

Nürnberger Beteiligungs

Insurance

30 March 2022

FY21 earnings affected by natural disasters

Despite the life insurance segment's solid growth in new business and earnings, Nürnberger Beteiligungs (NBG) posted a c 19% y-o-y drop in net income (ex-minorities) at the group level in FY21, weighed down by higher claims expenses in the Property & Casualty (P&C) segment due to severe storms and floods in Germany in 2021. While NBG fell short of delivering its earnings guidance from the beginning of 2021, its FY21 net income of €63m was slightly ahead of management guidance, updated in August 2021, of €60m after the catastrophic weather events. After a challenging FY21 for P&C, management guides to significantly higher earnings at group level in FY22 and has proposed a dividend of €3.30 per share (unchanged versus last year), implying a yield of 4.1%.

Strong life insurance segment growth

NBG's net income (ex-minorities) declined to €63.0m in 2021 from €77.4m in 2020 as a significantly higher profit of €49.6m in the life insurance segment (versus €37.2m in FY20) did not compensate for the elevated claims expenses in the P&C segment (net loss of €14.2m in FY21 versus net profit of €18.6m in FY20). At the group level, gross premiums written rose 1.2% y-o-y to €3.6bn, assisted by a 4.6% y-o-y growth in new premiums to €658.5m, driven by the life insurance segment. NBG's net investment income increased 26.2% y-o-y to €908.6m amid a favourable stock market development in 2021.

FY22 net income to increase amid a better P&C result

Management expects NBG's FY22 net income will rise significantly year-on-year, from a low FY21 base. The company highlights this should be a function of the P&C segment returning to a profit of c €26m in FY22, assisted by the sale of an investment property, partly offset by a noticeably lower segmental profit in the life insurance business due to persistently low interest rates and a less favourable stock market than in 2021. The German Insurance Association (GDV) expects German insurance market gross premiums to grow 2–3% y-o-y in 2022 (versus c 1.1% in 2021, according to preliminary figures), with life insurance up 1–2% y-o-y and P&C up 3% y-o-y.

Valuation: Premium to peers, dividend yield 4.1%

NBG is trading on an FY21 P/E of 14.6x, compared with the peer group median of 10.4x, which we believe may reflect the optimistic management guidance for FY22. Its proposed dividend of €3.3 per share from FY21 profits implies a yield of 4.1% versus a median 5.0% for its peers.

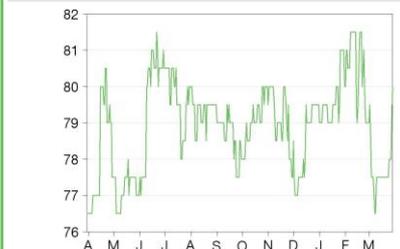
Historical financials

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/18	4,404	97.3	5.1	3.0	15.7	3.8
12/19	4,567	81.3	5.9	3.3	13.7	4.1
12/20	4,568	92.3	6.7	3.3	11.9	4.1
12/21	4,761	71.6	5.5	3.3	14.6	4.1

Source: NBG accounts, Refinitiv

Price	€80.0
Market cap	€921m

Share price graph



Share details

Code	NBG6
Listing	Deutsche Börse Scale
Shares in issue	11.5m
Liquid resources at end-December 2021	€738.9m

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

- Management guidance for 2022 assumes a significant year-on-year growth in net income.
- 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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Different developments across business segments

Overall revenue including insurance premiums, investment income and fee and commission income, increased 4.2% y-o-y to €4.8bn in FY21, supported by 15.1% y-o-y growth in investment income to €1.1bn. This was assisted by a higher net investment income from traditional insurance products (€841.3m in FY21 versus €782.4m in FY20) and unit-linked products (€67.3m in FY22 versus a €62.1m loss in FY20). Gross premiums booked at €3.6bn were 1.2% higher than a year earlier and new premiums rose 4.6% y-o-y (or c €29m) to €658.5m in FY21. This growth was largely attributable to the life insurance segment, where new premiums were up c 5.8% (c €27.9m) in the period. FY21 net commission income (largely attributable to NBG's banking services segment) reached €69m, up 21.4% y-o-y.

Technical reserves relating to NBG's traditional insurance business rose by €559.9m in FY21 (versus a €751.2m increase in FY20), including a €211.8m addition to the Zinszusatzreserve (ZZR, FY20: €219.8m), amid a persistent low interest rate environment. Technical reserves relating to NBG's unit-linked business increased by €1,302.3m in 2021, compared to a €68.5m decline in FY20, corresponding to a change in the value of related investments held in the unit-linked products. Operating expenses were up 10.3% y-o-y to €616.3m, affected by higher acquisition costs (€439.7m in FY21 versus €413.1m in FY20) amid new business growth in the life insurance segment as well as higher administrative expenses (€250.6m in FY21 versus €230.7m in FY20).

NBG's net income (ex-minorities) declined to €63.0m in FY21 from €77.4m in FY20, which was well below management's original guidance of a slight decline, but higher than the updated guidance in August 2021 (which anticipated net income of c €60m in FY21). The performance by business segment was mixed, with life insurance posting robust year-on-year growth in net income in the period while P&C reported a significant net loss, affected by severe weather events in Germany in June and July 2021 (see more detail below). At the group level, the disposal of shares in subsidiaries and holdings resulted in a positive €15.5m contribution to NBG's FY21 earnings.

Exhibit 1: FY21 results highlights

€m	FY21	FY20	% y-o-y
Gross premiums written	3,634.5	3,592.9	1.2
Premiums earned	3,352.7	3,314.5	1.2
Net result on premium refunds	(365.3)	(264.9)	37.9
Net investment income	908.6	720.2	26.2
Unrealised profits/losses from unit-linked insurance investments	1,510.3	164.1	N/M
Other net technical income/(expense)	(8.3)	(29.8)	-72.2
Claims expenses	(2,836.3)	(2,524.0)	12.4
Change in other technical provisions	(1,855.0)	(671.0)	176.4
Operating expenses	(616.3)	(558.7)	10.3
Change in equalisation and other reserves	(14.7)	(20.6)	-28.6
Other net (non-technical) income/(expense)	(2.1)	(37.0)	-94.2
Goodwill amortisation	(2.0)	(0.5)	N/M
Extraordinary result	0.0	0.0	N/M
Pre-tax profit	71.6	92.3	-22.4
Income and other taxes	(7.4)	(13.8)	-46.6
Effective tax rate	10.3%	14.9%	-466bp
Net income (including minorities)	64.3	78.5	-18.1
Minorities adjustment	(1.3)	(1.1)	13.8
Net income (ex-minorities)	63.0	77.4	-18.6

Source: NBG accounts

NBG maintains a good balance sheet position and its Fitch ratings have not changed since our last [update note](#) (ie A+ for NBG's subsidiaries NÜRNBERGER Lebensversicherung, NÜRNBERGER Allgemeine Versicherung and NÜRNBERGER Krankenversicherung and NBG's issuer default rating at A, with a stable outlook for both ratings). NBG's liquid resources (ie bank balances, cheques and cash in hand) stood at €738.9m at end-FY21 versus €582.0m at end-H121 and €497.4m at end-FY20.

Segment analysis

In the life insurance segment, gross premiums booked were stable y-o-y at €2,501m in FY21. This compares with a 1.4% y-o-y reduction posted by the wider German insurance market in this segment in 2021, according to the GDV. New premiums reached €510.1m in FY21, up 5.8% y-o-y, driven both by regular payment and single premium business (up 12.8% and 3.0% y-o-y respectively). Segmental net profit significantly improved to €49.6m in FY21 from €37.2m in FY20, exceeding the company's guidance (which assumed a stable level compared with FY20). In January 2021 NBG acquired Getsurance, a digital insurance company focused on income protection products, in line with NBG's product priorities in this segment.

In the P&C segment, gross premiums booked increased 4.1% y-o-y to €872.6m, compared with 2.2% y-o-y growth in this segment for the wider insurance market in Germany in 2021, according to GDV. New premiums rose slightly to €134.2m in FY21 (versus €133.4m in FY20), supported by good demand for commercial insurance, although sales targets in the private insurance segment were not fully met, according to management.

NBG's combined ratio deteriorated to 107.1% in FY21 from 94.9% a year earlier, as the 4.5% y-o-y growth in premiums earned to €646m was more than offset by a 13.5% y-o-y increase in operating expenses to €233.6m and a 12.6% y-o-y rise in claims expenses to €405.3m, which were affected by catastrophic weather events (ie heavy rain, hail and floods) in June and July 2021. According to GDV, the flooding in Germany caused by the low-pressure weather system known as Bernd in July 2021 was the most damaging natural catastrophe in Germany ever. As a result, the P&C segment posted a €14.2m net loss in 2021 (versus a €18.6m net profit a year earlier).

In the health insurance segment, gross premiums booked increased 3.3% y-o-y to €261.2m (versus 5% y-o-y growth for the wider German insurance market over the same period, according to GDV). New premiums rose slightly to €14.1m in the period versus €13.8m a year earlier, supported by strong demand for supplementary insurance products. Segmental net income was €7.0m in FY21, up from €6.2m in FY20, in line with management's expectations. The banking services posted segmental profit of €11.1m, compared with €6.1m in 2021, exceeding management's guidance (which was unchanged y-o-y), mainly due to a 35% y-o-y increase in commission income to €37.8m.

NBG guides to significantly higher net income in FY22

At the group level, management expects significantly higher net income in FY22, supported by a recovery in earnings in the P&C segment after a challenging FY21. Management guidance assumes that the interest rate environment will not change materially. We note that according to the Christine Lagarde, President of the European Central Bank (ECB), the ECB will be in no hurry to raise interest rates and any move will be gradual. NBG also assumes in its forecasts that stock markets will perform positively (but will lag behind the 2021 performance), there will be no major defaults of debtors and the sources of underwriting earnings will remain stable across all segments. We note that NBG does not have any exposure to Russia and Ukraine.

In the life insurance segment, NBG guides to a slight decline in new premiums and a more significant drop in gross premiums booked in FY22, affected by the planned disposal of its life insurance business, NÜRNBERGER Versicherung AG Österreich in Austria effective 1 January 2022 (subject to regulatory approvals). NBG highlights it wants to focus on the P&C insurance products in this region, run by a branch of NBG's subsidiary GARANTA Versicherung AG Österreich. NÜRNBERGER Versicherung AG Österreich delivered gross premiums booked of €110m in FY21 and contributed €0.3m to NBG's net income. Adjusted for the disposal, management expects stable new and gross premiums booked in FY22, assisted by the strong performance across income protection products. GDV expects gross premiums booked in the wider

German life insurance market to increase by 1–2% y-o-y in 2022. NBG's guidance assumes a significant decline in segmental profit to c €40m in FY22 (from €49.6m in FY21), weighed down by the low interest environment and less favourable stock markets than in FY21.

In the P&C segment, NBG's guidance assumes significantly higher new premiums and gross premiums booked in FY22, supported by the company's continued investments in the digitisation of the offering. GDV expects gross premiums booked in the wider German P&C insurance market will grow 3% y-o-y over the same period. Management guides to segmental profit of c €26m in FY22 (versus a net loss of €14.2m in FY21 and net profit of €18.6 in FY20), although the result will be largely assisted by the sale of an investment property. NBG highlights that the expected positive development in the segment will be reflected in the underwriting result to a limited extent as NBG's reinsurance partners will participate to a large extent in these developments and the company will make large allocations to the equalisation reserve in the period.

In the health insurance segment, NBG expects significant growth in new premiums, supported by additional and commercial insurance products, and significantly higher gross premiums booked in FY22. That said, NBG's forecast assumes segmental profit of €7m in the period (unchanged versus FY21), affected by increasing expenses for actuarial interest and a slight decline in the underwriting result. In the banking services segment, NBG expects segmental profit to decline to c €7m in FY22 from a strong €11.1m in FY21. Management assumes that growth in its asset management business will be offset by lower net interest income and lower commission income due to a low interest rate environment and less favourable stock markets.

Valuation

NBG's shares are trading at a FY21 P/E ratio of 14.6x, which represents a 41% premium to its peer group median. The premium declines to 25% for NBG's FY22e P/E ratio. However, we note that Refinitiv consensus forecasts for NBG are based on the estimates of one analyst, which was last updated in August 2021 (after management revised its guidance for 2021). Management has proposed a dividend of €3.30/share from FY21 profits (unchanged year-on-year), which implies a 4.1% yield compared with a 5.0% median yield for its peers.

Exhibit 2: Peer group comparison

	Market cap (m)	Share price Local ccy	P/E (x)		Dividend yield (%)	
			2021	2022e	2021	2022e
UNIQA Insurance Group	€2,219	7.25	8.5	8.0	6.5	7.3
Helvetia Holding	CHF6,431	121.60	13.5	12.8	4.4	4.6
Baloise Holding	CHF7,566	165.20	13.4	12.3	4.2	4.5
Ageas	€8,930	47.20	10.6	8.6	5.8	6.2
Swiss Life Holding	CHF18,860	599.80	15.0	13.7	3.8	4.4
NN Group	€14,780	46.95	8.1	9.4	5.3	5.6
CNP Assurances	€14,851	21.84	10.2	9.6	4.5	4.7
AXA	€62,598	26.81	9.5	8.9	5.7	6.1
Allianz	€88,407	218.55	10.0	10.2	4.8	5.2
Talanx	€10,271	40.58	10.5	8.9	3.9	4.3
Peer group median			10.4	9.5	4.7	5.0
Nürnberger Beteiligungs	€921	80.00	14.6	11.8	4.1	4.1
Premium/(discount)			40.7%	24.9%	-11.3%	-16.9%

Source: Refinitiv. Note: Priced at 30 March 2022. Note: Refinitiv consensus for Nürnberger Beteiligungs is based on the estimates of one analyst from Solventis.

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