

Nürnberger Beteiligungs

Insurance
29 September 2021

Storms in Germany affect company guidance

Nürnberger Beteiligungs (NBG) posted a decline in H121 earnings (albeit versus a particularly strong H120) as stable gross premiums written, driven by new business, and a rebound in investment income were coupled with rising claims expenses largely due to severe storms and floods in Germany in 2021, and additions to the equalisation reserve. These also triggered a downward revision of management guidance in August 2021, which now assumes net income of c €60m in FY21 (down c 31% y-o-y). NBG remains optimistic about growth in new premiums at group level in FY21 and confirms its forecast for stable gross premiums written vs FY20.

H121 earnings down from a strong H120

NBG's pre-tax profit declined to €36.7m in H121 from a strong €64.5m in H120 and €39.0m in H119. In the period, a slight growth in gross premiums written (up 0.7% y-o-y to €1,807m) was assisted by a healthy 5.1% y-o-y rise in new premiums to €272.1m, supported by all segments, most notably the Property & Casualty (P&C) business (new premiums up 9.0% y-o-y). Investment income also saw positive momentum at group level in H121 (+19% y-o-y to c €430m). That said, the combined ratio in the P&C segment deteriorated to 93.6% from 90.7% in H120, affected, among other things, by higher claims expenses (€184.5m in H121 versus €175.4m in H120) due to storms and floods in Germany which, in June 2021 alone added €7m to this figure, according to management. Net income ex-minorities at group level was €37.1m (versus €42.1m in H120 and €21.3m in H119), assisted by a positive €1.0m income tax effect (versus €21.2m income tax in H120).

Management revises guidance after natural disasters

Management revised down its full-year guidance in August 2021 and now expects net income of c €60m in 2021, compared with a stable y-o-y level to which it guided earlier this year. At the same time, it maintained its FY21 guidance for meaningful y-o-y growth in new premiums and broadly stable gross premiums. It is noteworthy that in July 2021, the German Insurance Association (GDV) revised up its forecasts for growth in gross premiums in the German insurance market to 3.5% y-o-y in 2021 from the 2% that it expected earlier this year.

Valuation: Offering a 4.2% dividend yield

After c 11% share price growth in 2021 ytd, NBG is trading on an FY20 P/E of 11.7x, compared with the peer group median of 13.2x. Its dividend of €3.3 per share paid from FY20 profits implies a yield of 4.2% vs a median 4.9% 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	9.7	3.8
12/18	4,404	97.3	5.1	3.0	15.4	3.8
12/19	4,567	81.3	5.9	3.3	13.4	4.2
12/20	4,568	92.3	6.7	3.3	11.7	4.2

Source: NBG accounts, Refinitiv

Price €78.5
Market cap €902m

Share price graph



Share details

Code	NBG6
Listing	Deutsche Börse Scale
Shares in issue	11.5m
Liquid resources at end-June 2021	€582.0 m

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

- Management guidance for 2021 revised down in August 2021 due to natural disasters in Germany in June and July 2021.
- Low interest rate environment.
- Highly competitive industry.

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Lower H121 earnings y-o-y; solid growth in new business

NBG's overall revenue, including insurance premiums, investment income and fee and commission income, reached €2,323m in H121 (versus €2,300m in H120 and €2,347m in H119), driven by growth across all components. Gross premiums written increased 0.7% y-o-y to €1,807m following y-o-y increases in the P&C and health segments (up 3.8% and 3.6% y-o-y, respectively) and a broadly stable figure in the life insurance segment. At the same time, new premiums at group level rose 5.1% y-o-y to €272.1m in H121, supported by the life and P&C insurance segments (up 4.0% and 9.0% y-o-y, respectively) despite a decline in the health insurance segment (down 4.2% y-o-y). While H121 growth in life insurance follows a 3.4% y-o-y drop in new business in H120, we note that new premiums in the P&C segment were up from a stable H120 base versus H119.

After a weak H120, affected by pandemic-induced turmoil in the financial markets, investment income grew 19.2% y-o-y to €430.3m in H121 (versus €506.0m in H119). Investment income attributable to unit-linked products stood at €29.1m in H121 (versus a €41.7m loss in H120 and a €132.7m gain in H119), while investment income in the traditional insurance business was broadly stable at €401.1m (vs €402.6m in H120). Net commission income (largely attributable to NBG's banking services segment) increased 19.0% y-o-y to €32m and the growth was organic, driven by its subsidiary, the Fürst Fugger Privatbank, according to management. NBG's technical reserves relating to its traditional insurance business rose by €160.9m in H121 (versus €318.0m in H120), with Zinszusatzreserve (ZZR) accounting for €99.6m (€98.3m). Moreover, reserves relating to the company's unit-linked business grew by €892.3m (compared with a €790.0m drop in H120), corresponding to the change in value of related investments held within unit-linked products.

In the period, operating expenses went up to €297.1m from €278.0m a year earlier, driven by a €15.1m rise (or +14.1% y-o-y growth) in the P&C segment, which we believe may be partially due to higher acquisition costs given the rise in new business in this segment. Finally, NBG posted a visibly higher addition to the equalisation reserve in H121 (€23.0m in H121 versus €10.4m in H120). While the growing equalisation reserve in the P&C segment in H121 was in line with management guidance released earlier this year, we understand that the situation was exacerbated by natural disasters in Germany in June and July 2021, as reflected in the downward revision of management guidance at group level in August 2021 (see more details below).

Consequently, pre-tax profit declined to €36.7m in H121 from a strong €64.5m in H120 (or €68.2m, adjusting for €3.7m of extraordinary restructuring expenses in H120) and €39.0m in H119. Net income ex-minorities fell to a lesser extent to €37.1m in H121 from €42.1m in H120 (versus €21.3m in H119) after NBG reported a positive €1.0m income tax effect in the period, compared with €21.2m income tax in H120. This was linked to the repeal of a state decree in 2021 set by the German tax authorities in 2015, according to which, the profit of a domestic company must have been reduced by the amount of commercial income attributable to a permanent establishment located outside Germany. Based on our discussion with the management, we understand that the tax effects relating to the repeal of the state decree have been reflected in full in H121.

NBG's balance sheet remains strong, with liquid resources (ie bank balances, cheques and cash in hand) of €582.0m at end-H121 (versus €497.4m at end-FY20 and €600.6m at end-H120). The Fitch rating (updated in September 2021) for NBG's subsidiaries (ie NÜRNBERGER Lebensversicherung, NÜRNBERGER Allgemeine Versicherung and NÜRNBERGER Krankenversicherung) is A+ and NBG's issuer default rating is A. The outlook for all ratings is stable.

Exhibit 1: H121 results highlights

€m	H121	H120	% y-o-y
Gross premiums written	1,807.0	1,793.7	0.7%
Premiums earned	1,618.1	1,609.0	0.6%
Net result on premium refunds	(177.7)	(147.1)	20.8%
Investment income	430.3	360.9	19.2%
Unrealised profits/losses from unit-linked insurance investments	987.3	(677.6)	N/M
Other net technical income/(expense)	(14.7)	(13.9)	5.8%
Claims expenses	(1,437.0)	(1,234.0)	16.5%
Change in other technical provisions	(1,041.7)	473.1	N/M
Operating expenses	(297.1)	(278.0)	6.8%
Change in equalisation and other reserves	(23.0)	(10.4)	120.9%
Other net (non-technical) income/(expense)	(7.7)	(13.6)	-43.3%
Goodwill amortisation	(0.1)	(0.3)	-62.2%
Extraordinary result	0.0	(3.7)	N/M
Pre-tax profit	36.7	64.5	-43.2%
Income and other taxes	1.0	(21.2)	N/M
Effective tax rate	N/M	33%	N/M
Net income (including minorities)	37.6	43.3	-13.0%
Minorities adjustment	(0.6)	(1.1)	-49.7%
Net income (ex-minorities)	37.1	42.1	-12.0%

Source: NBG accounts

Segment analysis

In the **life insurance segment**, gross premiums written remained broadly stable y-o-y at €1,182m in H121 (versus €1,191m in H120). New business increased 4% y-o-y to €190.4m, which we believe was assisted by lifting lockdown measures and was driven by both single- and regular premium business (up 3.4% and 5.2% y-o-y, respectively), with the highest demand in traditional and unit-linked life and pension insurance, as well as disability insurance. In the traditional life insurance business, technical reserves rose by €115.9m (versus €257.2m in H120), while investment income was slightly lower y-o-y at €349.6m in H121 (versus €355.1m in H120). Segmental net profit increased to €22.2m in H121 from €20.0m a year earlier.

In the **P&C segment**, new business rose 9.0% y-o-y to €74.8m, assisted by healthy growth across all insurance products, with property, liability and accident insurance up 8.8% y-o-y to €30.8m and vehicle insurance up 8.3% y-o-y to €39.3m. In the period, gross premiums written increased 3.8% y-o-y to €495.3m. That said, the combined ratio deteriorated to 93.6% in H121 from 90.7% in H120 after 5.3% y-o-y growth in premiums earned to €328.4m was more than offset by a 13.9% y-o-y increase in operating expenses to €122.7m and a 5.2% y-o-y rise in claims expenses to €184.5m. The latter included a €7.0m negative impact from claims expenses related to storms and floods in Germany in June 2021 alone, according to management (claimed expenses related to natural hazard losses were €13.6m in H121 versus €9.1m in H120). Additions to the equalisation reserve and other provisions reached €23.0m in H121, compared with €10.4m in H120. The P&C segment posted a €6.4m net loss, compared with €19.4m net income in H120.

The health insurance segment posted net profit of €3.5m in H121, slightly up from €3.1m in H120. In the period, gross premiums written increased 3.6% y-o-y to €130m, while new premiums fell 4.2% y-o-y to €6.9m after growth in supplementary health insurance products did not compensate for the decline in full health insurance products. Finally, net profit in the **banking services** segment improved to €5.3m in H121 from €2.2m in H120, supported by €2.9m growth in fee and commission income to €24.4m and a €1.3m rise in investment income to €3.5m.

Downward revision of management guidance

In August 2021, management revised down its guidance for net income at group level to c €60m for FY21, compared with its previous forecasts of a slight y-o-y decline (versus €78.5m in FY20), due to the headwinds it expects from natural disasters in Germany in June and July 2021. At the same

time, it confirmed that at group level, the company expects a notable rise in new business and stable gross premiums written in 2021 compared to 2020. In the life insurance segment, NBG guides to significantly higher new premiums, equally driven by regular payment and single premium business, and stable gross premiums written in FY21. Management expects the health insurance segment to post a slight reduction in new premiums and higher gross premiums written in FY21, while the P&C segment will significantly grow both new business and gross premiums written. In the banking segment, the company expects growing demand for its asset management services.

In July 2021, the GDV issued new forecasts for gross premium growth in the German insurance market, which it expects to rise 3.5% y-o-y in 2021 (versus the 2% it expected earlier this year), with life insurance up 3.5% y-o-y (2%), P&C up 2% y-o-y (1.5%) and health insurance up 7% y-o-y (5%). Growth in the latter should be assisted by tariff adjustments to full insurance products.

Valuation

With an FY20 P/E ratio of 11.7x, NBG is trading at a 12% discount to its peer group median, while its FY21e P/E ratio of 12.1x is c 30% above the peer group median. We note that Refinitiv consensus on NBG are based on the estimates of one analyst, which was last updated in August 2021 (after management revised its guidance for 2021). NBG's AGM in April 2021 voted in favour of a €3.30 dividend per share (unchanged y-o-y), which implies a 4.2% yield compared with a 4.9% 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	€2,336	7.55	67.4	8.8	2.4	6.0
Helvetia Holding	CHF5,435	102.50	21.8	11.5	4.9	5.2
Baloise Holding	CHF6,476	141.40	14.0	11.2	4.7	4.9
Ageas	€7,663	40.07	6.8	8.6	6.7	6.8
Swiss Life Holding	CHF14,730	465.40	13.7	11.7	4.4	4.9
NN Group	€14,238	44.74	11.8	8.9	5.9	5.4
CNP Assurances	€9,390	13.66	7.3	6.8	7.6	7.0
AXA	€57,150	23.60	13.0	8.3	5.9	6.4
Allianz	€79,925	193.64	11.9	9.6	5.0	5.3
Talanx	€9,288	36.74	13.5	9.7	4.1	4.4
Peer group median			13.2	9.3	4.9	5.4
Nürberger Beteiligungs	€902	78.50	11.7	12.1	4.2	4.2
Premium/(discount)			(12.0%)	30.3%	(14.8%)	(21.7%)

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

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