

Ensurance Ltd (ASX:ENA)

'Maiden U.K. profit achieved & global growth strategy refined: accelerating accretive acquisitions within the underwriting sector'

Highlights

Low-risk, high-margin business model

Ensurance Limited is a speciality underwriter providing insurance underwriting on behalf of larger insurers in niche sectors primarily within the U.K and Australia. The company offers a comprehensive suite of products through its extensive insurance broker network and is backed by several significant agreements with major global insurers (AXA XL and Beazley).

Importantly, as a facilitator of these insurance arrangements, Ensurance does not retain or incur any underwriting profit or loss. Ensurance receives a commission from the insurer in return for management of the portfolio and often a share in any underwriting profits. This model delivers high margin revenue (\$4.5m in FY2021, up from \$3.8m in FY2020) and low churn (~85% of policies that can be renewed are) with no balance sheet risk for any insurance policies sold.

Restructured and backed by proven business leaders

ENA commenced its journey as a listed entity in 2014¹ constituting 3 distinct business entities (a Sydney-based insurance brokerage, insurance underwriting agency and an IT company). In May 2018, under the control and leadership of Executive Chairman Tony Leibowitz, ENA announced its intent to restructure the loss making activities of the company and adopt a new strategic direction building its operations internationally, predominantly as a Managing General Agent (MGA) with large insurance capacity lines on a global basis.

As part of this strategy, the Company focused resources on expansion of its UK operations and its

underwriting agencies and disposed of its Australian retail brokerage and IT businesses. Following this, in May 2021, ENA acquired a new platform for growth in Australia through the strategic acquisition of a boutique underwriting agency, TK Specialty Risks Pty Ltd.

Initiating a \$0.50 price target

Based on a peer group analysis we arrive at an implied current fair value share price of \$0.36 at a mean LTM TEV/Total Revenues multiple of 6.5x, offering potential upside of 38% based on the closing price of \$0.26, as of 14th September 2021.

The relatively high revenue multiples of the sector reflect the highly recurring nature of insurance underwriting revenue and high gross margins. The current valuation discount, which may be linked to limited liquidity, size, but also a lack of market visibility, does not reflect, in our view, ENA's growth and impending profitability.

To better reflect ENA's medium term potential, we use a multiplier of 50% of estimated FY24e GWP of c.A\$80, for an estimated medium term fair value share price of \$0.50. Medium term upside may be driven by accretive acquisitions and new product lines, with a stated medium-term target of achieving a combined A\$100m of GWP across both the U.K and AUS.

ASX Code	ASX:ENA
Shares on issue	80.15M
Share price (last)	\$0.26 (14 th Sept 2021)
Market-cap	A\$20.84M
Substantial share-holders	Tony Leibowitz (17.76%) ² Mr Vaughan Thales Kent (15.06%)

¹ Via a reverse acquisition by Parker Resources NL

² Kalonda Pty Ltd

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Section 1: Company Description

ASX listing and the early years of Ensurance Limited

On 24 July 2014, Parker Resources NL entered into a conditional agreement to acquire 100% of the issued capital in Ensurance Capital Pty Ltd. At the time, Ensurance operated three distinct businesses in the insurance industry consisting of a Sydney-based insurance brokerage (Savill Hicks Corp), insurance underwriting agency and an information technology company.

Following a board and leadership team overhaul, a new strategic direction was established in 2018 under Executive Chairman Tony Leibowitz. The new focus enabled Ensurance to commence building its operations internationally, predominantly as a Managing General Agent (MGA) with large insurance capacity lines on a global basis. Consistent with this strategy, ENA subsequently disposed of 100% of the issued capital in Savill Hicks Corp Pty Ltd for consideration of \$4.1 million AUD, and the sale of its loss-making Australian operations. Corporate overheads were also reduced in FY18 with the office relocation.

Expansion into niche fast-growing sectors and the acquisition of TK Speciality Risks

Following this strategic re-positioning, ENA has established itself as a credible provider in several significant, fast-growing sectors.

In May 2019, ENA announced its launch of terrorism and sabotage insurance, providing businesses protection against damage caused to its buildings, profits, employees and customers from an act of terrorism or sabotage. This new line of business expanded the company's addressable market beyond its existing specialist construction and engineering customer base to additional sectors and geographies.

The acquisition of TK Specialty Risks Pty Ltd (TKSR) in the first half of CY2021, opened a further platform of growth for the company in line with its strategy for roll-up acquisitions in the Australian space. TKSR is a successful, fast growing and profitable Australian underwriting agency with a network of more than 70 insurance brokers Australia-wide.

Key People: Board and management are aligned and have skin in the game

With over 30 years of corporate finance, investment banking and broad commercial experience, the involvement of Tony Leibowitz in 2018 has been transformational for the company. **Importantly, Tony has a proven track record of generating significant shareholder value – most notably as previous Chairman of Chandler Macleod Ltd, Pilbara Minerals Ltd (PLS), and more recently, Greenvale Mining Limited.**

Tim James is the CEO of Ensurance's U.K. operations, and he brings over 30 years of experience in underwriting and distribution in both the UK and globally. A former Director at one of the world's largest insurers, HSB (owned by Munich Re), Tim joined Ensurance in 2016 to establish the UK operation, building a team of underwriters with significant credibility and strong industry relationships to the business.

Mr Tom Kent is the Managing Director of TKSR and Head of Australian Operations for Ensurance. He has grown TKSR YoY since inception in 2015, developing a strong rapport with leading insurer partners in Australia and managing insurance premiums more than \$10m AUD. In addition, he is an independent director of Lawguard Management Pty Ltd, which holds \$40m of FUM.

Section 2: Industry Overview

The insurance market in the U.K. and AUS is significant and growing

According to company figures, Ensurance's operations in the UK and Australia give ENA access to a market worth a combined \$6.8b AUD³; which constitutes the serviceable addressable market (SAM). This is comprised of an estimated U.K. market of £2.56 billion (£2b in construction, plant & equipment and £560m in terrorism & sabotage) and an Australian market of \$450m in construction, plant & equipment, \$200-\$250m in terrorism & sabotage and \$1.5b in professional indemnity, director & officer liability and cyber insurance (through the new financial lines added to Ensurance's portfolio via the recent TKSM acquisition).

The total addressable market (TAM) for insurance underwriting is considerably larger than this outside of the currently ENA served sectors. New product lines and acquisitions have been signalled to the market as part of the company's strategy – this will further expand Ensurance's portfolio and offering and the serviceable addressable market.

According to a study by Global Data, Australia's general insurance market is projected to grow from \$76.3 billion (US\$51.8 billion) in 2020 to \$98 billion (US\$66.9 billion) in 2025, in terms of gross written premiums. This constitutes a compound annual growth rate of 5.1% from 2020 to 2025, fuelled by the gradual economic recovery from the COVID-19 pandemic, as well as growing demand for insurance against natural disasters. The U.K. general insurance market is estimated at circa £251b, according to a recent Statista Report. This places the U.K. as the 4th largest insurance market in the world.

Cyclical nature of the industry: timing is right for securing inorganic growth

The COVID crises has presented a unique opportunity for ENA to grow via an aggressive acquisition and expansion model within the Australian underwriting space, which is currently moving through a softer period. The insurance market is cyclical in nature and moves between higher profitability (sellers-market) when rates are high versus lower profitability and the erosion of market capacity (buyers-market) when rates are low. Ensurance's acquisitions, new products and aggressive growth strategy should put the company ahead of the curve.

Strong strategic partnerships with global insurers create a competitive moat for ENA

Ensurance is competitively positioned having secured ongoing agreements with leading insurers such as AXA XL, AXA UK and Lloyd's; which are difficult to secure, and grant Ensurance significant capacity to provide specialised underwriting. In addition, Ensurance's established partnerships, experienced and credible underwriting team and proprietary IT platform create a moderate to high barrier of entry into the market for competitors.

Lastly, due to their specialised nature, underwriting agencies like Ensurance can move products to market faster and provide a higher level of service than major insurance companies. ENA's independent ownership position also allows it to differentiate through a focused distribution strategy and avoid any conflicts of interest.

³ 1. Calculated using a currency conversion of \$1 AUD = £0.55 as at 11th June 2021

Section 3: Valuation Analysis

Shareholder register and structure

Table 1: Shareholder register and corporate structure

Current Capitalization (Millions AUD)	
Currency	AUD
Share Price	0.26
Shares Out.	80.159
Market Capitalization	20.84
- Cash and Equivalents	1.464
+ Total Debt	2.567
+ Pref. Equity	-
+ Total Minority Interest	-
= Total Enterprise Value (TEV)	21.94
Book Value of Common Equity	0.192
+ Pref. Equity	-
+ Total Minority Interest	-
+ Total Debt	2.567
= Total Capital	2.759

Current c.30% valuation discount reflects undiscovered nature of the story

Based on our peer group analysis (Table 4), ENA is trading on an FY21 EV/revenue discount of circa 28%, (with EBITDA and NPAT multiples not applicable given the current state of the Company). The implied current fair value price per share based on market comparables equates to a \$0.36 share price at a mean LTM TEV/Total Revenues multiple of 6.5x.

The relatively high revenue multiples of the sector reflect the highly recurring nature of insurance underwriting revenue and high gross margins (Table 5). The current valuation discount, which may be linked to limited liquidity, size, but also a lack of market visibility, does not reflect, in our view, ENA's growth and impending profitability.

To better reflect ENA's medium term potential, we use a multiple of 50% of estimated FY24e GWP of c.A\$80, for an estimated fair value per share of \$0.50.

Table 2: Implied Valuation of ENA (Multiple Method)

Company Comp Set	
LTM Total Revenue	
Ensurance Limited (ASX:ENA)	4.5
LTM TEV/Total Revenues:	
High	7.3x
Low	5.7x
Mean	6.5x
Implied Enterprise Value:	
High	33.0
Low	25.9
Mean	29.6
+ Total Cash & ST Investments	1.5
- Total Debt	2.6
- Total Pref. Equity	-
- Minority Interest	-
= Implied Equity Value:	
High	31.9
Low	24.8
Mean	28.5
/ Shares Outstanding	80.16
= Implied Price per Share:	
High	\$0.40
Low	\$0.31
Mean	\$0.36

Recent sector acquisitions highlight upside and interest in players like ENA

A slew of acquisitions has recently taken place in the sector. In Dec 2020, AUB Group acquired 360 Underwriting Solutions. 360 Underwriting Solutions drives a combined annual GWP of \$170 million and is valued at A\$127 million, reflecting 75% valuation of GWP.

In addition, ENA could be a takeover target once operating at a greater scale. Passing through the \$50m GWP threshold will get noticed by the global insurers and put ENA on the radar as a takeover target.

Key Financials and Valuation Metrics

Table 3: Financial Profile of Ensurance Limited (FY2017A – FY2021A)

For the Fiscal Period Ending Currency	12 months Jun-30-2017A AUD	12 months Jun-30-2018A AUD	12 months Jun-30-2019A AUD	12 months Jun-30-2020A AUD	4E Prelim 12 months Jun-30-2021A AUD
Total Revenue Growth Over Prior Year	1.008 (66.82%)	1.208 19.83%	1.534 26.92%	3.796 147.52%	4.534 19.44%
Gross Profit Margin %	1.008 100%	1.208 100%	1.534 100%	3.796 100%	4.534 100%
EBITDA Margin %	(4.271) NM	(5.747) NM	(4.018) (261.97%)	(1.751) (46.13%)	(0.122) (2.69%)
EBIT Margin %	(4.33) NM	(5.817) NM	(4.065) (265.03%)	(1.799) (47.40%)	(0.274) (6.04%)
Earnings from Cont. Ops. Margin %	(4.743) NM	(8.715) NM	(4.909) NM	(2.865) (75.46%)	(1.303) (28.73%)
Net Income Margin %	(5.093) NM	(8.707) NM	(1.402) (91.40%)	(2.154) (56.74%)	(1.303) (28.73%)
TEV/Total Revenue	24.32x	20.30x	15.99x	6.46x	4.84x

Table 4: Trading multiples of the ENA comparative set

Company Comp Set				
Company Name	TEV/Total Revenues LTM – FY21	TEV/EBITDA LTM – FY21	TEV/EBIT LTM – FY21	P/Diluted EPS Be- fore Extra LTM – FY21
AUB Group Limited (ASX:AUB)	6.6x	19.7x	25.2x	34.4x
Steadfast Group Limited (ASX:SDF)	5.7x	18.1x	21.8x	29.9x
PSC Insurance Group Limited (ASX:PSI)	7.3x	22.4x	29.0x	32.2x
Ensurance Limited (ASX:ENA)	4.7x	NM	NM	NM

Table 5: Operating statistics of the ENA comparative set

Company Comp Set					
Company Name	LTM Gross Margin %	LTM EBITDA Margin %	LTM EBIT Margin %	LTM Net In- come Margin %	LTM Total Rev, 1 Yr Growth %
AUB Group Limited (ASX:AUB)	47.9%	30.1%	26.1%	16.05%	4.87%
Steadfast Group Limited (ASX:SDF)	46.8%	31.6%	26.2%	15.14%	10.19%
PSC Insurance Group Limited (ASX:PSI)	48.5%	30.1%	24.7%	19.78%	17.42%
Ensurance Limited (ASX:ENA)	100.0%	(2.7%)	(6.0%)	(28.73%)	19.44%

Section 4: Investment Case

Turning the corner into profitability

Ensurance UK achieved a significant milestone in FY21, generating its first annual profit since incorporation, with over \$185,000 (>£100,000 GBP) of profit being reported. With the Australian operations (acquired via TKSR) also profitable, the company appears to be on the cusp of overall profitability due to its continued growth, an expanded broker network and a prudent management focus on profitable growth.

Ensurance operates within growth sectors, particularly cyber-security.

Expansion into the terrorism and sabotage insurance space (May 2019) has positioned the company in an exciting growth market and expands the company's addressable market beyond the existing construction and engineering customer base. In addition, the U.K. business launched its new Liability product offering at the end of FY21. Writing employers, public, product and pollution liability, as well as writing excess of loss for a range of business trades and sizes, Ensurance U.K. is well positioned to cement itself in this market space.

Increasing efficiencies: integrated IT platform

The ENA U.K. team have moved across to a new fully integrated IT platform, with workflows and CRM capabilities. This is expected to bring efficiencies to the business, reduce quotation time for underwriters and automate other current manual processes. This is expected to increase the profitability of the business over time.

Market consolidator applying a tested and successful strategy

TKSR provides an excellent opportunity to grow and scale into the Australian market. Off the back of this success, the Company continues to seek earning

accretive acquisition opportunities when they present to grow and scale its existing business. **ENA intends to expand into NZ and the wider Asia-Pacific markets over time.**

Technical analysis: trending above the SMA200

ENA currently remains in a technical long-term uptrend with a share price slightly above the 200-day moving average (SMA200: \$0.22).

Table 6: ENA share price performance (as of 14th Sept 2021)

Timeframe	Performance
1 Week	+13.04%
1 Month	-1.89%
2021 YTD	+62.50%
1 Year	+44.44%
vs Sector (1yr)	-2.61%
vs ASX 200 (1yr)	+18.38%

Table 7: ENA share price activity (as of 14th Sept 2021)

Indicator	Value
ASX Rank (Size)	1,721 of 2,293
Sector Rank (Size)	108 of 130
Last (Price)	\$0.26
Bid / Ask	\$0.245 - \$0.26
Daily Volume (4w avg)	53,549 units



Section 5: Key Risk Factors

The following are deemed to be key company specific risks. The following list is non-exhaustive and other risks, including market-specific risks may exist that may materially affect the financial performance of the Company and the value of its shares.

Contractual risk

To provide consistent service delivery, Ensurance has worked to build longstanding relationships with third party suppliers and employees working in the sector. The business of ENA has a significant dependence on its counterparties and their ability to meet their contractual obligations pursuant to the agreements entered into with the Company. In particular, Ensurance relies on the continuation of broker agreements between Ensurance and insurers. There is no current reason to believe that any of the parties which it or any of the members of Ensurance has contracted with will not meet and satisfy their obligations under their respective agreements.

Key personnel

The Company's ability to successfully execute against its business plan and exploit the market opportunity identified will be subject to the ability to attract and

retain highly qualified and experienced executives and employees across all aspects of the business. The Company may not be able to attract or retain key staff or be able to find effective replacements in a timely manner. The Company is likely to ensure that it remains competitive in terms of employment conditions and salaries and to implement suitable incentive schemes to align the interests of employees and Shareholders.

Competition risk

ENA is participating in a highly competitive market. Some of Company's competitors may have greater financial and other resources than Ensurance and, as a result, may be in a better position to compete for future business opportunities. However, ENA has developed a unique independent position in speciality sectors so far. Ensuring that Ensurance can continue to position and differentiate itself to gain market share is key. There is no certainty that Ensurance will be successful in future sectors entered into via expansion.

Potential acquisitions risk

As part of its business strategy, the Company may make acquisitions of, or significant investments in, complementary companies or prospects. Any such transactions will be accompanied by risks commonly encountered in making such acquisitions.

Disclaimer

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