Deutsche Bank

6 AXA – Oliver Steel, BUY, close €25.20, €28.50 tgt, 13% upside

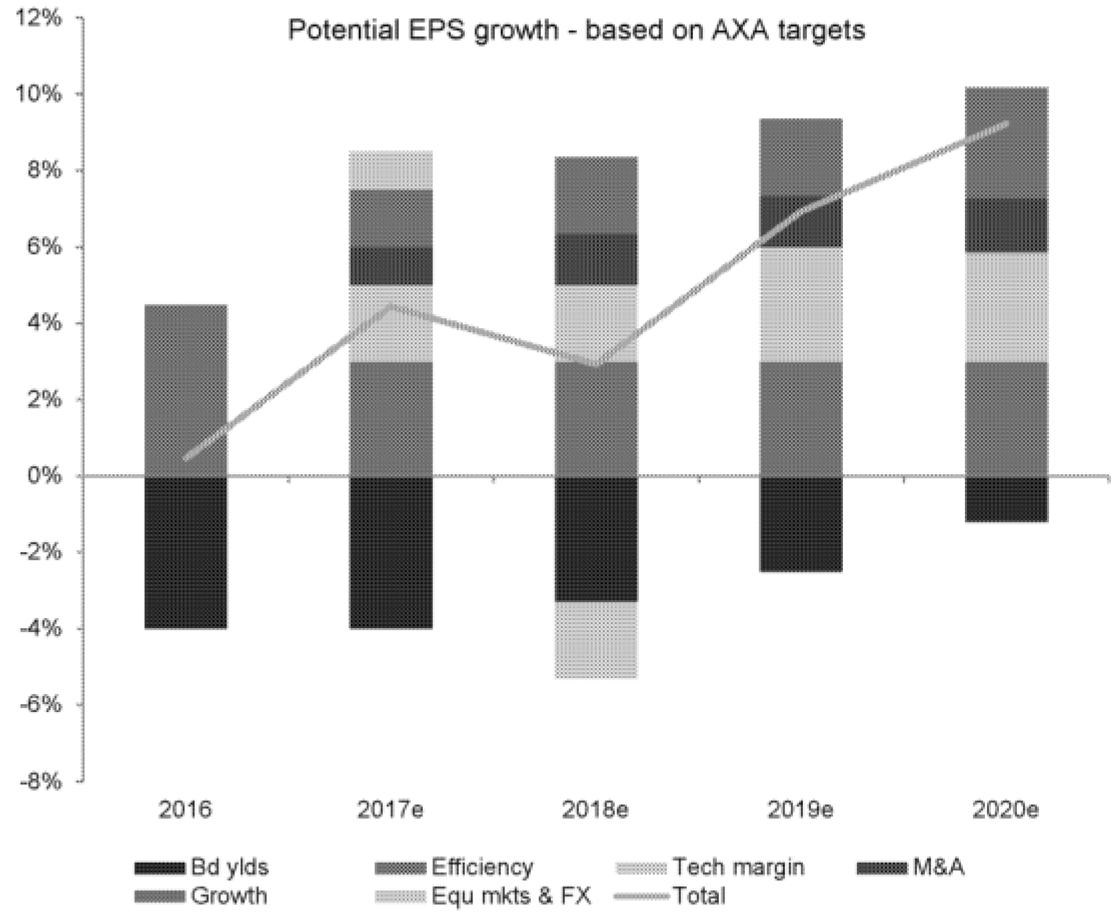
- AXA is geared to rising bond yields, especially in the US, and the DB house view sees **upside to bond yields** from better macro.
  - The downside in any case is modest: US 10 year would need to fall to 1.5% before further reserving fears could be valid.
- **The solvency ratio is robust at 200%.**
- **We see re-rating potential** as M&A plans are executed. This cannot be risk free, but the scale of the plans is modest in the context of the group (planned disposals account for 13% of group earnings); yet the shares now trade 15% below the sector.
- We see **earnings upgrade potential** on delivery of the **five-year plan**.
  - Management has recently reiterated its **confidence in the group target** of 5% pa EPS growth in 2015-2020 (despite FX headwinds). This **implies c.7% pa growth over the course of 2018e-2020e**.
- Our forecasts are in line with management's 5% p.a. base case, but are still conservative. For instance, we do not incorporate any revenue benefit from the **'simplify to accelerate'** programme (focusing on only 16 principal countries, reducing management layers).
- The simplification programme should deliver the equivalent of €0.3bn in cost savings within two years (c5% of 2016 net income).
- In summary, AXA is far too cheap at **a 15% discount to the sector** – with the potential to re-rate in 2018. It currently **trades on 9.5x 2019E**, vs **conglomerate peers at 11.7x and sector at 11.0x**
- Catalysts: planned M&A during 2018; FY and 1H results.

Related DB Research:

AXA: A confident investor day update (Steel)

European Insurers: 2018 - Safety and Optionality (Steel)

Potential for significant EPS acceleration – and on delivery, re-rating



Source: Company data, Deutsche Bank estimates