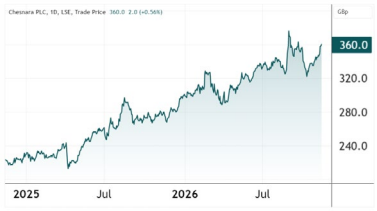
HARDMAN&CO.

Life assurance



Source: LSEG, 2026

Market data

EPIC/TKR	**CSN**
Price (p)	**358.0**
12m high (p)	378.0
12m low (p)	266.5
Shares (m)	230.7
Mkt cap (£m)	825.3
SII Own Funds (£m)	976
Country of listing	UK
Market	London

Description

A FTSE250 European life, pensions and investment company with specialist expertise in consolidation. The group administers 1.3m policies across its business units in the UK, Netherlands and Sweden.

Company information

CEO	Steve Murray
CFO	Tom Howard
Chairman	Luke Savage

www.chesnara.co.uk

Key shareholders

Hargreaves Lansdown	8.6%
Columbia Threadneedle	8.5%
Interactive Investor	7.8%
M&G	6.0%
Aberdeen	4.8%
Royal London	4.6%
Janus Henderson	4.1%

Diary

31 Dec	Year-end

Analyst

Brian Moretta bm@hardmanandco.com

CHESNARA PLC

Fourth acquisition in two years

Chesnara has announced its fourth acquisition in the past two years with the purchase of a book of variable annuity policies from MetLife UK. This adds 18,000 policies and £1.7bn of AuA, pushing the *pro forma* total to over £24bn. The expected lifetime cashflow is ca.£90m, of which approximately half is expected to be released over the first five years after completion. There is no significant consideration payable, which helps with a meaningful benefit to both SII Own Funds and the Contractual Service margin; both of which increase by ca.£45m on a post-tax basis, with a broadly neutral impact on the Solvency II ratio.

- **Further news:** Chesnara confirmed that the integration of Chesnara Life UK (formerly HSBC Life UK) is on target for completion around the end of the year. Similarly, completion of the Scottish Widows Europe acquisition should also take place around the end of the year.

- **Estimates:** Completion should take place in 2Q'27, so only our 2027 estimates are changed by the deal. Our OCG estimate for FY'27 increases by 7% to £120.6m, including some one-off transaction benefits. The FY'27E net SII Own Funds per share increases from 332p to 355p.

- **Valuation:** With a price at 1.1x of its forecast net SII Own Funds, Chesnara is trading a little above its asset value. However, a prospective dividend yield of 6.5%, with good prospects of continued growth, will be attractive to many investors, in our view.

- **Risks:** Ultimately, the company remains tied to movements in financial markets and adverse developments in operational areas. Making a large acquisition also brings some execution risk, but Chesnara has good experience in managing smaller deals successfully.

- **Investment summary:** Chesnara has three pillars for delivering value, under a responsible risk-based management. A close analysis reveals that Chesnara is making good progress in delivering these pillars. In our opinion, the yield appears high for a dividend that is both secure and growing.

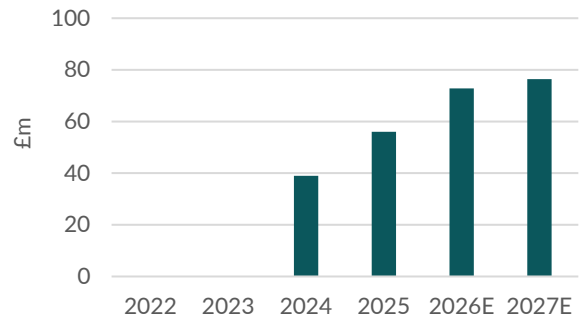
Financial summary and valuation

Year-end Dec (£m)	2022	2023	2024	2025	2026E	2027E
Adjusted operating profit			39	56	73	76
IFRS profit after tax	-33.7	18.7	3.9	-10.4	1.2	-4.8
Net SII Own Funds/share	269	321	293	221	312	355
Operational capital generation			79	94	146	121
OCG per share (p)			52.3	45.8	63.1	52.2
Dividend (unadjusted) (p)	23.28	23.97	24.69	22.50	23.41	24.11
Price/Net SII Own Funds (x)	1.54	1.29	1.42	1.62	1.15	1.01
Yield*	5.6%	5.8%	5.9%	6.3%	6.5%	6.7%

**Restated to adjust for the rights issue. Source: Hardman & Co Research*

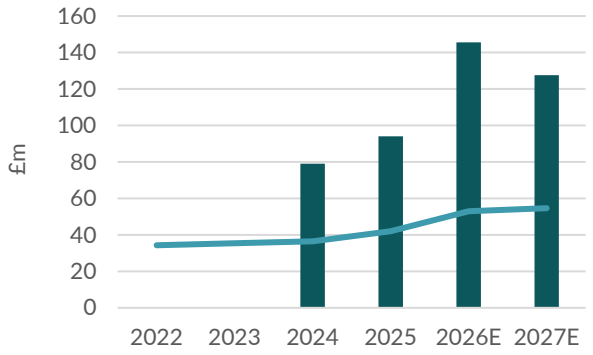
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Adjusted operating profit



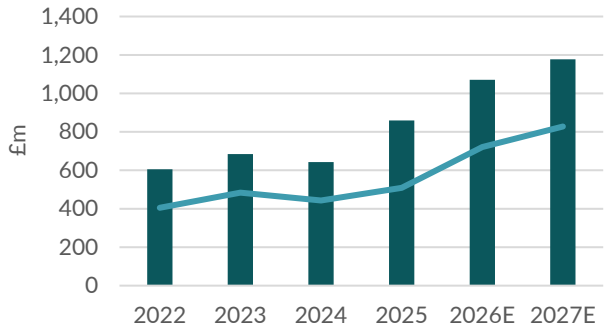
- AOP only available from 2024
- Boost in 2026 and 2027 from acquisitions
- Forecasts are based on normalised assumptions

Operational capital generation and dividends paid (line)



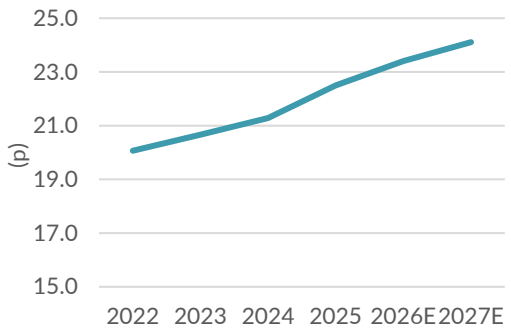
- OCG only available from 2024
- Based on normalised assumptions
- 2026 and, to a lesser extent, 2027 OCG has one-off benefits from transactions
- Dividend paid increased in 2025 with rights issue

SII Own Funds and Net SII Own Funds (line)



- Large gain in 2025 Own Funds due to rights issue and RT1 issue – removed in net figure
- Gain from acquisitions in 2023 and 2024
- Gain of over £100m in 2026 from Chesnara Life UK and Scottish Widows Europe transactions
- Forecasts are based on normalised assumptions

Dividend per share



- Chesnara has been a consistent dividend payer for more than two decades
- Change in trajectory in 2025 and 2026 reflects one-off 6% uplift
- We forecast continued steady growth of 3% p.a. thereafter

Source: Company data, Hardman & Co Research

Acquisition details

Background

Chesnara has announced the acquisition of part of MetLife's UK life assurance operation. MetLife is a large US-based insurer, which has international operations across the world. In the UK, this included a variable annuity business (as in the US-style product, which is closer to UK individual pension contracts with additional guarantees than the normal annuity products we see here).

MetLife's new business for this product ceased a decade ago, and it is now selling that business to Chesnara. It is currently selling protection business in the UK, and that is not part of this transaction.

Transaction details

The transaction includes 18,000 policies and will add £1.7bn of assets under administration to Chesnara. *Pro forma*, with the half-year figures and the forthcoming deals (Scottish Widows Europe), this would be expected, market movements being cooperative, to push Chesnara's total AuA above £24bn (£21bn at 1H'26).

The consideration payable is not expected to be meaningful. Variable annuities in the UK struggled for several reasons, with the cost of guarantees being one. Although the deal includes capital (Chesnara will not need to inject any), this does not appear to have been a profitable business for MetLife. Investors will be reassured that these guarantees are reinsured under an already existing arrangement with an AA-rated European reinsurer. There should not be any adverse impact from the guarantees on Chesnara.

Nevertheless, this will have a meaningful effect on Chesnara's financials. It is estimated that the lifetime cashflow generated will be ca.£90m, with about half of that in the first five years. That is £8m-£10m p.a., compared with our previous 2027 forecast of £113m. There is scope for this to be increased by future management actions too.

It will also bring balance sheet benefits, with ca.£45m to be added to both SII Own Funds and the Contractual Service Margin (which were £976m (gross) and £327m, respectively, at the half-year). The impact on the group Solvency II ratio is expected to be broadly neutral, which reflects the deal structure as well as some additional diversification benefits within the aggregate UK portfolio.

The policies are currently administered by SS&C, who are also Chesnara's outsourcing partner in the UK. Unfortunately, these are held on an older system rather than the modern platform that Chesnara uses. There will still be a migration, but having the same administrator on each side should make that easier. Having only one class of business and a relatively smaller number of policies also suggests this will be an easier migration.

Completion is expected in 1H'27, with the second quarter most likely. We note that the Chesnara Life UK integration should be complete by around the end of 2026, so this should not inhibit the migration either. With nominal consideration paid, Chesnara's financial resources for future deals are unaffected.

Forecasts

Although the underlying policies may be complex, this a much simpler deal compared with the past couple of announcements. We have assumed completion at 30 June 2027, so FY'27 will see any acquisition benefits plus approximately half a year of operational cashflow.

We have made the following adjustments to our forecasts for FY'27:

- The year-end net SII Own Funds is increased by £45m. With only nominal consideration paid, there are no other adjustments to make to the balance sheet.
- We have added £8m to OCG, reflecting an initial synergy benefit plus half a year's cash generation.
- IFRS, we have increased by 3% (half of 6% for a full year), removing policyholder tax adjustments.

This increases the estimated 2027 year-end net SII Own Funds by 6% to £821m and OCG by 7% to £120.6m.

Key balance sheet and OCG

Year-end Dec (£m)	2022	2023	2024	2025	2026E	2027E
Borrowings	212.0	207.9	204.8	203.0	289.5	289.5
SII Own Funds	605.0	684.0	643.0	859.0	1,070.8	1,170.7
Net SII Own Funds	405	484	443	509	721	821
Net SII Own Funds/share (p)	269	321	293	221	312	355
Operating capital generation						
UK			32.0	41.0	92.0	71.1
Movestic			10.0	14.0	8.6	9.0
Scildon			30.0	36.0	21.4	20.3
Luxembourg			0.0	0.0		17.0
Group			7.0	3.0	23.5	3.2
Total			79.0	94.0	145.5	120.6
OCG/av. SII Own Funds			11.9%	12.5%	15.1%	10.8%
Dividends paid	-34.3	-35.4	-36.5	-42.0	-53.0	-54.6
Div. remittances cover (x)	1.5	1.3	2.1	1.4	1.5	1.4

Source: Hardman & Co Research

IFRS earnings

Year-end Dec (£m)	2022	2023	2024	2025	2026E	2027E
Net insurance service result	13.3	-5.1	8.6	21.9	140.7	152.0
Net investment result	-39.0	71.7	52.7	50.2	58.8	63.5
Fee commission and other operating income	59.6	89.4	104.2	114.2	165.9	179.2
Other operating expenses	-100.9	-149.9	-133.6	-156.1	-226.8	-244.9
Financing costs	-10.5	-11.0	-11.1	-11.4	-11.4	-18.4
Profit before income taxes	-62.1	1.8	20.8	18.8	127.2	131.3
Income tax	28.4	16.9	-16.9	-29.2	-126.0	-136.1
Profit after tax	-33.7	18.7	3.9	-10.4	1.2	-4.8
Adjusted operating profit			39	56	73	76
EPS (p) (restated)	-22.4	12.4	2.6	-5.1	0.5	-2.2
DPS (p) (actual)	23.28	23.97	24.69	22.50	23.41	24.11
DPS (p) (restated)	20.07	20.66	21.28	22.50	23.41	24.11

Source: Hardman & Co Research

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