

Generali

Neutral

A casualty of the adverse rate environment

Price: EUR 15.8
(04 Aug 2010)

Target: EUR 17.0 (+7.6%)
Alert: EUR 15.0

Year to Dec (€)	Income (m)	Net profit rep. (m)	EPS rep.	EPS adj.*	NAVPS adj.*	P/E rep.	P/E adj.*	P/NAV adj.*	DPS	Yield (%)
2008	64,616	861	0.61	0.61	5.7	40.4	40.4	4.3	0.15	0.6
2009	66,590	1,309	0.84	0.84	6.9	19.1	19.1	2.3	0.35	2.2
2010E	68,322	1,801	1.16	1.16	8.4	13.7	13.7	1.9	0.46	2.9
2011E	71,638	2,156	1.38	1.38	9.3	11.5	11.5	1.7	0.55	3.4
2012E	74,659	2,292	1.47	1.47	10.2	10.8	10.8	1.6	0.60	3.8
<i>CAGR 09-12E (%)</i>	<i>3.9</i>	<i>20.5</i>	<i>20.5</i>	<i>20.5</i>	<i>13.8</i>				<i>19.7</i>	

(*) adjusted for goodwill, capital gains and exceptional items

Source: Company accounts, MainFirst estimates

We downgrade Generali from Buy to Neutral after 1H10 results: as it is the case with other (mainly) traditional life insurers in continental Europe, a context of low interest rates is likely to cap growth in the embedded value and possibly IFRS earnings. We lower our target price to €17.0 per share.

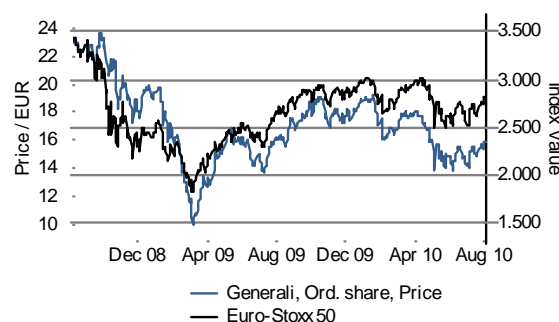
- **Lack of growth in embedded value.** Life VIF, which constitutes a key component of our valuation, suffered the adverse rate context, arriving well below (17%) our estimates and -18% on the FY2009.
- **Earnings depressed by natural events in 2Q.** We decrease our earnings estimates by 8% for both 2010 and 2011 to reflect the impact of lower rates on life and P&C ordinary income as well as a higher than anticipated level of natural events in 2Q2010. Our target price passes to €17.0 per share, mainly on the back of a lower valuation for life operations.
- **Valuation: discount to EV could linger in our view.** Generali trades at a significant discount (9%) to spot embedded value, versus Allianz and Axa, which are on 1.11x and 1.06 x, respectively. We believe, however, that lower rates might continue to take a heavy toll on EV growth via negative variances and lower new business margins and that, therefore, the discount could remain for the time being.

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Bloomberg / Reuters codes:
Market cap (€ m), Free float:
No. of shares (m)
Daily trading volume (m)
DJ EuroStoxx 50
Website
Next Event
Date

G IM / GASI.MI
€24.66bn (75%)
1,556.86
6.4
2,825
www.generali.com
Q3/9M Results
11 November 2010



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- Generali's 1H10 reported numbers are shown below. We point out that the value of in-force was impacted by the decline in interest rates as well as by the widening spread between the Italian sovereign and swap rates. The net effect thus amounted to €3bn, well beyond what we were expecting (€1bn).
- We decrease our earnings estimates by 8% for both 2010 and 2011, while we now forecast that the EVpS could come in at €7.3 per share at FY2010 net of dividends, versus €8.3 of our previous estimate.
- Our new target price of €7.0 reflects mainly a lower estimate for the value of life operations. We are now deriving a fair price to embedded value for Generali's life business of 1.04x versus 1.25x previously.

Table 1: Generali – 1H10 results (€m)

	1Q10A	yoy 1)	1H09	1H10e	yoy 1)	1H10a	yoy 1)	a/e	FY2009	FY2010E	yoy
Life premiums	14,214	20%	23,124	26,593	15.0%	26,351	14.0%	-1%	44,876	45,410	1.2%
Life APE	1,532	21%	2,393	2,824	18.0%	2,784	16.3%	-1%	5,188	5,509	6.2%
P&C premiums	6,650	1%	11,558	11,789	2.0%	11,778	1.9%	0%	21,713	22,912	5.5%
P&C CoR	98.0%	1.7%	97.9%	98.4%	0.5%	98.8%	0.9%	0%	98.4%	97.5%	-0.9%
Pre-tax income	905	309%	889	1,592	79.1%	1,406	58.2%	-12%	2,168	2,804	29.3%
Taxes & minorities	-378	-118	-385	-653	69.7%	-533	38.5%	-18%	-859	-1,002	16.6%
Tax rate & minorities	42%	47%	43%	41%	-2.3%	38%	-12.4%	-8%	40%	36%	-3.9%
Group net income	527	408%	504	939	86.3%	873	73.2%	-7%	1,309	1,802	37.7%
Group net income (adj)	527	408%	504	939	86.3%	873	73.2%	-7%	1,309	1,802	37.7%
Life NBV	na	na	464	540	16.4%	494	6.5%	-9%	1,128	1,052	-6.8%
Group equity	18,002	8%	11,612	17,691	6.2%	17,148	3.0%	-3%	16,652	18,814	13.0%
Life VIF	na	na	11,915	14,037	17.8%	11,701	-1.8%	-17%	14,323	12,592	-12.1%

Source: Company accounts, MainFirst estimates

1) Change in group equity is relative to last reported year

Table 2: Generali – earnings estimates (€m)

	2007	2008	2009	2010E	2011E	2012E	CAGR 09-12E
Life profits	2,958	964	2,215	2,347	2,482	2,530	4.5%
Non-life profits	2,461	1,531	841	1,340	1,785	1,945	32.3%
Asset management	341	240	356	360	332	335	-2.0%
Consolidation adjustment	-65	-208	-238	-270	-270	-270	4.3%
Holding costs	-979	-992	-1,005	-973	-973	-973	-1.1%
Operating Result	4,716	1,537	2,168	2,804	3,356	3,567	18.0%
yoy growth	20.4%	-67.4%	41.1%	29.3%	19.7%	6.3%	
Non operating items	0	0	0	0	0	0	nm
EBT	4,716	1,537	2,168	2,804	3,356	3,567	18.0%
Taxes	-1,342	-473	-498	-757	-906	-963	24.6%
Tax Rate	28.4%	30.8%	23.0%	27.0%	27.0%	27.0%	
Net income after tax	3,375	1,064	1,670	2,047	2,450	2,604	16.0%
Income from discontinued ops	0	0	96	0	0	0	nm
Net income	3,375	1,064	1,766	2,047	2,450	2,604	13.8%
Minorities	-459	-203	-457	-246	-294	-312	-11.9%
Share of minorities	13.6%	19.1%	27.4%	12.0%	12.0%	12.0%	
Group net profit	2,916	861	1,309	1,801	2,156	2,292	20.5%
Total Dividends	1,269	212	545	708	850	935	19.7%
yoy growth	-47.2%	-83.3%	157.6%	30.0%	20.0%	10.0%	
Dividend payout	43.5%	24.6%	41.6%	39.3%	39.4%	40.8%	

Source: Company accounts, MainFirst estimates

Table 3: Generali – embedded value (€m)

	2007	2008	2009	2010E	2011E	2012E	CAGR 09-12E
Equity	14,790	11,313	16,652	18,814	20,120	21,476	8.9%
adjustments	-74	-3,218	-5,883	-5,763	-5,687	-5,603	-1.6%
NAV	14,716	8,095	10,769	13,051	14,432	15,873	13.8%
<i>yoy growth</i>	7.7%	-45.0%	33.0%	21.2%	10.6%	10.0%	
Life in-force	12,167	11,094	14,323	12,592	12,443	12,248	-5.1%
AUM in-force	895	996	983	1,284	1,418	1,562	16.7%
EV	27,778	20,185	26,075	26,927	28,294	29,683	4.4%
<i>yoy growth</i>	7.5%	-27.3%	29.2%	3.3%	5.1%	4.9%	
Shares outstanding	1,410	1,410	1,557	1,557	1,557	1,557	0.0%
EVpS (€)	19.7	14.3	16.7	17.3	18.2	19.1	4.4%

Source: Company accounts, MainFirst estimates

Table 4: Generali – SOTP valuation (€m)

Business area	Allocated NAV	VIF	Total capital	Normalised profits	Normalised RoC	Cost of equity	Target P/Capital (x)	Valuation	Value/norm profits (x)	Cash earnings	Value/cash earnings (x)	Share of total	Value per share (Eur)
Life	9,645	12,592	22,237	2,004	9.0%	8.7%	1.04	23,144	11.5	1,714	13.5	88%	14.9
Non-life	7,012	0	7,012	752	10.7%	8.9%	1.23	8,636	11.5	978	8.8	33%	5.5
Asset management	365	0	365	152	41.7%	9.6%	5.22	1,907	12.5	141	13.5	7%	1.2
Value of operations	17,022	12,592	29,614	2,909	9.8%	8.8%	1.14	33,687	11.6	2,833	11.9	128%	21.6
Holding & other	0	0	0	-298		8.8%		-3,454	11.6	-298	12	-13%	-2.2
Value of assets	17,022	12,592	29,614	2,611	8.8%	8.8%	1.02	30,233	11.6	2,535	11.9	114%	19.4
Surplus capital/debt requirement	-5,460	0	-5,460	-229	4.2%	6.0%	0.70	-3,822	16.7	-229	16.7	-14%	-2.5
VALUE OF EQUITY	11,562	12,592	24,154	2,381	9.3%	9.4%	1.09	26,411	11.1	2,306	11.5	100%	17.0

Source: MainFirst estimates

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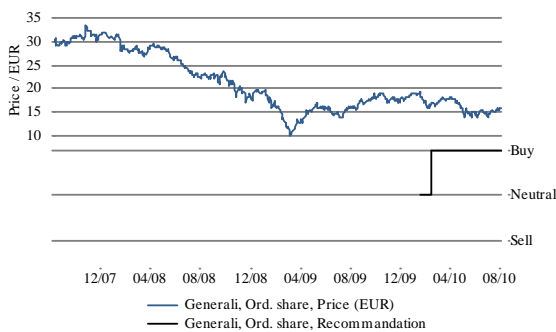
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Neutral	69	47	0	0
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Source: MainFirst estimates, Bloomberg

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(€)	Rec	From	Price	TP	Upside
Allianz	B	Unchanged	91	101	11%
Axa	S	Unchanged	14.7	13.2	-10%
Generali	N	Buy	15.8	17.0	7%
ING	B	Unchanged	7.8	8.8	13%

Source: MainFirst estimates, Bloomberg

(*) B – Buy, S – Sell, N – Neutral, NR – Not rated

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P&L to December (€ m)						Ratings (5: ++, 1: --)			Price (€)		
Revenues	64,616	66,590	68,322	71,638	3.5%	Profitability	2.0	Alert	15.8		
Yoy growth (%)	(0.2)	3.1	2.6	4.9	n/m	Growth	2.0	Price Target	17.0		
Life pre-tax profits	964	2,215	2,347	2,482	37.1%	Visibility	3.0	* Valuation 1 (abs)			
Non-life pre-tax profits	1,531	841	1,340	1,785	5.2%	Cyclicality	1.0	* Valuation 2 (abs)			
AM pre-tax profits	240	356	360	332	11.4%	Focus	3.0	* Valuation 3 (abs)			
Consolidation adjustment	(208)	(238)	(270)	(270)	9.1%	Bal. Sheet Quality	3.0	* Valuation 4 (abs)			
Holding costs	(992)	(1,005)	(973)	(973)	(0.6%)	Average	2.3	* Valuation 5 (abs)			
Operating results	1,537	2,168	2,804	3,356	29.7%	Per share data (€)					
Yoy growth (%)	(67)	41.1	29.3	19.7	n/m	EPS (rep.)	0.61	0.84	1.16	1.38	
Non-operating items	-	-	-	-	n/m	EPS (adj.)	0.61	0.78	1.16	1.38	
Pre-tax profits	1,537	2,168	2,804	3,356	29.7%	DPS	0.15	0.35	0.46	0.55	
Taxes	(473)	(498)	(757)	(906)	24.2%	BVPS	8.0	10.7	12.1	12.9	
Tax rate (%)	31	23	27	27	(4.2%)	NAVPS (adj.)	5.7	6.9	8.4	9.3	
Net income	1,064	1,670	2,047	2,450	32.0%	EmVPS	14.3	16.7	17.3	18.2	
Minorities	(203)	(457)	(246)	(294)	13.1%	No. of shares (year-end)	1,410	1,557	1,557	1,557	
Share of minorities (%)	19	27	12	12	n/m	No. of shares (diluted)	1,410	1,483	1,557	1,557	
Group net profits	861	1,309	1,801	2,156	35.8%	Valuation					
Dividends	212	545	708	850	59.0%	P/E, rep.	40.3	19.1	13.7	11.5	
Payout rate (%)	25	42	39	39	n/m	P/E, adj.	40.3	20.6	13.7	11.5	
						P/B, rep.	3.1	1.5	1.3	1.2	
						P/B, adj.	3.1	1.5	1.3	1.2	
						P/NAVPS	4.3	2.3	1.9	1.7	
						P/EmV	1.72	0.96	0.91	0.87	
						Dividend yield (%)	0.61	2.18	2.88	3.45	
						Payout ratio (%)	25	42	39	39	
P&L adjusted (€ m)						Peer Valuation Backpage (Label)					
Goodwill amortisation	-	-	-	-	-	Company	Weight	2009	2010E	2011E	
Other (e.g. restruct. & acc changes)	-	-	-	-	n/m	Peer 1 (abs)	0.00	n/m	n/m	n/m	
Pre-tax profit (adj.)	1,537	2,168	2,804	3,356	29.7%	Peer 2 (abs)	0.00	n/m	n/m	n/m	
Tax rate, %	31	23	27	27	n/m	Peer 3 (abs)	0.00	n/m	n/m	n/m	
Minorities rate, %	19	27	12	12	n/m	Peer 4 (abs)	0.00	n/m	n/m	n/m	
Net attributable profit (adj.)	861	1,213	1,801	2,156	35.8%	Peer 5 (abs)	0.00	n/m	n/m	n/m	
						Peer 6 (abs)	0.00	n/m	n/m	n/m	
						Weighted average	n/m	n/m	n/m	n/m	
						Current prem (disc)	0%	0%	0%	0%	
						Fair premium (disc)	n/m	n/m	n/m	n/m	
						Fair price	n/m	n/m	n/m	n/m	
						Weight	n/m	n/m	n/m	n/m	
						Price target (implied)					
Balance sheet (€ m)						Interim data (EUR)					
Intangibles	9,293	10,445	10,445	10,445	4.0%	Group revenue (m)	Q1	21,752	17,435	19,910	
Investments	262,969	278,816	294,665	311,642	5.8%		Q2	44,089	39,027	43,037	
Unit-linked assets	67,402	65,926	48,409	52,828	(7.8%)		Q3	61,103	55,067	66,355	
Other assets	44,275	68,630	93,520	96,997	29.9%		Q4	83,267	70,555		
Total assets	383,938	423,817	447,039	471,913	7.1%	EPS, adj.	Q1 (abs)	0.51	0.65	0.07	
P&C reserves	33,764	33,661	34,682	36,279	2.4%		Q2 (abs)	1.26	1.08	0.37	
Life reserves	233,032	241,811	256,578	272,754	5.4%		Q3 (abs)	1.68	1.18	0.57	
Other liabilities	101,670	128,421	133,448	138,949	11.0%		Q4 (abs)	2.07	0.61		
Minorities	4,160	3,272	3,518	3,812	(2.9%)						
Shareholders' equity	11,313	16,652	18,814	20,120	21.2%						
Total liab & equity	383,938	423,817	447,039	471,913	7.1%						
Growth rates (%)											
Life pre-tax profits	-67	130	6	6	n/m						
Non-life pre-tax profits	-38	-45	59	33	n/m						
Asset management pre-tax profits	-29	48	1	-8	n/m						
Consolidation adjustment	221	15	13	0	n/m						
Holding costs	1	1	-3	0	n/m						
Operating results	-67	41	29	20	n/m						
Intangibles	52	12	0	0	n/m						
Investments	-2	6	6	6	n/m						
Unit-linked assets	33	-2	-27	9	n/m						
Other assets	-22	55	36	4	n/m						
Total assets	0	10	5	6	n/m						
P&C reserves	-1	0	3	5	n/m						
Life reserves	8	4	6	6	n/m						
Other liabilities	-11	26	4	4	n/m						
Minorities	17	-21	8	8	n/m						
Shareholders' equity	-24	47	13	7	n/m						
Total liab & equity	0	10	5	6	n/m						
Ratios (%)											
Property and casualty											
Underwriting margin on premiums	1	0	1	2	n/m						
Combined ratio	97	98	97	97	n/m						
Expense Ratio	28	27	27	26	n/m						
Claims Ratio	69	71	71	71	n/m						
Combined Ratio including o tech items	99	100	99	98	n/m						
Cover ratio	145	148	145	146	n/m						
Life											
Net income as % average net reserves	0	1	1	1	n/m						
Net income as % net premiums	2	5	5	5	n/m						
Asset management											
Cost-income ratio	67	65	65	65	n/m						
Gearing 1 - Financial debt/Equity	128	86	71	65	n/m						
Gearing 2 - Financial debt/NAV	179	133	103	91	n/m						
Gearing 3 - Financial debt/EV	72	55	50	46	n/m						
Division Backpage (€ m)											
Group total											
Life revenues	42,035	44,103	44,502	46,780	3.6%						
Life pre-tax income	(67)	130	6	6	(144.0%)						
P&C revenues	20,101	20,034	21,140	22,054	3.1%						
P&C pre-tax income	(38)	(45)	59	33	(195.7%)						
Asset management op income	215	237	241	213	(0.3%)						
Asset management pre-tax income	(29)	48	1	(8)	(36.3%)						

Chart 1: ROE (line, lhs) versus Div. yield (bar, rhs)

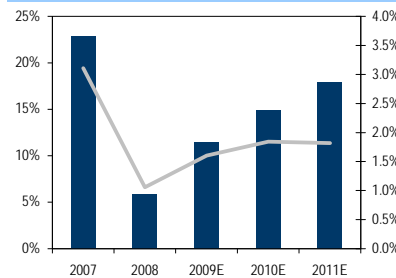


Chart 2: Top-Five Major Shareholders

