

Selective Insurance(SIGI)

\$67.06 (As of 02/19/20)

Price Target (6-12 Months): **\$70.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 12/30/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: C

Growth: A

Momentum: C

Summary

Selective Insurance Group's operating income of \$1.37 per share beat the Zacks Consensus Estimate by 25.7%. The bottom line increased nearly 14.2% from the year-ago period. The company is poised to witness top-line growth owing to high retention ratio, pure renewal price increase and new business growth. The company reported higher investment income on the back of increase in net proceeds and active portfolio management. Geographic expansion plays a vital role in diversification and growth of the company. However, the company is exposed to catastrophe loss due to natural disasters. Also, weather-related events pose an inherent risk to the property and casualty business, rendering volatility to earnings results. Increased expenses tend to exert pressure on operating margin. The stock has underperformed the industry in the past year.

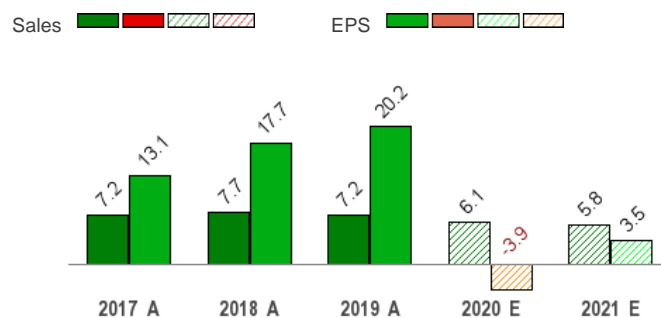
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$81.33 - \$62.16
20 Day Average Volume (sh)	240,743
Market Cap	\$4.0 B
YTD Price Change	2.9%
Beta	0.67
Dividend / Div Yld	\$0.92 / 1.4%
Industry	Insurance - Property and Casualty
Zacks Industry Rank	Top 44% (111 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	25.7%
Last Sales Surprise	1.0%
EPS F1 Est- 4 week change	-0.2%
Expected Report Date	05/06/2020
Earnings ESP	1.7%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	780 E	793 E	806 E	819 E	3,177 E
2020	736 E	746 E	756 E	766 E	3,004 E
2019	686 A	701 A	713 A	730 A	2,832 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.98 E	\$1.12 E	\$0.99 E	\$1.23 E	\$4.38 E
2020	\$0.98 E	\$1.09 E	\$0.99 E	\$1.20 E	\$4.23 E
2019	\$0.90 A	\$1.16 A	\$0.97 A	\$1.37 A	\$4.40 A

*Quarterly figures may not add up to annual.

P/E TTM	15.2
P/E F1	15.9
PEG F1	1.5
P/S TTM	1.4

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/19/2020. The reports text is as of 02/20/2020.

Overview

Headquartered in Branchville, NJ, Selective Insurance Group, Inc. was established in 1925. The company operates as a P&C insurer. It offers insurance products and services across the United States. Through its subsidiaries, the P&C insurer provides a wide range of insurance products and services, which includes property, casualty as well as flood insurances. The company caters to a wide set of clients including businesses, non-profit organizations, local government agencies as well as individuals.

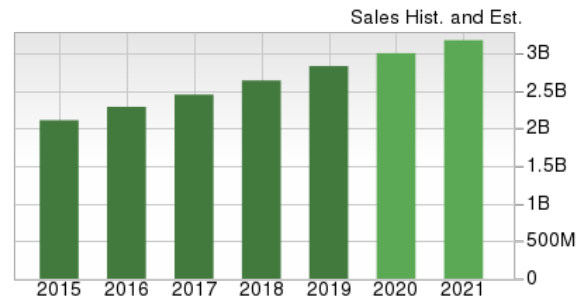
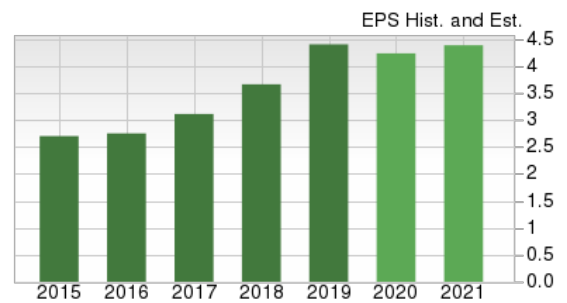
Selective Insurance classifies its operations through four segments, namely Standard Commercial Lines, Standard Personal Lines, Excess and Surplus (E&S) Lines plus Investments.

Standard Commercial Lines (79.8% of 2019 Net Premium Written)

— This segment offers insurance products and services to commercial enterprises including businesses, non-profit organizations and local government agencies. Presently, the segment represents 78% of the total insurance operations' net premiums written (NPW) and is sold across 25 states and the District of Columbia.

Standard Personal Lines (11.3%)— The segment offers products and services mainly to individuals, who have obtained coverage in the standard marketplace. The unit represents 13% of total insurance operations' NPW and is primarily sold in 13 Eastern and Midwestern states. The company boasts being the fifth largest writer of this coverage through the National Flood Insurance Program (NFIP) and writes flood business across all 50 states and the District of Columbia.

Excess and Surplus Lines (8.9%)— The segment provides insurance products and services to customers with not obtained coverage in the standard marketplace. Currently, the company writes commercial lines E&S coverages with the business forming 9% of the total insurance operations' NPW and sold in all 50 states and the District of Columbia.



Reasons To Buy:

- ▲ **Geographic Expansion** — The P&C insurer relies on geographic expansion for growth and diversification. Over the years, the company successfully expanded in New Hampshire along with presence in Southwest region such as Arizona, Colorado, Utah and Mexico. As a result, the company now has a total commercial lines presence in 27 states.
- ▲ **Improving Premiums** — Sustained premium growth across segments has helped the company's total premiums witness a five-year CAGR (2014-2018) of 5.6%. The momentum continued in 2019, with the metric improving 6.6% year over year driven by strong retention and new business in Standard Commercial Lines segment, partially offset by lower Standard Personal Lines and Excess and Surplus Lines premiums.

Steady betterment of premiums has resulted in top-line improvement and over the past five years (2014-2018), total revenues witnessed a CAGR of 4.9%. Revenues increased 10.1% year over year in 2019.

- ▲ **Net Investment Income** — Despite a low interest rate environment in the past, the company managed to deliver impressive investment results. Net investment income increased 13% from the year-ago period level, driven by active portfolio management, stellar operating cash flow. Given better rate environment, investment results should continue to retain the momentum. For 2020, Selective Insurance projects an after-tax investment income of \$185 million, up from the prior guidance of \$175 million.
 - ▲ **Robust Capital Position** — Selective Insurance flaunts a sound capital structure and remains committed toward protecting the interests of its policyholders and shareholders alike while improving its financial strength and underwriting capabilities. The current debt-to-capital ratio is 20%, which is lower than the industry average of 20.3%. Riding on a solid capital position, the company has been hiking dividends, which register a five-year CAGR (2014-2019) of nearly 12.09%. Such steadfast endeavors buoy confidence among investors, making it an attractive pick for yield-seeking investors. Its dividend yield of 1.4% appears attractive compared with the industry average of 0.4%.
 - ▲ **Price Performance** — The stock has underperformed its industry's in a year's time, Nevertheless, the company's favorable fundamentals should aid its shares.
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Geographic expansions, improving premiums, improved rate environment leading to better investment income and solid capital position well poise Selective Insurance for long term growth.

Reasons To Sell:

- ▼ **Stretched Valuation** — Valuation remains stretched at the current level. Looking at the company's price-to-book ratio, which is the best multiple for valuing insurers, investors might not want to pay any further premium. The company currently has a trailing 12-month P/B ratio of 1.82X, higher than the industry average of 1.45X.
- ▼ **Exposure to Catastrophe Loss** — Being a property and casualty (P&C) insurer, Selective Insurance remains exposed to catastrophe loss stemming from natural disasters and weather-related events. Such a massive loss poses an inherent risk to the P&C insurance business inducing volatility to its results. However, in 2019, the company incurred catastrophe loss of \$81 million, down 7.9% year over year. For 2020, the company estimates GAAP combined ratio to be around 91.5% (improvement from the prior guidance of 92%) and 350 basis points impact from catastrophe losses.
- ▼ **Rising Expenses to Hurt Margin Expansion** — Selective Insurance has been witnessing rising expenses over the years, primarily due to increasing loss and loss expense incurred and amortization of deferred policy acquisition costs. The metric has witnessed five-year CAGR (2014-2018) of 5.3% and another 3.6% increase in 2019. Increasing expenses can induce net margin contraction. Hence, the company should strive to generate higher revenue growth rate compared with the rise in expenses. Otherwise, expenses will tend to weigh on the operating margin expansion. Expense ratio of 59.7% for 2019 deteriorated 180 basis points year over year.

Exposure to catastrophe loss due to natural disasters and weather-related events and elevated expenses continue to remain a concern for the company.

Last Earnings Report

Selective Insurance Q4 Earnings & Revenues Beat Estimates

Selective Insurance reported fourth-quarter 2019 operating income of \$1.37 per share, beating the Zacks Consensus Estimate by 25.7%. Also, the bottom line rose nearly 14.2% from the year-ago period.

The reported quarter benefited from improved performance of Standard Commercial Lines segment, higher net investment income and growth in premiums, partially offset by soft performance of Standard Personal Lines and Excess & Surplus Lines segment.

Quarter Ending **12/2019**

Report Date	Jan 30, 2020
Sales Surprise	0.97%
EPS Surprise	25.69%
Quarterly EPS	1.37
Annual EPS (TTM)	4.40

Full-Year Highlights

For 2019, Selective Insurance came up with operating income of \$4.40 per share, which surpassed the Zacks Consensus Estimate by 4% and improved 20% from the year-earlier quarter.

Moreover, total revenues of \$2.8 billion grew 7.2% year over year.

Behind the Headlines

Total revenues of \$730 million were up 7.2% from the year-ago quarter. Also, the top line beat the Zacks Consensus Estimate by 1%.

Net investment income rose 5.9% year over year to \$46.8 million, driven by active portfolio management, stellar operating cash flow (18% of Net premiums written) and \$106 million of net proceeds from the 5.375% senior notes issuance in the first quarter of 2019.

Net premiums written increased 8% year over year to \$628.2 million. Combined ratio improved 90 basis points (bps) on a year-over-year basis to 91.8%.

Segment Results

Standard Commercial Lines net premiums written were up 11% year over year to \$500.1 million on the back of solid renewal pure price improvement as well as retention and strength in new business. Combined ratio deteriorated 290 bps to 90% from the prior-year quarter's level.

Standard Personal Lines net premiums written were down 3% year over year to \$70.9 million, reflecting reduction in new business. Combined ratio deteriorated 670 bps to 98.5% from the year-ago period.

Excess & Surplus Lines net premiums written reduced 6% year over year to \$57.2 million, primarily due to decline in new business, partially offset by overall renewal pure price increases of 3.7%. Combined ratio deteriorated 660 bps to 99.5%.

Financial Update

Selective Insurance exited the fourth quarter with total assets of \$8.8 billion, which climbed 10.6% from the level as of December 2018 end.

As of Dec 31, 2019, book value per share was \$36.91, up 21.4% year over year.

Annualized operating return on equity was 15.2% in the quarter under review, contracting 110 points year over year.

2020 Guidance

Selective Insurance projects a combined ratio (excluding catastrophe loss) of about 91.5% that assumes no prior-year casualty reserve development.

Catastrophe loss of 3.5 points has been estimated.

The company projects an after-tax investment income of \$185 million, which comprises \$14 million of after-tax net investment income from alternative investments.

The P&C insurer expects an overall effective tax rate of nearly 19.5%, including 18.5% for net investment income, which represents a tax rate of 5.25% for tax-advantaged municipal bonds and a tax rate of approximately 21% for all other items.

Weighted average shares outstanding are expected to be 60.5 million.

Valuation

Selective Insurance's shares are up 1.3% over the trailing 12-month period. Over the past year, stocks in the Zacks sub-industry and the Zacks Finance sector are up 12.2% and 8.8%, respectively. The S&P 500 index is up 21.3% in the past year.

The stock is currently trading at 1.82X trailing 12-month book value, which compares to 1.45X for the Zacks sub-industry, 2.85X for the Zacks sector and 4.68X for the S&P 500 index.

Over the past five years, the stock has traded as high as 2.4X and as low as 1.15X, with a 5-year median of 1.82X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$70 price target reflects 1.90X book value.

The table below shows summary valuation data for SIGI

Valuation Multiples - SIGI					
		Stock	Sub-Industry	Sector	S&P 500
P/B TTM	Current	1.82	1.45	2.85	4.68
	5-Year High	2.4	1.67	2.89	4.68
	5-Year Low	1.15	1.26	1.83	2.85
	5-Year Median	1.82	1.47	2.51	3.62
P/S F12M	Current	1.32	1.71	6.55	3.59
	5-Year High	1.62	11.26	6.65	3.59
	5-Year Low	1.03	1.55	5.39	2.54
	5-Year Median	1.32	1.89	6.04	3
P/E F12M	Current	15.77	27	14.98	19.39
	5-Year High	19.08	31.55	16.21	19.39
	5-Year Low	10.68	22.77	12.01	15.18
	5-Year Median	15.22	25.9	14.15	17.44

As of 02/19/2020

Industry Analysis Zacks Industry Rank: Top 44% (111 out of 255)



Top Peers

American Financial Group, Inc. (AFG)	Neutral
Axis Capital Holdings Limited (AXS)	Neutral
Hallmark Financial Services, Inc. (HALL)	Neutral
National General Holdings Corp (NGHC)	Neutral
Everest Re Group, Ltd. (RE)	Neutral
RenaissanceRe Holdings Ltd. (RNR)	Neutral
Alleghany Corporation (Y)	Neutral
Argo Group International Holdings, Ltd. (ARGO)	Underperform

Industry Comparison Industry: Insurance - Property And Casualty				Industry Peers		
	SIGI Neutral	X Industry	S&P 500	AFG Neutral	AXS Neutral	RNR Neutral
VGM Score	B	-	-	A	B	B
Market Cap	4.00 B	1.76 B	24.59 B	10.11 B	5.31 B	8.77 B
# of Analysts	3	2	13	4	3	4
Dividend Yield	1.37%	0.97%	1.78%	1.61%	2.59%	0.68%
Value Score	C	-	-	A	B	C
Cash/Price	0.07	0.18	0.04	0.28	0.23	1.96
EV/EBITDA	10.02	9.32	14.21	9.59	22.57	-6.52
PEG Ratio	1.49	1.77	2.09	1.92	2.47	1.37
Price/Book (P/B)	1.81	1.26	3.28	1.60	1.10	1.65
Price/Cash Flow (P/CF)	12.46	13.42	13.59	10.31	12.87	23.05
P/E (F1)	15.77	14.08	19.17	12.46	12.33	13.02
Price/Sales (P/S)	1.41	1.06	2.68	1.23	1.03	2.09
Earnings Yield	6.31%	6.98%	5.18%	8.02%	8.11%	7.68%
Debt/Equity	0.25	0.21	0.70	0.23	0.33	0.26
Cash Flow (\$/share)	5.38	3.27	6.93	10.88	4.91	8.62
Growth Score	A	-	-	B	C	B
Hist. EPS Growth (3-5 yrs)	11.47%	2.32%	10.84%	13.23%	-22.01%	-3.39%
Proj. EPS Growth (F1/F0)	-3.79%	12.84%	7.00%	4.41%	103.57%	67.14%
Curr. Cash Flow Growth	21.30%	19.96%	7.81%	39.71%	-541.78%	3.81%
Hist. Cash Flow Growth (3-5 yrs)	13.47%	7.23%	8.25%	13.00%	-13.32%	-6.72%
Current Ratio	0.30	0.44	1.24	0.16	0.55	1.59
Debt/Capital	20.05%	17.99%	42.37%	18.38%	22.20%	42.73%
Net Margin	9.55%	8.34%	11.69%	10.89%	6.25%	17.82%
Return on Equity	12.72%	7.74%	16.86%	13.00%	5.40%	8.46%
Sales/Assets	0.33	0.32	0.55	0.12	0.20	0.16
Proj. Sales Growth (F1/F0)	6.20%	3.86%	4.05%	0.00%	1.70%	10.35%
Momentum Score	C	-	-	B	A	C
Daily Price Chg	-1.48%	0.00%	0.38%	0.02%	-0.25%	0.13%
1 Week Price Chg	2.38%	0.21%	1.65%	-0.41%	-1.50%	0.23%
4 Week Price Chg	-1.46%	-0.22%	0.86%	1.35%	1.22%	3.38%
12 Week Price Chg	0.04%	1.72%	4.56%	1.39%	6.48%	3.95%
52 Week Price Chg	0.10%	3.34%	14.15%	12.32%	10.19%	36.93%
20 Day Average Volume	240,743	78,233	1,989,235	359,162	479,308	255,103
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.16%	0.00%	-0.03%	0.84%	2.53%	1.89%
(F1) EPS Est 12 week change	0.79%	0.00%	-0.21%	0.56%	1.79%	2.06%
(Q1) EPS Est Mthly Chg	3.51%	0.00%	-0.40%	5.19%	1.37%	-4.47%

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	A
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.

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