

MGICInvestment(MTG)

\$7.13 (As of 05/08/20)

Price Target (6-12 Months): **\$7.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/19/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:B

Value: A

Growth: D

Momentum: A

Summary

MGIC's first-quarter bottom line beat estimates. Given the strong purchase market and potential share gains from FHA, it anticipates strong writing. MGIC's insurance in force remains solid. A decline in loss and claims payments will likely solidify its balance sheet and improve its financial profile. Shares of MGIC Investment have underperformed the industry in a year. We believe that improved earnings, banking on declining delinquency, lower claims payments and an improving housing market should drive the company's shares. MGIC Investment also flaunts a solid capital position on which it returns value to shareholders in forms of share buybacks and dividend payments. However, a competitive environment and pressure to maintain capital at the required level will likely dent capital flexibility. Increasing expenses weigh on margin.

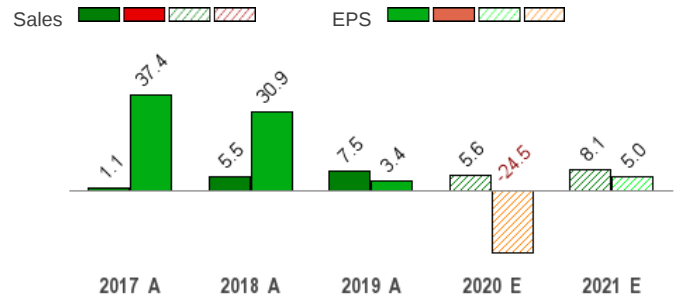
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$15.24 - \$4.34
20 Day Average Volume (sh)	6,345,532
Market Cap	\$2.5 B
YTD Price Change	-49.7%
Beta	1.81
Dividend / Div Yld	\$0.24 / 3.4%
Industry	Insurance - Multi line
Zacks Industry Rank	Bottom 49% (129 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	10.5%
Last Sales Surprise	-1.8%
EPS F1 Est- 4 week change	-3.9%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	3.9
P/E F1	5.1
PEG F1	1.0
P/S TTM	2.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	337 E	341 E	344 E	359 E	1,380 E
2020	305 A	315 E	317 E	335 E	1,277 E
2019	292 A	292 A	314 A	310 A	1,209 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.31 E	\$0.31 E	\$0.31 E	\$0.28 E	\$1.46 E
2020	\$0.42 A	\$0.38 E	\$0.36 E	\$0.33 E	\$1.39 E
2019	\$0.42 A	\$0.46 A	\$0.48 A	\$0.49 A	\$1.84 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 05/08/2020. The reports text is as of 05/11/2020.

Overview

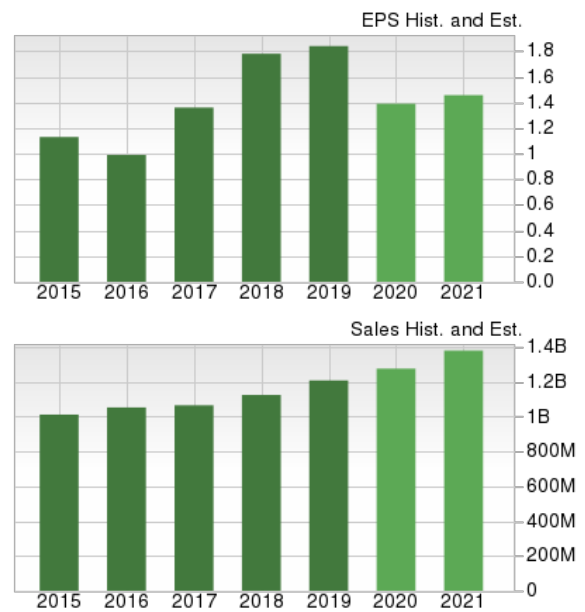
Based in Milwaukee, WI, and formed in 1957, MGIC Investment Corp. is the parent company of Mortgage Guaranty Insurance Corporation, the largest private mortgage insurer in the United States. It established the private mortgage insurance (PMI) industry to provide a private market alternative to federal government insurance programs for families wanting to buy a home with less than a 20% down payment. With a focus on sustainable homeownership, MGIC Investment provides a critical component of the country's residential mortgage finance system by protecting mortgage investors from credit losses.

MGIC Investment Corporation primarily covers single-family, first-time mortgage loans by providing primary insurance to cushion lenders against non-payment of individual loans and expands home ownership opportunities by enabling people to purchase homes with smaller down payments.

Through its wholly-owned subsidiaries, the company provides private mortgage insurance, other mortgage credit risk management solutions, and ancillary services.

The company offers mortgage insurance via **Primary Insurance (98% of 2019 insured loans in force)**: Primary insurance provides mortgage default protection on individual loans and covers a percentage of the unpaid loan principal, delinquent interest and certain expenses associated with the default and subsequent foreclosure or sale approved. Primary insurance is generally written on first mortgage loans secured by owner occupied "single-family" homes, which are one-to-four family homes and condominiums.

Pool and Other Insurance (2%): Pool insurance is generally used as an additional "credit enhancement" for certain secondary market mortgage transactions. Pool insurance generally covers the amount of the loss on a defaulted mortgage loan that exceeds the claim payment under the primary coverage, if primary insurance is required on that mortgage loan, as well as the total loss on a defaulted mortgage loan, which did not require primary insurance.



Reasons To Buy:

▲ **Increase in New Insurance Written** — MGIC Investment has been witnessing an increase in new business written. Persistency continues to remain favorable and credit trends continue to improve on the back of legacy book. The metric grew 77.2% in the first quarter of 2020, though persistency declined 870 basis points in the first quarter of 2020. Given the strong purchase market and potential share gain from FHA, the company anticipates strong writing in 2019 banking on new business to be written and strong persistency.

▲ **Declining Claim Payments** — After suffering huge claims loss, the company witnessed improvement. Given the declining pattern of claim filings, we expect paid claims to decrease further. A decline in loss and claims will strengthen the company's balance sheet and hence, improve its financial profile. However, claim rate on new notices received in the first quarter of 2020 was 9%, higher than 8% reported over the last several quarters given uncertainty related to the pandemic. The company expects claim payments to slow down over the next few months attributable to foreclosure moratoriums in place.

Nonetheless, delinquency notices received in April were higher and the company estimates the same to increase in May and June, given forbearance rates on GSE loans over the past several weeks.

▲ **Improving Private Mortgage Market Share** — Per Inside Mortgage Finance, till 2010, MGIC Investment was the largest private mortgage insurer for more than 10 years. The company has been growing its market share (measured by new insurance written) every year. With the current market share of 18%, it expects to have 19-20% of the same in the industry it operates. This in turn, has helped insurance in force, the driver of future revenues to continue to improve.

▲ **Improving Housing Market Fundamentals** — The company has been seeing improving housing market fundamentals, such as household formations and home sales and the current capital status. As a result, the company will also be well positioned to offer credit enhancement and low down payment solutions to lenders, borrowers and Government Sponsored Enterprises (GSE). The company also remains committed to be a major contributor to housing finance policy. To this end, MGIC Investment agreed to participate in a Freddie Mac pilot MI CRT transaction, which will transfer risk to mortgage insurance companies or their credit insurance affiliates. MGIC Investment remains optimistic about the opportunities in the housing market, which will enable the company to serve the same much more efficiently in the future.

▲ **Improving Capital Position** — By virtue of capital contribution, reinsurance transaction and improving cash position, the company has significantly improved its capital position. As of Apr 30, 2020, the company had \$545 million of investments, cash and cash equivalents.

Also, the company's debt to capital has lowered over the last four year though debt level has risen. The firm's times interest earned ratio has been improving over the years. The improvement in this ratio indicates that the firm will be able to meet current obligations in the near future without any difficulties. However, debt to capital at the end of first quarter of 2020 deteriorated 30 bps but times interest earned remained at 17%, flat sequentially. MGIC's available assets for PMIERS purposes totaled approximately \$4.3 billion at first quarter 2020 end, resulting in a \$1 billion excess over the minimum required assets.

In January 2020, the company's board of directors gave nod to a share buyback program worth \$300 million through 2021, of which \$291 million remained. However, the company temporarily suspended share buyback in the wake of the pandemic. .

▲ **Price Impact** — Shares of MGIC Investment have lost 47.5%, wider than its industry's decline of 17.8% in a year. However, we believe that an increase in new insurance written, declining claim payments and an improving housing market should drive the company's shares going forward.

Higher premium, a decline in claim payments and decreasing delinquencies an improving housing market, outstanding credit quality and new business will continue to induce growth at the company.

Reasons To Sell:

- ▼ **Increasing Underwriting and Other Expenses** — The company has been witnessing increase in underwriting and other expenses that grew 22% over the last five years. Increasing expenses are weighing on margins. Though net underwriting and other expenses declined 7.4% in the first quarter of 2020, loss ratio deteriorated 780 bps. Net margin too declined 440 bps in the first quarter of 2020. The company should increase its top line at a magnitude higher than the increase in expenses or control cost to boost margin. The company expects such expenses to increase marginally in 2020 due to continued investments.
- ▼ **Stiff Competition** — The mortgage insurance market is highly competitive with a few players holding significant market share. Along with the private players, the company also faces competition from Federal Housing Administration (FHA), which slashed its annual premium last year to make loans more affordable. The company had lowered premium rates for all lenders and borrowers to stay competitive. Meanwhile, the company does not expect FHA to cut its premium rates in the near term.

MGIC Investment's high underwriting and other expenses weighing on margin expansion, high debt level with lower interest coverage ratio and highly competitive insurance market pose a concern.

Last Earnings Report

MGIC Investment's Q1 Earnings Beat, Revenues Miss

MGIC Investment reported first-quarter 2020 operating net income per share of 42 cents, which beat the Zacks Consensus Estimate by 10.5% but were flat year over year.

The quarter witnessed favorable economic and housing environment. Credit losses remained low.

Operational Update

Insurance in force increased 7% to \$225.5 billion, despite lower persistency, leading to a strong capital position.

The company witnessed 11% decline in primary delinquency to 27,384 loans.

MGIC Investment recorded total operating revenues of \$305 million, which increased 4.4% year over year on higher net investment income (up 1.7%) and net premiums earned (up 4.4%). Revenues missed the Zacks Consensus Estimate by 1.9%

The increase in net premiums earned was due to higher average insurance in force and a rise in premiums from single premium policy cancellations, partially offset by the effect of lower premium rates.

Net investment income improved from an increase in the consolidated investment portfolio.

Persistency, the percentage of insurance remaining in force from one year prior, was 73% as of Mar 31, 2020, down 870 basis points (bps) year over year.

New insurance written was \$17.1 billion, up 77.2% year over year.

Net underwriting and other expenses totaled \$44.8 million, down 7.4% year over year.

In the quarter under review, loss ratio was 23.4%, which deteriorated 780 basis points year over year.

Financial Update

Book value per share, a measure of net worth, grew about 1% to \$12.53 as of Mar 31, 2020 from 2019 end.

MGIC Investment had \$563 million in cash, cash equivalents and investments, up 73.2% year over year.

Total assets were \$6.2 billion, flat with 2019-end level.

Capital Deployment

MGIC paid out dividends of \$390 million to its holding company during the first quarter of 2020 while MGIC Investment Corporation paid \$0.06 dividend per common share to shareholders during the first quarter of 2020

The company bought back 9.6 million shares for about \$120 million in the first quarter. However, the company has temporarily suspended buybacks.

Quarter Ending 03/2020

Report Date	May 07, 2020
Sales Surprise	-1.77%
EPS Surprise	10.53%
Quarterly EPS	0.42
Annual EPS (TTM)	1.85

Recent News

MGIC Investment Declares Quarterly Dividend — Apr 23, 2020

MGIC Investment's board of directors approved a dividend of 6 cents per share, payable May 29, 2020 to shareholders of record as of May 11, 2020

Valuation

MGIC shares are down 49.7% in the year-to-date period and 47.5% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 28.8% and 25.3% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 23.5% and 17.8%, respectively.

The S&P 500 index is down 9% in the year-to-date period but up 4% in the past year.

The stock is currently trading at 0.58x trailing 12-month book value, which compares to 1.18x for the Zacks sub-industry, 2.11x for the Zacks sector and 3.85x for the S&P 500 index.

Over the past five years, the stock has traded as high as 3.29x and as low as 0.41x, with a 5-year median of 1.29x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$7 price target reflects 0.75x book value.

The table below shows summary valuation data for MTG

Valuation Multiples -MTG					
		Stock	Sub-Industry	Sector	S&P 500
P/B TTM	Current	0.58	1.18	2.11	3.85
	5-Year High	3.29	1.98	2.9	4.55
	5-Year Low	0.41	0.85	1.71	2.84
	5-Year Median	1.29	1.48	2.53	3.65
P/S F12M	Current	1.84	0.88	5.81	3.3
	5-Year High	5.16	1.74	6.7	3.44
	5-Year Low	1.32	0.88	4.99	2.54
	5-Year Median	3.5	1.27	6.05	3.02
P/E F12M	Current	5.04	9.17	15.32	21.15
	5-Year High	12.79	12.61	16.18	21.15
	5-Year Low	2.92	8.4	11.58	15.19
	5-Year Median	8.45	10.32	13.94	17.45

As of 05/08/2020

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



Top Peers

Company (Ticker)	Rec	Rank
Arch Capital Group Ltd (ACGL)	Neutral	4
Aegon NV (AEG)	Neutral	3
American International Group Inc (AIG)	Neutral	4
Essent Group Ltd (ESNT)	Neutral	4
FBL Financial Group Inc (FFG)	Neutral	3
The Hartford Financial Services Group Inc (HIG)	Neutral	3
Prudential Financial Inc (PRU)	Neutral	4
Radian Group Inc (RDN)	Neutral	4

Industry Comparison Industry: Insurance - Multi Line				Industry Peers		
	MTG	X Industry	S&P 500	ACGL	ESNT	RDN
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	4	4	4
VGM Score	B	-	-	D	B	B
Market Cap	2.47 B	3.71 B	20.19 B	10.59 B	2.75 B	2.81 B
# of Analysts	3	2	14	2	3	3
Dividend Yield	3.37%	2.92%	2.12%	0.00%	2.30%	3.39%
Value Score	A	-	-	D	B	A
Cash/Price	0.07	0.37	0.06	0.18	0.15	0.34
EV/EBITDA	3.30	3.74	11.95	6.10	3.43	2.95
PEG Ratio	1.03	1.09	2.60	NA	0.66	1.25
Price/Book (P/B)	0.58	0.73	2.75	0.92	0.92	0.73
Price/Cash Flow (P/CF)	3.46	7.08	10.78	8.18	4.77	3.95
P/E (F1)	5.13	8.76	19.85	12.15	6.61	6.27
Price/Sales (P/S)	2.01	0.75	2.03	1.57	3.07	1.88
Earnings Yield	19.50%	11.31%	4.83%	8.21%	15.14%	15.92%
Debt/Equity	0.19	0.25	0.75	0.25	0.00	0.25
Cash Flow (\$/share)	2.06	3.27	7.01	3.17	5.85	3.74
Growth Score	D	-	-	C	B	C
Hist. EPS Growth (3-5 yrs)	20.16%	7.13%	10.87%	11.92%	38.51%	19.69%
Proj. EPS Growth (F1/F0)	-24.46%	0.27%	-9.87%	-24.29%	-25.50%	-26.69%
Curr. Cash Flow Growth	-1.16%	9.34%	5.88%	21.44%	16.72%	14.35%
Hist. Cash Flow Growth (3-5 yrs)	19.13%	1.57%	8.55%	15.01%	42.51%	18.31%
Current Ratio	0.32	0.37	1.24	0.56	0.70	1.35
Debt/Capital	16.19%	21.15%	44.23%	19.06%	0.00%	20.16%
Net Margin	55.50%	5.36%	10.68%	19.61%	64.05%	43.01%
Return on Equity	16.41%	6.08%	16.36%	9.91%	20.08%	17.26%
Sales/Assets	0.20	0.21	0.55	0.19	0.24	0.22
Proj. Sales Growth (F1/F0)	5.62%	0.00%	-2.26%	-5.11%	0.00%	0.00%
Momentum Score	A	-	-	F	F	C
Daily Price Chg	-4.30%	1.28%	2.40%	5.02%	-3.76%	-3.28%
1 Week Price Chg	6.84%	2.87%	0.53%	-2.24%	6.47%	5.12%
4 Week Price Chg	-4.17%	-3.23%	2.68%	-16.29%	-7.59%	-1.93%
12 Week Price Chg	-48.37%	-31.66%	-19.20%	-45.75%	-46.42%	-39.48%
52 Week Price Chg	-49.22%	-26.85%	-8.44%	-22.35%	-40.46%	-34.92%
20 Day Average Volume	6,345,532	153,193	2,398,409	2,243,744	1,244,368	1,644,318
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-30.88%	-12.58%	0.00%
(F1) EPS Est 4 week change	-3.94%	-8.42%	-6.95%	-43.14%	-21.43%	-4.09%
(F1) EPS Est 12 week change	-23.62%	-13.75%	-15.68%	-44.87%	-31.33%	-26.62%
(Q1) EPS Est Mthly Chg	-9.52%	-9.31%	-13.12%	-66.23%	-16.78%	-5.13%

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	A
Growth Score	D
Momentum Score	A
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.

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