

## MGICInvestment(MTG)

**\$13.89** (As of 01/30/20)

Price Target (6-12 Months): **\$16.00**

Long Term: 6-12 Months

**Zacks Recommendation:** **Outperform**

(Since: 10/23/19)

Prior Recommendation: Neutral

Short Term: 1-3 Months

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

**2-Buy**

Zacks Style Scores:

VGM:B

Value: B

Growth: D

Momentum: B

### Summary

Shares of MGIC Investment have outperformed the industry in a year's time. It remains well poised to deliver improved earnings, banking on declining delinquency, lower claims payments and an improving housing market. Given the strong purchase market and potential share gain from FHA, it anticipates strong writing in 2019. Insurance in force remains solid. A decline in loss and claims payments will solidify its balance sheet and improve its financial profile. Outstanding credit quality, increasing persistency and low expense ratio are tailwinds. Solid net premium earned indicates growth average insurance in force. However, a competitive environment and pressure to maintain capital at the required level will dent capital flexibility. Increase in debt level along with lower interest coverage ratio and expense concerns.

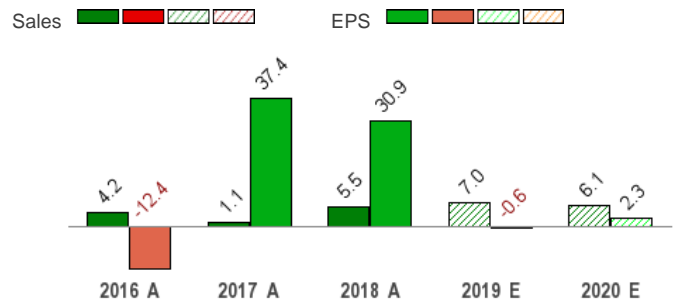
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$14.97 - \$11.85
20 Day Average Volume (sh)	1,987,704
Market Cap	\$4.8 B
YTD Price Change	-2.0%
Beta	1.49
Dividend / Div Yld	\$0.24 / 1.7%
Industry	<a href="#">Insurance - Multi line</a>
Zacks Industry Rank	Bottom 31% (177 out of 255)

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



Last EPS Surprise	14.3%
Last Sales Surprise	3.9%
EPS F1 Est- 4 week change	0.6%
Expected Report Date	02/04/2020
Earnings ESP	0.0%

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	311 E	315 E	317 E	335 E	1,277 E
2019	292 A	292 A	314 A	306 E	1,204 E
2018	266 A	284 A	289 A	286 A	1,125 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.44 E	\$0.46 E	\$0.46 E	\$0.48 E	\$1.81 E
2019	\$0.42 A	\$0.46 A	\$0.48 A	\$0.42 E	\$1.77 E
2018	\$0.38 A	\$0.49 A	\$0.48 A	\$0.42 A	\$1.78 A

\*Quarterly figures may not add up to annual.

P/E TTM	7.8
P/E F1	7.7
PEG F1	1.5
P/S TTM	4.1

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/30/2020. The reports text is as of 01/31/2020.

## 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.

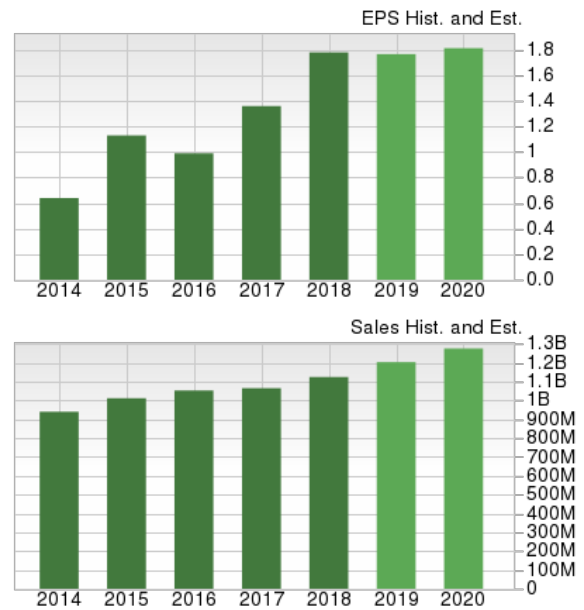
Through its wholly-owned subsidiaries, the company provides private mortgage insurance, other mortgage credit risk management solutions, and ancillary services.

As of Dec 31, 2018, the principal mortgage insurance subsidiary, MGIC, was licensed in all 50 states of the United States, the District of Columbia, Puerto Rico and Guam.

The company offers mortgage insurance via **Primary Insurance (98%**

**of 2018 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:

▲ **Price Impact** — Shares of MGIC Investment have rallied 11.3% in a year's time, outperforming the industry's rise of 4.3%. Increase in new insurance written, declining claim payments and an improving housing market should continue to drive the shares.

▲ **Increase in New Insurance Written** — MGIC Investment has been witnessing an increase in new business written. The metric grew 32% in the third quarter of 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 9.9:1 as of Sep 30, 2019 compared with 9:1 as of Sep 30, 2018. Also, risk-to-capital ratio of the company's combined insurance operations was 9.8:1 as of Sep 30, 2019, flat year over year.

MGIC's available assets totaled \$4.5 billion, \$1.2 billion more than the required assets. 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.

On Mar 21, 2019, the company authorized a share buyback program worth \$200 million through 2020, of which \$130 million remains, and initiated dividend of 6 cents per share reflecting sturdy capital position and capital generating ability from solid insurance in force. Also, management expects to continue to pay at least \$280 million in dividends to the holding company.

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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.

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## Risks

- **Debt Position** —The company has been witnessing increase in debt level. Its debt level increased 0.3% at 2018 end. 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 1.7% year over year in the first nine months of 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 expenses before reinsurance in 2019 to be flat with 2018 level.
  - **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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## Last Earnings Report

### MGIC Investment Q3 Earnings Beat Estimates, Revenues Rise Y/Y

MGIC Investment reported third-quarter 2019 operating net income per share of 48 cents, which beat the Zacks Consensus Estimate by 12.4% but remained flat year over year.

Insurance in force increased largely driven by favorable persistency and the addition of \$19.1 billion of high-quality new insurance writings.

The company witnessed lower delinquency attributable to a favorable operating environment, driven by better employment, wage growth and higher housing demand.

#### Operational Update

MGIC Investment recorded total operating revenues of \$318.4 million, which increased 9.6% year over year on higher net investment income (up 17.4%) and net premiums earned (up 7%).

Net premiums earned reflect increase in average insurance in force and an increase in premiums from single premium policy cancellations, partially offset by the effect of lower premium rates.

Insurance in force was \$218.1 billion as of Sep 30, 2019, up 6% year over year.

Persistency, the percentage of insurance remaining in force from one year prior, was 78.6% as of Sep 30, 2019, down 240 basis points (bps) year over year.

New insurance written was \$19.1 billion, up 31.7% year over year.

Net paid claims amounted to \$55 million, down 36.8% year over year.

Net underwriting and other expenses totaled \$48.3 million, up 3.2% year over year. Total loss and expenses surged 62.7% due to higher losses, underwriting and other expenses incurred.

In the quarter under review, loss ratio was 12.7% compared with (0.6%) in the year-ago quarter. Underwriting expense ratio of 17.7% deteriorated 10 bps year over year.

#### Financial Update

Book value per share, a measure of net worth, grew 23.7% year over year to \$11.93 as of Sep 30, 2019.

MGIC Investment had \$308 million in cash and investments, up 18% year over year.

Total assets were \$6.1 billion, up 7% year over year.

Risk-to-capital ratio was 9.9:1 as of Sep 30, 2019 compared with 9.0:1 as of Sep 30, 2018.

The company paid out \$70 million in dividend to the holding company. Also, the company repurchased shares worth \$70 million.

Quarter Ending **09/2019**

Report Date	Oct 22, 2019
Sales Surprise	3.90%
EPS Surprise	14.29%
Quarterly EPS	0.48
Annual EPS (TTM)	1.78

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## Recent News

### 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.

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## Valuation

MGIC shares are up 11.3% over the trailing 12-month period. Over the past year, the Zacks sub-industry and sector are up 4.3% and 8%, respectively.

The S&P 500 index is up nearly 20.1% in the past year.

The stock is currently trading at 1.16X trailing 12-month book value, which compares to 1.35X for the Zacks sub-industry, 2.79X for the Zacks sector and 4.48X for the S&P 500 index.

Over the past five years, the stock has traded as high as 3.29X and as low as 0.78X, with a 5-year median of 1.33X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$16 price target reflects 1.33X trailing 12-month earnings.

The table below shows summary valuation data for MTG

Valuation Multiples -MTG					
		Stock	Sub-Industry	Sector	S&P 500
P/B TTM	Current	1.16	1.35	2.79	4.48
	5-Year High	3.29	1.98	2.89	4.55
	5-Year Low	0.78	0.94	1.83	2.85
	5-Year Median	1.33	1.46	2.51	3.62
P/S F12M	Current	3.77	1.34	6.53	3.49
	5-Year High	5.16	1.74	6.62	3.49
	5-Year Low	1.73	0.89	5.2	2.54
	5-Year Median	3.46	1.33	6.03	3
P/E F12M	Current	7.6	9.42	14.65	18.8
	5-Year High	12.79	12.61	16.21	19.34
	5-Year Low	5.9	8.4	12	15.18
	5-Year Median	8.73	10.23	14.07	17.46

As of 01/30/2020

## Industry Analysis Zacks Industry Rank: Bottom 31% (177 out of 255)



## Top Peers

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

Industry Comparison Industry: Insurance - Multi Line				Industry Peers		
	MTG Outperform	X Industry	S&P 500	ESNT Neutral	GNW Neutral	RDN Neutral
<b>VGM Score</b>	<b>B</b>	-	-	<b>B</b>	-	<b>B</b>
Market Cap	4.84 B	5.01 B	23.94 B	4.99 B	2.11 B	5.01 B
# of Analysts	3	2.5	13	3	0	3
Dividend Yield	1.73%	1.97%	1.77%	1.18%	0.00%	0.04%
<b>Value Score</b>	<b>B</b>	-	-	<b>B</b>	-	<b>B</b>
Cash/Price	0.04	0.23	0.04	0.06	0.76	0.19
EV/EBITDA	5.76	7.88	14.14	8.16	4.12	6.22
PEG Ratio	1.53	1.14	2.01	0.83	NA	1.57
Price/Book (P/B)	1.18	1.14	3.25	1.75	0.13	1.29
Price/Cash Flow (P/CF)	6.91	10.90	13.56	10.10	4.68	8.08
P/E (F1)	7.67	10.87	18.90	8.26	NA	7.83
Price/Sales (P/S)	4.08	1.07	2.64	6.00	0.25	3.41
Earnings Yield	13.03%	9.05%	5.28%	12.11%	NA%	12.77%
Debt/Equity	0.20	0.21	0.72	0.00	0.23	0.25
Cash Flow (\$/share)	2.01	3.07	6.92	5.02	0.89	3.08
<b>Growth Score</b>	<b>D</b>	-	-	<b>C</b>	<b>NA</b>	<b>C</b>
Hist. EPS Growth (3-5 yrs)	22.03%	4.22%	10.68%	40.70%	-1.41%	16.62%
Proj. EPS Growth (F1/F0)	2.64%	10.02%	7.59%	9.25%	NA	2.69%
Curr. Cash Flow Growth	24.88%	9.66%	10.81%	58.66%	-54.47%	-2.03%
Hist. Cash Flow Growth (3-5 yrs)	121.54%	-0.76%	8.78%	93.46%	-14.39%	154.83%
Current Ratio	0.29	0.38	1.22	0.57	0.26	1.39
Debt/Capital	16.67%	17.26%	42.99%	0.00%	18.67%	20.17%
Net Margin	55.08%	6.85%	11.69%	64.58%	0.37%	44.27%
Return on Equity	16.61%	6.77%	17.33%	20.86%	1.03%	17.41%
Sales/Assets	0.20	0.23	0.55	0.24	0.08	0.22
Proj. Sales Growth (F1/F0)	6.02%	3.75%	4.12%	NA	NA	1.23%
<b>Momentum Score</b>	<b>B</b>	-	-	<b>C</b>	-	<b>B</b>
Daily Price Chg	0.80%	0.46%	0.36%	0.48%	1.45%	0.97%
1 Week Price Chg	-2.20%	-1.09%	-1.09%	-1.06%	-1.40%	-0.60%
4 Week Price Chg	-1.91%	-1.28%	-0.22%	-1.29%	-4.34%	-0.16%
12 Week Price Chg	0.00%	0.56%	4.08%	-3.70%	3.46%	-0.20%
52 Week Price Chg	11.30%	10.33%	16.06%	27.55%	-13.43%	29.42%
20 Day Average Volume	1,987,704	132,167	1,808,632	442,175	2,949,501	1,206,283
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	NA	0.00%
(F1) EPS Est 4 week change	0.55%	0.00%	0.00%	1.77%	NA	0.74%
(F1) EPS Est 12 week change	0.74%	-0.03%	-0.09%	4.24%	NA	1.27%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	NA	NA	NA

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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	<b>B</b>
Growth Score	<b>D</b>
Momentum Score	<b>B</b>
VGM Score	<b>B</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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