

OAKWOOD

Financials Team

Isaac Williams, Iola Vanharen,
Harry Holroyd, George May, Ryan Wilson

Summary

Aviva PLC (AV)

- FTSE 100 diversified insurer based in the UK, specialising in insurance, wealth management and retirement
- Origins back to 1696
- MSCI rating: AAA
- Market cap: £19.7bn

- Current share price: ~650p
- Long Aviva (2 - 3 years hold)
- Target share price: 835p
- ROI: ~28%
- Stop loss: 500p

Time	Performance
YTD	+ 37%
1 Year	+ 34%
3 Years	+ 45%



OAKWOOD

Company Overview

Markets: UK, Canada and Ireland (over 20m UK customers and 5m global customers)

Reasons for 2022 fall in revenue & net income:

- Inflation increasing the cost of payouts
- Increase in payout frequency with Hurricane Ian and car accident rises
- Consolidation of European insurance arm, deciding to focus more primarily on the UK, Canada and Ireland

Mini budget chaos caused Aviva's solvency ratio to dip below 200% in 2022

However, since then:

- Total debt has fallen nearly 40% since 2020
- Annual dividend growth rate: ~2.35%
- Solvency ratio has remained above 200%

	2021	2022	2023	2024	(£bn)
Revenue	32.83	14.38	20.15	21.95	
Operating	1.634	2.213	1.467	1.767	
Net Income	1.97	-1.05	1.09	0.684	

Industry Overview

#1 Provider of UK workplace pensions

#1 in UK annuities

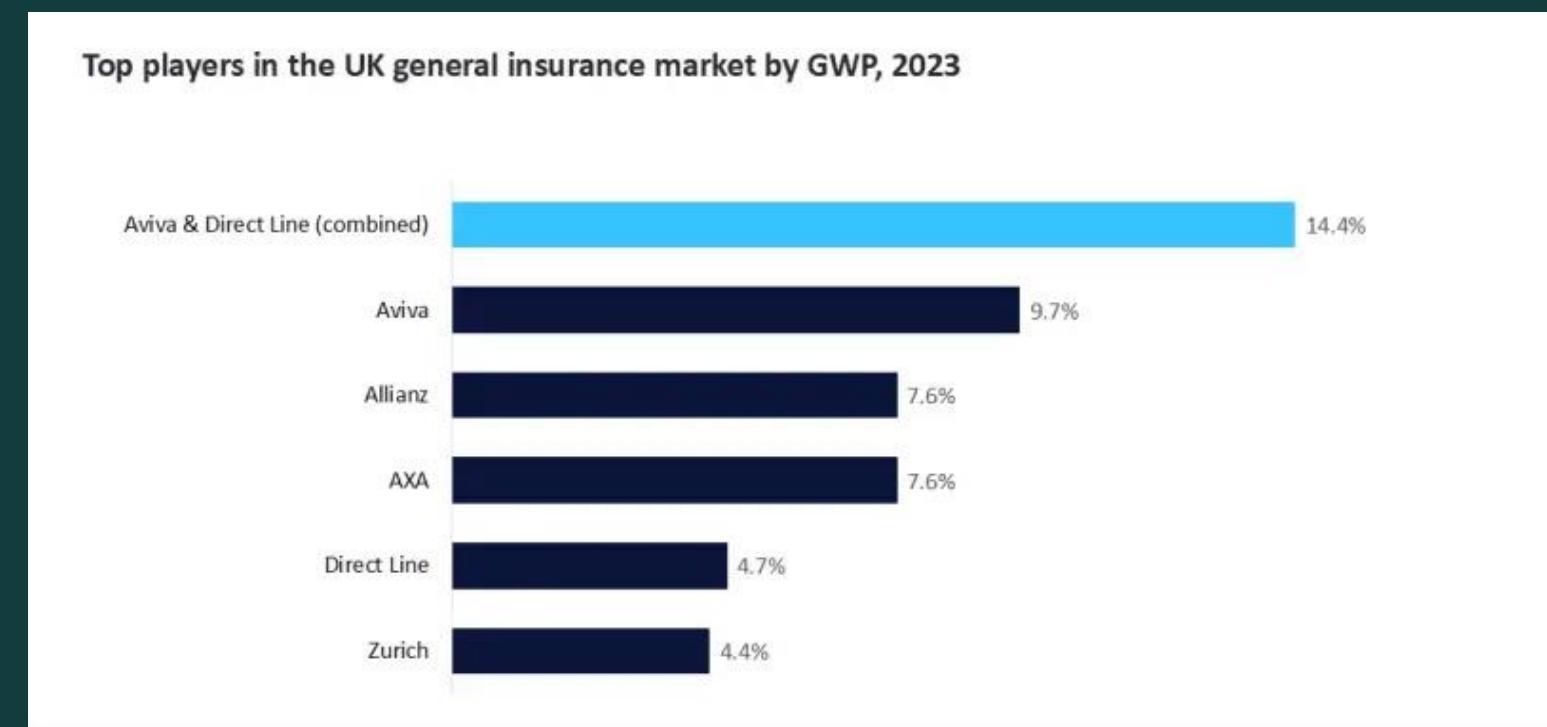
#1 In UK General Insurance

Market Share: 14% of UK GWP market share & 26% of UK life insurance

- UK pension market growth , driven by demographics and auto-enrolment
- Annuity market expected to remain strong, given record number of defined contribution schemes

Sources of Aviva's market power:

- Scale: Aviva is one of the largest UK insurers, cost advantage over rivals
- Brand trust: Long established, high brand recognition
- High barriers to entry: Aviva is less likely to have new entrants into markets it operates in



Valuation

Unlevered Free Cash Flow	Actual				
Fiscal Year	2024	2025	2026	2027	2028
Revenue	22400.0	23,520.0	24,460.80	25,194.62	25,950.46
Operating Profit (EBIT)	1,767.0	1,846.52	1,920.38	1,987.59	2,057.15
Operating Taxes	441.75	461.63	480.09	496.90	514.29
NOPAT (Net Operating Profit After Taxes)	1,325.25	1,384.89	1,440.28	1,490.69	1,542.87
(+) Depreciation and Amortisation	244	256.37	266.62	274.62	282.86
(-) Capital Expenditure	173.00	235.20	244.61	251.95	259.50
(-) Changes NWC	62	70.56	73.38	75.58	77.85
Unlevered Free Cash Flow	1,334.25	1,335.49	1,388.91	1,437.78	1,488.37

Assumptions	2024	2025	2026	2027	2028
Fiscal Year	2024	2025	2026	2027	2028
Revenue Growth %	-	5.0%	4.00%	3.0%	3.0%
EBIT Growth %	-	4.50%	4.00%	3.50%	3.5%
Tax % of EBIT	25.0%	25.0%	25.0%	25.0%	25.0%
D&A % of Revenue	-	1.09%	1.09%	1.09%	1.09%
CapEx % of Revenue	-	1.0%	1.0%	1.0%	1.0%
Changes in NWC	-	0.30%	0.30%	0.30%	0.30%

WACC	7.97%				
Discount Factor	1	0.926	0.858	0.795	0.736
PV of UFCF		1,236.94	1,191.48	1,142.37	1,095.29
TV					25,437.96
PV of TV					20,211.43
EV					24,877.51
Net debt					2,500.00
Equity Value					22,377.51
Shares Outstanding					2,679.00
PPS (£)					8.35
PPS (p)					835.29

- Built a 4 year DCF using management expectations and stable long term growth trends.
- DCF anchored on operating profit, consistent with IFRS-17 and Aviva's primary KPI.
- Low reinvestment needs: D&A 1.1%, CapEx 1%, consistent with asset light model.
- **WACC: 7.97% and terminal growth rate of 2%** based on 4% r_f , $\beta = 0.9$, $MRP = 5.5\%$, $R_d = 5\%$, 75% E / 25% D.
- DCF outputs a future enterprise value of **£24.9bn**.
- After adjusting for net debt, this gives an equity value of **£22.4bn**
- **Intrinsic value = 835p per share → 30% upside vs ~650p**
- Overall, the DCF suggests Aviva is **undervalued**

OAKWOOD

Valuation Continued

Comparable Company Analysis

Company	P/E	P/B	Dividend Yield
Legal & General	10.5x	1.30x	7.50%
Prudential	11.0x	1.60x	5.00%
Admiral	12.0x	3.50x	7.00%
Aviva	11.5x	2.33x	6.00%
Median (ex Aviva)	11.0x	1.60x	7.00%

- Comparable company analysis using three UK insurers.
- Peer median P/E and P/B multiples imply a valuation of around 746p for Aviva.
- Aviva trades at a premium to peers on P/B, reflecting the market pricing in stronger capital return.

Bear, Base and Bull Scenario

Scenario	Revenue Growth	EBIT Growth	WACC	Terminal growth	Implied Value
Bear	1.00%	3.00%	8.50%	1.50%	700p
Base	3-4%	4.00%	8.00%	2.00%	835p
Bull	5-6%	5.00%	7.50%	2.30%	900p

- Modelled bear, base and bull scenarios within the DCF.
- Bear case was 700p, base gives an intrinsic value of 835p and bull case shows 900p.
- Overall, the comps provide a broad valuation range, while the DCF scenarios highlight potential upside.

Investment Thesis

- Aviva 2025Q3 earnings weaker than expected, causing a minor dip in share value.
- However indicators link to good long term growth:
 - Recent acquisition of Direct Line - contributing to £150 million of operating profit creating the UKs largest motor insurer
 - Providing opportunities to reduce costs and capital - Aviva estimates 50% of cost synergies come from reducing overlapping roles.
 - Good solvency ratio - in excess of 200%
 - Achieved 2026 operating profit predictions a year early (£2.2billion)
 - Home insurance pricing increase by 1% against a market drop of 12%
 - Healthy dividend yield of 5.78%
- We recommend buying Aviva at or near its current price (~650p) to capitalise on its future growth potential & dividends (ex-div early April)

Catalysts, Risks and Mitigants

Aviva's UK focus could make it vulnerable to UK macroeconomic issues:

- UK insurance competition
- Higher inflation
- Falling interest rates

However, these are unlikely to cause a significant problem for Aviva due to

- Aviva's UK market strength through indirect and direct growth
- Growth outside the UK. Canadian GI makes up about 30% of Aviva's GI revenue
- Cost synergies savings. Acquisition of Direct Line and Solus
- Diversification of revenue. Aviva Investors and Wealth Management

Questions

Appendix

References

- <https://www.aviva.com/newsroom/news-releases/2025/02/FY2024-results-announcement/>
- <https://uk.finance.yahoo.com/quote/AV.L/>
- <https://insurance-edge.net/2025/06/30/globaldata-looks-at-impact-of-aviva-direct-line-deal/>
- <https://markets.ft.com/data/equities/tearsheet/summary?s=AV.:LSE>
- <https://www.ft.com/content/99928b77-57ec-44ae-b0c8-c67bf42ca3d2>
- <https://www.rttnews.com/3349286/aviva-slips-to-loss-in-fy22-gross-premiums-down-lifts-dividend-plans-up-to-300-mln-buyback.aspx?refresh=1>
- <https://www.aviva.com/investors/dividends/>
- <https://www.aviva.com/newsroom/news-releases/2025/11/Q32025-trading-update/>