

Markel Corporation (MKL)

\$910.86 (As of 04/29/20)

Price Target (6-12 Months): **\$956.00**

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 earnings of \$15.44 per share beat the Zacks Consensus Estimate by 65.3% and improved 67.1% year over year. Its shares have outperformed its industry in the past year. 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 drive premiums. It stands to benefit from its niche focus and effective management of insurance risk. It is banking on the strength of its underwriting, investment and Markel Ventures operations, which position it well for long-term growth. Markel boasts a sturdy capital position, which enables it to deploy capital via share repurchases. However, higher expenses have put a strain on margin. Also, exposure to catastrophe loss is likely to affect the earnings.

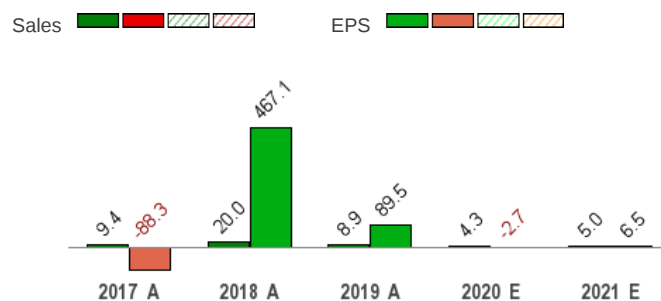
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$1,347.64 - \$710.52
20 Day Average Volume (sh)	61,537
Market Cap	\$12.5 B
YTD Price Change	-20.3%
Beta	0.83
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Insurance - Property and Casualty
Zacks Industry Rank	Bottom 49% (129 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	65.3%
Last Sales Surprise	-0.2%
EPS F1 Est- 4 week change	-6.2%
Expected Report Date	08/04/2020
Earnings ESP	-14.5%
P/E TTM	19.1
P/E F1	24.1
PEG F1	NA
P/S TTM	1.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,069 E	2,248 E	2,157 E	2,204 E	8,678 E
2020	2,017 A	2,125 E	2,043 E	2,075 E	8,264 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	\$10.46 E	\$11.01 E	\$9.25 E	\$10.12 E	\$40.34 E
2020	\$15.44 A	\$10.24 E	\$8.66 E	\$9.61 E	\$37.86 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 04/29/2020. The reports text is as of 04/30/2020.

Overview

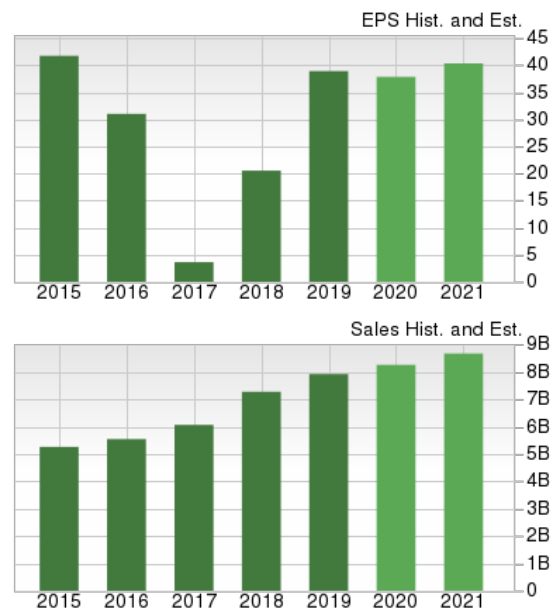
Founded in 1930 and headquartered in Glen Allen, VA, Markel Corporation markets and underwrites specialty insurance products in the United States, the United Kingdom, Canada, and internationally.

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 14.1% compared with the industry's decline of 15.2% in a year's time. Nevertheless, the company's solid fundamentals are likely to drive its shares going forward.
- ▲ Markel Corporation's operational result is primarily driven by better performance at insurance, investments and Markel ventures. Markel has been recording improving premiums (gross written premiums improved 3% in the first quarter of 2020) on solid performance of Insurance segment that in turn was driven by increased writings in professional liability and general liability product lines. 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'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 over the past many years. However, in the first quarter of 2020, net investment income decreased 22.7% to \$88.2 million, primarily due to losses on equity method investments and higher investment expenses. Investment yield contracted 20 basis points to 0.6% in the first quarter of 2020. The quarter witnessed decrease in market yield in the investment portfolio.
- ▲ 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 when, should help Markel become the largest manager of funds in insurance-linked securities sector and to its ILS management operations. s. In the first quarter of 2020, revenues in Markel Ventures increased 12% from the year-ago quarter to \$511 million. The increase was driven by the acquisition of VSC Fire & Security, which closed during the fourth quarter of 2019.. 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. 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.

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:

- ▼ Markel stock seems to be overvalued. The company is trading at 1.1 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 1.0 in a year. Looking at the company's price-to-book (P/B) ratio, investors may not want to pay any further premium.
- ▼ As a property and casualty insurer, Markel Corporation is exposed to catastrophes loss, inducing volatility in underwriting results. In the first quarter of 2020, the company incurred underwriting loss of \$240.8 million against the year-ago quarter's profit of \$ 61 million. Combined ratio deteriorated 2300 basis points (bps) year over year to 118% in the first quarter of 2020 due to the impact of losses attributed to COVID-19 in 2020, partially offset by favorable development on prior accident years' loss reserves. 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%. Expenses increased 27.6% year over year to \$2.1 billion in the first quarter primarily due to higher losses and loss adjustment expenses, underwriting, acquisition and insurance expenses as well as services and other expenses. 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's debt levels have increased over the past few years. As of Mar 31, 2020, the company's long-term debt came in at \$3.6 billion, which increased 1.7% from the 2019-end level. Moreover, as of Mar 31, 2020, the company's total debt/ total capital ratio of 0.3 was higher than 0.2 at 2019-end. Also, the company's times interest earned of -0.2 as on Mar 31, 2020 was poor when compared with the 2019-end figure of 14.3, implying that its earnings are not sufficient to cover interest obligations.

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 Q1 Earnings Beat Estimates, Revenues Improve Y/Y

Markel Corporation reported first-quarter 2020 adjusted earnings of \$15.44 per share, beat the Zacks Consensus Estimate by 65.3%. Moreover, the bottom line improved 67.1% year over year.

Markel also reported first-quarter 2020 loss of \$100.60 per share against prior-year quarter's earnings of \$42.76 per share.

The company witnessed soft performance of Insurance and Reinsurance Segments as well as higher operating expenses.

Operational Update

Total operating revenues of \$2 billion missed the Zacks Consensus Estimate by 0.2%. However, the top line rose 8.4% year over year on higher premiums, product and services plus other revenues.

Total operating expenses of Markel increased 27.6% year over year to \$2.1 billion primarily due to higher losses and loss adjustment expenses, underwriting, acquisition and insurance expenses as well as services and other expenses.

Markel's combined ratio deteriorated 2300 basis points (bps) year over year to 118% in the reported quarter.

Segment Update

Insurance: Net written premiums were up 19.8% year over year to \$1.2 billion in the quarter under review.

Underwriting loss came in at \$206 million compared to underwriting profit of \$52 million in the year-ago quarter.

Combined ratio deteriorated 2400 bps year over year to 119% in the quarter under discussion.

Reinsurance: Net written premiums declined 5.5% year over year to \$452.7 million.

Underwriting loss was \$33.9 million compared to underwriting profit of \$3.4 million.

Combined ratio deteriorated 1600 bps year over year to 115% in the first quarter.

Markel Ventures: Profit of \$41.8 million increased 39.6% year over year.

Financial Update

Markel exited the first quarter with investments, cash and cash equivalents of \$3.8 billion, up 24.8% from the level at year-end 2019.

Debt balance increased 1.7% to \$3.6 billion as of Mar 31, 2020 from 2019 end.

Book value per share decreased 12% from year-end 2019 to \$705.68 as of Mar 31, 2020.

Net cash from operating activities was \$65.7 million, up 250% year over year.

Quarter Ending 03/2020

Report Date	Apr 28, 2020
Sales Surprise	-0.22%
EPS Surprise	65.31%
Quarterly EPS	15.44
Annual EPS (TTM)	47.80

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 20.3% in the year-to-date period and down 14.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 17.4% and 22.3% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 14% and 17.5%, respectively.

The S&P 500 index is down 8.8% in the year-to-date period and 0.2% in the past year.

The stock is currently trading at 1.13x trailing 12-month book value, which compares to 1.1x for the Zacks sub-industry, 2.19x for the Zacks sector and 3.89x 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 \$956 price target reflects 1.18x 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	1.13	1.1	2.19	3.89
	5-Year High	1.79	1.67	2.9	4.55
	5-Year Low	0.93	0.93	1.71	2.84
	5-Year Median	1.55	1.46	2.52	3.64
P/S F12M	Current	1.47	1.62	4.96	3.3
	5-Year High	3.14	11.26	6.69	3.44
	5-Year Low	1.15	1.55	4.96	2.54
	5-Year Median	2.36	1.88	6.05	3.01
P/E F12M	Current	23.55	22.86	15.56	20.81
	5-Year High	202.25	31.55	16.17	20.81
	5-Year Low	18.18	21.06	11.19	15.19
	5-Year Median	30.31	25.42	13.93	17.45

As of 04/29/2020

Industry Analysis Zacks Industry Rank: Bottom 49% (129 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Arch Capital Group Ltd. (ACGL)	Neutral	4
American Financial Group, Inc. (AFG)	Neutral	3
Cincinnati Financial Corporation (CINF)	Neutral	3
First American Financial Corporation (FAF)	Neutral	3
Fidelity National Financial, Inc. (FNF)	Neutral	3
Everest Re Group, Ltd. (RE)	Neutral	3
W.R. Berkley Corporation (WRB)	Neutral	3
Alleghany Corporation (Y)	Underperform	4

Industry Comparison Industry: Insurance - Property And Casualty				Industry Peers		
	MKL	X Industry	S&P 500	AFG	RE	Y
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Underperform
Zacks Rank (Short Term)	3	-	-	3	3	4
VGM Score	A	-	-	A	D	C
Market Cap	12.55 B	1.26 B	20.82 B	6.32 B	9.28 B	8.14 B
# of Analysts	4	2	14	3	3	2
Dividend Yield	0.00%	1.19%	2.07%	2.56%	3.36%	0.00%
Value Score	B	-	-	A	C	C
Cash/Price	0.39	0.26	0.06	0.44	0.14	0.28
EV/EBITDA	4.18	5.25	12.12	3.74	7.48	5.81
PEG Ratio	NA	1.73	2.51	NA	NA	NA
Price/Book (P/B)	1.14	0.99	2.74	1.01	0.82	0.93
Price/Cash Flow (P/CF)	15.55	9.26	11.23	6.08	8.33	17.61
P/E (F1)	23.44	11.74	19.26	9.33	9.07	15.17
Price/Sales (P/S)	1.70	0.78	2.16	0.77	1.13	0.90
Earnings Yield	4.16%	8.16%	5.03%	10.71%	11.02%	6.59%
Debt/Equity	0.32	0.22	0.72	0.23	0.07	0.20
Cash Flow (\$/share)	58.60	3.12	7.01	11.57	22.15	32.24
Growth Score	A	-	-	B	C	C
Hist. EPS Growth (3-5 yrs)	1.59%	3.05%	10.88%	13.23%	-22.54%	-18.81%
Proj. EPS Growth (F1/F0)	-2.71%	5.40%	-6.94%	-12.61%	-4.75%	57.45%
Curr. Cash Flow Growth	13.53%	5.61%	5.92%	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	0.44	1.23	0.15	0.33	0.33
Debt/Capital	25.10%	18.73%	43.90%	19.03%	6.49%	18.22%
Net Margin	-2.61%	7.57%	11.15%	10.89%	12.31%	9.49%
Return on Equity	6.19%	8.18%	16.47%	12.87%	9.85%	3.99%
Sales/Assets	0.20	0.32	0.54	0.12	0.31	0.34
Proj. Sales Growth (F1/F0)	4.29%	0.00%	-1.52%	0.00%	7.22%	0.00%
Momentum Score	B	-	-	F	F	C
Daily Price Chg	0.30%	2.23%	2.91%	4.72%	2.67%	3.26%
1 Week Price Chg	-7.84%	-3.88%	-1.74%	-13.61%	-13.01%	-6.01%
4 Week Price Chg	2.84%	8.93%	21.33%	7.97%	1.77%	10.31%
12 Week Price Chg	-27.69%	-20.99%	-16.28%	-37.41%	-34.89%	-30.74%
52 Week Price Chg	-14.15%	-19.40%	-7.57%	-31.79%	-22.00%	-13.57%
20 Day Average Volume	61,537	136,394	2,658,107	576,815	357,434	51,167
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-9.83%	0.00%
(F1) EPS Est 4 week change	-6.22%	-6.22%	-6.32%	-16.04%	-14.20%	-8.05%
(F1) EPS Est 12 week change	-3.87%	-8.14%	-12.93%	-15.59%	-15.39%	-18.02%
(Q1) EPS Est Mthly Chg	-9.26%	-3.92%	-11.84%	-39.44%	-22.38%	-0.23%

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	A
Momentum Score	B
VGM Score	A

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

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.