

## Kinsale Capital (KNSL)

**\$155.21** (As of 06/30/20)

Price Target (6-12 Months): **\$179.00**

Long Term: 6-12 Months

**Zacks Recommendation:**
**Outperform**

(Since: 06/22/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:C

Value: F

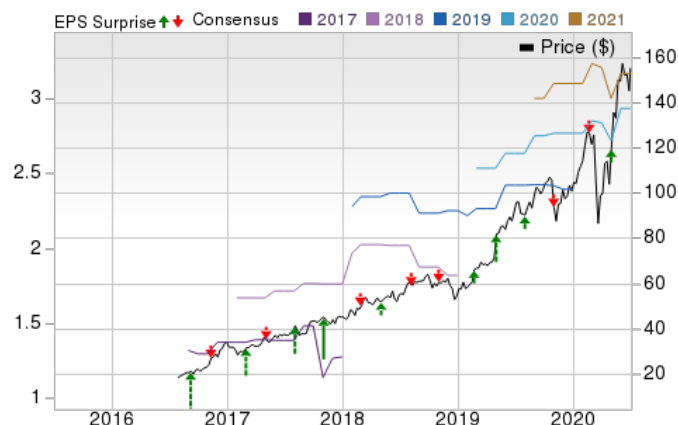
Growth: A

Momentum: D

## Summary

Shares of Kinsale Capital have outperformed its industry in a year. The company continues to benefit from dislocation within the broader property and casualty insurance industry, rate increases and premium growth. Across the E&S market, its products are exposed to those business lines, which have relatively lower risks. The insurer boasts the lowest combined ratio among its specialty insurer peers while achieving the highest growth. It also has various reinsurance contracts to limit its exposure to potential losses apart from arranging for additional capacity for growth. Technological advancements have also been lowering the expense ratios for quite some time. It also engages in effective deployment of capital via dividend hikes. However, high costs tend to put pressure on margin expansion. Elevated debt levels have also induced financial risks.

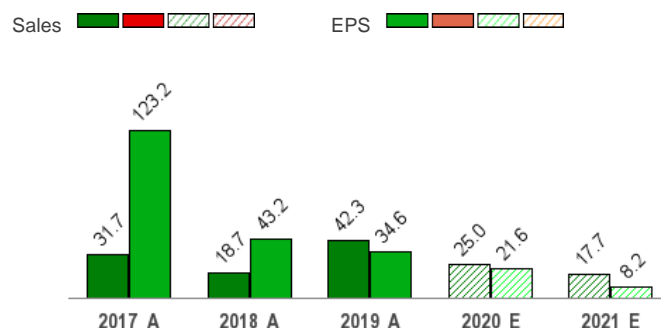
## Price, Consensus & Surprise



## Data Overview

52 Week High-Low	<b>\$160.16 - \$80.93</b>
20 Day Average Volume (sh)	<b>190,926</b>
Market Cap	<b>\$3.5 B</b>
YTD Price Change	<b>52.7%</b>
Beta	<b>0.60</b>
Dividend / Div Yld	<b>\$0.36 / 0.2%</b>
Industry	<b><u>Insurance - Property and Casualty</u></b>
Zacks Industry Rank	<b>Bottom 28% (183 out of 253)</b>

## Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	<b>16.9%</b>
Last Sales Surprise	<b>-14.3%</b>
EPS F1 Est- 4 week change	<b>0.0%</b>
Expected Report Date	<b>08/06/2020</b>
Earnings ESP	<b>0.0%</b>
P/E TTM	<b>61.4</b>
P/E F1	<b>53.0</b>
PEG F1	<b>NA</b>
P/S TTM	<b>10.7</b>

## Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	114 E	118 E	122 E	126 E	465 E
2020	80 A	102 E	106 E	110 E	395 E
2019	72 A	73 A	78 A	93 A	316 A

## EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.76 E	\$0.81 E	\$0.82 E	\$0.92 E	\$3.17 E
2020	\$0.76 A	\$0.68 E	\$0.70 E	\$0.80 E	\$2.93 E
2019	\$0.64 A	\$0.57 A	\$0.57 A	\$0.63 A	\$2.41 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 06/30/2020. The reports text is as of 07/01/2020.

## Overview

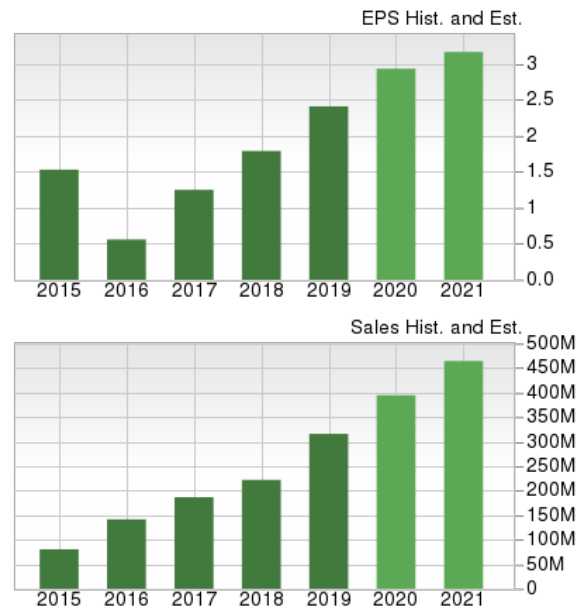
Headquartered in Richmond, VA, Kinsale Capital was established in 2009. It offers various insurance and reinsurance products across all 50 states of the United States, the District of Columbia, the Commonwealth of Puerto Rico and the U.S. Virgin Islands. It operates primarily through two markets – Commercial and Personal. While personal lines include homeowners insurance; commercial lines offerings cover construction, small business, excess casualty, commercial property, product liability, allied health, general casualty, management liability, inland marine, commercial insurance and public entity.

The company typically provides coverage for those risks, which are unique and difficult to find in the standard insurance market. With an extensive focus on clients with small and medium-sized accounts, it focuses only on the excess and surplus lines (E&S) market in the United States.

Kinsale Capital has developed a proprietary technology platform, which is likely to provide it a competitive edge over its competitors. This platform has enabled efficient handling of underwriting and claims operations. Moreover, the company markets insurance products through a network of independent insurance brokers, who have sound knowledge and indispensable experience about the diverse set of risks across the E&S market. Aspera Insurance Services, which is the company's broker insurance subsidiary, primarily underwrites personal lines risks for Kinsale Capital.

Furthermore, this P&C insurer reports only through one segment:

**Excess and Surplus Lines Insurance segment:** This segment distributes P&C insurance products across the E&S market, which has performed well due to improved margins and lower loss ratios. Total gross written premiums was \$389.7 million in 2019, of which casualty insurance operations accounted for 87.6%, while property insurance operations comprised the remaining 12.4%. The company also writes a small amount of homeowners insurance in the personal lines market that in aggregate represented 4.3% of gross written premiums in 2019 and is included with property division.



## Reasons To Buy:

- ▲ **Share Price Performance:** Shares of Kinsale Capital have outperformed its industry in a year's time. Moreover, we believe that the company's strong fundamentals are likely to sustain momentum in the long run.
- ▲ **Continued Focus on the E&S Market:** Kinsale Capital is completely focused on the excess and surplus lines (E&S) market across the United States. Evidently, this E&S market has been performing well due to improved margins and lower loss ratios. This has led to strong underwriting results for the P&C insurer. Also, Kinsale Capital basically targets clients with small to medium-sized accounts, which have better pricing and are less prone to competition. Despite the P&C industry facing operational challenges due to the COVID-19 pandemic, the company's overall results do not seem to be significantly impacted by the crisis. The primary reason behind this is the company's exposure to those lines of business that have relatively lower risks.
- ▲ **Consistent Growth in Top Line:** Kinsale Capital has been driving revenue growth on the back of growing net premiums. Notably, the company's strong established presence across the E&S market of the United States and high retention rates arising from contract renewals have benefited premiums for the past few years. Evidently, net written premiums have witnessed a CAGR of 41% in the past five years (2014-2019). The momentum sustained in first-quarter 2020, improving 47.9% year over year in the quarter, owing to solid growth across the company's portfolio. In fact, the top line has witnessed a five-year CAGR of 37.8% driven by solid premiums. The uptick continued in first-quarter 2020 as well, where revenues improved 11.3% year over year. We expect revenue growth to continue in the days ahead, given the rate increase and constant efforts to expand the company's business lines.
- ▲ **Improvement in Investment Income:** Net investment income has been an important component of the company's top-line growth. Net investment income has witnessed a CAGR of 37.7% in the past five years (2014-2019). Despite the prevailing low interest rate environment, the metric improved 32% in the first-quarter 2020. This can primarily be attributed to persistent growth in the company's investment portfolio. Though low interest rates are likely to strain investment yields in the near term, we believe investment of the company's excess operating funds is likely to result in a robust investment portfolio in the days ahead.
- ▲ **Lower Expense Ratios Due to Technological Upgradations:** Kinsale Capital has developed a proprietary technology platform, which is likely to provide it a competitive edge over its competitors. This platform has enabled efficient handling of underwriting and claims operations. Such automation in processes also reflects the P&C insurer's cost-control initiatives and provides for improved customer interactions. Use of technology has also aided the company in lowering its expense ratio in the past few years. Notably in 2019, the expense ratio has improved 30 basis points (bps) from the 2018-end figure. Also, the metric improved 140 bps in first-quarter 2020. We believe the company's technological platform is likely to add to the scalability of business as well.
- ▲ **Favorable Combined Ratio Owing to Solid Underwriting:** Aspera Insurance Services, which is the company's broker insurance subsidiary, primarily underwrites personal lines risks for Kinsale Capital. Strong channel of independent insurance brokers and better pricing reflecting superior underwriting discipline have been driving improvement in the combined ratio of its P&C business over the past few years. The insurer has been able to maintain underlying combined ratio below 95% since the last few years and aims to maintain the same in the mid-80s range in the long term. The company also has various reinsurance contracts to limit its exposure to potential losses.
- ▲ **Increased Submissions Due to Favorable Conditions in the P&C Insurance Industry:** There has been persistent dislocation within the broader insurance industry in the United States, which was grappling with several operational challenges. Most companies have undertaken efforts to restructure their business operations and get rid of underperforming lines of business. This dislocation has resulted in improved submission flows and better pricing decisions. Despite Kinsale Capital witnessing rise in submission growth for straight two quarters, the metric had declined to 30% in first-quarter 2020 compared with 35% in the prior quarter. The reason can primarily be attributed to the financial turmoil and government shutdowns induced by the COVID-19 pandemic, which resulted in reduced submission flows. Nevertheless, submission growth has rebounded to the 20's range as of late. Despite the prevailing challenges in the P&C insurance industry, Kinsale Capital remains well poised to benefit due to continued market dislocation. The company even expects the dislocation to stretch into 2021 as well.
- ▲ **Effective Capital Deployment by Virtue of Solid Cash Flows:** Strong cash flows enable Kinsale Capital to engage in shareholder-friendly moves like dividend hikes. Net cash provided by operating activities has witnessed a CAGR of 34.2% in the past three years (2016-2019). The company has increased dividend since 2017 at a four-year CAGR of 15.8%. Its dividend payout ratio of 13.04 compares favorably with the industry average of 11.93. These make the stock an attractive pick for yield seeking investors.
- ▲ **Favorable Return on Equity:** Further, Kinsale Capital's trailing 12-month return on equity (ROE) reinforces its growth potential. The company's operating ROE of 15.1%, has increased over the past two years and remains way above the industry's ROE of 6.5%, reflecting its tactical efficiency in using its shareholders' funds. For the long term, it even targets to maintain operating return on equity in the mid-teens range.

Kinsale Capital is poised for long-term growth given its continued focus on the E&S market, improved revenues, solid underwriting results and effective capital deployment measures.

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## Risks

- **Escalating Costs to Dent Margins:** Kinsale Capital has been witnessing increase in expenses, which surged 442.6% in the past five years. Total expenses of the company increased 52.5% year over year in first-quarter 2020 due to higher losses and loss adjustment expenses, and underwriting, acquisition and insurance expenses. A hike in expenses can cause margin contraction. Net margin contracted 320 bps year over year in first-quarter 2020. Consequently, the company should strive to generate higher revenue growth rate compared with the rise in expenses, otherwise margin will be impacted.
  - **High Debt Level:** The company's debt levels have been increasing for straight three quarters inducing deterioration in debt to capital. As of Mar 31, 2020, Kinsale Capital's total debt of \$24.1 increased 43.8% sequentially with total debt to total capital of 5.7%, deteriorating 170 bps. Given the difficult operating conditions in the market, high level of debt is likely to induce financial risks.
  - **Stretched Valuation:** The company's valuation remains stretched at the current level. Looking at its price-to-book ratio, which is the best multiple for valuing insurers, investors might not want to pay any further premium. Kinsale Capital currently has a trailing 12-month P/B ratio of 8.61x, higher than the industry average of 1.18x.
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## Last Earnings Report

### Kinsale Capital's Q1 Earnings Beat, Revenues Up Y/Y

Kinsale Capital reported first-quarter 2020 net operating earnings of 76 cents per share, which surpassed the Zacks Consensus Estimate by 16.9%. Moreover, the bottom line improved 18.8% year over year.

The company's results benefited from higher revenues, which were partially offset by elevated costs.

Quarter Ending **03/2020**

Report Date	<b>Apr 30, 2020</b>
Sales Surprise	<b>-14.30%</b>
EPS Surprise	<b>16.92%</b>
Quarterly EPS	<b>0.76</b>
Annual EPS (TTM)	<b>2.53</b>

### Operational Update

First-quarter operating revenues were \$80.3 million, up 11.3% year over year. The upside can primarily be attributed to higher premiums and improved net investment income.

Gross written premiums increased 46.6% year over year to \$124 million. Net earned premiums improved 46% year over year to \$89.8 million. Solid growth across the company's portfolio contributed to rise in premiums.

Net investment income improved 32% year over year to nearly \$6 million, courtesy of persistent growth in the company's investment portfolio.

Total expenses in the quarter under review increased 52.5% year over year to \$75.3 million, attributable to higher losses and loss adjustment expenses, and underwriting, acquisition and insurance expenses.

Kinsale Capital incurred underwriting income of \$14.4 million, up 19% year over year. Combined ratio deteriorated 360 basis points (bps) to 83.9%.

### Financial Update

Kinsale Capital exited the first quarter with cash and cash equivalents of \$52.6 million, down 47.7% over the level at 2019 end. Debt levels of \$24.1 million increased 43.8% from 2109-end level.

Annualized operating return on equity contracted 290 bps year over year to 17.1% in the quarter.

### Dividend Update

In May, Kinsale Capital announced a dividend of 9 cents per share in first-quarter 2020. The dividend will be paid on Jun 12, 2020 to shareholders of record as on Jun 2.

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## Recent News

### Kinsale Capital Gets Rating Upgrade From A.M. Best – Jun 11, 2020

Kinsale Capital has recently received a rating upgrade from A.M. Best. The Financial Strength Rating of Kinsale Insurance Group has been upgraded to A from the prior rating of A-. Similarly, its Long-Term Issuer Credit Rating (Long-Term ICR) has moved up to "a" from "a-". Further, Kinsale Capital's Long-Term ICR has been upgraded to "bbb" from "bbb-". Overall, the ratings outlook has been updated to stable from positive.

## Valuation

Kinsale Capital shares are up 52.7% in the year-to-date period and 64.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 21.4% and 22.1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 18.6% and 17.4%, respectively.

The S&P 500 index is down 5.2% in the year-to-date period but up 3.3% in the past year.

The stock is currently trading at 8.61x trailing 12-month book value, which compares to 1.18x for the Zacks sub-industry, 2.28x for the Zacks sector and 4.18x for the S&P 500 index.

Over the past five years, the stock has traded as high as 8.81x and as low as 2.09x, with a 5-year median of 4.7x. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$179 price target reflects 9.93x trailing 12-month book value.

The table below shows summary valuation data for KNSL

Valuation Multiples - KNSL					
		Stock	Sub-Industry	Sector	S&P 500
P/B TTM	Current	8.61	1.18	2.28	4.18
	5-Year High	8.81	1.67	2.91	4.56
	5-Year Low	2.09	0.93	1.71	2.83
	5-Year Median	4.7	1.46	2.53	3.69
P/S F12M	Current	8.04	1.67	6	3.42
	5-Year High	8.31	11.26	6.66	3.44
	5-Year Low	2.4	1.39	4.96	2.53
	5-Year Median	4.91	1.86	6.06	3.02
P/E F12M	Current	50.89	23	15.9	21.87
	5-Year High	52.33	31.55	16.18	22.14
	5-Year Low	16.1	21.01	11.57	15.25
	5-Year Median	26.2	25.55	14.06	17.52

As of 06/30/2020

## Industry Analysis Zacks Industry Rank: Bottom 28% (183 out of 253)



## Top Peers

Company (Ticker)	Rec	Rank
Atlas Financial Holdings, Inc. (AFH)	Neutral	3
The Allstate Corporation (ALL)	Neutral	3
HCI Group, Inc. (HCI)	Neutral	4
James River Group Holdings, Ltd. (JRVR)	Neutral	3
Markel Corporation (MKL)	Neutral	4
ProAssurance Corporation (PRA)	Neutral	4
RLI Corp. (RLI)	Neutral	3
W.R. Berkley Corporation (WRB)	Neutral	4

Industry Comparison Industry: Insurance - Property And Casualty				Industry Peers		
	KNSL	X Industry	S&P 500	MKL	RLI	WRB
Zacks Recommendation (Long Term)	Outperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	4	3	4
VGM Score	C	-	-	B	F	B
Market Cap	3.45 B	1.19 B	21.75 B	12.72 B	3.69 B	10.24 B
# of Analysts	3	2	14	2	2	4
Dividend Yield	0.23%	1.38%	1.93%	0.00%	1.17%	0.84%
Value Score	F	-	-	C	F	C
Cash/Price	0.02	0.24	0.07	0.39	0.01	0.16
EV/EBITDA	44.64	4.86	12.71	4.25	15.27	10.04
PEG Ratio	NA	2.12	2.86	NA	NA	NA
Price/Book (P/B)	8.61	1.07	2.97	1.31	4.03	1.93
Price/Cash Flow (P/CF)	63.91	9.11	11.71	15.76	29.62	15.03
P/E (F1)	53.51	13.07	21.23	52.23	34.94	22.40
Price/Sales (P/S)	10.66	0.75	2.30	1.72	4.30	1.32
Earnings Yield	1.89%	7.46%	4.48%	1.91%	2.86%	4.47%
Debt/Equity	0.06	0.22	0.76	0.37	0.16	0.48
Cash Flow (\$/share)	2.43	3.12	7.01	58.60	2.77	3.81
Growth Score	A	-	-	C	F	B
Hist. EPS Growth (3-5 yrs)	31.96%	6.81%	10.93%	6.49%	-2.00%	8.17%
Proj. EPS Growth (F1/F0)	21.71%	-1.44%	-9.77%	-54.57%	-8.56%	-15.59%
Curr. Cash Flow Growth	36.96%	5.61%	5.51%	13.53%	25.36%	8.47%
Hist. Cash Flow Growth (3-5 yrs)	31.84%	7.31%	8.62%	9.05%	0.86%	4.12%
Current Ratio	0.14	0.45	1.30	0.60	0.36	0.36
Debt/Capital	5.66%	19.32%	44.41%	27.81%	14.02%	32.21%
Net Margin	15.33%	3.92%	10.62%	-2.61%	7.57%	6.39%
Return on Equity	15.05%	7.52%	15.75%	6.33%	11.79%	9.97%
Sales/Assets	0.31	0.31	0.55	0.20	0.25	0.29
Proj. Sales Growth (F1/F0)	24.95%	0.00%	-2.43%	5.56%	3.03%	4.37%
Momentum Score	D	-	-	A	C	B
Daily Price Chg	2.27%	0.95%	1.41%	1.76%	0.71%	1.43%
1 Week Price Chg	-4.79%	-3.11%	-3.90%	-5.20%	-3.77%	-5.54%
4 Week Price Chg	2.65%	0.57%	-1.62%	-0.82%	4.32%	-3.92%
12 Week Price Chg	43.74%	4.59%	15.67%	-2.10%	-4.77%	6.45%
52 Week Price Chg	64.42%	-20.02%	-8.07%	-16.60%	-5.13%	-14.06%
20 Day Average Volume	190,926	180,935	2,699,706	57,517	233,700	891,015
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.00%	0.00%	-0.97%
(F1) EPS Est 12 week change	3.41%	-17.63%	-10.28%	-56.22%	-4.67%	-13.48%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	0.00%	9.76%

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## 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.

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### 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	F
Growth Score	A
Momentum Score	D
VGM Score	C

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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