

## Radian Group Inc. (RDN)

**\$24.95** (As of 01/24/20)

Price Target (6-12 Months): **\$26.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 10/01/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

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

**3-Hold**

Zacks Style Scores:

VGM:A

Value: B

Growth: C

Momentum: A

### Summary

Shares of Radian Group have outperformed the industry in the past year. The company remains focused on the improvement of its mortgage insurance portfolio to drive the long-term earnings growth. It is poised for growth lower delinquency and decline in levels of paid claims and better risk-based capital ratio. Business restructuring intensified focus on core business and services with higher-growth potential besides more predictable and recurring fee-based revenues stream. Solid persistency and an increase in new mortgage insurance business are driving sturdy insurance in force. Robust capital position and financial flexibility enable the company to deploy capital via share repurchases. However, escalating expenses due to higher cost of services tend to weigh on operating margin expansion. Also, strict regulations put further pressure on capital.

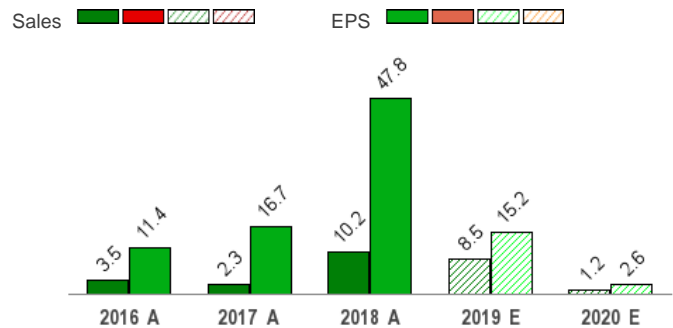
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	<b>\$26.32 - \$18.28</b>
20 Day Average Volume (sh)	<b>1,102,286</b>
Market Cap	<b>\$5.0 B</b>
YTD Price Change	<b>-0.8%</b>
Beta	<b>1.35</b>
Dividend / Div Yld	<b>\$0.01 / 0.0%</b>
Industry	<a href="#">Insurance - Multi line</a>
Zacks Industry Rank	<b>Top 44% (112 out of 255)</b>

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



Last EPS Surprise	<b>12.5%</b>
Last Sales Surprise	<b>5.1%</b>
EPS F1 Est- 4 week change	<b>0.7%</b>
Expected Report Date	<b>02/05/2020</b>
Earnings ESP	<b>1.8%</b>

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	316 E	320 E	323 E	328 E	1,286 E
2019	309 A	343 A	325 A	310 E	1,271 E
2018	277 A	290 A	299 A	305 A	1,171 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.78 E	\$0.80 E	\$0.80 E	\$0.81 E	\$3.18 E
2019	\$0.73 A	\$0.80 A	\$0.81 A	\$0.76 E	\$3.10 E
2018	\$0.59 A	\$0.69 A	\$0.71 A	\$0.70 A	\$2.69 A

\*Quarterly figures may not add up to annual.

P/E TTM	<b>8.2</b>
P/E F1	<b>7.9</b>
PEG F1	<b>1.6</b>
P/S TTM	<b>3.4</b>

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/24/2020. The reports text is as of 01/27/2020.

## 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.

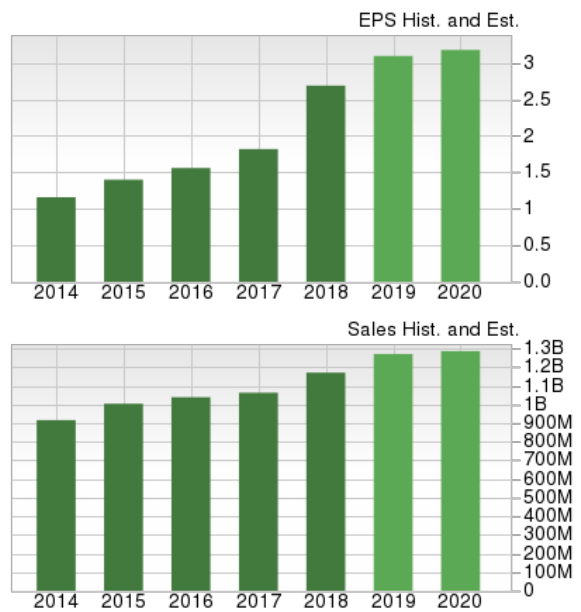
The company had two business segments — Mortgage Insurance and Mortgage and Real Estate Services.

- **Mortgage Insurance (99% of 2018 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.

- **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. In addition, the company provides title insurance to mortgage lenders as well as directly to borrowers. Mortgage services include transaction management services. Real estate services include software as a service solutions and platforms, as well as managed services. Title services provide a comprehensive suite of title insurance products, title settlement services and both traditional and digital closing services. The company extends Services offerings primarily through its subsidiaries, including Clayton, Green River Capital, Radian Settlement Services and Red Bell. 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 Services offerings..



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## Reasons To Buy:

- ▲ **Price Performance** – Shares of Radian Group have outperformed the industry in the past year. Improving new mortgage insurance business, declining claim payments and a strong capital position will continue to drive shares higher.
- ▲ **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 first nine months of 2019, new mortgage insurance written increased 17.3% year over year to \$51.5 billion. Based on the performance so far in 2019 and strong new business pipeline, the company expects to write new mortgage insurance business in 2018 in the range of \$65 billion to \$70 billion, which would represent an approximate increase of 20% over last year's record-breaking levels. 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. 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. The company finalized terms for a new program that include 65% cession of new single-premium business written in 2018 and 2019 compared with the existing single-premium reinsurance transaction. On Nov 22, 2017, Radian Group completed its divestiture of its Clayton EuroRisk to intensify its focus on core service.
- ▲ **Maintaining capital in compliance with regulations** –The company has been able to maintain its capital within the mandated level. As of Sep 30, 2019, Radian Guaranty's risk-to-capital ratio was 14.2:1 compared with 13.9:1 as of Dec 31, 2018. The net increase in Radian Guaranty's Risk-to-capital in the first nine months of 2019 was primarily due to the increase in Risk in force (RIF). This was partially offset by the increase in overall statutory capital. For Mortgage Insurance, the metric was 12.9:1 as of Sep 30, 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. Also, the board approved a \$200 million buyback program in August 2019 through July 2020 as it exhausted the previous \$250 million buyback authorization in July 2019.

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, cost of services, other operating expenses and loss on extinguishment of debt. In the first nine months of 2019, the expenses increased 14.2% 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.
  - ▼ **Regulatory hurdles** – In November 2013, the National Association of Insurance Commissioners proposed plans to revise the minimum capital and surplus requirements for mortgage insurers. These regulations set new guidelines that compelled mortgage insurers to set aside more capital, thereby resulting in further capital strain.
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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's Q3 Earnings and Revenues Beat Estimates

Radian Group's third-quarter 2019 operating income of 81 cents per share beat the Zacks Consensus Estimate by 12.5% on the back of improved revenues. The bottom line also improved 14% year over year. The company benefited from higher premiums earned by its Mortgage Insurance segment.

Volume of new mortgage insurance business was record high in the quarter, which drove a 9% year-over-year increase in high-quality insurance in force portfolio.

Quarter Ending 09/2019

Report Date	Oct 30, 2019
Sales Surprise	5.09%
EPS Surprise	12.50%
Quarterly EPS	0.81
Annual EPS (TTM)	3.04

### Behind the Headlines

Operating revenues grew 9.6% year over year to \$367 million, courtesy of higher net premiums, services revenues and investment income. The top line beat the Zacks Consensus Estimate by 18.8%. Moreover, total revenues (including services revenues, and net gain on investments and other financial instruments) were \$380.3 million, up nearly 15% year over year.

As of Sep 30, 2019, total primary mortgage insurance in force was \$237.2 billion, up 9% year over year.

MI New Insurance Written grew 40% year over year to \$22 billion.

Persistency — percentage of mortgage insurance in force that remains in the company's books after a 12-month period — was 81.5% as of Sep 30, 2019, up 10 basis points year over year.

Primary delinquent loans were 20,184 as of Sep 30, 2019, down 3% year over year.

Total expenses increased 11.4% year over year to \$162.7 million due to higher provision for losses, policy acquisition costs, cost of services, other operating expenses and loss of extinguishment of debt.

### Segment Update

Net premiums earned by the **Mortgage Insurance** segment were \$277.6 million, up 8.7% year over year. Claims paid were \$36.7 million in the quarter under review, down 38.6% year over year. Loss ratio deteriorated 240 basis points to 10.5%.

The **Services** segment reported a 15.8% year-over-year increase in total revenues to \$47.4 million. Adjusted earnings before interest, income taxes, depreciation and amortization (Services adjusted EBITDA) were \$3.7 million compared with \$0.6 million in the year-ago quarter.

### Financial Update

As of Sep 30, 2019, Radian Group had solid cash balance of \$52.2 million, down from \$114.3 million as on Sep 30, 2018.

Book value per share, a measure of net worth, grew 24% year over year to \$19.40 as of Sep 30, 2019.

Adjusted net operating return on equity contracted 160 basis points year over year to 18% in the quarter.

Risk-to-capital ratio-Mortgage Insurance as of third-quarter end was 12.9:1 compared with 11.7:1 at the end of the year-ago quarter.

In the third quarter, Radian Group bought back 3.3 million shares for \$78 million. In October, the company purchased an additional 1.1 million shares for \$25 million of Radian Group common stock, including commissions. At Oct 30, 2019, the company had \$150 million available under the existing program, which expires on Jul 31, 2020.

## Recent News

### 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.

### Radian Group Announces Quarterly Dividend - Nov 13, 2019

The company's board of directors declared quarterly cash dividend of 0.25 cents to shareholders of record on Nov 25. The dividend will be paid out on Dec 6, 2019.

## Valuation

Radian shares are up 33.4% over the trailing 12-month period. Over the past year, stocks in the Zacks sub-industry and the Zacks Fiance sector are up 6.7% and 10.1%, respectively.

The S&P 500 index is up nearly 23.9% in the past year.

The stock is currently trading at 1.28X trailing 12-month book value, which compares to 1.36X for the Zacks sub-industry, 2.81X for the Zacks sector and 4.5X for the S&P 500 index.

Over the past five years, the stock has traded as high as 1.68X and as low as 0.75X, with a 5-year median of 1.28X. Our Neutral recommendation indicates that the stock will perform in-line with with the market. Our \$26 price target reflects 1.33X 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	1.28	1.36	2.81	4.5
	5-Year High	1.68	1.98	2.89	4.55
	5-Year Low	0.75	0.94	1.83	2.85
	5-Year Median	1.28	1.46	2.51	3.62
P/S F12M	Current	3.89	1.34	6.53	3.52
	5-Year High	4.41	1.74	6.61	3.52
	5-Year Low	1.56	0.89	5.2	2.54
	5-Year Median	2.90	1.33	6.04	3
P/E F12M	Current	7.83	9.27	14.53	18.94
	5-Year High	12.07	12.61	16.21	19.34
	5-Year Low	5.42	8.4	12.01	15.18
	5-Year Median	8.15	10.22	13.98	17.45

As of 01/24/2020

## Industry Analysis Zacks Industry Rank: Top 44% (112 out of 255)



## Top Peers

MGIC Investment Corporation ( <b>MTG</b> )	Outperform
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

Industry Comparison Industry: Insurance - Multi Line				Industry Peers		
	RDN Neutral	X Industry	S&P 500	ESNT Neutral	GNW Neutral	MTG Outperform
<b>VGM Score</b>	<b>A</b>	-	-	<b>C</b>	-	<b>B</b>
Market Cap	5.02 B	5.02 B	24.13 B	5.05 B	2.13 B	4.81 B
# of Analysts	3	2.5	13	3	0	3
Dividend Yield	0.04%	1.99%	1.78%	1.17%	0.00%	1.74%
<b>Value Score</b>	<b>B</b>	-	-	<b>B</b>	-	<b>B</b>
Cash/Price	0.19	0.21	0.04	0.06	0.75	0.03
EV/EBITDA	6.23	8.89	14.02	8.27	4.15	5.72
PEG Ratio	1.56	1.13	2.03	0.84	NA	1.52
Price/Book (P/B)	1.29	1.09	3.30	1.77	0.13	1.17
Price/Cash Flow (P/CF)	8.09	10.43	13.52	10.22	4.74	6.85
P/E (F1)	7.82	11.06	18.92	8.36	NA	7.60
Price/Sales (P/S)	3.41	1.06	2.65	6.07	0.25	4.04
Earnings Yield	12.75%	9.00%	5.28%	11.96%	NA%	13.13%
Debt/Equity	0.25	0.21	0.72	0.00	0.23	0.20
Cash Flow (\$/share)	3.08	3.14	6.94	5.02	0.89	2.01
<b>Growth Score</b>	<b>C</b>	-	-	<b>C</b>	<b>NA</b>	<b>D</b>
Hist. EPS Growth (3-5 yrs)	16.62%	4.22%	10.60%	40.70%	-1.41%	22.03%
Proj. EPS Growth (F1/F0)	2.69%	9.89%	7.59%	9.25%	NA	2.64%
Curr. Cash Flow Growth	-2.03%	8.34%	13.90%	58.66%	-54.47%	24.88%
Hist. Cash Flow Growth (3-5 yrs)	154.83%	-0.76%	9.00%	93.46%	-14.39%	121.54%
Current Ratio	1.39	0.38	1.22	0.57	0.26	0.29
Debt/Capital	20.17%	17.26%	42.99%	0.00%	18.67%	16.67%
Net Margin	44.27%	6.85%	11.35%	64.58%	0.37%	55.08%
Return on Equity	17.41%	6.77%	17.10%	20.86%	1.03%	16.61%
Sales/Assets	0.22	0.23	0.55	0.24	0.08	0.20
Proj. Sales Growth (F1/F0)	1.23%	3.75%	4.03%	NA	NA	6.02%
<b>Momentum Score</b>	<b>A</b>	-	-	<b>D</b>	-	<b>A</b>
Daily Price Chg	-1.19%	-0.51%	-1.01%	-1.87%	-1.85%	-1.64%
1 Week Price Chg	1.91%	0.91%	2.29%	2.41%	-2.27%	1.44%
4 Week Price Chg	-0.20%	-0.26%	1.02%	-0.93%	0.24%	-2.55%
12 Week Price Chg	-0.60%	2.50%	6.85%	-1.46%	-0.93%	0.51%
52 Week Price Chg	36.49%	13.48%	20.39%	35.40%	-12.76%	15.31%
20 Day Average Volume	1,102,286	118,615	1,536,379	494,272	2,845,795	1,640,088
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.71%	NA	0.00%
(F1) EPS Est 4 week change	0.74%	0.00%	0.00%	1.77%	NA	0.55%
(F1) EPS Est 12 week change	3.58%	0.12%	-0.23%	4.24%	NA	1.68%
(Q1) EPS Est Mthly Chg	NA%	0.00%	0.00%	NA	NA	0.00%

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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>C</b>
Momentum Score	<b>A</b>
VGM Score	<b>A</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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