Allianz SE (ALV) - XETRA

Sector: Financials

Price: 166.94€

Market Cap: 24.65B€

P/E ratio: 16.00

Dividend: 9.6€ yearly – 5.94%

KEY INFORMATIONS

147k employees

4th largest insurance company worldwide

The stock outperformed the index in last 5 years

The price is undervalued by a good 40/45%

Very stable company and with a good growth in last 10 years

The company has a very strong equity and cash positions

Profit margins are very good compared to the competitors

They have started a good dividend program 10 years ago

STRENGHT POINTS

One of the biggest insurance companies in Europe, they have expanded their business in US and Eastern countries too, they have a great history and the company has been founded in 1890, giving them enough experience to face future challenges and be able to face any new problems with knowledge and experience.

Employees satisfaction is one of the highest in their sector, the employee turnover is one of the lowest in Europe, and the company strongly invests on employees growth, this allows them to have an always satisfied and motivated work force, which is vastly demonstrated by the fact that they have a very low sick leave days per employee statistic. They are able to create a total of over 1 million Euro of revenue par employee, and grow this number year by year.

Very strong brand and reputation, even with the pandemic they've been able to keep their revenue up, not only with teleworking but also by integrating a lot of their products into their websites and being able to sell them on the internet and at phone and keep the money coming in.

Very strong financials, they have a total control over their debt which is very low compared to their earnings and free cash flow, all financial ratios are looking good, gross profit margin and operating margin are way higher than the sector average, meaning that Allianz leverages its assets and have a way better management than its competitors, both in Europe and worldwide.

The company started a good dividend plan 10 years ago, they started raising it year by year from then and in 10 years the dividend more than doubled from 4€ yearly to 9,6€ yearly. We can expect the company to keep growing the dividend, maybe at a slower pace, but we can expect it growing. The yield is an interesting one, and the dividend is distributed yearly (it was distributed in May). Don't get scared if the stock price goes down by 5-6% when the dividend is distributed, this is a common practice in Europe, when a company distributes a dividend, its share price will drop by the same amount.

Stock price has outperformed the index in the last 10 years, making it a very interesting buy for any stock picking investor.

Shares fair value is a minimum of 200€ a share so you're buying at a 20% discount rate, with a 7 year Ben Graham formula projection of over 475€ a share.

FINANCIALS

22.98B€ cash – 81,75€ par share

30B€ retained earnings – money they have and they can use any time for company's growth (companies usually use them for investing or just keep them in case of need, they still issue debt because it's cheaper to use other people's money than your own)

177.45€ book value par share – book value is the value of all assets, without looking at intangible ones, so it's the value of things they can sell and just shut down the business.

Debt is 27.8B€, they could repay it whenever they want with the cash on hand. So no worries about debt, it's very low and under control.

By calculating the fair value of the company – we add the cash to the book value and then take a security margin, we can see that it's at least 20% cheaper that its intrinsic value, this means that the shares are very cheap, low risk and have a very good potential reward for investors.

If we look at historic P/E ratio right now it's a little high, but given the situation and the potential gain I wouldn't wait for a better price. If you want an even lower risk you can wait for the price to go under 150€, but you could be left out of the market and lose an opportunity.

Considering the actual ratios and the overall market situation I estimate a 1 year price estimate around 210$ which means a 25% gain in the first year – due to the great potential and decent price – and an annual gain around 15% for the next 5 years. After those the financials must be recalculated and a new analysis must be done.

POTENTIAL THREATS

Insurance and assets management is a very competitive sector, and constant research is needed to keep the company up to date with the best investments and statistics. I wouldn't worry about this one anyway, the company has been around for enough time to know how sector works.

There are not really any other potential threats, because the company is already very well managed and they've always been able to keep very good margins on their products. These things make me optimist about its future and I don't think they will have any issues in the foreseeable future.

The actual price is interesting but if you can get closer to 150€ that lowers even more the risk. I would use a dollar averaging strategy, by buying 33% of the sum I plan to invest at this price, 33% more if the price goes to 155€ and the last 33% if the price goes to 145€. As you know, short term volatility can occur so these prices could be hit, but we can't really say if and when it will happen.

Potential downside is low, no more than 15% (141€) but price raise potential is very interesting and could lead to some nice profits.

Investment timeline goes from 5 to 10 years, with a minimum of 2 years to let the company show the results. Shouldn't be sold until other kind of issues appear. Dividend yield is very interesting, dividend reinvesting is always a good idea

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