Everest Re (RE)

Updated November 8th, 2021 by Jonathan Weber

Key Metrics

Current Price:	$274	**5 Year CAGR Estimate:**	2.8%	**Market Cap:**	$11B
Fair Value Price:	$252	**5 Year Growth Estimate:**	2.0%	**Ex-Dividend Date:**	12/05/21[1]
% Fair Value:	109%	**5 Year Valuation Multiple Estimate:**	-1.7%	**Dividend Payment Date:**	12/20/21[2]
Dividend Yield:	2.3%	**5 Year Price Target**	$278	**Years Of Dividend Growth:**	8
Dividend Risk Score:	A	**Retirement Suitability Score:**	B	**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, and is headquartered in Hamilton, Bermuda.

Everest Re reported its third quarter earnings results on October 27. The company earned revenues of $2.9 billion during the quarter, which was 12% more than the revenues 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 $90 million ahead of estimates during the quarter. The company managed to grow its gross written premiums by 25% year over year, which bodes well for future revenue growth in upcoming quarters. The company's attritional combined ratio stood at 88%, which was slightly better than during the previous quarter.

Everest Re reported an adjusted loss-per-share of $1.34 for the third quarter, which actually beat estimates by $0.20. The net loss was caused by higher-than-average catastrophe losses, with Hurricane Ida and floods in Europe being the biggest drivers. 2020 was a major down year for the company profit-wise, but despite the net loss during the third quarter, it looks like Everest Re will have a pretty strong 2021 overall.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	---	$13.62	$21.47	$24.71	$25.04	$23.61	$9.10	$4.52	$21.34	$7.40	***$28.00***	***$30.91***
DPS	$1.92	$1.92	$2.19	$3.20	$4.00	$4.70	$5.05	$5.30	$5.75	$6.20	***$6.20***	***$7.91***
Shares[3]	53.7	51.1	47.4	44.5	42.7	40.9	40.8	40.5	40.4	40.3	***40.2***	***38.5***

Everest Re's profitability has always been quite uneven. As a combined insurer/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, although its profits have not hit the levels seen a couple of years ago since, mainly due to two quite weak years in 2017 and 2018, when catastrophe losses were well above the norm.

Everest Re has managed to grow its net premiums at a steady pace in recent years, which positions the company well to reap benefits in the future. On top of that, Everest Re has repurchased shares at a very meaningful pace over the last decade, although repurchase activity has slowed down over the last couple of years. 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 in the long run. The combination of growing premiums, positive investment income growth, and some share repurchases should allow for some earnings-per-share growth, but profits will likely remain volatile on a year-over-year basis.

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[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.

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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	---	7.4	6.3	6.5	8.1	8.1	26.7	47.8	13.0	31.6	***9.8***	***9.0***
Avg. Yld.	2.3%	1.9%	1.6%	2.0%	2.2%	2.5%	2.1%	2.6%	2.1%	2.6%	***2.3%***	***2.8%***

Everest Re has been valued at a relatively low valuation throughout the majority of the last decade. In 2017, 2018, and 2020, 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 future profits are expected to be much higher compared to these below-average years. Shares do trade slightly above fair value right now, we believe.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	14.1%	10.2%	13.0%	16.0%	19.9%	55.5%	116%	26.9%	83.8%	***22.1%***	***25.6%***

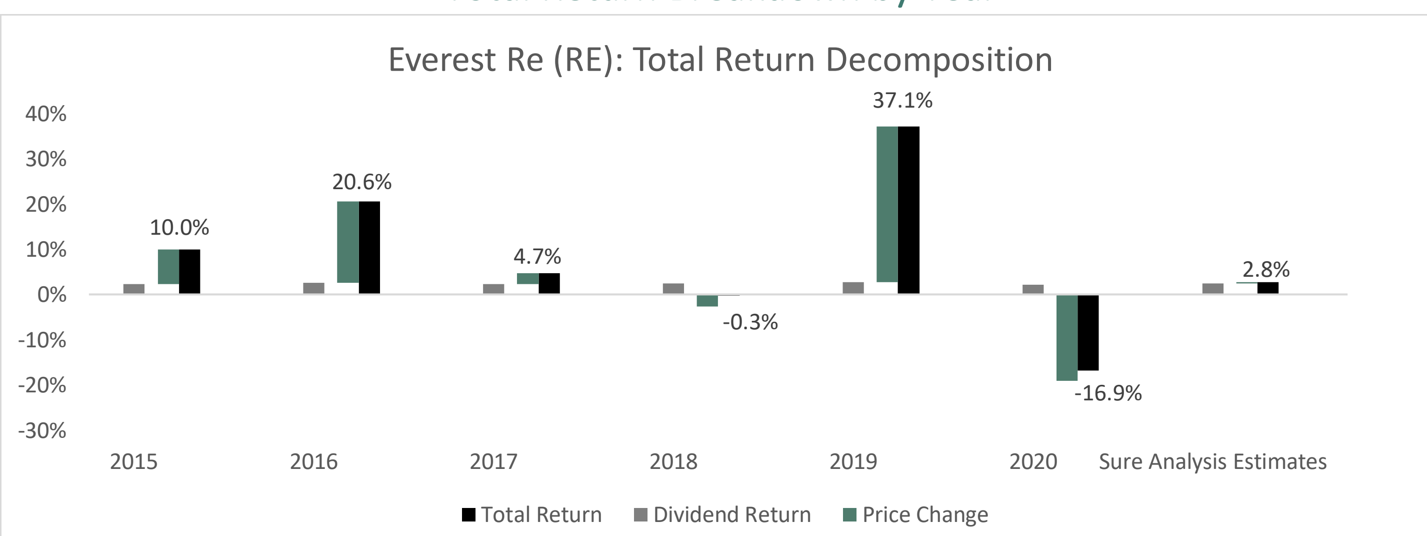
Everest Re's dividend payout ratio was very low during the majority of the last decade. In years when earnings were below average, or nonexistent, such as in 2018 and 2020, Everest Re's payout ratio rose to a high level. Due to the cash reserves that the company has, Everest Re was nevertheless able 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 exceptionally large catastrophic event, such as a major hurricane, leads to increased payouts, however. 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 an insurer/reinsurer that has recorded attractive business growth over the last decade, although there were large swings in its profitability. Everest Re didn't have a strong fiscal 2020, mostly due to pandemic-related claims. We see a steep recovery in Everest Re's profitability in 2021 and beyond, however. Shares look slightly overvalued right here. Due to not very attractive return expectations we rate Everest Re a sell at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	4,694	4,923	5,641	5,679	5,677	5,794	6,622	7,361	8,231	9,598
SG&A Exp.	16	24	25	23	23	27	26	31	33	41
Net Profit	(80)	829	1,259	1,199	978	996	483	89	1,009	514
Net Margin	-1.7%	16.8%	22.3%	21.1%	17.2%	17.2%	7.3%	1.2%	12.3%	5.4%
Free Cash Flow	718	695	1,098	1,055	1,108	1,384	1,163	610	1,852	2,874
Income Tax	(153)	111	290	188	134	104	(63)	(331)	90	71

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	18,894	19,778	19,808	20,818	20,545	21,322	23,592	24,751	27,324	32,788
Cash & Equivalents	449	537	611	437	284	482	635	656	808	802
Acc. Receivable	1,658	1,897	1,994	2,069	2,377	2,504	3,193	3,971	4,023	4,675
Total Liabilities	12,822	13,044	12,840	13,367	12,937	13,246	15,223	16,890	18,191	23,062
Accounts Payable	61	163	116	140	173	191	218	218	292	294
Long-Term Debt	818	1,009	488	638	633	633	633	634	634	1,910
Total Equity	6,071	6,733	6,968	7,451	7,609	8,075	8,369	7,861	9,133	9,726
D/E Ratio	0.13	0.15	0.07	0.09	0.08	0.08	0.08	0.08	0.07	0.20

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	-0.4%	4.3%	6.4%	5.9%	4.7%	4.8%	2.1%	0.4%	3.9%	1.7%
Return on Equity	-1.3%	12.9%	18.4%	16.6%	13.0%	12.7%	5.9%	1.1%	11.9%	5.5%
ROIC	-1.1%	11.3%	16.6%	15.4%	12.0%	11.8%	5.5%	1.0%	11.1%	4.8%
Shares Out.	53.7	51.1	47.4	44.5	42.7	40.9	40.8	40.5	40.4	40.3
Revenue/Share	87.06	94.55	114.9	123.99	129.62	139.19	162.14	181.38	203.64	241.56
FCF/Share	13.31	13.34	22.39	23.03	25.31	33.24	28.47	15.03	45.82	72.32

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