SWISS LIFE HOLDING AG

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FINANCE FOCUSED

STRONG BUY: RESILIANT FEE PERFORMANCE, PROMISING ASSET MANAGEMENT EXPANSION AND ROBUST SOLVENCY

Company Overview:	
Company Name:	Swiss Life Holding AG
Exchange:	SIX
Ticker:	SLHN
Country:	Switzerland
Sub Industry:	Insurance

Company Data:	
Price Rating:	Strong Buy
Price Target:	CHF 540.99
Current Price:	CHF 395.10
Upside:	36.9%
Price Date:	11/12/20
52 Week Average:	CHF 385.51
Market Cap:	CHF 11.95 (bn)

Company Overview

- The largest provider of life insurance in Switzerland, with wider coverage throughout France and Germany.
- Services include life insurance, pensions, financial advisory and asset management.
- International business focuses on life insurance for high net worth individuals, as well as benefits schemes for multinationals.
- The International and Asset Management businesses have seen strong growth and have the highest margins.
- Asset Management have been expanding their investment offerings, most notably into infrastructure.

Figure 1: Revenue Breakdown by Business (YE2019)

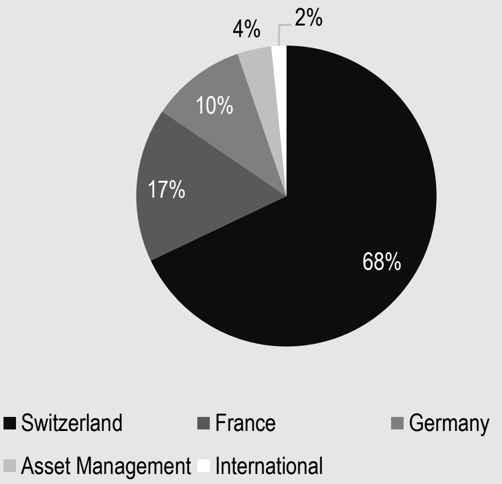
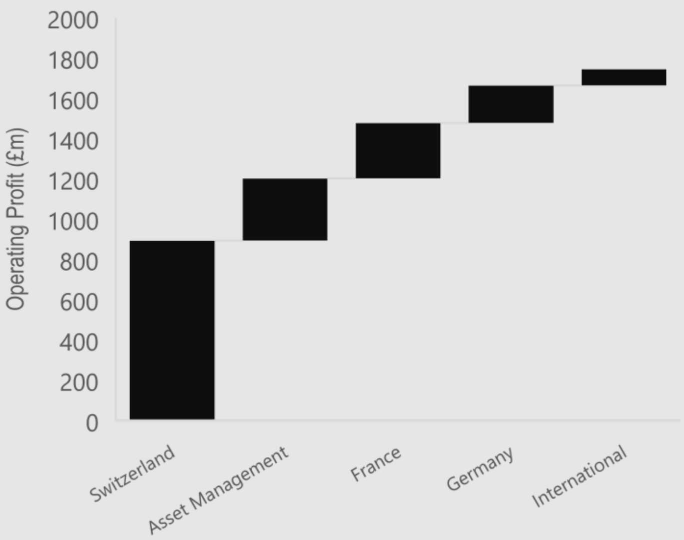


Figure 2: Profit Breakdown by Business (YE2019)



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Reasons to Invest in Swiss Life

Swiss Life is an industry and geographical leader with ambition and foresight. With a solid and consistent base in life insurance (a product the Swiss healthcare system), Swiss Life look to their other lines of business to drive growth and profitability.

The Asset Management business is seeing considerable growth, through innovative investment offerings and a hiring drive for talented advisors. This expansion has brought in more fees and commission, which significantly contributes to Swiss Life's profits. With Swiss Life on track to meet their 2021 fee targets, and the Asset Management business continuing their strong growth, Swiss Life's profits are set to climb throughout 2021.

This growth in profitability, combined with a resumption of a proven stock buyback programme in 2021, justifies Swiss Life's price target and strong buy rating.

1. Strong Fee Income, Driven by Growth in Asset Management, is Lifting Profitability:

- Asset Management business consistently makes up half of all fees and commission earned by Swiss Life.
- Due to relatively low operating costs, fees and commission income is strongly linked to net profit:
- 37% increase in fees and commission has led to 40% increase in net profit over the last 5 years.
- Fees and commissions are expected to grow a further 9% through 2021, indicating a boost in profitability over this period.

Figure 3: Fees and Commission vs Profit (2016-2021)

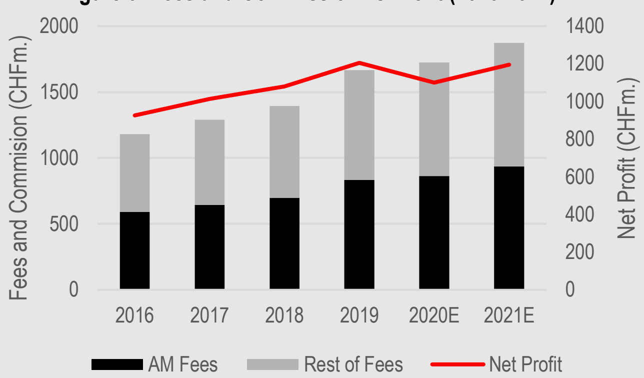
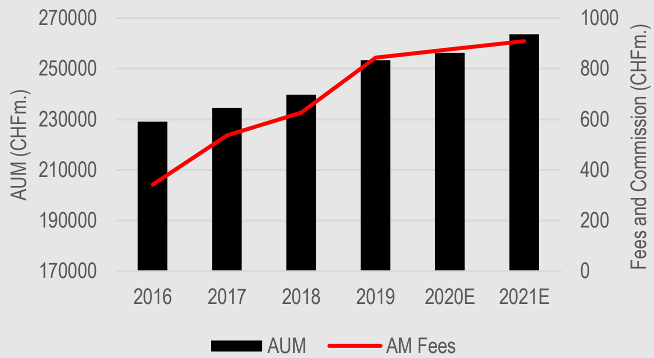


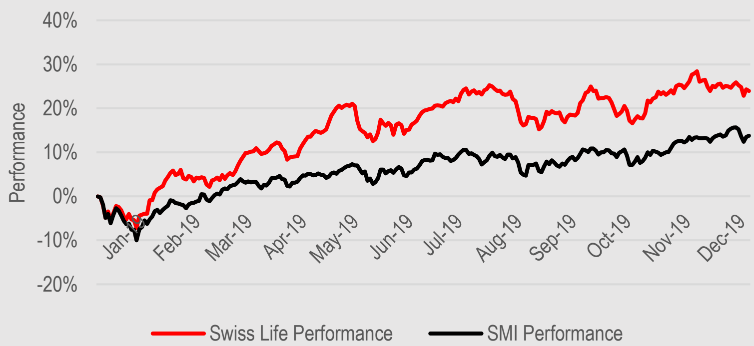
Figure 4: AUM vs AM Fees and Commission (2016-2021)



2. Resumption of a Stock Buyback Programme Places Upwards Pressure on Share Price

- Previous Stock buyback programme (2018-2019) worth CHF 1bn linked to strong stock performance (25% returns).
- Outperformed the Swiss Market Index (SMI) by over 10% during this period, note that the SMI only has 20 components.
- Further buyback of CHF 400m confirmed to resume on 4th January 2021, after it was postponed due to Covid-19.
- Swiss Life's solvent position and financial health allows for this, with a solvency ratio of 190%, 50% above its target of 140%.
- Could bolster demand from income investors: yields will increase, compounded by a targeted pay-out ratio of 50-60% in 2021.

Figure 5: Performance over Stock Buyback Period vs. SMI (2018-2019, indexed to 03/12/18)



Swiss Life Valuation Methodology

We made usage of a comparable analysis to reach our valuation and price target on Swiss Life. This was done for the following reasons:

- Swiss Life is significantly undervalued compared to competitors on a price to book basis. Price to book is a key valuation ratio for Insurance companies, as it compares the market value of the company to the market value of its balance sheet, since most of their assets and liabilities are securitised. A price to book ratio that is less than one suggests that the company is undervalued, as its balance sheet is worth more than the market value of the company.
- Unlike banks, insurance companies own fewer risky assets, thus they do not trade at a discounted price to book ratio.
- The target price is justifiable considering Swiss Life has seen a relatively minor impact due to Covid-19, especially compared to its competitors. As European markets recover, and Swiss Life continues to deliver on its strong performance, a growth of 37% is realistic.

Figure 7: Swiss Life Group Comparable Model

Company	P/E (TTM)	P/B (MRQ)
Swiss Life	11.4x	0.8x
Zurich Insurance Group	17.2x	1.7x
Allianz	11.5x	1.1x
Legal & General	12.1x	1.5x
Mean	13.1x	1.3x
Median	11.8x	1.3x
Min	11.4x	0.8x
Max	17.2x	1.7x
Selected Multiple	13.1x	1.3x
Swiss Life	11.4x	0.8x
Valuation (CHF)	452.29	629.69
Target Price (CHF)	540.99	
Upside	36.9%	

Future Catalysts:

- **Q4/Annual Results:** focus on growth in fees and commissions, as this would give a boost in profitability.
- **Stock Buyback programme:** potential for increased dividend yields and upwards boost in share price.

Investment Risks:

- **Covid-19**: Potential for increased life insurance claims due to backlog in untreated illnesses, as well vaccinations through private healthcare.
- **Increased cyclicality due to growth in dependence on capital markets**
- **Brexit:** movements in GBP:CHF exchange rate will influence returns in the short term.
