

Sampo

Company report

10/1/2023



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This report is a summary translation of the report “Muutosmatka päätökseen” published on 10/1/2023 at 10:15 pm EEST.

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Journey of change completed

With the demerger of Mandatum, Sampo is now a pure-play P&C insurance company with an even more stable profit profile and lighter capital requirements. Sampo is currently performing excellently, and we believe its earnings growth prospects are stable. Our target price based on the sum of the parts falls to EUR 39.0 (was 44.0) as a result of Mandatum's exit. We reiterate our Accumulate recommendation as the risk/return ratio of the stock remains at an adequate level. We have not made any changes to the estimates for the other parts. Our extensive report, which we published in the summer and is still very topical, is freely available [here](#).

Estimates adjusted for Mandatum's exit

We have removed Mandatum from our Sampo estimates, but otherwise we have kept our estimates unchanged. Mandatum had previously been classified as an available-for-sale operation and was therefore only reported in EPS. There has therefore been no change in our estimates for the top lines of the income statement, but our EPS forecasts for the coming years have been reduced by around 15%. Our dividend estimates have also been lowered by 12-14%, as Sampo had previously communicated very clearly that of 2022 dividend EUR 0.30 was Mandatum's share. We estimate Sampo's current normal earnings level to be EUR 2.2-2.4/share. Given the fierce performance of the businesses, there is no reason to expect major level adjustments to this level, with steady earnings growth underpinned by strong P&C insurance operations and purchases of own shares. A key forecast risk is still related to a deterioration in the earnings mix as rising investment income increases the likelihood of higher competitive pressure, which would have a negative impact on the insurance service result.

Sampo still has a lot of excess capital on its balance sheet

As part of the Mandatum demerger, Sampo sold part of its PE investments (Enento and Saxo + other smaller investments) to Mandatum for a total of EUR 430 million. The transaction was financed by a cash payment of EUR 150 million and a loan of EUR 280 million. In addition, Mandatum repaid a loan of EUR 100 million to Sampo and around EUR 95 million of Sampo's debt was allocated to Mandatum. Consequently, Sampo's net debt decreased slightly as a result of the arrangement and the company was also able to exit some of its PE investments. Sampo still has EUR 2-3 of excess capital per share on its balance sheet, mostly tied up in PE investments and the Mandatum loan. After the demerger, we believe that Sampo could have the opportunity to further reduce the solvency buffers and the final amount of excess capital could still increase from the current level. As part of this excess capital is liquid, we expect Sampo to announce new capital repayments (own share purchases and additional dividends) by the beginning of the year at the latest. We continue to forecast additional dividends of EUR 0.5/year for the next two years and one share buyback program of around EUR 1/share. We think it is very possible that share buybacks will continue beyond our current forecasts.

Discount on the sum of the parts is unjustified

We have estimated Sampo's fair value through the value of its parts, relative and absolute valuation, as well as dividend flow calculations. With the exit of Mandatum, the peer valuation is a more meaningful way to value Sampo. In addition, we continue to favor the SOTP as it best reflects the excess capital on the balance sheet and Hastings' clearly lower valuation than the rest of the group. The total value of the SOTP is around EUR 39. Other valuation methods support the current target price. We see Sampo's solid earnings growth and strong dividend as still offering sufficient expected return.

Recommendation

Accumulate

(previous Accumulate)

EUR 39.00

(previous EUR 44.0)

Share price:

40.98



Key figures

	2022	2023e	2024e	2025e
PTP	1924	1485	1622	1684
growth-%	-39%	-23%	9%	4%
Net Income	1426	1053	1158	1212
EPS (adj.)	3.71	2.31	2.34	2.48
Osinko/osake	2.60	2.10	2.20	1.80

P/E (adj.)	13.1	17.7	17.5	16.6
P/B	2.6	2.8	2.7	2.7
Dividend yield-%	5.3 %	5.1 %	5.2 %	4.3 %
Osinko/tulos-%	70%	91%	94%	73%

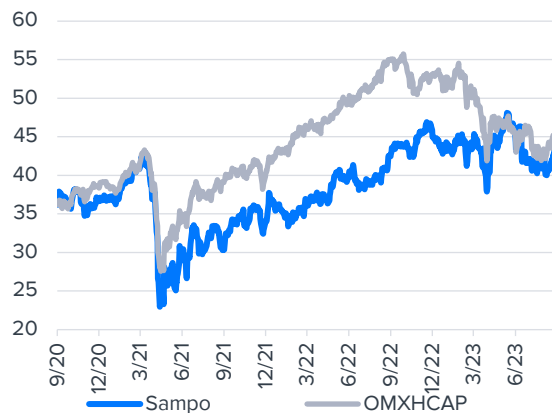
Source: Inderes

Guidance

(Unchanged)

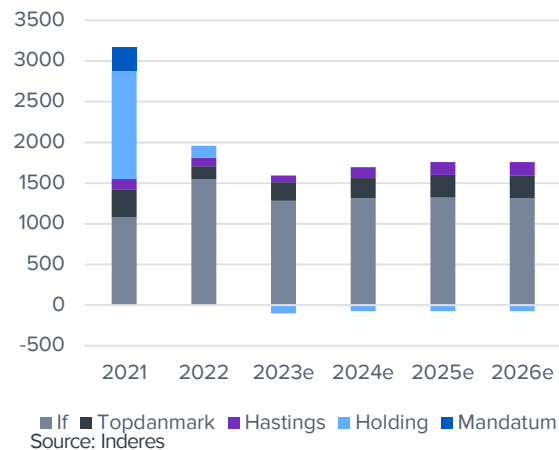
Following strong performance in the first half of the year, the outlook for If P&C's 2023 combined ratio has been improved to 81.5-83.5% (from 82-84%). The outlook for the Hastings operating ratio for 2023 has been adjusted to 88-90% (below 88%). At Group level, Sampo targets a combined ratio of below 86%.

Share price



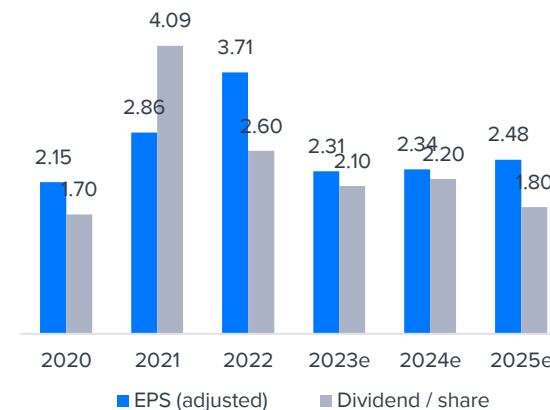
Source: Millstream Market Data AB

Sampo's PTP breakdown (MEUR)



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 underwriting results and depress insurance companies' acceptable multiples
- Tightening competition in the Nordic insurance market

Valuation	2023e	2024e	2025e
Share price	41.0	41.0	41.0
Number of shares, millions	508.1	495.6	489.5
Market cap	20574	20574	20574
P/E (adj.)	17.7	17.5	16.6
P/E	17.7	17.5	16.6
P/B	2.8	2.7	2.7
Payout ratio (%)	89.7 %	93.0 %	72.7 %
Dividend yield-%	5.1 %	5.2 %	4.3 %

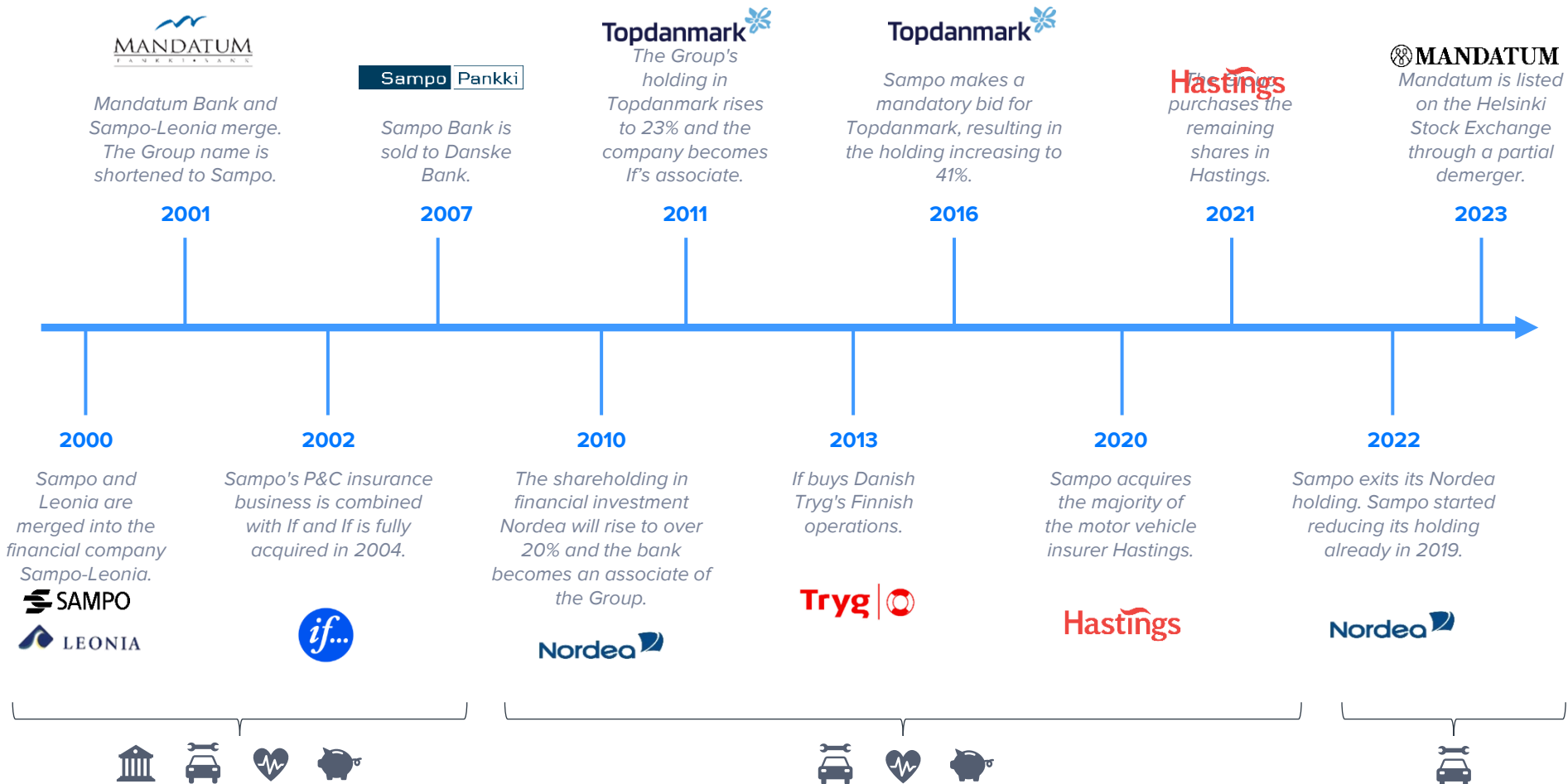
Source: Inderes

Estimates down following Mandatum's exit

Estimate revisions	2023e	2023e	Change	2024e	2024e	Change	2025e	2025e	Change
MEUR / EUR	Old	New	%	Old	New	%	Old	New	%
If	1282	1282	0%	1312	1312	0%	1323	1323	0%
Topdanmark	229	229	0%	248	248	0%	278	278	0%
Hastings	84	84	0%	137	137	0%	157	157	0%
Holding	-103	-103	0%	-75	-75	0%	-74	-74	0%
PTP	1485	1485	0%	1622	1622	0%	1684	1684	0%
EPS (adjusted)	2.45	2.34	-4%	2.75	2.34	-15%	2.91	2.48	-15%
Dividend / share	2.40	2.10	-13%	2.50	2.20	-12%	2.10	1.80	-14%

Source: Inderes

M&A transactions – Journey from a financial conglomerate to a P&C insurer



THE GROUP'S OPERATIONAL BUSINESSES

Source: Sampo



Banking



P&C insurance

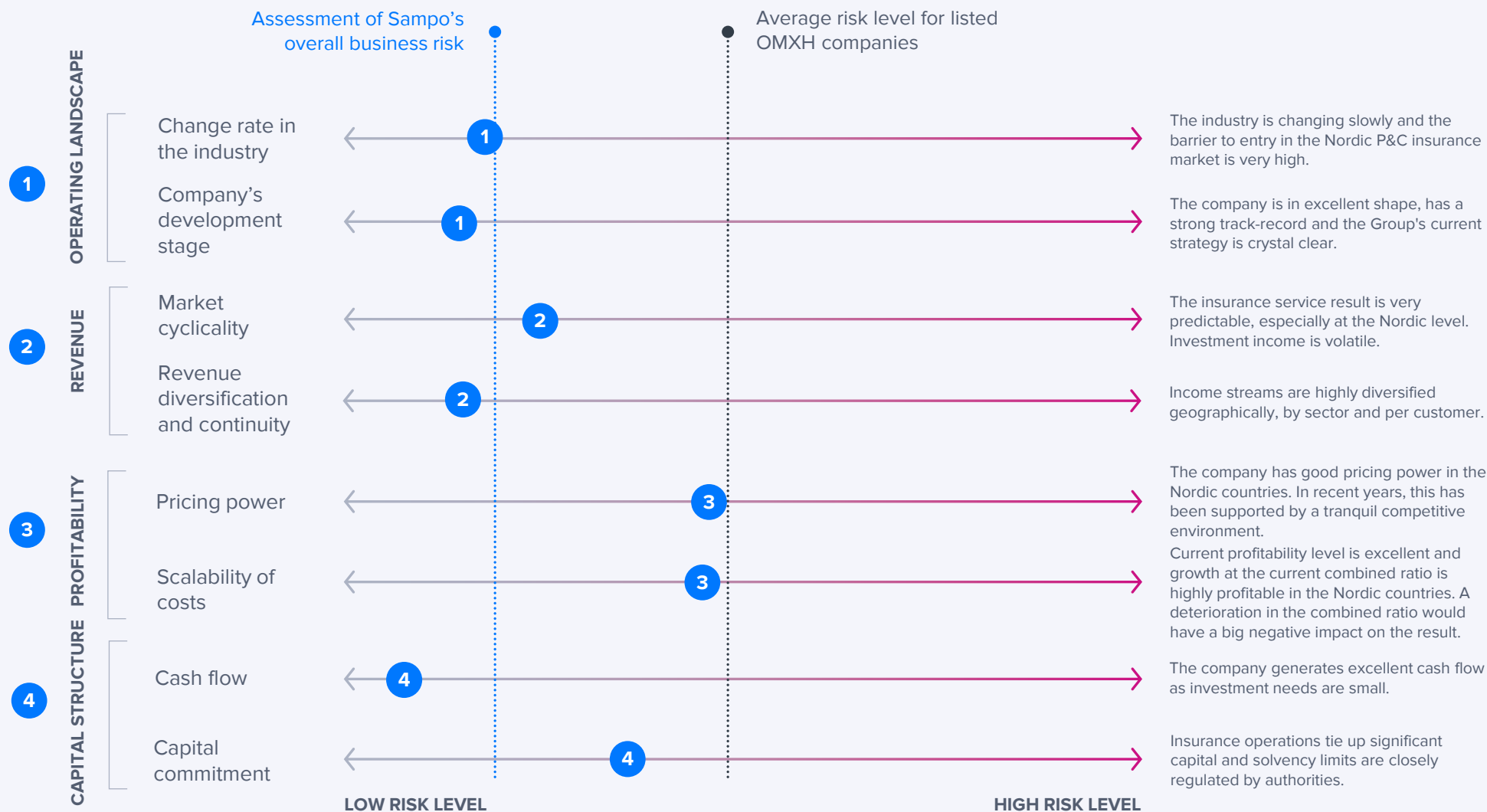


Life Insurance



Asset management

Risk profile of the business model (excluding Mandatum)



Investment profile (excluding Mandatum)



1.

Excellent track record of profitable growth in P&C insurance

2.

The Nordic P&C insurance market is exceptionally attractive

3.

Stable and increasing dividends and extra capital repayments

4.

Acquisition of the Topdanmark minority and possible other M&A transactions

5.

The increase in interest rates raises investment income, but may put pressure on the competitive situation and underwriting profitability

Potential

- Growth in insurance business in the Nordic countries
- Hastings' growth
- Acquisition of the Topdanmark minority and major synergies
- Other M&A transactions
- Higher interest rates improve investment income
- Exit from PE investments

Risks

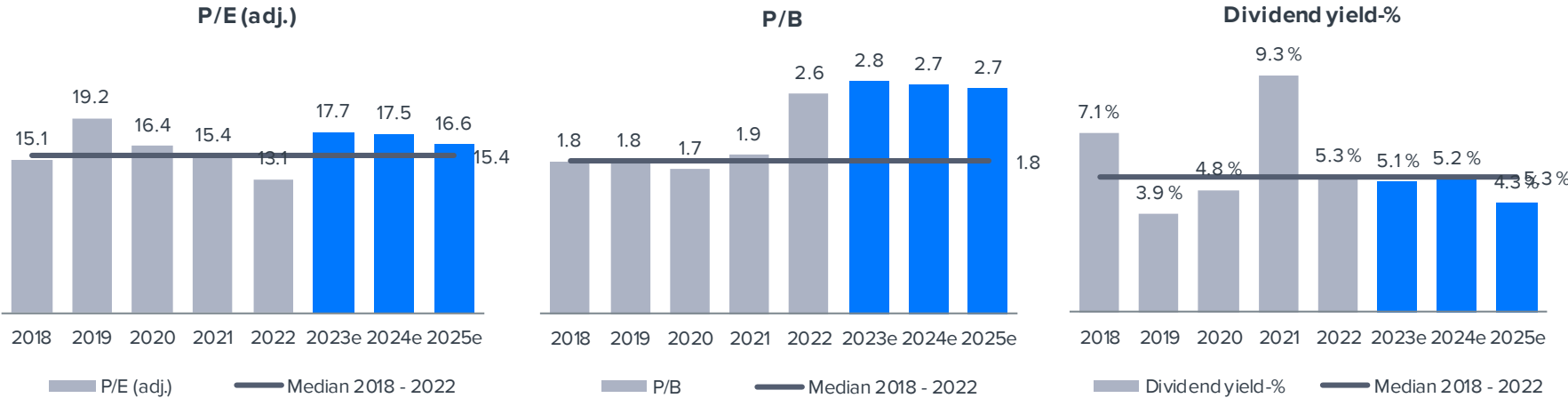


- The tightening competitive situation of the Nordic P&C insurance market
- The increase in interest rates may weaken the underwriting result through increased price competition
- Sampo's valuation multiples have downward pressure if the insurance service result weakens

Valuation table

Valuation	2018	2019	2020	2021	2022	2023e	2024e	2025e	2026e
Share price	40.4	38.9	35.3	44.1	48.8	41.0	41.0	41.0	41.0
Number of shares, millions	556.6	556.6	556.6	554.3	530.3	508.1	495.6	489.5	489.5
Market cap	22436	21609	19593	24109	25108	20574	20574	20574	20574
P/E (adj.)	15.1	19.2	16.4	15.4	13.1	17.7	17.5	16.6	16.6
P/E	13.3	19.2	>100	9.5	12.3	17.7	17.5	16.6	16.6
P/B	1.8	1.8	1.7	1.9	2.6	2.8	2.7	2.7	2.6
Payout ratio (%)	93.8 %	73.7 %	2484.5 %	87.3 %	63.5 %	89.7 %	93.0 %	72.7 %	76.9 %
Dividend yield-%	7.1 %	3.9 %	4.8 %	9.3 %	5.3 %	5.1 %	5.2 %	4.3 %	4.5 %

Source: Inderes



Peer group valuation

Peer group valuation	Market cap	P/E		Dividend yield-%		P/B
Company	MEUR	2023e	2024e	2023e	2024e	2023e
Tryg	11056	16.7	14.7	6.3	6.5	2.0
Gjensidige	6879	15.4	13.2	5.7	6.1	3.3
Topdanmark	3723	22.2	18.8	4.5	5.4	5.5
ALM	2150	25.4	16.8	6.6	7.8	1.1
Storebrand	3547	11.8	10.5	4.6	5.0	1.2
Admiral	8340	19.9	17.5	4.7	5.3	7.1
Direct Line	2680	13.3	7.4	5.6	8.9	1.1
Zurich Insurance Group	63468	12.7	11.6	6.2	6.6	2.6
Allianz	91754	9.7	8.8	5.4	5.8	1.6
Assicurazioni Generali	30180	8.2	8.1	6.4	6.7	1.1
Sampo (Inderes)	20574	17.7	17.5	5.1	5.2	2.8
Average		15.5	12.7	5.6	6.4	2.6
Median		14.3	12.4	5.6	6.3	1.8
Diff-% to median		24%	41%	-9%	-17%	54%

Source: Refinitiv / Inderes

Income statement

Income statement	2021	Q1'22	Q2'22	Q3'22	Q4'22	2022	Q1'23	Q2'23	Q3'23e	Q4'23e	2023e	2024e	2025e	2026e
Insurance premium income	9746	1863	2771	1848	1785	8267	1799	1820	2053	1990	7662	8349	8677	8959
If	4855	1222	2044	1081	1085	5432	1235	1231	1349	1320	5135	5392	5554	5720
Topdanmark	2694	312	343	334	318	1307	318	317	343	352	1329	1513	1572	1572
Hastings	830	329	384	433	382	1528	246	272	361	319	1197	1444	1551	1666
Mandatum	1367	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBIT (excl. NRI)	2190	664	769	341	12.0	1786	359	363	379	384	1485	1622	1684	1684
EBIT	3172	692	844	341	47.0	1924	359	363	379	384	1485	1622	1684	1684
If	1077	495	732	264	59	1550	337	320	317	308	1282	1312	1323	1313
Topdanmark	346	15	45	32	65	157	63	42	53	70	229	248	278	278
Hastings	127	21	25	54	7	107	10	17	29	28	84	137	157	167
Holding	1331	164	39	-9	-48	146	-45	-15	-20	-23	-103	-75	-74	-73
Mandatum	291	0	0	0	0	0	0	0	0	0	0	0	0	0
PTP	3172	692	844	341	47.0	1924	359	363	379	384	1485	1622	1684	1684
Taxes	-423	-107	-62	-86	-129	-384	-91	-81	-82	-82	-336	-365	-371	-371
Minority interest	-181	-11	-20	-14	-69	-114	-26	-18	-23	-29	-96	-99	-102	-105
Net earnings	2568	773	563	241	530	2107	271	306	326	272	1175	1158	1212	1209
EPS (adj.)	2.86	1.37	0.92	0.46	0.93	3.71	0.53	0.60	0.65	0.54	2.34	2.34	2.48	2.47
EPS (rep.)	4.63	1.43	1.06	0.46	1.00	3.97	0.53	0.60	0.65	0.54	2.31	2.34	2.48	2.47

Balance sheet

Assets	2021	2022	2023e	2024e	2025e
Non-current assets	50970	19463	3700	3738	3776
Goodwill	0.0	0.0	0.0	0.0	0.0
Intangible assets	3794	3322	3357	3392	3427
Tangible assets	375	329	332	335	338
Associated companies	777	11.7	0.0	0.0	0.0
Other investments	26274	15789	0.0	0.0	0.0
Other non-current assets	19711	0.0	0.0	0.0	0.0
Deferred tax assets	39.0	11.0	11.0	11.0	11.0
Current assets	10091	19749	19601	19958	20129
Inventories	0.0	0.0	0.0	0.0	0.0
Other current assets	2977	15617	15617	15617	15617
Receivables	2295	1820	1686	1837	1909
Cash and equivalents	4819	2312	2299	2505	2603
Balance sheet total	61061	39212	23301	23696	23905

Source: Inderes

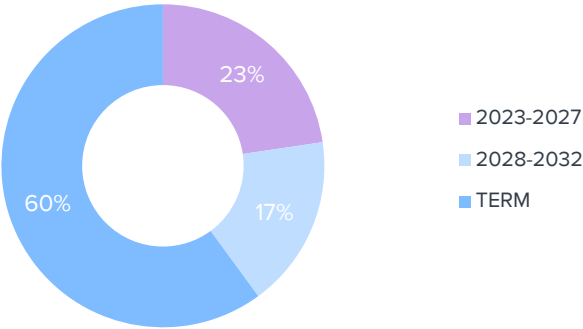
Liabilities & equity	2021	2022	2023e	2024e	2025e
Equity	13464	10178	7905	8009	8145
Share capital	98.0	98.0	98.0	98.0	98.0
Retained earnings	9952	8482	6319	6423	6559
Hybrid bonds	0.0	0.0	0.0	0.0	0.0
Revaluation reserve	0.0	0.0	0.0	0.0	0.0
Other equity	2738	1038	1038	1038	1038
Minorities	676	560	450	450	450
Non-current liabilities	45129	14484	15396	15687	15760
Deferred tax liabilities	855	506	506	506	506
Provisions	9.0	6.0	6.0	6.0	6.0
Interest bearing debt	4346	3087	3999	4290	4363
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	39919	10885	10885	10885	10885
Current liabilities	2468	14550	0.0	0.0	0.0
Interest bearing 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	14550	0.0	0.0	0.0
Balance sheet total	61061	39212	23301	23696	23905

DDM calculation

DDM valuation (MEUR)	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	TERM
Sampo's result	1175	1158	1212	1209	1211	1197	1183	1206	1229	1252	1252
Sampo's dividend	1054	1076	881	930	1090	1078	1065	1085	1106	1127	21891
Payout ratio	90%	93%	73%	77%	90%	90%	90%	90%	90%	90%	
Growth in Sampo's dividend	-21.2 %	2.2 %	-18.2 %	5.6 %	17.2 %	-1.1 %	-1.2 %	1.9 %	1.9 %	1.9 %	2.0 %
Dis. dividend	1036	986	752	741	809	746	688	653	621	590	11459
Disc. cumulative dividend	19081	18045	17059	16306	15566	14757	14010	13323	12669	12049	11459
Equity value, DDM	19081										
Per share EUR	38.0										

Cost of capital	
Risk-free interest rate	2.5%
Market risk premium	4.8%
Company Beta	1.00
Liquidity premium	0.0%
Cost of equity	7.3%
WACC-%	6.7%

Cash flow breakdown



Summary

Income statement	2020	2021	2022	2023e	2024e	Per share data	2020	2021	2022	2023e	2024e
Insurance premium income	8412	9746	8267	7662	8349	EPS (reported)	0.07	4.63	3.97	2.31	2.34
Profit before taxes	380	3172	1924	1485	1622	EPS (adj.)	2.15	2.86	3.71	2.31	2.34
Net profit	38	2568	2107	1175	1158	Dividend / share	1.70	4.10	2.60	2.10	2.20
Extraordinary items	-1161	982	138	0	0	Book value / share	20.5	23.1	18.1	14.7	15.3
Balance sheet	2020	2021	2022	2023e	2024e	If P&C key figures	2020	2021	2022	2023e	2024e
Balance sheet total	56529	61061	39212	23301	23696	Insurance premium income	4589	4772	5024	5135	5392
Equity capital	12258	13464	10178	7905	8009	Insurance premium income growth	4.6 %	6.0 %	5.3 %	2.2 %	5.0 %
ROE-%	0.3 %	21.2 %	18.8 %	13.8 %	15.4 %	Investment income	90	174	278	589	567
						Combined ratio	82.1 %	81.3 %	86.6 %	82.5 %	82.8 %
						Risk ratio	60.7 %	59.9 %	65.0 %	61.0 %	61.5 %
						Cost ratio	21.5 %	21.4 %	21.6 %	21.5 %	21.3 %

Source: Inderes

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

Date	Recommendation	Target	Share price
3/17/2020	Buy	30.00 €	23.83 €
4/30/2020	Buy	34.00 €	30.85 €
5/7/2020	Accumulate	33.00 €	30.40 €
6/16/2020	Buy	34.00 €	30.40 €
8/6/2020	Buy	35.00 €	30.30 €
10/9/2020	Buy	38.00 €	35.20 €
11/5/2020	Buy	38.00 €	34.14 €
1/20/2021	Buy	38.00 €	35.28 €
2/12/2021	Buy	41.00 €	36.04 €
2/25/2021	Buy	41.00 €	36.95 €
4/7/2021	Buy	43.00 €	39.23 €
5/6/2021	Buy	44.00 €	39.85 €
8/5/2021	Buy	45.00 €	42.39 €
9/24/2021	Buy	46.00 €	43.35 €
11/4/2021	Accumulate	48.00 €	46.73 €
12/9/2021	Accumulate	48.00 €	44.09 €
2/10/2022	Accumulate	49.00 €	45.35 €
5/5/2022	Accumulate	48.00 €	45.85 €
5/23/2022	Accumulate	44.00 €	41.76 €
8/4/2022	Accumulate	46.00 €	43.71 €
10/27/2022	Reduce	46.00 €	46.67 €
11/3/2022	Reduce	46.00 €	44.32 €
2/13/2023	Reduce	46.00 €	45.50 €
5/11/2023	Reduce	47.00 €	46.15 €
6/14/2023	Reduce	44.00 €	43.08 €
8/10/2023	Accumulate	44.00 €	40.35 €
10/2/2023	Accumulate	39.00 €	40.98 €



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2014, 2015, 2016, 2018, 2019, 2020



Olli Koponen
2020



Joni Grönqvist
2019, 2020



Erkki Vesola
2018, 2020



Petri Gostowski
2020



Atte Riikola
2020

**Research belongs
to everyone.**