

# ZAVAROVALNICA TRIGLAV

LJSE ticker: ZVTG  
Bloomberg: ZVTG SV

10<sup>th</sup> April 2017

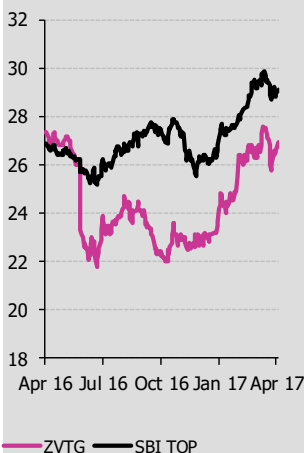
www.triglav.eu

**Target price:**  
**28.5 EUR**

**Previous target price:**  
25.6 EUR, HOLD (18.11.2016)

**Recommendation:**  
**HOLD**

**12 months stock performance in EUR**



Apr 16 Jul 16 Oct 16 Jan 17 Apr 17

— ZVTG — SBI TOP

**Leading domestic market share.**

**Important presence in the West Balkan region.**

**Generous dividend yield.**

**Stable profitability.**

**A rating.**

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**Completion date and time:**  
12.4.2017 12:45

**First release:**  
12.4.2017 12:50

**Market data capture date:**  
10.4.2017 15:00

## Stock data as of 11.04.2017

Market price (EUR)	26.8	Market Cap (EUR)	608.2
52 week range (EUR)	21.8-27.6	No. of Shares	22.7
Avg. daily trade vol., EUR(k)	99.48	Free float	37%
Average daily % of stock traded	0.018%	Dividend yield	9.3%

Price performance	3 months	12 months	Multiples:	TTM	2017F
price change in %	8.1%	-2.2%	P/E	7.5	8.0
SBI TOP index change in %	4.9%	8.2%	P/B	0.82	0.82
relative to SBI TOP index in %	3.0%	-9.6%	P/GWP	0.65	0.65

## Key figures (According to International Accounting Standards) Consolidated data in EURm

Income statement:					Balance sheet:			
	million €	FY2015	FY2016	2017F	2018F	million €	FY2015	FY2016
GPW	919.1	936.0	941.9	960.0	Equity Inv.	189.1	238.4	238.4
Growth YoY	3.5%	1.8%	0.6%	1.9%	Fin.assets	2,959.9	3,077.0	3,077.0
NPE	839.2	849.6	862.6	879.4	Tech.prov.	2,600.4	2,660.8	2,660.8
Growth YoY	2.4%	1.2%	1.5%	1.9%	Equity	692.9	734.0	734.0
Claims paid	570.3	577.1	609.5	623.8	Assets	3,481.0	3,574.9	3,574.9
Claims ratio	68.0%	67.9%	70.6%	70.9%	Inv./Prov.	1.14	1.16	1.16
Net income	88.8	81.9	76.8	64.8	E/A	19.9%	20.5%	20.5%
Growth YoY	4.0%	-7.8%	-6.3%	-15.6%	E/Prov.	26.6%	27.6%	27.6%
<b>EPS</b>	<b>3.91</b>	<b>3.60</b>	<b>3.38</b>	<b>2.85</b>	ROE	12.8%	11.2%	11.2%

## Investment Thesis:

- Largest Slovenian Insurance Company:** Triglav Group is a market leader on the relatively mature Slovenian insurance market. Namely in 2016, it had around 34.8% market share in total gross written premiums followed by Sava Insurance (Sava Re Group) with 17% and privately owned Adriatic Slovenica with 15% market share. In life insurance Group had a 29.6% market share and in non-life 36.8% (including 7.9 p.p. of health insurance). Therefore, Zavarovalnica Triglav was relatively successful in maintaining its market share despite increasing competition and despite the shift in its strategy in 2010 from market share maintenance to profitability (it had been barely profitable back then with roughly 41% market share).
- Attractive dividend yield:** Although net profit for 2016 was somewhat lower than in 2015 after which Group paid out 2.5 EUR per share, the management proposed that Triglav Group in 2017 pays out the same amount. According to the unaudited current best estimate the solvency ratio at the end of September 2016 stood at 276% (the estimated dividends for 2016 are not included). Given strong results in the last quarter 2017, almost 70% pay-out ratio should be in line with established dividend policy.

Solvency 2 ratio		Dividend policy
> 300%	Excess CAR	The possibility of increasing the share of dividend payments
250 – 300%	Target CAR	Dividend payout within the target range of 30% - 50% of Triglav Group net profit.
200 - 250%	Suboptimal CAR	The possibility of reducing the share of dividend payments (lower payout ratio).
150 – 200%	Warning CAR	Reduction in the share of dividend payments.
< 150%	Insufficient CAR	No dividend payments.

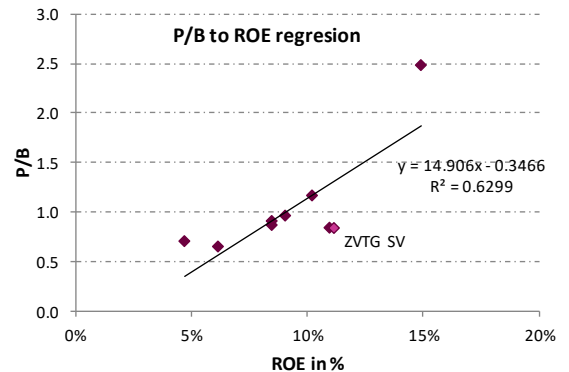
- Focus on profitability:** In the last few years the management successfully maintained high level of profitability, however, there are negative effects related to low interest rate environment. The guidance for 2016 was set at EUR 80m-90m of net profit which is 10% to 20% lower than in the previous two extraordinary years. For 2017 the profit guidance was additionally lowered to range between EUR 70m and EU 80m. Net income result could be under pressure due to unfavourable environment.

in EURm	2011	2012	2013	2014	2015	2016P	2016	2017P
Gross written premium	989	936	901	888	919	Around 900	936	Around 930
Profit before tax	58	90	84	100	102	80 - 90	95	70 - 80
Combined ratio non-life	90.1%	89.6%	91.0%	96.3%	92.8%	Around 95%	92.9%	Around 95%

Given management guidance forward multiples are still quite low and very attractive:

- 0.65 for Forward P/GWP 2017;
- 8.7-9.9 for Fwd. P/E 2017 (given 3-year average tax rate net profit of EUR 60m – 69m);
- 0.80-0.81 for Fwd. P/B 2017 (BVPS - adjusted for dividends and net profit – EUR 32.4 – 32.8).

In the renewed strategy for the period 2017-2020 Triglav Group stated that Group's orientation will target to become a modern, innovative and dynamic insurance group, firmly remaining the leader both in Slovenia and the wider region. The Group will focus on profitability and increasing the value of the Group. The goal is to reach ROE above 10% in 2020. In comparison to the previous strategy when the Triglav Group targeted 10% market share on all foreign markets, they now project a long-term accelerated growth in six countries of South-East Europe. That should be achieved through organic growth and possibly also with acquisitions. Group will primarily invest in segment with higher potential of growth (life and pension insurance) and develop digital business model which will enable Triglav to target markets outside the existing region. Triglav Group will also work on financial stability which will enable the Group to maintain an "A" rating.

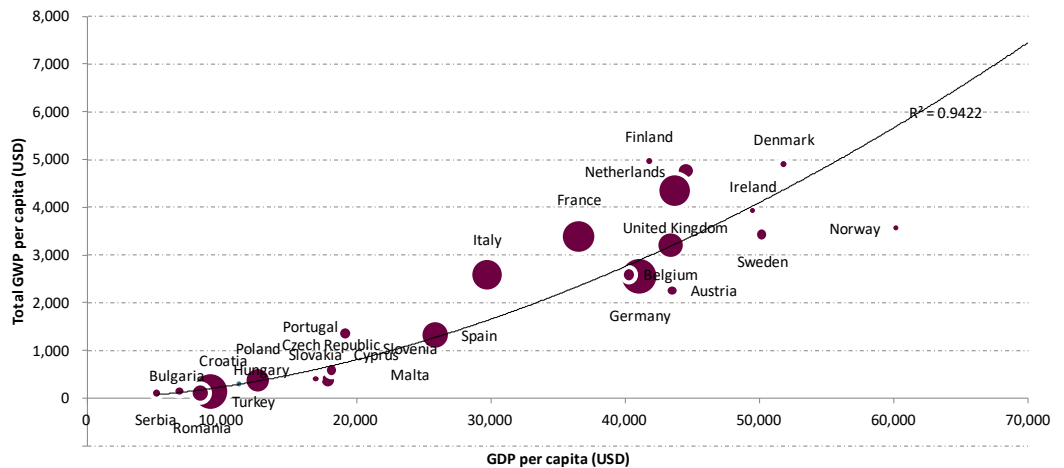


- **Strong capital position:** Prior to the implementation of Solvency II, there were some doubts how exactly small Slovenian insurance companies will be affected by new regulations which completely changed the methodology of calculating risk and transforming it into capital ratio. However, the data and presentation from analyst meeting indicated that Zavarovalnica Triglav Group is well capitalized and hence well prepared for risks related to market volatility and insurance operations. Namely Group ended 2015 with total eligible own funds of EUR 800m which consists of Share capital, Reconciliation reserves and Subordinated liabilities. Given Underwriting, Operational Financial and Non-financial risks the Group has to have SCR (Solvency Capital Requirement) of EUR 326m. With Surplus amounting to EUR 474m, capital ratio at the end of January 2016 stood at 245%. In addition, this ratio was already adjusted for 2016 dividend payout. According to the unaudited current best estimate the solvency ratio at the end of September 2016 stood at 276% (the estimated dividends for 2016 are not included).

IFRS Balance Sheet		Solvency II market consistent Balance sheet		Gross capital req. (in EUR million)	
Assets	3,493	Assets	3,079	<b>Triglav Group</b>	
Equity	704	AFR	878	Total market risk	234.3
Liabilities	2,789	Liabilities	2,202	Total counterparty default risk	34.7
				Total capital requirement for life underwriting risk	44.3
				Total health underwriting risk	40.6
				Total non-life underwriting risk	146
				Diversification	-154.1
				<b>Basic SCR</b>	<b>345.8</b>
				Total capital requirement for operational risk	25.7
				Loss-absorbing capacity of technical provisions	-0.4
				Loss-absorbing capacity of deferred taxes	-58.8
				<b>SCR</b>	<b>312.3</b>
				Capital requirement for companies with sectoral rules	14
				<b>Total SCR *</b>	<b>326.3</b>

Source: Triglav Analyst Presentation

- Growth through regional presence:** In the past few years efforts have been directed towards expanding the company's operations in the Western Balkan countries where the Group had an impressive 19.6% market share in 2015. These markets remain less penetrated in terms of insurance premium as a percentage of GDP, especially when looking at life insurance (for example even though non-life insurance in Slovenia is close to mature European countries, life severely lags) and thus represent a good long term growth opportunity. Namely insurance market regression between GDP per capita (x) and insurance density (y) shows the mutually tight relation and with it the prospects of undeveloped countries with low insurance density.



Source: Swiss Re 2015, Sava Reinsurance Company, Triglav, Xprimm.com, Alta Invest estimates

We must however note that in the recent years growth stalled due to unfavourable economic environment, especially for life insurance. Nevertheless, opportunity for growth is there, therefore the region can be a source of solid growth for Triglav Group after economic situation improves. And given the different macro institutions estimates, this is forecasted for the next few years.

Zavarovalnica Triglav has in the past expressed their interest for acquisitions in the region. Since economy of scale is important in terms of costs and insurance statistics, Zavarovalnica Triglav could benefit from acquisition, but this also depends on acquisition price. In addition, this will probably be the only way to gain at least 10% market share on all foreign markets which is one of the strategic long-term goals. Since Croatia Osiguranje was acquired by Croatian company Adris Group, there are only limited takeover opportunities in the region. Among possible targets could be Serbian insurers DDOR (Unipol) and Dunav Osiguranje (state owned), while on other markets only smaller market share could be gained through acquisitions.

- Takeover possibility:** The size is important in this industry in order to gain competitive advantage. Given the fact Zavarovalnica Triglav has an important domestic market share and meaningful regional presence (in terms of exposure and market shares) and around EUR 1bln of GWP we believe it can be an interesting target. Also the state has 63% stake in the company while seeking for budget and debt improvement. Therefore we believe disposal of this stake would be economically prudent and we see no reason for the company to be labelled as strategic, although we recognise that past experiences are not in favour to speculate on government sale. Consequently it was at no surprise that Triglav was again (in 2015) labelled as strategic investment. Therefore we would not count on this thesis in the short or mid-term.

Here we note that in 2012 KBC sold Polish Warta to Talanx at P/E 17.8 and P/B 2.27 (ROE 13.6%), implying a value of EUR 68.1 per Zavarovalnica Triglav share, although we should also recognise Polish market was more perspective than Slovenian in terms of volume and possible growth so a discount is justified. More appropriate are therefore takeover valuations of EUR 36.7, which is confirmed by Croatia Osiguranje deal (P/B 1.33 and P/GWP 0.74 on 2013 results).

- Positive non-core development:** Due to slow growth of domestic insurance market in 2014 Triglav Group started strengthening its presence in pension insurance market and increased its ownership in Skupna Pokojninska družba to 66.65%. Previously, this company had three major shareholders – Zavarovalnica Triglav, Nova Ljubljanska banka and Gorenjska banka. While Gorenjska banka and most of other smaller shareholders accepted takeover offer from Triglav, NLB decided to maintain its 28.13% ownership of the pension insurer. As of the end of the year, Skupna had EUR 218m AuM and domestic market share of 11.9%. Combined with Triglav pension insurance segment Group had around 20.9% of Slovenian pension insurance market.

In 2015 Triglav signed a preliminary agreement to sell around 60% of the land plot on the BTC (biggest shopping centre) site in Ljubljana to IKEA. In 2016 Triglav announced that concluded an

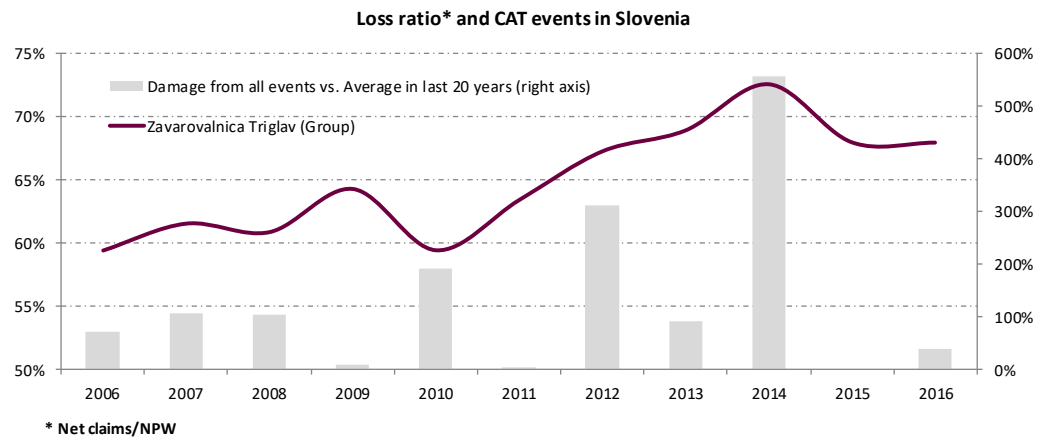
agreement on the sale and development of a land plot on the site of BTC in Ljubljana with IKEA Slovenija, trgovina na drobno, d.o.o. in the total value of EUR 16.1m. According to the statement Triglav will continue with the sale and development of a land (30,000 m<sup>2</sup>) which was not sold to IKEA. As the management explained on analyst meetings, money received from the sale will not be reinvested strictly in real estate investments.

Triglav Group also decided that they will not continue to develop Triglav Naložbe (financial holding) in the direction of private equity. The management believes that limited allocation capabilities are preventing them to build large diversified portfolio. Hence Triglav Naložbe was merged with their parent company Zavarovalnica Triglav d.d. In 2015 Triglav also started more actively divesting companies owned by aforementioned holding – in July 2015 25% of Elan was sold to Merrill Lynch International and Wiltan Enterprises Limited while the sale process for sale of AvriGO (bus transport company) was finalised at the beginning of 2016.

Although Triglav decided not to dip into private equity on its own, in 2017 they formed regional platform for alternative investments in cooperation with the KGAL Group. The KGAL Group is a specialised investment manager, managing assets of approx. EUR 22bn and providing its services to insurance undertakings, pension funds and institutional investors in the German and other European markets. The newly founded company will have EUR 1m of capital, of which EUR 0.499m will be paid in by Zavarovalnica Triglav.

**Risks:**

- **Natural disasters:** At the beginning of 2014 Slovenia was hit by extreme weather conditions and frost and later on by floods. According to Administration of the Republic of Slovenia for Civil Protection and Disaster Relief total damage due to catastrophic events were estimated to EUR 655m, however, both big Slovenian insurance groups sustained relatively limited loss. On the other hand 2015 was very favourable for insurance companies in Slovenia since there were no major loss events. This contributed to 2015 earnings beat. While official data for 2016 was not yet released, major loss event in the last year was cold weather and frost at the end of April 2016. The most affected were farmers with damage amounting around EUR 44m. The Triglav Group reported that frost and other mass loss events in Slovenia and other markets caused a damage of around EUR 19m, mostly on crops.



Source: Annual reports, SURS, URSZR, Alta

- **The low rate environment:** This could negatively affect long-term investment revenues. Over the last few decades interest rates in OECD countries (with the exception of the rates on the European periphery where also default risk increased – but even here last year brought significant decrease in yields) have been trending downward and negatively affecting investment income from the fixed income part of the portfolio. This is especially affecting the future return on assets that are invested in the current environment (reinvestment activity and growth of premiums). Since it is hard to predict which scenario we will see in the next few years, insurance companies (especially in the life segment) are in a difficult position and have to look for higher interest rates in long-term bonds or keep money in deposits or high quality short-term zero-yield bonds.
- **Interest rate risk:** Due to large exposure to bonds, second quarter 2015 and also last quarter 2016 exposed risks related to sudden negative moves of interest rates. These risks were recognised already in last few years, however, trends were relatively slow and positively affected valuations either through higher net investment income due to realised gains or through building of fair value reserves which led to higher book value per share. We should note that 2015 and 2016 events indicated that low liquidity and fear against raising rates can lead to relatively large moves in very short timeframe and can have relatively large negative impact on capital strength of

the insurer and also negative effect on the valuations. The bond market environment is currently very unpredictable and is likely to remain in that state also in the coming period. Yield dynamic is likely to be influenced by FED monetary tightening and ECB bond buying program, which is lowering especially yields on German bonds.

Yield on 10 year bonds	4Q2016	3Q2016	2Q2016	1Q2016	4Q2015	3Q2015	2Q2015
Slovenia	0.83	0.59	1.09	1.32	1.69	1.82	2.32
Germany	0.21	-0.12	-0.13	0.15	0.63	0.59	0.76
Spain	1.82	1.19	1.26	1.22	1.60	1.73	2.33
Italy	1.82	1.19	1.26	1.22	1.60	1.73	2.33
France	0.69	0.19	0.18	0.49	0.99	0.99	1.20
Netherlands	0.36	0.00	0.09	0.36	0.79	0.78	1.04
EUR Europe Corporate IG	1.20	0.66	0.91	1.17	1.79	1.89	1.89
EUR Europe Covered Bonds IG	0.74	0.25	0.44	0.68	0.98	0.92	1.12

Yield on 5 year bonds	4Q2016	3Q2016	2Q2016	1Q2016	4Q2015	3Q2015	2Q2015
Slovenia	0.03	0.00	0.05	0.30	0.69	0.89	1.23
Germany	-0.53	-0.58	-0.57	-0.33	-0.05	-0.01	0.08
Spain	0.60	0.26	0.29	0.28	0.50	0.75	1.25
Italy	0.60	0.26	0.29	0.28	0.50	0.75	1.25
France	-0.12	-0.44	-0.35	-0.20	0.08	0.22	0.33
Netherlands	-0.37	-0.47	-0.42	-0.34	-0.04	0.05	0.15
EUR Europe Corporate IG	0.37	0.13	0.31	0.51	0.93	1.07	1.03
EUR Europe Covered Bonds IG	0.07	-0.22	-0.07	0.11	0.36	0.36	0.45

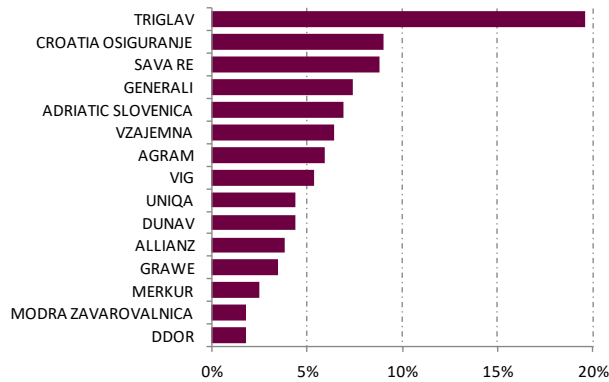
Source: Bloomberg

Interest rate sensitivity analysis for Triglav Group:

Type of security	+100 bp	-100 bp
Government securities	-39,339,300	42,114,784
Securities issued by financial institutions	-19,103,053	20,507,883
Securities issued by companies	-23,058,962	24,443,159
Composite securities	-588,162	1,064,514
Other	9,707,396	-10,726,699
<b>Total</b>	<b>-72,382,081</b>	<b>77,403,641</b>
Impact on comprehensive income	-69,840,458	74,996,286
Impact on the income statement	-2,541,623	2,407,355

Source: Annual Report 2016

- **State ownership:** With around a 63% ownership stake, the government controlled entities remain the majority shareholders in the Triglav Group. Although some backing from the budget could be welcome in crisis times (which in the last global crisis wasn't needed), it might represent a burden for the day-to-day operation, strategic focus and management stability due to political influences. While in the last few years this influences were less present, we have seen multiple management changes in the period prior 2014. Since we do not believe the government made any significant changes to corporate governance in state owned companies, future political influences cannot be excluded.
- **Localized market share:** Although Triglav's market share in Adria region is 19.6% that is mainly due to the strong position in Slovenia which is also the most developed country in the region. In reality presence in the region is very uneven. While in 2015 Slovenian insurance Group held market share of 36.4% in Slovenia, 39.2% in Montenegro and 18% in Macedonia (non-life), on all other markets (Croatia, Serbia, BiH) it controls less than 10% of the market. Given limited opportunities for acquisitions, it will not be easy/cheap for Triglav to become market leader and achieve faster growth.



Source: Zavarovalnica Triglav

- Region is still unstable:** Although region presents an opportunity, SEE region is also a highly macroeconomically and politically unstable region with a legal system and controlling mechanism still in earlier stages of development. While we believe SEE should be considered as emerging market, it (for now) lacks traditional characteristics like commodities or appeal due to low labour costs which normally result in fast growth of GDP. Hence, we do not expect any extraordinary growth in Adria region.

Also, operational risks are higher due to high costs and/or claims. This was still evident in 2016, where combined ratios for Zavarovalnica Triglav businesses in the region were as follows: 111.5% (+0.4 p.p.) in Croatia, 103.4% (+0.4 p.p.) in Serbia, 97.8% (-3.2%) in Montenegro, 99.8% (-0.4 p.p.) in BiH and 97.4% (-3.3 p.p.) in Macedonia. Although trends are mostly positive, high combined ratios mean Zavarovalnica Triglav still has significant leverage to increase its bottom line with tighter cost and claims control (both processes now in progress). However changing the culture and adverse business practices can be a long-term project and even unsuccessful. Moreover, the growth of the SEE business could lead to necessary capital injections.

Forecast from IMF regarding the countries in the region is seen in the following table.

GDP growth in %, constant prices	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Slovenia	-2.7	-1.1	3.1	2.3	2.3	1.8	1.6	1.6	1.6	1.5
Croatia	-2.2	-1.1	-0.4	1.6	1.9	2.1	2.2	2.3	2.3	2.0
Serbia	-1.0	2.6	-1.8	0.7	2.5	2.8	3.5	3.5	4.0	4.0
Bosnia and Herzegovina	-0.9	2.4	1.1	3.2	3.0	3.2	3.7	3.9	4.0	4.0
FYR Macedonia	-0.5	2.9	3.5	3.7	2.2	3.5	3.5	3.6	3.8	3.8
Montenegro	-2.7	3.5	1.8	3.2	5.1	3.6	2.4	3.9	2.8	4.8
Kosovo	2.8	3.4	1.2	4.0	4.1	3.3	3.6	3.6	3.8	4.0

Source: International Monetary Fund, World Economic Outlook Database, October 2016

- Supplementary health insurance:** After period of silence, left-wing Coalition formed by the winning party SMC the Government presented final draft of Healthcare and Health Insurance Bill. Among other changes Ministry of Health proposes the end of the supplementary insurance in current form. If supported in the parliament, health services will be paid by the state which will fund this expenses also through additional personal income tax (from wages, dividends, rents etc.), albeit draft and explanations are changing over time. The proposed abolition of supplementary health insurance which is scheduled to begin in 2019 and be completed by 2021, will affect also some insurance companies in Slovenia. The largest player in this segment is Vzajemna with 56% market share in 2016, followed by Triglav and AS which held 23.3% and 20.5%, respectively. Given results for 2016 Triglav recorded health insurance GWP in the amount of EUR 114m (13.4% of Group's GWP) and net profit of EUR 3.3m (4% of Group's net profit). While this could affect the valuation of Triglav Group stock, we will first have to wait for bill to be passed and then also for the response from the companies. Although in case of Triglav in 2016 the profitability of health insurance segment was slightly above Group's level, the insurer can somewhat offset lower profit through different capital allocation. Nevertheless, we believe bill will be a setback for the insurance industry and will possibly also slow down the development of new health insurance products.

## 2016 Results and Recent news

### After strong last quarter, net profit above expectations

million €	FY2015	FY2016	YOY	4Q15	3Q16	4Q16	QoQ	YOY
GPW	919.1	936.0	1.8%	200.8	214.2	215.3	0.5%	7.2%
NPE	839.2	849.6	1.2%	209.6	214.9	219.1	1.9%	4.5%
Claims	570.3	577.1	1.2%	142.9	148.5	134.4	-9.5%	-6.0%
Claims Ratio*	68.0%	67.9%		68.2%	69.1%	61.3%		
Net Expenses	214.9	232.8	8.4%	67.6	55.0	72.9	32.5%	7.7%
Expense Ratio*	25.6%	27.4%		32.3%	25.6%	33.3%		
Net income	88.8	81.9	-7.8%	8.6	19.2	29.2	51.9%	238.7%
Margin	9.7%	8.8%		4.3%	9.0%	13.6%		

\* For this calculation, we use our own ALTA Invest methods.

- The Triglav Group recorded a total of EUR 936m in consolidated GWP in the reporting period. Top line result was above planned EUR 900m and also above our expectations of EUR 918.2m.
- In terms of premium segments, non-life insurance premium, which accounted for 65% of consolidated written premium, was up by 2% YoY, health insurance grew by 5% YoY and life segment GWP stagnated. Note that 2016 non-life GWP was affected by divestment of Czech insurer and that for life segment Triglav commented there was a high sums paid out on the maturity of insurance policies.
- In terms of different geographical markets the highest premium growth was recorded in Serbia (22%), followed by Croatia (8%), Bosnia and Herzegovina (8%), Macedonia (2%) and Montenegro (2%). Consequently the share of GWP in the markets outside Slovenia slightly increased to 17.3%. On domestic market GWP increased by 2% YoY.

Gross written premium in EURm		Country	Non-life	Life	Total	Index		Structure		
Zavarovalnica Triglav	Slovenia	422.9	170.3	593.1	103	97	101	62%	79%	66%
Triglav Zdravstvena zav.	Slovenia	115.0	-	115.0	106	-	106	17%	-	13%
Skupna pokojninska družba	Slovenia	-	29.2	29.2	-	103	103	14%	-	3%
Triglav Osiguranje	Croatia	41.0	7.9	48.9	110	102	108	6%	4%	5%
Triglav Osiguranje, Sarajevo	BiH	15.4	5.1	20.5	106	125	110	2%	2%	2%
Lovčen Osiguranje	Montenegro	29.9	-	29.9	102	-	102	4%	-	3%
Triglav Osiguranje	Serbia	32.2	2.2	34.4	117	332	122	5%	1%	4%
Triglav Osiguranje, Banja Luka	BiH	5.0	-	5.0	100	-	100	1%	-	1%
Triglav Osiguruvanje	Macedonia	21.6	-	21.6	102	-	102	3%	-	2%
Lovčen životna osiguranja	Montenegro	-	1.3	1.3	-	112	112	1%	-	0%
<b>Total</b>		<b>683.1</b>	<b>215.8</b>	<b>898.9</b>	<b>103</b>	<b>100</b>	<b>102</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
Triglav RE	Slovenia	117.4	-	117.4	100	-	100	-	-	-
<b>Consolidated</b>		<b>723.4</b>	<b>212.6</b>	<b>936.0</b>	<b>102</b>	<b>100</b>	<b>102</b>			

- Gross claims paid by the Group totaled EUR 606m or 2% more than the year before. In comparison to the very favourable 2015, mass loss events totaled EUR 19m. The largest were the summer storms with hail and the April frost and local flooding in Slovenia. Net claims increased by 1.2% and totaled EUR 577.1m.

Gross Claims in EURm		Country	Non-life	Life	Total	Index		Structure		
Zavarovalnica Triglav	Slovenia	227.6	163.6	391.2	99	102	100	58%	88%	67%
Triglav Zdravstvena zav.	Slovenia	94.2	-	94.2	109	-	109	24%	-	16%
Skupna pokojninska družba	Slovenia	-	13.8	13.8	-	99	99	7%	-	2%
Triglav Osiguranje	Croatia	25.3	4.7	30.1	116	106	114	6%	3%	5%
Triglav Osiguranje, Sarajevo	BiH	7.8	1.4	9.2	90	71	86	2%	1%	2%
Lovčen Osiguranje	Montenegro	17.4	-	17.4	120	-	120	4%	-	3%
Triglav Osiguranje	Serbia	11.5	0.5	12.0	123	203	125	3%	0%	2%
Triglav Osiguranje, Banja Luka	BiH	1.8	-	1.8	137	-	137	0%	-	0%
Triglav Osiguruvanje	Macedonia	9.2	-	9.2	95	-	95	2%	-	2%
Lovčen životna osiguranja	Montenegro	-	0.9	0.9	-	81	81	0%	-	0%
<b>Total</b>		<b>395.0</b>	<b>184.9</b>	<b>580.0</b>	<b>102</b>	<b>102</b>	<b>102</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
Triglav RE	Slovenia	54.3	-	54.3	95	-	95	-	-	-
<b>Consolidated</b>		<b>423.8</b>	<b>182.2</b>	<b>606.0</b>	<b>102</b>	<b>102</b>	<b>102</b>			

- Reported gross operating expenses totalled EUR 277m or 7% less than in 2015. Higher acquisition costs were offset by lower costs of labour (-2%), depreciation (-8%), cost of goods sold (-41%) and other operating expenses (-10%). Net operating expenses totalled EUR 232.8m and were 2% higher than in 2015.
- Given higher net operating costs which resulted in 0.6 p.p. higher expense ratio and slower growth of net claims versus net written premiums combined ratio for 2016 was only slightly higher than in 2015 (92.9% versus 92.8%). Although Group reported strong growth on foreign markets trend of combined ratios on non-life segments is encouraging.

*Strong growth on foreign markets led to GWP growth above plans.*

*Weak domestic life insurance segment offset by foreign premium.*

*Several smaller mass loss events negatively affected claims, however in relative terms dynamic was positive.*

*Higher net operating expenses resulted in higher Expense ratio, however...*

*...due to lower claims ratio Combined ratio increased only marginally.*

*Combined ratios on most SEE markets improved, but remained elevated.*

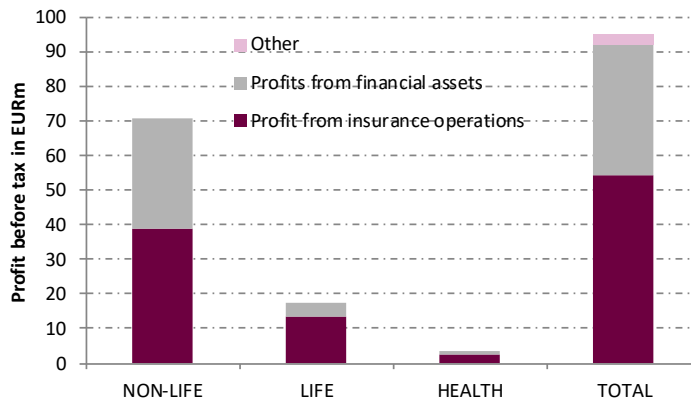
*Lower interest rates contributed to lower net investment result.*

*Net profit above our expectations.*

*Book value per share increased to EUR 32 per share.*

Country	Market share	Market position	Combined ratio non-life
Triglav Osiguranje, Zagreb	4.2%	+0.3 p.p.	9 107.4% -12.0 p.p.
Triglav Osiguranje, Sarajevo	9.0%	+0.1 p.p.	6 99.8% 0.0 p.p.
Lovćen Osiguranje, Podgorica	38.9%	-0.6 p.p.	1 92.3% -19.5 p.p.
Triglav Osiguranje, Belgrade	4.8%	+0.6 p.p.	5 102.2% -5.1 p.p.
Triglav Osiguranje, Banja Luka	5.2%	-0.3 p.p.	9 100.7% -1.6 p.p.
Triglav Osiguruvanje, Skopje	17.9%	-0.1 p.p.	1 99.1% -2.6 p.p.

- Due to unfavourable environment on capital markets, return on financial investments of the Group (excluding return on unit linked life insurance) decreased by 27% compared to 2015. Primary reason were lower net gains on the sale of financial assets, whilst the positive effect originated from revaluation of financial assets. Profit before tax from investment activities amounted to EUR 37.5m versus 48.3m in 2015. Contribution to EBT was hence lowered from 49.3% to 40.7%.



- The Triglav Group ended the 2016 with a net profit (equity holders of the parent) of EUR 81.9m (7.8% less than in 2015) and generated a profit before tax of EUR 95.1m. Reported profit was above planned range (EBT: 80-90m) and also considerably above our expectations of EUR 65.2m. The reason for outperformance was especially strong last quarter when Group generated net profit attributable to the controlling company in the amount of EUR 29m. Given annual report data the main contributions came from lower net claims and substantial decrease of Change in other insurance technical provisions (EUR 8.5m in 4Q2016 vs EUR 25m in 4Q2015) which offset weaker investment income. Average ROE for 2016 was 11.5%.
- The Triglav Group ended the reporting period with shareholders' equity of EUR 744.3m which is 5.7% more than at the end of 2015. Book value per share amounted to EUR 32.3.
- Gross technical provisions stood at EUR 2,661m and were 2% higher than at the end of 2015.
- At the end of the 2016 investment portfolio amounted to EUR 3,077m. In comparison to 2015, Triglav Group lowered the level of deposits and increased the allocation in other segments. Among the changes in different breakdowns we can mention lower level of Slovenian debt instruments (mainly because the debt securities fell due in the last quarter), higher level of A-rated bonds (upgrade of Slovenian rating from BBB to A) and the increase of below BBB-rating segment (new purchases of bonds).



Financial investments			Index	Structure	
	2016	2015		2016	2015
Investment property	95.8	79.5	121	3.1%	2.7%
Shares in associates	6.8	6.9	98	0.2%	0.2%
Shares and other floating rate securities	238.4	189.1	126	7.7%	6.4%
Debt and other fixed return securities	2,134.9	2,040.0	105	69.4%	68.9%
Loans given	29.8	26.8	111	1.0%	0.9%
Deposits with banks	81.2	123.0	66	2.6%	4.2%
Other financial investments	24.7	26.0	95	0.8%	0.9%
Financial investments of reinsurance companies in reinsurance contracts with cedents	5.2	3.9	132	0.2%	0.1%
Unit-linked ins. contract invest.	460.0	464.7	99	14.9%	15.7%
<b>Total</b>	<b>3,077.0</b>	<b>2,959.9</b>	<b>104</b>	<b>100.0%</b>	<b>100.0%</b>

Debt securities			Index	Structure	
	2016	2015		2016	2015
Issuer sector					
Government	1,068.7	1,167.3	92	50.1%	57.2%
Corporate	504.5	470.6	107	23.6%	23.1%
Financial	543.5	377.1	144	25.5%	18.5%
Structured	18.2	25.1	73	0.9%	1.2%
<b>Total</b>	<b>2,134.9</b>	<b>2,040.0</b>	<b>105</b>	<b>100.0%</b>	<b>100.0%</b>

Debt securities			Index	Structure	
	2016	2015		2016	2015
Credit rating					
AAA	211.9	270.7	78	9.9%	13.3%
AA	126.4	79.6	159	5.9%	3.9%
A	576.0	260.5	221	27.0%	12.8%
BBB	741.0	997.1	74	34.7%	48.9%
Below BBB	392.7	338.0	116	18.4%	16.6%
Not rated	86.8	94.1	92	4.1%	4.6%
<b>Total</b>	<b>2,134.9</b>	<b>2,040.0</b>	<b>105</b>	<b>100.0%</b>	<b>100.0%</b>

Debt securities			Index	Structure	
	2016	2015		2016	2015
Country of issuer					
Slovenia	443.0	515.1	86	20.8%	25.2%
Germany	160.1	164.7	97	7.5%	8.1%
Spain	136.8	105.8	129	6.4%	5.2%
France	171.4	159.0	108	8.0%	7.8%
Netherlands	165.6	151.1	110	7.8%	7.4%
Italy	121.2	137.0	88	5.7%	6.7%
Other	936.6	807.4	116	43.9%	39.6%
<b>Total</b>	<b>2,134.9</b>	<b>2,040.0</b>	<b>105</b>	<b>100.0%</b>	<b>100.0%</b>

Equity investments			Index	Structure	
	2016	2015		2016	2015
Geographic area					
Slovenia	59.8	67.7	88	24.4%	34.6%
Developed markets	160.7	99.9	161	65.5%	51.0%
Developing markets	15.4	19.5	79	6.3%	10.0%
Balkans	9.4	8.8	106	3.8%	4.5%
<b>Total</b>	<b>245.3</b>	<b>196.0</b>	<b>125</b>	<b>100.0%</b>	<b>100.0%</b>

### Ratings:

- **S&P:** A with stable outlook (July 2016)
- **AM Best:** A with stable outlook (October 2016)

**Relative valuation:**

*Zavarovalnica Triglav trades at par...*

*... while future ROE is at average...*

*... and dividend yield very generous.*

*Peer valuation target: 28.3 EUR.*

Company name	P/E			P/B			ROE TTM		
	TTM	2017F	2018F	TTM	2017F	2018F	TTM	2017F	2018F
Sava Re	7.7	8.0	8.1	0.85	0.82	0.80	10.9%	10.5%	10.0%
PZU SA	16.7	11.8	11.2	2.49	2.16	2.07	14.9%	19.6%	18.9%
VIG	10.5	10.3	9.9	0.65	0.58	0.55	6.2%	6.0%	5.7%
Generali	10.7	9.3	8.9	0.91	0.86	0.84	8.5%	9.5%	9.5%
Uniqua	14.9	9.9	9.8	0.70	0.68	0.70	4.7%	6.9%	7.1%
Aksigorta	neg.	9.0	8.0	2.45	1.59	n.a.	-60.6%	21.5%	n.a.
SCOR	10.6	10.7	10.3	0.97	0.91	0.87	9.1%	8.8%	8.6%
Axa	10.3	9.4	8.8	0.87	0.78	0.76	8.5%	8.8%	8.7%
Allianz	11.4	10.5	10.1	1.16	1.07	1.01	10.2%	10.6%	10.3%
Zavarovalnica Triglav	7.5	8.0	9.5	0.83	0.82	0.79	11.2%	10.4%	8.5%
Median	10.7	9.9	9.8	0.91	0.86	0.82	8.5%	9.5%	9.1%

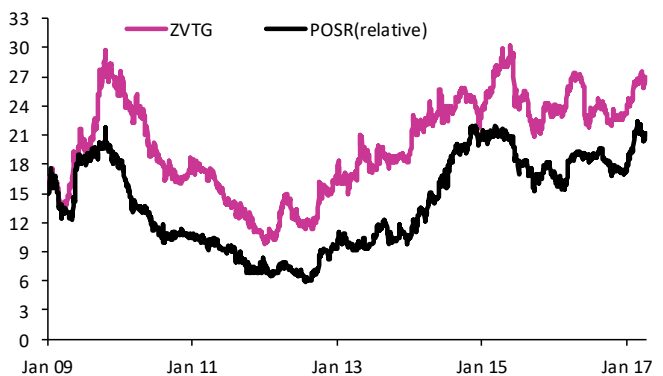
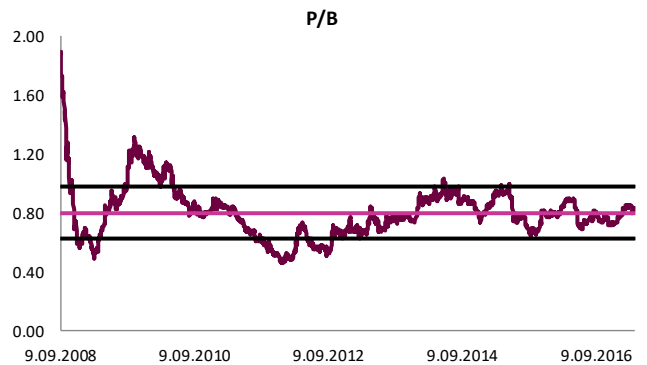
Company name	Div. yield (%)		2018F	Assets/Equity (%)	Price to GWP	Price to Net Prem. Earned
	TTM	2017F				
Sava Re	5.0	5.0	4.8	5.2	0.51	0.55
PZU SA	5.6	5.6	5.8	9.6	1.60	1.74
VIG	2.6	4.0	4.0	11.2	0.32	0.36
Generali	5.0	6.2	6.6	21.2	0.32	0.34
Uniqua	6.5	7.4	7.5	10.5	0.44	0.43
Aksigorta	0.0	6.6	10.3	5.8	0.49	0.81
SCOR	4.3	5.3	6.0	6.5	0.47	0.52
Axa	4.6	5.4	5.8	13.6	0.61	0.67
Allianz	4.2	4.8	5.0	13.1	1.02	1.11
Zavarovalnica Triglav	9.3	9.3	5.0	4.9	0.65	0.72
Median	4.6	5.4	5.8	10.5	0.49	0.55

The choice of the peer group was based on the presence of individual insurance groups on the markets of the CEE region which represent the domestic market of Zavarovalnica Triglav.

Comparing Zavarovalnica Triglav P/E and P/B multiples to median value of peer group multiples in general shows that Slovenian insurer currently trades at discount. Additionally, dividend yield is very attractive and severely above peer group average (roughly 9%). Namely for 2016 profit Zavarovalnica Triglav suggested a dividend of EUR 2.5 per share, equal to previous year. Although we are conservatively setting 2017 dividend at EUR 1.4 and consequently at lower yield, we recognize that it's possible that dividend hungry investors and Zavarovalnica Triglav strong Solvency ratios will allow another exceptional dividend. In this case above average gross dividend yield will persist. For peer group valuation we used all four mentioned multiples and this valuation approach derives to a target price of EUR 28.3 per share. Given the current market price of EUR 26.8 this implies a 6% upside.

As for historic comparison of P/B for Zavarovalnica Triglav, analysis don't show undervaluation any more as multiple expanded in the last year. Its currently at average.

Best local comparison is to Sava Re since they both changed its focus to profitability a couple of years ago and they both have regional exposure. On the other hand Zavarovalnica Triglav is a bigger insurance company with more exposure on SEE region while Sava Re has relatively more exposure on reinsurance. Dividend yield is significantly skewed to Triglav (9.3%) but possibility for net income growth toward Sava RE (synergies). Sava Re multiples implies a target price of EUR 25.1 per share or 6% below market valuation.



**Outlook:**

- For 2017 Triglav Group expects GWP in the amount of EUR 930m (EUR 936.0m in 2016), combined ratio of around 95% (vs 92.9% in 2016) and pre-tax profit in the range between EUR 70m-80m (EUR 95.1m in 2016).
- Triglav believes that macroeconomic conditions in 2017 will remain favorable and that probability of negative scenario is moderate. We believe that the recovery in the region will largely depend on macroeconomic dynamic in Euro-area, where we currently see positive trends. Due to strong growth in 2016 we could be once again in the period of higher growth outside Slovenia. On the most important, domestic market, the main question remains life insurance. Although macroeconomic trends are positive and for instance non-life premiums grew by 1.5%, life premiums contracted by 3%. While quarterly data shows some signs of stabilization, and monthly reports shows strong rebound, we should wait if trends are sustainable through the whole year and to what extent Triglav will be affected by aging portfolio.
- Triglav expects that the environment will remain highly competitive. They will maintain client loyalty programs and adjust its pricing policies to adapt to competitive pressures.

GDP growth in %, constant prices	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Slovenia	0.6	-2.7	-1.1	3.1	2.3	2.3	1.8	1.6	1.6	1.6	1.5
Croatia	-0.3	-2.2	-1.1	-0.4	1.6	1.9	2.1	2.2	2.3	2.3	2.0
Serbia	1.4	-1.0	2.6	-1.8	0.7	2.5	2.8	3.5	3.5	4.0	4.0
Bosnia and Herzegovina	0.9	-0.9	2.4	1.1	3.2	3.0	3.2	3.7	3.9	4.0	4.0
Albania	2.5	1.4	1.0	1.8	2.8	3.4	3.7	4.1	4.1	4.1	4.1
FYR Macedonia	2.3	-0.5	2.9	3.5	3.7	2.2	3.5	3.5	3.6	3.8	3.8
Montenegro	3.2	-2.7	3.5	1.8	3.2	5.1	3.6	2.4	3.9	2.8	4.8
Kosovo	4.4	2.8	3.4	1.2	4.0	4.1	3.3	3.6	3.6	3.8	4.0

Source: IMF October 2016 World Economic Outlook

- Domestic insurance market will be under pressure due to competition while on other SEE markets use of insurance is mostly limited to regulated segments (auto insurance) and businesses, while there is very weak demand for real estate and especially life insurance products. On the other hand, economic growth could positively influence the future trends.
- The main pressure on profitability could still come from low interest rate environment and hence investing activities. Realization of fair value gains in the years before 2016 were quite common and while profitability was at very high level, this activity could negatively affect the potential returns in the next few years.
- Group's capital position is very strong and given relatively slow growth in the future years, we believe that capital position will remain strong and although dividend payouts seen in the last few years are unrealistic, we believe that solvency ratio could be between 250% - 300% and hence dividend payout around 40% of net profit.

*There are signs of insurance market recovery in the region.*

*The environment will remain competitive.*

*Profitability will be pressured due to low interest rates.*

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	3,077.1	3,275.4	3,481.0	3,574.9	3,646.8	3,746.6	3,849.0	3,970.3	4,089.2
Total investment assets	2,529.4	2,724.2	2,952.9	3,070.1	3,129.8	3,218.0	3,323.7	3,431.2	3,536.5
Financial investments in assoc.	10.2	10.4	6.9	6.8	7.0	7.2	7.5	7.7	7.9
Cash and cash equivalents	29.1	22.9	47.9	65.7	56.3	57.9	59.8	61.8	63.7
Technical reserves	2,261.4	2,333.7	2,600.4	2,660.8	2,711.4	2,781.1	2,854.7	2,929.7	3,002.5
Equity	584.3	681.4	692.9	734.0	747.8	775.6	818.9	862.8	906.4

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021
Gross written premiums	900.9	888.2	919.1	936.0	941.9	960.0	979.5	999.3	1,018.9
Growth (%)	-3.8%	-1.4%	3.5%	1.8%	0.6%	1.9%	2.0%	2.0%	2.0%
Net earned premiums	837.6	819.9	839.2	849.6	862.6	879.4	897.5	915.7	933.7
Growth (%)	-3.6%	-1.8%	3.3%	1.8%	0.7%	1.9%	2.0%	2.0%	2.0%
Net claims	571.7	594.7	570.3	577.1	609.5	623.8	639.1	654.7	672.8
Loss ratio	68.2%	72.5%	68.0%	67.9%	70.6%	70.9%	71.2%	71.5%	72.1%
Expense ratio	27.7%	26.5%	27.2%	27.4%	27.3%	27.1%	26.9%	26.7%	26.5%
Combined ratio	96.0%	99.0%	95.2%	95.3%	98.0%	98.1%	98.1%	98.2%	98.6%
Net investment result	70.3	176.1	120.5	103.5	89.9	83.8	90.4	95.6	98.6
Profit/(loss) before tax	83.6	100.4	102.5	95.1	95.2	80.3	85.8	88.7	89.6
Net income	69.5	85.4	88.8	81.9	76.8	64.8	69.2	71.6	72.3
Growth (%)	-4.1%	22.8%	4.0%	-7.8%	-6.3%	-15.6%	6.8%	3.4%	0.9%

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021
EPS	3.06	3.76	3.91	3.60	3.38	2.85	3.04	3.15	3.18
EPS growth	-4.1%	22.8%	4.0%	-7.8%	-6.3%	-15.6%	6.8%	3.4%	0.9%
ROE	12.1%	13.5%	12.9%	11.5%	10.4%	8.5%	8.7%	8.5%	8.2%
ROA	2.2%	2.7%	2.6%	2.3%	2.1%	1.8%	1.8%	1.8%	1.8%
BVPS	25.7	30.0	30.5	32.3	32.9	34.1	36.0	37.9	39.9
Dividend	1.70	2.00	2.50	2.50	2.50	1.35	1.14	1.22	1.26

### Excess Return Valuation:

Year	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
<b>Net profit</b>	76.8	64.8	69.2	71.6	72.3	75.4	78.7	82.1	85.7	90.9
<b>Cost of Equity</b>	-76.5	-78.0	-80.9	-85.4	-89.9	-91.5	-93.1	-94.4	-95.3	-92.3
<b>Excess return</b>	0.3	-13.2	-11.6	-13.8	-17.7	-16.2	-14.5	-12.3	-9.6	-1.4
<b>Long-term cost of capital</b>										
Equity Invested	734.0									
Period PV of Equity Excess Return	-73.6									
Terminal PV of Equity Excess Return	-10.4									
<b>Value of Equity</b>	<b>650.0</b>									
<b>Equity value per share</b>	<b>28.6</b>									
<b>Cost of equity</b>							<b>2016</b>	<b>TV</b>		
Leveraged beta							1.0	1.0		
Risk free rate							0.96%	0.96%		
Premiums							9.34%	7.39%		
<b>Cost of equity</b>							<b>10.4%</b>	<b>8.5%</b>		
<b>Perpetuity growth rate</b>								<b>2.0%</b>		

ERM target price is set at EUR 28.6.

All mentioned assumptions above are included in excess return valuation with terminal growth rate of 2.0% and terminal cost of equity 8.5%. Based on the performance of Triglav Group in the second half 2016 we expect that although interest rates will negatively affect the profitability, we believe that overall performance will be more resilient to interest rate moves than previously expected. Accordingly, we increased target price from EUR 26.8 to EUR 28.6.

### Implied multiples:

	2017		2018	
	P/B	P/E	P/B	P/E
Current price	0.82	7.98	0.79	9.46
Target price	0.87	8.47	0.84	10.03

### Final target price calculation:

Our baseline target price consists of peer (20% weight) and excess return valuation (80% weight) method. Combination of both valuation methods derives to a target price of EUR 28.5 and hence higher from our previous analysis where we set our price target at EUR 25.6. Valuation indicates that there is roughly 6.5% upside potential. Our recommendation is therefore maintained at hold. On the other hand Triglav shares also deliver a very hefty dividend (roughly 9% dividend yield), however we believe this dividend amount will be lower in the future years.

This target price implies a valuation multiple P/GWP of 0.69, P/E of 7.9 and P/B of 0.88; reasonable multiples given peer comparison, guided ROE and expectation that earnings peaked in 2015.

Our final target price is set at EUR 28.5, with hold recommendation attached.

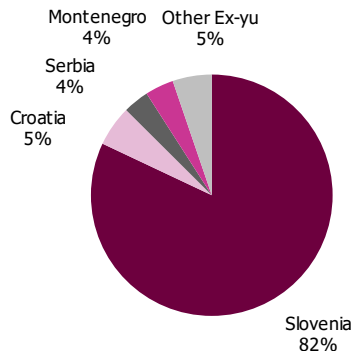
Top5 shareholders:

ZPIZ	34.5%
SDH	28.1%
Addiko Bank - Fid	6.4%
HPB - Fid.	1.4%
Unicredit - Fid	1.4%

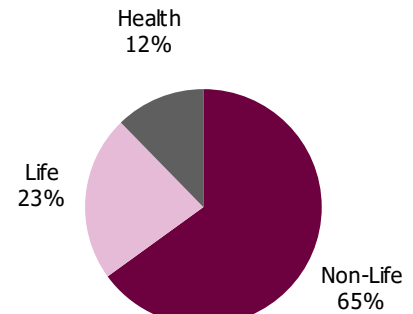
## Brief Company profile

Triglav Group is a multinational corporation with two elementary business divisions (insurance and asset management) where the insurance business is its most important part. The Group is already present in the markets of Croatia, Bosnia and Herzegovina, Serbia, Macedonia and Montenegro, with plans of entering also on other markets in South-eastern Europe. Presently, foreign premiums represent less than 20% of total group premiums, but according to ZVTG's plans will have an increasingly important share in the future. At present, the group has 5,046 employees. Triglav Group holds a market share of around 20% in the combined market of Slovenia and the Western Balkans. The most important investment notion is Triglav Insurance Group's market share in Slovenia, where it reaches around 35% of the total premium generated in the country.

Premium Structure (2016)



Premium Structure (2016)



Disclaimer

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**Matej Šimnic, Analyst. On the day of the public release, the author of the recommendation did not held securities of the relevant issuer.**

**Sašo Stanovnik, Head of research. On the day of the public release, the author of the recommendation did not held securities of the relevant issuer.**

First release of the recommendation was performed on 13.04.2010.

Quarterly updates are planned for data, valuation, target price and recommendation.

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