

Everest Re Ltd. (RE)

\$223.10 (As of 07/16/20)

Price Target (6-12 Months): **\$234.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 06/06/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: A

Growth: C

Momentum: F

Summary

Everest Re's global presence, product diversification, capital adequacy, long-term operating performance, financial flexibility and traditional risk management capabilities bode well. Operations on the Lloyds platform have gained pace. The company's consistent rise in premiums earned at its Insurance segment will likely improve expense ratio and loss ratio, going forward. Its Reinsurance segment remains well-poised for leveraging opportunities, stemming from the continued disruption and evolution of reinsurance market. Everest Re boasts a strong capital position, with sufficient cash generation capabilities. Shares of Everest Re have underperformed the industry year to date. However, its exposure to catastrophe events induces underwriting volatility. A competitive reinsurance market concerns us. Rising expenses could weigh on margins.

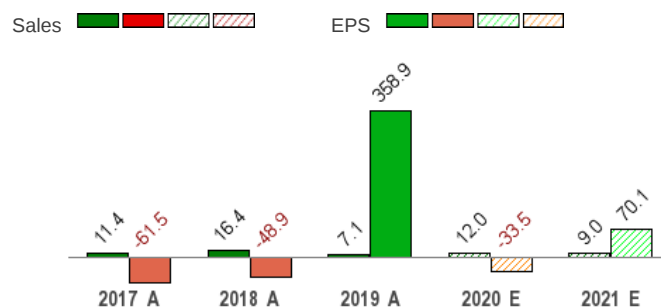
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$294.31 - \$157.32
20 Day Average Volume (sh)	354,721
Market Cap	\$11.2 B
YTD Price Change	-19.4%
Beta	0.46
Dividend / Div Yld	\$6.20 / 2.8%
Industry	Insurance - Property and Casualty
Zacks Industry Rank	Bottom 32% (171 out of 251)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	6.9%
Last Sales Surprise	3.6%
EPS F1 Est- 4 week change	-9.1%
Expected Report Date	08/05/2020
Earnings ESP	0.0%
P/E TTM	12.1
P/E F1	15.7
PEG F1	1.6
P/S TTM	1.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					9,820 E
2020	2,208 A				9,008 E
2019	1,865 A	1,988 A	2,056 A	2,136 A	8,040 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$6.28 E	\$6.14 E	\$2.80 E	\$7.57 E	\$24.15 E
2020	\$4.03 A	\$1.80 E	\$1.84 E	\$5.67 E	\$14.20 E
2019	\$6.91 A	\$7.85 A	\$3.39 A	\$3.20 A	\$21.34 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 07/16/2020. The reports text is as of 07/17/2020.

Overview

Founded in 1973 and based in Hamilton, Bermuda, Everest Re Group Ltd. writes property and casualty, reinsurance and insurance in the U.S., Bermuda and international markets. The company also offers other innovative products like excess and surplus lines of insurance. Everest Re virtually underwrites all classes and categories of business in treaty, facultative, and specialty lines both through brokers and directly with ceding companies.

On Dec 30, 2008, Everest Re Group, Ltd contributed Everest Reinsurance Holdings, Inc. to its recently established Irish holding company, Everest Underwriting Group (Ireland) Limited.

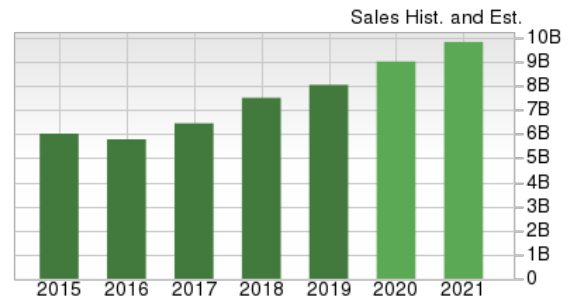
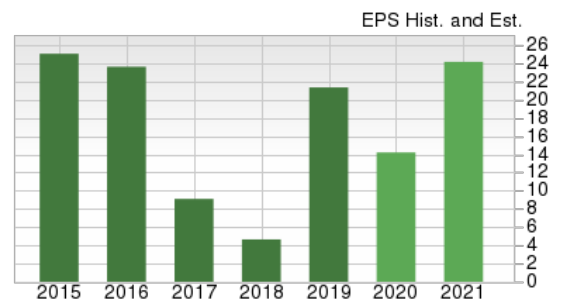
The company's operating subsidiaries are Everest Re, Everest National Insurance Company, Everest Indemnity Insurance Company, Everest Security Insurance Company, Everest Denali Insurance Company, Everest Premier Insurance Company, Everest International Assurance, Ltd. and Heartland Crop Insurance Company. Operating subsidiaries are each rated A+ (Superior) by A.M. Best Company (A.M. Best).

The company reports through the following segments:

Reinsurance (61.13% of 2019 Net Written Premium) – This segment writes property and casualty reinsurance on both a treaty and a facultative basis, through reinsurance brokers as well as directly with ceding companies within the U.S. It also includes marine, aviation as well as surety business within the U.S. and worldwide through brokers and directly with ceding companies.

Insurance (22.33%) – This segment writes property and casualty insurance primarily through general agents and surplus lines brokers within the U.S. One-third of this business comprises short-tail specialty components led by Heartland, its Crop Insurance Company. Another third of the business is workers' compensation, mostly for California workers. Approximately 15% of the U.S insurance segment comprises Director's & Officer's insurance written out of New York and Canada, while 20% of the segment's book is general casualty. It also includes accident and health (A&H) business.

International (16.54%) – The International operation writes non-U.S. property and casualty reinsurance through Everest Re's branches in Canada, Singapore and through offices in Brazil, Miami and New Jersey.



Reasons To Buy:

- ▲ Shares of Everest Re have lost 19.4% year to date, compared with the industry's decline of 16%. Nevertheless, the company's strong fundamentals should drive the shares going forward.
- ▲ Everest Re's Insurance segment has maintained a steady performance in the past few years. Growth has come on the back of initiatives undertaken like product diversification, staffing up underwriting operations as well as expanding the relationship between property and casualty, increasing the property insurance geographic footprint, international insurance expansion, growth of the existing Canadian platform, forming Everest Syndicate 2786 and building new product distribution and strategic relationships within its specialty insurance operations both in the U.S. and internationally. The company opened a European operating platform to expand global underwriting operation. Operations in the Lloyds platform have also gained pace. We expect the company to continue reaping benefits from these developments going forward. The company expects expense ratio and loss ratio to improve going forward with improvement in premiums earned. Gross written premiums increased 33.3% to \$793 million in the first quarter of 2020.
- ▲ The Reinsurance segment of Everest Re has managed to outperform the broader market Mt. Logan Re and Kilimanjaro Re Ltd. are key growth drivers for the company and remains the fastest growing capital market vehicle. This is also an integral part of the company's long-term capital management and business strategy. Wide product offering and distribution capabilities along with industry-leading expense advantage and advanced capital and hedging abilities are anticipated to further enhance the growing global reinsurance franchise. Moreover, these positives will help the company maximize opportunities stemming from the continued disruption and evolution of the reinsurance market. Addition and development of strategic partnerships across the company will further improve growth in this segment. Gross written premiums at this segment increased 16% to \$1.8 billion in the first quarter of 2020.
- ▲ Despite low interest rate environment, the company has been witnessing a rise in investment income over the past couple of years owing to improvements in limited partnership investments and a well-balanced portfolio (over 75% in investment-grade fixed income bonds and less than 4% allocated to public equities). In the first quarter of 2020, net investment income increased 4.8% year over year to \$147.8 million, driven by higher yields on fixed income portfolio coupled with an increase in limited partnership income and higher fixed maturities. The company continues to reposition portfolio by moving up in fixed income credit quality while lowering equity exposure.
- ▲ We expect Everest Re to benefit from its capital adequacy, financial flexibility, long-term operating performance and traditional risk management capabilities. Since its IPO in 1995, the company's compound annual growth rate of book value per share has grown by 12%. Its current dividend yield is 2.9%, which compares favorably with the industry average of 0.5%. The company's dividend has increased at a five-year CAGR (2014-2019) of 15.6%. Also, Everest Re's consistent share buyback has been boosting its bottom line. In the first quarter of 2020, the company bought back shares worth \$200 million. The company still has 0.4 million shares remaining under its authorization. We expect the company to make consistent payouts along with buybacks, given its disciplined capital management strategy and a strong capital balance.
- ▲ Everest Re's return on equity, measuring how efficiently the company is utilizing its shareholders fund, is 8.5%, which compares favorably with the industry average of 6.5%.
- ▲ Everest Re boasts a strong capital position, with sufficient cash generation capabilities. It had operating cash flow of \$506 million in the first quarter of 2020, up 10% year over year. Its debt levels have remained relatively stable in the past few years. As of Mar 31, 2020, the company's long-term debt was \$632 million, which decreased 0.3% from the 2019-end level. Also, total debt to total capital of 7.4% compares favorably with the industry's measure of 21.8%. The company's cash and cash equivalents of \$1.3 billion as of Mar 31, 2020 are sufficient to meet debt obligations. However, as of Mar 31, 2020, the company's total debt to total capital 6.9%, higher than 6.5% at 2019-end.

Everest Re has a huge market share in insurance and reinsurance market. It is expected to benefit from capital adequacy, financial flexibility and traditional risk management capabilities.

Reasons To Sell:

- ▼ The reinsurance market remains challenged by average market rates, depending on the line of business, product type and territory. Competitive conditions in the reinsurance segment continue to push rates lower and commissions higher. While foreign exchange and rates continue to put pressure on performance, efforts taken by the company such as maintaining expense ratio and a focus on growth could help the company.
- ▼ Everest Re remains exposed to catastrophe losses, which causes earnings to fluctuate. Although the company has an active catastrophe management process that deploys modeling and establishes risk limits to control catastrophic exposures on both a probable maximum loss and aggregate basis, catastrophe losses have traditionally impacted earnings and are expected to continue doing so in the future. In the first quarter of 2020, catastrophe losses, net of reinsurance and reinstatement premiums, increased 20% to \$30 million, due to losses from Australian wildfires, Australian East Coast storms and the Nashville, U.S. tornadoes. Combined ratio deteriorated 990 basis points (bps) to 98.6%. Irrespective of catastrophe mitigation techniques deployed by the company, exposure to weather-related calamities makes its earnings volatile.
- ▼ Everest Re has been experiencing an increase in expenses due to higher Incurred losses and loss adjustment expenses, commission, brokerage, taxes and fees and other underwriting expenses. Total claims and expenses witnessed a two-year CAGR (2017-2019) of 47%. In the first quarter of 2020, total claims and expenses increased 30.6% to \$2 billion, due to higher incurred losses and loss adjustment expenses, commission, brokerage, taxes and fees, other underwriting expenses and corporate expenses.

A competitive reinsurance market challenged by average market rates, depending on the line of business, product type and territory and exposure to cat events inducing volatility are headwinds.

Last Earnings Report

Everest Re Q1 Earnings and Revenues Beat Estimates

Everest Re Group delivered first-quarter 2020 operating net income per share of \$4.03, which beat the Zacks Consensus Estimate by 6.9%. The bottom line however deteriorated 41.7% year over year.

The company witnessed higher premiums and improved net investment income, offset by higher expenses.

Quarter Ending 03/2020

Report Date	May 06, 2020
Sales Surprise	3.61%
EPS Surprise	6.90%
Quarterly EPS	4.03
Annual EPS (TTM)	18.47

Operational Update

Everest Re's total operating revenues of \$2.2 billion increased 18.4% year over year on the back of higher premiums earned and net investment income. Moreover, the top line beat the Zacks Consensus Estimate by 3.6%.

Gross written premiums improved 21% year over year to \$2.6 billion.

Net investment income came in at \$147.8 million in the quarter under review, up 4.8% year over year.

Total claims and expenses increased 30.6% to \$2 billion, attributable to higher incurred losses and loss adjustment expenses, commission, brokerage, taxes and fees, other underwriting expenses and corporate expenses.

Combined ratio deteriorated 990 basis points (bps) to 98.6%. Excluding catastrophe loss, attritional combined ratio was 97.3%, deteriorated 990 bps from the prior-year period.

Financial Update

Everest Re Group exited the quarter with total investments and cash of \$20.3 billion, down 2% from 2019-end level. Shareholder equity at the end of the reported quarter decreased 5.5% from 2019-end to \$8.6 billion.

Book value per share came in at \$214.59 as of Mar 31, 2020, down 4.1% from 2019-end level.

Annualized net income return on equity was 0.8% in the first quarter of 2020.

Everest Re Group's cash flow from operations was \$506 million, up 10% year over year.

The company bought back shares worth \$200 million in the quarter. The company still has 0.4 million shares remaining under its authorization.

Recent News

Everest Re Receives Rating Action – May 29, 2020

AM Best has affirmed the Long-Term Issuer Credit Ratings (Long-Term ICR) of "a-" of Everest Re Group and Everest Reinsurance Holdings. Concurrently, AM Best has affirmed the Financial Strength Rating (FSR) of A+ (Superior) and the Long-Term Issuer Credit Ratings of "aa-" of the operating subsidiaries of Everest Re Group.

AM Best also has reiterated the Long-Term Issue Credit Ratings (Long-Term IR) of Everest Reinsurance Holdings, Inc. The outlook of these ratings is stable.

Everest Re Declares Dividend – May 14, 2020

The board of directors of Everest Re declared a dividend of \$1.55 per share. The dividend was paid on Jun 10, 2020 to all shareholders of record as of May 27, 2020..

Valuation

Everest Re shares are down 19.4% in the year-to-date period and 11.5% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 16% and 18.7% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 11.1% and 14%, respectively.

The S&P 500 index are up 0.4% in the year-to-date period and 8.4% in the past year.

The stock is currently trading at 1.31x trailing 12-month book value, which compares to 1.26x for the Zacks sub-industry, 2.39x for the Zacks sector and 4.42x for the S&P 500 index.

Over the past five years, the stock has traded as high as 1.52x and as low as 0.77x, with a 5-year median of 1.13x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$234 price target reflects 1.37x book value.

The table below shows summary valuation data for RE

Valuation Multiples - RE					
		Stock	Sub-Industry	Sector	S&P 500
P/B TTM	Current	1.31	1.26	2.39	4.42
	5-Year High	1.52	1.67	2.91	4.56
	5-Year Low	0.77	0.93	1.71	2.83
	5-Year Median	1.13	1.46	2.53	3.71
P/S F12M	Current	1.21	1.70	6.04	3.58
	5-Year High	1.97	11.26	6.66	3.6
	5-Year Low	0.78	1.39	4.96	2.53
	5-Year Median	1.33	1.85	6.06	3.02
P/E F12M	Current	22.89	24.4	16.5	22.89
	5-Year High	166.89	31.55	16.45	22.89
	5-Year Low	6.98	21.01	11.59	15.25
	5-Year Median	10.46	25.42	14.16	17.52

As of 07/16/2020

Industry Analysis Zacks Industry Rank: Bottom 32% (171 out of 251)



Top Peers

Company (Ticker)	Rec	Rank
American Financial Group, Inc. (AFG)	Neutral	3
Axis Capital Holdings Limited (AXS)	Neutral	3
CNA Financial Corporation (CNA)	Neutral	3
First American Financial Corporation (FAF)	Neutral	2
Markel Corporation (MKL)	Neutral	5
National General Holdings Corp (NGHC)	Neutral	3
RenaissanceRe Holdings Ltd. (RNR)	Neutral	5
W.R. Berkley Corporation (WRB)	Neutral	3

Industry Comparison Industry: Insurance - Property And Casualty				Industry Peers		
	RE	X Industry	S&P 500	AXS	RNR	WRB
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	5	3
VGM Score	B	-	-	F	D	C
Market Cap	11.22 B	1.21 B	22.43 B	3.47 B	8.09 B	11.32 B
# of Analysts	3	2	14	3	4	4
Dividend Yield	2.78%	1.26%	1.82%	3.98%	0.76%	0.76%
Value Score	A	-	-	C	F	C
Cash/Price	0.12	0.23	0.07	0.38	2.24	0.16
EV/EBITDA	9.17	5.29	13.00	9.23	-7.71	11.00
PEG Ratio	1.55	2.32	2.97	19.93	0.91	2.95
Price/Book (P/B)	1.31	1.13	3.13	0.81	1.57	2.14
Price/Cash Flow (P/CF)	10.07	10.07	12.13	9.22	21.30	16.62
P/E (F1)	15.53	14.32	21.97	99.63	24.12	26.56
Price/Sales (P/S)	1.36	0.79	2.38	0.69	1.89	1.46
Earnings Yield	6.36%	6.81%	4.35%	1.00%	4.14%	3.76%
Debt/Equity	0.08	0.24	0.75	0.48	0.22	0.48
Cash Flow (\$/share)	22.15	3.12	6.94	4.47	8.62	3.81
Growth Score	C	-	-	F	C	C
Hist. EPS Growth (3-5 yrs)	-18.46%	7.13%	10.85%	-22.09%	-4.38%	8.17%
Proj. EPS Growth (F1/F0)	-33.46%	-8.87%	-9.37%	-83.60%	-16.59%	-21.29%
Curr. Cash Flow Growth	310.65%	3.79%	5.51%	-8.72%	3.81%	8.47%
Hist. Cash Flow Growth (3-5 yrs)	-5.41%	4.78%	8.55%	-11.78%	-6.72%	4.12%
Current Ratio	0.32	0.45	1.30	0.56	1.50	0.36
Debt/Capital	7.36%	20.20%	44.33%	30.01%	43.45%	32.21%
Net Margin	8.25%	3.92%	10.59%	0.73%	9.16%	6.39%
Return on Equity	8.48%	7.24%	15.74%	-0.38%	6.06%	9.97%
Sales/Assets	0.31	0.31	0.54	0.20	0.16	0.29
Proj. Sales Growth (F1/F0)	11.98%	0.00%	-2.44%	-5.88%	11.78%	4.37%
Momentum Score	F	-	-	F	F	D
Daily Price Chg	2.20%	0.70%	-0.06%	1.80%	0.83%	2.77%
1 Week Price Chg	2.91%	1.14%	-0.41%	-1.65%	1.34%	2.37%
4 Week Price Chg	3.53%	1.70%	1.63%	-2.39%	2.63%	8.51%
12 Week Price Chg	25.98%	7.12%	15.55%	21.15%	27.23%	26.32%
52 Week Price Chg	-11.49%	-18.14%	-4.26%	-31.30%	0.80%	-6.62%
20 Day Average Volume	354,721	149,860	2,236,294	1,087,827	386,525	767,980
(F1) EPS Est 1 week change	-16.55%	0.00%	0.00%	-50.00%	-16.96%	-6.74%
(F1) EPS Est 4 week change	-9.12%	0.00%	0.01%	-50.00%	-18.07%	-6.74%
(F1) EPS Est 12 week change	-37.01%	-16.42%	-5.24%	-90.43%	-47.42%	-15.87%
(Q1) EPS Est Mthly Chg	-29.96%	0.00%	0.00%	-33.33%	-34.20%	5.88%

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	A
Growth Score	C
Momentum Score	F
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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