MPC MARKETS

GROWTH
RECOMMENDATION

Steadfast

SDF:ASX

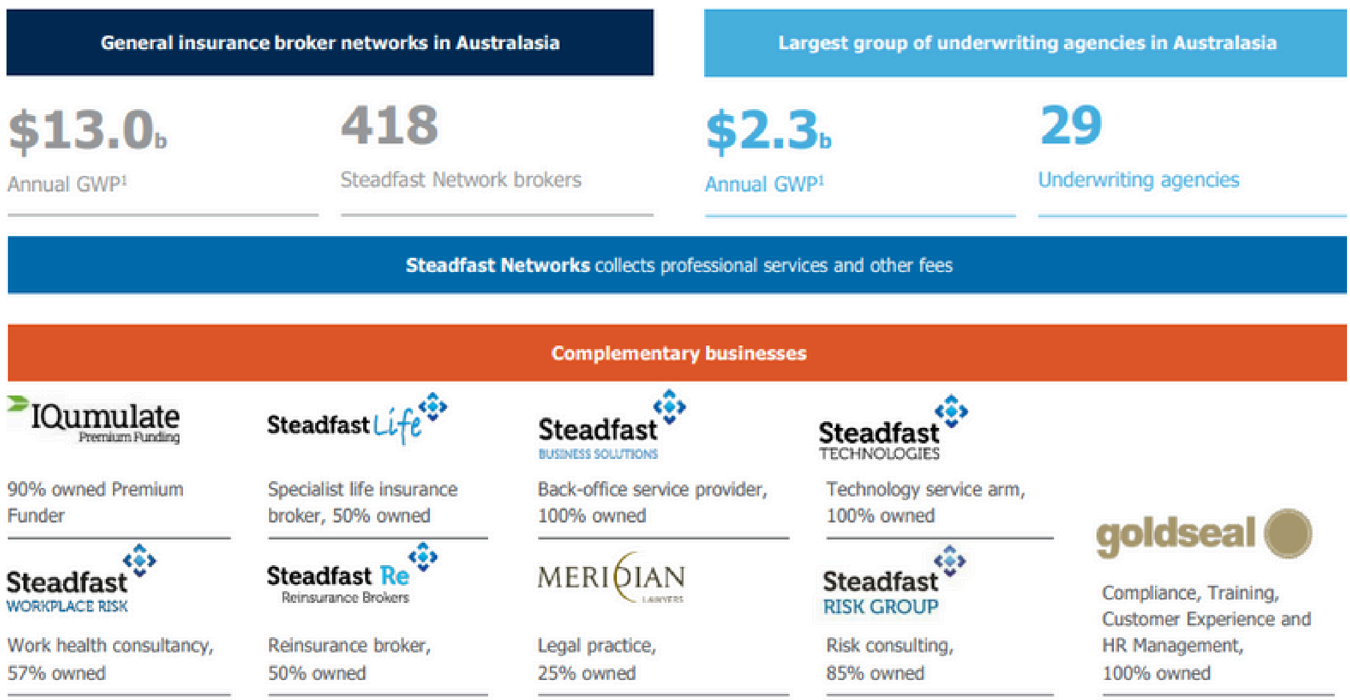
February 2025

GROWTH RECOMMENDATION

Steadfast Group Limited (ASX:SDF) stands as Australia's largest general insurance broker network, with a significant presence in New Zealand and expanding international operations. Founded in 1996 and listed on the ASX in 2013, Steadfast has grown to encompass 418 general insurance brokers across 1,941 offices in Australia, New Zealand, Singapore, and London. The company operates a dual model as both a broker and consolidator, holding equity interests in various insurance brokerage businesses. This network generates over AUD 13 billion in gross written premiums annually, showcasing Steadfast's substantial market influence.

Steadfast's business model extends beyond traditional brokerage, incorporating ownership of 29 specialist underwriting agencies offering over 100 niche products to the broader market. This diversification strategy allows Steadfast to capture value across the insurance value chain. The company's recent expansion includes the acquisition of ISU Group in the United States, marking a significant step in its international growth strategy. With operations now spanning Australasia, Asia, Europe, and North America, Steadfast is positioning itself as a global player in the insurance brokerage and underwriting agency sectors.

The company's success is built on its ability to leverage scale, provide superior market access, and offer exclusive products and services to its network brokers. Steadfast's proprietary technology platforms, including the Steadfast Client Trading Platform (SCTP) and INSIGHT broker management system, provide competitive advantages in efficiency and market reach. These technological assets, combined with Steadfast's market position and diverse business mix, create a robust foundation for continued growth and market leadership in the insurance intermediary space.



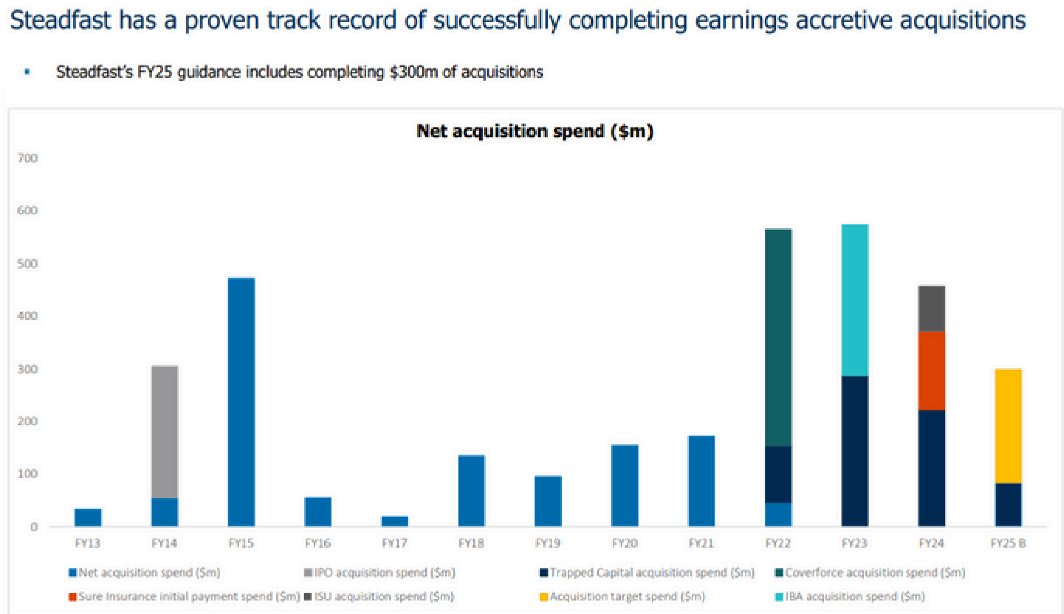
GROWTH & LEADERSHIP

Growth Prospects

Steadfast Group's growth prospects are strong, driven by organic expansion and strategic acquisitions. The company's FY2025 guidance projects underlying EBITA between A$590-600 million and underlying NPAT between A$290-300 million, indicating continued growth expectations.

Key growth drivers include:

1. **Market Position:** Steadfast's dominant position in Australian and New Zealand insurance broking markets benefits from expected 7-9% annual premium increases.
2. **Technology Initiatives:** The Steadfast Client Trading Platform (SCTP) and INSIGHT broker management system drive efficiency and market reach.
3. **Acquisitions:** The company targets A$300 million in acquisitions for FY2025, funded by debt and free cash flow.
4. **International Expansion:** Investments in Unison/Steadfast and ISU Steadfast provide platforms for global growth, particularly in the US market.
5. **Underwriting Agencies:** This segment, which grew GWP by 13.4% to A$2.3 billion in FY2024, offers growth potential through specialist agencies and niche products.



Leadership

Steadfast Group's leadership is anchored by Robert Kelly AM, its founder and long-serving CEO with over 52 years of insurance industry experience. The management team combines experience and wisdom, including CFO Stephen Humphrys and newly appointed COO Nigel Fitzgerald.

The board of directors, led by Chairman Frank O'Halloran AM, brings extensive insurance and financial services expertise. The mix of experienced veterans and newer executives positions Steadfast to maintain its direction while adapting to market changes.

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VALUATION

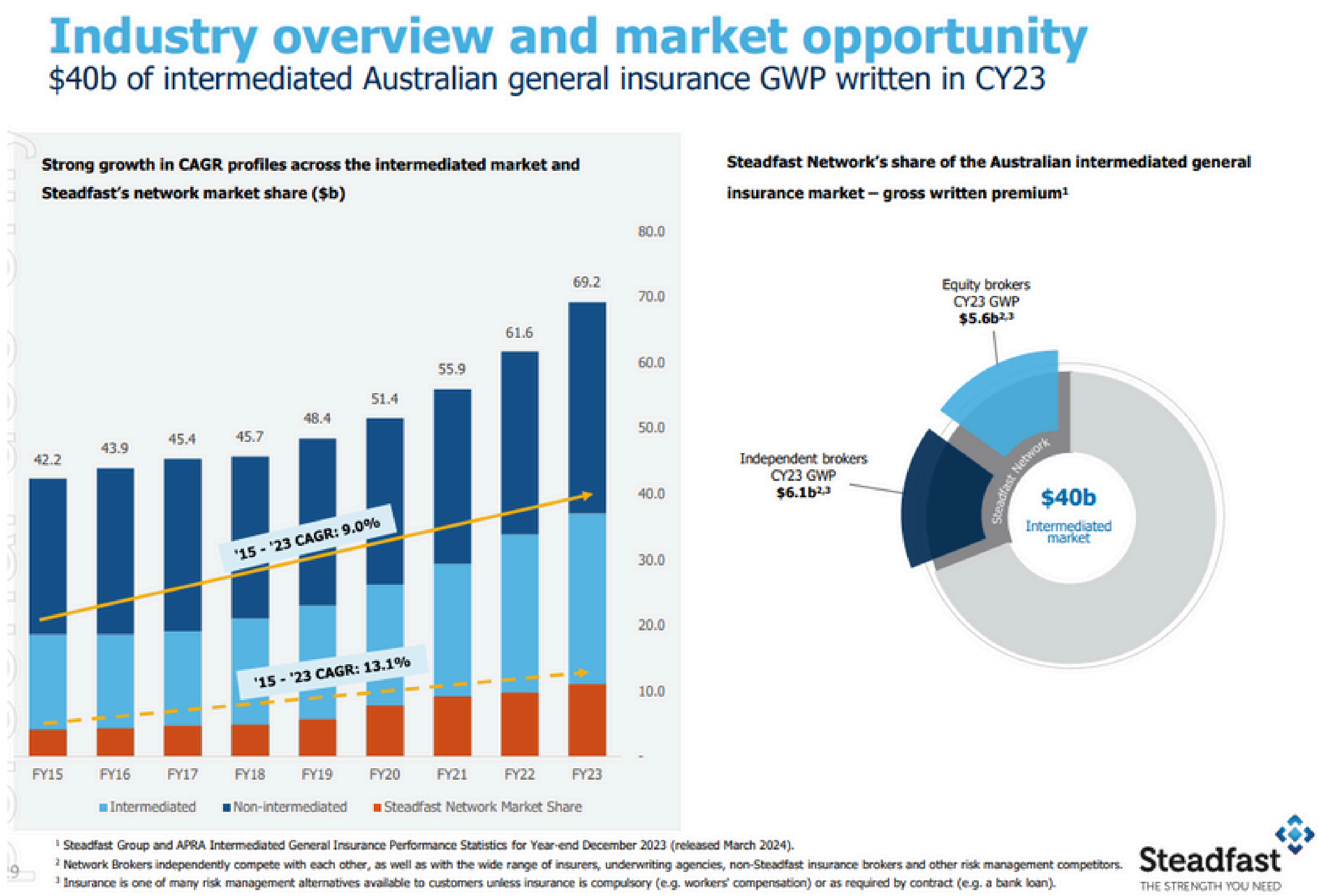
Valuation

Steadfast Group's current valuation presents an attractive entry point for investors, with the stock trading at A$5.69, below both its fair value of A$5.94 and the analyst consensus target of A$6.71. This suggests a potential upside of 17.5% based on analyst expectations.

The company's financial performance supports this valuation. In FY2024, Steadfast reported an underlying revenue increase of 18.9% to A$1.7 billion and an underlying EBITA growth of 22.7% to A$528.5 million. The consistent growth in earnings, with underlying NPAT increasing by 21.8% to A$252.2 million, demonstrates the company's ability to translate market position into results.

Steadfast's valuation is further underpinned by its strong market position and diversified revenue streams. The company's network generated A$13.0 billion in gross written premiums in FY2024, a 12.1% increase year-on-year, indicating robust organic growth. The underwriting agencies segment also showed strong performance, with GWP growing 13.4% to A$2.3 billion.

The company's conservative approach to capital management, with a gearing ratio of 20.2% (excluding premium funding) well within its board-mandated maximum of 30%, provides financial flexibility for future growth initiatives. This prudent financial management, combined with Steadfast's track record of accretive acquisitions, suggests that the company is well-positioned to continue creating shareholder value, supporting its current valuation and potential for future appreciation.



RISKS

Steadfast Group's investment case is compelling, but several risks require consideration:

Regulatory and Market Risks

- The Treasury Laws Amendment Bill 2024 could impact Steadfast's acquisition strategy, potentially slowing growth.
- Increased regulatory scrutiny may lead to higher transaction costs and hurdles for acquisitions.
- Market concentration risks could limit future growth or lead to forced divestments.

Reputational and Operational Risks

- Recent media scrutiny of strata insurance practices poses reputational risks.
- Reliance on technology platforms like SCTP and INSIGHT system introduces operational vulnerabilities.
- International expansion, particularly into the US market, brings new regulatory and market challenges.

Economic and Leadership Risks

- Economic downturns could reduce insurance demand, especially in the SME sector.
- Interest rate fluctuations may affect financing costs and cash holding returns.
- Key person risk associated with CEO Robert Kelly's eventual succession.

These factors collectively present a complex risk landscape for Steadfast Group, requiring careful management and strategic planning.

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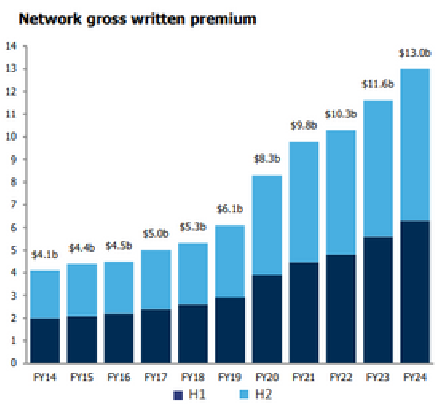
WHY HOLD THE COMPANY

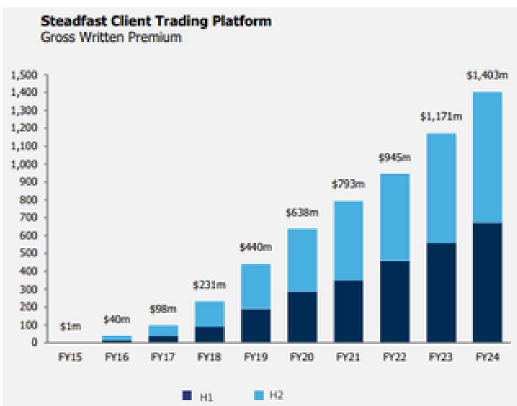
The company's dominant position as Australia's largest general insurance broker network provides a strong foundation for sustained growth and resilience. Steadfast's scale and network effects create significant moat, protecting its market share and enabling favorable negotiations with insurers.

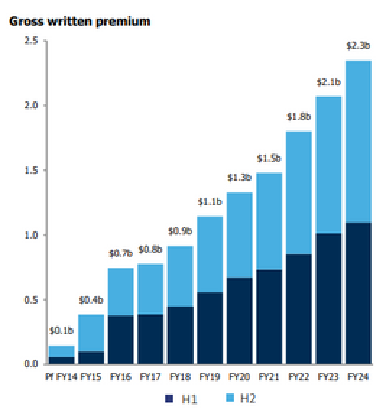
Key Reasons to Hold:

- **Consistent Growth:** Steadfast has delivered 11 consecutive years of underlying profit growth, demonstrating effective strategy execution and resilience in navigating market challenges. This performance, coupled with increasing dividends (14% growth in FY2024 to 17.1 cents per share), makes it attractive for growth and income-seeking investors.
- **Diversified Business Model:** The company's operations in both insurance broking and underwriting agencies provide multiple growth avenues and mitigate risks associated with any single segment of the insurance market.
- **Technological Advantage:** Steadfast's investment in proprietary platforms like the Steadfast Client Trading Platform (SCTP) and INSIGHT broker management system positions it at the forefront of digital transformation in the insurance intermediary sector, enhancing efficiency and competitiveness.
- **Financial Stability:** Conservative financial management, with a gearing ratio within board-mandated limits, provides flexibility for future growth initiatives and resilience against potential market downturns.
- **Industry Tailwinds:** The insurance industry's resilience and ongoing premium rate increases create a favorable environment for Steadfast's operations, benefiting from rising premiums without taking on direct underwriting risk.

While risks exist, particularly around regulatory changes, Steadfast's proactive approach to governance and transparency demonstrates management's commitment to addressing challenges effectively.







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Our Commitment

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