

Hannover Re

Updating estimates post 1Q25 results - Results prettier than at first glance

Following Hannover Re's 1Q25 report, we update our model to reflect the results. We make minimal changes to our estimates, with our 2025E net income increasing 1%. We make small assumption changes to our 2026-28 net income estimates, with these having a minimal impact on earnings. We continue to see value in Hannover Re's ability to deliver strong returns across the P&C reinsurance market cycle. We reiterate our OW rating and increase our PT to €330 (previously €320), as of Dec-2026.

- **Underlying combined ratio running meaningfully better than <88% guidance.** In our first take this morning, we had characterised the 1Q25 results for Hannover Re as "not a particularly pretty set of numbers". However, on reflection from the commentary given during the conference call, it is apparent that the underlying strength of Hannover's business is excellent, especially when compared to the 93.9% 1Q25 reported combined ratio and the <88% guidance. Hannover Re's Q1 25 combined ratio needs a number of adjustments, in our view, to get to a 'normalised' combined ratio. First, there were excess large losses of ~7ppts in 1Q25 when compared to the large loss budget of €435m for the quarter. Second, the company built prudence in the quarter in P&C, which also proved to be a drag on the result of €167m, with prior year development normally a 'triple digit million' positive per quarter. If we adjust for both these effects, the 1Q25 combined ratio on an underlying basis would be in the low 80s vs the <88% guidance.
- **Hannover Re should be able to manage the reinsurance cycle materially better than the market.** Over the course of an entire reinsurance cycle, Hannover Re tends to produce smoother earnings than peers in the same industry. We see the company continuing to have many of these defensive characteristics in its business. First, the combined ratio should be more resilient at a time when prices are falling due to the meaningful gap between its underlying combined ratio and combined ratio guidance. Second, the resilience reserves at €2.5bn are material and far in excess of the peak of €1.9bn seen in 2015/16 in the last soft market, before taking into account the uplift to the reserves in the 1Q25 results.

Overweight

HNRGn.DE, HNR1 GR

Price (12 May 25): €280.00

▲ Price Target (Dec-26): €330.00

Prior (Sep-26): €320.00



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Key Changes (FYE Dec)

	Prev	Cur
Adj. P/E - 25E	13.3	13.1
Adj. P/E - 26E	12.2	12.3
Adj. EPS - 25E (€)	21.00	21.29
Adj. EPS - 26E (€)	22.86	22.80
ROE - 25E	20.2%	20.6%
ROE - 26E	19.6%	19.8%

Style Exposure

Quant Factors	Current	Hist %Rank (1=Top)			
	%Rank	6M	1Y	3Y	5Y
Value	48	72	74	59	67
Growth	7	71			
Momentum	10	25	13	35	19
Quality	61	8	6		13
Low Vol	89	45	57	45	36
ESGQ	49	35	26	18	15

Sources for: Style Exposure – J.P. Morgan Quantitative and Derivatives Strategy; all other tables are company data and J.P. Morgan estimates.

See page 7 for analyst certification and important disclosures, including non-US analyst disclosures.

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Price Performance



Company Data

Shares O/S (mn)	121
52-week range (€)	292.70-204.24
Market cap (\$ mn)	37,435.88
Exchange rate	0.90
Free float (%)	49.8%
3M ADV (mn)	0.14
3M ADV (\$ mn)	40.7
Volatility (90 Day)	29
Index	MSCI Europe
BBG ANR (Buy Hold Sell)	12 7 4

Key Metrics (FYE Dec)

in	FY24A	FY25E	FY26E	FY27E
Financial Estimates				
Operating profit - Life	-	-	-	-
Life Reinsurance Operating Profit	934	971	1,013	1,038
P&C Insurance Operating Profit	-	-	-	-
P&C Reinsurance Operating Profit	2,387	2,655	2,845	2,972
Other pre-tax operating profit	(108)	(103)	(102)	(102)
Pre Tax Operational Income	3,213	3,523	3,757	3,908
Adj. net income	2,329	2,568	2,750	2,860
Comprehensive Profit	2,677	2,498	3,652	2,809
Adj. EPS	19.31	21.29	22.80	23.72
Comprehensive EPS	22.20	20.72	30.28	23.29
DPS	9.00	9.50	10.00	10.50
BVPS	97.8	108.5	121.8	135.5
Comprehensive BVPS	147.91	158.02	178.80	192.10
Margins and Growth				
Adj. EPS growth	27.6%	10.3%	7.1%	4.0%
Comprehensive EPS growth	(0.2%)	(6.7%)	46.2%	(23.1%)
DPS growth	25.0%	5.6%	5.3%	5.0%
Ratios				
Primary P&C combined ratio (%)	-	-	-	-
Reinsurance P&C combined ratio (%)	86.6%	87.8%	87.9%	87.9%
Life New Business CSM	317	472	380	380
Life New Business CSM Margin (%)	-	-	-	-
CSM Release Ratio (%)	(14.8%)	(12.4%)	(12.1%)	(11.9%)
ROE	21.2%	20.6%	19.8%	18.4%
Comprehensive ROE	15.9%	13.5%	18.0%	12.6%
Debt leverage ratio	17.5%	16.6%	15.0%	14.0%
Valuation				
Dividend yield	3.2%	3.4%	3.6%	3.8%
P/ BV	2.9	2.6	2.3	2.1
Comprehensive P/BV	1.9	1.8	1.6	1.5

Summary Investment Thesis and Valuation

Investment Thesis

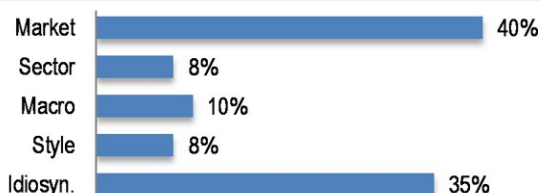
Hannover Re is our preferred European reinsurer name because with a stronger balance sheet than before, we believe the company can continue its track record of consistent delivery on targets against almost any reinsurance market backdrop.

- **Most reliable P&C name.** With the reinsurance market likely to stabilise, we see Hannover Re as a good way to gain exposure to the cycle. Having added to reserve buffers in 2023-24 and with more reserve conservatism to flow through, we view the company as well positioned to deliver strong reliable returns against almost any market backdrop.
- **Capital return potential.** Hannover Re has the potential to increase its payouts and with the positive outcome of the S&P model changes, we believe that the company could potentially increase its payout ratios.
- **Buffers to support earnings growth into 2025 and beyond.** In addition to the reserve redundancy in P&C, Hannover's consistent conservatism in a number of areas implies there are buffers available to support future earnings.

Valuation

We value Hannover Re by estimating its sustainable across-the-cycle comprehensive ROE of 15% and use this to derive a valuation multiple on Comprehensive Equity. We adjust for dividends and apply a CoE of 8% and growth rate of 0%. This results in our Dec-26 PT of €330.

Performance Drivers



Factors	6M Corr	1Y Corr
Market: MSCI Europe ex UK	0.66	0.67
Sect: Financials	0.37	0.34
Ind: Insurance	0.75	0.65
Macro:		
Euro	0.27	0.25
Citi Eco Surprise Eurozone	-0.31	-0.19
Eurozone CPI	0.27	0.16
Quant Styles:		
LowVol	0.20	0.36
Momentum	0.06	0.24
Value	0.08	0.08

Source: J.P. Morgan Quantitative and Derivatives Strategy for Performance Drivers; company data, Bloomberg Finance L.P. and J.P. Morgan estimates for all other tables. Note: Price history may not be complete or exact.

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Table 1: Hannover Re - summary of estimate changes

€ million, €, %

	JPMe 2025E	JPMe 2026E	JPMe 2027E	JPMe 2028E	Old 2025E	Old 2026E	Old 2027E	Old 2028E	% change 2025E	% change 2026E	% change 2027E	% change 2028E
Reinsurance revenue	27,868	28,704	29,565	30,452	28,008	28,848	29,714	30,605	-1%	-1%	-1%	-1%
Reinsurance service result (net)	3,010	3,086	3,164	3,121	3,007	3,065	3,152	3,130	0%	1%	0%	0%
P&C	2,097	2,148	2,214	2,176	2,109	2,156	2,221	2,180	-1%	0%	0%	0%
L&H	914	938	950	946	898	909	930	950	2%	3%	2%	0%
Investment income	2,183	2,254	2,347	2,444	2,119	2,273	2,367	2,464	3%	-1%	-1%	-1%
Operating profit (EBIT)	3,625	3,859	4,011	4,045	3,547	3,853	4,014	4,070	2%	0%	0%	-1%
P&C	2,655	2,845	2,972	2,998	2,588	2,845	2,972	2,994	3%	0%	0%	0%
L&H	971	1,013	1,038	1,046	959	1,007	1,041	1,075	1%	1%	0%	-3%
Net income	2,568	2,750	2,860	2,886	2,532	2,757	2,875	2,916	1%	0%	-1%	-1%
DPS	9.50	10.00	10.50	11.50	9.50	10.00	10.50	11.50	0%	0%	0%	0%
EPS	21.29	22.80	23.72	23.93	21.00	22.86	23.84	24.18	1%	0%	-1%	-1%
PIC COR	87.8%	87.9%	87.9%	88.4%	87.8%	87.9%	87.9%	88.4%	0.0%	0.0%	0.0%	0.0%
Sol II ratio	261%	265%	269%	271%	260%	263%	267%	270%	1%	1%	1%	1%

Source: J.P. Morgan estimates.

Investment Thesis, Valuation and Risks

Hannover Re *(Overweight; Price Target: €330.00)*

Investment Thesis

Hannover Re is our preferred European reinsurer name because with a stronger balance sheet than before, we believe the company can continue its track record of consistent delivery on targets against almost any reinsurance market backdrop. We see the potential for earnings growth to continue for 2025E and beyond, which should also support more capital returns

- **Most reliable P&C name.** With the reinsurance market likely to stabilise, we see Hannover Re as a good way to gain exposure to the cycle. Having added to reserve buffers in 2023-24 and with more reserve conservatism to flow through, we view the company as well positioned to deliver strong reliable returns against almost any market backdrop.
- **Capital return potential.** Hannover Re has the potential to increase its payouts and with the positive outcome of the S&P model changes, we believe that the company could potentially increase its payout ratios.
- **Buffers to support earnings growth into 2025 and beyond.** In addition to the reserve redundancy in P&C, Hannover's consistent conservatism in a number of areas implies there are buffers available to support future earnings. These include not recognising the higher discounting benefit into earnings, and its approach to reserving large losses to budget when there is 'good luck'.

Valuation

We value Hannover Re by estimating its sustainable across-the-cycle comprehensive ROE of 15% and use this to derive a valuation multiple on Comprehensive Equity. We adjust for dividends and apply a CoE of 8% and growth rate of 0%. This results in our Dec-26 PT of €330.

Hannover Re – IFRS17-based valuation

€ million, unless stated otherwise

Business unit	Sustainable comprehensive profit €mn	Insurance service result €mn	Net financial result €mn	Other profit €mn	CSM value added €mn
P&C	3,092	1,863	858	-160	532
L&H	918	938	255	-180	-96
Consolidation	0	0	0	0	0
Other non-operating items	-102	0	0	-102	0
Pre-tax sustainable comprehensive profit FY24E	3,908	938	255	-180	-96
Tax	-977	Assume 25%			
Minorities and other	-71				
Sustainable comprehensive profit FY24E	2,860				
Comprehensive equity FY23E	19,057				
Sustainable comprehensive ROE	15.0%				
COE	7.9%				
g	0%				
Valuation price to Comp BV	1.9x				
Valuation FY23E	36,248				
Dividends / buybacks outstanding in 23E	1,146				
Valuation roll-forward	2,860				
Valuation	40,254				
NOSH mn	121				
Value per share €	333.8				
Target price €	330.0				

Source: J.P. Morgan estimates.

Risks to Rating and Price Target

Downside risks include utilisation of reserve buffers, outsized catastrophe losses and lower life reinsurance results.

Hannover Re: Summary of Financials

INCOME STATEMENT	FY24A	FY25E	FY26E	FY27E	BALANCE SHEET	FY24A	FY25E	FY26E	FY27E
Divisional profit					Cash & Cash Equivalents	1,253	1,165	1,212	1,261
Life operating profit	-	-	-	-	Investments	63,283	64,946	67,583	70,327
Life reinsurance operating profit	934	971	1,013	1,038	Investment property	2,605	2,617	2,723	2,833
P&C operating profit	-	-	-	-	Goodwill	80	80	80	80
P&C reinsurance operating profit	2,387	2,655	2,845	2,972	Other intangibles	-	-	-	-
Other pre-tax profit	(108)	(103)	(102)	(102)	Other assets	1,357	1,411	1,468	1,528
					Total Assets	72,087	74,145	77,016	80,041
Consolidated P&L					Insurance liabilities	48,918	49,538	50,147	51,318
Insurance revenue	26,379	27,868	28,704	29,565	o/w CSM	8,163	8,322	9,251	9,255
Insurance service result	3,019	3,010	3,086	3,164	o/w Risk adjustment	4,004	4,049	4,077	4,150
Insurance net financial result	890	1,014	1,113	1,186	o/w PVCF	-	-	-	-
Interest expense	(104)	(102)	(102)	(102)	Investment contract liabilities	-	-	-	-
Other income and expenses	(591)	(399)	(340)	(340)	Senior debt	747	747	747	747
Total pre-tax profit	3,213	3,523	3,757	3,908	Subordinated debt	3,230	3,230	3,230	3,230
Income taxes	(817)	(891)	(939)	(977)	Other liabilities	2,905	3,034	3,574	3,645
Minority interest	-	-	-	-	Total Liabilities	59,439	60,120	61,272	62,524
Net income	2,329	2,568	2,750	2,860	Shareholders' equity	11,795	13,084	14,688	16,342
Pre Tax Operational Income	3,213	3,523	3,757	3,908	Preferred equity / hybrid capital	-	-	-	-
Adjusted Net income	2,329	2,568	2,750	2,860	Minority Interests	894	941	1,056	1,175
Comprehensive profit	2,677	2,498	3,652	2,809	Total Liabilities and Shareholder Equity	72,127	74,145	77,016	80,041
Adj. EPS	19.31	21.29	22.80	23.72	Comprehensive equity	17,837	19,057	21,563	23,166
Comprehensive EPS	22.20	20.72	30.28	23.29	Net CSM	6,122	6,053	6,955	6,903
DPS	9.00	9.50	10.00	10.50					
Ratio Analysis					Ratio Analysis				
Insurance margin	-	-	-	-	BVPS	97.8	108.5	121.8	135.5
Adj. EPS y/y Growth	27.6%	10.3%	7.1%	4.0%	Comprehensive BVPS	147.91	158.02	178.80	192.10
Comprehensive EPS y/y growth	(0.2%)	(6.7%)	46.2%	(23.1%)	ROE	21.2%	20.6%	19.8%	18.4%
DPS y/y Growth	25.0%	5.6%	5.3%	5.0%	Comprehensive ROE	15.9%	13.5%	18.0%	12.6%
Adj. P/E (x)	14.5	13.1	12.3	11.8	P/BV	2.9	2.6	2.3	2.1
Comprehensive P/E (x)	12.6	13.5	9.2	12.0	Comprehensive P/BV	1.9	1.8	1.6	1.5
Dividend Yield	3.2%	3.4%	3.6%	3.8%	Debt leverage ratio	17.5%	16.6%	15.0%	14.0%
P&C combined ratio	-	-	-	-					
Reinsurance P&C combined ratio	86.6%	87.8%	87.9%	87.9%					
Life new business CSM	317	472	380	380					
Life new business CSM margin	-	-	-	-					
CSM release ratio	(14.8%)	(12.4%)	(12.1%)	(11.9%)					

Source: Company reports and J.P. Morgan estimates.

Note: € in millions (except per-share data). Fiscal year ends Dec

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Hannover Re (HNRGn.DE, HNR1 GR) Price Chart



Date	Rating	Price (€)	Price Target (€)
11-Jul-22	OW	138.30	185
04-Aug-22	OW	141.30	175
03-Nov-22	OW	163.65	190
08-Dec-22	OW	184.75	210
09-Mar-23	OW	182.20	205
18-Jul-23	OW	190.60	235
09-Aug-23	OW	192.10	240
22-Sep-23	OW	212.20	255
19-Mar-24	OW	244.60	290
14-Aug-24	OW	231.90	300
13-Mar-25	OW	272.70	320

Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends.
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