

Markel Corporation (MKL)

\$1,083.91 (As of 08/13/20)

Price Target (6-12 Months): **\$1,138.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 06/29/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: B

Growth: B

Momentum: B

Summary

Markel's earnings of \$65.75 per share improved 82.3% year over year. The company strives to grow via acquisitions and organic initiatives as these not only diversify and strengthen its portfolio but also expand its international footprint. Solid performance at Insurance and Reinsurance segments should drive premiums. The company stands to benefit from its niche focus and effective management of insurance risk. Markel is banking on the strength of its underwriting, investment and Markel Ventures operations, which position it well for long-term growth. It boasts a sturdy capital position, which enables it to deploy capital effectively via share repurchases. Its shares have outperformed the industry year to date. However, higher expenses continues to put strain on margin. Also, exposure to cat loss is likely to induce underwriting volatility.

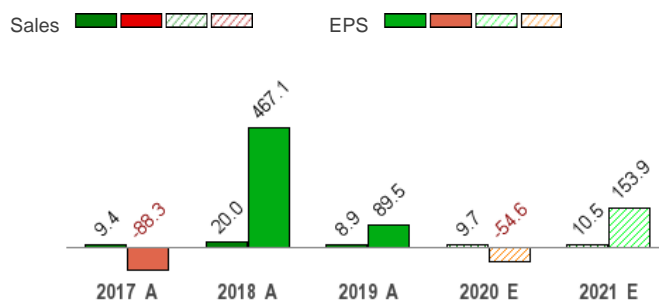
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$1,347.64 - \$710.52
20 Day Average Volume (sh)	48,591
Market Cap	\$14.9 B
YTD Price Change	-5.2%
Beta	0.68
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Insurance - Property and Casualty
Zacks Industry Rank	Top 44% (111 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	57.0%
Last Sales Surprise	2.5%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	11/03/2020
Earnings ESP	0.0%
P/E TTM	21.8
P/E F1	61.3
PEG F1	NA
P/S TTM	1.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,209 E	2,398 E	2,262 E	2,284 E	9,604 E
2020	2,017 A	2,221 A	2,201 E	2,251 E	8,691 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	\$11.09 E	\$14.02 E	\$8.63 E	\$11.14 E	\$44.89 E
2020	-\$8.92 A	\$13.66 A	\$7.36 E	\$10.08 E	\$17.68 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 08/13/2020. The reports text is as of 08/14/2020.

Overview

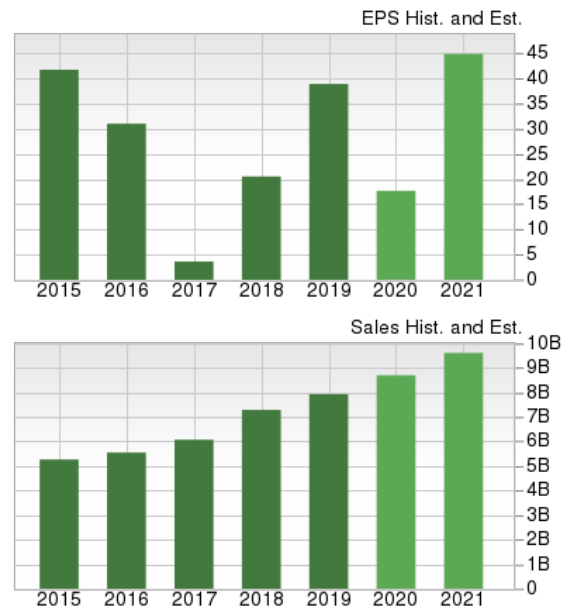
Founded in 1930 and headquartered in Glen Allen, VA, Markel Corporation markets and underwrites specialty insurance products in the United States, the United Kingdom, Canada, and internationally.

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.



Reasons To Buy:

- ▲ Shares of Markel have lost 5.2% compared with the industry's decline of 8% year to date. Solid fundamentals are likely to help shares bounce back.
- ▲ Markel Corporation's solid operational result is primarily driven by better performance at insurance, investments and Markel ventures. Markel's impressive performance can be attributed to its niche focus, improved pricing and effective risk management. This in turn have been driving improved premiums. Gross written premiums improved 12.2% in the first half of 2020 on solid performance of the Insurance segment, which was driven by growth within professional liability, general liability, marine and energy and personal lines product lines. However, the company expects significant volatility in gross premium volume in Reinsurance segment due to individually significant deals and the timing of renewals for the remaining quarters. 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's net investment income has been rising over the past many years. However, in the first half of 2020, net investment income decreased 18.6% to \$183.8 million due to decline in short-term investment income and lower interest income on fixed maturity investment portfolio. The decrease was also due to losses on equity method investments. Investment yield contracted 20 basis points to 1.3% in the first half of 2020. Nevertheless, increased equity holdings and higher dividend income, higher short-term investment income, higher short-term interest rates, increase in interest income on fixed maturity portfolio, and increase in the fair value of equity securities are likely to drive net investment income in the near term.
- ▲ 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. In the first half of 2020, revenues in Markel Ventures increased 10.9% year over year on higher revenues from its services businesses, partially offset by lower revenues from products businesses. Contribution from Lansing Building Products (acquired in April 2020) VSC Fire & Security (acquired in 2019) drove services businesses revenues. 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. We expect to see an improvement in the same moving ahead owing to a robust capital position. It has a solid cash balance of \$4.8 billion, which improved 57.3% from 2019-end level. Banking on strong capital position, the company has engaged in share buybacks. However, it presently prefers to invest in organic growth initiatives for its Insurance business. It suspended shares repurchases in March 2020 and is focusing on expense reductions across the company. Also, the company has been issuing debts amid the low interest rate environment and effectively lowering its interest burden.

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.

Reasons To Sell:

- ▼ As a property and casualty insurer, Markel Corporation is exposed to catastrophes loss, inducing volatility in underwriting results. In the first half of 2020, the company incurred underwriting loss of \$83.2 million against the year-ago quarter's profit of \$120 million. Combined ratio deteriorated 800 basis points (bps) year over year to 103% in the first half of 2020 due to losses attributed to the COVID-19 pandemic, partially offset by favorable development on prior accident years' loss reserves compared to 2019 within Insurance segment, as well as a lower expense ratio across both underwriting segments. 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 two-year CAGR (2017-2019) of 9.8%. Total operating expenses increased 16.8% year over year to \$4 billion in the first half of 2020. 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. In the second quarter, net margin contracted 600 bps year over year. As the pandemic rages on, the company expects losses indirectly related to it and a broader range of coverages within the professional liability, trade credit and workers compensation product lines among others, including the reinsurance product lines, in the remainder of 2020.
- ▼ Markel's debt levels have increased over the past few years. As of Jun 30, 2020, the company's long-term debt was \$3.6 billion, which increased 2% from the 2019-end level. Long-term debt to capital of 24% compared unfavorably with the industry's measure of 21.8%. Also, the company's times interest earned of 2.7 for the second quarter was poor when compared with the 2019-end figure of 14.3 and compared unfavorably with the industry's figure of 4.4%, implying that its earnings are not sufficient to cover interest obligations.
- ▼ The company's return on equity, a profitability measure reflecting how effectively the company is utilizing its shareholders fund, is 3.3%, which compares unfavorably with the industry average of 6.5%.

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 Q2 Earnings Rise Y/Y, Revenues Beat Estimates

Markel Corporation reported second-quarter 2020 net income of \$65.75 per share, which improved 82.3% year over year.

The company witnessed solid performance of Insurance and Reinsurance Segments, partially offset by high operating expenses. Markel also reported solid underwriting results despite the adverse impact of the COVID-19-induced financial volatility.

Quarter Ending 06/2020

Report Date	Jul 28, 2020
Sales Surprise	2.49%
EPS Surprise	57.01%
Quarterly EPS	13.66
Annual EPS (TTM)	25.26

Operational Update

Total operating revenues of \$2.2 billion outpaced the Zacks Consensus Estimate by 2.5%. The top line also rose 10.3% year over year on higher premiums, and services and other revenues.

Net investment income plunged 14.5% year over year to \$95.6 million in the second quarter.

Total operating expenses of Markel increased 6.6% year over year to \$1.9 billion primarily due to higher losses and loss adjustment expenses, underwriting, acquisition and insurance expenses, and services and other expenses.

In the second quarter, Markel reported consolidated underwriting profit of \$157.6 million, which skyrocketed 167% year over year. Consolidated combined ratio improved 700 basis points (bps) year over year to 88% in the reported quarter.

Segment Update

Insurance: Net written premiums were up 12.6% year over year to \$1.3 billion in the second quarter.

Underwriting profit came in at \$135.1 million, which soared 183.9% year over year. Combined ratio improved 700 bps year over year to 88% in the quarter under review.

Reinsurance: Net written premiums improved 5.6% year over year to \$188.8 million.

Underwriting profit was \$24.8 million, which surged 180.8% year over year. Combined ratio improved 600 bps year over year to 90% in the second quarter.

Markel Ventures: Segment profit of \$79.4 million declined 2.8% year over year.

Financial Update

Markel exited the second quarter with cash and cash equivalents of \$4.8 billion, up 57.3% from 2019 end.

Debt balance increased 2% to \$3.6 billion as of Jun 30, 2020 from 2019 end.

Book value per share decreased 2% from year-end 2019 to \$783.58 as of Jun 30, 2020.

In the first half of 2020, net cash from operating activities was \$488.7 million, which skyrocketed 96.2% from the first half of 2019.

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.

Valuation

Markel shares are down 5.2% in the year-to-date period and 4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 8% and 15.4% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 1.4% but down 4.6%, respectively.

The S&P 500 index is up nearly 4.6% in the year-to-date period and 18.6% in the past year.

The stock is currently trading at 1.38x trailing 12-month book value, which compares to 1.39x for the Zacks sub-industry, 2.47x for the Zacks sector and 4.7x 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 \$1,138 price target reflects 1.44x 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	1.38	1.39	2.47	4.7
	5-Year High	1.79	1.67	2.91	4.71
	5-Year Low	0.93	0.93	1.72	2.83
	5-Year Median	1.55	1.46	2.53	3.74
P/S F12M	Current	1.7	1.73	6.22	3.7
	5-Year High	3.14	11.26	6.66	3.7
	5-Year Low	1.15	1.39	4.96	2.53
	5-Year Median	2.32	1.84	6.06	3.05
P/E F12M	Current	33.42	25.91	16.75	22.87
	5-Year High	202.25	31.55	16.75	22.87
	5-Year Low	18.18	21.01	11.59	15.25
	5-Year Median	30.72	25.67	14.26	17.58

As of 08/13/2020

Industry Analysis Zacks Industry Rank: Top 44% (111 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
American Financial Group, Inc. (AFG)	Outperform	3
Fidelity National Financial, Inc. (FNF)	Outperform	1
Arch Capital Group Ltd. (ACGL)	Neutral	3
Cincinnati Financial Corporation (CINF)	Neutral	3
First American Financial Corporation (FAF)	Neutral	2
Everest Re Group, Ltd. (RE)	Neutral	3
W.R. Berkley Corporation (WRB)	Neutral	3
Alleghany Corporation (Y)	Neutral	2

Industry Comparison Industry: Insurance - Property And Casualty				Industry Peers		
	MKL	X Industry	S&P 500	AFG	RE	Y
Zacks Recommendation (Long Term)	Neutral	-	-	Outperform	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	2
VGM Score	B	-	-	B	B	D
Market Cap	14.93 B	1.26 B	23.58 B	5.99 B	9.00 B	7.82 B
# of Analysts	2	2	14	2	3	1
Dividend Yield	0.00%	1.33%	1.68%	2.66%	2.75%	0.00%
Value Score	B	-	-	B	A	B
Cash/Price	0.44	0.26	0.07	0.30	0.15	0.36
EV/EBITDA	4.61	5.35	13.34	4.27	6.76	5.26
PEG Ratio	NA	2.10	2.99	NA	1.74	NA
Price/Book (P/B)	1.38	0.99	3.20	0.99	1.22	0.92
Price/Cash Flow (P/CF)	18.50	10.34	12.83	5.85	10.17	16.94
P/E (F1)	61.49	15.09	21.99	9.80	18.05	71.42
Price/Sales (P/S)	1.85	0.84	2.53	0.80	1.06	0.96
Earnings Yield	1.63%	5.51%	4.35%	10.21%	5.54%	1.40%
Debt/Equity	0.33	0.24	0.77	0.31	0.07	0.24
Cash Flow (\$/share)	58.60	3.12	6.94	11.57	22.15	32.24
Growth Score	B	-	-	B	C	D
Hist. EPS Growth (3-5 yrs)	4.32%	3.85%	10.41%	11.69%	-15.88%	-17.29%
Proj. EPS Growth (F1/F0)	-54.57%	-6.42%	-6.32%	-19.95%	-41.52%	-67.82%
Curr. Cash Flow Growth	13.53%	3.77%	5.20%	7.42%	310.65%	25.33%
Hist. Cash Flow Growth (3-5 yrs)	9.05%	4.81%	8.55%	12.34%	-5.41%	-8.44%
Current Ratio	0.68	0.45	1.33	0.15	0.36	0.37
Debt/Capital	25.08%	20.03%	44.59%	23.79%	6.27%	20.99%
Net Margin	2.66%	5.18%	10.13%	3.13%	6.24%	-0.76%
Return on Equity	3.31%	6.80%	14.51%	11.34%	5.74%	1.32%
Sales/Assets	0.22	0.31	0.51	0.11	0.31	0.31
Proj. Sales Growth (F1/F0)	9.67%	0.00%	-1.43%	-34.34%	11.21%	0.00%
Momentum Score	B	-	-	D	F	F
Daily Price Chg	1.05%	-0.59%	-0.44%	-0.87%	-1.08%	-0.74%
1 Week Price Chg	4.36%	4.75%	2.30%	8.47%	6.12%	3.32%
4 Week Price Chg	13.64%	4.35%	4.38%	6.76%	0.97%	1.84%
12 Week Price Chg	25.59%	13.96%	13.59%	11.73%	9.34%	9.04%
52 Week Price Chg	-4.01%	-12.76%	5.75%	-31.19%	-8.71%	-26.47%
20 Day Average Volume	48,591	132,833	1,984,154	470,056	244,685	54,685
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-4.90%	3.60%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	2.08%	-1.95%	-26.66%	NA
(F1) EPS Est 12 week change	-4.07%	-2.38%	2.66%	2.10%	-21.51%	-73.85%
(Q1) EPS Est Mthly Chg	-3.82%	1.82%	0.94%	11.51%	-67.43%	-183.15%

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	B
Growth Score	B
Momentum Score	B
VGM Score	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.

Disclosures

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