Everest Re (RE)

Updated February 13th, 2020 by Jonathan Weber

Key Metrics

Current Price:	$289	**5 Year CAGR Estimate:**	2.7%	**Market Cap:**	$11.7B
Fair Value Price:	$218	**5 Year Growth Estimate:**	5.8%	**Ex-Dividend Date:**	03/05/20[1]
% Fair Value:	133%	**5 Year Valuation Multiple Estimate:**	-5.5%	**Dividend Payment Date:**	03/20/20[2]
Dividend Yield:	2.1%	**5 Year Price Target**	$291	**Years Of Dividend Growth:**	6
Dividend Risk Score:	B	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	10.7%

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 about $12 billion.

Everest Re reported its fourth quarter earnings results on February 10. The company wrote gross premiums of $2.4 billion during the quarter, which was 7% more than the written premiums that Everest Re generated during the previous year's quarter. Everest Re beat the analyst consensus estimate for its top line number, as revenues came in at $2.2 billion. Everest Re's revenues were positively impacted by higher investment income, which grew to $146 million. Everest Re was impacted by high damages during the quarter, the company's combined ratio stood at 101.5%, which was still better than the combined ratio of 134.1% during the fourth quarter of 2018, though.

Everest Re reported adjusted earnings-per-share of $3.20 for the fourth quarter, which was a lot better than what the analyst community had expected, beating the consensus estimate by $0.62, or roughly 20%. The combination of substantially higher revenues, and operating leverage offset some of the above-average catastrophe losses, which is how Everest Re was able to remain more profitable compared to what analysts had feared.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	$9.08	---	$13.62	$21.47	$24.71	$25.04	$23.61	$9.10	$4.52	$21.34	***$24.20***	***$32.39***
DPS	$1.92	$1.92	$1.92	$2.19	$3.20	$4.00	$4.70	$5.05	$5.30	$5.75	***$6.20***	***$8.70***
Shares[3]	54.4	53.7	51.1	47.4	44.5	42.7	40.9	40.8	40.5	40.4	***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 continue its share count reduction 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 as well, a trend that will likely persist going forward. The combination of growing

[1] Estimated date
[2] Estimated date
[3] 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.

premiums, positive investment income growth, and some share repurchases should allow for mid-single-digit earnings-per-share growth over the coming years, we believe.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	8.9	---	7.4	6.3	6.5	8.1	8.1	26.7	47.8	13.0	***11.9***	***9.0***
Avg. Yld.	2.4%	2.3%	1.9%	1.6%	2.0%	2.2%	2.5%	2.1%	2.6%	2.1%	***2.1%***	***3.0%***

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, though, 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 somewhat overvalued right now.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	21.1%	---	14.1%	10.2%	13.0%	16.0%	19.9%	55.5%	116%	26.9%	***25.6%***	***26.8%***

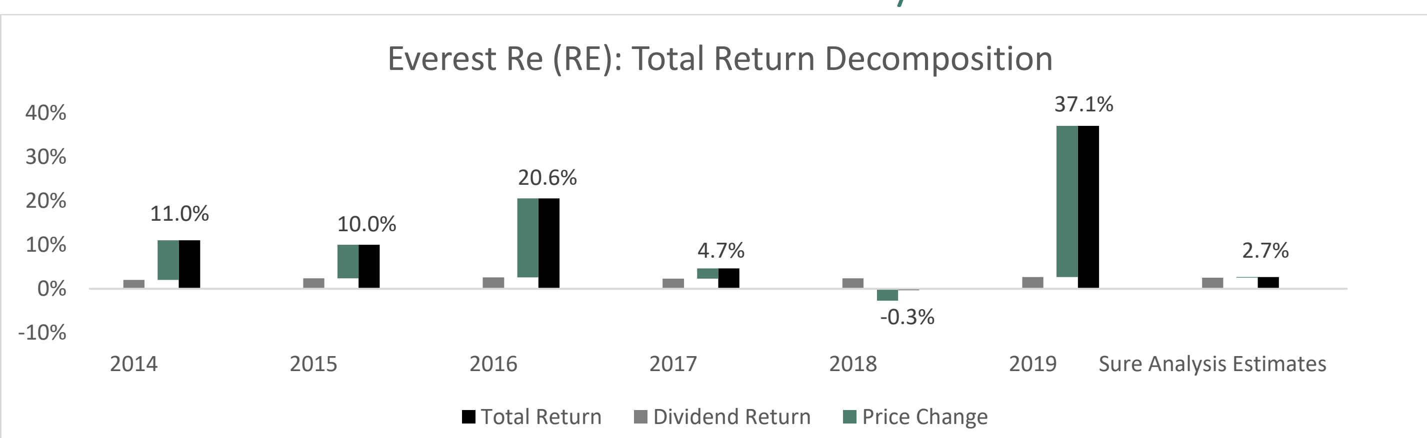
Everest Re's dividend payout ratio was very low during the majority of the last decade. In years when earnings were below average, or nonexistent, such as in 2018 and 2011, Everest Re's payout ratio rose to a high level. Due to the cash reserves that the company has, Everest Re was nevertheless able 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 fiscal 2019, and 2020 will likely be an even more profitable year for the company, although unforeseen 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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	4,706	4,694	4,923	5,641	5,679	5,677	5,794	6,608	7,377	8,231
SG&A Exp.	15	16	24	25	23	23	27	26	31	33
Net Profit	611	(80)	829	1,259	1,199	978	996	469	104	1,009
Net Margin	13.0%	-1.7%	16.8%	22.3%	21.1%	17.2%	17.2%	7.1%	1.4%	12.3%
Free Cash Flow	918	718	695	1,098	1,055	1,108	1,384	1,163	610	1,852
Income Tax	(20)	(153)	111	290	188	134	104	(64)	(330)	90

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	18,408	18,894	19,778	19,808	20,818	20,545	21,322	23,592	24,794	27,324
Cash & Equivalents	258	449	537	611	437	284	482	635	656	808
Acc. Receivable	845	1,658	1,897	1,994	2,069	2,377	2,504	3,193	4,006	4,023
Total Liabilities	12,124	12,822	13,044	12,840	13,367	12,937	13,246	15,223	16,890	18,191
Accounts Payable	48	61	163	116	140	173	191	218	218	292
Long-Term Debt	868	818	1,009	488	638	633	633	633	634	634
Total Equity	6,284	6,071	6,733	6,968	7,451	7,609	8,075	8,369	7,904	9,133
D/E Ratio	0.14	0.13	0.15	0.07	0.09	0.08	0.08	0.08	0.08	0.07

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	3.4%	-0.4%	4.3%	6.4%	5.9%	4.7%	4.8%	2.1%	0.4%	3.9%
Return on Equity	9.9%	-1.3%	12.9%	18.4%	16.6%	13.0%	12.7%	5.7%	1.3%	11.9%
ROIC	8.6%	-1.1%	11.3%	16.6%	15.4%	12.0%	11.8%	5.3%	1.2%	11.0%
Shares Out.	54.4	53.7	51.1	47.4	44.5	42.7	40.9	40.8	40.5	40.4
Revenue/Share	82.87	87.06	94.55	114.99	123.99	129.62	139.19	161.79	181.77	201.40
FCF/Share	16.17	13.31	13.34	22.39	23.03	25.31	33.24	28.47	15.03	45.32

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