EDISON

Scale research report - Update

Nürnberger Beteiligungs

Insurance

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Maintaining positive earnings momentum

Nürnberger Beteiligungs (NBG) has weathered the COVID-19 crisis quite well so far, with improving gross premiums booked (despite somewhat lower new business), higher investment income in its traditional insurance business and limited growth in claims expenses in H120. After NBG almost doubled its net income in H120, management expects a y-o-y increase in FY20 earnings, assisted by higher premiums booked and visible growth in new business at a group level. At its AGM in April NBG approved the €3.30 dividend per share, which is 10% higher than last year.

H120 earnings solid despite low interest rates

NBG reported net income ex-minorities of €42.1m in H120 (vs €21.2m in H119). Its new premiums were down 2.0% y-o-y to €260.7m due to a 3.4% y-o-y decline in life insurance (amid falling regular premiums segment). Still, NBG's gross premiums booked increased 1.5% to €1.79bn, while premiums earned were up 0.2% to €1.61bn. Investment income stood at €360.9m vs €506.0m in H119, but the decline was due to the lower investment returns within the unit-linked products. NBG's claims and benefits expenses rose by only 0.6% to €1.23bn amid lower accident and vehicle claims. Hence, the combined ratio in the Property & Casualty (P&C) business improved to 90.7% from 93.2% in H119. Results were further assisted by lower operating expenses. The lower interest rate environment triggered higher additions to reserves, with Zinszusatzreserve (ZZR) up €98.3m versus €39.3m in H119.

Management optimistic in FY20

Although NBG's management remains wary of the high macro uncertainty, it expects FY20 net income to increase y-o-y, underpinned by the solid H120. This should be assisted by higher new business in life insurance (driven by the single premium business) as well as health insurance (P&C should be stable vs last year). Nevertheless, booked premiums should remain flat y-o-y due to a drag from regular premium business, according to management. This compares with the most recent forecasts of the German Insurance Association (GDV) of a 2.0% decline in premiums in 2020 due to a 6.5% decrease in life insurance.

Valuation: Offering a 4.6% dividend yield in FY20

Although NBG trades at a 70% premium to peers at its current FY19 P/E of 12.2x, we estimate a 27% y-o-y increase in net income in FY20 would erase the premium (based on current Refinitiv consensus for its peers).

Historical financials

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/16	4,189	88.1	5.0	3.0	14.3	4.2
12/17	4,387	147.3	8.1	3.0	8.8	4.2
12/18	4,404	97.3	5.1	3.0	14.0	4.2
12/19	4,567	81.3	5.9	3.3	12.2	4.6

Source: NBG accounts

Price	€71.50
Market cap	€824m

Share price graph

Share details

Code	NBG6
Listing	Deutsche Börse Scale
Shares in issue	11.52m
Liquid resources at end-June 2020	€600.6m

Business description

Nürnberger Beteiligungs is the parent company of a group of insurers and financial service companies. It is one of Germany's oldest insurers, operating since 1884. It offers life, health and property and casualty insurance; the strongest demand is for unit-linked life, disability and pension insurance and standard pension insurance.

Bull

- Strong financial position.
- Well-established brand name and solid historical performance.
- Stable annual dividend payments.

Bear

- Low interest rate environment.
- Regulatory uncertainty.
- Highly competitive industry.

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Edison profile page

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Financials: New premiums down by 2.0% y-o-y in H120

NBG reported a drop in overall revenue (including insurance premiums, investment income and fee and commission income) of c 2.0% y-o-y to €2.3bn in H120, with COVID-19 exerting only limited pressure on its business. Its gross premiums booked increased by 1.5% y-o-y to €1.79bn in H120 (premiums earned were up 0.2% y-o-y), driven by the P&C (up 3.4% y-o-y to €477.3m) and health insurance (up 10.2% y-o-y to €125m) segments. Meanwhile, NBG's gross premiums in the life insurance segment remained broadly unchanged at €1.19bn. New premiums at group level fell by 2.0% to €260.7m, mostly due to life insurance (-3.4% y-o-y) where product sale suffered the most from the limited direct contact with customers due to social distancing measures.

At the same time, investment income was down by 28.7% y-o-y to €360.9m in H120, affected by the pandemic-induced turmoil in financial markets. However, it is worth noting the decline is attributable to unit-linked products (€41.7m loss vs a €132.7m gain in H119), while NBG's investments in the traditional insurance business improved by 7.8% y-o-y to €402.6m. This includes, among other things, current income of €322.9m (vs €282.0m in H119) and realised gains of €141.1m (H119: €115.5m). We believe this suggests NBG has prepared its portfolio well for the persisting low interest environment and the financial markets turmoil.

NBG's technical reserves related to its traditional insurance business rose by €318.0m in H120 (€222.7m in H119), with the ZZR accounting for €98.3m, visibly up from €39.3m in H119 as a result of the continued decline in market interest rates. At the same time, reserves related to the company's unit-linked business declined by €790m, corresponding to the change in value of related investments held within the unit-linked products.

Meanwhile, operating expenses went down by 7.8% y-o-y to €278.0m (with the decline attributable to the life insurance business), which we believe may be partially due to lower acquisition costs given the decline in new business. Earnings were also assisted by a lower net negative result on premium refunds (€147.1m vs €166.1m in H119). Consequently, NBG's pre-tax profit increased by 65.5% y-o-y to €64.5m. We note that in H120, the company recognised restructuring expenses of €3.7m in H120 (none were booked in H119). As a result of a lower effective tax rate (33% vs 43% in H119), net income (ex-minorities) almost doubled to €42.1m in H120.

Exhibit 1: H120 results highlights

(€m)	H120	H119	% y-o-y
Gross premiums booked	**1,793.7**	**1,767.9**	**1.5%**
Premiums earned	**1,609.0**	**1,606.2**	**0.2%**
Net result on premium refunds	(147.1)	(166.1)	-11.4%
Investment income	360.9	506.0	-28.7%
Unrealised profits/losses from unit-linked insurance investments	(677.6)	816.2	N/M
Other net technical income/(expense)	(13.9)	(21.2)	-34.7%
Claims expenses	(1,234.0)	(1,226.9)	0.6%
Change in other technical provisions	473.1	(1,147.9)	N/M
Operating expenses	(278.0)	(301.7)	-7.8%
Change in equalisation and other reserves	(10.4)	(13.2)	-21.1%
Other net (non-technical) income/(expense)	(13.6)	(12.2)	11.4%
Goodwill amortisation	(0.3)	(0.3)	0.0%
Extraordinary result	(3.7)	0.0	N/M
Pre-tax profit	**64.5**	**39.0**	**65.5%**
Income and other taxes	(21.2)	(16.9)	25.6%
Effective tax rate	33%	43%	-10.5pp
Net income (including minorities)	43.3	22.1	96.1%
Minorities adjustment	(1.1)	(0.8)	34.9%
Net income (ex-minorities)	**42.1**	**21.2**	**98.5%**

Source: NBG accounts

NBG's balance sheet remains strong, as illustrated by the fact that on 28 April Fitch Ratings reaffirmed its financial strength rating of A+ with a stable outlook for NBG's subsidiaries: NÜRNBERGER Lebensversicherung, NÜRNBERGER Allgemeine Versicherung and

NÜRNBERGER Krankenversicherung. NBG's issuer default rating of A was reaffirmed. We note that NBG's liquid resources improved from €415.3m at end-2019 to €600.6m at end-June 2020.

Segment analysis

In the **life insurance segment**, NBG's new premiums reached €183.0m in H120 (down 3.4% y-o-y) due to a decrease in new business related to regular premiums (down by 16.3% y-o-y), which was only partially offset by the single premium business growth of 5.8% y-o-y. NBG saw the highest demand in unit-linked life and pension insurance, traditional pension insurance, as well as disability insurance. In the traditional life insurance business, technical reserves rose by €257.2m (vs €165.1m in H119), while investment income reached €355.1m (vs €332.1m in H119). Consequently, segment profit was up c 10% y-o-y to €20.0m.

In the **P&C segment**, new premiums remained broadly stable y-o-y at €70.5m in H120, as growth in property, liability and accident insurance (up by c 20% y-o-y to €28.3m) was offset by lower new business in vehicle insurance (down c 10% y-o-y to €38.2m). Gross premiums improved by 3.4% y-o-y to €477.3m, while premiums earned fell slightly by 0.8% y-o-y to €312.0m. However, as claims expenses went down by 5.7% y-o-y NBG's combined ratio improved from to 90.7% in H120 from 93.2% in H119. We understand that COVID-19 had a net positive impact on NBG's claim expenses, as higher claims related to plant closure and event cancellation insurance was offset by lower claims from accident and vehicle insurance. This assisted an increase in segment profit to €19.4m in H120 (vs €7.5m in H119), as operating expenses in the segment remained broadly stable at c €107.0m in H120.

Earnings in the **health insurance segment** were €3.1m in H120, up from €2.5m in H119. New premiums increased to €7.2m from €5.9m, while gross premiums booked improved to €125.5m (up c 10% y-o-y). New business continues to be supported by both full and supplementary insurance products. Finally, earnings in the **banking services business** reached €2.2m versus €3.3m in H119, with the 7.5% y-o-y increase in fee and commission income to €21.5m offset by lower investment income and higher operating expenses.

Management expects growth in new business in FY120

In response to COVID-19, in July the GDV revised its FY20 forecasts and now expects premiums to decline by c 2.0% y-o-y, with the decrease in life insurance of 6.5% (due to lower regular premiums) only partially offset by growth in P&C and health insurance of 2.0%. Nevertheless, GDV highlights the insurance industry has been adapting to the low interest environment for some time (for example, through the introduction of products with a flexible guarantee), while the Solvency II introduction in 2016 has strengthened the capital buffer in the sector. Furthermore, process digitalisation introduced in recent years allowed for a smooth switch to a work-from-home mode (with more than 90% of employees in the German insurance industry working from home offices during the crisis).

While NBG's management acknowledges the uncertain macro environment, it expects a slight increase in premiums across all segments and visible growth in new business. In the life insurance segment, growth in new business is expected to come from the single premium business (where customers pay in a lump sum at the inception of the insurance contract) in particular. Still, booked premiums should remain flat due to lower business based on insurance products with regular premiums (paid in regular intervals throughout the lifetime of the insurance contract). Health insurance should grow visibly both in terms of new premiums and overall premiums booked, according to management. P&C insurance is expected to be somewhat dampened by the current crisis, translating into stable new business (in comparison to earlier management expectations of significant growth in FY20). Gross premiums should slightly increase year-on-year. Finally, in the banking segment, NBG anticipates continued growth in demand for its wealth management services, while the result in the investment funds brokerage business should remain flat versus the prior year. Consequently, management expects a rise in net income compared to FY19.

Valuation

There are no Refinitiv consensus estimates for NBG and management has not quantified its earnings expectations for 2020 (apart from stating it expects higher net income vs the prior year). Consequently, we have prepared a peer comparison based on FY19 net income, but also provided FY20 consensus estimates for NBG's peers for reference. With a FY19 P/E ratio of 12.2x, NBG is trading at a c 70% premium on FY19 P/E versus the peer median of 7.2x. At the same time, we note that the peer group median for FY20e currently stands at 9.6x, which is visibly above the FY19 figure (implying earnings decline this year). We estimate that to be in line with peers (ie no discount or premium), NBG would have to achieve bottom-line growth of 27% this year to c €85.8m, which compares with the €42.1m already booked in H120. NBG's AGM in April 2020 voted in favour of a €3.30 dividend per share, which represents a 10% increase versus the prior year. This implies a 4.6% yield and compares with 6.6% for its peers.

Exhibit 2: Peer group comparison

	Market cap (m)	Share price*	P/E (x)		Dividend yield (%)	
			2019	2020e	2019	2020e
UNIQA Insurance Group	€1,579	5.09	6.7	36.4	10.4	0.0
Helvetia Holding	CHF3,871	73.00	6.9	10.3	6.6	7.1
Baloise Holding	CHF6,505	133.30	8.9	12.6	4.8	5.0
Ageas	€6,662	34.12	6.7	6.2	7.8	7.6
Swiss Life Holding	CHF10,903	339.90	9.3	9.9	5.9	6.0
NN Group	€10,222	30.95	7.9	8.2	7.0	8.0
CNP Assurances	€6,994	10.15	5.1	6.8	8.8	9.1
AXA	€37,780	15.57	6.0	8.0	8.6	9.0
Allianz	€67,818	161.98	8.6	10.4	5.9	5.9
Talanx	€6,871	27.18	7.4	9.3	5.3	5.6
Peer group median			**7.2**	**9.6**	**6.8**	**6.6**
Nürnberger Beteiligungs	€824	71.50	12.2	N/A	4.2	4.6
Premium/(discount)			**69.9%**	**N/A**	**(38.1%)**	**(29.6%)**

Source: Refinitiv. Note: Priced at 28 September 2020. *Local currency.

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