organization can weather the impending economic slowdown, rather than being overwhelmed by it, while remaining committed to market expansion and product innovation.

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Accumulate	Total return is expected to be in the range of 10-20%
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Sell	Total return is expected to be lower than -20%
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