

ProAssurance Corp. (PRA)

\$36.83 (As of 01/21/20)

Price Target (6-12 Months): **\$42.00**

Long Term: 6-12 Months

Zacks Recommendation:

Outperform

(Since: 12/20/19)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:D

Value: C

Growth: D

Momentum: C

Summary

ProAssurance's has been performing well on the back of growth across its operating segments. Moreover, the company significantly achieved inorganic growth via successful acquisitions and integration of companies on the back of its solid financial strength. The company is also moving toward its joint marketing and shared risk programs. Its shares have underperformed its industry in a year's time. However, growing expenses weighs on its bottom line. Volatility in premium retention pertaining to the company's physician business is other concern. Another major risk is associated with its investment portfolio, which primarily consists of fixed income securities. As a property and casualty insurer, it is exposed to catastrophic events, which continues to bother.

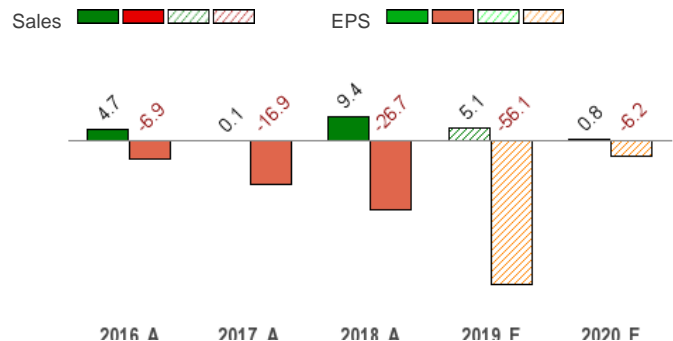
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$45.45 - \$34.11
20 Day Average Volume (sh)	174,232
Market Cap	\$2.0 B
YTD Price Change	1.9%
Beta	0.50
Dividend / Div Yld	\$1.24 / 3.4%
Industry	Insurance - Property and Casualty
Zacks Industry Rank	Top 30% (76 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	150.0%
Last Sales Surprise	0.8%
EPS F1 Est- 4 week change	2.5%
Expected Report Date	02/20/2020
Earnings ESP	36.7%

P/E TTM	57.6
P/E F1	60.4
PEG F1	NA
P/S TTM	2.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	240 E	243 E	247 E	246 E	976 E
2019	233 A	235 A	242 A	238 E	968 E
2018	212 A	248 A	229 A	229 A	921 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.13 E	\$0.15 E	\$0.14 E	\$0.19 E	\$0.61 E
2019	\$0.08 A	\$0.08 A	\$0.30 A	\$0.20 E	\$0.65 E
2018	\$0.40 A	\$0.48 A	\$0.42 A	\$0.18 A	\$1.48 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 01/21/2020. The reports text is as of 01/22/2020.

Overview

Headquartered in Birmingham, AL, ProAssurance Corporation operates as a holding company for many property and casualty insurance companies. With a single business segment principally in the Mid-Atlantic, Midwest and Southern U.S., the company provides professional liability insurance products primarily to physicians, dentists, other healthcare providers and healthcare facilities through its subsidiaries.

The company reports through four segments:

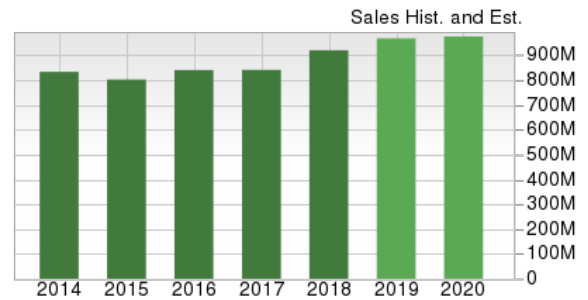
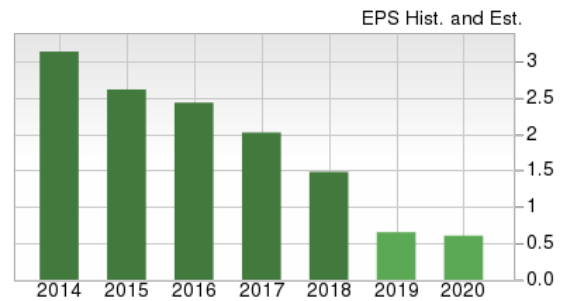
Specialty P&C Insurance Segment (accounted for 55% of the total revenues in 3Q19): The segment primarily focused on professional liability insurance and medical technology liability insurance.

Workers' Compensation Segment (21%): The segment provides workers' compensation products primarily to employers with 1,000 or fewer employees.

Segregated Portfolio Cell Reinsurance (8.8%) – This unit reflects the operating results of SPCs at Eastern Re and Inova Re, its Cayman Islands SPC operations.

Lloyd's Syndicate Segment (8%): The segment includes operating results from ProAssurance's 58% participation in Lloyd's of London Syndicate 1729.

Corporate Segment: The segment includes ProAssurance's investment operations, interest expense and U.S. income taxes, all of which are managed at the corporate level with the exception of investment assets solely allocated to Syndicate 1729.



Reasons To Buy:

▲ **Rising Premium Income:** ProAssurance's core business has been witnessing a substantial improvement over the past few quarters. The main growth drivers in this regard are the strategic acquisitions that have been accretive to premiums. The company is also moving toward its joint marketing and shared risk programs. Gross premiums written witnessed a 2015-2018 CAGR of 5.6%, mainly owing to strategic acquisitions and strength in the new physician business. Following the trend, the same inched up 2.8% in the first nine months of 2019. We expect that the addition of profitable businesses to expand the company's key business lines will drive growth going forward.

Inorganic growth strategies such as acquisitions and integrations and increasing premiums owing to buyouts and strength in the new physician business are major tailwinds for the company.

▲ **Inorganic Growth:** ProAssurance has significantly achieved inorganic growth via successful acquisitions and integrations of companies. Its financial size and strength have helped it in this regard. The acquisitions of American Physicians Service Group, Medmarc, Eastern Insurance Holdings significantly strengthened its position in the workers' compensation market. With further penetration, we expect the company to generate more profitable business.

▲ **Share Price Performance:** Shares of the company have lost nearly 13.4% in a year's time against its industry's growth of 14.5%. However, its solid fundamentals such as rising premiums are likely to help the stock bounce back going forward.

▲ **Solid Capital Position:** The company has been enjoying significant cash flow from operating activities over the last few quarters on the back of its strong balance sheet. In 2018, cash flow from operating activities increased 2.3%. Moreover, it has been decreasing its debt level since 2016. Last year, the same declined 30% year over year. Further, its leverage ratio (total debt to equity) stands at 19.4%, lower than its industry average of 26%. We believe that the company's impressive financial strength will continue to buoy investor optimism.

Risks

- **Volatility in Premium Retention:** ProAssurance has been facing volatility in premium retention in its physician business for quite some time now, mainly due to increased competition. Retention rate (retained premium divided by all premiums subject to renewal) kept declining since 2011 to 2017. Although the same improved in some business lines during 2018, the retention rate in the first nine months of 2019 was almost flat. The volatility in premium retention continues to bother the company.
 - **Deteriorating Investment Portfolio:** Another major risk is associated with ProAssurance's investment portfolio, which primarily consists of fixed income securities. The sustained soft interest rate environment in the recent past kept the investment income at a lower level since 2008. The net investment income declined on average of 7.4% from 2014 to 2018, primarily due to a fall in the fixed income portfolio, which is a major concern for the company. Although net investment income increased marginally 3.5% year over year in the first nine months of 2019, we expect the same to be persistently subdued in the coming quarters due to still-low interest rates.
 - **Rising Expenses:** ProAssurance has been constantly enduring higher underwriting, policy acquisition and operating expenses. On average, these expenses rose at 5.2% rate from 2015-2018, weighing on the company's margin. An increase in net loss and loss adjustment expenses as well as underwriting, policy acquisition and operating expenses resulted in higher expenses during 2018. Expenses of the company further rose 8% year over year in the first nine months of 2019. This persistently rising operating expenses could weigh on the bottom line, going ahead.
 - **Exposure to Catastrophe Loss:** As a property and casualty insurer, the company is substantially exposed to catastrophic events, weighing on its underwriting results. Exposure to cat events and thus cat losses are likely to remain a potential threat to earnings.
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Last Earnings Report

ProAssurance Q3 Earnings Beat Estimates, Drop Y/Y

ProAssurance Corporation's third-quarter 2019 operating earnings per share of 30 cents beat the Zacks Consensus Estimate of 12 cents by 150%, primarily driven by higher revenues. However, the bottom line declined 28.6% year over year. The company's quarterly operating revenues rose 5.7% to \$242 million from the prior-year period on the back of premium growth. The top line also surpassed the Zacks Consensus Estimate by 0.8%.

Quarter Ending **09/2019**

Report Date	Nov 05, 2019
Sales Surprise	0.76%
EPS Surprise	150.00%
Quarterly EPS	0.30
Annual EPS (TTM)	0.64

Quarterly Operational Update

Gross premiums written inched up 2.2% year over year to \$265 million, riding on the company's Workers' Compensation Insurance segment, Segregated Portfolio Cell Reinsurance and Lloyd's Syndicates segments.

Also, net premiums earned rose 4.7% year over year on solid segmental performances, especially Specialty P&C segment.

Net investment income increased 1.8% year over year.

Total expenses rose 6% year over year to \$231 million due to higher net losses and loss adjustment expenses.

Quarterly Segment Results

Specialty P&C Segment

Total revenues of \$127 million improved 4% year over year. Gross premiums written were \$164.9 million, down 1.6% year over year due to decline in healthcare facilities premium and the pending renewal of a \$3.6-million physician policy. Total expenses of \$137 million rose 8.7% year over year due to net loss and loss adjustment expenses.

Workers' Compensation Segment

Total revenues of \$49.9 million rose 4.8% year over year. Gross premiums written were \$70.1 million in the quarter under review, up 6.6% year over year. This was on the back of new business additions and a hike in audit premium. Total expenses of \$47.2 million increased 2.6% year over year.

Segregated Portfolio Cell Reinsurance Segment

Gross premiums of \$17.3 million were up 29% year over year owing to new business and 96% renewal retention rate.

Lloyd's Syndicate Segment

Total revenues of \$22.5 million improved 12.1% year over year. Gross premiums written were \$30.4 million, up 15.3% from the figure acquired in the comparable quarter last year. This upside can be attributed to volume expansion on renewal business and renewal pricing increases, new business written, etc. Total expenses of \$21.3 million increased 15.4% year over year due to higher net losses and loss adjustment expenses and higher underwriting, policy acquisition and operating expenses.

Corporate Segment

Total revenues of \$22.8 million deteriorated 41.7% year over year. Operating expenses of \$2.6 million declined 46.9% from the year-ago level on the back of some lower compensation-related expenses. Interest expense of \$4.2 million increased 17.3% year over year.

Financial Position

As of Sep 30, 2019, ProAssurance's total investments of \$3.4 billion were up 4.4% from the number registered at 2018 end.

At third-quarter end, the company's total assets were \$4.8 billion, up 4.9% from the level at 2018 end.

As of Sep 30, 2019, the insurer's shareholder equity increased 4.3% to \$1.5 billion from the tally on Dec 31, 2018.

Share Repurchase & Dividend Update

The company did not buy back any shares in the reported quarter. As of Oct 31, 2019, it had approximately \$110 million of shares available under its board-authorized stock repurchase program. In August 2019, the company's board members approved a regular dividend of 31 cents, paid out in October.

Recent News

ProAssurance Approves Quarterly Dividend — Dec 30, 2019

ProAssurance has declared a cash dividend of 31 cents per share, payable Jan 14, 2020 to its shareholders of record on Dec 27, 2019.

Valuation

ProAssurance's shares are down 13.4% over the trailing 12-month period. Over the past year, the Zacks sub-industry and sector are up 14.5% and 13%, respectively.

The S&P 500 index is up 25% in the past year.

The stock is currently trading at 1.25X trailing 12-month tangible book value, which compares to 1.44X for the Zacks sub-industry, 2.86X for the Zacks sector and 4.55X for the S&P 500 index.

Over the past five years, the stock has traded as high as 1.91X and as low as 1.15X, with a 5-year median of 1.38X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$42 price target reflects 1.42X tangible book value.

The table below shows summary valuation data for PRA

Valuation Multiples - PRA					
		Stock	Sub-Industry	Sector	S&P 500
P/B TTM	Current	1.25	1.44	2.86	4.55
	5-Year High	1.91	1.66	2.89	4.55
	5-Year Low	1.15	1.26	1.83	2.85
	5-Year Median	1.38	1.48	2.51	3.61
P/S F12M	Current	2.03	1.67	6.53	3.57
	5-Year High	4.11	11.26	6.62	3.57
	5-Year Low	1.96	1.56	5.2	2.55
	5-Year Median	3.11	1.93	6.03	3
P/E F12M	Current	60.54	26.92	14.71	19.18
	5-Year High	73.97	31.55	16.21	19.34
	5-Year Low	16.1	22.77	12	15.17
	5-Year Median	25.03	25.67	13.97	17.44

As of 01/21/2020

Industry Analysis Zacks Industry Rank: Top 30% (76 out of 255)



Top Peers

Arch Capital Group Ltd. (ACGL)	Neutral
The Allstate Corporation (ALL)	Neutral
Donegal Group, Inc. (DGICA)	Neutral
Hallmark Financial Services, Inc. (HALL)	Neutral
The Progressive Corporation (PGR)	Neutral
RLI Corp. (RLI)	Neutral
United Insurance Holdings Corp. (UIHC)	Neutral
Axis Capital Holdings Limited (AXS)	Underperform

Industry Comparison Industry: Insurance - Property And Casualty				Industry Peers		
	PRA Outperform	X Industry	S&P 500	AXS Underperform	PGR Neutral	RLI Neutral
VGM Score	D	-	-	D	B	D
Market Cap	1.98 B	1.98 B	24.43 B	5.16 B	44.68 B	4.19 B
# of Analysts	4	2	13	3	6	2
Dividend Yield	3.37%	0.98%	1.75%	2.67%	0.52%	0.98%
Value Score	C	-	-	C	B	F
Cash/Price	0.21	0.17	0.04	0.24	0.03	0.02
EV/EBITDA	28.19	9.45	14.00	22.03	13.25	52.02
PEG Ratio	NA	1.72	2.06	2.46	1.93	NA
Price/Book (P/B)	1.25	1.27	3.39	1.07	3.28	4.19
Price/Cash Flow (P/CF)	19.61	13.93	13.69	12.50	15.40	41.93
P/E (F1)	60.38	13.84	19.00	12.28	14.15	38.13
Price/Sales (P/S)	2.13	1.04	2.68	1.01	1.23	4.60
Earnings Yield	1.66%	7.22%	5.26%	8.14%	7.07%	2.62%
Debt/Equity	0.19	0.21	0.72	0.33	0.32	0.15
Cash Flow (\$/share)	1.88	3.05	6.94	4.91	4.96	2.23
Growth Score	D	-	-	F	B	B
Hist. EPS Growth (3-5 yrs)	-22.80%	-0.55%	10.60%	-23.80%	26.87%	-5.91%
Proj. EPS Growth (F1/F0)	-7.28%	9.59%	7.57%	85.53%	4.39%	-0.61%
Curr. Cash Flow Growth	-26.62%	9.94%	14.00%	-541.78%	55.42%	26.39%
Hist. Cash Flow Growth (3-5 yrs)	-17.07%	7.23%	9.00%	-13.32%	19.35%	-3.04%
Current Ratio	0.39	0.44	1.23	0.55	0.36	0.38
Debt/Capital	16.24%	17.79%	42.99%	22.20%	24.69%	12.99%
Net Margin	3.86%	5.34%	11.15%	2.68%	8.69%	12.91%
Return on Equity	2.19%	6.81%	17.16%	2.02%	26.09%	11.51%
Sales/Assets	0.20	0.31	0.55	0.20	0.72	0.28
Proj. Sales Growth (F1/F0)	0.80%	4.75%	4.05%	1.30%	10.15%	11.18%
Momentum Score	C	-	-	D	F	F
Daily Price Chg	-0.59%	-0.19%	-0.27%	0.67%	0.17%	-0.20%
1 Week Price Chg	3.96%	1.93%	2.29%	1.53%	3.53%	4.23%
4 Week Price Chg	1.01%	1.45%	2.13%	3.09%	6.34%	4.12%
12 Week Price Chg	-7.39%	3.30%	6.99%	-0.92%	9.51%	-4.60%
52 Week Price Chg	-12.41%	10.68%	21.25%	12.32%	20.76%	37.17%
20 Day Average Volume	174,232	100,911	1,415,064	377,489	2,756,555	167,676
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-0.28%	0.00%
(F1) EPS Est 4 week change	2.54%	0.00%	0.00%	-0.40%	-0.07%	0.00%
(F1) EPS Est 12 week change	2.54%	0.00%	-0.34%	-4.97%	-2.92%	0.00%
(Q1) EPS Est Mthly Chg	-13.33%	0.00%	0.00%	0.00%	1.47%	0.00%

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	C
Growth Score	D
Momentum Score	C
VGM Score	D

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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