Storebrand (BUY, 52): Set for significant dividends

Will benefit greatly from higher interest rates

Thomas Svendsen

Making it possible

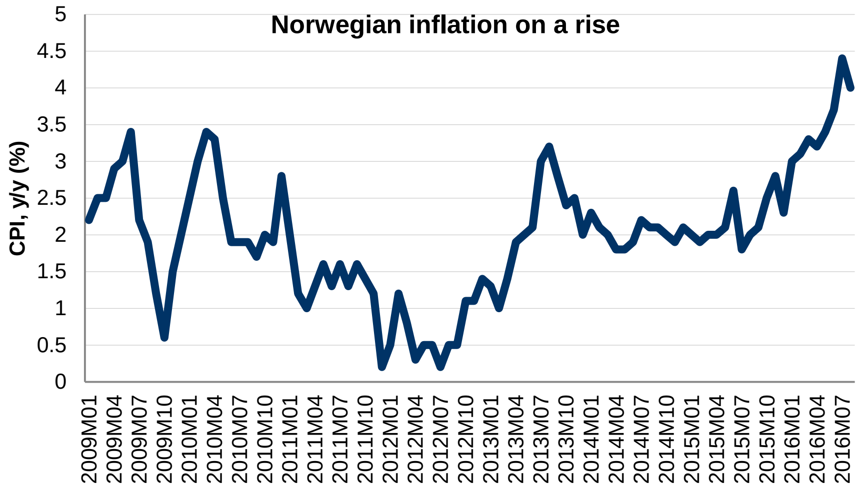
Set to benefit greatly from higher interest rates

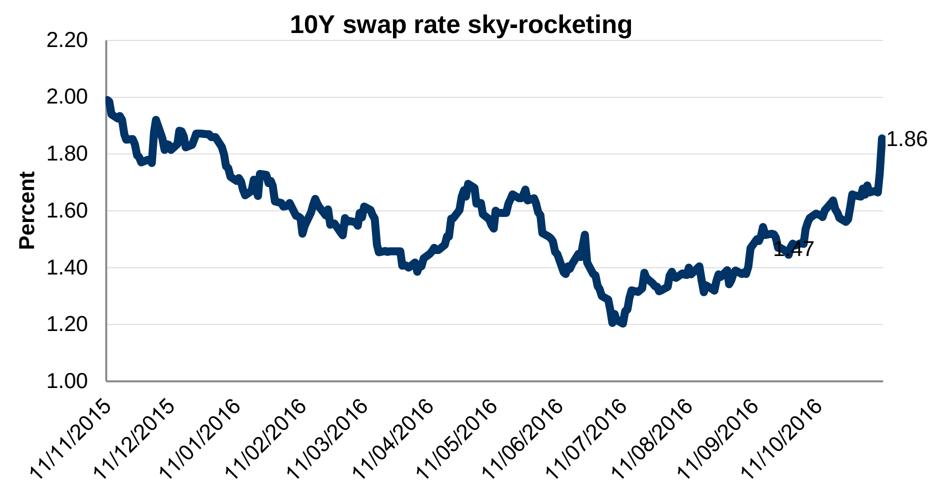
- Storebrand's Solvency II capital requirement will increase for only a little over a year before peaking in a base-case scenario where Norwegian interest rates have reached their trough
- The problem with the paid-up policies carrying a 3.5% interest guarantee should thus be solved
- Most earnings generated after that will, in principle, be free cash flow, setting the stage for significant dividends.
- We foresee a normalisation to the >35% payout (DPS of NOK 1.5) from 2017
- Our bull case, where the swap rate goes up another 25 bp, projects a jump in DPS to NOK 3.0 as early as 2018, increasing to NOK 4.5 (10% yield) in 2020
- This would also lift estimated PTP by 5% through higher financial returns
- We reiterate our bullish view and Buy and target price of NOK 52 close to our SOTP

Source: Nordea Markets

Norway: Inflation and long-term rates have come sharply up

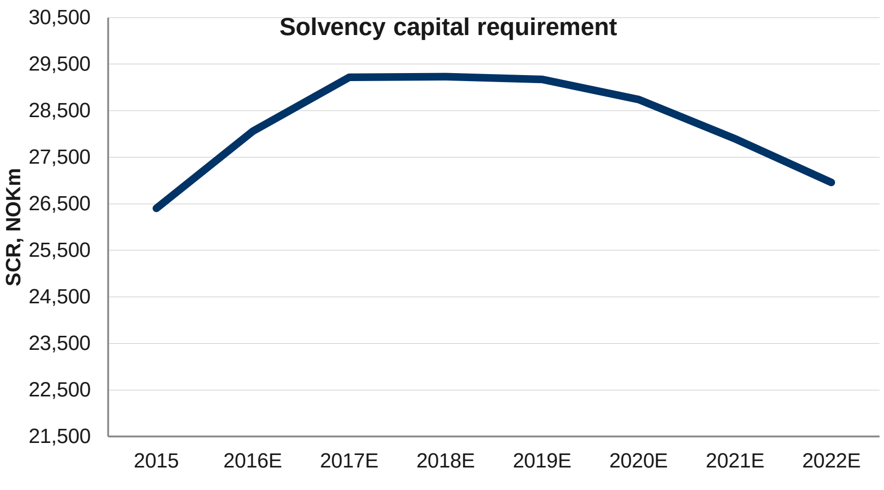
- Norwegian Central bank rate has reached bottom
- Benefiting instantly for increased long-term rates

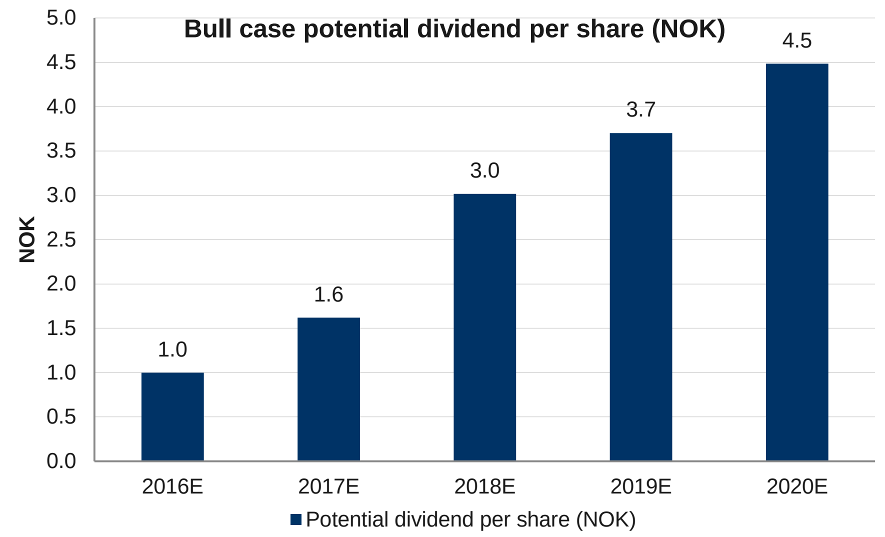




Source: Nordea Markets

Capital requirement peaking bodes for solid dividends





Source: Nordea Markets

Nordea

Strong earnings stream supports NOK 53 SOTP value

- Storebrand offers a diversified and strong earnings stream, with capital heavy guaranteed pensions representing a limited ~20%
  - Thus, other earnings account for ~80% supporting the capital build-up
- Management is feeling the pressure to increase earnings and launched bold targets at the May CMD including the reiteration of NOK 300-400m cost cutting
- SOTP valuation points to NOK 53 / share.
- Most valuable business unit being Non-Life Insurance, followed by Unit-linked and asset management, while the paid-up policies, where 43% of the equity is allocated, is virtually worthless

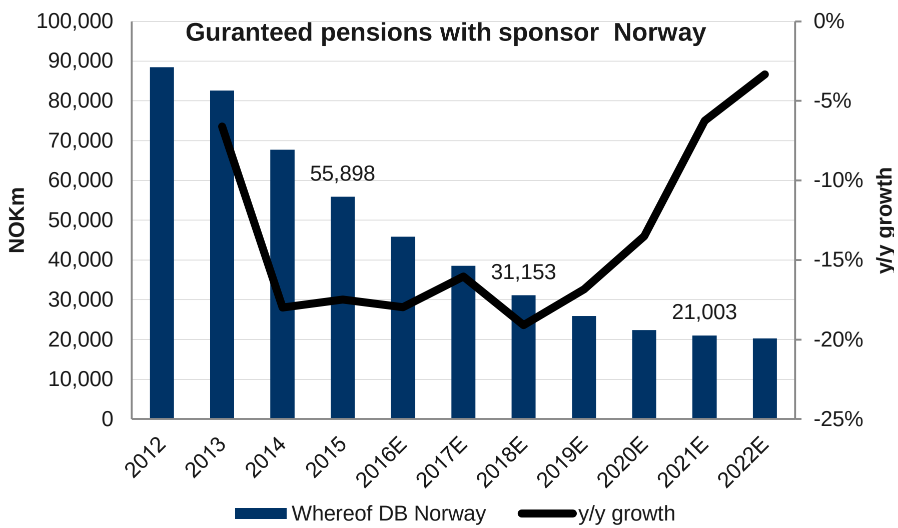
Q2 2016, NOKm	Tangible equity	Equity of total	AUM 2016E	Equity of AUM	PTP 2017E / over cycle*	Assumed tax rate	Profit 2017E after tax	EPS (NOK) 2017E	RONAV 2017E	Assumed P/E (x)	P/E Value	Implicit P/Tangible	Est. value / share (NOK)	Value ratio
Guaranteed pension, healthy	6,418	30%	152,327	4.2 %	511	21%	404	0.9	6%	7.0	2,828	0.4	6	12%
Paid-up policies	9,217	43%	115,936	8.0 %	100	21%	79	0.2	1%	2.0	158	0.0	0	1%
Unit-linked pension (non-gurar	1,300	6%	153,740	0.8 %	504	21%	398	0.9	31%	15.0	5,974	4.6	13	25%
Asset management	498	2%	637,205	0.1 %	500	21%	395	0.9	79%	14.0	5,530	11.1	12	24%
Banking operations	2,295	11%	36,350	6.3 %	228	21%	180	0.4	8%	9.0	1,621	0.7	4	7%
Non-life insurance	2,193	10%	7,763	28%	653	21%	516	1.2	24%	14.5	7,480	3.4	17	32%
Total subsidiaries	21,920	101%	1,103,322	2.0 %	2,496	21%	1,972	4.4	9%	12.0	23,591	1.1	53	100%
Holding expenses, comp. portf	-239	-1%	22,896	-1.0 %	-73	21%	-58	-0.1	n.m.	12.0	-690	n.m.	-2	-3%
Total operations	21,681	100%			2,423	21%	1,915	4.3	9%	12.0	22,901	1.1	51	97%
Off-balance unrealised gains											601	n.m.	1	3%
Total	**21,681**										**23,502**	**1.1**	**53**	**100%**

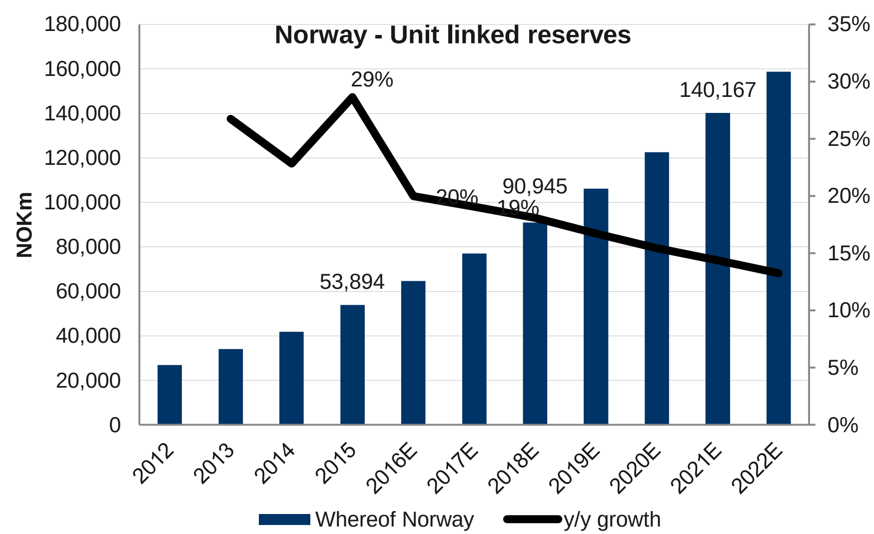
Source: Nordea Markets

Change in pension system suggests strong unit-linked growth

- The material change in the Norwegian pension system will boost the capital light Norwegian unit-linked assets growth to close to 20% annually, while the capital heavy paid-up policies are set to peak in 2017/2018

- The old Norwegian defined benefit (DB) guaranteed products will be phased out as they are too expensive and volatile for clients (ie employers) in the current low interest environment
  - In Norway's renewed pension framework, there are significantly higher savings rates for unit-linked products or defined contribution (DC)





Source: Nordea Markets

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Norwegian saving banks outlook

Low valued equity certificates with attractive dividends offer upside

Thomas Svendsen

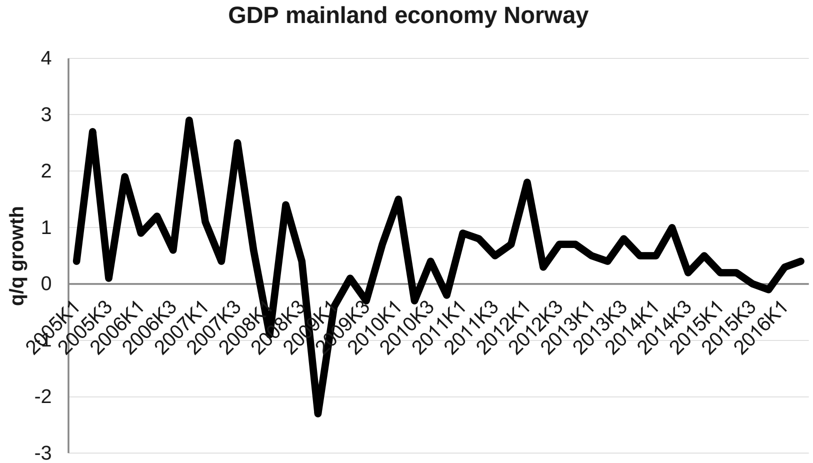
Making it possible

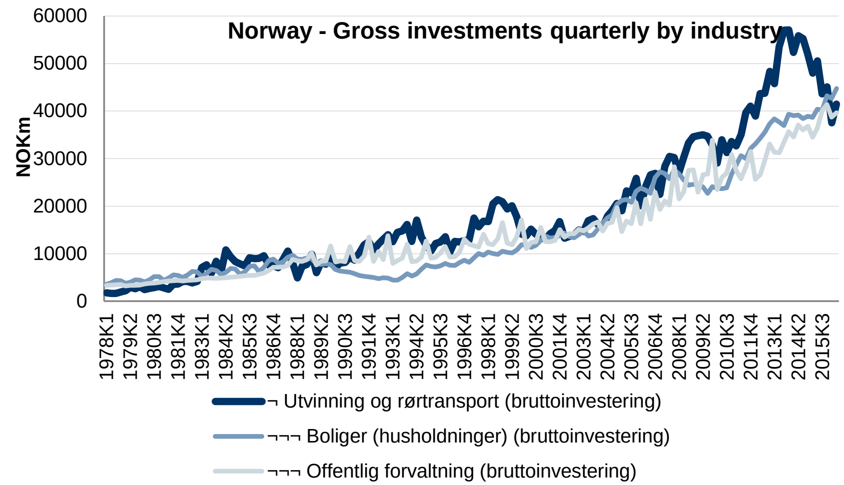
Investment summary: The doomsday scenario was avoided

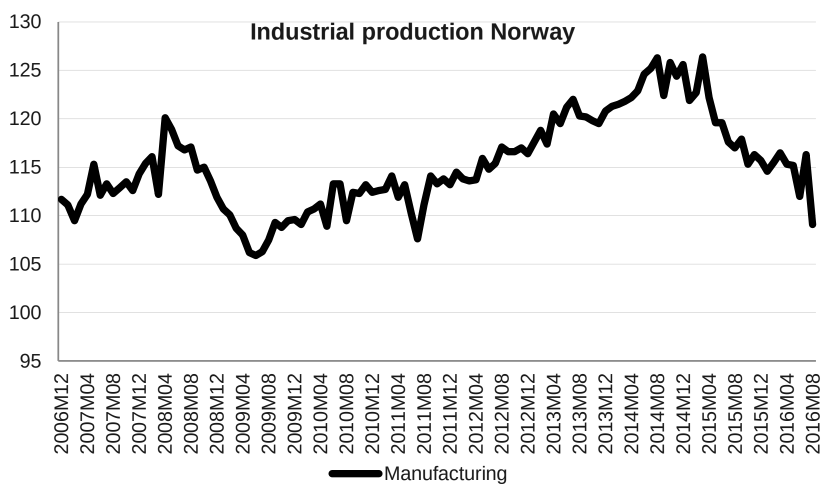
- With the oil price rebound from the latest bottom to USD~50 / bbl the direct oil lending doomsday scenario was avoided
  - Big difference in toxic assets exposure
- Incoming macro data has become more positive with the mainland GDP growth in positive territory, although industrial production is still heading south and retail sales are flat
  - Low interest rates are attracting flows of funds into the housing market, however, which continues to climb
- In total, our scenario – which expects a lack of top-line momentum and somewhat increased credit losses – consequently stands
- Bank’s very strong focus on costs and optimisation set to support profitability
- Most banks on schedule to FSA expectation of 14.5% CET1 by YE 2016
- 2017E ROE in the range 8.3%-10.3% justifies BUY on several of the names

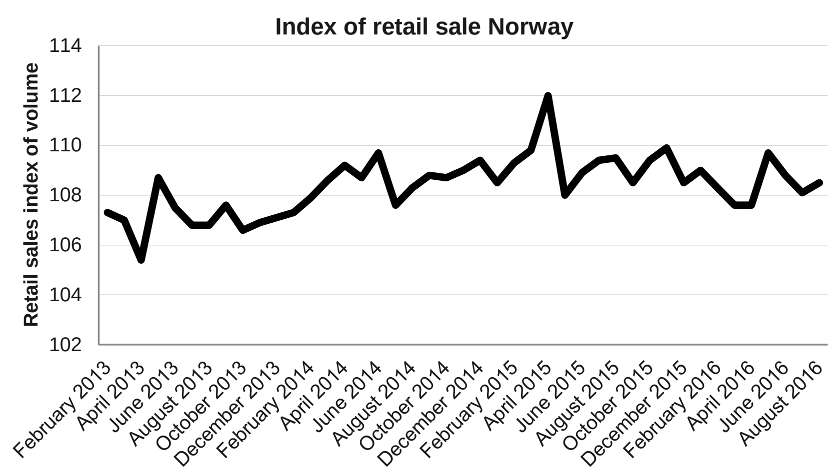
Source: Nordea Markets

Incoming Norwegian macro data indicates a stabilisation although somewhat mixed









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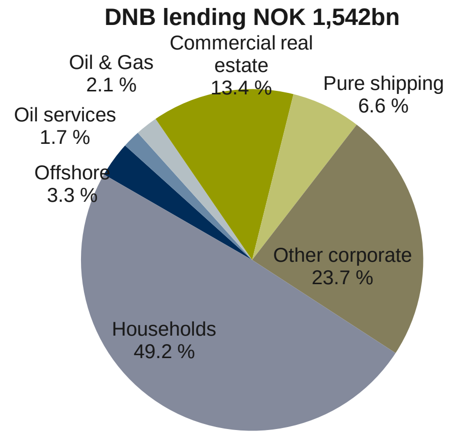
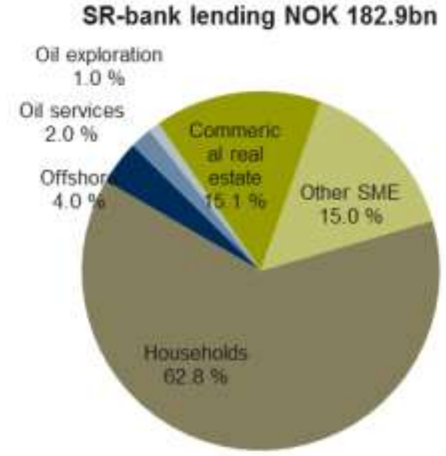
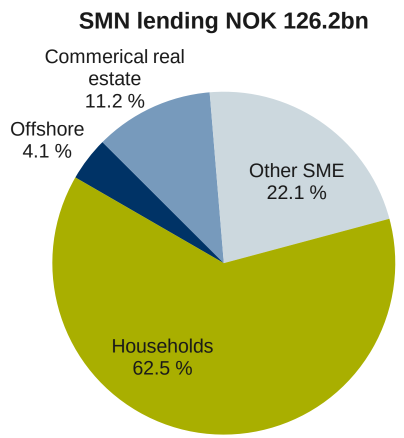
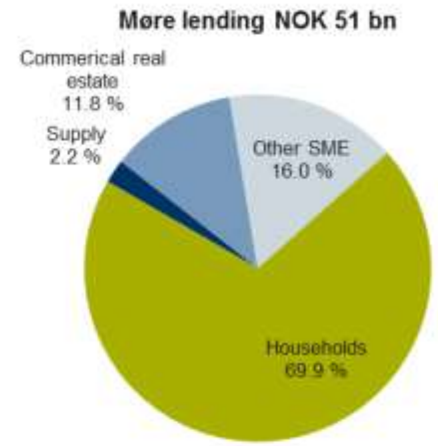
Source: SSB

Norwegian banks direct oil exposure



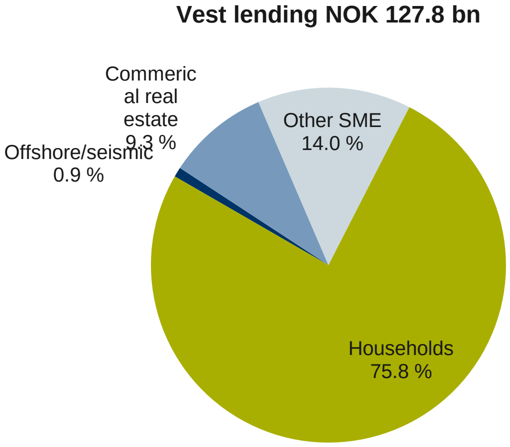


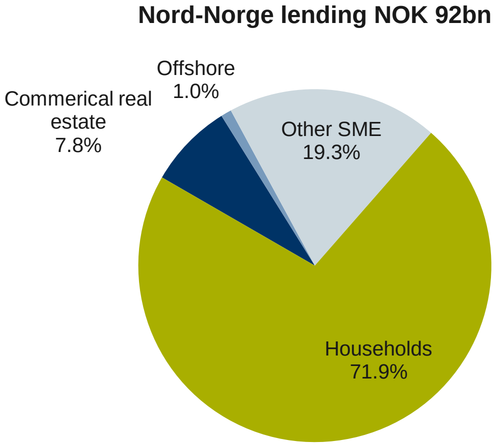


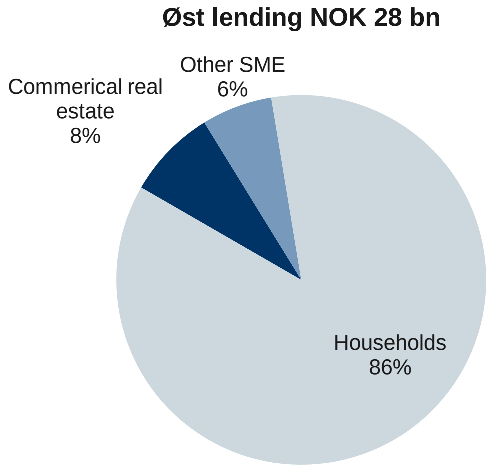


Source: Company data and Nordea Markets

Norwegian banks direct oil exposure (cont.)



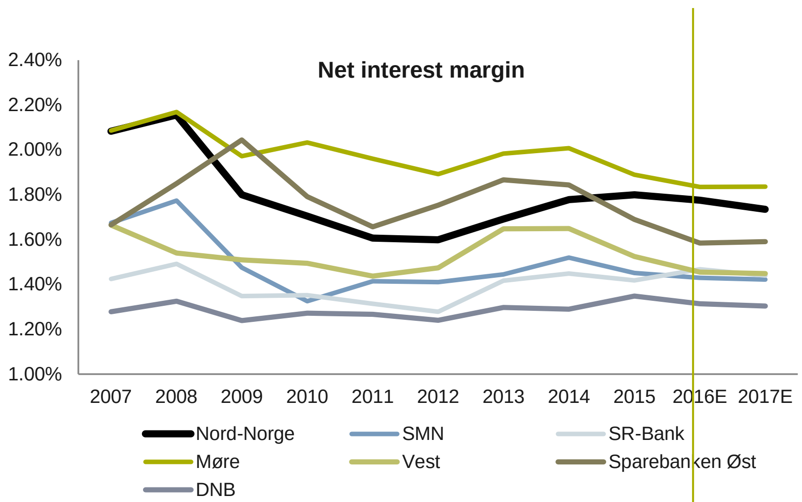


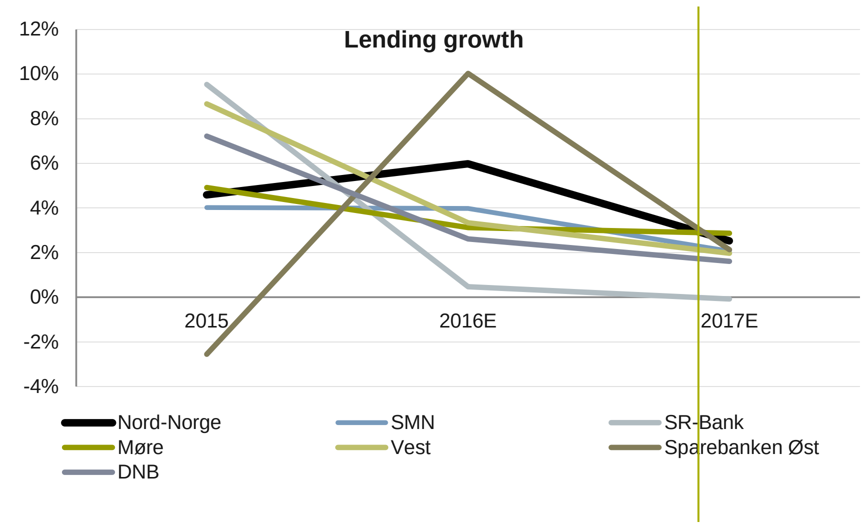


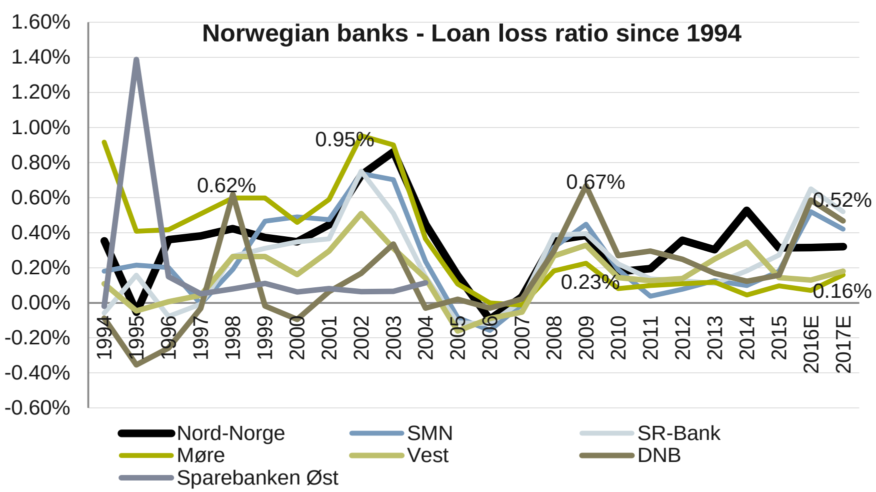
Source: Company data and Nordea Markets

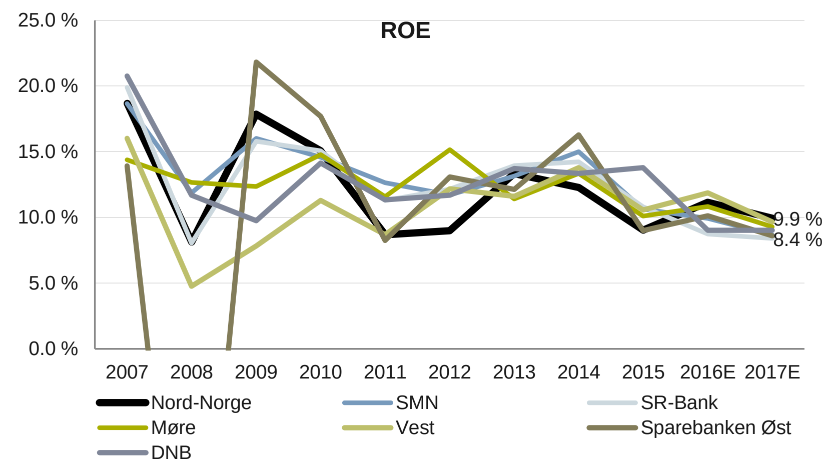
Norwegian banks operational trends

- Quite stable interest margins, single digit lending growth, controlled loan losses gives reasonable but not stunning ROE









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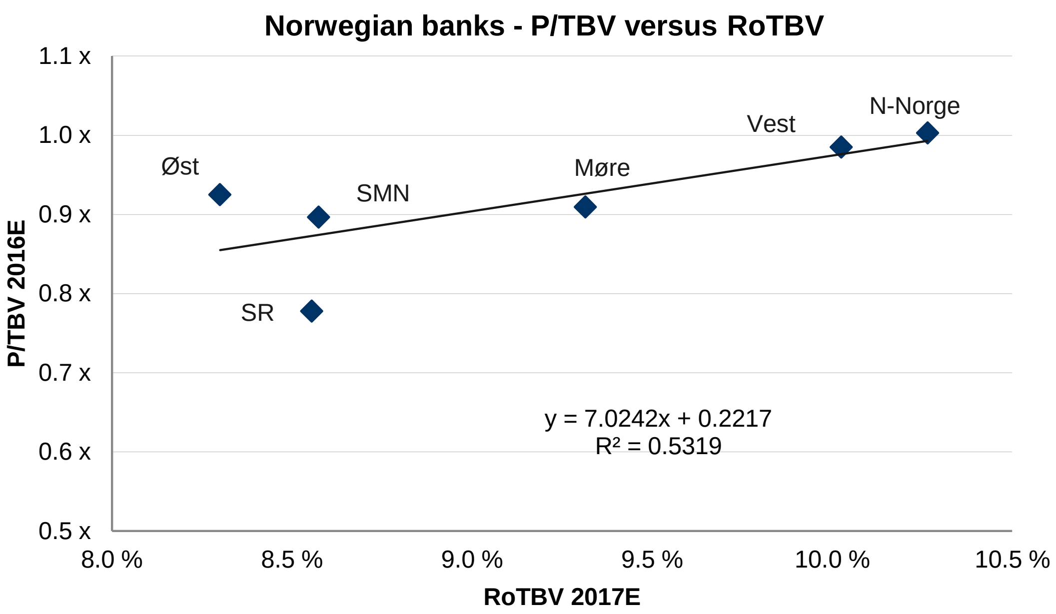
Source: Company data and Nordea Markets

Norwegian banks valuation overview - Value to be found

						P/E		P/TBV		ROTBV			Yield	
	MC (NOKm)	Price	TP	Upside	Rating	2016E	2017E	2015	2016E	2015	2016E	2017E	2016E	2017E
Sparebank 1 Nord-Norge	4,824	48.1	53.0	10.2%	BUY	8.6x	9.0x	1.03x	0.95x	9.1%	11.7%	10.3%	5.4%	5.6%
Sparebank 1 SMN	8,050	62.0	60.0	-3.2%	HOLD	8.1x	9.5x	0.92x	0.85x	10.9%	11.0%	8.6%	4.2%	4.8%
Sparebank 1 SR-Bank	13,235	51.8	56.0	8.2%	BUY	7.8x	8.2x	0.78x	0.73x	10.8%	9.6%	8.6%	2.9%	3.9%
Sparebanken Møre	2,333	235.0	235.0	0.0%	HOLD	8.1x	8.9x	0.92x	0.86x	10.2%	11.0%	9.3%	5.1%	5.3%
Sparebanken Vest	2,757	46.7	51.0	9.2%	BUY	7.6x	9.2x	1.34x	0.93x	12.6%	13.2%	10.0%	8.1%	8.6%
Sparebanken Øst	1,057	51.0	56.0	9.8%	BUY	8.7x	10.4x	0.92x	0.88x	9.0%	10.5%	8.3%	6.9%	7.3%
Average						**8.1x**	**9.2x**	**0.99x**	**0.87x**	**10.4%**	**11.2%**	**9.2%**	**5.4 %**	**5.9 %**



Rangering:
1) Vest
2) Øst
3) Nord-Norge

Source: Company data and Nordea Markets

Gjensidige (Hold, 155): Take some chips off the table

Far more challenging comparisons ahead

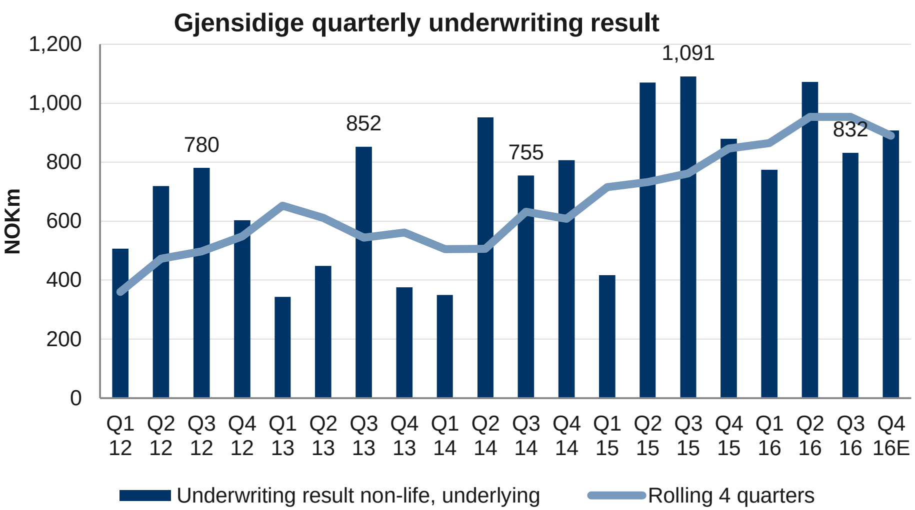
Thomas Svendsen

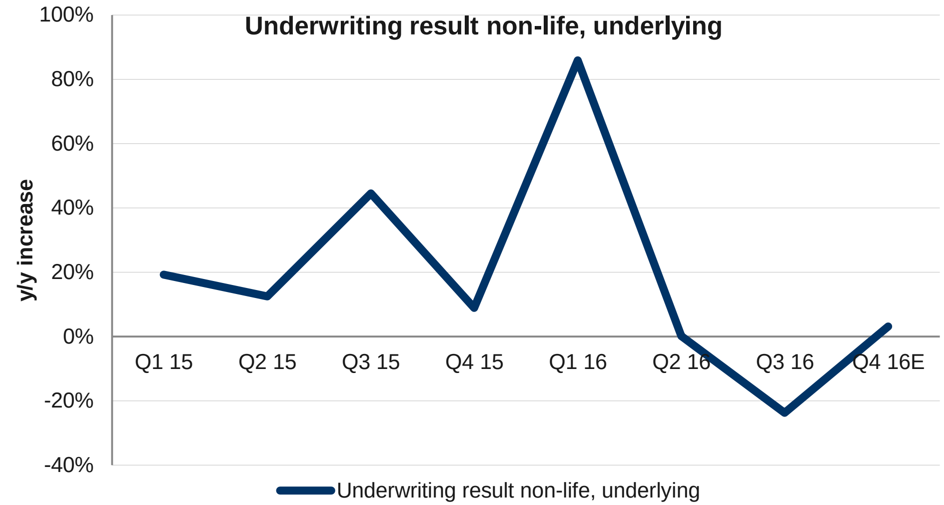
Gjensidie Q3 2016: Miss on the combined ratio

- A great company that has delivered strong returns to its owners
- Q3 2015 was the first quarter in which the market was notified that the results will include 4 pp run-off gains in the years to come, and thus y/y comparisons will be much more challenging going forward
- We foresee around zero y/y growth in underwriting results ahead at best and believe further bold positive underwriting surprises are far less likely
  - Signs of increased competition / margin pressure
- Reported a Q3 2016 underwriting result 21% below our forecast and consensus. The underlying Q3 combined ratio ended at 82.4% up from 80.1% Q3 last year
  - Quarters ahead will highlight if the Q3 disappointment was a trend shift to something worse or not
- Gjensidige has been richly paid for its appreciated announcement of an extraordinary NOK 4 DPS in connection with the Q3 2016 report
- We would recommend to take some chips off the table and has a Hold recommendation on the stock

Source: Nordea Markets

Gjensidige: Results levelling off and P/E much higher than the banks





			EPS			P/E			P/NAV			RONAV		Yield		EPS CAGR	
Name	**Price**	**Currency**	**2015**	**2016E**	**2017E**	**2015**	**2016E**	**2017E**	**2015**	**2016E**	**2017E**	**2016E**	**2017E**	**2015**	**2016E**	**2015-2017E**	**Rating**
Gjensidige Forsikring	139.5	NOK	7.6	9.4	8.7	18.8	14.9	16.1	3.5	3.3	3.5	23%	21%	5.9 %	4.3 %	7%	HOLD
Topdanmark	172.3	DKK	11.4	16.7	17.7	17.2	10.3	9.7	4.7	4.1	3.8	40%	41%	0.0 %	0.0 %	25%	HOLD
Tryg	129.0	DKK	6.9	8.2	8.7	19.8	15.8	14.9	4.4	4.5	4.7	27%	31%	4.4 %	4.8 %	12%	HOLD
Protector Forsikring	69.0	NOK	5.0	5.4	5.2	14.8	12.9	13.3	3.1	2.6	2.3	21%	19%	3.1 %	3.3 %	2%	BUY
Simple average						**17.7**	**13.5**	**13.5**	**3.9**	**3.6**	**3.6**	**28%**	**28%**	**3.3 %**	**3.1 %**		

Source: Nordea Markets

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