

Allianz

Insurance

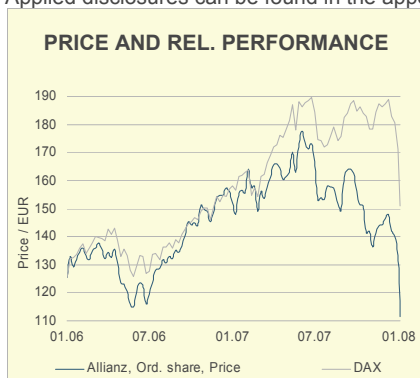
2008-01-25

Applied disclosures can be found in the appendix

Strong buy

Fair Value EUR211.00

Price EUR111.32 (Closing price as of 2008-01-23)



PROFIT FORECAST CONFIRMED

ASSESSMENT

- Yesterday, Allianz surprisingly published some key figures for its 2007 full year results. While the share price of Allianz over the last days came heavily under pressure due to investors' concerns about a possible profit warning, Allianz reached its net profit target for the full year 2007. Even the operating profit of "more than €10.8bn" came in very close to the targeted €11bn.
- Again, the main focus was on the banking segment, which reported a negative operating result of about €450m in the fourth quarter. Reason for the negative result was largely due to valuation adjustments on structured products in the trading book of around €900m.
- The operating profit of the other segments P&C, Life and Health as well as Asset Management were in line with our estimates.
- The result of the banking segment was not satisfying; nevertheless, Banking was not as dramatic, considering market expectations. But in its statement, Allianz did not reveal detailed information regarding the value adjustment, which still gives some room for questions and speculation about further write-down potential.
- The discussions about the reasons to hold Dresdner Bank – including volatile investment- as well as commercial banking – will go on and the pressure on Allianz management will increase.
- Allianz will publish full details for the fiscal year 2007 on February 21, 2008. Until this time, speculation about further valuation adjustments, especially for the banking segment, could still hold on, but the numbers given yesterday should calm concerns in the market.

MARKET DATA

Reuters	ALVG.DE
Bloomberg	ALV GR
Market cap €bn	48,1
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	15,56	17,87	19,65
PER	8,6	8,8	5,7
NAV/share	117,86	122,28	135,75
P/NAV	1,1	1,3	0,8
Yield %	1,5	2,4	4,5
EPS CAGR: 05-09 %	11,9		

NEXT EVENTS

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

Dr. Stephan Kalb, Dipl.-Vw., M.A.
 +49 (0) 69/71 34 - 52 08
 stephan.kalb@oppenheim.de
 Oppenheim Research GmbH, Frankfurt

Reginald Veit
 +49 (0) 69/71 34 - 56 69
 reginald.veit@oppenheim.de
 Oppenheim Research GmbH, Frankfurt

VALUATION

- Even after yesterday's share price performance of more than 12 %, Allianz is still undervalued. While the insurance sector price earnings ratio is some 28 % below the rest of the EuroStoxx, Allianz is even trading below the insurance sector average (2008e: Allianz stands at 7.2.x vs sector 8.2 x)
- Derived on 2008e earnings, our sum-of-the-parts model derives a fair value of €211 per share

CONCLUSION

Allianz remains one of our top picks in the sector. While we clearly subscribe to the view that the share price is suffering from the financial markets turmoil, the facts signal that even the worst case would be manageable for Allianz. The key driver for the value of Allianz is the restructuring programs in Germany, Italy, and France that will (from 2009) allow Allianz to build a truly European platform.

Allianz - P&L					
EURm (Yr. end: 12/31)	2005	2006	2007e	2008e	2009e
Total revenues	100.999,0	101.174,0	105.062,9	110.524,6	116.240,3
Gross premiums written	91.999,0	91.074,0	94.102,9	98.658,1	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	18.392,0	19.777,0	21.045,0	22.068,0	23.472,0
Claims paid	-42.770,0	-42.297,0	-43.858,0	-45.691,0	-47.397,9
Changes in insurance reserves	-11.150,0	-10.950,0	-11.621,0	-12.335,0	-13.480,0
Acquisition and administrative expenses, ins.	-14.295,0	-15.027,0	-15.634,8	-16.340,4	-16.864,0
Other operating income and expenses, ins.	-1.757,0	-2.353,0	-1.831,0	-1.550,0	-1.460,5
Operating profit insurance	6.167,0	7.674,0	8.220,3	8.740,6	9.524,6
Banking and asset management revenues	11.095,0	11.619,0	11.719,6	13.018,0	14.391,0
Operating expenses banking and AM	-9.259,0	-8.907,0	-9.074,6	-9.656,3	-10.606,5
Operating profit banking and AM	1.836,0	2.712,0	2.645,0	3.361,7	3.784,5
Amortisation of intangible assets	-51,0	-51,0	-53,0	-51,0	-51,0
Other income and expenses	-123,0	-33,0	-126,4	119,1	249,0
Pre-tax profit	7.829,0	10.302,0	10.685,9	12.170,4	13.507,1
Taxes	-2.063,0	-2.013,0	-1.938,3	-2.631,8	-3.072,2
Tax rate %	26,4	19,5	18,1	21,6	22,7
Minority interest	-1.386,0	-1.289,0	-737,3	-673,4	-599,6
Net profit attr. to sharehd.	4.380,0	7.000,0	8.010,3	8.865,3	9.835,3
+ /- Net profit adjustments	0,0	-480,0	-119,0	0,0	0,0
Adj. net profit attr. to sharehd.	4.380,0	6.520,0	7.891,3	8.865,3	9.835,3
Growth rates, %					
Total revenues	4,3	0,2	3,8	5,2	5,2
thereof: L/H	7,9	2,6	3,6	6,9	6,2
thereof: P/C	-1,3	0,7	2,2	2,6	3,1
Net investment income, insurance	0,1	7,5	6,4	4,9	6,4
Operating profit insurance	3,1	24,4	7,1	6,3	9,0
Banking and asset management revenues	10,8	4,7	0,9	11,1	10,5
Operating profit banking and AM	nm	47,7	-2,5	27,1	12,6
Adjusted net profit	76,6	48,9	21,0	12,3	10,9
Key ratios and figures					
EURm (Yr. end: 12/31)	2005	2006	2007e	2008e	2009e
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	19,8	19,8	20,5
L/H aquisition cost ratio %	12,0	13,3	13,9	14,0	14,0
L/H expense ratio %	8,3	8,2	8,5	8,6	8,6
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	14,2	15,1
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	73,5	64,7	64,6
Net interest margin %	1,9	1,9	1,9	1,9	1,9
Operating margin, bank %	9,7	19,6	18,0	22,3	22,2
ROE (pre-tax) %	22,2	22,9	19,8	20,0	19,9
ROE (adjusted net profit) %	12,4	14,5	14,6	14,6	14,5
Return on NAV %	13,1	14,2	14,6	14,5	14,4
Dividend yield %	1,7	1,5	2,4	4,5	4,9

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Sal. Oppenheim jr. & Cie. Securities Inc.

250 Park Avenue, Suite 911
New York, NY 10017
Tel: +1 212 888 52 46
Fax: +1 212 888 0916

E-MAIL: jhagenbuch@sal-oppenheim.com

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<p style="text-align: center;">ANALYSTS</p> <p>Dr. Stephan Kalb, Dipl.-Vw., M.A. Tel. +49 (0) 69/71 34 - 52 08 stephan.kalb@oppenheim.de Oppenheim Research GmbH, Frankfurt</p> <p>Reginald Veit Telephone +49 (0) 69/71 34 - 56 69 reginald.veit@oppenheim.de Oppenheim Research GmbH, Frankfurt</p>	<p style="text-align: center;">SAL. OPPENHEIM JR. & CIE. KGAA</p> <p>Unter Sachsenhausen 4 50667 Köln Telephone +49 (2 21) 1 45 – 01</p> <p>Untermainanlage 1 60329 Frankfurt am Main Telephone +49 (69) 71 34 – 0</p> <p>Odeonsplatz 12 80539 München Telephone +49 (89) 29 00 74 – 0</p> <p>www.oppenheim.de info@oppenheim.de</p>	<p style="text-align: center;">OPPENHEIM RESEARCH GMBH</p> <p>Unter Sachsenhausen 4 50667 Köln Telephone +49 (2 21) 1 45 – 02</p> <p>Untermainanlage 1 60329 Frankfurt am Main Telephone +49 (69) 71 34 – 0</p> <p>www.oppenheim- research.de research@oppenheim.de</p>	<p style="text-align: center;">BANK SAL. OPPENHEIM JR. & CIE. (SCHWEIZ) AG</p> <p>Uraniastrasse 28 CH-8022 Zürich Telephone + 41 (44) 2 14 22 14</p> <p style="text-align: center;">SAL. OPPENHEIM JR. & CIE. KGAA, PARIS</p> <p>13, rue Royale, 75008 Paris, France Telephone + 33 (1) 44 94 64 - 00</p> <p style="text-align: center;">SAL. OPPENHEIM JR. & CIE. SECURITIES INC</p> <p>250 Park Avenue, Suite 911, New York, NY 10017 Telephone + 1 (2 12) 8 88 52 46</p>
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