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JARRED HOUSTON: Pension Corp is a hidden gem in the Reinet stable

With over £500bn in potential bulk annuity purchases likely in the next decade, the UK market is surging

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by JARRED HOUSTON

A general view of the British American Tobacco (BAT) SA office in Cape Town. Over the years Reinet has successfully diversified, reducing its dependence on BAT and creating a more balanced portfolio. File photo: ZIYAAD DOUGLAS/GALLO IMAGES

In the vast and complex landscape of the JSE, some companies manage to fly under the radar despite their attractive characteristics. Typically, this is found among the smaller counters that don't garner much interest, but one such example in a larger name is Reinet Investments.

Reinet was established in 2008 due to the restructuring of the Remgro Group to house its international investments. Initially, the company's portfolio was heavily weighted towards British American Tobacco (BAT), one of the world's leading tobacco companies. However, over the years it has successfully diversified, reducing its dependence on BAT and creating a more balanced portfolio.

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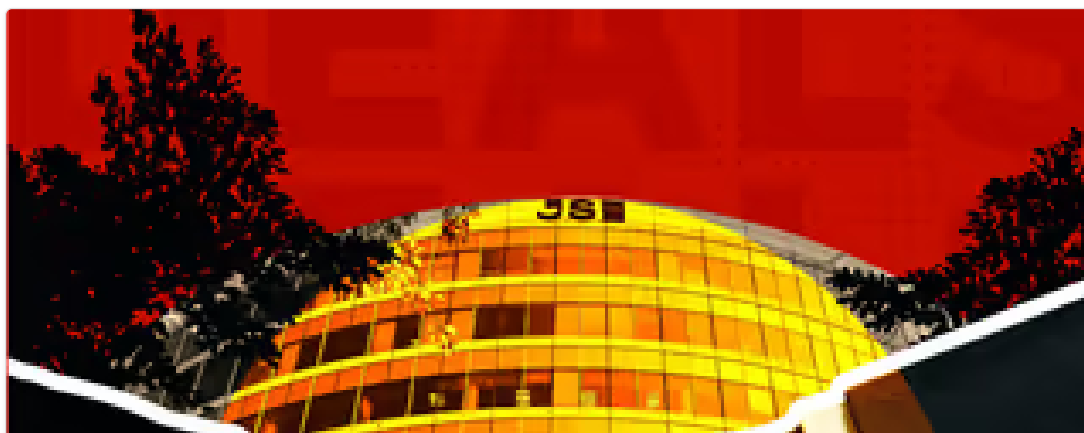
This was recently underscored by the sale of Reinet's interest in BAT, a significant milestone. The portfolio now comprises three remaining legs: Pension Corporation, a UK-based bulk annuity company; private equity interests; and the significant cash proceeds due to the BAT sale.

Pension Corp, which now represents more than half of Reinet's portfolio value, is a leading provider of derisking solutions for defined benefit pension schemes. As companies seek to focus on core operations they are turning to specialists such as Pension Corp to manage their pension liabilities and remove the burden from their own balance sheet.

The recent rise in interest rates has created a favourable environment for this trend, as it has reduced the cost of transferring pension schemes. With more than £500bn of potential bulk

annuity purchases expected in the next decade, the UK market is experiencing a surge in activity. Pension Corp is well positioned to capitalise on this growth.

The structural attractiveness has not gone unnoticed, but as the industry is highly regulated and capital intensive, barriers for new entrants are high. Pension Corp is in the fortunate position of being extremely well capitalised, meaning it has the ability to fund this new business pipeline as well as pay attractive dividends to shareholders.



The group's private equity interests subsidiary, which accounts for about 20% of Reinet's portfolio value, began in 2009 with the opportunistic decision to acquire the private equity management business formerly owned by Lehman Brothers out of bankruptcy. It is now managed through a combination of direct investments and partnerships with specialist private equity firms across a range of high-growth industries and geographies.

Reinet is able to provide its shareholders with access to a range of opportunities that might not be available through traditional public markets. Leveraging the size and network of the group means it can also do so at favourable terms.

After the recent sale of BAT Reinet holds about 25% of its portfolio value in cash. This cash component is more than 40% of the group's market cap. Excluding the cash component from its portfolio the remaining assets are trading at half of their underlying net asset value.

Investment holding companies trade at varying levels of discount and are often tarnished with the same broad brush. Reinet, initially viewed as a BAT proxy without the full dividend pass-through, has traded at a historical average 30% discount since inception. We would argue that after the recent change in composition of the portfolio the 30% is too high, let alone the current effective discount. The sale of its tobacco interests also opens the company up to investors who previously had to exclude it based on ESG requirements.

Questions remain about what is planned for the £1.4bn in net cash, but investors buying the company now appear to be acquiring a high-quality portfolio of assets at a substantial markdown. With several options available to unlock value, Reinet's management should prioritise a solution that puts their crown jewel front and centre.

• *Houston is an analyst at All Weather Capital.*



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