Equity Research

Protector Forsikring ASA

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Asset Management

Protector is a Norwegian insurance company operating in the Nordic market and in Great Britain. It was founded in 2004 and has had a journey of growth, a volatile Combined Ratio (CR) and incredible investment returns.

Protector conducts its business in a different way than other insurance companies, The company has an emphasis on a performance culture within the company, inhouse IT- and investment departments and committed leaders. This shows both in the historical numbers where Protector is more successful than peers regarding growth and ROE and also in the lower cost ratio allowing Protector to maintain its competitive advantage.

However this growth and ROE have been achieved at the cost of more volatile returns, perhaps explaining the valuation discount to peers. Although the share price has risen significantly over the past two years insiders keep purchasing shares. Could this have to do with the strong balance sheet of Protector?

We argue that Protector is a good complement to an investment portfolio tilted towards growth stocks. Protectors investment side is hedging for higher rates by positioning in low duration bonds, value stocks and owning out of the money puts on stock indices. Protector is trading at approximately a 25% discount to peers according to our estimated normalized earnings despite higher historical growth rates.

We rate it as a hold due to low estimated upside but consider it a must have in a long term portfolio due to the strong balance sheet, stable industry and operational excellence of the company.

Fair Value Range		
Current	**Base**	Upside
120.8	**167**	38%

Key Data	
Sector	Insurance
Ticker	PROT
Market	OSE
Adj. P/E	12
Price	120.8 NOK
Market Cap TNOK	9 966
Shares fully dil. mil	82.5

Share price - 12M

Financials (NOK)	2019	2020	2021	2022E	2023E
Gross Written Premium (MNOK)	4 996	5 5516	5 950	6 813	7 495
Combined Ratio %	*104*	*95*	*87*	*89*	*91*
Investment returns %	*1.5*	*7.9*	*6.5*	*4.0*	*4.0*
EPS	(1.8)	11.4	14.6	10.7	9.9
Ordinary DPS	-	3	7	5.3	4.9
GWP Growth %	*21*	*10*	*8*	*15*	*10*

Investment Thesis

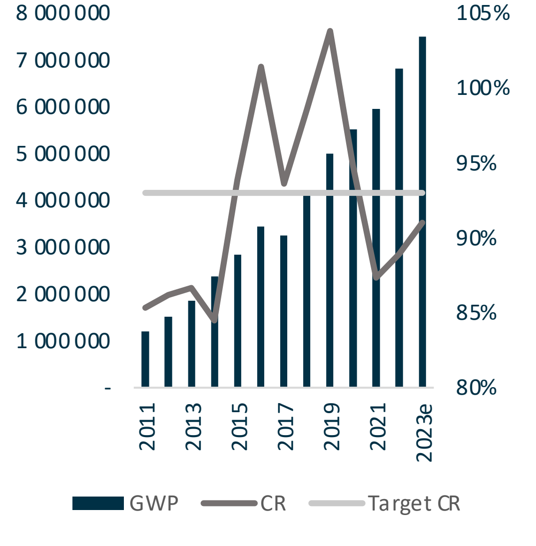
Protector has historical financial numbers such as ROE around 20%, Gross-Written-Premium (GWP)-growth of 16%, Cost-ratios below 10%, bond returns of 3,8% and equity returns of 19%. However, it is trading at approximately 25% discount to peers based on what we consider normalized earnings. Although Protector has more volatile returns than peers it is growing faster with ample growth opportunities in both UK and through entering new markets. Therefore, we do not consider the valuation discount to be justified.

One possible reason for the valuation discount could be the recent profitability challenges that the company had in 2018 and 2019. During these years, the company had a Combined ratio of 99% and 104% respectively due to a higher number of large losses such as Greenfell Tower, Claims inflation and it's Change of Ownership (COI)-segment becoming unprofitable. The company acknowledged its profitability challenges right away in 2018 and decided to exit the COI-market due to challenging market conditions and raised prices on the other unprofitable segments. We believe the company acted resolutely and that profitability is back on track. Protector has almost always been profitable historically and we view this period as a short-term bump on the road whilst growing, not a reason to value Protector at a discount. This thesis is strengthened by the fact that a lot of insiders have been purchasing shares during the last year. See appendix for a summary of this.

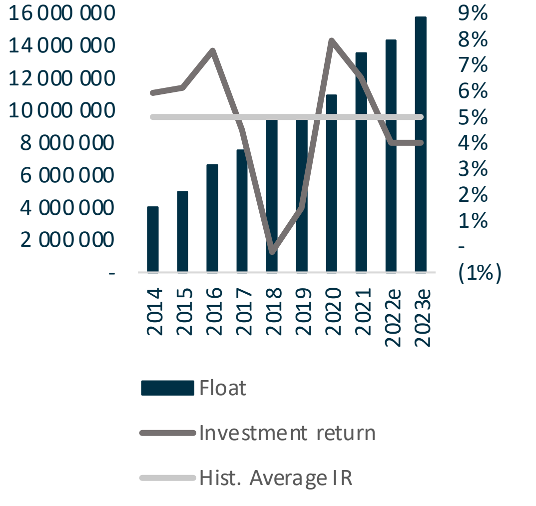
The company has a solid balance sheet with a Solvency ratio of 206%, meaning that it will probably have to issue extra dividends in the future if it cannot deploy all capital. Protector is very diligent with capital allocation and will issue dividends of excess capital if it cannot deploy capital at a level above 20% ROE. It also has a financial target of a solvency margin above 150%, indicating that extra dividends or attractable investment opportunities are awaiting.

Protectors' investment team has a tremendous track record, and we see no indication of that changing. They have a cautious approach to the market, mixing equity investments with out of the money puts on stock indices and a low duration bond portfolio, meaning that it will be able to sustain (on a relative basis) an environment with rising interest rates. In the short run some bond return volatility is expected in a rising interest rate level market but in the long run this environment should benefit Protector.

GWP TNOK



Float TNOK



Strategy and Operations Analysis

Protector is a Norwegian insurance company operating in the Nordic market and in Great Britain. The company distributes its services through insurance brokers and targets the commercial and public markets, meaning that it has almost no sales towards the private insurance market. The company was founded in 2004 and listed on the Norwegian stock exchange in 2007.

Since its listing Protector has compounded it's GWP by approximately 16%. The company has achieved its growth by challenging the incumbent market participants through cost control and a focus on quality. Historically this has been successful as Protector has had both lower cost ratios as well as better relations with the insurance brokers according to their own market research. The lower cost has been achieved through having IT, investment and claims departments in-house. To exemplify, Protector points to an IT cost ratio of 1% compared to 3,2% for peers in the industry according to research conducted by Gartner. The rest of the cost ratio advantage is explained by a focus on a performance culture in the company, most likely explaining the achievements in quality ratings as well.

Protector has previously had successful expansions into new markets such as Denmark, Sweden and UK. This could be done through targeting the public markets, were it is relatively easy to participate in a tender. Another advantage when entering a new market is the brokers. Since several broker firms are international a relationship is often already established and therefore a large marketing campaign when entering a new market is not necessary, instead they can leverage their previous relationships to participate in tenders.

According to Protectors own evaluation in 2016 Netherlands and Belgium could be suitable markets for future expansions, leaving ample runway for growth once they reach a more mature position in UK. However we believe there is still plenty of room to grow in the UK and we do not expect further international expansion in the near future.

Historically 75% of the profits have come from investment returns. Since 2014 Protector handles its investments inhouse led by Dag Marius Nereng. The historical returns have been impressive where the equity portfolio have compounded at 19% CAGR and the bond portfolio at 3,8% since 2014. Protector does not invest in properties like many other insurance companies but rather in stocks and bonds, explaining the higher but also more volatile returns. However the risk level is kept in check by owning out of the money put options on stock indices, having a low duration on the bond portfolio and a value approach towards equity-investing, ensuring a lower risk in investments.

We believe Protectors performance culture is deeply rooted in the management and employees, meaning that it will most likely sustain and ensure that Protector maintains its leading position both regarding cost and quality. This should leave room for further growth and profitability.

We are also thoroughly impressed by the investment department and although higher interest rates will dampen future returns on the bond portfolio in the short run, higher levels of interest rates will equal a higher yield on future bond investments. If one can stomach some volatile returns we are confident that Marius Nereng and his team will deliver great returns.

Management & Ownership

Henrik Høye CEO since 2021 and employed since 2007. Earlier involved in the Danish, Swedish, UK and Public segments. Holds 222 171 shares excluding options and allocated future shares.

Hans Didring Deputy CEO since 2021. Earlier country manager in Sweden since 2011 Holds 258 593 shares excluding options and allocated future shares.

Dag Marius Nereng Chief Investment Officer since 2015. Has experience from Handelsbanken Asset Management and Bankernes Sikringsfond. Holds 107 571 shares.

JOSTEIN SØRVOLL Chairman of the board and boardmember since 2006. Previously CEO at Protector. Experience from the insurance sector. Holds 502 751 shares.

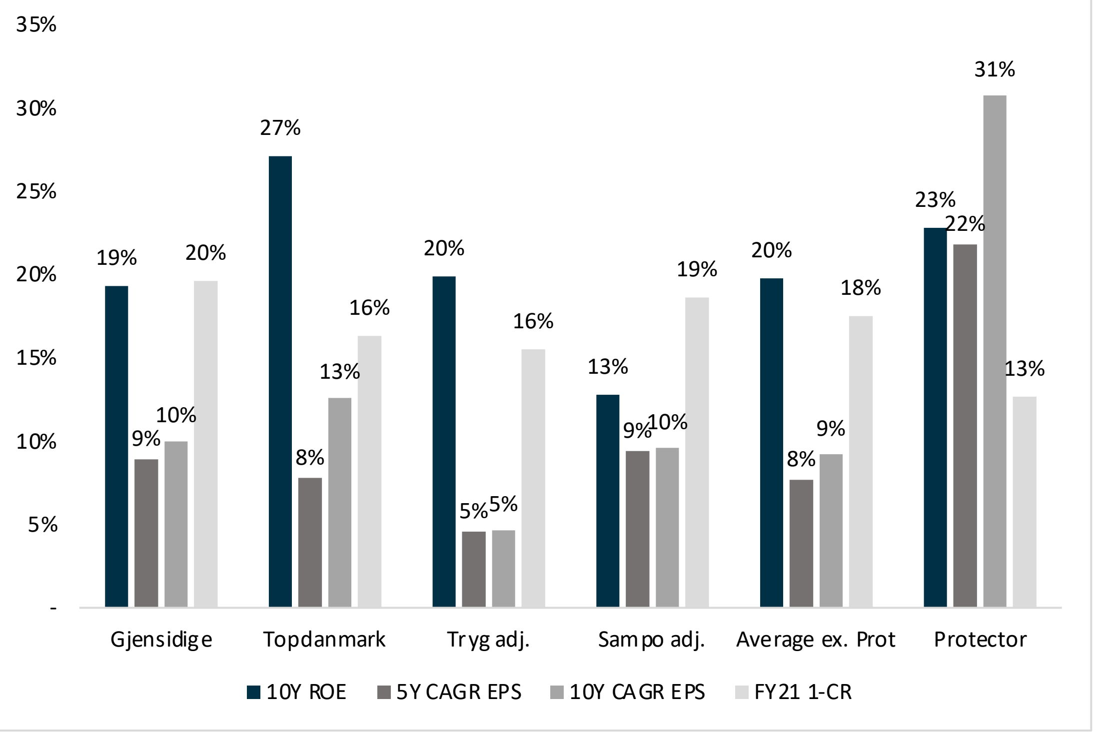
Arve Ree Deputy chairman of the board. Boardmember since 2020. Managing director of AWC AS. Experience as investor. Holds 799 978 shares.

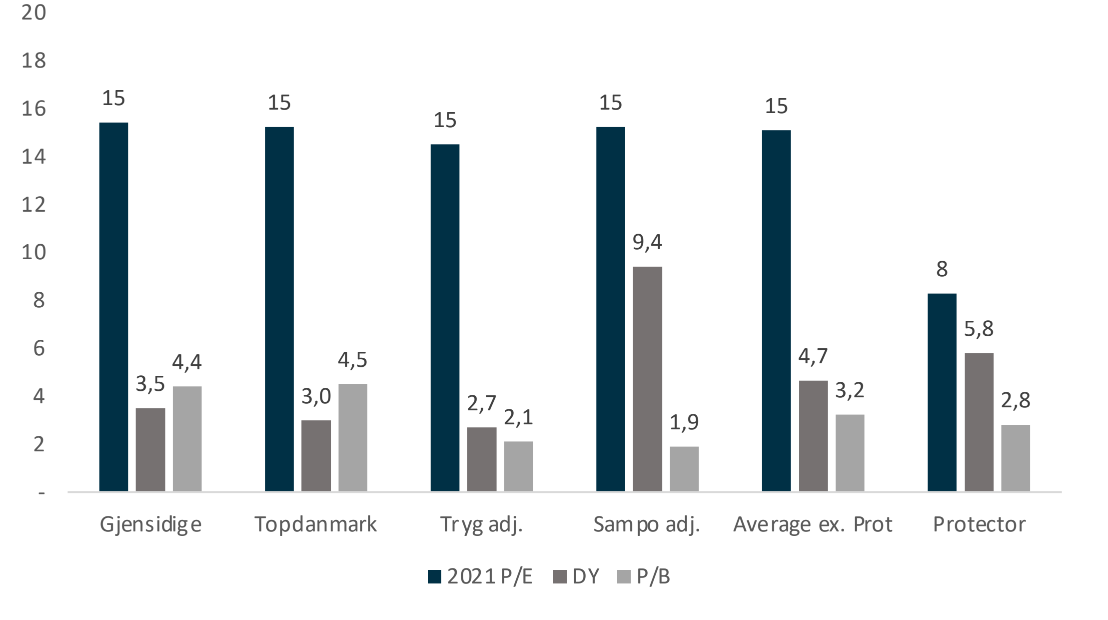
Ownership Structure

Owner	Shares %	Votes %
AWC AS	10.1	10.1
Stenshagen Invest AS	9.1	9.1
Verdipapirfond Odin Norden	7.7	7.7
Citibank Europe Plc	6.1	6.1
Verdipapirfondet Alfred Berg Gamba	4.7	4.7
Hvaler Invest AS	3.4	3.4
Clearstream Banking S.A.	3.0	3.0
Artel AS	2.2	2.2
Verdipapirfondet Alfred Berg Norge	2.0	2.0
Total	**48.3**	**48.3**
Other	51.7	51.7

Peer comparison

The graphs below show that Protector has best in class historical growth numbers compared to Nordic peers. This has been accomplished while achieving ROE slightly above mean of comparable peers. Some might argue that Protectors CR ratio is at historically profitable levels but as shown in the figures below it is still at more reasonable levels than competitors. We argue that this historical performance should justify Protector trading at a premium compared to peers. However as can be derived from the second graph below that is not the case. Adjusting Sampo and Tryg for EO-effects almost all peers trade at about a P/E of 15 and a P/B of above Protector, even though extra dividends is to be expected from Protector. The company also has a dividend yield approximately 23% higher than the average of the Nordic peers.





Valuation

During the last 10 years Protector has had an average of 91,6% CR. It is currently at the level of 87%. It is boosted by 0,8 percentage points relating to covid-19, an undisclosed amount related to less large losses than normal and slightly hampered by an increased cost ratio that will normalize according to managements guidance.

The historical investment return has historically been 5% for the portfolio. The current yield on the bond portfolio is 2,2%. Assuming 15% allocation towards equities (as is the current position), 15% return on equities (below historical performance) and 2% return on the bond portfolio yields an investment return of 4%, we believe this is a sustainable level.

The area marked in grey in the graph below is the historical performance that Protector has achieved regarding CR and investment returns, the area marked in blue is our estimates. The number in the cells are the P/E-ratios based on the assumed estimates for combined ratio and investment returns. The blue area is based on a normalized CR within the companies' financial targets and the investment returns stems from assuming 2% return from the bond portfolio and 15% return for the equity portfolio, both lower than historical performance. Given that the peers of Protector are trading at P/E-ratios of 15 and the fact that Protector is growing at a faster rate we believe that Protector should trade at a premium of about 15%, giving us a fair value of P/E 17, or 38% upside from todays stock price.

It is also to be noted that the solvency capital ratio is above targeted levels and that a special dividend corresponding to 6 NOK, or a 5% yield, could be issued without compromising the growth prospects of the company.

		Investment return				
		6%	5%	4%	2%	1%
Combined ratio	96%	12	15	17	29	44
	94%	11	13	15	23	32
	92%	10	12	13	19	25
	90%	9	11	12	17	20
	88%	9	10	11	14	17

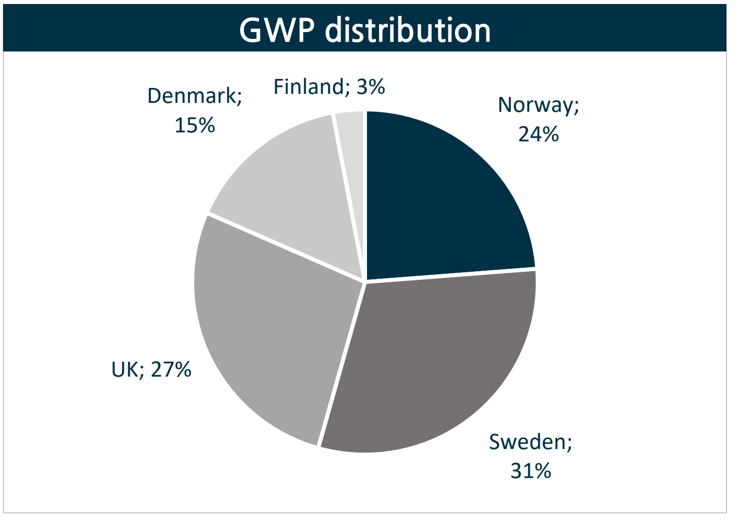
Case Summary

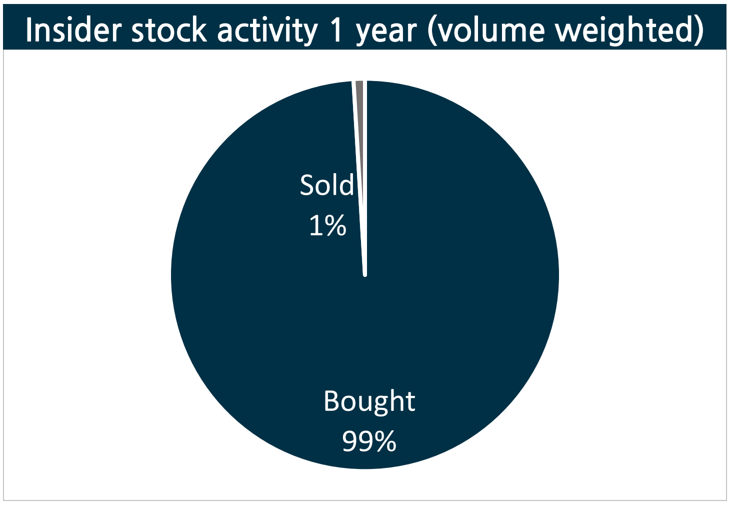
In summary Protector is a qualitative company with a strong track record. The company has recently had some profitability challenges but has overcome them and plenty of insider purchasing supports this fact. Protector has a solid financial position with room for extra dividends. It has a long growth runway in the UK market and in the long run it is possible with international expansion, possibly in the Benelux area.

Protector is a company that in the long run should benefit from higher interest rates due to the majority of its float being invested in bonds. Although some volatility in returns is expected Protector should have a long and profitable growth journey ahead of itself.

Despite the above mentioned reasons for the positive outlook of Protector the share is currently trading at approximately a 25% discount to peers. We argue that even a premium for Protector is justified and in a scenario where a 15% premium is achieved Protector would trade 38% above its current value and at a P/E-ratio of 17. With the growth prospects ahead, a dividend yield of 5,8% and the possibility for extra dividends we argue that this is an attractive investment opportunity, even though the short term upside is somewhat limited.

Appendix





Type	Date	Name	Position	Amount	Purchasing price	NOK total
Buy	2021-12-02	Anders Blom Monberg	Country manager Denmark	1 200	101	120 960
Buy	2021-10-28	Kjetil Garstad	Board member	52 000	97	5 058 238
Sell	2021-10-28	Line Engelmann-Kokkim	Board member	568	97	55 096
Buy	2021-07-23	Kjetil Garstad	Board member	25 000	93	2 312 500
Sell	2021-07-09	Matthews Ambalathil	Board member	1 289	95	122 584
Buy	2022-03-10	Arve Ree	Vice Chairman Board	90 000	110	9 900 000
Buy	2022-03-09	Kjetil Garstad	Board member	7 554	107	807 145
Buy	2022-03-07	Arve Ree	Vice Chairman Board	19 917	102	2 032 721

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