

PROTECTOR FORSIKRING

New target price 271 driven by 41% growth

I assume you have read my previous one-Pagers, if not, please do. Then you understand better why I'm right and others are wrong (or at least not equally good) 🤖.

Hvalers target price at 80 kr above consensus is driven by very strong GWP growth estimates, CR in line with historical results driven by scalability, and AUM and ROI% slightly above consensus. The "sum of the parts" of our analysis results in a price well above other (more conservative perhaps? 😊) analysts. This is also supported by peer pricing multiples far above Protector at the current level, without support for such a vast difference.

GWP growth 41% in 2023 and 10% in 2024. We expect larger growth.

In my one pager dated May 4th I argued for a growth sized 40% or more in 2023. In short, the growth is built up through already communicated volume growth in H1 2023 sized 1.776 MNOK. Then you add another Q2 growth sized 280 MNOK plus Q2 currency effects 150 MNOK. This leads to 45% growth per Q2 or 2.206 MNOK if you like. To get to 40% growth in 2023, you need MNOK 448 + currency effects 185 MNOK in H2 2023 to get there. In my one pager May 4th I build up plenty of «margin of safety» to pass 40% growth in 2023 (32% in LCY). Whether you add 10%, 15% or another growth rate in 2024 (we estimate 10%, conservative as always 😊) is up to you but CAGR growth has been > 20% last 10 years. Hvaler Invest vs 4 analysts: 1-0

CR: Hvaler is at 89% when most analyst are 1-2 pp higher, who's right?

I'm afraid it's Hvaler 😊 The reason why is because the main difference arrives from cost ratio and not claims ratio! The other analysts have not really understood what will happen when the company is growing double digit in 2022 and 2024 and 40% in 2023. Scalability, both in the UK and Scandinavia, kicks in. The reason why CR at 89% in 2023/2024 seems low compared to history is simply because cost ratio moves down 2pp and IFRS changes the figures with another 3pp (due to discounting effects). Hvalers 2024e CR at 88.5% equals a historically built NGAAP CR at 91.5% which is in the top of the company communicated 90-92% (based on NGAAP) and in line with a HTD CR despite lower cost ratio today than in earlier years.

I do however understand why analysts could argue for a slightly higher claims ratio than us after a quite weak (underlying) Q1 Combined Ratio, but I'm convinced that Scandinavian motor will bounce back with very solid figures in Q2 and Q3 – let's wait and see.

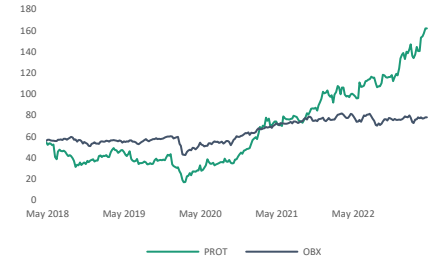
Hvaler vs analysts: 2-0 😊

The combination between the two (GWP and CR)

It's really nothing to discuss, is it? Do you value a CAGR 20% growth company (stronger in 2023) with a strong CR higher or lower than peers that are growing a lot less organically?

BUY
TP: NOK 271
Edge: Worldwide cost leader

PROT versus OBX (5Y)



SUMMARY

Recommendation:	BUY
Share price (NOK)	169
Target price	271
Upside potential (%)	60%
Tickers	PROT NO, PROT.OL

CAPITAL INFORMATION

No. of shares (m)	82.4
Market cap. (NOKm)	13.912
Book value per share (NOK)	41.82
Source: Company, Hvaler Invest (estimates)	

ESTIMATE OVERVIEW

Year-end Dec	2023e	2024e	2025e
GWP Growth	41%	10%	10%
CR	89.1%	88.5%	88.5%
ROI	8.4%	6.1%	5.9%
EPS	21.6	18.7	20.3
DPS	8	10	12

Source: Hvaler Invest (estimates)

DISCLAIMER

We own a significant number of shares in Protector so you cannot trust us... or perhaps you can?

ANALYSTS

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	2023						2024					
	DNB	Nordea	Pareto	SEB	Hvaler I	Cons ex HI	DNB	Nordea	Pareto	SEB	Hvaler I	Cons ex HI
GPW (MNOK)	9,671	9,318*	9,451	9,464	9,980	9476	10,481	9,810*	10,316	10,411	10,978	10255
Insurance revenue	8,883	8,659	8,874	8,807	9,183	8806	10,225	9,095	9,068	9,639	10,703	9507
GPW growth %	36.2%	31.3%	33.2%	33.0%	40.7%	33.4%	8.4%	5.3%	9.2%	10.0%	10.0%	8.2%
Cost ratio	10.7%	10.8%	10.8%	10.9%	9.4%	10.8%	11.0%	10.9%	10.9%	11.0%	8.9%	11.0%
CR %	90.7%	89.9%	90.8%	91.7%	89.1%	90.8%	89.9%	89.0%	90.4%	91.9%	88.5%	90.3%
Total ins. result	1,011	876	819	727	1,002	858	1,034	996	950	781	1,228	940
ROI (MNOK)	1,418	1,331	1,354	1,188	1,538	1,323	1,091	975	1,058	1,059	1,198	1,046
AUM avg (MNOK)	16,850	15,214	17,585	18,855	18,303	17,126	19,476	16,278	19,287	19,987	19,681	18,757
ROI %	8.8%	8.3%	9.0%	6.4%	8.4%	8.1%	5.7%	5.9%	5.9%	5.5%	6.1%	5.8%
EPS kr	20.1	19.1	18.7	16.2	21.6	18.5	15.2	15.1	15.1	14.3	18.7	14.9
Target price kr	205	185	200	173	271	191	205	185	200	173	271	191
P/E (target price)	10.2	9.7	10.7	10.7	12.5	10.3	13.5	12.3	13.2	12.1	14.5	12.8

*Not reported, calculated based on avg analyst conversion (ex HI) from GPW to insurance revenue

What about AUM, ROI and how ROI influences EPS

In these areas there are interesting differences between some analysts on AUM while only minor differences on ROI. There is however a significant difference between Protector and Nordic peers. A bigger proportion of EPS normally arrives from ROI. That's even more interesting when running yield in bond portfolio probably is close to 6% in Q2 (up from 1.8% in Q2 2021) and interest rate forward curves are fairly stable next 2-3 years. Remember also that Protector has beaten all relevant benchmarks on ROI (both bonds and equities) both before and after insourcing of investments in late 2014. Let's summarize;

AUM; Growing very quickly. Some analyst differences. Consensus is too low. *Score 3-0.*

ROI: All analysts are around 6% in 2024. *Score 4-1.*

ROI vs EPS: High impact on EPS which is even better in a high interest environment.

EPS difference in 2024e is 25% between consensus and Hvaler – consensus is wrong and will upgrade gradually next 2 quarters

If we are right on volume and Combined ratio the rest is basically straight forward assumptions which will lead to a target price upgrade from other analysts during the next months.

Score 5-1 😊

Target price 271 up from 238

Our new target price is driven up based on the historical strong volume development in H1 2023 and down based on slightly lower ROI (slightly lower bond risk communicated in Q1). Intrinsic value based on a weighted average of Bull, Base and Bear scenarios can be seen in the table.

Scenario	Value	Probability
Bull	331	25%
Base	275	50%
Bear	203	25%
Sum	271	100%

Peer pricing 2024e at 281 - Protector at 40% discount

Nordic pure P&C insurers (not Storebrand or Sampo) are priced at est. P/E 2024 15.0 which leads to a question or two 😊 What's If Protector is priced like peers? Based on estimated 2023 eps NOK 21.6 🤖🤖🤖 you have PE x 7.8. Our 2024e eps, with a normalized ROI, is NOK 18.7 which leads to a PE x 9.0. Peer pricing equal to market pricing is NOK 281. So why is a CAGR 20% growth company priced lower than peers?

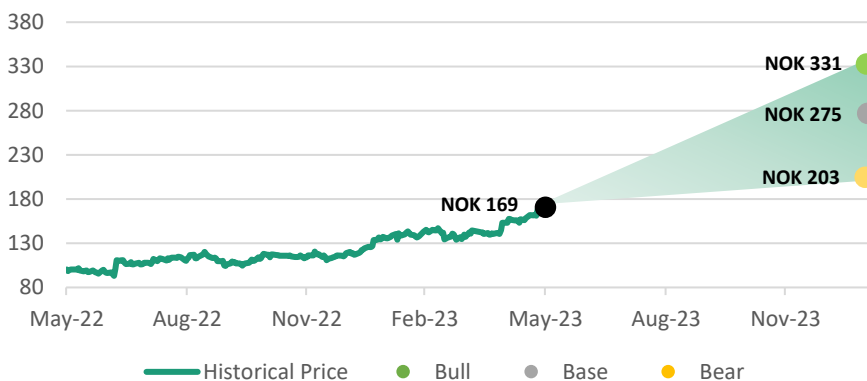
- Small company – yes, smaller than the big ones but sized 14 bill NOK
- More volatile – yes, probably, but to your advantage
- Less liquidity – yes, compared to the big ones

The big final question – how can Protector grow with 20% CAGR? Cost leader in the world.

It's so simple and yet so difficult. If you are Cost leader in the world 🤖 and quality leader at the same time 🤖 you can grow profitably forever.

Investment Case Overview

Share price performance, Hvaler Invests' target price, bear- and bull-case scenarios



Source: Hvaler invest analysis

Target price methodology

We use a discounted cash flow method to estimate the intrinsic value of the company, with a discounting rate of 10%, in addition to an in-perpetuity estimate.

Target price is set based on a weighted average of base, bull, and bear case.

Downside risks – going towards bear case

- Softening markets leading to reduced growth.
- Increased competition in UK, or other markets, leading to increased CR.
- Reduced ROI from either bonds or equities.

Base case assumptions

- Only moderate growth required in H2 to reach 41% in 2023.
- 10% GPW growth from 2024-2026.
- Economies of scale kicking in.
- Continued strong ROI due to 6% running yield in bond portfolio.

Upside risks – Going towards bull case

- Continued strong growth in UK.
- CR reduced 2 pp which is in the lower end of company guided interval.
- ROI% above expectations, equities 2 pp and bonds 0,2 pp above base case.

Hvaler Invest beats analysts again – Score 5-1 🏆🏆

Why do we always beat analysts on Protector?

Reason 1; It's «sum of the parts stupid». If an analyst always leans towards the conservative on most assumptions, it adds up to.... a lot

Reason 2; We spend more time on Protector and understand «why and what» better.