

Zurich Insurance Group Ltd

Europe Satellite*

Recommended since

27.01.2016

24.05.2022



Country	CH	Market capitalization (bn)	CHF	66.2	Perf. since reco. (%)	
Sector	Insurance	Free float	98.4%	Zurich Insurance Group Ltd	95.5	
Factset	ZURN-CH	Closing price	CHF	440.00	Sector	19.3
ISIN	CH0011075394	ESG Risk score*	18.1	Low risk		

Profile

Zurich Insurance Group (ZURN) is one of the world's leading insurance groups. The group also acts as administrator for US personal insurer Farmers Exchanges group, with Zurich owning the Farmers Group administrative and management companies. ZURN operates in the following segments: property and casualty (P&C) insurance (47% of group operating profit), life insurance (24%) and Farmers (28%). Founded in 1872, Zurich has a presence in more than 210 countries and employs 54,000 people.

Strengths/opportunities

- Favourable pricing cycle -> potential to improve profitability of non-life portfolio.
- Farmers business based on recurring fee income.
- Balance sheet stronger than sector average.

Weaknesses/threats

- Low interest rates -> pressure on investment income.
- Sensitivity to a rise in CHF / USD (dividend risk).

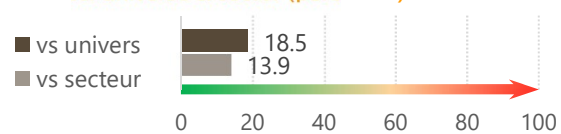
Investment case

- Zurich is an insurer that is highly diversified, both geographically and by business line, ensuring a healthy degree of risk diversification.
- For the past four years, management has been prioritising profitability over volumes. The P&C portfolio has been considerably restructured in favour of less volatile policies that consume less capital. This has substantially benefited the group's profile, with more stable profits and improved profitability.
- The group's business is highly cash-generative. Over the past eight years, 94% of net earnings have been remitted to group in the form of cash dividends. Farmers alone, with its very stable business, accounts for 30% of this cash generation.
- The current environment is very favourable for premium rates on US non-life business, with double-digit hikes in the hardest hit industry sectors. This increase in premium rates will be positively reflected in the technical result thanks to an expected increase > expected claims inflation.

Valuation

Zurich is trading at a premium to the sector in recognition of its strong balance sheet and more secure dividend. The 30% premium based on 2023^e earnings is consistent with an RoE 30% above the sector.

ESG risk vs. universe & sector (percentile)*



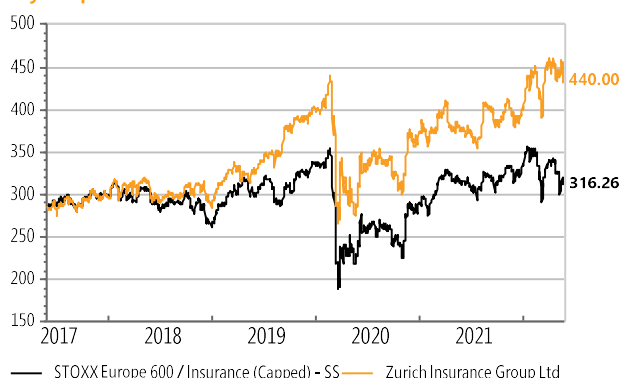
USD	12/2021	2022e	2023e
Sales revenue (mio)	69'591	57'578	59'950
Sales growth	18.5%	-17.3%	4.1%
EBIT adjusted (mio)	5'742	7'193	7'826
% of sales	8.3%	12.5%	13.1%
Net income (mio)	5'202	5'370	5'850
Net income growth	35.7%	3.2%	8.9%
Combined ratio	94.3%	91.9%	91.5%
ROE	13.4%	14.1%	14.7%
Dividend yield	4.6%	5.4%	5.8%
PE	12.5x	12.9x	11.8x
P/BV	1.7x	1.8x	1.7x

Factset estimates

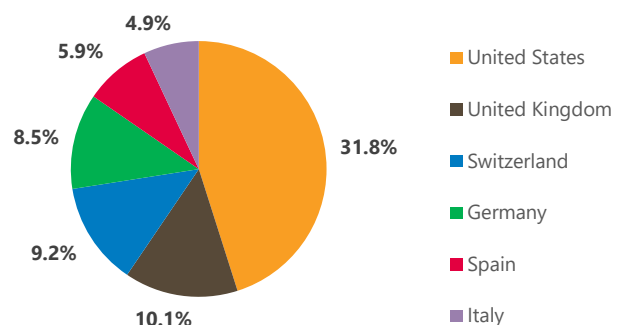
ESG - risks and key points

- ZURN's risk exposure to the economic impact of ESG factors is low thanks to management's sound handling of these issues and very strong governance.
- Data privacy and security are very well managed.
- The group's investments meet high ethical standards. The group has set aside \$5bn for social impact investing.

5-year performance vs sector



Sales breakdown - 12/2021



*: see overleaf

Source: Factset, Sustainalytics

Glossary

Satellite

From 2015, B&Cie separates its investment recommendations into Core Holdings (higher organic growth potential, high free cash flow, ROCE in excess of the cost of capital and balance sheet efficiency throughout the cycle) and Satellite Recommendations, which do not meet the above criteria but are likely to outperform in the short-to-medium term.

ESG Risk Score

At B&Cie, we take particular care to ensure that the companies in which we recommend investing are sustainable. Accordingly, our selection process takes account of risks relating to environmental, social and governance (ESG) issues. This approach is underpinned by research from Sustainalytics, the global leader in ESG and corporate governance analysis, whose methodology aims to identify major controversies and risks and assess a company's ESG risks relative to both its sector and the investment universe as a whole. The corresponding score is expressed as a percentile: the lower the overall risk score, the lower the risk within the investment universe.

b-Digital, b-Transition & b-Well

Over and above the conventional geographical and sectoral approaches to asset management, at B&Cie we believe the world of tomorrow is being shaped by structural trends. We have identified three main megatrends: ongoing digital globalisation of the economy; economic transition, particularly in the energy sector; and the quest for wellness. We believe selecting and investing in companies that play an active role in these transformations should lead to more resilient portfolios that generate higher long-term returns. Our investment recommendations in the digital globalisation space are labelled "b-Digital", those in the economic transition space "b-Transition" and those in the wellness space "b-Well". A given recommendation may fall under more than one theme, in which case it will carry the relevant matching labels.

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