

Beating Targets for Three Years in a Row

ADD | Fair Value: €9.79 (€9.79) | Current Price: €7.15 | Upside: 36.9%

Research Update

February 14, 2022 – h 7.00

€ Million	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E
Gross Written Premiums	62.3	84.4	117.7	149.9	172.4	194.1
Underwriting Result	11.4	16.6	21.2	29.4	35.9	43.4
Combined Ratio	80%	85%	89%	88%	87%	84%
Net Profit	4.1	12.5	6.5	13.7	23.3	21.4
Net Profit Adjusted	6.7	7.0	7.6	13.7	16.2	20.4
EPS	0.3	0.8	0.4	0.8	1.3	1.2
EPS Adjusted	0.4	0.5	0.5	0.8	0.9	1.2

Source: Company data, KT&Partners' elaboration

Preliminary FY21 beyond NET's guidelines. Preliminary FY21 gross written premiums came in at €149mn, exceeding for the third consecutive year the company's business plan targets (+11.2%). GWPs were up by 26.5% YoY, coming in line with our expectations (-0.6%). A solid capital position was confirmed as well, with the SR at 181%, almost in line with FY21 and our projections (182%) and well above NET-IT guidelines (165%–175%).

FY21 Preliminary Results

	FY20	FY21	YoY growth	FY21 Target	A vs Target	FY21E	A vs E
Gross Written Premiums	117.7	149.0	26.5%	134.0	11.2%	149.9	-0.6%
YoY % Growth	39%	27%					
Solvency Ratio	177%	181%		165% -175%		182%	

Source: Company data, KT&Partners' elaboration

Keeping expanding the bancassurance channel. On February 9th, 2022, NET-IT announced it has signed a partnership with *Cassa di Risparmio di Volterra*, bringing to 17 the number of bancassurance agreements closed since the end of 2018. *Cassa di Risparmio di Volterra* will start the distribution of NET-IT's policies by the end of 1Q22, leveraging on its 62 branches and so allowing NET-IT to strengthen its presence in the center of Italy.

Net Insurance issues tier II bond for €12.5mn. With the aim of optimizing its capital structure, at the end of September 2021, NET-IT issued a 5.1% ten-year bond (Tier II) for a total amount of €12.5mn while redeeming the €15mn 7% subordinated note (Tier II) due in 2026. As a result, the company will save ca. €400k per year of financial expenses while maintaining a solid capital structure to support business growth. NET-IT's balance sheet strength is also confirmed by AM Best, which affirmed the company's Financial Strength Rating of B+ (Good) and the Long-Term Issuer Credit Rating of "bbb-" (Good). The outlook of these credit ratings is stable.

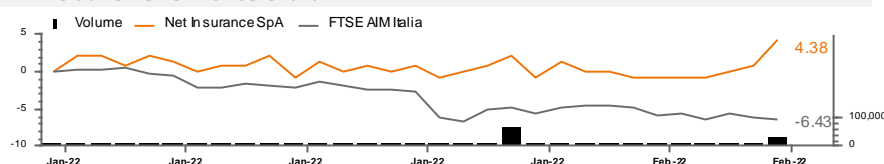
Update on warrant and special shares. In September 2021, the following were converted: i) ca. 115k warrants (ca. 1.8mn are still outstanding) for a total cash-in of €541k; and ii) 21k special shares into ca. 149k newly issued shares. We point out that there are no other special shares outstanding.

Recent development on "Augusto bond." In November 2021, NET-IT announced it had signed a Conciliatory Agreement with Augusto S.p.A. that established: i) the payment of €3.8mn, although the sum will be paid in 2022 instead of 2021; and ii) with reference to the Net Life injunction, i.e. the remaining receivable of €6.2mn, the sum will be paid by Augusto S.p.A. by September 30th, 2022, in the event that the Ordinary Court of Milan should order the provisional enforceability of the opposed injunction.

Estimates review. We will update our estimates after the management conference call about the FY21 results. For the time being, we have only revised the bottom line to consider the lower financial expenses following the issue of the new Tier II bond. Regarding the recovery of sums related to "Augusto bond," following the latest developments, we now expect a zero cash-in for 2021, and €10mn in 2022 instead of €4.7mn.

Valuation confirmed at €9.79ps. We confirm our fair value at €9.79ps and we still see a 36.9% upside on NET's current stock price.

YTD Relative Performance Chart



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Market Data

Main Shareholders			
IBL Banca S.p.A.			26.64%
First Capital S.p.A.			5.53%
Algebris UK Limited			5.00%
Mkt Cap (€ mn)			124.1
Shares issued			18,510,070
Treasury shares			1,989,933
Shares out.			17,353,470
Free Float			52.08%

Market multiples	2020	2021	2022
P/E*	19.1x	9.1x	5.3x
P/BV	1.4x	1.3x	1.1x
P/Premiums	1.1x	0.8x	0.7x

Stock Data

52 Wk High (€)	7.50
52 Wk Low (€)	4.96
Avg. Daily Trading 90d	5,782
Price Change 1w (%)	5.15
Price Change 1m (%)	3.62
Price Change YTD (%)	4.38

*P/E is based on net income including the recovery of funds related to "Mister X" fraud

Key Figures – Net Insurance S.p.A.

	Current price (€)	Fair Value (€)	Sector					Free Float (%)
	7.15	9.79	Insurance					52.1%
Per Share Data	2018A	2019A	2020A	2021E	2022E	2023E	2024E	
Total shares issued (mn)	17.3	17.3	17.3	18.5	18.5	18.5	18.5	
Total shares outstanding (mn)	15.3	15.3	15.3	17.4	17.4	17.4	17.4	
EPS	0.3	0.8	0.4	0.8	1.3	1.2	1.4	
EPS adjusted	0.4	0.5	0.5	0.8	0.9	1.2	1.4	
BV Per Share	3.5	4.7	5.2	5.4	6.5	7.3	8.3	
Dividend per share (ord)	-	-	-	0.08	0.20	0.40	0.49	
Dividend pay out ratio (%)	-	-	-	19%	25%	30%	40%	
Income Statement (EUR million)								
Gross Written Premium (GWP)	62.3	84.4	117.7	149.9	172.4	194.1	211.0	
Underwriting Result	11.4	16.6	21.2	29.4	35.9	43.4	49.2	
Financial Result	0.1	2.0	2.2	2.9	4.1	5.2	5.7	
Operating Income	10.3	8.5	12.2	18.2	24.8	30.9	35.6	
Net Income	4.1	12.5	6.5	13.7	23.3	21.4	24.7	
Net Income Adj.	6.7	7.0	7.6	13.7	16.2	20.4	23.6	
Balance Sheet (EUR million)								
Investments	178.0	164.0	176.8	194.4	227.8	257.6	285.5	
Intangible assets	0.9	2.6	5.0	5.8	6.6	7.4	8.2	
Deferred acquisition costs	-	-	-	-	-	-	-	
Insurance technical reserves	299.5	300.4	326.2	360.7	398.8	440.8	482.8	
Senior or subordinated debt	14.7	15.5	20.1	17.2	17.2	17.2	17.2	
Shareholder's Equity	53.8	71.8	79.8	93.2	113.1	127.5	143.6	
Ratios (%)								
Loss ratio	64.8%	55.6%	55.2%	55.1%	55.8%	54.8%	53.5%	
Commission ratio	2.6%	8.3%	13.5%	14.3%	14.5%	14.5%	14.6%	
General expenses ratio	13.0%	20.7%	20.3%	18.2%	16.3%	15.2%	14.7%	
Combined ratio	80.4%	84.7%	89.1%	87.7%	86.6%	84.5%	82.8%	
Solvency ratio	162.9%	165.7%	177.2%	181.1%	187.2%	190.2%	190.7%	
ROE	11.3%	19.8%	8.6%	15.8%	22.6%	17.8%	18.2%	
ROE Adj.	18.4%	11.1%	10.0%	15.8%	15.7%	16.9%	17.4%	
Valuation								
P/E	30.3x	10.0x	19.1x	9.1x	5.3x	5.8x	5.0x	
P/BV	2.0x	1.5x	1.4x	1.3x	1.1x	1.0x	0.9x	
P/Premiums	2.0x	1.5x	1.1x	0.8x	0.7x	0.6x	0.6x	
Dividend yield (%)	-	-	0.0%	1.2%	2.8%	5.6%	6.9%	
Growth rates (%)								
GWP	6.7%	35.6%	39.4%	27.3%	15.0%	12.6%	8.7%	
Underwriting Result	29.0%	45.5%	27.5%	38.6%	21.9%	21.0%	13.4%	
Operating Income	-6.7%	-17.1%	43.5%	48.7%	36.2%	24.5%	15.4%	
Net Income	-23.4%	303.7%	52.3%	209.8%	170.7%	91.8%	115.1%	
Net Income Adj.	91.4%	4.5%	8.6%	79.7%	18.7%	25.5%	15.9%	

Source: Company data, KT&Partners' elaboration

Note: The number of treasury shares is netted for shares that will be used to service the eventual bond conversion.

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KT&PARTNERS RELEASED NET INSURANCE EQUITY RESEARCH UPDATE ON 10/08/2021, WITH A FAIR VALUE OF €9.79ps.

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- ADD – FOR A FAIR VALUE > 15% ON CURRENT PRICE
- HOLD – FOR A FAIR VALUE <15% AND >-15% ON CURRENT PRICE
- REDUCE – FOR A FAIR VALUE <-15% ON CURRENT PRICE

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