Everest Re (RE)

Updated July 31st, 2018 by Jonathan Weber

Key Metrics

Current Price:	$215	**5 Year CAGR Estimate:**	7.3%	**Volatility Percentile:**	25.9%
Fair Value Price:	$206	**5 Year Growth Estimate:**	5.8%	**Momentum Percentile:**	12.7%
% Fair Value:	104%	**5 Year Valuation Multiple Estimate:**	-0.9%	**Valuation Percentile:**	50.5%
Dividend Yield:	2.4%	**5 Year Price Target**	$273	**Total Return Percentile:**	41.5%

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 $8.7 billion.

Everest Re reported its second quarter earnings results on July 30. The company reported earnings per share of $0.98, a massive decline from $5.66 in the previous year's second quarter. A steep earnings decline was expected by the analyst community & the market. Everest Re grew its revenues by 26% to $1.7 billion. The steep net profit decline was based on substantially higher catastrophe losses. Among other factors, late winter storms in the US played a role.

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 quite uneven. As a reinsurer the company is significantly impacted by major events such as hurricanes, earthquakes, wildfires, etc. During 2017, for example, the wildfires in California, which were responsible for total damages of $9 billion, reduced 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 decade following 2006, Everest Re's share count declined from 65 million to 41 million, which by itself contributed 4.7% per year to the company's earnings-per-share growth during this time period.

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 continuing lowering 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, which is responsible for about 40% 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	***9.4***	***9.0***
Avg. Yld.	2.3%	2.5%	2.4%	2.3%	1.9%	1.6%	2.0%	2.2%	2.5%	2.1%	***2.4%***	***2.5%***

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

Shares of Everest Re are trading at an inexpensive valuation compared to the broad market, but shares usually traded at even lower multiples over the last couple of years. The valuation will likely decline marginally over the coming years. Everest Re's current dividend yield of 2.4% is close to the upper end of the historic range.

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%***

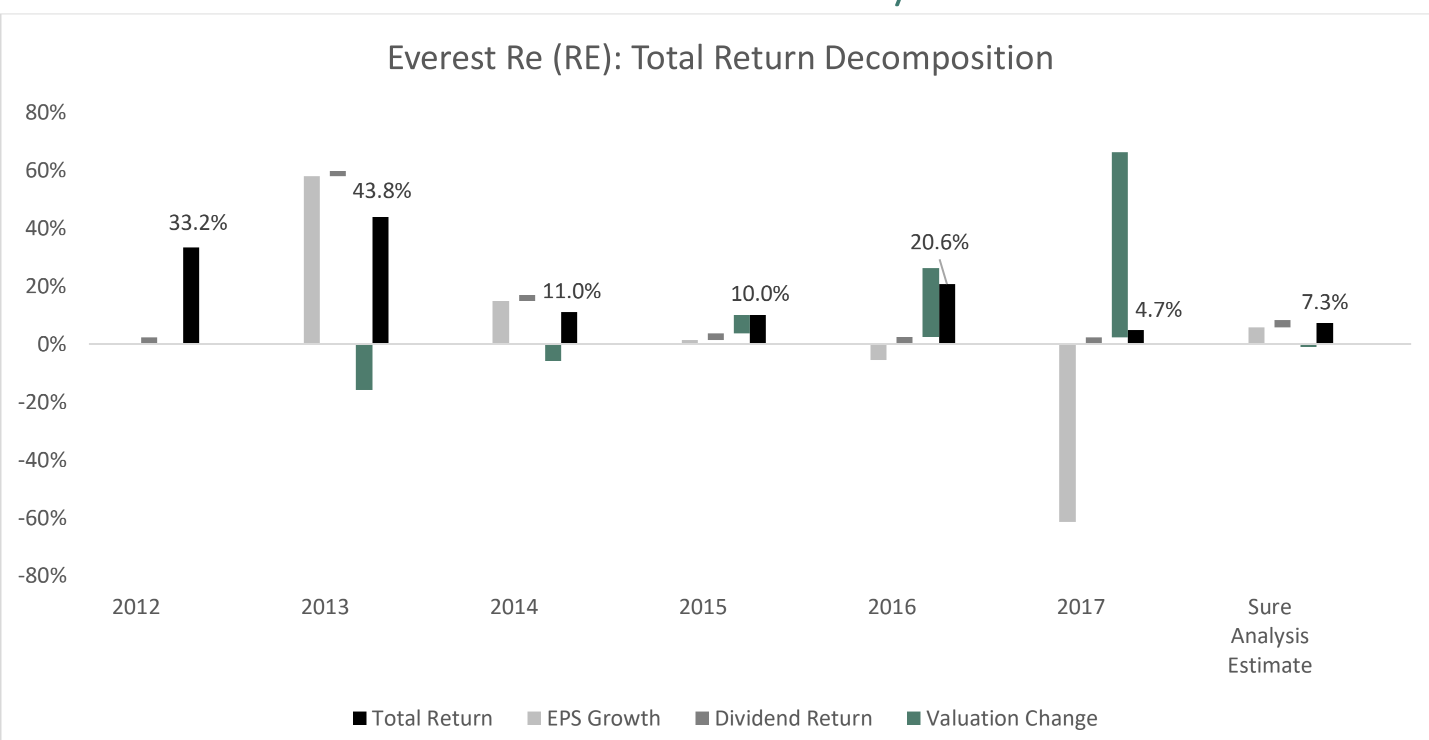
Everest Re is relatively highly leveraged in terms of total liabilities to assets, but that is not a problem on closer investigation. A huge part of the company's liabilities ($12 billion out of $15 billion) are reserves for losses and loss adjustment expenses (non-interest bearing accounting items). 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 usually is in the high teens to 20s, which means that the dividend is very safe and can be grown easily. 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, 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 not the largest reinsurance company by far, but the company still is well diversified globally. Profitability is cyclical due to the impact of catastrophes, but overall profits should still continue to grow. Total returns will be in the mid-to high single digits range over the coming five years. We rate Everest Re as a hold at current prices.

Total Return Breakdown by Year



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