

Amerisafe Inc. (AMSF)

\$61.99 (As of 05/25/20)

Price Target (6-12 Months): **\$65.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/08/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: C

Growth: D

Momentum: C

Summary

Amerisafe's niche presence in high hazard risk insurance makes it a specialized player. Its shares have performed better than its industry in a year's time. Amerisafe's efficient claims management, good underwriting results, favorable loss and frequency trends, prudent reserve analytics and improved operating leverage bode well. 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 product concentration due to an intense focus on workers' compensation insurance line is also concerning. Nevertheless, Amerisafe's earnings of 88 cents per share beat the Zacks Consensus Estimate by 20.6% but dipped 3.3% year over year. The estimate beat can be attributed to a decline in expenses, partly offset by decline in revenues.

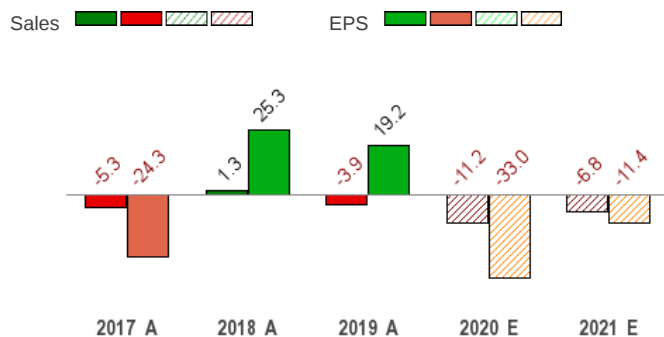
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$80.65 - \$48.02
20 Day Average Volume (sh)	131,395
Market Cap	\$1.2 B
YTD Price Change	-5.9%
Beta	0.37
Dividend / Div Yld	\$1.08 / 1.7%
Industry	Insurance - Accident and Health
Zacks Industry Rank	Bottom 10% (223 out of 248)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	20.6%
Last Sales Surprise	0.8%
EPS F1 Est- 4 week change	6.3%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	13.6
P/E F1	20.1
PEG F1	NA
P/S TTM	3.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	76 E	76 E	76 E	76 E	303 E
2020	87 A	80 E	79 E	79 E	325 E
2019	93 A	91 A	91 A	90 A	366 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.65 E	\$0.64 E	\$0.69 E	\$0.76 E	\$2.73 E
2020	\$0.88 A	\$0.69 E	\$0.72 E	\$0.79 E	\$3.08 E
2019	\$0.91 A	\$0.90 A	\$1.09 A	\$1.70 A	\$4.60 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 05/25/2020. The reports text is as of 05/26/2020.

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.

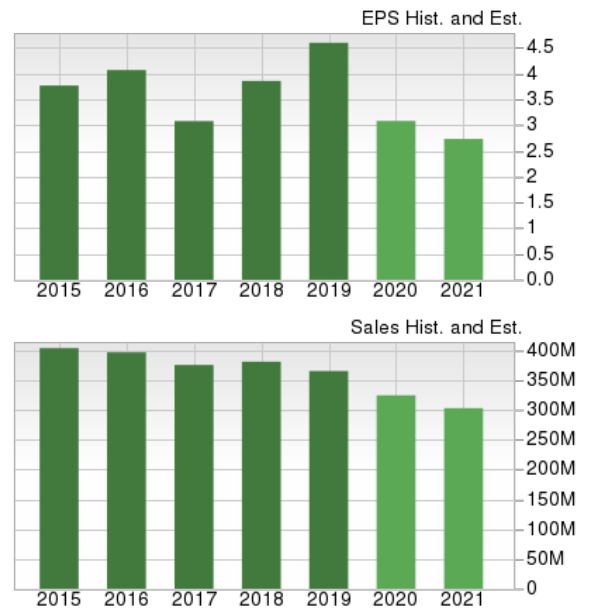
Amerisafe operates through three insurance subsidiaries — American Interstate Insurance Company of Nebraska and Texas, and Silver Oak Casualty in Louisiana.

As of Dec 31, 2019, 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, 2019, 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 2019 derived from any one state.

As of Dec 31, 2019, 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 performed better than 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 6.7% in 2019, though was down 3.3% year over year in the first quarter of 2020. 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. Recently the company hiked its dividend by 8%.
- ▲ **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 19.8% remains higher than the industry's ROE of 11.8%, 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 quarter of 2020, the same was down 6.5%. 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 \$4.83 was lower than the industry average of \$6.16, reflecting reduced financial flexibility. Cash from operations in the first quarter declined 24.9% year over year.
- ▼ **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. Moreover, premium rates in workers' compensation market have remained soft over the quarters, which have been hurting its premium growth.

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

Last Earnings Report

Amerisafe Earnings Beat Estimates in Q1, Slide Y/Y

Amerisafe's first-quarter 2020 earnings of 88 cents per share beat the Zacks Consensus Estimate by 20.6%. However, the bottom line was down 3.3% year over year. The estimate beat can be attributed to lower expenses, partly offset by a decline in revenues.

Quarter in Detail

Amerisafe's operating revenues decreased 6.5% year over year to \$87 million but the top line trumped the Zacks Consensus Estimate by 0.3%. The year-over-year decline was due to lower net premiums earned and soft net investment income.

Gross premiums written dropped 6.5% year over year to \$87.1 million, primarily due to weak voluntary premiums. Underwriting profit of \$13.1 million slid 3.7% year over year.

Net investment income slipped 3.3% year over year to \$7.75 million due to lower investment yields on fixed-income securities.

Total expenses of \$65.9 million were down 7.6% from the year-ago quarter owing to lower loss and loss adjustment expenses incurred as well as decreased expenses related to policyholder dividends.

Net combined ratio of 83.5% improved 50 basis points year over year.

Operating return on equity of 16.1% contracted 80 basis points year over year.

Dividend Hike

Amerisafe's board of directors hiked its quarterly dividend by 8% to 27 cents per share, up from the prior dividend payout of 25 cents per share.

Quarter Ending 03/2020

Report Date	Apr 29, 2020
Sales Surprise	0.77%
EPS Surprise	20.55%
Quarterly EPS	0.88
Annual EPS (TTM)	4.57

Recent News

Amerisafe Appoints Sean Traynor to its Board of Directors – Feb 21, 2020

The company announced the appointment of Sean Traynor to its board of directors. Currently, he is serving as a general partner in the Healthcare Group of Welsh, Carson, Anderson & Stowe. He had also served as a member of the company's board from 2001 till June 2013. The new appointment will be effective this year from Mar 1.

Amerisafe Hikes Quarterly Dividend – Feb 19, 2020

Concurrent with the fourth-quarter 2019 earnings release, Amerisafe's board of directors hiked its quarterly dividend by 8% to \$0.27 per share, up from the prior dividend payout of \$0.25. The dividend will be paid out on Mar 27, 2020, to shareholders of record as of Mar 13, 2020.

Valuation

Amerisafe's shares are down 5.8% and up 2.3% in the year-to-date period and over the trailing 12-month period, respectively. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 34.9% and 26.4% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 34.9% and 19.3%, respectively.

The S&P 500 index is down 8.1% in the year-to-date period but up 4.5% in the past year.

The stock is currently trading at 21.12x forward 12-month earnings, which compares to 6.98x for the Zacks sub-industry, 15.35x for the Zacks sector and 21.5x for the S&P 500 index.

Over the past five years, the stock has traded as high as 25.97x and as low as 12.2x, with a 5-year median of 17.96x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$65 price target reflects 22.11x forward 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	21.12	6.98	15.35	21.5
	5-Year High	25.97	13.13	16.18	21.5
	5-Year Low	12.2	6.7	11.58	15.23
	5-Year Median	17.96	10.35	13.94	17.49
P/S F12M	Current	3.79	0.92	5.81	3.33
	5-Year High	4.15	1.54	6.7	3.44
	5-Year Low	1.93	0.9	4.99	2.53
	5-Year Median	3.05	1.31	6.05	3.01
P/B TTM	Current	2.75	0.8	2.12	4.04
	5-Year High	3.42	1.6	2.9	4.56
	5-Year Low	1.71	0.57	1.71	2.83
	5-Year Median	2.55	1.36	2.53	3.65

As of 05/22/2020

Industry Analysis Zacks Industry Rank: Bottom 10% (223 out of 248)



Top Peers

Company (Ticker)	Rec	Rank
Aflac Incorporated (AFL)	Neutral	3
The Allstate Corporation (ALL)	Neutral	2
Chubb Limited (CB)	Neutral	4
The Progressive Corporation (PGR)	Neutral	2
Trupanion, Inc. (TRUP)	Neutral	3
Unum Group (UNM)	Neutral	4
W.R. Berkley Corporation (WRB)	Neutral	4
Employers Holdings Inc (EIG)	Underperform	5

Industry Comparison Industry: Insurance - Accident And Health				Industry Peers		
	AMSF	X Industry	S&P 500	BRK.B	HIG	TRV
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	D	-	-	B	D	B
Market Cap	1.20 B	995.34 M	20.16 B	425.09 B	13.25 B	25.31 B
# of Analysts	3	3	14	2	5	8
Dividend Yield	1.74%	1.38%	2.11%	0.00%	3.51%	3.28%
Value Score	C	-	-	B	B	B
Cash/Price	0.11	0.22	0.07	0.10	0.24	0.20
EV/EBITDA	8.60	4.62	12.07	3.31	4.64	3.09
PEG Ratio	NA	0.95	2.72	2.61	NA	2.87
Price/Book (P/B)	2.75	0.85	2.77	1.13	0.89	1.00
Price/Cash Flow (P/CF)	12.17	7.49	10.95	12.57	5.33	3.27
P/E (F1)	20.41	14.09	20.22	18.29	7.90	10.66
Price/Sales (P/S)	3.39	1.15	2.12	1.67	0.64	0.80
Earnings Yield	4.95%	4.95%	4.71%	5.47%	12.65%	9.38%
Debt/Equity	0.00	0.00	0.76	0.00	0.29	0.26
Cash Flow (\$/share)	5.11	3.99	6.96	13.92	6.94	30.61
Growth Score	D	-	-	C	F	B
Hist. EPS Growth (3-5 yrs)	2.36%	10.45%	10.87%	10.27%	8.64%	-4.52%
Proj. EPS Growth (F1/F0)	-32.97%	-1.89%	-10.31%	-2.20%	-17.17%	-2.18%
Curr. Cash Flow Growth	14.28%	0.34%	5.46%	-1.52%	20.19%	3.77%
Hist. Cash Flow Growth (3-5 yrs)	7.17%	8.80%	8.55%	7.31%	2.69%	-1.19%
Current Ratio	0.40	0.39	1.29	0.33	0.29	0.38
Debt/Capital	0.00%	0.09%	44.54%	0.00%	22.17%	20.65%
Net Margin	23.73%	8.25%	10.54%	3.92%	8.33%	7.61%
Return on Equity	19.78%	7.47%	16.27%	6.10%	13.25%	9.61%
Sales/Assets	0.23	0.20	0.54	0.33	0.30	0.29
Proj. Sales Growth (F1/F0)	-11.15%	0.00%	-2.49%	-17.29%	-35.01%	0.68%
Momentum Score	C	-	-	C	D	B
Daily Price Chg	0.27%	-0.15%	0.12%	-0.01%	-0.32%	0.94%
1 Week Price Chg	-9.50%	-7.79%	-4.56%	-4.29%	-8.53%	-7.22%
4 Week Price Chg	3.07%	-0.40%	5.28%	-5.76%	2.95%	-0.35%
12 Week Price Chg	-13.23%	-14.60%	-8.60%	-15.77%	-28.81%	-19.33%
52 Week Price Chg	3.36%	-16.65%	-6.15%	-13.10%	-30.63%	-31.88%
20 Day Average Volume	131,395	219,144	2,645,192	7,170,456	3,226,186	1,880,439
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-3.29%	0.00%	0.07%
(F1) EPS Est 4 week change	6.32%	-1.25%	-3.80%	-6.50%	-10.04%	-5.03%
(F1) EPS Est 12 week change	0.00%	-5.97%	-16.57%	-11.92%	-13.78%	-9.42%
(Q1) EPS Est Mthly Chg	5.05%	-4.10%	-7.64%	0.00%	-17.54%	-9.29%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	C
Growth Score	D
Momentum Score	C
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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