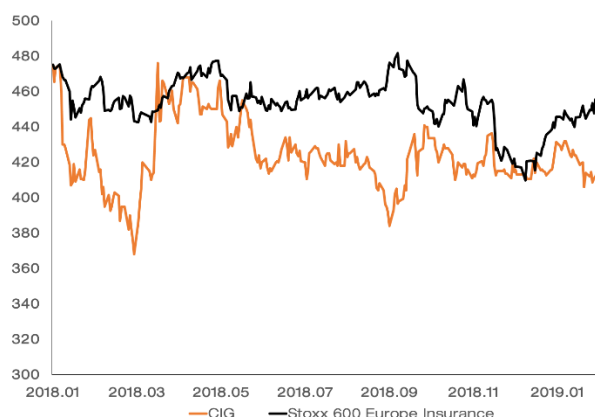


# Pannonia

Rating: Accumulate (unch.)

Price target (12-m): HUF 496 (prev. HUF 484)

Current share price: HUF 446



| Performance      | 12M  | YTD | 3M  | 1M  |
|------------------|------|-----|-----|-----|
| Absolute (%)     | 11.8 | 9.3 | 7.8 | 8.2 |
| BUX relative (%) | 6.3  | 4.7 | 5.3 | 7.2 |

|                                       |              |               |             |
|---------------------------------------|--------------|---------------|-------------|
| Share price as of 3/12/2019           | HUF 446      | Bloomberg     | CIGP.BU     |
| Number of shares [million]            | 94.4         | Reuters       | PANNONIA HB |
| Market capitalization [HUF mn/EUR mn] | 42 398/134.4 | Free float**  | ca. 50%     |
| Enterprise value [HUF mn/EUR mn]      | 42 398/134.4 | 52 week range | 366/482     |
| Daily turnover 12M [EUR mn]           | 0.96         | EURHUF        | 315.5       |

## Capital reduction means nice payments to the shareholders

- CIG Pannonia's Board of Directors proposes the reduction of the share capital of the insurer through the decrease of the nominal value of the shares in order to the distribution of excess capital. Due to the reduction of the share capital Pannonia's share capital shall decrease from 3.777.130.400 HUF to 3.116.132.580 HUF and the nominal value of the shares from HUF 40 to HUF 33. The proposed transaction would affect 17.5 per cent of the insurer's equity thus the expected amount of the total payment would be approx. HUF 3 bn, or HUF 31.96 forints per share (compared to market expectations of HUF 20 per share dividend for 2018), and it corresponds to a 7.5 per cent DIVY on the basis of yesterday's closing price.
- This move is exactly what we expected of the insurer to do in order to use its excess capital in a more value creative way. By reducing capital to provide remuneration to the shareholders instead of paying dividend from its retained profits enables Pannonia to keep dividend payment at a high level in the years to come, while also preserving its ability to grow inorganically and maintaining capital adequacy at a higher level than required by the regulator. (The available solvency capital ratio (based on own capital plus the present value of future expected profits) of the life and non-life insurance segments were 346% and 183%, respectively,

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as at 31 December, 2018, so both segments fulfilled the 150% Solvency Capital adequacy requirements of the Supervisory Authority.)

- As there is no new acquisition target on the insurer's investment horizon, and the former hopes that KONZUM can effectively support Pannonia's expansion in the domestic insurance market have not yet come through, now the insurer has decided to use its under-utilized excess capital of approx. HUF 5-7 bn (HUF 53-74 per share), which have largely arisen from the last year's capital increase and then being kept in low-returning bank deposits and government papers.
- It is worth emphasizing, however, that according to the relevant accounting laws and regulations dividend can be paid only from the retained earnings while in case of the reduction of the share capital payment can be fulfilled both from the retained earnings and as well as the capital reserve to the shareholders. At the end of last year, the profit reserve of the life insurance parent company whose share are trading on the stock market amounted to HUF 1.73 bn, which should have implied dividend payment of max. HUF 18.4 a share (or a DIVY of 4.4%) for 2018 instead of HUF 32 per share which now will be redistributed to the shareholders.
- Together with retained earnings generated in the previous years, thus the base for dividend payments remains high allowing the insurer to pay approx. HUF 25-30 a share dividend going forward.
- The reduction of capital will also improve ROE which so may be more aligned with the level investors may require to justify Pannonia's currently above average earnings and asset based multiples (18.5 x P/E and 2.3 x P/BV).
- **We are very pleased with Pannonia's dividend policy (of paying out min. 100 per cent of annual profit) which also clearly contributes to value creation for the shareholders. We raise our 12-m TP from HUF 484 to HUF 496 a share, leaving a 11 per cent upside potential from the current share price. We keep our Accumulate rating on Pannonia.**

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|------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------|
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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 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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