

## Strong Program growth, healthy Legacy pipeline

20 August 2020

**Three positive announcements this week confirm the group continues to perform as expected despite the impact of Covid-19, in line with our forecasts.**

### Program Management: 36 active programs vs 26 last year

The insurance industry may be facing capital challenges due to insured Covid-19 losses, but R&Q reported that its Program Management division added 10 new programs over the 12 months to end June 2020, and closed the period with 36 active programs.

As at end H1 contracted premium was \$924.5m (H119: \$431.6m) and Gross Written Premium (GWP) \$247.2m (H119: \$172.9m); **respective increases of 114% and 43%.**

This helps to put that division's latent growth potential i.e. locked-in but not yet visible in reported numbers, into perspective. New programs take around 18 months to build full scale and at end June there were 34 different distribution partners behind the 36 existing programs. It has since added another four programs, due shortly to start generating GWP estimated at **c \$200m pa.**

R&Q reported continued strong demand from new origination partners and prospects are underpinned by its plan to enter the US Excess & Surplus Program Management market from Q4. It sees this as a large addressable market, one in which it does not currently compete, so has accelerated its plans to meet a strategic objective to create a comprehensive program management solutions provider in all major markets.

### Legacy: more acquisitions and healthy pipeline

Two further announcements signal an expected string of legacy deal announcements. The division has signed agreements to acquire, subject to regulatory approval, the entire issued share capital of both The World Marine & General Insurance Co (from resources giant BHP) and Inceptum Insurance Co. Ltd. Inceptum was put into run-off in September 2009 and sold by HSBC to Syndicate Holding Corp. in September 2011.

No further details were given, so there is no indication re the scale of these purchases or potential profit, but R&Q has a consistent record of assessing potential returns from legacy books and pricing acquisitions accordingly. Initial legacy announcements are generally opaque but translate into material profits during the year acquired.

R&Q also confirmed a 'healthy pipeline of opportunities and further transactions nearing completion', which it expects to announce over the next few weeks. It reported sight of increased demand for legacy solutions throughout 2020. Deals have taken longer to complete, as logistics have affected by Covid19, but these deals capitalise upon the group's **ability to provide finality for owners.**

Program Management provides revenue visibility, but over time legacy may benefit from group's plans to generate fee-based revenues from this operation, and manage risks associated with higher scale via the introduction of a service to manage purchases on behalf of third parties, using their capital bases.

#### Company Data

EPIC	RQIH
Price (last close)	157p
52 weeks Hi/Lo	223p/112p
Market cap	£349m

#### 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.

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## Financials

Summary forecasts				
Year end 31 Dec	2017A	2018A	2019A	2020E
Operating Profit (EBIT) (£m)	14.3	18.6	49.7	46.8
Pre-tax (continuing) (£m)	9.8	14.3	40.1	37.2
EPS (p)	10.5	7.8	21.4	16.6
Yield on distribution (%) *	5.7	5.9	6.3	6.3
Net asset value per share (p)	105	139	148	142

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

## Conclusion

In our detailed note on July 7<sup>th</sup> ([A record year](#)) that followed the 2019 results we argued that R&Q's shares were materially undervalued. Trading at a 40% discount to the average rating of industry peers versus NAV, despite superior performance.

**Deals, trading updates and confidence as to further activity have all been reported by R&Q since then, supporting both our forecasts and view that the company's growth opportunity is being substantially underestimated by the stock-market.**



## Investor Access

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