Chesnara PLC

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Chesnara just keeps rollin' along

The management at life and pensions company Chesnara Plc (LON:CSN) is well aware that for shareholders, it is all about the dividend.

The first half of 2018 saw the income investors' favourite generate more than sufficient cash to fund its dividend strategy, with the divi rising to 7.21p from 7.00p the year before.

The group generated cash of £48.6mln in the period but observed that this was boosted by a £26.8mln release of surplus capital previously constrained in the UK with-profit funds.

In the same period of 2017, the group saw cash outflow of £2.7mln but this period was also subject to a one-off distorting effect, namely the £55.3mln hit from the completion of L&G Nederland (now renamed Scildon).

House broker Shore Capital explained, "The excess capital in the with-profits funds builds up over time and can be released by the company once approved by the regulator. This can be done annually if the company wishes and indeed we note that there is still another £6.6mln of surplus remaining unreleased as at the end of the period".

According to Chesnara's chief executive, John Deane, the group has sufficient cash to provide "acquisition firepower and dividend firepower".

Acquisitions keep the cash generation machine fuelled
Formed in 2004 when it acquired the closed life and pensions book from estate agency group Countrywide, Chesnara is known primarily as a closed book consolidator, buying life and pension assets from other companies and running them to the end of their life.

Acquisitions "seem to turn up every two years or so at present," according to Deane, and its most recent purchase was Legal and General's Dutch insurance unit, now renamed Scildon.

Like the group's Swedish unit, Movestic, this unit writes new business, thereby diversifying the group a little from its so-called "zombie fund" speciality.

The company said it has made good progress with the Scildon development programme, where there has been a 29% increase in the sales of term contracts compared to the first half of 2017.

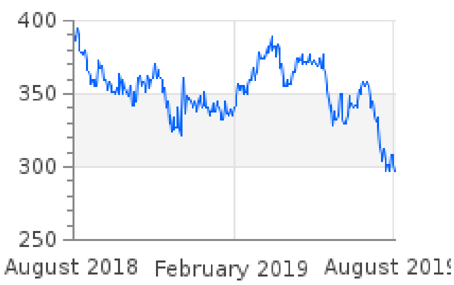
Acquired in April 2017, Scildon is undergoing a two-year transformation programme. The early signs are that the business has been rejuvenated even if it is not clocking up the levels of new business management would like.

"There is stuff we can do to improve that," Deane assured Proactive, suggesting that greater use of information technology and a general improvement in processes should lead to efficiency gains.

Price: 297.5p

Market Cap: £45217900000M

1 Year Share Price Graph



Share Information

Code:		CSN
Listing:		LSE
52 week	**High**	**Low**
	395.00p	**290.00p**
Sector:		**Insurance [T3]**
Website:		**www.chesnara.co.uk**

Company Synopsis:
WHO WE ARE

We are a responsible and profitable company engaged in the management of Life and Pension policies in the UK, Sweden and the Netherlands. Chesnara plc was formed in 2004 and is listed on the London Stock Exchange. The Group initially consisted of Countrywide Assured, a closed Life and Pensions book demerged from Countrywide plc, a large estate agency group.

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As for Movestic, performance of this unit in 2018 has been hampered by the weakness of the Swedish krona.

Deane was sanguine about this, saying, "We don't try to hedge against that because that would involve the use of shareholders' funds".

Back to that dividend

Chairman Peter Mason said he remains "optimistic that Chesnara can continue to deliver against its strategic objectives, which in turn fund our well-established dividend strategy".

"In particular, the UK business remains a robust source of cash, with additional potential to take management actions to enhance the core cash if required," he said.

He added that Movestic has the scale to continue contributing to the cash position while Scildon has "significant" surplus capital and is also expected to be cash generative on an ongoing basis.

All of which should be music to the shareholders' ears.

The shares currently yield 5.3%, with the rolling 12-month dividend clocking in at 20.28p. Brokers forecast the yield will rise to 5.5% next year, 5.6% the year after and 5.8% the year after that.