EDISON

Scale research report - Update

Nürnberger Beteiligungs

Insurance

30 March 2021

FY20 earnings up despite low interest rates

Nürnberger Beteiligungs (NBG) delivered double-digit earnings growth in FY20, supported by slightly higher gross premiums booked, driven by new business as well as improved investment income in its traditional insurance segment. While management guidance assumes a slight decline in net income in 2021, the company is again optimistic about growth in new premiums across all segments this year. Management has proposed a dividend of €3.30/share (unchanged y-o-y), which implies a yield of 4.3%.

FY20 earnings in line with management guidance

Management comfortably delivered full-year guidance for a y-o-y increase in net income (up 14.7% y-o-y to €77.4m in FY20). NBG's gross premiums booked rose 2.2% y-o-y to €3.59bn, compared with 1.2% growth for the wider German insurance market in the period, based on estimates from the German Insurance Association (GDV). After a slight decline in new premiums in H120, NBG's new business gained momentum in H220, reaching €629.4m in FY20, up 6.2% y-o-y. Low interest rates continue to weigh down NBG's results, as reflected in higher additions to reserves, with Zinszusatzreserve (ZZR) up €219.8m versus €145.9m in FY19. While the net profit of its largest life insurance segment (c 70% of gross premiums in FY20) at €37.2m was higher than management's forecast (€31m), net profit in Property & Casualty (P&C) fell more than expected, affected by a higher combined ratio of 94.9% in FY20 versus 91.0% in FY19.

Management guides to slightly lower profit in FY21

Management guides to a slight decline in net income in FY21, which it expects will largely be affected by additions to the equalisation reserve in the P&C segment given the overall low level of claims in FY20. That said, NBG expects good momentum in gross and new premiums in the health insurance and P&C segments. The largest life insurance segment should deliver stable profits amid higher new premiums and stable gross premiums, coupled with lower net investment income and a continued increase in ZZR, according to management.

Valuation: Offering a 4.3% dividend yield in FY21

NBG's FY20 P/E of 11.4x represents a 14.3% discount to peers. Management has proposed a dividend of €3.30 per share based on FY20 earnings, which implies a yield of 4.3%, slightly lower than the median 5.1% for its peers.

Historical financials

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/17	4,387	147.3	8.1	3.0	9.4	3.9
12/18	4,404	97.3	5.1	3.0	15.0	3.9
12/19	4,567	81.3	5.9	3.3	13.0	4.3
12/20	4,568	92.3	6.7	3.3	11.4	4.3

Source: NBG accounts, Refinitiv

Price	**€76.5**
Market cap	**€879m**

Share price graph

Share details

Code	NBG6
Listing	Deutsche Börse Scale
Shares in issue	11.5m
Liquid resources at end-December 2020	€497.4m

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.

Analyst

Milosz Papst +44 (0)20 3077 5700

financials@edisongroup.com

Edison profile page

FY20 results backed by higher new premiums

NBG's overall revenues (including insurance premiums, investment income, and fee and commission income) remained stable at €4.6bn in FY20, which was mostly a function of slightly higher gross premiums booked and improved new premiums, offset by lower investment income in the period. NBG's gross premiums booked increased 2.2% y-o-y to €3.59bn in FY20 (in line with NBG's guidance of a slight increase), supported by dynamic growth in the health insurance and P&C segments (up 10.7% and 3.5% y-o-y, respectively). The life insurance segment saw lower momentum in the period (+1.0% y-o-y), affected by limited direct contact with customers due to social distancing measures (in Q220 in particular) and the lower interest environment limiting the attractiveness of traditional life insurance products. NBG's premiums earned increased by 1.9% year-on-year.

We note that the company outperformed the wider German insurance market in 2020 in all three market segments with respect to growth in gross premiums. According to the GDV, the German market saw a 1.2% growth in gross premiums booked in FY20 (to c €220bn), posting a 0.4% y-o-y reduction in the life segment and an increase in the P&C and health insurance segments of 2.1% and 3.8% y-o-y, respectively.

NBG's new premiums rose 6.2% y-o-y to €629.4m in FY20 (vs NBG's forecast of a slight y-o-y increase). The most notable contribution came from the life insurance segment (up 6.5% to €482.2m), although P&C and health insurance also saw healthy growth in the period (up 4.3% y-o-y to €133.4m and 16% y-o-y to €13.8m, respectively). Management highlights that new business was supported, among other things, by the solid tech infrastructure of NBG's salesforce after it completed a major IT infrastructure project in FY20. We discuss other drivers for new premiums in more detail below. Net commission income (largely attributable to NBG's banking services segment) reached €56m in FY20, up 10.6% y-o-y.

It is noteworthy that investment income from traditional insurance products was up 7.9% y-o-y to €782.4m, assisted mostly by higher current income (€665.0m in FY20 vs €569.9m in FY19) from equities and other non-interest bearing investments, which included a larger distribution from a special fund. NBG's gross aggregate reserve for conventional insurance rose by a notable €751.2m (€556.7m in FY19), including a €219.8m addition to the ZZR (€145.9m in FY19), triggered by a further reduction in market interest rates. In parallel, reserves related to NBG's unit-linked business were down to €68.5m (compared to a €1,519.7m increase in FY19), corresponding to a change in the value of related investment held in the unit-linked products.

Operating expenses declined to €558.7m from €582.9m a year earlier, primarily resulting from lower acquisition costs (€413.1m in FY20 versus €444.7m in FY19) amid reduced commission expense in the life insurance segment. Pre-tax profit reached €92.3m in FY20 vs €81.3m a year earlier (or €103.4m when adjusted for a negative extraordinary result of €22.1m in FY19 related to restructuring measures) and net income (ex-minorities) increased to €77.4m from €67.4m in FY19, in line with management guidance for a y-o-y increase. In the period, the company booked €21.1m positive effects from 1) the consolidation of Nürnberger Asset Management (which should also contribute to NBG's earnings going forward) and 2) one-off gains from the disposal of stakes in associates. Management has proposed a dividend of €3.3/share, unchanged versus FY19.

NBG maintains a good balance sheet position. In October 2020, Fitch reaffirmed its A+ rating for NBG's subsidiaries (ie NÜRNBERGER Lebensversicherung, NÜRNBERGER Allgemeine Versicherung and NÜRNBERGER Krankenversicherung) and NBG's issuer default rating of A. The outlook for all ratings is stable. NBG's liquid resources (ie bank balances, cheques and cash in hand) stood at €497.4m at end-FY20 versus €600.6m at end-H120 and €415.3m at end-FY20.

Exhibit 1: FY20 results highlights

€m	FY20	FY19	% y-o-y
Gross premiums booked	**3,592.9**	**3,515.3**	**2.2%**
Premiums earned	3,314.5	3,251.5	1.9%
Net result on premium refunds	(264.9)	(240.0)	10.4%
Investment income	720.2	896.2	-19.6%
Unrealised profits/losses from unit-linked insurance investments	164.1	1,391.5	-88.2%
Other net technical income/(expense)	(29.8)	(28.1)	6.2%
Claims expenses	(2,524.0)	(2,469.6)	2.2%
Change in other technical provisions	(671.0)	(2,074.6)	-67.7%
Operating expenses	(558.7)	(582.9)	-4.1%
Change in equalisation and other reserves	(20.6)	(20.1)	2.6%
Other net (non-technical) income/(expense)	(37.0)	(20.1)	83.7%
Goodwill amortisation	(0.5)	(0.6)	-15.5%
Extraordinary result	0.0	(22.1)	N/M
Pre-tax profit	**92.3**	**81.3**	**13.5%**
Income and other taxes	(13.8)	(12.5)	10.4%
Effective tax rate	14.9%	15.4%	-42bp
Net income (including minorities)	78.5	68.8	14.1%
Minorities adjustment	(1.1)	(1.4)	-17.6%
Net income (ex-minorities)	**77.4**	**67.4**	**14.7%**

Source: NBG accounts

Segment analysis

In the **life insurance segment**, gross premiums were broadly stable at €2,502m (versus €2,478m in FY19), while new premiums increased by 6.5% y-o-y to €482.2m. The latter were driven by 18.7% y-o-y growth in the single premium business, which more than offset a 15.0% y-o-y drop in regular premium products. Segmental net profit was down 8.6% y-o-y to €37.2m, although still ahead of company guidance of €31.0m.

NBG's **P&C segment** saw healthy growth in gross premiums booked and new premiums (up 3.5% and 4.3% y-o-y, respectively). New business benefited from strong demand for property, liability, and accident insurance (new premiums up 18.8% y-o-y), which more than offset a decline in vehicle insurance (down 4.2% y-o-y). While premiums earned grew 3.6% y-o-y to c €617.9m, claims expenses were also higher (up 3.6% y-o-y to c €360.0m) as a lower volume of claims expenses from accident and vehicle insurance due to lockdowns did not compensate for increased claims linked to company closures, event cancellations and business interruptions. Consequently, the combined ratio increased to 94.9% from 91.0% a year earlier and segmental net profit was down 27.9% to €18.6m, visibly below company guidance of a slight y-o-y rise.

The **health insurance segment** remained unaffected by the COVID-19 pandemic, posting a 24.0% y-o-y growth in net profit to €6.2m in FY20. New premiums in this segment (up c 16% y-o-y to €13.8m in FY20) continue to benefit from strong demand for full and supplementary insurance products. Net profit in the **banking segment** declined to €6.1m in FY20 from €6.8m in FY19, affected by higher operating expenses and lower interest income, which was only partly offset by improved fee and commission income.

Management expects slightly lower profit in FY21

GDV expects that gross premiums in the German insurance market will rise 2% y-o-y in 2021, with life insurance up 2% y-o-y, P&C up 1.5% y-o-y and health insurance up 5% y-o-y. Growth in life insurance should be assisted by including some catch-up effects from 2020, for example in pension products. P&C insurance may be negatively affected by the impact of reduced mobility on car insurance, as well as uncertainty among industrial companies, while GDV expects positive effects from private property insurance.

At group level, management expects stable gross premiums booked in FY21, assisted by significant growth in new premiums. That said, NBG guides to a slight decline in net income in

FY21, largely due to higher additions to the equalisation reserve in the P&C segment. The latter will reduce the P&C insurance segment's net profit to c €14m (vs €18.6m in FY20) despite higher gross premiums booked and new premiums in this segment, as expected by the management.

In the life insurance segment, management guides to significantly higher new premiums and stable gross premiums booked in FY21, as well as an unchanged segment result, mostly because of a reduction in net investment income and a continued increase in ZZR. Management acknowledges that net investment income in FY20 was achieved in favourable capital market conditions and is not assuming that the capital market environment in FY21 will be similarly supportive. At the same time, net investment income will be negatively affected by low interest rates, according to management. NBG's strategic focus in this segment is on 1) income protection products in response to the persistent low interest rate environment; 2) the unit-linked offering in the private pension segment; and 3) ongoing digitalisation of the IT infrastructure, which should help the company transform from a 'risk taker' to a 'health partner' for its clients.

In the health insurance segment, both gross premiums booked and new premiums should grow significantly, with the latter continuing to be driven by supplementary and corporate health insurance products, according to management. NBG expects net profit in this segment will rise to c €7m in FY21 from €6.2 in FY20. Finally, management forecasts that the banking segment will achieve a similar profit to FY20 as better results in its asset management business and a slight growth in fee and commission income are unlikely to compensate for lower interest income in the period.

Valuation

NBG's shares are trading at a FY20 P/E ratio of 11.4x, which represents a 14.3% discount to its peer group median, while its FY21e P/E ratio of 11.5x is 13.3% above the peer group average. However, we note that Refinitiv consensus on NBG are based on the estimates of one analyst, which was last updated in September 2020. Management has proposed a dividend of €3.30/share for FY20 (unchanged y-o-y), which implies a 4.3% yield compared with a 5.1% median yield for its peers.

Exhibit 2: Peer group comparison

	Market cap (m)	Share price Local ccy	P/E (x)		Dividend yield (%)	
			2020	2021e	2020	2021e
UNIQA Insurance Group	€2,002	6.46	57.7	8.8	2.8	6.3
Helvetia Holding	CHF5,928	111.80	23.8	12.0	4.5	4.7
Baloise Holding	CHF7,891	161.70	16.0	12.1	4.1	4.3
Ageas	€9,853	50.50	8.5	10.5	5.3	5.4
Swiss Life Holding	CHF14,917	465.90	13.7	11.8	4.4	4.9
NN Group	€13,667	41.26	10.9	9.3	6.4	5.9
CNP Assurances	€11,149	16.19	8.6	8.0	6.4	6.0
AXA	€54,948	22.66	12.5	8.3	6.2	6.7
Allianz	€88,735	214.60	13.2	10.7	4.5	4.8
Talanx	€9,151	36.20	13.3	9.8	4.2	4.4
Peer group median			**13.3**	**10.1**	**4.5**	**5.1**
Nürnberger Beteiligungs	€879	76.50	11.4	11.5	4.3	4.3
Premium/(discount)			**(14.3%)**	**13.3%**	**(3.9%)**	**(15.7%)**

Source: Refinitiv. Note: Priced at 29 March 2021. Note: Refinitiv consensus for Nürnberger Beteiligungs is based on the estimates of one analyst.

General disclaimer and copyright

Any Information, data, analysis and opinions contained in this report do not constitute investment advice by Deutsche Börse AG or the Frankfurter Wertpapierbörse. Any investment decision should be solely based on a securities offering document or another document containing all information required to make such an investment decision, including risk factors. This report has been commissioned by Deutsche Börse AG and prepared and issued by Edison for publication globally.

Edison Investment Research standard fees are £49,500 pa for the production and broad dissemination of a detailed note (Outlook) following by regular (typically quarterly) update notes. Fees are paid upfront in cash without recourse. Edison may seek additional fees for the provision of roadshows and related IR services for the client but does not get remunerated for any investment banking services. We never take payment in stock, options or warrants for any of our services.

Accuracy of content: All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified. Opinions contained in this report represent those of the research department of Edison at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations.

Exclusion of Liability: To the fullest extent allowed by law, Edison shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out or in connection with the access to, use of or reliance on any information contained on this note.

No personalised advice: The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.

Investment in securities mentioned: Edison has a restrictive policy relating to personal dealing and conflicts of interest. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report, subject to Edison's policies on personal dealing and conflicts of interest.

Australia

Edison Investment Research Pty Ltd (Edison AU) is the Australian subsidiary of Edison. Edison AU is a Corporate Authorised Representative (1252501) of Crown Wealth Group Pty Ltd who holds an Australian Financial Services Licence (Number: 494274). This research is issued in Australia by Edison AU and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. Any advice given by Edison AU is general advice only and does not take into account your personal circumstances, needs or objectives. You should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Product Disclosure Statement or like instrument.

New Zealand

The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (i.e. without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision.

United Kingdom

This document is prepared and provided by Edison for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document.

This Communication is being supplied to you solely for your information and may not be reproduced by, further distributed to or published in whole or in part by, any other person.

United States

Edison relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. This report is a bona fide publication of general and regular circulation offering impersonal investment-related advice, not tailored to a specific investment portfolio or the needs of current and/or prospective subscribers. As such, Edison does not offer or provide personal advice and the research provided is for informational purposes only. No mention of a particular security in this report constitutes a recommendation to buy, sell or hold that or any security, or that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person.

Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
1185 Avenue of the Americas
3rd Floor, New York, NY 10036
United States of America

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia