

SCOR (SCOR.PA)

Alert: Results slightly ahead and modest investment re-risking

■ Company Update

- **Headline figures slightly ahead of expectations:** Scor reported net income of €418m which was 3% ahead of expectations (Cons €407m, Citi €381m). This was driven by a stronger-than-expected technical result for both P&C reinsurance and L&H reinsurance, helped by a reserve release and a one-off gain in L&H. The dividend per share of €1.20 was 2% ahead of consensus expectations (Cons €1.18, Citi €1.20). Shareholders equity of €4,810m was in line (Cons €4,818m, Citi €4,797m). Overall we think these figures will be taken well, along with the commentary about selectively re-investing Scor's significant cash holdings.

■ Key operating metrics:

- **Strong underlying combined ratio:** the 94.1% COR was slightly better than expected. It was helped by a 2.2% reserve release from Aviation and Inherent Defect Insurance lines. Exposure to Sandy was €137m, which is slightly higher than we had expected. Crucially, the underlying combined ratio of 94.1% is better than the 95-96% strategic plan.
- **Solid life technical margin:** the reported 7.7% technical margin was helped by 0.3% releases on GMDB run off. Consequently, the underlying 7.4% technical margin was in line with ~7.5% strategic plan.
- **Modest re-risking of cash:** reported investment income of €566m was slightly below consensus but in line with our expectations. The return was 3.5% (excluding impairments). We think a key positive is Scor's commentary about modestly re-risking its cash holdings (~20% portfolio) since its stance has been more cautious than most peers.
- **Growth:** was strong at +11% on a pro-forma basis in 2012. This was supplemented by strong January P&C renewals (+9% including large Asian deal) and a recently announced BBVA deal in L&H.
- **New strategic plan in September:** we think this could be an important positive catalyst. We note that P&C COR guidance has already been improved to 94-95% at the renewals call.
- **Reiterate Buy recommendation:** We believe Scor offers an attractive combination of growth and technical margins and believe its conservative asset allocation is now in the price. It has outperformed the insurance sector by 6% YTD, but we continue to see valuation upside at 9.2x 2013E PE and sector leading 5.9% yield.

- **Analyst call** – Scor will host an analyst call at 14.00 UK time accessible via www.scor.com or +44(0)20 7136 2051 (Pin code: 7649182)

- Key figures in Figure 1 below.

Buy	1
Price (05 Mar 13)	€22.22
Target price	€23.50
Expected share price return	5.8%
Expected dividend yield	5.9%
Expected total return	11.6%
Market Cap	€4,265M
	US\$5,566M

Price Performance (RIC: SCOR.PA, BB: SCR FP)



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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Figure 1. Scor key figures

	2011	2012	2012	2012	
	Actual	Citi	Cons	Actual	Vs Cons
Gross Premiums Written	7,602	9,647	9,470	9,514	0%
P&C Combined Ratio	104.5%	94.5%	94.4%	94.1%	(0.3)%
Life Technical Margin	8.1%	7.2%	7.3%	7.7%	0.4%
Net Investment income	639	558	579	566	-2%
Net Income	330	381	407	418	3%
Dividend	1.10	1.20	1.18	1.20	2%
ROE	7.5%	8.3%	8.9%	9.1%	0.2%
Shareholders equity	4,410	4,797	4,818	4,810	0%

Source: Company consensus; Citi Research

SCOR

Valuation

In line with our value perspectives methodology, we value Scors based on a SOTP model. We assume 9.2% COE and 9.7% return on capital. We value the P&C reinsurance business on 1.5x 2012 NTA due to favourable underwriting conditions. We value the L&H reinsurance business on 0.7x NTA due to the low interest rate environment. Based on this we derive a target price of €23.5 per share. This values the group at 1.1x 2012E NTA.

Risks

The main negative risks to which the company is exposed are generic to the reinsurance industry, principally man-made and weather catastrophes and reserving risks. Compared with peers, SCOR is underweight US catastrophe risks but it does have a considerably more chequered history when it comes to reserve adequacy. The company also has direct exposure to equities, corporate bonds and ABS, and further capital markets volatility could lead to additional unrealized and realised losses in future quarters. While we do not consider asset-side exposure to be excessive, equity gearing is above that of Bermudan peers and this does create more volatility in the capital base. If the impact of these risk factors is more negative than we currently anticipate, then the share price could fail to reach our target price.

Appendix A-1

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SCOR (SCOR.PA)

Ratings and Target Price History Fundamental Research

Analyst: Thomas Dörner

Covered since September 5 2011



	Date	Rating	Target Price	Closing Price
1	29-Jul-10	*1M	*20.00	16.99
2	16-Dec-10	1M	*22.00	18.89

	Date	Rating	Target Price	Closing Price
3	9-Mar-11	1M	*23.00	20.76
4	7-Oct-11	Stock rating system changed		

	Date	Rating	Target Price	Closing Price
5	8-Oct-11	*1	23.00	17.20
6	3-Apr-12	1	*23.50	20.54

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

SCOR (SCOR.PA)

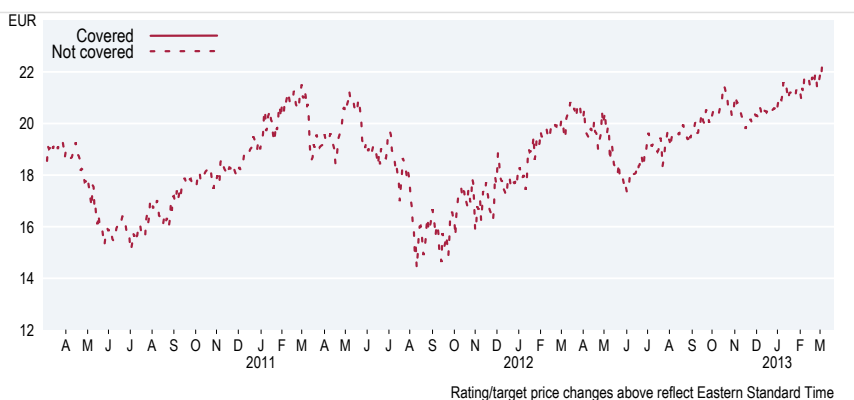
Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Thomas Dörner

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Data current as of 31 Dec 2012

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