# Radian Group Inc. (RDN)

**$17.31** (As of 05/27/20)

Price Target (6-12 Months): **$18.00**

| | | |
|---|---|---|
| Long Term: 6-12 Months | **Zacks Recommendation:** (Since: 10/01/19) Prior Recommendation: Outperform | **Neutral** |
| Short Term: 1-3 Months | **Zacks Rank:** (1-5) | **4-Sell** |
| | Zacks Style Scores: | VGM:C |
| | Value: A \| Growth: C \| Momentum: F | |

## 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. Its shares have underperformed the industry in a year. Nevertheless, solid capital position enables it to deploy capital. However, rising expenses tend to weigh on margin expansion. Increased provision for losses in mortgage insurance business concerns us. Its earnings per share of 80 cents beat the Zacks Consensus Estimate by 14.3% and improved 10% year over year.

## Price, Consensus & Surprise

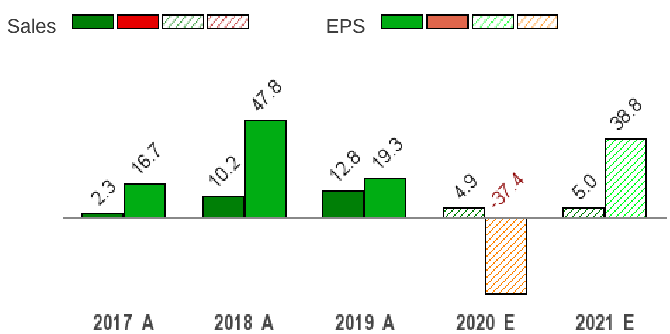

## Data Overview

| | |
|---|---|
| 52 Week High-Low | **$26.32 - $9.53** |
| 20 Day Average Volume (sh) | **2,056,916** |
| Market Cap | **$3.3 B** |
| YTD Price Change | **-31.2%** |
| Beta | **1.67** |
| Dividend / Div Yld | **$0.50 / 2.9%** |
| Industry | **Insurance - Multi line** |
| Zacks Industry Rank | **Bottom 25% (181 out of 248)** |

| | |
|---|---|
| Last EPS Surprise | **14.3%** |
| Last Sales Surprise | **NA** |
| EPS F1 Est- 4 week change | **-15.7%** |
| Expected Report Date | **07/29/2020** |
| Earnings ESP | **0.0%** |

| | |
|---|---|
| P/E TTM | **5.3** |
| P/E F1 | **8.6** |
| PEG F1 | **1.7** |
| P/S TTM | **2.2** |

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




## Sales Estimates (millions of $)

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|---|---|---|---|---|---|
| 2021 | | | | | 1,455 E |
| 2020 | 351 A | | | | 1,386 E |
| 2019 | 309 A | 343 A | 325 A | 344 A | 1,321 A |

## EPS Estimates

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|---|---|---|---|---|---|
| 2021 | $0.68 E | $0.68 E | $0.66 E | $0.65 E | $2.79 E |
| 2020 | $0.80 A | $0.16 E | $0.35 E | $0.67 E | $2.01 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 05/27/2020. The reports text is as of 05/28/2020.

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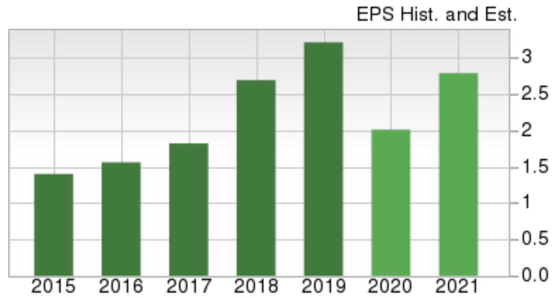
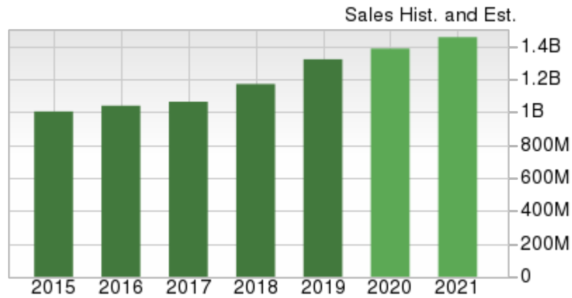
## Overview

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:

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.

- **Price Performance** – Shares of Radian Group have declined 24.3% in a year, compared with the industry's decline of 19.1%. 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 the first quarter of 2020, new mortgage insurance written (NIW) increased 53.3% year over year to $16.7 billion. This upside was driven by strong mortgage origination market and increased private mortgage insurance penetration rates. NIW in the first quarter aided the company to grow primary insurance in force to $241.6 billion. Based on the performance in 2020 and a decent mortgage origination market, the company expects to write new mortgage insurance business of more than $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. In the first quarter of 2020, net claims paid were $23.4 million, down 32.4% 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 Mar 31, 2020, Radian Guaranty's risk-to-capital ratio was 13.8:1 compared with 13.4:1 as of Mar 31, 2019. The net increase in Radian Guaranty's Risk-to-capital in 2019 was primarily due to the increase in Risk in force (RIF), resulting from both NIW and termination of the intercompany reinsurance agreement, partially offset by an increase in overall statutory capital. For Mortgage Insurance, the metric was 12.4:1 as of Mar 31, 2020, flat year over year (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 company has been effectively trying to lower its debt level over the last few years and thus its debt to capital has been improving. However, as of Mar 31, 2020, total debt of the company was about $1.1 billion, up 3.9% from 2019 end. Though debt-to-capital on Mar 31, 2020 was 21.6%, up 130 basis points sequentially 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. Times interest earned of 16.4 as on Mar 31, 2020 was good when compared with the prior-quarter's figure of 16.1 and industry's measure of 8.9. , Radian has access to $267.5 million credit facility and its cash and equivalents came in at $988 million as of Mar 31, 2020, up 6% from the 2019-end level. Such strong capital position reflects financial strength.

- 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 $0.125 per share from its prior dividend payout of $.0025. Its current dividend yield is 2.9%, which compares favorably with the industry average of 2.8%. During the first quarter of 2020, Radian repurchased shares of $226.3 million, including commissions. On March 25, 2020, the Company has suspended its share repurchase program as of March 19 due to the outbreak of the COVID-19 pandemic.

## Reasons To Sell:

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.

- **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 the first quarter of 2020, the company's expenses increased 0.2% from the year-ago period to $147.8 million due to higher provision for losses and policy acquisition costs. 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 69% year over year to $35.2 million in the first 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.

## Last Earnings Report

**Radian's Q1 Earnings Beat Estimates, Improve Y/Y**

| Quarter Ending | 03/2020 |
|---|---|
| Report Date | May 06, 2020 |
| Sales Surprise | NA |
| EPS Surprise | 14.29% |
| Quarterly EPS | 0.80 |
| Annual EPS (TTM) | 3.27 |

Radian Group Inc.'s first-quarter 2020 operating income of 80 cents per share beat the Zacks Consensus Estimate by 14.3%. Further, the bottom line improved 10% year over year. The company benefited from improved premiums earned from its Mortgage segment.

Volume of new mortgage insurance business was high in the first quarter, which led toyear-over-year increase of 8% in high-quality insurance in force portfolio.

**Quarter in Details**

Operating revenues grew 13.6% year over year to $351 million, courtesy of higher net premiums. Net premiums earned improved 5.3% year over year to $277.4 million. However, total revenues (including services revenues, and net gain on investments and other financial instruments) were $329.1 million, down 9.5% year over year. Also, net investment income declined 6.6% year over year to $40.9 million.

As of Mar 31, 2020, total primary mortgage insurance in force was $241.6 billion, up 8% year over year.

MI New Insurance Written grew 53% year over year to $16.7 billion.

Persistency — percentage of mortgage insurance in force that remains in the company's books after a 12-month period — was 75.4% as of Mar 31, 2020, down 800 basis points year over year.

Primary delinquent loans were 19,781 as of Mar 31, 2020, down 2% year over year.

Total expenses increased marginally year over year to $147.8 million on account of higher provision for losses and policy acquisition costs.

**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 to grow its core mortgage and real estate businesses. Hence, the company reported results under Mortgage and Real Estate segments from first quarter of 2020.

Net premiums earned by the Mortgage segment were $275 million, up 5.1% year over year. Claims paid were $23.4 million in the quarter under review, down 32.4% year over year. Loss ratio deteriorated 480 basis points to 12.8%.

The Real Estate segment reported a 24.3% year-over-year increase in total revenues to $28.6 million. Adjusted earnings before interest, income taxes, depreciation and amortization (Real Estate adjusted EBITDA) came in at a loss of $0.4 million,narrower than the loss of $0.5 million in the year-ago quarter.

**Financial Update**

As of Mar 31, 2020, Radian Group had solid cash balance of $54.1 million, down 41.6% from 2019-end level.

Book value per share, a measure of net worth, grew 16.1% year over year to $20.30 as of Mar 31,2020.

In the first quarter, Radian Group bought back 11 million shares for $226.3 million. At Mar 31, 2020, the company had $198.9 million available under the existing program, which expires on Aug 31, 2021. However, the company had announced waiver ofits share repurchase program on Mar 25 of this year.

Adjusted net operating return on equity contracted 140 basis points year over year to 16.3% in the quarter.

Risk-to-capital ratio-Mortgage Insurance as of first-quarter end was 12.4:1, which remained flat with the year-ago quarter.

**Adverse Effect of COVID-19**

The COVID-19 pandemic has induced volatility in the financial markets. Consequently, Radian apprehends the pandemic to negatively impact second-quarter 2020financial results. It also expects the future quarters to get affected by the pandemic.

## Recent News

**Radian Offers 6.625% $525 Million Senior Unsecured Notes -** May 13, 2020

Radian Group announced the pricing of $525 million aggregate principal amount of senior unsecured notes. The notes carry an interest rate of 6.625% and are scheduled to mature on Mar 15, 2025. This is an increase from $400 million announced initially.

## Valuation

Radian's shares are down 31.2% and 24.3% 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 25.1% and 20.9% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 19.1% and 12.3%, respectively.

The S&P 500 index is down 5.7% in the year-to-date period and up 8.9% in the past year.

The stock is currently trading at 0.87x trailing 12-month book value, which compares to 1.07x for the Zacks sub-industry, 2.28x for the Zacks sector and 4.15x 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 1.25x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $18 price target reflects 0.9x 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 | 0.87 | 1.07 | 2.28 | 4.15 |
| | 5-Year High | 1.68 | 1.98 | 2.90 | 4.56 |
| | 5-Year Low | 0.49 | 0.85 | 1.71 | 2.83 |
| | 5-Year Median | 1.25 | 1.48 | 2.53 | 3.65 |
| P/S F12M | Current | 2.51 | 0.88 | 5.81 | 3.42 |
| | 5-Year High | 4.41 | 1.74 | 6.7 | 3.44 |
| | 5-Year Low | 1.56 | 0.88 | 4.99 | 2.53 |
| | 5-Year Median | 2.92 | 1.27 | 6.05 | 3.01 |
| P/E F12M | Current | 7.45 | 8.50 | 16.52 | 22.08 |
| | 5-Year High | 12 | 12.61 | 16.52 | 22.08 |
| | 5-Year Low | 3.29 | 6.62 | 11.58 | 15.23 |
| | 5-Year Median | 7.97 | 10.15 | 13.94 | 17.49 |

As of 05/27/2020

## Industry Analysis **Zacks Industry Rank:** Bottom 25% (181 out of 248)


## Top Peers

| Company (Ticker) | Rec | Rank |
|---|---|---|
| Aegon NV **(AEG)** | Neutral | 3 |
| American International Group, Inc. **(AIG)** | Neutral | 3 |
| Essent Group Ltd. **(ESNT)** | Neutral | 3 |
| FBL Financial Group, Inc. **(FFG)** | Neutral | 4 |
| The Hartford Financial Services Group, Inc. **(HIG)** | Neutral | 4 |
| MGIC Investment Corporation **(MTG)** | Neutral | 4 |
| Prudential Financial, Inc. **(PRU)** | Neutral | 4 |
| Arch Capital Group Ltd. **(ACGL)** | Underperform | 3 |

## Industry Comparison Industry: Insurance - Multi Line

| | RDN | X Industry | S&P 500 | ACGL | ESNT | MTG |
|---|---|---|---|---|---|---|
| | | | | Industry Peers | | |
| **Zacks Recommendation (Long Term)** | Neutral | - | - | Underperform | Neutral | Neutral |
| **Zacks Rank (Short Term)** | 4 | - | - | 3 | 3 | 4 |
| **VGM Score** | C | - | - | C | B | C |
| Market Cap | 3.30 B | 3.30 B | 21.39 B | 12.14 B | 3.69 B | 3.17 B |
| # of Analysts | 3 | 2 | 14 | 3 | 3 | 3 |
| Dividend Yield | 2.89% | 2.67% | 1.97% | 0.00% | 1.71% | 2.56% |
| **Value Score** | A | - | - | B | B | A |
| Cash/Price | 0.34 | 0.35 | 0.06 | 0.08 | 0.21 | 0.14 |
| EV/EBITDA | 3.43 | 3.82 | 12.63 | 7.27 | 4.45 | 3.83 |
| PEG Ratio | 1.67 | 1.30 | 2.91 | 3.49 | 0.95 | 1.53 |
| Price/Book (P/B) | 0.87 | 0.87 | 2.99 | 1.10 | 1.19 | 0.76 |
| Price/Cash Flow (P/CF) | 4.63 | 7.38 | 11.80 | 9.43 | 6.40 | 4.55 |
| P/E (F1) | 8.36 | 10.08 | 21.42 | 34.93 | 9.47 | 7.66 |
| Price/Sales (P/S) | 2.21 | 0.80 | 2.29 | 1.80 | 4.12 | 2.58 |
| Earnings Yield | 11.61% | 9.47% | 4.44% | 2.87% | 10.56% | 13.02% |
| Debt/Equity | 0.27 | 0.24 | 0.76 | 0.26 | 0.00 | 0.20 |
| Cash Flow ($/share) | 3.74 | 3.27 | 6.96 | 3.17 | 5.85 | 2.06 |
| **Growth Score** | C | - | - | C | D | C |
| Hist. EPS Growth (3-5 yrs) | 22.22% | 9.02% | 10.87% | 14.25% | 36.77% | 18.75% |
| Proj. EPS Growth (F1/F0) | -37.38% | -6.11% | -10.41% | -69.62% | -30.21% | -33.52% |
| Curr. Cash Flow Growth | 14.35% | 9.45% | 5.46% | 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 | 1.43 | 0.48 | 1.29 | 0.52 | 0.84 | 0.53 |
| Debt/Capital | 21.55% | 21.55% | 44.54% | 19.85% | 0.00% | 16.42% |
| Net Margin | 43.01% | 4.72% | 10.59% | 19.61% | 64.46% | 54.64% |
| Return on Equity | 17.32% | 6.97% | 16.29% | 9.93% | 19.83% | 15.88% |
| Sales/Assets | 0.22 | 0.21 | 0.55 | 0.18 | 0.23 | 0.20 |
| Proj. Sales Growth (F1/F0) | 0.00% | 0.00% | -2.34% | 3.48% | 0.00% | 5.62% |
| **Momentum Score** | F | - | - | F | B | F |
| Daily Price Chg | 8.26% | 2.62% | 2.29% | 1.82% | 14.15% | 11.41% |
| 1 Week Price Chg | 8.91% | 5.78% | 4.99% | 23.15% | 12.51% | 13.58% |
| 4 Week Price Chg | 8.87% | -2.14% | 2.47% | 16.97% | 28.99% | 19.67% |
| 12 Week Price Chg | -25.96% | -18.35% | -6.13% | -30.55% | -20.96% | -28.14% |
| 52 Week Price Chg | -24.28% | -22.28% | 0.67% | -12.59% | -22.33% | -32.78% |
| 20 Day Average Volume | 2,056,916 | 192,339 | 2,423,651 | 2,609,247 | 1,355,983 | 6,821,696 |
| (F1) EPS Est 1 week change | 0.00% | 0.00% | 0.00% | 0.00% | 1.37% | 0.00% |
| (F1) EPS Est 4 week change | -15.66% | -1.75% | -2.07% | -64.26% | -22.80% | -9.38% |
| (F1) EPS Est 12 week change | -37.06% | -20.27% | -16.07% | -71.30% | -34.20% | -31.66% |
| (Q1) EPS Est Mthly Chg | -78.38% | -8.43% | -3.59% | -101.88% | -63.40% | -68.42% |

## 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.

| | |
|---|---|
| Value Score | A |
| Growth Score | C |
| Momentum Score | F |
| VGM Score | C |

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.

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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