

New Programs underpin outlook

25 February 2021

The group's recent trading update confirms that growth in the Program Management division, Accredited, is firmly on track. In the twelve months to 31 Dec 2020, it recorded a 46% increase in Gross Written Premium (GWP) and 76% higher Economic Commission Revenue (ECR) at \$22.7m. That reflected 18 new programs contracted (48 active programs at the year-end) and 52% higher Contracted Premium at \$1,281m.

ECR is commission from insurance policies already written, regardless of the length of the policy period. R&Q refers to it as an appropriate measure of its revenue during periods of high growth, during which there is a larger than normal gap between GWP, Gross Earned (IFRS) Premium, and the corresponding fees. The latest figures underpin our maintained forecasts.

The number of new programs contracted is slightly ahead of projection, but the forecasts are flexed for the inherently more unpredictable pace at which GWP receipts will scale up.

The outlook is underpinned by the Division's entry into the US Excess & Surplus (E&S) Program Management Market in Q4 2020. That transformed Accredited into a comprehensive PM solutions provider in all its markets. The partnerships agreed during the final quarter included three by its US operation, two in Europe, and both operations report strong new business pipelines.

Exchange creates major (25%) equity holder

In January R&Q confirmed that it had received the necessary regulatory approval for investment vehicle Brickell to exchange its preferred stock for ordinary shares, effective 27 January 2021. Post that, Brickell holds just under 70m shares (25.53% of the ordinary equity).

Valuation underpinned by trading outlook, yield and NAV

Despite strong progress R&Q's shares still stand at just 1.2x our estimate of tangible NAV this year, yet the speciality insurance sector has averaged a 2.3x rating over the last five years. Even a move by R&Q shares to just 1.5x NAV would put them at 218p. A move to 1.8x, still a large discount to peers and arguably justified by prospects, would imply 261p.

We forecast a 9.5p/share FY20e distribution, 3.3% up y-o-y. Divisional forecasts are comfortably being achieved, with growth prospects for both divisions underpinned by the group's balance sheet and recent investment. The outlook is supported by the new business pipeline, enhanced competitive positioning and the current 'hard' insurance market.

Company Data

EPIC	RQIH
Price	180p
52 weeks Hi/Lo	191p/112p
Market cap	£492m
Avg. daily volume	10.2k

Share Price, p



Source: ADVFN

Description

Randall & Quilter Investment Holdings Ltd. (R&Q) is a long-established UK and US insurance business led by an experienced and growing management team. It is focused on two core strategies: to drive commission income from writing niche books of business using its carriers licensed in all key regions and to grow an industry leading provider of exit solutions for legacy / run-off insurance assets to vendors in the US, Bermuda, and Europe.

Summary forecasts

Year end 31 Dec	2018A	2019A	2020E	2021E
Operating Profit (EBIT) (£m)	18.6	47.6	42.0	56.0
Pre-tax (continuing) (£m)	14.3	38.1	32.8	44.5
EPS (p)	7.8	20.3	14.6	15.9
Yield on distribution (%)	5.0	5.2	5.3	5.7
Tangible NAV per share (p)	129	125	133	145

Source: Group report & accounts and ED estimates *final div paid in shares during the pandemic

Roger Leboff (Analyst)

0207 065 2690
roger@equitydevelopment.co.uk

Hannah Crowe

0207 065 2692
hannah@equitydevelopment.co.uk



Contacts

Andy Edmond

Direct: 020 7065 2691

Tel: 020 7065 2690

andy@equitydevelopment.co.uk

Hannah Crowe

Direct: 0207 065 2692

Tel: 0207 065 2690

hannah@equitydevelopment.co.uk

Equity Development Limited is regulated by the Financial Conduct Authority

Disclaimer

Equity Development Limited ('ED') is retained to act as financial adviser for its corporate clients, some or all of whom may now or in the future have an interest in the contents of this document. ED produces and distributes research for these corporate clients to persons who are not clients of ED. In the preparation of this report ED has taken professional efforts to ensure that the facts stated herein are clear, fair and not misleading, but makes no guarantee as to the accuracy or completeness of the information or opinions contained herein.

This document has not been approved for the purposes of Section 21(2) of the Financial Services & Markets Act 2000 of the United Kingdom ('FSMA'). Any reader of this research should not act or rely on this document or any of its contents. This report is being provided by ED to provide background information about the subject of the research to relevant persons, as defined by the Financial Services and Markets Act 2000 (Financial Promotions) Order 2005. This document does not constitute, nor form part of, and should not be construed as, any offer for sale or purchase of (or solicitation of, or invitation to make any offer to buy or sell) any Securities (which may rise and fall in value). Nor shall it, or any part of it, form the basis of, or be relied on in connection with, any contract or commitment whatsoever.

Research produced and distributed by ED on its client companies is normally commissioned and paid for by those companies themselves ('issuer financed research') and as such is not deemed to be independent as defined by the FCA, but is 'objective' in that the authors are stating their own opinions. This document is prepared for clients under UK law. In the UK, companies quoted on AIM are subject to lighter due diligence than shares quoted on the main market and are therefore more likely to carry a higher degree of risk than main market companies.

ED may in the future provide, or may have in the past provided, investment banking services to the subject of this report. ED, its Directors or persons connected may at some time in the future have, or have had in the past, a material investment in the Company. ED, its affiliates, officers, directors and employees, will not be liable for any loss or damage arising from any use of this document, to the maximum extent that the law permits.

More information is available on our website www.equitydevelopment.co.uk

Equity Development, 15 Eldon Street, London, EC2M 7LD

Contact: info@equitydevelopment.co.uk | 020 7065 2690