

Markel Corporation (MKL)

\$1,188.38 (As of 01/24/20)

Price Target (6-12 Months): **\$1,367.00**

Long Term: 6-12 Months

Zacks Recommendation:

Outperform

(Since: 12/23/19)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

1-Strong Buy

Zacks Style Scores:

VGM:F

Value: D

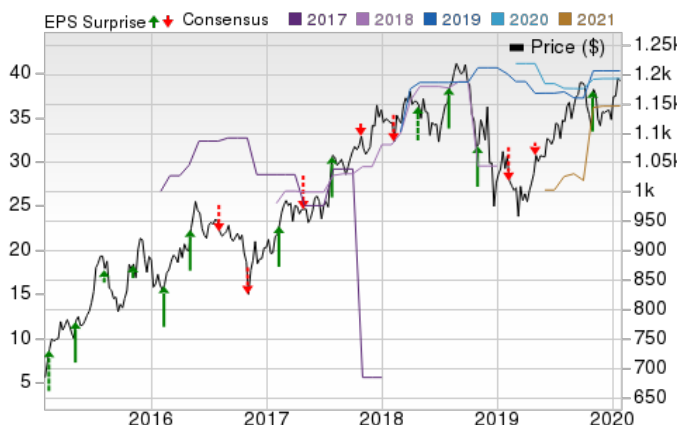
Growth: F

Momentum: D

Summary

The shares of Markel Corporation have outperformed the industry in the past year. The company 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. It boasts a sturdy capital position, which enables it to deploy capital via share buybacks. However, higher expenses due to higher losses, underwriting, acquisition and insurance expenses have been putting pressure on margins and exposure to catastrophe loss induces earnings volatility.

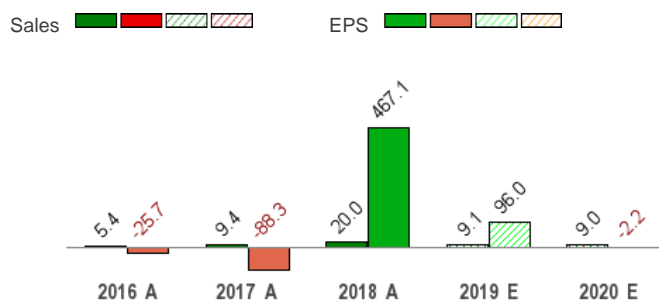
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$1,216.47 - \$950.16
20 Day Average Volume (sh)	33,160
Market Cap	\$16.4 B
YTD Price Change	4.0%
Beta	0.72
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Insurance - Property and Casualty
Zacks Industry Rank	Top 27% (69 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	84.8%
Last Sales Surprise	0.3%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/04/2020
Earnings ESP	0.0%
P/E TTM	31.9
P/E F1	30.2
PEG F1	NA
P/S TTM	2.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	2,029 E	2,202 E	2,107 E	2,172 E	8,652 E
2019	1,860 A	2,013 A	2,001 A	2,066 E	7,941 E
2018	1,698 A	1,882 A	1,810 A	1,889 A	7,279 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$9.70 E	\$10.78 E	\$8.69 E	\$10.21 E	\$39.38 E
2019	\$9.24 A	\$11.84 A	\$13.95 A	\$9.24 E	\$40.25 E
2018	\$11.39 A	\$19.97 A	\$28.50 A	\$2.27 A	\$20.53 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 01/24/2020. The reports text is as of 01/27/2020.

Overview

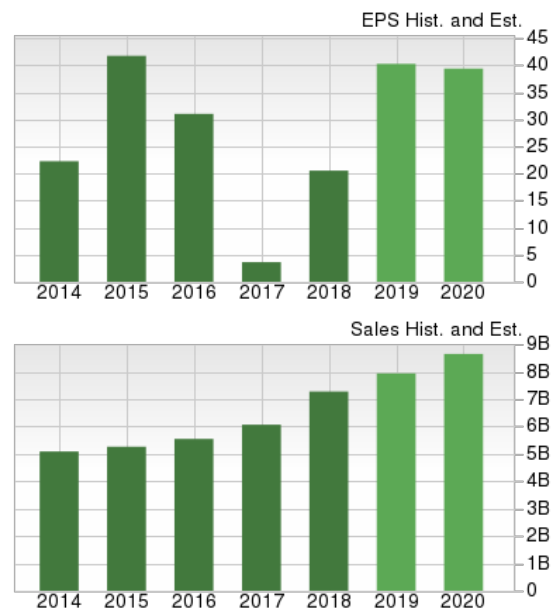
Founded in 1930 and headquartered in Glen Allen, VA, Markel Corporation markets and underwrites specialty insurance products in the United States, the United Kingdom, Canada, and internationally.

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% of 2018 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 (18%) 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 outperformed the industry in the past year. The company's solid fundamentals would likely help the stock continue with its rally 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 11.1% in the first nine months of 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 grew nearly 20% in the last five years. The momentum continued into the first nine months of 2019 as the metric increased nearly 6.1% 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. Given an improved interest rate environment, the company is expected to witness better investment results going forward.
- ▲ 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. Recently, 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. In April 2019, Markel entered into a credit agreement for a new revolving credit facility, which provides up to \$300 million of capacity for future acquisitions, investments and stock repurchases, and for other working capital and general corporate purposes. Also, banking on the sound financial structure and an operational performance, the company and its subsidiaries enjoy strong ratings from credit rating giants.
- ▲ 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. In May 2018, the board of directors approved a share buyback program that will enable the company to buy back shares up to \$300 million. The company repurchased shares under the 2018 Program at a cost of \$97.2 million (replacing the 2013 share repurchase program).

Also, the company has been issuing debts amid the low interest rate environment and effectively lowering its interest burden.

Risks

- Markel stock seems to be overvalued. The company is trading at 1.5 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 1.4 in a year.
 - As a property and casualty insurer, Markel Corporation is exposed to catastrophes loss, inducing volatility in underwriting results. Underwriting profit declined 10.5% in the first nine months of 2019 while combined ratio deteriorated 100 bps year over year to 95% attributable to less favorable development on prior accident years' loss reserves in 2019 compared with 2018 within its Insurance segment. 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. The momentum continued through the first nine months of 2019 as the metric increased 8.2% 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.
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Last Earnings Report

Markel Q3 Earnings Down Y/Y, Revenues Beat Estimates

Markel Corporation reported third-quarter 2019 earnings of \$13.95 per share that declined 51% year over year.

The company witnessed top-line growth as well as excellent results from Markel Ventures.

Operational Update

Total operating revenues of \$2 billion beat the Zacks Consensus Estimate by 0.3%. The top line rose 11.1% year over year on higher premiums, investment income, product and services plus other revenues.

Total operating expenses of Markel increased 5.4% year over year to \$1.8 billion.

Markel's combined ratio improved 500 basis points (bps) year over year to 94% in the reported quarter.

Segment Update

Insurance: Net written premiums were up 15.7% year over year to \$1.2 billion in the quarter under review.

Underwriting profit came in at \$81.3 million, surging 91.5% from the year-ago quarter.

Combined ratio improved 400 bps year over year to 92% in the quarter under discussion.

Reinsurance: Net written premiums increased 4.2% year over year to \$187.2 million.

Underwriting loss was \$6.5 million, narrower than \$33.7 million incurred in the year-ago quarter.

Combined ratio improved 1200 bps year over year to 103% in the third quarter.

Markel Ventures: Profit of \$35.5 million increased 50% year over year.

Financial Update

Markel exited the third quarter with cash and cash equivalents of \$2.7 billion, up 34.8% from the level at year-end 2018.

Debt balance increased 29.5% to \$3.9 billion as of Mar 31, 2019 from 2018 end.

Book value per share increased 17.6% from year-end 2018 to \$768.98 as of Jun 30, 2019.

Net cash from operating activities was \$711.9 million in the first nine months of 2019, down 6.7% year over year.

Quarter Ending 09/2019

Report Date	Oct 29, 2019
Sales Surprise	0.26%
EPS Surprise	84.77%
Quarterly EPS	13.95
Annual EPS (TTM)	37.30

Recent News

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 up 14.8% over the trailing 12-month period. Over the past year, stocks in the Zacks sub-industry and the Zacks Finance sector are up 13.2% and 10.1%, respectively.

The S&P 500 index is up 23.9% in the past year.

The stock is currently trading at 1.54X trailing 12-month book value, which compares to 1.43X for the Zacks sub-industry, 2.81X for the Zacks sector and 4.5X for the S&P 500 index.

Over the past five years, the stock has traded as high as 1.79X and as low as 1.26X, with a 5-year median of 1.55X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$1,367 price target reflects 1.77X 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	1.54	1.43	2.81	4.5
	5-Year High	1.79	1.67	2.89	4.55
	5-Year Low	1.26	1.26	1.83	2.85
	5-Year Median	1.55	1.47	2.51	3.62
P/S F12M	Current	1.89	1.67	6.53	3.52
	5-Year High	3.14	11.26	6.61	3.52
	5-Year Low	1.66	1.55	5.2	2.54
	5-Year Median	2.39	1.92	6.04	3
P/E F12M	Current	30.35	26.58	14.53	18.94
	5-Year High	202.25	31.55	16.21	19.34
	5-Year Low	23.62	22.77	12.01	15.18
	5-Year Median	30.79	25.67	13.98	17.45

As of 01/24/2020

Industry Analysis Zacks Industry Rank: Top 27% (69 out of 255)



Top Peers

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

Industry Comparison Industry: Insurance - Property And Casualty				Industry Peers		
	MKL Outperform	X Industry	S&P 500	AFG Neutral	RE Neutral	Y Neutral
VGM Score	F	-	-	B	B	C
Market Cap	16.41 B	1.74 B	24.13 B	9.96 B	11.31 B	11.58 B
# of Analysts	1	2	13	3	3	2
Dividend Yield	0.00%	0.98%	1.78%	1.63%	2.24%	0.00%
Value Score	D	-	-	B	C	D
Cash/Price	0.29	0.17	0.04	0.28	0.10	0.16
EV/EBITDA	27.15	9.42	14.02	9.42	-64.81	44.29
PEG Ratio	NA	1.72	2.03	2.27	1.15	NA
Price/Book (P/B)	1.54	1.26	3.30	1.57	1.26	1.31
Price/Cash Flow (P/CF)	23.15	13.86	13.52	10.16	51.25	32.25
P/E (F1)	30.18	13.88	18.92	12.38	11.55	17.63
Price/Sales (P/S)	2.05	1.04	2.65	1.28	1.45	1.45
Earnings Yield	3.31%	7.15%	5.28%	8.08%	8.66%	5.67%
Debt/Equity	0.37	0.21	0.72	0.23	0.07	0.19
Cash Flow (\$/share)	51.34	3.05	6.94	10.88	5.41	24.96
Growth Score	F	-	-	C	B	B
Hist. EPS Growth (3-5 yrs)	-0.95%	-0.55%	10.60%	13.41%	-26.70%	-22.88%
Proj. EPS Growth (F1/F0)	-2.17%	9.59%	7.59%	3.78%	5.72%	18.40%
Curr. Cash Flow Growth	174.99%	9.94%	13.90%	39.71%	-47.78%	122.47%
Hist. Cash Flow Growth (3-5 yrs)	10.64%	7.23%	9.00%	13.00%	-27.90%	-13.07%
Current Ratio	0.60	0.44	1.22	0.16	0.35	0.32
Debt/Capital	27.64%	17.79%	42.99%	18.38%	6.59%	17.53%
Net Margin	6.75%	5.34%	11.35%	8.43%	5.30%	1.43%
Return on Equity	5.18%	6.81%	17.10%	12.83%	5.90%	4.36%
Sales/Assets	0.23	0.31	0.55	0.12	0.30	0.31
Proj. Sales Growth (F1/F0)	8.95%	4.75%	4.03%	NA	9.80%	NA
Momentum Score	D	-	-	D	C	F
Daily Price Chg	0.67%	-0.28%	-1.01%	0.23%	-1.27%	-0.56%
1 Week Price Chg	2.63%	1.93%	2.29%	1.46%	1.87%	3.51%
4 Week Price Chg	5.76%	1.01%	1.02%	1.10%	1.01%	1.40%
12 Week Price Chg	1.48%	2.13%	6.85%	6.20%	7.88%	3.41%
52 Week Price Chg	14.39%	8.36%	20.39%	16.28%	28.57%	30.39%
20 Day Average Volume	33,160	106,003	1,536,379	260,810	216,982	49,893
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.03%	0.00%	0.00%	-0.28%	-0.21%	-0.16%
(F1) EPS Est 12 week change	4.48%	-0.52%	-0.23%	-1.74%	0.87%	-1.62%
(Q1) EPS Est Mthly Chg	-7.62%	0.00%	0.00%	0.00%	0.05%	5.44%

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	D
Growth Score	F
Momentum Score	D
VGM Score	F

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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