



RenaissanceRe Holdings Ltd. (RNR)

Updated February 1st, 2023, by Nikolaos Sismanis

Key Metrics

Current Price:	\$201	5 Year CAGR Estimate:	1.9%	Market Cap:	\$8.81 B
Fair Value Price:	\$120	5 Year Growth Estimate:	12.0%	Ex-Dividend Date¹:	03/14/23
% Fair Value:	167%	5 Year Valuation Multiple Estimate:	-9.7%	Dividend Payment Date¹:	03/30/23
Dividend Yield:	0.7%	5 Year Price Target	\$212	Years Of Dividend Growth:	27
Dividend Risk Score:	A	Retirement Suitability Score:	C	Rating:	Sell

Overview & Current Events

Established in 1993 and headquartered in Bermuda, RenaissanceRe Holdings Ltd. is a global provider of reinsurance and insurance. The company provides property, casualty and specialty reinsurance through RenaissanceRe along with joint ventures including DaVinci, Top Layer Re, Starbound, Glencoe Group and Starbound II. Approximately half of premiums earned are attributable to property policies, with the remainder allocated to casualty and specialty. The \$8.81 billion market cap company has increased its dividend for 27 consecutive years.

On January 31st, 2023, RenaissanceRe reported its Q4-2022 and full-year results for the period ending December 31st, 2022. For the quarter, total revenues equaled \$2.0 billion, 43.8% higher compared to Q4-2021. Note that the increase is rather misleading, as it includes RenaissanceRe's bond portfolio being marked-to-market upwards as a result of the modest reduction in interest rates on medium-term U.S. treasuries, as well as the narrowing of credit spreads on the corporate and high-yield fixed maturity portfolios. Higher investment income due to increased yields in fixed-maturity trading also boosted results.

For the quarter, the company also reported a net income of \$448.0 million or \$10.30 per share compared to a net income of \$210.9 million or \$4.65 per share in last year's comparable period as a result of such adjustments in investments.

RenaissanceRe ended the year with a book value of \$104.65 and a tangible book value of \$98.81. With accumulated dividends, TBV/share reached \$123.81. For FY-2023, we are assuming underlying earnings power of \$16.00 per share.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
BPS	\$84.11	\$90.42	\$99.13	\$108.45	\$99.73	\$104.13	\$120.53	\$138.46	\$132.17	\$104.65	\$104.65	\$184.43
EPS	\$14.08	\$11.56	\$10.86	\$8.03	(\$8.35)	\$9.17	\$9.13	\$0.12	\$1.72	\$7.30	\$16.00	\$20.42
DPS	\$1.12	\$1.16	\$1.20	\$1.24	\$1.28	\$1.32	\$1.36	\$1.40	\$1.44	\$1.48	\$1.48	\$1.68
Shares²	41.7	38.3	43.7	41.2	40	42.2	44.2	50.1	44.7	42.8	42.8	40.0

Note that the EPS figures above indicate operating earnings, excluding the impact of investment gains and losses. Even so, results have been volatile due to the unknown nature of catastrophe timing, with 2020 being a prime example. As such, we are presenting book value per share and using this for valuation, which has been much more consistent.

Excluding the plunge in book value in 2022 due to adjustments in the value of the company's holdings, book value has historically grown nicely. In the 2012 through 2021 stretch, RenaissanceRe grew book value per share by 7.3% per year. Solid profitability over the long-term and a low dividend payout ratio has allowed funds to compound internally at a reasonable rate. Earnings have not improved significantly over the years, but we do not view this as a tragic outcome for an insurer. In this industry, it can be tempting to underprice policies to chase growth in the short term, as the cost of policies is not known for years. We prefer a slow, steady, and profitable approach where premiums-written wax and wane with the attractiveness of policy pricing at the time.

¹ Estimate.

² In millions.

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We believe the company will start benefiting more significantly from rising rates moving forward as its portfolio rolls over as we advance. Taking all factors into consideration, we are forecasting a 12% annual growth in book value per share from its current levels.

During FY2021 and FY2022, RenaissanceRe repurchased \$1 billion and ~\$340 million worth of stock, respectively. We expect the company's aggressive buyback program to boost book value and earnings per share over time.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/B	106%	110%	106%	109%	140%	125%	142%	124%	113%	152%	192%	115%
Avg. Yld.	1.3%	1.2%	1.1%	1.0%	0.9%	1.0%	0.8%	0.9%	0.9%	0.9%	0.7%	0.8%

Over the past decade, shares of RenaissanceRe have traded hands with an average price-to-book-value of 123%. We believe 115% of book value is a fair valuation, implying a small premium that prices in the expected growth in book value ahead. With shares presently trading at 192% of the company's underlying book value, the stock appears to be trading at a steep premium. While the current P/B metric reflects investors' expectations for book value to normalize once the company's bonds roll over, we still find RenaissanceRe rather overvalued and forecast valuation headwinds. Meanwhile, the dividend has increased by \$0.04 annually, dating back to 2005. While the current yield of 0.7% is uninspiring, the dividend growth track record is noteworthy.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	8%	10%	11%	15%	-15%	14%	15%	---	84%	20%	9%	8%

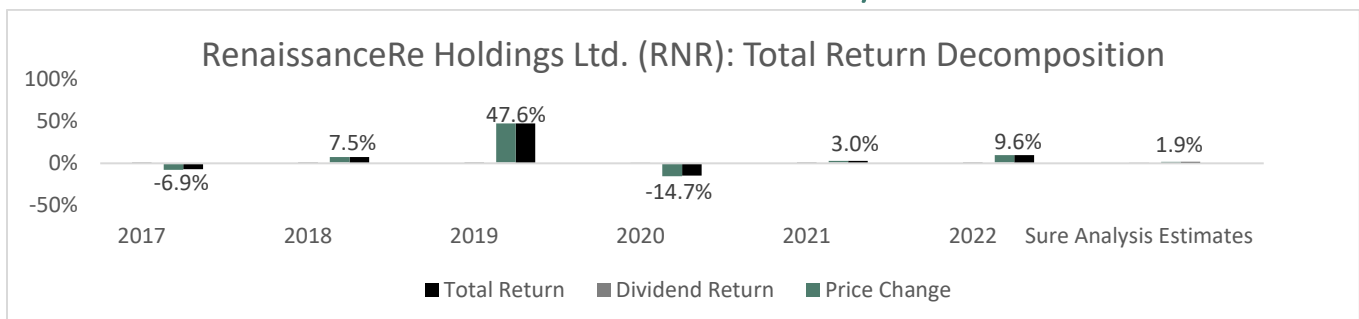
RenaissanceRe has a unique dividend policy of paying out a small fraction of earnings and increasing this payment by a small amount each year. We believe this is prudent, given the volatility of the industry. Moreover, it allows the business to keep paying and increasing its payment, even in years when the company posts a loss. It also allows for flexibility in the pace of buybacks based on the company's excess cash generation.

While RenaissanceRe has a respectable history, we do not believe the company has a material competitive advantage. Insurance and reinsurance are commodity-like products, with the same policy not commanding a premium.

Final Thoughts & Recommendation

RenaissanceRe is a strong business with a notable dividend history and a solid but, at times, volatile operating record. Total return potential comes in at 1.9% per annum, stemming from 12% expected growth in book value per share, the 0.7% dividend yield, and strong valuation headwinds. We once again note that while book value is likely to rebound firmly amid adjustments in its investment portfolio, RenaissanceRe investors have likely hyperbolized the potential of these adjustments. The stock earns a sell rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	1401	1357	1234	1495	1727	2096	2056	4179	5155	5265
SG&A Exp.	196	225	213	296	235	179	212	317	304	253
D&A Exp.	60	52	48	18	29	31	0	-59	17	-21
Net Profit	601	691	533	431	503	-222	227	749	762	-40
Net Margin	42.9%	50.9%	43.2%	28.8%	29.1%	10.6%	11.1%	17.9%	14.8%	-0.8%
Free Cash Flow	717	796	661	425	485	1026	1222	2137	1993	1235
Income Tax	1	2	1	-46	0	26	-6	17	2.9	-10.7

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	7929	8179	8204	11555	12352	15226	18676	26330	30820	33960
Cash & Equivalents	304	408	526	507	421	1362	1108	1379	1737	1859
Accounts Receivable	684	575	507	913	1267	2891	3909	5391	5821	8050
Goodwill & Int. Ass.	8	8	8	265	251	243	237	262	250	244
Total Liabilities	4422	4275	4338	6823	7486	10835	13631	20359	23260	23780
Accounts Payable	290	293	455	524	674	989	1902	2831	3488	3861
Long-Term Debt	349	249	250	960	949	990	991	1384	1136	1168
Shareholder's Equity	3103	3504	3466	4332	4467	3991	4395	5321	7035	5874
LTD/E Ratio	0.10	0.06	0.06	0.20	0.19	0.23	0.20	0.23	0.15	0.18

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	7.7%	8.6%	6.5%	4.4%	4.2%	-1.6%	1.3%	3.3%	2.7%	-0.1%
Return on Equity	19.5%	20.9%	15.3%	11.1%	11.4%	-5.3%	5.4%	15.4%	12.3%	0.6%
ROIC	15.4%	17.2%	12.9%	8.8%	8.7%	-4.0%	4.0%	11.2%	9.5%	0.3%
Shares Out.	49.6	44.1	40.0	43.5	41.6	39.9	39.8	43.2	39.8	47.2
Revenue/Share	28.25	30.76	30.87	34.34	41.55	52.58	51.73	96.79	129.67	111.62
FCF/Share	14.45	18.03	16.53	9.76	11.66	25.74	30.73	49.50	50.13	26.18

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

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