



Everest Group, Ltd. (EG)

Updated August 6th, 2024 by Jonathan Weber

Key Metrics

Current Price:	\$359	5 Year CAGR Estimate:	11.7%	Market Cap:	\$16B
Fair Value Price:	\$554	5 Year Growth Estimate:	1.0%	Ex-Dividend Date:	08/28/24 ¹
% Fair Value:	65%	5 Year Valuation Multiple Estimate:	9.0%	Dividend Payment Date:	09/15/24 ²
Dividend Yield:	2.2%	5 Year Price Target	\$582	Years Of Dividend Growth:	12
Dividend Risk Score:	A	Retirement Suitability Score:	B	Rating:	Buy

Overview & Current Events

Everest Group is a holding company that provides insurance as well as reinsurance services. Everest Group provides reinsurance for property & casualty insurers as well as for special lines such as maritime and aviation. Everest Group 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 Group reported its second quarter earnings results on July 31. The company earned revenues of \$4.2 billion during the quarter, which was 16% more than the revenues that Everest generated during the previous year's quarter. The company managed to grow its gross written premiums by 13% year over year, primarily in the reinsurance space (17%, versus a lower growth rate for the insurance business), which bodes well for the company's future revenue growth in upcoming quarters. The company's attritional combined ratio stood at 86.6%, which was flat compared to the previous quarter.

Everest Group reported adjusted earnings-per-share of \$16.85 for the second quarter. The strong profitability was caused by lower-than-average catastrophe losses compared to the recent past. 2023 was an excellent year for the company, with operating profits soaring to a high of more than \$60 per share, more than doubling from the level seen in recent years. For the current year, a small profit pullback is expected.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$24.71	\$25.04	\$23.61	\$9.10	\$4.52	\$21.34	\$7.40	\$28.90	\$27.08	\$66.39	\$61.50	\$64.64
DPS	\$3.20	\$4.00	\$4.70	\$5.05	\$5.30	\$5.75	\$6.20	\$6.20	\$6.50	\$7.00	\$8.00	\$9.27
Shares³	44.5	42.7	40.9	40.8	40.5	40.4	40.3	40.2	39.2	39.2	43.4	45.0

Everest Group'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'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 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 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 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.

¹ Estimated date

² Estimated date

³ In Millions

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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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	6.5	8.1	8.1	26.7	47.8	13.0	31.6	9.5	12.2	5.3	5.8	9.0
Avg. Yld.	2.0%	2.2%	2.5%	2.1%	2.6%	2.1%	2.6%	2.3%	2.0%	2.0%	2.2%	1.6%

Everest Group has been valued at a relatively low valuation throughout the majority of the last decade. In 2017, 2018, and 2020, Everest'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 absolute terms in the future. Based on current earnings-per-share estimates for this year, shares nevertheless trade way below our fair value estimate right now.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	13.0%	16.0%	19.9%	55.5%	116%	26.9%	83.8%	21.5%	24.4%	10.5%	13.0%	14.3%

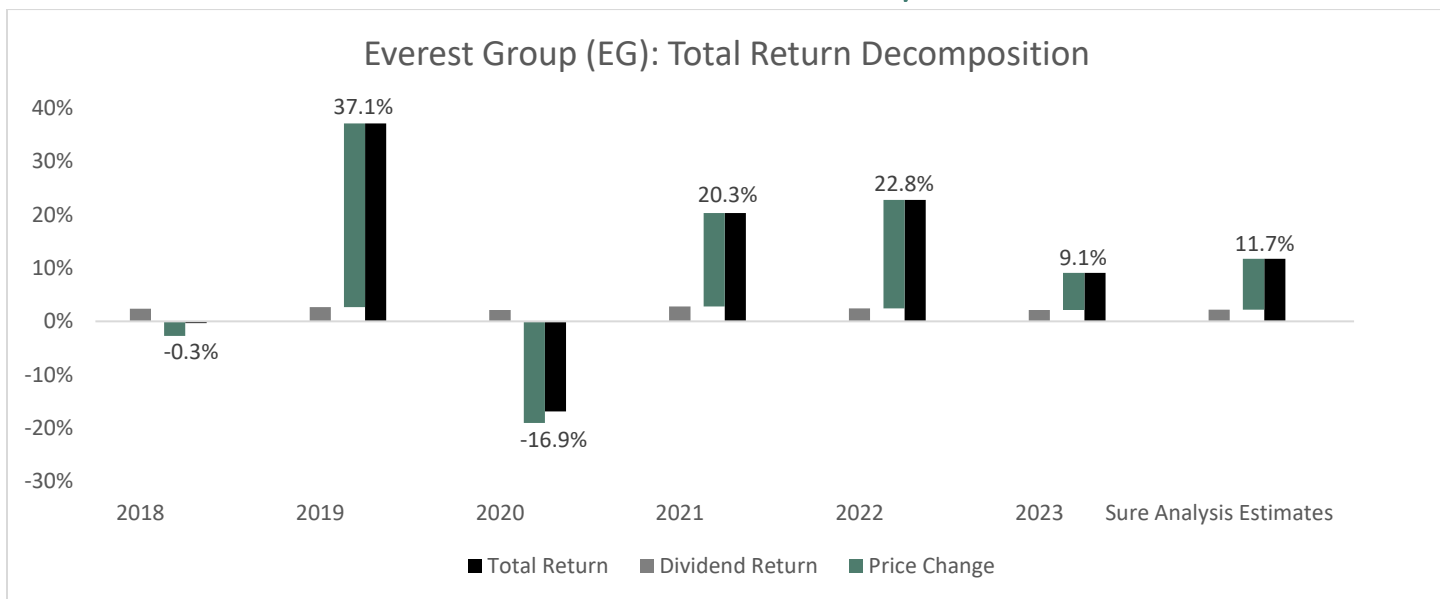
Everest Group's dividend payout ratio was very low during the majority of the last decade. In years when earnings were below average, or nonexistent, such as in 2018 and 2020, Everest's payout ratio rose to a high level. Due to the cash reserves that the company has, Everest was nevertheless able to maintain, and even grow, its dividend during those years. We believe that the risk of a dividend cut is not very high.

Everest Group 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's results are certainly still cyclical, though. An above-average number of catastrophic events, or a single exceptionally large catastrophic event, such as a major hurricane, leads to increased payouts. Such events can therefore hurt Everest's profitability to a significant degree. Everest's results can thus still swing up and down widely on a year-over-year basis.

Final Thoughts & Recommendation

Everest Group is an insurer/reinsurer that has recorded attractive business growth over the last decade, although there were large swings in its profitability. Everest did have a solid fiscal 2021 and 2022, but profits soared to a much higher level in 2023, due to the impact of higher interest rates and written/earned premium growth. Shares trade well below fair value today and promise compelling returns, which is why we give the stock a buy rating right here.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	5,679	5,677	5,794	6,622	7,268	8,125	9,485	11,300	11,985	14,587
Net Profit	1,199	978	996	483	89	1,009	514	1,379	597	2,517
Net Margin	21.1%	17.2%	17.2%	7.3%	1.2%	12.4%	5.4%	12.2%	5.0%	17.3%
Free Cash Flow	1,055	1,108	1,384	1,163	610	1,852	2,874	3,833	3,695	4,553
Income Tax	188	134	104	(63)	(331)	90	71	167	(9)	(363)

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	20,818	20,545	21,322	23,592	24,751	27,324	32,712	38,185	39,966	49,399
Cash & Equivalents	437	284	482	635	656	808	802	1,441	1,398	1,437
Acc. Receivable	2,069	2,377	2,504	3,193	3,971	4,023	4,675	5,347	5,860	7,030
Total Liabilities	13,367	12,937	13,246	15,223	16,890	18,191	22,985	28,045	31,525	36,197
Accounts Payable	140	173	191	218	218	292	294	450	567	650
Long-Term Debt	638	633	633	633	634	634	1,910	3,089	3,084	3,386
Total Equity	7,451	7,609	8,075	8,369	7,861	9,133	9,726	10,140	8,441	13,202
LTD/E Ratio	0.09	0.08	0.08	0.08	0.08	0.07	0.20	0.30	0.37	0.26

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	5.9%	4.7%	4.8%	2.1%	0.4%	3.9%	1.7%	3.9%	1.5%	5.6%
Return on Equity	16.6%	13.0%	12.7%	5.9%	1.1%	11.9%	5.5%	13.9%	6.4%	23.3%
ROIC	15.4%	12.0%	11.8%	5.5%	1.0%	11.1%	4.8%	11.1%	4.8%	17.9%
Shares Out.	44.5	42.7	40.9	40.8	40.5	40.4	40.3	40.2	39.2	39.2
Revenue/Share	123.99	129.62	139.19	162.14	179.08	201.02	237.13	289.74	307.31	348.82
FCF/Share	23.03	25.31	33.24	28.47	15.03	45.82	71.85	98.28	94.74	108.88

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

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