

Nürnberger Beteiligungs

Insurance

23 October 2017

Low rating, but industry uncertainties persist

Nürnberger's results this year are riding out the challenging environment; net income rose 63% to €42m and guidance for the full year was upped from €40m to €60m. Against this, the dominant life insurance business faces limited medium-term visibility. At 1.02x conservative HGB book value per share and a dividend yield of 4.6%, the rating is undemanding.

Reasonable result in tough environment

The first half results for 2017 show Nürnberger Beteiligungs confronting a tough environment, above all in its core life insurance business. Conditions have made their mark notably at the top line, but profitability is holding up reasonably well under the circumstances. Overall total revenue fell by 5.5% to €2.12bn. This was attributable to both a weaker insurance business and lower investment income. Total gross premiums written dropped by 2.3% to €1.7bn and new and additional premiums fell to €233.5m, down 16.9% on the €281.1m recorded in the first half of 2016. This was entirely due to the life segment; the other segments recorded modest progress. Gross investment income dropped by 17.9% to €392m in a difficult investment environment.

Single premium life business foregone to protect margin

The group's worst performing segment was its core life insurance operation. Here new premiums written fell very sharply: 22.9% to €175.8m from €228.1m, as aggressive pricing by competitors drove down rates for single premium policies to unacceptable levels for Nürnberger, which forewent business and saw a 32.5% drop in new premiums from the segment. Low interest rates and regulatory uncertainty continued to dampen regular premium business. This fed through to a 4.2% drop in total gross premiums from €1.25bn to €1.20bn. The reform of life insurance law continues to put pressure on margins throughout the industry, unsettling demand trends.

Profit guidance increased

The company has given guidance for full year net profit of €60m, slightly ahead of the €58m reported for 2016. This compares with a forecast of €55m net profit for 2017 given in the 2016 report and accounts. The implicit forecast for the second half of some €18m in net profits looks undemanding. Even with the more modest net profit forecast in the 2016 annual report, the company affirmed that its capacity to distribute a dividend was assured.

Historic financials

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/13 IFRS	4,713	111.1	6.21	3.00	10.8	4.5
12/14 IFRS	4,963	134.9	9.44	3.00	7.1	4.5
12/15 HGB	4,658	85.4	4.11	3.00	16.3	4.5
12/16 HGB	4,256	88.1	5.03	3.00	13.3	4.5

Source: Nürnberger Beteiligungs filings. Note: HGB = German GAAP. Company changed from IFRS to HGB in 2016.

Price €67.01
Market cap €771m

Share price graph



Share details

Code NBG6
Listing Deutsche Börse Scale
Shares in issue 11.52m
Last reported net debt as at 30 June 2017 €2.39m

Business description

Nürnberger Beteiligungs-AG (NBG) is the parent company of a group of insurers and financial service companies. It is one of Germany's oldest life insurers, and currently has 5.7m contracts, €3.3bn in gross premium income and €27.6bn in AUM. In 2016, NBG sharpened its image to be seen as a "clear, easy and solid" insurer.

Bull

- New client-focused management structure.
- Well-established brand name, solid historical performance; focus on top 10 strategy.
- New organisational structure paves way for premium income growth and cost reductions.

Bear

- Low interest environment deters savers.
- Regulatory uncertainty.
- Early days for restructuring process.

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Well-equipped in testing times

The first half results for 2017 show Nürnberger Beteiligungs confronting a difficult environment, above all in its core life insurance business. Low interest rates and continuing regulatory uncertainty are the chief adverse factors it must confront. Conditions have made their mark, notably at the top line, but profitability is holding up reasonably well under the circumstances. Result from ordinary activities rose 15% to €58.7m in part due to non-recurrence of difficult underwriting conditions in property and casualty. The outlook for the full year is still encouraging and, indeed, appears to have improved, although it is unclear whether this reflects any kind of secular improvement.

Life insurance hit by low interest rates and regulatory uncertainty

The group's worst performing segment was its core life insurance operation. Here, new premiums written fell very sharply: 22.9% to €175.8m from €228.1m, as aggressive pricing by competitors led the company to forgo new single premium business in an already low margin segment and new premiums slumped 32.5%. The low margins here will soften the blow to profits. Low interest rates and regulatory uncertainty continued to dampen activity in the regular premium business, where total new business was down only 3.0%. This fed through to a 4.2% drop in total gross premiums to €1.20bn from €1.25bn.

The German life insurance market is still being affected by the new regulatory environment ushered in by the Lebensversicherungs-Reformgesetz (LVRG) in 2014, which aimed to reform the market in favour of consumers. A recent study by Willis Towers Watson, the international insurance broker and advisory firm gives an indication of the scale of this. There is no direct read-across to Nürnberger Beteiligungs's results, but the data show clearly the extent to which the LVRG has pressurised margins in the industry. The reform was designed to bring down the costs of taking out insurance and this has fed through to the rates of commission paid for selling life insurance policies under new sales guidelines. Compared to the results of a similar study undertaken two years ago, rates have fallen across the board. Average commissions among insurance brokers, which are of particular relevance to Nürnberger Beteiligungs, dropped from an average of 39.4% in 2015 to 32.1% in 2017; a fall of 7.3 per thousand (a tenth of 1%) Insurance brokers were the category most affected, with exclusive agents dropping 1.5 per thousand and multi-company agents down 5.5 per thousand.

Non-life progresses gently

Nürnberger Beteiligungs's other insurance segments showed more normal developments in far more benign market environments, but this was not sufficient to compensate for the life insurance results.

Health insurance saw new business continuing to progress with a 12.5% rise to €5.4m. Here, progress in supplementary products more than counterbalanced softness in comprehensive insurance. Foreign travel health insurance was a bright spot with the number of contracts growing 9.3% to 239,215 policies. Gross premiums written progressed by 5.3% to €108.2m.

Growth was more modest at the property and casualty operations, but solid nonetheless. Total new and additional premiums were up by 8.5% at €52.3m, with increases in both non-motor (+5.2% at €24.2m) and motor (+11.5% to €28.1m). Total gross premiums written were up 1.4% at €392.9m, although here there was a small difference in the trends in the component segments with non-motor up 3.0% at €239.1m and motor down 1.0% at €153.8m, perhaps reflecting the unwinding of guarantee-related business in the course of 2016.

Contrasting trends in current profitability

The tough investment environment can be read in the fall in gross group investment income by 17.8% to €392.3m. The drop in gains realised from €118.0m to €108.2m was almost matched by the fall in losses realised from €14.9m to €1.0m. The net investment result dropped by 18.8% to €343.8m.

Profitability in the two main parts of the business showed the same trends as business levels. The actuarial (underwriting) result in life and health insurance dropped 21.5% to €14.2m influenced by lower investment income. By contrast, there was a sharp improvement in the actuarial (underwriting) result at property and casualty, which was up 150% at €18.0m. Property and casualty benefited from the non-recurrence of high levels of natural hazard and large claims in the comparable period of 2016. This brought a sharp improvement in the combined ratio to 92.1% from 95.1%.

In both life and non-life underlying trends were magnified by the non-recurrence of €11.3m in restructuring costs, which were split roughly evenly between life and non-life. The 15% increase in results from ordinary activities to €58.7m rose to a gain of 48% at the pre-tax level. After tax, the gain improved further to 63% to €41.7m.

Some of the structural measures initiated in 2016 are starting to bear fruit. The total number of field staff dropped by 12% to 731. The shift towards digital business could be traced in the fact that all motor insurance policies are now available online. Others will follow.

Profit guidance increased

The company has given guidance for full year net profit of €60m, slightly ahead of the €58m reported for 2016. This compares with a forecast of €55m net profit for 2017 given in the 2016 report and accounts. At that point the expected decline was attributed in particular to non-recurrence of the boost to profits from the reduction in the interest rate assumption for old-age pension liabilities. It may be noted that the first half net profits of €42m implies a forecast for the second half of some €18m in net profits looks undemanding, although Nürnberger did not give details of assumptions or specific influences likely to bear on the outturn. It would seem that the company is following a conservative approach on this score.

Even with the more modest net profit result forecast in the 2016 annual report and accounts, the company affirmed that its capacity to distribute a dividend was assured. It may be assumed that this will hold good under the new forecast, with positive implications for the status of Nürnberger Beteiligungs' shares as an income play.

The shrinkage in business volumes and modest growth in shareholders' equity (+0.4%) in the first half suggest that the already healthy solvency ratio of 263% reported in the 2016 filings will have improved.

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