

Hannover Re

Softer price, healthy growth, 2024 EBIT miss

We regard the -2.1% price change to be disappointing, but consistent with insurance broker reports. Growth came across stronger with more retro limit purchased, but FY24 EBIT slightly missed, driven by P&C – likely evidence of further buffer building, in our view.

Hannover Re will host a conference call at 9.30 AM UK time, dial in details on company website.

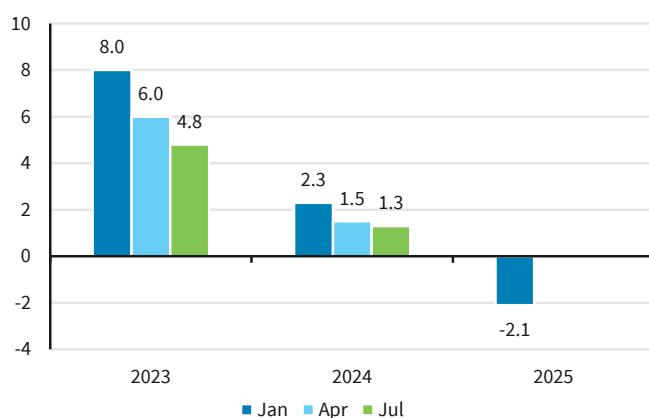
Healthy volumes, softer price: 1/1 renewal outcome shows growth of 7.6% (compared to our 7.5% expectations for gross insurance revenue growth for the full year) and a negative 2.1% change in risk-adjusted price – in line with early renewal indications from the insurance brokers that suggested mid to high single digit price declines, but weaker than SCOR's reported +0.1% price change in nominal terms earlier. Hannover Re's share has come off 2.7%, indicating increased competition, but volumes were up 10.3% – resulting in a 7.6% change in premiums. Growth at 1/1 renewals was driven by proportional business, particularly EMEA (+10.3%) and Americas (+19%), although non-prop business in these geographies also was up high single digits. In contrast, Hannover Re has reduced share of Marine, Aviation and Agri risks.

HNRGn.DE/HNR1 GR	UNDERWEIGHT
European Insurance	POSITIVE
Price Target	EUR 220.00
Price (05-Feb-25)	EUR 258.20
Potential Upside/Downside	-14.8%

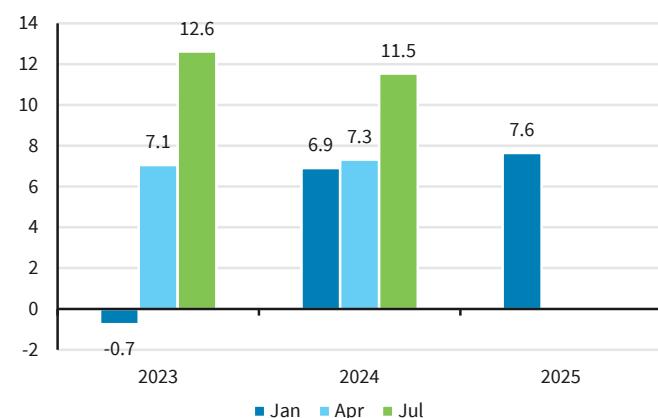
Source: Bloomberg, Barclays Research

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FIGURE 1. Price change at renewals (Hannover Re)


Source: Company data, Barclays Research

FIGURE 2. Volume change at renewals (Hannover Re)


Source: Company data, Barclays Research

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Risk-adjusted -2.1% price change: Non-proportional book improvements seen for the past seven years have turned to a -2.8% decline – not dissimilar to SCOR that has reported -0.8% non-prop price change, including a -5.4% drop in nat cat XL price (vs -6.6% change in Guy Carpenter global prop-cat ROL index). Proportional lines saw -1.8% price decline. We don't regard the -2.1% price indication as a substantial negative surprise after the colour offered by insurance brokers, but this may indicate that in future Hannover Re may need to dip into ample reserve buffers to keep combined ratio guidance below 88%.

More retro protection, different structure: The company announced changes to retro structure – overall structure remained similar (with a higher overall nat cat limit of EUR1.2bn, EUR0.1bn increase) but K-Cession has been reduced to 33%, while non-prop protection was increased, including a EUR47m increase in Whole Account XL which we expect to pick up some wildfire losses; risk-adjusted cost of retro protection was slightly down. We regard overall increase of retro stack (as well as an increase in nat cat budget to EUR2.1bn) as a positive development, ensuring earnings stability.

Miss on 2024 earnings, 2025 guidance reiterated: Hannover Re reiterated 2025 guidance of EUR2.4bn net income (Barclays: EUR2,571m), sub 88% P&C combined ratio (Barclays: 87.6%) with 7% P&C revenue growth, >EUR875m L&H insurance service result and ROI >3.2%. The 2024 preliminary numbers show net result of EUR2.3bn in line with original guidance but below our EUR2,445m expectations. Looking at the divisional EBIT, we see indicated L&H EBIT of EUR0.9bn as matching our expectations, while the P&C EBIT of EUR2.4bn is below EUR2.55bn we've anticipated. In our view, the market will likely take this as additional buffer building into a softening market.

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Hannover Re (HNRGn.DE, 05-Feb-2025, EUR 258.20), Underweight/Positive, CD/J/K/M/N

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ASR Nederland NV (ASRNL.AS)

AVIVA plc (AV.L)

AXA (AXAF.PA)	Beazley (BEZG.L)	Direct Line Insurance Group (DLGD.L)
Generali (GASI.MI)	Gjensidige Forsikring ASA (GJFS.OI)	Hannover Re (HNRGn.DE)
Hiscox Ltd. (HSX.L)	Just Group (JUSTJ.L)	Lancashire Holdings (LRE.L)
Legal & General (LGEN.L)	M&G plc (MNG.L)	Mapfre (MAP.MC)
Munich RE (MUVGn.DE)	NN (NN.AS)	Old Mutual Ltd (OMU.L)
Phoenix (PHNX.L)	Prudential Plc (PRU.L)	Sabre Insurance Group Plc (SBRE.L)
Sampo (SAMPO.HE)	Sanlam Ltd (SLMJ.J)	SCOR (SCOR.PA)
St. James's Place (SJP.L)	Swiss Life (SLHN.S)	Swiss Re (SRENH.S)
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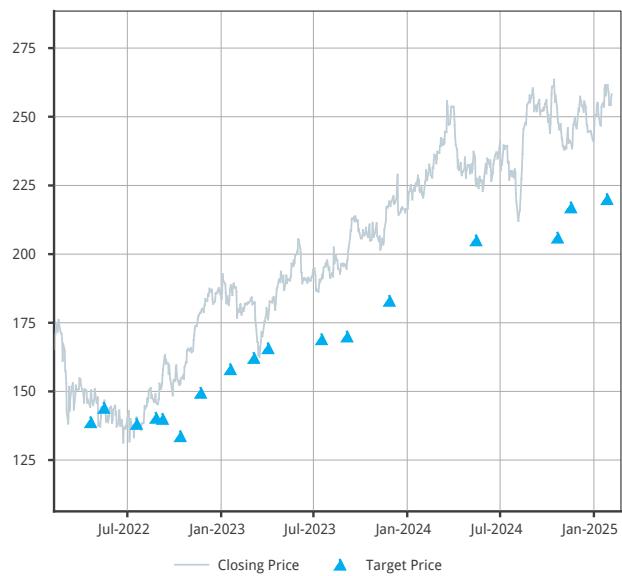
Stock Rating: **UNDERWEIGHT**

Industry View: **POSITIVE**

Closing Price: **EUR 258.20** (05-Feb-2025)

Rating and Price Target Chart - EUR (as of 05-Feb-2025)

Currency=EUR



Source: IDC, Barclays Research

[Link to Barclays Live for interactive charting](#)

Publication Date	Closing Price*	Rating	Adjusted Price Target
27-Jan-2025	257.80		220.00
17-Nov-2024	241.10		217.00
22-Oct-2024	253.20		206.00
15-May-2024	224.80		205.00
27-Nov-2023	217.30		183.00
05-Sep-2023	196.20		170.00
17-Jul-2023	189.80		169.00
03-Apr-2023	177.75		165.70
06-Mar-2023	181.70		162.20
19-Jan-2023	183.35		158.10
22-Nov-2022	177.75		149.50
13-Oct-2022	153.80		133.70
08-Sep-2022	152.80		140.00
26-Aug-2022	146.75		140.40
19-Jul-2022	138.80		138.20
16-May-2022	144.35		144.00
20-Apr-2022	144.40		138.80

On 06-Feb-2022, prior to any intra-day change that may have been published, the rating for this security was Underweight, and the adjusted price target was 145.70.

Source: Bloomberg, Barclays Research

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Valuation Methodology: We use a residual income method, with explicit forecast period of 5 years followed by 5 years of equity growth declining to a long-term average of 2.5% and then a linear decline in ROE to cost of equity over 10 years. We estimate the cost of equity of 8.25%, the lowest among reinsurance peers, to reflect reserve surplus and a strong capital position. We also include the 2023 P&C reserve surplus of EUR2.1bn into our valuation.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Hannover Re, like most reinsurers, is substantially exposed to natural catastrophe and underwriting risk and to the risk of claims inflation – yet a more benign cat experience may benefit earnings, while lower-than-expected inflation can result in reserve releases. It also has interest rate risk, although loss of assets and liabilities are duration- and currency-matched. In addition, Hannover Re has implemented an interest rate hedging programme to provide some protection from a sustained low interest rate environment. These risks are offset by a very strong capital position and long management track record of conservative underwriting, which creates a reserve cushion that could be utilised to smooth earnings volatility. We believe Hannover Re should be able to generate enough earnings to sustain a high and modestly growing dividend payout ratio.

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