

Everest Re Ltd. (RE)

\$213.81 (As of 08/21/20)

Price Target (6-12 Months): **\$229.00**

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: C

Summary

Everest Re's global presence, product diversification, capital adequacy, long-term operating performance, financial flexibility and traditional risk management capabilities bode well. Consistent rise in premiums earned at its Insurance segment will likely improve expense ratio and loss ratio. Its Reinsurance segment remains well-poised for leveraging opportunities, stemming from the continued disruption and evolution of reinsurance market. It boasts a strong capital position, with sufficient cash generation capabilities. The company is lowering exposure to areas not meeting the right risk-return profile and effectively deploying capital to the areas that do. Shares of the company have underperformed the industry year to date. However, exposure to cat loss induces underwriting volatility. Also, high costs inducing margin contraction concern.

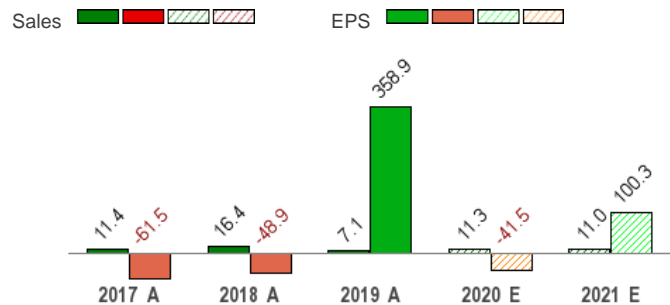
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$294.31 - \$157.32
20 Day Average Volume (sh)	248,417
Market Cap	\$8.5 B
YTD Price Change	-22.8%
Beta	0.47
Dividend / Div Yld	\$6.20 / 2.9%
Industry	Insurance - Property and Casualty
Zacks Industry Rank	Top 48% (121 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	10.1%
Last Sales Surprise	NA
EPS F1 Est- 4 week change	-12.1%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	16.9
P/E F1	17.1
PEG F1	1.7
P/S TTM	1.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					9,931 E
2020	2,208 A	2,048 A			8,946 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	\$6.61 E	\$6.33 E	\$2.91 E	\$8.04 E	\$25.00 E
2020	\$4.03 A	\$2.07 A	\$0.85 E	\$5.43 E	\$12.48 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 08/21/2020. The reports text is as of 08/24/2020.

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.

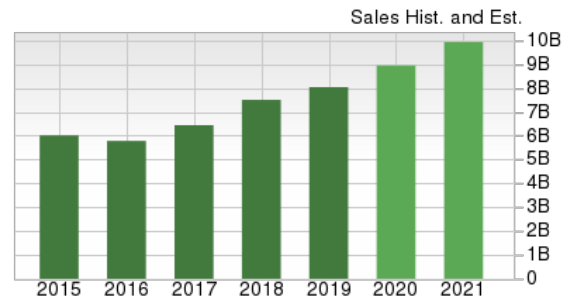
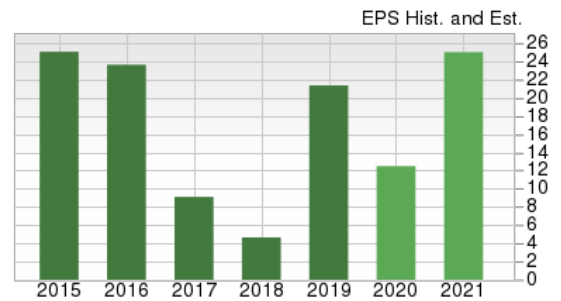
The company's operating subsidiaries are Everest Re, Everest National Insurance Company, Everest Indemnity Insurance Company, Everest Security Insurance Company, Everest Denali Insurance Company, Everest Premier Insurance Company, Everest International Assurance, Ltd. and Heartland Crop Insurance Company. 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 22.9% year to date, compared with the industry's decline of 10.9%. 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 expects expense ratio and loss ratio to improve going forward with improvement in premiums earned. Gross written premiums increased 20.1% to \$1.6 billion in the first half of 2020 primarily due to increases in many lines of business, including property, casualty, specialty lines, and accident and health business written through the Lloyd's Syndicate.
- ▲ 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 12.7% to \$3.3 billion in the first half of 2020, mainly due to increases in treaty property business and facultative business.
- ▲ 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). However, in the first half of 2020, net investment income decreased 41.9% year over year to \$185.9 million due to losses from limited partnerships, partially offset by higher income from growing fixed maturity portfolio. Nevertheless, higher income from fixed income portfolio, increase in limited partnership income, higher dividend income from equity portfolio, and increased income from other invested assets are likely to drive the metric in the near term. 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 2.7%, 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. During the first half of 2020, the company repurchased shares for \$200 million. We expect the company to make consistent payouts along with buybacks, given its disciplined capital management strategy and a strong capital balance.
- ▲ Everest Re boasts a strong capital position, with sufficient cash generation capabilities. It had operating cash flow of \$1.1 billion in the first half of 2020, up 29.4% year over year owing to growth in premiums and a lower level of catastrophe losses. Its debt levels have remained relatively stable in the past few years. As of Jun 30, 2020, the company's long-term debt was \$621 million, which decreased 2.1% from the 2019-end level with total debt to total capital of 6.3%, down from 6.5% at 2019-end and the industry's measure of 21.8%. The company's cash and cash equivalents of \$1.8 billion as of Jun 30, 2020 are sufficient to meet debt obligations.

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 half of 2020, catastrophe losses, net of reinsurance and reinstatement premiums, decreased 18.2% to \$45 million, due to losses from U.S. civil unrest, the Nashville tornadoes, Australia East Coast storms and the Australia fires. Combined ratio deteriorated 920 basis points (bps) to 98.1%. 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 half of 2020, total claims and expenses increased 26.5% to \$4 billion. A hike in expenses can cause margin contraction. In the second quarter, net margin contracted 210 bps sequentially and 50 bps year over year.
- ▼ Everest Re's return on equity, measuring how efficiently the company is utilizing its shareholders fund, is 5.7%, which compares unfavorably with the industry average of 6.5%.

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 Q2 Earnings Top Estimates, Revenues Up Y/Y

Everest Re Group, Ltd. delivered second-quarter 2020 operating net income per share of \$2.07, beating the Zacks Consensus Estimate by 10.1%. The bottom line declined 73.6% year over year.

The quarter witnessed higher premiums across its reinsurance and insurance businesses, offset by higher expenses and lower net investment income.

Operational Update

Everest Re's total operating revenues of nearly \$2 billion increased 3.5% year over year on higher premiums earned.

Gross written premiums improved 9.4% year over year to \$2.4 billion. Worldwide reinsurance premiums grew 9.1% year over year at \$1.5 billion. Direct insurance premiums grew 9.8% to \$830.9 million.

Net investment income was \$38.1 million in the quarter under review, down 78.7% year over year due to limited partnership losses of \$88.3 million.

Total claims and expenses increased 22.7% to \$2 billion primarily due to higher incurred losses and loss adjustment expenses, commission, brokerage, taxes and fees, other underwriting expenses, and corporate expenses.

Underwriting profit decreased 74.1% to \$50.9 million in the quarter. Underwriting profit for the Reinsurance segment decreased 60.9% to \$69.5 million and the Insurance segment incurred an underwriting loss of \$18.6 million against the year-ago profit of \$19 million.

Combined ratio deteriorated 830 basis points (bps) to 97.5%. Excluding the pandemic's impacts, attritional combined ratio was 88.5%, improving 10 bps from the prior-year period. Combined ratio deteriorated 860 bps to 95.4% in the Reinsurance segment, whereas it deteriorated 740bps to 103.4% in the Insurance segment.

Financial Update

Everest Re exited the quarter with total investments and cash of \$21.6 billion, up 4.1% from the 2019 level. Shareholder equity at the end of the reported quarter increased 1.7% from 2019 end to \$9.3 billion.

Book value per share was \$232.32 as of Jun 30, 2020, up 3.8% from the 2019-end level.

Annualized net income return on equity was 4.7%, reflecting a contraction of 1180 bps from the year-ago period.

Everest Re's cash flow from operations was \$598.6 million in the second quarter, up 52% year over year.

The company paid common share dividends of \$61.9 million during the quarter.

Quarter Ending 06/2020

Report Date	Aug 05, 2020
Sales Surprise	NA
EPS Surprise	10.11%
Quarterly EPS	2.07
Annual EPS (TTM)	12.69

Recent News

Everest Re Declares Dividend – Aug 19, 2020

The board of directors of Everest Re declared a dividend of \$1.55 per share. The dividend will be paid on Sep 16, 2020 to all shareholders of record as of Sep 2, 2020.

Valuation

Everest Re shares are down 22.8% in the year-to-date period and 13.5% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 10.9% and 17.1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 2.6% and 7.1%, respectively.

The S&P 500 index are up 5.4% in the year-to-date period and 18.3% in the past year.

The stock is currently trading at 1.16x trailing 12-month book value, which compares to 1.26x for the Zacks sub-industry, 2.47x for the Zacks sector and 4.59x 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 \$229 price target reflects 1.23x 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	1.16	1.26	2.47	4.59
	5-Year High	1.52	1.67	2.91	4.59
	5-Year Low	0.77	0.93	1.72	2.83
	5-Year Median	1.13	1.45	2.53	3.75
P/S F12M	Current	0.89	1.7	6.23	3.71
	5-Year High	1.97	11.26	6.67	3.71
	5-Year Low	0.78	1.39	4.97	2.53
	5-Year Median	1.33	1.84	6.06	3.05
P/E F12M	Current	10.39	25.07	16.4	22.85
	5-Year High	NA	31.55	16.4	22.85
	5-Year Low	6.98	21.01	11.6	15.25
	5-Year Median	10.5	25.42	14.26	17.58

As of 08/21/2020

Industry Analysis Zacks Industry Rank: Top 48% (121 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
American Financial Group, Inc. (AFG)	Outperform	3
First American Financial Corporation (FAF)	Outperform	2
National General Holdings Corp (NGHC)	Outperform	3
Axis Capital Holdings Limited (AXS)	Neutral	4
Markel Corporation (MKL)	Neutral	3
RenaissanceRe Holdings Ltd. (RNR)	Neutral	3
W.R. Berkley Corporation (WRB)	Neutral	3
CNA Financial Corporation (CNA)	Underperform	3

Industry Comparison Industry: Insurance - Property And Casualty

	RE	X Industry	S&P 500	AXS	RNR	WRB
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	4	3	3
VGM Score	B	-	-	C	C	C
Market Cap	8.55 B	1.26 B	23.62 B	3.79 B	8.84 B	10.71 B
# of Analysts	3	2	14	3	4	4
Dividend Yield	2.90%	1.30%	1.65%	3.64%	0.81%	0.80%
Value Score	A	-	-	C	C	B
Cash/Price	0.20	0.27	0.07	0.43	2.10	0.27
EV/EBITDA	6.36	5.18	13.29	8.55	-9.05	9.49
PEG Ratio	1.73	1.97	3.03	23.08	0.78	2.93
Price/Book (P/B)	0.92	0.93	3.11	0.80	1.30	1.83
Price/Cash Flow (P/CF)	9.65	10.35	12.69	10.08	20.02	15.79
P/E (F1)	17.32	13.80	21.51	115.41	19.58	26.34
Price/Sales (P/S)	1.01	0.80	2.43	0.77	1.92	1.39
Earnings Yield	5.84%	5.87%	4.46%	0.87%	5.10%	3.81%
Debt/Equity	0.07	0.24	0.76	0.38	0.17	0.50
Cash Flow (\$/share)	22.15	3.12	6.93	4.47	8.62	3.81
Growth Score	C	-	-	B	D	C
Hist. EPS Growth (3-5 yrs)	-15.88%	3.85%	10.44%	-22.66%	-5.59%	7.72%
Proj. EPS Growth (F1/F0)	-41.52%	-3.84%	-5.53%	-84.52%	-3.45%	-24.59%
Curr. Cash Flow Growth	310.65%	3.77%	5.20%	-8.72%	3.81%	8.47%
Hist. Cash Flow Growth (3-5 yrs)	-5.41%	4.81%	8.52%	-11.78%	-6.72%	4.12%
Current Ratio	0.36	0.43	1.33	0.59	1.62	0.45
Debt/Capital	6.27%	20.03%	44.50%	25.37%	38.10%	33.35%
Net Margin	6.24%	5.15%	10.13%	-0.41%	13.02%	4.57%
Return on Equity	5.74%	6.81%	14.67%	-1.85%	5.21%	7.55%
Sales/Assets	0.31	0.31	0.51	0.19	0.17	0.29
Proj. Sales Growth (F1/F0)	11.21%	0.00%	-1.54%	-6.60%	24.10%	4.22%
Momentum Score	C	-	-	D	B	D
Daily Price Chg	-1.18%	-0.36%	-0.15%	-1.12%	-0.80%	0.03%
1 Week Price Chg	-2.98%	0.07%	1.09%	4.33%	-5.68%	-2.52%
4 Week Price Chg	-4.15%	1.34%	1.64%	8.75%	-4.32%	-6.70%
12 Week Price Chg	4.55%	5.00%	6.72%	15.23%	2.09%	3.53%
52 Week Price Chg	-14.08%	-13.56%	1.00%	-31.16%	-8.30%	-17.22%
20 Day Average Volume	248,417	134,397	1,873,576	1,069,059	292,779	585,870
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-12.11%	2.35%	1.79%	-5.65%	15.76%	1.11%
(F1) EPS Est 12 week change	-21.59%	-0.52%	3.35%	-59.59%	-0.69%	-11.52%
(Q1) EPS Est Mthly Chg	-53.50%	3.56%	0.42%	-18.52%	14.37%	3.56%

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	C
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.

Disclosures

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