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Credit Opinion: Pojistovaci maklerstvi INPOL a.s.

Global Credit Research - 30 Nov 2011

Czech Republic

Ratings

Category	Moody's Rating
Rating Outlook	STA

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Key Indicators

Pojistovaci maklerstvi INPOL a.s.[1][2]

	2010	2009	2008	2007	2006
Total Revenues (CZK Mil)	106.317	90.17	91.86	93.71	74.52
EBITDA(CZK Mil)	11.69	8.08	7.85	24.51	16.99
Pretax Income From Continuing Ops (CZK Mil)	8.45	6.26	6.39	22.87	15.36
Net Income (CZK Mil)	7.08	4.75	4.27	22.93	11.40
Total Assets (CZK Mil)	63.37	53.21	49.04	47.22	38.95
Total Debt (CZK Mil)	2.95	2.54	NA	NA	NA
Shareholders' Equity (CZK Mil)	29.28	26.69	27.94	41.84	30.11
EBITDA Margin (%)	11.0%	9.0%	8.5%	26.2%	22.8%
Net Profit Margin (%)	6.7%	5.3%	4.6%	24.5%	15.3%
Adjusted Debt / EBITDA(x)	0.3x	0.3x	NA	NA	NA
Adjusted (EBITDA- Capex) Cvrg of Interest (x)	39.6x	31.9x	NA	NA	NA
Adjusted EBIT Coverage of Interest (x)	29.7x	25.3x	NA	NA	NA
Adjusted Free Cash Flow % Debt	255%	380%	NA	NA	NA

[1] Data based on audited Czech GAAP accounts [2] 1 USD = 19 CZK as at 31 Dec 2010

Opinion

SUMMARY RATING RATIONALE

Pojistovaci maklerstvi INPOL a.s.'s (Inpol) Baa1.cz national scale rating reflects the company's continued profitability, very limited debt burden and the conservative nature of its investments. Further, Inpol's client retention is good, underpinned by the provision of high quality service.

Constraining the rating are Inpol's limited market position (11th largest insurance broker in the Czech Republic, in terms of intermediated premiums), its lack of geographic diversification and concentration on the competitive Czech broker market, and relatively small size.

Credit Strengths

- Consistent profitability in recent years, with a strong ROE performance even during the financial crisis

- Very limited financial leverage with own funds held in bank accounts

- Good client retention

Credit Challenges

- Relatively small size with core shareholders' equity of around USD 1.5m at YE10

- Lack of geographic diversification with the vast majority of revenues generated in the Czech insurance market

- Concentrated revenue with Ceska Pojistovna and Kooperativa Pojistovna underwriting around 39% and 36% of brokered insurance premiums, respectively, and with around 62% of revenues generated by 10 largest clients

- High dividend payouts

Rating Outlook

The rating outlook is stable.

What Could Change the Rating - Up

Inpol has a stable position amongst insurance brokers in the local market. Any co-operation with or takeover by a strong international broker group may have a positive impact on the issuer rating.

What Could Change the Rating - Down

- Significant changes to the management or ownership would prompt a review of the rating

- Significant deterioration of the market position affecting Inpol's revenues and ability to generate profit

- Falls in the EBITDA margin below 5%

- Debt issuance increasing Debt / EBITDA above 3x

- Debt-financed dividend pay-outs or ongoing weakening of shareholders' equity

Recent Events

In 2010, total gross revenues increased by 18%, to CZK106.3 million (USD5.6 million) from CZK90.2 million in 2009. Average annual growth since 2006 has been 5.4%. Net income before tax improved by 35% to CZK8.5 million from CZK6.3 million in 2009.

At YE10, Inpol reported total assets of CZK63.4 million (USD3.3 million) and shareholders' equity increased by 10% to CZK29.3 million (USD1.5 million), despite further increase in the dividend payment.

In 2010, Inpol established an online insurance provider, Inpol Online sro, jointly owned with Emersson systems a.s.

DETAILED RATING CONSIDERATIONS

Factor 1 - Business Profile: Caa

Inpol's 2010 total revenues of CZK106.3 million, albeit 18% higher than in 2009, is extremely low on both, a global and a national comparative basis. Its market share of around 3%, while sufficient to place it amongst the 11 largest brokers, leaves it well behind the larger names such as RENOMIA (c.11% market share), CSOB (c.9%) and Insia (c.8%).

Inpol's diversification is also highly limited both in terms of geography and product. In 2008, the Group acquired a 50:50 joint venture in Slovakia Inpol SK s.r.o., although this entity only contributes a very limited amount of the Group's revenues - approximately EUR 81 thousands in 2010. Inpol is focused on insurance brokerage, specialising in industrial and business risk insurance. It does offer other product lines such as retail property, liability and life insurance but these are provided as a VIP service to management and the owners on Inpol's client base and only very small amounts are written. Further concerns surround the concentration risk in the company's client base with the top 10 clients, which in 2010 soared to 62% of revenues (2009: 41%), meaning the defection of only a very small number of key clients could have a disproportionately large impact on the Group's profitability. Client retention remained high in 2010 with no change in Inpol's top 20 clients, although the company continues to be reliant on a small number of large clients.

Similarly, Inpol has considerable concentration risk with regards to placing the business they write, relying heavily on the two strongest Czech insurers Ceska Pojistovna and Kooperativa Pojistovna as underwriters for its clients' risks. However, this means a very strong relationship with the two dominant market players, who together account for nearly 50% of premiums in Czech insurance market and who are also regarded as a more reliable claims player than some peers.

The company is currently represented by five distribution branches that cover all Czech regions and to a lesser extent by external agents and strategic partnerships. In 2010 Inpol also took a 50% share in a newly established online insurance provider Inpol Online s.r.o., which is expected to further diversify its distribution mix.

Factor 2 - Profitability: Ba

Profitability is considered Inpol's credit strength and 2010 saw a further recovery with ROE of 24% (2009: 18%) on a one year basis. However, company's 3 year average EBITDA margin of 9.5% appears weaker in 2010 compared to 14.6% in 2009, as well as its 3 year net profit margin of 5.5% compares negatively to 11.5% in 2009, which reflects lower results since 2007. However, after the significant deterioration in 2008, Inpol's profitability has improved continuously.

Factor 3 - Financial Flexibility: B

Moody's views Inpol's financial flexibility as strong despite the company taking out a bank loan in 2009 after many years with no debt, following a change in accounting laws which made purchasing cars for the management more economical than leasing them.

However, at a total of CZK3.0 million (around USD0.2 million) at YE 2010, leverage remains extremely low and the company scores very highly in all our financial flexibility ratios. Inpol's investments are almost exclusively in own funds held in bank accounts with UniCredit. However, the company's flexibility is constrained by its likely difficulties in raising funds if necessary, reflecting both, the company's small size and the limited capacity of the Czech capital markets, although the company's close relationship with UniCredit suggests that bank facilities may be available should the need become pressing. More negatively, Moody's notes the increased dividend payments since 2009.

Other Considerations

Inpol's ownership is concentrated in the hands of just two individuals who are members of the management board.

National Scale Rating

Moody's National Scale Ratings (NSRs) are intended as relative measures of creditworthiness among debt issues and issuers within a country, enabling market participants to better differentiate relative risks. NSRs in the Czech Republic are designated by the ".cz" suffix. NSRs differ from global scale ratings in that they are not globally comparable to the full universe of Moody's rated entities, but only with other rated entities within the same country.

Rating Factors

Pojistovaci maklerstvi INPOL a.s.[1]

Rating Scorecard	Aaa/Aa	A	Baa	Ba	B	Caa	Score	[2]Adjusted Score
Business Profile (30%)							Caa	Caa
Total Revenues ($ Mil) (TTM)						$6		
Diversification Score (#)					2			
Profitability (20%)							Ba	Ba
EBITDA Margin (%) (3-yr avg)					9.5%			
Net Profit Margin (%) (3-yr avg)				5.5%				
Sharpe Ratio of Net Profit Margin (x) (5-yr)					1.3x			
Financial Flexibility (50%)							A	B
Debt / EBITDA (x) (TTM)	0.3x							
(EBITDA - Capex) Cvrg of Interest (x) (TTM)	39.6x							
Free Cash Flow % Debt (TTM)	255%							
Aggregate Profile							Baa3	B1

[1] Scorecard used to generate senior unsecured debt ratings of investment-grade issuers and corporate family ratings of speculative-grade issuers. [2] The aggregate adjusted score is an important component of the company's published rating, reflecting the stand-alone credit quality before other considerations (discussed above if applicable) are incorporated into the analysis.

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