

## MGICInvestment(MTG)

**\$9.02** (As of 08/11/20)

Price Target (6-12 Months): **\$9.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 02/19/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

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

**3-Hold**

Zacks Style Scores:

VGM:A

Value: A

Growth: D

Momentum: A

## Summary

MGIC Investment's earnings of 3 cents missed the Zacks Consensus Estimate by 80% and declined 93.5% year over year. Given the strong purchase market and potential share gains from FHA, the company 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. We believe that improved earnings, banking on declining delinquency, lower claims payments and improved housing market should drive company's shares. It also flaunts solid capital position on the back of which it deploys capital effectively. Its shares have underperformed the industry in the past year. However, a competitive environment and pressure to maintain capital at the required level will likely dent capital flexibility. Also, high costs weigh on margin.

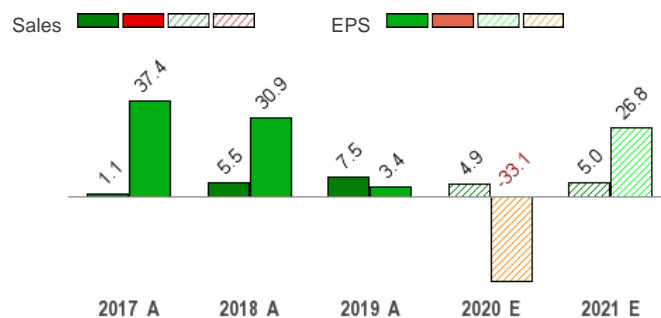
## Price, Consensus & Surprise



## Data Overview

52 Week High-Low	\$15.24 - \$4.34
20 Day Average Volume (sh)	4,349,025
Market Cap	\$3.1 B
YTD Price Change	-36.3%
Beta	1.82
Dividend / Div Yld	\$0.24 / 2.7%
Industry	<a href="#">Insurance - Multi line</a>
Zacks Industry Rank	Bottom 34% (166 out of 253)

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



Last EPS Surprise	-80.0%
Last Sales Surprise	NA
EPS F1 Est- 4 week change	5.1%
Expected Report Date	10/27/2020
Earnings ESP	0.0%
P/E TTM	6.4
P/E F1	7.3
PEG F1	1.5
P/S TTM	2.5

## Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					1,332 E
2020	305 A	287 A			1,268 E
2019	292 A	292 A	314 A	310 A	1,209 A

## EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.37 E	\$0.38 E	\$0.39 E	\$0.40 E	\$1.56 E
2020	\$0.42 A	\$0.03 A	\$0.37 E	\$0.39 E	\$1.23 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 08/11/2020. The reports text is as of 08/12/2020.

## Overview

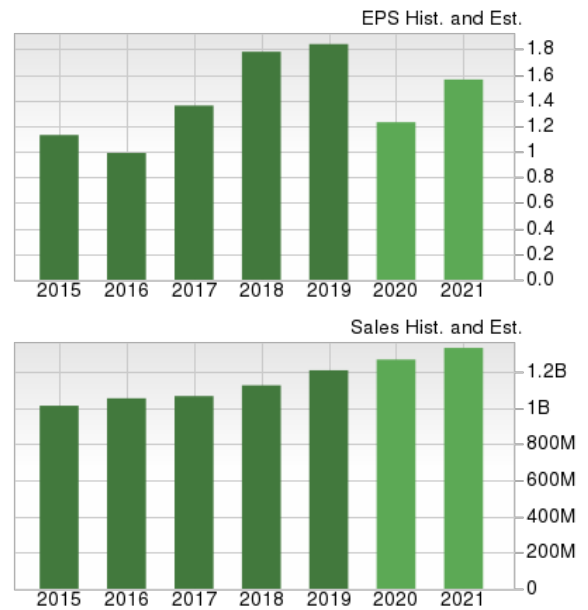
Based in Milwaukee, WI, and formed in 1957, MGIC Investment Corp. is the parent company of Mortgage Guaranty Insurance Corporation, the largest private mortgage insurer in the United States. It established the private mortgage insurance (PMI) industry to provide a private market alternative to federal 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.



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## 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. In recent quarters, the company has experienced an increase in new insurance written from refinances. The metric grew 84.4% year over year to \$46.1 billion in the first half of 2020 though persistency declined 1260 basis points as of Jun 30, 2020 from the year-ago period. Given the higher level of new and existing home sales, increased percentage of homes purchased for cash and improved level of refinance activity will continue to drive the momentum 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.

▲ **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. In the second half of 2020, the claim rate on new notices improved 100 basis points year over year to 7%. The company expects claim payments to remain modest over the next several quarters due to the effects of the forbearance agreement.

▲ **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 Jun 30, 2020, the company had \$530 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. As of Jun 30, 2020, the company's long-term debt was \$833 million, which remained almost flat with the 2019-end level. Also, debt to capital at the end of second quarter of 2020 improved 20 bps from 2019 level. Further, times interest earned of 13.6 compares favorably with the industry's measure of 10.3. MGIC's available assets for PMIER purposes totaled approximately \$4.5 billion at second-quarter 2020 end, resulting in \$1.1 billion excess over the minimum required assets.

As of Jun 30, 2020, the company had \$291 million of authorization remaining to repurchase under a share repurchase program. However, the company temporarily suspended share buyback in the wake of the pandemic.

▲ **Price Impact** — Shares of MGIC Investment have lost 27% compared with its industry's decline of 16.1% 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.

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## 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. Total losses and expenses increased 117.9% in the first half of 2020 largely due to higher net losses incurred. In the second quarter, loss ratio deteriorated 6580 bps sequentially and 8040 bps year over year. Increasing expenses are weighing on margins. In the second quarter, net margin contracted 1250 bps sequentially and 1470 bps year over year. 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 losses incurred to increase in the future periods due to the impact of COVID-19 pandemic.

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.

▼ **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.

▼ **Economic Uncertainty:** The COVID-19 pandemic had a material impact on the financial results in the second quarter of 2020. Among other things, the COVID-19 pandemic resulted in an increase in new defaults, which increased capital requirements under PMIERS on those delinquent loans and increased losses incurred. Also, the company did not pay dividends due to uncertainty related to the COVID-19 pandemic.

Though the magnitude of the impact of the COVID-19 pandemic on future financial results is uncertain, it may be significant. The company expects that the increase in unemployment and economic uncertainty resulting from COVID-19 pandemic will cause the delinquency inventory to increase further.

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## Last Earnings Report

### MGIC Investment's Q2 Earnings Miss, Revenues Fall Y/Y

MGIC Investment Corporation reported second-quarter 2020 adjusted net operating income per share of 3 cents, which missed the Zacks Consensus Estimate by 80%. The bottom line also declined 93.5% year over year.

The results were impacted by creation of loan loss reserves for expected losses on new loan delinquencies, which witnessed a surge primarily due to the COVID-19 pandemic.

Quarter Ending **06/2020**

Report Date	Aug 04, 2020
Sales Surprise	NA
EPS Surprise	-80.00%
Quarterly EPS	0.03
Annual EPS (TTM)	1.42

## Operational Update

Insurance in force improved 7.7% to \$230.5 billion, primarily attributable to new business writings partly offset by lower persistency.

The company witnessed a surge of 133% in primary delinquency to 69,326 loans due to adverse economic impact of COVID-19. Notably, as of Jun 30, 2020, 67% of the company's delinquency inventory stemmed from COVID-19 related forbearance plans.

MGIC Investment reported total operating revenues of \$287 million, which declined 1.7% year over year on lower net investment income and net premiums earned.

Net premiums earned fell 1.4% year over year to \$243.6 million in the second quarter. The downside is mainly due to lower premium rates and reduced profit commission as a result of higher ceded incurred losses, partly mitigated by improved average insurance in force and a rise in premiums from single premium policy cancellations.

Net investment income decreased 6.4% year over year to \$39.7 million, due to reduced investment yields partly offset by growth in the consolidated investment portfolio.

Persistency, the percentage of insurance remaining in force from one year prior, was 68.2% as of Jun 30, 2020, down 1260 basis points (bps) year over year.

New insurance written was \$28.2 billion, up 89.3% year over year. The surge clearly highlights strength of the purchase mortgage market and the refinance market amid the pandemic-induced market volatility.

Net underwriting and other expenses totaled \$47.2 million, which increased 3.3% year over year. In the quarter under review, loss ratio was 89.2%, which deteriorated 8040 bps year over year.

## Financial Update

Book value per share, a measure of net worth, grew 4.4% to \$12.95 as of Jun 30, 2020 from 2019 end.

MGIC Investment had \$530 million in investments, cash and cash equivalents, up 63.1% from the figure at 2019 end.

Total assets were \$6.6 billion, up 6.5% from 2019-end level. PMIERS available assets were \$4.5 billion, which is \$1.1 billion above its minimum required assets as of Jun 30, 2020.

## Capital Deployment

MGIC did not pay dividends to its holding company during second-quarter 2020. Nevertheless, on Jul 30, 2020, MGIC Investment Corporation announced quarterly cash dividend of 6 cents per share, which will be paid on Aug 28, 2020 to shareholders of record as on Aug 11. The company also did not buy back shares during the quarter under review.

## Recent News

### MGIC Investment's Unit & CUNA Partner for Mortgage Insurance - Aug 10, 2020

MGIC Investment Corporation's subsidiary Mortgage Guaranty Insurance Corp. (MGIC) has teamed up with CUNA Mutual Group in a bid to assist credit unions with private mortgage insurance (PMI).

## Valuation

MGIC shares are down 36.3% in the year-to-date period and 26.9% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 21.1% and 15.1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 15.6% and 6.6%, respectively.

The S&P 500 index is up 3.3% in the year-to-date period and 14% in the past year.

The stock is currently trading at 0.7x trailing 12-month book value, which compares to 1.1x for the Zacks sub-industry, 2.48x for the Zacks sector and 4.64x for the S&P 500 index.

Over the past five years, the stock has traded as high as 3x and as low as 0.41x, with a 5-year median of 1.25x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$9 price target reflects 0.70x 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	0.7	1.1	2.48	4.64
	5-Year High	3	1.98	2.91	4.68
	5-Year Low	0.41	0.85	1.72	2.83
	5-Year Median	1.25	1.48	2.53	3.74
P/S F12M	Current	2.28	0.77	6.22	3.65
	5-Year High	5.16	1.74	6.66	3.65
	5-Year Low	1.32	0.77	4.96	2.53
	5-Year Median	3.38	1.26	6.06	3.05
P/E F12M	Current	6.3	8.70	16.83	22.62
	5-Year High	12.79	12.61	16.83	22.62
	5-Year Low	2.92	6.62	11.59	15.25
	5-Year Median	8.23	9.98	14.26	17.58

As of 08/11/2020

## Industry Analysis Zacks Industry Rank: Bottom 34% (166 out of 253)



## Top Peers

Company (Ticker)	Rec	Rank
Arch Capital Group Ltd. (ACGL)	Neutral	3
Aegon NV (AEG)	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	3
Radian Group Inc. (RDN)	Neutral	3
American International Group, Inc. (AIG)	Underperform	4

## Industry Comparison Industry: Insurance - Multi Line

	MTG	X Industry	S&P 500	ACGL	ESNT	RDN
<b>Zacks Recommendation (Long Term)</b>	Neutral	-	-	Neutral	Neutral	Neutral
<b>Zacks Rank (Short Term)</b>	3	-	-	3	4	3
<b>VGM Score</b>	A	-	-	C	D	B
Market Cap	3.05 B	3.30 B	23.61 B	13.34 B	4.26 B	3.10 B
# of Analysts	3	3	14	4	3	3
Dividend Yield	2.66%	2.22%	1.69%	0.00%	1.69%	3.09%
<b>Value Score</b>	A	-	-	C	C	B
Cash/Price	0.13	0.34	0.07	0.07	0.30	0.33
EV/EBITDA	3.70	4.19	13.32	8.37	4.44	3.75
PEG Ratio	1.47	1.29	2.95	3.91	NA	1.65
Price/Book (P/B)	0.70	0.80	3.22	1.12	1.18	0.77
Price/Cash Flow (P/CF)	4.38	7.10	12.79	10.35	6.48	4.33
P/E (F1)	7.36	9.96	22.02	39.11	11.56	8.24
Price/Sales (P/S)	2.48	0.82	2.57	1.84	4.63	2.12
Earnings Yield	13.64%	9.95%	4.29%	2.56%	8.65%	12.12%
Debt/Equity	0.19	0.24	0.77	0.33	0.00	0.40
Cash Flow (\$/share)	2.06	3.45	6.94	3.17	5.85	3.74
<b>Growth Score</b>	D	-	-	C	F	D
Hist. EPS Growth (3-5 yrs)	16.38%	10.16%	10.41%	14.06%	33.14%	21.54%
Proj. EPS Growth (F1/F0)	-33.15%	-9.20%	-6.51%	-70.21%	-42.05%	-38.84%
Curr. Cash Flow Growth	-1.16%	7.19%	5.22%	21.44%	16.72%	14.35%
Hist. Cash Flow Growth (3-5 yrs)	19.13%	1.69%	8.55%	15.01%	42.51%	18.31%
Current Ratio	0.47	0.47	1.34	0.61	1.26	1.37
Debt/Capital	15.97%	20.31%	44.59%	24.00%	0.00%	28.37%
Net Margin	42.08%	4.27%	10.13%	15.88%	49.62%	30.45%
Return on Equity	11.87%	6.79%	14.59%	6.97%	14.53%	10.99%
Sales/Assets	0.20	0.20	0.51	0.19	0.22	0.21
Proj. Sales Growth (F1/F0)	0.00%	0.00%	-1.45%	14.76%	0.00%	0.00%
<b>Momentum Score</b>	A	-	-	C	A	B
Daily Price Chg	0.33%	0.34%	-0.17%	0.37%	1.01%	2.47%
1 Week Price Chg	3.99%	3.21%	2.30%	5.66%	-0.03%	4.83%
4 Week Price Chg	22.06%	4.76%	6.41%	13.67%	17.37%	17.09%
12 Week Price Chg	24.59%	22.78%	15.42%	35.32%	28.25%	9.26%
52 Week Price Chg	-26.96%	-13.97%	2.88%	-16.75%	-18.28%	-28.23%
20 Day Average Volume	4,349,025	151,333	2,007,486	1,655,971	894,577	2,317,747
(F1) EPS Est 1 week change	1.37%	0.00%	0.00%	0.00%	7.78%	0.00%
(F1) EPS Est 4 week change	5.13%	1.69%	1.84%	-1.95%	-16.04%	1.90%
(F1) EPS Est 12 week change	0.54%	0.54%	2.40%	-31.15%	-15.83%	-3.13%
(Q1) EPS Est Mthly Chg	85.00%	0.00%	0.72%	-78.57%	-17.41%	15.71%

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## 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.

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### 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	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.

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### Disclosures

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