Everest Re (RE)

Updated February 13th, 2019 by Jonathan Weber

Key Metrics

Current Price:	$213	**5 Year CAGR Estimate:**	8.6%	**Volatility Percentile:**	21.9%
Fair Value Price:	$215	**5 Year Growth Estimate:**	5.8%	**Momentum Percentile:**	27.9%
% Fair Value:	99%	**5 Year Valuation Multiple Estimate:**	0.2%	**Growth Percentile:**	50.1%
Dividend Yield:	2.6%	**5 Year Price Target**	$284	**Valuation Percentile:**	49.8%
Dividend Risk Score:	B	**Retirement Suitability Score:**	B	**Total Return Percentile:**	43.0%

Overview & Current Events

Everest Re Group is a holding company that provides insurance as well as reinsurance services. Everest Re provides reinsurance for property & casualty insurers 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 currently trades with a market capitalization of $8.6 billion.

Everest Re reported its fourth quarter and full year earnings results on February 11. The company generated revenues of $1.79 billion during the fourth quarter, which was 4.3% less than the revenues that Everest Re has generated during the fourth quarter of fiscal 2017. Everest Re also missed the analyst consensus estimate when for its top line number. The revenue decline was not based on a weak operational performance, though, but rather on accounting items that can be explained by the equity market turmoil during the fourth quarter of 2018. Those led to net realized capital losses of $144 million, which are subtracted from the revenues that Everest Re generates. Adjusted for that item, which will in all likelihood not be recurring, Everest Re would have been able to grow its revenues substantially compared to the prior year's quarter. This is due to a strong performance when it comes to the company's gross written premiums, which totaled $2.3 billion - 18% more than during the previous year's quarter. Everest Re reported net losses of $5.89 for the fourth quarter, which was worse than what the analyst community had expected. This was due to a double hit from realized capital losses (equity market downturn) and higher catastrophe losses of $875 million, primarily due to Hurricane Michael and the California wildfires.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	$12.51	$9.08	---	$13.62	$21.47	$24.71	$25.04	$23.61	$9.10	$4.52	***$23.83***	***$31.59***
DPS	$1.92	$1.92	$1.92	$1.92	$2.19	$3.20	$4.00	$4.70	$5.05	$5.30	***$5.70***	***$7.40***
Shares	59.3	54.4	53.7	51.1	47.4	44.5	42.7	40.9	40.8	40.5	***40.2***	***38.5***

Everest Re's profitability is quite uneven. As a reinsurer the company is significantly impacted by major events such as hurricanes, earthquakes, and wildfires. During 2018, for example, the wildfires in California and Hurricane Michael 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.

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Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	6.2	8.9	---	7.4	6.3	6.5	8.1	8.1	26.7	47.8	***8.9***	***9.0***
Avg. Yld.	2.5%	2.4%	2.3%	1.9%	1.6%	2.0%	2.2%	2.5%	2.1%	2.6%	***2.6%***	***2.6%***

Everest Re has been valued at a relatively low valuation throughout the majority of the last decade. In 2017, and especially in 2018, Everest Re's price to earnings ratio was well above the usual level due to lower-than-normal profits. We believe that the price to earnings ratio will normalize going forward, as profits are expected to be more in line with where they were prior to 2017, as catastrophe losses will likely decline towards the long-term level.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	15.3%	21.1%	---	14.1%	10.2%	13.0%	16.0%	19.9%	55.5%	116%	***23.9%***	***23.4%***

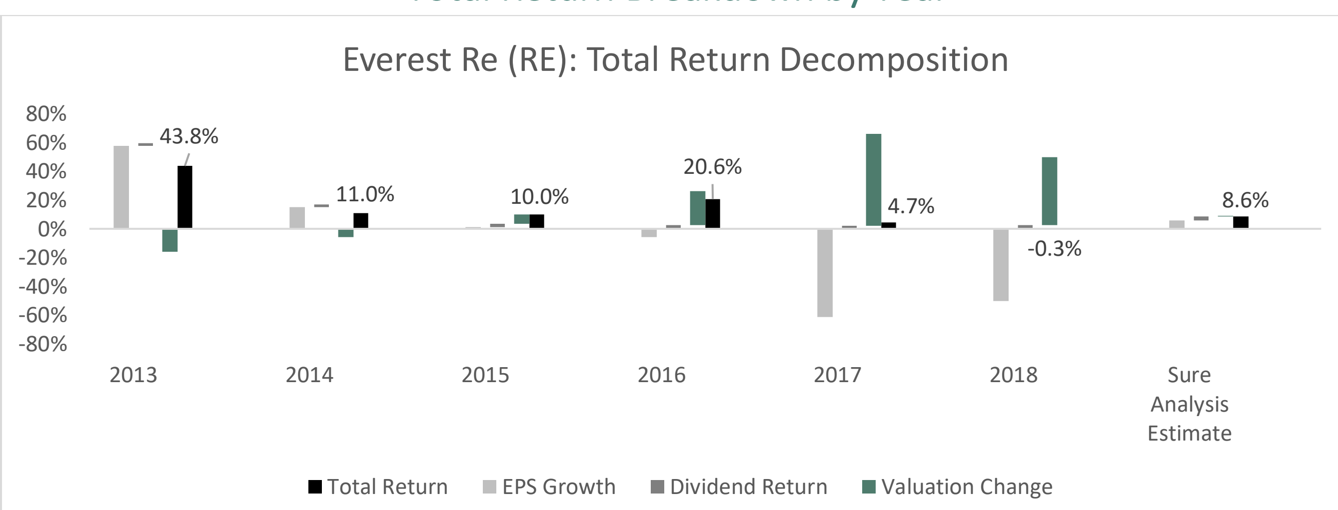
Everest Re's dividend payout ratio has been very low throughout the majority of the last decade. During years when earnings were below average, or nonexistent at all, such as in 2018 and 2011, Everest Re's payout ratio rose to a quite high level. Due to the cash reserves that the company has, Everest Re was nevertheless able to maintain, or even grow, its dividend during those years,. We believe that the risk of a dividend cut is not very high.

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, even 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 widely on a year-over-year basis.

Final Thoughts & Recommendation

Everest Re's results are quite cyclical, even though the company is not vulnerable versus recessions. Due to high-single-digit expected returns, shares earn a hold recommendation from Sure Dividend for those that are not afraid of the wide swings in the company's bottom line.

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.