

Equities

26 June 2012 | 52 pages

UK non life insurance

Prefer Lloyd's insurers; Upgrade Catlin to Buy

- **Prefer Lloyd's insurers** — The attractions of the UK non life insurers (uncorrelated returns, mandatory products, cash generative, low asset leverage) are consistent with our sector wide preference for non life over life insurers. In the UK we prefer the Lloyd's insurers because i) they are purer plays on underwriting returns with exposure to lines of business seeing improving pricing outlook, ii) they have low asset risks, and iii) we forecast average 16% total returns (10% NTA growth and 6% yield) in 2012.
- **Upgrade Catlin to Buy** — We believe Catlin has started to deliver better operating performance than the market has been willing to give it credit for. We turn more positive because: i) Catlin's growth strategy has led to a significant increase in underlying underwriting profits, ii) profits from the international businesses should lower the group's overall earning volatility, and iii) its Adverse Development Cover has freed up capital and helps to alleviate concerns over reserves. Catlin trades on 1.0x 2012E NTA which is a 25% discount to peers (sector 1.3x) and we believe further positive trading in 2012 could be a catalyst for the shares to re-rate. We forecast 16% RONTA in 2012 (including 7.2% yield), which looks attractive even without a re-rating in the valuation. We increase 2012E EPS by 3% and our target price by 12% to 478p.
- **Stock preferences** — We prefer catastrophe exposed re/insurers over personal lines players. We think Amlin (Buy, 1.3x NTA) can regain its historic premium as it is a market leading cat reinsurance player and the performance of ACI is turning around. Lancashire (Buy, 1.4x NTA) has a differentiated business model and sector leading capital management record. Admiral's (Neutral, 13x 2012 PE) track record is reflected in its valuation and increasing competition is putting pressure on pricing. RSA (Neutral, 1.3x NTA) is very dependent on investment returns in a low interest rate environment and there is some uncertainty over its reserve releases.
- **Focusing on value creation** — UK non life insurers have outperformed Euro Stoxx by 57% since 2007, driven by strong operating performance (valuations have generally de-rated). Our analysis suggests that book value growth and dividend yields are the key drivers of medium term share price performance, while pricing is more important for sentiment in the shorter term. Given the relative ease of assessing value creation (compared with many other financial stocks) and attractive forecast returns, we think non life insurers offer a compelling investment.

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Ticker	Rating		Target Price		Current Year Earnings Estimates		Next Year Earnings Estimates	
	Old	New	Old	New	Old	New	Old	New
ADML.L	2	2	£11.10	£11.10	p89.4	p89.4	p95.9	p95.9
AML.L	1	1	£3.83	£3.83	p44.7	p44.7	p47.9	p47.9
CGL.L	2	1	£4.28	£4.78	US\$91.6	US\$94.5	US\$93.8	US\$94.4
HSX.L	2	2	£4.13	£4.13	p38.8	p38.8	p38.0	p38.0
LRE.L	1	1	£9.16	£9.16	US\$137.6	US\$137.6	US\$138.5	US\$138.5
RSA.L	2	2	£1.13	£1.13	p12.9	p12.9	p13.6	p13.6

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Key Recommendations

Figure 1. Summary investment cases

Catlin BUY (from Neutral) Target 478p	<ul style="list-style-type: none"> We upgrade Catlin to BUY because it has achieved a number of milestones, in our view: 1. Premium growth has been accompanied by a considerable increase in underlying u/w profits and growing profits from the International operations should lower the volatility of earnings. Catlin also displayed better risk mgt of cat exposures in 2011. 2. Catlin purchased Adverse Development Cover on its reserves which frees up capital and relieves concerns over reserving. 3. Catlin trades at a 25% discount to peers on 1.0x 2012E NTA (sector 1.3x). We forecast an attractive 16% RONTA and we believe it has the greatest re-rating potential of its peers.
Amlin BUY Target 383p	<ul style="list-style-type: none"> As a leading catastrophe reinsurer Amlin is in a strong position to benefit from areas seeing positive pricing and 75% of its portfolio is already seeing increases. We believe the market has lost sight of Amlin's expertise in catastrophe reinsurance The performance of ACI improved at Q1 and measures to improve the business are largely complete. ACI remains an important influence on sentiment towards the group (rather than financials) and we think further positive updates will be well received. We forecast 18% RONTA in 2012. Amlin trades on 1.3x 2012E NTA, implying a 15% COE which we believe is too high.
Lancashire BUY Target 916p	<ul style="list-style-type: none"> Since Lancashire listed in 2005 the group has delivered outstanding trading record (19% compound ROEs) and returned 135% of its IPO proceeds to shareholders. We believe this track record deserve a premium to the rest of the sector. Lancashire has repeatedly demonstrated its ability to take advantage of market opportunities. We believe the recent decision to withdraw from property D&F and onshore energy illustrates its willingness to only deploy capacity at attractive returns Lancashire has generated avg 72% of its profits from u/w returns which makes it a pure play on improving commercial re/insurance pricing. We forecast 16% RONTA in 2012 which could be conservative given the low level of catastrophe losses.
Hiscox Neutral Target 413p	<ul style="list-style-type: none"> We believe Hiscox is fairly valued given we forecast a relatively low ROE of 13.2% in 2012 (sector avg 16%). The shares trade on 1.3x 2012E NTA which implies a 11% COE which is considerably lower than peers and in line with our fair value assumptions. Hiscox has benefitted from significant reserve releases and we also expect that Hiscox will report investment returns towards the lower end of the peer group.
Admiral Neutral Target 1110p	<ul style="list-style-type: none"> Admiral remains a leader in its industry but we believe its valuation already reflects strong operating performance (13x 2012E PE). Admiral has traded on higher multiples (avg 17x forward PE) but we see a number of potential operational headwinds: 1. UK motor market is getting more competitive and pricing is under pressure; 2. Admiral's growth rate is slowing; 3. there is a regulatory threat to referral fees; 4. there remains uncertainty over personal injury claims inflation
RSA Neutral Target 113p	<ul style="list-style-type: none"> RSA offers several attractions as it is a defensive non life insurer which is achieving growth at stable underwriting margins and has a relatively conservative balance sheet. However, we remain cautious on the group's dependence on investment returns (75% operating profits) and high contribution from reserve releases to the underwriting result. The shares trade on 1.3x 2012E NTA and we forecast 19% RONTA.

Source: Citi Investment Research and Analysis

Figure 2. Key valuation metrics

	Rec	Price	Target	ETR	Valuation (2012E)			EPS			DPS			NTAPS			RONTA		
					P/E	P/NTA	Yield	2011	2012E	2013E	2011	2012E	2013E	2011	2012E	2013E	2011	2012E	2013E
Amlin	Buy	346	383	18.4%	7.7	1.31	7.0%	-30.3	44.7	47.9	23.0	24.4	25.8	243	264	287	-10%	18%	18%
Catlin	Buy	421	478	20.6%	7.1	1.02	7.1%	6.7	59.1	59.0	28.0	29.7	31.5	393	413	445	2%	16%	15%
Hiscox	Neutral	420	413	2.7%	10.8	1.25	4.3%	5.3	38.8	38.0	17.0	17.9	18.7	306	335	363	2%	13%	12%
Lancashire	Buy	782	916	18.2%	9.1	1.43	1.2%	74.6	86.0	86.6	61.4	9.4	9.4	493	545	614	13%	16%	14%
Admiral	Neutral	1158.0	1110	2.6%	13.0	8.28	7.1%	81.7	89.4	95.9	75.6	82.7	88.7	123	140	157	58%	56%	57%
RSA	Neutral	105.7	113	14.7%	7.8	1.31	9.0%	12.9	13.6	14.6	9.3	9.5	9.7	75	80	87	19%	19%	18%

Note: Lancashire forecasts only assume it pays its regular dividend. This has historically been supplemented by significant special dividends subject to profitability.

Source: Citi Investment Research and Analysis. Priced 22 June (close)

Upgrade Catlin to Buy

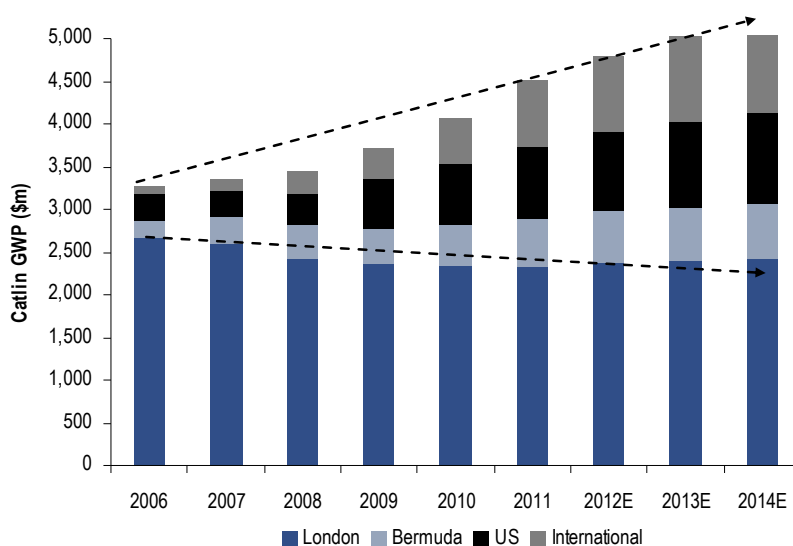
- We believe Catlin has started to deliver better operating performance than the market has been willing to give it credit for
- Catlin has achieved a number of milestones which we believe are not yet fully reflected in its valuation:
 - Catlin's growth strategy has led to a significant increase in underlying underwriting profits and it has increased the contribution from international operations
 - It has demonstrated better management of catastrophe exposures in 2011. Its reinsurance program and more diverse earnings should lower its overall earnings volatility
 - It has alleviated some of the concerns over reserve releases through purchasing Adverse Development Cover on its 2009 and prior reserves
- Catlin trades at a 25% discount to peers on 1.0x 2012E NTA (sector 1.3x). We forecast 16% RONTA in 2012 and believe it has the greatest re-rating potential of its peers.

Turning more positive now that growth strategy is delivering results

Catlin increased premiums 3x since 2004

Catlin has consistently pursued a growth strategy and its premiums have increased over 3x since the business was listed in 2004. The growth has been driven by the Catlin's international businesses (ie US, Europe, Asia and Canada) as well as the acquisition of Wellington in 2006. Catlin has made considerable investments in its global underwriting infrastructure, which means it is in a position to continue to grow its business at more modest cost. Premiums written in the cyclical London market have been declining for years as market conditions have remained competitive. The chart below shows Catlin's premium growth as well as the shift towards its international operations.

Figure 3. Catlin has achieved strong growth and increased diversity



Source: Company data; Citi Investment Research & Analysis

Investors are sceptical towards growth...

We believe Catlin's growth strategy has been treated with a degree of scepticism by the market. This is largely because the market assumes that growth in the non life insurance industry often comes at the expense of profitability. In order to grow an insurer is likely to increase its risk for two reasons: i) it will probably charge less than the incumbent insurer in order to win business, and ii) it will be less familiar with the potential exposures/risks that come with the new client. These factors are exacerbated when insurers grow in lines of business in which they don't have a proven track record. Consequently, we can understand the concern some investors have towards growth in the sector.

...but we are positive on Catlin because:

1. growth in underlying profits
2. greater diversity in profits
3. better management of cat risks
4. protection of reserves through ADC
5. greatest re-rating potential in sector

Although we have been cautious towards Catlin's growth strategy in the past, we have tuned more positive since we believe it has started to deliver. These are the main reasons we are upgrading Catlin to Buy:

1. Premium growth has been accompanied by a considerable increase in underlying underwriting contribution
2. Growing profits from the International operations have increased diversity of earnings and should therefore lower earnings volatility
3. Better management of exposures to catastrophe losses, partly due to the successful Catastrophe Aggregate reinsurance program
4. Protection of reserves through the Adverse Development Cover should mitigate risk of deterioration in longer tail lines
5. Catlin trades on a 20% discount to peers and offers the greatest re-rating potential. We forecast 16% RONTA in 2012 (including 7% yield)

1. Growth in Catlin's underlying underwriting profits

Catlin has seen a steady improvement in underlying underwriting returns

Our analysis suggests that Catlin's growth strategy has been accompanied by an increase in the group's underlying underwriting profits. This should reassure the market that the group's growth strategy is leading to rising profits. We include an analysis of Catlin's reported and underlying underwriting contribution in the table below. This removes the impact of catastrophe losses and reserve releases. It therefore gives a better indication of the group's underlying earnings power. The table shows that Catlin has steadily increased its underlying underwriting contribution as the business has grown in recent years.

Figure 4. Catlin's underlying underwriting contribution has improved considerably

	2005	2006	2007	2008	2009	2010	2011	2012E	2013E	2014E
Reported contribution	46	574	804	454	651	683	324	820	827	838
Catastrophe/Large losses	370	45	25	350	207	335	824	300	315	330
Reserve releases	-94	-17	-139	-119	-93	-145	-101	-80	-60	-50
Underlying contribution	321	602	689	685	765	873	1,046	1,040	1,082	1,118

Note: underwriting contribution includes losses and acquisition costs, but excludes other underwriting expenses.

Source: Company data; Citi Investment Research & Analysis

In calculating underlying underwriting income we make the following adjustments:

- **Add back catastrophe losses and large single risk losses.** This is potentially generous since Lloyd's players would expect a normalized level of catastrophe losses (we forecast 8% COR in 2012). However, we are mainly concerned with showing the progression in underlying earnings, so we believe this adjustment is appropriate.

- **Remove reserve release.** This could be viewed as harsh since insurers that reserve prudently should be generating a consistent level of releases over time. Nevertheless, we believe removing this benefit gives a clearer indication of underlying profitability, especially since reserving buffers in more recent accident years is likely to be lower across the sector.

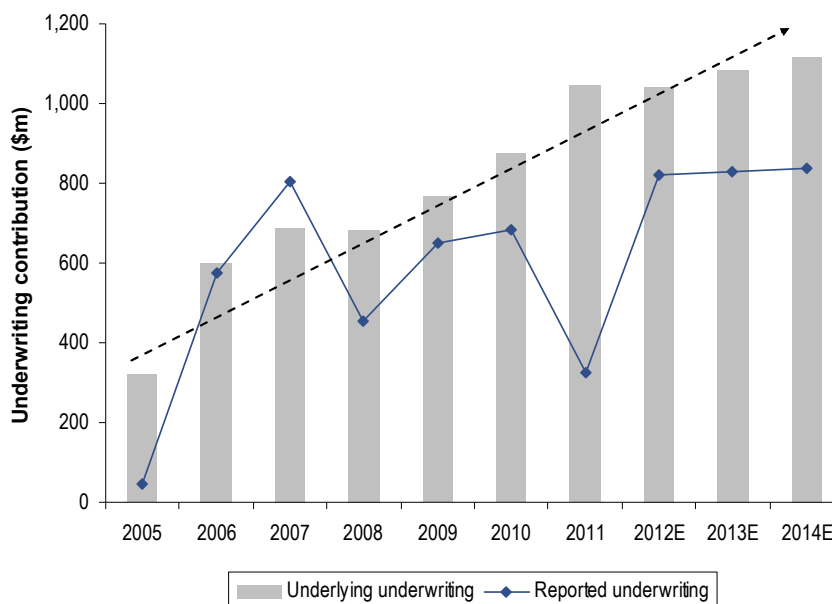
Underlying earnings are best measure

In more general terms, we believe the performance of Lloyd's insurers is best assessed with reference to underlying rather than reported earnings. This is because reported results across the sector have been impacted by a number of major catastrophe losses (eg 2005, 2008 and 2011) which have affected both earnings and the pricing environment. Similarly, the sector has benefitted from material reserve releases despite being short tail in nature. Both these factors obscure the underlying earnings power of Lloyd's insurers, so we think it is appropriate to adjust for them when assessing trends in profitability.

Growth in underlying underwriting profits

The chart below is based on the same data showing the growth in Catlin's underlying underwriting contribution. It also highlights the volatility of reported earnings, mainly driven by several years affected by catastrophe losses. We forecast more modest growth in Catlin's underlying profitability which reflects rising underwriting returns being offset by lower investment yields. We give no credit for price increases and assume a steady catastrophe budget, which is conservative since it gives no credit for the increasing diversity of the business.

Figure 5. Catlin's underlying underwriting contribution has increased significantly

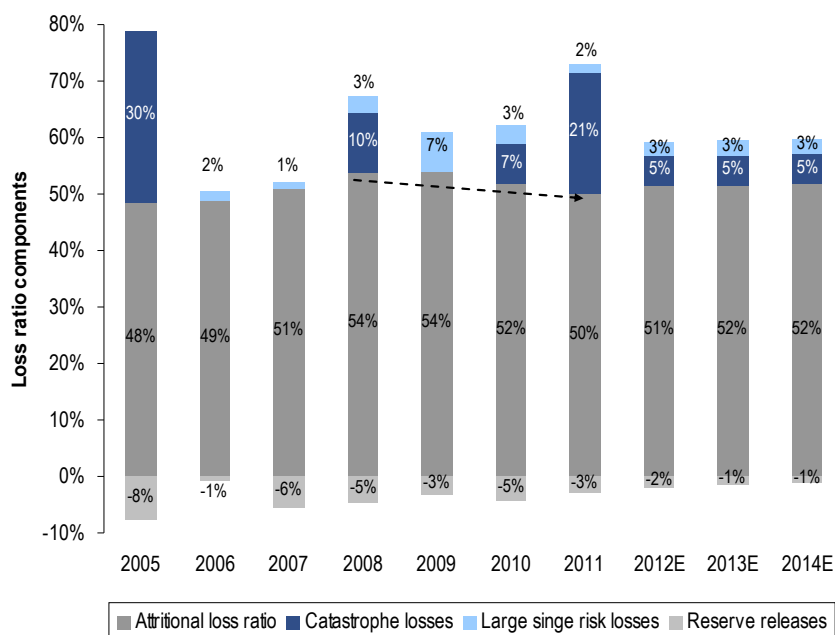


Source: Company data; Citi Investment Research & Analysis

Attritional loss ratio is the best in 4 years

Catlin has reported consistent improvement in its attritional loss ratio in recent years. The chart below shows that Catlin's 50% attritional loss ratio for 2011 was its best in the last 4 years. This reflects a combination of better underwriting discipline as well as a shift in the portfolio towards more profitable business. Catlin is the only Lloyd's company which consistently reports its underlying performance in this way and we believe this has not yet been fully recognized by the market. The attritional loss ratio better reflects underlying trading since it excludes the impact of catastrophe losses and prior year reserve releases.

Figure 6. Catlin's attritional loss ratio in 2011 is the best in the last 4 years



Note: attritional loss ratio removes impact of catastrophe losses, large single risk losses and reserve releases
Source: Company data; Citi Investment Research & Analysis

Focus on underlying profits removes volatility which worries investors

It is possible to be cynical towards underlying profitability metrics because they exclude catastrophe losses which are an inherent part of Lloyd's business and they can be skewed by changes in reserving prudence (which can be difficult to assess from year to year). Nevertheless, we believe focusing on the evolution of Catlin's underlying profitability is sensible since it adjusts for earnings volatility which we believe is one of the major issues investors have with the sector. We address Catlin's reserving in more detail below.

2. Greater diversity in underwriting profits increases resilience

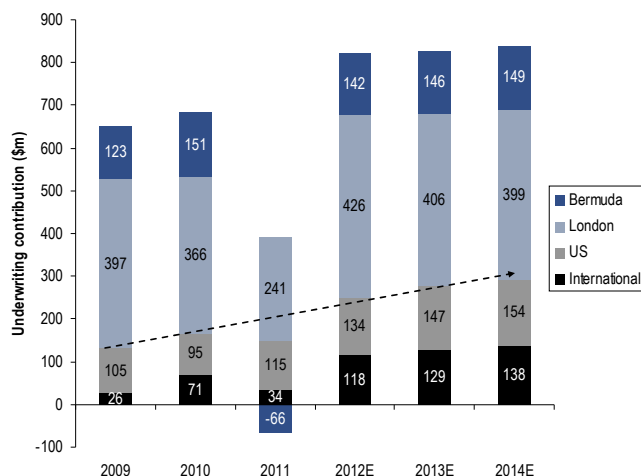
International u/w profits increase Catlin's resilience to cat losses

Catlin's international growth strategy has helped the group to diversify its underwriting profits away from London Markets and Bermuda and towards its international operations. This increases the resilience of group profits since the London/Bermuda business tends to have significantly higher exposure to catastrophe losses.

International profits to reach 35% of group by 2014E

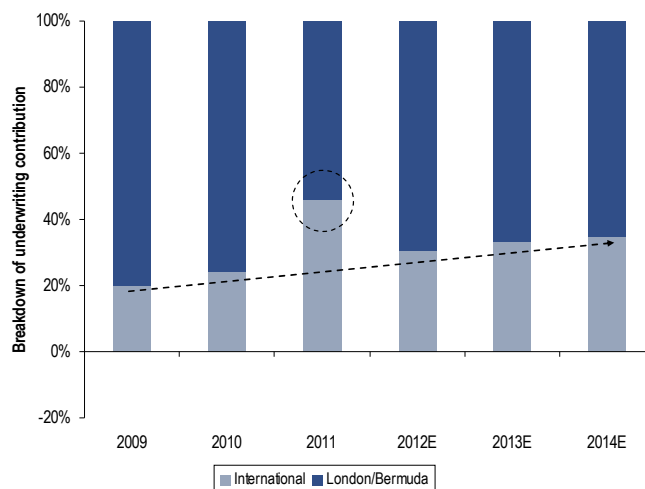
Figure 7 below shows the composition of Catlin's underwriting profits in recent years. It illustrates the strong growth in profits from the International businesses (ie US, Canada, Europe and Asia). We expect this trend to continue in the next few years. Figure 8 shows that earnings outside London/Bermuda helped offset catastrophe losses in the other divisions in 2011 (eg the US business reported \$115m underwriting contribution, while Bermuda reported \$66m loss). We forecast that Catlin's International business will increase its share of group underwriting profits from 20% in 2009 to 35% by 2014.

Figure 7. Catlin's international profits are growing



Source: Company data; Citi Investment Research & Analysis

Figure 8. International business helped withstand cat losses in 2011



Source: Company data; Citi Investment Research & Analysis

3. Better management of exposures to catastrophe losses

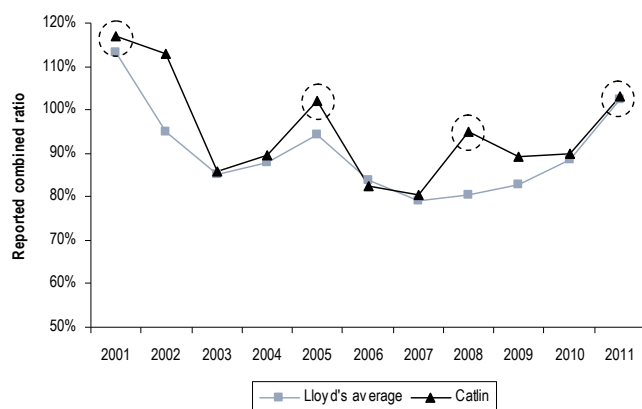
2011 shows improvement in risk mgt

In our view, Catlin has a reputation for delivering historically more volatile underwriting results than its peers. However, we believe Catlin's performance during catastrophe losses in 2011 demonstrates improvement in the group's risk management. In our view this reflects both an improvement in the group's management of underwriting risk through reinsurance buying (eg the Catastrophe Aggregate program was very successful in 2011) and the greater contribution to underwriting profits from its less catastrophe exposed international operations.

Cat losses were lower in 2011 than 2005

The chart below (Figure 9) shows Catlin's combined ratio compared with the sector average for the last decade. It illustrates that Catlin has had a higher than the average combined ratio in years with severe catastrophe losses (ie 2001, 2005, 2008). However, in 2011 Catlin's exposure was in line with sector average, which demonstrates the improvement in risk management. The second chart (Figure 10) shows exposures to catastrophe losses for specific companies in 2011 compared with 2005. It shows that Catlin's exposure to catastrophe/large losses in 2011 was lower than its peers and was significantly lower than 2005 (despite insured losses being much greater). By contrast, Amlin saw a significant increase in its exposure mainly due to the New Zealand earthquake.

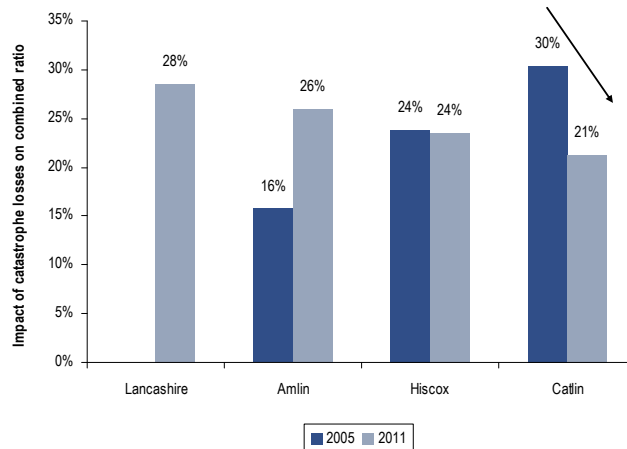
Figure 9. Catlin has lowered the impact of cats on its combined ratio



Note: Lloyd's average based on Amlin, Beazley, Hiscox. Years with major cats circled, ie 2001: 9/11, 2005: Katrina/Rita/Wilma, 2008: Ike/Gustav, 2011: Japan/NZ quakes

Source: Company data; Citi Investment Research & Analysis

Figure 10. Catlin's exposure to 2011 cats improved considerably on 2005



Note: based on total catastrophe losses and large single risk losses in 2005/11

Source: Company data; Citi Investment Research & Analysis

Sector wide risk mgt has improved

We also note that the level of combined ratios across the entire sector in 2011 (~103% combined ratio) was considerably lower than 2001 (~114% combined ratio). This was achieved despite the fact that insured losses overall were materially higher in 2011 (~\$116bn insured losses) compared with 2001 (~\$45bn insured losses). We believe this reflects a material improvement in underwriting risk management and catastrophe modeling across the entire Lloyd's sector.

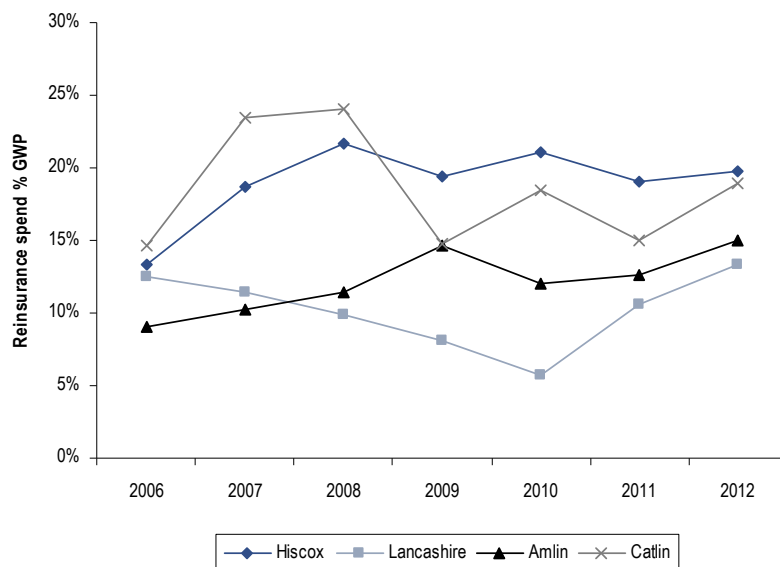
Cat Agg reduced losses by 30% in 2011

Catlin's Catastrophe Aggregate reinsurance program was a key reason for its resilience to catastrophe losses in 2011. Catlin incurred \$961m catastrophe losses in 2011 and the program paid out \$283m or ~30% losses, which left the group with \$678m net exposure. It is difficult to compare the effectiveness of reinsurance programs for the Lloyd's insurers, since few companies disclose gross/net catastrophe losses. Consequently, we show reinsurance spend for each of the insurers as a proportion of gross written premiums in the chart below.

Catlin has increased reinsurance spend

The chart below shows that Catlin now has one of the highest reinsurance spends among the Lloyd's insurers. It is perhaps more telling that all the Lloyd's insurers have increased their reinsurance spend in 2012 compared with 2011, although part of this will simply be a function of higher reinsurance pricing. The main point we take away from this is that Catlin has improved its exposure to catastrophe losses in 2011 and we believe this is indicative of better risk management.

Figure 11. Catlin has increased the amount of reinsurance it has purchased



Note: doesn't include impact of Amlin's catastrophe bond.

Source: Company data; Citi Investment Research & Analysis

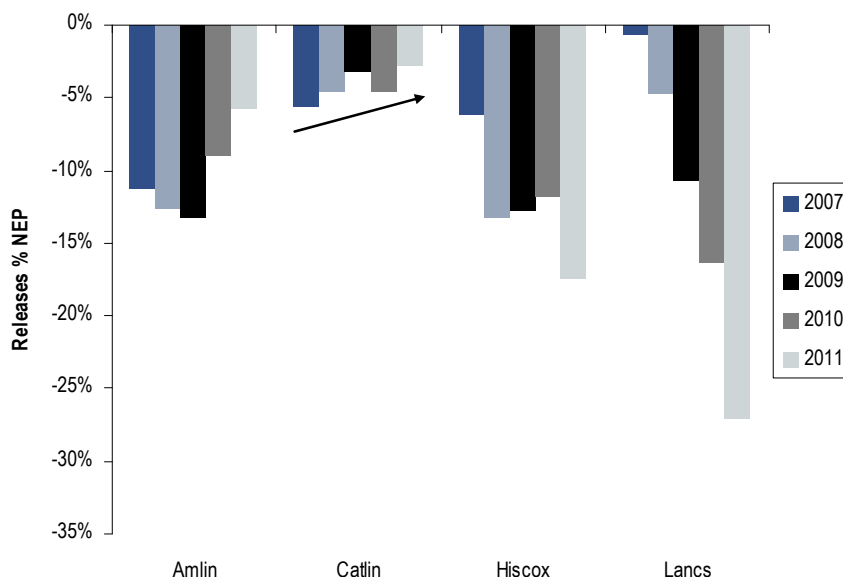
4. ADC relieves capital and reduces reserving risks

Reserving has been an area of focus

Catlin's reserving position has received a great deal of attention because it has historically benefitted from lower reserve releases than its competitors. The chart below shows reserve releases for the Lloyd's insurers as % net earned premiums. It highlights that Catlin has made smaller releases than its peers.

The concern stems from the fact that Catlin has historically had exposure to longer tail casualty business. Although Catlin has shifted towards shorter tail casualty lines in recent years, there could still be a risk that longer tail liabilities may develop adversely. Casualty represents 20% premiums in 2011.

Figure 12. Catlin has benefitted from lower reserve releases than peers



Source: Company data; Citi Investment Research & Analysis

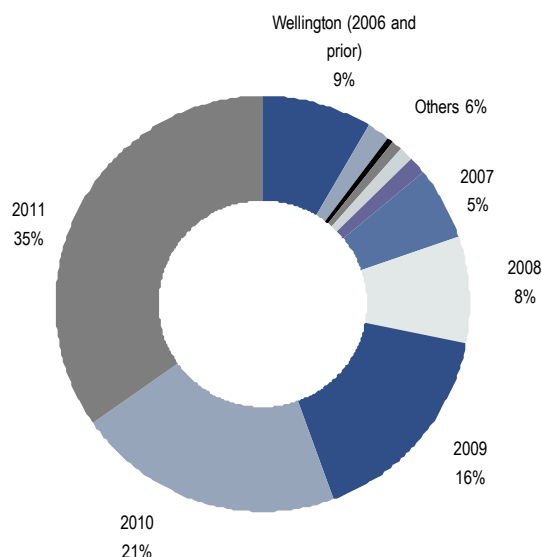
**ADC mitigates risk on 45% net reserves,
which include longer tail business**

During 2011 Catlin purchased Adverse Development Cover (ADC) on its reserves relating to business written in 2009 and prior. The intention of this transaction was to relieve capital that Catlin holds against its reserves at a relatively attractive price. However, it also removes a large component of the tail risk in Catlin's reserves, since it provides protection against any significant deterioration in these reserves. Figure 13 shows the composition of Catlin's net reserves and that the ADC covers 45% of group reserves, which includes reserves relating to business acquired with Wellington (ie 2006 & prior business).

Key points of the ADC:

- It insures Catlin against a deterioration in all reserves relating to 2009 and prior accident years. Catlin retains the benefit of any positive development.
- The premium for this cover is paid over the next 2-3 years. It is possible that this cover will be extended to cover more recent accident years, although this would be subject to pricing
- The transaction is on a funds withheld basis and the counter party has strong credit rating

Figure 13. ADC provides comfort over ~45% of Catlin's net reserves (2011)



Note: Net reserves broken down by accident year.

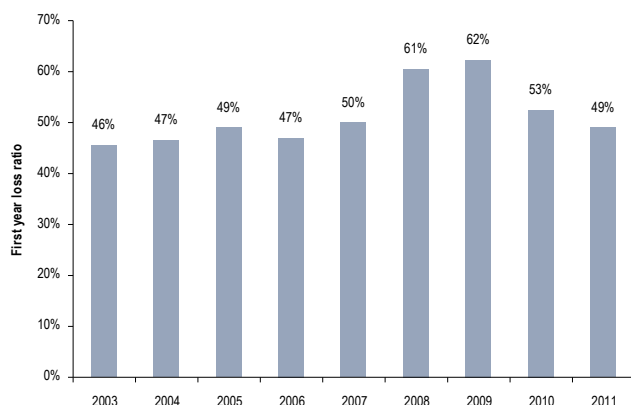
Source: Company data; Citi Investment Research & Analysis

Reserving isn't more aggressive based on:

1. first year loss ratio picks
2. first year paid to ultimate losses

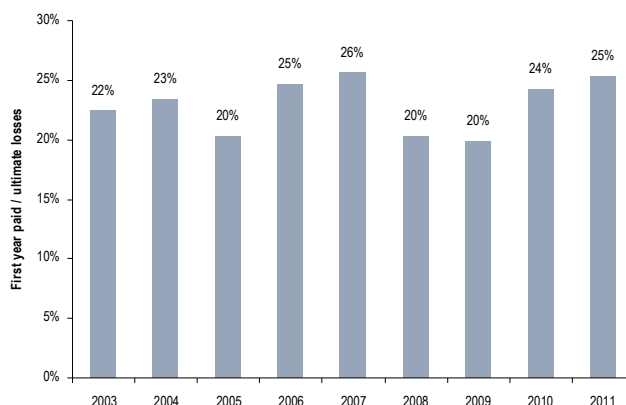
Management has indicated that its reserving practices haven't changed. We also note two further points which give us comfort on Catlin's reserves. 1. Catlin's first year loss ratio (excluding major losses) has improved considerably to 49% in 2011 compared with 62% in 2009. This could reflect the improvement in Catlin's attritional loss ratio and is broadly in line with initial reserving picks for 2003-2007 accident years. 2. Catlin's first year paid to ultimate losses has increased in 2010 (24%) and 2011 (25%). Although this could indicate less IBNR in reserves, we note that it is in line with levels in 2006-2007.

Figure 14. First year loss ratio is in line with longer term



Note: based on ultimate loss ratio excluding major losses
Source: Company data; Citi Investment Research & Analysis

Figure 15. First year paid to ultimate losses in line with longer term



Note: based on first year paid claims and ultimate losses (excluding major losses)
Source: Company data; Citi Investment Research & Analysis

5. Catlin trades on a discount and offers an attractive return

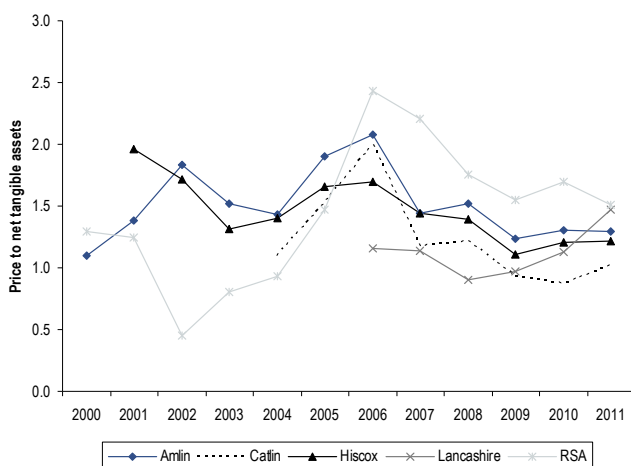
Catlin offers the greatest re-rating potential among Lloyd's insurers

Strong trading in 2012 could be the catalyst to re-rate the shares

Since 2007 Catlin has consistently traded on a discount to most of its Lloyd's peers. The shares currently trade on 1.0x 2012E NTA which represents a 25% discount compared with the sector on 1.3x. Figure 16 below shows long term price to net tangible asset metrics for the Lloyd's sector.

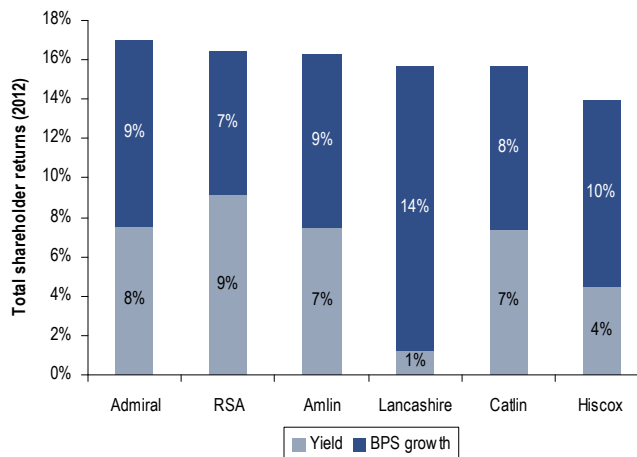
We believe this discount reflects a number of issues we've mentioned including concerns over Catlin's growth strategy, its historically more volatile underwriting performance and its lower reserve releases. As we have discussed above, recent trading performance suggests to us that these concerns are now exaggerated. We therefore believe Catlin's discounted valuation offers the greatest re-rating potential among the Lloyd's insurers. We think that if Catlin can deliver another good year of trading during 2012 the shares could re-rate to peer multiples, which would increase total returns above and beyond our current 16% total return forecast. Figure 17 below shows our forecast total shareholder returns for UK non life sector. We argue that Catlin's forecast 16% total returns are attractive, given its currently discounted valuation. We estimate that the current valuation implies a cost of equity of 16%, which we believe is excessive.

Figure 16. Catlin's discounted valuation has greatest re-rating potential



Source: Company data; Citi Investment Research & Analysis

Figure 17. Catlin offers attractive total returns even without re-rating



Source: Company data; Citi Investment Research & Analysis

Potential risks to Buy recommendation

Potential risks to our Buy case

We believe these are the main risks to our Buy recommendation:

- We see evidence that Catlin's growth strategy is leading to higher underlying earnings. However, we believe the market remains to be convinced on the merits of this strategy and if this takes longer than we expect this could delay Catlin's potential re-rating.
- We believe Catlin's ADC protection lowers reserving risk and its recent reserving trends don't appear aggressive by historic standards. Nevertheless, as for any insurance business, reserve risk remains a potential concern.
- Although Catlin has shown a consistent increase in its dividend and offers and attractive yield, it has lagged peers in terms of its capital management track record. The 2009 rights issue has affected sentiment towards the company, although this could now be a source of upside.

Valuation

We have increased our target price for Catlin to 478p. We set out our valuation in the table below. In common with our general sector approach, we use our Value Perspective methodology to calculate a SOTP valuation for Catlin. Our approach assigns a target price/NTA multiple to each business based on consideration of return on capital vs. cost of capital, adjusted for 10-year forecast growth. We value the London business at 1.5x NTA reflecting its longstanding franchise. The Bermudan business is valued at 1.0x NTA given the faster growth but potentially higher volatility of this business. We value the US business on 1.0x NTA to reflect its improved profitability. The International businesses are valued at a discount to NTA to reflect concerns over the profitability of the business written, especially post central cost allocation. In order to recognize the potential earnings volatility, we apply a beta of 1.2 and derive a cost of capital of 10.2% for the group. Our SOTP model points to a fair value of 478p, which is where we set our target price. At this level the shares would trade on 1.3x 2012E NTA.

Figure 18. Catlin Valuation

	Capital (\$m)	Return on Capital	Cost of Capital	P/B	Earnings	P/E	Valuation (\$m)
London	1,430	14.5%	10.2%	1.46	244	8.6	2,091
Bermuda	550	10.3%	10.2%	1.01	70	8.0	556
USA	400	10.2%	10.2%	0.99	44	9.1	398
International	400	7.4%	10.2%	0.69	29	9.4	277
Total	2,780	12.0%	10.2%	1.19	387	8.6	3,321
Debt/Prefs							-681
Valuation				1.26		7.8	2,640
Per share							478

Source: Company data; Citi Investment Research & Analysis

Why we prefer Lloyd's insurers

- The UK non life insurance sector offers several defensive qualities and attractive forecast total returns at avg 16% for 2012.
- We prefer the Lloyd's insurers because they're purer plays on underwriting returns and have exposure to areas with improving pricing.
- Our top picks are Catlin, Amlin and Lancashire. Catlin offers greatest re-rating potential, Amlin could regain its former premium, and Lancashire offers sector leading capital mgt.

Attractions of UK non life insurance sector

UK non life insurance sector attractions:

1. mandatory products & cash generative
2. cash generative business models
3. uncorrelated returns for shareholders
4. conservative investments and low beta
5. attractive total return prospects

The UK non life insurance sector offers several attractive attributes, some of which are particularly valuable to investors under current market conditions.

- **Products are largely mandatory** for customers and therefore returns have low dependence on an economic recovery (although a rise in interest rates would be positive for investment returns). Companies are also **very cash generative** since customers tend to pay upfront for coverage
- The sector offers **uncorrelated returns** for investors since performance is driven by the insurance pricing cycle and catastrophe losses. The drivers of value creation therefore have low correlation with many other sectors.
- **Investment portfolios are conservatively allocated** (eg minimal exposure to peripheral European sovereign debt) and investment leverage is significantly lower than other financials. These factors keep the **beta of the shares relatively low**
- We forecast **attractive total shareholder returns** of average 16% from the sector in 2012. This includes 7% from dividend yield which we believe is particularly valuable to investors in the current market.

Non life products are cheaper than savings products and sales hold up better in a downturn

The charts below highlight some of these attractions. Figure 19 shows that non life products (darker shade) are generally cheap compared with savings products and are bought by a large proportion of the population. Figure 20 shows how resilient spend on non life products have been compared with life/savings products despite the financial crisis.

Figure 19. Non life products have high penetration and are cheap

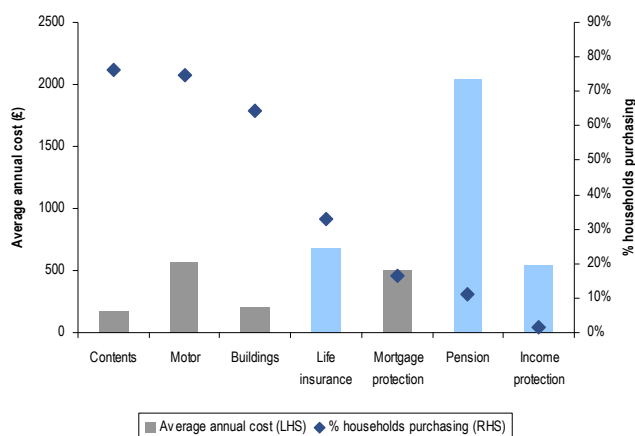
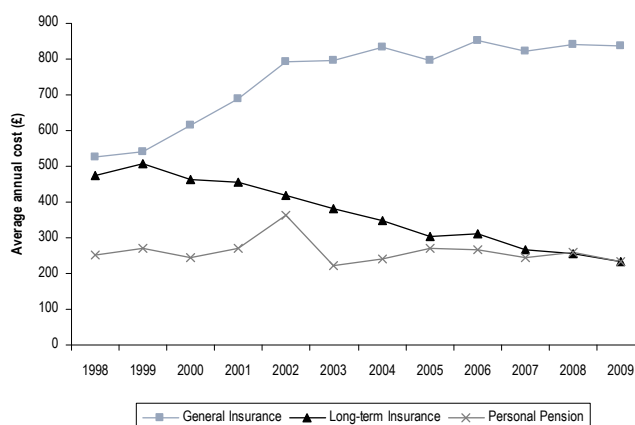


Figure 20. Non life products have been more resilient than life products



Source: ABI; ONS; Citi Investment Research & Analysis

Source: ABI; ONS; Citi Investment Research & Analysis

Reasons for preferring Lloyd's insurers

We prefer the Lloyd's insurers. Buy Amlin, Catlin and Lancashire.

We list the main differentiators as:

1. Lloyd's is purer play on u/w outlook
2. RSA dependent on investment returns
3. Admiral at risk from greater comp/reg.

Within the UK non life insurance space, we have a preference of the Lloyd's insurers relative to RSA (Neutral) and Admiral (Neutral). We have upgraded Catlin to Buy in this note. We also retain our Buy recommendation on Amlin and Lancashire. The UK non life insurance sector is not particularly homogenous since the Lloyd's insurers (specialist commercial re/insurers) are quite different to RSA (global non life primary insurer) and Admiral (UK focused motor insurer).

In the table below we provide a qualitative comparison of the key features for each of the companies. Whilst we believe the outlook for all of these companies is positive (as described above), we summarise the main differentiator in their respective investment cases are:

- Lloyd's insurers are the best way to play consistently strong underwriting returns and better catastrophe reinsurance and US commercial lines pricing
- Our main concern on RSA relates to the significant dependence of profits on investment returns and uncertainty over its reserve releases
- Our main concern on Admiral relates to increasing competition in the UK motor market and potential regulatory pressure on referral fees

Figure 21. Lloyd's insurers look attractive on our qualitative assessment

	Lloyd's insurers	RSA	Admiral
Growth	Decent growth opportunities in reinsurance/cat business +	Consistent growth helped by bolt on acquisitions in international operations +	Historically high growth rates slowing, but still achieving good vehicle growth in UK +
Pricing	Better pricing in reinsurance and US commercial but some areas remain competitive +	Consistently pushing through rates in Canada/Scandi, but areas remain competitive +	UK personal motor rates are slowing + / -
Underwriting margins	Focus on specialist commercial lines generally leads to better u/w profitability ++	Stable mid 90's combined ratios for several years +	Industry leading underwriting profitability ++
Reserving	Strong and consistent reserve releases in recent years +	We don't see a major reserving issue but sustainability of releases is source of uncertainty + / -	Deterioration in large BI claims in 2011 raised some concerns + / -
Investment returns	Forecasts already reflect impact of low interest rates +	Key driver of group profits and likely to come under pressure although management has taken action -	Limited dependence on investment returns and assets all held in cash ++
Regulation	Solvency 2 leading to opportunities in European reinsurance but expect this to be modest + / -	Expect limited impact from regulation + / -	Potential threat to car hire/repair related referral fees which are an important source of profits -
Valuation	Undemanding P/B multiples given ROEs, but relatively higher PE ratios +	P/B and PE not particularly cheap but trading on discount to historic levels ++	PE ratio on premium to rest of sector + / -
Total	++++++	++++	++++

Source: Citi Investment Research & Analysis

Attractions of the Lloyd's sector

We highlight some of the key attractions of the Lloyd's sector below. We have set out our view on the attractions of the Lloyd's sector in more detail in our sector initiation: ([Lloyd's Insurers - Eventually Feast Should Follow Famine](#)).

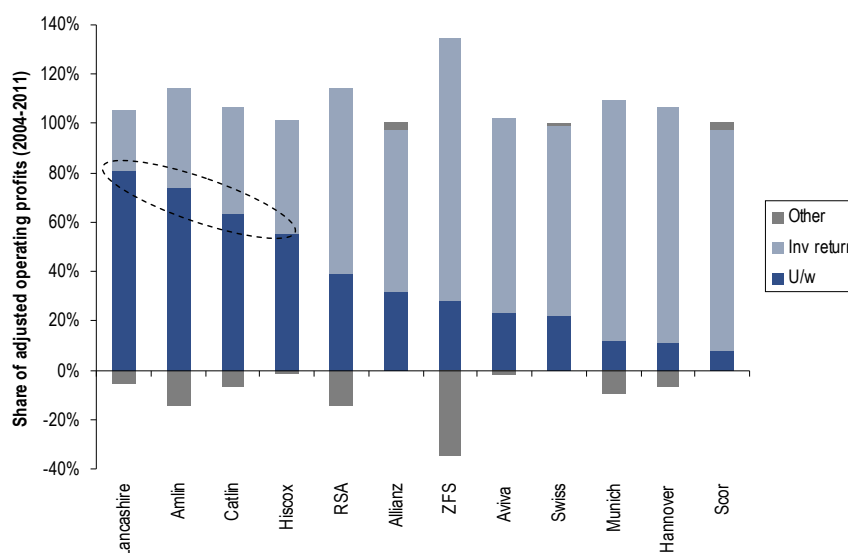
1. Purer play on underwriting returns with exposure to lines of business seeing improving pricing outlook
2. Low asset risks and impact of low interest rates already reflected in consensus expectations
3. There is opportunity for multiple expansion in the sector
4. Dividend yields are a key attraction and payout rates are relatively modest

1. Purer play on underwriting returns with exposure to better pricing

Lloyd's insurers generate 60-80% profits from underwriting

Lloyd's insurers generate consistently higher underwriting margins compared with their larger pan European commercial peers. Consequently, they also generate a larger proportion of their operating profits from underwriting returns, which makes them purer plays on the underwriting outlook in our view. We think the market attaches a higher value to companies that generate the bulk of their returns from underwriting, which should be positive for the sector. The chart below shows that Lloyd's insurers tend to generate 60-80% of their operating profits from underwriting returns, which is higher than other parts of the insurance sector. To put this into context, Lloyd's players also tend to have more volatile earnings than their peers, although large/catastrophe losses often lead to a positive re-rating in anticipation of stronger pricing.

Figure 22. Lloyd's insurers generate a high share of profits from underwriting (2004-2011)



Note: chart shows the breakdown of average operating profits between 2004-2011. It is adjusted to remove the impact of years with operating losses. For the larger players we have only considered P&C re/insurance.

Source: Company data; Citi Investment Research & Analysis

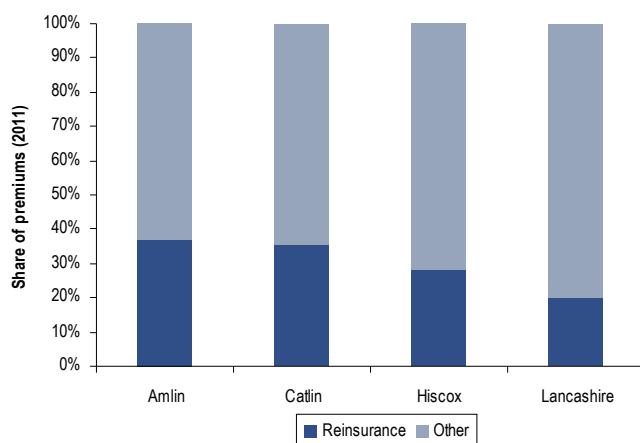
Reinsurance market remains disciplined

The Lloyd's players are well positioned to benefit from areas of the market where pricing is improving. Given that industry capital levels are robust (helped by a lack of major losses so far in 2012), we believe that pricing conditions are a fair way off being a "hard market". We believe the reinsurance sector continues to be the most disciplined segment of the market and offers attractive returns, especially for catastrophe exposed business.

Lloyd's players are big in reinsurance where pricing is improving

Figure 23 below shows that ~30% of premiums for the Lloyd's insurers is reinsurance business, which puts the sector in a good position to benefit from this. We also note that the remaining business written by Lloyd's players tends to be specialist in nature and therefore relatively higher margin business. Figure 24 shows improving pricing and volume growth for the larger European reinsurers at renewals in January and April 2012. Although we believe there is sometimes excessive focus on the direction of pricing, this has historically been an important catalyst for share prices and we believe the higher exposure of Lloyd's insurers to price increases is a differentiator.

Figure 23. Lloyd's insurers have significant exposure to reinsurance



Source: Company data; Citi Investment Research & Analysis

Figure 24. Reinsurers are improving pricing and volume at renewals

Jan-12	Hannover Re	Munich Re	Scor	Swiss Re
Volume	6.0%	2.6%	14.0%	20.0%
Pricing	4.0%	2.0%	2.2%	1.0%
Apr-12	Hannover Re	Munich Re	Scor	Swiss Re
Volume	12.5%	-2.9%	11.0%	14.0%
Pricing	6.0%	5.0%	7.0%	17.0%

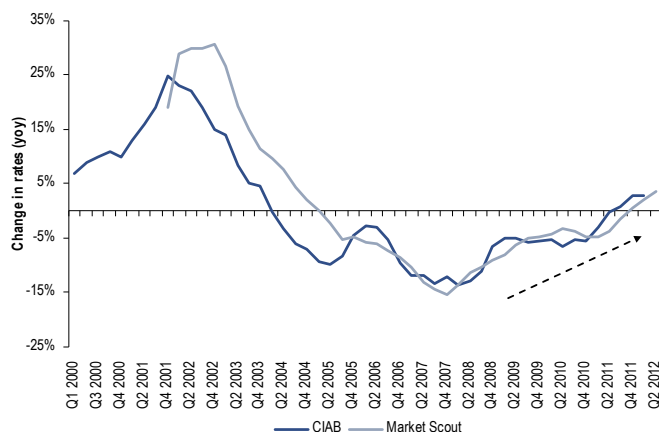
Source: Citi Investment Research & Analysis

Reasons to be more positive on pricing:

1. low interest rates drag down ROEs
2. unrealized bond gains inflate capital
3. RMS 11 impact widening

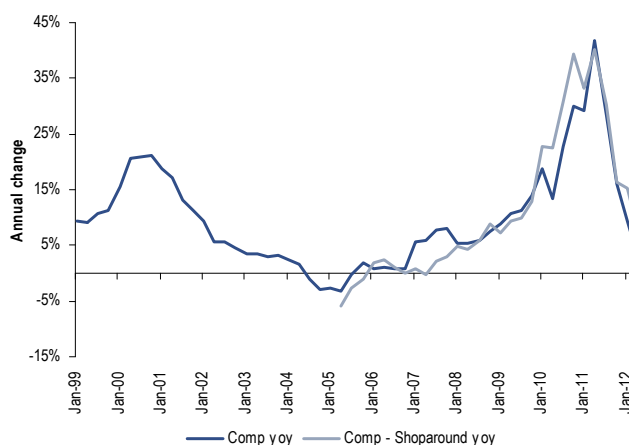
Although industry capital levels remain robust, we believe the market is underestimating a number of factors: i) lower investment returns are a material drag on ROEs, which need to be compensated for through better underwriting, ii) unrealized gains on government bond portfolios are currently inflating industry capital levels and as these unwind this could increase pressure on capital, and iii) the impact of RMS 11 on catastrophe modeling is increasing as it is more widely implemented. In fact, the upward pressure on US primary rate is already emerging and can be seen in Figure 25. By contrast, in many European markets pricing remains competitive. We show that the UK motor market is beginning to slow, having seen significant increases in 2010-2011 (Figure 26), which mainly affects Admiral.

Figure 25. US primary pricing has turned positive



Source: CIAB; Market Scout; Citi Investment Research & Analysis

Figure 26. UK personal motor rates are slowing



Source: AA data; Citi Investment Research & Analysis

RSA dependent on investment returns and has seen u/w margins stable

- **RSA:** generates average 75% of its operating profits from investment returns. This makes the business more exposed to the impact of sustained low interest rates. Management has taken action to mitigate this, but this remains a risk to earnings. The real test for the group is whether it can increase its underwriting returns materially, which are currently benefitting from significant reserve releases. Although RSA has achieved price increases in a number of its regions, the underlying attritional loss ratio of the business has remained relatively static. We set this argument out in more detail in [RSA Insurance Group \(RSA.L\) - Maintaining a cautious stance](#)

Admiral dependent on ancillary fees and motor pricing slowing

- **Admiral:** the composition of Admiral's earnings is relatively more complex. Although the contribution from investment income is very low, Admiral is heavily dependent on ancillary income (~50-55% profits) which is fee based. We believe there is an increasing risk of regulatory intervention in referral fees for credit hire and car repair, which could impact this source of income. In terms of underwriting profitability, we believe the UK motor market will become increasingly competitive as certain larger players target growth again. Figure 26 shows that this is already having an adverse impact on motor pricing, and we expect this trend to continue.

Focus on US/UK government debt and short duration portfolios

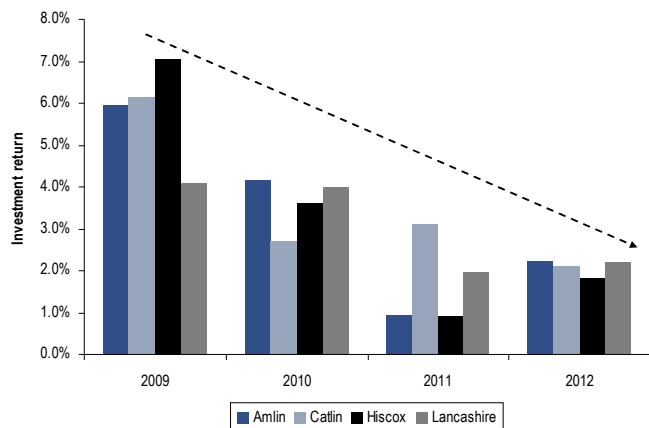
2. Minimal asset risks and short duration bonds

Lloyd's insurers have limited exposure to risky assets (eg virtually no holdings in peripheral European sovereign credit). This is driven by their weighting towards US business (~60% premiums) and their overweight positions in US government bonds. The short duration nature of these bonds (generally 1-2 years) means that investment returns already reflect the adverse impact of low interest rates. This is seen clearly in Figure 27. Consequently, we see the downside risk to earnings from lower investment returns are relatively modest compared with the rest of the European insurance sector.

Investment leverage is low

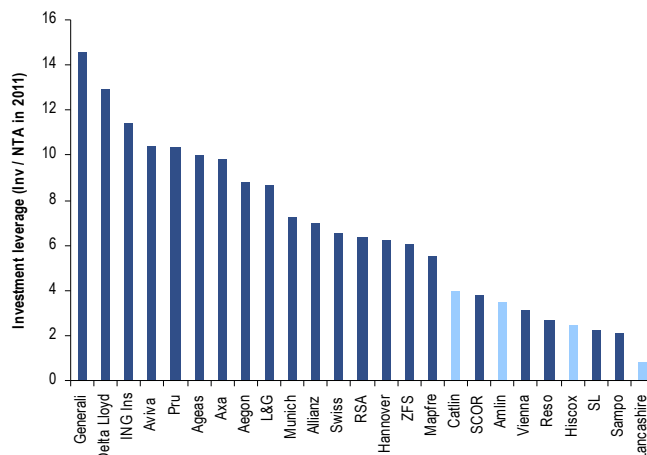
Lloyd's insurers also have lower investment leverage than larger re/insurance groups (ie ~2-3x equity), which reduces their relative exposure to fluctuations in investment values. Figure 28 below shows investment leverage across the European insurance sector and highlights that Lloyd's insurers are relatively less sensitive to investment markets.

Figure 27. Low investment returns already in forecasts



Source: Company Reports, Citi Investment Research & Analysis

Figure 28. Lloyd's insurers have low investment leverage



Note: Investment leverage defined as investments & cash / net tangible assets

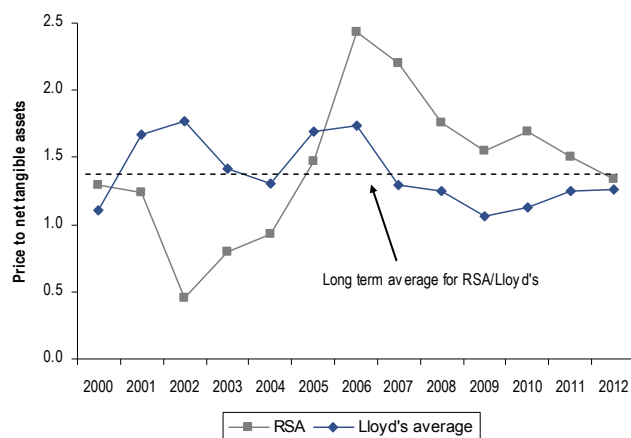
Source: Company Reports, Citi Investment Research & Analysis

3. There is opportunity for multiple expansion in the sector over time

We believe Lloyd's sector has greatest re-rating potential

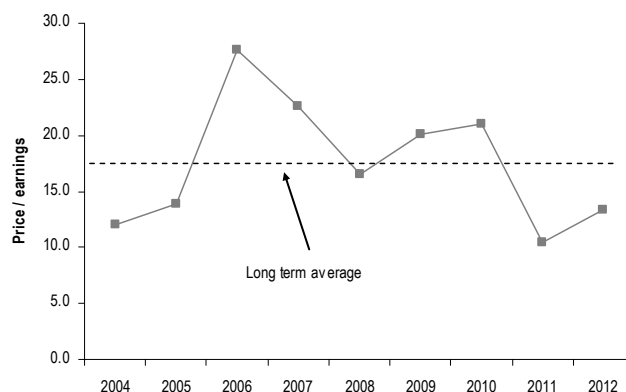
In our view, the Lloyd's insurers are in a stronger position to see expansion in their valuation multiples compared with RSA and Admiral. We believe Lloyd's insurers benefit from a relatively better operating outlook in terms of gradually improving pricing and low dependence on investment returns. Figure 29 shows the longer term price to net tangible assets for the Lloyd's sector and for RSA. Figure 30 shows the longer term PE multiple for Admiral.

Figure 29. Lloyd's trading below its 1.4x long term average



Source: Company data; Citi Investment Research & Analysis

Figure 30. Admiral could struggle to reach historic multiples



Source: Company data; Citi Investment Research & Analysis

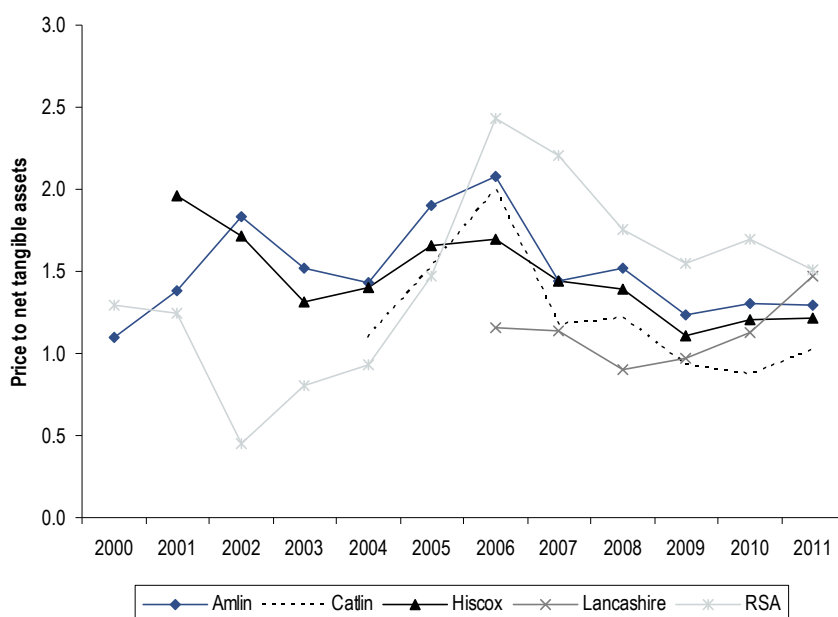
■ **Lloyd's insurers:** the Lloyd's sector trades on average 1.25x 2012E NTA which is a discount to the longer term average of 1.4x. Given total returns of 14-17% we believe these valuations are undemanding. We also note that any significant change to the pricing environment (eg due to a large loss or other event that destroys capital) would likely lead to a strong re-rating of the sector. This was demonstrated in 2001-2 and 2005-6 following major industry losses. We also believe the greater significance of underwriting profits for the Lloyd's insurers deserves a premium to other European commercial re/insurers.

- **RSA:** is currently trading in line with its longer term average of 1.3x NTA, although we note the shares have traded significantly higher (eg >2x NTA in 2006) as the company's turnaround potential was realised by the market. We believe pressures on investment returns will increasingly weigh on RSA's earnings and we also believe that dependence on reserve releases remains an area of uncertainty in the investment case.
- **Admiral:** is trading on 13x forward PE, which is clearly below the multiples it has historically traded on, although the shares have re-rated during 2012 from the lows of ~9x in 2011. We remain convinced that Admiral is an excellent business, but it is reaching a slower growth phase in the UK without prospects for material earnings from the international operations yet. Given slowing pricing, the regulatory threat to ancillary income, and the fact it trades on a premium to the rest of the sector, we see limited room for Admiral to re-rate.

Catlin is the clear value play in the Lloyd's sector

The chart below shows the P/NTA multiples for the individual Lloyd's companies. We highlight Catlin as the clear value play in the sector and believe that the shares can re-rate if it continues to perform well operationally in 2012. See separate section on Catlin upgrade for more details.

Figure 31. We think Catlin could re-rate if it continues its recent operating form



Source: Company data; Citi Investment Research & Analysis

5. Dividend yields are a key attraction

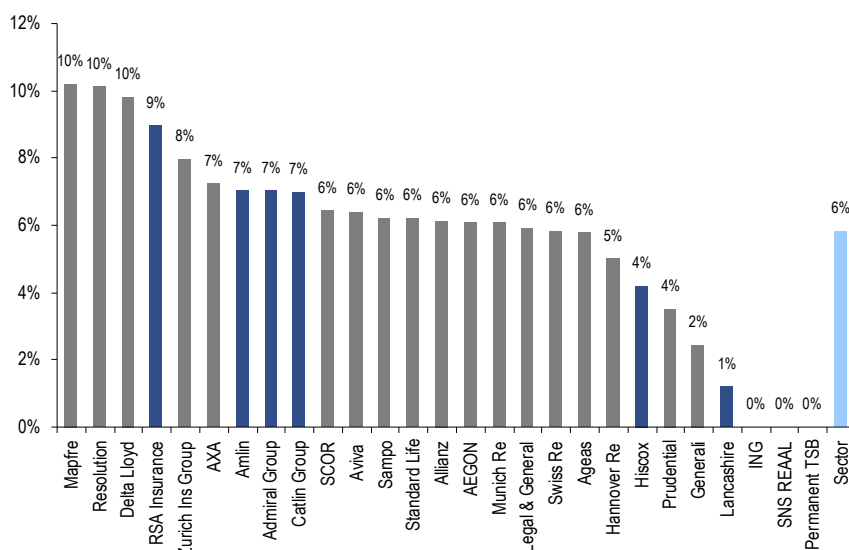
Equities are increasingly attractive from an income perspective

The UK non life sector has been an attractive source of dividend yield for investors over the last decade. Citi equity strategists have argued for some time that low government and cash yields make equities an attractive asset class for income investors (see [Global Equity Strategist - The Global Search For Yield](#)). We believe that dividend yields will be an increasingly important differentiator and we think the UK non life sector stands out in this respect.

Most UK non life insurers offer attractive yields in a sector context

Dividend yields across the UK non life sector vary. RSA offers one of the most attractive yields in the sector at 9%. Amlin, Admiral and Catlin also offer attractive 7% yields. Hiscox has historically paid one of the lower dividend yields at 4%. Lancashire's headline yield of 1% is misleading since we assume that it only pays its relatively small regular dividend. However, the group has historically supplemented this with significant special dividends and we believe this could be repeated in 2012, depending on operating performance. The chart below shows yields in a sector context.

Figure 32. Attractive dividend yields across the sector



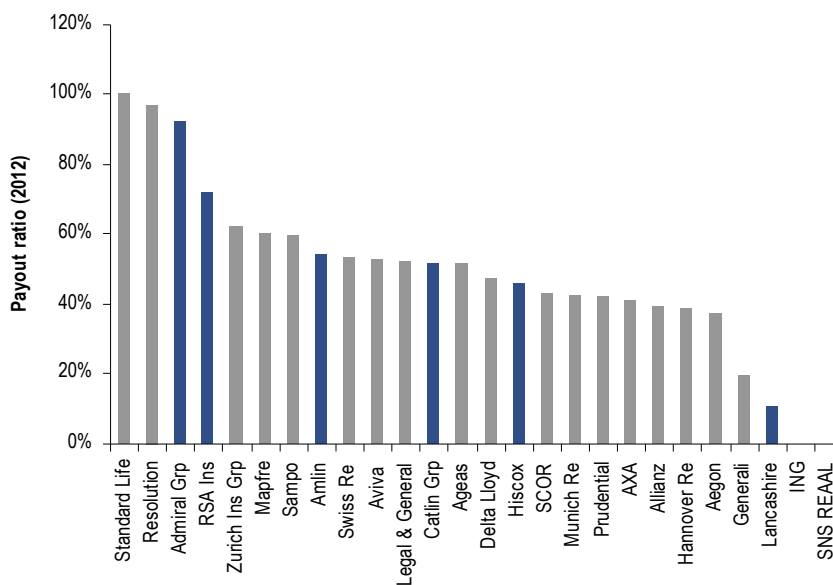
Note: our forecasts assume Lancashire only pays its small regular dividend

Source: Company data; Citi Investment Research & Analysis

Payouts for Lloyd's insurers are lower, Admiral and RSA are among the highest

We believe the Lloyd's sector is in a relatively strong position to grow its dividends. This is because Lloyd's payout ratios are relatively modest in a sector context at ~50%. By contrast, Admiral pays out >90% earnings and RSA pays out ~70% earnings. Consequently, we believe the yields for the Lloyd's insurers have a greater ability to withstand earnings shocks compared with RSA and Admiral. The chart below shows the payout ratios for the whole sector and shows that payout ratios for Admiral and RSA are among the highest in the sector.

Figure 33. Payout ratios for Lloyd's players are relatively modest

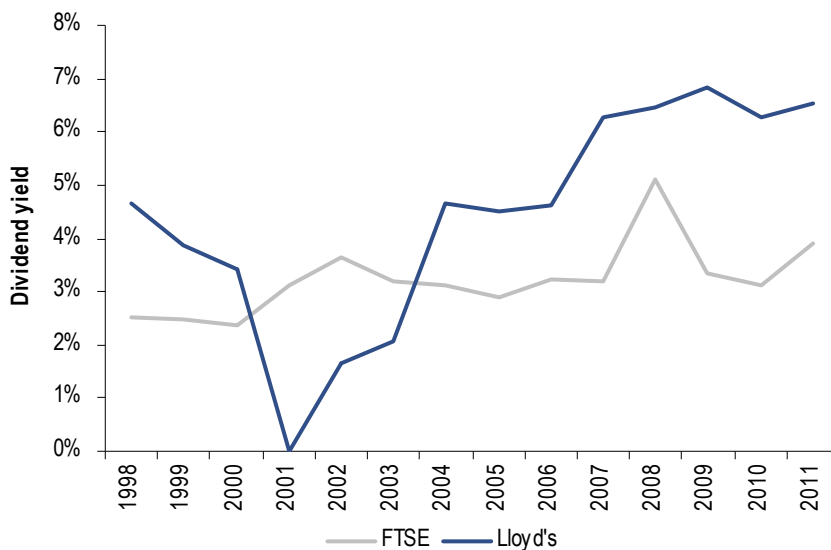


Source: Company data; Citi Investment Research & Analysis

Lloyd's sector hasn't cut dividends since 2001

It could be argued that Lloyd's insurers need a lower payout ratio in order to protect dividends from the earnings impact of catastrophe losses. Whilst we agree with the logic of this argument, we note that none of the Lloyd's vehicles have cut their dividends since the aftermath of the WTC loss in 2001. This can be seen in the chart below. Furthermore, Lloyd's yields have been well ahead of the FTSE for a long time. We believe this is particularly impressive given the severity of catastrophe losses incurred in 2005, 2008 and 2011.

Figure 34. Lloyd's insurers consistently yield more than FTSE



Source: Company data; Datastream; Citi Investment Research & Analysis

Focusing on value creation

- UK non life insurers have outperformed Euro Stoxx by 57% since the start of the crisis, which has been driven by strong operating performance rather than a re-rating of valuations.
- We believe that book value growth and dividend yields are the key drivers of medium term share price performance. Pricing is more important for sentiment in the shorter term.
- We forecast 16% total returns for the sector in 2012. The 6.3% yield is a key attraction given Euro equities yield 4.7% and we think Lloyd's insurers also have re-rating potential.

Sector delivered strong performance during the crisis

UK non life insurers have outperformed market by average 57% since 2007

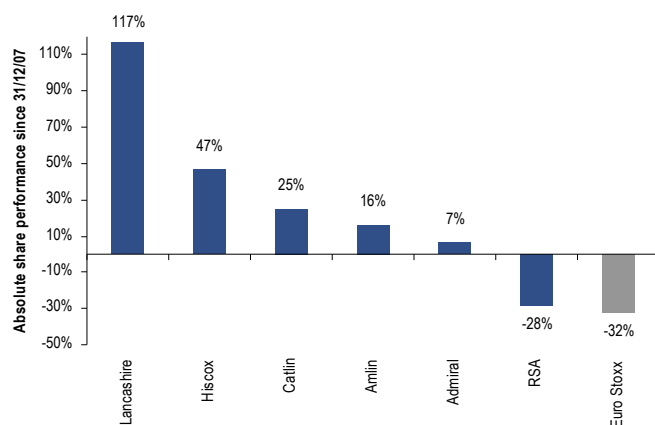
Since the financial crises began in late 2007, the UK non life insurance sector has significantly outperformed European equity markets. The stocks under our coverage have increased their share prices by average 22% since end 2007 and have outperformed the Euro Stoxx by average 57%. The sector has outperformed the market in every year since end 2007, except during the strong rebound in equities in 2009, ie +53% relative in 2008, -27% in 2009, +8% in 2010, +4% in 2011, and +13% in 2012 YTD.

Outperformance driven by strong operating profits and defensiveness

This impressive performance is not entirely surprising given the sector's defensive qualities: it sells mandatory products, earnings are almost entirely in cash and it has relatively lower investment leverage (3-4x equity) compared with life insurers (10-12x equity). However, it is just as significant to note that the outperformance of the shares has been underpinned by strong operating results: book value per share has increased by average 22% since 2007 and the sector has yielded average 6.9% per annum during this period. The strong share price of the sector has therefore not been driven by a positive re-rating of valuations, but by strong operating performance.

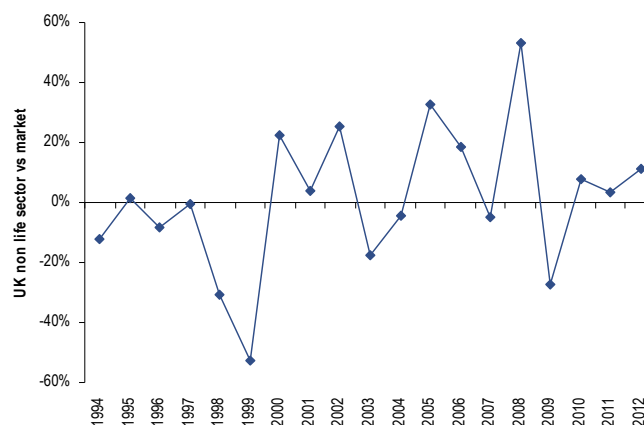
The charts below show share performance by company since 2007 (Figure 35) and the performance of the non life sector relative to Euro Stoxx since 1994 (Figure 36).

Figure 35. Most companies delivered strong returns (2007 – now)



Source: Datastream; Citi Investment Research & Analysis

Figure 36. Longer term relative performance of UK non life insurers



Source: Datastream; Citi Investment Research & Analysis

Lancashire has been the star performer.
RSA has been the weakest performer

Since 2007 the performance of most companies has been very strong (as shown in Figure 35). **Lancashire** has been the strongest performer and the shares have more than doubled in value. It saw a particularly strong re-rating in its shares (+22%) in 2011 because it was affected less than peers by catastrophe losses. **Hiscox** and **Catlin** have seen good increases in their shares at 47% and 25% respectively. **Amlin's** historically strong performance was adversely affected in 2011 by international catastrophe losses, UK motor reserving and the performance of ACI. **Admiral's** shares have increased 7% during this period, driven by a 44% decline in 2011 due to deterioration in large personal injury claims. The shares have since performed well in 2012 (+31%). **RSA** shares declined -28% since 2007 which reflects relatively consistent annual declines in the share price.

Non life insurers have outperformed the
market in 9 of the last 12 years

Figure 36 shows the strong longer term performance of the UK non life insurers compared with Euro Stoxx. The sector experienced several years of underperformance in the late 1990s which coincided with very negative underwriting returns. However, non life insurance pricing corrected strongly in 2001/2 and since then the UK non life sector has outperformed equity markets in 9 of the last 12 years.

What has driven shareholder returns?

Growth in book value and yields drive
shareholder returns for non life insurers

The basic drivers of total shareholder return for non life insurance companies are growth in book value and dividend yield. Value creation is measured with reference to book value growth because these are capital intensive businesses and earnings can potentially be volatile (particularly for insurers exposed to peak catastrophe zones).

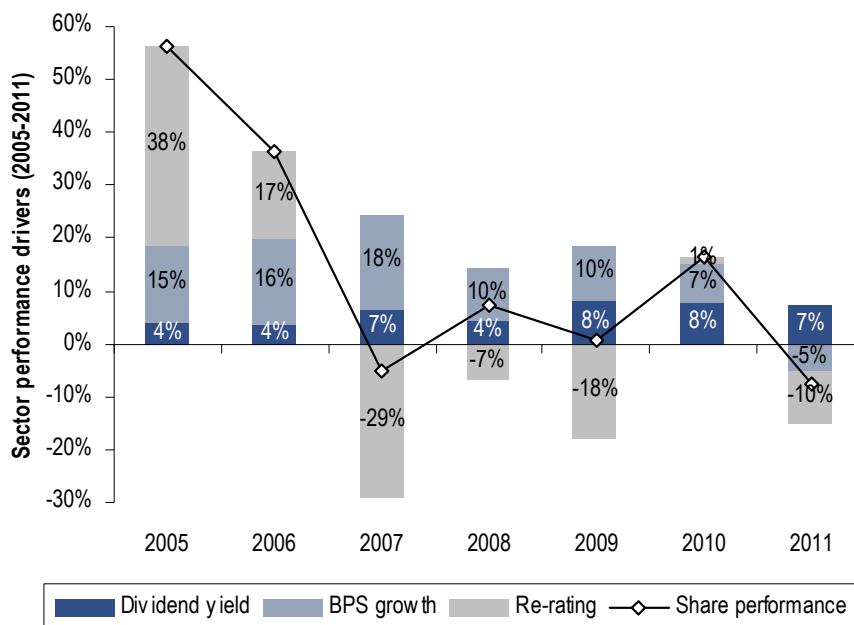
Non life insurers allow investors to easily
assess value creation

In our view, the non life sector allows investors to assess value creation with relative ease, partly because profits emerge over a relatively short period of time (typically 1-3 years). This means there is a strong link between book value growth and genuine value creation. This contrasts markedly with the life insurance industry where profitability can take significantly longer to emerge and it is therefore potentially more difficult for investors to assess value creation.

In the chart below we break down the key drivers of share price performance for the UK non life sector since 2005. Share price performance is broken down into i) growth in book value per share (ie the basis for valuation), ii) average annual dividend yield, and iii) re-rating of the shares (defined as the difference between share performance and BPS growth/yield).

Note that we use EPS growth for Admiral given its low capital requirements resulting from its reinsurance arrangements.

Figure 37. Non life insurance share price performance driven by book value growth and yield.



Note: Based on average annual performance of ADM, AML, CGL, HSX, LRE, and RSA between 2005 and 2011. We assume that share price performance reflects BPS growth + dividend yield +/- re-rating. For ADM we use EPS.

Source: Company data; Citi Investment Research & Analysis

We note the following key points:

Despite strong performance sector has actually been de-rated

- The sector delivered **strong share price performance in 2005 (avg +56%) and 2006 (avg +37%)**. This was driven by better pricing for the Lloyd's players after hurricane Katrina, strong performance by RSA under new management and strong performance from Admiral after its floatation in 2004
- Since **2007 the sector has seen relatively consistent de-rating** in its valuations compared with book value growth/yield. In 2007 this was a reversal of 2 years strong performance. In 2009 this was mainly driven by weakness of the Lloyd's players during a strong rebound in equities. In 2011 this was driven mainly by the weak performance of Amlin and Admiral.
- **Growth in book values** has reduced from ~15% in 2007 to ~7% in 2010 (2011 was adversely affected by catastrophe losses). In our view this reflects a gradual decline in the pricing environment, as well as lower investment returns due to interest rates.
- **Dividend yields have steadily increased** from ~4% in 2005 to ~7% in 2011. This reflects dividend growth as well as a gradual de-rating in the shares

Differentiating between company performance

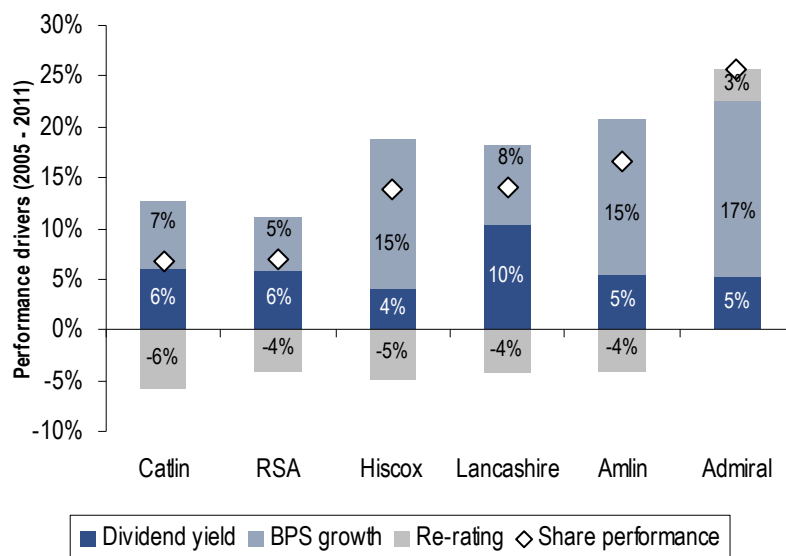
Individual company performance varies

The share price performance of individual UK non life companies has varied considerably between 2005 and 2011. The chart below shows the breakdown of average annual share price performance for each company in the peer group during this period, based on the same date discussed above. During this period Admiral has delivered the strongest average annual share price return (+25%), whereas Catlin has delivered the lowest average return (+7%), although we still believe this is respectable.

Share price performance is correlated with value creation

The chart clearly shows that companies achieving the average annual performance deliver the highest growth in book value and offer the most attractive dividend yields. In effect this means that companies with the highest ROE tend to achieve the best share price performance, since ROE represents growth in book value plus dividends paid.

Figure 38. Share performance is driven by growth in book value and dividend yield



Note: Data based on average annual performance between 2005 and 2011. We assume that share price performance reflects BPS growth + dividend yield +/- re-rating. Admiral is based on EPS not BPS growth. Source: Company data; Citi Investment Research & Analysis

We note the following key points:

- **Share price performance is clearly correlated with value creation.**

Companies that generate the highest growth in book value and most attractive yields achieve the highest average share price performance over the medium term. The chart shows this correlation quite clearly, in our view.

- **Most stocks don't receive a re-rating.** In the short term, the impact of a re-rating in a stocks valuation can clearly be significant. However, the chart shows that value creation by companies tends to be under-recognised by the market (ie share price performance has been slightly below BPS growth and dividend yields, which implies an average de-rating in valuations of 4-6% pa). Admiral is the only stock to benefit from an average re-rating of 3%. We use EPS rather than BPS growth since we believe Admiral is valued with reference to earnings rather than book value (it pays out over 90% earnings in dividends so BPS growth is modest). This suggests to us that management time is best spent maximising ROEs, rather than focusing on improving a company's rating.

Most stocks have been de-rated so ROE focus is key to returns

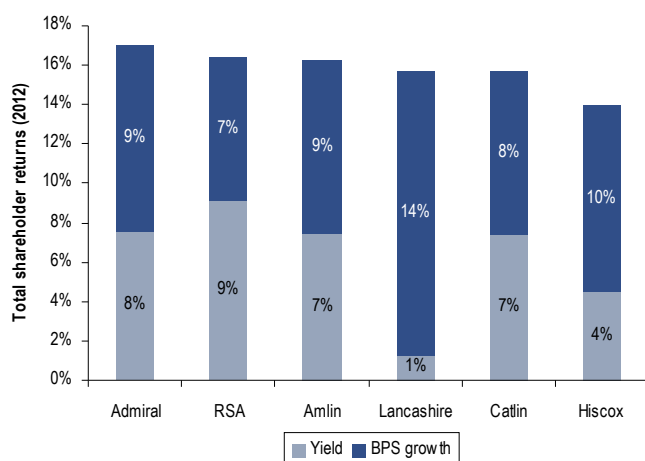
- **Lloyd's insurers can create significant amounts of value.** It is interesting to note that Amlin and Hiscox have delivered similar average BPS growth to Admiral's EPS growth since 2005. However, Admiral is the only company to receive a positive re-rating during this period, whereas Amlin and Hiscox have been de-rated by 4-5%. We suspect the market doesn't adequately appreciate this. Lancashire has the highest contribution from dividend yield (ie average 10%) since it is extremely discipline with its capital and returns excess capital to shareholders on a regular basis (eg it has returned 135% of capital raised at its 2005 IPO back to shareholders).
- **Dividend yields are in important source of value.** Dividends have generated average 35% of the total return (ranging from 21-52% depending on the company). Given the limited benefit from share price re-rating, we believe this highlights the attraction of the UK non life sector to income investors.

Forecast attractive shareholder returns in 2012

We forecast attractive 16% returns across the sector in 2012

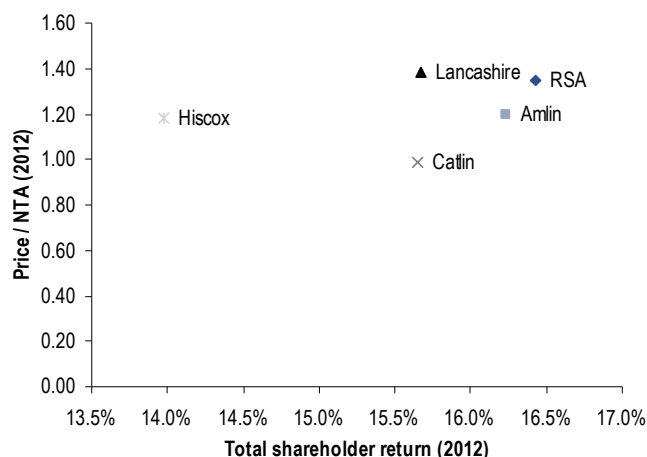
We expect the UK non life sector to generate average 16% total returns for shareholders in 2012, which we believe are attractive. This is based on an average 10% growth in book value (or earnings for Admiral) and 6% yield. The chart below shows returns for each company, which we believe shows that the returns are attractive across the sector.

Figure 39. Companies offer attractive total shareholder returns (2012)



Note: Admiral based on EPS not BPS growth. LRE assumes no special dividend.
Source: Company data; Citi Investment Research & Analysis

Figure 40. Total returns compared with current price/book valuations



Note: excludes Admiral as it is valued on PE basis.
Source: Company data; Citi Investment Research & Analysis

Company Focus

■ Company Update

Neutral	2
Price (25 Jun 12)	£11.48
Target price	£11.10
Expected share price return	-3.3%
Expected dividend yield	7.2%
Expected total return	3.9%
Market Cap	£3,115M
	US\$4,856M

Price Performance (RIC: ADML.L, BB: ADM LN)



Admiral Group (ADML.L)

Worried about slowing growth and regulatory pressures

- **Admiral remains a leader in its industry:** We believe Admiral is an excellent UK motor insurer and will remain one of the few companies that is able to consistently generate profits in this intensely competitive market.
- **But valuation already reflects strong operating performance:** In our view, Admiral's valuation already reflects its strong operating track record. The shares trade on 13.0x 2012E PE compared with the European insurance sector on 7.6x. Historically, Admiral has traded on higher multiple (avg 17x forward PE) but we see a number of potential operational headwinds:
- **1. UK motor market is getting more competitive:** we think a number of players will pursue top line growth in the motor market and we expect this to increase competitiveness. AA survey data showed that motor prices declined 1.1% in Q1 2012 which suggests the pressure on pricing has already increased. The combination of relatively flat pricing and increasing claims inflation (AA suggested +10% pa for personal injury claims) could put pressure on underwriting margins.
- **2. Admiral's growth rate is slowing:** Admiral has already indicated that its UK vehicle growth will slow to 5-10% in 2012 and growth in Q1 2012 was towards the lower end of this range. We don't think Admiral has gone ex-growth in the UK because price comparison distribution can still grow further (currently accounts for 58% of new business). However, Admiral now has ~11% market share and its growth rate is likely to be considerably slower than it was historically. In our view, this fact will dampen the re-rating potential of the stock.
- **3. Regulatory threat to referral fees:** the OFT's recent referral of the UK personal motor market to the Competition Commission demonstrates the degree to which the market is subject to public/political scrutiny. Whilst we agree with the premise that there are many dysfunctional elements in the way claims process are handled, we are concerned that this regulatory pressure will lead to a more broad based ban on referral fees (ie including credit hire and car repair). Referral fees are an important source of profits for Admiral (impact of ban on personal injury referral fees was 6% PBT). We think there is a risk that the adverse impact of a ban on referral fees is quicker than the offsetting gain from lower claims costs.
- **Remain cautious on Admiral.** We reiterate our Neutral recommendation based on the operational headwinds mentioned above. Our £11.10 price target implies 4% ETR. Our view on Admiral is set out in more detail here: [Admiral Group \(ADML.L\) - Not yet ready to move on](#)

Admiral Group (GBP)

Year to 31 Dec	2010A	2011A	2012E	2013E	2014E
Profit Before Tax (£M)	265.5	299.1	329.8	355.4	403.1
Diluted EPS (p)	72.2	81.7	89.4	95.9	108.3
Diluted EPS (Old) (p)	72.2	81.7	89.4	95.9	108.3
PE (x)	15.9	14.0	12.8	12.0	10.6
DPS (p)	68.1	75.6	82.7	88.7	100.2
Net Div Yield (%)	5.9	6.6	7.2	7.7	8.7
Embedded Value Per Share (p)	99.7	113.3	130.5	147.6	168.2
Price / EVPS (x)	11.5	10.1	8.8	7.8	6.8

Figure 41. Admiral earnings forecasts (£m)

	2009	2010	2011	2012E	2013E	2014E
Gross premiums written	848	1,309	1,841	2,007	2,147	2,266
Net premiums earned	212	288	446	496	510	545
UK car insurance underwriting	30	44	36	43	44	52
Profit commissions (UK)	54	67	62	66	74	92
Ancillary income	110	148	190	206	209	219
Non-UK car insurance underwriting	-13	-14	-17	-18	-6	0
Investment income	9	10	14	16	15	17
Price comparison	25	12	11	11	12	13
Other	2	-2	5	6	7	9
Group PBT	216	266	299	330	355	403
Taxation	-59	-72	-78	-86	-92	-105
Net income	157	194	221	244	263	298

Source: Company Reports, Citi Investment Research & Analysis

Figure 42. Admiral UK motor results (£m)

	2009	2010	2011	2012E	2013E	2014E
Gross written premiums	805	1,238	1,729	1,850	1,942	2,020
Net premiums written	218	335	473	435	456	475
Net premiums earned	199	269	419	452	447	466
Net claims incurred	-139	-193	-336	-358	-353	-362
Expenses	-30	-32	-47	-50	-50	-52
Underwriting result	30	44	36	43	44	52
Profit commissions	54	67	62	66	74	92
Ancillary contribution	106	142	182	196	198	207
Investment and interest income	8	8	11	13	12	14
Instalment income	9	14	23	25	26	27
Operating profit	207	276	314	342	354	393
Net loss ratio	66.9%	68.3%	77.3%	76.5%	76.2%	74.8%
Net expense ratio	18.0%	15.2%	14.0%	14.0%	14.0%	14.0%
Combined ratio (reported)	84.9%	83.5%	91.3%	90.5%	90.2%	88.8%

Source: Company Reports, Citi Investment Research & Analysis

Figure 43. Admiral per share data

Per share data	2009	2010	2011	2012E	2013E	2014E
EPS - basic (p)	59.0	72.3	82.0	89.9	96.4	108.9
EPS - diluted (p)	59.0	72.2	81.7	89.4	95.9	108.3
Growth	7%	22%	13%	9%	7%	13%
Total FY dividend (p)	57.5	68.1	75.6	82.7	88.7	100.2
Payout ratio	97%	94%	93%	93%	93%	93%
Tangible BV per share	89.4	107.4	122.6	139.8	156.8	177.7
Growth	10%	21%	15%	15%	13%	14%
Return on equity	54%	59%	59%	58%	56%	57%
Return on tangible equity	69%	74%	71%	69%	65%	65%

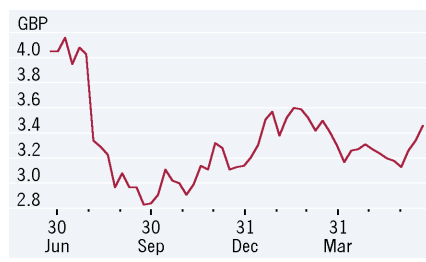
Source: Company Reports, Citi Investment Research & Analysis

Company Focus

■ Company Update

Buy	1
Price (25 Jun 12)	£3.44
Target price	£3.83
Expected share price return	11.3%
Expected dividend yield	7.0%
Expected total return	18.3%
Market Cap	£1,710M
	US\$2,665M

Price Performance (RIC: AML.L, BB: AML LN)



Amlin Plc (AML.L) Deserves to regain its historic premium

- **Deserves to regain its historic premium:** Amlin has the strongest long term operating track record in the Lloyd's sector. However, its performance in 2011 has distracted the market from the fact that it is an excellent underwriting business. We expect Amlin to regain its premium as the business returns to historic levels of profitability.
- **A leading catastrophe reinsurer:** Amlin is in a strong position to benefit from those areas seeing positive pricing momentum (ie US and International catastrophe reinsurance) and 75% of its portfolio is seeing price increases. The group's international portfolio was adversely affected by losses during 2011, but has been an excellent contributor to profits over the longer term. Amlin has since increased its risk management by purchasing more reinsurance and issuing a catastrophe bond. We believe the market has lost sight of Amlin's expertise in catastrophe reinsurance and we believe this is a differentiator for the group.
- **Performance of ACI is improving:** Amlin indicated at Q1 that the actions taken to improve the performance of ACI are beginning to take effect in 2012. In particular, the re-underwriting of the marine book is largely complete. ACI remains an important influence on sentiment towards the group, rather than financials. Over time, we believe ACI can deliver a stream of low volatility profits so that Amlin can grow its catastrophe reinsurance book.
- **Forecast attractive returns:** We forecast 18% RONTA in 2012, which may prove conservative if catastrophe loss experience remains benign (we have 8% cat budget in our forecasts). Amlin trades on 1.3x 2012E NTA which implies a 15% COE which we believe is too high. We therefore reiterate our Buy recommendation. Our 383p target price implies 18% ETR.

Amlin Plc (GBP)

Year to 31 Dec	2010A	2011A	2012E	2013E	2014E
Profit Before Tax (£M)	259.2	-193.8	269.7	289.0	296.9
Diluted EPS (p)	44.4	-30.3	44.7	47.9	49.2
Diluted EPS (Old) (p)	44.4	-30.3	44.7	47.9	49.2
PE (x)	7.7	-11.4	7.7	7.2	7.0
DPS (p)	23.0	23.0	24.4	25.8	27.4
Net Div Yield (%)	6.7	6.7	7.1	7.5	8.0
Embedded Value Per Share (p)	350.6	287.2	308.5	331.6	354.5
Price / EVPS (x)	1.0	1.2	1.1	1.0	1.0

Figure 44. Amlin earnings forecasts (£m)

	2009	2010	2011	2012E	2013E	2014E
Gross written premiums	1,544	2,173	2,304	2,530	2,615	2,700
Net premium written	1,317	1,910	2,013	2,151	2,223	2,295
Net earned premiums	1,317	1,748	1,927	2,121	2,196	2,261
Net insurance claims	-564	-1,059	-1,499	-1,229	-1,260	-1,296
Acquisition costs	-267	-339	-380	-419	-436	-451
Other u/w expenses	-93	-142	-200	-206	-213	-220
FX (underwriting)	-27	-6	6	0	0	0
Underwriting result	366	202	-146	267	287	294
Investment return	208	175	41	95	99	102
Other income	10	6	9	9	9	9
Other expenses	-84	-90	-65	-73	-77	-80
FX (group)	33	-7	-4	0	0	0
Finance costs	-23	-27	-28	-28	-28	-28
Profit before tax	509	259	-194	270	289	297
Tax	-54	-37	44	-49	-52	-53
Net income	455	222	-150	221	237	243

Source: Company Reports, Citi Investment Research & Analysis

Figure 45. Amlin key metrics

	2009	2010	2011	2012E	2013E	2014E
Attritional loss ratio	51.5%	56.8%	57.6%	54.2%	53.3%	52.9%
Prior year releases	-13.2%	-9.0%	-5.8%	-4.2%	-3.6%	-3.1%
Large losses	4.6%	12.8%	26.0%	8.0%	7.7%	7.5%
Loss ratio	42.8%	60.6%	77.8%	57.9%	57.4%	57.3%
Expense ratio	29.4%	27.9%	29.8%	29.5%	29.6%	29.7%
Combined ratio	72.2%	88.4%	107.6%	87.4%	87.0%	87.0%
Total investments (£m)	4,072	4,326	4,179	4,316	4,430	4,547
Investment return	5.96%	4.17%	0.95%	2.24%	2.25%	2.27%

Source: Company Reports, Citi Investment Research & Analysis

Figure 46. Amlin per share data

	2009	2010	2011	2012E	2013E	2014E
EPS - diluted (p)	92.9	44.4	-30.3	44.7	47.9	49.2
DPS (p)	20.0	23.0	23.0	24.4	25.8	27.4
DPS growth	18%	15%	0%	6%	6%	6%
NAV per share (p)	323	351	287	309	332	355
NAV ps growth	24%	9%	-18%	7%	7%	7%
NTA per share (p)	290	313	243	264	287	310
NTA ps growth	23%	8%	-22%	9%	9%	8%
ROE	37.4%	13.9%	-8.6%	15.6%	15.5%	14.8%
RONTA	41.1%	15.5%	-9.7%	18.4%	18.1%	17.1%

Source: Company Reports, Citi Investment Research & Analysis

Company Focus

- Company Update
- Rating Change
- Target Price Change
- Estimate Change

Buy	1
from Neutral	
Price (25 Jun 12)	£4.17
Target price	£4.78
from £4.28	
Expected share price return	14.7%
Expected dividend yield	7.2%
Expected total return	21.9%
Market Cap	£1,505M
	US\$2,346M

Price Performance (RIC: CGL.L, BB: CGL LN)



Catlin Group Ltd (CGL.L) Upgrading to Buy

- These are the main reasons for upgrading Catlin to Buy. See the first section of this report for more detailed explanation of the change in recommendation.
- 1. Premium growth has been accompanied by a considerable increase in underlying underwriting contribution
- 2. Growing profits from the International operations have increased diversity of earnings and should therefore lower earnings volatility
- 3. Better management of exposures to catastrophe losses, partly due to the successful Catastrophe Aggregate reinsurance program
- 4. Protection of reserves through the Adverse Development Cover should mitigate risk of deterioration in longer tail lines
- 5. Catlin trades on a 20% discount to peers and offers the greatest re-rating potential. We forecast 16% RONTA in 2012, including 7% yield

Catlin Group Ltd (USD)

Year to 31 Dec	2010A	2011A	2012E	2013E	2014E
Profit Before Tax (\$M)	406.0	71.0	438.4	438.1	442.3
Diluted EPS (¢)	92.9	10.6	94.5	94.4	95.5
Diluted EPS (Old) (¢)	92.9	10.6	91.6	93.8	92.5
PE (x)	7.0	61.1	6.9	6.9	6.8
DPS (¢)	42.5	44.9	47.5	50.3	53.4
Net Div Yield (%)	6.5	6.9	7.3	7.7	8.2
Embedded Value Per Share (¢)	1,005.2	955.9	1,009.0	1,059.5	1,108.1
Price / EVPS (x)	0.6	0.7	0.6	0.6	0.6

Figure 47. Catlin earnings forecasts (\$m)

	2009	2010	2011	2012E	2013E	2014E
Gross written premium	3,715	4,069	4,513	4,805	5,030	5,175
Net premium written	3,168	3,318	3,835	3,896	4,086	4,207
Net premiums earned	2,918	3,219	3,612	3,849	4,003	4,156
Losses and loss expenses	-1,682	-1,852	-2,530	-2,200	-2,306	-2,408
Policy acquisition costs	-585	-684	-758	-828	-859	-890
Net underwriting contribution	651	683	324	820	837	858
Admin - non controlable	-61	-67	-68	-73	-76	-79
Admin - controlable	-271	-289	-352	-373	-388	-403
U/W admin expenses	-333	-356	-420	-446	-464	-482
Net underwriting result	318	327	-96	374	373	376
Total investment return	414	205	248	179	185	191
Other income/expenses	-129	-126	-81	-115	-120	-125
Profit before tax	603	406	71	438	438	442
Tax	-50	-25	11	-57	-57	-57
Net income	553	381	82	381	381	385
Preference dividend	-44	-44	-44	-44	-44	-44
Net attributable income	509	337	38	337	337	341

Source: Company Reports, Citi Investment Research & Analysis

Figure 48. Catlin key ratios

	2009	2010	2011	2012E	2013E	2014E
Attritional loss ratio	53.7%	51.6%	50.0%	51.4%	51.5%	51.7%
Catastrophe losses	0.0%	7.2%	21.3%	5.2%	5.0%	4.8%
Large single risk losses	7.1%	3.2%	1.5%	2.6%	2.6%	2.6%
Reserve releases	-3.2%	-4.5%	-2.8%	-2.1%	-1.5%	-1.2%
Reported loss ratio	57.6%	57.5%	70.0%	57.2%	57.6%	57.9%
Expense ratio	31.5%	32.2%	32.6%	33.1%	33.1%	33.0%
Combined ratio	89.1%	89.8%	102.6%	90.3%	90.7%	90.9%
Total investments	7,693	8,021	8,388	8,643	8,906	9,177
Investment return	6.15%	2.70%	3.12%	2.11%	2.11%	2.11%

Source: Company Reports, Citi Investment Research & Analysis

Figure 49. Catlin per share data

	2009	2010	2011	2012E	2013E	2014E
EPS - diluted (cents)	147.3	92.9	10.6	94.5	94.4	95.5
EPS - diluted (p)	94.5	58.0	6.7	59.1	59.0	59.7
DPS (cents)	40.0	42.5	44.9	47.5	50.3	53.4
DPS (p)	25.0	26.5	28.0	29.7	31.5	33.3
NAV per share (cents)	768	833	785	838	888	937
NAV per share (p)	474	541	506	524	555	586
NTA per share (cents)	590	652	608	661	712	761
NTA per share (p)	364	423	393	413	445	475
ROE	23.7%	12.5%	1.3%	12.5%	11.7%	11.1%
RONTA	33.8%	16.3%	1.7%	16.1%	14.8%	13.9%

Source: Company Reports, Citi Investment Research & Analysis

Company Focus

■ Company Update

Neutral	2
Price (25 Jun 12)	£4.19
Target price	£4.13
Expected share price return	-1.4%
Expected dividend yield	4.3%
Expected total return	2.9%
Market Cap	£1,643M
	US\$2,561M

Price Performance (RIC: HSX.L, BB: HSX LN)



Hiscox Ltd (HSX.L)

Remaining cautious due to lower ROE forecasts

- **Strong performer but fairly valued:** in our view, Hiscox has had more success than most of its peers at articulating a consistent strategy. Its balance between specialist and large ticket business is well understood by the market, and we believe other companies are trying to follow suit. The group's performance in 2011 highlighted the benefits of its US focused reinsurance book and profit growth from the UK retail business. However, we believe the business is fairly valued for the following reasons:
 - **High dependence on reserve releases:** Hiscox has benefitted from significant reserve releases including 17% in 2011 (which included some one-offs). Nevertheless, Hiscox has seen one of the largest benefits from releases in the sector. Management indicated that reserving prudence is unchanged and we should therefore expect releases going forward. However, we believe the market assigns a lower value to reserve releases and we expect these to come under pressure across the sector.
 - **Lower investment returns:** we continue to expect that Hiscox will report investment returns towards the lower end of the peer group. Whilst investors generally prefer Lloyd's companies to take only modest investment risk, we note that lower investment returns are a reason for Hiscox's lower ROE forecasts.
 - **Lower ROE forecasts:** we forecast ROE of 13.2% for Hiscox in 2012 which is notably lower than the sector average of 16%. The shares trade on 1.3x 2012E NTA which implies a 11% COE and is considerably lower than peers and in line with our fair value assumptions.
 - **Hiscox is fairly valued:** we believe Hiscox is fairly valued given our lower ROE forecast for the group. We recognize its strong performance in 2011 and relatively lower volatility PMLs compared with peers. Nevertheless, we think these benefits are offset by high dependence on reserve releases and lower investment returns. We therefore reiterate our Neutral recommendation. Our 420p price target implies 3% ETR.

Hiscox Ltd (GBP)

Year to 31 Dec	2010A	2011A	2012E	2013E	2014E
Profit Before Tax (£M)	211.4	17.3	182.1	178.7	185.5
Diluted EPS (p)	45.4	5.3	38.8	38.0	39.5
Diluted EPS (Old) (p)	45.4	5.3	38.8	38.0	39.5
PE (x)	9.2	78.6	10.8	11.0	10.6
DPS (p)	16.5	17.0	17.9	18.7	19.7
Net Div Yield (%)	3.9	4.1	4.3	4.5	4.7
Embedded Value Per Share (p)	337.8	330.0	352.6	380.1	380.1
Price / EVPS (x)	1.2	1.3	1.2	1.1	1.1

Figure 50. Hiscox earnings forecasts (£m)

	2009	2010	2011	2012E	2013E	2014E
Gross written premiums	1,435	1,433	1,449	1,510	1,570	1,630
Net premiums written	1,157	1,132	1,174	1,212	1,260	1,308
Net premiums earned	1,098	1,131	1,145	1,193	1,240	1,287
Net claims incurred	-463	-571	-698	-579	-612	-635
Acquisition costs	-257	-270	-270	-281	-292	-303
Admin expenses	-113	-206	-203	-215	-223	-231
Other expenses	-117	0	0	0	0	0
Underwriting result	149	84	-26	118	113	118
Investment result	183	100	24	54	56	57
FX gains/losses	-26	15	8	0	0	0
Other revenues	19	22	17	17	17	17
Operating profit	326	222	24	189	185	192
Finance costs	-5	-10	-7	-7	-7	-7
Share of associate profit	0	0	0	0	0	0
Profit before tax	321	211	17	182	179	185
Tax	-40	-33	4	-27	-27	-28
Net income	281	179	21	155	152	158

Source: Company Reports, Citi Investment Research & Analysis

Figure 51. Hiscox key ratios

	2009	2010	2011	2012E	2013E	2014E
Attritional loss ratio	50.3%	47.6%	54.8%	49.3%	49.3%	49.3%
Large losses	4.6%	14.6%	23.6%	8.4%	8.1%	7.8%
Reserve releases	-12.7%	-11.7%	-17.4%	-9.2%	-8.1%	-7.8%
Loss ratio	42.2%	50.5%	61.0%	48.5%	49.3%	49.3%
Expense ratio	44.3%	42.1%	41.3%	41.6%	41.6%	41.5%
Combined ratio ex FX	86.4%	92.6%	102.3%	90.1%	90.9%	90.9%
Impact of FX	2.3%	-1.4%	-0.7%	0.0%	0.0%	0.0%
Combined ratio	88.8%	91.2%	101.6%	90.1%	90.9%	90.9%
Total investments (£m)	2,662	2,780	2,873	2,960	3,048	3,140
Investment return	7.05%	3.63%	0.92%	1.85%	1.85%	1.86%

Source: Company Reports, Citi Investment Research & Analysis

Figure 52. Hiscox per share data

	2009	2010	2011	2012E	2013E	2014E
EPS - diluted (p)	72.3	45.4	5.3	38.8	38.0	39.5
Growth	299%	-37%	-88%	628%	-2%	4%
DPS (p)	15.0	16.5	17.0	17.9	18.7	19.7
DPS growth	18%	10%	3%	5%	5%	5%
Payout ratio	21%	36%	319%	46%	49%	50%
NAV per share (p)	299	333	323	353	380	408
NAV ps growth	16%	11%	-3%	9%	8%	7%
NTA per share (p)	286	316	306	335	363	391
NTA ps growth	17%	11%	-3%	10%	8%	8%
ROE	30.1%	16.5%	1.7%	12.5%	11.2%	10.8%
RONTA	31.8%	17.3%	1.8%	13.2%	11.8%	11.3%

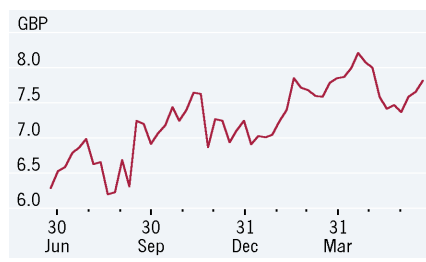
Source: Company Reports, Citi Investment Research & Analysis

Company Focus

■ Company Update

Buy	1
Price (25 Jun 12)	£7.81
Target price	£9.16
Expected share price return	17.4%
Expected dividend yield	1.2%
Expected total return	18.5%
Market Cap	£1,263M
	US\$1,968M

Price Performance (RIC: LRE.L, BB: LRE LN)



Lancashire Holdings (LRE.L) Well positioned for all markets

- **Outstanding trading performance:** since Lancashire listed in 2005 the group has an outstanding trading record (19% compound ROEs) and has returned 135% of the capital raised at its IPO to shareholders. We believe this track record and the group's differentiated business model deserve a premium to the rest of the sector.
- **Differentiated business model:** Lancashire operates a more streamlined business than most of its competitors. It has ~100 staff and very few regional offices. Since it tends to write higher value/lower volume policies, all of its underwriting decisions are reviewed by senior management on a daily call. This helps to improve risk management and keeps the business focused on ROEs rather than growth.
- **Demonstrating underwriting discipline:** in our view, Lancashire has repeatedly demonstrated its ability to take advantage of market opportunities. The Accordion side car, which takes advantage of strong pricing in the retro market, is a compelling example of this. Similarly, we believe the businesses decision to withdraw from property D&F and onshore energy illustrates its willingness to withdraw capacity where returns are inadequate. We believe Lancashire's willingness to act on its ROE focused strategy is a differentiator.
- **Pure play on underwriting returns:** since inception Lancashire has generated average 72% of its operating profits from underwriting returns (rather than investment returns). This makes it one of the purest plays on underwriting returns and improving commercial re/insurance pricing. It also insulates earnings from the pressures of lower investment returns.
- **Retain Buy recommendation.** We believe Lancashire will continue to deliver strong operating performance. We forecast 16% RONTA in 2012 which could be conservative given the low level of catastrophe losses. Our 916p price target implies 18.5% ETR.

Lancashire Holdings (USD)

Year to 31 Dec	2010A	2011A	2012E	2013E	2014E
Profit Before Tax (\$M)	339.2	218.6	250.5	252.1	247.9
Diluted EPS (¢)	186.4	119.6	137.6	138.5	136.2
Diluted EPS (Old) (¢)	186.4	119.6	137.6	138.5	136.2
PE (x)	6.5	10.2	8.8	8.8	8.9
DPS (¢)	155.0	95.0	15.0	15.0	15.0
Net Div Yield (%)	12.7	7.8	1.2	1.2	1.2
Embedded Value Per Share (¢)	663.9	678.7	788.6	899.3	1,008.0
Price / EVPS (x)	1.8	1.8	1.5	1.4	1.2

Figure 53. Lancashire earnings forecasts (\$m)

	2009	2010	2011	2012E	2013E	2014E
Gross written premiums	628	689	632	685	685	685
Net premium written	577	650	565	594	594	594
Net earned premiums	595	614	575	607	607	594
Net insurance claims	-99	-166	-182	-185	-185	-181
Net acquisition costs	-106	-106	-112	-113	-113	-112
Other underwriting expenses	-61	-62	-71	-70	-70	-68
Underwriting result	330	280	209	239	239	233
Investment return	80	87	52	45	46	48
Share of associate	0	0	0	0	0	0
FX	3	0	-9	0	0	0
Equity based compensation	-16	-21	-19	-19	-19	-19
Other income and expenses	-13	-21	-28	-19	-19	-19
Operating profit	397	346	233	265	266	262
Finance costs	-8	-7	-14	-14	-14	-14
Profit before tax	389	339	219	250	252	248
Tax	-3	-8	-6	-6	-6	-6
Net income	385	331	212	244	246	242

Source: Company Reports, Citi Investment Research & Analysis

Figure 54. Lancashire key metrics

	2009	2010	2011	2012E	2013E	2014E
Attritional loss ratio	20.5%	24.6%	30.3%	25.6%	23.9%	22.1%
Catastrophe losses	6.7%	18.7%	28.5%	18.1%	18.1%	18.5%
Prior year releases	-10.7%	-16.3%	-27.0%	-13.2%	-11.5%	-10.1%
Loss ratio	16.6%	27.0%	31.7%	30.5%	30.5%	30.5%
Admin expense ratio	10.2%	10.1%	12.4%	11.5%	11.5%	11.5%
Acq expense ratio	17.8%	17.3%	19.6%	18.7%	18.7%	18.8%
Combined ratio	44.6%	54.3%	63.7%	60.7%	60.7%	60.8%
Total investments (\$m)	2,038	2,201	1,998	2,069	2,141	2,217
Investment return	4.11%	3.99%	1.98%	2.20%	2.20%	2.20%

Source: Company Reports, Citi Investment Research & Analysis

Figure 55. Lancashire per share data

	2009	2010	2011	2012E	2013E	2014E
EPS (c) - diluted	205	186	120	138	138	136
EPS (p) - diluted	131	121	75	86	87	85
DPS (c)	140	155	95	15	15	15
DPS (p)	87	99	61	9	9	9
Payout	66%	82%	82%	11%	11%	11%
Fully converted BVPS (c)	741	757	762	872	983	1091
Fully converted BVPS (p)	459	483	493	545	614	682
Growth in FCBPS	8%	2%	1%	14%	13%	11%
ROE (reported)	26.9%	22.6%	12.9%	16.4%	14.4%	12.6%

Source: Company Reports, Citi Investment Research & Analysis

Company Focus

■ Company Update

Neutral	2
Price (25 Jun 12)	£1.05
Target price	£1.13
Expected share price return	7.4%
Expected dividend yield	8.8%
Expected total return	16.3%
Market Cap	£3,736M
	US\$5,825M

Price Performance (RIC: RSA.L, BB: RSA LN)



RSA Insurance Group (RSA.L) Cautious on investment returns and reserve releases

- **Maintaining a cautious stance:** RSA offers several attractions in the current market. It is a defensive non life insurer which is achieving growth at stable underwriting margins and has a relatively conservative balance sheet. However, we remain cautious on the group's dependence on investment returns (75% operating profits) and high contribution from reserve releases to the underwriting result.
- **U/W returns need to increase to offset declining investment returns:** RSA has achieved rate increases in many of its key markets for a number of years. However, its underlying loss ratio (adjusted for large losses/releases) has remained relatively static, which suggests that claims inflation is offsetting RSA's discipline on pricing. Management has taken action to mitigate the downward pressure on investment returns by lengthening duration and increasing corporate bonds. However, if interest rates stay low for a prolonged period of time, there is downside risk to forecasts, in our view.
- **We don't think there is a reserving issue:** however, RSA does derive a large portion of its underwriting result from reserve releases. The company's message has been consistent that it is several £100m's to the right side of actuarial best estimate and therefore releases should continue to be an important contributor. However, reserving remains an area of uncertainty for investors in the investment, in our view.
- **More modest dividend growth:** Chief Executive, Simon Lee, has taken a more cautious view of RSA's dividend growth, which is sensible in our view. However, it does point to potential pressures on earnings and capital generation in the future. Furthermore, RSA has one of the highest payout ratios (~70%) in the sector.
- **Remain Neutral on RSA:** we remain cautious on RSA for the reasons mentioned above. It would take greater momentum in its underwriting results to turn us more positive. The shares trade on 1.3x 2012E NTA and offer 19% RONTA which we believe represents fair value. Our 113p price target implies 16% ETR. We set out our view on RSA in more detail here: [RSA Insurance Group \(RSA.L\) - Earnings pressures offset by attractive yield](#)

RSA Insurance Group (GBP)

Year to 31 Dec	2010A	2011A	2012E	2013E	2014E
Profit Before Tax (£M)	474.0	613.0	627.4	665.8	719.2
Diluted EPS (p)	9.7	11.7	12.9	13.6	14.6
Diluted EPS (Old) (p)	9.7	11.7	12.9	13.6	14.6
PE (x)	10.8	9.0	8.1	7.7	7.2
DPS (p)	8.8	9.2	9.3	9.5	9.7
Net Div Yield (%)	8.4	8.7	8.9	9.1	9.3
Embedded Value Per Share (p)	67.8	63.5	74.8	80.4	81.3
Price / EVPS (x)	1.5	1.7	1.4	1.3	1.3

Figure 56. RSA earnings forecasts (£m)

	2009	2010	2011	2012E	2013E	2014E
Net written premiums	6,737	7,455	8,138	8,703	9,235	9,717
Underwriting result	386	238	375	504	536	566
Combined ratio	94.6%	96.4%	94.9%	94.2%	94.2%	94.2%
Regular investment income	595	569	579	503	494	501
Realised gains	69	68	201	29	30	31
Unrealised gains	-41	-5	-44	0	0	0
Unwind of discount	-100	-94	-94	-94	-94	-94
Total investment income	523	538	642	438	430	438
General Insurance result	909	776	1,017	942	966	1,004
Investment expenses	-30	-33	-34	-34	-34	-34
Central expenses	-60	-63	-63	-63	-63	-63
Other operating activities	-42	-44	-36	-36	-36	-36
Group operating result	777	636	884	809	833	871
Interest on debt	-116	-118	-117	-117	-117	-117
Gain or loss on disposals	-7	-10	-10	0	0	0
Reorganisation charge	-75	-5	-30	-30	-15	0
Amortisation of goodwill	-25	-29	-114	-35	-35	-35
PBT (continuing)	554	474	613	627	666	719
Tax	-135	-119	-186	-157	-166	-180
PAT (group)	419	355	427	471	499	539
Minorities	-1	-9	0	0	0	0
Preference dividend	-9	-9	-9	-9	-9	-9
Profit attributable to shareholders	409	337	418	462	490	530

Source: Company Reports, Citi Investment Research & Analysis

Figure 57. RSA per share metrics

	2009	2010	2011	2012E	2013E	2014E
EPS (basic)	12.2	9.8	11.8	13.0	13.7	14.7
EPS (diluted)	12.1	9.7	11.7	12.9	13.6	14.6
Change	-29%	-20%	21%	10%	5%	7%
Total DPS p	8.3	8.8	9.2	9.3	9.5	9.7
Change	7.1%	6.8%	3.9%	2.0%	2.0%	2.0%
Payout ratio	68%	91%	78%	72%	70%	67%
NAV per share	99	104	104	108	112	117
NAV per share (ex IAS 19)	106	108	108	112	116	121
NTA per share	78	74	70	75	80	87
Growth NAV	5%	2%	-0.2%	3.5%	3.8%	4.3%
Growth NTA	-1%	-5%	-6%	7%	7%	8%
ROE	11.6%	9.6%	11.4%	12.3%	12.4%	12.8%
RONTA	15.2%	14.0%	17.6%	19.1%	18.6%	18.4%

Source: Company Reports, Citi Investment Research & Analysis

Figure 58. Companies mentioned

Company	RIC	Rating	TP Currency	Target Price	SP Currency	Share Price
Admiral Grp	ADML.L	2	GBP	11.10	GBP	11.50
Aegon	AEGN.AS	2 H	EUR	4.33	EUR	3.45
Ageas	AGES.BR	2 H	EUR	1.62	EUR	1.35
Allianz	ALVG.DE	1	EUR	101.00	EUR	74.74
Amlin	AML.L	1	GBP	3.83	GBP	3.42
Aviva	AV.L	2 H	GBP	3.46	GBP	2.67
AXA	AXAF.PA	2 H	EUR	13.00	EUR	9.73
Catlin Grp	CGL.L	2	GBP	4.28	GBP	4.17
Delta Lloyd	DLL.AS	2	EUR	13.70	EUR	10.50
Generali	GASI.MI	3	EUR	10.61	EUR	9.91
Hannover Re	HNRGn.DE	2	EUR	42.70	EUR	44.43
Hiscox	HSX.L	2	GBP	4.13	GBP	4.19
ING	ING.AS	1 H	EUR	7.50	EUR	4.86
Permanent TSB	IPM.I	2	EUR		EUR	0.03
Legal & General	LGEN.L	2	GBP	1.26	GBP	1.21
Lancashire	LRE.L	1	GBP	9.16	GBP	7.77
Mapfre	MAP.MC	3	EUR	2.30	EUR	1.62
Munich Re	MUVGn.DE	2	EUR	117.50	EUR	104.60
Prudential	PRU.L	1	GBP	8.50	GBP	7.22
RSA Ins	RSA.L	2	GBP	1.13	GBP	1.05
Resolution	RSL.L	2 H	GBP	3.02	GBP	1.98
Sampo	SAMAS.HE	2	EUR	19.00	EUR	20.19
SCOR	SCOR.PA	1	EUR	23.50	EUR	18.46
Standard Life	SL.L	2	GBP	2.22	GBP	2.25
SNS REAAL	SR.AS	2	EUR		EUR	1.05
Swiss Re	SRENH.VX	1	CHF	65.50	CHF	56.35
Vienna Insurance	VIGR.VI		EUR		EUR	29.81
Zurich Ins Grp	ZURN.VX	1	CHF	249.00	CHF	204.90

Source: Citi Investment Research and Analysis. June 25, 2012

Admiral Group

Company description

Admiral was set up in 1993 as a direct writer of UK personal motor insurance. It has four brands (Admiral, Diamond, Bell and Elephant) and is now the third largest in the market with a leading position for business introduced on the internet. It underwrites only 27.5% of the UK policies accepted (35% overseas), ceding the rest to third parties. The group has developed the market leading internet aggregator in the motor insurance space (Confused.com). The group has started direct writing operations in Spain, Germany and Italy and recently entered the US market in Virginia.

Investment strategy

Admiral continues to shine in the general gloom that is the insurance sector, demonstrating unmatched growth, operational quality and entrepreneurial abilities. In this respect, we believe the depth of 'pain' in the UK motor sector provides a significant opportunity for the company to continue to take market share at good margins in the next few years. That said, we think there is a lot of good news baked into the current share price, and we would be cautious in assuming that the success in UK motor will readily translate into the ability to achieve similar returns in other lines/regions. As such, our rating is Neutral.

Valuation

Our Value Perspectives SOTP model points to a fair value of 1153p based on an assumed long-term UK motor combined ratio of 96.0% and factoring in expansion up to a c. 14% market share, followed by growth in line with the market. Our cost of equity remains at 10.6% to reflect the expected higher volatility of Admiral's underwriting business. Our IFRS ROE model suggests a valuation of 1066p which is based on discounting back to today the UK motor business on 11x 2013E earnings. In both approaches, we continue to view overseas development as principally option value; based on the outputs of our models we set our target price at 1110p.

Risks

The key risks to Admiral reaching our target price are: 1) a renewed outbreak of price competition in the UK motor insurance market; 2) regulatory interference with the flow of ancillary income brought in at minimal extra cost; 3) inability to grow policy count in line with our forecast; and 4) further deterioration in personal injury claims inflation. If any of these factors proves to have a lesser effect than we anticipate, the stock could materially outperform our target.

Amlin Plc

Company description

Amlin is a commercial lines P&C insurer and its operating platforms are Lloyd's of London, Continental Europe and Bermuda. In 2009 it acquired the former Fortis P&C business in the Benelux. In 2010 it launched Amlin AG, which contains the existing business of Amlin Bermuda and a new operation called Amlin Re Europe.

Investment strategy

While exposed to high-severity events through its underwriting business, Amlin has delivered earnings growth with lower volatility than many peers with proportionately less exposure to catastrophe claims. This has been done through use of reinsurance protection and a broadly diversified portfolio. There is a strong focus on return on equity and incentivisation of underwriters by the bottom line rather than the top line. The recent acquisition of the former Fortis Corporate Insurance in Benelux raises the group's non-cat platform and should enable Amlin to scale up its core catastrophe writings in future years. This acquisition, together with the establishment of a European reinsurance platform in Zurich, should form the basis of a continuing growth story. We rate the shares Buy.

Valuation

In common with our general sector approach, we use our Value Perspective methodology to calculate a SOTP valuation for Amlin. Our approach assigns a target price/NTA multiple to each business based on consideration of return on capital vs. cost of capital, adjusted for 10-year forecast growth. We value the London business at 1.8x NTA, reflecting its sector-leading performance for the last decade. The UK business is valued at 1.4x NTA in light of the improving operating environment in UK commercial. The Bermudan business is valued on 1.5x, given its strong track record. ACI is valued at a notable discount to NTA to reflect the operating concerns around this business. In order to recognize the potential volatility in earnings, we apply a beta of 1.2 and derive a cost of capital of 10.1% for the group. Our SOTP model points to a fair value of 383p, which is where we set our target price. At this level the shares would trade on 1.29x 2012E NTA.

Risks

The main positive risks to our target price are: i) our forecasts include an assumption for normalised catastrophe losses such that, should incurred losses be materially below our assumptions, this would lead to higher u/w profits; ii) a material increase in global pricing would lead to improved u/w profits and would likely be accompanied by a re-rating in valuation multiples; and iii) increased US/UK interest rates would lead to higher investment returns.

The main negative risks to our target price are: i) the group has significant exposure to business for which profitability is impacted by natural catastrophes (eg earthquakes) and this can lead to considerable volatility in earnings; ii) the group derives a large proportion of its revenues and holds a significant part of its NAV in non-sterling currencies (predominantly the USD) - consequently, earnings and NAV are exposed to weakness in these currencies; and iii) the group holds significant fixed income assets and, should corporate or sovereign defaults increase materially, this would have an adverse impact on returns.

Catlin Group Ltd

Company description

Catlin is a property & casualty underwriter based in Bermuda which is expanding beyond its roots at Lloyd's of London, (where, through its 100% ownership of Syndicate 2003, it is the largest underwriting platform) to become a genuinely international wholesale company. The company is represented in the US, Europe and a fast-expanding network of offices in Asia.

Investment strategy

We rate Catlin Buy. Following the acquisition of Wellington in December 2006 Catlin is now a sizeable international P&C underwriter. The US, Bermudian and international hubs are producing organic growth and Catlin now has a large and well diversified underwriting portfolio. Catlin has significantly increased its underlying underwriting profitability and the greater profitability from its international operations should lower overall earnings volatility. We also believe that Catlin's Adverse Development Cover on 2009 and prior year reserves helps relieve some of the concern over its lower reserve releases. We view the current valuation as undemanding and believe that another year of solid trading performance could lead the shares to re-rate in line with sector multiples.

Valuation

In common with our general sector approach, we use our Value Perspective methodology to calculate a SOTP valuation for Catlin. Our approach assigns a target price/NTA multiple to each business based on consideration of return on capital vs. cost of capital, adjusted for 10-year forecast growth. We value the London business at 1.5x NTA reflecting its longstanding franchise. The Bermudian business is valued at 1.0x NTA given the faster growth but potentially higher volatility of this business. We value the US business on 1.0x NTA to reflect its improved profitability. The International businesses are valued at a discount to NTA to reflect concerns over the profitability of the business written, especially post central cost allocation. In order to recognize the potential earnings volatility, we apply a beta of 1.2 and derive a cost of capital of 10.2% for the group. Our SOTP model points to a fair value of 478p, which is where we set our target price. At this level the shares would trade on 1.3x 2012E NTA.

Risks

The main positive risks to our target price are: i) our forecasts include an assumption for normalised catastrophe losses such that, should incurred losses be materially below our assumptions, this would lead to higher u/w profits; ii) a material increase in global pricing would lead to improved u/w profits and would likely be accompanied by a re-rating in valuation multiples; and iii) increased US/UK interest rates would lead to higher investment returns.

The main negative risks to our target price are: i) the group has significant exposure to business for which profitability is impacted by natural catastrophes (eg earthquakes) and this can lead to considerable volatility in earnings; ii) the group derives a large proportion of its revenues and holds a significant part of its NAV in non-sterling currencies (predominantly the USD) - consequently, earnings and NAV are exposed to weakness in these currencies; and iii) the group holds significant fixed income assets and, should corporate or sovereign defaults increase materially, this would have an adverse impact on returns.

Hiscox Ltd

Company description

Hiscox Ltd is the Bermudian domiciled holding company of an international specialty property & casualty underwriting group. The company has regulated subsidiaries in Bermuda, UK, US and controls 73% of the capacity on Syndicate 33 at Lloyd's of London. Hiscox has expanded from one of the initial providers of corporate capital to Lloyd's, writing specialty lines such as fine arts and kidnap & ransom. It also has a sizeable portfolio of wholesale global markets insurance and reinsurance risks.

Investment strategy

Hiscox consists of two distinct types of business: a portfolio of wholesale insurance and reinsurance risks where the company participates in business brought by brokers and usually led by other underwriters, and a set of niche specialty business lines where Hiscox has uniquely strong expertise. While the company is gaining ground in specialty lines business, we fear that less prior year reserve releases and lower investment returns could pressure medium-term earnings. The shares are trading at a higher NTA multiple than most of its London market peers, which we believe restricts relative upside. Nevertheless, the valuation looks supportive in absolute terms and we rate the shares Neutral.

Valuation

In common with our general sector approach, we use our Value Perspective methodology to calculate a SOTP valuation for Hiscox. Our approach assigns a target price/NTA multiple to each business based on consideration of return on capital vs. cost of capital, adjusted for 10-year forecast growth. We value the London Markets business at 1.5x NTA reflecting its longstanding franchise and strong performance record. The UK/European businesses are valued at 1.3x NTA given the lower margins but also lower volatility of this business. The International business (which includes Bermuda and Guernsey) is valued at 1.2x NTA to reflect the higher potential volatility of this business. In order to recognise the potential volatility in earnings, we apply a beta of 1.2 and derive a cost of capital of 10.2% for the group. Our SOTP model points to a fair value of 413p, which is where we set our target price. At this level the shares would trade on 1.3x 2012E NTA.

Risks

Potential negative risks reflect the inherent volatility in areas of the property and casualty market to which the company is exposed. Furthermore, for much of its business Hiscox is a participant on programmes priced and underwritten by other insurers. As such it has limited pricing power on its wholesale book. Earnings are also exposed to natural catastrophe events such as earthquakes and windstorm, the occurrence of which could materially impact the group's earnings and capital base. Two-thirds of revenues are denominated in US and Canadian dollars, while much of the group's expense base is in UK pounds. Finally, the company holds substantial investments, predominantly in fixed interest instruments, which, while of high quality and short duration, provide risk to the asset side of the balance sheet. If the impact of these risk factors is more or less negative than we currently anticipate, then the share price could fail to reach or exceed our target price.

Lancashire Holdings

Company description

Lancashire is a Bermuda-based specialty re/insurance company that focuses on short tail risks. It was established in late 2005 to take advantage of market opportunities following hurricane Katrina. It employs around 100 staff and has underwriting operations in London and Bermuda, as well as a marketing office in Dubai. It focuses on primary insurance (79% of premiums) and has considerable exposure to business that is affected by natural catastrophes (32% of premiums).

Investment strategy

We rate Lancashire Buy. Lancashire has delivered outstanding underwriting margins, despite having a relatively higher exposure to catastrophe business than peers. In our view, the business is well positioned to outperform peers regardless of whether the market is soft or hard. Lancashire also has the best capital management track record in the sector, having returned 117% of its IPO capital to shareholders already. While it trades at a premium to the sector on 2012E price/NTA, we believe its simple operating model deserves a scarcity premium.

Valuation

In common with our general sector approach, we use our Value Perspective methodology to calculate a SOTP valuation for Lancashire. Our approach assigns a target price/NTA multiple to each business based on consideration of return on capital vs. cost of capital, adjusted for 10-year forecast growth. We value the Property business at 1.9x NTA and the Energy business at 1.5x NTA, reflecting its slightly higher loss experience. The smaller Aviation portfolio is valued at 2.2x NTA, given its impressive combined ratio track record (average 21% COR 2006-10) and the Marine book is valued at 1x since it is lower-margin. In order to recognise the potentially higher than sector average volatility in earnings, we apply a beta of 1.3 and derive a cost of capital of 10.8% for the group. Our SOTP model points to a fair value of £9.16 which is where we set our target price. At this level the shares would trade on 1.7x 2012E NTA.

Risks

The main positive risks to our target price are: i) our forecasts include an assumption for normalised catastrophe losses such that, should incurred losses be materially below our assumptions, this would lead to higher u/w profits; ii) a material increase in global pricing would lead to improved u/w profits and would likely be accompanied by a re-rating in valuation multiples; and iii) increased US/UK interest rates would lead to higher investment returns.

The main negative risks to our target price are: i) the group has significant exposure to business for which profitability is impacted by natural catastrophes (eg earthquakes) and this can lead to considerable volatility in earnings; ii) the group holds significant fixed income assets and, should corporate or sovereign defaults increase materially, this would have an adverse impact on returns.

RSA Insurance Group

Company description

RSA is one of the leading UK non-life insurers with particular strength in commercial lines. The group also has sound market positions in Scandinavia (mainly Denmark and Sweden) through its ownership of Codan, as well as in Canada, Chile and Ireland.

Investment strategy

RSA's recent performance has suffered from the resignation of its CEO and CFO.

We believe RSA offers the following attractive attributes: i) stable underwriting margins, ii) good growth in premiums, particularly in international/emerging market businesses, and iii) attractive dividend yield.

We are concerned by i) lack of momentum in underlying underwriting profits despite price increases, ii) dependence of the business on reserve releases, and iii) pressures on earnings from lower investment returns given low interest rates.

On balance we therefore retain our Neutral recommendation on the stock.

Valuation

We value RSA on a SOTP basis and sense check this with a discounted earnings approach. We value RSA's UK business based on 1.1x NTA to reflect its relatively low return on capital at 9.8%. We value the international operations on 1.7x NTA based on the high profitability of the Scandinavian operations and high growth and profitability in Canada. We value the Emerging markets business on 20x earnings. We apply a cost of capital of 9.6% reflecting the defensive characteristics of RSA's business. Our SOTP suggests a valuation of £1.14. We sense check this with a DCF model which suggests a £1.12 value. Consequently, we set our price target at £1.13.

Risks

The main downside risks relate to weather and catastrophe losses, non-life reserving, and whether or not core operations can continue to generate the sound returns achieved in recent years without a 'turn' in the pricing cycle. If the impact of these risk factors is more negative than we anticipate, then the share price is unlikely to reach our target price.

Appendix A-1

Analyst Certification

The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

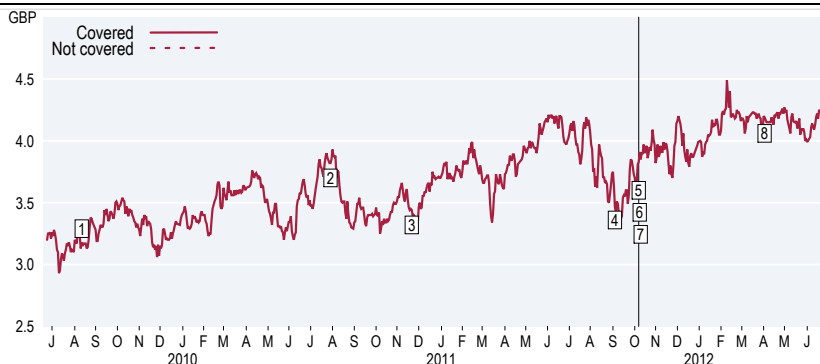
IMPORTANT DISCLOSURES

Catlin Group Ltd (CGL.L)

Ratings and Target Price History Fundamental Research

Analyst: Thomas Dörner

Covered since November 16 2011



	Date	Rating	Target Price	Closing Price
1	12-Aug-09	1H	*3.80	3.18
2	29-Jul-10	1H	*4.40	3.82
3	22-Nov-10	1H	*4.00	3.44

* Indicates change

	Date	Rating	Target Price	Closing Price
4	5-Sep-11	1H	*4.25	3.46
5	7-Oct-11	Stock rating system changed		
6	8-Oct-11	*1	4.25	3.83

	Date	Rating	Target Price	Closing Price
7	11-Oct-11	*2	*4.00	3.85
8	3-Apr-12	2	*4.28	4.19

Rating/target price changes above reflect Eastern Standard Time

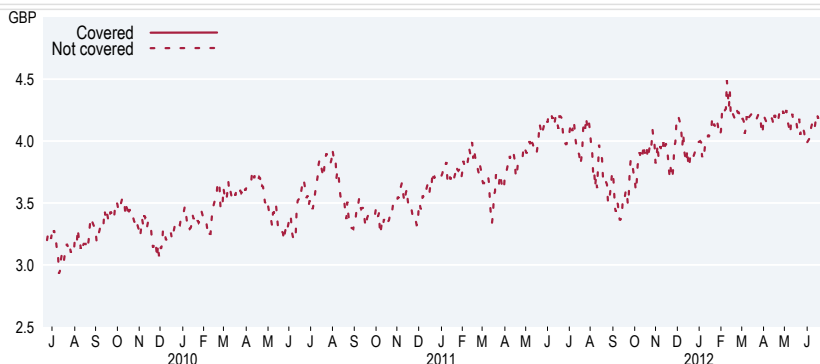
Catlin Group Ltd (CGL.L)

Ratings and Target Price History Best Ideas Research

Relative Call (3 Month)

Analyst: Thomas Dörner

Covered since November 16 2011



* Indicates change

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Data current as of 31 Mar 2012

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