

MGICInvestment(MTG)

\$8.26 (As of 03/26/20)

Price Target (6-12 Months): **\$8.50**

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: B

Growth: B

Momentum: B

Summary

Given the strong purchase market and potential share gains from FHA, MGIC Investment anticipates strong writing in 2020. The company'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 will drive the company's shares going forward. 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.

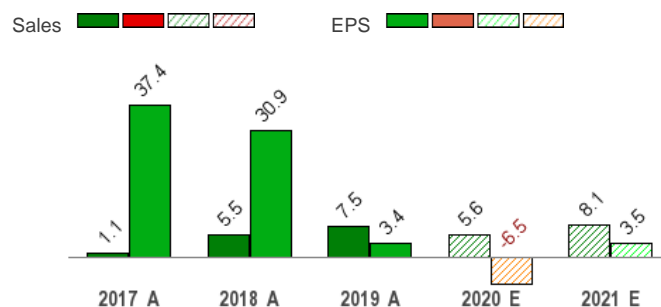
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$15.24 - \$4.34
20 Day Average Volume (sh)	7,260,608
Market Cap	\$2.9 B
YTD Price Change	-41.7%
Beta	1.47
Dividend / Div Yld	\$0.24 / 2.9%
Industry	Insurance - Multi line
Zacks Industry Rank	Top 35% (89 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	16.7%
Last Sales Surprise	1.4%
EPS F1 Est- 4 week change	-3.7%
Expected Report Date	04/28/2020
Earnings ESP	0.0%
P/E TTM	4.5
P/E F1	4.8
PEG F1	1.0
P/S TTM	2.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	337 E	341 E	344 E	359 E	1,380 E
2020	311 E	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	\$0.45 E	\$0.46 E	\$0.45 E	\$0.47 E	\$1.78 E
2020	\$0.43 E	\$0.42 E	\$0.43 E	\$0.45 E	\$1.72 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 03/26/2020. The reports text is as of 03/27/2020.

Overview

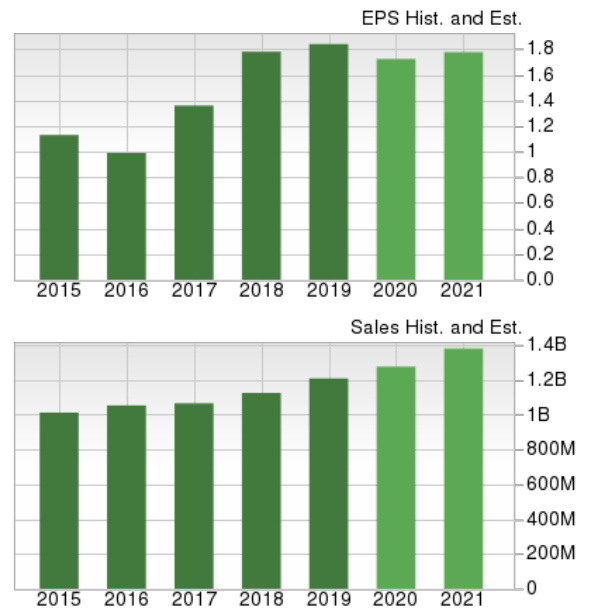
Based in Milwaukee, WI, and formed in 1957, MGIC Investment Corp. is the parent company of Mortgage Guaranty Insurance Corporation, the largest private mortgage insurer in the United States. It established the private mortgage insurance (PMI) industry to provide a private market alternative to federal 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. The metric grew 25.5% in 2019. Persistency continues to remain favorable and the credit trends continue to improve on the back of legacy book. 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. The company expects the number of loans in delinquent inventory as well as claim rate applied to new delinquent notices to decline going forward.

▲ **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 and reinsurance transaction having entered in 2013, the company has significantly improved its capital position. MGIC Investment's risk-to-capital ratio was 9.7:1 as of Dec 31, 2019, compared with 9:1 as of Dec 31, 2018.

Given the profitability and quality of the new books of business along with a better performance and runoff of the legacy books, the amount betters the company's targeted range.

In January 2020, the company's board of directors gave nod to a share buyback program worth \$300 million through 2021. The management also announced a \$70-million quarterly dividend and an additional \$320-million special dividend to be paid out, reflecting sturdy capital position and capital-generating ability from solid insurance in force.

▲ **Price Impact** — Shares of MGIC Investment have underperformed its industry 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:

- ▼ **Debt Position** —The company has been witnessing increase in debt level. At the end of fourth-quarter 2019, debt-to-capital ratio was around 17%. The company must service its debt uninterruptedly, else the stock's credit worthiness will be dented.
 - ▼ **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. Underwriting and other expenses increased 2.4% in 2019. 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.
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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 Q4 Earnings & Revenues Beat Estimates, Up Y/Y

MGIC Investment reported fourth-quarter 2019 operating net income per share of 49 cents, which beat the Zacks Consensus Estimate by 16.7% and was also up by the same magnitude year over year.

Insurance in force increased 6% to \$222.3 billion, despite lower persistency.

The company witnessed 9% decline in primary delinquency to 30,028 loans.

Operational Update

MGIC Investment recorded total operating revenues of \$311.6 million, which increased 9.1% year over year on higher net investment income (up 7.8%) and net premiums earned (up 8.4%). The same beat the Zacks Consensus Estimate by 1.44%

The increase 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.

Persistency, the percentage of insurance remaining in force from one year prior, was 75.8% as of Dec 31, 2019, down 590 basis points (bps) year over year.

New insurance written was \$19.3 billion, up 58.2% year over year.

Net paid claims amounted to \$73 million, down 2.7% year over year.

Net underwriting and other expenses totaled \$52.3 million, up 4.6% year over year.

In the quarter under review, loss ratio was 8.9%, which improved 240 basis points year over year.

Financial Update

Book value per share, a measure of net worth, grew 23.1% year over year to \$12.41 as of Dec 31, 2019.

MGIC Investment had \$325 million in cash and investments, up 31% year over year.

Total assets were \$6.2 billion, up 8.8% year over year.

Risk-to-capital ratio was 9.6:1 as of Dec 31, 2019 compared with 9.8:1 as of Dec 31, 2018.

Quarter Ending **12/2019**

Report Date	Feb 04, 2020
Sales Surprise	1.44%
EPS Surprise	16.67%
Quarterly EPS	0.49
Annual EPS (TTM)	1.85

Recent News

MGIC Investment Expands Ties With Down Payment Resource — Feb 18, 2020

MGIC Investment along with Down Payment Resource unveiled a new platform, namely Down Payment Connect. The tool enables loan officers to find prospective homebuyers for down payment assistance programs in their areas of operation.

MGIC Investment Declares Quarterly Dividend — Jan 28, 2020

MGIC Investment's board of directors approved a dividend of 6 cents per share, payable Feb 28, 2020 to shareholders of record as of Feb 11, 2020.

MGIC Investment Corporation Issues November Statistics — Dec 9, 2019

MGIC Investment Corporation recently released operating statistics for the month of November 2019. The Operational Summary of its insurance subsidiaries is for their primary mortgage insurance.

MGIC Investment Corporation Issues October Statistics — Nov 8, 2019

MGIC Investment Corporation recently released operating statistics for the month of October 2019. The Operational Summary of its insurance subsidiaries is for their primary mortgage insurance.

Valuation

MGIC shares are down 41.7% in the year-to-date period and 37.9% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 32.4% and 27.1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 24.1% and 19.8%, respectively.

The S&P 500 index is down 18.3% in the year-to-date period and down 7.5% 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, 1.9x for the Zacks sector and 3.3x for the S&P 500 index.

Over the past five years, the stock has traded as high as 3.3x and as low as 0.4x, with a 5-year median of 1.3x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$8.50 price target reflects 0.7x trailing 12-month 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	0.67	1.12	1.92	3.33
	5-Year High	3.29	1.98	2.89	4.56
	5-Year Low	0.43	0.85	1.68	2.85
	5-Year Median	1.31	1.48	2.52	3.63
P/S F12M	Current	2.2	1.22	5.99	2.68
	5-Year High	5.16	1.74	6.64	3.43
	5-Year Low	1.56	0.89	5.39	2.54
	5-Year Median	3.52	1.31	6.04	3
P/E F12M	Current	4.54	6.78	11.29	14.92
	5-Year High	12.79	12.61	16.21	19.34
	5-Year Low	3.23	6.78	11.29	14.92
	5-Year Median	8.56	10.21	13.97	17.42

As of 03/26/2020

Industry Analysis Zacks Industry Rank: Top 35% (89 out of 253)



Top Peers

Aegion NV (AEG)	Neutral
Essent Group Ltd. (ESNT)	Neutral
FBL Financial Group, Inc. (FFG)	Neutral
Genworth Financial, Inc. (GNW)	Neutral
The Hartford Financial Services Group, Inc. (HIG)	Neutral
Prudential Financial, Inc. (PRU)	Neutral
Radian Group Inc. (RDN)	Neutral
American International Group, Inc. (AIG)	Underperform

Industry Comparison Industry: Insurance - Multi Line				Industry Peers		
	MTG Neutral	X Industry	S&P 500	ESNT Neutral	GNW Neutral	RDN Neutral
VGM Score	B	-	-	B	-	B
Market Cap	2.86 B	3.27 B	18.50 B	3.05 B	2.11 B	3.14 B
# of Analysts	3	2	13	3	0	3
Dividend Yield	2.91%	2.88%	2.35%	2.06%	0.00%	3.16%
Value Score	B	-	-	B	-	A
Cash/Price	0.07	0.33	0.07	0.15	2.04	0.33
EV/EBITDA	3.71	3.72	11.16	3.87	1.60	3.29
PEG Ratio	0.91	0.95	1.74	0.52	NA	1.04
Price/Book (P/B)	0.67	0.78	2.44	1.02	0.14	0.79
Price/Cash Flow (P/CF)	4.01	7.61	9.87	5.30	2.83	4.23
P/E (F1)	4.54	7.36	15.29	5.16	NA	5.21
Price/Sales (P/S)	2.35	0.80	1.93	3.52	0.25	2.06
Earnings Yield	20.82%	13.16%	6.47%	19.35%	NA%	19.20%
Debt/Equity	0.19	0.20	0.70	0.00	0.22	0.25
Cash Flow (\$/share)	2.06	3.48	7.01	5.85	1.48	3.74
Growth Score	B	-	-	C	NA	B
Hist. EPS Growth (3-5 yrs)	20.16%	5.87%	10.85%	38.51%	2.35%	19.69%
Proj. EPS Growth (F1/F0)	-6.34%	4.90%	2.89%	6.07%	NA	-5.40%
Curr. Cash Flow Growth	-1.16%	6.34%	5.93%	16.72%	87.15%	14.35%
Hist. Cash Flow Growth (3-5 yrs)	19.13%	1.53%	8.55%	42.51%	-1.71%	18.31%
Current Ratio	0.32	0.38	1.23	0.70	0.28	1.35
Debt/Capital	16.19%	17.01%	42.57%	0.00%	18.30%	20.16%
Net Margin	55.50%	7.14%	11.64%	64.05%	4.07%	44.03%
Return on Equity	16.41%	6.72%	16.74%	20.08%	3.08%	17.37%
Sales/Assets	0.20	0.23	0.54	0.24	0.08	0.23
Proj. Sales Growth (F1/F0)	5.62%	0.00%	2.37%	0.00%	0.00%	0.00%
Momentum Score	B	-	-	B	-	D
Daily Price Chg	25.92%	5.21%	6.21%	26.07%	4.76%	19.92%
1 Week Price Chg	-30.24%	-17.04%	-16.96%	-28.72%	-21.36%	-23.30%
4 Week Price Chg	-32.52%	-22.60%	-15.70%	-29.88%	7.45%	-27.02%
12 Week Price Chg	-41.67%	-32.81%	-23.67%	-39.64%	-4.57%	-36.53%
52 Week Price Chg	-37.90%	-24.71%	-13.99%	-29.32%	8.85%	-24.11%
20 Day Average Volume	7,260,608	236,494	4,286,768	1,618,414	9,795,574	3,381,216
(F1) EPS Est 1 week change	-3.72%	0.00%	-0.15%	0.00%	NA	-4.71%
(F1) EPS Est 4 week change	-3.72%	-1.79%	-2.28%	0.00%	NA	-4.91%
(F1) EPS Est 12 week change	-4.44%	-3.50%	-3.22%	-0.50%	NA	-3.80%
(Q1) EPS Est Mthly Chg	0.00%	-0.87%	-1.60%	0.00%	NA	-0.87%

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.

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