Everest Re (RE)

Updated June 2nd, 2018 by Jonathan Weber

Key Metrics

Current Price:	$226	**5 Year CAGR Estimate:**	6.2%	**Quality Percentile:**	N/A
Fair Value Price:	$205	**5 Year Growth Estimate:**	5.8%	**Momentum Percentile:**	N/A
% Fair Value:	110%	**5 Year Valuation Multiple Estimate:**	-1.9%	**Total Return Percentile:**	N/A
Dividend Yield:	2.3%	**5 Year Price Target**	$273	**Valuation Percentile:**	

Overview & Current Events

Everest Re is Group is a holding company that provides insurance as well as reinsurance services. Everest Re provides reinsurances for property & casualty insurances as well as for special lines such as maritime and aviation. Everest Re operates in the US and through branches in Canada, Singapore and Bermuda. The company was founded in 1999, is headquartered in Hamilton, Bermuda, and is currently valued at $9.2 billion.

Everest Re's most recent quarterly results were announced on April 25, the company recorded earnings-per-share of $5.34, a decrease versus EPS of $6.48 in Q1 of 2017. Profits were impacted by catastrophic losses due to the 2017 wildfires in California.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$9.07	$12.51	$9.08	---	$13.62	$21.47	$24.71	$25.04	$23.61	$9.10	***$22.85***	***$30.30***
DPS	$1.92	$1.92	$1.92	$1.92	$1.92	$2.19	$3.20	$4.00	$4.70	$5.05	***$5.25***	***$6.25***

Everest Re's profitability is relatively uneven. As a reinsurer the company is significantly impacted by major events such as hurricanes, earthquakes, wildfires, etc. During 2017 the wildfires in California (for which the company still had to make payments during Q1 2018), which were responsible for total damages of $9 billion, hurt Everest Re's profitability significantly. Since those events are relatively seldom, though, the company's earnings generation is quite strong in less eventful years.

In the 10 years from 2006-2016 Everest Re grew its earnings per share by 6.5% a year. Written premiums grew substantially, but the company's margins decreased slightly (losses relative to premiums increased), which is why total net profits did not grow much. Everest Re has, however, lowered its share count massively over those ten years, in the ten years following 2006 Everest Re's share count declined from 65 million to 41 million, which meant a 4.7% EPS growth rate all by itself.

The buyback pace has come down a bit recently, but due to solid profitability and a relatively low dividend payout ratio Everest Re should be able to lower its share count in the future. On top of that the company will benefit from rising interest rates, as this means that the premiums the company writes can be invested at higher rates. Rising investment income (responsible for about 40% of profits, with underwriting income being responsible for about 60% of profits) will be a tailwind going forward that should lift Everest Re's overall profits. The combination of positive investment income growth and some share repurchases should allow for mid-single digits earnings per share growth over the coming years.

Everest Re's dividend has risen by 21% annually since 2012, but the dividend growth record is not consistent.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	9.4	6.2	8.9	---	7.4	6.3	6.5	8.1	8.1	26.7	***9.9***	***9.0***
Avg. Yld.	2.3%	2.5%	2.4%	2.3%	1.9%	1.6%	2.0%	2.2%	2.5%	2.1%	***2.3%***	***2.5%***

Everest Re's valuation has been quite low throughout most of the last decade (expect for 2017, when profitability was unusually low and share prices were relatively high nevertheless). Shares are trading at barely below 10 times this year's earnings right now, which is still not a high valuation at all, but a bit higher than the long term median valuation (8.0), which is why valuation changes could be a negative. Due to a solid growth outlook, the tailwind of rising rates and resumed dividend growth it is likely that Everest Re's valuation (P/E ratio) will remain above 8 going forward.

Everest Re's dividend yields 2.3% right now, slightly more than the broad market's average yield. Due to resumed dividend growth and a low dividend payout ratio Everest Re could still have some merit as an income investment.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
Debt/A	70.6%	66.1%	65.9%	67.9%	66.0%	64.8%	64.2%	63.0%	62.1%	64.5%	***64.0%***	***63.0%***
Int. Cov.	11.4	14.0	11.6	---	18.5	34.7	37.0	31.7	31.4	13.8	***23.0***	***25.0***
Payout	21.2%	15.3%	21.1%	---	14.1%	10.2%	13.0%	16.0%	19.9%	55.5%	***23.0%***	***20.6%***
Std. Dev.	27.1%	27.0%	17.0%	21.9%	12.1%	13.5%	10.7%	10.2%	16.5%	19.1%	***18.0%***	***17.0%***

Everest Re is relatively highly leveraged (in terms of total liabilities to assets), but that is not a problem on closer investigation. A huge part of the company's liabilities ($12 billion out of $15 billion) are reserves for losses and loss adjustment expenses; non-interest bearing accounting items. Everest Re's actual interest expenses are quite low, which, in turn, is the reason for the very strong interest coverage.

The dividend payout ratio is in the high teens to 20s (excluding 2017), which means that the dividend is very safe and can be easily grown. Everest Re is not operating in a business that is impacted by recessions per se (since people and corporations still need insurance, and insurers still need reinsurers during recessions), but Everest Re's results are still cyclical due to two other reasons: Broad equity market downturns (or times when an unusually high amount of bonds are not paid back) hurt the company's investment income (which, in turn, means lower profits), and an above-average amount of catastrophic events during a specific period of time leads to higher payouts to insurers and therefore can hurt Everest Re's profits as well. Everest Re is thus not specifically impacted by recessions or times when the economy is a bit weaker, but results can still swing up and down on a year-over-year basis.

Final Thoughts & Recommendation

Everest Re is a globally diversified reinsurance company that has been growing its profitability at a solid pace, primarily due to share repurchases. Shares are not trading at a high valuation in absolute terms, although shares trade at a slight premium to the company's historic valuation. Through a combination of earnings growth (aided by rising rates, which is a tailwind for Everest Re) and substantial shareholder returns the total return outlook is not bad. The stock is a hold at current prices.

Total Return Breakdown by Year