

Alleghany Corporation(Y)

\$564.03 (As of 04/13/20)

Price Target (6-12 Months): **\$479.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform
(Since: 02/19/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:B

Value: C

Growth: C

Momentum: A

Summary

Shares of Alleghany have underperformed the industry in the past year. Exposure to catastrophe loss induces earnings volatility. Lower return on equity poses financial risk. Also, higher expenses due to rising net loss and loss adjustment expenses, commissions, brokerage, other operating expenses and interest expenses tend to weigh on the company's margin. However, strong performance across insurance and reinsurance operations and better pricing will continue to boost premium revenues. Alleghany strives to grow via inorganic and organic means. It strives to achieve a solid balance sheet with higher liquidity and lower debt. Continued strong underwriting performances by TransRe, RSUI, CapSpecialty and PacificComp should drive results in the near term. Robust capital position should enable the company to deploy capital effectively.

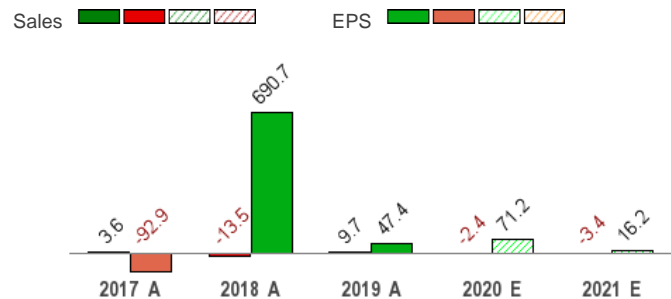
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$847.95 - \$426.87
20 Day Average Volume (sh)	79,965
Market Cap	\$8.1 B
YTD Price Change	-29.5%
Beta	0.80
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Insurance - Property and Casualty
Zacks Industry Rank	Bottom 49% (130 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-168.7%
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	23.9
P/E F1	13.9
PEG F1	NA
P/S TTM	0.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					5,663 E
2020					5,865 E
2019	1,934 A	2,103 A	1,534 A	1,565 A	6,009 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$12.38 E	\$12.50 E	\$8.92 E	\$13.51 E	\$47.30 E
2020	\$10.58 E	\$10.80 E	\$7.47 E	\$11.86 E	\$40.70 E
2019	\$9.66 A	\$12.40 A	\$7.61 A	-\$6.09 A	\$23.77 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 04/13/2020. The reports text is as of 04/14/2020.

Overview

Established in 1929 and headquartered in New York, Alleghany Corporation and its subsidiaries engage in property and casualty (P&C) reinsurance and insurance businesses in the United States and internationally. The company was incorporated in Delaware in 1984.

Although the primary sources of revenues and earnings are reinsurance and insurance operations and investments, the company also generates revenues and earnings from a diverse portfolio of middle-market businesses that are owned and managed through its wholly-owned subsidiary Alleghany Capital.

Alleghany reports through three segments – **Reinsurance, Insurance and Alleghany Capital**.

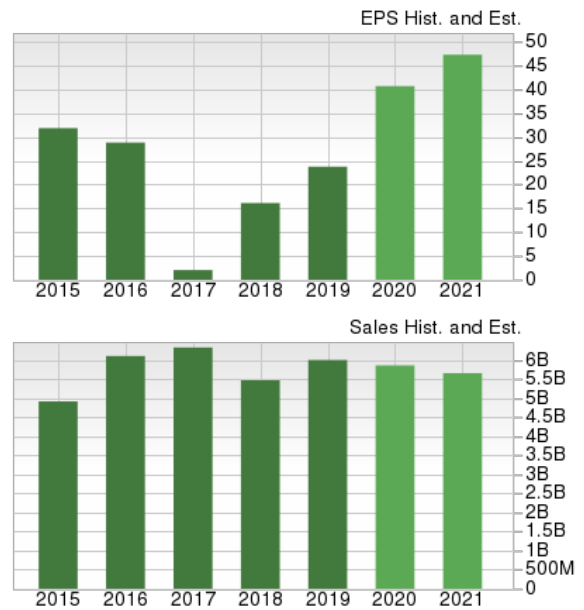
The Reinsurance segment (78.2% of 2019 net premiums written) consists of P&C reinsurance operations conducted by TransRe's reinsurance operating subsidiaries and is further reported through two major product lines – property and casualty & other. TransRe has been a subsidiary since March 2012.

The Insurance segment (21.8%) consists of P&C insurance operations conducted in the United States by AIHL through its insurance operating subsidiaries, RSUI and CapSpecialty. RSUI also writes a modest amount of assumed reinsurance business, which is included in the insurance segment. RSUI has been a subsidiary of AIHL since July 2003. CapSpecialty has been a subsidiary of AIHL since January 2002.

AIHL Re, a captive reinsurance company, which provides reinsurance to Alleghany's current and former insurance operating subsidiaries and affiliates, has been a wholly-owned subsidiary of Alleghany since its formation in May 2006. RSUI is headquartered in Atlanta, GA; CapSpecialty, is headquartered in Middleton, WI. AIHL Re, the Vermont-domiciled captive reinsurance company, provides reinsurance to current and former insurance operating subsidiaries and affiliates.

The insurance segment constitutes a smaller portion of the company's consolidated net premiums written and is reported through RSUI and CapSpecialty subsidiaries.

Prior to Dec 31, 2017, AIHL's insurance operations also included PacificComp.



Reasons To Sell:

- ▼ Shares of the company have lost 10.3% in the past year, compared to the industry's decline of 8.7%. Nevertheless, solid fundamentals should drive the stock.
- ▼ As a property and casualty insurer, Alleghany is exposed to catastrophe loss, causing volatility in underwriting results. However, catastrophe loss in 2019 declined 39.2% from the year-ago period. Given the unpredictability of cat occurrences, the underwriting results are always exposed to volatility.
- ▼ Alleghany has been experiencing an increase in expenses due to higher losses and loss adjustment expenses, operating expense and commissions, brokerage and other underwriting expenses. In the last five years the company has witnessed an increase of 10.9% in expenses, weighing on margin expansion. In the same time frame, the company saw a contraction of 1700 basis points. In 2019, expenses increased 15.6% year over year due to increase in net loss and loss adjustment expenses, commissions, brokerage and other underwriting expenses, other operating expenses, corporate administration, amortization of intangible assets and interest expense. An increase in expenses weighs on the company's margins.
- ▼ Alleghany's return on equity is 4%, lower than the industry average of 6.4%. The company's lower profitability reflects in relative inefficiency in utilizing shareholder's funds.

Exposure to catastrophe losses causing volatility in underwriting results and increase in expenses weighing on margin expansion can induce volatility in earnings results.

Risks

- Alleghany's top line has been improving over the past few years, driven by increasing gross premium written. This momentum continued in 2019 with revenues rising 9.1% and gross premiums written increasing 12.9%. Moreover, we expect continued strong underwriting performances by TransRe and RSUI, CapSpecialty and PacificComp should continue to drive the results.
- Solid performances at TransRe and RSUI, CapSpecialty and PacificComp, helps them pay dividend to the parent company that is used to make acquisitions at Alleghany Capital, reduce debt, or repurchase shares.
- Alleghany considers strategic buyouts a prudent approach to ramp up its growth profile. Past buyouts of RSUI, CapSpecialty and PacificComp – responsible for insurance operations – were a testimony to the company's long-term growth strategy. In May 2018, Alleghany Capital, a subsidiary of Alleghany, announced buyouts of Russ Berrie and Applause brands from Larsen & Bowman Holdings Ltd. and Maple Licensing Ltd. through Jazwares' affiliate – Zag Toys, a division of Zacks Enterprises, Inc. The buyout will enable Alleghany to widen its product base by entering into the consumer products industry. Hence, the company through its subsidiaries pursues acquisitions that not only expands its geographical presence but also add capabilities to its portfolio.
- For a considerable period of time, the company's investment results were affected by a persistently low interest environment. However, the company saw a turnaround in 2017, which continued in 2018 and through the nine months of 2019. Net investment income improved 9.9% in 2019 on the back of higher interest income, partially offset by lower dividend income. This, in turn, will possibly aid top-line improvement at a steady pace.
- Alleghany boasts a solid balance sheet with high liquidity and low debt. With modest leverage (debt to equity was 19.9%, comparing favorably with the industry average of 24.3%) and a decent capitalized base, Alleghany is well-positioned to support its subsidiaries in taking advantage of growth opportunities.

The company has doubled its book value per share since the financial crisis of 2008. It has witnessed a 10-year CAGR (2010-2018) of 7.2% and is in line with the 7-10% long-term annual growth target. Therefore, given the past trend, we expect the metric to continue to show progress in the near term. Book value per share was \$611 as of Dec 31, 2019, up 15.8% from the level as of Dec 31, 2018.

Owing to its sound financial structure and operational performance, the company and its subsidiaries enjoy strong investment grade ratings from credit rating agencies.

- Banking on its strong capital position, Alleghany is engaged in share buybacks, which in turn, enhances shareholder value. Though the company does not resort to paying dividends, the board of directors paid special payout of \$10 per share in March 2019.
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Last Earnings Report

Alleghany Q4 Loss Widens Year Over Year, Revenues Rise

Alleghany Corporation incurred fourth-quarter 2019 operating loss of \$6.09 per share, against the Zacks Consensus Estimate of operating profit of \$8.86. Also, the quarterly loss was wider than the year-ago quarter's operating loss of \$4.35 per share.

The company reported net income of \$1.98 per share in the reported quarter against the year-ago quarter's loss of \$48.30.

The company witnessed higher investment income and growth in premiums, offset by rise in expenses.

Full-Year Highlights

For 2019, Alleghany delivered operating income of \$23.77 per share, missing the Zacks Consensus Estimate by 38.3%. However, operating income increased 47.4% from the previous year.

Revenues improved 9.1% year over year to \$5.9 billion.

Operational Update

Revenues for the fourth quarter improved 9.5% year over year to \$1.6 billion.

Net premiums written rose 17.6% year over year to \$1.5 billion.

Net investment income came in at \$136.6 million in the quarter under consideration, up nearly 11.2% year over year. The increase in net investment income was primarily due to higher interest income, partially offset by lower dividend income.

Fourth-quarter underwriting loss was \$199 million, down 20% from the year-ago quarter's loss of \$249 million.

Total costs and expenses escalated 5.7% to \$2.2 billion.

Segment Update

Reinsurance Segment: Net premiums written improved 15% to \$1.2 billion owing to growth in TransRe's domestic operations, which includes the impact of TransRe's Aug 29, 2018 purchase of the renewal rights to a block of U.S. treaty reinsurance business.

Underwriting loss of \$162.8 million was narrower than year-ago quarter's loss of \$208.9 million. Also, the segment's fourth-quarter combined ratio improved 570 basis points to 114.4%.

Insurance Segment: Net premiums written increased 27% to \$342.8 million.

Underwriting loss of \$36.5 million was narrower than the year-ago quarter's underwriting loss of \$40.3 million. The combined ratio of the reported segment improved 310 basis points to 111.8%.

Financial Update

Debt balance of \$1.8 billion increased 4.9% from 2018-end level.

Allegheny's shareholder equity at the end of the fourth quarter increased 14.1% to \$8.8 billion from \$7.7 billion as of Dec 31, 2018.

Book value per share was \$611 as of Dec 31, 2019, up 15.8% from the level as of Dec 31, 2018.

Share Repurchase Update

As of Dec 31, 2019, the company had \$627 million remaining under its share repurchase authorization.

Quarter Ending 12/2019

Report Date	Feb 19, 2020
Sales Surprise	NA
EPS Surprise	-168.74%
Quarterly EPS	-6.09
Annual EPS (TTM)	23.58

Recent News

Alleghany's Unit Closes Buyout of Squishmallows Owner Kellytoy – Apr 1, 2020

Alleghany Corporation's wholly-owned subsidiary Alleghany Capital Corporation declared that its subsidiary, Jazwares, LLC has acquired a majority stake in Kelly Toys Holdings, LLC and Kelly Amusement Holdings, LLC, formerly known as Kellytoy Worldwide, Inc. and Kellytoy (USA), Inc., collectively known as Kellytoy.

With the acquisition of Kellytoy, Jazwares will get the opportunity to grow into a leading toy industry platform with the combination of Jazwares' unique operating capabilities and Alleghany Capital's financial backing.

Alleghany's Subsidiary Acquires Majority Stake in Wilbert – Apr 1, 2020

Alleghany Corporation's unit Alleghany Capital has acquired a majority stake in Wilbert. Notably, Alleghany Capital signed a deal to buy a 45% equity stake in Wilbert in the year 2017.

Wilbert's solid business model will enable Alleghany Capital to leverage potential growth opportunities prevailing in noninsurance markets.

Alleghany's Unit Buys Supermill, Strengthens Portfolio – Mar 2, 2020

Alleghany Corporation's wholly-owned subsidiary Alleghany Capital Corporation announced that its unit, Precision Cutting Technologies, Inc., has acquired Supermill LLC.

The acquisition of Supermill shall reinforce the position of Precision Cutting Technologies across Northeastern United States and boost the acquirer's portfolio of cutting consumables.

Valuation

Alleghany Corporation shares are down 29.5% in the year-to-date period and 10.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 15.2% and 23.3% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 8.7% and 17.6%, respectively.

The S&P 500 index are down 13.6% in the year-to-date period and 4.6% in the past year.

The stock is currently trading at 0.92x trailing 12-month tangible book value, which compares to 1.12x for the Zacks sub-industry, 2.08x for the Zacks sector and 3.69x for the S&P 500 index.

Over the past five years, the stock has traded as high as 1.38x and as low as 0.74x, with a 5-year median of 1.08x. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$479 price target reflects 0.78x tangible book value.

The table below shows summary valuation data for Y

Valuation Multiples - Y					
		Stock	Sub-Industry	Sector	S&P 500
P/B TTM	Current	0.92	1.12	2.08	3.69
	5-Year High	1.38	1.67	2.89	4.55
	5-Year Low	0.74	0.93	1.69	2.84
	5-Year Median	1.08	1.47	2.51	3.63
P/S F12M	Current	1.48	1.62	4.93	3.07
	5-Year High	1.8	11.26	6.65	3.44
	5-Year Low	1.24	1.55	4.93	2.54
	5-Year Median	1.6	1.88	6.03	3.01

As of 04/13/2020

Industry Analysis Zacks Industry Rank: Bottom 49% (130 out of 253)



Top Peers

Arch Capital Group Ltd. (ACGL)	Neutral
American Financial Group, Inc. (AFG)	Neutral
Cincinnati Financial Corporation (CINF)	Neutral
First American Financial Corporation (FAF)	Neutral
Fidelity National Financial, Inc. (FNF)	Neutral
Markel Corporation (MKL)	Neutral
Everest Re Group, Ltd. (RE)	Neutral
W.R. Berkley Corporation (WRB)	Neutral

Industry Comparison Industry: Insurance - Property And Casualty				Industry Peers		
	Y Underperform	X Industry	S&P 500	AFG Neutral	MKL Neutral	RE Neutral
VGM Score	B	-	-	A	A	C
Market Cap	8.09 B	1.26 B	19.08 B	6.98 B	13.01 B	10.17 B
# of Analysts	2	2	14	3	4	3
Dividend Yield	0.00%	1.26%	2.19%	2.32%	0.00%	3.07%
Value Score	C	-	-	A	B	C
Cash/Price	0.25	0.24	0.06	0.34	0.34	0.14
EV/EBITDA	5.77	5.21	11.58	4.20	4.34	8.25
PEG Ratio	NA	1.31	2.06	NA	NA	NA
Price/Book (P/B)	0.92	0.92	2.58	1.12	1.18	0.90
Price/Cash Flow (P/CF)	17.49	9.21	10.19	6.71	16.11	9.13
P/E (F1)	14.03	10.74	17.15	8.78	23.39	8.73
Price/Sales (P/S)	0.89	0.79	2.07	0.85	1.37	1.23
Earnings Yield	7.22%	8.80%	5.67%	11.40%	4.28%	11.46%
Debt/Equity	0.20	0.22	0.70	0.23	0.32	0.07
Cash Flow (\$/share)	32.24	3.12	7.01	11.57	58.60	22.15
Growth Score	C	-	-	A	A	C
Hist. EPS Growth (3-5 yrs)	-18.81%	3.05%	10.92%	13.23%	1.59%	-22.54%
Proj. EPS Growth (F1/F0)	71.22%	10.98%	-1.91%	2.63%	3.75%	8.56%
Curr. Cash Flow Growth	25.33%	5.61%	5.93%	7.42%	13.53%	310.65%
Hist. Cash Flow Growth (3-5 yrs)	-8.44%	7.31%	8.55%	12.34%	9.05%	-5.41%
Current Ratio	0.33	0.46	1.24	0.15	0.59	0.33
Debt/Capital	18.22%	18.26%	42.36%	19.03%	25.10%	6.49%
Net Margin	9.49%	8.66%	11.64%	10.89%	18.81%	12.31%
Return on Equity	3.99%	8.46%	16.74%	12.87%	5.51%	9.85%
Sales/Assets	0.34	0.33	0.54	0.12	0.26	0.31
Proj. Sales Growth (F1/F0)	0.00%	0.00%	0.45%	0.00%	10.68%	9.77%
Momentum Score	A	-	-	C	D	C
Daily Price Chg	-3.55%	-2.63%	-2.62%	-3.53%	-6.11%	-4.79%
1 Week Price Chg	16.96%	9.77%	16.01%	25.59%	15.92%	19.26%
4 Week Price Chg	11.76%	12.05%	14.48%	38.17%	12.51%	10.69%
12 Week Price Chg	-30.93%	-22.79%	-21.69%	-30.22%	-20.86%	-27.80%
52 Week Price Chg	-10.30%	-20.35%	-14.14%	-20.76%	-5.86%	-10.64%
20 Day Average Volume	79,965	177,176	3,634,618	785,890	77,781	457,312
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	-1.13%	-5.74%	-1.40%	-0.92%	-2.21%
(F1) EPS Est 12 week change	-10.99%	-3.45%	-8.41%	-0.88%	2.55%	-3.50%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	-10.28%	0.00%	-0.04%	-5.40%

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	C
Momentum Score	A
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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