

## Radian Group Inc. (RDN)

**\$15.26** (As of 08/14/20)

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

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 08/11/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

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

**5-Strong Sell**

Zacks Style Scores:

VGM:B

Value: A

Growth: D

Momentum: A

### Summary

Radian Group remains focused on improving mortgage insurance portfolio to drive long-term earnings growth. Business restructuring intensifies its focus on core business and services with higher-growth potential, ensuring predictable and recurring fee-based revenue stream. Based on strong credit characteristics of new loans insured, declining claim payments aid the company. Solid persistency and rise in new mortgage insurance business are driving insurance in force to increase. Shares of Radian Group have underperformed the industry in a year's time. Moreover, escalating expenses tend to weigh on operating margin expansion. Increased provision for losses in mortgage insurance business concerns us. Given the pandemic, the company expects slowdown in purchase loan volume. Nevertheless, solid capital position enables the company to deploy capital.

### Data Overview

52 Week High-Low	<b>\$26.32 - \$9.53</b>
20 Day Average Volume (sh)	<b>2,316,699</b>
Market Cap	<b>\$2.9 B</b>
YTD Price Change	<b>-39.4%</b>
Beta	<b>1.64</b>
Dividend / Div Yld	<b>\$0.50 / 3.3%</b>
Industry	<a href="#">Insurance - Multi line</a>
Zacks Industry Rank	<b>Bottom 33% (168 out of 252)</b>

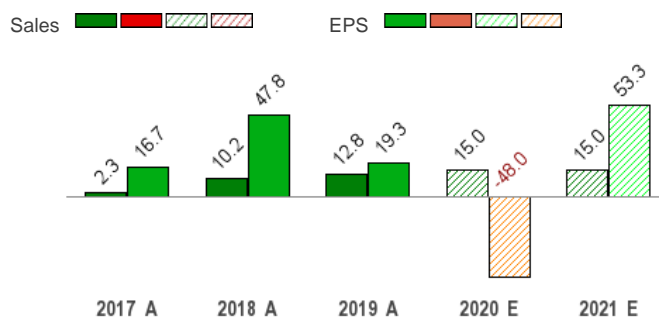
Last EPS Surprise	<b>-289.5%</b>
Last Sales Surprise	<b>NA</b>
EPS F1 Est- 4 week change	<b>-13.1%</b>
Expected Report Date	<b>NA</b>
Earnings ESP	<b>0.0%</b>

P/E TTM	<b>7.2</b>
P/E F1	<b>9.1</b>
PEG F1	<b>1.8</b>
P/S TTM	<b>2.0</b>

### Price, Consensus & Surprise



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



### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					1,747 E
2020	351 A	289 A			1,519 E
2019	309 A	343 A	325 A	344 A	1,321 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.56 E	\$0.58 E	\$0.60 E	\$0.61 E	\$2.56 E
2020	\$0.80 A	-\$0.36 A	\$0.48 E	\$0.60 E	\$1.67 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 08/14/2020. The reports text is as of 08/17/2020.

## Overview

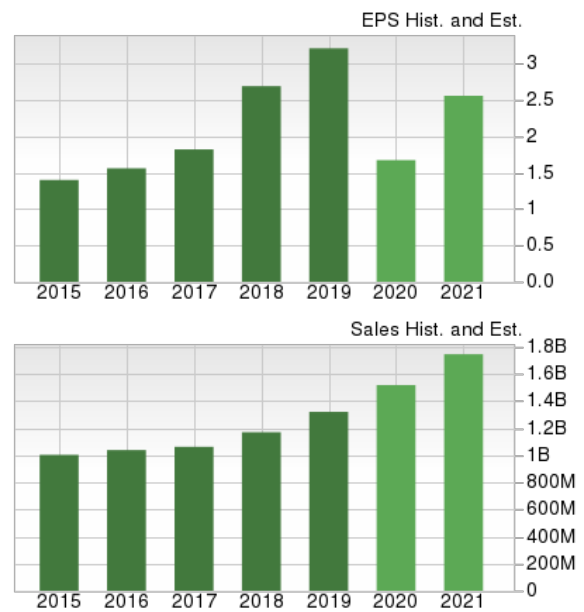
Founded in 1977 and headquartered in Philadelphia, PA, Radian Group Inc. is a credit enhancement company which supports homebuyers, mortgage lenders, loan servicers and investors with a suite of private mortgage insurance and related risk-management products and services. Radian trades on the New York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



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## Reasons To Buy:

- ▲ **Price Performance** – Shares of Radian Group have declined 33.4% in the past year, compared with the industry's decline of 14.4%. Nonetheless, its solid fundamentals should help shares bounce back.
  - ▲ **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 the second quarter of 2020, new mortgage insurance written (NIW) increased 37% year over year backed by rebound in the housing market. NIW in the second quarter aided the company to grow primary insurance in force by 5% to \$241.3 billion. The company expects to write new mortgage insurance business of more than \$75 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. In the second quarter of 2020, net claims paid were \$22.8 million, down 29.6% 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.
  - ▲ **Maintaining capital in compliance with regulations** – The company has been able to maintain its capital within the mandated level. As of Jun 30, 2020, Radian Guaranty's risk-to-capital ratio was 13.3:1 compared with 13.6:1 as of Dec 31, 2019. Nonetheless, excess available resources to support PMIERS were \$2.4 billion as of Jun 30, 2020, 73% above Radian Guaranty's minimum required assets of about \$3.2 billion. During the second quarter, excess available resources to support PMIERS increased by \$361 million.
  - ▲ **Strengthening Capital Position** – Radian Group took a few initiatives that will consolidate its capital structure by extending debt maturities while enhancing financial flexibility. The company strengthened available liquidity by extending the term of existing credit facility and issuing \$525 million of senior notes due 2025. As of Jun 30, Radian Group's capital position remains solid with \$1.1 billion of available liquidity.
- Also, the company has been effectively trying to lower its debt level over the last few years. However, as of Jun 30, 2020, debt to capital ratio deteriorated 800 bps to 26% from 2019 end level but was better than the industry average of 30.3%. Further, 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. Though times interest earned of 11.3 in the second quarter of 2020 was lower than year-ago figure of 13.7, it was better than the industry average of 4.2. Strong capital position reflects financial strength
- ▲ **Capital Deployment** - Radian Group maintains a solid balance sheet with sufficient liquidity and strong cash flows. A strong capital position helps Radian Group deploy capital via share repurchases and dividend hikes that enhance shareholders value. In Feb 2020, the board of directors hiked its quarterly dividend to 12.5 cents per share from its prior dividend payout of 0.25 cents. Its current dividend yield is 3.3%, which compares favorably with the industry average of 2.6%. However, on Mar 25, 2020, the company has suspended its share repurchase program due to the outbreak of the COVID-19 pandemic.
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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.

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## 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. Total expenses surged 119% year over year in the second quarter of 2020 on account of higher provision for losses. Higher expenses continue to weigh on margin expansion. Net margin in the second quarter of 2020 contracted 1330 year over year. The insurer should strive to generate a higher revenue growth rate than the rate of increase in expenses, else, expenses will likely tend to weigh on the operating margin expansion.

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.

▼ **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 more than six-fold in the second quarter of 2020 resulting in lower net income. Given the pandemic, the company expects slowdown in purchase loan volume. Also, the company estimates considerable increase in mortgage finance volumes to result in lower persistency across insurance portfolio.

▼ **Low Rate Environment**- A low interest rate environment has been weighing on investment portfolio yield over time as the company reinvests maturing assets and operating cash flows. Given that the Fed has stated that there will be no recovery in rate any time soon, we expect investment portfolio yield to continue to suffer.

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## Last Earnings Report

### Radian Group Falls Short of Q2 Earnings Estimates

Radian Group reported second-quarter 2020 operating loss of 36 cents per share in contrast to the Zacks Consensus Estimate of earnings of 19 cents and the year-ago earnings of 80 cents.

The company witnessed elevated loss provision due to the increase in the number of new defaults, which include defaults of loans subject to forbearance programs implemented, attributable to the COVID-19 pandemic.

Quarter Ending **06/2020**

Report Date	<b>Aug 07, 2020</b>
Sales Surprise	<b>NA</b>
EPS Surprise	<b>-289.47%</b>
Quarterly EPS	<b>-0.36</b>
Annual EPS (TTM)	<b>2.11</b>

### Quarter in Details

Operating revenues declined 15.7% year over year to \$289 million, attributable to lower net premiums earned, services revenue, net investment income and other income.

MI New Insurance Written grew 37% year over year to \$25.5 billion backed by rebound in the housing market.

Primary mortgage insurance in force was \$241.3 billion as on Jun 30, 2020, up 5% year over year.

Persistency — percentage of mortgage insurance in force that remains in the company's books after a 12-month period — was 70.2% as of Jun 30, 2020, down 1320 basis points year over year.

Primary delinquent loans were 69,742 as of Jun 30, 2020, up more than three-fold year over year.

Total expenses surged 119% year over year to \$406.7 million on account of higher provision for losses.

### Segment Update

Earlier, the company reported results under two segments — Mortgage Insurance and Services. This year in January, Radian decided to divest Clayton Services LLC to Covius Holdings. Apart from reorganizing its Services segment, the deal highlighted the company's focus on growing its core mortgage and real estate businesses. Hence, from the first quarter of 2020, the company started reporting results under Mortgage and Real Estate segments.

Net premiums earned by the **Mortgage** segment were \$247.6 million, down 16.4% year over year. Claims paid were \$22.8 million in the quarter under review, down 29.6% year over year. Loss ratio deteriorated to 122.8% from year-ago figure of 15.9%.

The **Real Estate** segment reported a 5.4% year-over-year decrease in total revenues to \$26.1 million. Adjusted earnings before interest, income taxes, depreciation and amortization (Real Estate adjusted EBITDA) was negative \$0.7 million, compared with negative \$0.5 million in the year-ago quarter.

### Financial Update

As of Jun 30, 2020, Radian Group had solid cash balance of \$68.4 million, down 26.3% from 2019-end level. Debt to capital ratio deteriorated 800 bps to 26% from 2019 end level.

Book value per share, a measure of net worth, grew 13% year over year to \$20.82 as of Jun 30, 2020.

Adjusted net operating return on equity was (7.1%) versus 18.2% in the year-ago quarter.

Risk-to-capital ratio of Radian Guaranty as of second-quarter end was 13.3:1, lower than 13.6:1 from 2019 end level.

Excess available resources to support PMIERS were \$2.4 billion as of Jun 30, 2020, 73% above Radian Guaranty's minimum required assets of about \$3.2 billion. During the second quarter, excess available resources to support PMIERS increased by \$361 million.

## Recent News

### Radian Group Declares Quarterly Dividend — Aug 12, 2020

The board of directors of Radian Group declared a quarterly dividend of 125 cents per share. The dividend will be paid out on Sep 4 to shareholders of record as of Aug 24.

### Radian Group Unveils New Digital Platform – Jul 29, 2020

Radian Group has introduced a digital platform known as MyRadian in a bid to enable customers to access valuation and asset management services at one convenient location and with a single login.

## Valuation

Radian's shares are down 39.3% and 33.4% 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 22.2% and 15.6% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 14.4% and 6.7%, respectively.

The S&P 500 index are up 4.5% in the year-to-date period and 15.4% in the past year.

The stock is currently trading at 0.73x trailing 12-month book value, which compares to 1.22x for the Zacks sub-industry, 2.49x for the Zacks sector and 4.52x for the S&P 500 index.

Over the past five years, the stock has traded as high as 1.68x and as low as 0.49x, with a 5-year median of 1.23x. Our Neutral recommendation indicates that the stock will perform in-line than the market. Our \$16 price target reflects 0.76x 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	0.73	1.22	2.49	4.52
	5-Year High	1.68	1.98	2.91	4.56
	5-Year Low	0.49	0.85	1.72	2.83
	5-Year Median	1.23	1.48	2.53	3.74
P/S F12M	Current	2.21	0.77	6.22	3.7
	5-Year High	4.41	1.74	6.67	3.7
	5-Year Low	1.56	0.77	4.97	2.53
	5-Year Median	2.90	1.26	6.06	3.05
P/E F12M	Current	6.85	8.59	16.82	22.87
	5-Year High	12	12.61	16.82	22.87
	5-Year Low	3.29	6.62	11.6	15.25
	5-Year Median	7.85	9.98	14.26	17.58

As of 08/14/2020

## Industry Analysis Zacks Industry Rank: Bottom 33% (168 out of 252)



## 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
MGIC Investment Corporation (MTG)	Neutral	3
Prudential Financial, Inc. (PRU)	Neutral	3
American International Group, Inc. (AIG)	Underperform	4

Industry Comparison Industry: Insurance - Multi Line				Industry Peers		
	RDN	X Industry	S&P 500	ACGL	ESNT	MTG
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	5	-	-	3	4	3
VGM Score	B	-	-	B	B	C
Market Cap	2.92 B	3.38 B	23.68 B	13.09 B	4.08 B	2.94 B
# of Analysts	3	2.5	14	4	3	3
Dividend Yield	3.28%	2.22%	1.68%	0.00%	1.77%	2.76%
Value Score	A	-	-	B	B	A
Cash/Price	0.33	0.34	0.07	0.07	0.30	0.13
EV/EBITDA	3.58	4.03	13.36	8.25	4.17	3.59
PEG Ratio	1.83	1.26	2.99	3.26	NA	1.56
Price/Book (P/B)	0.73	0.73	3.22	1.10	1.12	0.67
Price/Cash Flow (P/CF)	4.08	7.10	12.82	10.16	6.20	4.22
P/E (F1)	9.14	9.92	22.06	32.58	10.97	7.81
Price/Sales (P/S)	2.00	0.81	2.51	1.81	4.43	2.39
Earnings Yield	10.94%	9.81%	4.30%	3.07%	9.10%	12.77%
Debt/Equity	0.40	0.24	0.77	0.33	0.00	0.19
Cash Flow (\$/share)	3.74	3.45	6.94	3.17	5.85	2.06
Growth Score	D	-	-	D	D	D
Hist. EPS Growth (3-5 yrs)	21.54%	10.16%	10.41%	14.06%	33.14%	16.38%
Proj. EPS Growth (F1/F0)	-47.87%	-9.38%	-6.32%	-64.89%	-41.64%	-39.49%
Curr. Cash Flow Growth	14.35%	7.19%	5.20%	21.44%	16.72%	-1.16%
Hist. Cash Flow Growth (3-5 yrs)	18.31%	1.69%	8.55%	15.01%	42.51%	19.13%
Current Ratio	1.37	0.47	1.33	0.61	1.26	0.47
Debt/Capital	28.37%	20.31%	44.59%	24.00%	0.00%	15.97%
Net Margin	30.45%	4.27%	10.13%	15.88%	49.62%	42.08%
Return on Equity	10.99%	6.79%	14.51%	6.97%	14.53%	11.87%
Sales/Assets	0.21	0.20	0.51	0.19	0.22	0.20
Proj. Sales Growth (F1/F0)	0.00%	0.00%	-1.43%	14.76%	0.00%	0.00%
Momentum Score	A	-	-	A	A	F
Daily Price Chg	-0.39%	0.00%	0.12%	-0.34%	0.95%	1.16%
1 Week Price Chg	4.83%	3.21%	2.30%	5.66%	-0.03%	3.99%
4 Week Price Chg	6.71%	1.54%	4.41%	4.64%	4.32%	11.41%
12 Week Price Chg	-2.05%	16.30%	13.66%	17.49%	17.01%	9.86%
52 Week Price Chg	-31.69%	-11.77%	5.80%	-17.12%	-21.16%	-28.65%
20 Day Average Volume	2,316,699	145,166	1,984,154	1,532,331	838,662	4,336,551
(F1) EPS Est 1 week change	-14.77%	0.00%	0.00%	17.86%	8.54%	-4.07%
(F1) EPS Est 4 week change	-13.15%	0.67%	2.08%	15.56%	-15.44%	0.85%
(F1) EPS Est 12 week change	-16.75%	0.43%	2.66%	-18.85%	-15.23%	-3.54%
(Q1) EPS Est Mthly Chg	35.71%	0.00%	0.94%	57.14%	-17.41%	47.50%

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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	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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