Helios Underwriting

Lloyd's upswing set to continue strongly

FY21 results update

Insurance

Global insurance rate increases of over 50% since 2017 and a more than 30% increase in Lloyd's of London (Lloyd's) premiums have set the stage for a sustained improvement in underwriting results. The negative impact of higher interest rates on fixed interest portfolios is likely to be temporary and should be followed by higher returns on insurance assets and regulatory capital. Lloyd's Ukraine exposure appears largely limited to aviation, has not led to solvency concerns for the market and should, together with rising inflation, help to maintain pricing discipline in an already hard underwriting environment. After a transformative FY21, which almost trebled Helios Underwriting's net exposure to Lloyd's syndicates, Helios is poised to participate in the expected underwriting upswing of the Lloyd's market. Further acquisitive growth should commence from FY23 as the company benefits from enhanced cash flows, although the opportunity for consolidating the sizeable Lloyd's limited liability vehicle (LLV) market could be seized earlier if Helios opts to access capital markets.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/21	70.6	(1.9)	(0.8)	3.0	N/A	1.7%
12/22e	147.7	6.6	7.2	3.0	23.5	1.7%
12/23e	169.6	15.6	18.5	6.0	9.1	3.6%
12/24e	186.3	23.9	28.2	13.9	6.0	8.2%

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

FY21 results very supportive of investment thesis

During FY21, Helios saw a welcome improvement in the combined ratio to 93.9%, a healthy uplift in return on capacity (RoC) for its most recent closed year of account (YOA) and a pick-up in returns, posting a year-end NAV of 157.3p/share. A substantial increase in capacity, combined with the impact of hardening premium rates on underwriting margins and the improved outlook for interest rates, supports our forecast for FY23 NAV of 183.2p/share and NAV return of 12.6%, rising to almost 17% in FY24 and FY25. Our FY23 forecast EPS of 18.5p is set to approach 30.0p in FY24 and FY25.

Significant potential for acquisitive growth

During FY21, Helios demonstrated its ability to deliver strong acquisitive growth by leading the charge to consolidate Lloyd's LLV marketplace. Further acquisitions should recommence after a pause in FY22 to assess recent developments and can be funded at a modest pace using internal resources from FY23. A more aggressive approach to capitalise on the large £3bn capacity opportunity offered by LLVs may require Helios tapping into capital markets.

Valuation: 225p/share with capital deployment upside

A strong outlook for medium-term premium growth, margins and returns drives our valuation of 225p/share, a 37% premium to the FY22e NAV/share and 6% up on our previous valuation. There is further valuation upside if more working capital can be generated and deployed in underwriting capacity growth, boosting value drivers.

31 May 2022

Price	**169p**
Market cap	**£117m**

Net cash (£m) at 31 December 2021	24.6
Shares in issue	67.8m
Free float	47.6%
Code	HUW
Primary exchange	AIM
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	(7.2)	3.4	3.4
Rel (local)	(7.6)	2.3	(1.2)
52-week high/low		195p	143p

Business description

Helios Underwriting was established in 2007 (as Hampden Underwriting) primarily to provide investors with a limited liability direct investment into the Lloyd's insurance market. It is an AIM-quoted holding company, providing underwriting exposure across a diversified portfolio of selected Lloyd's syndicates.

Next events

Interim FY22 earnings release	30 September 2022

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Edison profile page

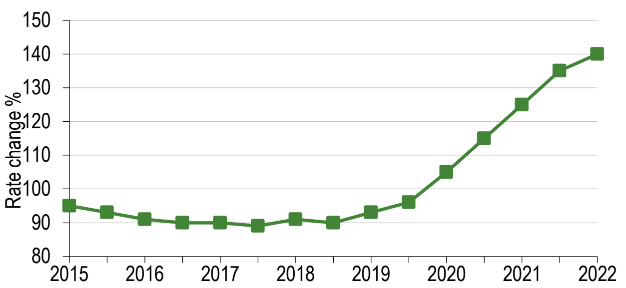
Helios Underwriting is a research client of Edison Investment Research Limited

Investment summary

Repositioned for a continuing upswing in the insurance market

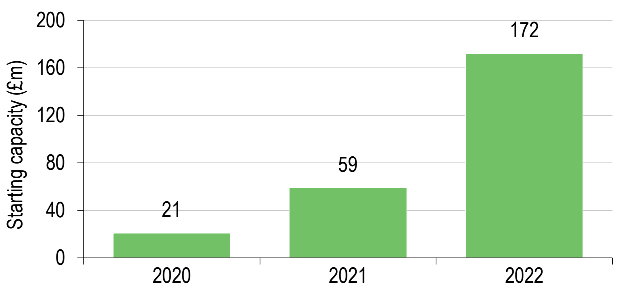
FY21 was a transformative year for Helios, as it resulted in an 111% increase in Lloyd's underwriting capacity (capacity) to £232.7m before reinsurance and an almost trebling in retained capacity to £171.9m. Capacity is the lifeblood of the Lloyd's syndicates in which Helios has exposure, which gives it the right to participate in the premiums that syndicates write and the underwriting profits they generate. Lloyd's syndicates are emerging from an extended period of weak premium rates, which lasted to 2017 and affected underwriting results into 2020, exacerbated by COVID-19. The tide has firmly turned with global insurance rate increases in excess of 50% since 2017 and Lloyd's gross written premium (GWP) growing by more than 30%.

Exhibit 1: Marsh Global Index cumulative rate change since 2015



Source: Helios (sourcing Marsh Global Insurance Market Index)

Exhibit 2: Change in retained capacity*



Source: Helios. Note: *At 1 January 2022.

The impact of rate increases for Lloyd's syndicates and Helios as a participant in syndicate underwriting results, emerges over time as a result of the three-year accounting basis they use (see our Initiation report for more details). As a result, the immediate impact will only emerge as marked improvements in the combined ratio, bottom line and net asset value (NAV) over future years, although 2021 Lloyd's results already flagged a clear change in direction. The current hard premium rate environment should support longer-term results for Lloyd's syndicates and Helios, with rising inflation meaningfully reducing any risk of rate stagnation for the foreseeable future.

At the annual general meeting of the Society of Lloyd's on 19 May 2022, its chairman and CEO stated that 'Lloyd's is well positioned to sustain profitable performance' and described the developments in Ukraine as 'a major but financially manageable event for the market in 2022', stating that 'there are currently no capital or solvency concerns for Lloyd's or any individual syndicate'. While Ukraine exposure could lead to higher claims in the near term, aviation risk, which has been the main focus of commentators, may be muted as most claimed losses relate to confiscation rather than damage, with liability relating to the former being a challenge to enforce under existing policy wording. What is much more important than potential short-term claims as a result of the invasion of Ukraine, is that it '…will serve to stiffen resolve among carriers, to maintain pricing discipline given the unexpected nature of the potential losses', as stated by the chairman of Helios in the FY21 results.

Increased risk and claims pressure, whether as a result of the war in Ukraine or rising inflation, are central to the business model of property and casualty insurers, the Lloyd's market and Helios. The importance and attraction of insurance companies, including Helios, to investors is fundamentally embedded in their ability to provide protection against risk events at an appropriate price. Price discipline following an adverse claims event almost always ushers in a period of higher premium rates and enhanced profitability for this industry.

Helios's substantially increased exposure to Lloyd's syndicates in FY21 positions it very attractively to benefit from the strong rate increases already delivered over recent years and from the positive rate impacts expected from increased pricing discipline and rising inflation over coming years.

FY21 results supportive of investment thesis

Helios released its FY21 results on 27 May 2022, posting a NAV of 157.3p/share and a full return on NAV (RoNAV), including revaluations of 5.8%. During the period, the company raised a gross £54m in equity, bolstered its gearing (by £15m) and reduced its exposure to quota share reinsurance (QS) from almost 50% to below 30%, to deliver an 193% increase in retained capacity to £172m. Helios recorded a syndicate combined ratio of 93.9% for FY21 versus 103.1% during the COVID-19 affected FY20, despite a continuing COVID overhang and weak investment returns affecting the 2021 YOA (premiums written during 2021, the results of which will emerge in full by FY23). The closed 2019 YOA delivered an updated RoC of 2.7%, representing a market swing from the negative 1.6% guided in the FY20 results, outperforming Lloyd's as a whole by 5.8%.

The latest syndicate mid-point forecasts have lifted the RoC forecast for the 2020 YOA to 1.0% and conservatively estimated the 2021 YOA level at 1.9%. Based on the historical experience by syndicates in conservatively setting reserves, highlighted by consistent large uplifts to mid-point estimates (especially for year three of a particular YOA), our forecast RoC for the 2020 YOA of 5% is well supported. In FY23, we forecast an RoC of 9.3% for the 2021 YOA, rising to 12.8% in FY25 for the 2023 YOA.

FY21 saw a marked increase in GWP to £106.1m, accompanied by a 68% increase in financial assets over and above regulatory capital to £110.3m. During FY22, Helios will benefit from the significantly higher capacity added in FY21 to drive an estimated doubling of GWP to over £215m and financial assets well over £200m. We forecast this to drive an almost trebling of syndicate underwriting operating results from £3.4m in FY21 to £9.4m in FY22 and a further doubling to over £19m in FY23 with a corresponding decline in syndicate combined ratio to under 89%.

The ramp up in GWP and associated financial assets will also increase the company's exposure to rising interest rates and hence investment returns. While the impact of the interest rate uptick in FY21 was muted by capital losses on fixed interest portfolios, resulting in a weak return of only 0.4% on financial assets and regulatory capital, the outlook is much more positive with Libor increasing to over 1% in recent months and UK 10-year gilt yields approaching 2% and US 10-year treasury yields approaching 3%. With short-term fixed interest portfolio losses out of the way, we forecast investment income to contribute close to £10m to earnings by FY24 and FY25 compared with less than £1m in FY21.

Combining the impact of increased capacity on GWP, the hardened and hardening premium rates on underwriting margins and the improved outlook for interest rates on returns, we forecast an increase in NAV to 183.2p/share by FY23 with a RoNAV of 11% (12.6% including pre-emptions and revaluations), rising to c 15% (almost 17% with revaluations) for FY24 and FY25.

EPS, which only started to benefit from improving rates in FY21 and were negatively affected by weak investment returns and high transaction-related operating costs are forecast to turn positive in FY22 at 7.2p/share, rising to 18.5p in FY23 and exceed 30p/share in FY25.

Acquisitive growth offers meaningful upside

Our Helios initiation of 24 February 2022 provided a detailed description of the company's track record of delivering growth through the acquisition of Lloyd's LLVs and its participation in Lloyd's auctions, as well as organic growth through participation in capacity pre-emptions from its syndicate exposure. In this note, we highlighted the importance of generating the free working capital required to fund acquisitions and the regulatory capital needed to back increased levels of capacity. The key mechanisms for generating free working capital are:

- Cash flow generation – for Helios, operating cash flow is starting to pick up and is expected to contribute c £10m in FY23 (after dividends) to funds available for acquisition, with the amount rising thereafter;
- Reinsurance – the increased use of QS reduces regulatory capital requirements and increases working capital, but Helios strategically reduced its use of QS to increase its participation in future underwriting profits;
- Capacity disposal – selling capacity in the Lloyd's auctions, allowing for 'limited tenancy' capacity to lapse or not taking up capacity pre-emptions increases working capital, but also reduces participation in future underwriting profits;
- Gearing and excess of loss agreements – Helios has meaningfully increased its utilisation of excess of loss agreements and bank facilities during FY21 and further utilisation requires growth in balance sheet, either through cash flow generation or raising capital; and
- Raising capital – Helios successfully raised £54m of gross capital in March 2021, which funded meaningful capacity growth in FY21, enhanced gearing and reduced dependence on QS.

The FY21 results published on 27 May 2022 provided an up-to-date view of working capital management and utilisation to fund capacity growth. Working capital at 31 December 2021 was £16.2m, which was well ahead of our expectation of £6.9m. Part of this was due to timing differences related to Lloyd's regulatory capital requirements, which are expected to unwind by the end of FY22. A remaining amount of c £5m is due to less onerous regulatory capital requirements on the LLV purchases in FY21 than we anticipated, which has bolstered our forecasts of the free working capital available to Helios. Due to a change in the timing around when Helios has to provide Lloyd's with additional regulatory capital, if required, we have changed our forecasts for the company to end a financial year with at least £7.5m of working capital (from our previous assumption of £5m).

While Helios commenced numerous discussions with LLVs regarding potential acquisitions during 2022, such discussions were put on hold due to the uncertainty caused by the invasion of Ukraine. We have therefore reasonably updated our forecasts for FY22 to not include any LLV acquisitions, which has increased our forecast for working capital to £7.9m, clean of any capacity transactions other than taking up pre-emptions. As a result, we forecast Helios to be well positioned to ramp up LLV acquisitions from organic working capital generation in FY23, driving capacity growth by between 6% and 8% to FY25.

However, as stated in our initiation report and highlighted by Helios in its FY21 results, the potential for tapping into the c £3bn capacity represented by LLVs is meaningful. Organic working capital generation by Helios will not be sufficient to fund an aggressive acquisitive strategy into this attractive space, which will only be possible if the company is able to raise further capital and, on the back of this, increase its gearing and use of excess of loss agreements.

Our sensitivity calculations show that raising capital at levels above its NAV will be very value enhancing for Helios. Current trading levels are approaching a 8% premium to the FY21 NAV of 156.5p/share, down from a 40% plus premium in April 2022.

Company description: Unique Lloyd's exposure

Helios is a holding company that owns capacity on 20 Lloyd's syndicates/managing agents, which allows it to participate in the underwriting results of these syndicates. Its exposure is on a limited-liability basis and is backed by underwriting capital that it must deposit in the Funds at Lloyd's (FAL) akin to the solvency margins that all insurance operations hold. It participates in syndicate underwriting results based on the share of capacity (which is the upper limit of GWPs that may be written in an underwriting year) that it owns in the syndicate and must contribute capital in the same proportion, varying between syndicates based on underlying risk.

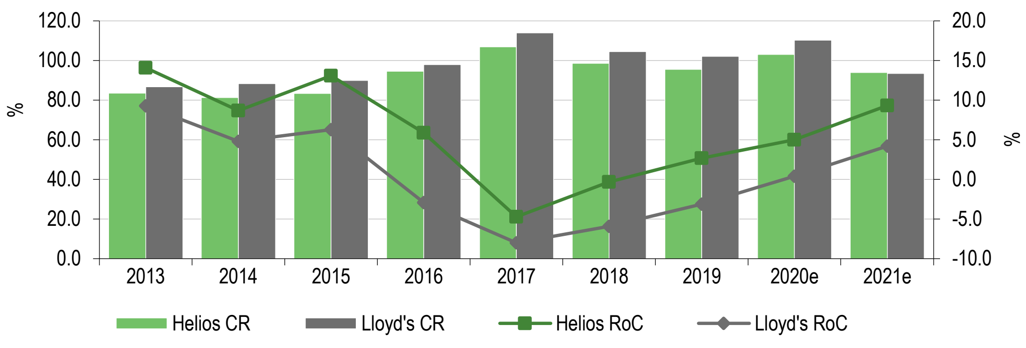
Helios has actively increased its participation in Lloyd's over recent years by acquiring LLVs and the associated syndicate capacity they participate in, by buying capacity in the Lloyd's auctions and by subscribing to tenancy capacity. The latter only provides access to a particular YOA, does not provide guaranteed renewal for subsequent YOAs and does not attract a value, but does require Helios to provide the capital required to write business. However, it can provide the opportunity to dip in/out of underwriting certain risks when the return is forecast to be particularly attractive.

Helios has been particularly successful in aggregating LLVs at attractive prices, which have been below the NAV raised (LLV NAV acquired plus the weighted average value of capacity (WAV) created for the acquisition) and Humphrey & Co valuations over the past four years. This has allowed it to achieve healthy capacity growth, which will drive strong growth in GWP and increased access to underwriting results.

Management focus has recently shifted from moderate growth and portfolio selection to aggressively growing capacity, primarily through the acquisition of LLVs. The experience, network and dealmaking skills of the management team have been borne out in numerous acquisitions at discounts to fair value. Additional value has been added to these acquisitions through capital efficiency with the use of quota share and FAL-funding excess of loss reinsurance allowing for the release of FAL in the case of most acquired LLVs.

Helios has outperformed Lloyd's from a combined ratio and RoC point of view since 2013 thanks to careful portfolio selection. Recent increases in solvency efficiency through diversification could add to this trend of outperformance.

Exhibit 3: Comparison of Lloyd's and Helios's combined ratios (CR) and RoC by YOA



Source: Helios, Edison Investment Research. Notes: Combined ratios on left axis and RoC on right axis; 2020e and 2021e are Edison forecasts for Helios and latest mid-point estimates for Lloyd's.

The latest mid-point estimates point to a reversal of Helios's outperformance of Lloyd's for the 2021 YOA (1.9% vs 4.2% for Lloyd's), although we believe this to be temporary due to conservatism in syndicate reserve setting and forecast this to open up again when the YOA closes, supported by Helios's track record for meaningful upwards adjustments (5% plus since the 2018 YOA). The average Helios outperformance overall closed YOA from 2013 is 5.6% pa.

Financials

In FY21, Helios delivered a substantial increase in capacity, resulting in an almost doubling of GWP to £134.6m, insurance financial assets growing to £110.3m and NAV increasing to 157.3p/share.

Exhibit 4: Helios's segmental forecasts and key metrics

Year end December (£m)	FY19	FY20	FY21	FY22e	FY23e	FY24e	FY25e
Capacity (for deployment in the next year)	69.1	110.3	232.8	238.6	257.4	281.8	304.7
Capacity added through acquisitions	8.5	10.9	34.9	0.0	14.3	20.6	19.7
Key parent company assets							
FAL (required capital)	13.5	19.7	43.6	71.3	65.6	61.2	63.8
WAV (intangible assets)	26.4	30.8	59.8	62.9	71.4	82.7	93.1
Free working capital	3.0	5.0	16.2	7.9	8.7	10.5	10.9
Key syndicate assets							
Insurance assets	53.6	65.6	110.3	213.4	246.5	283.7	318.5
Equity (members' balances at Lloyd's)	(8.2)	(5.7)	(3.5)	2.2	13.6	25.6	30.1
Group NAV (syndicate plus parent equity)	7.0	18.9	46.9	49.2	52.8	58.3	62.2
Syndicate level results*							
GWP	61.6	76.1	134.6	215.8	244.1	269.0	292.0
Net earned premiums	47.5	55.7	92.7	152.6	180.9	199.3	216.3
Claims	(28.2)	(37.9)	(54.1)	(88.9)	(99.5)	(104.6)	(112.9)
Expenses	(17.1)	(19.5)	(32.9)	(50.6)	(61.1)	(67.9)	(73.8)
Underwriting result	2.1	(1.7)	5.7	13.1	20.4	26.7	29.6
Investment income on financial assets	2.5	2.4	0.0	2.2	5.9	7.8	9.2
Quota share reinsurance	(1.4)	(0.1)	(2.3)	(5.9)	(7.1)	(8.0)	(9.0)
Underwriting Operating result	3.3	0.6	3.4	9.4	19.1	26.6	29.8
Parent level results							
Reinsurance income**	(0.1)	0.1	0.2	1.2	1.8	2.4	2.7
Investment income on FAL	1.0	1.6	1.2	0.0	0.6	1.8	2.2
Stop loss costs	(0.2)	(1.1)	(1.9)	(1.9)	(2.1)	(2.3)	(2.4)
Operating costs	(2.3)	(2.0)	(3.6)	(2.2)	(2.2)	(2.3)	(2.3)
Other***	0.8	1.2	(0.1)	0.0	(0.7)	(0.9)	(1.0)
Combined pre-tax profit	2.4	0.3	(0.6)	6.6	16.5	25.2	29.0
Tax	(0.2)	(0.0)	0.2	(1.6)	(3.9)	(6.0)	(6.9)
Profit after tax	2.2	0.3	(0.4)	4.9	12.6	19.3	22.0
WAV revaluation after tax	0.0	4.0	5.4	1.5	1.6	1.7	1.8
Total comprehensive income	4.1	4.3	4.9	6.5	14.2	20.9	23.9
NAV/share (p)	190.5	150.8	157.3	165.4	183.2	208.0	229.1
WAV/share (p)	150.7	93.4	88.2	92.8	105.3	122.0	137.3
EPS (p)	25.6	1.6	(0.8)	7.2	18.5	28.2	32.3
DPS (p)	0.0	3.0	3.0	3.0	6.0	13.9	15.9
Capacity growth	31.4%	59.8%	110.9%	2.5%	7.9%	9.5%	8.1%
EPS growth	717.9%	-93.8%	-147.3%	-1061.4%	155.5%	52.8%	14.5%
RONAV/share	17.1%	1.0%	-0.5%	4.5%	11.0%	15.2%	15.3%
RONAV/share plus WAV revaluations	12.5%	-4.9%	5.8%	6.0%	12.6%	16.8%	16.8%
Group insurance ratios****							
Claims ratio	64.7%	69.9%	64.5%	61.1%	57.7%	54.7%	54.5%
Expense ratio	45.2%	43.0%	43.3%	37.5%	38.0%	38.3%	38.2%
Combined ratio	109.9%	112.9%	107.8%	98.6%	95.7%	93.0%	92.6%
Underwriting portfolio insurance ratios*****							
Claims ratio	59.5%	68.0%	58.4%	58.3%	55.0%	52.5%	52.2%
Expense ratio	36.1%	35.0%	35.5%	33.2%	33.8%	34.1%	34.1%
Combined ratio	95.6%	103.1%	93.9%	91.4%	88.8%	86.6%	86.3%
RoC (closed YOA)	(4.4%)	(0.2%)	3.3%	5.0%	9.3%	12.2%	12.8%
Year 3 (accounting year)	7.2%	4.7%	6.1%	5.2%	6.5%	6.1%	6.1%
Year 2 (previous year)	3.9%	4.2%	1.3%	4.4%	6.8%	6.4%	6.6%
Year 1 (underwriting year)	(15.6%)	(9.0%)	(4.2%)	(4.6%)	(4.0%)	(0.3%)	0.1%

Source: Helios, Edison Investment Research. Note: *Syndicate results before pre-acquisition & other parent items & after quota share reinsurance. **Quota share fees & profit commission. ***Goodwill on bargain purchase & pre-acquisition impact. ****Using consolidated premiums (after pre-acquisitions impact) & including parent items. *****Using syndicate excluding pre-acquisitions & parent impacts. Syndicate revenue is higher than consolidated revenue, but so are claims & expenses (pre acquisition impact).

The company posted a combined ratio of 93.9%, leading to a syndicate underwriting operating result of £3.4m. A depressed investment environment and high transaction-related operating costs were offsetting factors, driving a small £0.4m loss after tax, although total comprehensive income of £4.9m benefited from a positive revaluation of syndicate capacity. RoC for the latest closed year (2019) turned positive thanks to a strong year-three performance and the RoNAV including revaluations was 5.8%.

FY22 should produce better results as the new capacity comes online and the hardening premium cycle starts moving the company back to a break-even position during the first year of the 2022 YOA, although the 2020 and 2021 YOAs will still add softer-cycle contributions. We expect underwriting operating profit of £9.4m and earnings of £4.9m (EPS of 7.2p/share) with a recovery in investment income and fewer one-off items in the holding company P&L. NAV/share is forecast to grow and we expect it to be 165.4p/share in FY22, generating a return of 4.5% for the year (6.0% with revaluations). We expect only the basic dividend of 3p/share.

In FY23 Helios should start to see the meaningful benefits of its recent growth, and we expect the 2022 YOA to be particularly profitable as it benefits from lower claims and expense ratios. The underwriting portfolio's combined ratio is forecast to decline to 88.8% and the 2021 YOA, which closes off in this financial year, is expected to generate an RoC of 9.3% and drive a underwriting operating profit of £19.1m. Reinsurance income is forecast to recover strongly as quota share profit commission resumes on the back of improved underwriting results and investment income on FAL should benefit from higher assets and an uptick in yields (albeit conservatively forecast at 2%). Earnings of £12.6m (EPS of 18.5p/share) should contribute to healthy NAV growth (we forecast an 11% return and a value of 183.2p/share) and a sharp pick-up in dividends with a 3p/share special dividend, in addition to the basic dividend of 3p/share forecast.

In the subsequent two years (FY24 and FY25) when the 2022 and 2023 YOAs will close out and deliver the full upside of the recent significant capacity increases, we forecast earnings growth of c 53% for FY24 and 15% for FY25 on the back of RoCs of 12.2% and 12.8% and RONAV (including WAV revaluations) of 16.8% in both years. The underwriting cycle will likely have started turning downwards by FY25 and it is reasonable to expect RONAVs to decline from the highs at that stage.

Forecast changes since our initiation of 24 February 2022 include EPS upgrades for FY22 from 6.9p/share to 7.2p/share and for FY23 from 17.0p/share to 18.5p/share and further upgrades for FY24 and FY25, higher NAV/share forecasts for FY24 (208p vs 205p) and FY25 (229p vs 225p) and c 1% higher RONAV forecasts for those years.

For the purposes of our valuation, we look at an average RONAV from FY22 to FY25 and exclude revaluations. This results in an average 11.5% return, which we use in our RONAV versus P/NAV valuation.

Valuation: An over-the-cycle return approach

Our base case valuation of 225p/share uses an 11.5% over-the-cycle RONAV, derived as the average return forecast from FY22 to FY25. This is a 6% increase on our previous valuation of 212p/share, supported by a more favourable outlook for FY24 and FY25, resulting in higher returns.

In our initiation report we tested our RONAV assumption by considering an 11-year average RoC (including our five-year forecast), applying the new UK tax rate, grossing up this return based on a reasonable NAV/capacity assumption (ie, if the company has an NAV of half its capacity, the RONAV would be double the RoC because the same profit amount is divided by a denominator half the size) and making an allowance for the head-office structure. An updated assessment on the same basis produces more than 11.5%, supporting our RONAV assumption.

Our cost of equity of 8.4% is based on a risk-free rate of 1.9%, a risk premium of 6.5% and a beta of 1x. Although this cost of equity may appear low for a company the size and liquidity of Helios, it is justified, in our opinion, by the asset side of its balance sheet being very robust, consisting primarily of FAL and WAV, with WAV a marked-to-market and very monetisable asset, and by the fact that we apply no terminal growth to our RONAV valuation.

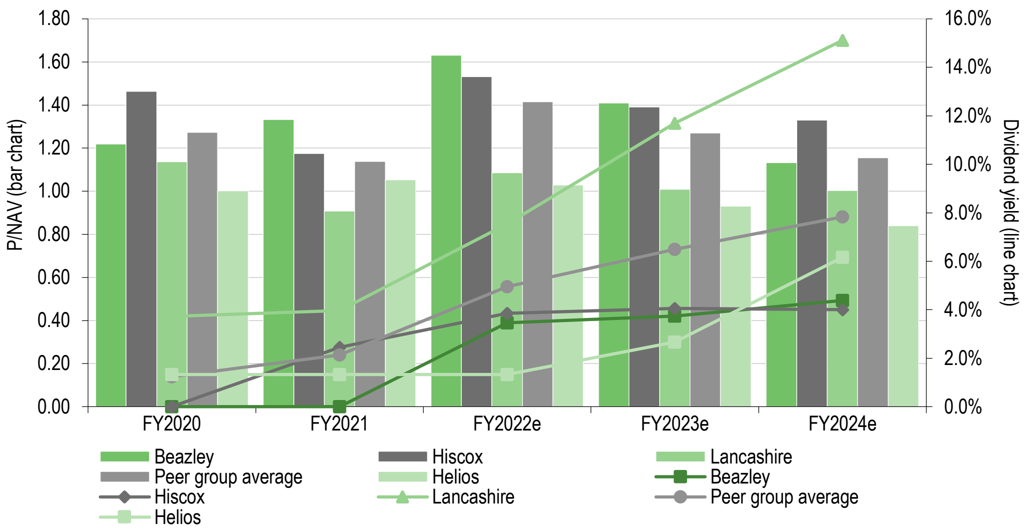
Exhibit 5: Current valuation

Year end 31 December	FY20	FY21	FY22e	FY23e	FY24e	FY25e
Over the cycle valuation (p)	**225**					
EPS (p)	1.6	-0.8	7.2	18.5	28.2	32.3
DPS (p)	3.0	3.0	3.0	6.0	13.9	15.9
NAV/share (p)	150.8	157.3	165.4	183.2	208.0	229.1
Valuation-implied P/E (x)	141.7	-299.5	31.2	12.2	8.0	7.0
Valuation-implied dividend yield (%)	1.3%	1.3%	1.3%	2.7%	6.2%	7.1%
NAV multiple (x)	1.5	1.4	1.4	1.2	1.1	1.0

Source: Helios, Edison Investment Research

Our fair value for Helios is at a 1.37x multiple of its FY22 forecast NAV of 165.4p/share and at a 36% premium to the current share price. The valuation is not well supported by expected FY22 or dividends, but once the improved underwriting conditions start to emerge from FY23, the forward earnings multiple implied by our valuation is attractive at 12.2x and declines rapidly to 7.0x in FY25. The dividend yield similarly only becomes more attractive from FY23.

Exhibit 6: Peer group P/NAV and dividend yield comparison



Source: Refinitiv, Helios, Edison Investment Research. Note: Priced at 28 May 2022. Helios's NAV includes WAV at fair value, while NAV of peers does not.

While our valuation for Helios indicates a relative value on an implied forward earnings and NAV multiple basis, the company far undershoots the peer group on dividend yield. This is because Helios chooses to retain most of its earnings to fund capacity growth.

Exhibit 7: Financial summary (consolidated at group level)

	2019	2020	2021	2022e	2023e	2024e
Accounts: IFRS, Yr end: December, GBP: Thousands	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue*	45,872	52,594	70,615	147,706	169,564	186,306
Net insurance claims and loss adjustment expenses	(43,388)	(51,996)	(70,149)	(139,615)	(152,426)	(160,786)
Gross Profit	2,484	598	466	8,092	17,138	25,520
EBITDA	(1,140)	(924)	(1,864)	6,578	15,587	23,930
Operating Profit (before amort. and except.)	720	(924)	(1,864)	6,578	15,587	23,930
Intangible Amortisation	1,860	0	0	0	0	0
Exceptionals	1,707	1,260	1,219	0	913	1,314
Other	(1,764)	(1,522)	(2,330)	(1,514)	(1,552)	(1,590)
Operating Profit	4,287	336	(645)	6,578	16,500	25,244
Net Interest						
Profit Before Tax (norm)	2,580	(924)	(1,864)	6,578	15,587	23,930
Profit Before Tax (FRS 3)	4,287	336	(645)	6,578	16,500	25,244
Tax	(233)	(35)	211	(1,644)	(3,897)	(5,983)
Profit After Tax (norm)	2,347	(959)	(1,653)	4,933	11,690	17,948
Profit After Tax (FRS 3)	4,054	301	(434)	4,933	12,603	19,261
Average Number of Shares Outstanding (m)	16.0	25.3	50.4	67.8	67.8	67.8
EPS - normalised (p)	25.6	1.6	(0.8)	7.2	18.5	28.2
EPS - normalised fully diluted (p)	24.9	1.6	(0.7)	7.1	18.2	27.8
EPS - (IFRS) (p)	24.9	1.6	(0.7)	7.1	18.2	27.8
Dividend per share (p)	0.0	3.0	3.0	3.0	6.0	13.9
Gross Margin (%)	5.4%	1.1%	0.7%	5.5%	10.1%	13.7%
EBITDA Margin (%)	(2.5%)	(1.8%)	(2.6%)	4.5%	9.2%	12.8%
Operating Margin (before GW and except.) (%)	1.6%	(1.8%)	(2.6%)	4.5%	9.2%	12.8%
BALANCE SHEET						
Fixed Assets	173,901	220,937	380,977	658,613	711,117	774,060
Intangible Assets	21,178	31,601	60,890	62,926	71,411	82,678
Tangible Assets	85,582	104,059	166,243	310,931	327,605	346,417
Investments	67,141	85,277	153,844	284,757	312,101	344,965
Current Assets	6,037	8,495	24,624	15,574	16,438	19,595
Stocks	0	0	0	0	0	0
Debtors	0	0	0	0	0	0
Cash	6,037	8,495	24,624	15,574	16,438	19,595
Other	0	0	0	0	0	0
Current Liabilities	8,320	7,293	4,699	20,169	20,686	21,254
Creditors	6,320	3,293	4,699	5,169	5,686	6,254
Short term borrowings	2,000	4,000	0	15,000	15,000	15,000
Long Term Liabilities	143,470	171,590	293,156	541,891	582,653	631,393
Long term borrowings	0	0	0	0	0	0
Other long term liabilities	143,470	171,590	293,156	541,891	582,653	631,393
Net Assets	28,148	50,549	107,746	112,127	124,216	141,007
CASH FLOW						
Operating Cash Flow	1,720	(11,629)	(16,150)	(20,326)	18,566	29,976
Net Interest	(1,483)	(1,474)	(1,566)	(1,288)	(3,672)	(5,950)
Tax	(1,119)	(312)	(675)	(1,644)	(3,897)	(5,983)
Capex	(22)	(186)	(2,983)	0	755	1,274
Acquisitions/disposals	922	2,889	(9,880)	1,288	(8,810)	(12,002)
Financing	(5,654)	13,170	49,401	15,000	0	0
Dividends	(529)	0	(2,018)	(2,079)	(2,079)	(4,158)
Net Cash Flow	(6,165)	2,458	16,129	(9,050)	864	3,157
Opening net (debt)/cash	3,006	4,037	4,495	24,624	574	1,438
HP finance leases initiated	0	0	0	0	0	0
Change in borrowings	7,196	(2,000)	4,000	(15,000)	0	0
Closing net (debt)/cash	4,037	4,495	24,624	574	1,438	4,595

Source: Helios, Edison Investment Research. Note: *Shown after pre-acquisition impact and parent reinsurance result, investment income, costs and other items (see Exhibit 4 for a segmental view of Syndicate result and Parent result).

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