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QBE Insurance Group (QBE)

No progress without change

Recommendation

Buy (unchanged)

Price

\$11.96

Target (12 months)

\$13.20 (previously \$12.00)

GICS Sector

Insurance

Expected Return

Capital growth	10.4%
Dividend yield	4.6%
Total expected return	15.0%

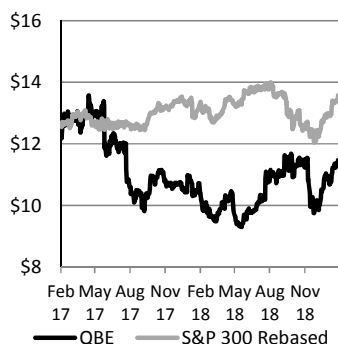
Company Data & Ratios

Enterprise value	n/m
Market cap	\$15,891m
Issued capital	1,329m
Free float	100%
Avg. daily val. (52wk)	\$59.1m
12 month price range	\$9.28 - \$12.11

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	10.97	11.40	10.53
Absolute (%)	4.65	0.70	9.02
Rel market (%)	-0.63	-7.92	5.43

Absolute Price



SOURCE: IRESS

2018: Cash NPAT US\$715m, final dividend A28¢

QBE's 2018 result components are: (1) GWP US\$13.7bn (BP US\$14.1bn), +2.5% pcp; (2) NEP US\$11.6bn (BP US\$11.4bn); (3) COR 95.9% or 95.7% on a continuing basis (BP 95.5%, guidance 95.0-97.0%); (4) net investment yield 2.2% (BP 2.4%, guidance 2.25-2.75%); (5) reported insurance margin 7.1% (BP 7.7%); (6) cash NPAT US\$715m (BP US\$760m, consensus US\$718m); (7) cash EPS US\$0.53 (BP US\$0.56); (8) final ordinary dividend 28A¢ (BP 31A¢), 60% franked; (9) cash ROE ~8.0% (BP 8.1%); and (10) PCA multiple 1.78x (BP 1.69x, target 1.6-1.8x).

This is considered a good result with QBE coming in below the mid-point of its 95-97% COR guidance and at the lower end of its 2.25-2.75% investment return guidance. The latter was due to market volatility in November and December 2018 and the yield would have been ~2.5% (US\$50m higher) if not for this volatility. However, YTD improved returns have more than offset late 2018 market volatility. Core continuing operations performed well on an underlying basis (premium increases from positive price momentum across core markets – average price increase ~5% – in addition to stable retention, and improving attritional claims ratio from further improvements in risk selection and remediation where necessary). 2019 guidance is for 3.0-3.5% investment returns and 94.5-96.5% COR which we think is conservative given current underlying momentum. There is ample surplus capital with PCA at the upper end of the 1.6-1.8x target range and we feel QBE is in a strong position to extend its current A\$1bn three-year program (that will run to 2020).

Price target increased to \$13.20, Buy rating unchanged

Changes to our cash NPAT estimates are not material. However, we have lowered QBE's cost of equity from 11.0% to 10.5% given its strong capital position and good progress in de-risking its portfolio of businesses. In line with rising surplus capital and a strengthened operating outlook in 2019, we have also increased the value of its float. Together with valuation time creep, we have increased the price target by 10% to \$13.20. The Buy rating is maintained based on a 12-month expected TSR of ~15%.

Earnings Forecast

Year end 31 December	2018	2019e	2020e	2021e
NPAT (reported) (US\$m)	390	793	968	1,098
NPAT (cash) (US\$m)	715	852	993	1,123
EPS (cash) (US¢)	53	64	76	87
EPS (cash) growth – US\$ terms (%)	n/m	23%	18%	14%
EPS (cash) (A¢)	70	86	101	115
PER (x)	17.0	13.9	11.8	10.4
P/Book (x)	1.4	1.4	1.4	1.3
P/NTA (x)	2.1	2.1	2.0	1.9
Dividend (A¢)	50	55	65	75
Yield (%)	4.2%	4.6%	5.5%	6.3%
ROE (cash) (%)	8.3%	10.2%	11.6%	12.7%
Insurance margin (%)	7.1%	9.0%	10.1%	11.1%
Franking (%)	46.8%	60.0%	10.0%	10.0%

SOURCE: BELL POTTER SECURITIES ESTIMATES

No progress without change

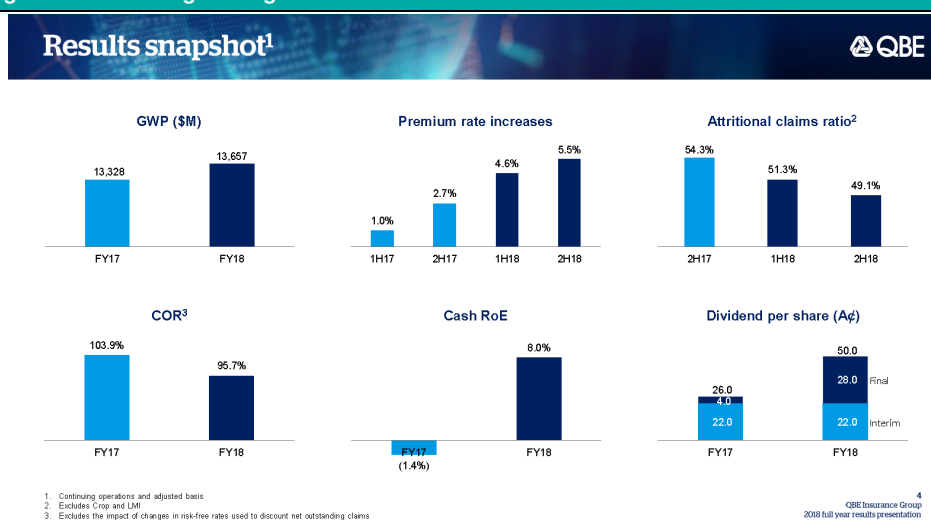
2018: Cash NPAT US\$715m, final dividend A28¢

QBE's 2018 result components are:

1. Gross written premium (GWP) US\$13.7bn (BP US\$14.1bn), +2.5% pcp;
2. Net earned premium (NEP) US\$11.6bn (BP US\$11.4bn);
3. COR 95.9% or 95.7% on a continuing basis (BP 95.5%, guidance 95.0-97.0%);
4. Net investment yield 2.2% (BP 2.4%, guidance 2.25-2.75%);
5. Reported insurance margin 7.1% (BP 7.7%);
6. Reported NPAT US\$390m (BP US\$711m, consensus US\$577m);
7. Cash NPAT US\$715m (BP US\$760m, consensus US\$718m);
8. Cash EPS US\$0.53 (BP US\$0.56);
9. Final ordinary dividend 28A¢ (BP 31A¢), 60% franked;
10. Cash ROE ~8.0% (BP 8.1%);
11. Reserve release 0.8% NEP (BP 1.2%); and
12. Prescribed Capital Amount (PCA) multiple 1.78x (BP 1.69x, target 1.6-1.8x).

This is considered a good result with QBE coming in below the mid-point of its 95-97% COR guidance and at the lower end of its 2.25-2.75% investment return guidance. The latter was due to market volatility in November and December 2018 and the yield would have been ~2.5% (US\$50m higher) if not for this volatility. Improved returns in January and February 2019 have more than offset the lower November and December numbers and this has prompted QBE to increase its investment return guidance to 3.0-3.5% (BP revised forecast ~3%).

Figure 1 – De-risking leading to better COR and ROE...

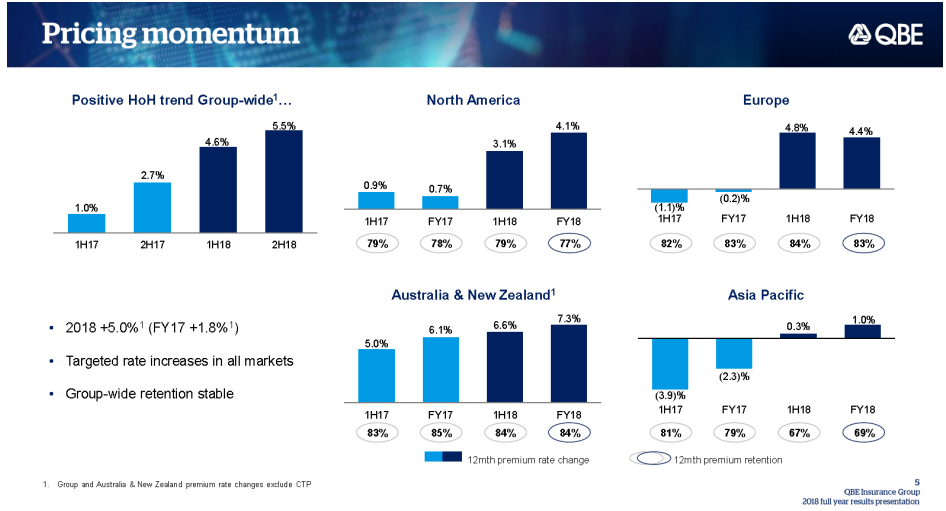


SOURCE: COMPANY DATA

Core continuing operations performed well on an underlying basis (premium increases from positive price momentum in North America, Australia & New Zealand, Europe and Asia Pacific – average price increase ~5% – in addition to stable retention across all

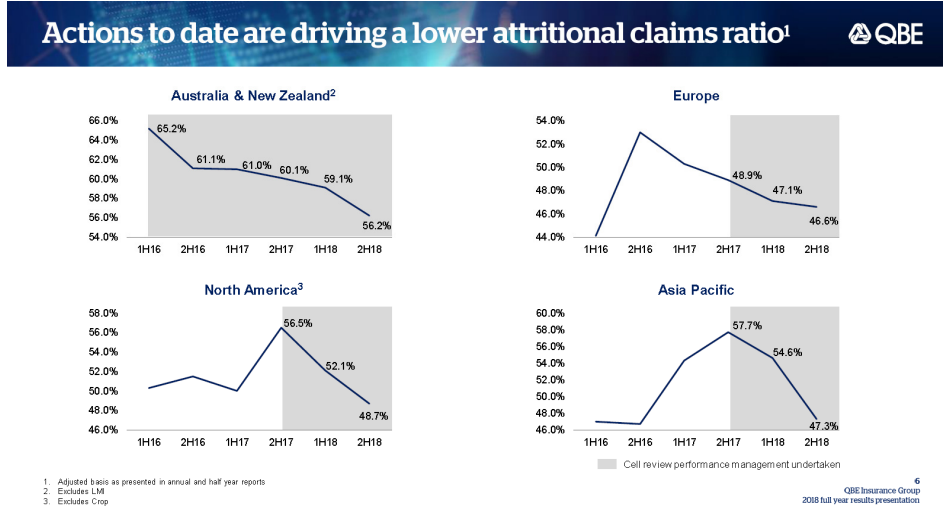
divisions, and improving attritional claims ratio from further improvements in risk selection and remediation where necessary).

Figure 2 – ...across core operations



SOURCE: COMPANY DATA

Figure 3 – Positive trajectory in claims ratio



SOURCE: COMPANY DATA

As expected, there was residual noise in QBE’s 2018 result largely arising from splitting the statutory components across continuing and discontinued operations, and also rebasing the 2017 numbers – thus some caution is warranted when comparing 2018 outcomes with our forecasts. Sticking with QBE’s statutory result, GWP increased by 2.5% (or a healthy +3% constant currency and +4% underlying) to US\$13.7bn. While this was ~3% below our forecast, the variance is largely due to a different starting point in 2017 (actual rebased downwards by \$863m to \$13.3bn).

As we had previously forecast a 1% contraction in GWP, the actual increase of 2.5% represents a material positive variance – and likewise the outcome in NEP. Going straight to the bottom line and in particularly the total divisional result (US\$824m vs. loss of US\$99m in 2017) and cash NPAT (US\$715m vs. loss of US\$262m in 2017), the 6% negative variance was largely due to our underestimation of operating costs (in North America and Asia Pacific) and lower overall investment returns from mark-to-market losses

and equity market volatility in late 2018 – in a way, no surprises when considering the recent experience of IAG and SUN. The difference between reported and cash NPAT is due to amortisation and impairment of intangibles and reclassification of FX translation reserve following the sale of Latin American operations.

Capital position was strong at the end of 2018 (1.78x PCA at the upper end of the 1.6-1.8x target range - maintained) and this enabled QBE to pay a 28A¢ final dividend (~70% cash payout ratio, 60% franked) that is above the target of up to 65% (maintained). QBE expects franking to remain at 60% in 2019 and then fall to 10% in 2020 as profit contributions outside Australia begin to increase. The low effective tax rate of ~12% reflects increased profits in North America, Bermuda and the UK, and recognition of North American DTA.

QBE has returned ~A\$1bn (including dividends) to shareholders in 2017 and 2018 and is on track to complete its three-year share buyback program (up to A\$1bn in total through to 2020 including a target of not more than A\$333m in any calendar year). Upon completion of the buyback program, we believe QBE will embark on further capital management initiatives (i.e. more on-market buybacks) given strong organic capital generation.

With further cell reviews and operational efficiencies (targeting <14% expense ratio by 2021) as well as underwriting and pricing discipline, QBE is targeting 94.5-96.5% COR in 2019 (BP revised forecast ~95%) which we think is conservative given current underlying momentum. We also note QBE’s lower reliance on reserve releases in 2018 (0.8% NEP) that would have also strengthened the market’s perception today of a clean underwriting result. QBE’s focus on core markets, underwriting discipline and simplification initiatives continues to give us cause to be optimistic in the year ahead.

Figure 4 – 2019 guidance



SOURCE: COMPANY DATA

Table 1 – Variance analysis

QBE Y/e December 31 (US\$m)	Variance			2018 guidance	Comments
	2018	BP	to BP		
General Insurance					
Gross written premium (GWP)	13,657	14,052	-3%		Broadly in line with expectations
Less: Gross unearned premium	-56	-106	89%		
Less: Reinsurance expense	-1,961	-2,540	30%		
Net earned premium (NEP)	11,640	11,405	2%		Broadly in line with expectations
Gross claims expense	-7,497	-7,431	-1%		Broadly in line with expectations
Reserve release	92	135	-32%		Much less reliance going forward
Net claims expense	-7,405	-7,296	-1%		Broadly in line with expectations
Commission expense	-1,957	-1,873	-4%		Higher costs in North America and Asia Pacific
Underwriting expense	-1,798	-1,726	-4%		Higher costs in North America and Asia Pacific
Underwriting profit	480	510	-6%		Largely impacted by higher cost outcomes
Investment income on tech. reserves	346	366	-5%		Impacted by mark-to-market losses from higher US Treasury yields and wider credit spreads
Insurance profit	826	876	-6%		Largely impacted by higher cost outcomes and mark-to-market losses
Other	0	0	n/m		
Associates	-2	0	n/m		
Total divisional result	824	876	-6%		Largely impacted by higher cost outcomes and mark-to-market losses
Amortisation and impairment	-80	-45	n/m		Related to intangibles, mainly software
Interest	-305	-270	-12%		Higher funding cost related to repurchase of lower coupon senior debt
Investment income - s'holders' funds	201	236	-15%		Impacted by equity markets volatility in November/December 2018
Other	-13	2	n/m		
Profit before income tax	627	799	-22%		Higher operating and funding costs, lower investment returns
Income tax expense	-72	-86	n/m		11-12% effective tax rate given increased profits in North America and Bermuda
Minority interest & discontinued	-165	-2	n/m		
Reported NPAT	390	711	-45%		Higher operating and funding costs, lower investment returns
Cash NPAT	715	760	-6%		Higher operating and funding costs, lower investment returns
DPS (Acps)	50	53	-5%		~70% cash payout ratio
EPS (cash) (UScps)	53	56	-7%		Higher operating and funding costs, lower investment returns
ROE (cash)	8.3%	8.1%	0.1%		Higher operating and funding costs, lower investment returns
Expense ratio	32.3%	31.6%	-0.7%		Higher costs in North America and Asia Pacific
Loss ratio	64%	64%	0%		Broadly in line with expectations
Combined ratio	95.9%	95.5%	-0.4%	95.0-97.0%	Broadly in line with expectations and guidance
Insurance margin	7.1%	7.7%	-0.6%		Largely due to higher claims and expenses
Net investment yield	2.2%	2.4%	-0.2%	2.25-2.75%	Lower end of guidance

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Price target increased to \$13.20, Buy rating unchanged

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Table 2 – Composite valuation

Composite Valuation (A\$m)	Value	Per share	Weighting	Composite value per share
DCF	20,544	\$15.46	30%	\$4.64
Float plus equity valuation	15,749	\$11.85	30%	\$3.56
ROE (sustainable)	16,209	\$12.20	20%	\$2.44
Sum-of-Parts	16,567	\$12.47	20%	\$2.49
Surplus capital	0	\$0.00		\$0.00
Total				\$13.13

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Table 3 – SOP valuation

SOP Valuation (US\$m)	2020e NPAT	Pros. PE (times)	Value (\$m)	Per share
North American Operations	212	13.0	2,751	\$2.07
Latin American Operations	-	-	-	-
European Operations	206	12.0	2,469	\$1.86
Australian & NZ Operations	302	15.0	4,525	\$3.41
Asia Pacific Operations	36	8.0	290	\$0.22
Equator and other	213	11.0	2,342	\$1.76
Total	968	12.8	12,377	\$9.32
- In A\$ terms	1,296		16,567	\$12.47

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Table 4 – Estimate changes

QBE Y/e December 31 (US\$m)	2018e			2019e			2020e			2021e		
	Current	Previous	Change	Current	Previous	Change	Current	Previous	Change	Current	Previous	Change
Gross written premium (GWP)	13,657	14,052	-3%	13,945	14,653	-5%	14,288	15,124	-6%	14,662	15,610	-6%
Less: Gross unearned premium	-56	-106	89%	-114	-208	82%	-169	-218	29%	-175	-229	31%
Less: Reinsurance expense	-1,961	-2,540	30%	-1,813	-2,435	34%	-1,830	-2,558	40%	-1,870	-2,667	43%
Net earned premium (NEP)	11,640	11,405	2%	12,018	12,010	0%	12,289	12,347	0%	12,617	12,714	-1%
Gross claims expense	-7,497	-7,431	-1%	-7,738	-7,762	0%	-7,911	-7,947	0%	-8,047	-8,084	0%
Reserve release	92	135	-32%	127	161	-21%	150	161	-7%	150	161	-7%
Net claims expense	-7,405	-7,296	-1%	-7,611	-7,601	0%	-7,761	-7,787	0%	-7,896	-7,923	0%
Commission expense	-1,957	-1,873	-4%	-2,007	-1,936	-4%	-2,029	-1,983	-2%	-2,070	-2,033	-2%
Underwriting expense	-1,798	-1,726	-4%	-1,781	-1,771	-1%	-1,745	-1,803	3%	-1,765	-1,835	4%
Underwriting profit	480	510	-6%	619	701	-12%	754	775	-3%	885	924	-4%
Investment income on tech. reserves	346	366	-5%	458	402	14%	490	444	10%	513	467	10%
Insurance profit	826	876	-6%	1,077	1,103	-2%	1,244	1,219	2%	1,399	1,391	1%
Other	0	0	n/m	0	0	n/m	0	0	n/m	0	0	n/m
Associates	-2	0	n/m	-2	0	n/m	-2	0	n/m	-2	0	n/m
Total divisional result	824	876	-6%	1,075	1,103	-3%	1,242	1,219	2%	1,397	1,391	0%
Amortisation and impairment	-80	-45	n/m	-72	-92	n/m	-30	-135	n/m	-30	0	n/m
Interest	-305	-270	-12%	-265	-265	0%	-265	-265	0%	-265	-265	0%
Investment income - s'holders' funds	201	236	-15%	212	301	-30%	216	328	-34%	220	337	-35%
Other	-13	2		0	-57		0	-38		0	0	
Profit before income tax	627	799	-22%	950	990	-4%	1,164	1,109	5%	1,323	1,463	-10%
Income tax expense	-72	-86	19%	-171	-218	27%	-209	-244	16%	-238	-322	35%
Minority interest & discontinued	-165	-2	n/m	14	10	n/m	14	10	n/m	14	10	n/m
Reported NPAT	390	711	-45%	793	782	1%	968	875	11%	1,098	1,151	-5%
Cash NPAT	715	760	-6%	852	854	0%	993	980	1%	1,123	1,151	-2%
DPS (Acps)	50	53	-5%	55	58	-5%	65	65	0%	75	73	2%
EPS (cash) (UScps)	53	56	-7%	64	64	0%	76	75	1%	87	88	-2%
ROE (cash)	8.3%	8.1%	0.1%	10.2%	9.1%	1.1%	11.6%	10.1%	1.6%	12.7%	12.8%	-0.1%
Insurance margin	7.1%	7.7%	-0.6%	9.0%	9.2%	-0.2%	10.1%	9.9%	0.3%	11.1%	10.9%	0.1%
Reserve release as % of NEP	0.8%	1.2%	-0.4%	1.1%	1.3%	-0.3%	1.2%	1.3%	-0.1%	1.2%	1.3%	-0.1%
Loss ratio	63.6%	64.0%	0.4%	63.3%	63.3%	0.0%	63.1%	63.1%	-0.1%	62.6%	62.3%	-0.3%
Expense ratio	32.3%	31.6%	-0.7%	31.5%	30.9%	-0.7%	30.7%	30.7%	-0.1%	30.4%	30.4%	0.0%
COR	95.9%	95.5%	-0.4%	94.8%	94.2%	-0.7%	93.9%	93.7%	-0.1%	93.0%	92.7%	-0.2%

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

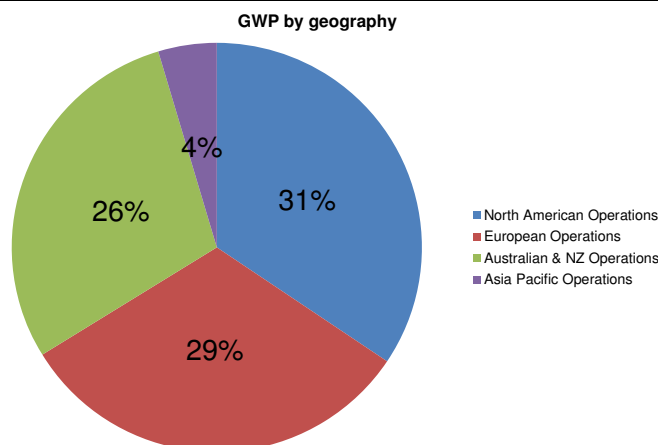
QBE Insurance Group

Company description

QBE's roots can be traced back to 1886 when James Burns and Robert Philp established The North Queensland Insurance Company (QI). In 1921, Burns founded Bankers' and Traders' Insurance Company (B&T) with QI being the largest shareholder followed by the owners' trading firm Burns Philp. In 1959, QI and B&T each acquired 40% of The Equitable Probate and General Insurance Company with Burns Philp taking the residual shareholding. QI and B&T then merged in 1973 to form the present day QBE.

QBE's head office is in Sydney and the company employs more than 17,000 people in 48 countries. The underlying business strategy is to maintain operations in all key insurance markets and act as a lead underwriter in selected lines of business. Core to QBE's risk management is its diversification strategy along product and geographic lines.

Figure 5 – Gross Written Premium by geography



SOURCE: COMPANY DATA

Investment strategy

Our current rating reflects:

1. QBE's focus on continuous risk management to maximise ROE;
2. QBE as a turnaround stock and an interest rate/currency normalisation play;
3. Productivity upside over the next few years as a turnaround story; and
4. Value upside given the potential to divest non-core operations and also the significance of the insurer's float in a rising rate environment.

Board and management

Marty Becker (Chairman) – Appointed director in August 2013, Mr Becker succeeded Ms Belinda Hutchinson AM as Chairman in March 2014. He is based on both West Virginia and Florida, is the current Chairman of West Virginia Media Holdings and was previously President and CEO of Alterra Capital Holdings (speciality insurance and reinsurance).

Pat Regan (CEO, previously CEO Australian & New Zealand Operations and Executive Director) – Appointed to the current role in September 2017, Mr Regan was previously CEO of Australia & New Zealand Operations and CFO of the Group. He joined QBE from Aviva where he was the CFO from 2010 to 2014. Mr Regan has over 25 years'

experience as a practicing chartered accountant and 20+ years' experience in global insurance and financial services. Prior to Aviva, Mr Regan has worked as CFO/COO at Willis and in other roles at RSA and AXA.

Valuation

The price target is closely aligned with the composite valuation below.

Table 5 – Composite valuation					Table 6 – SOP valuation				
Composite Valuation (A\$m)	Value	Per share	Weighting	Composite value per share	SOP Valuation (US\$m)	2020e NPAT	Pros. PE (times)	Value (\$m)	Per share
DCF	20,544	\$15.46	30%	\$4.64	North American Operations	212	13.0	2,751	\$2.07
Float plus equity valuation	15,749	\$11.85	30%	\$3.56	Latin American Operations	-	-	-	-
ROE (sustainable)	16,209	\$12.20	20%	\$2.44	European Operations	206	12.0	2,469	\$1.86
Sum-of-Parts	16,567	\$12.47	20%	\$2.49	Australian & NZ Operations	302	15.0	4,525	\$3.41
Surplus capital	0	\$0.00		\$0.00	Asia Pacific Operations	36	8.0	290	\$0.22
Total				\$13.13	Equator and other	213	11.0	2,342	\$1.76
					Total	968	12.8	12,377	\$9.32
					- In A\$ terms	1,296		16,567	\$12.47

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

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SWOT analysis

Strengths

1. Global insurer with top line diversification benefits;
2. Risk management; and
3. Economies of scale in underwriting and reinsurance.

Weaknesses

1. Exposure to hurricane-prone geographies;
2. Claims inflation outstripping rate rises; and
3. Remains a complex global business.

Opportunities

1. Market power/efficiency gains/cost-outs to underpin growth in Core Australasian markets; and
2. Further non-core divestments and release of surplus capital in due course.

Threats

1. Significant CAT/claims events – usual operating risks;
2. Weaker commercial GWP outlook especially in North America, Australia and New Zealand;
3. Brexit risks;
4. Reduced investment income from widening credit spreads; and
5. Increased competition from new entrants and retailers.

Table 7 – Financial summary

QBE Insurance Group						Share Price (A\$)		11.96			
As at						Market Cap (A\$M)		15,891			
25-Feb-19											
PROFIT AND LOSS						VALUATION DATA					
Y/e December 31 (US\$m from 2009)	2017	2018	2019e	2020e	2021e	Y/e December 31 (US\$m from 2009)	2017	2018	2019e	2020e	2021e
General Insurance						NPAT (cash)					
Gross written premium (GWP)	13,328	13,657	13,945	14,288	14,662	NPAT (cash)	-262	715	852	993	1,123
Less: Gross unearned premium	283	-56	-114	-169	-175	EPS (statutory basis) (US cps)	-92	29	60	74	85
Less: Reinsurance expense	-2,260	-1,961	-1,813	-1,830	-1,870	- Growth	n/m	n/m	109%	24%	14%
Net earned premium (NEP)	11,351	11,640	12,018	12,289	12,617	EPS (cash basis) (US cps)	-19	53	64	76	87
Gross claims expense	-7,957	-7,497	-7,738	-7,911	-8,047	- Growth	n/m	n/m	23%	18%	14%
Reserve release	-157	92	127	150	150	P / E ratio (times)	-47.7	17.0	13.9	11.8	10.4
Net claims expense	-8,114	-7,405	-7,611	-7,761	-7,896	P / Book ratio (times)	1.4	1.4	1.4	1.4	1.3
Commission expense	-1,938	-1,957	-2,007	-2,029	-2,070	P / NTA ratio (times)	2.1	2.1	2.1	2.0	1.9
Underwriting expense	-1,806	-1,798	-1,781	-1,745	-1,765	Net DPS (A cps)	26	50	55	65	75
Underwriting profit	-507	480	619	754	885	Yield	2.2%	4.2%	4.6%	5.5%	6.3%
Investment income on tech. reserves	447	346	458	490	513	Franking	30%	47%	60%	10%	10%
Insurance profit	-60	826	1,077	1,244	1,399	Payout (up to 65% of cash NPAT)	-102%	72%	65%	64%	65%
Other	0	0	0	0	0	Effective tax rate	n/m	11%	18%	18%	18%
Associates	-1	-2	-2	-2	-2	CAPITAL ADEQUACY					
Total divisional result	-61	824	1,075	1,242	1,397	Y/e December 31 (US\$m from 2009)	2017	2018	2019e	2020e	2021e
Amortisation and impairment	-740	-80	-72	-30	-30	Tier 1 capital	6,434	6,305	6,337	6,588	7,005
Interest	-302	-305	-265	-265	-265	Tier 2 capital	2,540	2,456	2,456	2,456	2,456
Investment income - s'holders' funds	311	201	212	216	220	Total capital base	8,974	8,761	8,793	9,044	9,461
Other	-1	-13	0	0	0	Total PCA	5,488	4,930	5,215	5,310	5,414
Profit before income tax	-793	627	950	1,164	1,323	PCA multiple (x) (target 1.6-1.8x)	1.64	1.78	1.69	1.70	1.75
Income tax expense	-423	-72	-171	-209	-238	CET1 / PCA (>60%)	110%	120%	114%	117%	122%
Discontinued operations (after tax)	-37	-177	0	0	0	Notional surplus capital (> 1.7x PCA)	-356	380	-73	17	257
Minority interest	4	12	14	14	14	- Per share (US cps)	-27	29	-5	1	19
Profit after income tax	-1,249	390	793	968	1,098	PROFITABILITY RATIOS					
Amortisation and impairment	987	325	59	25	25	Y/e June 30	2017	2018	2019e	2020e	2021e
Cash profit after income tax	-262	715	852	993	1,123	Return on assets (cash)	-0.6%	1.7%	2.1%	2.4%	2.6%
CASHFLOW						Return on equity (cash)	-2.9%	8.3%	10.2%	11.6%	12.7%
Y/e December 31 (US\$m from 2009)	2017	2018	2019e	2020e	2021e	Growth in GWP	-7.4%	2.5%	2.1%	2.5%	2.6%
Cash profit after income tax	-262	715	852	993	1,123	Growth in NEP	2.6%	2.5%	3.2%	2.3%	2.7%
Increase in investments	-1,252	3,612	-393	-754	-955	Loss ratio	71.5%	63.6%	63.3%	63.1%	62.6%
Increase in premium receivable	355	-1,264	-80	-110	-118	Expense ratio	33.0%	32.3%	31.5%	30.7%	30.4%
Increase in other assets	-2,205	1,944	-39	-127	-209	- Commission ratio	17.1%	16.8%	16.7%	16.5%	16.4%
Investing cashflow	-3,102	4,292	-512	-991	-1,281	- Underwriting ratio	15.9%	15.4%	14.8%	14.2%	14.0%
Increase in unearned premium	124	-675	113	155	167	Combined ratio	104.5%	95.9%	94.8%	93.9%	93.0%
Increase in interest bearing liabilities	142	-428	0	0	0	Insurance margin	-0.5%	7.1%	9.0%	10.1%	11.1%
Ordinary equity raised	0	0	0	0	0	RESERVES					
Other	2,823	-3,613	-453	-157	-8	Y/e December 31 (US\$m from 2009)	2017	2018	2019e	2020e	2021e
Financing cashflow	3,089	-4,716	-341	-2	158	Net Central Estimate	14,029	12,870	13,064	13,429	13,868
Net change in cash	-275	291	0	0	0	Risk Margin	1,239	1,158	1,175	1,208	1,248
Cash at end of period	572	863	863	863	863	Net outstanding claims liability	15,268	14,028	14,239	14,637	15,115
BALANCE SHEET						Unearned premium	6,887	6,212	6,325	6,480	6,646
Y/e December 31 (US\$m from 2009)	2017	2018	2019e	2020e	2021e	- Underwriting ratio	-2,257	-1,662	-1,618	-1,588	-1,607
Cash and cash equivalents	572	863	863	863	863	Less: Insurance receivables	-3,130	-4,394	-4,474	-4,583	-4,701
Investments	25,777	22,165	22,558	23,312	24,266	Technical reserves	16,768	14,184	14,473	14,945	15,453
Premium receivable	3,130	4,394	4,474	4,583	4,701	DIVISIONAL					
Trade and other receivables	1,776	791	791	791	791	Y/e December 31 (US\$m from 2009)	2017	2018	2019e	2020e	2021e
Reinsurance and other recoveries	6,311	5,551	5,635	5,792	5,981	Gross written premium (GWP)	2017	2018	2019e	2020e	2021e
DAC and DRE	2,257	1,662	1,618	1,588	1,607	North American Operations	4,556	4,711	4,852	4,998	5,148
Intangible assets and goodwill	3,079	2,800	2,728	2,668	2,668	Latin American Operations					
Other assets	960	1,356	1,356	1,356	1,356	European Operations	4,049	4,355	4,425	4,514	4,649
Total assets	43,862	39,582	40,022	40,983	42,234	Australian & NZ Operations	4,024	3,992	4,049	4,130	4,213
Outstanding claims	21,579	19,579	19,874	20,429	21,097	Asia Pacific Operations	740	633	639	646	652
Unearned premium	6,887	6,212	6,325	6,480	6,646	Loss ratio					
Interest bearing liabilities	3,616	3,188	3,188	3,188	3,188	North American Operations	75%	66%	67%	66%	65%
Other liabilities	2,879	2,203	2,203	2,203	2,203	Latin American Operations					
Total liabilities	34,961	31,182	31,590	32,299	33,134	European Operations	63%	62%	63%	63%	62%
Ordinary share capital	8,931	7,830	7,592	7,467	7,467	Australian & NZ Operations	62%	62%	63%	63%	63%
Treasury shares held in trust	-50	-7	-7	-7	-7	Asia Pacific Operations	67%	42%	45%	45%	45%
Reserves & other	-1,785	-1,363	-1,363	-1,363	-1,363	Equator Re & Other	134%	78%	64%	64%	64%
Retained profits	1,763	1,921	2,191	2,568	2,984	Combined ratio					
Minority interests	42	19	19	19	19	North American Operations	109%	97%	97%	95%	94%
Total shareholders' equity	8,901	8,400	8,432	8,663	9,100	Latin American Operations					
Total sh. equity & liabs.	43,862	39,582	40,022	40,983	42,234	European Operations	98%	95%	96%	95%	94%
WANOS - statutory (m)	1,364	1,361	1,322	1,304	1,297	Australian & NZ Operations	92%	92%	94%	93%	93%
WANOS - cash (m)	1,364	1,361	1,322	1,304	1,297	Asia Pacific Operations	115%	116%	95%	95%	95%
Reserve release as % of NEP	-1.4%	0.8%	1.1%	1.2%	1.2%	Equator Re & Other	146%	91%	79%	79%	79%
Reinsurance as % of GWP	16.6%	14.4%	13.1%	13.0%	12.9%	Insurance margin					
Debt to equity (target 25-35%)	41%	38%	38%	37%	35%	North American Operations	-7%	6%	6%	8%	10%
Gross unearned premium as % of GWP	-2.1%	0.4%	0.8%	1.2%	1.2%	Latin American Operations					
		\$0.75	\$0.75	\$0.75	\$0.75	European Operations	6%	9%	7%	8%	9%
Yield - policyholders' funds	2.8%	2.2%	3.2%	3.3%	3.4%	Australian & NZ Operations	13%	12%	12%	12%	12%
Net investment contribution	3.9%	3.0%	3.8%	4.0%	4.1%	Asia Pacific Operations	-14%	-14%	9%	10%	10%
Combined investment yield	3.0%	2.3%	2.9%	3.0%	3.0%	Equator Re & Other	-43%	13%	24%	24%	24%
						ROTE	-4.5%	12.5%	15.2%	17.1%	18.2%
						EPS (cash basis) (A cps)	-25	70	86	101	115

SOURCE: BELL POTTER SECURITIES ESTIMATES

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.

Such investments may carry an exceptionally high level of capital risk and volatility of returns.

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