

Radian Group Inc. (RDN)

\$15.05 (As of 04/10/20)

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

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 10/01/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:B

Value: A

Growth: B

Momentum: D

Summary

Radian Group remains focused on the improvement of its mortgage insurance portfolio to drive long-term earnings growth. Business restructuring intensifies its focus on core business and services with higher-growth potential, ensuring a more predictable and recurring fee-based revenue stream. Based on strong credit characteristics of new loans insured, declining claim payments are benefitting the company. Solid persistency and rise in the new mortgage insurance business are driving insurance in force to increase. Shares of Radian Group has underperformed the industry in a year. Nevertheless, its robust capital position enables it to deploy capital via share repurchases. However, rising expenses due to higher cost of services tend to weigh on margin expansion. Increased provision for losses in mortgage insurance business concerns us.

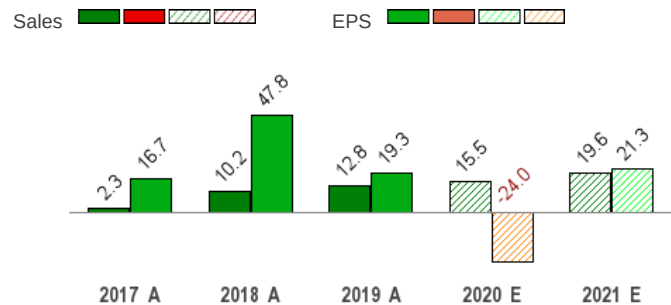
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$26.32 - \$9.53
20 Day Average Volume (sh)	3,326,577
Market Cap	\$3.0 B
YTD Price Change	-40.2%
Beta	1.73
Dividend / Div Yld	\$0.50 / 3.3%
Industry	Insurance - Multi line
Zacks Industry Rank	Top 20% (50 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	13.2%
Last Sales Surprise	NA
EPS F1 Est- 4 week change	-23.7%
Expected Report Date	05/05/2020
Earnings ESP	-5.3%

P/E TTM	4.7
P/E F1	6.2
PEG F1	1.2
P/S TTM	2.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					1,825 E
2020					1,526 E
2019	309 A	343 A	325 A	344 A	1,321 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.81 E	\$0.83 E	\$0.82 E	\$0.83 E	\$2.96 E
2020	\$0.69 E	\$0.78 E	\$0.78 E	\$0.80 E	\$2.44 E
2019	\$0.73 A	\$0.80 A	\$0.81 A	\$0.86 A	\$3.21 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 04/10/2020. The reports text is as of 04/13/2020.

Overview

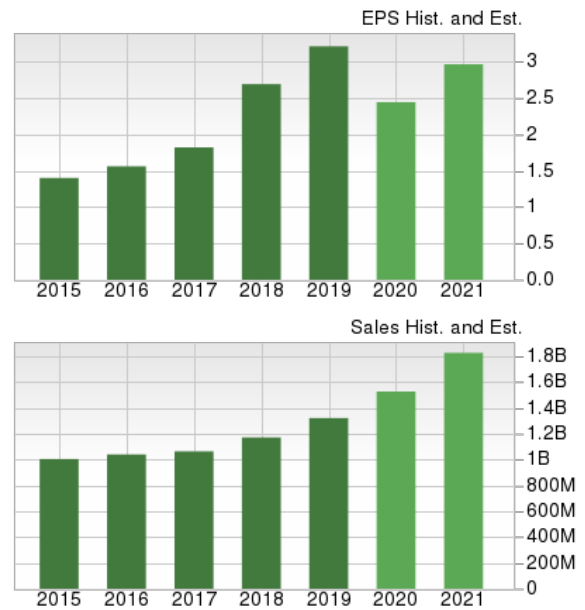
Founded in 1977 and headquartered in Philadelphia, PA, Radian Group Inc. is a credit enhancement company which supports homebuyers, mortgage lenders, loan servicers and investors with a suite of private mortgage insurance and related risk-management products and services. Radian trades on the New York Stock Exchange under the symbol RDN.

The company had two business segments — Mortgage Insurance and Mortgage and Real Estate Services.

- **Mortgage Insurance (99% of 2019 net premiums earned)** – This segment provides credit-related insurance coverage, principally through private mortgage insurance and risk management services, to mortgage lending institutions. The company conducts mortgage insurance business primarily through Radian Guaranty, its principal mortgage insurance subsidiary. Mortgage insurance is of immense importance in the U.S. housing finance system as it offers home ownership at affordable rates and pacify risks related to residential mortgage loans. In 2019, net premiums earned in the segment increased 12.7% year over year to \$1.1 billion, mainly attributable to strong volume growth in the mortgage insurance business.

- **Services (1%)** – This segment is primarily a fee-for-service business that offers a broad array of mortgage, real estate and title services to market participants across the mortgage and real estate value chain. These services include technology and turn-key solutions, which provide information and other resources used to originate, evaluate, acquire, securitize, service and monitor residential real estate and loans secured by residential real estate. These services are primarily provided to mortgage lenders, financial institutions, investors and government entities. The company extends Services offerings primarily through its subsidiaries, including Clayton, Green River Capital, Radian Settlement Services and Red Bell.

The company made a series of acquisitions to enhance its product offerings. In 2018, it acquired the businesses of EnTitle Direct (in March) and Independent Settlement Services (in November), as well as the assets of Five Bridges (in December), to enhance its product offerings.



Reasons To Buy:

- ▲ **Price Performance** – Shares of Radian Group have underperformed the industry in the past year. Nevertheless, we believe that Improving new mortgage insurance business, declining claim payments and a strong capital position are likely to drive its shares going forward.
- ▲ **Improvement in the quality and size of mortgage insurance in force** – Radian's mortgage insurance portfolio is expected to create a strong foundation for future earnings. In 2019, new mortgage insurance written increased 26% year over year to \$71.3 billion. Based on the performance in 2019 and a decent mortgage origination market, the company expects to write new mortgage insurance business of \$60 billion in 2020. Given the increase in persistency, insurance in force is expected to rise going forward, thereby enhancing the company's strong foundation for future earnings. Moreover, the company remains focused on improving its mortgage insurance portfolio, the main catalyst of long-term earnings growth.
- ▲ **Declining claim payments** – There has been a significant reduction in the company's claims' payments over the last few years. For 2019, net claims paid were \$132.2 million, down 38.8% from the prior-year figure. Given the strong credit characteristics of the new loans insured, we expect the company to see fewer claims than before.
- ▲ **Business restructuring** – Radian Group is restructuring its business by intensifying focus on core business and services with higher-growth potential and ensuring more predictable and recurring fee-based revenues. In 2016, the company entered into a quota share reinsurance program, which focuses solely on single premium business. This initiative will help the company to improve return on required capital, enhance financial flexibility and prudently manage the mortgage insurance business mix. With respect to business opportunities, the company remains committed toward leveraging its core expertise in credit risk management, which will lead to more business written and strengthening of the Mortgage Insurance franchise. On Nov 22, 2017, Radian Group completed its divestiture of its Clayton EuroRisk to intensify its focus on core service. Also, on Jan 22, 2020, the company announced the sale of Clayton Services LLC to Covius Holdings.
- ▲ **Maintaining capital in compliance with regulations** –The company has been able to maintain its capital within the mandated level. As of Dec 31, 2019, Radian Guaranty's risk-to-capital ratio was 13.6:1 compared with 13.9:1 as of Dec 31, 2018. The net increase in Radian Guaranty's Risk-to-capital in 2019 was primarily due to the increase in Risk in force (RIF). For Mortgage Insurance, the metric was 12.3:1 as of Dec 31, 2019, compared with 12.8:1 as of Dec 31, 2018 (both within the RBC requirement of below 25:1) and was in compliance with all applicable Statutory RBC Requirements.
- ▲ **Strengthening Capital Position** – Radian Group took a few initiatives that will consolidate its capital structure by extending debt maturities while enhancing financial flexibility. In April 2019, Pennsylvania Insurance Department approved a \$375 million return on capital from Radian Guaranty to Radian Group to improve its financial flexibility and capital position. In Feb 2020, the board of directors hiked its quarterly dividend to 125 cents per share from its prior dividend payout of 25 cents. Also, the board raised authorization of the current \$200-million buyback program to \$475 million and extended the program till Aug 2021. Such strong capital position reflects financial strength and is likely to drive the company's shares going forward.

Radian is poised for long-term growth on declining delinquency, lower levels of paid claims and an improving risk-based capital ratio, which reflect an improvement in its operating environment.

Reasons To Sell:

- ▼ **Rising expenses to hurt margin expansion** – Over the last few years, Radian Group has been witnessing rising expenses, primarily owing to increase in provision for loss, policy acquisition costs, cost of services, other operating expenses, loss on extinguishment of debt, impairment of goodwill, and amortization & impairment of other intangible assets. In 2019, the company's expenses increased 15.1% from the year-ago period. The insurer should strive to generate a higher revenue growth rate than the rate of increase in expenses. Otherwise, expenses will likely tend to weigh on the operating margin expansion.
- ▼ **Increased Provision for Losses in Mortgage Insurance Business** – The company's provision for losses increased due to the high vulnerability of the mortgage insurance business in the market. The metric rose 25.8% year over year in 2019.
- ▼ **Overvalued** – Looking at the company's valuation, investors might not want to pay any further premiums. Its price-to-sales ratio stands at 2.02x, higher than the industry's average of 0.35x.

New stricter regulations, increasing mortgage rates pose, below the mark ratings, reduction of annual premium of FHA are some of the headwinds faced by the company over the near term.

Last Earnings Report

Radian Group Q4 Earnings & Revenues Beat Estimates

Radian Group's fourth-quarter 2019 operating income of 86 cents per share beat the Zacks Consensus Estimate by 13.16%. Moreover, the bottom line improved nearly 23% year over year. Results gained from an increase in premiums earned by the company's Mortgage Insurance segment.

Volume of the flow mortgage insurance business was record high in the quarter, which drove a 23% year-over-year increase.

Quarter Ending **12/2019**

Report Date	Feb 05, 2020
Sales Surprise	NA
EPS Surprise	13.16%
Quarterly EPS	0.86
Annual EPS (TTM)	3.20

Behind the Headlines

Operating revenues grew 12.8% year over year to \$344 million on higher net premiums and services revenues. The top line beat the Zacks Consensus Estimate by 11%. Moreover, total revenues (including net investment income, net gain on investments, and other financial instruments and other income) were \$388 million, up 17.1% year over year.

As of Dec 31, 2019, total primary mortgage insurance in force was \$240.6 billion, up 9% year over year.

MI New Insurance Written grew 57% year over year to \$20 billion.

Persistency — the percentage of mortgage insurance in force, which remains in the company's books after a 12-month period — was 78.2% as of Dec 31, 2019, down 490 basis points (bps) year over year.

Primary delinquent loans were 21,266 as of Dec 31, 2019, up 1% year over year.

Total expenses increased 17.7% year over year to \$182.4 million due to higher provision for losses, policy acquisition costs, cost of services, other operating expenses, impairment of goodwill, and amortization & impairment of other acquired intangible assets.

Segmental Performance

Net premiums earned by the **Mortgage Insurance** segment were \$298.5 million, up 15% year over year. Claims paid were \$28.5 million in the quarter under review, down 28.2% year over year. Loss ratio deteriorated 110 basis points to 11.5%.

The **Services** segment reported a 6% year-over-year increase in total revenues to \$44 million. Adjusted earnings before interest, income taxes, depreciation and amortization (Services adjusted EBITDA) were \$2.2 million compared with \$3.2 million in the year-ago quarter.

Financial Update

As of Dec 31, 2019, Radian Group had solid cash balance of \$96.3 million, down from \$107 million as on Dec 31, 2018.

Book value per share, a measure of net worth, grew 23% year over year to \$20.13 as of Dec 31, 2019.

Adjusted net operating return on equity contracted 10 basis points year over year to 17.8% in the quarter.

Risk-to-capital ratio-Mortgage Insurance as of the end of the fourth quarter was 12.3:1 compared with 12.8:1 at the end of the year-ago quarter.

In the fourth quarter, Radian Group bought back 1.1 million shares for \$25 million. In January, the company purchased an additional 381,331 shares for \$9.4 million of Radian Group common stock, including commissions. At Jan 31, 2020, the company had \$140.6 million available under the existing program.

Recent News

Radian Group Steps Up Safety Measures Amid Coronavirus Outbreak – Mar 25, 2020

Radian Group announced that it has taken precautionary steps against the novel coronavirus pandemic in order to provide protection and ensure safety of its customers, partners, investors, communities and also that of its employees and their families.

Radian has suspended its share repurchase program to sustain its capital and liquidity position in the current unstable economic condition. It has revoked its current 10b5-1 plan effective Mar 19, 2020 and may initiate a new 10b5-1 plan in the future, in accordance with SEC rules.

Radian Group Makes Strategic Investment in Covered Insurance – Feb 25, 2020

Radian Group announced its strategic investment in a digital insurance agency, Covered Insurance Solutions, Inc. to digitally transform the entire mortgage process. It has made this investment to boost its relationship with customers. The investment is focused on leveraging next-generation digital business models powered by data, analytics and technology. This strategic investment is intended to improve the digitalization of the industry.

Radian Group Okays Dividend Hike & Buyback to Reward Shareholders – Feb 13, 2020

In a bid to enhance shareholder value, the board of directors of the company announced that it increased its dividend of 0.25 cents by 4900% to 12.5 cents. Shareholders of record as of Feb 24, 2020, would receive the meatier dividend on Mar 6, 2020. Moreover, its board members declared an increase in the current share buyback plan from \$200 million to \$475 million, extending the program to August 2021.

Radian Declares Sale of Clayton Services to Covius – Jan 22, 2020

Radian announced the sale of Clayton Services LLC to Covius Holdings. The details of the transaction were kept under wraps. The divestment is expected generate fourth-quarter pre-tax, non-cash impairment of goodwill and other acquired intangible assets of approximately \$18.5 million.

Valuation

Radian's shares are down 40.1% and 33.8% in the year-to-date period and over the trailing 12-month period, respectively. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 28.6% and 23.3% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 24% and 17.5%, respectively.

The S&P 500 index is down 13.6% in the year-to-date period and down 4.5% in the past year.

The stock is currently trading at 0.74x trailing 12-month book value, which compares to 1.18x for the Zacks sub-industry, 2.13x for the Zacks sector and 3.69x for the S&P 500 index.

Over the past five years, the stock has traded as high as 1.68x and as low as 0.48x, with a 5-year median of 1.26x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$16 price target reflects 0.79x trailing 12-month book value.

The table below shows summary valuation data for RDN

Valuation Multiples - RDN					
		Stock	Sub-Industry	Sector	S&P 500
P/B TTM	Current	0.74	1.18	2.13	3.69
	5-Year High	1.68	1.98	2.89	4.55
	5-Year Low	0.48	0.85	1.69	2.84
	5-Year Median	1.26	1.48	2.51	3.63
P/S F12M	Current	2.29	1.09	4.93	3.07
	5-Year High	4.41	1.74	6.65	3.44
	5-Year Low	1.56	0.89	4.93	2.54
	5-Year Median	2.92	1.3	6.03	3.01
P/E F12M	Current	4.64	7.25	13.3	18.11
	5-Year High	12.07	12.61	16.19	19.34
	5-Year Low	3.91	6.62	11.23	15.19
	5-Year Median	8.05	10.16	13.95	17.45

As of 04/09/2020

Industry Analysis Zacks Industry Rank: Top 20% (50 out of 253)



Top Peers

Aegon NV (AEG)	Neutral
American International Group, Inc. (AIG)	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
MGIC Investment Corporation (MTG)	Neutral
Prudential Financial, Inc. (PRU)	Neutral

Industry Comparison Industry: Insurance - Multi Line				Industry Peers	
	RDN Neutral	X Industry	S&P 500	ESNT Neutral	MTG Neutral
VGM Score	B	-	-	A	A
Market Cap	2.99 B	3.37 B	19.66 B	2.97 B	2.57 B
# of Analysts	3	2.5	13	3	3
Dividend Yield	3.32%	2.94%	2.18%	2.12%	3.23%
Value Score	A	-	-	B	A
Cash/Price	0.48	0.34	0.06	0.18	0.10
EV/EBITDA	3.13	3.82	11.72	3.75	3.41
PEG Ratio	1.12	1.09	2.04	0.56	1.04
Price/Book (P/B)	0.75	0.77	2.66	0.99	0.60
Price/Cash Flow (P/CF)	4.03	7.19	10.44	5.16	3.61
P/E (F1)	5.59	7.77	17.51	5.62	5.18
Price/Sales (P/S)	1.96	0.75	2.12	3.42	2.12
Earnings Yield	16.21%	12.63%	5.65%	17.81%	19.35%
Debt/Equity	0.25	0.20	0.70	0.00	0.19
Cash Flow (\$/share)	3.74	3.27	7.01	5.85	2.06
Growth Score	B	-	-	C	B
Hist. EPS Growth (3-5 yrs)	19.69%	6.75%	10.92%	38.51%	20.16%
Proj. EPS Growth (F1/F0)	-23.88%	3.71%	-1.14%	-5.18%	-21.92%
Curr. Cash Flow Growth	14.35%	9.34%	5.93%	16.72%	-1.16%
Hist. Cash Flow Growth (3-5 yrs)	18.31%	1.53%	8.55%	42.51%	19.13%
Current Ratio	1.35	0.42	1.24	0.70	0.32
Debt/Capital	20.16%	16.90%	42.36%	0.00%	16.19%
Net Margin	44.03%	7.17%	11.64%	64.05%	55.50%
Return on Equity	17.37%	6.51%	16.74%	20.08%	16.41%
Sales/Assets	0.23	0.23	0.54	0.24	0.20
Proj. Sales Growth (F1/F0)	0.00%	0.00%	0.45%	0.00%	5.62%
Momentum Score	D	-	-	A	C
Daily Price Chg	9.45%	4.72%	2.48%	4.04%	9.41%
1 Week Price Chg	-34.01%	-6.72%	-4.40%	-27.93%	-37.64%
4 Week Price Chg	-15.78%	8.74%	11.26%	-15.26%	-23.06%
12 Week Price Chg	-39.99%	-26.65%	-20.02%	-41.20%	-46.97%
52 Week Price Chg	-33.82%	-19.84%	-11.31%	-33.70%	-46.74%
20 Day Average Volume	3,326,577	256,230	3,931,994	1,869,133	8,919,858
(F1) EPS Est 1 week change	-5.17%	0.00%	-0.12%	0.00%	-3.36%
(F1) EPS Est 4 week change	-23.73%	-1.97%	-5.78%	-10.61%	-19.74%
(F1) EPS Est 12 week change	-22.60%	-4.19%	-7.64%	-11.05%	-20.48%
(Q1) EPS Est Mthly Chg	0.00%	-2.04%	-10.13%	0.00%	-5.62%

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	B
Momentum Score	D
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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