Everest Re (RE)

Updated October 29th, 2019 by Jonathan Weber

Key Metrics

Current Price:	$254	**5 Year CAGR Estimate:**	5.3%	**Volatility Percentile:**	27.8%
Fair Value Price:	$222	**5 Year Growth Estimate:**	5.8%	**Momentum Percentile:**	66.5%
% Fair Value:	114%	**5 Year Valuation Multiple Estimate:**	-2.6%	**Growth Percentile:**	57.4%
Dividend Yield:	2.2%	**5 Year Price Target**	$295	**Valuation Percentile:**	41.3%
Dividend Risk Score:	B	**Retirement Suitability Score:**	C	**Total Return Percentile:**	32.1%

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 $10 billion.

Everest Re reported its third quarter earnings results on October 28. The company earned net premiums of $1.91 billion during the quarter, which was 17.9% more than the earned premiums that Everest Re generated during the previous year's quarter. Everest Re missed the analyst consensus estimate for its top line number. Everest Re's revenues were also positively impacted by higher investment income, which grew 12% year over year, to $181 million. Everest Re was negatively impacted by higher damages during the quarter, the company's combined ratio stood at 101.4%, which was worse than the combined ratio of 100.0% during the third quarter of 2018.

Everest Re reported adjusted earnings-per-share of $3.39 for the third quarter, which was a lot better than what the analyst community had expected, beating the consensus estimate by $1.17, or roughly 50%. The combination of substantially higher revenues, operating leverage, and relatively low catastrophe losses that came in at only $30 million allowed for above-average profitability during the quarter.

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	***$24.70***	***$32.74***
DPS	$1.92	$1.92	$1.92	$1.92	$2.19	$3.20	$4.00	$4.70	$5.05	$5.30	***$5.60***	***$7.49***
Shares[1]	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 has always been 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 infrequent, the company's earnings generation is quite strong in most 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, as losses relative to premiums increased, which is why total net profits did not grow much. Everest Re has, however, lowered its share count significantly 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 earnings-per-share growth.

The buyback pace has come down a bit recently, but due to solid profitability and large excess cash flows, Everest Re should be able to continuing lowering its share count in the future. On top of that, the company will benefit from growing net premiums that it writes and earns. Rising investment income, which is currently responsible for about 40% of profits, has been a tailwind in the recent past, a trend that will likely persist going forward. The combination of growing premiums, positive investment income growth, and some share repurchases should allow for mid-single-digits earnings-per-share growth over the coming years, we believe.

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[1] In Millions

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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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	***10.3***	***9.0***
Avg. Yld.	2.5%	2.4%	2.3%	1.9%	1.6%	2.0%	2.2%	2.5%	2.1%	2.6%	***2.2%***	***2.5%***

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. Shares look slightly overvalued right now.

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%	***22.7%***	***22.9%***

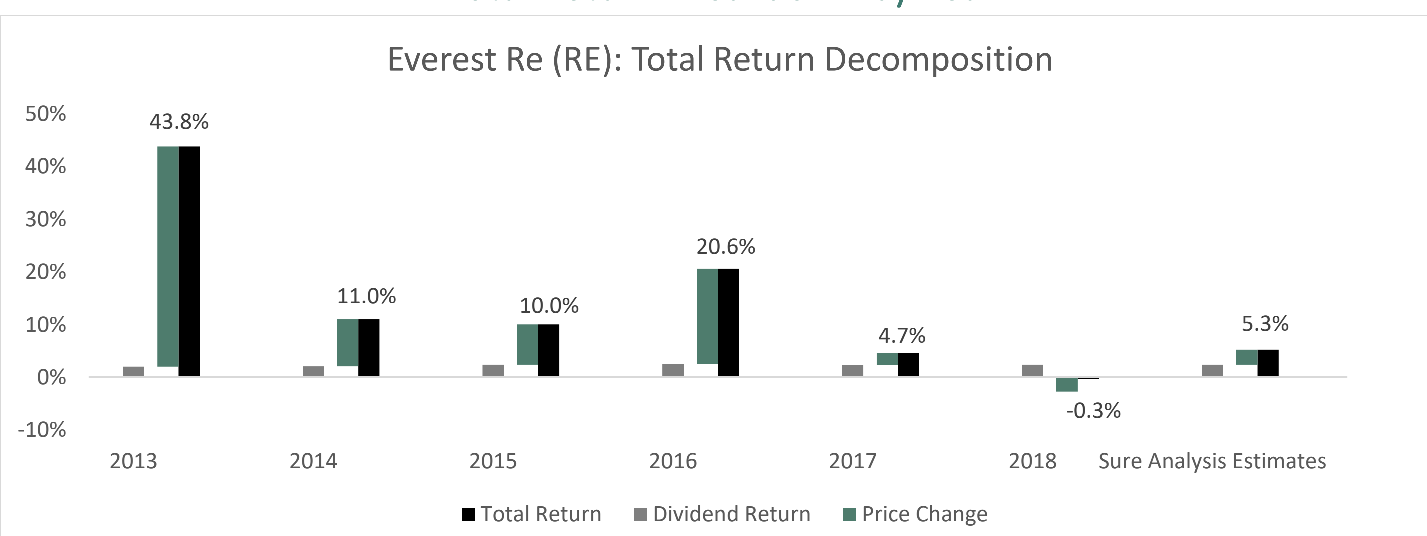
Everest Re's dividend payout ratio was very low during the majority of the last decade. In years when earnings were below average, or nonexistent, such as in 2018 and 2011, Everest Re's payout ratio rose to a high level. Due to the cash reserves that the company has, Everest Re was nevertheless able to maintain, and 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, regardless of economic conditions. Everest Re's results are certainly still cyclical, though. An above-average amount of catastrophic events, or a single very large catastrophic event, leads to increased payouts to insurers. Such events can therefore hurt Everest Re's profitability to a significant degree. Everest Re's results can thus still swing up and down widely on a year-over-year basis.

Final Thoughts & Recommendation

Everest Re is a reinsurer that has recorded solid growth over the last decade, although there were large swings in its profitability. Everest Re was successful during the first nine months of 2019, which should result in solid profitability during the current year, although catastrophic events can always result in weaker-than-expected results. Shares look overvalued right now, which is why we rate Everest Re a sell at the current price.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	4499	4706	4694	4923	5641	5679	5677	5794	6608	7377
SG&A Exp.	946	15	16	24	25	23	23	27	26	31
Net Profit	807	611	-80	829	1259	1199	978	996	469	104
Net Margin	17.9%	13.0%	-1.7%	16.8%	22.3%	21.1%	17.2%	17.2%	7.1%	1.4%
Free Cash Flow	785	918	718	695	1098	1055	1108	1384	1163	610
Income Tax	132	-20	-153	111	290	188	134	104	-64	-330

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	18001	18408	18894	19778	19808	20818	20545	21322	23592	24794
Cash & Equivalents	248	258	449	537	611	437	284	482	635	656
Acc. Receivable	979	845	1658	1897	1994	2069	2377	2504	3193	4006
Total Liabilities	11900	12124	12822	13044	12840	13367	12937	13246	15223	16890
Accounts Payable	53	48	61	163	116	140	173	191	218	218
Long-Term Debt	1018	868	818	1009	488	638	633	633	633	634
Total Equity	6102	6284	6071	6733	6968	7451	7609	8075	8369	7904
D/E Ratio	0.17	0.14	0.13	0.15	0.07	0.09	0.08	0.08	0.08	0.08

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	4.6%	3.4%	-0.4%	4.3%	6.4%	5.9%	4.7%	4.8%	2.1%	0.4%
Return on Equity	14.6%	9.9%	-1.3%	12.9%	18.4%	16.6%	13.0%	12.7%	5.7%	1.3%
ROIC	12.2%	8.6%	-1.1%	11.3%	16.6%	15.4%	12.0%	11.8%	5.3%	1.2%
Shares Out.	59.3	54.4	53.7	51.1	47.4	44.5	42.7	40.9	40.8	40.5
Revenue/Share	73.93	82.87	87.06	94.55	114.99	123.99	129.62	139.19	161.79	181.77
FCF/Share	12.90	16.17	13.31	13.34	22.39	23.03	25.31	33.24	28.47	15.03

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