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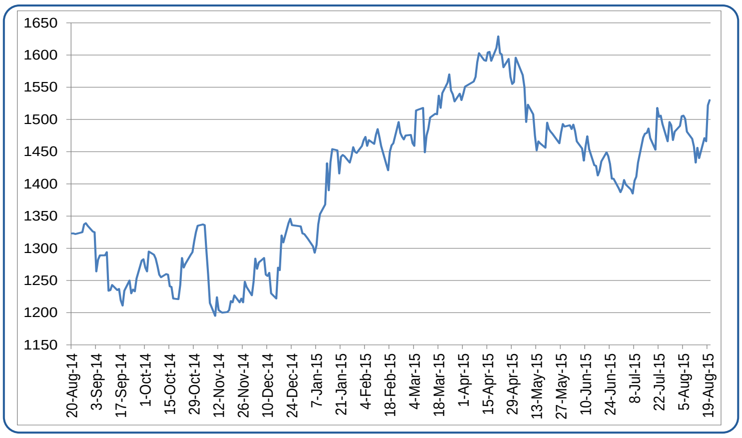
Admiral plc 1H15 results: Key results takeaways

Following on from Admiral's 1H15 results, which we highlighted in the *Global Ideas* dated 19 August 2015, we share our key takeaways from the results below. We believe the company released a good set of numbers relative to expectations with EPS up 4% YoY vs pre-result full-year consensus analysts' expectations of a 10% YoY decline . In the main these results seems to have been driven by **strong reserve releases** due to very robust improvements in the UK motor claims experience vs expectations. To our mind, this doesn't signify a poor quality result but rather conservative accounting for losses at all times – Admiral always seems to have reserve releases featuring strongly in its results. Total 1H15 claims reserve releases of GBP92.6mn grew by just short of GBP20mn vs 1H14 - were it not for this, profit would have declined. Management made the point that it still maintains a significant margin vs "best actuarial assumption", meaning significant further reserve releases are likely if claims evolve as expected. Encouragingly, the Group has been putting through a number of price increases during the year – the **premium cycle appears to be turning upward in the UK motor insurance industry**, which we believe will be good for the company.

However, we do note that a **low point for us in these results was the loss incurred in the Group's price comparison businesses** of GBP4mn (1H14: GBP5.9mn profit), although we point out that much of this was well flagged by Admiral in the form of the investment in the Group's US price comparison business. Nevertheless, what is disappointing is the decline in the UK price comparison profits (confused.com) where revenue dropped 12% YoY and profit halved – here the Group cited limited overall market growth and investment in a marketing campaign.

An uncertainty, in our view, remains the pace at which the company's US car insurance business will turn profitable (Italy turned a profit in the current half year). The US incurred a loss of GBP8mn vs GBP6mn in the prior year, despite insured vehicles growing 28% YoY by June. Clearly they are investing in marketing ahead of the curve! However, overall the international insurance businesses' losses narrowed to GBP11.2mn vs GBP15.5mn in the prior year period, largely due to Italy's turnaround.
Overall, we view these results as encouraging and a big surprise for the market. We think that we will see continued upgrades on the back of these results, and earnings could well come in at >GBP1.00/share (consensus expectation is: GBP0.944/share). As usual, the Group is generous with dividends and 1H saw a dividends of GBp51/share declared vs EPS of GBp54.8. So, **investors continue to receive a c. 7% dividend yield while they wait**. We continue to rate this business highly and we see no reason to tinker with our holdings.

Admiral share price , August 2014 to date, GBp:



Source: IRESS, Anchor Capital

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We scan the globe looking for good opportunities. We provide our model portfolios, as well as news and views on our watchlist, which is continually reviewed and updated.

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