



# ATLANTIC CAPITAL MARKETS



# Aviva

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- **Ticker** **AV.**
- **Objective** **Capital growth and income**
- **Dividend Yield** **7.53%**

## A Brief History

Aviva plc provides life insurance, general insurance, health insurance and asset management to 33 million customers. UK exposure is huge, serving on average one in four of all households. Aviva's asset management business - Aviva Investors, provides asset management services to both Aviva and external clients, and currently manages over £340 billion in assets.

Aviva can trace its history back to the establishment of the Hand in Hand Fire & Life Insurance Society in London in 1696 but the business we know today was created by a merger of two British insurance firms, Norwich Union and CGU plc. The Aviva name was adopted in July 2002.

## Slicing and Dicing

Since formation the slicing and dicing in the background has been substantial, below is a brief summary of what's been going on.

- March 2005 Aviva acquired the RAC breakdown recovery operation for around £1.1 billion.
- July 2006, Aviva increased its presence in the United States by acquiring AmerUs Group, in a £1.6bn deal.
- October 2009 decided to focus on its commercial insurance sector with the launch of their 'find a broker' facility.
- September 2011 Completed the sale of RAC plc breakdown recovery operation for £1.0 billion to The Carlyle Group.
- February 2012 Sold its occupational health business to Capita.
- July 2012 announced plans to sell or close 16 non-core businesses in order to simplify its activities and boost shareholder returns. As part of the plans Aviva announced the sale of its operations in South Korea and the closure to new business of its bulk buying annuity unit in the United Kingdom.
- December 2012 agreed to sell Aviva USA Corporation to Athene Holding for £1.1bn as part of a plan to improve shareholder returns and reduce the group's capital requirements.
- April 2015 Completed the £5.6 billion all share takeover of Friends Life Group.
- September 2017 Aviva agreed to sell its Italian joint venture Avipop Assicurazioni to Banco BPM for €265 Mn.

## Recent Trading

Over the last couple of years caution around Brexit and a weaker currency has dampened investor appetite towards UK financials and Aviva is no exception. This coupled up with the structural

changes going on in the background has left the share price flagging. For those that can see beyond the near term will find an attractive P/E ratio, appealing yield and upside potential. Aviva is well diversified internationally, operating in Canada and Asia as well as across Europe. Despite its diversification the UK and Europe are by far their largest markets accounting for over 60% of operating profits.

## Charts



## Key Fundamentals

	31-Dec-14	31-Dec-15	31-Dec-16	31-Dec-17	31-Dec-18
Revenue (£ m)	43497	23728	55292	49653	17799
Pre-Tax (£ m)	2663	1172	1833	2374	1652
EPS	50.40p	22.60p	15.30p	53.00p	38.20p
PE	10.01	22.83	31.79	9.45	9.83
PEG	-0.44	-0.41	-0.98	0.04	-0.35
EPS Growth	-22.82%	-55.16%	-32.49%	247.35%	-27.92%
Dividend Cover	3.95	1.61	0.66	1.93	1.27
Dividend Yield	2.53%	2.72%	4.79%	5.47%	7.99%

## Operation Review and Overhaul

There has been plenty of structural changes going on, and this year is no exception. All adding to the weight on the share price, most noticeably the appointment of a new CEO. The new CEO (Tulloch) has already earmarked savings of £300mn a year for the next three years. This plan will also include the loss of 1800 jobs. There has also been a promise to run the two main sections of the UK business as two separate operations.

As part of an overhaul Aviva has been divided across five operating divisions - investments, savings and retirement, UK life; general insurance, Europe life, and Asia life.

It has long been said that overall Aviva is overly complex and as such needs to simplify and streamline..... Easy to say, hard to achieve.

## Asian Assets

The market has recently reacted negatively to the news that they are no longer going to sell off as many of the Asian assets as initially expected. The Asian operations made profits of £152m in the first half, about a tenth of the group total.

There was a general assumption in the markets that at least some of the entities would be sold and the group would be able to use the sale proceeds to pay down debt or give capital back to shareholders. Singapore is Aviva's biggest business in the region but the Chinese operation, ran as a joint venture with Cofco (a state-owned food production company) is growing rapidly as life insurance sales increase.

They have agreed the sale of its Hong Kong joint venture, called Blue, to the partner Hillhouse Capital, and is in talks to strike similar deals for its businesses in Vietnam and Indonesia. So, they are streamlining in the region, just not to the degree everyone hoped for.

Overall the recent review has been taken as disappointing for shareholders who were expecting a deeper sale of operations in Asia, but Aviva stand by this by saying retaining the operations will be better for share holders over the longer term. The rapid growth in the Chinese markets is another strong reason for maintaining an Asian presence.

Ok so it is a bit underwhelming, but you can hardly blame Tulloch for a more cautious approach to restructuring rather than aggressive and somewhat radical changes.

## Summary

The share price looks like investors have been overly cautious towards the shares mainly fuelled by uncertainty towards Brexit, weak GBP and a lack of clarity on their overall operations.

Despite shorter term disappointment, Aviva shares offer an appealing proposition for both value investor and income investors. Of course, buying shares in the company does not come without risks. There are a lot of changes going on behind the scenes and there is uncertainty if these changes will affect the profitability. However, as the business stands at the moment the share price does represent a great opportunity and looks undervalued, not least because of what's going on but more so because of concerns over how the Brexit end game will play out.

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