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Call for Analysts and Investors

Transcript

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Speakers:

Carlos Rodríguez-Ugarte

Beatriz Izard

Presentation

Beatriz Izard
Head of Investor Relations

Good morning and welcome to Línea Directa's conference call to discuss June 2024 results.

I am Beatriz Izard, Head of Investor Relations. As usual, we will first walk you through the slides and then we will be happy to take any questions you may have.

Now let me turn the call over to our CFO, Carlos Rodriguez-Ugarte.

Carlos Rodríguez Ugarte
Chief Financial Officer

Thank you, Beatriz, good morning and thank you for joining us. I will go straight to page number 5.

The first half of 2024 has been marked by a further consolidation of profit and a remarkable change of trend. We are pleased to present these results:

Combined ratio dropped to 95.5% in the first half, 12.4 percentage points below of that of 2023, and stood at 93.6% in the second quarter standalone.

This noteworthy trend was mainly due to the decline in the loss ratio, with a much better claims experience. Nonetheless, also expenses continue to behave and expense ratio dropped to 22.1% and 21,9% in the quarter.

Gross written premiums grew 2.4%, with an acceleration in the Health line of business.

Another highlight is the customer portfolio reversing the recent trend and growing in the quarter by 0.7%.

All things together, net income increased to 25.4 million, which compares to the loss of 15 million euro in the first half of 2023.

Finally, solvency ratio stood at 191%, mainly driven by the positive results. The Board of Directors approved yesterday a first interim dividend on account of 2024 results for an amount of 15 million euro. Payment date will be August 1st. Considering such dividend, solvency ratio stands at a very comfortable 184%.

Turning now to page number 7.

- Insurance revenues were up 2.7%, with the contribution of all lines of business.
- Technical profit stood at 21.6 million, accelerating the positive trend of the first quarter. Loss ratio dropped by 12.3 percentage points and expense ratio a further 0.1 points. Correspondingly, combined ratio dropped to 95.5%. As with regards the second quarter standalone, combined ratio stood at an excellent 93.6%.

- Investment result was down 1.1%, mainly driven by the impairment of the Atos bond. Underlying investment result would have been up by 26.2% on the back of higher income from the fixed income portfolio.
- Credited interest, which is shown separately from investment result for clarity purposes, is the financial unwinding on the prior year discounting of the provision for claims incurred. The unwinding was an expense of 4.3 million for de first 6 months of the year.
- Altogether, profit after tax stood at 25.4 million euro, which compares to the loss of 15 million over the same period of last year, a turnaround of more than 40 million.

Turning to page number 8.

As usual, we breakdown premiums and policyholders by line of business. Health continued to enjoy significant revenue growth.

The portfolio also grew in the quarter standalone in Motor and Home, reversing the trend of the last 4 quarters.

Turning to page number 9.

The portfolio in Motor insurance grew more than 5,300 policyholders. Insurance income continue to increase although with a slight moderation of growth as compared to the first quarter.

Combined ratio had an extraordinary progress as the result of the prudent management of claims and rate actions started in 2023. We can safely say we are back to technical profit, yet we'll continue working on this front.

Turning to page number 10.

In the Home business, as with Motor, in the second quarter the portfolio of customers grew, restoring an upward trend. Premiums grew 4.4% at the same rate as in the first quarter.

Combined ratio was particularly low at 88.8 and 81.1% for the six and 3 months, respectively. The absence of weather events was a key component to which it is also fair to add the careful subscription.

As with regards the Health business, the remarkable growth continues. Combined ratio also had an outstanding performance as compared to last year.

We need both scale and efficiencies from the marketing and operational side of the business to reach our breakeven goal, and this is where our efforts are being directed at.

As usual, full disclosure on combined, loss and expense ratios by line of business is provided in page 23 and in the excel financial supplement.

Please let's move now to slide number 12.

Loss ratio continues to improve and stood at 73.4, 12.3 percentage points lower from last year with Motor leading the improvement.

Also, Home and Health posted lower claims experience on the back of lower average costs and limited frequencies. Home was also aided by the absence of weather events.

Turning to page number 13.

On expenses, the Company does not separate from its efficiency roadmap. The expenditure is very much controlled and below premiums' growth. The trend in both acquisition and administrative expenses remains first class.

Turning to page number 14 on financial result.

Investment result was down 1.1%. Prudently, the Company decided to account for an impairment in a bond of the French technology company Atos.

Excluding such effect and the mark-to-market of the investment funds, financial result would have been up by 26.2%, in line with the first quarter. The increase is driven by the income from the fixed income portfolio.

As usual we are providing the credited interest in a separate line for clarity purposes.

On slide 15 we disclose the portfolio composition, the movements that flow directly through equity under IFRS9 and some other metrics. The message here is that the overall yield of the portfolio stands at about 3% excluding realised gains/losses and the overall duration of the fixed income portfolio is 3.2 years. Portfolio composition, with minor changes, remains pretty much the same.

Moving on to our solvency position, Solvency margin rose to 191% in the quarter, the main contributor being the profit of the quarter.

The Board of Directors yesterday approved an interim dividend on account of 2024 results of 15 million euro, to be paid on August 1st.

Considering such dividend, solvency ratio stands at a very secure 184%.

For its part, SCR remained pretty much stable on the back of positive offsetting negative effects. Mainly, we recorded higher exposure to corporates offset by lower balances of deposits and the moderation of growth as reflected in the non-life SCR.

To conclude, in 2024 we are harvesting the fruits of coordinated and persistent actions that were needed to adjust our business to the new market environment.

These results are a reason to be pleased about. Yet this is not to say that we ease in our efforts, as we'll continue to work to deliver better results.

Thank you very much. I will now hand the call over to Beatriz to begin the Q&A session.

Q&A

Beatriz Izard: Thank you very much for the presentation, Carlos. First, we'll begin with the questions received from the conference call.

Moderator: Ladies and gentlemen, we will now begin the Q&A session. If you would like to ask a question, please press star five on your telephone keypad. If you change your mind, please press star five again. Please ensure that your device is muted locally before proceeding with your question.

The first question. comes from Max Mishyn from JB Capital. Now your line is open.

Max Mishyn: Hi, good morning. Thank you very much for the presentation and taking our questions. I have a couple. The first one is on your strategy in motor. You gained customers in the second quarter, but the average growth and premiums have slowed down. How do you see the competitive environment in the market and what kind of new customer evolution versus growth and average premiums should we expect for the rest of the year?

The second question is on claims. Could you please clarify whether there were any benefits from frequencies in your claims ratio of motor in the second quarter?

And then I was wondering if in the home you also expect such claims, such a good claims ratio to continue for the rest of the year. Thanks.

Carlos Rodriguez Ugarte: Thank you very much, Max. Well, I think in the motor business, we are more or less fulfilling our expectations. I mean, I remember in the first quarter, I explained that growth in the number of clients in the motor business was going to be difficult in the first quarter and we will start to see some improvement in the second quarter and that has been the case. I mean, we have been able to increase close to 6,000 new clients within the company. And I think that should be the trend throughout the year. We will keep on increasing quarter on quarter the portfolio in the motor business. I think the market now is in the mood of rising average premiums in line with what we did last year, so we anticipated that. We are still increasing average premiums very much close to CPI increases. That was the strategy for the company and that's what we are doing. So I think you should expect average premiums very much in line with CPI and the growth in clients in the motor business and also on the home business and also on the health business, to keep on improving throughout the year.

In terms of frequency, looking forward to the end of the year. Well, frequency was in line with what we expected. Probably we have less severity than we expected. But I think the key for the loss ratio has been more the management of costs and the evolution of the average cost per claim which has improved quite a bit from last year, or at least quite a bit from what we expected.

We'll see what happens in summer. I mean, summertime began one month ago. July numbers in terms of frequency are fair, I would say. So my expectation is that frequency will perform more or less in line with the first half of the year. And I think the evolution of the loss ratio will be very positive throughout the year. And I think I answered the other question with a second question. Cclaims are performing quite well. and my expectation is that it will be the case for the entire year, so I'm expecting a good year in terms of loss ratio and a good year in terms of combined ratio. We'll see what happens in summer.

In home business, well, we'll see what happens with the atmospheric events which has been a very good year so far and we'll see what happens in the third quarter.

Max Mishyn: Thank you very much, Carlos.

Moderator: The next question comes from Carlos Peixoto from CaixaBank. Now, your line is open.

Carlos Peixoto: Hi, good morning. Just a quick one from me and I'm sorry if I'm picking up again on the previous questions. I think I understood correctly that you expect the motor combined ratio to remain more or less at these levels throughout the rest of the year. And if so, previously I believe we had discussed levels of combined ratios around 94 to 95% for next year. Do you still see that as the best case for next year? Or should we expect better ratios? Thank you.

Carlos Rodriguez Ugarte: Thank you very much, Carlos. Yes, I think the evolution of the combined ratio was very good in the first half of the year, maybe a little bit better than I expected at the beginning of the year. But looking forward, in 2025, I still think that we should be in the neighbourhood of 94, 95%. We'll see what happens in the second part of the year, but again, if I were to say 2025, we should be there in 94s and 95s.

Moderator: The next question comes from Michael Huttner from Berenberg. Now your line is open.

Michael Huttner: Good morning. Just curious, apologies if I get all this wrong, but on the weather in home, can you give a feeling for what would be a normal weather pattern or how much of the beat if you like is coming from weather or if is this sustainable. Just some background would be great.

And then on the dividend. The dividend is bigger than the profit. That's my reading, but maybe I'm wrong. Can you explain your thinking on the dividend? Is this a quarterly dividend which continues at the same pace or do you declare dividends as they come? Thank you.

Carlos Rodriguez Ugarte: Thank you very much, Michael. In the home insurance question, I don't think the company will be able to sustain that 88% in terms of combined ratio because it's very much impacted by atmospheric events and being a business that is still today's kind of thin as compared to the motor insurance, it's going to be difficult.

Of course, we should expect some atmospheric events after summer, October, November, and that will have an impact on the combined ratio. Having said that, I think you should expect a combined ratio in the low 90s for the year, which will be much better than the previous year.

Indeed, if you take a look at the standalone quarters in 2023, the evolution of the combined ratio has been very positive since then. But again, I mean, shooting for an 88% combined ratio, I think it's not realistic. I think we should be in the low 90s.

And in terms of dividends, well, I think the board is doing what they have to do. They go step by step after one year of losing money in 2023, I think the board has been very cautious trying to consolidate the income evolution of the company. We have been already three quarters, making profit of a bottom line in black, and well, they have taken the decision to have a dividend around 95% payout. Looking forward throughout the year, we'll go quarter by quarter. But again, I think the intention of the company has always been a high-dividend payer and the decision when and how much is on the board, but I think there is a clear sign around June that the company is back on track in the dividend payment.

Michael Huttner: Fantastic. Thank you very much.

Moderator: The next question comes from Juan Pablo López Cobo from Santander. Now, your line is open.

Juan Pablo López Cobo: Yeah, good morning. Thank you very much. Two questions from my side. First one is you could update us regarding the confidence level. You're applying to cover future risks. I think 85% was done in the past.

And maybe a follow-up regarding the dividend payout ratio. I don't know if the right way to look at this is more on the first-half results and we should expect payout ratio more in line with 60% for the year.

And maybe a last question regarding investment results. I don't know if you could provide any guidance for the next quarters, if we should expect something in the line of 10, 11 million euros per quarter. Thank you.

Carlos Rodriguez Ugarte: Well, thank you very much, Juan Pablo. Regarding the methodology that we apply, we apply our statistical methodology which is approved and that is the application we do. On the dividend payout, again, we have been always a company with a high dividend payout. I think that would be the case looking forward. Again, I think the board is being very cautious in deciding the amount of dividends on a quarterly basis. But again, I mean if things keep on track in terms of profits, you should expect the dividend payout to keep on improving throughout the year and throughout the coming years. I don't have a number, I don't have a clue what the board is going to do, but you should expect that the dividend payout will keep on growing as bottom-line numbers keep on growing.

Regarding investment results. Well, I think looking forward, you should expect much better results on the investment portfolio. Given the fact that our yields are very close to 3%, but we are reinvesting a big portion of our maturities above 4%, you know? If we don't have any extraordinary as we did in this quarter, the evolution of the investment portfolio will be much better than in this quarter. Keep in mind that we have, on a prudent basis, we have decided to do an impairment in a bond that we have on a fixed-income instrument that we have in a French technology company and that had an impact on the investment portfolio and also the mark to market of the non-listed mutual funds also had a negative impact. If those things are correct, looking forward, the investment portfolio will provide much better results.

Moderator: There are no further questions at this time on the conference call. I will now hand back to Beatriz Izard, Head of Investor Relations. Beatriz, now your line is open.

Beatriz Izard: Thank you. Now we will continue with the questions received through the platform.

We have one question coming from Marissa Mazo from GVC Gaesco regarding home insurance.

What would be the run rate of the lost ratio? Should we consider this quarter as extraordinary good?

Carlos Rodriguez Ugarte: Well, I think I already answered that question. I think you should expect the home combined ratio in the low 90s. I think the important number or the important evolution of the combined ratio to watch is the evolution since the third quarter or the fourth quarter of 2023. I think the evolution has been very positive, but it is true that June numbers being on 88 combined ratio, I think it's just extraordinary. Again, atmospheric events will come, probably in autumn and that will have an impact, but the run rate, as you said, should be in the low 90s.

Beatriz Izard: We have no further questions. Thank you. And thank you very much, Carlos. And thank you all for taking the time to connect. As always, the IR department is here to help you should you have any further questions.

Carlos Rodriguez Ugarte: Well, thank you very much. You have a good summer and drive carefully.