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QBE Insurance Group Ltd (QBE)

Insurance

HOLD

QBE A\$9.30
TARGET PRICE A\$10.17

QBE Insurance Group Ltd is the largest ASX Listed Insurer by both grow written premium and market capitalisation. QBE provides a broad range of insurance products to personal, business, corporate institutional customers. From car and home insurance, to tailored business packages and specialist cover for industries such as aviation and farming.

Company Data

Number of shares	1,470.9M
Market Capitalisation	\$14,635.1M
Free float (%)	99.6
12-month high/low	\$15.13/\$7.32
Average Daily Turnover (\$m)	80.8
% S&P/ASX200	0.78%
DDM Ranking	258
% All Ordinaries	0.67%
GICS Industry Group	Insurance

Source: FactSet, Barclay Pearce Capital

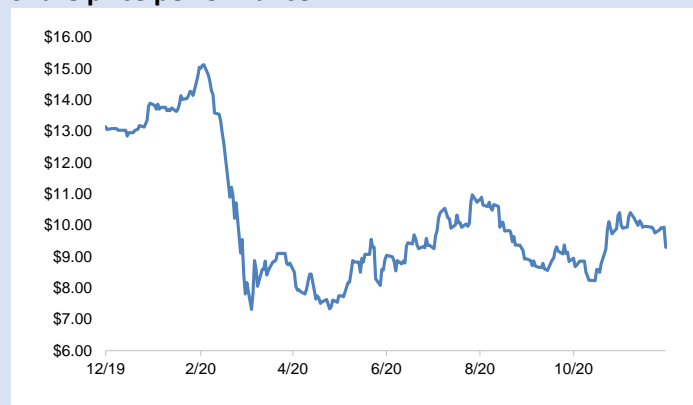
Earnings Summary (AUD)

Year end December	2019A	2020F	2021F	2022F
Revenue (\$M)	17,289.5	15,229.1	16,355.3	16,020.3
EBITDA (\$M)	1,459.5	-297.4	1,426.8	1,715.6
Reported NPAT (\$M)	926.4	-1,500.0	932.4	1,072.1
Adjusted NPAT (\$M)	1,091.7	-780.0	995.5	1,174.3
Reported EPS (c)	61.8	-41.4	67.7	79.2
Adjusted EPS (c - FD)	72.1	-42.7	65.3	75.5
Adjusted EPS growth (%)	-4.0	-159.3	-252.8	15.7
Adjusted P/E (x)	13.8	-23.3	15.2	13.2
Dividend (c/sh)	54.3	14.6	39.1	47.6
Gross yield (%)	7.8	2.1	5.6	7.2
Net yield (%)	5.5	1.5	3.9	5.0
ROIC (%)	5.6	-4.1	6.4	7.5

Source: Barclay Pearce Capital

Barclay Pearce Capital contributes all company estimates to Thomson Reuters, FactSet and Capital IQ.

Share price performance



Source: FactSet, Barclay Pearce Capital

Update on FY20 Result

On 18 December 2020, QBE Limited (ASX:QBE) announced a trading update for FY20 with the following highlights:

Outlook

- QBE now expects to report a FY20 adjusted net cash loss after tax of \$780M;
- This includes the following pre-tax impacts:
 - \$470M of COVID-19 Costs;
 - \$130M of elevated catastrophe costs;
 - \$360M of prior accident year claims development;
- The expected statutory net loss after tax is \$1.5BN;
- The year-end APRA PCA multiple is expected to be above the midpoint of the Group's 1.6-1.8x target PCA range.

COVID-19

- While the estimated ultimate net cost of COVID-19 is unchanged at \$600M, the net incurred cost in FY20 is now expected to be ~\$470M, up ~\$135M from \$335M reported in 1H20;
- The increase in COVID-19 related costs is primarily due to recognition of ~\$100M of additional net claims costs across trade credit, lenders' mortgage insurance, casualty classes and business interruption.

QBE Interim Group CEO, Richard Pryce stated "While I am very disappointed with the headline statutory loss, I am increasingly confident about the pricing cycle, particularly in the northern hemisphere, and the outlook for the underlying business."

Premium rate momentum accelerated in North America and International during 3Q20 and the FY20 attritional claims ratio is expected to improve further from 45.5% reported in 1H20.

As we move into 2021, my focus remains on ensuring the Group takes full advantage of currently favourable market conditions by locking in margin expansion while driving targeted growth in portfolios and regions offering the most profitable new business opportunities. Our balance sheet remains strong and able to fund expected growth"

Earnings changes

QBE expects to report a FY20 a statutory NPAT of \$1.5b and an adjusted NPAT of \$780m. This compares to market expectations for adjusted NPAT of \$-529m. Hence, we expect negative earnings revisions of 5% for FY21 and future periods.

We are initiating on QBE with a 12-month price target of \$10.17 and a HOLD recommendation. The price target is underpinned by our Valuation.

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Barclay Pearce Capital provides research services to its clients. Mr Wright is General Manager of Research and has over thirty (30) years' experience in the financial services industry, particularly in financial analysis and research report writing. Mr Wright joined the Barclay Pearce team in 2020 where he has been involved in the research and publication of reports. Prior to this Mr Wright worked at a number of entities where he held Director/Head of Research and General Manager of Research positions. Mr Wright holds a Bachelor of Mathematics (Honours) from Edinburgh University and has completed the SDIA Accreditation Program (RG146) through DeakinPrime.

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NR – The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Barclay Pearce Capital policies.

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Barclay Pearce Capital Recommendation Proportions

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