

## Markel Corporation (MKL)

**\$980.38** (As of 04/08/20)

Price Target (6-12 Months): **\$1,029.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 04/07/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

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

**3-Hold**

Zacks Style Scores:

VGM:A

Value: B

Growth: A

Momentum: B

### Summary

Markel strives to grow via acquisitions and organic initiatives as these not only diversify and strengthen its portfolio but also expand international footprint. Solid performance at Insurance and Reinsurance segments consistently drive premiums. Markel stands to benefit from its niche focus and effective management of insurance risk. The company is banking on the strength of its underwriting, investment and Markel Ventures operations, which position it well for long-term growth. Shares of the company have outperformed its industry in the past year. Nevertheless, Markel boasts a sturdy capital position, which enables it to deploy capital via share repurchases. However, higher expenses have put a strain on margin expansion. Also, exposure to catastrophe loss is likely to affect the company's earnings.

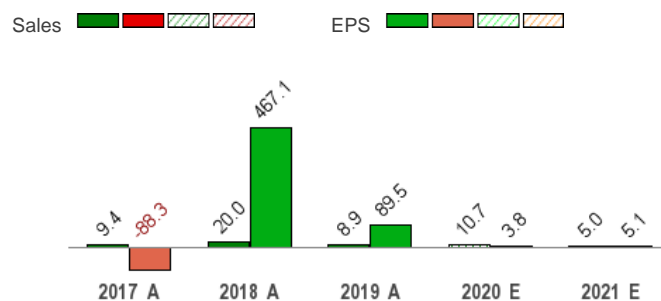
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$1,347.64 - \$710.52
20 Day Average Volume (sh)	86,889
Market Cap	\$13.5 B
YTD Price Change	-14.2%
Beta	0.83
Dividend / Div Yld	\$0.00 / 0.0%
Industry	<a href="#">Insurance - Property and Casualty</a>
Zacks Industry Rank	Bottom 44% (142 out of 253)

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



Last EPS Surprise	-7.1%
Last Sales Surprise	-0.8%
EPS F1 Est- 4 week change	-0.9%
Expected Report Date	05/05/2020
Earnings ESP	27.4%
P/E TTM	23.6
P/E F1	24.3
PEG F1	NA
P/S TTM	1.4

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,199 E	2,390 E	2,272 E	2,295 E	9,212 E
2020	2,063 E	2,252 E	2,162 E	2,211 E	8,771 E
2019	1,860 A	2,013 A	2,001 A	2,050 A	7,924 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$11.06 E	\$11.86 E	\$9.41 E	\$10.59 E	\$42.42 E
2020	\$9.92 E	\$11.28 E	\$8.96 E	\$10.19 E	\$40.37 E
2019	\$9.24 A	\$11.84 A	\$13.95 A	\$6.57 A	\$38.91 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 04/08/2020. The reports text is as of 04/09/2020.

## Overview

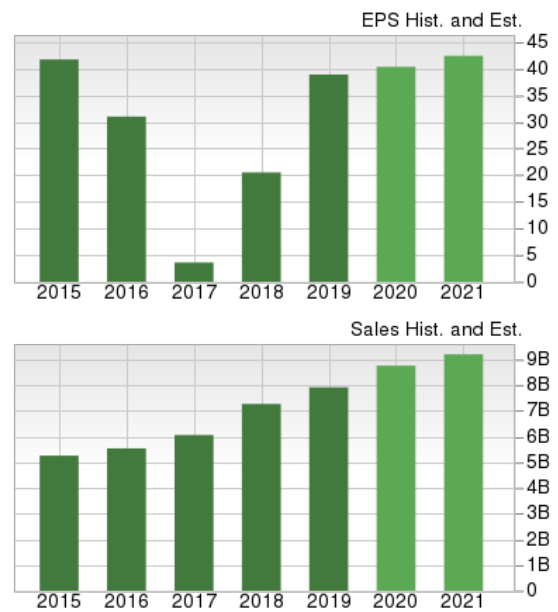
Founded in 1930 and headquartered in Glen Allen, VA, Markel Corporation markets and underwrites specialty insurance products in the United States, the United Kingdom, Canada, and internationally.

Starting from first-quarter 2018, Markel has revised its reportable segments keeping in mind its sustained growth as well as diversification. Effective Jan 1, 2018, the company reported through two segments, namely Insurance and Reinsurance.

The **Insurance** segment (82.7% of 2019 gross premium) offers general and professional liability, property, personal lines, marine and energy, specialty programs, and workers' compensation insurance products. Business in this segment is primarily written through Markel Assurance, Markel Specialty and Markel International divisions. As a result of the acquisition of State National Companies, Inc. (State National), effective November 2017, the company created the State National division. The State National division's collateral protection underwriting business is included in the Insurance segment.

The **Reinsurance** segment (17.3%) includes property and casualty treaty reinsurance products offered to other insurance and reinsurance companies globally through the broker market. Treaty reinsurance offerings include both quota share and excess of loss reinsurance and are typically written on a participation basis, which means each reinsurer has a proportional share in the business ceded under the reinsurance treaty written.

**Markel Ventures:** Through wholly owned subsidiary Markel Ventures, Inc. (Markel Ventures), the company own interests in various businesses that operate outside of the specialty insurance marketplace. These businesses are viewed by management as separate and distinct from insurance operations. Local management teams oversee the day-to-day operations of these companies, while strategic decisions, including investment and capital allocation decisions, are made by senior management.



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## Reasons To Buy:

- ▲ Shares of Markel have outperformed its industry in a year. We believe that the company's solid fundamentals are likely to drive its shares going forward.
- ▲ Markel Corporation's operational result is primarily driven by insurance, investments and Markel ventures. Markel has been recording improving premiums (gross written premiums improved 11.6% in 2019) on solid performance of Insurance and Reinsurance. Better performing general liability and personal lines have been boosting the company's U.S. operations. Retentions remained strong in the past few years. Given a competitive market, the company has progressed to some extent with regard to raising adequate rates across all its businesses. It also might write less business in the event of an unfavorable pricing environment.

Markel Corporation's niche focus, improved pricing, effective management of insurance risk and focus on developing and maintaining underwriting as well as pricing guidelines should drive growth.

Markel's impressive performance can be attributed to its niche focus, improved pricing, effective management of insurance risk and a focus on developing and maintaining underwriting as well as pricing guidelines on existing products and new product development.

- ▲ Markel's net investment income has been rising from past many years. The momentum continued in 2019 as the metric increased nearly 4.1% year over year driven by higher dividend income due to increased equity holdings and dividend rates. Higher short-term investment income, primarily due to rising short-term interest rates, also aided the upside. The quarter witnessed solid performance in its investment portfolio, largely driven by favorable movements in the equity markets.
  - ▲ Markel Corporation considers strategic buyouts a prudent approach to ramp up its growth profile. Acquisitions have helped the company enhance its surety capabilities, ramp up Markel Ventures' revenues and expand its reinsurance product offerings. Buyout of Nephila Holdings, should help Markel become the largest manager of funds in insurance-linked securities sector and to its ILS management operations. Markel added Brahmin leatherworks to its Markel Ventures operations. In November 2019, the company agreed to buy VSC Fire & Security, which offers comprehensive fire protection, life safety, and low voltage solutions. These integrations represent the company's consistent strategy and commitment toward creating long-term value for its shareholders. Through its Markel Ventures, the company will be investing in the ownership of the best of asset management firms. Markel has been pursuing acquisitions to achieve profitable growth in insurance operations and to create additional value on a diversified basis in Markel Ventures operations.
  - ▲ Markel Corporation boasts a solid balance sheet with liquidity rising and debt declining. We expect to see an improvement in the same moving ahead owing to a robust capital position. Banking on strong capital position, the company has engaged in share buybacks. However, it presently prefers to invest in organic growth initiatives from insurance or Markel Ventures operations over share repurchases. Also, the company has been issuing debts amid the low interest rate environment and effectively lowering its interest burden.
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### Reasons To Sell:

- ▼ Markel stock seems to be overvalued. The company is trading at 1.22 price to book value multiple, the best for valuing insurers because of their unpredictable financial results. This is expensive when compared with the industry average of 1.1 in a year.
- ▼ As a property and casualty insurer, Markel Corporation is exposed to catastrophes loss, inducing volatility in underwriting results. However, underwriting profit increased 35.4% in 2019 while combined ratio improved 400 bps year over year to 94% attributable to lower catastrophe losses as well as more favorable development on prior accident years' loss reserves in 2019 compared to 2018. Exposure of cat loss always remains a concern given its unprecedented nature.
- ▼ Markel Corporation has been experiencing an increase in operating expenses due to higher losses and loss adjustment expenses, underwriting, acquisition and insurance expenses. Total expense witnessed a five-year CAGR (2013-2018) of 12.1%. Escalating expenses also affected operating margins, which contracted 1040 basis points (bps) during the 2013-2018 period. Expenses increased 3.6% year over year. Therefore, the company should strive to ensure that growth in total revenues outpaces the rise in expenses. Otherwise, the company's operating margin is likely to suffer.

Markel Corporation's exposure to catastrophes loss inducing volatility in underwriting results and increase in operating expenses due to higher losses and loss adjustment expenses are concerns.

## Last Earnings Report

### Markel Q4 Earnings and Revenues Miss Estimates, Up Y/Y

Markel Corporation's fourth-quarter 2019 earnings of \$6.57 per share, missed the Zacks Consensus Estimate by 7.1% but were up 189.4% year over year.

The company witnessed year-over-year growth owing to strong contribution from its insurance and Markel Ventures. The acquisition of VSC Fire & Security aided Markel Ventures results.

#### Operational Update

Total operating revenues of \$2.05 billion missed the Zacks Consensus Estimate by 0.8%. The top line rose 8.9% year over year on higher premiums, product and services plus other revenues, partly offset by lower net investment income.

Total operating expenses of Markel declined 7.5% year over year to \$1.83 billion.

Markel's combined ratio improved 1500 basis points (bps) year over year to 93% in the reported quarter.

#### Segment Update

**Insurance:** Net written premiums were up 17.5% year over year to \$1.14 billion in the quarter under review.

Underwriting profit came in at \$128.8 million, compared with \$9.5 million in the year-ago quarter.

Combined ratio improved 100 bps year over year to 89% in the quarter under discussion.

**Reinsurance:** Net written premiums increased 37.8% year over year to \$120 million.

Underwriting loss was \$45.7 million, narrower than \$115.3 million incurred in the year-ago quarter.

Combined ratio improved 3100 bps year over year to 120% in the fourth quarter.

**Markel Ventures:** Profit of \$21.4 million increased 25.3% year over year.

#### Financial Update

Markel exited the fourth quarter with investments, cash and cash equivalents and restricted cash and cash equivalents (invested assets) of \$22.3 billion at Dec 31, 2019, up 16.14% year over year.

Debt balance increased 17.4% year over year to \$3.53 billion as of Dec 31, 2019.

Book value per share increased 22.7% from year-end 2018 to \$802.59 as of Dec 31, 2019.

Net cash from operating activities was \$1.3 billion in 2019, up 45.7% year over year.

Quarter Ending 12/2019

Report Date	Feb 04, 2020
Sales Surprise	-0.79%
EPS Surprise	-7.07%
Quarterly EPS	6.57
Annual EPS (TTM)	41.60

## Recent News

### Markel Inks a Deal to Invest in Combined Lansing & Harvey – Mar 16, 2020

Markel has inked a deal to acquire majority stake in Lansing Building Products. Concurrently, Lansing Building Products has agreed to acquire the distribution business of Harvey Building Products (Harvey Distribution). Both deals, following the fulfillment of customary closing conditions, are projected to close by the end of April.

### Markel to Acquire VSC Fire & Security, Expand Product Suite – Nov 8, 2019

Markel Corporation recently agreed to buy VSC Fire & Security, Inc., which offers comprehensive fire protection, life safety, and low voltage solutions. Notably, it caters to retailers, commercial campuses, healthcare facilities, and government properties across southeast United States.

## Valuation

Markel shares are down 14.2% in the year-to-date period and up 0.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 17% and 26.1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 8.7% and 19.8%, respectively.

The S&P 500 index is down 14.5% in the year-to-date period and down 5% in the past year.

The stock is currently trading at 1.22x trailing 12-month book value, which compares to 1.1x for the Zacks sub-industry, 2.06x for the Zacks sector and 3.54x for the S&P 500 index.

Over the past five years, the stock has traded as high as 1.79x and as low as 0.93x, with a 5-year median of 1.55x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$1,029 price target reflects 1.28x trailing 12-month book value.

The table below shows summary valuation data for MKL

Valuation Multiples - MKL					
		Stock	Sub-Industry	Sector	S&P 500
P/B TTM	Current	1.22	1.1	2.06	3.54
	5-Year High	1.79	1.67	2.89	4.55
	5-Year Low	0.93	0.93	1.69	2.84
	5-Year Median	1.55	1.47	2.51	3.63
P/S F12M	Current	1.52	1.62	4.93	2.94
	5-Year High	3.14	11.26	6.65	3.44
	5-Year Low	1.23	1.55	4.93	2.54
	5-Year Median	2.37	1.88	6.03	3
P/E F12M	Current	23.72	22.64	12.48	16.99
	5-Year High	202.25	31.55	16.19	19.34
	5-Year Low	19.23	21.05	11.23	15.19
	5-Year Median	30.52	25.42	13.95	17.44

As of 04/08/2020

## Industry Analysis Zacks Industry Rank: Bottom 44% (142 out of 253)



## Top Peers

First American Financial Corporation (FAF)	Outperform
Arch Capital Group Ltd. (ACGL)	Neutral
American Financial Group, Inc. (AFG)	Neutral
Cincinnati Financial Corporation (CINF)	Neutral
Fidelity National Financial, Inc. (FNF)	Neutral
Everest Re Group, Ltd. (RE)	Neutral
W.R. Berkley Corporation (WRB)	Neutral
Alleghany Corporation (Y)	Underperform

Industry Comparison Industry: Insurance - Property And Casualty				Industry Peers		
	MKL Neutral	X Industry	S&P 500	AFG Neutral	RE Neutral	Y Underperform
<b>VGM Score</b>	<b>A</b>	-	-	<b>A</b>	<b>C</b>	<b>C</b>
Market Cap	13.51 B	1.21 B	19.05 B	6.89 B	8.07 B	8.04 B
# of Analysts	4	2	13	3	3	2
Dividend Yield	0.00%	1.37%	2.23%	2.35%	3.13%	0.00%
<b>Value Score</b>	<b>B</b>	-	-	<b>A</b>	<b>C</b>	<b>D</b>
Cash/Price	0.39	0.29	0.06	0.42	0.17	0.29
EV/EBITDA	4.53	5.11	11.47	4.13	6.44	5.73
PEG Ratio	NA	1.32	2.00	1.34	NA	NA
Price/Book (P/B)	1.22	0.92	2.56	1.10	0.88	0.92
Price/Cash Flow (P/CF)	16.73	9.04	10.14	6.63	8.93	17.38
P/E (F1)	25.01	10.30	16.97	8.66	8.54	13.77
Price/Sales (P/S)	1.42	0.75	2.01	0.84	0.98	0.89
Earnings Yield	4.12%	9.48%	5.81%	11.55%	11.71%	7.26%
Debt/Equity	0.32	0.22	0.70	0.23	0.07	0.20
Cash Flow (\$/share)	58.60	3.12	7.01	11.57	22.15	32.24
<b>Growth Score</b>	<b>A</b>	-	-	<b>B</b>	<b>C</b>	<b>C</b>
Hist. EPS Growth (3-5 yrs)	1.59%	3.05%	10.92%	13.23%	-22.54%	-18.81%
Proj. EPS Growth (F1/F0)	3.75%	11.43%	-0.64%	2.63%	8.56%	71.22%
Curr. Cash Flow Growth	13.53%	5.61%	5.93%	7.42%	310.65%	25.33%
Hist. Cash Flow Growth (3-5 yrs)	9.05%	7.31%	8.55%	12.34%	-5.41%	-8.44%
Current Ratio	0.59	0.46	1.24	0.15	0.33	0.33
Debt/Capital	25.10%	18.26%	42.36%	19.03%	6.49%	18.22%
Net Margin	18.81%	8.66%	11.64%	10.89%	12.31%	9.49%
Return on Equity	5.51%	8.46%	16.74%	12.87%	9.85%	3.99%
Sales/Assets	0.26	0.33	0.54	0.12	0.31	0.34
Proj. Sales Growth (F1/F0)	10.68%	0.41%	0.61%	0.00%	9.77%	0.00%
<b>Momentum Score</b>	<b>B</b>	-	-	<b>D</b>	<b>D</b>	<b>A</b>
Daily Price Chg	3.96%	2.11%	4.33%	6.24%	3.42%	3.67%
1 Week Price Chg	-2.82%	-4.81%	-4.40%	-9.75%	-5.95%	-8.72%
4 Week Price Chg	-9.79%	-7.86%	-1.70%	-8.02%	-13.23%	-3.72%
12 Week Price Chg	-16.23%	-22.83%	-20.64%	-30.25%	-28.21%	-30.04%
52 Week Price Chg	0.07%	-20.11%	-12.97%	-20.85%	-8.77%	-9.28%
20 Day Average Volume	86,889	201,075	4,016,075	858,280	535,954	92,344
(F1) EPS Est 1 week change	0.00%	0.00%	-0.26%	-1.40%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.92%	-1.20%	-5.64%	-1.70%	-2.21%	0.00%
(F1) EPS Est 12 week change	2.55%	-1.68%	-7.49%	-1.15%	-3.50%	-10.99%
(Q1) EPS Est Mthly Chg	-0.04%	-0.37%	-9.90%	-0.31%	-5.40%	0.00%

## 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	<b>B</b>
Growth Score	<b>A</b>
Momentum Score	<b>B</b>
VGM Score	<b>A</b>

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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