W. R. Berkley Corporation (WRB)

Updated April 26th, 2023, by Yiannis Zourmpanos

Key Metrics

Current Price:	$58	**5 Year CAGR Estimate:**	18.8%	**Market Cap:**	$15.9B
Fair Value Price:	$76	**5 Year Growth Estimate:**	12.0%	**Ex-Dividend Date:**	06/24/2023
% Fair Value:	76%	**5 Year Valuation Multiple Estimate:**	5.6%	**Dividend Payment Date:**	07/07/2023
Dividend Yield:	0.7%	**5 Year Price Target:**	$133	**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 April 20th, 2023, W.R. Berkley announced its Q1 2023 result, posting revenues of $2.49 billion, up 10.78% from $2.5 billion in Q1 2022. The diluted earnings-per-share for the quarter was reported at $1.06, missing market's estimate of by $0.21. The operating income stood at $276 million, down 10% from the same period last year.

For the first quarter of 2023, the company reported solid earnings, with sustained strong underwriting performance and notable rise in investment income. Prior to dividends and share repurchases, the rise in book value per share was 7.2%, and the annualized return on equity was 17.4%. The company kept expanding in areas that we expect to bring in returns that will be at least as high as our desired risk-adjusted return. The fixed-maturity portfolio's net investment income increased by roughly 29% during the quarter as a growing percentage of it was re-invested at higher interest rates. Given the inverted yield curve and market volatility, the company kept the short duration and high quality of its fixed-maturity portfolio.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$1.58	$2.16	$1.72	$2.08	$1.89	$2.22	$2.35	$1.87	$3.65	$4.94	***$5.05***	***$8.89***
DPS	$0.17	$0.19	$0.20	$0.22	$0.24	$0.26	$0.28	$0.31	$0.34	$0.39	***$0.43***	***$0.69***
Shares	297.5	285.2	277.4	272.7	273.4	274.5	275.1	266.7	265.2	279.5	***277.6***	***268.6***

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 posted record profits in 2022 as it benefited from rising interest rates which translated into higher returns on bonds and increasing investment income for the company. WRB was able to grow its EPS at an impressive CAGR of 21.2% from 2017 to 2022. Going forward, we believe the company is well-positioned and we forecast 12.0% annual growth in EPS through 2028. 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 10.0% for the next five years.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Avg. P/E	11.9	9.5	13.6	12.3	16.2	15.0	18.3	21.9	13.7	14.4	***11.4***	***15.0***
Avg. Yld.	0.9%	0.9%	0.9%	0.9%	0.8%	0.8%	0.7%	0.8%	0.7%	0.6%	***0.7%***	***0.5%***

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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W.R. Berkley is currently trading at a forward P/E of 11.4, slightly lower than the company's ten-year average P/E of 14.7. We believe there is a potential for the company to trade at a higher multiple, given the company's prospect for growth in the specialty sector. We have assumed a conservative P/E of 15.0 to value the company in 2028, slightly below the company's 5-year average P/E of 16.7.

Safety, Quality, Competitive Advantage, & Recession Resiliency

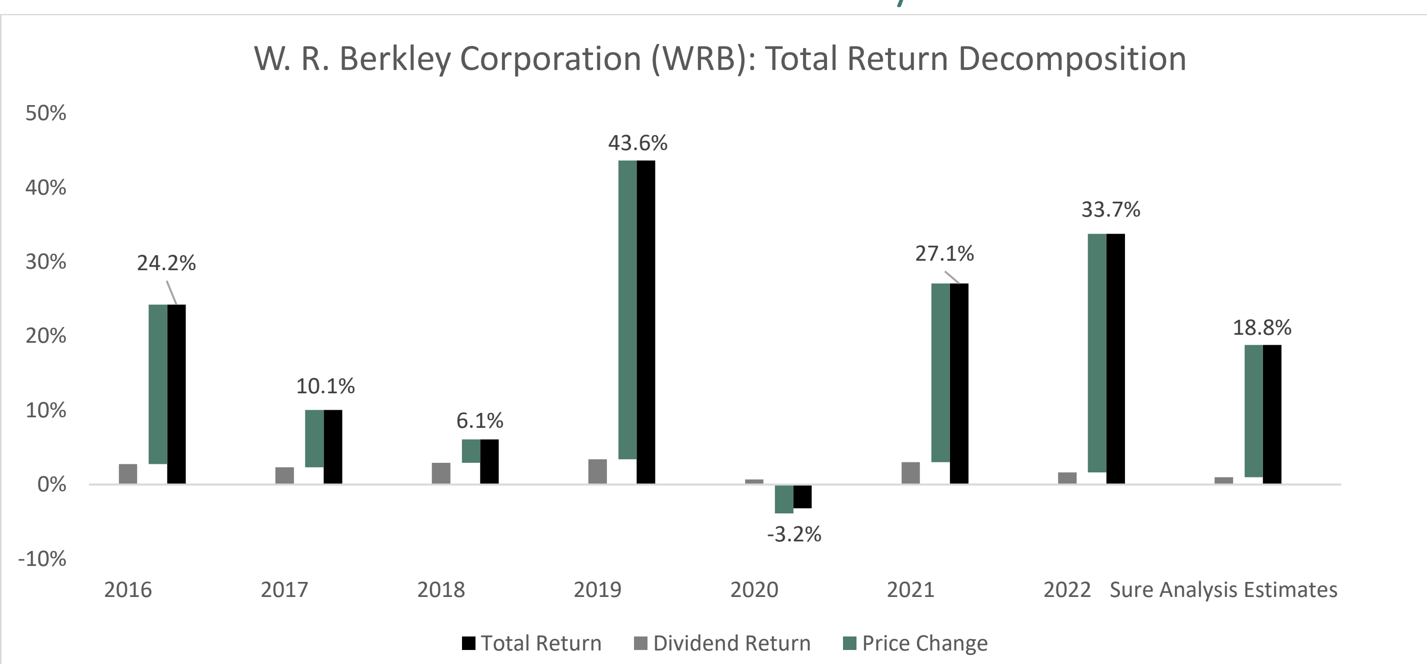
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	11%	9%	12%	11%	13%	12%	12%	17%	9%	8%	***8%***	***11%***

Insurance in general, and specifically the Property & Casualty (P&C) sub-segment, is ubiquitous, largely mandatory, and therefore considered relatively recession-resistant. 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, therefore I believe WRB is recession resilient. The company also remains focused on providing shareholder returns with its buyback of stock and dividend payments. In 2022 YTD, WRB returned about $329 million to shareholders with $235.2 million in dividend payments and $94.1 million in stock repurchases. The company's five-year average payout ratio stands at 11.5%, and WEB was able to grow dividends with a CAGR of 10.0% from 2017 to 2022. Moreover, WRB has increased its dividend to shareholders for the last 17 years.

Final Thoughts & Recommendation

The Fed has riased 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 18.8% annualized total returns for the medium-term, with the forecasted earnings-per-share growth of 12.0%, the 0.7% dividend yield, and a small tailwind from multiple expansion.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	6,011	7,129	6,785	7,666	7,669	7,719	7,933	8,099	9,481	11,220
D&A Exp.	103	89	85	86	113	131	113	135	130	56
Net Profit	500	649	504	602	549	641	682	531	1,022	1,381
Net Margin	8.3%	9.1%	7.4%	7.9%	7.2%	8.3%	8.6%	6.6%	10.8%	12.3%
Free Cash Flow	757	693	818	798	595	570	1,083	1,579	2,117	2,516
Income Tax	194	303	228	293	219	163	169	172	252	335

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	20,552	21,717	21,731	23,365	24,300	24,896	26,662	28,607	32,086	33,860
Cash & Equivalents	840	674	764	795	950	818	1,024	2,372	1,569	1,449
Acc. Receivable	3,091	3,155	3,202	3,446	3,557	3,740	4,131	4,592	5,446	5,967
Goodwill & Int.	110	151	153	145	179	173	170	170	170	186
Total Liabilities	16,182	17,093	17,098	18,284	18,849	19,416	20,544	22,281	25,419	27,090
Accounts Payable	277	237	225	213	246	257	360	426	515	523
Long-Term Debt	2,032	2,456	2,185	2,488	2,497	2,790	2,626	2,725	3,267	2,837
Total Equity	4,336	4,590	4,600	5,047	5,411	5,438	6,075	6,311	6,653	6,748
LTD/E Ratio	0.47	0.54	0.48	0.49	0.46	0.51	0.43	0.43	0.49	0.42

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	2.5%	3.1%	2.3%	2.7%	2.3%	2.6%	2.6%	1.9%	3.4%	4.2%
Return on Equity	11.6%	14.5%	11.0%	12.5%	10.5%	11.8%	11.8%	8.6%	15.8%	20.6%
ROIC	7.8%	9.6%	7.2%	8.4%	7.1%	7.9%	8.0%	6.0%	10.8%	14.1%
Shares Out.	297.5	285.2	277.4	272.7	273.4	274.5	275.1	266.7	265.2	279.5
Revenue/Share	18.98	23.71	23.16	26.50	26.42	26.75	27.33	28.60	33.89	40.14
FCF/Share	2.39	2.30	2.79	2.76	2.05	1.98	3.73	5.57	7.57	9.00

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