

## Divisional growth on track, group scaling up

7 September 2022

The interim results were a strong reminder that operationally RQIH remains on track to meet its defined strategic targets. Some of this was obscured during the first six months by an unsuccessful bid and a US\$130m equity issue (completed in June/July), the legacy of which is yet to fully unwind. We reviewed these in detail in [our note](#) published in August, which also reiterated the fundamental investment case. The latter pivots on a strategy to create two recurring fee-based, less capital-intensive businesses which will generate improved returns on investment and cashflows to fund progressive shareholder distributions.

The interims set out the components of this plan, plus a range of detailed metrics against which we intend to track progress in future updates. The current phase is focused on a US\$20-25m investment program designed to streamline every part of the group operationally. This is expected to deliver significant improvements in efficiency plus US\$10m of annual cost savings by 2024. Enhancements to the Board composition were announced, with others expected.

### Interims in line with expectations

With both group businesses taking shape but only c. 18 months into their evolution and yet to reach scale, RQIH reiterated its 2024 guidance of US\$90m+ pre-tax operating profit. Program Management is the best indicator of progress to date. It grew Gross Written Premium (GWP) by 82% y-o-y to US\$807m, fee income by 76% to US\$44m including the Tradesman stake. Group total fee income was US\$53m (+112%) and a US\$24.3m pre-tax operating loss reflected the transition of Legacy's revenue model post the launch of Gibson Re. Group cost ratios were broadly in line and the outlook is not too sensitive to major macro issues such as higher interest rates, inflation, or Russia/Ukraine - although these reinforce RQIH's focus on the highest quality MGA partners for its Programs.

RQIH reiterated that Program Management is expected to achieve US\$1.75bn of GWP this year. Five programs have been launched since the end of June, equivalent to c US\$250m pa of GWP. Another 13 programs are in advanced due diligence (c US\$225m of GWP). This division receives fee income of c 5% of ceded GWP.

Legacy reported its first full half since Gibson Re's launch. It ended the period with US\$387m of Reserves Under Management, fee income was US\$8.8m. Q4 is a key period for this business. It reports a pipeline of over US\$1bn in gross reserves. Fee income is equivalent to 4.25% pa of RUM.

### Valuation

The interims are in line with the broad financial projections set out in our August 2022 update. The next six months, Q4 particularly, are important for Gibson Re. RQIH's strategic growth plan incorporates full use of existing capacity and the launch of Gibson Re 2 in due course, so its ability to continue to secure legacy transactions on satisfactory terms in a competitive market is a key metric. It will underpin PM's evolution and potentially translate into the creation of two recurring fee-based, cash generative operations, returns from which will be enhanced by current investment in process automation and IT.

As anticipated, there was no interim distribution, but our dividend forecasts and FV/share generate a 4% yield in FY 2024. Short term uncertainty remains related to the intentions of significant shareholders, with an SGM on 13 September that has the potential to affect the board composition.

**We retain our 170p Fair Value/share.** That equates to a PER well below 10x our estimated adjusted underlying FY24 EPS of 18p, based on current RQIH guidance of \$90m FY24 pre-tax operating profit.

#### Company Data

EPIC	RQIH
Price (last close)	98p
52 weeks Hi/Lo	191p/78p
Market cap	£373m
ED Fair Value / share	170p

#### Share Price, p



Source: ADVFN

#### Description

Randall & Quilter Investment Holdings Ltd. (RQIH) is a long-established UK and US insurance business, led by experienced management. It is focused on two core strategies:

Program Management is a fully regulated commission fee-based business, which acts as a conduit between reinsurers and MGAs (insurance distributors).

Legacy Insurance provides exit solutions for legacy/run-off insurance assets to vendors in the US, Europe, and Bermuda.

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