W. R. Berkley Corporation (WRB)

Updated February 14th, 2024, by Yiannis Zourmpanos

Key Metrics

Current Price:	$81	**5 Year CAGR Estimate:**	13.7%	**Market Cap:**	$22.5 B
Fair Value Price:	$86	**5 Year Growth Estimate:**	12.0%	**Ex-Dividend Date:**	03/08/24[1]
% Fair Value:	94%	**5 Year Valuation Multiple Estimate:**	1.2%	**Dividend Payment Date:**	03/22/24[2]
Dividend Yield:	0.5%	**5 Year Price Target:**	$151	**Years Of Dividend Growth:**	18
Dividend Risk Score:	A	**Retirement Suitability Score:**	C	**Rating:**	Buy

Overview & Current Events

W.R. Berkley (WRB) 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 annually. The company mainly underwrites commercial insurance businesses across the United States.

On January 24th, 2024, W.R. Berkley announced its Q4 2023 result, posting revenues of $3.22 billion, up 32.5% year-over-year. WRB reported non-GAAP EPS of $1.45, beating the market's estimates by $0.08.

During the last quarter, WRB had a standout year as the annualized return on beginning equity was 23.6%, with an impressive expansion in net premiums written and net investment income, culminating in an 11.6% book value per share growth. Additionally, the strategic deployment of capital by the company led to a 12% increase in net written premiums and leveraged its decentralized structure to navigate market risks and capitalize on opportunities adeptly. Similarly, net investment income from the fixed maturity portfolio increased by 56% quarterly and 60% annually.

With high-interest rates and record operating cash flow, the outlook going forward is bright for future income growth. The positive insurance and investment climate performance underscored by WRB foresees continued shareholder value enhancement into 2024. This performance was in addition to notable 2023 achievements, including a 20.5% return on equity, 25.5% growth of book value per share before dividends and repurchases, with record pre-tax underwriting income of $1.1 billion and gross/net premiums written of $13.0 billion/$11.0 billion. Finally, net investment income also was at record highs of $1.1 billion, while higher operating cash flow of $2.9 billion saw $1.0 billion returned to shareholders in repurchases and dividends.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$2.16	$1.72	$2.08	$1.89	$2.22	$2.35	$1.87	$3.65	$4.94	$5.05	***$5.72***	***$10.08***
DPS	$0.19	$0.20	$0.22	$0.24	$0.26	$0.28	$0.31	$0.34	$0.39	$0.44	***$0.44***	***$0.71***
Shares[3]	285.2	277.4	272.7	273.4	274.5	275.1	266.7	265.2	279.5	278.9	***278.3***	***275.2***

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 2023 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 10-year CAGR of 12%. Going forward, we believe the company is well-positioned, and we forecast 12.0% annual growth in EPS

[1] Estimated ex-dividend date
[2] Estimated dividend payment date
[3] In millions

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through 2029. In addition, the company will be able to grow its dividends at a healthy pace in the future, and we have assumed a dividend growth rate of 10.0% for the next five years.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Avg. P/E	9.5	13.6	12.3	16.2	15.0	18.3	21.9	13.7	13.6	12.8	***14.2***	***15.0***
Avg. Yld.	0.9%	0.9%	0.9%	0.8%	0.8%	0.7%	0.8%	0.7%	0.6%	0.7%	***0.5%***	***0.5%***

W.R. Berkley is currently trading at a forward P/E of 14.2, slightly lower than the company's ten-year average P/E of 14.7. Given the company's prospect for growth in the specialty sector, we believe there is a potential for the company to trade at a higher multiple. Thus, we have assumed a P/E of 15.0 to value the company in 2029, slightly below the company's five-year average P/E of 16.1.

Safety, Quality, Competitive Advantage, & Recession Resiliency

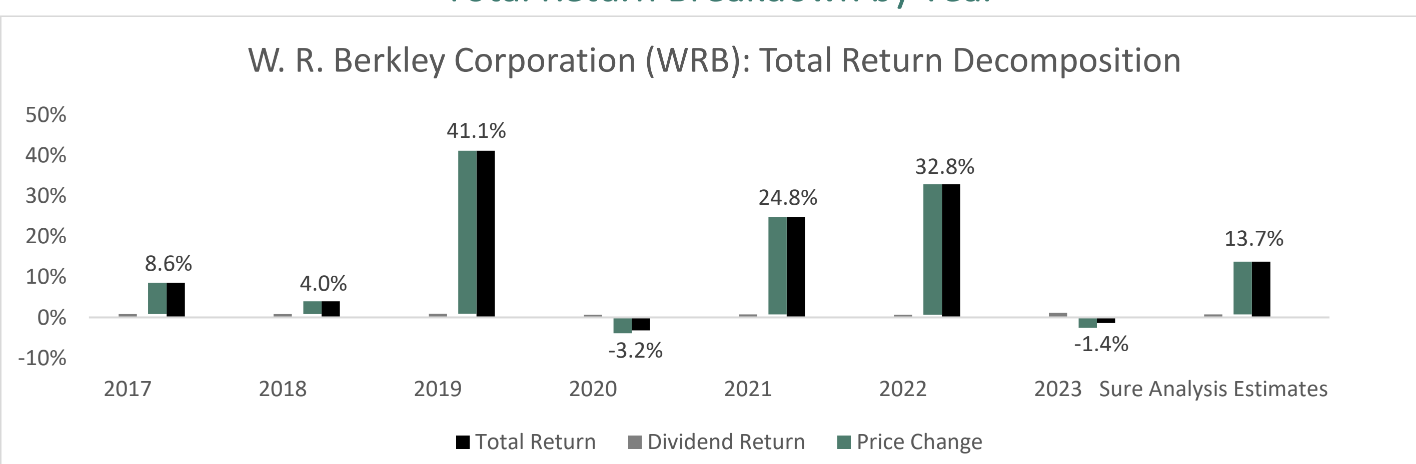
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	9%	12%	11%	13%	12%	12%	17%	9%	8%	9%	***8%***	***7%***

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. Last year, the company returned a total of $263.8 million to its shareholders, split to $106.7 million in share repurchases, $128.8 million in special dividends, and $28.3 million in regular dividends. Finally, WRB has increased its dividend to shareholders for the last 18 years.

Final Thoughts & Recommendation

The Fed has raised 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 the stock's valuation is attractive. As an insurance company operating in the specialty segment, the company is well-positioned to continue to do well in the near term. We maintain our buy rating, premised upon the 13.7% annualized total returns for the medium-term, with the forecasted earnings-per-share growth of 12.0%, the 0.5% dividend yield, and a small valuation tailwind.

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	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.