

Alleghany Corporation(Y)

\$546.39 (As of 08/13/20)

Price Target (6-12 Months): **\$574.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 06/14/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:D

Value: B

Growth: D

Momentum: F

Summary

Alleghany's second-quarter earnings beat estimates but plunged 93.1% year over year due to weak segmental performances. Nevertheless, better pricing will continue to boost its premium revenues. Alleghany 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. The company through its subsidiaries pursues acquisitions that not only expands its geographical presence but also add capabilities to its portfolio. Shares of the company have underperformed the industry year to date. However, Alleghany's exposure to catastrophe loss induces earnings volatility. Also, higher expenses continue to weigh on its margins.

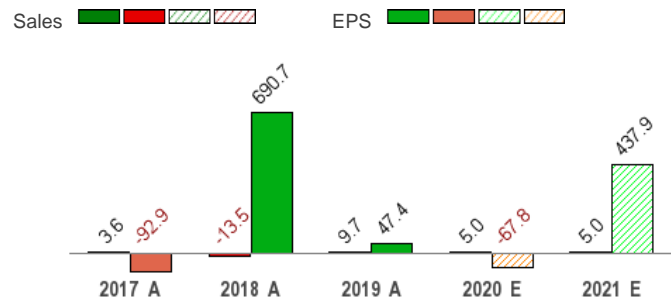
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$847.95 - \$426.87
20 Day Average Volume (sh)	54,685
Market Cap	\$7.8 B
YTD Price Change	-31.7%
Beta	0.63
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Insurance - Property and Casualty
Zacks Industry Rank	Top 44% (111 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	158.9%
Last Sales Surprise	NA
EPS F1 Est- 4 week change	NA
Expected Report Date	11/03/2020
Earnings ESP	0.0%
P/E TTM	74.1
P/E F1	71.4
PEG F1	NA
P/S TTM	1.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					6,623 E
2020	2,024 A	2,006 A			6,308 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	\$10.91 E	\$12.27 E	\$5.42 E	\$12.54 E	\$41.15 E
2020	\$4.99 A	\$0.86 A	-\$2.96 E	\$4.63 E	\$7.65 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, except sales and EPS estimates, is as of 08/13/2020. The reports text and the analyst-provided sales and EPS estimates are as of 08/14/2020.

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**.

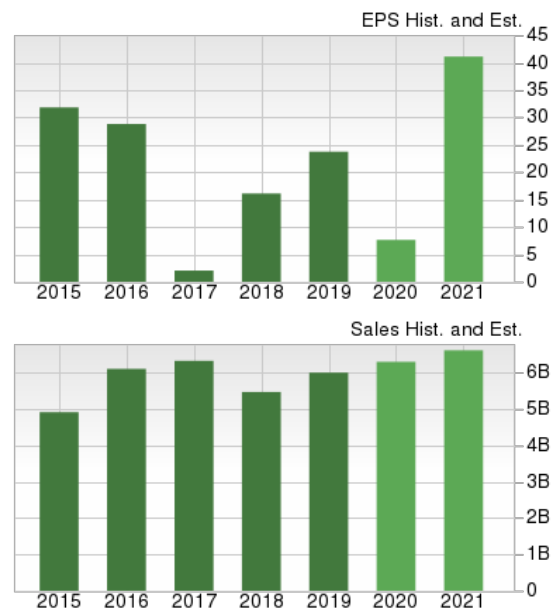
The Reinsurance segment (78.2% of 2019 net premiums written) consists of P&C reinsurance operations conducted by TransRe's reinsurance operating subsidiaries and is further reported through two major product lines – property and casualty & other. TransRe has been a subsidiary since March 2012.

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 Buy:

- ▲ Shares of the company have lost 31.7% year to date, compared with the industry's decline of 7.6%. Nevertheless, solid fundamentals should drive share price.
- ▲ Alleghany's top line has been improving over the past few years, driven by increasing net premiums earned. Though net premiums earned improved 7% year over year in the first half of 2020, revenues declined 19% year over year in the same time period due to steep decline in economic activity and, customer project site closure and delays. We expect continued strong underwriting performances by TransRe and RSUI, CapSpecialty and PacificComp should continue to drive the results.

Strong underwriting performances by TransRe and RSUI, CapSpecialty, and PacificComp driving top line, strategic buyouts and solid balance sheet aiding effective capital deployment are positives.

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. This April, it acquired a majority interest in Wilbert Funeral Services, Inc. whose solid business model will enable Alleghany Capital to leverage potential growth opportunities prevailing in noninsurance markets.. The buyout of Russ Berrie and Applause brands 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.
- ▲ Alleghany boasts a solid balance sheet with high liquidity and improving leverage. It has a modest leverage as indicated by its total debt to total capital of 19.3%, which was however higher from 2019 end level and compare favorably with the industry average of 21.8%. With a decent capitalized base, Alleghany is well-positioned to support its subsidiaries in taking advantage of growth opportunities. Though its times interest earned of 0.5, a measure to identify a company's ability to service debt, was lower year over year, its cash balance of \$1.7 billion (up 40.2% from 2019 end level) at second-quarter 2020 end suggests that the company has sufficient cash reserves to meet its debt obligations.

The company has doubled its book value per share since the financial crisis of 2008. Book value per share as of June 30, 2020 was \$590.85, up 7.6% sequentially.

- ▲ Banking on its strong capital position, Alleghany is engaged in share buybacks, which in turn, enhances shareholder value. Year to date, the company has repurchased shares worth \$44 million and had \$583 million remaining under repurchase authorization as on Jun 30, 2020. Though the company does not resort to paying dividends, the board of directors paid out a special dividend of \$15 per share in March 2020.
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Reasons To Sell:

- ▼ As a property and casualty insurer, Alleghany is exposed to catastrophe loss, causing volatility in underwriting results. Catastrophe loss in the first half of 2020 was \$346 million, much higher than \$19.6 million incurred in the first half of 2019. Higher losses induced underwriting loss of \$64 million against profit of \$200 million reported in the first half of 2019. Combined ratio deteriorated 980 basis points (bps) year over year in the first half of 2020. Given the unpredictability of cat occurrences, the underwriting results are always exposed to volatility.
- ▼ For a considerable period of time, the company's investment results were affected by a persistently low interest environment. Nevertheless, the company witnessed a turnaround in 2017, which continued through 2019. However, net investment income declined 13.2% in the first half of 2020 owing to reduced fixed income investment yields. Lower yields are likely to keep the company's investment income under pressure in the coming quarters.
- ▼ 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 witnessed an increase of 86% in expenses, with net margin contracting 170 basis points. In the first half of 2020, expenses rose 8.2%. Consequently, net margin came in at a negative figure of 0.9%, which compares unfavorably year-over-year figure of 3.9%. The company must strive to generate revenue growth more than the magnitude increase in expenses; else margin will continue to erode.
- ▼ Alleghany's return on equity is 1.3%, lower than the industry average of 6.5%. 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.

Last Earnings Report

Allegheny Q2 Earnings Beat Estimates, Revenues Fall Y/Y

Allegheny reported second-quarter 2020 adjusted income of 86 cents per share against the Zacks Consensus Estimate of a loss of \$1.46 per share. The bottom line plunged 93.1% year over year attributable to soft performance at both its Insurance and Reinsurance segment.

Operational Update

Revenues declined 1.4% year over year to \$2.2 billion on lower net investment income and noninsurance revenues. Net premiums written rose 2.2% year over year to \$1.5 billion. Net investment income came in at \$118.7 million, down 16.8% year over year, primarily attributable to reflect decreases in interest income due to low reinvestment yields on debt securities and lower yields on short-term investments and floating-rate debt securities.

Underwriting loss was \$39.5 million against the year-ago quarter's profit of \$114.9 million. Total costs and expenses increased 6.1% to \$2 billion. Allegheny Capital's pretax earnings were \$5.3 million, down 87.3% from the year-ago quarter.

Segment Update

Reinsurance Segment: Net premiums written declined 2.4% to \$1.1 billion owing to an automobile-related premium rebates, decreases in the guaranty lines of business and the impact of changes in foreign currency exchange rates. Underwriting loss was \$30.3 million against the year-ago quarter's income of \$75.9 million. Combined ratio deteriorated 1000 basis points to 102.9%, reflecting catastrophe losses, largely related to the pandemic.

Insurance Segment: Net premiums written increased 17.4% to \$391.5 million, driven by growth at RSUI. Underwriting loss was \$9.2 million against the year-ago quarter's income of \$39 million. The combined ratio of the reported segment deteriorated 2210 basis points to 102.9%.

Financial Update

Cash balance was \$1.6 billion, up 40.2% from 2019 end level. Debt balance of \$2 billion increased 15.2% from 2019-end level. Allegheny's shareholder equity at the end of the second quarter was \$8.5 billion, down 3.7% from 2019 end level. Book value per share was \$590.85 as of Jun 30, 2020, down 0.8% from the level as of Dec 31, 2019.

As of Jun 30, 2020, the company had \$583 million remaining under its share repurchase authorization.

Quarter Ending 06/2020

Report Date	Aug 04, 2020
Sales Surprise	NA
EPS Surprise	158.90%
Quarterly EPS	0.86
Annual EPS (TTM)	7.37

Recent News

Alleghany Offers 3.625% \$500 Million Senior Unsecured Notes – May 13, 2020

Alleghany announced the pricing of \$500 million aggregate principal amount of senior unsecured notes. The notes carry an interest rate of 3.625% and are scheduled to mature in 2030.

The company aims to deploy the net proceeds for general corporate purposes, which may include the repayment of existing debt.

Valuation

Alleghany Corporation shares are down 31.7% in the year-to-date period and 26.5% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 7.6% and 15.5% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 1.4% and down 4.6%, respectively.

The S&P 500 index are up 4.6% in the year-to-date period and 18.6% in the past year.

The stock is currently trading at 0.92x trailing 12-month book value, which compares to 1.39x for the Zacks sub-industry, 2.47x for the Zacks sector and 4.7x 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 Neutral recommendation indicates that the stock will perform in line with the market. Our \$574 price target reflects 0.97x 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	1.39	2.47	4.7
	5-Year High	1.38	1.67	2.91	4.71
	5-Year Low	0.74	0.93	1.72	2.83
	5-Year Median	1.08	1.46	2.53	3.74
P/S F12M	Current	1.41	1.73	6.22	3.7
	5-Year High	1.8	11.26	6.66	3.7
	5-Year Low	1.24	1.39	4.96	2.53
	5-Year Median	1.62	1.84	6.06	3.05

As of 08/13/2020

Industry Analysis Zacks Industry Rank: Top 44% (111 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
American Financial Group, Inc. (AFG)	Outperform	3
Fidelity National Financial, Inc. (FNF)	Outperform	1
Arch Capital Group Ltd. (ACGL)	Neutral	3
Cincinnati Financial Corporation (CINF)	Neutral	3
First American Financial Corporation (FAF)	Neutral	2
Markel Corporation (MKL)	Neutral	3
Everest Re Group, Ltd. (RE)	Neutral	3
W.R. Berkley Corporation (WRB)	Neutral	3

Industry Comparison Industry: Insurance - Property And Casualty				Industry Peers		
	Y	X Industry	S&P 500	AFG	MKL	RE
Zacks Recommendation (Long Term)	Neutral	-	-	Outperform	Neutral	Neutral
Zacks Rank (Short Term)	2	-	-	3	3	3
VGM Score	D	-	-	B	B	B
Market Cap	7.82 B	1.26 B	23.58 B	5.99 B	14.93 B	9.00 B
# of Analysts	1	2	14	2	2	3
Dividend Yield	0.00%	1.33%	1.68%	2.66%	0.00%	2.75%
Value Score	B	-	-	B	B	A
Cash/Price	0.36	0.26	0.07	0.30	0.44	0.15
EV/EBITDA	5.26	5.35	13.34	4.27	4.61	6.76
PEG Ratio	NA	2.10	2.99	NA	NA	1.74
Price/Book (P/B)	0.92	0.99	3.20	0.99	1.38	1.22
Price/Cash Flow (P/CF)	16.94	10.34	12.83	5.85	18.50	10.17
P/E (F1)	71.42	15.09	21.99	9.80	61.32	18.05
Price/Sales (P/S)	0.96	0.84	2.53	0.80	1.85	1.06
Earnings Yield	1.40%	5.51%	4.35%	10.21%	1.63%	5.54%
Debt/Equity	0.24	0.24	0.77	0.31	0.33	0.07
Cash Flow (\$/share)	32.24	3.12	6.94	11.57	58.60	22.15
Growth Score	D	-	-	B	B	C
Hist. EPS Growth (3-5 yrs)	-17.29%	3.85%	10.41%	11.69%	4.32%	-15.88%
Proj. EPS Growth (F1/F0)	-67.82%	-6.42%	-6.32%	-19.95%	-54.57%	-41.52%
Curr. Cash Flow Growth	25.33%	3.77%	5.20%	7.42%	13.53%	310.65%
Hist. Cash Flow Growth (3-5 yrs)	-8.44%	4.81%	8.55%	12.34%	9.05%	-5.41%
Current Ratio	0.37	0.45	1.33	0.15	0.68	0.36
Debt/Capital	20.99%	20.03%	44.59%	23.79%	25.08%	6.27%
Net Margin	-0.76%	5.18%	10.13%	3.13%	2.66%	6.24%
Return on Equity	1.32%	6.80%	14.51%	11.34%	3.31%	5.74%
Sales/Assets	0.31	0.31	0.51	0.11	0.22	0.31
Proj. Sales Growth (F1/F0)	0.00%	0.00%	-1.43%	-34.34%	9.67%	11.21%
Momentum Score	F	-	-	D	B	F
Daily Price Chg	-0.74%	-0.59%	-0.44%	-0.87%	1.05%	-1.08%
1 Week Price Chg	3.32%	4.75%	2.30%	8.47%	4.36%	6.12%
4 Week Price Chg	1.84%	4.35%	4.38%	6.76%	13.64%	0.97%
12 Week Price Chg	9.04%	13.96%	13.59%	11.73%	25.59%	9.34%
52 Week Price Chg	-26.47%	-12.76%	5.75%	-31.19%	-4.01%	-8.71%
20 Day Average Volume	54,685	132,833	1,984,154	470,056	48,591	244,685
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-4.90%	0.00%	3.60%
(F1) EPS Est 4 week change	NA%	0.00%	2.08%	-1.95%	0.00%	-26.66%
(F1) EPS Est 12 week change	-73.85%	-2.38%	2.66%	2.10%	-4.07%	-21.51%
(Q1) EPS Est Mthly Chg	-183.15%	1.82%	0.94%	11.51%	-3.82%	-67.43%

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	B
Growth Score	D
Momentum Score	F
VGM Score	D

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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