HARDMAN & CO.

CHESNARA PLC

Great cash flow in tough markets

Chesnara has announced its 2022 results. With weak equity markets and rising interest rates and credit spreads, the risk asset exposure weighed on results. Economic Value profit came in at a loss of £106.1m, compared with a profit of £57.8m in 2021. The balance sheet Economic Value also reduced from 416p to 340p at 31 December 2022 (although there's a gain from Conservatrix to be added in January). Group cash generation, the movement in its surplus, was excellent. Base generation for the group was £82.7m, compared with £20.3m in 2021 As expected, the dividend was increased by 3% to give a total of 23.28p per share.

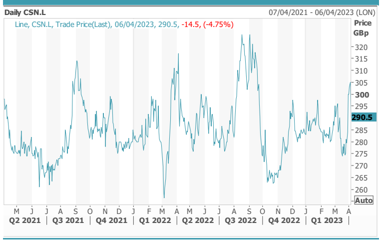
- **Acquisitions:** There was little incremental news on acquisitions, other than updates on completion. The gains on acquisition are slightly higher than expected, but base steady state cash generation is in line with expectations. With integration almost complete, Chesnara is ready for further M&A.
- **Estimates:** While 2022 was behind our estimates, we expect the acquisitions to contribute more going forward, leading to slight upgrades to our 2023 estimates. The net effect is to increase our 2023E EPS from 29.1p to 29.7p. We have introduced a 2024E EPS of 31.0p.
- **Valuation:** With a price at approximately 85% of its forecast Economic Value, Chesnara seems undervalued. A prospective dividend yield of 7.9%, 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 can 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)	2019	2020	2021	2022	2023E	2024E
Operating earnings	5.6	-66.1	-58.8	-26.8	0.9	1.5
Economic earnings	121.1	22.9	109.6	-109.1	43.4	44.7
Economic Value earnings	104.0	-37.6	57.8	-106.1	44.7	46.6
Economic Value/share (p)	446	424	416	340	360	367
Base cash generation	37	28	20	83	51	49
EPS (p)	69.3	-25.1	38.5	-70.6	29.7	31.0
Dividend (p)	21.30	21.94	22.60	23.28	23.98	24.70
Price/Economic Value (x)	0.68	0.72	0.73	0.90	0.85	0.83
Yield	7.0%	7.2%	7.4%	7.6%	7.9%	8.1%

Source: Hardman & Co Research

Life assurance



Source: Refinitiv

Market data

EPIC/TKR	**CSN**
Price (p)	**305.0**
12m high (p)	334.4
12m low (p)	259.0
Shares (m)	150.4
Mkt cap (£m)	458.7
Economic Value (£m)	511.7
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	David Rimmington
Chairman	Luke Savage

+44 (0)1772 972 050
www.chesnara.co.uk

Key shareholders

abrdn	12.8%
Columbia Threadneedle	12.1%
M&G	6.4%
Interactive Investor	6.2%
Hargreaves Lansdowne	6.1%
Canaccord Genuity	5.7%
Janus Henderson	3.5%
Royal London	3.0%

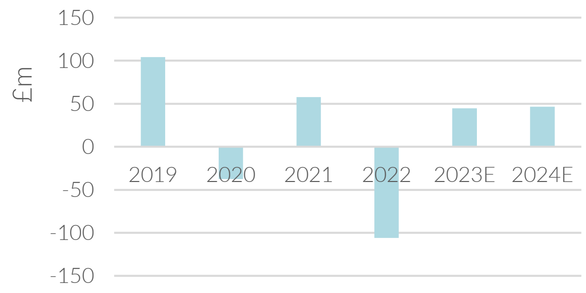
Diary

26 May	Final dividend paid
21 Sep	Interim results

Analyst

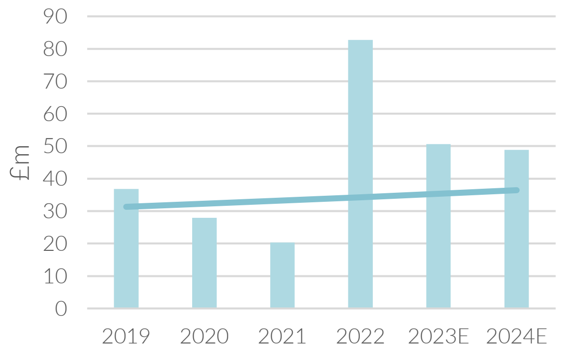
Brian Moretta +44 (0)203 693 7075
bm@hardmanandco.com

Economic Value earnings



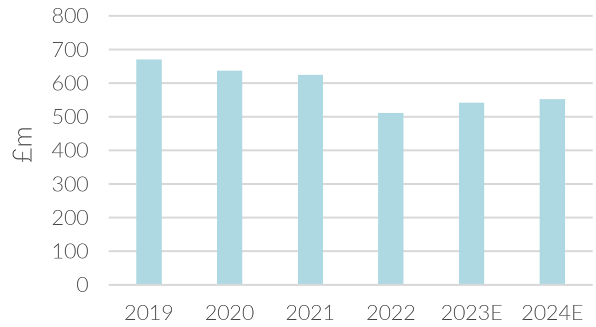
- Volatility for investment assets in recent years and 2022
- Also affected by operational challenges
- Forecasts are based on normalised assumptions
- Expected gain from Conservatrix of £21m in 2023

Base cash generation and dividends paid (line)



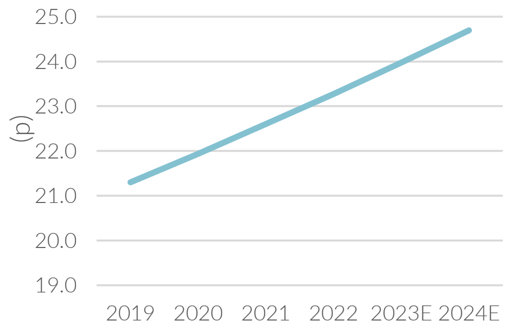
- 2020 affected by Scildon, 2021 by a challenging Swedish market
- Symmetric adjustment smooths effect of markets on cash
- 2022 cash boosted by currency hedge
- Expected removal of headwinds should restore cash generation to comfortable levels

Economic Value



- Volatility for investment assets in recent years
- Also affected by operational challenges
- Forecasts are based on normalised assumptions
- Gain from Sanlam, Robein Leven of £21m in 2022

Dividend per share



- Chesnara has been a consistent dividend payer for more than a decade and a half
- We forecast continued steady growth of 3% p.a.

Source: Company data, Hardman & Co Research

Results commentary

Although markets were not as weak in the second half of 2022 as in the first half, they still weighed on Chesnara's results and the full-year Economic Value earnings were a loss of £106.1m, compared with earnings of £57.8m in 2021 and a loss of £89.3m in 1H'22. Economic Value declined to £512m from £624m a year before, but only a 3% decline from £527m at the half year. Acquisitions contributed £21.4m to Economic Value during the year.

However, base cash generation was very strong with £61.9m generated from divisions and group total of £82.7m (£20.3m in 2021). There was a positive contribution from the symmetric adjustment, so commercial cash generation was lower, at £46.6m. This includes £36.5m from a new hedge of group forex exposure.

The proposed final dividend increased at the same 3% rate as the interim to 15.16p (14.72p in 2021). This gives a total for the year of 23.28p. The total cost will be £35.1m.

Earnings and operations

Economic Value earnings

Year-end Dec (£m)	2018	2019	2020	2021	2022
Expected movement	-0.8	-0.4	0.3	-1.7	-1.3
New business	10.6	7.8	3.7	2.4	8
Operating experience variances	-9.0	-6.8	-22.0	-19.2	-20.7
Operating assumption changes	0.0	3.8	-35.8	-13.9	-14.5
Other operating variances	-0.8	-0.3	3.9	-0.2	1.7
Total u/l operating earnings	0.0	4.1	-49.9	-32.6	-26.8
Material other operating items	-22.8	1.5	-16.2	-26.2	
Total operating earnings	-22.8	5.6	-66.1	-58.8	-26.8
Economic experience variances	-50.3	143.1	45.7	79.5	
Economic assumption changes	0.6	-22.0	-22.8	30.1	
Total economic earnings	-49.7	121.1	22.9	109.6	-109.1
Other non-operating variances	1.5	-5.2	-2.8	4.5	-2.6
Risk margin movement	-1.9	-7.0	4.7	10.8	20.4
Tax	12.0	-10.5	3.7	-8.2	12.0
Economic Value earnings	**-60.9**	**104.0**	**-37.6**	**57.8**	**-106.1**
Gain on acquisition					21
EPS (p)	-40.6	69.3	-25.1	38.5	-70.6

Source: Hardman & Co Research

Although we don't have the breakdown of the economic earnings yet, the overall figures showed an improvement over the first half.

Operating movements

We have noted that the past couple of years have given Chesnara some significant operational challenges. We had optimism that these would alleviate somewhat in 2022 and this has proved to be the case, albeit this is a more than halving of the loss on 2021. This trend was more pronounced in the second half, with operating experience variances giving a positive contribution.

Lapses

The most pronounced challenge has been in the Swedish operations. As discussed in our earlier notes, a combination of rule changes that opened up some pension business to transfers and aggressive, unprofitable, pricing from a large competitor led to a sharp increase in lapses at Movestic.

Since the half-year results, we seem to have come through these. The competitor returned to more normal pricing at the start of the year, slightly later than we anticipated. The market seems to be more normal again. There were further legislative changes last year that further opened pension funds to transfers; these applied to areas in which Movestic has little existing market share. If anything, it should be a net gainer as it may be able to win some of this business.

A significant portion of the negative operating assumption figures for the past couple of years has been the strengthening of assumed lapse rates. Chesnara now reports that transfer rates have returned to where they were before and are in line with assumptions. Going forward, Movestic should be much better placed.

Scildon also saw some strengthening of lapse assumptions.

Mortality

Scildon saw some further strengthening of assumptions. In the Netherlands, mortality assumptions are based on tables set by the regulators.

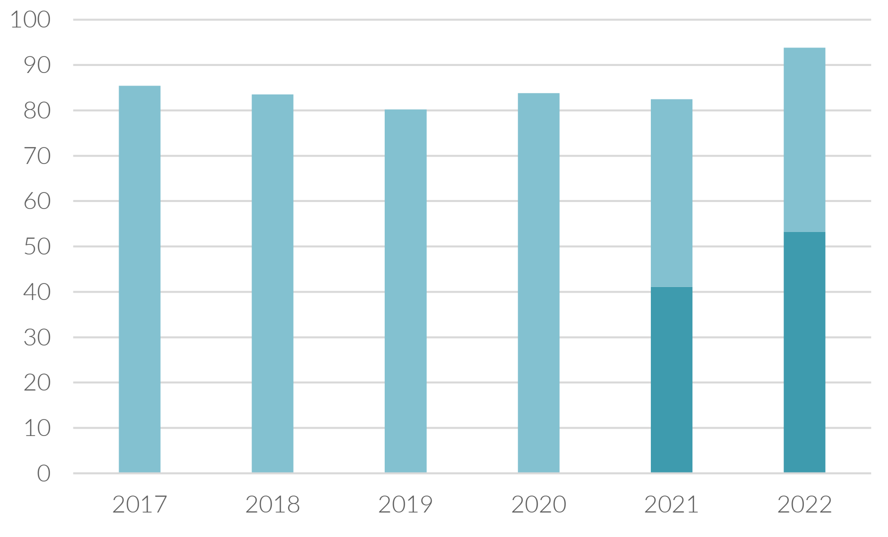
Expenses

As indicated at the half year, expenses rose significantly with IFRS administrative expenses increasing from £67.9m to £85.1m. This 25% increase is largely driven by acquisitions, primarily Sanlam, with some additional central costs as the M&A team there is added to. We previously noted that M&A costs are likely to be higher than previously. One-off expenses for the year include the cost of implementing IFRS17 and the bond issue.

Although Sanlam has grown absolute costs, it has also brought some operating efficiencies in the UK business, which has lowered unit costs, albeit offset by expense pressure in the existing business. This has allowed improved operating assumptions and an EcV gain. We expect some further improvements in 2023.

Scildon has seen some cost overruns as systems are improved. These changes should bring some benefit in due course but are taking time to implement.

IFRS expenses (£m) (1H'21 and 1H'22 highlighted)



Source: Chesnara, Hardman & Co Research

The effects of inflation have also continued to have an adverse effect across the board. Currently, Chesnara is assuming one further year of high inflation, with rates returning to normal thereafter. This is in addition to 2023 pay rises. We previously noted that long-term assumptions are not aggressive: for example, in the UK, the assumption is 4.5% p.a.

Economic movements

Although economic earnings again dominated operating earnings, albeit adversely, 2H'22 was a great improvement over the first half. In 2H'22, the loss was £18.0m against £91.1m in the first half. The overall loss of £109.1m almost exactly offset the previous year's earnings of £109.6m.

We note that this does not invalidate risk assets as being a long-term source of value for Chesnara, merely that, in the short term, there can be significant volatility. Chesnara notes that movements were in line with the sensitivities that it published last year.

Equities

The most relevant equity markets actually managed a slight recovery in the second half but were still down for the year as a whole. The UK was a relative outperformer, with the FTSE All-Share declining 3% during the year. In Sweden, the OMX fell 25% and, in the Netherlands, the AEX declined 15%. Unfortunately, the Swedish business is the most exposed to equities, with a high proportion of unit-linked business.

Interest rates

Rising short-term interest rates have caught the headlines, but bond yields have been increasing just as quickly. For example, in the UK, the 10-year gilt yield rose from 0.98% to 3.78%.

There has also been a less dramatic widening of credit spreads. European AA credit spreads increased from 0.16% to 0.29%.

Interest rate changes affect both the assets and liabilities (although not equally), but credit spreads only affect the value of assets (albeit, if credit losses don't rise, there is an earnings benefit in due course). As the table below shows, although smaller in magnitude, spread changes had a greater effect on earnings than yield changes.

Sensitivity to market factors in 2022 Economic Value earnings

	2022
Equities	67%
Credit spreads	18%
Yields	5%
Other	10%

Source: Hardman & Co Research

Across the divisions, the UK saw an adverse effect from spread widening but a net positive effect from rising bond yields. Within Scildon, which is mostly invested in bonds, adverse effects were seen from both bond yields and credit spreads. These also affected property values. Waard also had a net negative result from yield increases.

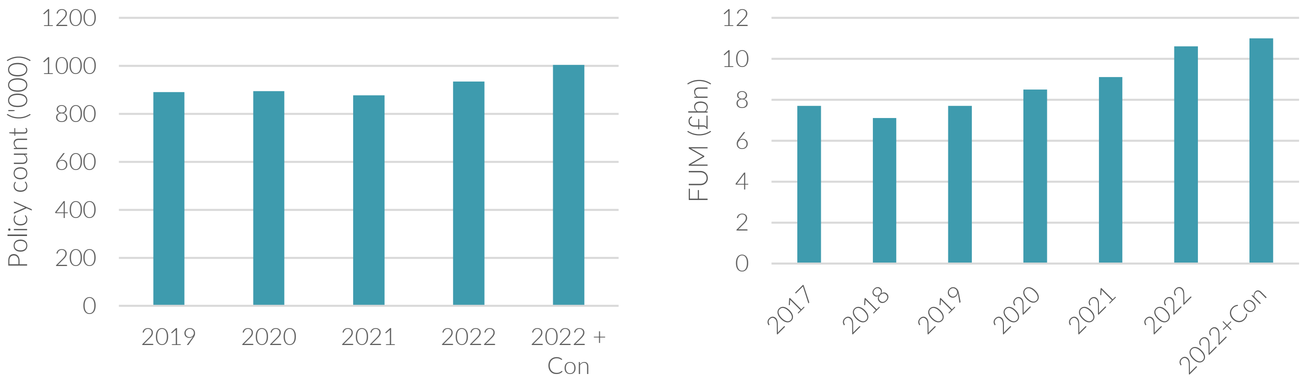
Fund returns

Although both equity and bond returns were weak in 2022, policyholders have diversified portfolios. Within Sweden, the average return to policyholders was -14.6%, noticeably better than the equity figures. In the UK, the main managed funds saw declines of between 7.9% and 8.4% against a benchmark decline of 9.8%, a noticeable outperformance.

Operational KPIs

The alternative KPIs showed general improvement in Chesnara's operations, primarily driven by the completion of the Robein Leven and, more significantly, Sanlam acquisitions. The figures below show the actual year-end figure, plus including Conservatrix on a *pro forma* basis, as it completed in January 2023.

Policy count and funds under management



Source: Hardman & Co Research

The movement in policy count underpins the comments on unit costs, with 14% more policies than at the previous year-end. Despite the adverse market movements, FUM also grew meaningfully.

Acquisitions

The previously announced Sanlam and Robein Leven acquisitions completed during 2022 and Conservatrix in January 2023. The books of the two Dutch acquisitions have been transferred across to Waard and the integrations are largely complete.

Recent acquisitions

	Sanlam	Robein Leven	Conservatrix	Total
Economic Value	£48m	£16m	£53m	£117m
Discount	19%	21%	34%	
Day 1 Economic Value gain	£15m	£6m	£21m	£42m
Steady state annual cash	£5m	£1m	£4m	£10m
Integration status	On track	Complete	Largely complete	

Source: Hardman & Co Research

In the UK, Sanlam is taking a little longer to integrate. The Part VII transfer, which is essentially court approval for the full transfer of assets, takes a little time. Once that is complete, Chesnara will be able to integrate balance sheets with Countrywide and achieve some further synergies. The expectation is that this will take place towards the end of 2023.

It is worth noting that the aggregate annual steady state cash generation for these three businesses is in excess of the interest costs for the bond issued last year. Meanwhile, there remains more than £100m of resources on the balance sheet for further acquisitions. Chesnara has other options to obtain finance to increase this amount, including a £100m revolving credit facility, access to debt markets, equity financing or working with partners.

We note that market movements since the announcement of transactions led to additional day 1 gains for Robein Leven and Conservatrix of £8m in aggregate[1].

[1] Technically, the Conservatrix gain is estimated as the deal was completed after the year-end.

While these are not the most important figures, they do give shareholders additional comfort that good deals have been struck.

Prospects

Recent market movements may muddy the waters for sellers. The effects of equity falls and interest rate rises seem most likely to have reduced capital and, hence, prices for acquisitions. If sellers had a previous target price in mind, then it may need some adjustment to accept the new reality. Those with guarantees may feel some pressure lifted by rising interest rates. On the other hand, those with previously marginal capital may feel increased pressure to sell. Which is a long way of saying the market is likely to remain dynamic, with the pressures to sell continuing to evolve.

A recent Fitch report noted that 67% of European M&A transactions were for companies with less than €5bn in liabilities. This is probably Chesnara's sweet spot. Management also notes that there has been an increase in portfolio transfers, as opposed to sales of companies or entire legacy books. This enlarges the potential M&A market, particularly at the smaller end, which would interest Chesnara.

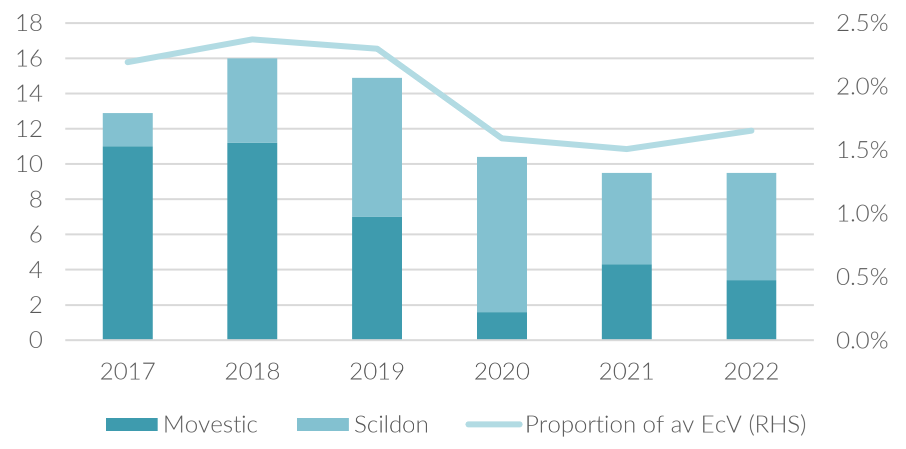
Chesnara is well placed organisationally to add to its portfolio. In the Netherlands, even if a deal was announced tomorrow, integrations will be complete by the time it comes on board. In the UK, the outsourced administration means it could draw on extra resources of its outsourcer, if required. Management has also mentioned Sweden as a possible location of targets. Movestic is a business that has matured over recent years and management clearly feels it has the capacity to handle integrations, if required.

As noted in our reports last year, Chesnara has also added to its M&A team, to complement its existing advantages of a strong M&A track record, UK listing, experience in a wide range of business types and good relationship with regulators. While timing cannot be guaranteed, we are optimistic about further news in 2023.

New business

Two of Chesnara's divisions are open to new business: Movestic (Sweden) and Scildon (Netherlands). Conditions in both countries have been challenging, although we expected an improvement in 2H'22. While this did materialise, it was not as strong as we had hoped for and realistic new business profit was flat YoY.

Chesnara's value of new business (£m)



Source: Chesnara, Hardman & Co Research

We discussed the issues in Sweden under *Lapses* above and, at length, in our earlier notes. At its root, the market developed as we expected: the competitor with an unprofitable offer withdrew it towards the start of the year and the opening of other products took place as planned. Nevertheless, the effects of the former took longer to work out of the market than we expected.

For Movestic, overall volumes developed positively with unit-linked business increasing 14% YoY and custodian volumes roughly flat. Nevertheless, new business profits declined from £4.2m in 2021 to £3.4m as margins came under pressure.

While custodian market share is in line with targets, at 9.5%, unit-linked business is below targets. Movestic's plans include new risk product offerings to strengthen the broker channel while working on its direct offering too. Volumes in 2023 appear to have started strong – hopefully, margins will improve too.

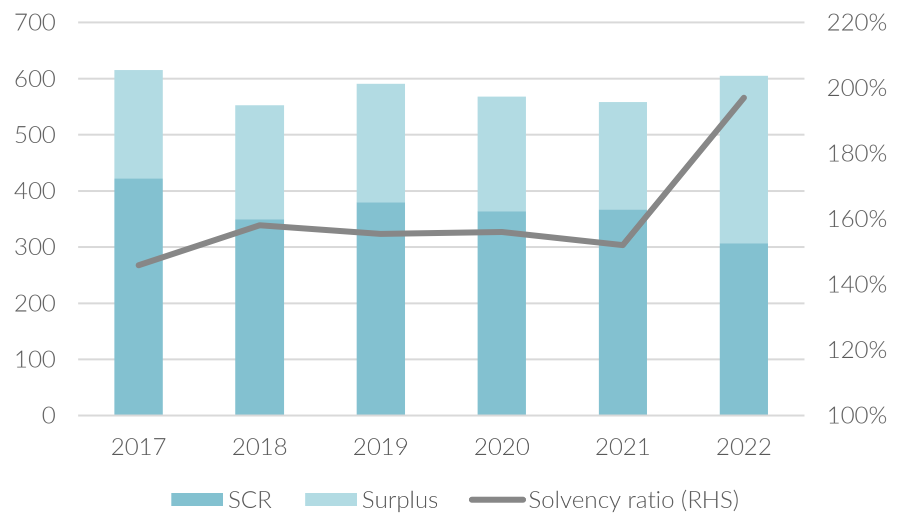
Scildon is a much stronger story. Volumes increased 3% in 2022 versus a term assurance market that shrank overall. Margins were strong as profit increased to £6.1m from £5.2m in 2021. While Scildon's strong market position is likely sustainable, further significant gains in share are less likely.

Capital and cash generation

Falling risk assets can have a complex effect on solvency ratios. While decline means reduced assets to cover risks, the reduced values on the policyholder side means the risks to be covered are also reduced. Some of this was reflected in the Economic Value profits within each business. Within Solvency II, the Symmetric Adjustment is a countercyclical measure to smooth out changes: in times of good returns, some of the return is effectively set aside, to be released when returns are weaker. FY'22 was one of those latter times.

Solvency

Group Solvency II metrics



Source: Chesnara, Hardman & Co Research

Apart from market movements, the figures were strongly affected by the issuance in February 2022 of £200m of Tier II bonds. This counts towards solvency and has greatly improved Chesnara's capital and solvency ratios.

In 2022, the market effects reduced the Solvency Capital Requirement (SCR), despite the additions to the liabilities of the acquisitions. The SCR fell over the year from £367m to £307m. In addition to market movements, Chesnara has introduced a forex hedge at group level. This will reduce group exposure to movements in the values of the overseas operations and generated a £36.5m capital reduction.

Own funds increased by £80m, with the £200m Tier II bond issue (£153m of which is recognised in the own funds) being offset by market falls and the cost of acquisitions. This led to the surplus increasing from £191m to £298m and the solvency ratio increasing to 197%. This is well above the target range of 140%-160%, but we expect it to come back into this range as and when further acquisitions are made.

Across the divisions, the largest positive movement was in the UK, at £37.4m, with Movestic and Waard generating smaller positives. Scildon saw a negative contribution of £11.4m. The acquisitions required £37.4m of capital, with Sanlam requiring another £5.1m. The net forex capital movement was much smaller this year, as sterling strengthened versus the Swedish Krone but weakened against the Euro.

Cash generation

Cash generation in Chesnara is the net change in available surplus. Cash, and the dividend, at the group level, is funded from dividends from the individual divisions. These are payable annually and the figures for expected dividends in 2022 below will be paid to the group in early 2023. As they are proposed, they are deducted from own funds at the end of 2022.

Group cash generation breakdown

£m	2017	2018	2019	2020	2021	2022
Base cash generation						
UK	34.5	55.8	33.6	29.5	27.4	40.8
Sweden	24.9	18.1	-6.2	12.4	-14.4	16.1
Waard	11.1	7.8	0.8	4.1	2.9	8.4
Scildon	16.2	-17.7	22.6	-22.3	15.2	-3.4
Group	-2.7	-16.2	-14	4.1	-10.8	20.8
Total cash generation	**84.0**	**47.8**	**36.8**	**27.8**	**20.3**	**82.7**
Internal dividends						
UK	30.0	32.0	32.0	33.5	27.5	56.0
Sweden	0.0	2.9	6.2	10.2	0.0	12.0
Waard	6.8	12.9	4.9	4.0	6.1	5.3
Scildon	0.0	21.7	7.0	0.0	5.0	0.0
Total dividends from subsidiaries	**36.8**	**69.5**	**50.1**	**47.7**	**38.6**	**73.3**
Dividends paid to shareholders	**29.5**	**30.4**	**31.3**	**32.3**	**33.3**	**34.3**
Cash cover (x)	2.8	1.6	1.2	0.9	0.6	2.4
Internal dividend cover (x)	1.2	2.3	1.6	1.5	1.2	2.1

Source: Chesnara, Hardman & Co Research

Base cash generation for the year was excellent. The largest contributor was again the UK, with capital reduction requirements and a positive contribution from the Symmetric Adjustment. Scildon suffered from the changes in markets as well as operational losses with higher-than-expected expenses.

The group figure of £20.8m has two significant opposite factors. At the interim results, we noted the additional costs of M&A and the bond issue. At the full year, these have been more than offset by the currency hedge described in the previous section, which added to £36.5m to the cash generation. Even stripping this out, base cash generation was more than double the 2021 figure.

Commercial cash generation adjusts for the Symmetric Adjustment and restrictions on with-profits funds (which Chesnara sees as temporary). In 2021, the former gave a large positive adjustment, (as it was added to) while, in 2022, this was a £28.2m release. The with-profits adjustment of £7.8m was almost unchanged from the interims. So, commercial cash this year of £46.6m was down on 2021's £53.0m but still at a healthy level overall.

Looking forward, we note that Sanlam and Robein Leven were only included from April 22 and Conservatrix from January 2023. This should add ca.£5m to the steady state cashflow for 2023.

Dividend cover

We indicated previously that we felt Chesnara was well placed to rebuild its dividend cover after the weak figures in 2021 and are pleased to see that it has managed to do so. Divisional dividends are exceptionally strong too and more than twice cover the 2022 dividend payouts of £34.3m.

Prospects

Operations

In February, management was probably thinking about how a positive start to the year for markets would bode well. Unfortunately, this didn't last and we have had a reasonably flat first quarter. While there may be cause to think that the tightening of interest rates will peak this year and probably be positive for markets, they may remain unsettled until then. However, while markets may remain volatile in the short term, we still believe that the long-run risk assets will deliver added value.

Operationally, the environment in Sweden looks much more benign than it did a year ago and there should be some improvement in new business margins and continued stability in the lapse experience. In the UK, there should be further benefits from the Sanlam integration. We expect a better result at Scildon with mortality now having stronger reserves and management should get a better grip on the IT challenges.

Base cash generation will likely decline as the one-off currency hedge benefit and bond issue costs don't recur. Additionally, markets are unlikely to give the same benefit from the Symmetric Adjustment. Nevertheless, the base will be higher with a full year from the known acquisitions.

We also note the forthcoming changes to the Risk Margin calculation. This has been a topic of debate for some time and it has been announced that the UK will use a lower cost of capital than the existing Solvency II regime has. While the new rate has yet to be announced, it will likely lead to a meaningful release of capital for Chesnara. Given the uncertainty, we are not including it in our forecasts yet.

Acquisitions

As we discussed above, we can't say when we'll see any announcements on acquisitions this year, although management continues to talk positively about prospects. We note that completion typically takes several months. An announcement now would most likely only benefit results in the fourth quarter. Realistically, it would be at least 2024 before Chesnara would see the full benefit.

Forecasts

Our forecasts are on a normalised basis. Although 2022 came in behind our estimates, the improved contribution from acquisitions has slightly increased our normalised 2023 earnings, while we have reduced our Economic Value forecast. Our 2023E EPS increases from 29.1p to 29.7p. We have introduced 2024 estimates of 31.0p for EPS.

Economic Value earnings						
Year-end Dec (£m)	**2019**	**2020**	**2021**	**2022**	**2023E**	**2024E**
Expected movement	-0.4	0.3	-1.7	-1.3	0.0	0.0
New business	7.8	3.7	2.4	8.0	8.8	9.7
Operating experience variances	-6.8	-22.0	-19.2	-20.7	-7.9	-8.2
Operating assumption changes	3.8	-35.8	-13.9	-14.5	0.3	0.3
Other operating variances	-0.3	3.9	-0.2	1.7	-0.3	-0.3
Total u/l operating earnings	4.1	-49.9	-32.6	-26.8	0.9	1.5
Material other operating items	1.5	-16.2	-26.2	0.0	0.0	0.0
Total operating earnings	5.6	-66.1	-58.8	-26.8	0.9	1.5
Economic experience variances	143.1	45.7	79.5	0.0	41.1	42.3
Economic assumption changes	-22.0	-22.8	30.1	0.0	2.3	2.3
Total economic earnings	121.1	22.9	109.6	-109.1	43.4	44.7
Other non-operating variances	-5.2	-2.8	4.5	-2.6	3.1	3.2
Risk margin movement	-7.0	4.7	10.8	20.4	2.4	2.4
Tax	-10.5	3.7	-8.2	12.0	-5.0	-5.2
Economic Value earnings	**104.0**	**-37.6**	**57.8**	**-106.1**	**44.7**	**46.6**
Gain on acquisition	0.0	0.0	0.0	21.0	21.0	0.0
EPS (p)	69.3	-25.1	38.5	-70.6	29.7	31.0
DPS (p)	21.30	21.94	22.60	23.28	23.98	24.70

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. We note, however, that the first couple of months of the second half have been noticeably less volatile.

Sensitivity to economic assumptions				
£m	**2021**	**2022E**	**2023E**	**2024E**
Normalised Economic Value earnings	57.8	-106.1	44.7	46.6
Half equity returns			26.1	27.4
Reduction			-42%	-41%
No credit spreads			31.0	32.4
Reduction			-31%	-30%

Source: Hardman & Co Research

Given the market changes, our forecasts for group Economic Value have been reduced in line with movements in risk assets. We previously assumed Conservatrix would complete in 2022, while the £21m gain will now take place in 2023. Our 2023E Economic Value per share has decreased from 371p to 360p per share. We have introduced an estimate for 2024 of 367p per share.

For cashflow, we have upgraded our figures for Waard in the light of better cashflow generation in 2022 but left the others more or less the same. This gives forecast dividend cover of 1.4x for 2023.

Key balance sheet and cash generation						
Year-end Dec (£m)	**2019**	**2020**	**2021**	**2022**	**2023E**	**2024E**
Borrowings	88.2	67.0	47.2	212.0	212.0	212.0
Economic Value	670.0	636.8	624.2	511.7	542.1	552.3
Economic Value/share (p)	446.0	424.0	416.0	340.0	360.0	367.0
Base cash generation						
UK	33.6	29.5	27.4	40.8	29.7	26.7
Movestic	-6.2	12.4	-14.4	16.1	13.0	13.7
Waard	0.8	4.1	2.9	8.4	12.8	13.5
Scildon	22.6	-22.3	15.2	-3.4	5.4	5.6
Group	-14.0	4.1	-10.8	20.8	-10.2	-10.6
Total	36.8	27.8	20.3	82.7	50.7	48.8
Dividends paid	-31.3	-32.3	-33.3	-34.3	-35.4	-36.4
Dividend cash cover (x)	1.2	0.9	0.6	2.4	1.4	1.3

Source: Hardman & Co Research

Disclaimer

Hardman & Co provides professional independent research services and all information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable. However, no guarantee, warranty or representation, express or implied, can be given by Hardman & Co as to the accuracy, adequacy or completeness of the information contained in this research and they are not responsible for any errors or omissions or results obtained from use of such information. Neither Hardman & Co, nor any affiliates, officers, directors or employees accept any liability or responsibility in respect of the information which is subject to change without notice and may only be correct at the stated date of their issue, except in the case of gross negligence, fraud or wilful misconduct. In no event will Hardman & Co, its affiliates or any such parties be liable to you for any direct, special, indirect, consequential, incidental damages or any other damages of any kind even if Hardman & Co has been advised of the possibility thereof.

This research has been prepared purely for information purposes, and nothing in this report should be construed as an offer, or the solicitation of an offer, to buy or sell any security, product, service or investment. The research reflects the objective views of the analyst(s) named on the front page and does not constitute investment advice. However, the companies or legal entities covered in this research may pay us a fixed fee in order for this research to be made available. A full list of companies or legal entities that have paid us for coverage within the past 12 months can be viewed at http://www.hardmanandco.com/legals/research-disclosures. Hardman may provide other investment banking services to the companies or legal entities mentioned in this report.

Hardman & Co has a personal dealing policy which restricts staff and consultants' dealing in shares, bonds or other related instruments of companies or legal entities which pay Hardman & Co for any services, including research. No Hardman & Co staff, consultants or officers are employed or engaged by the companies or legal entities covered by this document in any capacity other than through Hardman & Co.

Hardman & Co does not buy or sell shares, either for their own account or for other parties and neither do they undertake investment business. We may provide investment banking services to corporate clients. Hardman & Co does not make recommendations. Accordingly, they do not publish records of their past recommendations. Where a Fair Value price is given in a research note, such as a DCF or peer comparison, this is the theoretical result of a study of a range of possible outcomes, and not a forecast of a likely share price. Hardman & Co may publish further notes on these securities, companies and legal entities but has no scheduled commitment and may cease to follow these securities, companies and legal entities without notice.

The information provided in this document is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject Hardman & Co or its affiliates to any registration requirement within such jurisdiction or country.

Some or all alternative investments may not be suitable for certain investors. Investments in small and mid-cap corporations and foreign entities are speculative and involve a high degree of risk. An investor could lose all or a substantial amount of his or her investment. Investments may be leveraged and performance may be volatile; they may have high fees and expenses that reduce returns. Securities or legal entities mentioned in this document may not be suitable or appropriate for all investors. Where this document refers to a particular tax treatment, the tax treatment will depend on each investor's particular circumstances and may be subject to future change. Each investor's particular needs, investment objectives and financial situation were not taken into account in the preparation of this document and the material contained herein. Each investor must make his or her own independent decisions and obtain their own independent advice regarding any information, projects, securities, tax treatment or financial instruments mentioned herein. The fact that Hardman & Co has made available through this document various information constitutes neither a recommendation to enter into a particular transaction nor a representation that any financial instrument is suitable or appropriate for you. Each investor should consider whether an investment strategy of the purchase or sale of any product or security is appropriate for them in the light of their investment needs, objectives and financial circumstances.

This document constitutes a 'financial promotion' for the purposes of section 21 Financial Services and Markets Act 2000 (United Kingdom) ('FSMA') and accordingly has been approved by Capital Markets Strategy Ltd which is authorised and regulated by the Financial Conduct Authority (FCA).

(Disclaimer Version 8 – Effective from August 2018)

Status of Hardman & Co's research under MiFID II

Some professional investors, who are subject to the new MiFID II rules from 3rd January 2018, may be unclear about the status of Hardman & Co research and, specifically, whether it can be accepted without a commercial arrangement. Hardman & Co's research is paid for by the companies, legal entities and issuers about which we write and, as such, falls within the scope of 'minor non-monetary benefits', as defined in the Markets in Financial Instruments Directive II.

In particular, Article 12(3) of the Directive states: 'The following benefits shall qualify as acceptable minor non-monetary benefits only if they are: (b) 'written material from a third party that is commissioned and paid for by a corporate issuer or potential issuer to promote a new issuance by the company, or where the third party firm is contractually engaged and paid by the issuer to produce such material on an ongoing basis, provided that the relationship is clearly disclosed in the material and that the material is made available at the same time to any investment firms wishing to receive it or to the general public…'

The fact that Hardman & Co is commissioned to write the research is disclosed in the disclaimer, and the research is widely available.

The full detail is on page 26 of the full directive, which can be accessed here: https://ec.europa.eu/transparency/regdoc/rep/3/2016/EN/3-2016-2031-EN-F1-1.PDF

In addition, it should be noted that MiFID II's main aim is to ensure transparency in the relationship between fund managers and brokers/suppliers, and eliminate what is termed 'inducement', whereby free research is provided to fund managers to encourage them to deal with the broker. Hardman & Co is not inducing the reader of our research to trade through us, since we do not deal in any security or legal entity.

research@hardmanandco.com

1 Frederick's Place
London
EC2R 8AE
www.hardmanandco.com

+44 (0)20 3693 7075