

Sabre Insurance: Car prices are coming down

Company:	Sabre Insurance (SBRE LN)	Market Cap:	£315mm
Industry:	Motor insurance	Solvency ratio:	195%
Country:	UK	Revenue:	£250mm
Date:	13 th February 2025	Net Income:	£30mm (12%)*
Dividend:	6%	Free cash flow:	£30mm (12%)*
Entry:	£330mm	Target:	£400mm (21%)

*estimated 2024 figures

Why Sabre Insurance?

- Car dealerships are reporting declining new and used car prices¹
- Car dealerships' margins in aftersales remain stable²
- Consumer switch insurance provider less often than in the prior year via price comparison websites (PCWs)³
- Sabre is slightly more exposed to EVs than the average insurer according to their management team. EV prices have been falling more significantly⁴
- If guidance is hit, final dividend could yield 7.6%

Risks

- Valuation at 10-11 P/E under £30-32mio net profit assumptions is not a screaming buy in comparison to where everything else trades and given uncertainty in this sector
- Retaliatory tariffs could increase vehicle prices in the UK, although this seems unlikely at this point
- ZEV Mandate is named as the reason for lower vehicle prices. There is a bit of uncertainty about how this evolves and whether it could also lead to higher prices
- NIC hike is increasing labour costs, which ultimately increases repair costs. Dealerships are able to address this by cost cutting, but this is less clear for repair costs for insurance companies

¹ <https://www.motortrader.com/motor-trader-news/automotive-news/tough-used-car-market-sees-stoneacre-profits-fall-23-24-4m-22-01-2025>

² <https://investors.vertumotors.com/pdf/news/14011eohlaito/06022025-trading-update.pdf>

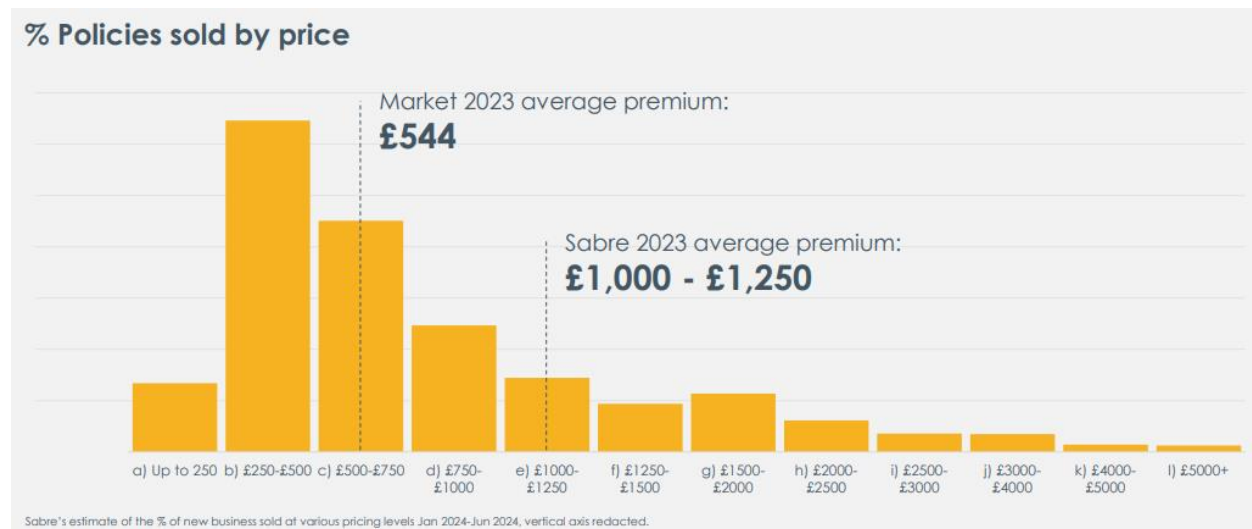
³ https://otp.investis.com/clients/uk/future_plc/rns/regulatory-story.aspx?cid=967&newsid=1906820

⁴ <https://plc.autotrader.co.uk/news-views/retail-price-index/>

About Sabre Insurance

Sabre Insurance is a specialist motor insurance company based and fully focused on the UK with a market share of less than 1%. The firm is targeting the more premium end of the market with 2023 average premium of £1,000 - £1,250 compared to a market average premium of £544. Sabre operates two main brands: Insure2drive and GoGirl. Insure2drive is targeting car and van insurance, while GoGirl is targeting car insurance for women only, as the name suggests. Motor vehicle insurance (cars and vans) products are sold through brokers and D2C primarily via PWCs. The company also sells motorcycle insurance products through a single broker partnership and taxi insurance products through a range of brokers and an expert partner. Motorcycle and taxi insurance made up less than 10% of total insurance sold in 2023. Sabre is focused on profit-maximization rather than volume and targets £80m pre-tax profits by 2030, double the current estimates for 2024. This is being achieved by expanding the current premium segment as well as entering the lower priced insurance market, all while maintaining a 140-160% solvency coverage target with 70% of post-tax profits being allocated to shareholders via dividends.

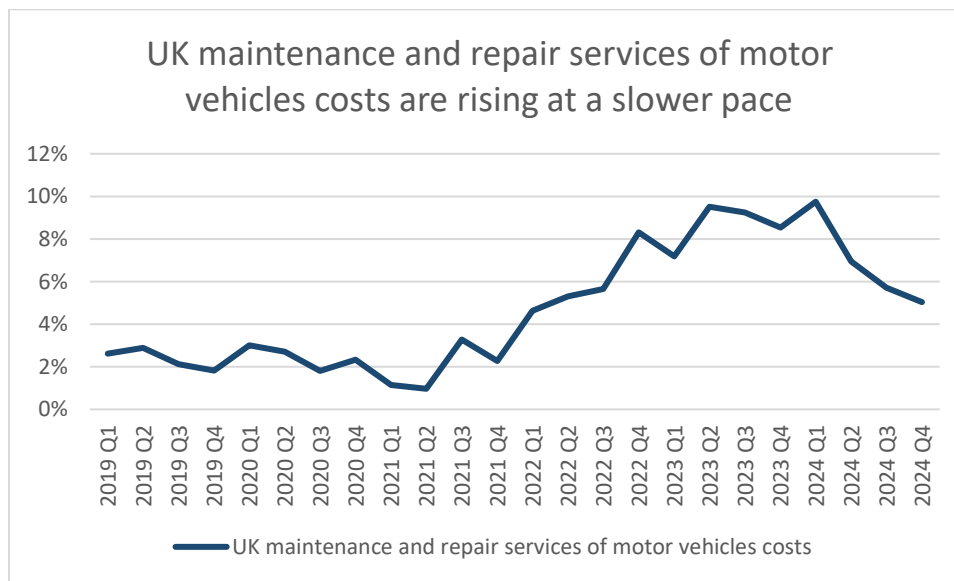
Sabre's target market average premium received in 2023



Source: Sabre Insurance, Capital Market Day 2024

Vehicle markets are back to pre-pandemic levels

Around 40% of vehicle insurance pricing is down to used car prices while the rest is mostly down to labour and repair costs, including parts. During the pandemic, we have seen used vehicle prices move higher rapidly, which has heavily impacted vehicle insurance pricing, as more and more losses were incurred. Due to supply chain issues it took longer than expected for vehicle prices to come down again. This has now changed. Vertu Motors recently provided a trading update⁵ stating that supply is back at pre-pandemic levels. In this update, Vertu Motors also highlighted the ZEV mandate of the UK government, where each year the percentage of EVs being sold by OEMs needs to climb. In 2025, this figure is 28%, up from 22% in 2024. As demand for EVs is not high enough, the OEMs need to pay £15k for each ICE vehicle sold. As a result, the OEMs push their EV models to the consumer via heavy discounts, which ultimately feeds through the entire value chain, new and used, EV and ICE vehicles. The falling prices are affecting all car dealers according to Stoneacre⁶. At the same time, Future Plc, the owner of Go Compare, one of the main PWCs in the UK, notes that there are fewer insurance switches going on⁷, which ultimately means consumers are adjusting to the new higher motor insurance pricing and are happier to stay with their current provider. Ultimately, these macro developments are very positive for Sabre Insurance.



Source: Office for National Statistics

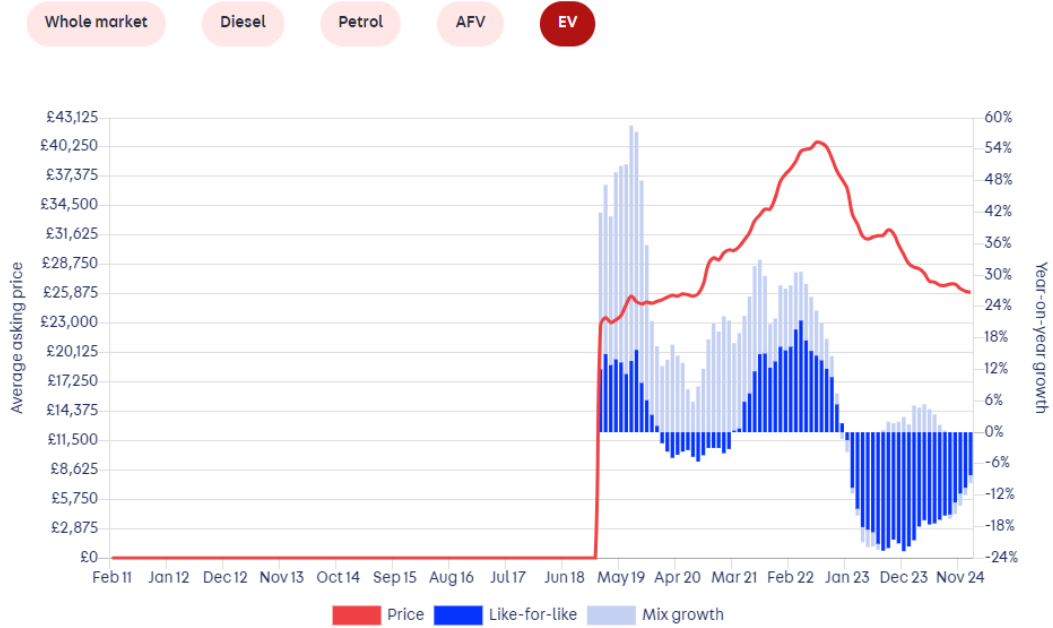
⁵ <https://investors.vertumotors.com/pdf/news/14011eohlaito/06022025-trading-update.pdf>

⁶ <https://www.motortrader.com/motor-trader-news/automotive-news/tough-used-car-market-sees-stoneacre-profits-fall-23-24-4m-22-01-2025>

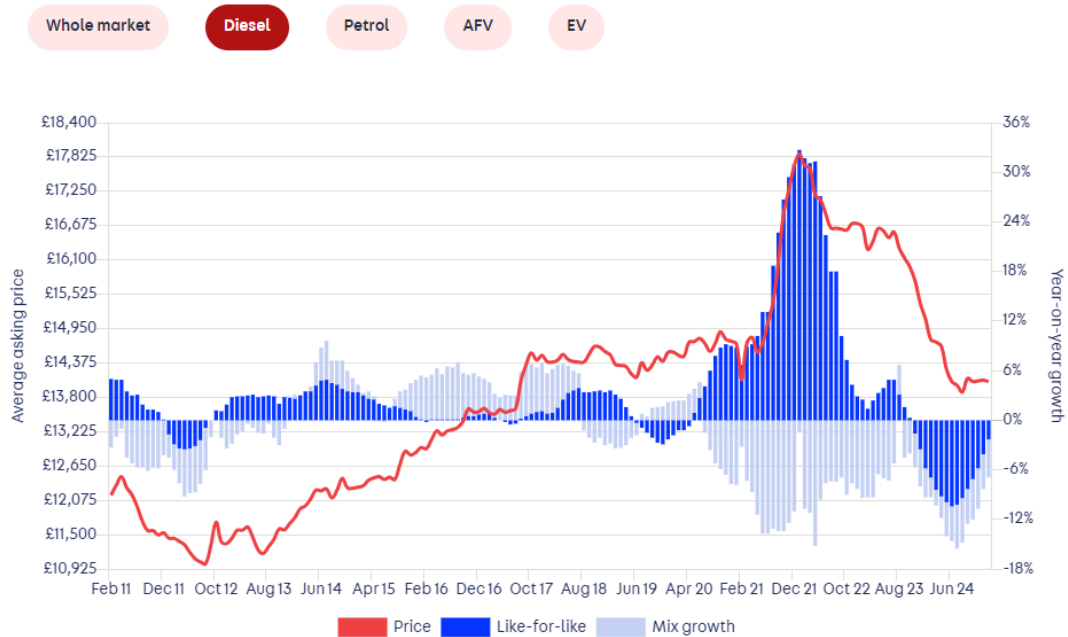
⁷ https://otp.investis.com/clients/uk/future_plc/rns/regulatory-story.aspx?cid=967&newsid=1906820

Autotrader Retail Price Index by fuel market

Fuel market

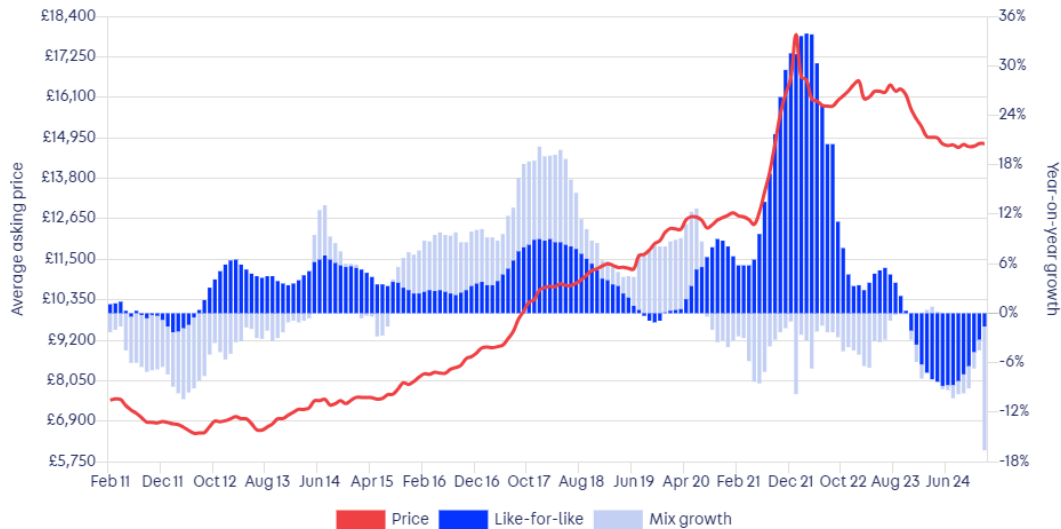


Fuel market



Fuel market

Whole market Diesel Petrol AFV EV



Source: <https://plc.autotrader.co.uk/news-views/retail-price-index/>

There is a but...

On the flip side, the higher NIC contributions that come into effect in April could lead to higher labour costs on repairs. The NIC rate will increase from 13.8% to 15% and kick at annual income of £5k instead of £9.1k. This could impact labour cost inflation slightly. So far, however, Vertu Motors has not seen a decline in its aftermarkets though. At the same time, Autotrader, which is an online-only platform has seen record demand from customers online in January 2025⁸ – quite a contrast to what the dealerships are reporting. The reason behind this could be the cold and bad weather that has shifted consumers towards the screen in January instead. Autotrader also sees strong demand leading to firmer pricing. Given that the dealership updates are more recent and respond to a larger size of transactions (Vertu Motors sold over 85k cars in 2023 vs. 16k reserved cars via Autotrader), I'd give the dealerships a higher weighting in terms of their comments on pricing and the general market. At the same time, motor

⁸ <https://plc.autotrader.co.uk/news-views/press-releases/retail-price-index-january-2025/>

insurance pricing saw the biggest drop (-16%) in a decade last year⁹. Whilst this is negative, pricing has likely overshot in 2023, and hence the drop in motor insurance pricing still means strong combined operating ratios. Consumers are also avoiding to use their insurance due to increases in premiums according to Sabre Insurance.

Solid financials

Whilst Sabre Insurance is not really in very deep value territory, given the macro factors outlined above, I expect the valuation to return to the beginning of 2024 levels, as the potential dividend yield could exceed 7%. Despite a combined operating ratio reaching close to pre-pandemic levels in 2024, if guidance of 75-80% is achieved, the net profit margin is behind that of pre-pandemic levels. This is largely due to employee costs more than doubling as well as much higher industry levies. Therefore, even with vehicle supply going back to pre-pandemic levels, the valuation of Sabre Insurance is unlikely to reach pre-pandemic levels unless more growth at stable margins is achieved. The take-away of this is that the valuation of Sabre is attractive, but will remain structurally lower for at least the year ahead unless significant growth can be achieved without impacting margins much.

Sabre Insurance financials (*projections based on personal assumptions and guidance)

Year	Net profit margin	Combined operating ratio	Expense ratio	Net loss ratio	Pre-dividend solvency ratio	Post-dividend solvency ratio	Dividend per share
2024*	13%	77%	26%	51%	210%	171%	10p
2023	10%	94%	32%	62%	205%	171%	8.1p
2022	6%	93%	27%	65%	173%	160%	2.8p
2021	18%	79%	28%	51%	208%	164%	13p
2020	23%	75%	27%	49%	203%	155%	16p
2019	23%	73%	22%	52%	214%	180%	12.8p

Source: Sabre Insurance full year results

⁹ <https://www.wtwco.com/en-ie/news/2025/01/uk-car-insurance-premiums-see-biggest-annual-fall-in-over-10-years>

Relative value

Last but not least, Sabre Insurance underperformed Admiral Group in terms of valuation significantly in recent weeks. Given that Admiral is reporting two weeks ahead of Sabre, it provides an opportunity to understand how price declines in insurance compare to a decline in claims and vehicle prices.



Source: Google Finance

Sabre Insurance operating expenses are structurally higher compared to 5 years ago

8. OTHER OPERATING EXPENSES

	Notes	2023 £'k	2022 £'k
Employee expenses		13,869	12,536
Property expenses		689	428
IT expense including IT depreciation		5,961	5,043
Other depreciation		59	17
Industry levies		5,936	5,913
Policy servicing costs		2,491	2,164
Other operating expenses		3,328	2,958
Movement in expected credit loss on debt securities		6	(34)
Impairment loss on owner occupied properties		333	-
Before adjustment for directly attributable claims expenses		32,672	29,025
<i>Adjusted for:</i>			
Reclassification of directly attributable claims expenses		(6,085)	(6,210)
Total operating expenses		26,587	22,815

9. Operating expenses

	2019 £'k	2018 £'k
Staff costs	5,979	6,219
Property costs	154	152
IT expense including IT depreciation	4,898	4,334
Other depreciation	45	46
Industry levies	1,812	3,224
Policy servicing costs	2,334	2,759
Other operating expenses	1,526	2,028
Total	16,748	18,762

Source: Sabre Insurance full year results



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