W. R. Berkley Corporation (WRB)

Updated December 27th, 2022, by Yiannis Zourmpanos

Key Metrics

Current Price:	$74	**5 Year CAGR Estimate:**	12.8%	**Market Cap:**	$19.9B
Fair Value Price:	$87	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	03/09/2023
% Fair Value:	85%	**5 Year Valuation Multiple Estimate:**	3.4%	**Dividend Payment Date:**	03/24/2023
Dividend Yield:	1.2%	**5 Year Price Target:**	$86.9	**Years Of Dividend Growth:**	17
Dividend Risk Score:	A	**Retirement Suitability Score:**	C	**Rating:**	Buy

Overview & Current Events

W.R. Berkley is an insurance holding company operating through a wide range of subsidiaries in the commercial casualty insurance segment. The firm primarily operates in two business segments: Insurance and Reinsurance. The insurance segment is the company's main focus, accounting for 87.4% of the total net premiums written in 2021. The company mainly underwrites commercial insurance businesses across the United States.

On October 24, 2022, W.R. Berkley announced its Q3 2022 result, posting revenues of $2.7 billion, up 12.4% from $2.4 billion in Q3 2021. The diluted earnings per share for the quarter was reported at $1.01, beating market estimates by $0.16. The operating income stood at $282 million, up 14.2% from last year's period.

The management, in its comment on the results, mentioned that the company continued to do well during Q3 despite the headwinds faced on an industry-wide basis. The company believes the market is still cyclical, with various product lines at different stages of the cycle. The specialty segment remains an attractive pocket for the management, with Excess & Surplus lines (E&S) being especially attractive.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$1.17	$1.36	$1.60	$1.52	$1.52	$1.08	$1.79	$2.03	$1.55	$3.40	***$4.35***	***$6.38***
DPS	$0.16	$0.17	$0.19	$0.20	$0.22	$0.24	$0.26	$0.28	$0.31	$0.34	***$0.89***	***$1.78***
Shares	306.0	297.5	285.2	277.4	272.7	273.4	274.5	275.1	266.7	265.2	***270.0***	***253.8***

Insurance is one of the biggest industries in the global economy and is among those sectors that continue to do well despite a turbulent macro-environment. With approximately 30% of WRB's premiums generated in excess and surplus lines, the company has positioned itself well for growth with its focus on the specialty sector, which is relatively less competitive and still underpenetrated with a lot of room for growth. The company is posting record profits in 2022 as it benefits from increasing interest rates which translate into higher returns on bonds and increasing investment income for the company. The has managed to grow. The company is benefiting from rising interest rates and is set to achieve strong growth in the coming years. WRB has been able to grow its EPS at an impressive CAGR of 32.1% during 2017-2022. Going forward, we believe the company is well-positioned and is forecasting a 8.0% growth in EPS through 2027. In addition, we believe the company will be able to grow its dividends at a healthy pace in the future and have assumed a dividend growth rate of 15.0% for the next five years.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Avg. P/E	14.2	13.9	12.8	15.3	16.8	28.4	18.6	21.1	26.5	14.7	***17.0***	***20.0***
Avg. Yld.	1.0%	0.9%	0.9%	0.9%	0.9%	0.8%	0.8%	0.7%	0.8%	0.7%	***1.2%***	***1.4%***

W.R. Berkley is trading at a forward P/E of 17.0, slightly lower than the company's five-year average P/E of 21.9. There is a potential for multiple re-rating given the company's prospect for growth in the specialty sector. We have assumed a P/E of 20.0 to value the company in 2027, in line with the company's 5-year average P/E.

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Safety, Quality, Competitive Advantage, & Recession Resiliency

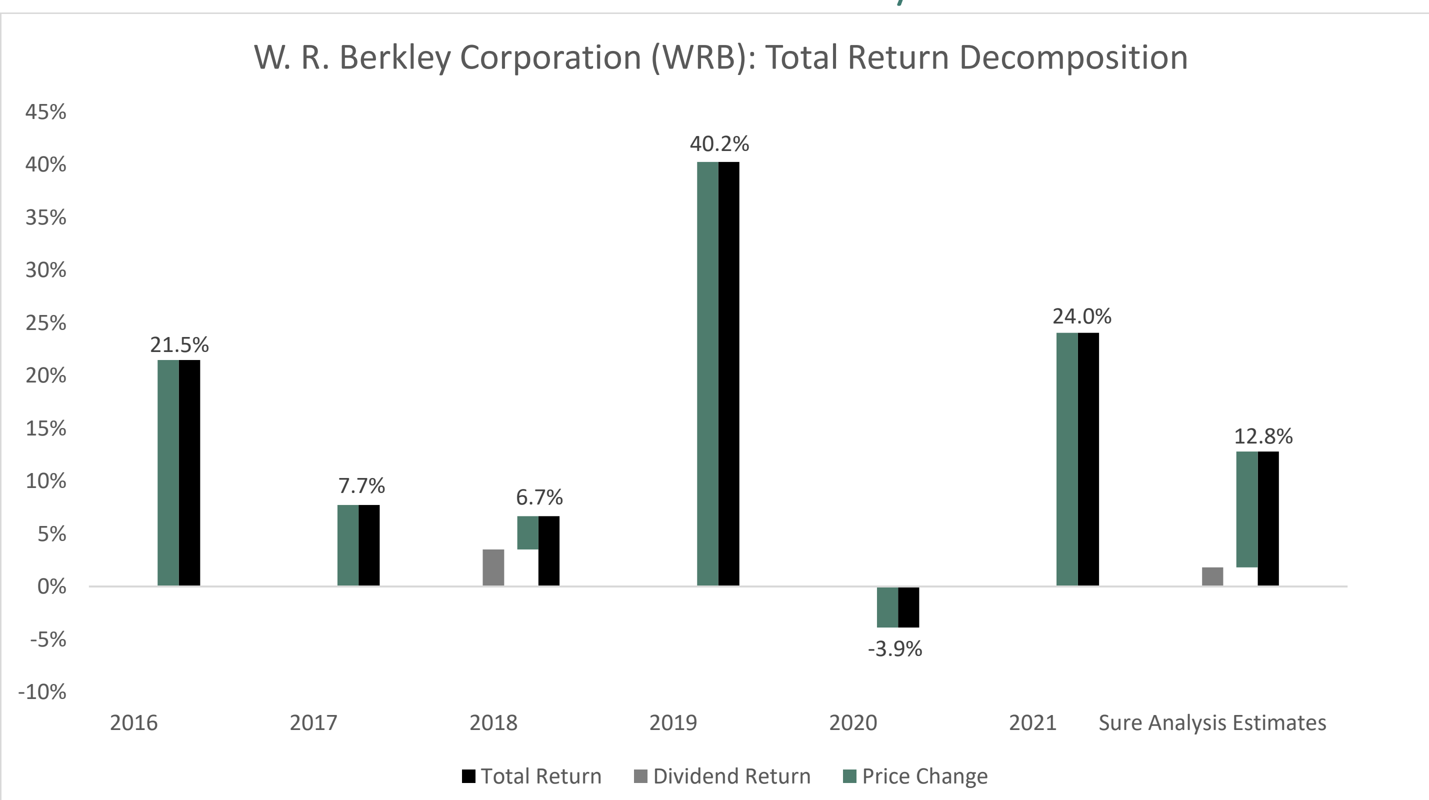
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	14%	13%	12%	13%	14%	22%	15%	14%	20%	10%	***20%***	***15%***

Insurance in general, specifically the Property & Casualty (P&C) sub-segment, is ubiquitous, essentially mandatory, and therefore considered relatively recession-resistant. Moreover, the data for direct written premiums or DWP suggests that it (the equivalent of insurance industry gross revenue) either remains broadly stable or continues to go up even during weak cycles of the global economy as most businesses and consumers require insurance during good times and bad. The company also remains focused on providing shareholder returns with its buyback of stock and dividend payments. In 2022 YTD, WRB distributed about $209 million in dividend payments to shareholders and bought $7 million worth of its stock during Q3 2022. The company's five-year average payout ratio stands at 16.1%, and WEB has grown dividends at an impressive CAGR of 29.9% from 2017-2022. Moreover, WRB has paid an increased dividend to shareholders for the last 17 years.

Final Thoughts & Recommendation

The Fed takes action by raising interest rates to reduce inflation. W.R. Berkeley benefits from increasing interest rates since it obtains a larger yield on new bonds when rates have increased. The predicted growth rate for earnings per share is in the low double digits and WRB stock valuation is attractive. As an insurance company operating in the specialty segment, we believe that the company is well-positioned to continue to do well in the near term. Accordingly, our Buy rating is premised upon the 12.8% annualized total returns for the medium-term, with the forecasted earnings-per-share growth of 8.0% and 1.2% dividend yield.

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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	5,583	6,011	7,129	6,785	7,666	7,669	7,719	7,933	8,099	9,481
D&A Exp.	103	103	89	85	86	113	131	113	135	130
Net Profit	511	500	649	504	602	549	641	682	531	1,022
Net Margin	9.1%	8.3%	9.1%	7.4%	7.9%	7.2%	8.3%	8.6%	6.6%	10.8%
Free Cash Flow	635	757	693	818	798	595	570	1,083	1,579	2,117
Income Tax	191	194	303	228	293	219	163	169	172	252

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	20,156	20,552	21,717	21,731	23,365	24,300	24,896	26,662	28,607	32,086
Cash & Equivalents	906	840	674	764	795	950	818	1,024	2,372	1,569
Acc. Receivable	2,891	3,091	3,155	3,202	3,446	3,557	3,740	4,131	4,592	5,446
Goodwill & Int.	88	110	151	153	145	179	173	170	170	170
Total Liabilities	15,820	16,182	17,093	17,098	18,284	18,849	19,416	20,544	22,281	25,419
Accounts Payable	316	277	237	225	213	246	257	360	426	515
Long-Term Debt	2,115	2,032	2,456	2,185	2,488	2,497	2,790	2,626	2,725	3,267
Total Equity	4,306	4,336	4,590	4,600	5,047	5,411	5,438	6,075	6,311	6,653
LTD/E Ratio	0.49	0.47	0.54	0.48	0.49	0.46	0.51	0.43	0.43	0.49

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	2.6%	2.5%	3.1%	2.3%	2.7%	2.3%	2.6%	2.6%	1.9%	3.4%
Return on Equity	12.4%	11.6%	14.5%	11.0%	12.5%	10.5%	11.8%	11.8%	8.6%	15.8%
ROIC	8.4%	7.8%	9.6%	7.2%	8.4%	7.1%	7.9%	8.0%	6.0%	10.8%
Shares Out.	306.0	297.5	285.2	277.4	272.7	273.4	274.5	275.1	266.7	265.2
Revenue/Share	17.31	18.98	23.71	23.16	26.50	26.42	26.75	27.33	28.60	33.89
FCF/Share	1.97	2.39	2.30	2.79	2.76	2.05	1.98	3.73	5.57	7.57

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