

Sampo

Company report

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This report is a summary translation of the report “Osake edelleen oikein hinnoiteltu” published on 02/12/2023 at 8:26 pm

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res.**

The share is still correctly priced

We reiterate our EUR 46 target price and Reduce recommendation for Sampo. The Q4 result was a disappointment to the market as non-recurring items depressed the result and If's result was soft. The Q4 report does not change the big picture, however. We revised our estimates upward slightly thanks to investment income that rose with interest levels but our view of the sum of the parts remains unchanged. The share still seems quite correctly priced and the expected return still relies mainly on dividends, which does not provide a sufficient risk/return ratio.

A clear earnings disappointment for a change

Sampo's Q4 result was EUR 390 million which was clearly below our and the consensus expectation of EUR ~550 million. The exceptional underperformance by Sampo's standards is explained by non-recurring items and lower than expected investment income for Mandatum. If's result at EUR 285 million was well in line with market expectations. However, the result was significantly supported by a big change in the discount rate and considering this the underlying technical result was soft. We also believe this is the main reason for the big share price drop on Friday. In the earnings call, the company assured that there were no changes to the competitive situation. If's currency neutral growth was nearly 8%, which is an excellent performance in a slowing economic environment.

Against expectations, Sampo did not provide new information on Mandatum's listing and said it would return to the issue toward the end of Q1. We still find it highly likely that Mandatum will be listed on the stock exchange and believe that Sampo's comments also pointed in this direction. Sampo raised its basic dividend slightly less than we expected (EUR 1.80 vs. 1.85) and the extra dividend was also lower than we expected (EUR 0.8 vs. 1.0). As expected, the company announced a new share buyback program of EUR 400 million.

No major changes in estimates

We have made only minor upward revisions to our estimates, mainly thanks to higher investment income due to rising interest rates. We estimate that Sampo's normal earnings level under the current structure is EUR 2.4-2.6 per share. EPS will grow slowly with the current structure, driven by a slight increase in operating profit and a declining number of shares. Given the fierce performance of the businesses (and especially If), there is no reason to expect major corrections at this level. We continue to see a risk of deterioration in the earnings mix as rising investment income raises the likelihood of a declining technical result as competitive pressure increases. In terms of unwinding the balance sheet the company clearly stated in connection with Q4 that the remaining excess capital (EUR ~2 per share) is tied to PE investments and its repayment is linked to exiting these PE investments.

The share is correctly priced

Our view on Sampo's sum of parts has remained unchanged at around EUR 46.0 and we haven't made any material changes to our view concerning the values of individual parts. The share price is in line with the sum of the parts and we believe the share is correctly priced. The share's earnings-based valuation is starting to look quite pricey (P/E 2022-2024 17-20x), and the valuation is well in line with key peers in both absolute and relative terms. In our view, the expected return on the share relies heavily on dividend yield, which is over 5% on average for the next few years. We no longer consider this to be sufficient compensation, especially as investors are also bearing the risk of falling multiples as interest rates rise.

Recommendation

Reduce

(previous Reduce)

EUR 46.00

(previous EUR 46.00)

Share price:

45.50



Key figures

	2022	2023e	2024e	2025e
PTP	1863	1747	1820	1835
growth-%	-41%	-6%	4%	1%
Net Income	1427	1264	1317	1326
EPS (adj.)	2.43	2.49	2.65	2.70
Dividend/share	2.60	2.90	2.00	2.10

P/E (adj.)	20.1	18.3	17.2	16.9
P/B	2.8	2.6	2.6	2.5
Dividend yield-%	5.3 %	6.4 %	4.3 %	4.5 %
Dividend/result-%	107%	117%	75%	80%

Source: Inderes

Guidance

(New guidance)

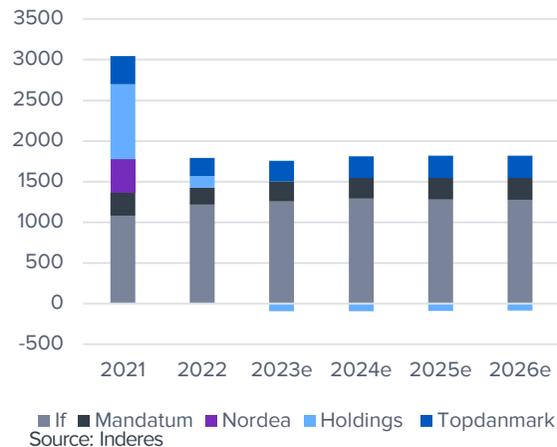
Sampo Group's P&C insurance operations are expected to achieve underwriting margins that meet the annual targets set for 2021–2023. At Group level, Sampo targets a combined ratio of below 86%, while the target for its largest subsidiary, If is below 85%. Hastings targets an operating ratio of below 88%.

Share price



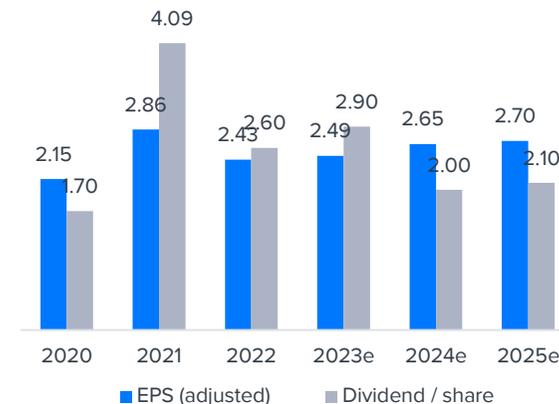
Source: Millistream Market Data AB

Sampo's PTP breakdown (MEUR)



Legend: If, Mandatum, Nordea, Holdings, Topdanmark
Source: Inderes

EPS and dividend



Source: Inderes



Value drivers

- Profitable growth in insurance activities
- Capital released from non-core business activities
- Higher interest rates would improve investment income
- Topdanmark acquisition
- Other M&A transactions



Risk factors

- Rising interest rates could weaken technical results and depress insurance companies' acceptable multiples
- Tightening competition in the Nordic insurance market

Valuation	2023e	2024e	2025e
Share price	45.5	45.5	45.5
Number of shares, millions	508.3	496.7	502.5
Market cap	22854	22854	22854
P/E (adj.)	18.3	17.2	17.2
P/E	18.3	17.2	17.2
P/B	2.6	2.6	2.5
Payout ratio (%)	115.3%	74.6%	79.5%
Dividend yield-%	6.4%	4.4%	4.6%

Source: Inderes

Underperformance largely explained by non-recurring income

Sampo's Q4 result was EUR 390 million which was clearly below our and the consensus expectation of EUR ~550 million. The exceptional underperformance by Sampo's standards was explained the write-down from the Nordax holding (-37 MEUR) and the smaller than expected recognition of the sales gain from Topdanmark's life insurance company in Sampo's own result (some -60 MEUR). Both items are purely accounting based and have no relevance for investors. The remainder of the underperformance is explained by Mandatum's weaker-than-expected investment income.

If's result was soft

If's result at EUR 285 million was well in line with market expectations. The result was clearly supported by the big change in the Finnish discount rate (+218 MEUR) and without this and the considerable claims provision (-123 MEUR) the technical result would have been soft. We also

believe this is the main reason for the big share price drop on Friday. In the earnings call, the company assured that there were no changes to the competitive situation. The reported combined ratio was 81.7% and well in line with expectations but, as mentioned, the underlying development was soft. If's currency neutral growth was nearly 8% and an excellent performance.

Hastings' result was subdued due to the continued challenging market situation.

More information on Mandatum in late Q1

Mandatum's result underperformed clearly in terms of investments and the risk result was also weaker than expected. However, this has no significance for Mandatum's big picture. Against expectations, Sampo did not provide new information on Mandatum's listing and said it would return to the issue toward the end of Q1. We still find it highly likely

that Mandatum will be listed on the stock exchange and Sampo's comments also pointed in this direction.

Profit distribution roughly in line with expectations

Sampo raised its basic dividend slightly less than we expected (EUR 1.80 vs. 1.85) and the extra dividend was also lower than we expected (EUR 0.8 vs. 1.0). As expected, the company announced a new share buyback program of EUR 400 million. The company stated clearly in connection with Q4 that the remaining excess capital (EUR ~2 per share) is tied to PE investments and thus emptying of the balance sheet is slowly coming to an end.

Sampo's solvency adjusted for profit distribution was 210% and well in line with our expectations. The company's balance sheet is very strong as its solvency 2 target is 170–190%.

Estimates MEUR / EUR	Q4'21	Q4'22	Q4'22e	Q4'22e	Consensus		Difference (%)	2022
	Comparison	Actualized	Inderes	Consensus	Low	High	Act. vs. Inderes	Actualized
PTP	1198	390	549	553	355	- 647	-29 %	1863
If	259	285	275	285	236	- 345	4 %	1217
Mandatum	90	18	86	70	60	- 86	-79 %	207
Hastings	12	7	23	13	-6	- 29	-70 %	73
Holdings	747	-48	-26	-1	-26	- 136	85 %	146
Topdanmark	90	128	191	186	49	- 277	-33 %	220
EPS (reported)	1.89	0.50	0.64	0.69	0.34	- 1.06	-22 %	2.43
Dividend/share	4.10	2.60	2.84	2.94			-8 %	2.60

Source: Inderes & Vara (consensus)

Cautious guidance raised and Topdanmark acquisitions continue

Guidance was cautious

Sampo's guidance is that the Group's combined ratio is below 86%, If's below 85% and Hastings' below 88%. If's guidance sounds very conservative (consensus estimate for 2023 prior to Q4 result was 81.6%) but it should be noted that Sampo issued a similar guidance also in 2022 and 2021. We had, however, thought that 2021 and 2022 were still so-called COVID years and a very cautious guidance was justified then. It is difficult to come up with similar justifications for 2023.

We believe this is purely a matter of caution and the company will revise its guidance for the combined ratio downward as the year progresses. In the conference call the company stated that it has not seen any significant changes in the competitive situation on the market.

Topdanmark acquisitions continued

Against our expectations, Sampo acquired a small number of Topdanmark shares (some 150,000) during the review period. Even though the amount was small and insignificant in terms of the price we feel it had a symbolic value. It indicates that Sampo sees the Q4 share price level (DKK 340-370) as a justified level to increase its holding in Topdanmark. We still believe that Sampo will eventually acquire Topdanmark one way or another, as Topdanmark would offer Sampo significant synergies that justify the transaction even at absolutely high multiples.

Watch Sampo's earnings call:



Watch the CEO's interview:



Estimate changes

Estimate changes:

- We made numerous revisions to our estimates at segment level and at Group level our estimates rose by 2-4%.
- For If we revised our estimates upward for investment income as the interest rate level continues rising. We still reiterate our cautious view on the development of the technical result.
- We revised our estimates for Hastings downward due to the subdued development and difficult market situation.
- Topdanmark's estimates were cut due to the lower consensus.
- We have taken a slightly more cautious approach to the growth of the basic dividend and now expect EUR 0.10 fat rate increases for the next few years.
- We kept our estimate of extra profit distribution unchanged and expect an extra dividend of EUR 1 per share in spring 2024 and a new share buyback program of EUR 500 million. We point out that this profit distribution is at least partly dependent on exits from PE investments.

Operational earnings drivers:

- Sampo's performance has continued to improve due to higher earnings estimates and a decrease in the number of shares (buybacks). We believe the company's normal performance with the current structure is EUR 2.4– 2.6 per share (incl. Mandatum). This level is growing steadily driven by operational earnings growth and share buybacks, but there is no reason to expect higher level corrections.
- Following extra dividends and rearrangement of the balance sheet, Sampo's dividend capacity is very close to its EPS level.
- In our view, the key concern in terms of performance is the technical result, now that interest rates are rising. We are skeptical about a situation where the recovery in investment income from rising interest rates would fully benefit companies in the sector and their earnings levels would thus again make an upward adjustment. Although a possible change in the earnings mix would hardly be reflected in the absolute earnings level, it would put pressure on the sector's elevated valuation multiples by reducing the predictability of earnings. However, in the big picture, we believe the sector has entered a period of permanently lower combined ratios and a return to the combined ratios of a decade ago is not to be expected.

Estimate revisions	2022e	2022	Change	2023e	2023e	Change	2024e	2024e	Change
MEUR / EUR	Old	Act	%	Old	New	%	Old	New	%
EBIT (exc. NRIs)	1750	1725	-1%	1676	1747	4%	1737	1820	5%
EBIT	1853	1863	1%	1676	1747	4%	1737	1820	5%
If	1184	1217	3%	1168	1258	8%	1238	1290	4%
Mandatum	255	207	-19%	256	246	-4%	265	255	-4%
Holdings	173	146	-16%	-74	-93	26%	-93	-92	-1%
Topdanmark	187	220	18%	261	251	-4%	271	265	-2%
Hastings	88	73	-17%	93	85	-9%	106	101	-5%
PTP	1853	1863	1%	1676	1747	4%	1737	1820	5%
EPS (adjusted)	2.56	2.43	-5%	2.40	2.49	4%	2.59	2.65	2%
Dividend / share	2.84	2.60	-8%	3.01	2.90	-4%	2.10	2.00	-5%

Source: Inderes

The share is correctly priced

The sum of the parts remains unchanged

Our view of Sampo's sum of the parts has remained unchanged at around EUR 46. We only made marginal estimate changes. If's earnings estimates rising did not affect our view of its value as 1) the multiples of peers have fallen, and 2) the estimate increase came purely from investment income. The value still relies heavily on If, which accounts for around 70% of the total Group value. Drivers for higher than the current sum of the parts would be:

- Organic profit growth in insurance activities
- Synergies arising from Topdanmark acquisition
- Successful PE exits
- Other M&A transactions

In terms of earnings growth, we do not see a realistic path to significant earnings leap and the company's targets also indicate this. Thus, it is difficult for us to see a significant further increase in the share price from current levels without considerable new acquisitions, which are currently not on the company's agenda (excluding a possible subsequent takeover bid for Topdanmark).

Earnings-based valuation is neutral

The share's earnings-based valuation is starting to look quite expensive (P/E 2022-2024 17-20x), especially given the elevated interest rates that depress acceptable valuations across the board. In relative terms, Sampo is also priced in line with its main peers (Tryg & Gjensidige). As we believe that certain parts of Sampo (Mandatum & Hastings) should justifiably be valued below the multiples of high-quality Nordic insurance companies, the market

currently gives If a premium valuation relative to key peers. We believe this is justified as the company is undisputedly the best insurance company in the Nordic countries. However, it's difficult for us to come up with a justification for pricing Sampo as a whole at a premium to its peers and the valuation seems tight also in this respect.

We note that while we consider the separation of Mandatum to a listed company a smart strategic move, we do not expect it to raise Sampo's current valuation level, which is already in line with key peers. If Mandatum is sold above its sum of the parts (or correspondingly the price after the listing is above our sum of the parts) it would naturally have a positive impact on our view of the company's value.

Hard to see upside in the share

We expect Sampo's EPS will be around EUR 2.6-2.7 per share in 2024. EPS is clearly supported by share buybacks and the resulting significant reduction in the number of shares. In our view, Sampo's acceptable P/E ratio as a pure insurance company could be around 15-20x, the level at which key peers are also valued. This would mean that Sampo's share price at this stage could be EUR 40-54 at the beginning of 2024. Even examined this way, there is no material upside in the share, and thus the return of Sampo's shareholders in the coming years depends primarily on the dividend stream paid by the company, which will be copious as the basic dividend grows and capital is unwound. We no longer consider this to be sufficient compensation, especially as investors are also bearing the risk of falling multiples as interest rates rise.

Valuation level	2023e	2024e	2025e
Share price	45.5	45.5	45.5
Number of shares, million	508.3	496.7	502.5
Market cap	22854	22854	22854
P/E (adj.)	18.3	17.2	17.2
P/E	18.3	17.2	17.2
P/B	2.6	2.6	2.5
Dividend/result (%)	115.3 %	76.3 %	79.5 %
Dividend yield%	6.4 %	4.4 %	4.6 %

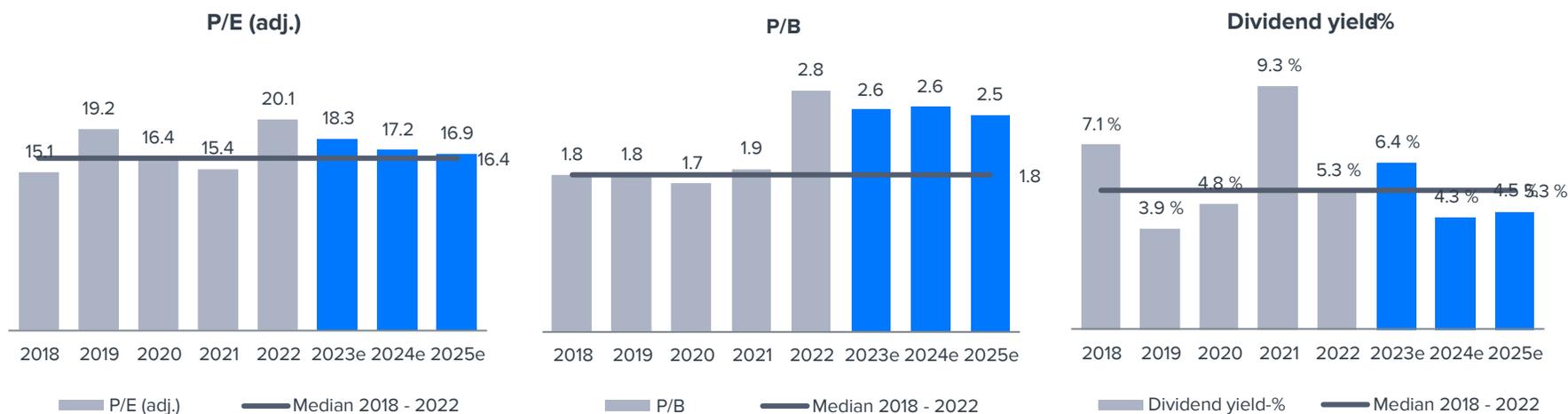
Source: Inderes

Sum of the parts	New	Old
If	16500	16500
Mandatum	2356	2472
Topdanmark	2163	2097
Hastings	1800	2000
Net debt (incl. other investments)	878	717
Total (MEUR)	23698	24333
Per share (EUR)	46.1	45.8

Valuation table

Valuation	2018	2019	2020	2021	2022	2023e	2024e	2025e	2026e
Share price	40.4	38.9	35.3	44.1	48.8	45.5	45.5	45.5	45.5
Number of shares, millions	556.6	556.6	556.6	554.3	530.3	508.3	496.7	502.5	502.5
Market cap	22436	21609	19593	24109	25108	22854	22854	22854	22854
P/E (adj.)	15.1	19.2	16.4	15.4	20.1	18.3	17.2	17.2	17.1
P/E	13.3	19.2	>100	9.5	18.1	18.3	17.2	17.2	17.1
P/B	1.8	1.8	1.7	1.9	2.8	2.6	2.6	2.5	2.4
Payout ratio (%)	93.8 %	73.7 %	2484.5 %	87.3 %	93.7 %	115.3 %	76.3 %	79.5 %	90.0 %
Dividend yield-%	7.1 %	3.9 %	4.8 %	9.3 %	5.3 %	6.4 %	4.4 %	4.6 %	5.3 %

Source: Inderes



Peer group valuation

Peer group valuation Company	Market cap MEUR	P/E		Dividend yield-%		P/B
		2023e	2024e	2023e	2024e	2023e
Tryg	13863	18.9	17.1	5.0	5.5	2.4
Gjensidige	8505	16.2	15.3	4.9	5.1	3.6
Topdanmark	4537	23.6	22.5	4.2	4.5	9.4
ALM	2692	21.9	17.1	5.4	6.8	1.4
Storebrand	3696	11.8	10.0	4.7	5.1	1.0
Admiral	7740	16.8	15.2	5.7	6.2	5.6
Direct Line	2727	9.0	6.7	9.8	10.9	1.0
Zurich Insurance Group	65848	11.8	11.1	6.3	6.7	2.2
Allianz	89132	9.3	8.5	5.5	5.9	1.5
Assicurazioni Generali	28912	9.0	8.4	6.5	6.9	1.3
Sampo (Inderes)	22371	17.9	16.8	6.5	4.5	2.5
Average		14.8	13.2	5.8	6.3	2.9
Median		14.0	13.2	5.4	6.0	1.8
Diff-% to median		28%	28%	20%	-26%	37%

Source: Refinitiv / Inderes. NB: The market cap Inderes uses does not consider own shares held by the company.

Income statement

Income statement	2021	Q1'22	Q2'22	Q3'22	Q4'22	2022	Q1'23e	Q2'23e	Q3'23e	Q4'23e	2023e	2024e	2025e	2026e
Vakuutusmaksutulo	9746	3342	2703	2401	2280	10726	2438	2346	2378	2423	9586	9984	10349	10556
If	4855	1750	1517	1081	1253	5601	1277	1316	1344	1316	5252	5410	5572	5683
Mandatum	1367	480	301	248	362	1391	518	325	268	391	1502	1577	1656	1689
Topdanmark	2694	961	574	549	337	2421	341	341	348	356	1387	1437	1437	1465
Hastings	830	151	311	523	328	1313	301	364	418	361	1444	1560	1685	1718
EBIT (excl. NRI)	2190	538	425	406	356	1725	409	438	464	436	1747	1820	1829	1795
EBIT	3172	566	500	406	391	1863	409	438	464	436	1747	1820	1829	1795
If	1077	283	379	270	285	1217	310	319	325	305	1258	1290	1282	966
Mandatum	291	80	36	73	18	207	57	58	64	67	246	255	265	287
Holdings	922	164	39	-9	-48	146	-23	-21	-23	-26	-93	-92	-89	0
Topdanmark	346	37	23	32	128	220	54	54	67	77	251	265	265	249
Hastings	127	2	23	40	8	73	11	29	31	14	85	101	106	292
PTP	3172	566	500	406	391	1863	409	438	464	436	1747	1820	1829	1795
Taxes	-423	-84	-86	-86	-67	-322	-90	-96	-102	-96	-384	-400	-402	-395
Minority interest	-181	-16	-16	-14	-69	-114	-21	-21	-26	-30	-99	-102	-105	-108
Net earnings	2568	467	399	306	255	1427	298	321	336	310	1264	1317	1322	1291
EPS (adj.)	2.86	0.81	0.61	0.58	0.41	2.43	0.59	0.63	0.66	0.61	2.49	2.65	2.63	2.57
EPS (rep.)	4.63	0.86	0.75	0.58	0.48	2.69	0.59	0.63	0.66	0.61	2.49	2.65	2.63	2.57

Balance sheet

Assets	2021	2022	2023e	2024e	2025e
Non-current assets	50970	33447	33469	33507	33545
Goodwill	0.0	0.0	0.0	0.0	0.0
Intangible assets	3794	3494	3529	3564	3599
Tangible assets	375	355	358	361	364
Associated companies	777	16.0	0.0	0.0	0.0
Other investments	26274	19635	19635	19635	19635
Other non-current assets	19711	9930	9930	9930	9930
Deferred tax assets	39.0	17.0	17.0	17.0	17.0
Current assets	10091	8587	8492	8314	8593
Inventories	0.0	0.0	0.0	0.0	0.0
Other current assets	2977	2272	2272	2272	2272
Receivables	2295	3242	2876	2995	3105
Cash and equivalents	4819	3073	3344	3047	3216
Balance sheet total	61061	42034	41961	41821	42138

Source: Inderes

Liabilities & equity	2021	2022	2023e	2024e	2025e
Equity	13464	9543	9470	9330	9674
Share capital	98.0	98.0	98.0	98.0	98.0
Retained earnings	9952	7784	7711	7571	7888
Hybrid bonds	0.0	0.0	0.0	0.0	0.0
Revaluation reserve	0.0	0.0	0.0	0.0	0.0
Other equity	2738	1087	1087	1087	1087
Minorities	676	574	574	574	574
Non-current liabilities	45129	30435	30435	30435	30435
Deferred tax liabilities	855	514	514	514	514
Provisions	9.0	6.0	6.0	6.0	6.0
Long term debt	4346	0.0	0.0	0.0	0.0
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	39919	29915	29915	29915	29915
Current liabilities	2468	2056	2056	2056	2056
Short term debt	0.0	0.0	0.0	0.0	0.0
Payables	0.0	0.0	0.0	0.0	0.0
Other current liabilities	2468	2056	2056	2056	2056
Balance sheet total	61061	42034	41961	41821	42138

Summary

Income statement	2020	2021	2022	2023e	2024e	Per share data	2020	2021	2022	2023e	2024e
Premium income	8412	9746	10726	9586	9984	EPS (reported)	0.07	4.63	2.69	2.49	2.65
PTP	380	3172	1863	1747	1820	EPS (adj.)	2.15	2.86	2.43	2.49	2.65
Net profit	38	2568	1427	1264	1317	Dividend / share	1.70	4.10	2.60	2.90	2.00
Extraordinary items	-1161	982	138	0	0	Book value / share	20.5	23.1	16.9	17.5	17.6
Balance sheet	2020	2021	2022	2023e	2024e	If tunnusluvut	2020	2021	2022	2023e	2024e
Balance sheet total	56529	61061	42034	41961	41821	Premium income	4589	4772	5002	5252	5410
Equity capital	12258	13464	9543	9470	9330	Premium income growth-%	4.6 %	6.0 %	4.8 %	5.0 %	3.0 %
ROE-%	0.3 %	21.2 %	13.1 %	14.1 %	14.9 %	Investment income	90	174	230	329	350
						Combined ratio-%	82.1 %	81.3 %	80.3 %	82.5 %	82.8 %
						Risk ratio-%	60.7 %	59.9 %	59.2 %	61.5 %	62.0 %
						Cost ratio-%	21.5 %	21.4 %	21.1 %	21.0 %	20.8 %

Source: Inderes

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Accumulate	The 12-month risk-adjusted expected shareholder return of the share is attractive
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Recommendation history (>12 mo)

Date	Recommendation	Target price	Share price
17-03-20	Buy	30.00 €	23.83 €
30-04-20	Buy	34.00 €	30.85 €
07-05-20	Accumulate	33.00 €	30.40 €
16-06-20	Buy	34.00 €	30.40 €
06-08-20	Buy	35.00 €	30.30 €
09-10-20	Buy	38.00 €	35.20 €
05-11-20	Buy	38.00 €	34.14 €
20-01-21	Buy	38.00 €	35.28 €
12-02-21	Buy	41.00 €	36.04 €
25-02-21	Buy	41.00 €	36.95 €
07-04-21	Buy	43.00 €	39.23 €
06-05-21	Buy	44.00 €	39.85 €
05-08-21	Buy	45.00 €	42.39 €
24-09-21	Buy	46.00 €	43.35 €
04-11-21	Accumulate	48.00 €	46.73 €
09-12-21	Accumulate	48.00 €	44.09 €
10-02-22	Accumulate	49.00 €	45.35 €
05-05-22	Accumulate	48.00 €	45.85 €
23-05-22	Accumulate	44.00 €	41.76 €
04-08-22	Accumulate	46.00 €	43.71 €
27-10-22	Reduce	46.00 €	46.67 €
03-11-22	Reduce	46.00 €	44.32 €
13-02-23	Reduce	46.00 €	45.50 €



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