W. R. Berkley Corporation (WRB)

Updated October 23rd, 2024, by Yiannis Zourmpanos

Key Metrics

Current Price:	$58	**5 Year CAGR Estimate:**	14.4%	**Market Cap:**	$23.5 B
Fair Value Price:	$63	**5 Year Growth Estimate:**	12.0%	**Ex-Dividend Date:**	12/12/2024[1]
% Fair Value:	92%	**5 Year Valuation Multiple Estimate:**	1.8%	**Dividend Payment Date:**	12/27/2024[2]
Dividend Yield:	0.6%	**5 Year Price Target:**	$112	**Years Of Dividend Growth:**	0
Dividend Risk Score:	A	**Retirement Suitability Score:**	D	**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 October 21st, 2024, W.R. Berkley announced its Q3 2024 result, posting revenues of $3.4 billion, which were up 12.2% year-over-year. WRB reported non-GAAP EPS of $0.93, which beat the market's estimates by $0.01.

The company delivered an ROE of 19.6% and an operating ROE of 20.0%. For the current quarter, net investment income increased a robust 19.5% to $323.8 million, driven mainly by higher fixed-maturity income. On a GAAP basis, before catastrophe losses, the combined ratio was 87.6%, while the reported combined ratio stood at 90.9%, reflecting solid underwriting margins despite a modest impact from catastrophe losses. Net of workers' compensation, average rate increases hit 8.4%, another indicator of improved profitability. Before dividends and share repurchases, book value per common share rose 10%, reflecting the strong financial results and capital management.

The company returned $138.3 million to shareholders during the quarter, consisting of $95.3 million in special dividends, $30.5 million in regular dividends, and $12.5 million in share repurchases. Operating cash flow reached a record $1.2 billion, up 15.2% over the same period last year, and positions W. R. Berkley for continued growth in investment income. The economic environment might be unforgiving, but management still has confidence that the firm is apt to continue achieving outstanding risk-adjusted returns through strategic underwriting and disciplined management of investments.

WRB's decentralized structure promotes flexibility and innovation in responding to market opportunities and risks. It will continue to position the company to deliver value for its shareholders in 2024 and beyond.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$1.44	$1.15	$1.39	$1.26	$1.48	$1.56	$1.25	$2.44	$3.29	$3.37	***$4.23***	***$7.45***
DPS	$0.13	$0.14	$0.15	$0.16	$0.17	$0.19	$0.21	$0.23	$0.26	$0.29	***$0.32***	***$0.52***
Shares[3]	451.1	439.4	433.9	435.4	432.9	435.4	424.7	419.6	419.2	409.9	***405.6***	***384.7***

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 increased investment income for the company. WRB was able to grow its EPS at an impressive 10-year CAGR of 17.9%. 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. The company has cut its quarterly dividend several times in recent years. Additionally, It's important to highlight that the dividend estimates do not account for special dividends, which could significantly enhance total returns for shareholders.

Valuation Analysis

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

W.R. Berkley is currently trading at a forward P/E of 13.7, slightly lower than the company's ten-year average P/E of 14.7 and its five-year average P/E of 16.1. 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, implying a valuation tailwind.

Safety, Quality, Competitive Advantage, & Recession Resiliency

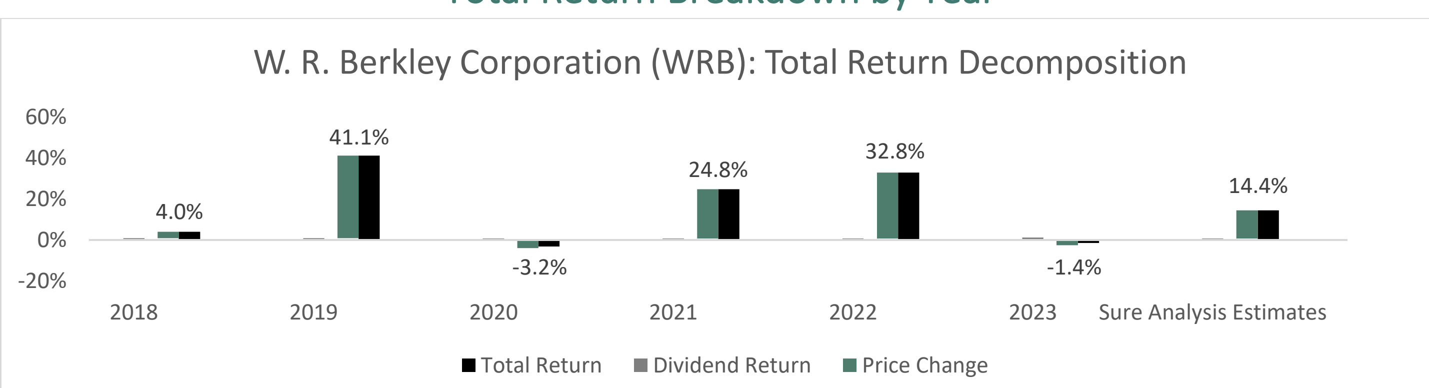
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	9%	12%	11%	13%	12%	12%	17%	9%	8%	9%	***8%***	***7%***

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 WRB is recession resilient. Last year, the company returned a total of $263.8 million to its shareholders, with $106.7 million in share repurchases, $128.8 million in special dividends, and $28.3 million in regular dividends. During Q3, W. R. Berkley repurchased $12.5 million worth of shares, demonstrating its commitment to enhancing shareholder value through strategic capital management.

Final Thoughts & Recommendation

Even though the Fed has started the first round of interest rate cuts, W.R. Berkeley is benefiting from the elevated 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 14.4% annualized total returns for the medium-term, with the forecasted earnings-per-share growth of 12.0%, the 0.6% dividend yield, and a valuation tailwind.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	7,129	6,785	7,666	7,669	7,719	7,933	8,099	9,481	11,220	12,110
D&A Exp.	89	85	86	113	131	113	135	130	56	(21)
Net Profit	649	504	602	549	641	682	531	1,022	1,381	1,381
Net Margin	9.1%	7.4%	7.9%	7.2%	8.3%	8.6%	6.6%	10.8%	12.3%	11.4%
Free Cash Flow	693	818	798	595	570	1,083	1,579	2,117	2,516	2,876
Income Tax	303	228	293	219	163	169	172	252	335	371

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	21,717	21,731	23,365	24,300	24,896	26,662	28,607	32,086	33,860	37,200
Cash & Equivalents	674	764	795	950	818	1,024	2,372	1,569	1,449	1,363
Acc. Receivable	3,155	3,202	3,446	3,557	3,740	4,131	4,592	5,446	5,967	6,947
Goodwill & Int.	151	153	145	179	173	170	170	170	186	175
Total Liabilities	17,093	17,098	18,284	18,849	19,416	20,544	22,281	25,419	27,090	29,730
Accounts Payable	237	225	213	246	257	360	426	515	523	631
Long-Term Debt	2,456	2,185	2,488	2,497	2,790	2,626	2,725	3,267	2,837	2,837
Total Equity	4,590	4,600	5,047	5,411	5,438	6,075	6,311	6,653	6,748	7,455
LTD/E Ratio	0.54	0.48	0.49	0.46	0.51	0.43	0.43	0.49	0.42	0.38

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	3.1%	2.3%	2.7%	2.3%	2.6%	2.6%	1.9%	3.4%	4.2%	3.9%
Return on Equity	14.5%	11.0%	12.5%	10.5%	11.8%	11.8%	8.6%	15.8%	20.6%	19.4%
ROIC	9.6%	7.2%	8.4%	7.1%	7.9%	8.0%	6.0%	10.8%	14.1%	13.9%
Shares Out.	285.2	277.4	272.7	273.4	274.5	275.1	266.7	265.2	279.5	273
Revenue/Share	23.71	23.16	26.50	26.42	26.75	27.33	28.60	33.89	40.14	44.31
FCF/Share	2.30	2.79	2.76	2.05	1.98	3.73	5.57	7.57	9.00	10.52

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