

# Allianz

Insurance

2007-11-12

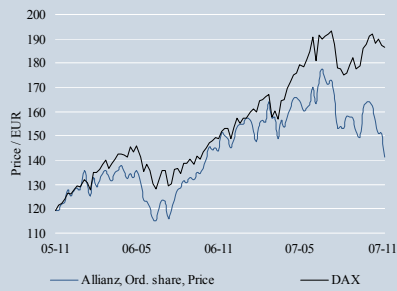
Applied disclosures can be found in the appendix

**Strong buy**

Fair Value EUR211.00

Price EUR141.30 (Closing price as of 2007-11-09)

## Price and rel. Performance



## Market Data

Reuters	ALVG.DE
Bloomberg	ALV GR
Market cap €bn	61.1
Free float %	100.0

## Key Data

Yr.end 12/31	2006	2007e	2008e
Net premium	58.5	60.1	62.6
Net profit bn	7.0	8.0	8.9
Adj. EPS	15.61	17.98	19.71
PER	8.6	7.9	7.2
NAV/share	95.68	106.73	123.26
P/NAV	1.4	1.3	1.1
Yield %	1.5	2.7	2.8
EPS CAGR: 05-09 %	11.1		

## Next Events

Full year results	2008-02-21
Analysts' conference	2008-02-22

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## ON TRACK – DESPITE THE Q3 BURDENS

### INVESTMENT CASE AND PERFORMANCE TRIGGER

Allianz is currently substantially restructuring its activities in Italy and Germany. This restructuring will considerably enhance the value of the company. We are convinced that Allianz is on the right track and expect the next step to be a European efficiency program. Currently, this positive medium term outlook is overshadowed by the financial markets turmoil. After the Q3 report, we are convinced that the company is on the right track.

### FACTS

\_\_\_ The US subprime related crisis has hit the banking division via asset write-downs and trading losses of €575m in total. In addition, some €300m value adjustment was accounted for via the equity position.

\_\_\_ Regarding valuation techniques, 95% of the €19bn ABS in the insurance division were accounted for at market prices (level 1), 5% were valued mark-to-model (level 2). The ABS in the banking division (€18bn) were mostly valued mark-to-model; between 5-10% were valued at market prices. Almost none were valued at level 3.

\_\_\_ Under the condition that the situation does not deteriorate, the company has confirmed its profit targets of €11bn (operating profit) and €8bn (net profit) for the full year. The growth targets for 2008 and 2009 have also been confirmed (10% CAGR in operating profit).

### ASSESSMENT

\_\_\_ We trust that the 9m report is providing a fair view of the value of the various assets that are under severe market pressure. However, this finding does not suggest that there is no need for further write-downs in Q4, as some market indices signal that up-to-now prices of some assets have continued to fall.

\_\_\_ Achieving an operating result at almost last year's Q3 level is a very strong result given the circumstances. The result was not only burdened by asset write-downs, but also from above average large NatCat losses and unfavorable exchange rate changes.

\_\_\_ As the current restructurings in Germany and Italy will show their first positive effects on the P/L accounts only in the course of 2008, we feel confident with our current earnings forecasts for the next two years.

\_\_\_ The results clearly support our **strong buy** rating.

### VALUATION

\_\_\_ In terms of PER, Allianz is trading at a 15% discount to the European insurance sector. Our ROE-based sum-of-the-parts model derives a fair value of €211 per share.

**Allianz - P&L**

<b>EURm (Yr. end: 12/31)</b>	<b>2005</b>	<b>2006</b>	<b>2007e</b>	<b>2008e</b>	<b>2009e</b>
Total revenues	100,897.0	101,174.0	105,062.9	110,524.6	116,240.3
Gross premium written	88,950.3	92,157.7	95,892.1	100,094.4	103,377.7
Net premium earned	57,747.0	58,524.0	60,120.0	62,589.0	65,255.0
thereof: L/H	20,062.0	20,574.0	21,320.0	22,799.0	24,222.0
thereof: P/C	37,685.0	37,950.0	38,800.0	39,790.0	41,033.0
Net investment income, insurance	19,493.0	21,217.0	22,414.0	23,344.0	24,578.0
Claims paid	-42,770.0	-42,297.0	-43,858.0	-45,691.0	-47,397.9
Changes in insurance reserves	-10,443.0	-10,525.0	-11,166.0	-11,880.0	-13,000.0
Acquisition and administrative expenses, ins.	-14,648.0	-15,027.0	-15,634.8	-16,340.4	-16,864.0
Other operating income and expenses, ins.	-3,212.0	-4,197.0	-3,700.3	-3,255.2	-3,231.2
<b>Operating profit insurance</b>	<b>6,167.0</b>	<b>7,695.0</b>	<b>8,175.0</b>	<b>8,766.4</b>	<b>9,339.8</b>
Banking and asset management revenues	11,095.0	11,619.0	12,299.6	13,418.0	14,801.0
Operating expenses banking and AM	-9,259.0	-8,907.0	-9,074.6	-10,356.3	-11,166.5
<b>Operating profit banking and AM</b>	<b>1,836.0</b>	<b>2,712.0</b>	<b>3,225.0</b>	<b>3,061.7</b>	<b>3,634.5</b>
Other income and expenses	-174.0	-84.0	120.6	468.1	608.0
<b>Pre-tax profit</b>	<b>7,829.0</b>	<b>10,323.0</b>	<b>11,520.6</b>	<b>12,296.2</b>	<b>13,582.3</b>
Taxes	-2,063.0	-2,013.0	-2,657.8	-2,660.8	-3,147.6
Tax rate %	26.4	19.5	23.1	21.6	23.2
Minority interest	-1,386.0	-1,289.0	-897.7	-744.4	-784.6
Net profit attr. to sharehd.	4,380.0	7,021.0	7,965.1	8,891.1	9,650.1
+/- Net profit adjustments	0.0	-480.0	-110.0	0.0	0.0
<b>Adj. net profit attr. to sharehd.</b>	<b>4,380.0</b>	<b>6,541.0</b>	<b>7,855.1</b>	<b>8,891.1</b>	<b>9,650.1</b>

**Growth rates, %**

Total revenues	4.2	0.3	3.8	5.2	5.2
thereof: L/H	7.9	2.6	3.6	6.9	6.2
thereof: P/C	0.8	0.7	2.2	2.6	3.1
Net investment income, insurance	6.1	8.8	5.6	4.1	5.3
Operating profit insurance	7.9	24.8	6.2	7.2	6.5
Banking and asset management revenues	10.8	4.7	5.9	9.1	10.3
Operating profit banking and AM	nm	47.7	18.9	-5.1	18.7
Adjusted net profit	93.3	49.3	20.1	13.2	8.5

**Key ratios and figures**

<b>EURm (Yr. end: 12/31)</b>	<b>2005</b>	<b>2006</b>	<b>2007e</b>	<b>2008e</b>	<b>2009e</b>
P/C loss ratio %	67.2	65.0	66.0	67.7	68.5
P/C expense ratio %	27.1	27.9	28.0	28.1	27.8
P/C combined ratio %	94.3	92.9	94.0	95.8	96.3
P/C return on investments %	4.9	4.6	4.7	4.8	4.9
P/C pre-tax margin %	16.4	19.9	19.7	19.5	19.7
L/H aquisition cost ratio %	10.4	10.4	10.8	10.9	10.8
L/H expense ratio %	11.7	11.2	11.7	11.8	11.7
L/H return on investments %	4.9	4.6	4.7	4.8	4.9
L/H pre-tax margin %	11.3	13.1	14.2	14.9	15.7
Asset management cost/ income ratio %	58.4	57.6	57.0	55.0	53.5
Asset management revenues / AuM %	5.2	5.4	5.3	5.4	5.5
Banking cost /income ratio %	90.6	79.5	71.8	68.4	66.3
Net interest margin %	1.9	1.9	1.9	1.9	1.9
Operating margin, bank %	9.7	19.6	24.3	17.4	19.4
ROE (pre-tax) %	22.3	22.9	21.4	20.1	19.8
ROE (adjusted net profit) %	12.5	14.5	14.6	14.6	14.1
Return on NAV %	15.0	15.8	16.3	16.0	15.3
Dividend yield %	1.7	1.5	2.7	2.8	3.0

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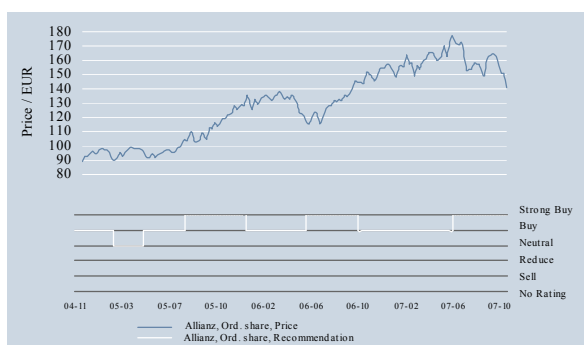
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Buy	174	45.3	34	59.6
Neutral	144	37.5	17	29.8
Reduce	25	6.5	0	0.0
Sell	1	0.3	0	0.0
No rating	24	6.3	2	3.5

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