

Amerisafe Inc. (AMSF)

\$70.04 (As of 02/17/20)

Price Target (6-12 Months): **\$74.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/15/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: D

Growth: D

Momentum: B

Summary

Amerisafe's shares have outperformed its industry in a year's time. Its niche presence in high hazard risk insurance makes it a specialized player. Its strong balance sheet is another positive. Amerisafe's efficient claims management, good underwriting results, favorable loss and frequency trends, prudent reserve analytics and improved operating leverage bode well. Increase in investment income despite a low interest rate environment is impressive. Its return on equity is also impressive. However, the company's revenues have remained under pressure due to soft pricing and competition in the markets. Its low cash flow per share reduces its financial flexibility. Its product concentration due to an intense focus on workers' compensation insurance line is also concerning.

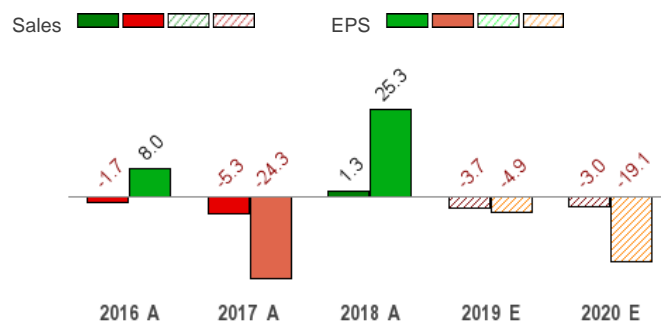
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$71.99 - \$56.65
20 Day Average Volume (sh)	64,025
Market Cap	\$1.4 B
YTD Price Change	6.1%
Beta	0.45
Dividend / Div Yld	\$1.00 / 1.4%
Industry	Insurance - Accident and Health
Zacks Industry Rank	Top 23% (58 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	41.6%
Last Sales Surprise	0.7%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/19/2020
Earnings ESP	-9.2%
P/E TTM	17.6
P/E F1	23.6
PEG F1	NA
P/S TTM	3.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	89 E	89 E	89 E	89 E	356 E
2019	93 A	91 A	91 A	90 E	367 E
2018	95 A	96 A	93 A	97 A	381 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.71 E	\$0.74 E	\$0.74 E	\$0.77 E	\$2.97 E
2019	\$0.91 A	\$0.90 A	\$1.09 A	\$0.76 E	\$3.67 E
2018	\$0.86 A	\$0.92 A	\$1.01 A	\$1.07 A	\$3.86 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/17/2020. The reports text is as of 02/18/2020.

Overview

Incorporated in 1985 and headquartered in DeRidder, LA, Amerisafe Inc. (AMSF) is a specialty provider of workers' compensation insurance, which markets and underwrites its insurance through subsidiaries. Workers' compensation insurance covers statutorily prescribed benefits that employers are obligated to provide to employees injured in the course and scope of their employment. The company focuses on providing coverage to small to mid-sized employers engaged in hazardous industries, principally construction, trucking, logging, agriculture, oil and gas, maritime, and sawmills. Amerisafe's workers' compensation insurance policies provide benefits to injured employees primarily for temporary or permanent disability, death, medical and hospital expenses.

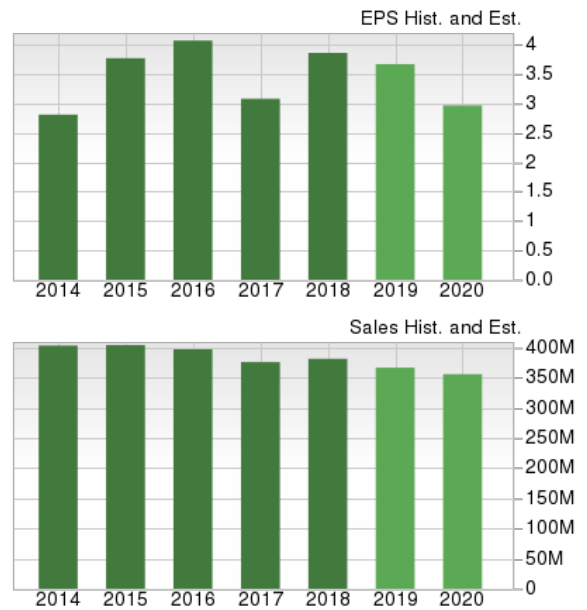
Amerisafe operates through three insurance subsidiaries — American Interstate Insurance Company of Nebraska and Texas, and Silver Oak Casualty in Louisiana.

As of Dec 31, 2018, the company had more than 8,000 voluntary business policyholders with an average annual workers' compensation policy written premium of \$37,250. As of Dec 31, 2018, the company's ten largest voluntary business policyholders accounted for 2.1% of its in-force premiums.

In addition to its voluntary workers' compensation business, the company underwrites workers' compensation policies for employers and assumes reinsurance premiums from mandatory pooling arrangements.

The company is licensed to provide workers' compensation insurance in 47 states, the District of Columbia and the U.S. Virgin Islands. It operates on a geographically diverse basis with 11.4% or less of its gross premiums written in 2018 derived from any one state.

As of Dec 31, 2018, its insurance was sold through more than 2,400 independent agencies and its wholly-owned insurance agency subsidiary, Amerisafe General Agency, which is licensed in 29 states.



Reasons To Buy:

- ▲ **Share Price Performance:** In a year's time, shares of the company have outperformed its industry. The company's strong fundamentals should favor the stock in the coming quarters.
- ▲ **Increase in Investment Income:** Investment income is an important element of the company's net income. Despite low interest rates, Amerisafe was able to consistently increase its investment income over the years. The same increased 9% in the first nine months of 2019. Despite persistently low interest rates, the company's ability to grow its investment income via increase in investment portfolio will likely help it in the coming quarters.
- ▲ **No Debt and Adequate Capital Ratio:** The company has a clean balance sheet with no debt, which provides plenty of financial flexibility to fund operations, meet financial obligations and weather shocks or unexpected expenses. Further, its risk-based capital ratio also exceeds the minimum capital requirements.
- ▲ **Consistently Increasing ROE:** The company has generated a consistent and noticeable improvement in return on equity (ROE) from 2012-2018. Its trailing 12-month ROE of 17.5% remains higher than the industry's ROE of 12.4%, reflecting its tactical efficiency in using its shareholders' funds.

Increasing Investment income, strong return on equity, strong balance sheet are some of the positives.

Reasons To Sell:

- ▼ **Revenues Under Pressure:** The company's revenues have declined since 2015 sans 2018, which witnessed marginal growth of 0.7%. In the first nine months of 2019, the same was down 3%. This decline has been due to stiff competition and pricing woes. We remain skeptical about the company's ability to grow revenues due to its concentration in the workers' compensation insurance line, which is suffering from decline in premium rates and stiff competition.
- ▼ **Low Cash Flow Per Share:** The company's cash flow from operations decreased 12% in the first nine months of 2019. Also, its cash flow per share of \$4.53 was lower than the industry average of \$5.79, reflecting reduced financial flexibility.
- ▼ **Product Concentration:** Since the beginning of its operations in 1986, the company has been focusing on workers' compensation insurance. Though the company has already carved a niche in this business and has expanded its presence in many states over the years, it is still exposed to product concentration.

Increasing expenses, product concentration and declining revenues pose a concern.

Last Earnings Report

Amerisafe Q3 Earnings Beat Estimates on Lower Expenses

Amerisafe's earnings of \$1.09 per share beat the Zacks Consensus Estimate by 41.6% and were up 7.9% year over year.

Better-than-expected earnings were driven by increase in net investment income, partly offset by decline in premium earned.

Quarter in Detail

Amerisafe's operating revenues decreased 2.1% from the prior-year quarter to \$91.5 million and missed the Zacks Consensus Estimate by 0.72%.

Gross written premiums in Insurance segment were down 3.2% year over year to \$82.6 million, primarily due to lower voluntary premiums written. Underwriting profit of \$17.8 million increased 10.7% year over year.

Net investment income increased 4.8% year over year to \$8.2 million, owing to higher yields on fixed investment securities.

Total expenses came in at \$64.9 million, down 6% from the year-ago quarter, due to lower loss and loss adjustments expenses incurred, and underwriting costs.

Net combined ratio of 78.4% deteriorated 270 basis points year over year.

Financial Update (Sep 30, 2019)

Amerisafe exited the quarter with cash and cash equivalents of \$125.8 million, up 212% from year-end 2018 level.

Average shareholders' equity was \$468.7 million, up 14.4% year over year.

Operating return on equity was 18.9%, up 180 points year over year.

Quarter Ending **09/2019**

Report Date	Oct 31, 2019
Sales Surprise	0.72%
EPS Surprise	41.56%
Quarterly EPS	1.09
Annual EPS (TTM)	3.97

Valuation

Amerisafe shares are up 9.2% over the trailing 12-month period. Over the past year, the Zacks sub-industry and the sector are up 2.6% and 9.3%, respectively.

The S&P 500 index is up 21% in the past year.

The stock is currently trading at 23.84X forward 12-month price to earnings, which compares to 10.32X for the Zacks sub-industry, 15.02X for the Zacks sector and 19.35X for the S&P 500 index.

Over the past five years, the stock has traded as high as 23.84X and as low as 11.4X, with a 5-year median of 17.35X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$74 price target reflects 25.17X price to earnings.

The table below shows summary valuation data for AMSF

Valuation Multiples - AMSF					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	23.84	10.32	15.02	19.35
	5-Year High	23.84	13.13	16.21	19.35
	5-Year Low	11.4	8.78	12.01	15.18
	5-Year Median	17.35	10.35	14.15	17.47
P/S F12M	Current	3.81	1.43	6.55	3.58
	5-Year High	3.88	1.54	6.65	3.58
	5-Year Low	1.82	1.05	5.39	2.54
	5-Year Median	3.01	1.34	6.04	3
P/B TTM	Current	2.88	1.15	2.86	4.68
	5-Year High	3.03	1.6	2.89	4.68
	5-Year Low	1.69	1.09	1.83	2.85
	5-Year Median	2.48	1.37	2.51	3.62

As of 02/14/2020

Industry Analysis Zacks Industry Rank: Top 23% (58 out of 255)



Top Peers

American Financial Group, Inc. (AFG)	Neutral
American International Group, Inc. (AIG)	Neutral
The Allstate Corporation (ALL)	Neutral
Berkshire Hathaway Inc. (BRK.B)	Neutral
Chubb Limited (CB)	Neutral
The Hartford Financial Services Group, Inc. (HIG)	Neutral
The Travelers Companies, Inc. (TRV)	Neutral
W.R. Berkley Corporation (WRB)	Neutral

Industry Comparison Industry: Insurance - Accident And Health				Industry Peers		
	AMSF Neutral	X Industry	S&P 500	BRK.B Neutral	HIG Neutral	TRV Neutral
VGM Score	D	-	-	D	A	B
Market Cap	1.35 B	1.19 B	24.61 B	554.54 B	21.30 B	35.56 B
# of Analysts	3	3	13	2	5	9
Dividend Yield	1.43%	1.15%	1.78%	0.00%	2.03%	2.38%
Value Score	D	-	-	D	A	C
Cash/Price	0.11	0.11	0.04	0.13	0.15	0.15
EV/EBITDA	12.13	8.09	14.06	24.23	9.12	4.15
PEG Ratio	NA	2.04	2.09	2.98	1.15	1.55
Price/Book (P/B)	2.88	1.22	3.29	1.38	1.34	1.37
Price/Cash Flow (P/CF)	15.64	9.29	13.65	16.16	10.01	4.50
P/E (F1)	23.59	19.06	19.21	20.88	10.89	13.29
Price/Sales (P/S)	3.62	1.75	2.70	2.19	1.03	1.13
Earnings Yield	4.24%	5.26%	5.19%	4.79%	9.19%	7.53%
Debt/Equity	0.00	0.00	0.71	0.00	0.30	0.25
Cash Flow (\$/share)	4.48	4.55	6.92	14.03	5.90	30.61
Growth Score	D	-	-	D	B	A
Hist. EPS Growth (3-5 yrs)	2.42%	10.16%	10.85%	7.05%	7.52%	-5.01%
Proj. EPS Growth (F1/F0)	-19.16%	0.80%	7.17%	2.65%	-3.93%	8.00%
Curr. Cash Flow Growth	16.17%	16.18%	8.56%	46.16%	2.31%	3.77%
Hist. Cash Flow Growth (3-5 yrs)	7.87%	8.51%	8.36%	9.81%	-0.56%	-1.19%
Current Ratio	0.42	0.38	1.23	0.44	0.29	0.39
Debt/Capital	0.00%	0.11%	42.91%	0.00%	22.96%	20.18%
Net Margin	20.77%	11.99%	11.81%	10.62%	10.05%	8.30%
Return on Equity	17.50%	11.87%	16.86%	6.68%	13.60%	10.03%
Sales/Assets	0.24	0.22	0.54	0.34	0.30	0.29
Proj. Sales Growth (F1/F0)	-2.93%	-2.07%	3.85%	-14.10%	0.00%	4.10%
Momentum Score	B	-	-	A	C	C
Daily Price Chg	0.88%	0.00%	0.06%	0.15%	-0.24%	0.64%
1 Week Price Chg	-0.48%	1.16%	2.47%	1.31%	0.89%	3.34%
4 Week Price Chg	2.46%	2.30%	0.59%	-1.28%	-1.94%	-0.79%
12 Week Price Chg	5.35%	0.46%	6.98%	4.69%	-4.11%	2.28%
52 Week Price Chg	10.14%	5.17%	16.62%	11.85%	22.51%	8.53%
20 Day Average Volume	64,025	76,758	2,020,569	3,588,824	2,289,526	1,370,577
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-0.10%	-0.28%
(F1) EPS Est 4 week change	0.00%	0.00%	-0.05%	0.00%	-2.01%	-4.47%
(F1) EPS Est 12 week change	0.00%	0.00%	-0.17%	-0.69%	-2.05%	-5.38%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	-0.24%	0.00%	-0.53%	-7.22%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	D
Momentum Score	B
VGM Score	D

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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