Everest Re (RE)

Updated October 29th, 2018 by Jonathan Weber

Key Metrics

Current Price:	$206	**5 Year CAGR Estimate:**	8.3%	**Volatility Percentile:**	28.8%
Fair Value Price:	$206	**5 Year Growth Estimate:**	5.8%	**Momentum Percentile:**	27.9%
% Fair Value:	100%	**5 Year Valuation Multiple Estimate:**	0.0%	**Growth Percentile:**	45.8%
Dividend Yield:	2.5%	**5 Year Price Target**	$273	**Valuation Percentile:**	46.7%
Dividend Risk Score:	C	**Retirement Suitability Score:**	C	**Total Return Percentile:**	38.8%

Overview & Current Events

Everest Re 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 $8.4 billion.

Everest Re has reported its third quarter earnings results on October 29. The company announced revenues of $1.94 billion, an increase of 12% year over year. Revenue growth was derived through a combination of higher premiums earned and higher net investment income. Due to the fact that interest rates are rising, the substantial increase in Everest Re's net investment income (up 17.5% year over year) was not surprising. Everest Re was able to grow its earnings-per-share to $4.09 on an adjusted basis. GAAP earnings-per-share rose to an even higher level of $5.02.

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***
Shares	61.4	59.3	54.4	53.7	51.1	47.4	44.5	42.7	40.9	40.8	***40.2***	***36.4***

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 tremendously over those ten years. In the decade following 2006, Everest Re's share count declined from 65 million to 41 million, which contributed 4.7% per year to the company's EPS growth.

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 (up 18% during Q3), 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 overly 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	***9.0***	***9.0***
Avg. Yld.	2.3%	2.5%	2.4%	2.3%	1.9%	1.6%	2.0%	2.2%	2.5%	2.1%	***2.5%***	***2.5%***

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Everest Re trades at nine times this year's expected net earnings, which is perfectly in line with our fair value estimate. Everest Re has been trading at a low valuation throughout most of the last decade, but due to the macro tailwind of rising interest rates, which will boost Everest Re's investment income, its valuation will likely be slightly above the long-term median going forward.

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%***

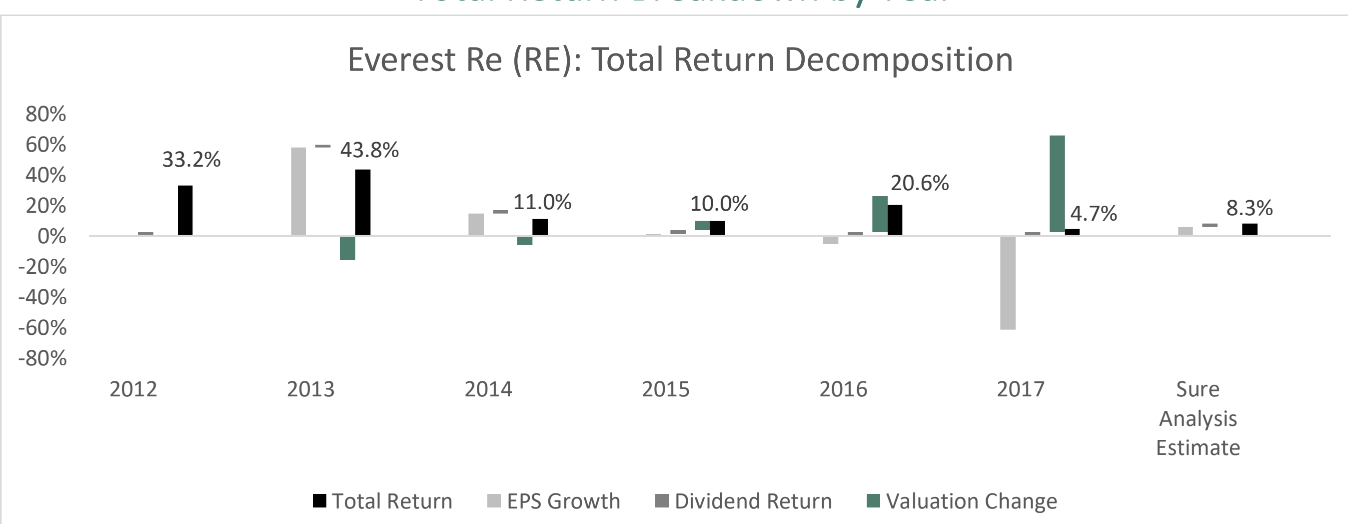
Everest Re is relatively highly leveraged in terms of total liabilities to assets, but that is not a problem on closer investigation. A majority of the company's liabilities ($12 billion out of $15 billion) are reserves for losses and loss adjustment expenses, i.e. non-interest bearing accounting items. 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, since people and corporations still need insurance, and insurers still need reinsurers during recessions. Everest Re's results are certainly still cyclical, though. An above-average amount of catastrophic events, or a single very large catastrophic event, during a specific period of time leads to increased payouts to insurers. Such events can therefore hurt Everest Re's profitability to a significant degree. 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 rather small reinsurer that showcases the typical cyclicality in its results that stems from increased payouts during years with a higher amount of natural disasters. Everest Re will benefit from rising interest rates going forward, and it is to be expected that the company will continue to return a lot of cash to its owners via dividends and stock buybacks. Everest Re is fairly valued here. Shares earn a solid hold recommendation at current prices.

Total Return Breakdown by Year



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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.

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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	3528	4499	4706	4694	4923	5641	5679	5677	5794	6608
SG&A Exp.	931	946	15	16	24	25	23	23	27	26
Net Profit	-19	807	611	-80	829	1259	1199	978	996	469
Net Margin	-0.5%	17.9%	13.0%	-1.7%	16.8%	22.3%	21.1%	17.2%	17.2%	7.1%
Free Cash Flow	663	785	918	718	695	1098	1055	1108	1384	1163
Income Tax	-65	132	-20	-153	111	290	188	134	104	-64

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	16847	18001	18408	18894	19778	19808	20818	20545	21322	23592
Cash & Equivalents	206	248	258	449	537	611	437	284	482	635
Acc. Receivable	908	979	845	1658	1897	1994	2069	2377	2504	3193
Total Liabilities	11886	11900	12124	12822	13044	12840	13367	12937	13246	15223
Accounts Payable	51	53	48	61	163	116	140	173	191	218
Long-Term Debt	1179	1018	868	818	1009	488	638	633	633	633
Total Equity	4960	6102	6284	6071	6733	6968	7451	7609	8075	8369
D/E Ratio	0.24	0.17	0.14	0.13	0.15	0.07	0.09	0.08	0.08	0.08

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	-0.1%	4.6%	3.4%	-0.4%	4.3%	6.4%	5.9%	4.7%	4.8%	2.1%
Return on Equity	-0.4%	14.6%	9.9%	-1.3%	12.9%	18.4%	16.6%	13.0%	12.7%	5.7%
ROIC	-0.3%	12.2%	8.6%	-1.1%	11.3%	16.6%	15.4%	12.0%	11.8%	5.3%
Shares Out.	61.4	59.3	54.4	53.7	51.1	47.4	44.5	42.7	40.9	40.8
Revenue/Share	56.94	73.93	82.87	87.06	94.55	114.99	123.99	129.62	139.19	161.79
FCF/Share	10.70	12.90	16.17	13.31	13.34	22.39	23.03	25.31	33.24	28.47

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.