

RenaissanceRe Holdings (RNR)

\$200.85 (As of 02/13/20)

Price Target (6-12 Months): **\$211.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 10/14/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:C

Value: C

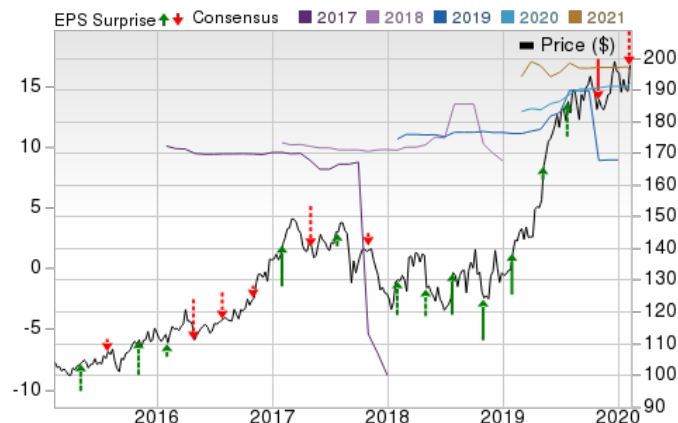
Growth: B

Momentum: F

Summary

RenaissanceRe's fourth-quarter 2019 operating earnings per share of 52 cents missed the Zacks Consensus Estimate by 44%. However, the bottom line improved by 2500% year over year on solid revenues. Its shares have outperformed its industry in a year's time. It has also been witnessing steady premium growth over the last few quarters driven by Casualty and Specialty plus Property segments. The company has been acquiring companies to strengthen its business. It deploys capital backed by operational excellence and solid cash flows. It has been undertaking divestitures to streamline its operations. However, being a property and casualty insurer, RenaissanceRe remains exposed to high severity loss associated with catastrophic events. An increasing debt level induced high interest expense level, which in turn, weighs on the margins.

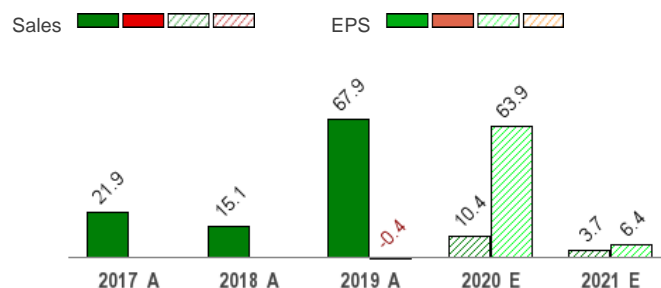
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$202.68 - \$141.00
20 Day Average Volume (sh)	256,830
Market Cap	\$8.9 B
YTD Price Change	2.5%
Beta	0.31
Dividend / Div Yld	\$1.40 / 0.7%
Industry	Insurance - Property and Casualty
Zacks Industry Rank	Top 40% (101 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-44.1%
Last Sales Surprise	NA
EPS F1 Est- 4 week change	-0.0%
Expected Report Date	05/05/2020
Earnings ESP	0.0%
P/E TTM	21.9
P/E F1	13.4
PEG F1	1.4
P/S TTM	2.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					4,312 E
2020					4,157 E
2019	635 A	1,028 A	1,022 A	1,083 A	3,767 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$4.41 E	\$4.30 E	\$3.43 E	\$4.18 E	\$15.92 E
2020	\$3.91 E	\$4.14 E	\$3.13 E	\$3.90 E	\$14.96 E
2019	\$3.60 A	\$4.78 A	\$0.29 A	\$0.52 A	\$9.13 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 02/13/2020. The reports text is as of 02/14/2020.

Overview

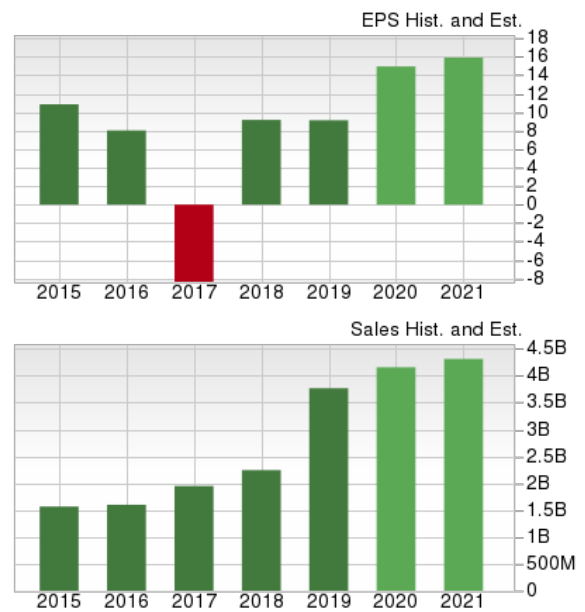
Founded in 1993 and based in Hamilton, Bermuda, RenaissanceRe Holdings Ltd. primarily provides property-catastrophe reinsurance to insurers and reinsurers globally on the basis of excess of loss (coverage of losses over a specified limit). Additionally, RenaissanceRe provides certain specialty reinsurance coverage on accident, health, aviation and satellite concerns, as well as homeowners' insurance in various parts of the U.S. The company also writes specialty and catastrophe reinsurance through two joint ventures, Top Layer Re and Reinsurance, and through certain specialty reinsurance and primary insurance lines.

RenaissanceRe conducts its business through three reportable segments: **Property**, **Specialty** and **Other**.

The Property segment (accounted for 50.6% of the total gross premium written in 2019): This includes its catastrophe class of business, principally consisted of excess of loss reinsurance and excess of loss retrocessional reinsurance to insure insurance and reinsurance companies against natural and man-made catastrophes, and its other property class of business.

Specialty (49.4%): The Company writes Specialty reinsurance and insurance covering primarily targeted classes of business. The Company offers its casualty and specialty reinsurance products principally on a proportional basis, and it also provides excess of loss coverage.

The company's **Other** segment category primarily includes the results of its share of investments in certain markets. It also includes the results of its investment unit, which manages and invests the funds generated by its consolidated operations.



Reasons To Buy:

- ▲ **Price Impact:** Shares of RenaissanceRe have outperformed its industry in a year's time. Growing premiums, strategic portfolio realignment and an effective capital deployment should continue to drive the stock.
- ▲ **Growing Premiums:** RenaissanceRe has been witnessing a positive trend in gross premiums written, which has doubled over a span of five years, driven by premium growth at both its Casualty and Specialty plus Property segments. This upside is pretty visible from its five-year CAGR (2014 to 2019) of 25.4%, primarily led by strong segmental results. This consistent increase in premiums is likely to drive the top line further for RenaissanceRe.
- ▲ **Inorganic growth:** The company has been undertaking divestitures to streamline its operations by getting rid of low-return high-risk businesses. To this end it sold off its U.S based weather and weather-related energy risk management unit, to save itself from the uncertainties associated with that business. On the other hand, it is also acquiring and expanding businesses which provides scope to grow. In March 2019, the company bought Tokio Millennium Re for a value of \$1.5 billion to increase the scale and boost the company's portfolio. We expect such strategic initiatives will enable the company to focus and grow its core operating business.
- ▲ **Capital Position:** The company has been witnessing growing free cash flow over the past few years. This is evident from its 2014-2019 CAGR of 26.5% for cash flow from operations. RenaissanceRe has been deploying excess capital in business over the past several quarters. It has been raising dividend since the past many years. In February 2019, the company again increased its payout by 3.1%. It currently has a dividend yield of 0.7%, higher than the industry average of 0.4%. We believe, the company's financial strength will continue to inspire investors' confidence.
- ▲ **Profitability:** Its return-on-equity (ROE) reflects growth potential. The company's trailing 12-month ROE of 8.5% compares favorably with the industry average of 6.9%, reflecting its efficiency in using its shareholders' funds.

Accelerated capital deployment and strategic divestitures should boost investor confidence. Its rising premiums on the back of solid segmental contributions also impresses.

Reasons To Sell:

- ▼ **Catastrophe Loss:** RenaissanceRe remains exposed to high severity loss associated with catastrophic events on a worldwide basis. In 2018, the company suffered a negative impact of \$340 million on underwriting results due to catastrophe losses. In 2019, the company faced a \$75-million of insured catastrophe losses, California wildfires, Typhoons Faxai and Hagibis in Japan and Hurricane Dorian in the Caribbean. Being a property and casualty insurer, the company is always exposed to cat activities, the occurrence of which imparts volatility to its results.
- ▼ **Increasing Debt Burden:** The company's long-term debt has been rising due to funding of acquisitions, joint ventures and other investments. Debt has increased nearly fourfold in the last six years. In 2019, debt level increased 39.6% year over year. This ascending leverage also increases interest expenses, which more than doubled over the last five years. The trend also persisted during 2018 and 2019 with interest expenses climbing 6.5% and 24%, respectively, year over year. This deteriorating level of interest expenses continuously drains the margins.
- ▼ **Overvalued:** Looking at the company's valuation, investors might not want to pay any further premiums. The company's price to book ratio stands at 1.67, higher than its median of 1.5 and the industry's average of 1.4.

Exposure to catastrophe loss as well as elevated debt level are some of the concerns facing the company.

Last Earnings Report

RenaissanceRe's Q4 Earnings Lag Estimates, Surge Y/Y

RenaissanceRe reported fourth-quarter 2019 operating earnings per share of 52 cents per share, missing the Zacks Consensus Estimate by 44%.

However, the bottom line improved significantly by 2500% year over year on the back of solid revenues.

Quarterly Operational Update

RenaissanceRe's fourth-quarter operating revenues of \$1 billion soared nearly 101.7% year over year on the back of improved net premiums written plus net investment income.

Gross premiums written surged 65.3% year over year to \$905.4 million owing to higher premiums at the Property as well as the Casualty and Specialty segments.

Net investment income of \$113 million jumped 113.8% year over year.

RenaissanceRe's total expenses of \$1068 million escalated 57% year over year, primarily due to higher Net claims and claim expenses incurred, acquisition expenses, operational expenses, interest expenses and corporate expenses.

Underwriting loss of \$65.2 million was narrower than the year-earlier quarterly loss of \$82.3 million.

Combined ratio was 106.7% in the fourth quarter compared with the year-ago quarter's 114.3%.

Quarterly Segment Update

Property Segment

Gross premiums written were \$245 million, up 22.6% year over year in the quarter.

Underwriting loss of \$87.1 million was reported in the quarter under review, wider than the year-ago loss of \$35 million. Combined ratio of 118.6% expanded 800 basis points (bps) year over year.

Casualty and Specialty Segment

Gross premiums written were \$660.5 million, up 89.9% from the prior-year quarter. This upside is driven by growth in the current and new business opportunities written in current and previous periods across several business classes, and business bought in connection with the TMR buyout.

The segment's underwriting income of \$20.8 million came in against the segment's underwriting loss of \$47.4 million.

Combined ratio of 95.9% contracted 2340 basis points year over year.

Financial Position

As of Dec 31, 2019, total assets of RenaissanceRe were \$26.3 billion, up 41% from the level at 2018 end.

The company had total debt of \$1.4 billion as of Dec 31, 2019, up nearly 39.6% from the level at 2018 end.

Cash and cash equivalents were \$1379 million, up 24.5% from the figure at 2018 end.

Book value per share of \$120.53 rose 15.7% from the number at 2018 end.

Annualized return on equity for the quarter under review was 1.7%.

Business Update

In March 2019, the company closed the buyout of Tokio Millennium Re AG (now known as RenaissanceRe Europe AG), Tokio Millennium Re (UK) Limited (now known as RenaissanceRe (UK) Limited) and their subsidiaries.

Quarter Ending 12/2019

Report Date	Feb 04, 2020
Sales Surprise	NA
EPS Surprise	-44.09%
Quarterly EPS	0.52
Annual EPS (TTM)	9.19

Recent News

RenaissanceRe Declares Pricing of Secondary Public Offering of Common Shares — Jan 6, 2020

RenaissanceRe announced the pricing of an underwritten secondary public offering worth 1,739,071 shares by Tokio Marine & Nichido Fire Insurance Co., Ltd.

RenaissanceRe Announces Quarterly Dividend — Nov 13, 2019

RenaissanceRe recently announced that its board of directors approved a dividend of 34 cents per share. The amount will be paid out on Dec 31, 2019 to its shareholders of record on Dec13, 2019.

RenaissanceRe Declares Estimated Net Negative Impact From Q3 Catastrophe Events — Oct 15, 2019

RenaissanceRe estimates that the losses incurred due to third-quarter cat events will have an estimated net negative impact of \$155 million on the impending quarterly results. The losses stemmed from Typhoon Faxai and Hurricane Dorian.

Valuation

RenaissanceRe shares are up 41% over the trailing 12-month period. Over the past year, the Zacks sub-industry and sector are up 13.2% and 11%, respectively.

The S&P 500 index is up 22.2% in the past year.

The stock is currently trading at 1.67X trailing 12-month tangible book value, which compares to 1.45X for the Zacks sub-industry, 2.86X for the Zacks sector and 4.36X for the S&P 500 index.

Over the past five years, the stock has traded as high as 1.68X and as low as 1.03X, with a 5-year median of 1.24X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$211 price target reflects 1.75X tangible book value.

The table below shows summary valuation data for RNR

Valuation Multiples - RNR					
		Stock	Sub-Industry	Sector	S&P 500
P/B TTM	Current	1.67	1.45	2.86	4.36
	5-Year High	1.68	1.67	2.89	4.42
	5-Year Low	1.03	1.26	1.83	2.85
	5-Year Median	1.24	1.48	2.51	3.61
P/S F12M	Current	2.3	1.71	6.55	3.58
	5-Year High	3.83	11.26	6.65	3.58
	5-Year Low	2.1	1.56	5.39	2.55
	5-Year Median	2.88	1.89	6.04	3

As of 02/13/2020

Industry Analysis Zacks Industry Rank: Top 40% (101 out of 255)



Top Peers

Arch Capital Group Ltd. (ACGL)	Neutral
Argo Group International Holdings, Ltd. (ARGO)	Neutral
ProAssurance Corporation (PRA)	Neutral
Everest Re Group, Ltd. (RE)	Neutral
Selective Insurance Group, Inc. (SIGI)	Neutral
Stewart Information Services Corporation (STC)	Neutral
State Auto Financial Corporation (STFC)	Neutral
Third Point Reinsurance Ltd. (TPRE)	Neutral

Industry Comparison Industry: Insurance - Property And Casualty				Industry Peers		
	RNR Neutral	X Industry	S&P 500	ARGO Neutral	SIGI Neutral	STC Neutral
VGM Score	C	-	-	B	C	A
Market Cap	8.87 B	1.79 B	24.56 B	2.20 B	4.17 B	959.38 M
# of Analysts	3	2	13	3	3	1
Dividend Yield	0.68%	0.96%	1.78%	1.93%	1.32%	2.97%
Value Score	C	-	-	B	C	A
Cash/Price	1.96	0.18	0.04	0.27	0.07	0.38
EV/EBITDA	-20.06	9.65	14.00	15.96	15.77	7.72
PEG Ratio	1.41	1.77	2.10	NA	9.77	NA
Price/Book (P/B)	1.67	1.22	3.31	1.16	1.89	1.27
Price/Cash Flow (P/CF)	23.29	13.73	13.68	15.14	15.63	10.91
P/E (F1)	13.43	13.72	19.23	20.58	16.52	15.45
Price/Sales (P/S)	2.11	1.05	2.69	1.17	1.47	0.49
Earnings Yield	7.45%	7.03%	5.20%	4.86%	6.05%	6.47%
Debt/Equity	0.26	0.21	0.71	0.27	0.25	0.30
Cash Flow (\$/share)	8.62	3.05	6.92	4.24	4.47	3.71
Growth Score	B	-	-	D	C	A
Hist. EPS Growth (3-5 yrs)	-3.39%	0.72%	10.85%	-5.09%	11.47%	6.08%
Proj. EPS Growth (F1/F0)	63.89%	12.38%	7.17%	123.69%	-3.79%	-4.73%
Curr. Cash Flow Growth	3.81%	12.19%	8.56%	651.83%	11.17%	7.12%
Hist. Cash Flow Growth (3-5 yrs)	-11.68%	7.23%	8.36%	2.81%	13.91%	7.63%
Current Ratio	1.59	0.44	1.23	0.54	0.30	3.36
Debt/Capital	42.73%	17.99%	42.91%	21.46%	20.06%	22.95%
Net Margin	17.82%	8.06%	11.81%	2.72%	9.55%	4.05%
Return on Equity	8.46%	7.50%	16.86%	3.30%	12.72%	9.55%
Sales/Assets	0.16	0.31	0.54	0.19	0.33	1.28
Proj. Sales Growth (F1/F0)	10.35%	4.10%	3.85%	7.57%	6.20%	0.00%
Momentum Score	F	-	-	A	B	C
Daily Price Chg	1.09%	0.20%	0.00%	-3.49%	1.58%	-0.69%
1 Week Price Chg	4.37%	1.84%	2.47%	2.59%	3.17%	-4.77%
4 Week Price Chg	4.05%	-0.15%	0.56%	-7.87%	2.85%	-1.00%
12 Week Price Chg	8.87%	4.12%	6.96%	3.79%	8.00%	-5.53%
52 Week Price Chg	40.89%	7.84%	16.68%	-4.71%	6.73%	-4.82%
20 Day Average Volume	256,830	85,417	2,020,569	132,073	227,543	141,133
(F1) EPS Est 1 week change	-1.94%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.01%	0.00%	-0.05%	0.00%	-0.16%	0.00%
(F1) EPS Est 12 week change	0.07%	0.00%	-0.17%	0.00%	0.79%	0.00%
(Q1) EPS Est Mthly Chg	-5.33%	0.00%	-0.24%	0.00%	3.51%	NA

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	C
Growth Score	B
Momentum Score	F
VGM Score	C

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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