Citi Research

Equities

6 August 2014 | 19 pages

Insurance - Multi-Line

Western Europe | France

AXA SA (AXAF.PA)

Addressing Market Debates on Growth, Capital and Dividends

- Estimate Change
- Target Price Change

- **Reiterating Buy: AXA remains one of our top picks in European Insurance** — We are raising our estimates and target price after 1H 2014 results. The stock has been under pressure this year from concerns over stalling growth in life & savings, margin pressure from low yields and continued negativity over its balance sheet strength. However, we believe 1H results challenge these perceptions and could prove to be a positive inflexion point. AXA remains on the Citi Focus List Europe.

- **Growth is coming back** — After disappointing life & savings sales and flow data in 4Q13 and 1Q14, when AXA argued that it was repositioning business mix to support profitability, new business sales have returned to growth in 2Q (+8%). We expect this trend to continue for the rest of the year, and importantly *net inflows* should recover to normalized levels of €3.0-€3.5bn per year, with flows going into higher-margin protection and unit-linked business, supporting earnings.

- **Investment margins remaining stable** — AXA continues to show resilient investment margins despite lower bond yields. As we have commented before, this is due to ALM, a low asset-liability duration gap and flexibility to reduce crediting rates in traditional savings policies. We have raised our forecast for the life investment margin to remain closer to the upper-end of 70-80bps guidance.

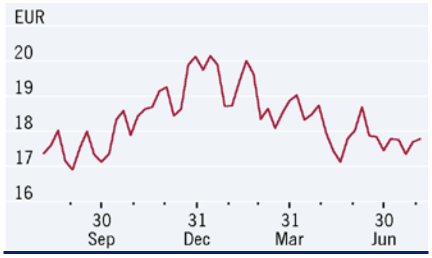
- **A more positive tone on dividends** — As we progress towards a finalization of Solvency 2, management appears more relaxed about regulatory capital (reported economic capital ratio of >200%) and is focused on providing attractive dividend growth. Supported by sector-leading FCF, we believe AXA may improve payouts from the lower end of its 40-50% guidance, suggesting ~9% CAGR DPS growth, and offering a 5-6% 2015e dividend yield.

- **Valuation risk-reward** — With improved margin mix and growth in life, further cost savings potential and a P&C combined ratio likely to beat its 96% 2015 target, we estimate AXA will generate ~8% earnings CAGR to 2017e. At <8x 2015e P/E, >5% div yield and >10% FCF yield (2015e), we believe the stock's risk reward is highly attractive. See page 8 for drivers behind our EPS upgrade and valuation.

Buy	1
Price (05 Aug 14)	€17.96
Target price	€23.50
from €22.50	
Expected share price return	30.8%
Expected dividend yield	5.2%
Expected total return	36.0%
Market Cap	€43,494M
	US$58,378M

Price Performance

(RIC: AXAF.PA, BB: CS FP)



AXA SA (EUR)

Year to 31 Dec	2012A	2013A	2014E	2015E	2016E
Profit Before Tax (€M)	6,096.0	7,214.0	8,082.7	8,645.0	9,125.3
Diluted EPS (€)	1.62	1.75	2.21	2.38	2.50
Diluted EPS (Old) (€)	1.62	1.75	2.14	2.27	2.39
PE (x)	11.1	10.3	8.1	7.5	7.2
DPS (€)	0.72	0.81	0.93	1.01	1.09
Net Div Yield (%)	4.0	4.5	5.2	5.6	6.0
Embedded Value Per Share (€)	15.73	17.82	19.46	21.71	24.03
Price / EVPS (x)	1.1	1.0	0.9	0.8	0.7

Farooq Hanif
+44-207-986-3975
farooq.hanif@citi.com

Andrius Budnikas
+44-20-7986-4009
andrius.budnikas@citi.com

Fiscal year end 31-Dec	2012	2013	2014E	2015E	2016E
Valuation Ratios					
P/E adjusted (x)	11.1	10.3	8.1	7.5	7.2
P/E reported (x)	11.1	10.3	8.1	7.5	7.2
P/BV (x)	0.9	1.0	0.8	0.8	0.7
P/BV adjusted (x)	0.9	1.0	0.8	0.8	0.7
Dividend yield (%)	4.0	4.5	5.2	5.6	6.0
P/Embedded Value (x)	1.1	1.0	0.9	0.8	0.7
Per Share Data (€)					
EPS adjusted	1.62	1.75	2.21	2.38	2.50
EPS reported	1.62	1.75	2.21	2.38	2.50
BVPS	19.33	18.69	21.94	23.43	24.95
BVPS adjusted	19.33	18.69	21.94	23.43	24.95
DPS	0.72	0.81	0.93	1.01	1.09
Embedded Value per share	15.69	17.73	19.34	21.64	23.96
Profit & Loss (€M)					
Pre-tax profit	6,096	7,214	8,083	8,645	9,125
Tax	-1,389	-1,752	-1,845	-2,022	-2,136
Extraord./Min. int./Pref. div.	-896	-1,268	-850	-815	-840
Reported net income	3,811	4,194	5,388	5,808	6,149
Adjusted earnings	3,811	4,194	5,388	5,808	6,149
Growth Rates (%)					
Pre-tax profit	20.5	18.3	12.0	7.0	5.6
EPS adjusted	-7.3	7.8	26.6	7.6	5.0
Dividend	4.3	12.5	14.8	8.7	7.4
Balance Sheet (€M)					
Total assets	761,849	757,416	756,137	787,540	819,454
Investments	458,661	443,853	433,159	446,680	460,185
Goodwill/intangibles	20,817	19,336	19,175	19,075	18,975
Other Assets	135,209	132,041	134,060	139,744	145,521
Separate Account Assets	147,162	162,186	169,743	182,040	194,773
Total liabilities	705,830	702,102	691,329	718,478	746,008
Life policy reserves	342,378	348,407	335,191	345,654	356,014
Non-life policy reserves	43,406	43,972	45,062	46,453	47,888
Total Debt	10,662	10,407	7,108	7,108	7,108
Other Liabilities	162,222	137,130	134,226	137,223	140,226
Separate Account Liabilities	147,162	162,186	169,743	182,040	194,773
Shareholders' funds	56,019	55,314	64,808	69,061	73,446
Profitability/Solvency Ratios (%)					
ROE adjusted	8.8	9.2	11.0	10.5	10.4
ROA adjusted	0.5	0.6	0.7	0.8	0.8
Total debt to capital	16.0	15.8	9.9	9.3	8.8
Total debt to equity	19.0	18.8	11.0	10.3	9.7

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Addressing Growth & Dividend Concerns

AXA's underperformance YTD has been driven by concerns over weak life new business growth trends and the ability to withstand further pressure on bond yields. In addition, lingering concerns over its balance sheet and a feeling that there were clearer dividend stories in the sector has added to pressure on the stock. However, with 1H2014 results, we believe AXA is starting to challenge some of these perceptions. We expect a continued inflexion in new business growth, further margin expansion from cost-cutting / pricing actions and a still attractive dividend yield / growth story.

Key Messages Following 1H14 Results

1H14 results starting to address investor concerns over earnings, growth and dividends

As AXA nears the end of its 'Ambition AXA' strategic plan, its share price has been under pressure this year from growth and dividend concerns. Understandably, the stock reacted negatively to weak life revenue and new business growth numbers in 1Q14 (as AXA pulled out of certain unattractive margin products in its life business), as well as falling bond yields in the US and Europe. However, AXA appears to be addressing some of these concerns in its latest results. As well as beating our absolute expectations, we believe there were a number of key messages coming out of 1H14 results:

- **Withstanding low yields.** AXA continues to demonstrate its ability to withstand low long-term bond yields, helped by liability duration matching and ability to reduce customer payouts in traditional savings policies. We expect investment margins in the life business to remain close to the upper-end of management's 70-80bps guidance range.

- **Growth returning in the life business.** Following investor concerns about AXA's ability to grow sales earlier this year (e.g. 1Q14 life new business and revenues were weaker than consensus), it appears that growth has returned with ~8% new business sales growth in 2Q14. We expect this inflexion to continue for the rest of this year, boosted by the US and 'High-Growth Markets'.

- **More positive tone on the dividend.** As we get closer to potential finality over the details behind Solvency 2, and further into the G-SII (Global Systemically Important Insurers) process, AXA management appears increasingly comfortable with its balance sheet. There appears to be a more positive tone on the dividend, with management aiming to provide attractive dividend growth and recognizing that AXA is currently at the lower end of its 40-50% payout range.

- **Further restructuring gains in the pipeline.** AXA has delivered huge cost savings and margin improvements (despite low yields) through the Ambition AXA programme, in life, P&C, asset management and central costs. However, it is clear that a lot more can be done and plenty of areas to improve efficiency further. AXA announced a further reduction in acquisition costs in its life & savings business in the next year (€200mn before tax and DAC), and we expect it to roll forward efficiency targets once it has achieved its current plans.

Life New Business at a Positive Inflexion Point

Investor concern about weak sales growth earlier this year may have been misplaced

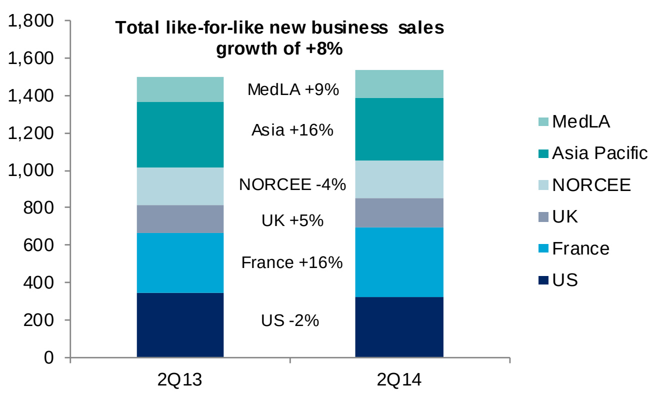
AXA's new business sales and net inflows over 4Q13-1Q14 were affected by a number of negative trends that raised concerns about its life & savings growth outlook. These included weak new business sales in some of AXA's mature markets, where management has been repositioning product mix to improve margins. For example, AXA shifted to higher margin and lower risk 'semi-autonomous' group life contracts in Switzerland, where it provides pure mortality and disability cover to pension schemes generating lower APE new business sales,

but higher margins than full group life contracts (where it is required to also take investment risk).

In addition, AXA's net inflows suffered from a programme to 'buyout' the liabilities of legacy variable annuity contracts containing high guarantees. Successful buyouts, which significantly reduce investment and capital risk on these contracts, were recorded as a negative net outflow in the unit-linked business. These buyouts were completed in 1Q14.

Figure 1. 2Q14 life new business sales growth

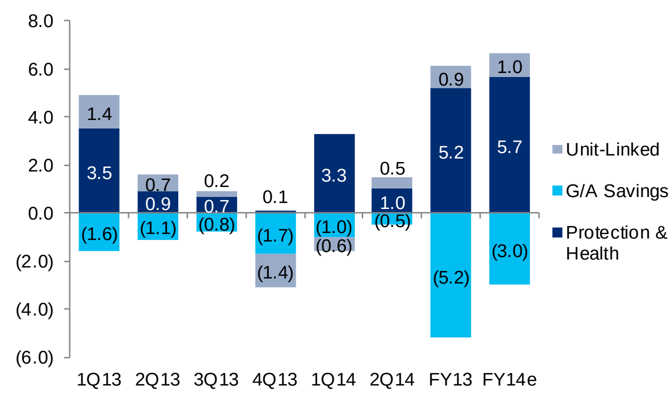
% growth like-for-like figures adjust for FX and disposal of MONY



Source: Company data, Citi Research

Figure 2. Life net inflows by product category

We expect net inflows to normalise from 2H14 onwards



Source: Company data, Citi Research estimates

As we illustrate in Figures 1 and 2, the momentum in new business sales and net inflows has turned more positive in 2Q14:

- **Strong new business growth in France and high-growth markets.** Life new business sales grew by 8% on a like-for-like basis in 2Q14 compared to 2Q13, adjusting for FX (e.g. depreciation of the Yen) and the disposal of the protection-focused MONY subsidiary in the US. AXA is experiencing strong growth in France, as well as in higher growth markets in Asia and Latin America. In the US, sales have been more flat, but the underlying picture here is of strong growth in 'investment only' and 'floating rate' variable annuity products, offset by weaker sales of traditional protection products. This improvement in mix is very positive for margins, especially given the low investment risks and flexibility of AXA's new breed of variable annuities. In France, sales have been boosted by both unit-linked and 'hybrid' contracts that bridge unit-linked and traditional life contracts. In addition, AXA's sales in high-growth markets remain strong (+7% in 1H14), including South-East Asia, India, China and Hong Kong. We expect these trends to continue in 2H14 and beyond, and we expect a stronger performance from the US business too in 2H.

- **Net inflows recovering with positive mix.** With the expiry of the buyout offer in the US, AXA's net inflows recovered in 2Q14, with a return to the pattern we have seen in the past of *net outflows* from lower-margin traditional savings contracts (G/A Savings) and inflows into higher margin unit-linked and protection products. We expect net inflows to normalize over the remainder of the year, with the same mix shift, and to remain at ~€3bn-€3.5bn per year in the next few years. As we have commented in some of our previous reports, we expect this shift towards unit-linked and protection products will directly support reported IFRS profits in the life & savings division.

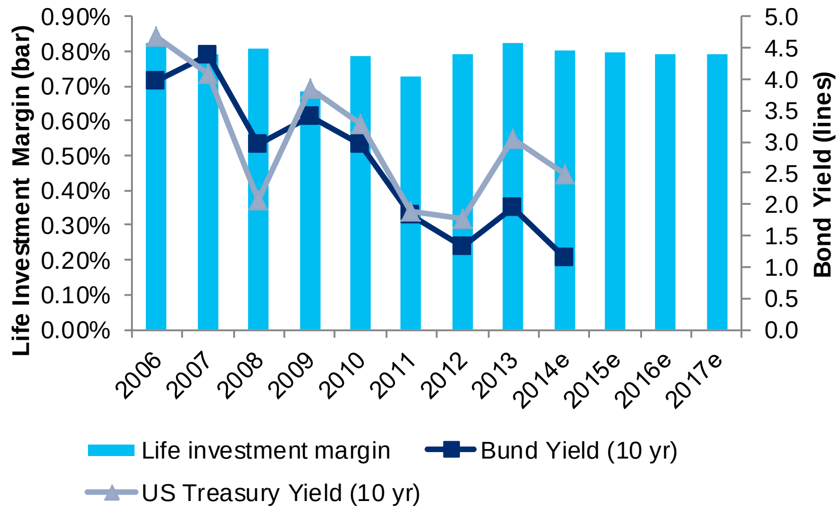
Withstanding Low Yields

AXA's life investment margin continues to show resilience to low bond yields, and we expect this to remain the case

As we show in Figure 3, AXA has an established history of being able to maintain investment margins in its life & savings business (i.e. the share of profits for shareholders and 'spreads' generated in traditional life insurance contracts) despite falling bond yields. Investment margins have remained firmly in AXA's guidance range of 70-80bps over the last decade, despite 200-300bps decline in US and European bond yields.

Figure 3. AXA's life investment margin compared to US and Bund yields

We expect the investment margin to remain close to the upper-end of AXA's 70-80bps guidance



Source: Company data, Factset, Citi Research estimates

We believe AXA will continue to maintain higher investment margins than some may expect in this environment, supported by:

- **ALM.** AXA holds long duration assets in the life business to match long duration liabilities. The duration gap is currently managed close to ~1 year, and AXA benefits from a large balance of cash at its holding company (currently more than €5bn) that it can use to control this gap. This low duration gap means that the reinvestment risk from maturing bond assets reinvested at lower yields is quite low, since guarantees in traditional life savings policies are maturing at a similar rate. In its 1H14 earnings presentation, AXA shows that it expects the average guarantee rate to decline at a similar rate to earned yields over the period to 2022e, maintaining a ~150bps spread over this period.

- **Ability to reduce payouts.** Much of AXA's traditional life policies have considerable flexibility to reduce crediting rates to policyholders. For example, guarantee rates are close to 0% in French 'participating' savings contracts and there is an ability to reduce discretionary payouts from year to year to reflect market movements (guarantees and profit-sharing mechanisms are calculated over the life of contracts rather than on an annual basis). Surrender risk in these contracts is controlled by the need to hold policies for a minimum period (usually over 8 years) to earn tax benefits. Other types of traditional G/A savings products are straightforward 'spread' products such as fixed annuities in the US life business.

As we illustrate in Figure 3, we expect AXA to use these mechanisms to maintain investment margins close to the upper-end of their 70-80bps guidance.

More Positive Tone on the Dividend

A more positive outlook for the balance sheet, coupled with attractive FCF, should permit AXA to generate strong dividend growth

AXA generates relatively attractive free cash flow yields in its business, and although for structural reasons it is unable to remit all of this cash flow to its group holding company (remittance ratio of ~75% currently), its holding company cash flow and cash balance is sufficient to pay dividends yield in excess of 5%. We show our free cash flow and holding company cash flow forecasts in Figure 4. We illustrate free cash flow yields and holding company cash yields in Figure 5.

Figure 4. Free cash flow and holding company cash flow - €bn

Free Cash Flow - €bn	2013	2014e	2015e	2016e	2017e
Expected in-force capital generation	4.3	4.7	4.8	5.1	5.5
New business strain	-2.0	-2.1	-2.2	-2.4	-2.6
Life operating FCF	2.3	2.6	2.5	2.7	2.9
General Insurance FCF	2.4	2.6	2.7	2.8	2.9
Asset management and Banking operating FCF	0.5	0.5	0.5	0.6	0.6
Total operating FCF before holding	5.2	5.7	5.8	6.1	6.4
Holding costs	-1.1	-1.1	-1.2	-1.2	-1.2
Group FCF	4.0	4.6	4.6	4.9	5.2
FCF per share	1.70	1.89	1.90	2.00	2.10
% remittance ratio of FCF to holding	75%	76%	78%	80%	80%
Dividend from operating subs to holding	3.9	4.3	4.5	4.9	5.1
Holding costs	-1.1	-1.1	-1.2	-1.2	-1.2
Holding company cash flow before dividends	2.8	3.2	3.3	3.7	3.9
Holding company FCF per share	1.16	1.32	1.37	1.51	1.59
DPS	0.81	0.93	1.01	1.09	1.16
Dividend cover from holding company FCF	1.4	1.4	1.4	1.4	1.4
Payout ratio from adjusted earnings	40%	40%	41%	42%	43%

Source: Company data, Citi Research estimates

AXA communicates dividend policy in terms of a payout ratio on ‘adjusted earnings’, which refers to underlying earnings plus net realized gains. With volatile markets, falling yields and, most importantly, given uncertainty over the outcome of insurance capital regulation in Europe and globally, AXA has kept to the lower-end of its 40-50% payout range in the past couple of years. A lower external dividend payout ratio has supported AXA’s aim to strengthen capital surplus and reduce leverage ratios in the business.

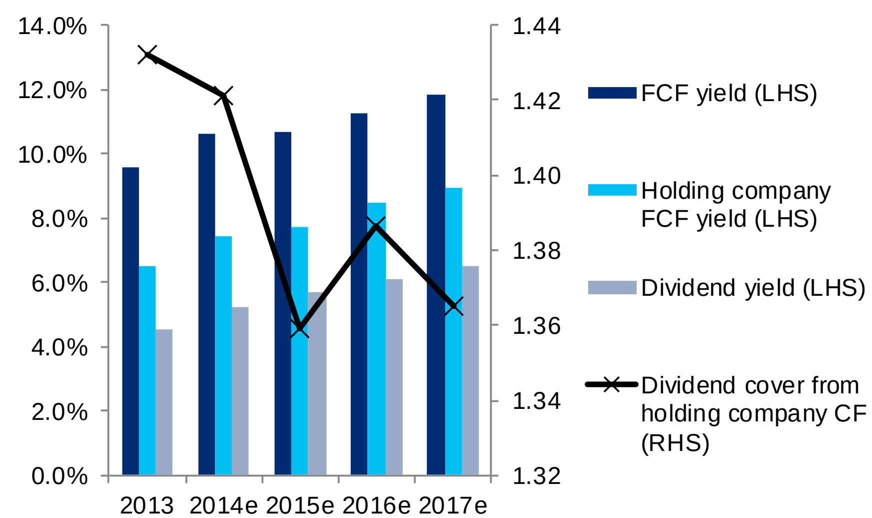
However, the tone of its latest earnings communication suggests that most of the planned balance sheet strengthening has been completed, with economic solvency and debt gearing significantly improved. We sense a significantly more positive tone on AXA’s dividend policy at its 1H14 results that suggested to us that it has the potential to raise its dividend payout ratio. Given earnings that were better than we forecast for 1H14, we have therefore significantly raised our dividend forecasts for AXA to 0.93 per share for 2014e and 1.01 per share for 2015e, suggesting a ~6% dividend yield on the stock (2016e) and ~9% CAGR dividend growth in the next few years.

Some of the factors to consider are as follows:

- There remains significant uncertainty over some aspects of Solvency 2. These include allowances for sovereign risk (although this may be more focused on spread risks within Europe, rather than on default risk), as well as the practical mechanism of balancers within the system (e.g. the 'volatility balancer' and the 'matching premium'). However, it feels to us that the commentary from major companies in the sector has softened slightly in recent weeks and some of the significant doubts over the application of Solvency 2 may have cleared. While some of the reported economic capital ratios may come down under the final rules, we would be surprise if this resulted in any significant capital pressure on major listed companies such as AXA.
- AXA also appears a little more relaxed over the immediate capital consequences of the G-SII global capital project, although there are some areas of uncertainty in the longer-term.
- There may be some headwinds in the local interpretation and enforcement of capital rules within Europe and in other regions, particularly ahead of the finalization of Sovlency 2. This is one of the reasons why AXA is unable to remit 100% of its cash generation to its holding company (e.g. local solvency requirements to hold additional buffers in a low yield environment, e.g. the ZZR in German life insurance). We have continued to assume a remittance ratio at the close to the lower end of the 70-80% guidance ratio in the next few years, although we do expect remittances to improve given measures taken by AXA management to improve the fungibility of its capital between operating entities and the group holding company.

We are currently forecasting a gradual improvement in the dividend payout ratio of adjusted earnings from 2015e onwards. As we show in Figure 5, we believe AXA will be able to maintain dividend cover from holding company cash of ~1.4x in the next few years, consistent with its recent history. On this basis we believe AXA is offering an attractive dividend yield of 5-6% in the next 2-3 years.

Figure 5. AXA's group FCF, holding company cash and dividend yield
We anticipate ~1.4x dividend cover from holding company FCF, with an improved earnings payout



Source: Company data, Factset, Citi Research estimates

Beyond Ambition AXA

AXA has substantial additional cost restructuring potential, and we expect it to roll forward cost savings targets from 2015e

With the announcement of a further €200mn of cost reduction from acquisition costs in its life & savings business, AXA demonstrated that it continues to find ways to restructure and improve the efficiency of its business to improve margins. After adjusting for tax and DAC, we expect this additional acquisition cost measure to improve life insurance underlying earnings by ~€50mn-€80mn per year from 2015e onwards. In addition, out of its total gross cost savings target now increased to €1.9bn, there remains some additional potential to reduce costs in the P&C business, which may further improve the combined ratio.

The key point to highlight is that the fact that AXA is nearing the end of its Ambition AXA target period should not imply that it will not roll forward targets or introduce new cost plans from 2015. From next year, we expect management to come up with a fresh set of 'Ambition' targets, with an increased focus on growth (particularly in high growth markets), a potentially more radical shift in distribution strategy towards direct and digital channels and further cost savings from a focus on areas of profitability.

Earnings Estimate Changes and Raised SOTP Valuation

We have raised our earnings estimates by 3-5% from 2014e onwards. This is driven by many of the factors that we have discussed in this note, namely a recovery in top-line and asset growth in the life business, further cost savings potential and improved underwriting margins in P&C. We show our detailed forecasts later in this note. However, we would highlight:

- We have lowered our acquisition cost assumptions in life & savings and factored in improved net flows and technical margins in this business. As well as improving projected growth in AUM, our assumed margin on assets has risen by ~3bps (e.g. to 87bps in 2015e).
- We have lowered our combined ratio estimate (given better underwriting profits than we expected) to 95% (from 95.4%) in 2015e and improved our current year combined ratio estimate to 96.4%.
- As we have already mentioned, we have also raised our dividend forecasts.

We show our SOTP model in Figure 6 below and we are raising our target price to €23.50 from €22.50 to reflect our improved earnings estimates.

Figure 6. AXA sum-of-the-parts valuation

in €mn	2014e Capital	Sust. ROC	Capital Multiple	IFRS Profit 15e	P/E	Value	Value ps
Life	33,207	10.6%	1.26	3,657	11.5	41,927	17.37
General Insurance	11,756	22.5%	2.24	2,567	10.3	26,373	10.93
International Insurance - Corporate Solutions	866	20.1%	2.04	171	10.3	1,767	0.73
International Insurance - Other	360	18.1%	1.81	65	10.0	651	0.27
Asset Management	893			439	12.5	5,489	2.27
Banking				89	10.0	892	0.37
Other capital	-4,362					-4,362	-1.81
Total capital	42,720		1.70	5,672	12.8	72,736	30.13
Financial Debt	-16,008		1.00			-16,008	-6.63
Tangible equity ex unrealised gains	26,712		2.12	5,672	10.0	56,728	23.50
Valuation	26,712					56,728	23.50

Source: Citi Research estimates

Figure 7. Summary P&L

in €mn	2010	2011	2012	2013	2014e	2015e	2016e	2017e
Life & Savings	2,445	2,267	2,603	2,792	3,203	3,424	3,608	3,800
General Insurance	1,553	1,848	1,877	2,105	2,325	2,567	2,666	2,746
International Insurance	290	276	167	202	228	236	246	256
Asset Management	268	321	382	400	399	439	471	503
Banking	9	32	5	78	86	89	93	97
Holding & Other	-836	-843	-833	-851	-842	-879	-887	-895
UNDERLYING EARNINGS	3,729	3,901	4,201	4,726	5,400	5,877	6,195	6,506
Net realized capital gains attributable to shareholders	419	-312	297	434	525	400	423	447
ADJUSTED EARNINGS	4,150	3,589	4,498	5,162	5,925	6,277	6,618	6,953
Fair value movements	212	114	45	-317	37	0	0	0
Exceptional operations	-1,616	1,970	-94	38	-55	0	0	0
Goodwill and related intangibles	-81	-1,167	-103	-138	-85	-85	-85	-85
Integration and restructuring costs	-76	-281	-244	-263	-150	-100	-100	-100
Income from discontinued operations	160	99	0	0	0	0	0	0
NET INCOME	2,749	4,324	4,152	4,482	5,672	6,092	6,433	6,768
Growth in underlying earnings	*-3%*	*5%*	*8%*	*12%*	*14%*	*9%*	*5%*	*5%*
EPS Basic	1.08	1.75	1.65	1.76	2.23	2.39	2.51	2.63
Underlying EPS Basic	1.51	1.57	1.67	1.86	2.12	2.30	2.41	2.52
EPS Diluted	1.08	1.75	1.64	1.75	2.21	2.38	2.50	2.62
Underlying EPS Diluted	1.51	1.57	1.66	1.85	2.10	2.29	2.41	2.51
DPS	0.55	0.69	0.72	0.81	0.93	1.01	1.09	1.16
Payout ratio reported (% of adjusted)	32.4%	48.1%	40.1%	39.6%	39.9%	41.0%	42.0%	43.0%
L&H Operating profit / total reserves	0.74%	0.63%	0.70%	0.78%	0.85%	0.87%	0.88%	0.89%
GI Current year Combined ratio	99.5%	97.9%	97.6%	96.6%	95.9%	95.1%	95.0%	95.0%
International Insurance Combined ratio	96.9%	97.9%	97.8%	97.7%	97.0%	97.0%	97.0%	97.0%
AM Revenue / Average AUM (%)	0.43%	0.42%	0.42%	0.42%	0.40%	0.40%	0.40%	0.40%

Source: Company data, Citi Research estimates

Figure 8. Life insurance underlying earnings

€mn	2010	2011	2012	2013	2014e	2015e	2016e	2017e
Reserves and inflows								
Net inflows unit-linked (€bn)		2.5	2.9	1.0	1.0	3.0	2.7	2.5
Net inflows GA Savings (€bn)		-3.7	-3.9	-5.2	-3.0	-3.0	-3.0	-3.0
Net inflows Protection & Health (€bn)		4.5	4.9	5.3	5.7	3.4	3.0	3.7
Total net inflows (€bn)		3.3	3.9	1.1	3.6	3.4	2.7	3.2
Unit-linked revenues	12,822	16,708	15,759	16,520	15,529	16,305	17,121	17,977
GA savings revenues	18,264	13,404	11,950	10,696	11,766	11,177	10,618	10,088
Protection & Health revenues	23,879	24,497	25,706	26,581	25,518	26,538	27,600	28,704
Other revenues	1,827	-2,178	1,601	1,534	1,580	1,643	1,709	1,777
Total revenues	56,792	52,431	55,016	55,331	54,392	55,664	57,048	58,545
Average unit-linked reserves	161,394	136,262	140,102	150,673	161,394	171,047	183,217	195,826
Average GA savings reserves	184,142	183,715	190,941	182,962	180,062	179,763	179,460	179,151
Average Protection & Health reserves	144,444	150,846	155,885	154,738	154,009	168,870	180,133	191,867
Total average reserves	489,980	470,823	486,928	488,373	495,465	519,681	542,810	566,844
Margin Analysis								
Underlying Investment Margin	2,528	2,428	2,697	2,710	2,616	2,708	2,783	2,861
Fees and revenues	7,569	7,160	7,327	7,706	7,350	7,673	8,042	8,426
Net technical Margin	751	-205	357	726	1,046	1,188	1,272	1,363
Expenses and other	-7,365	-6,432	-7,003	-7,356	-6,806	-7,073	-7,359	-7,659
Acquisition expenses	*-3,153*	*-3,221*	*-3,972*	*-4,415*	*-3,925*	*-4,042*	*-4,166*	*-4,297*
Ongoing expenses	*-4,212*	*-3,211*	*-3,031*	*-2,940*	*-2,881*	*-3,031*	*-3,193*	*-3,362*
Underlying operating income gross of tax expenses	3,484	2,951	3,377	3,786	4,206	4,496	4,738	4,991
Income tax expense	-801	-597	-696	-905	-904	-967	-1,019	-1,073
Minority interests in income or loss	-238	-87	-78	-89	-99	-106	-112	-118
UNDERLYING EARNINGS	2,445	2,267	2,603	2,792	3,203	3,424	3,608	3,800
	5%	*-7%*	*15%*	*7%*	*15%*	*7%*	*5%*	*5%*
Underlying investment margin (% of avg GA reserves)	0.79%	0.73%	0.79%	0.82%	0.80%	0.80%	0.79%	0.79%
Fees and revenues / total reserves	1.62%	1.53%	1.52%	1.59%	1.49%	1.49%	1.49%	1.50%
Net technical margin / total reserves (%)	0.16%	-0.04%	0.07%	0.15%	0.21%	0.23%	0.24%	0.24%
Net technical margin / gross revenues (%)	1.32%	-0.39%	0.65%	1.31%	1.92%	2.14%	2.23%	2.33%
Expenses (%)	-1.57%	-1.37%	-1.45%	-1.52%	-1.38%	-1.37%	-1.36%	-1.36%
Acquisition expenses / revenues (%)	*-5.55%*	*-6.14%*	*-7.22%*	*-7.98%*	*-7.22%*	*-7.26%*	*-7.30%*	*-7.34%*
- of which Protection & Health acquisition costs / revenues (%)								*-9.30%*
- of which GA Savings acquisition costs / revenues (%)	*-3.01%*	*-4.56%*	*-5.07%*	*-4.67%*	*-3.50%*	*-3.50%*	*-3.50%*	*-3.50%*
- of which Unit-linked acquisition costs / revenues (%)	*-1.93%*	*-1.26%*	*-4.12%*	*-6.71%*	*-5.50%*	*-5.50%*	*-5.50%*	*-5.50%*
Ongoing expenses / reserves (%)	*-0.90%*	*-0.68%*	*-0.63%*	*-0.61%*	*-0.58%*	*-0.59%*	*-0.59%*	*-0.60%*
- of which Protection & Health ongoing costs / reserves (%)	*-1.18%*	*-0.90%*	*-0.88%*	*-0.87%*	*-0.82%*	*-0.81%*	*-0.81%*	*-0.81%*
- of which GA Savings ongoing costs / reserves (%)	*-0.43%*	*-0.38%*	*-0.33%*	*-0.31%*	*-0.31%*	*-0.31%*	*-0.31%*	*-0.31%*
- of which Unit-linked ongoing costs / reserves (%)	*-0.75%*	*-0.62%*	*-0.59%*	*-0.61%*	*-0.59%*	*-0.59%*	*-0.59%*	*-0.59%*
Ongoing expense inflation (%)	*5.33%*	*-20.30%*	*-14.30%*	*0.59%*	*-0.45%*	*5.21%*	*5.35%*	*5.28%*
Tax to Operating Income ratio	23.0%	20.2%	20.6%	23.9%	21.5%	21.5%	21.5%	21.5%
Minorities to Operating Income ratio	8.9%	3.7%	2.9%	3.1%	3.0%	3.0%	3.0%	3.0%
Operating profit / total reserves (%)	0.74%	0.63%	0.70%	0.78%	0.85%	0.87%	0.88%	0.89%
Estimated Protection & Health Combined Ratio	94.5%	93.9%	94.5%	95.5%	95.3%	95.5%	95.6%	95.8%
Protection & Health total profit margin (%)	1.45%	1.48%	1.46%	1.34%	1.34%	1.27%	1.23%	1.19%
GA savings total profit margin (%)	0.34%	0.32%	0.36%	0.35%	0.46%	0.46%	0.47%	0.47%
Unit-linked total profit margin (%)	0.42%	0.09%	0.36%	0.70%	0.78%	0.84%	0.86%	0.88%

Source: Company data, Citi Research estimates

Figure 9. General Insurance underlying earnings - €mn

General Insurance	2010	2011	2012	2013	2014e	2015e	2016e	2017e
	7,248	7,251	7,615	7,636	7,671	7,780	8,013	8,254
Gross revenues	25,986	27,046	28,315	28,791	29,367	30,248	31,155	32,090
Earned revenues (gross)	26,071	26,855	28,416	28,814	29,390	30,272	31,180	32,116
Current accident year loss ratio	*74.8%*	*72.6%*	*72.0%*	*71.2%*	*71.1%*	*70.7%*	*70.6%*	*70.6%*
Underlying accident year loss ratio ex nat-cats	*73.1%*	*71.9%*	*71.6%*	*70.4%*	*70.0%*	*70.0%*	*70.0%*	*70.0%*
All accident year loss ratio	*71.7%*	*70.9%*	*70.8%*	*70.1%*	*69.8%*	*69.4%*	*69.3%*	*69.3%*
Expense ratio	*27.8%*	*27.0%*	*26.8%*	*26.5%*	*26.1%*	*25.7%*	*25.70%*	*25.70%*
Prior year reserve release / (addition)	*3.1%*	*1.7%*	*1.2%*	*1.1%*	*1.3%*	*1.3%*	*1.3%*	*1.3%*
Net technical result	130	557	650	986	1,220	1,483	1,559	1,606
Underlying Net investment result	2,047	2,046	2,006	2,042	2,128	2,214	2,281	2,349
Underlying earnings from associates	32	38	43	29	30	30	31	32
Underlying operating income, gross of tax expenses	2,197	2,629	2,700	3,057	3,377	3,728	3,871	3,987
Income tax expense	-604	-748	-834	-911	-1,006	-1,111	-1,154	-1,188
Minority interests in income or loss	-40	-33	11	-41	-45	-50	-52	-53
UNDERLYING EARNINGS	1,553	1,848	1,877	2,105	2,325	2,567	2,666	2,746
	-7%	*19%*	*2%*	*12%*	*10%*	*10%*	*4%*	*3%*
Current year Combined ratio	102.6%	99.6%	98.8%	97.8%	97.2%	96.4%	96.3%	96.3%
o/w Nat Cat impact	1.7%	0.7%	0.4%	0.8%	1.1%	0.7%	0.6%	0.6%
Combined Ratio	99.5%	97.9%	97.6%	96.6%	95.9%	95.1%	95.0%	95.0%
o/w Enlarged Expense ratio (1)	32.6%	31.8%	31.2%	30.7%				
Growth in revenues (%)	-0.7%	4.1%	4.7%	1.7%	2.0%	3.0%	3.0%	3.0%
Earned / gross revenues (%)	100.3%	99.3%	100.4%	100.1%	100.1%	100.1%	100.1%	100.1%
Investment return (%)	3.54%	3.50%	3.38%	3.27%	3.25%	3.23%	3.23%	3.23%
Tax to Operating Income ratio	27.5%	28.5%	30.9%	29.8%	29.8%	29.8%	29.8%	29.8%
Minorities to Operating Income ratio	2.5%	1.8%	-0.6%	1.9%	1.9%	1.9%	1.9%	1.9%
Invested assets	59,949	57,079	61,628	63,392	67,544	69,570	71,657	73,807
Average assets	*57,791*	*58,514*	*59,354*	*62,510*	*65,468*	*68,557*	*70,614*	*72,732*
Net reserves	37,894	38,236	39,571	40,139	41,114	42,347	43,617	44,926

Source: Company data, Citi Research estimates

Figure 10. Asset management underlying earnings - €mn

Asset Management	2010	2011	2012	2013	2014e	2015e	2016e	2017e
AllianceBernstein								
AUM as of Period ended N-1 (bn)	346	362	335	349	346	376	393	411
Gross sales	45	40	64	60	61	63	65	67
Redemptions	-68	-68	-60	-53	-52	-60	-63	-66
Others	-21	0	-8	-11	-4	0	0	0
Net sales	-44	-28	-4	-4	5	3	2	1
Change in scope	6	-2	-5	-4	0	0	0	0
Market effect	31	-7	28	20	24	15	16	16
Currency impact	24	10	-6	-16	0	0	0	0
AUM as of the end of the period (bn)	362	335	349	346	376	393	411	429
Growth in average AUM (%)	4.6%	-1.6%	-1.9%	1.6%	3.8%	6.6%	4.6%	4.4%
Average AUM as of the end of period	*354*	*349*	*342*	*348*	*361*	*385*	*402*	*420*
Gross revenues	2,203	2,038	2,097	2,177	2,201	2,345	2,454	2,562
Underlying investment results	17	-10	16	15	8	8	8	8
Administrative expenses and other	-1,821	-1,738	-1,737	-1,719	-1,761	-1,853	-1,914	-1,973
Financing activities	-21	-18	-14	-13	0	0	0	0
Other	1	0	0	0	-6	0	0	0
Operating income, gross of tax expense	379	272	363	460	442	501	548	597
Income tax expense	-93	-68	-76	-114	-113	-128	-140	-152
Minority interests in income or loss	-142	-98	-128	-161	-155	-175	-192	-209
UNDERLYING EARNINGS	143	106	159	185	175	198	216	236
Growth in revenues (%)	11.7%	-7.5%	2.9%	3.8%	1.1%	6.6%	4.6%	4.4%
Expense to Gross Revenue ratio (%)	82.7%	85.3%	82.8%	79.0%	80.0%	79.0%	78.0%	77.0%
Revenue / Average AUM (%)	0.62%	0.58%	0.61%	0.63%	0.61%	0.61%	0.61%	0.61%
AXA Investment Managers								
AUM as of Period ended N-1 (bn)	499	516	512	554	547	601	631	664
Gross sales	93	94	101	145	149	154	158	163
Redemptions	-115	-96	-98	-133	-129	-141	-145	-149
Others	2	0 -		0	0	0	0	0
Net sales	-20	-2	3	12	21	13	13	14
Change in scope	-3	-4	-9	-26	0	0	0	0
Market effect	22	-3	45	14	33	18	19	20
Currency impact	18	5	2	-6	0	0	0	0
AUM as of the end of the period (bn)	516	512	554	547	601	631	664	697
Growth in average AUM (%)	3.2%	1.3%	3.7%	3.3%	4.2%	7.3%	5.1%	5.1%
Average AUM as of the end of period	*508*	*514*	*533*	*551*	*574*	*616*	*647*	*680*
Gross revenues	1,482	1,563	1,577	1,638	1,549	1,663	1,748	1,837
Underlying investment results	29	-1	2	2	2	2	2	2
Administrative expenses and other	-1,374	-1,239	-1,214	-1,281	-1,185	-1,272	-1,337	-1,405
Financing activities	-11	-19	-18	-14	-14	-14	-14	-14
Other	-2	0	0	0	0	0	0	0
Operating income, gross of tax expense	124	304	347	345	352	379	399	420
Income tax expense	-38	-79	-113	-119	-116	-125	-132	-139
Minority interests in income or loss	39	-10	-11	-11	-11	-12	-13	-14
UNDERLYING EARNINGS	125	215	223	215	224	241	254	268
Growth in revenues (%)	2.6%	5.5%	0.9%	3.9%	-5.4%	7.3%	5.1%	5.1%
Expense to Gross Revenue ratio	92.7%	79.3%	77.0%	78.2%	76.5%	76.5%	76.5%	76.5%
Revenue / Average AUM (%)	0.29%	0.30%	0.30%	0.30%	0.27%	0.27%	0.27%	0.27%

Source: Citi Research

AXA SA

Company description

AXA's principal activity is the provision of insurance and related financial services. The company operates through four divisions: life insurance, non life insurance, asset management and other financial services. The group operates globally under a holding company structure.

Investment strategy

We rate AXA Buy based on: 1) its large valuation discount to the sector and its composite peer group and our view that this is not warranted by its relative capital position of balance sheet quality. 2) Its relatively high free cash flow and dividend potential. 3) Potential earnings upside from restructuring initiatives - we particularly expect better profitability improvements in its general insurance business to offset market-related pressures in life & savings.

Valuation

We value AXA at Eur23.50 per share, using a sum-of-the-parts valuation methodology. This takes estimates of sustainable returns on capital for each business division and applies appropriate multiples to 2014e allocated capital.

We value the life business at 1.3x allocated capital, consistent with a 11% ROC, allowing for growth. We value the non-life insurance business at 2.2x capital, consistent with an 22.5% ROC. We value the asset management business at 12.5x P/E, consistent with the range applied to peers and bearing in mind the trading multiple of AXA's subsidiary, AllianceBernstein. We value any surplus capital or debt at 1x face value.

Risks

The following risks might impede the share price from reaching our target price: 1) Continued volatility in investment markets, which could be exacerbated by the group's higher than average leverage; 2) A material further sharp downward shift in global bond yields impacting investment returns and impacting traditional life and US VA business; 3) Higher corporate bond defaults than would be anticipated in current spreads; 4) Finally, the earnings story is dependent on achieving the targets set on the June 1st 2011 investor day. If the impact of these risk factors is less negative than we currently anticipate, then the share price could exceed our target price.

Appendix A-1

Analyst Certification

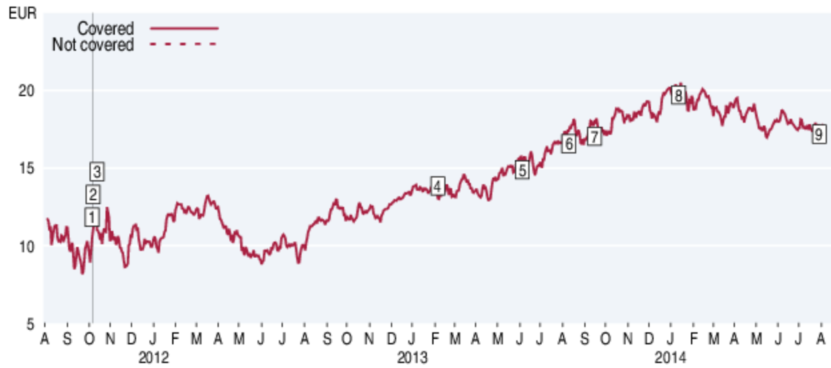
The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

IMPORTANT DISCLOSURES

AXA SA (AXAF.PA)

Ratings and Target Price History
Fundamental Research

Analyst: Farooq Hanif
Covered since January 24 2013



Date	Rating	Target Price	Closing Price
1 6-Oct-11	2H	*11.20	10.50
2 7-Oct-11	Stock rating system changed		
3 13-Oct-11	2H	*13.00	11.00
4 6-Feb-13	*1	*17.00	13.04
5 5-Jun-13	1	*18.50	15.41
6 9-Aug-13	1	*20.00	17.40
7 16-Sep-13	1	*21.00	18.00
8 13-Jan-14	1	*24.00	20.15
9 30-Jul-14	1	*22.50	17.54

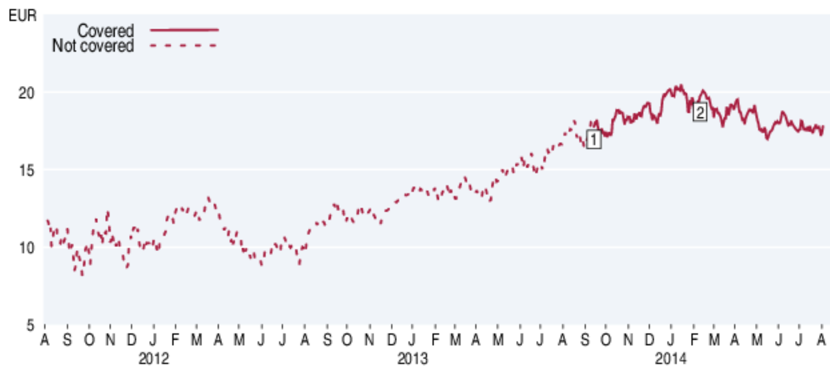
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

AXA SA (AXAF.PA)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Farooq Hanif
Covered since January 24 2013



Date	Rating	Target Price	Closing Price
1 13-Sep-13	*ADD MP	-	17.77
2 11-Feb-14	*REM MP	-	19.72

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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	12 Month Rating			*Relative Rating*		
Data current as of 30 Jun 2014	Buy	Hold	Sell	Buy	Hold	Sell
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% of companies in each rating category that are investment banking clients	55%	53%	46%	0%	54%	0%

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The subject company's share price set out on the front page of this Product is quoted as at 05 August 2014 01:39 PM on the issuer's primary market.

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