Milan, 19 February 2024

Italian Equity Research – FY23 Results/Company Update

UNIPOL

OUTPERFORM

Sector: Insurance

Price: Eu6.95 - **Target: Eu8.50**

Collapse of the Chain: Here It Comes!

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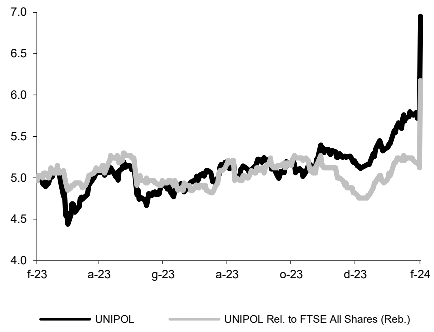
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			from 6.00 to 8.50
	2024E	**2025E**	**2026E**
Chg in Adj EPS	32.5%		

Next Event: BoD for approval of final FY23 results on March 21, 2024

UNIPOL - 12M Performance



Stock Data			
Reuters code:			UNPI.MI
Bloomberg code:			UNI IM
Performance	**1M**	**3M**	**12M**
Absolute	29.5%	31.1%	39.9%
Relative	25.1%	22.5%	27.4%
12M (H/L)			6.95/4.44
3M Average Volume (th):			1,716.11

Shareholder Data	
No. of Ord shares (mn):	718
Total no. of shares (mn):	722
Mkt Cap Ord (Eu mn):	4,995
Total Mkt Cap (Eu mn):	4,995
Mkt Float - Ord (Eu mn):	2,563
Mkt Float (in %):	51.3%
Main Shareholder:	
Coop Alleanza 3.0 SC	22.2%

Balance Sheet Data	
Book Value (Eu mn):	9,609
BVPS (Eu):	13.39
Solvency II (%):	198.7%

- **Collapse of the control chain finally announced.** Unipol has announced the plan to merge Unipol Group and Unipol SAI to create a combined entity called Unipol Assicurazioni. Unipol SAI minorities (14.79%) are invited either to tender the shares to the upcoming VTO at €2.7ps (cum dividend) cash or opt for an exchange ratio of 3 Unipol group shares per 10 Unipol SAI shares owned. The merger is expected to be completed by 4Q24 while the VTO will likely be completed before the dividend payment. The cash-out in the event of full tender to the VTO equates to €1.1bn and will be financed using available liquidity at holding level. At the current stock prices, Unipol SAI shareholders are expected to tender the shares to the cash offer as options will become neutral at a Unipol group stock price of €9.0ps.
- **Why now?** We've been vocal about the deal for long time but not expecting it to happen in the s/t: the timing could anticipate BoD renewal in Spring 2025 and a new strategic plan to follow. Unipol management indicated that the decision for proposing the merger is mostly linked to two factors: 1) there are no real M&A options at the moment that could justify keeping the operating company separate to avoid dilution of shareholders in the event of capital increases; 2) rising yields could be a future burden for Unipol as a holding in the event of needing to issue bonds to refinance outstanding debt.
- **Implications for Unipol shareholders.** We are adjusting the Unipol model to include the expected effects from the deal: 1) wipe-out of Unipol SAI minorities; 2) a cost of financing of the deal expected at ~4% on €1.1bn considering the return expected from cash management; 3) a decrease in holding costs of roughly €10/15mn per annum; 4) Solvency 2 is expected to remain at ~200% for a VTO and slightly below for exchange ratio; 4) tax benefit of €167mn in 2024 expected.
- **How we should look at Unipol in the future.** Unipol spiked after the deal announcement but is still trading at a ~20% discount to its assets. For the time being, the Unipol SAI share price will be capped at around the cash offer of €2.7ps. The big question mark for investors is if the deal will allow Unipol to be looked at as a regular multiline insurance company or still deserve holding status considering the BPER and BPSO stakes. We are of the opinion that over time the NAV view will not make sense anymore while a discount on peers' multiples is reasonable and deserved given: (i) the lack of geographical diversification; (ii) the small contribution from the life segment, mostly dependent on bancassurance; (iii) the as yet unseen future dividend policy of the combined entity; (iv) the presence of large banking stakes with management not excluding taking part in sector consolidation.
- **Stock still cheap with value recognition expected in due course. OUTPERFORM confirmed, TP to Eu8.5ps.** We think the deal is value accretive on many fronts and will enable the new Unipol Assicurazioni to trade at multiples more aligned to its fundamental fair value. Operating delivery will be important and 2024 should mark an improvement compared to a tough 2023 for P&C. We applied a 30% discount to average sector P/E multiples to derive the new price target of €8.5ps, at a slight discount to the new NAV pending the new dividend policy.

Key Figures & Ratios	2022A	2023A	2024E	2025E	2026E
Total Net Premiums (Eu mn)	13,645	15,060	15,895	16,769	17,650
Total Net Income (Eu mn)	13,810	16,207	16,916	17,788	18,694
Operating Profit (Eu mn)	1,240	999	1,149	1,174	1,187
Net Profit Adj (Eu mn)	583	834	902	931	939
EPS New Adj (Eu)	0.813	1.162	1.257	1.298	1.309
EPS Old Adj (Eu)	0.695	0.836	0.949		
DPS (Eu)	0.370	0.380	0.400	0.470	0.500
P/E Adj	8.6	6.0	5.5	5.4	5.3
Div. Yield	5.3%	5.5%	5.8%	6.8%	7.2%
P/BVPS	0.6	0.5	0.5	0.5	0.5

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The main methods used to evaluate financial instruments and set a target price for 12 months after the investment recommendation are as follows:
- Discounted cash flow (DCF) model or similar methods such as a dividend discount model (DDM)
- Comparison with market peers, using the most appropriate methods for the individual company analysed: among the main ratios used for industrial sectors are price/ earnings (P/E), EV/EBITDA, EV/EBIT, price /sales.
- Return on capital and multiples of adjusted net book value are the main methods used for banking sector stocks, while for insurance sector stocks return on allocated capital and multiples on net book value and embedded portfolio value are used
- For the utilities sector comparisons are made between expected returns and the return on the regulatory asset base (RAB)

Some of the parameters used in evaluations, such as the risk-free rate and risk premium, are the same for all companies covered, and are updated to reflect market conditions. Currently a risk-free rate of 4.0% and a risk premium of 5.5% are being used.
Frequency of research: quarterly.
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A draft copy of each report may be sent to the subject company for its information (without target price and/or recommendations), but unless expressly stated in the text of the report, no changes are made before it is published.
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BUY: stock expected to outperform the market by over 25% over a 12 month period;
OUTPERFORM: stock expected to outperform the market by between 10% and 25% over a 12 month period;
NEUTRAL: stock performance expected at between +10% and – 10% compared to the market over a 12 month period;
UNDERPERFORM: stock expected to underperform the market by between –10% and -25% over a 12 month period;
SELL: stock expected to underperform the market by over 25% over a 12 month period.
Prices: The prices reported in the research refer to the price at the close of the previous day of trading

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OUTPERFORM:	47.15 %
NEUTRAL:	26.02 %
UNDERPERFORM	00.81 %
SELL:	00.00 %

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OUTPERFORM:	51.02 %
NEUTRAL:	10.20 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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Emittente	%	Long/Short

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