

CIG Pannonia

Recommendation: Neutral (unch.)

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

Share price: HUF 377

Share price as of 17/11/2021	HUF 377	Bloomberg	PANNONIA HB
Number of diluted shares [million]	94.4	Reuters	CIGP.BU
Market capitalization [HUF bn/EUR mn]	35,600/98.1	Free float	49%
Daily turnover 12M [HUF million]	0.08	52 week range	HUF 300 – 425

Stepping up

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- CIG Pannonia posted consolidated after-tax profit of HUF 289 mln for Q3/2021 on GWP of HUF 5 bln (+12.6% YoY) compared to losses of HUF 428 mln on GWP 4.44 bln in the same period a year earlier. Both life insurance and non-life segments reported standalone losses due to a significant growth in businesses and thus in reserves. In the first nine months CIG Pannonia reached consolidated reported after-tax profit of HUF 795 mln on GWP 15.86 bln, up by 6.6% and 16.5% YoY, respectively.
- Total comprehensive profit amounted to HUF 242 mln versus a loss of HUF 704 mln in the same period of last year. Other comprehensive loss was HUF 43 mln compared to HUF 168 mln 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 180 mln was the unrealized loss on government securities, while there were unrealized gains to the tune of HUF 133 mln on OPUS shares held by Pannonia.

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

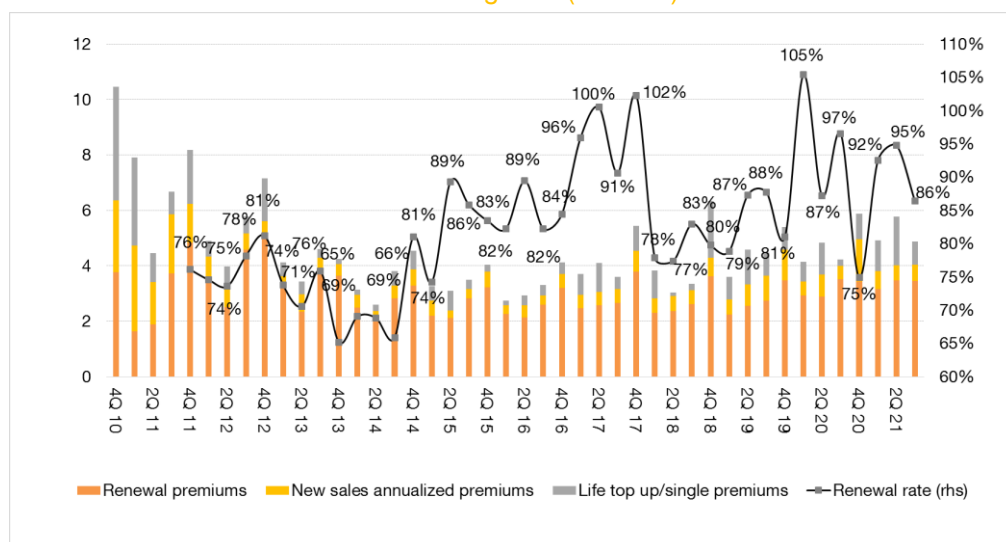
	Life				Non-life				Other				Cons.				Total			
	2021																			
	Q1-3	Q3	Q2	Q1	Q1-3	Q3	Q2	Q1	Q1-3	Q3	Q2	Q1	Q1-3	Q3	Q2	Q1	Q1-3	Q3	Q2	Q1
GWP	15 538	4 862	5 770	4 906	317	163	81	73	0	0	0	0	0	0	0	0	15 855	5 025	5 851	4 979
Reported after-tax profit	902	-191	754	339	-530	-210	-268	-52	-159	26	-108	-77	-582	-664	255	-173	795	289	123	383
After-tax adjustments	0	0	0	0	3	0	-26	29	0	0	0	0	0	0	0	0	3	0	-26	29
Adjusted after-tax profit	902	-191	754	339	-533	-210	-242	-81	-159	26	-108	-77	-582	-664	255	-173	792	289	149	354
Reported total comprehensive income	252	-202	538	-84	-612	-246	-287	-79	-159	26	-108	-77	-582	-664	255	-173	63	242	-112	-67
	Life				Non-life				Other				Cons.				Total			
	2020																			
	Q1-3	Q3	Q2	Q1	Q1-3	Q3	Q2	Q1	Q1-3	Q3	Q2	Q1	Q1-3	Q3	Q2	Q1	Q1-3	Q3	Q2	Q1
GWP	13 466	4 234	5 083	4 149	139	71	46	22	0	0	0	0	0	0	0	0	13 605	4 305	5 129	4 171
Reported after-tax profit	884	-231	844	271	144	-269	413	0	288	263	141	-116	570	191	468	-89	746	-428	930	244
After-tax adjustments	0	0	0	0	348	0	33	315	0	0	0	0	0	0	0	0	348	0	33	315
Adjusted after-tax profit	884	-231	844	271	-204	-269	111	-315	288	263	141	-116	570	191	468	-89	398	-428	628	-71
Reported total comprehensive income	34	-448	1 520	-1 038	36	-328	486	-122	288	263	141	-116	570	191	468	-89	-212	-704	1 679	-1 187
Change in adj. after-tax profit (YoY)	2%	-17%	-11%	25%	n.a.	-22%	n.a.	-74%	n.a.	-90%	n.a.	-34%	-202%	n.a.	-46%	94%	99%	n.a.	-76%	n.a.
Change in GWP (YoY)	15%	15%	14%	18%	128%	130%	76%	232%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	17%	17%	14%	19%

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 309% at the end of September compared to 351% at the end of 30 June, 2021.
- At the Group level, life insurance products contributed the most to net premium income growth in absolute terms, with unit-linked products seeing a significant 15% increase in Q3/21 YoY (mainly top-up- products: +230% YoY).

- Net premium growth of group insurance products was also significant in the first nine months of 2021 (+62% YoY) driven by the sales contracts with the Hungarian MVM Group. In contrast, net premium from traditional insurance (endowment) products slightly dropped by 2% YoY.
- The year-on-year profit increase on the unit-linked products in the first nine months of 2021 was 14% 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 15% YoY in Q3/21 from HUF 4.23 bln to HUF 4.86 bln. GWP of unit-linked life insurance reached HUF 3.55 bln (thereof 41%, ie. HUF 1.44 bln was pension insurance policies), HUF 0.9 bln were traditional life products (thereof HUF 0.32 bln came from pension insurance policies), and HUF 0.37 bln were fast-growing health insurance policies. GWP from renewals amounted to HUF 3.44 bln (-2% YoY), while GWP from the first annual premiums of policies sold was HUF 0.6 bln (+25% YoY) powered by increasing new UL insurance contracts (+40% YoY). The annualized amount of traditional life insurance new sales jumped 166% YoY, which might be attributed to considerably higher group insurance policy sales. Top-up and single premiums came in at HUF 1.76 bln (+51% YoY), accounting for 30% of total life insurance GWP in Q2/21 compared to 24% YoY. Renewal ratio improved QoQ from 87% to 95% YoY.

GWP breakdown in the life insurance segment (HUF bln)

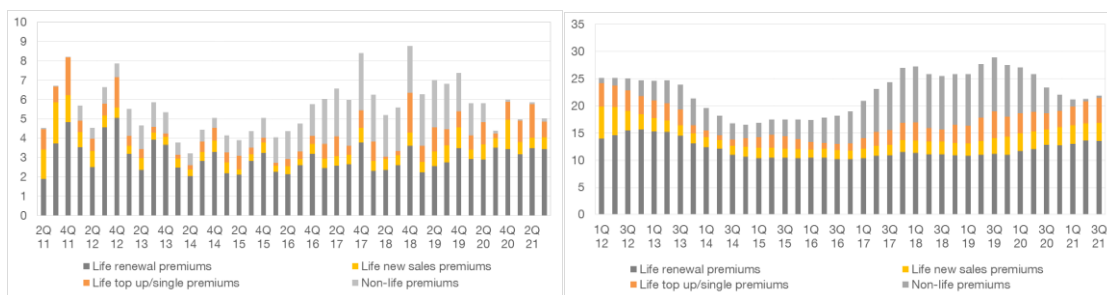


Source: Pannonia, Concorde estimate

- In the non-life segment, GWP rose by 130% YoY in Q3/21 and 128% YoY in Q1-3/21. However, net premium growth was negative (-54% YoY) in the first nine months due to higher reinsurance. Even so, significantly lower claims provision (mainly on the Italian surety insurance portfolio) than in the previous year improved results.
- 12-month rolling GWP appeared to have been stabilizing 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 sales volume, with the banking channel and own network generating together an outstanding 42% growth YoY supported by increased sales network and new products in line with the new growth-driven business strategy which was announced this summer. The share of the tied agent network represented 12%, independent brokers brought in 38% and the bank and other business developments represented the rest of new business sales.
- Investment results were positive at HUF 1.32 bln in Q3/21 (vs. HUF -2.38 bln in Q3/20) 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. We note that during the past six months inflation expectations have increased, triggering higher rising bond yields and therefore lower bond prices.
- There was a 10% decrease in total operating costs compared to the corresponding period of last year, falling from 40.8 to 32.8 as a percentage 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 15% YoY, accounting for 177% of new businesses vs. 193% YoY, while other operating costs fell 34% YoY.
- Net claims and related settlement expenses increased by merely 3% YoY in Q2/21 partly due to higher life segment claims expenditures in the aftermath of the surrenders of unit-linked products.
- The amount of net change in reserves was HUF 1.52 bln, which is made up almost entirely by the increase of unit-linked life insurance reserves.

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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%
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