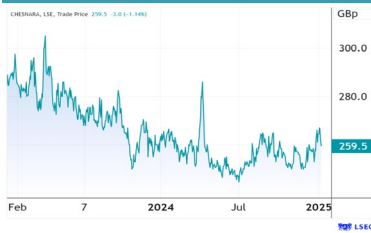




9 January 2025

Life assurance



Market data

EPIC/TKR	CSN
Price (p)	262.5
12m high (p)	290.0
12m low (p)	240.0
Shares (m)	151.0
Mkt cap (£m)	386.4
Economic Value (£m)	508.0
Country of listing	UK
Market	London

Description

Chesnara, primarily, manages and acquires closed life assurance books in the UK, Sweden and the Netherlands.

Company information

CEO	Steve Murray
CFO	Tom Howard
Chairman	Luke Savage
	+44 (0)1772 972 050
	www.chesnara.co.uk

Key shareholders

Columbia Threadneedle	11.8%
Abrdn	9.8%
Hargreaves Lansdowne	8.3%
Interactive Investor	8.0%
M&G	6.4%
Canaccord Genuity	3.8%
Rotal London	3.7%
Janus Henderson	3.4%

Diary

Mar'25	Full-year results
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Analyst

Brian Moretta bm@hardmanandco.com

CHESNARA PLC

Happy new acquisition

After an interval of 18 months, Chesnara announced a new acquisition just before Christmas. Although relatively small, it is another positive step for the company. The deal is a further acquisition from Canada Life UK, this time a portfolio of unit-linked bonds and legacy pension business, consisting of ca.17,000 policies and £1.5bn of AUM. The portfolio will transfer into Chesnara's UK business, Countrywide Assured. Expected completion is at the end of 2025, subject to the Part VII transfer getting court approval. Having previously purchased a Canada Life UK term assurance book, the integration should be straightforward.

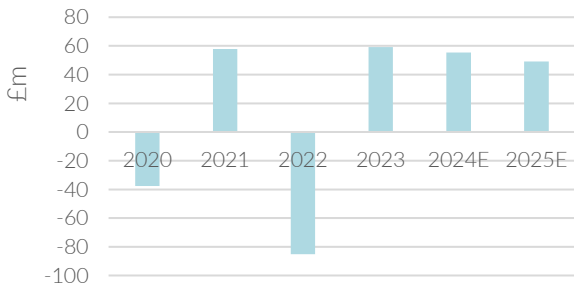
- **Structure:** As with the previous deal, a retrospective reinsurance arrangement is being put in place. Chesnara will reinsure the portfolio from 31 December 2023 and, so, will get the full benefit in the FY'24 figures. The consideration is £2m, with an expected £8m Economic Value gain.
- **Estimates:** The terms of the deal are positive and have led to some upgrades to our figures. Our 2024E EPS, increases to 36.7p from 31.1p, and our 2025E EPS to 32.6p from 32.3p. We have also made small upgrades to our year-end Economic Value and cashflow figures.
- **Valuation:** With a price at approximately 70% of its forecast Economic Value, Chesnara seems undervalued. A prospective dividend yield of 9.7%, with good prospects of continued growth, also suggests an undervalued stock.
- **Risks:** Ultimately, the company remains tied to movements in financial markets and adverse developments in operational areas. Having just come through a testing period, for the latter in particular, we can see how well Chesnara is able to manage these challenges.
- **Investment summary:** Chesnara has three pillars for delivering value, under a responsible risk-based management. A close analysis reveals that there is substance underlying these aims. In our opinion, the discount to Economic Value looks wider than it should, and the yield appears high for a dividend that is both secure and growing.

Financial summary and valuation

Year-end Dec (£m)	2020	2021	2022	2023	2024E	2025E
Operating earnings	-66.1	-58.8	-26.8	-7.7	10.8	11.6
Economic earnings	22.9	109.6	-109.1	42.9	51.0	52.5
Economic Value earnings	-37.6	57.8	-85.1	59.1	55.3	49.2
Economic Value/share (p)	424	416	340	349	360	368
Base cash generation	28	20	83	33	42	47
EPS (p)	-25.1	38.5	-56.6	39.3	36.7	32.6
Dividend (p)	21.94	22.60	23.28	23.97	24.69	25.43
Price/Economic Value (x)	0.62	0.63	0.77	0.75	0.73	0.71
Yield	8.4%	8.6%	8.9%	9.1%	9.4%	9.7%

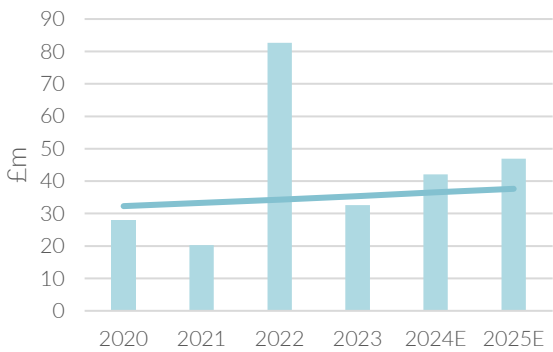
Source: Hardman & Co Research

Economic Value earnings



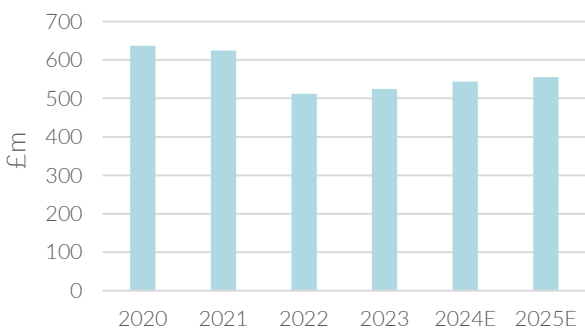
- ▶ Volatility for investment assets in 2020 and 2022
- ▶ Also affected by operational challenges
- ▶ Forecasts are based on normalised assumptions
- ▶ Gains from acquisitions in 2023 of £28.4m

Base cash generation and dividends paid (line)



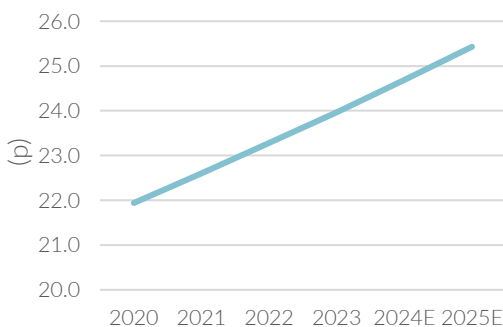
- ▶ 2020 affected by Scildon, 2021 by a challenging Swedish market
- ▶ Symmetric adjustment smooths effect of markets on cash
- ▶ 2023 cash boosted by Risk Margin reduction in UK
- ▶ More normal conditions should keep cash generation to comfortable levels

Economic Value



- ▶ Volatility for investment assets in recent years
- ▶ Also affected by operational challenges
- ▶ Forecasts are based on normalised assumptions
- ▶ Gain from acquisitions of £28.4m in 2023

Dividend per share



- ▶ Chesnara has been a consistent dividend payer for almost two decades
- ▶ We forecast continued, steady growth of 3% p.a.

Source: Company data, Hardman & Co Research

Commentary

Following the acquisition of a term assurance book from Canada Life UK in 2023, Chesnara has announced the acquisition of a further portfolio from the company. The deal will consist of a closed book of unit-linked bonds and legacy pension business. The portfolio has ca.17,000 policies and AUM of £1.5bn (as of 31 December 2023). The former is less than 2% of Chesnara's current total, while the latter is ca.13% of Chesnara's mid-year AUM.

The structure of the deal is very similar to the previous one: the book will be reinsured by Chesnara with a retrospective arrangement, in this case from 31 December 2023. Consequently, Chesnara will get the economic benefits from FY'24.

The consideration is £2m with an expected uplift to Economic Value of £8m. There will be a reduction in Solvency II ratio of 2ppts. While there is no explicit capital injection, this suggests that a small amount of Countrywide's capital will be required to support the book. The expectation is that this will generate £8m of cash over the next five years.

Completion is expected at the end of 2025. Integration should be straightforward, with the Part VII transfer being the main item causing any delay in completion, although we note this is a quicker timetable than for the recent UK deals.

With more than 18 months since the last deal was announced, it is good to see another. As usual, it looks like good value and shareholders should welcome it. While it is perhaps smaller than we might have hoped for, it will leave existing resources for further deals intact.

Forecasts

The deal has led to small upgrades to our figures. We have added the £8m gain to Economic Value earnings in 2024, a 17% increase. This has also increased our Economic Value year-end figures. We have also added £1.6m to the cashflow from the UK,

Our 2024E EPS has increased from 31.1p to 36.7p, while our 2025E EPS increases by less to 32.6p (from 32.3p), as it only benefits from some additional earnings from the extra book of business. There is no adjustment to our dividend forecast.

Economic Value earnings						
Year-end Dec (£m)	2020	2021	2022	2023	2024E	2025E
Expected movement	0.3	-1.7	-1.3	14.9	20.1	21.1
New business	3.7	2.4	8.0	4.40	4.8	5.1
Operating experience variances	-22.0	-19.2	-20.7	0.8	-6.2	-6.3
Operating assumption changes	-35.8	-13.9	-14.5	-27.8	-8.0	-8.3
Other operating variances	3.9	-0.2	1.7			
Total u/l operating earnings	-49.9	-32.6	-26.8	-7.7	10.3	11.6
Material other operating items	-16.2	-26.2	0.0		0.0	0.0
Total operating earnings	-66.1	-58.8	-26.8	-7.70	10.8	11.6
Economic experience variances	45.7	79.5	0.0	43.0		
Economic assumption changes	-22.8	30.1	0.0	2.3		
Total economic earnings	22.9	109.6	-109.1	42.9	51.0	52.9
Other non-operating variances	-2.8	4.5	-2.6	-11.9	-2.8	-2.8
Central costs					-10.0	-10.3
Risk margin movement	4.7	10.8	20.4	1.1	3.6	3.7
Tax	3.7	-8.2	12.0	6.3	-5.2	-5.5
Gain on acquisition	0.0	0.0	21.0	28.4	8.0	0.0
Economic Value earnings	-37.6	57.8	-85.1	59.1	55.3	49.2
EPS (p)	-25.1	38.5	-56.6	39.3	36.7	32.6
DPS (p)	21.94	22.60	23.28	23.97	24.69	25.43

Source: Hardman & Co Research

While the normalised basis is our core expectation, in practice, results will rarely match the average. To give some idea of sensitivity, the following table gives estimates with two adjustments:

- ▶ annual equity returns of 3.5% instead of 7%; and
- ▶ no returns from credit spreads, i.e. credit losses match the gain from the spread.

Investors can easily imply the effect of different assumptions from these adjustments.

Sensitivity to economic assumptions				
£m	2022	2023	2024E	2025E
Normalised Economic Value earnings	-85.1	59.1	55.3	49.2
Half equity returns			25.1	24.5
Reduction			-55%	-50%
No credit spreads			30.4	29.9
Reduction			-45%	-39%

Source: Hardman & Co Research

For 2024E Economic Value, our forecast is increased to £543.5m (from £535.1m) and, for 2025E, £555.1m (from £546.1m).

The cashflow forecasts go from £40.5m to £42.1m in 2024E and £45.4 to £47.0m in 2025E. The only change is in the UK division. This improves dividend cover marginally, but it was already comfortable.

Key balance sheet and cash generation

Year-end Dec (£m)	2020	2021	2022	2023	2024E	2025E
Borrowings	67.0	47.2	212.0	207.9	207.9	207.9
Economic Value	636.8	624.2	511.7	524.7	543.5	555.1
Economic Value/share (p)	424	416	340	349	360	368
Base cash generation						
UK	29.5	27.4	40.8	45.0	39.5	37.5
Movestic	12.4	-14.4	16.1	-7.0	1.0	1.9
Waard	4.1	2.9	8.4	15.3	-1.6	4.2
Scildon	-22.3	15.2	-3.4	-3.1	7.7	7.9
Group	4.1	-10.8	20.8	-17.6	-4.5	-4.6
Total	27.8	20.3	82.7	32.6	42.1	47.0
Dividends paid	-32.3	-33.3	-34.3	-35.4	-36.5	-37.6
Dividend cash cover (x)	0.9	0.6	2.4	0.9	1.2	1.2

Source: Hardman & Co Research

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