Everest Re (RE)

Updated February 22nd, 2023 by Jonathan Weber

Key Metrics

Current Price:	$382	**5 Year CAGR Estimate:**	6.8%	**Market Cap:**	$15B
Fair Value Price:	$470	**5 Year Growth Estimate:**	1.0%	**Ex-Dividend Date:**	03/05/23[1]
% Fair Value:	81%	**5 Year Valuation Multiple Estimate:**	4.2%	**Dividend Payment Date:**	03/20/23[2]
Dividend Yield:	1.7%	**5 Year Price Target**	$494	**Years Of Dividend Growth:**	1
Dividend Risk Score:	A	**Retirement Suitability Score:**	C	**Rating:**	Hold

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 fourth quarter earnings results on February 8. The company earned revenues of $3.3 billion during the quarter, which was 5% more than the revenues that Everest Re generated during the previous year's quarter. The company managed to grow its gross written premiums by 9% year over year in constant currencies, primarily in the insurance space (21%, versus 4% for reinsurance), which bodes well for future revenue growth in upcoming quarters. The company's attritional combined ratio stood at 87%, which was way lower than during the previous quarter, thanks to fewer catastrophes during the period.

Everest Re reported adjusted earnings-per-share of $12.21 for the fourth quarter. The strong profitability was caused by lower-than-average catastrophe losses compared to the previous year's quarter and the prior quarter, where Hurricane Ian had a major impact. 2022 was a solid year for the company profit-wise, and it is expected that profits will grow quite a lot this year, to the highest level in a decade, according to the Wall Street consensus estimate.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$21.47	$24.71	$25.04	$23.61	$9.10	$4.52	$21.34	$7.40	$28.90	$27.08	***$47.00***	***$49.40***
DPS	$2.19	$3.20	$4.00	$4.70	$5.05	$5.30	$5.75	$6.20	$6.20	$6.60	***$6.60***	***$7.65***
Shares[3]	47.4	44.5	42.7	40.9	40.8	40.5	40.4	40.3	40.2	39.2	***39.0***	***38.0***

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

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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	6.3	6.5	8.1	8.1	26.7	47.8	13.0	31.6	9.5	12.2	***8.1***	***10.0***
Avg. Yld.	1.6%	2.0%	2.2%	2.5%	2.1%	2.6%	2.1%	2.6%	2.3%	2.0%	***1.7%***	***1.5%***

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 not be very high in the future. Based on current earnings-per-share estimates for this year, shares do trade below our fair value estimate right now.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	10.2%	13.0%	16.0%	19.9%	55.5%	116%	26.9%	83.8%	21.5%	24.4%	***14.0%***	***15.5%***

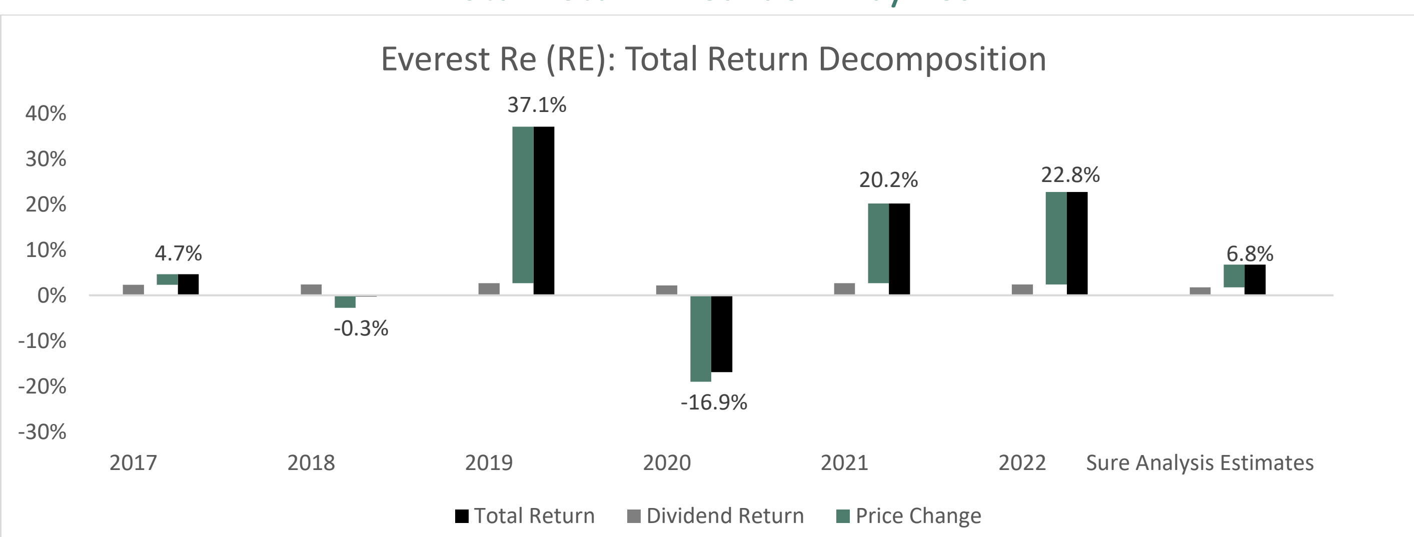
Everest Re's dividend payout ratio was very low during the majority of the last decade. In years when earnings were below average, or nonexistent, such as in 2018 and 2020, Everest Re's payout ratio rose to a high level. Due to the cash reserves that the company has, Everest Re was nevertheless able 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 did have a solid fiscal 2021 and 2022, as catastrophe losses declined versus 2020. Everest Re is forecasted to generate much stronger earnings-per-share in 2023, due to the impact of higher interest rates and premium growth. Shares trade below fair value today, and we rate Everest Re a hold today.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	4,923	5,641	5,679	5,677	5,794	6,622	7,268	8,125	9,485	11,301
SG&A Exp.	24	25	23	23	27	26	31	33	41	68
Net Profit	829	1,259	1,199	978	996	483	89	1,009	514	1,379
Net Margin	16.8%	22.3%	21.1%	17.2%	17.2%	7.3%	1.2%	12.4%	5.4%	12.2%
Free Cash Flow	695	1,098	1,055	1,108	1,384	1,163	610	1,852	2,874	3,833
Income Tax	111	290	188	134	104	(63)	(331)	90	71	167

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	19,778	19,808	20,818	20,545	21,322	23,592	24,751	27,324	32,712	38,185
Cash & Equivalents	537	611	437	284	482	635	656	808	802	1,441
Acc. Receivable	1,897	1,994	2,069	2,377	2,504	3,193	3,971	4,023	4,675	5,347
Total Liabilities	13,044	12,840	13,367	12,937	13,246	15,223	16,890	18,191	22,985	28,046
Accounts Payable	163	116	140	173	191	218	218	292	294	450
Long-Term Debt	1,009	488	638	633	633	633	634	634	1,910	3,089
Total Equity	6,733	6,968	7,451	7,609	8,075	8,369	7,861	9,133	9,726	10,139
LTD/E Ratio	0.15	0.07	0.09	0.08	0.08	0.08	0.08	0.07	0.20	0.30

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	4.3%	6.4%	5.9%	4.7%	4.8%	2.1%	0.4%	3.9%	1.7%	3.9%
Return on Equity	12.9%	18.4%	16.6%	13.0%	12.7%	5.9%	1.1%	11.9%	5.5%	13.9%
ROIC	11.3%	16.6%	15.4%	12.0%	11.8%	5.5%	1.0%	11.1%	4.8%	11.1%
Shares Out.	51.1	47.4	44.5	42.7	40.9	40.8	40.5	40.4	40.3	40.2
Revenue/Share	94.55	114.99	123.99	129.62	139.19	162.14	179.08	201.02	238.72	287.53
FCF/Share	13.34	22.39	23.03	25.31	33.24	28.47	15.03	45.82	72.32	97.53

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