



Cyclical



Aviva - Buy

12th July 2011

Price	415p
12 Month Price Target	539p
Risk Rating	Medium
Forward P/E Ratio	6.9x
Forward Dividend Yield	6.2%

Company:

Formed by the merger of CGU and Norwich Union, Aviva is the UK's largest insurance company, with both a life and general insurance division. With significant interests in Continental Europe and Asia Pacific, Aviva has since grown into the world's sixth largest insurance group.

Life Insurance is a cyclical sector and tends to perform best at the early stage of the economic cycle.

Analysts View:

Morgan Stanley recently raised its 12 month price target by 4% to 539p following better than expected 2010 results.

Catalysts for the Share Price:

There are several catalysts that we believe will take the stock higher over the course of this year:

1. *Yield.* A yield of 6.2%, covered 2.6x, is very attractive to income investors in this low-interest rate environment.

2. *Healthy Balance Sheet.* With £3.6bn of capital over and above the existing regulatory requirements, the company has a comfortable buffer against any further tightening.

3. *Discount to NAV.* Trading at a discount to its European Embedded Value of 487p (which takes into account future profits from business already in force), the stock at its current level is offering investors a 17% margin of safety.

4. *Low P/E Multiple.* Trading on a forward p/e multiple of just 6.9x, the stock is currently substantially undervalued given its potential growth profile.

5. *Efficiency Drivers.* Considerable work has been carried out to reduce the number of legacy systems that Aviva runs, helping to streamline and integrate the various sides of the group. The company has also just closed its final salary staff pension scheme to new entrants. These initiatives should see the group deliver £400m in cost savings by year end 2012.

6. *General Insurance Performance is Improving.* Aviva's combined ratio has improved with the latest audited figure of 97% surpassing analyst's expectations. Aviva has also secured an extension



Cyclical (cont)

Catalysts for the Share Price (cont):

of the general insurance deal with HSBC to 2016, whereby the bank's customers can purchase Aviva's general insurance products through the bank's branches.

7. *General Insurance Rates Are Hardening.* The group has no exposure to the recent catastrophe events in Australia, Japan and New Zealand and will only benefit from the general hardening of rates this is expected to produce.

Technicals:





Primary Trend:

The primary trend of the stock price is up as indicated by the upward-sloping 200 day moving average. The RSI is currently at 40, though we feel the stock is oversold given it is at the lower end of its trading range, which is also potentially a quadruple bottom.

Support Levels:

Natural support lies at the psychologically important 400p level.

Chart Legend:

	20 day moving average	(signifies the short-term direction of the security. prices tend to gyrate around their 20 day m/a)
	50 day moving average	(signifies the medium-term direction of the security)
	200 day moving average	(signifies the long-term direction of the security - whether it is in a bull or bear market)
	Bollinger bands	(an indicator that measures 2 standard deviations away from the 20 day m/a)

Technical Analysis Guide:

RSI (relative strength index) - indicates whether a security is overbought (above 70) or oversold (below 30). Also when the RSI moves above 50 that is considered bullish (or vice versa).

ADX (average directional index) - indicates whether a security is in a trend (above 20) or not in a trend (below 20). For trending markets moving averages work best when considering lines of support/resistance. For non-trending markets Bollinger Bands work best (sell at upper band, buy at lower band).

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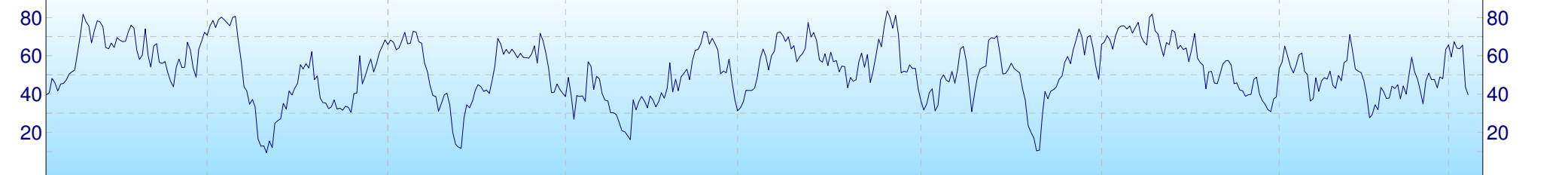
Pence

Aviva PLC N

Ord



14 RSI (simple - Daily)



14 ADX (Daily)

