

Nürnberger Beteiligungs

Insurance
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Steady progress in unfavourable environment

Nürnberger Beteiligungs (NBG) was able to moderately grow its gross premiums booked on the back of a solid 10% y-o-y increase in new premiums to €266m in H119. Meanwhile, the low interest rate environment dampens NBG's investment income, with the recent central bank rate decisions suggesting this will continue for now. We note that NBG's relatively high exposure to unit-linked and disability products somewhat limits the impact of accommodative monetary policy. A cap on fees earned on life insurance contracts is still being discussed in Germany. If introduced, it is likely to constrain new life insurance business.

H119 net income slightly down

NBG's pre-tax profit was broadly stable y-o-y at €39.0m in H119, assisted by lower additions to Zinszusatzreserve (ZZR) (€39.3m vs €140.6m in H118) and c 0.9% growth in gross premiums to €1.77bn. On the other hand, as expected by management, NBG generated lower disposal gains as part of its investment income related to standard insurance contracts (€115.5m vs €146.4m in H118). Moreover, NBG's claims expenses rose 5.3% to €1.3m in H119, while operating expenses increased 10.7% y-o-y to €301.7m. A higher effective tax rate led to net income minorities of €21.3m (down 0.9% y-o-y) or €22.1m (down 6.1% y-o-y) post-minorities.

FY19 guidance reiterated

NBG confirmed its earlier net income guidance for FY19 at €55m, which implies a c 10% y-o-y decline. The company expects a slight increase in new premiums in the life insurance business, with gross premiums booked at a level similar to FY18. In property and casualty (P&C), it anticipates a significant rise in new business, driven by consistent growth in property, personal liability, accident and vehicle insurance. This should result in visibly higher gross premiums booked. At the same time, it expects a solid increase in gross premiums in the health insurance segment. The above should be assisted by broader market growth, as the German Insurance Association (GDV) expects gross premiums to increase by 3% in 2019.

Valuation: Sustained dividend payout

Based on the company's net income guidance for FY19, NBG's shares are trading at a c 36% premium to its peer group on a P/E ratio. Based on the recently paid dividend of €3.0 per share (which has remained stable since 2013), the shares offer a yield of c 4.3%.

Historical financials

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/15	4,658	85.4	4.1	3.0	17.1	4.3
12/16	4,189	88.1	5.0	3.0	14.0	4.3
12/17	4,387	147.3	8.1	3.0	8.6	4.3
12/18	4,404	97.3	5.1	3.0	13.7	4.3

Source: NBG accounts

Price €70.0
Market cap €806m

Share price graph



Share details

Code NBG6
Listing Deutsche Börse Scale
Shares in issue 11.52m
Liquid resources at end-June 2019 €269.5m

Business description

Nürnberg 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, with strongest demand for unit-linked life, disability and pension insurance and standard pension insurance.

Bull

- Very strong finances and conservative reporting.
- 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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H119 results: Further growth in gross premiums

NBG reported 0.9% y-o-y growth in gross premiums booked to €1.77bn in H119, assisted by all three major business lines (life, P&C and health insurance). This is slightly ahead of earlier management guidance for FY19 of stable gross premiums at group level and specifically in life insurance (at the time, the company expected gross premiums in health and P&C insurance to increase in FY19). NBG's new premiums improved by a healthy c 10% y-o-y to €266m (after growing 7.8% y-o-y in FY18), which was particularly driven by life insurance (up 9.2% y-o-y or by €15.9m) and P&C (up 11.9% y-o-y or €7.5m). Health insurance recorded a similar increase in new premiums (+9.3% y-o-y), but due to its lower share in group business its contribution was below the other two segments. Although net commission income (mostly generated by the bank services segment) remained stable y-o-y at c €25m, NBG achieved a much higher gross investment income of €553.7m in H119 compared with €424.5m in H118. Consequently, the company's total revenue rose by 6.6% y-o-y to €2,347m in H119.

That said, net investment income related to the standard insurance business was up only marginally by 1% y-o-y to €373.3m in H119 on the back of a 10% y-o-y increase in current income to €282.0m. However, this was largely offset by the decline in realised disposal gains (down 21% y-o-y to €115.5m). The company had anticipated the latter and factored it into FY19 guidance.

NBG's life insurance business (which makes up c 67% of the insurer's gross premiums) continues to be assisted by changes in the calculation of ZZR (see our previous [update note](#) for a detailed discussion). As a result, the ZZR increase in H119 stood at €39.3m (vs €140.6m in H118). As capital markets rebounded in the first half of the year, the increase in technical reserves associated with unit-linked products had a negative impact of €935.3m (as distributions are not at a fixed pre-set level, but dependent on the performance of the underlying investment portfolio in the insurance product). However, the latter is by definition accompanied by an opposite move in unrealised profits/losses from unit-linked insurance investments booked by NBG (which was €816.2m in H119 compared with a loss of €181.3m in H118). On top of this, net investment income related to unit-linked products stood at €132.7m (vs €5.1m in H118). Overall, the impact on the P&L of the change in technical reserves stood at a loss of €1,147.9m in H119 vs a €172.9m loss in H118.

Exhibit 1: H119 results highlights

€m unless otherwise stated	H119	H118	Change y-o-y
Gross premiums booked	1,767.9	1,751.9	0.9%
Premiums earned	1,606.3	1,573.9	2.1%
Net result on premium refunds	(166.1)	(84.8)	95.7%
Investment income	506.0	373.1	35.6%
Unrealised profits/losses from unit-linked insurance investments	816.2	(181.3)	N/M
Other net technical income/(expense)	(21.2)	(22.5)	-5.8%
Claims expenses	(1,226.9)	(1,165.6)	5.3%
Change in other technical provisions	(1,147.9)	(172.9)	N/M
Operating expenses	(301.7)	(272.6)	10.7%
Change in equalisation and other reserves	(13.2)	(3.9)	N/M
Other net (non-technical) income/(expense)	(12.2)	(4.0)	N/M
Goodwill amortization	(0.3)	(0.3)	0.0%
Extraordinary result	0.0	0.0	N/M
Pre-tax profit	39.0	39.0	0.1%
Income and other taxes	(16.9)	(15.5)	9.5%
<i>effective tax rate</i>	<i>43%</i>	<i>40%</i>	<i>372bp</i>
Net income (incl. minorities)	22.1	23.6	-6.1%
Minorities	(0.8)	(2.1)	-59.8%
Net income (ex-minorities)	21.3	21.5	-0.9%

Source: NBG accounts

NBG's claim expenses amounted to €1.2bn in H119 and were up 5.3% y-o-y, driven by all segments, with life insurance up 4.6% y-o-y, P&C +3.1% and health +29.0%. At the same time, operating expenses rose by as much as 10.7% y-o-y to €301.7m, which we suspect is associated

with the acquisition costs of new insurance business. As a result, net income reached €22.1m and was down 6.1% y-o-y. This compares with management guidance for FY19 of a c 10% y-o-y decline in net income. On a last 12-months (LTM) basis, NBG's return on equity including minorities reached 7.4%, broadly in line with FY18.

Segment analysis

Gross premiums in **life insurance** went up slightly by 0.5% y-o-y to €1.2bn, which is quite a decent result given management's earlier expectations of flat gross premiums in FY19. As mentioned above, NBG's new premiums in the life insurance business improved by 9.2% y-o-y to €189.5m in H119, with the single-premium business growing at 8.6% y-o-y, while business based on regular premium payments improved by 10.0% y-o-y. The key product groups driving this healthy result were unit-linked life and pension insurance, traditional pension insurance, as well as disability insurance. The segment result increased slightly to €18.2m in H119 from €17.7m in H118.

In this segment, NBG plans to increase its emphasis on income protection products. Moreover, it recently created a subsidiary to develop new digital solutions in personal insurance to address the needs of customers who are interested in obtaining insurance cover using online channels. The first result of these activities is a new digital basic capability insurance product, which represents a leaner version of NBG's standard basic capability insurance. It can be expanded to include additional modules (Mobility, Office and Psyche). Although the share of direct distribution (including online purchases) remains a relatively small proportion of the overall sale of life insurance products in Germany for now (at 2.2% in 2018 according to GDV and unchanged from the prior year), we acknowledge NBG's efforts to address this promising distribution channel.

In the **P&C business**, new premiums went up 11.9% y-o-y to €70.6m in H119, with €42.6m in vehicle insurance, €23.6m from property, personal liability and accident insurance, as well as €4.4m from legal protection insurance. This translated into an 1.2% y-o-y increase in gross premiums to €461.6m, as some business disposal in legal protection insurance was more than offset by growth in other products. In the period, NBG booked premiums earned of €314.8m, which is 8.3% ahead of last year. As claims expenses were up more moderately by 3.1% y-o-y to €186.0m (while operating expenses increased by 9.7% y-o-y to €106.5m), NBG was able to achieve a better combined ratio of 93.2% in H119 compared with 95.8% last year. We note that last year claims were particularly affected by natural disasters, including in particular Storm Friederike. Consequently, the segment result in P&C reached €7.5m in H119 vs €7.6m in H118.

Gross premiums in the **health insurance** segment increased by 3.9% to €113.8m in H119, with new premiums up by 9.3% y-o-y to €5.9m in H119. This was particularly supported by full insurance products (similar to FY18), while premiums in supplementary insurance were below last year. Segment results reached €2.5m compared with €2.3m a year ago. It is worth noting that since January 2019, NBG has been co-operating with TeleClinic, allowing the company's customers to seek medical advice and obtain prescriptions through a mobile application, PC or telephone from anywhere and also outside standard opening hours of a medical facility.

Commission income in **banking services** remained broadly unchanged y-o-y at €20.1m (€20.0m in H118), while the segment result was up to €3.3m from €2.1m in H118.

Valuation

As there are no Refinitiv consensus estimates for NBG, our P/E calculations for 2019 are based on management's FY19 net profit guidance of €55m. We feel it is an appropriate measure as management expectations appear relatively conservative, as exhibited by the FY18 earnings beat. Based on these figures, the company is trading at a c 36% premium to the peer group. NBG pays an annual dividend of €3 per share, implying a 4.3% yield, which is a c 14% premium to peers.

Exhibit 2: Peer group comparison

	Market cap (lcy m)	Share price (lcy)	P/E (x)		Dividend yield (%)	
			2019e	2020e	2019e	2020e
UNIQA Insurance Group	€2,618	8.48	12.1	11.1	6.5	6.7
Helvetia Holding	6,822 CHF	137.20	12.8	13.0	3.7	3.8
Baloise Holding	8,589 CHF	176.00	12.5	12.5	3.6	3.9
Ageas	€9,987	50.40	10.6	10.8	4.8	5.0
Swiss Life Holding	16,495 CHF	491.00	14.0	13.0	3.8	4.3
NN Group	€11,349	33.07	7.6	7.7	6.2	6.6
CNP Assurances	€11,907	17.36	8.5	8.1	5.4	5.7
AXA	€54,850	22.74	8.4	7.9	6.4	6.8
Allianz	€89,888	212.00	11.2	10.5	4.5	4.8
Talanx	€9,991	39.52	10.4	9.7	3.9	4.2
Peer group average			10.8	10.4	4.9	5.2
Nürnberger Beteiligungs	€806	70.00	14.7*	N/A	4.3**	N/A
Premium/(discount)			35.8%	N/A	14.3	N/A

Source: Refinitiv consensus at 16 September 2019. Note: *Calculated based on management guidance (no consensus available). **Yield calculated based on dividend payment from 2018 earnings.

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